

POLICY BRIEF

A summary for decision making of key research findings



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Oman benefits from deeper integration in the Indian Ocean Rim Association

Summary

“Non-tariff measures (NTMs) are traditionally designed to protect and ensure human, animal, plant and environmental welfare. NTMs can enhance or restrict trade depending on the motive behind their imposition. The reduction of NTM intuitively means trade facilitation and deeper integration. The relevance of NTMs in the global trade circle has become increasingly pertinent not only because it is reshaping the focus of international trade but also impacting the drive to attaining regional and global sustainable development. As a result, understanding its impact on trade is pertinent and Oman would benefit from deeper integration.”

The Indian Ocean Rim Association (IORA) has witnessed an increase in the prevalence of NTMs; accounting for about 18% of notified global NTMs. Prevalence of burdensome NTMs increases trade cost and reduces social welfare. The open regionalism framework operated by the IORA has been scrutinized in recent years with calls for a deeper integration, which considers reduction of burdensome NTMs and trade facilitation (TF). The reduction of NTMs and facilitating of trade is expected to positively impact manufacturing sector more than the agri-food sectors. In addition, middle and low-income countries in IORA would benefit more than higher-income countries from deeper integration. The welfare effects, GDP, exports, imports, sectoral output and investment accentuate the benefits that would be derived by IORA countries deciding to go deeper in integration as compared to the present form of open regionalism framework.

Key messages

- *The level of intra-trade in IORA is high despite no deeper (formal) regional agreement. A deeper regional agreement is expected to further increase the level of intra-trade and economic development.*
- *More than half of IORA members still operate restrictive tariff regimes, which reduces the benefits of regional integration.*
- *Majority of IORA members perform below the global average based on trade facilitation indicators (TF). Oman is ranked third best in TF in IORA after Australia and Singapore.*
- *IORA countries still have high restrictive non-tariff measures. In Oman, safeguard measures appears the most restrictive, followed by SPS and TBT measures.*
- *Deeper integration within IORA would lead to growth in Oman's exports (0.7%), Imports (1.2%), investments (1%) and capital accumulation (0.4%).*
- *Middle and low-income countries in IORA are expected to benefit when NTMs are reduced and trade is facilitated.*
- *In general, the reduction of NTMs and facilitation of trade in IORA impacted more growth in investments and capital accumulation.*

Background

The Indian Ocean has always been a trade nexus connecting Asia, the Middle East and Africa. The Indian Ocean Rim Association (IORA), comprising of 23 countries, is a regional association based on the principle of open regionalism (OR) aimed at promoting trade and investment liberalization. IORA region has in recent years, just like the world, witnessed an increase in the prevalence of NTMs and accounts for about 18% of notified global NTMs (Table 1) and majority of the members perform below the global average for trade facilitation (Figure 1). The predominant NTMs in the region are sanitary and phytosanitary measures (SPS), technical barriers to trade (TBT) and quantitative restriction (QR). It is expected that a deeper level of integration as opposed to present open regionalism, that comprises reduction of burdensome NTMs and trade facilitation would better enhance economic prosperity and increase the welfare in IORA countries.

Table 1 Percentage of IORA Notifications Compared to World Notifications of NTMs to WTO

Measures	SPS	TBT	QR	Others	Total
IORA	1822	3607	557	713	7227
World	15145	19256	1821	5263	41289
Percent (%)	12	19	31	14	18

SPS—sanitary and phytosanitary, TBT—technical barriers to trade, QR—quantitative restrictions, others include tariff-rate quotas, antidumping, safeguard measures.

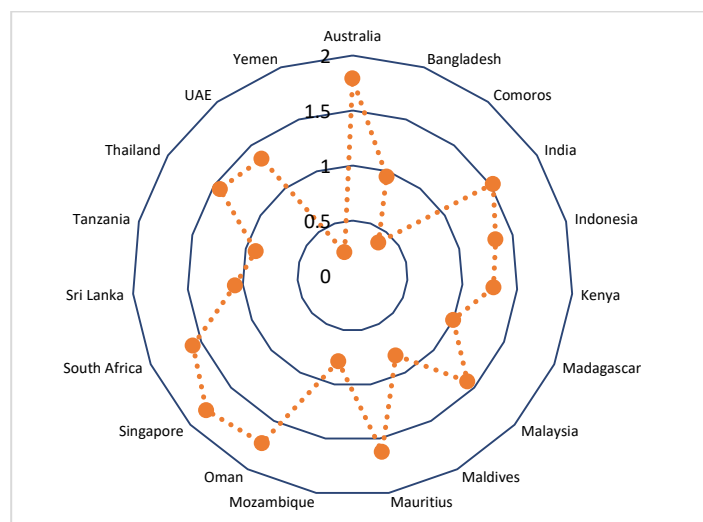


Figure 1 IORA Country Average Trade Facilitation performance between 2017 to 2019 (OECD). Note: The TFIs values range between 0 and 2, where 2 corresponds to the best performance and 1.5 is global average.

Method

The study uses a recursive computable dynamic general equilibrium (CGE) model. The dynamic CGE model gives an economy wide-effect of an applied policy and allows proper understanding of the adjustments of various policy implications. The Global Trade Analysis Project (GTAP) dynamic model was employed.

Key findings

Welfare and GDP impacts: Results from the dynamic CGE analysis show that Kenya benefits the most, followed by Tanzania, Malaysia, Thailand, Sri Lanka and Oman when NTMs are reduced and Trade is facilitated through reduction of NTMs.

In terms of real GDP, results show that all countries witnessed growth in their GDP, except Iran and Tanzania. Decrease in Iran and Tanzania GDP is attributed to appreciation in their real exchange rates, which made exports to decline and their import demand to increase. The results further show that lower middle income and low-income countries would benefit more from a deeper integration which involves NTM reduction and trade facilitation.

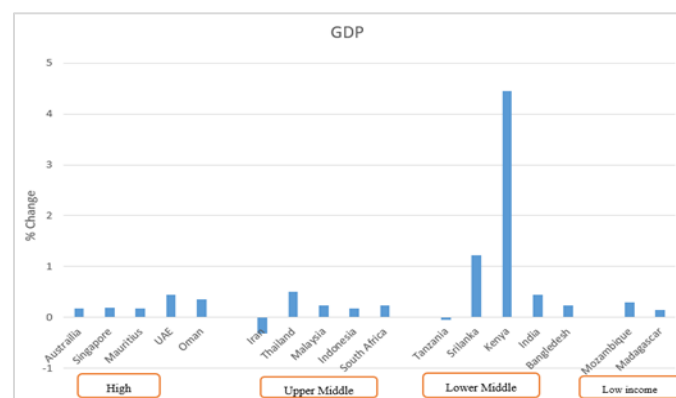


Figure 2 Percentage change in IORA countries real GDP

Trade and Investment impacts: Overall results show that all IORA countries would witness expansion in trade (export and import) and investments. This result is inline as expected because reduction in burdensome NTMs is expected to positively impact not only trade but also investment and capital growth.

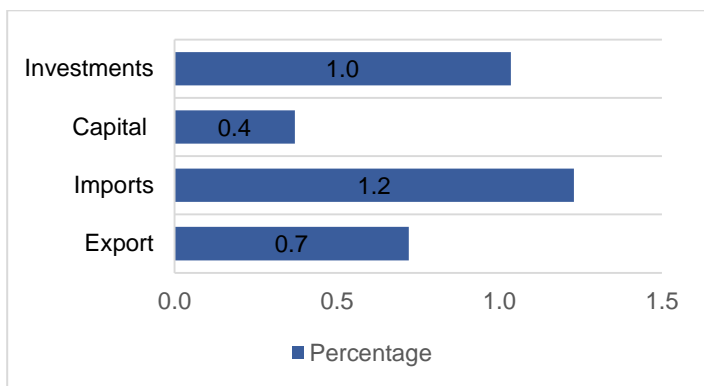


Figure 3 Impacts of IORA integration on Oman's trade, investment and capital accumulation.

A deeper integration within IORA would lead to growth in Oman's exports, Imports, investments and capital accumulation. Figure 3 shows these results; an increase of investments by 1%, an increase of exports by 0.7%, and an increase of imports by 1.2%.

Conclusions

The study made use of recursive dynamic model in analysing impact of deeper integration in IORA considering NTMs reduction and trade facilitation in IORA. Results from welfare effects, GDP, exports, imports, sector output and investment accentuate the benefits that would be derived from deeper integration, such as IORA-CEPA, as compared to the present open regionalism framework. The overall results indicate that middle and low-income countries in IORA would benefit more than higher-income countries (in terms of welfare, GDP, and trade expansion) which is in line with general equilibrium analysis conducted at the global level. Oman would benefit when IORA countries move towards a deeper integration.

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