



## WTO Trade Policy Review praises Oman's impressive performance

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OMAN. A liberal trade regime has been integral to Oman's impressive economic performance over the past few years, with high real GDP growth, low inflation, and surpluses in both its overall fiscal position and external current account, according to a report on the trade policies and practices of Oman published by the WTO Secretariat.

An additional favourable factor is that Oman has moved to improve its investment climate. Nonetheless, the report indicates that a number of activities are still subject to FDI restrictions (such as tourism, and internal waterway and taxi transportation).

The report also notes that a key element of Oman's reform process relates to full economic integration under the Gulf Cooperation Council (GCC), of which the customs union component was launched on 1 January 2003. Oman also participates in the Pan Arab Free Trade Area (PAFTA), and has signed a trade agreement (not yet in force) with the United States.

The report also stresses that Oman needs to bring some elements of its trade regime into greater conformity with WTO provisions. Continued reforms, including dismantling of the remaining impediments to FDI, and further improvement of Oman's multilateral commitments, both on goods and services, would contribute to better resource allocation, and increase the predictability of its trade regime.

### Economic environment

Since the mid 1990s, the Sultanate of Oman has been implementing a development strategy centred on a liberal trade regime and aimed at, inter alia, reducing its high dependence on crude oil and natural gas (almost 50% of its GDP, 65% of government income, and over 90% of merchandise exports). To this end, Oman is promoting downstream industries and tourism; improving education and health services; modernising its infrastructure; and addressing some structural problems, including the privatisation of state-owned enterprises (SOEs). It has also established reserve funds aimed at ensuring inter-generational economic equity in the exploitation of its non-renewable natural wealth.

The development strategy has resulted in high real GDP growth of 5.3% on average per year during 2000-2007, and low inflation of 1.2% on average annually over 2000-2007 despite a surge to a 16-year high of 5.9% in 2007, due partly to an increase in private and public consumption.

Oman has also registered surpluses in both its overall fiscal position (8.4% of GDP on average annually during 2001-2006) and external current account (8.6% of GDP on average per year over 2001-2007). With a population of around 2.6 million (26% being expatriates), and a per capita income estimated at US\$14,500 for 2007, Oman's main economic and social challenge is to provide more employment opportunities for its citizens. The 'OmaniSation' programme, aimed at promoting employment of Omanis, is being implemented.

With the exception of Kuwait, all Gulf Cooperation Council (GCC) countries have their currencies pegged to the US dollar. The Omani Rial (OMR) the national currency, has been pegged to the US Dollar since 1973. Oman accepted the obligations of Article VIII of the IMF Agreement on 19 June 1974. It has no restrictions on capital receipts or payments by residents or non-residents. In 2006, Oman ranked 44th among world merchandise exporters (counting the EU as one), and 57th among importers. Oman's merchandise trade is relatively diversified, with Middle East and Asian countries, notably the UAE and South Korea, as the main trading partners.

In services trade, Oman ranked 79th among exporters and 47th among importers. Oman is, increasingly, a net importer of services, with a deficit averaging US\$1,813 million per year during 2000-06, peaking at US\$2,827 million (equivalent to 7.9% of GDP) in 2006.

Oman's average annual inflow of foreign direct investment (FDI) jumped from OMR 208.9 million in 2003 to an estimated OMR 637.7 million in 2006, partly as a result of steps taken to improve Oman's investment climate, including through the establishment, in 1997, of the Oman Centre for Investment Promotion and Export Development. Nonetheless, FDI inflows have been inhibited by, inter alia, the slow progress of parts of the privatisation programme; prohibition of land ownership for foreigners,

except in the new tourist areas; and prohibition of foreign investment in activities such as tourist guide, internal waterway, and taxi transportation.

### **Institutional framework**

Formulation and implementation of Oman's trade policy is the responsibility of the Ministry of Commerce and Industry, in coordination with other ministries. The private sector provides inputs to trade policy formulation through the Oman Chamber of Commerce and Industry on an ad hoc basis.

The WTO agreements and the GCC Treaty are the main factors underlying Oman's trade policy. The Government recognizes the importance of trade and investment to its overall goals. To this end, Oman has been reviewing and amending its laws, including on contingency trade remedies, government procurement, commercial companies, and investment.

Oman deposited its instrument of ratification of accession and became a WTO member on 9 November 2000. It is a signatory to the WTO's Information Technology Agreement, and is an observer to the plurilateral Agreement on Government Procurement. Oman has not been involved in any dispute under the WTO Dispute Settlement Mechanism, either directly or as a third party.

Oman participates in the GCC, and in the Pan Arab Free Trade Area (in which all six States of the GCC take part). Under the GCC, negotiations for a trade agreement with the EC are continuing, and possible trade agreements are also being discussed with, inter alia, Australia, China, and New Zealand. In 2005, Oman signed a trade agreement with the United States (not yet in force), becoming the second country in the region to do so, after Bahrain; the other GCC members are also negotiating bilaterally with the United States. GCC Heads of States have agreed that any new preferential agreement concluded by a member would apply *pari passu* to all members, except for agreements with the United States.

### **Trade policy instruments**

Oman has a relatively simple MFN tariff; all rates are *ad valorem*, and there are no tariff quotas, and no other duties and charges on imports. Since 1 January 2003, Oman has been applying the GCC common external tariff, which consists of rates of zero (9.4% of all lines) and 5% (88.8%). On alcoholic beverages, tobacco and tobacco products, and pork and pork products, Oman applies a 100% tariff (1% of the lines).

Oman's applied average MFN tariff rate is 5.5%, that is 9.9% on agriculture (WTO definition), and 4.6% on non-agricultural products. Oman has bound 100% of its tariff lines at rates ranging up to 200%, and averaging 13.8% (that is average bound rates of 28% on agricultural products, and 11.6% on non-agricultural goods); this leaves margin for applied tariff increases.

On aggregate, Oman's tariff displays positive escalation, from first-stage processed products, with an average tariff of 4.4%, to semi-finished goods, with an average of 4.8%, and fully processed products, on which tariffs average 6%. This positive tariff escalation stems from the lower applied tariffs (on average) on agricultural raw materials.

At a more disaggregate level, there are mixed results: in some industries (such as textiles and apparel, wood products, and non-metallic mineral products) tariffs are uniform from the first to the final stage of processing); otherwise, tariff escalation is mixed (negative from the first to the second stage, and then positive) in the food, beverages, and tobacco industry, reflecting the high rates on tobacco and spirits. Escalation is negative in chemicals and plastics, and in the paper, printing and publishing industries, and other manufacturing because of duty-free imports of pharmaceuticals and certain books.

The documentation for all imported products must be authenticated by the Consulate of Oman or representative, or any Arab Embassy in the country of origin. Oman encounters some difficulties in implementing the provisions of the GCC customs law based on the WTO Customs Valuation Agreement, with goods such as tobacco and tobacco products still subject to minimum import prices. Import and export prohibitions and restrictions are maintained on a number of products, mainly for health, security, moral, and religious reasons. Oman is harmonising its regime on standards and technical regulations at the GCC level.

Oman has adopted the GCC Treaty provisions on contingency trade remedies, but has never used them. Its government procurement regime provides for price preferences of 10% and 5% for local and GCC products, respectively. Oman has no competition legislation *per se*, but provisions of legal instruments such as Sultani Decree No 38/2000 regulate aspects of competition. State ownership remains significant throughout the economy.

Oman is to enact new laws on intellectual property rights (IPRs), a prerequisite for the entry into force of its bilateral trade agreement with the United States. During the last few years, Oman has made significant progress in enforcing IPR protection. Nonetheless, under-the-counter sales of unauthorised software and DVDs are reported to persist in some locations.

In addition to import duty concessions, other general incentives available in Oman, to national and foreign investors, include: exemption from the tax on profits for five years (renewable for another five years); long-term use of land at favourable rates; subsidized electricity, water, and natural gas for production; and 'soft loans' for up to ten years, with a moratorium period of up to three years, at a subsidized interest rate.

### **Sectoral policies**

In accordance with Oman's long-term development strategy (Vision 1996-2020), the contribution of agriculture and manufacturing to GDP are expected to increase, respectively, from 2.8% to 5%, and from 7% to 29% during the period, whereas the shares of services, and oil and natural gas are to fall to 47% (52.3% in 1996), and 19% (over 40% in 1996), respectively.

One major state-owned enterprise, Petroleum Development Oman, dominates oil and natural gas activities, either directly or in cooperation with foreign enterprises, through production-sharing agreements. Oman is pursuing an intensive exploration drive to enlarge its known hydrocarbons reserves, so as to expand the duration of their exploitation, and broaden its production capacity. Oman is also increasing its electricity network in order to meet growing demand. The simple average applied MFN tariff on mining and quarrying is 4.9%.

Services constitute a crucial component in Oman's overall policy of economic diversification. Private sector participation is being encouraged by removing obstacles to foreign investment. Several SOEs in the sector operate under monopoly, or hold exclusive rights in some branches (such as Oman Telecommunications Company, Oman Postal Company, and Oman Air). Under the General Agreement on Trade in Services, Oman made commitments in all services categories, and has tabled its initial conditional offer in the ongoing services negotiations.

Oman's manufacturing sector benefits from its relatively large endowment of hydrocarbons used as inputs by industries producing chemicals and liquefied natural gas. The government holds 100% stake or is an important shareholder in some manufacturing companies (such as Salalah Methanol Company, Oman Polypropylene Company, and Oman Cement Company). MFN customs tariffs on manufactured goods average 5.6%, with rates ranging up to 100% on alcoholic beverages, and tobacco and tobacco products.

Despite its small and decreasing share of total GDP, agriculture is an important sector in the economy because of Oman's food security objective, which is to be achieved mainly through relatively low customs tariffs. Oman is a net exporter of fishery products, but a net importer of agricultural products. The simple average applied MFN tariff on agricultural products is 3.9%. The government assists agricultural producers by offering basic infrastructure (such as drainage and irrigation facilities), soft loans, and free inputs, such as new seed varieties, fertilizers, and chemicals.

### **Trade policy and trading partners**

Oman has a generally open trade regime, and the bulk of its trade has been liberalized on a unilateral basis. Furthermore, it is a strong supporter of the WTO, and is participating actively in the ongoing multilateral negotiations. Nonetheless, Oman needs to bring some elements of its trade regime more up to date and into greater conformity with WTO provisions. Continued reforms, including dismantling of the remaining impediments to FDI, and improvement of multilateral commitments, both on goods and services, could contribute to better resource allocation, and increase the predictability of its trade regime.

Increasingly, a key element in Oman's reform process relates to full economic integration under the GCC. In this regard, however, Oman has indicated that it would not join the GCC planned monetary union by 2010.

Its membership in the GCC has contributed to GDP growth by improving competition in the economy, but has also detracted from multilateral efforts, given the increased demand on its limited administrative and negotiating resources. Oman's future trade agreements, both at the GCC level and bilaterally, could further complicate this situation. It is therefore important to consider the potentially greater advantages of further market opening on a multilateral basis. Trading partners could help by ensuring that their markets are fully open to goods and services of interest to Oman, and by providing more technical assistance.

The WTO report, along with a policy statement by the government of Oman, form the basis for the first TPR of Oman by the Trade Policy Review Body of the WTO on 25 and 27 June 2008.