

POLICY BRIEF

A summary for decision making of key research findings



Sultan Qaboos University

College of Agricultural and
Marine Sciences
Department of Natural
Resource Economics

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Oman-India Free Trade Agreement: Benefits and Sectoral Implications

Summary

"We expect the potential FTA between Oman and India to increase exports between the two countries. The FTA will boost Oman's exports to India by a whopping 362 million USD per annum. Fertilizer exports to India will receive the highest boost, followed by variety of petrochemicals. Similarly, Indian exports to Oman will also increase by 375 million USD. Indian iron and steel, meat, and vehicles will follow increase in petroleum oils exports. While both countries will benefit from increased trade, the governments will also lose some of the tariff revenues, which needs to be considered ahead of budget planning."

The prospect of India and Oman signing a free trade agreement (FTA) in 2024 is very significant and holds the potential to strengthen the economic ties between the two nations.

The historical backdrop of trade between India and Oman, dating back to ancient times through the spice trade, highlights the enduring nature of their economic relations.

The bilateral trade between the two countries has been substantial, with a diverse range of goods being exchanged.

Key messages

- *Under the Comprehensive Economic Partnership Agreement, a Free Trade Agreement between Oman and India will be mutually beneficial for both countries.*
- *Trade simulation results suggest that Oman's exports to India will increase by \$362 million, which comprises a trade creation effect of 262 million USD and a trade diversion impact of \$100 million.*
- *Similarly, India's exports to Oman will increase by \$374 million, which comprises a trade creation effect of \$300 million USD and a trade diversion impact of \$74 million.*
- *The overall trade-diversion will impact 114 of India's trade partners and 96 of Oman's trade partners.*
- *Oman's fertilizer sector will benefit the most from FTA agreement. Almost half of Oman's benefits come from this sector.*
- *Fertilizer companies in Oman and India will be among top beneficiaries.*
- *To ensure that non-tariff barriers do not obstruct potential benefits, we advise on-going monitoring and assessment of the FTA.*

Background

Oman's exports to India, including fertilizers, organic chemicals, plastics, limestone, and mineral oils, indicate a broad spectrum of commodities. On the other hand, India's exports to Oman, covering mineral fuels, distillation products, cereals, articles of iron and steel, ores, slag, ash, machinery, and electrical equipment, demonstrate the depth of their economic engagement. Both countries have experienced successful FTAs with other partners, and the upcoming agreement between India and Oman is expected to follow suit, leading to increased trade volumes.

As a member of the Gulf Cooperation Council (GCC), Oman already benefits from free trade with other GCC members. Furthermore, Oman has an existing FTA with the United States since 2009, while India has FTAs with ASEAN countries and, more recently, with the UAE in 2022.

The negotiations between India and Oman, conducted under the Comprehensive Economic Partnership Agreement (CEPA), encompass a wide range of economic aspects, including investment, intellectual property rights, and trade in goods and services. The FTA is integral to the CEPA discussions, aiming to facilitate the flow of Omani and Indian products across borders by eliminating tariffs.

If successful, the FTA will mark a milestone in India's economic relations with Oman, making it the second GCC country with which India has signed such an agreement. The anticipated economic cooperation is likely to bring mutual benefits, fostering increased trade and contributing to the overall development of both nations.

Potential Benefits

While a Free Trade Agreement (FTA) typically enhances trade among its signatories, it can disadvantage non-signatory trade partners. Consequently, the impact of free trade is twofold. Initially, it stimulates additional trade by lowering prices between partners, a phenomenon known as Trade Creation. Subsequently, it redirects some of the existing trade from non-FTA countries to the FTA partners, termed as Trade Diversion.

Our analysis utilizes the trade simulation tool available at <https://tina.trade/>, an initiative by the Trade, Investment, and Innovation Division of the United Nations Economic and Social Commission for Asia and the Pacific (UN-ESCAP). We conducted simulations for Oman with India (based on a tariff liberalization scenario) as the potential partner and vice versa to comprehensively understand the FTA's impact on both nations. Here are the steps involved:



The anticipated Free Trade Agreement (FTA) is poised to elevate Omani exports to India, projecting a noteworthy increase of \$362 million. This surge comprises a trade creation effect of \$262 million and a

trade diversion impact of \$100 million. Table 1 provides a glimpse into the top 10 commodities affected, yet it is noteworthy that 109 commodities will experience an impact, affecting 114 of India's trade partners due to trade diversion. Furthermore, there are potential (untapped) product ranges that are currently not in trade; the two countries already trade with the rest of the world. In other words, Oman exports 276 commodities to the world, but India does not import them from Oman, although it imports them from the rest of the world.

Table 1. Tariff Liberalization Simulation (Oman - India Top 10 Highest Value Change in Exports)

HS Code	CD*	C Tr*	C Ta*	ST*	Δ \$*	Δ (%)*	AE*
310210	Fertilizers, mineral or chemical; nitrogenous, urea	802	5%	972	169	21.11%	18
390210	Propylene, other olefin polymers;	47	7.50%	91	45	95.14%	35
290511	Alcohols; saturated monohydric, Methanol	150	5%	172	23	15.20%	21
390110	Ethylene polymers; in primary forms	17	7.50%	31	14	86.05%	38
271012	Petroleum oils and oils from bituminous minerals	74	3.59%	86	12	16.59%	19
252010	Gypsum; anhydrite	75	5%	86	11	14.20%	14
252100	Limestone flux	51	5%	58	8	15.16%	14
80410	Fruit, edible; dates, fresh or dried	10	25%	17	7	76.13%	18
890400	Tugs and pusher craft	33	10%	40	7	21.40%	8
760110	Aluminium; unwrought,	33	7.50%	40	7	20.40%	24

CD = Commodity Description / C Tr = Current Trade (US\$) / C Ta = Current Tariff
ST = Simulated Trade (US\$) / Δ \$ = Change (US\$) / Δ % = Change (%)
AE = Affected Economics

The fertilizer sector in Oman is anticipated to witness the most substantial benefits, with fertilizer exports expected to surge by over 20% because of the FTA. Additionally, Omani exports to India in carbon-based sectors, encompassing propylene, industrial methanol,

ethylene polymers, and petroleum oils, are poised for significant boosts. Other sectors, including gypsum and limestone (both utilized as fertilizers), fruits, tugs, and aluminum, are also expected to experience noteworthy growth in exports to India under the FTA.

The FTA is also expected to significantly increase India's exports to Oman, with a projected increase of \$374 million. This surge comprises a trade creation effect of \$300 million and a trade diversion impact of \$74 million. Similarly, India will be better off since it exports 462 commodities to the world, but Oman does not import these commodities from India, although it imports them from the rest of the world. Table 2 shows potential impact of FTA in specific sectors.

Table 2. Tariff Liberalization Simulation (India - Oman Top 10 Highest Value Change in Exports)

HS Code	CD*	C Tr*	C Ta*	ST*	Δ \$*	Δ (%)*	AE*
271012	Petroleum oils and oils from bituminous minerals	469.75	5%	573.33	103.57	22.05%	17
260112	Iron ores and concentrates; agglomerated	124.42	5%	161.57	37.15	29.86%	3
730511	Iron or steel (excluding cast iron)	78.22	5%	112.49	34.27	43.81%	7
20230	Meat; of bovine animals, boneless cuts, frozen	33.83	5%	48.60	14.77	43.66%	12
848180	Taps, cocks, valves and similar appliances	34.67	5%	42.84	8.17	23.56%	34
720839	Iron or non-alloy steel; thickness of less than 3mm	27.18	5%	34.14	6.96	25.61%	4
730300	Cast iron; tubes, pipes and hollow profiles	30.15	5%	36.80	6.65	22.06%	13
720838	Iron or non-alloy steel; thickness of 3mm or more	25.19	5%	31.69	6.50	25.82%	5
690790	Ceramic flags and paving; unglazed	49.35	5%	54.11	4.75	9.63%	22
290919	Ethers; acyclic, and nitrosated derivatives	27.26	5%	30.94	3.67	13.48%	6

CD = Commodity Description / C Tr = Current Trade (US\$) / C Ta = Current Tariff
ST = Simulated Trade (US\$) / Δ \$ = Change (US\$) / Δ % = Change (%)
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The FTA is expected to impact trade across a broad spectrum, influencing 1,362 commodities. Additionally, 96 trade partners of Oman are anticipated to be affected due to trade diversion. In particular, India's processed petroleum exports are expected to witness a substantial increase of over \$100 million. Following closely are exports in various forms of iron, ceramics, animal meat, and appliances, all poised for significant growth under the FTA with Oman.

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For more information Contact the authors:

Jamal Nasser Salem Al Shidhani is a PhD Candidate specializing at International Trade

Dr. Osman Gulseven is WTO Chair, representing Oman at the WTO Chairs program

Department of Natural Resource Economics

College of Agriculture and Marine Sciences

Sultan Qaboos University

Contact address: o.golseven@squ.edu.om