POLICY BRIEF

A summary for decision making of key research findings

New Tariffs, New Rules: What's Next for Oman?

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Summary

"This research analyses the impact of US tariffs on Oman's trade, focusing on key sectors affected by one-sided measures, which are against the USA-Oman FTA. While some tariffs may increase exports costs for some Omani sectors, the analysis also suggests that Oman might benefit as US imposes much higher tariffs on top importers. We propose Oman government to adopt to this new environment in response to rapidly changing global trade dynamics."

The US imposition of a 10% minimum tariff on all imports and a 25% tariff on steel and aluminium products presents a complex challenge for Oman's economy. While these tariffs will increase the cost of Omani goods in the US—particularly plastics, steel/aluminium, and fertilizers—they also reshape the global competitive landscape. As top exporters like China and Vietnam face even steeper tariff barriers, Oman could potentially benefit from trade diversion effects in select sectors. However, products such as aluminium sheets and plates will likely suffer due to direct exposure to the 25% tariff, reducing demand and export revenues.

As the benefits of the Oman-USA FTA is unilaterally ignored by USA, there is a need for Oman to adopt a multifaceted trade strategy. This includes diversifying its export markets beyond the US, strengthening trade relations with regions like the EU and GCC, enhancing domestic industrial competitiveness. Investing in value-added production will be key to ensuring Oman's resilience in an increasingly protectionist global trade environment. Policymakers should also engage in bilateral discussions with USA to seek targeted tariff relief, especially for vulnerable sectors.

Key messages

- ***The Oman–USA Free Trade Agreement (FTA) historically ensured preferential access to US markets, but its advantage is diminishing amid broad US tariff hikes, making its future impact uncertain.***
- ***US-imposed tariffs raise the landed cost of Omani exports (especially in plastics, petroleum-based products, and steel / aluminium) reducing their competitiveness in the US market.***
- ***While Oman could respond by imposing reciprocal tariffs on US imports, such retaliation may backfire, raising domestic consumer prices and straining bilateral relations.***
- ***A better approach would involve a unified GCC stance on import taxation and initiating collective tariff negotiations with the US, increasing regional bargaining power.***
- ***GCC governments, including Oman, should reassess fiscal planning and budget forecasts, anticipating possible revenue declines if global trade and oil prices weaken.***
- ***Omani firms have the opportunity to import raw materials from countries facing steep US tariffs, process them domestically, and re-export value-added goods to the US under relatively lower duties.***
- ***To maintain export resilience, Oman must align trade policy, industrial strategy, and logistics infrastructure to take advantage of shifting global trade dynamics.***

Background

Tariffs are essentially taxes on imported goods and services. They are used by governments to generate revenues and to protect domestic industries from foreign competition. As it is imposed only on foreign products, consumers are expected to buy domestic products to due price differences. Governments prefer tariffs on value added taxes as tariffs are not clearly visible to consumers but deeply hidden in the price. However, they also create inefficiencies causing economic losses (in the form of lost consumer surplus) much higher than tax revenues.

USA and Oman have signed a Free Trade Agreement (FTA) which aims to increase trade flows between two nations by eliminating tariffs. The agreement has led to increased exports from Oman to USA in and vice versa. As an FTA signatory, Oman has enjoyed preferential trade terms, giving it an advanced over other countries not benefitting from similar agreements.

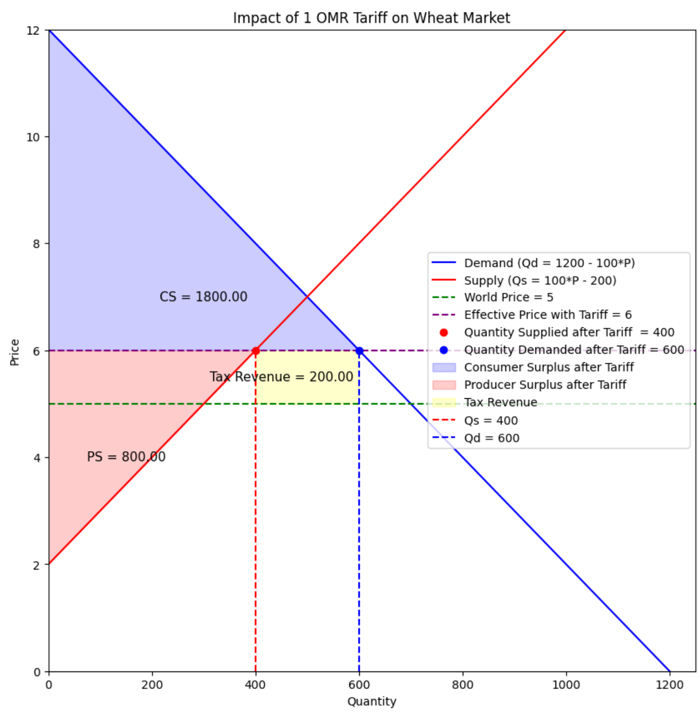
However, under the Trump administration (v2.0), the US imposed an unprecedented series of tariffs to almost all countries around the world – ignoring all signed FTAs. The claim is to "Make America Great Again" by sourcing as many things as possible locally. The newly announced tariffs are based on the ratio of trade deficits to total trade where countries with large trade surpluses have seen tariffs double the cost of items. While Oman faces only the minimum announced tariff of 10% from all imports, there is a blanket tariff of 25% steel and aluminium products from all countries.

Method

Tariffs are an essential tool in international trade policy and can be analysed through various economic concepts. At the core, tariffs impose a cost on imported goods, which raises prices and reduce consumer welfare. The economic theory surrounding tariffs includes concepts such as consumer surplus (the benefit consumers get from purchasing goods at lower prices), producer surplus (the benefit domestic producers gain from higher prices due to tariff protection), and deadweight loss (the economic inefficiency resulting from reduced trade). In theory, while tariffs can help protect domestic industries by making imported goods more expensive, they also distort market outcomes, leading to higher costs for consumers and potentially reducing the overall economic welfare of the trading nations. Furthermore, tariffs can lead to retaliatory measures, escalating trade disputes and harming exporters, including those from Oman. Figure 1 visualizes the impact of potential tariffs on domestic country. While producers might benefit from higher prices, consumers will be worse off causing an economic loss.

There is also a response from exporter nations in the form of similar tariffs. The initial response from China was to impose same amount of taxes to USA along with export restrictions on critical rare earth materials which might further hurt US industrial production capacity. Intellectual property rights are also closely linked to international trade and might also be ignored in the middle of trade wars.

Figure 1. Sample Impact of a Tariff on Market



To understand the impact of tariffs on US trade, we model the situation before and after the imposition of tariffs using the basic principles of supply and demand. Before tariffs, the supply of goods from various countries meets the demand in the importing country. When trade is free, goods are bought and sold at a price determined by the global market.

In this scenario, the quantity of goods exchanged is determined by the intersection of domestic supply and demand curves with the world price (the price at which goods are traded internationally). There is no barrier to trade, so the economy operates at an efficient level, with consumers enjoying low prices and producers able to export goods at competitive prices.

When a country imposes a tariff, the price of the imported goods increases due to the added cost. This shift creates several economic effects such as price increases, decreased imports, possibly increased domestic production and government revenues from tariffs. However, tariffs create deadweight loss—an economic inefficiency that arises because of reduced trade.

To understand the impact of these tariffs from Oman's perspective, we need to consider the effects of two key tariffs imposed by the US:

- 10% Tariff on Oman's Exports to the US

- 25% Import Tax on Steel and Aluminum Products

Before the tariffs were implemented, Omani goods were able to enter the US market under the terms set by the Oman-USA Free Trade Agreement (FTA), which provided preferential access. Goods were traded at the world price, which was competitive due to the lack of significant barriers. Omani producers were able to export goods to the US at competitive prices, enjoying tariff-free or reduced tariff rates under the FTA, boosting exports and contributing positively to the national economy.

Once the US imposes a 10% tariff on Omani exports and a 25% import tax on steel and aluminum products, prices of Omani products will be higher in US markets. There might be reduction in trade volume or even worse Omani producers might be asked to pay the tax load at discounted prices dictated by US terms. This would affect the Omani companies' profit margins.

The impact would even be more significant in steel and aluminum markets. Omani steel and aluminum products will now be subject to a 25% tariff, making them significantly more expensive in the US. This could dramatically decrease demand for these products from Oman reducing trade in steel and aluminum: The quantity of steel and aluminum exported from Oman to the US will decrease due to the higher costs imposed by the tariff. US consumers and industries will look for cheaper alternatives from other countries that are not subject to the import tax. Steel and aluminum producers in Oman might face reduced revenue from the US. This scenario creates welfare loss for both Omani producers (due to lower export revenues) and US consumers (who face higher prices for steel and aluminum).

Key findings

It is possible to simulate the impact of tariffs using Trade Intelligence Negotiation Advisor. This tool will give us a simple static marginal model on impact of tariffs for Omani prices. However, the tool is static and does not consider the flood of tariffs imposed on many countries simultaneously. Still, it can be used to look at the top Omani exports to US.

To model the impact of US tariffs on Oman's exports, it's essential to focus on the top export commodities from Oman to the US. Below is a summary of these exports and their values, which can help simulate the potential impact of the tariffs imposed by the US, especially focusing on the 10% tariff and the 25% import tax on steel and aluminium:

HS Code	Commodity	Value ($ Million)
392062	Plastics	325.42
271019	Petroleum (no crude)	267.71
711319	Jewellery (non-silver)	234.48
760612	Aluminium alloys	159.51
999999	Commodities unspecific	112.54
310210	Fertilizers	97.89
271012	Petroleum oils	73.39
290243	Cyclic hydrocarbons	68.34
390760	Poly(ethylene)	63.95
760611	Aluminium; non-alloy	57.07

Plastic (HS 392062) products would be subject to the 10% tariff on Omani exports. Given its substantial export value, the imposition of a 10% tariff would reduce its competitiveness in the US market. The demand for these plastics could decrease due to the higher cost, leading to a potential reduction in export volumes.

Petroleum (HS 271019) are also impacted by the 10% tariff. Also, due to global energy market dynamics, changes in tariffs on related goods, such as plastics or machinery, could have also have indirect effects on petroleum demand and transport costs. Even worse for oil-exporting countries, global petroleum prices may fall due to indirect negative impacts of US tariffs on global trade and economic growth.

The Jewellery (HS 711319) sector could see more significant impacts from tariffs on precious metals and other raw materials. Jewellery is highly competitive, and tariffs could affect the final cost to consumers, potentially reducing demand for Omani jewellery in the US market.

Aluminium Products (HS 760612, 760611) are directly affected by the 25% import tax on steel and aluminium. The US has a significant import tax on aluminium, which could substantially increase the price of Omani aluminium in the US market. This would likely reduce the demand for Omani aluminium, especially in industries where price sensitivity is high, such as manufacturing and construction.

Fertilizers (HS 310210) – 97.89 are less likely to be directly impacted by the tariff changes, as the US typically has fewer trade restrictions on agricultural products. However, if the cost of shipping or production increases due to other tariffs (e.g., on raw materials), the overall competitiveness of Omani fertilizers could be affected.

Other Products (HS 999999, 290243, 390760) may also see reduced demand in the US, depending on the specific industries they serve. For example, p-xylene and polyethylene terephthalate are crucial for the chemical and textile industries, which may see indirect impacts from tariffs on other related inputs.

However, when looking the broader context, one needs to consider major exporters like China, Vietnam, and others face much higher tariffs. As 10% is the lowest amount, it might make Omani products more competitive compared to products from countries that are subject to much higher tariffs. It is true that products like plastics and fertilizers could see lower demand in the US due to the price increase caused by the 10% tariff. This could reduce the quantity of exports, leading to a potential revenue loss. However, since Oman’s total export value to the US is relatively small compared to major exporters like China and Vietnam, the impact might be less severe in absolute terms.

As countries like China and Vietnam, which are major exporters to the US, will face higher tariffs than Oman, this could lead to trade diversion, where US buyers seek alternatives from Oman as the US increases tariffs on these countries. While Oman will still face the 10% tariff, it might become a relatively more attractive supplier for certain products, especially where major exporters face much higher tariff rates. This could increase demand for Omani exports in specific sectors.

As Oman's direct impact may be limited compared to major exporters, the overall trade diversion effect could create opportunities for Oman to capture market share from countries facing higher tariffs, especially in sectors like plastics and fertilizers. This will depend on the elasticity of demand for Omani goods and the extent to which US buyers are willing to shift to alternative sources.

Conclusions & Policy Implications

The 10% minimum tariffs and 25% import taxes on aluminium and steel by the US will have a multifaceted impact on Oman's exports. The 10% tariff will increase the price of Omani goods reducing their competitiveness in the US market. The benefits Oman received from the Oman-USA Free Trade Agreement (FTA) will erode, making it harder for Omani products to compete with US-made products. The 25% tariff on aluminium and steel will have a particularly significant impact on Oman's aluminium exports, as the increased price will make Omani products less attractive to US buyers. This reduction in demand for aluminium will likely decrease Oman’s export revenues from this sector. However, trade diversion could present an opportunity for Oman to capture market share from other countries, such as China and Vietnam, which face even steeper tariffs, especially in sectors like plastics and fertilizers.

Overall, while Oman may experience some losses in key sectors, there are potential opportunities to strengthen its trade relationships outside the US and explore new markets. The trade diversion effect might soften or even reverse the blow, but a strategic shift in trade policy will be necessary to ensure Oman continues to thrive in global markets.

Oman should seek to diversify its export markets to reduce its reliance on the US, which is becoming increasingly protectionist. It is essential to strengthen trade relations with the EU and Other Partners. Pursuing more robust trade relationships within the Gulf Cooperation Council (GCC) could further enhance Oman's trade resilience. Considering the rising tariffs, Oman should invest in improving the competitiveness of its domestic industries to withstand price pressures from tariffs.

To support exporters, Oman should implement export-friendly policies, such as tax incentives, and logistical support for industries affected by tariff hikes. Providing financial support to sectors like aluminium and steel could help mitigate the immediate impact of tariffs, allowing these industries to remain competitive while exploring alternative markets. Also, rather than relying solely on raw material exports it is time to increase value-added exports, such as processed goods, manufactured products, and innovative technology solutions. By diversifying into higher-value products, Oman can better shield itself from the volatility of tariff-imposed sectors.

Finally, it is always a good idea to negotiate with the US for tariff reductions. GCC is one of the most open economic blocks in the world with minimal import taxes (5%). GCC member states can engage in direct negotiations with the US to seek tariff reductions and exemptions for critical export sectors like aluminium and plastics. While the US is unlikely to lift tariffs on a broad scale, targeted negotiations focusing on sectors where Oman has a competitive advantage could help alleviate some of the pressures.

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