



## TRADE PERFORMANCE AND STRUCTURE PROFILES<sup>1</sup>

### Oman

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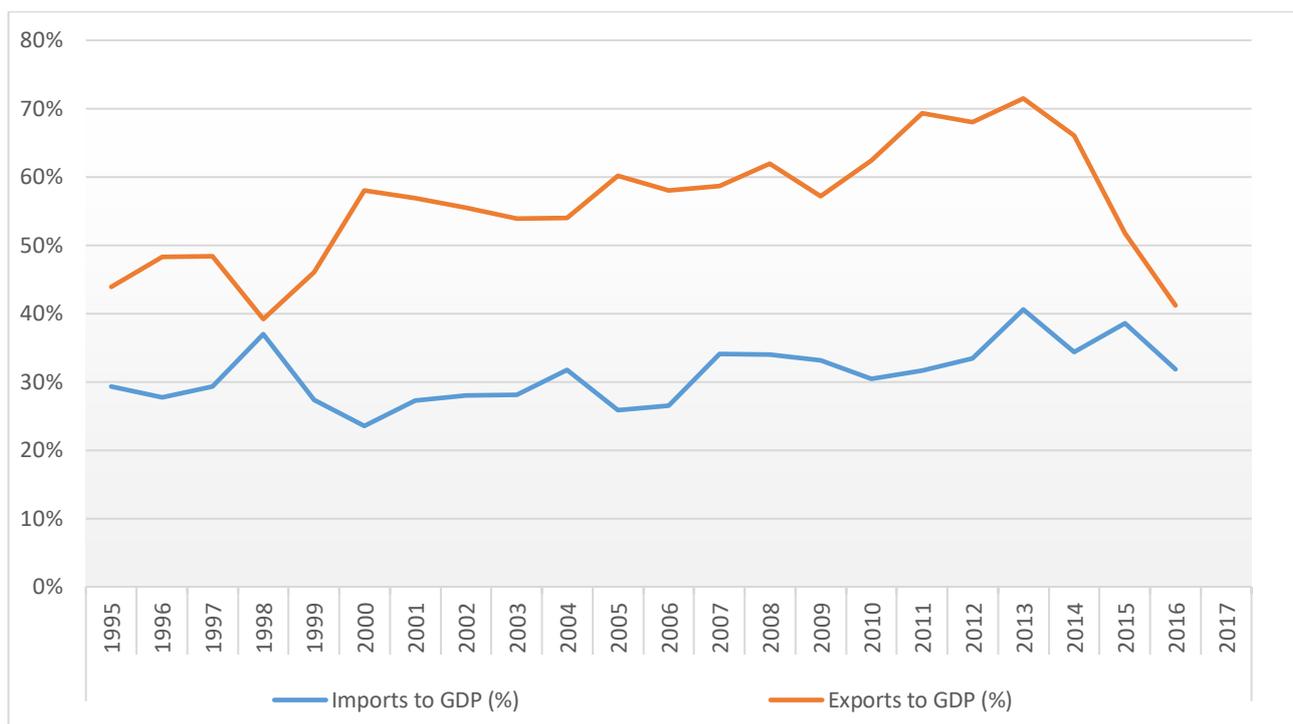
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# TRADE PERFORMANCE AND STRUCTURE PROFILES: OMAN

Oman's performance in merchandise trade and attracting foreign direct investment has been mixed. Its merchandise exports and imports have not maintained the levels achieved in the 2000s and the early 2010s. Oman's services trade, however, has increased significantly; almost tripling its share in GDP but its level is still rather low. FDI inflows appear to have stabilized in the early 2010s but it remains to be seen whether the drop in 2015 is one off. Traditional destinations for Oman's exports have mainly been ASEAN and PAFTA countries. PAFTA and sub-Saharan African countries hold relatively favorable prospects for Oman's exports, which show signs of shifting towards sophisticated products with limited diversity.

## I. Trends in Trade and Investment

Figure 1: Merchandise Exports and Imports, as a share of GDP

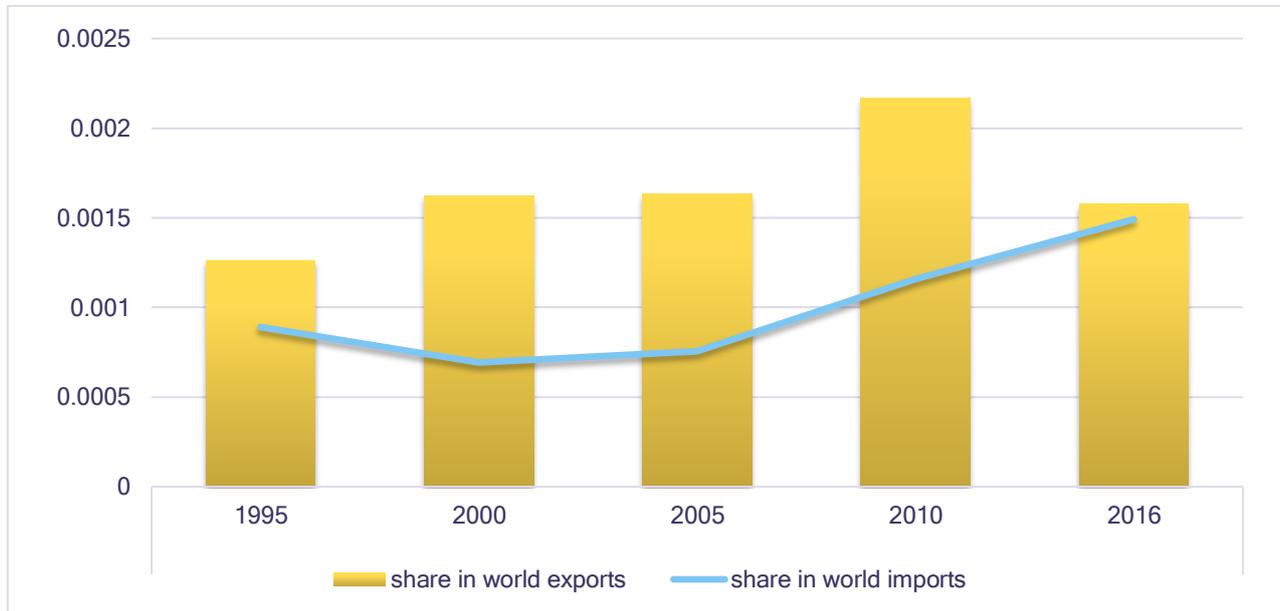


Source: ESCWA calculations using the World Development Indicators database (accessed October 2018).

Oman's merchandise exports have experienced some ups and down over the past two decades, mostly reflecting fluctuations in oil prices. The sharp decline in the GDP share of exports since 2013 is marked and coincide with a large drop in oil prices in the same period.

*Merchandise imports on the other hand have shown more subdued changes than merchandise exports and stands at levels comparable to the late 1990s.*

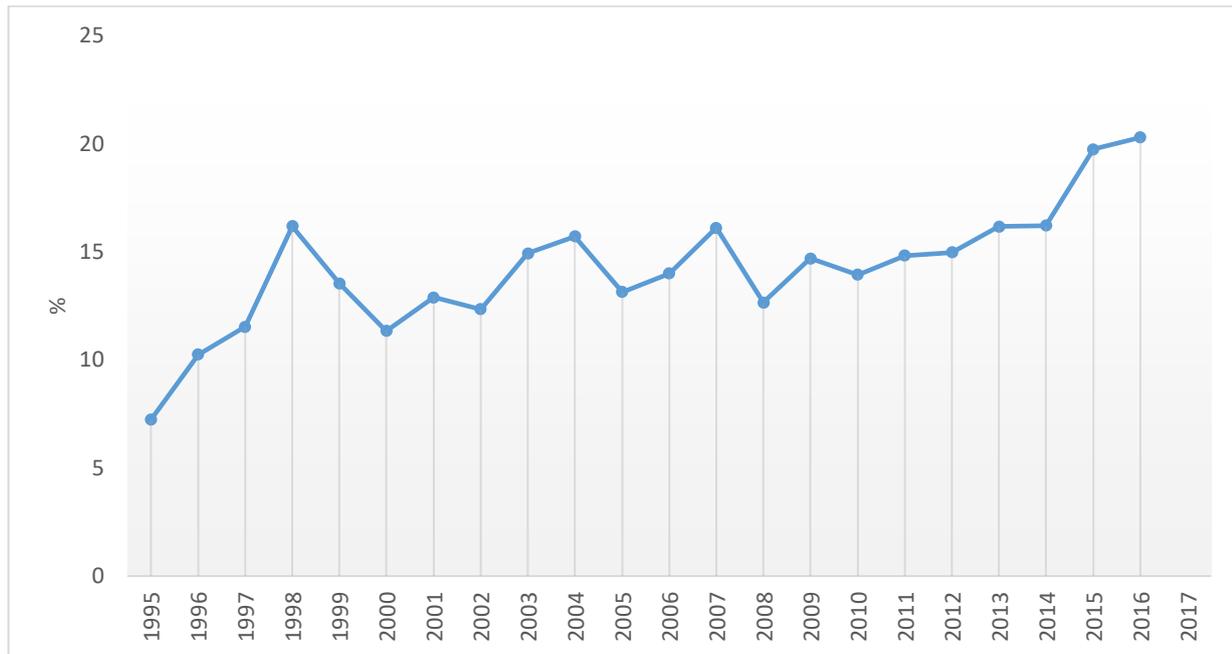
Figure 2: Oman's Share in World's Exports and Imports



*Source: ESCWA calculations using COMTRADE data (accessed October 2018).*

Oman's share in world export has improved little since 1995. Although large gains were recorded in the second half of the 1990s and 2000s, those gains were mostly offset in the first half of the 2010s. Oman's import share, however, after moderating between 1995 and 2005, has gone up significantly since.

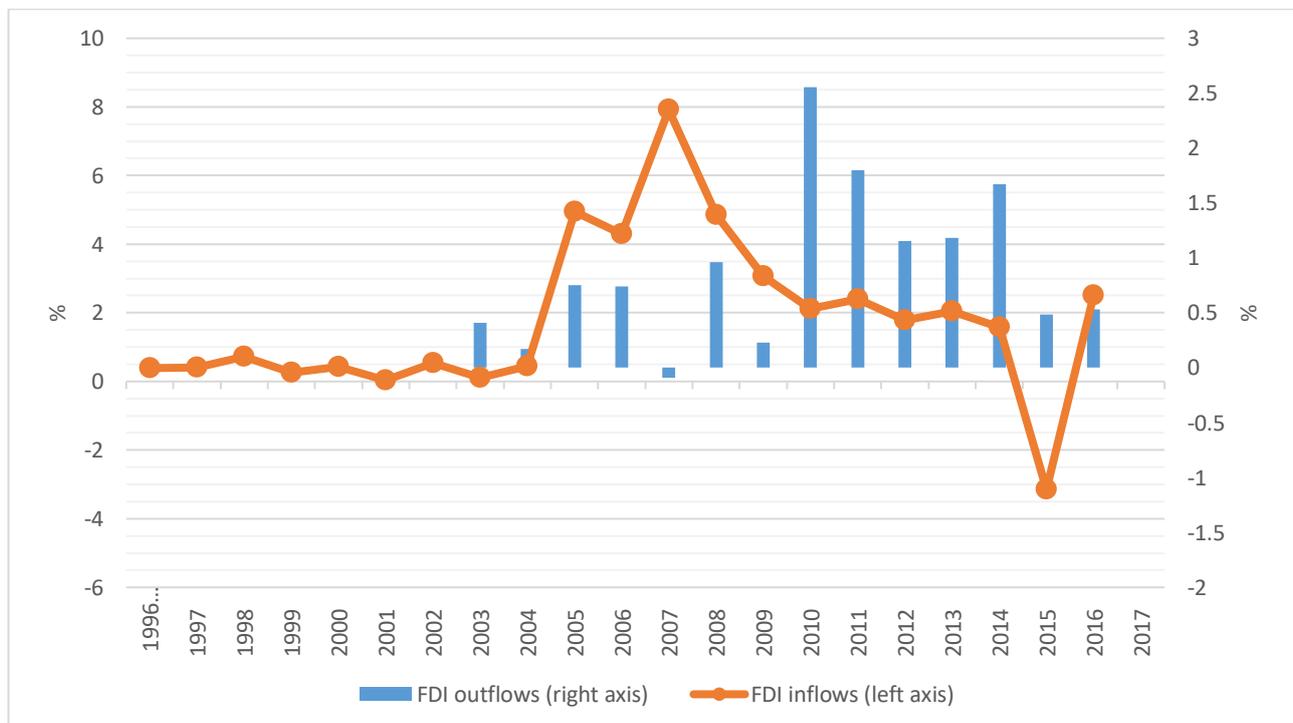
Figure 3: Oman's Services Trade, 1995-2017, as a share of GDP



Source: ESCWA calculations using the World Development Indicators database (accessed October 2018).

Oman's trade in services, has shown a remarkable increase since 1995, with its share in GDP almost tripling, albeit from a rather low level. The increase in the share of services trade in GDP has been particularly strong in the late 1990s and since the mid-2010s.

Figure 4: FDI net inflows and outflows, 1996-2017, as a share of GDP



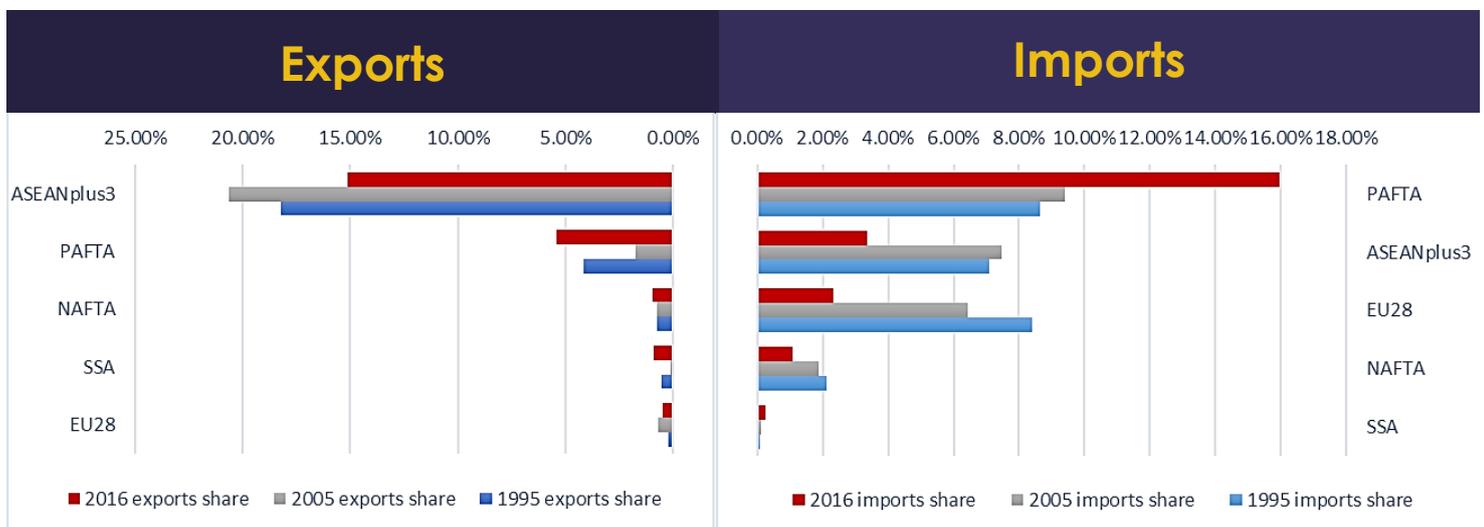
Source: ESCWA calculations using the World Development Indicators database (accessed October 2018).

FDI inflows into Oman had been rather dormant before 2005. Though relatively short-lived, high levels of FDI inflows were recorded in the second half of the 2000s, followed by a lower but stable stream of inflows until 2015. While FDI inflows bounced back to the levels recorded just before 2015, it remains to be seen as to whether they will persist. FDI outflows have historically been not too high but they edged up in the 2010s and have been more subdued as of late.

## II. Merchandise trade structure and indicators performance

This section assesses the trade performance and structure of Oman, employing a range of indicators and indices created using highly disaggregated product-level data.

Figure 5: Top export destinations and import sources, as a share of total exports and imports, 2016

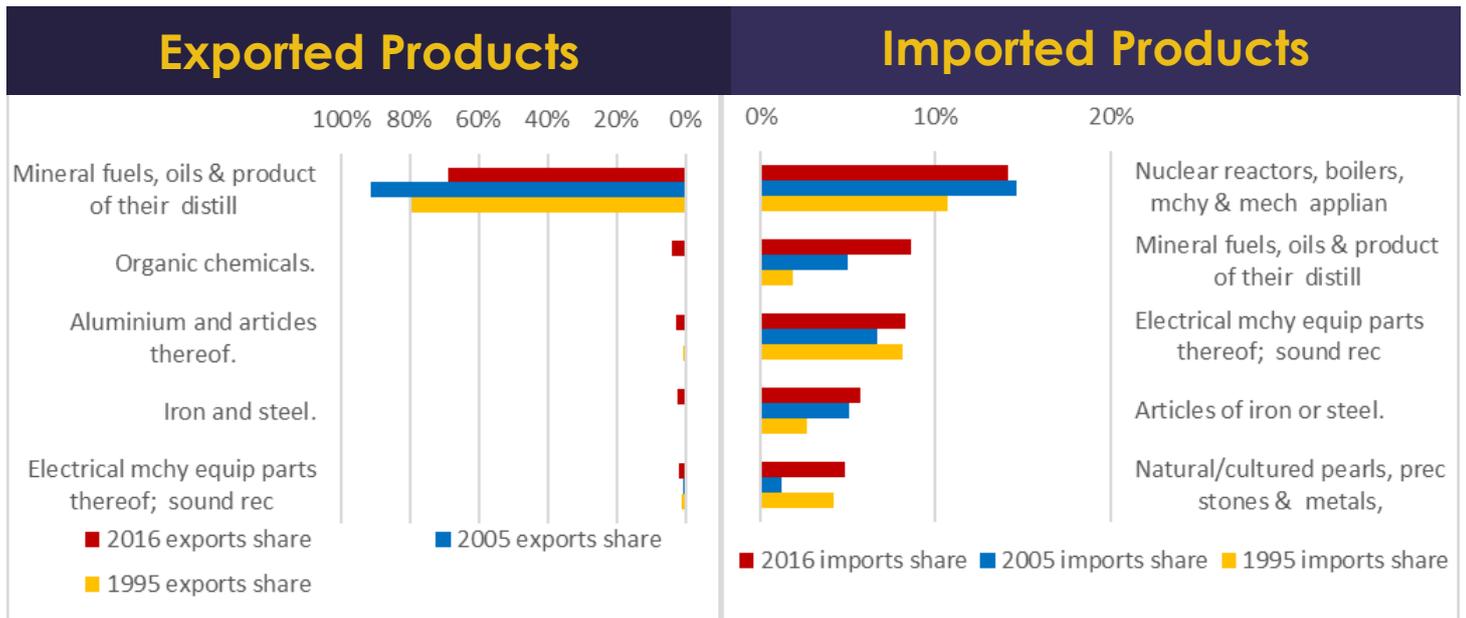


Source: ESCWA calculations using COMTRADE data (accessed October 2018).

The ASEAN+++ has been the top destination for the exports of Oman, though its share has moderated since 2005. PAFTA follows ASEAN+++ as the partner bloc with the second highest share in the merchandise exports of Oman.

**PAFTA is also the top import source for Oman and its share in merchandise imports has gone up drastically since 2005, at the expense of ASEAN++, the EU and, to some extent, NAFTA.**

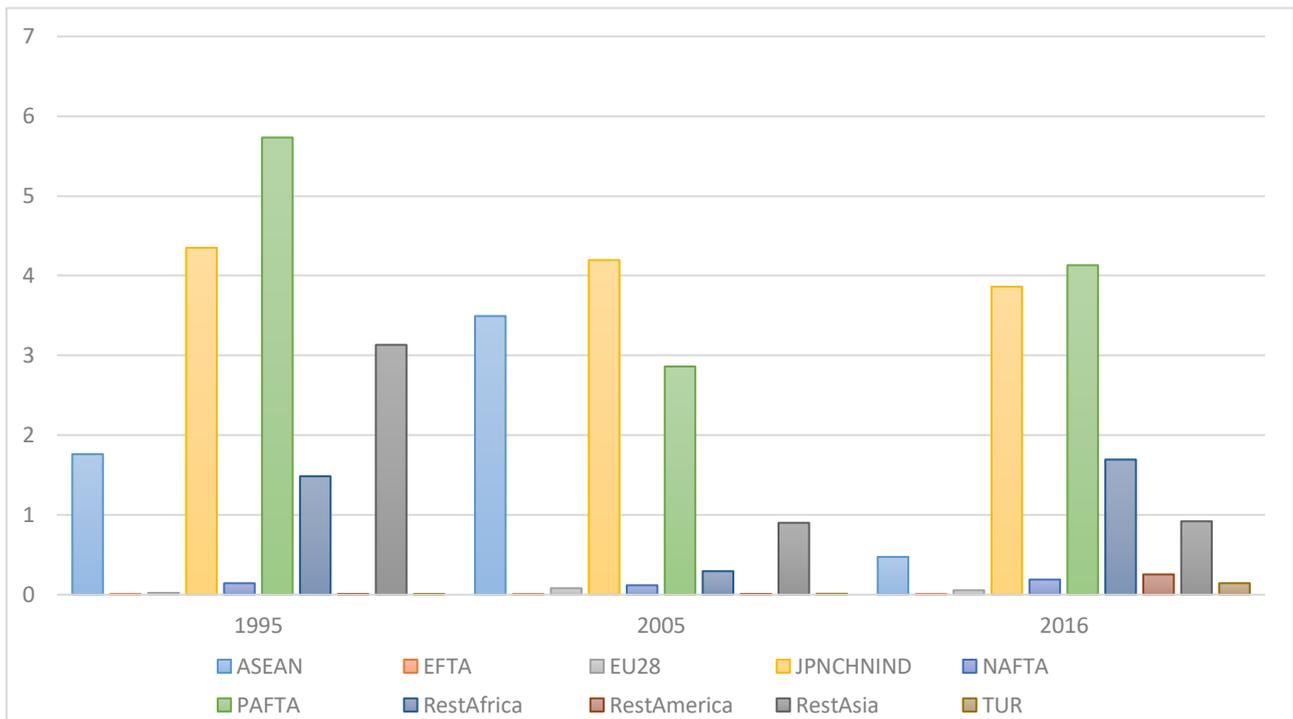
Figure 6: Top products exported and imported, 2016 (as a share of exports and imports)



Source: ESCWA calculations using COMTRADE data (accessed October 2018).

The share of mineral fuels, oils and their distillation products in Oman's merchandise exports has been extremely high, moderating somewhat in 2016 after reaching around 90% in 2005. Oman's merchandise imports on the other hand distributed more evenly across different products. Nuclear reactors, boilers, machinery and mechanical appliances, and electrical machinery and equipment have been products with high import shares. The share of mineral fuels, oils and their distillation products has grown considerably, claiming the second spot among top imported products in 2016.

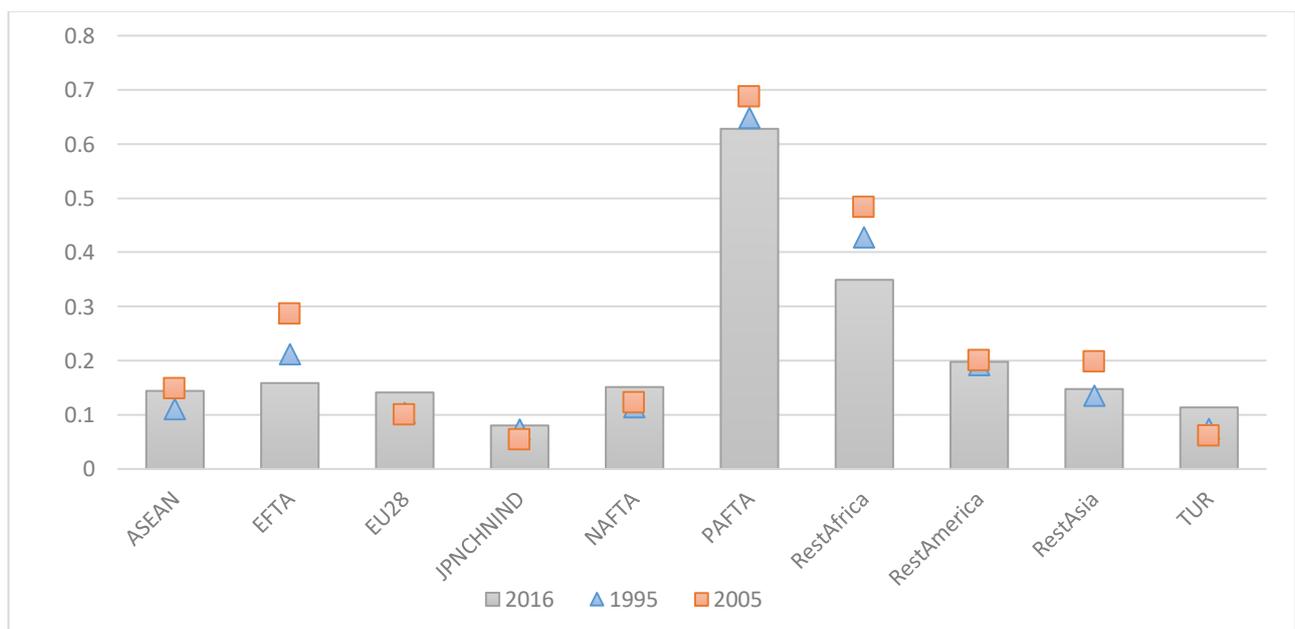
Figure 7: Trade Intensity Index



Source: ESCWA calculations based on COMTRADE data (accessed October 2018).

The trade intensity index captures whether the value of trade between a reporter and partner is greater or smaller than would be expected on the basis of their importance in world trade. Oman traditionally traded more intensively with PAFTA, Japan, China and India, and to somewhat lesser extent with sub-Saharan African countries and earlier with other Asian economies excluding PAFTA members in Asia, Japan, China, India and Turkey.

Figure 8: Trade Complementarity Index

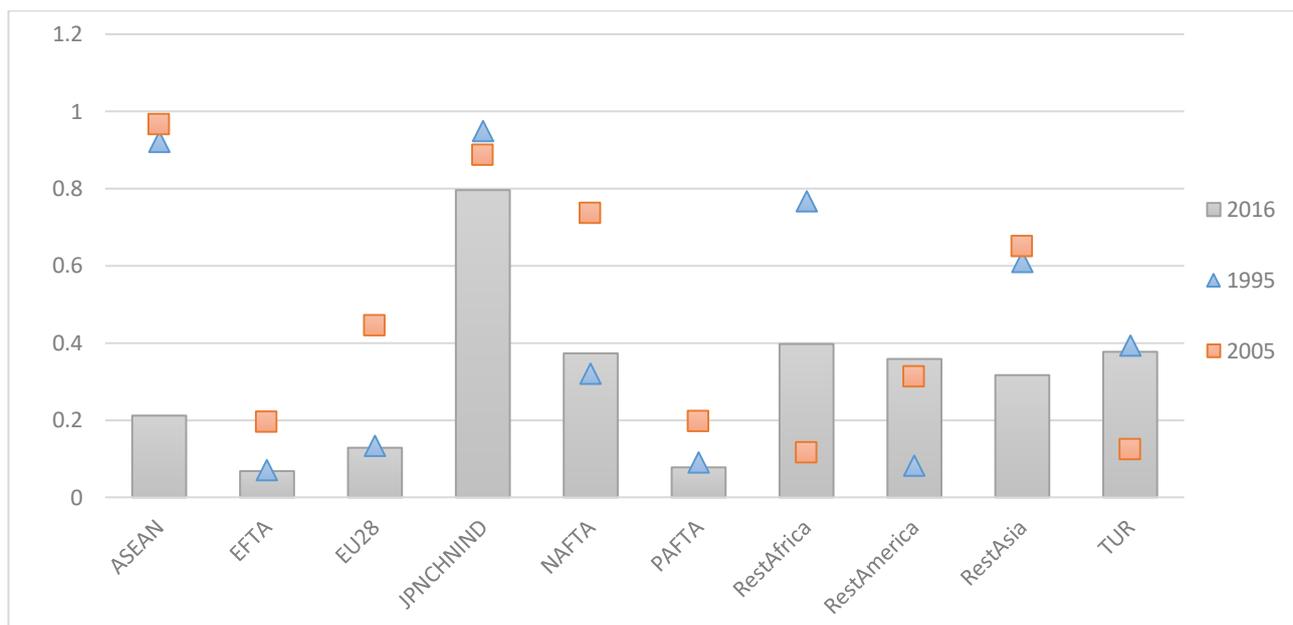


Source: ESCWA calculations based on COMTRADE data (accessed October 2018).

The trade complementarity index captures how well the structures of a country's exports and its partner's imports match, showing the extent of prospects for further exchange. The index takes on the value zero when no goods are exported by one country or imported by the other and 1 when the export and import shares exactly match.

**The index for Oman attains relatively higher values with PAFTA and sub-Saharan African countries as partners.**

Figure 9: Hirschman-Herfindahl Index (bilateral export portfolio diversification)

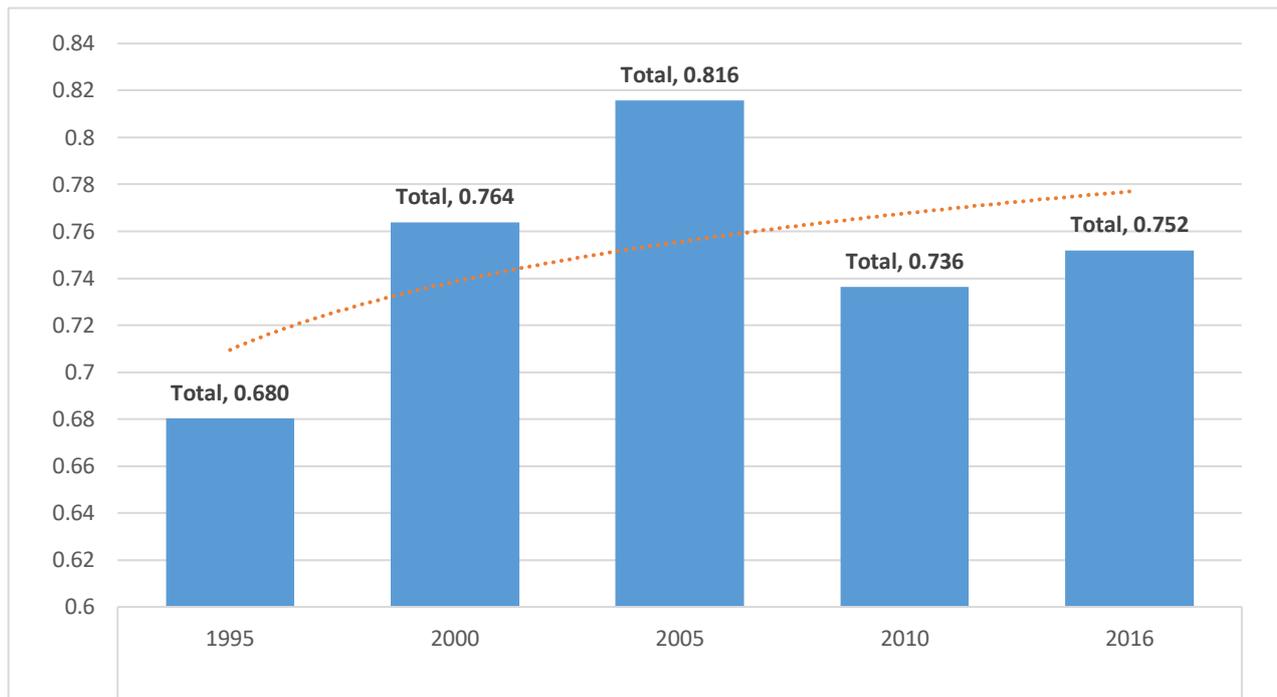


Source: ESCWA calculations based on COMTRADE data (accessed October 2018).

The Hirschman-Herfindahl Index captures how diversified a bilateral export portfolio is. A country with a perfectly diversified export portfolio will have an index close to zero, whereas a country which exports only one product would attain the value of unity (least diversified).

**Oman appears to have diversified export portfolios vis-à-vis most of its partners, with the notable exception of Japan, China and India, as measured by the Hirschman-Herfindahl Index. The diversification of export portfolio vis-à-vis ASEAN is rather striking.**

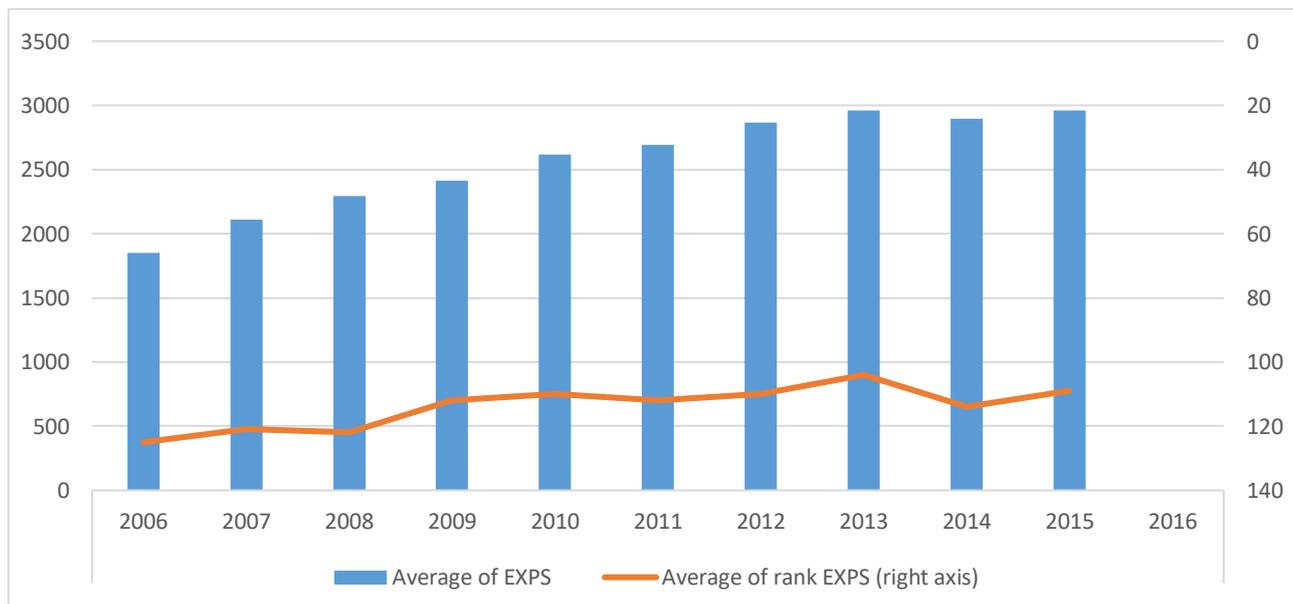
Figure 10: Export Diversification Index



Source: ESCWA calculations based on COMTRADE data (accessed October 2018).

Export diversification index measures whether a country is highly dependent on relatively few products or its export portfolio is diversified. The lower the index, the less concentrated are a country's exports. As measured by this index, Oman had experienced deterioration in the diversity of its export portfolio until 2005 but has managed to achieve some diversification since then.

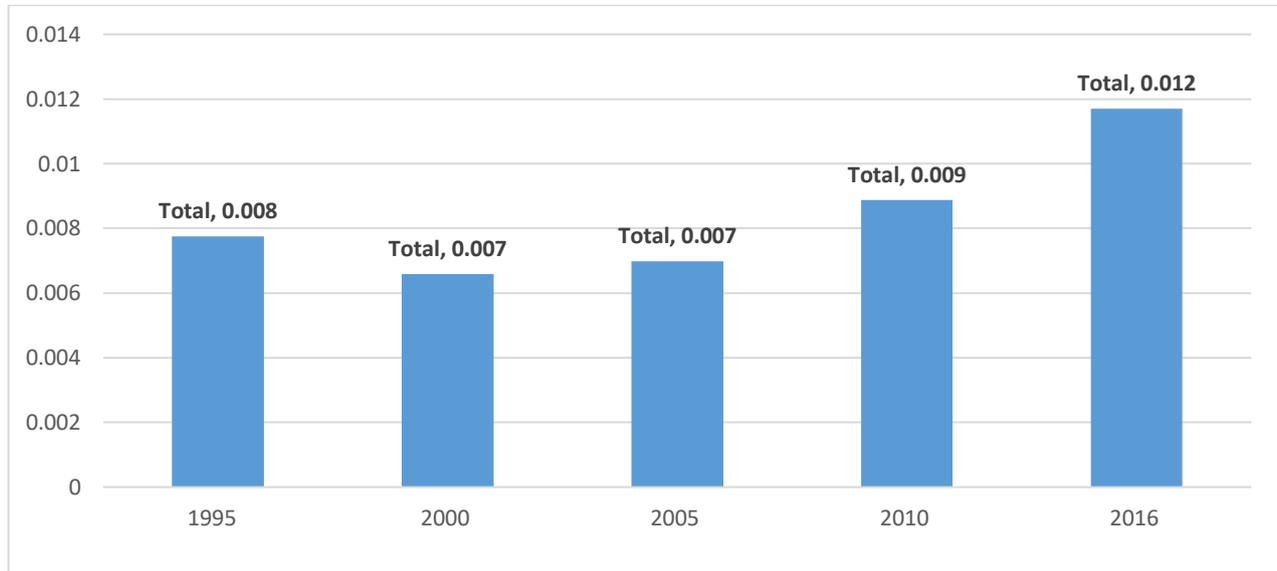
Figure 11: Export Sophistication



Source: ESCWA calculations based on COMTRADE data (accessed October 2018).

Oman has been able to specialize in more sophisticated products over the past decade, though progress has stalled in the last couple of years, and to climb a few spots in global rankings, albeit from a rather low initial rank.

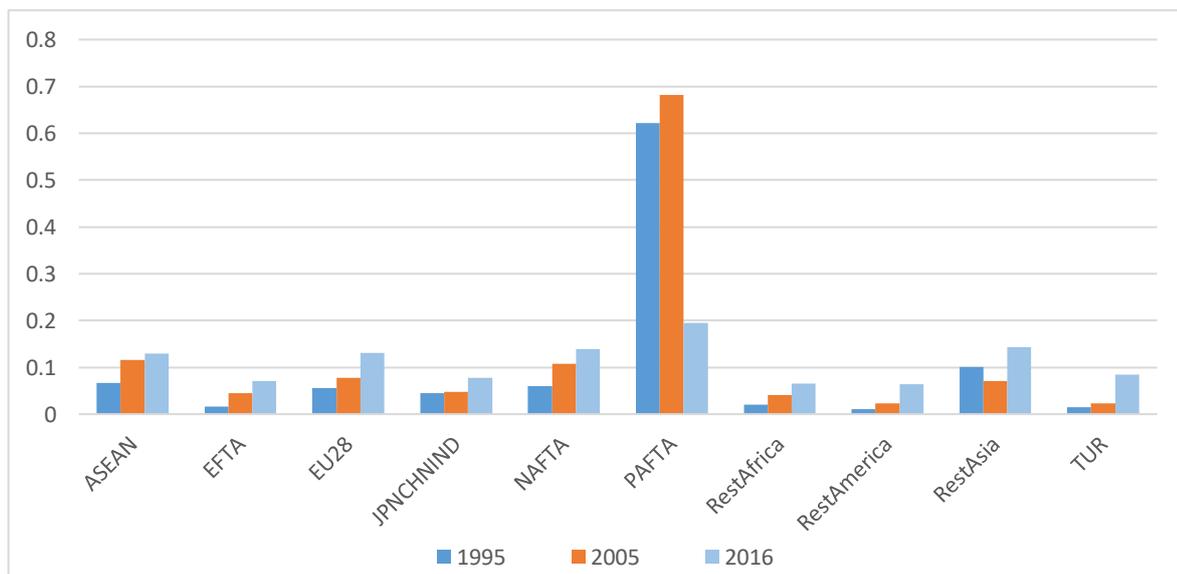
Figure 12: Export Market Penetration Index



Source: ESCWA calculations based on COMTRADE data (accessed October 2018).

Oman's penetration into export markets improved steadily since 2000, after a drop in the late 1990s, as measured by the Export Market Penetration index. The index is essentially the share of the actual number of export relationships (at the country-product level) forged by the country in question in the maximum possible number of export relationships it can form given its exports.

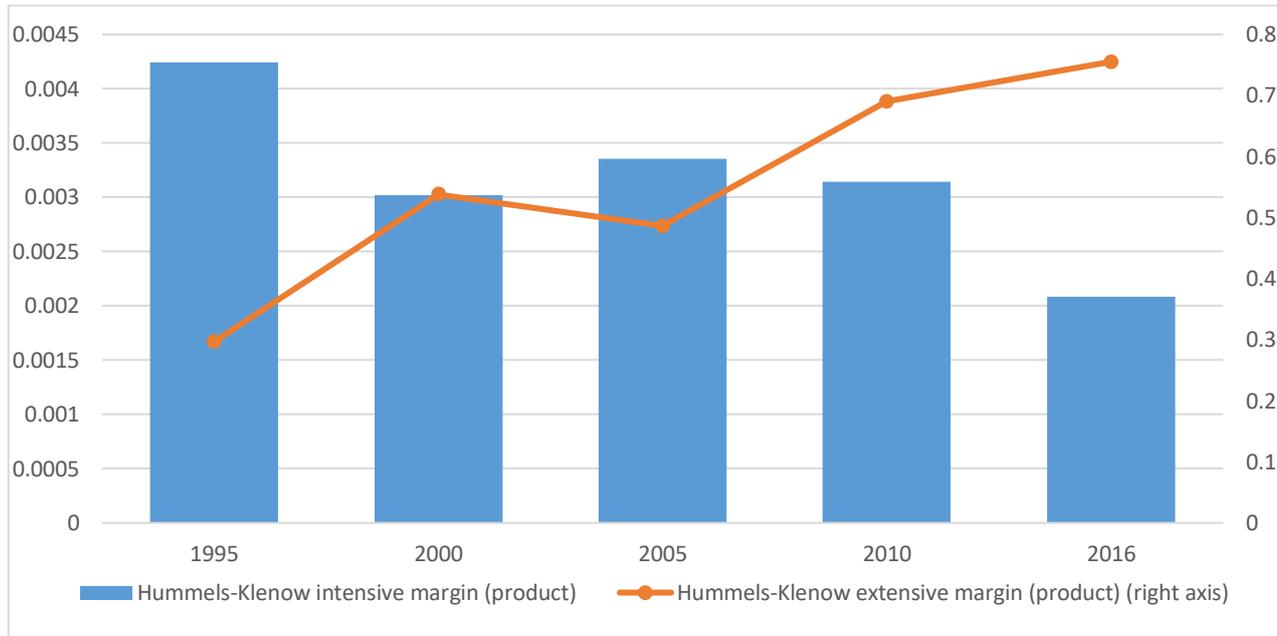
Figure 13: Export Similarity Index



Source: ESCWA calculations based on COMTRADE data (accessed October 2018).

The export similarity index captures the extent to which two entities in question are competitors in a common market. The index value of zero suggests that there is no competition between the two countries and of one that they are perfect competitors. Based on the export similarity index, Oman's main competitors in world markets has been PAFTA countries, though to a much lesser extent as of 2016.

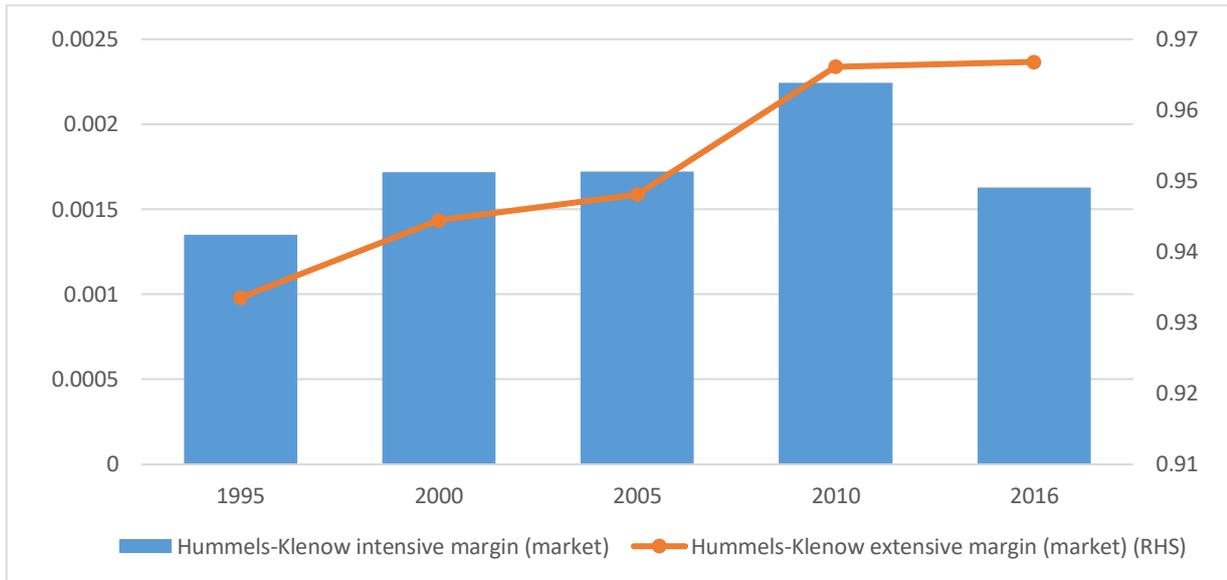
Figure 14: Hummels-Klenow intensive and extensive margins (product)



Source: ESCWA calculations based on COMTRADE data (accessed October 2018).

It is interesting to explore whether Oman exports larger quantities or a greater variety of goods. To measure the first, the Hummels-Klenow intensive margin in products could be employed, which essentially captures the share of Oman's exports in the world exports of products that Oman exports. This index almost halved between 1995 and 2016, after relatively sharp drops in the late 1990s and the first half of 2010s. Oman also experienced a rather sizable increase in the share of the products Oman exports in total world exports of all goods, also referred to as the Hummels-Klenow extensive margin in products and gives an indication of how comprehensive the set of goods a country exports is.

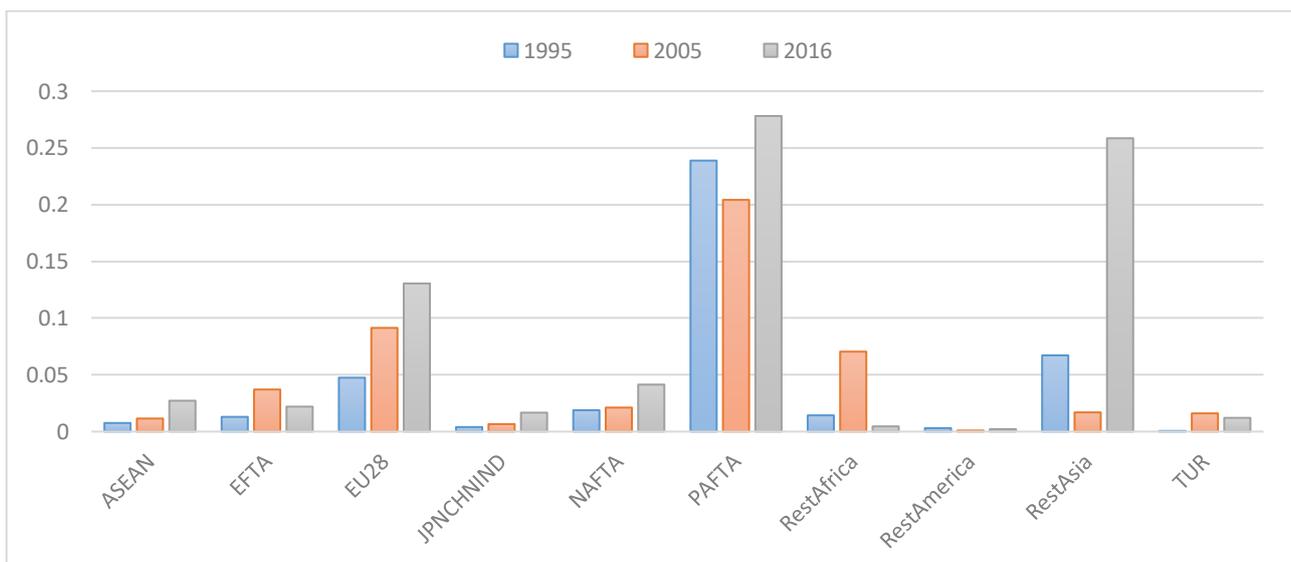
Figure 15: Hummels-Klenow intensive and extensive margins (market)



Source: ESCWA calculations based on COMTRADE data (accessed October 2018).

Another instructive angle to look into is as to whether Oman exports larger amounts to its existing trade partners or expands into new markets. As a measure of the former, Oman's share in the total world exports to only those countries that Oman exports to, also referred to as the Hummels-Klenow intensive margin in markets, has gone up since 1995 but Oman failed to maintain the high level achieved in 2010. Oman has also experienced a small but steady increase in the share of the world exports to only those countries that Oman exports to in total world exports of all goods, referred to as the Hummels-Klenow extensive margin in markets and captures the extent of expansion into new export markets.

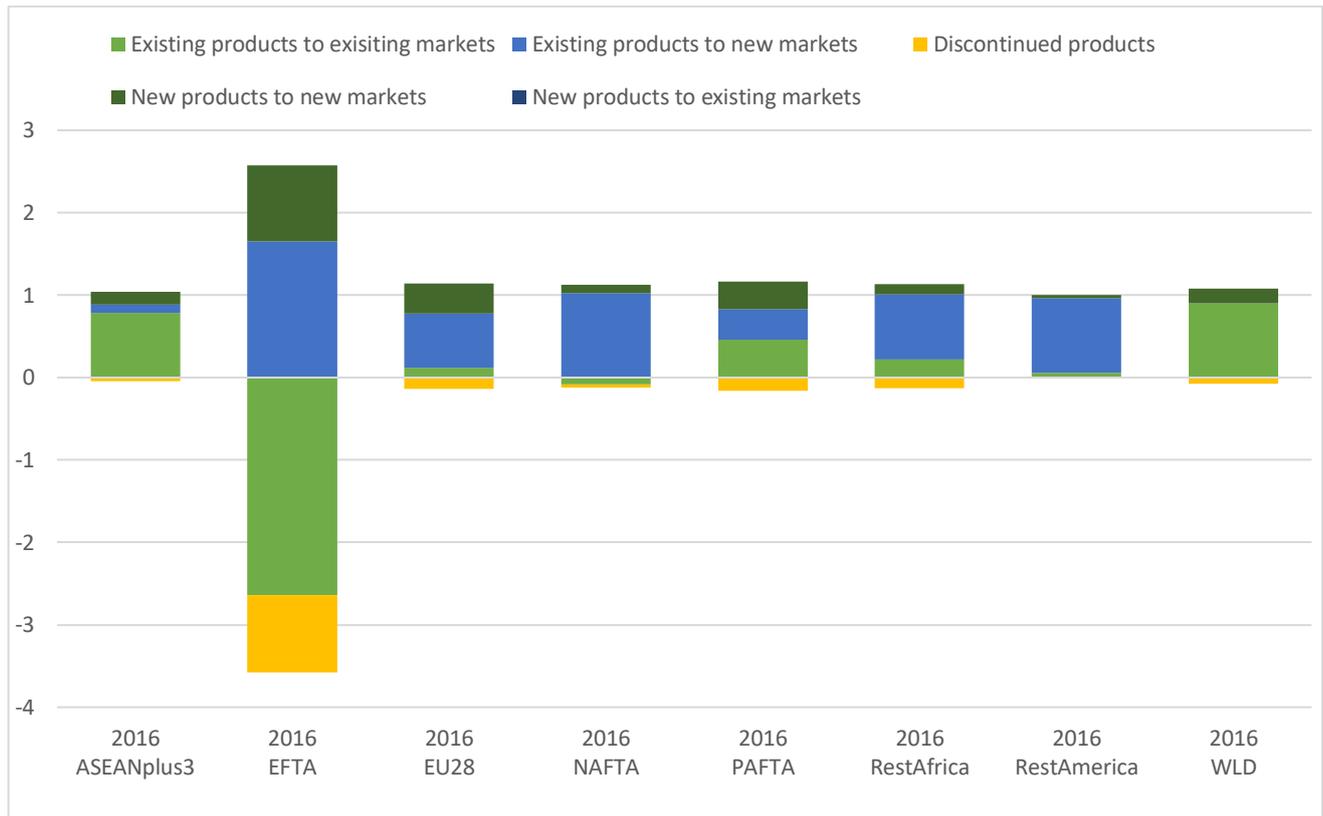
Figure 16: Intra-industry Trade Index



Source: ESCWA calculations based on COMTRADE data (accessed October 2018).

The intra-industry trade index measures the extent to which products that belong to the same industry were being traded between two countries, ranging between 0 and 1 and with values close to 1 corresponding to a high level of intra industry trade. Oman has engaged in intra-industry trade to a relatively great extent with PAFTA and Asian countries, excluding ASEAN members, China, India, Japan, and Turkey.

Figure 17: The composition of the change in bilateral merchandise exports between 2000 and 2016 along intensive and extensive margins



Source: ESCWA calculations using COMTRADE data.

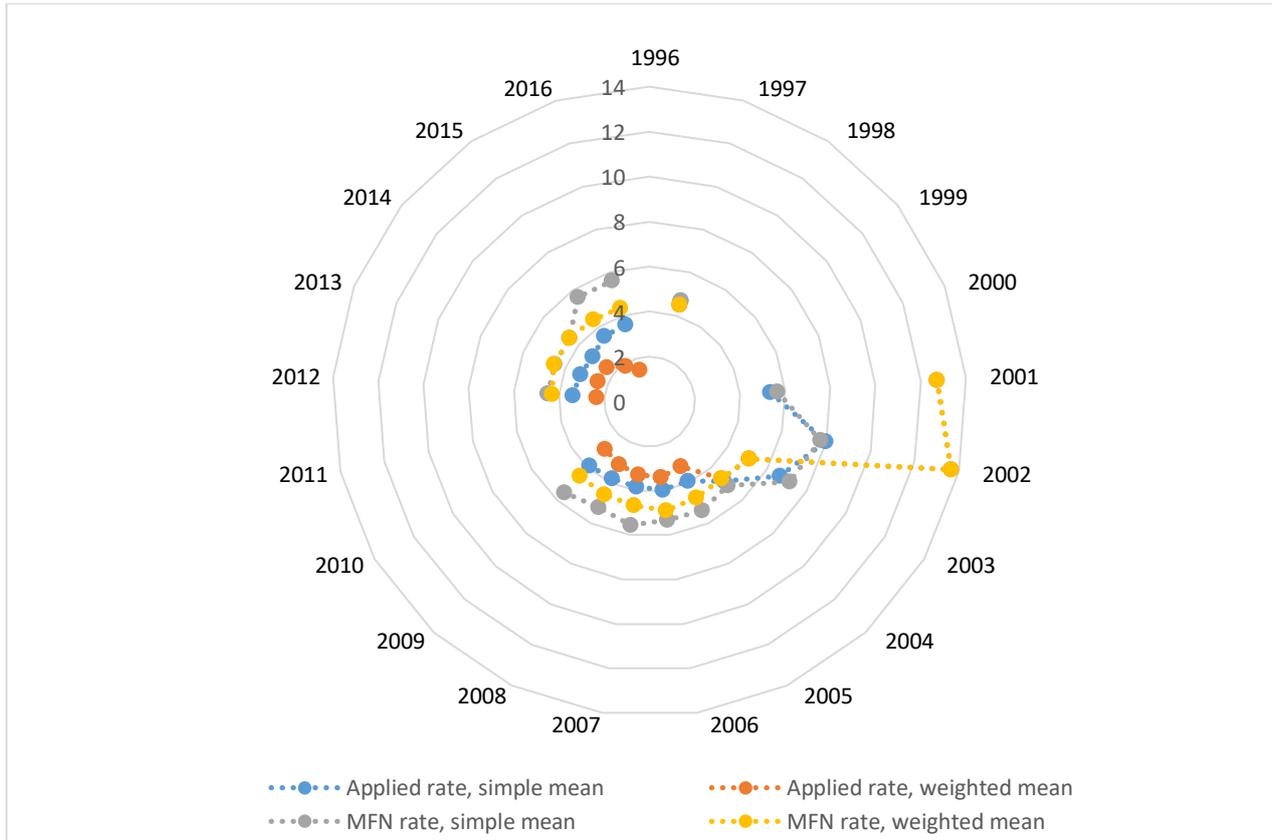
Notes: The abbreviations and the list of the countries included in each group are as follows. The Association of Southeast Asian Nations (ASEAN) is created using Indonesia, Malaysia, Philippines, Thailand, and Vietnam, not including Brunei, Cambodia, Laos, Myanmar, and Singapore. [to be completed]

Between 2000 and 2016, only very limited share of the change in the exports of Oman has come from expanding into new products and/or markets. This share is around 60% for the United Arab Emirates and Bahrain, and 25% for Viet Nam. Across different destinations, American, EU, and EFTA countries stand out as destinations covering new markets for the exports of Oman.

*In terms of new products, EFTA and the EU are dynamic markets for Oman.*

### III. Trade Policy

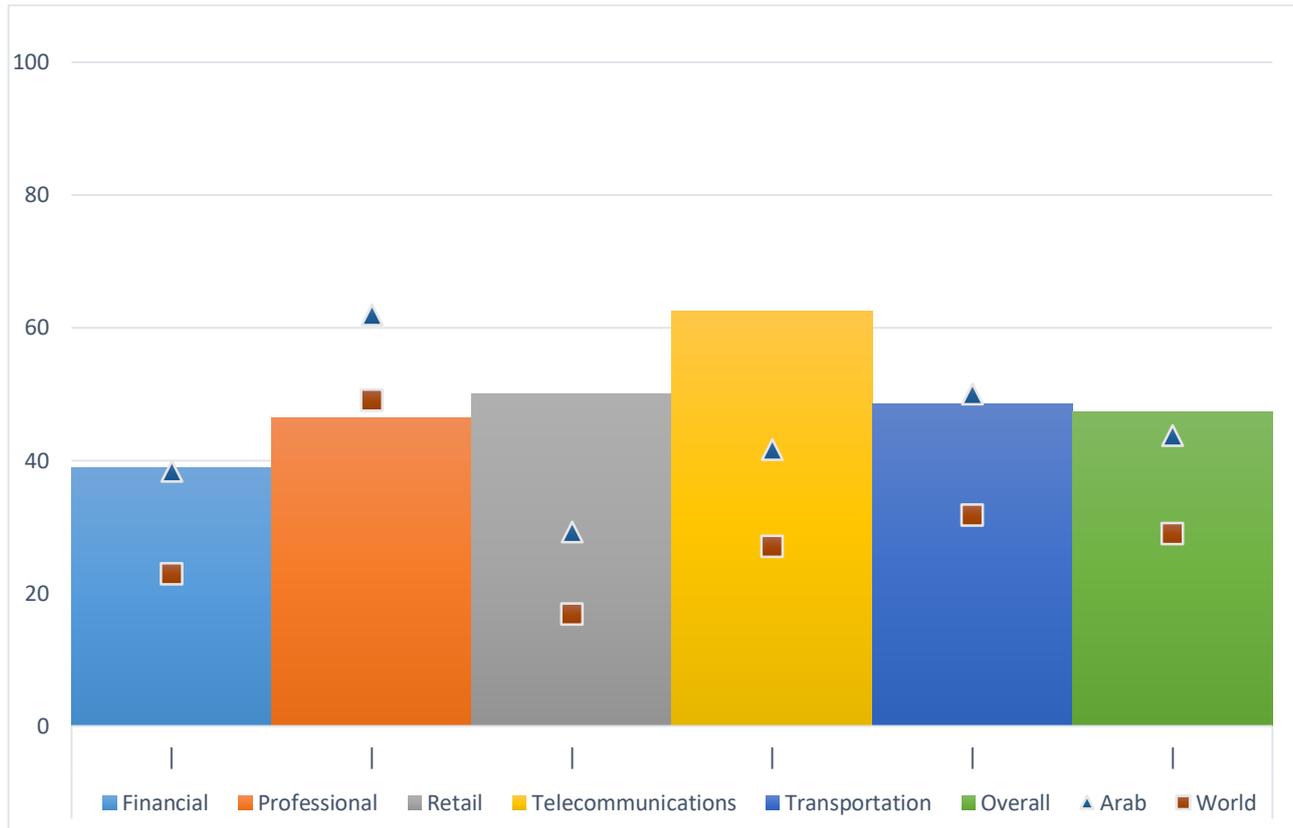
Figure 18: MFN and applied tariff rates for all products, simple and weighted means



Source: ESCWA calculations using the World Development Indicators database (accessed October 2018).

Oman has significantly lifted tariff protection. Over the past two decades, both applied and MFN tariff rates have come down markedly and applied rates appear particularly low.

Figure 19: Services Trade Restrictiveness Index, 2010



Source: Borchert, Gootiiz and Mattoo (2014).

Policies and regulations on Oman's services trade tend to be restrictive, more stringent than or as stringent as the world and Arab averages with the exception of professional services. Oman appears to have relatively more restrictive policies and regulations in retail trade and telecommunication services.

## END NOTE

Oman's mixed trade and investment performance in the past two decades appears to be driven by its failure to diversify its export portfolio, to specialize in products with limited sophistication, and restrictive services trade policies and regulations in place. While addressing these issues requires a broad and comprehensive policy response, undertaking reforms in such areas as services trade liberalization could yield significant benefits to Oman's economy.