# Summary

“Over recent times, the level of intra-trade within the MENA region has stagnated and seemed to have reached its potential. Oman, in order to diversify its economic alliances has been engaged in regional integration schemes with countries beyond the MENA region. Despite traditional and cultural linkage with the MENA or Arab region, Oman has also historically entertained a strong economic and trade linkage with countries around the Indian Ocean which represents a source of potential trade expansion and economic growth.”

In the coming decades, economic and productivity growth in the Indian Ocean Region Association (IORA) countries is expected to rise due to its relatively high and growing population, growing market and strategic location with China belt investment initiatives. It is observed that a more targeted bilateral trade relation with IORA countries would increase total trade in the region by 55 per cent and agricultural trade by 90 per cent trade. In addition, the cost of trading as a result of deepening integration with IORA (Average Tariff Equivalent) is expected to drop by 10.3 per cent and 14.9 per cent for total and agricultural products trade respectively. Oman is observed to have a significant export potential in the region particularly with countries such as Australia, India, Indonesia, Madagascar, Malaysia, Mauritius and Sri Lanka.

# Key messages

* Intra-trade in agricultural commodities within the MENA region has stagnated and seemed to have reached its peak.
* Strengthening IORA integration would enhance regional trade with an increase in total trade by 55 per cent and agricultural trade by 90 per cent.
* Diversifying trade towards IORA countries could reduce risk and improve trade resilience.
* Oman has unexploited trade potential with Australia, India, Indonesia, Madagascar, Malaysia, Mauritius and Sri Lanka.
* Formal trade arrangements would further consolidate Oman and other member states’ benefits derived from trading with each other’s.
* Oman as a founding member should continue supporting the IORA region through Oman-based fishing support unit and other institutional arrangements.

# Background

Throughout history, Oman trade had inclined towards the GCC and MENA region which accounts to around 15% and 35% of Oman’s exports and imports during 2006 to 2015, respectively (see figure below). Over recent times however the level of intra-trade within the MENA region has stagnated and seemed to have reached its peak. Oman, in order to diversify its economic alliances has been engaged in regional integration schemes with countries beyond MENA region, including western and eastern countries. Despite traditional and cultural linkages with MENA/ Arab region, Oman has also historically entertained a strong economic and trade linkages with countries around the Indian Ocean that represents a source of potential trade expansion and diversification. It is believed that it is an opportune time for Oman’s bilateral trade to exploit new trade opportunities beyond its predefined regional entity, particularly with the Indian Ocean Rim Association countries (IORA).

The Indian Ocean Region has always been a trade nexus connecting the Asia, the Middle East and Africa and has recently seen key players in global trade showing great interest in the region. In the coming decades, economic and productivity growth in the Indian Ocean region is expected to rise factoring its relative population, growing market and strategic location. Oman has always been regarded as an enthusiastic founding member that has pushed heavily in enhancing cooperation and trade in the region. Oman’s total export worth of 11.1 USD in 2001 billion has increased over time to reach 32 USD billion in 2015, of which 24% went to IORA countries. Oman total imports during 2001-2106 period was worth of 232 US$ billion, of which 47% were supplied by IORA countries

# Method

A study funded by World Trade Organization (WTO) Chair program hosted by Sultan Qaboos University, was carried out to explore the trade potential of Oman with the Indian Ocean Rim Association (IORA) countries, focusing on both total trade and agricultural trade.

Panel data between the years 2006- 2015 was used to estimate a structural gravity model using various estimators including the Poisson Pseudo Maximum Likelihood and Fixed Effect estimators.

# Key findings

The results obtained from the structural gravity model were used in estimating Oman’s export potential to the IORA countries. An export potential $ $ratio less than one indicates that there is a potential of export expansion with such trading partners while a ratio greater than one means Oman has over traded with such countries. Comparing across year 2007-2015, the results [see table below] show that Oman has maximum export potential with Australia, India, Indonesia, Madagascar, Malaysia, Mauritius and Sri Lanka. 2015 export potential shows that Oman can still expand it total product export to Australia, Bangladesh, India, Indonesia, Iran, Kenya, Madagascar, Malaysia, Mauritius, Sri Lanka and Tanzania.

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| **Importer** | **2007** | **2011** | **2015** |
| Australia | 0.02 | 0.11 | 0.201 |
| Bangladesh | 0.39 | 0.40 | 0.831 |
| Comoros | 0.94 | 0.36 | 1.632 |
| India | 0.35 | 1.60 | 0.411 |
| Indonesia | 0.01 | 0.98 | 0.241 |
| Iran | 0.43 | 0.25 | 0.251 |
| Kenya | 0.15 | 3.75 | 0.871 |
| Madagascar | 0.06 | 0.90 | 0.021 |
| Malaysia | 1.73 | 0.45 | 0.801 |
| Mauritius | 0.08 | 0.12 | 0.521 |
| Mozambique | 0.11 | 8.76 | 5.722 |
| Seychelles | 0.11 | 0.07 | 1.852 |
| Singapore | 1.81 | 5.19 | 3.162 |
| Somalia | \* | \* | 9.872 |
| South Africa | 0.11 | 0.57 | 2.662 |
| Sri Lanka | 0.86 | 0.79 | 0.851 |
| Tanzania | 0.69 | 6.23 | 0.871 |
| Thailand | 13.67 | 7.83 | 2.102 |
| UAE | 3.28 | 2.46 | 1.702 |
| Yemen | 4.25 | 2.64 | 14.062 |

*Note: 1-potential to expand trade, 2-overtraded for Year 2015,* \* *Not Available*

# Conclusions

The Indian Ocean has always been a trade nexus connecting Asia, the Middle East and Africa and its importance to world trade has continued to increase. It is expected that the region’s economic growth and productivity will rise capitalizing on its relatively large population, growing markets and strategic location. Although there is no formal regional trading arrangement, the Indian Ocean Rim Association (IORA) as witnessed in the past decade is deeply committed to foster the region’s economic development through trade and investment. Oman has historically entertained a strong economic and trade linkage with the Indian Ocean and have made significant contribution to the formation of IORA and the development of the region has a whole. This study has shown that Oman’s export during 2006 to 2015 witnessed an upward trend towards the Indian Ocean as compared to GCC and GAFTA.

The gravity model results support the fact that level of income, population, geographical proximity and historical linkages are important in explaining bilateral trade flows in IORA. The higher income elasticity of the importer countries shows that there is a large market base for exports to the region. The absorption effect exhibited by the exporter for total products can be explained by the fast-growing economies and population in the region, which increases domestic consumption and reduces exported surplus. A consolidated development of the regional maritime transportation system and custom regulations across borders might help reduce the cost of trading.

A formal trading arrangement is expected to give an average tariff equivalent (AVE) fall of 10.3 per cent. It can be deduced that formal trade arrangements would further consolidate the benefit Oman and other member states would derive from IORA. Stakeholders in the region need to make consolidated effort in establishing a coherent regional trade policy regime which would explicitly enhance unification and harmonization of the tariff structures and reduction of the Non-Tariff Barriers (NTBs) prevalent in the region.

Oman still has unexploited export potentials with Australia, India, Indonesia, Madagascar, Malaysia, Mauritius and Sri Lanka. Therefore, Oman should take due advantage of its proximity to other markets apart from UAE, Somalia, Comoros and Yemen with which it has exhausted its export potentials. More importantly, Oman should consolidate trade towards countries like India and Iran which are important economies in global trade.

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