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# A Study of the Formative Factors of the Free Trade Agreement Between Oman and the United States

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A Study of the Formative Factors of the Free Trade Agreement  
Between Oman and the United States

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Diplomacy

Asia, Oman, Muscat

Submitted in partial fulfillment of the requirements for  
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A Study of the Formative Factors of the Free Trade Agreement  
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Abstract:

This study investigates the process by which the Omani-American Free Trade Agreement was so quickly agreed upon between Omani and American negotiators. By interviewing the major government officials involved in the architecture of the agreement, and by examining the role of other institutions and interest groups that are typically involved in the process in the US, the author demonstrates how very narrow the policy-making arena in Oman is. He argues that the benefits Oman hoped to gain from the agreement were far more political than economic, but that political liberalization is more important than economic liberalization for the long-term interests of the country and the regime.

Keywords: trade, Oman, bilateral agreements, US

Topic Codes: 521, 516, 511

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دراسة لعوامل تكوين إتفاقية التجارة  
الحرّة بين عُمان و الولايات المتّحدة

A Study of the Formative Factors of the Free Trade  
Agreement Between Oman and the United States

Gregory Smith Spring Semester 2006 School for International Training Muscat, Oman	قريغوري سميث فصل ربيع ٢٠٠٦ معهد لتدريب الدولي مسقط, عُمان
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## **A Study of the Formative Factors in the Free Trade Agreement between Oman and the United States**

Global North, Global South, First World, Third World, Developed Nations, Developing Nations, no matter what label one uses, the fact that there is a clear divide between the rich and poor nations of the world remains the same. For generations, great thinkers and great states have proposed their own theories to bridge this gap. From the capitalist theories of America and Western Europe, to the collectivist theories of Marx, Lenin, and Mao, to the Flying Geese of a once-booming Japan, all of these theories have proven to be effective only in remote, ideal conditions. Meanwhile, the majority of the world's people still live in economic despair.

A faint glimmer of hope rises from the Southeastern tip of the Arabian Peninsula. Four decades ago, the Sultanate of Oman was an economic black-hole. Mired in a civil war reminiscent of modern African conflicts and lacking any national motivation, Oman has since found its stride in a most impressive way. Today, Oman ranks highly in nearly all of the quality of life statistics and is increasingly financially solid. While this progress has been undeniably aided by the discovery of significant oil deposits within the Sultanate, it has been the prudent management of its natural resources and careful control of the internal development that has allowed Oman to blossom. Oman stands as a new developmental model for those countries in Africa and South America that find themselves resource-wealthy (which many are far beyond Oman's small reserves) but lacking in unity and security.

## **A. Economic Background**

Globalization is a force that is affecting us all. No aspect of society, from religion to sport, has been untouched by its powers. The one aspect that arguably has been influenced the most is economics. Over the last couple hundred years, since the invention of modern economic science by Adam Smith, the world has witnessed an explosion of wealth and ideas. For thousands of years, international trade was the sum total of money or barter received from the sale of a ship or caravan's cargo in a foreign land. Today, billions of dollars change hands everyday without the need for a single transfer of goods. Along the way, the concepts of power, statehood, and sovereignty have each blurred and shifted.

### *Economic History*

When the Treaty of Westphalia established the modern system of nation-state sovereignty, power was focused on the tip of a sword. Literally, the stronger a state's armed forces and defense structure, the stronger international position it held. Only rare geographic exclusions, such as the natural boundary that the Alps provide for Switzerland, allowed states to survive without military prowess or a tightly knit system of military alliances. States that engaged in extraterritorial trade did so only when they could provide adequate force to protect their investments. Ideas such as foreign ownership of property or industry were not even formed. With the Industrial Revolution and the accompanying development of advanced forms of transit, production, and communication, came entirely new views on the role of the state.

Upon its introduction, capitalism took the world by storm. What started out as an advancement of the barter system soon became a world order. Karl Marx and Friedrich Engels wrote in their famous 1848 Manifesto, "[Capitalism] compels all nations, on pain of extinction, to adopt the bourgeois mode of production; it compels them to introduce what it

calls civilization into their midst<sup>1</sup>.” As capitalism itself developed across the Western world, it began to cross borders. Trade became simpler and more beneficial between states that shared a common capitalist ethos. In good capitalist fashion, governments realized that they could vastly increase their national treasuries by extracting import and export taxes on goods and services.

Thanks to their superior military capabilities, and in large part due to the diseases they carried, the Western powers and their capitalist system soon became a major force on the world scene. However, the power of purely military means began to degrade as trade continued its exponential development. Alan Oxley described the shift as,

Nations needed military power to exert influence and security was achieved through military alliances. In the second half of the twentieth century another system of relationships with rules governing international relationships has emerged. These are economic commonwealths—free communities where governments align their economic interests on neoliberal principles to advance the common good.<sup>2</sup>

Power now began to concentrate around economic ability. Growing ties between world economies, through individual investments as well as government relations, led to what is now known as economic interdependence. This in effect means that the healths of foreign economies are directly linked to one another. To take this one step further, poor economic policies in one country would not lead to a collapse in that country alone, but in every country tied to it.

This new reality has led some to believe that the end of the nation-state as we know it is nigh. They believe that military power is obsolete because countries cannot afford to ruin their own economy by attacking another's. However, this theory has not come to pass, nor will it anytime soon. Military might is still a powerful tool (evidence America's recent

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<sup>1</sup> Marx, Karl, and Friedrich Engels. 1848. “The Communist Manifesto.” In *Karl Marx: Selected Writings*, edited by David McLellan. Oxford: Oxford University Press, 1977.

<sup>2</sup> Oxley, Allen. “Free Trade Agreements in the era of globalisation—new instruments to advance new interests—the case of Australia.” *Australian Journal of International Affairs*, Vol. 57, No. 1, pp. 165–186, EBSCO Publishing, 2003.

invasion of Iraq) and politics is still the mouthpiece of the government in most cases. Yet economics has wedged its way in as the actual nuts and bolts of most working intergovernmental relationships. In some cases, economics offers an arena for engagement that is impossible for politics. Take for example the relationship between Taiwan and mainland China. Taiwan no longer holds a seat in the United Nations and China does not officially recognize them. However, both are full members of the World Trade Organization and are able to use that forum to keep dialogue open and avoid armed conflict.<sup>3</sup>

### *Economic Liberalization*

The method for opening, or liberalizing, a state's economy is by no means formulaic. Some international economic organizations, especially lending organizations such as the International Monetary Fund (IMF), believe that modernizing and opening an economy should be done the same way everywhere. In the case of the IMF, this is through the maintenance of balanced budgets. But in this same case, what has caused economic gains for some countries has resulted in other countries shirking on needed budgetary expenditures in order to meet IMF requirements. The results are sometimes disastrous. It is also fictitious that political pressure from developed nations will force developing countries along a 'proper' path.

Rather, the answer must lie within each developing country. Arvid Lukauskas and Susan Minushkin published an examination of different styles of market opening among middle-income states. They studied Turkey, Mexico, South Korea and Chile, and the results were varied and quite revealing. Countries that were already financially stable (low budget and fiscal deficits and international debts) were able to resist international pressure to open their economies with greater ease. Their financial markets opened slowly to both capital inflows and outflows, at a pace more closely dictated by the domestic government than any

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<sup>3</sup> Ibid.

other influence. The same is true for countries that have more to bargain with. For example, South Korea's geostrategic position allowed it much greater bargaining latitude than Mexico. On the flip side of the coin, countries that find themselves in dire need of capital are more vulnerable to the whims of lending institutions and states. The most evident example of this is Turkey, which after running up huge debts and budget deficits, coupled with astounding inflation rates, was forced to comply with the liberalization demands of the IMF, the European Economic Community, and many others in order to qualify for their aid. The result was an accelerated opening of its financial sectors to all interested trading partners. Finally, it was shown that countries with greater political stability were able to keep tighter control of the exit of capital. Where weak governments ruled, they were more susceptible to the desires of powerful corporations within their own country.<sup>4</sup>

#### *Modern Trade Pacts*

Meanwhile, the role of economic relations is increasing daily. This growth is easily recognized; "by the end of September 2001, 239 regional trade agreements (RTAs) had been notified to GATT, or its successor the World Trade Organization (WTO). Of those agreements, 100 have been notified since the creation of the WTO in 1995."<sup>5</sup> Regional conglomerations began to form such as the European Union, MERCOSUR, and ASEAN. Above all else, these international organizations afforded their member states the strength of numbers. No single European country can compete head-to-head with the gargantuan United States economy; but, together, the European Union presents a much more formidable opponent, be it in conflict or friendly negotiation. Small countries, to gain a measure of influence on larger trading partners and adversaries alike, also often use membership in trade

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<sup>4</sup> Lukauskas, Arvid and Susan Minushkin. "Explaining Styles of Financial Market Opening in Chile, Mexico, South Korea, and Turkey" *International Studies Quarterly*. Vol. 44, No. 4 (Dec., 2000) pg.695-723

<sup>5</sup> Urata, Shujiro. "Globalization and the Growth in Free Trade Agreements" *Asian-Pacific Review*, Vol. 9, No. 1, Carfax Publishing Co. 2002. Pg. 21

agreements. Similar to old military alliances, bilateral and multilateral trade agreements have become a form of protection of identity.

A recent example of this can be found in the Free Trade Agreement between Jordan and the United States. Jordan has a very small economy with very little to offer the U.S. However, they were eager to exploit the obvious political ramifications of a closer relationship with the superpower.<sup>6</sup> Along the same lines, Egypt has been pursuing a Free Trade Agreement with the United States. In Egypt, the belief is held that “an agreement could spur measures to further liberalize the domestic economy and integrate into the world economy<sup>7</sup>,” strengthening the web of interdependence as a protective barrier for both itself and the U.S.

The world powers also have a keen interest in this developing system of trade agreements. While their economies for the most part are comparatively already open, the establishment of bilateral Free Trade Agreements (FTA) adds a new dimension to any diplomatic relationship. A bilateral FTA removes the barriers to trade (import/export taxes, quotas, tariffs, etc.) between two nations. It also offers a unique chance for the two countries to adjust each other’s trade practice and corresponding legal procedures to better facilitate cooperation. Next to their larger cousins (regional or multilateral trade agreements) bilateral

FTA’s are faster, as FTA agreements require less time than trade liberalization under the WTO. The Uruguay round, which was the last round of multilateral trade negotiations held under GATT, was initially scheduled to be completed in four years, but it actually took nearly eight years, almost twice as long as projected. One reason why the talks became so protracted was the sheer volume of items to be negotiated, but in addition, the expansion in the number of participating nations also had a major impact.<sup>8</sup>

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<sup>6</sup> Moore, Pete W. “The Newest Jordan: Free Trade, Peace and an Ace in the Hole” *Middle East Report*, June 26, 2003.

<sup>7</sup> Galal, Ahmed and Robert Z. Lawrence. Anchoring Reform With a US-Egypt Free Trade Agreement. Institute for International Economics, May 2005.

<sup>8</sup> Urata, Shujiro. “Globalization and the Growth in Free Trade Agreements” *Asian-Pacific Review*, Vol. 9, No. 1, Carfax Publishing Co. 2002. Pg. 26

Bilateral FTA's are also able to cover topics that have not yet been resolved in more comprehensive economic bodies such as the WTO. Significantly, they often attract less public attention than their larger counterparts.

### *Short-Term Effects of Free Trade*

Free Trade Agreements are not all sunshine and happiness though. For many domestic workers, their country's signing of an FTA could spell the end of their current employment. The economic sense behind free trade is rooted in the idea of comparative advantage. Briefly, comparative advantage posits that certain economies are better suited to handle different kinds of production. Therefore, by each area specializing on what they are best at and trading for those that they are relatively poor at producing, all will pay a lower price for everything. Free trade simply removes barriers to this activity and allows areas to truly play to their comparative advantages. Unfortunately, the perfect world that this would work in does not exist. Centuries of self-sufficiency theories based on survival in a militarily hostile world have created economies that produce products regardless of the higher cost inflicted by not specializing. While in the long run it may be true that absolute specialization without barriers to trade will result in better living conditions for all, the short run is a very different picture.

Lower-cost producers from foreign countries immediately target domestic producers that were previously protected by high import barriers. With an FTA in effect, these economically inefficient companies are quickly demolished by outside competition. While in economic formulas this looks neat, painless, and amoral, it really means entire local economies will be erased. For evidence of this, all one needs to do is look at the huge numbers of jobs lost when electronics giants RCA and Zenith went out of business in America. Even more worrying is to attempt to imagine the havoc reeked in Detroit if the United States were to stop protecting the domestic automobile industry.

For economists, these local tragedies are a sad necessity for the greater good. For those involved, they spell dire straits, sometimes for multiple generations until re-specialization (through education) occurs and new industry grows. For the politicians that represent the effected areas, a fine line must be walked. Representative politicians are in the awkward position of having the expert advice that explains the benefits of free trade sparring with the knowledge that the people who are responsible for their paycheck are being faced with losing their own. In America, this has led to a partisan divide that deals less with the true issues than with the ever-present battle for control in Washington, D.C. The opposing party in the next elections immediately targets politicians that vote against their party's line or waver on their personal convictions.<sup>9</sup> Due to this, many countries with elected or otherwise popularly vulnerable governments are much more deliberate in their consideration of new trade agreements.

## **B. Omani Background**

The Sultanate of Oman presents a unique case study. The Gulf region, with its massive petrochemical wealth, has given rise to the “rentier” state. In its ideal form,

The rentier state concept is that while in ‘normal’ countries the state is supported by society, and must, in order to pay for itself, establish a system to extract from society part of the surplus the latter generates; in oil exporting countries the state is paid by the oil rent, which accrues to it directly from the rest of the world, and supports society through the distribution or allocation of this rent, through various mechanisms of rent circulation.<sup>10</sup>

In the real world, this means that states like the United Arab Emirates, Qatar, and Oman are able to rule tax-free. Citizens of rentier states have no responsibility to support their government, and therefore no claim to a stake in it. As well, the welfare regimes that inevitably develop within rentier states create a popular dependency on the state. Within Oman, this welfare state is alive and well, but the rentier state model is not quite applicable.

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<sup>9</sup> Seligson, Dan. “Free Trade Support a Delicate Political Issue.” *Campaigns & Elections*, Oct./Nov. 2005. Pg. 28-29.

<sup>10</sup> Fawcett, Louise ed. International Relations of the Middle East. Oxford UP, 2005.

### *The Rentier State Model*

While in its original, theoretical definition, Oman is the model rentier state, once one begins to examine the commonplace actions of rentier governments, the differences quickly become apparent. The starkest break from the rentier model comes in the economic development of Oman. In a typical rentier state, the economic independence of the government allows it to pursue economic development in the style and pace of its choosing. Quite the opposite takes place in Oman where

Unlike other *rentier* states where the traditional elites (mainly the merchant class) have lost political power and were limited to accruing profits, in Oman...the traditional elite actually saw an increase in its political power following the coup of 1970.<sup>11</sup>

There appear to be three main reasons for this: “the personal inclination of [Sultan] Qaboos, the existing private sector (that had developed over centuries of sultanic interest in allowing wealthy merchants to handle economic affairs), and the tribal tradition of autonomy.”<sup>12</sup> In fact, each of these factors plays a large role in current economic development and deserves individual examination.

### *Sultan Qaboos*

Sultan Qaboos has quite possibly set a new benchmark for the role of the benevolent monarch. While the impact of large oil revenues on his financial budget cannot be ignored, they can be put in perspective by viewing a country such as Libya, with far larger oil wealth and far less to show for it. Omani progress can be directly tied to the Sultan’s inspirational vision and seemingly boundless will to progress his country. When Qaboos took the reigns of power from his father Said bin Taimur in 1970, the country was mired in a civil war, nearly bankrupt (although, notably, Said had managed to erase Oman’s foreign debt), and almost entirely closed off to the outside world. Many Omani still remember the days when

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<sup>11</sup> Rabi, Uzi. “Majlis al-Shura and Majlis al-Dawla: Weaving Old Practices and New Realities in the Process of State Formation in Oman” *Middle Eastern Studies*, Vol. 38, No. 4. Frank Cass, London, October 2002.

<sup>12</sup> Allen, Calvin Jr. and W. Lynn Rigsbee, II. *Oman Under Qaboos: From Coup to Constitution, 1970-1996*. Frank Cass Publishers, Portland, OR, 2000.

the old gates of the capital city were locked at night, and not to keep people out. During his reign Oman has progressed

From 3 small primary school, Oman now has 600,000 children in the classroom, and English is required from Grade One; from an American missionary-run 12 bed hospital, Oman is now recognized by UNICEF as providing among the best primary health care in the world.<sup>13</sup>

All of this, plus the successful end of the civil war, the establishment of agreed-upon borders with all of its neighbors, and much more, has occurred in only 36 years. In addition, Sultan Qaboos has introduced an extremely effective means of dealing with dissent, inclusion. Rather than publicly humiliate or punish his opponents and detractors, to the greatest extent possible he has opened dialogue with them and often offered them prestigious positions within his own administration. By including adversaries, he gives them a share of the responsibility for Oman's proper governance, and avoids festering conflicts.

#### *Private Sector*

Oman also has a long history of foreign trade and economic interactions. On the winds of the monsoon, Omani sailors traveled from the Far East to the southeast reaches of Africa. During their first golden age, "Omanis were the head of the Foreign Traders Committee in the Port of Shanghai in the 11<sup>th</sup> and 12<sup>th</sup> centuries."<sup>14</sup> They maintained a sizable empire until the 19<sup>th</sup> century. Merchant families dominated this rich history of foreign trade. While the Sultan always played a role in economic affairs, it was historically as the head of the wealthy Al-Bu Sa'id family and not as the overarching authority. Other families, most notably still-existing Indian and Baluchi families such as the Khimji Ramdas family, played just as large of roles. This effect was multiplied by Sultan Taimur bin Faisal, who was uninterested in being Sultan, and the late years of Said bin Taimur when he lost his interest and passion for ruling. During these times, the merchant families controlled nearly

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<sup>13</sup> Cook, Frances D. *Testimony Regarding the US-Oman Free Trade Agreement before the Ways and Means Committee, House of Representatives*. April 5, 2006.

<sup>14</sup> Ibid.

all functions of state economy. With Sultan Qaboos' desire for inclusion of all potentially opposing elements, these merchants' families were allowed to maintain much of their influence in economic matters.

### *Tribal System*

There is also a very strong tribal tradition in Omani history as well as the present day. Originally, tribes were the main social structure. They played a large role in the working lives as "occupational patterns were closely linked to the tribe, in the type of activity pursued as well as the location."<sup>15</sup> The tribal tradition was strengthened by the recent rule of the Imamate in the interior of Oman and the role of Ibadhi Muslim politics that is central to nearly everything Omani. From Ibadhism comes a strong tradition of democratic rule and participatory government. Had Qaboos attempted to shunt the power of the tribes directly, he surely would have faced continuous internal strife. Instead, the tribes have become a slowly eroding facet of the current government, providing a much-needed conduit for infrastructure development and contact with the population.

### *Oman's Developmental Progress*

All of these factors combined to ensure that economic development in Oman was not at the sheer whim of a monarch, nor under the direct control of either tribal authorities or the general population. However, this has not resulted in a confused policy, but rather a quite impressively progressive one. Today, Oman has been rated as one of the most economically free countries in the world. In the opinion of the Fraser Institute, in its *Economic Freedom of the World: 2005 Annual Report*, "Oman has the seventeenth freest economy in the world, tied with Finland."<sup>16</sup> Alongside this economic development has come remarkable social and political reform. Oman is one of the few remaining monarchies in the world where the monarch retains the reigns of power. Despite his firm grip on the power structure of the

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<sup>15</sup> Peterson, J.E. "Tribes and Politics in Eastern Arabia." *Middle East Journal*, Vol. 31, No. 3, 1977.

<sup>16</sup> Hamod, David. "US-Oman Free Trade Agreement: U.S.-Arab Chamber Urges Congress to Stand Firmly Behind the FTA." NUSACC Press Release, March 6, 2006.

Sultanate, Qaboos has worked tirelessly towards a more liberal process within his government. The Sultan even wrote a constitution for his country and established a representative body called the *Majlis al-Shura* (Consultative Council).

One must not confuse the fact that Oman has chosen to follow liberal economic policies with the idea that Oman is currently a liberal state. Oman is indeed still ruled by an absolute monarch. The *Majlis al-Shura* has no legislative powers beyond suggestion, and is limited in the issues it can discuss. It is still a state where a citizen can be fined for having a dirty automobile. Two of the most fundamental liberal rights, freedoms of speech and the press, are viewed quite differently, and from a Western point of view, absent from Oman. To maintain all of this, Oman has an extraordinarily effective police force that has the ability to not only control dissent, but to dissuade further criminal actions by their sheer presence and reputation. This effect is strengthened when combined with the governmental control of the press. In effect, any public demonstrations are quickly shut down, and never make it to any public news source.

This raises interesting questions about the motivations for Oman's style of development. It is commonly believed in the West that liberal economic policies are closely tied to democratic political practices. Simply, liberal economic policies are viewed as being good for the majority of the people, and so are naturally desirable to a government that represents the people. Dictators and monarchs are historically more interested in their personal welfare and therefore more commonly disposed to a form of economic development that fills their own pockets first. So, why then has one of the last surviving true monarchies chosen to pursue liberal economic policies so avidly?

On January 19<sup>th</sup>, 2006, Oman signed a Free Trade Agreement with the United States. This was a major step forward for Oman's liberal economic policies. Amazingly, the FTA had been negotiated in only seven months, through only two formal rounds. As such, it is

highly reflective of Oman's goals and methods. A study of the process that Oman undertook to decide that an FTA was appropriate, to prepare for the negotiations, and to ensure that the negotiations were satisfactorily concluded would help shed light on the developmental processes of a nation making the transition from isolation to the world stage.

### **C. Research Methods**

The research that I conducted for this paper was divided into two segments. The first of these was based on written materials, and the second was focused on personal, semi-structured interviews with individuals in Oman. I began my research by examining the concept of a Free Trade Agreement so that I could compare the Omani design to the theoretical concept. I then read extensively on other similar FTA's, especially the one between Jordan and the United States. I feel that the Jordanian FTA is the closest in situation to Oman's because both countries have small populations, small economies, allied to the United States in the "War on Terror", and are, in their own ways, on the frontlines of the Arab-Israeli conflict. Admittedly, the Bahrain-US FTA would provide an even closer comparison, but at this time there is not enough material about the Bahraini FTA to make it feasible.

I also examined the available published information specific to the Oman-United States FTA. Among these materials were opinion articles and general reporting done throughout the FTA negotiation process. These articles helped to give impressions of the public involvement and opinion of both the United States and Oman. At the same time I read over the testimonies given before the Ways and Means Committee of the US House of Representatives. The testimonies not only offered important positions and points, but they revealed much of the process that America undergoes to pass an FTA. This has proved to be an invaluable counterpoint to the process that I have observed in Oman.

Following my inspection of the written material available, I commenced conducting interviews. I began my interviews by speaking with several of the general Omani population. Their interviews were valuable in giving me an idea of their level of knowledge on the subject and whether or not they felt involved in the process. Following this, I conducted interviews with as many of the top negotiators and players in the agreement proceedings as time and opportunity would allow. Because of the high level of centralization in Oman, it is essential to discuss motivations with the people whose personal motivations have the ability to play a role in the overall situation.

Oman still does not recognize a right to free speech. Because of this, many Omani are uncomfortable voicing their views to any beyond their family. The doubt that any comment will be found as undesirable by the government is enough that it is preferable for them to defer to those with the real or perceived expertise. Not only does this mean that much discussion is restricted to the government line, but it is also difficult to access mid-level government employees that might have important views to share.

Despite these difficulties, I made an effort to interview the elements of society that would be involved in the United States. To this end, I pursued interviews with members of the Majlis al-Shura Economic Committee, which is the closest Omani equivalent to the Ways and Means Committee of the US House of Representatives. Likewise, I endeavored to discuss the Agreement with members of the business community, especially those involved or potentially involved in trade with the United States. This provides me with the equivalent of the corporate testimonies presented before the Ways and Means Committee in the United States.

The method for these interviews was semi-structured and very open-ended. I arrived prepared with interview questions but allowed the interviewees to direct much of the direction of the interview. Had I structured the interviews too strictly, the concern over

answering ‘correctly’ would have drowned out any useful information about the motivations and desires of the interviewees.

#### **D. Analysis**

In order to analyze the decision-making process behind the Free Trade Agreement, and then the developmental processes that it reveals, one must approach each component individually. As the United States initially proposed the FTA, it is appropriate to begin with a peak at their motivations, although to thoroughly analyze them would require yet another full research paper. Within Oman, one must identify how each societal group: the public, press, government, and special-interest groups, played, or in some cases did not play, a role in the decisions. Even within government itself, there is a distinction between the individual motivations of influential persons and the general government strategy. By examining each component, one can piece together a complete picture of the in’s and out’s of Oman’s economic development.

##### *America’s Motivation*

The goals and expectations for the Oman-US Free Trade Agreement can be divided into a pair of separate but unequal categories. The first of these and surprisingly less important in this case, is the economic side. More meaningful to the majority of decision-makers is the political side. This dichotomy is well recognized by the negotiating parties. Ambassador Rob Portman, the US Trade Representative acknowledged both aspects during the signing of the FTA by claiming, “With our signatures today, we cement our long-standing friendship and growing commercial ties.”<sup>17</sup> While both aspects play a direct role in the decision-making processes in both countries, their importance and method of discussion vary greatly between the two nations.

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<sup>17</sup> Portman, Rob. From “U.S.-Oman Free Trade Agreement Signed” US-Arab Tradeline. Volume XIV, No. 2. NUSACC, March 2006.

The entire process was initiated by U.S. Trade Representative Robert Zoellick's suggestion to the Omani government that each government examine the concept of a bilateral Free Trade Agreement. For the American government, this was a continuation of the policy conceived by President George W. Bush for "the effort to establish a Middle East Free Trade Area by 2013."<sup>18</sup> Because of this previously established doctrine, Oman was examined well before it probably would have had it possessed a similar economy in a less strategically important part of the world. This exemplifies the concept that, at least in American thinking, the FTA is a political tool before it is an economic one.

In America, there are four main groups that take part in the decision-making process. The first is, of course, the government itself. Second, the independent press serves as a monitor for the government, informing the third and fourth parties of the government's actions and vice-versa. The third platform is the special-interest groups. Whether the specific interest group is representing a concerned popularly based party such as the AFL-CIO, or a group representing a corporation or group of related corporations such as the National U.S.-Arab Chamber of Commerce, each group expresses the most distinct views on any aspect. Finally, there is the public. While most often satisfied to leave their battles in the hands of the first three, the American public can and sometimes do express their own grievances, whether through public demonstrations or the ballot box. Recently, the controversy over the corporate take-over of the control of several American ports by a Dubai-based company demonstrated the power of the American public on their government.

#### *Oman's Motivation*

Oman, on the other hand, only fully uses two of these four decision-making mechanisms. While the public and the press are acknowledged, the only true power is held in interest groups (although still closely controlled by the government) and the government

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<sup>18</sup> Palmer, Doug. "US Signs Trade Pact With Oman, Keeps Egypt On Hold." Reuters, January 19, 2006.

itself. The effect that this has on the decision-making process should be dramatic, if the assumptions about the public role in liberal policy are correct.

### *Press*

When one examines the economic data in the Omani press regarding the expectations for the FTA, one immediately realizes that the FTA is entirely beneficial. That is, of course, if one believes everything that one reads in the Omani press. To a young man who grew up experiencing the influence of the American press corps, the so-called “fourth branch of government” that is constantly battling within itself over whether even the smallest issue is ‘good or bad for America’, reading the Omani press has been eye-opening. There is an obvious lack of critical analysis on the possible negative effects of the FTA.

Some would attempt to explain this as a natural by-product of Arab culture. According to the well-renowned Sheik Khalfan, Arab culture is primarily built on relationships. The process of establishing and maintaining those relationships is more important than any concept of self. Therefore, newspapers do not publish articles critical of individuals or the government for fear of publicly embarrassing those people and thereby harming a delicately developed relationship.<sup>19</sup> However, this cultural aspect is reinforced by the legal restrictions on the press that forbid such negative reporting. It is safe to say that the press does not, and cannot, stand to make any critical comments of the government’s actions in Oman and is therefore not a monitoring force as it is for the American government.

### *Representative Body*

Similarly, the public is hindered by the same cultural deference and lacks freedom of speech or assembly. This is slowly beginning to change, though. The *Majlis al-Shura* (Consultative Council) was instituted with much celebration as a “representative body” whose members are elected by the people. The implication here is that the *Majlis* should

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<sup>19</sup> Esry, Khalfan Al-. “Living and Working in Oman: Understanding the Culture.” School for International Training, Al-Khuwair, Oman.

represent the opinions and serve as a conduit for the voice of the constituents, regardless of how little power the body actually possesses. Unfortunately, this has not yet come to pass. Talib Al Balooshi, a member of the *Majlis*, acknowledges this deficiency and goes on to point out a further concern for the Omani public. The people “do not have full awareness... [They] are still obsessed with domestic issues.”<sup>20</sup> Despite this fact, the *Majlis* was not consulted at all concerning the Free Trade Agreement. There were no presentations in front of the assembled body, no formal consultation of members in their role as such and no discussion within the body about the FTA or its possible effects. Several members of the Economic Committee, including Mr. Al Balooshi, were invited to attend a presentation about the FTA at the Oman Chamber of Commerce and Industry. Even the presence at this meeting was simply as observers.

### *Public*

The average Omani citizen’s awareness of the Free Trade Agreement, or for that matter, any government economic function, is severely limited. When speaking to Omani men in the interior of the country, only approximately one in twenty men recognized the topic enough to be willing to speak about it. A recent business graduate from Sultan Qaboos University, Ahmed Al-Abri was an outstanding representation of the Omani public. He was, at first, very uncomfortable speaking to me at all until repeatedly assured that I was not a government agent of either Oman or the United States. Despite his education, his knowledge of the subject was restricted only to what he had read in the newspapers, and his answers followed those reports verbatim. When several of his colleagues expressed fears over small-business being harmed by the Agreement, Mr. Al-Abri dismissed these doubts on the grounds that the government would protect them.<sup>21</sup> He explained that what little concerns did make it past the cultural and legal filter were generally expressed on Internet forums read mainly by

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<sup>20</sup> Balooshi, Talib I. Omar Al-. Personal Interview. May 1, 2006.

<sup>21</sup> Abri, Ahmed Al-. Personal Interview. April 6, 2006.

other Omani. On these, doubts were raised, and concerns fleshed out, but “the government doesn’t care about those.”<sup>22</sup> The voices online are too quiet to break through the pattern of trust that has developed for the government.

This reliance on the government for protection and support is a major theme in the daily life of the Omani population. For over three decades, a time period during which the majority of the Omani population was born, the Omani people have reaped the benefits of the rentier system. The government has ensured job security, pensions, basic needs, infrastructure, and a host of other daily needs for the people. Because of this, the population has slipped into a state of dependency on the state that is becoming distressing to all involved. Omani children have been growing up with the knowledge that they will have secure employment, and lacking this, monetary support nearly equaling employment. This has created an overall lack of drive for individual, and therefore societal, betterment. The lack of a fear of poverty has directly inhibited the Omani desire to compete. This, above any other reason, explains the high population of low-wage foreign workers in Oman; they are simply willing to do the jobs that the Omani see as below them. As well as the distressing lack of personal motivation for economic gain, there is also a lack of desire to take part in government functions. As far as the majority of Omani citizens are concerned, as long as they have “jobs for their kids”<sup>23</sup> and financial security, there is no need to interfere in the government’s work.

Perhaps the greatest loss from this public disinterest is the loss of potential advice. While the great majority of private citizens are not economic, trade, or developmental experts, they do have expertise in their own slice of life. If, at some point, a private citizen were to have an idea, or reach a novel conclusion that could aid the government in its business, they would have serious trouble sending their message to a decision-maker. While

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<sup>22</sup> Ibid.

<sup>23</sup> Balooshi, Talib I. Omar Al-. Personal Interview. May 1, 2006.

there is a system of communication from local government to the central power structure, it is fairly impractical. The chances of a citizen's suggestion, no matter how valid, finding its way to someone who can act on it are slight. There is a process to submit papers suggesting government reforms or actions, but it is poorly understood or even known about by the general population. And without the right to publicly demonstrate, circumventing this system is difficult when legal. Overall, public input does not play an influencing role in the developmental strategy of Oman's central government, and does not offer a check to any possible government miscues.

### *Special Interest*

The special interest community follows with the public to a degree. The government to date strictly controls civil society. The application process for a society group, such as an environmental interest group, is lengthy and requires close government cooperation and scrutiny. Even the presence of civil society groups is relatively new to Oman, and still quite slow to develop. Because of this, no civil society groups played any role in the creation of the Free Trade Agreement.

Labor groups are an even more sensitive subject in Oman. The old Oman Labour Law of 1973 expressly forbids labor collectivization and strikes or any other form of protest. This law was updated in 2003 and now Oman allows "worker representative committees" that are permitted to strike or bargain with industry leaders for improved working environment. Eventually, this situation developed into the major stumbling block for the ratification process of the FTA in the US Congress. Before Congress, the AFL-CIO, the nation's largest labor union, charged that

Oman's labor laws are egregiously out of compliance with the ILO core labor standards, and [they] are deeply concerned about the lack of fundamental protections for Omani workers in both law and practice.<sup>24</sup>

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<sup>24</sup> Lee, Thea M. "Testimony on the Implementation of the United States-Oman Free Trade Agreement." AFL-CIO. Subcommittee on International Trade of the Senate Committee on Finance, Washington, DC. March 6, 2006.

The same Citizen's Trade Campaign expressed the same concerns especially that Oman was allowing for worker "exploitation...forced labor...human trafficking"<sup>25</sup> and other egregious violations of the International Labor Organization (ILO) rules. These concerns have been repeatedly expressed to decision-makers in the United States, resulting in the Democratic Party making efforts to stall the ratification of the FTA by the US Congress. Importantly, these types of concerns were never seriously raised before the decision-makers in Oman.

The worker representative committees in Oman did not play a role in the Free Trade Agreement process. Accordingly, the voice of the general Omani labor was not broadcast on an issue that will directly affect it. Rather, the central government judged that it knew what was better for the labor force than the committees designed to represent just that. Indeed it is highly questionable whether or not input from the current worker representative committees would be useful as the government and the business elite closely controls them. Whether or not the government did indeed set the best course for the future of Omani labor will only be told by the test of time.

In fact, the private sector as a whole played a minimal role. Within Oman, the interaction between the government and the business community at large during the FTA process was limited to a series of presentations at the Oman Center for Import Production and Export Development (OCIPED) and the Oman Chamber of Commerce and Industry (OCCI). While these meetings were officially open to the public, they were not well publicized and "mainly only business and industry leaders"<sup>26</sup> attended at all according to OCIPED Executive President Eng. Salem Ben Nasser Al Ismaily. Actually, these meetings were not so much about considering the opinions of the business community, as addressing any concerns and

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<sup>25</sup> "The Oman Free Trade Agreement's Inadequate Labor Provisions and Oman's Severely Sub-Standard Labor Law and Conditions." Citizen's Trade Campaign, March 15, 2006. <[www.citizenstrade.org](http://www.citizenstrade.org)>

<sup>26</sup> Ismaily, Salem Ben Nasser Al-. Personal Interview. April 25, 2006.

convincing them of the good sense behind the FTA.<sup>27</sup> It is generally understood that any serious interaction between the business elite and the government decision-makers takes place behind closed-doors well before any public discussion is permitted.

### *Government Individuals*

So, while the public's concerns were ignored or not expressed, the newspapers kept silent, civil society and labor groups restricted, and the business community limited to elite interactions, what was the motivation of the government throughout? The preparation and negotiation of the FTA was the shared responsibility of the Ministry of Commerce and Industry and OCIPED. Within these organizations, two men directed the efforts: at OCIPED by Eng. Salem Al Ismaily, and at the Ministry of Commerce and Industry by Dr. Said Al-Riyami. Each of these men was able to assert a good deal of individual influence on the decision-making process and their own motivations are highly reflective of the expressed government desires. It was my privilege to formally interview and informally discuss the FTA process with both gentlemen.

Eng. Salem Al Ismaily is a true believer in liberal economic theory. He speaks fluently and confidently about the benefits of specialization and international trade systems. His actions and rationalizations are firmly rooted in the long-term view that can rarely be achieved without the benefit of a solid education in theoretical economics. As well, he carries himself with the confidence of a self-made man. Dr. Said Al-Riyami is of a similar mind. He, also, enjoys the benefits of a foreign-based theoretical economics education. Together, these two men led the government process with a purist economic view of the long-term benefits of free trade.

When questioned directly about the reasons for the Free Trade Agreement's remarkably rapid progress through the negotiating phase, both men immediately credited

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<sup>27</sup> Ibid.

Oman's preparation for the process. The major factor was Oman's recent accession to the World Trade Organization, successfully completed in 2000. As opposed to the older members of the WTO, "before [Oman] could get into the WTO [they] had to deal with a lot of issues...until we got it right, only then would the US vote for membership."<sup>28</sup> Along these lines, Oman had to make great efforts to liberalize its economy, notably along lines partially dictated by the United States; well before FTA negotiations were even proposed. The result of this is that Oman only needed to travel a "short road"<sup>29</sup> to further adjust to the demands of an American FTA. The most important example of this is in the level of Omani tariffs. The average Omani tariff on US products is currently approximately 5% (with the exception of textiles and several other goods). Dropping tariffs from 5% to 0% is a small enough change that it does not cause large adjustment effects to the economy. As put by Dr. Al-Riyami,

If a consumer is trying to decide between an American car and a Japanese car, the 5% change might push them one way or another if they are on the edge, but it is not big enough to change their minds if they simply want a Japanese car.<sup>30</sup>

This also means that the costs of adjustment for the government offices responsible were quite low.

Together, Dr. Al-Riyami and Eng. Al Ismaily, along with various other high-ranking members of the Omani government provided a core of idealistic economic theory. Over years of work, they have already made efforts to push Oman along this economically liberal path, with the support of the monarch. When the proposal for a Free Trade Agreement with the United States was received, these individuals were ready and willing to implement their ideologies. All it took was the go-ahead from the government that this was indeed the correct path for Oman to pursue.

### *General Government*

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<sup>28</sup> Ibid.

<sup>29</sup> Riyami, Dr. Said Amer Sultan Al-. Personal Interview. April 23, 2006.

<sup>30</sup> Ibid.

Another aspect to the preparation took place after the US Trade Representative, Robert Zoellick, proposed FTA negotiations on November 15, 2004. Rather than debate within the government whether an FTA was appropriate or not, the central authorities within the Omani government quickly decided that the FTA was a goal worth pursuing, and that pursuit began immediately. Oman sent government researchers to Jordan, Bahrain, and Morocco (the other three Arab governments to have signed FTA's with the United States) to examine exactly what processes their negotiations with the US had involved. They researched each American demand and expectation, as well as what responses had or had not worked for the Arab governments. In essence, they "just did [their] homework"<sup>31</sup> and were able to prepare answers to the questions that would be posed by the US negotiators.

It is also interesting to note the history of trade negotiations that Oman possesses. Over centuries as a sea-faring, commercial power, Oman developed a high regard for dialogue and those members of society who possess the ability to negotiate well. Negotiation is a part of everyday Omani life, with very few prices actually fixed. Even well established sellers make it normal practice to offer 'discounts' or haggling. On a grander scale, this history of negotiation has played well in the favor of Oman. They were the first nation on the Arabian Peninsula to successfully negotiate border agreements with each of their neighbors, no small feat considering the borders they share with such prickly governments as Yemen, Saudi Arabia and Iran. At the FTA negotiations, this experience translated into a smooth, professional dialogue. Having just left the less organized United Arab Emirates, the American trade negotiators were impressed by the Omani team, whom they described as "tough negotiators."<sup>32</sup> This professionalism directly increased the pace of negotiation on its own.

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<sup>31</sup> Ismaily, Salem Ben Nasser Al-. Personal Interview. April 25, 2006.

<sup>32</sup> Riyami, Dr. Said Amer Sultan Al-. Personal Interview. April 23, 2006.

The concept of pace is very familiar to the current Omani regime. Throughout each aspect of Omani development since the accession of Sultan Qaboos in 1970 there has been an emphasis placed on steady, deliberate reform. Every discussion of reform in Oman is deferred to the Sultan's patience and timing. The *Majlis Al-Shura* is itself the third incarnation of a representative body in Oman. Each body has successively moved closer to a truly democratic ideal. Amazingly, the people of Oman are overwhelmingly patient and compliant with what may seem to an outsider to be an aggravatingly slow process. In fact, this issue has developed within the FTA negotiations. American demands that Oman alter its labor law ignore the fact that three years ago Oman changed the law that had previously stood untouched for ten times as long. There is a general feeling that "America is trying to pressure the natural evolution of labor laws"<sup>33</sup> in Oman. The Omani government takes a great deal of pride in the success of their own established pace, and is wary of any efforts to interfere with it.

Here one finds the single largest key to understanding the Omani regime, and their method of economic liberalization, pride. For the past 36 years, Oman has resurrected itself through a self-proclaimed renaissance. As stated by His Majesty Qaboos Bin Said,

The success of the human experience is the result of constant endeavour, commitment, will and a sense of responsibility. No nation can realize its goals unless its people work together to build its future and develop its potential.<sup>34</sup>

Stemming from this pride is the sense that the only entity that knows what is truly best for Oman is Oman itself. Sultan Qaboos, the embodiment of the Omani spirit, is therefore seen as the ultimate critic and solution to the nation's difficulties. While negotiation and dialogue are vital to survival, decisions about Oman should originate within Oman.

Beneath the surface of this patriotism is an undercurrent found throughout the world's political systems, especially those of the Middle East. This is the desire of the reigning

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<sup>33</sup> Ibid.

<sup>34</sup> Sa'id, Qaboos Bin Said Al-. Excerpt from speech in Oman: 2005-2006. Omani Ministry of Information, 2005.

regime to retain their power. No other region of the world has as strong of a tradition of regime-maintenance as the Middle East. Through crises and celebrations, Arab power structures are remarkably resilient. Oman is a shining example of this, where the Al-Bu Saidi family has maintained sovereign control for three centuries. Sultan Qaboos is no exception to this rule. In fact, through careful manipulation and low levels of corruption, the Sultan has managed to increase his power base while many neighboring regimes struggle against popular discontent.

The Free Trade Agreement, beyond any economic benefits, provides Sultan Qaboos with another accomplishment to add to his list of successes. Towards his own people, the FTA signals that Oman has been recognized as an equal partner to the largest power in the world. The prestige from this “signals safety for foreign direct investment”<sup>35</sup> and has already caught the attention of Yemeni and Indian business interested in using it to their advantage (with Oman reaping the middle-man benefits).<sup>36</sup> In fact, part of the rush to push the FTA through was based on the Omani desire to be recognized not only as having such an agreement, but as being one of the first in the region to do so. Simultaneously, it shows the Omani public that Qaboos has, indeed, succeeded at modernizing their country to a level recognizable by world powers. Also, the FTA is likely to help produce new jobs in Oman, though the level to which this will occur is highly debatable. Regardless, the government is touting this feature because it knows that job creation is among the population’s largest concerns. Addressing it so boldly exudes a confidence and progressive determination that restrained peoples respond to positively.

### *Conclusion*

It was this realization of the political benefits that settled the decision to pursue the Free Trade Agreement for the government of Oman. The economic benefits were well

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<sup>35</sup> Mennel, John E. Personal Interview. April 30, 2006.

<sup>36</sup> Ismaily, Salem Ben Nasser Al-. Personal Interview. April 25, 2006.

recognized and explained by the responsible government officials, but the addition of another highlight to Sultan Qaboos' ruling resume sealed the deal. Because of this, when Robert Zoellick approached Oman with the proposal to begin consideration, work progressed rapidly. In the absence of any distractions or disputes of their decision (such as a free press or active public), the initial choice of the government to go ahead with negotiations remained unhindered throughout both the planning and negotiation process. With the clear order to progress having been issued, the practiced skill of Omani negotiators, paired with the already highly liberalized economy, greased the negotiation's wheels. The inevitable result was the lightning fast progress of the entire Omani side of negotiations.

#### **E. Lessons**

There are definite lessons to be learned from examining the process by which Oman prepared itself and undertook the acquisition of a Free Trade Agreement with the United States. For the United States, the message that may be taken is contrary to current policy. Oman is a successful, competitive nation that is quite obviously on the road to a liberal, possibly one day even being a fully democratic nation, if the Sultan's vision plays out. They have set their own course, and through careful, patient maneuvering, continued towards a goal that mirrors the American vision for an ideal partner. However, all of this has proceeded under a repressive regime that continues to deny what Americans consider 'basic' human rights. As America continues to try to bully its way through the Middle East and force countries into becoming democracies, Oman provides a better solution. Indeed, the path to a successful country is not through American democratic-republicanism, it is through wise governance. America would be better served to promote good governance, and worry less about the exact form of that governance.

There is a lesson to be found for Oman as well. Currently, the country can best be described as “a planned economy run by MBA’s.”<sup>37</sup> Planned economies have historically proved to be impractical and prone to errors. “The government is currently the sole representative for the public and private sectors”<sup>38</sup> and this will lead to issues unless the market is allowed to self-correct without government interference. Likewise, politically, Oman’s government must allow a monitor to develop. The American system of checks and balances, as well as the input of the free media, helps to guard against fatal errors. The Omani system, regardless of its recent history of successes, is too centralized to possibly correct for mistakes in judgment until it is too late. The practice of using experts and including opponents has been wise, but eventually it will fail. Allowing a freer press or a representative body with the right to oversee government decisions would help insulate Oman against human errors.

For the developing countries at large, Oman does provide good concepts that ought to be developed, but cannot be a true general model for development. The major factors that Oman possesses, a benevolent, secure leader and a patient, trusting populous, are simply not easily developed. However, Oman’s practices of inclusion and dialogue would serve many developing nations well. The idea of measured development and liberalization can also help to guard against the economic shocks that accompany rapid economic opening.

## **F. Further Research**

As with any study, there is more to be found. Of course, even greater access to other key players (ministers, the Sultan, the broader business community, etc.) would be valuable toward the exact same research line. After a period of time, it would be highly beneficial to examine the direct results of the Free Trade Agreement and how the economic theories behind it have played out. It would also be worthwhile to examine other aspects of Omani

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<sup>37</sup> Mennel, John E. Personal Interview. April 30, 2006.

<sup>38</sup> Balooshi, Talib I. Omar Al-. Personal Interview. May 1, 2006.

economic relations such as: GCC relations, the Indian Ocean Rim Preferential Trading Agreement, the Oman Audit Program, Oman's expressed desire to be the economically freest nation in the world, and many more. In-depth character studies of the key players within Oman are lacking as well. The possibilities for further studying are as rapidly expanding as the political and economic realms of Oman itself.

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