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December 11, 2025

Approved By
Middle East and Central Asia Department

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CONTENTS

BEYOND OIL: ACCELERATING EXPORT DIVERSIFICATION FOR SUSTAINABLE GROWTH[1]

Since oil was discovered in the 1960s, Oman's economy and living standards have improved significantly. Yet, it has also created a vulnerable economic structure, with economic growth and external and fiscal balances being highly sensitive to oil price swings. While current diversification efforts have laid important groundwork, further progress is needed to ensure economic resilience to oil price volatility. Building a competitive nonhydrocarbon export sector is essential, as nonhydrocarbon output consists primarily of non-tradables, particularly of low-added value sectors requiring low-skilled labor, with limited productivity gains, foreign currency receipts, and employment potential. Accelerating structural reforms alongside well-targeted state support will be key to enhance product sophistication and deepen export diversification beyond oil and gas. In particular, our empirical analysis indicates that improvements in government effectiveness and logistics performance could significantly raise nonhydrocarbon exports.

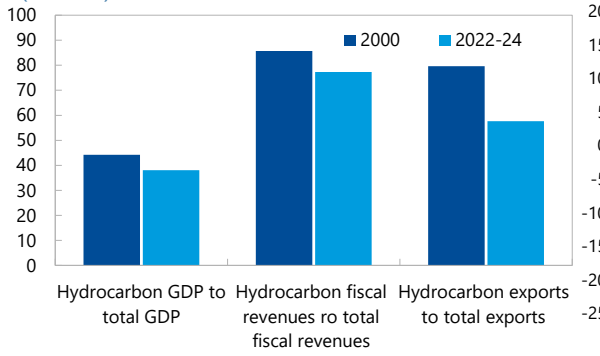
A. Context

1. Oman is pursuing a comprehensive economic transformation anchored in Oman Vision 2040. The Vision aims to foster a competitive, diversified, and sustainable economy, underpinned by enhanced human capital and private sector development. It envisions a gradual shift away from reliance on hydrocarbons by promoting nonhydrocarbon sectors, such as manufacturing, logistics, tourism, and renewable energy. To support this transition, the authorities are implementing wide-ranging structural reforms, including efforts to improve the business environment, strengthen fiscal sustainability, deepen capital markets, and upgrade education and workforce skills. The Vision also emphasizes good governance, environmental sustainability, and digital transformation as key enablers of long-term growth. These reforms are intended to enhance economic resilience, create high-quality jobs for Oman's citizens, and ensure fiscal and external sustainability, amid growing uncertainty in global oil markets.

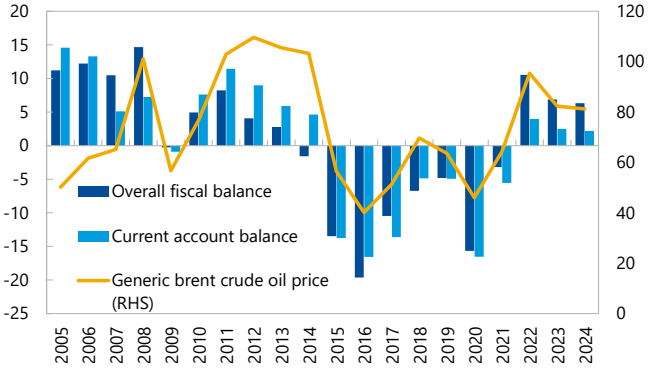
2. Economic diversification is advancing but more remains to be done to strengthen the economy's resilience to oil price volatility (Figure 1). Oman has particularly made progress in advancing output diversification, with nonhydrocarbon activities now accounting for nearly 70 percent of total GDP. However, fiscal revenues remain heavily dependent on hydrocarbon receipts—accounting for around 80 percent of the total revenue—despite efforts to broaden the revenue base. This leaves the fiscal position highly sensitive to oil price fluctuations. Moreover, nonhydrocarbon growth continues to be influenced by oil market cycles, underscoring the broader economy's continued dependence on hydrocarbons. The export base remains narrowly concentrated in hydrocarbon products, rendering the external position vulnerable to shifts in oil prices.

[1] Prepared by Mohamed Belkhir, Takako Iwaki, and Nareg Mesrobian.

Figure 1. Oil Prices and Economic Performance in Oman



Sources: Country authorties and IMF staff calculations.



Sources: Country authorities, Bloomberg, and IMF staff calculations.

3. This paper proposes policy options to accelerate Oman's transition to a more sustainable and resilient economic model. With hydrocarbon reserves being limited and uncertainty surrounding future oil prices, it is critical to foster the emergence of a competitive and diversified tradables sector. Currently, nonhydrocarbon activities concentrate primarily in low-added-value, non-tradable sectors that rely on low-skilled labor, while most manufacturing products are imported. A sustained decline in hydrocarbon revenues would weigh down on growth, as well as to external and fiscal positions. Strengthening nonhydrocarbon tradables—manufacturing and tradable services— is essential to broaden the export base, generate foreign currency earnings, improve productivity, and create high-quality jobs for Oman's growing labor force. Achieving these goals will require sustained structural reforms aimed at improving the business climate, boosting human capital, enhancing infrastructure and logistics performance, and incentivizing investment in higher-value-added activities. In this context, the upcoming 11th Five-Year Development Plan presents a strategic opportunity to set clear priorities and sequence reforms to support this transition.

4. This paper is structured as follows: Section B provides an overview of Oman's economic structure, with a focus on export diversification. Section C reviews the policies pursued thus far to upgrade technologically and diversify the export base. Section D draws lessons from countries that have succeeded in climbing the product quality ladder and in diversifying their exports, namely Malaysia, Singapore, and South Korea. Section E outlines policy priorities.

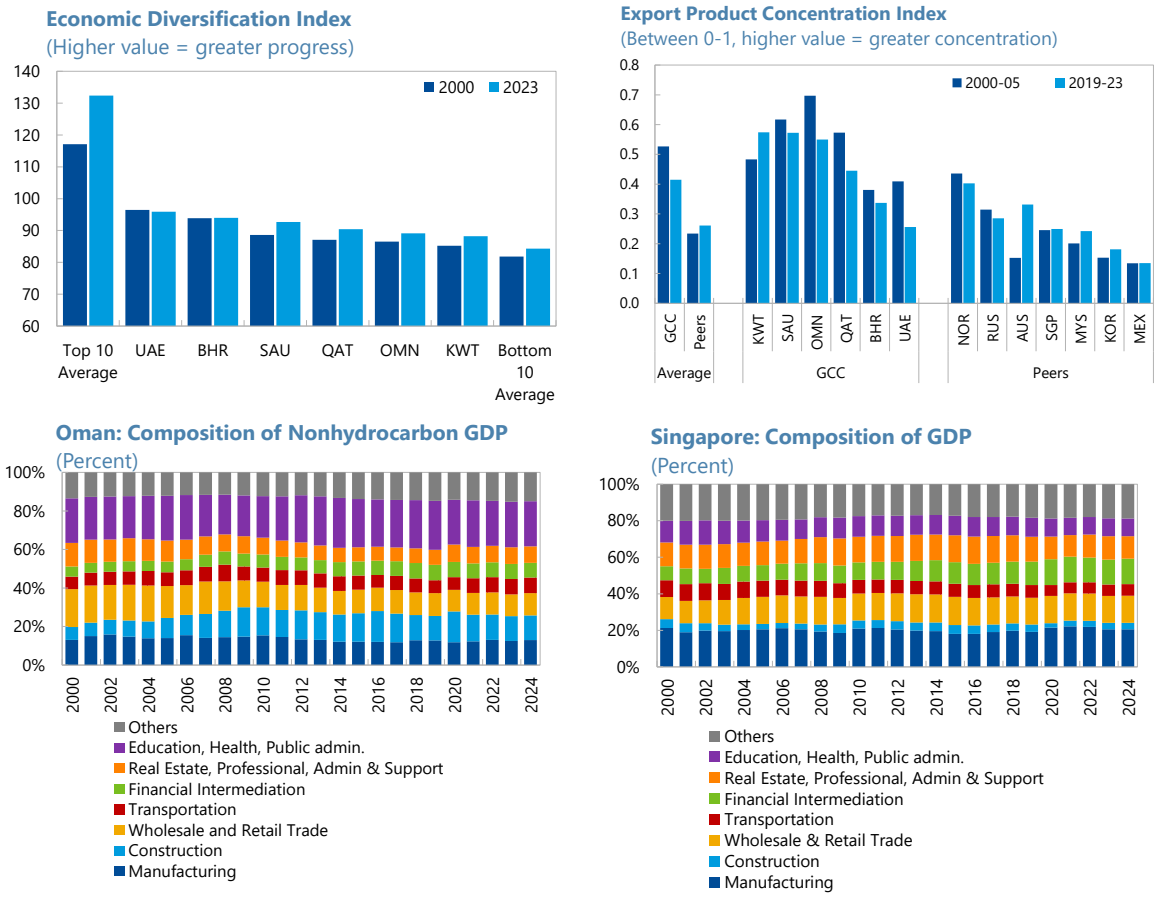
B. Oman's Economic and Export Structure

5. Oman's economic diversification progress is evident, but it still behind top performers in the GCC and globally. According to the Global Economic Diversification Index (EDI), which measures diversification along several dimensions—including output structure, trade patterns, and government revenues—, Oman's economy is more diversified than in the past, with diversification gains over the last two decades broadly in line with GCC peers. However, it still has a considerable

gap to close to converge with the levels observed in the most diversified economies globally (Figure 2).

6. Non-tradables continue to dominate Oman's nonhydrocarbon economy. While the share of nonhydrocarbon activities rose from about 55 percent in 2005 to nearly 70 percent in 2024, nonhydrocarbon output remains concentrated in non-tradable sectors. In 2024, construction, public administration, education, and healthcare together accounted for approximately 40 percent of nonhydrocarbon GDP, while manufacturing— a key tradable and high-productivity sector—contributed only 8 percent (Figure 2).[2] In contrast, in Singapore, a benchmark for successful diversification, the combined share of construction and public services stood at just 13 percent of total output, while manufacturing contributed 21 percent. Oman's manufacturing share has remained broadly unchanged over the past two decades, whereas construction has nearly doubled, accompanied by a decline of almost 50 percent in wholesale and retail trade. This pattern reflects a reallocation of resources—labor and capital—within non-tradable, often lower-productivity, sectors

Figure 2. Indicators of Economic Diversification



Sources: Global Economic Diversific ation Index, UNTCAD Statistics, Haver, and IMF staff calculations.

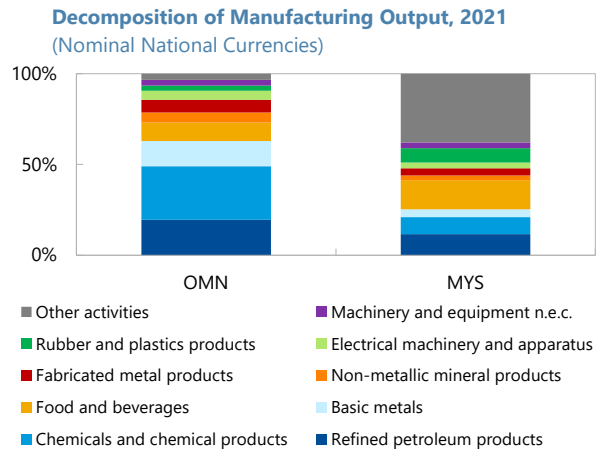
[2] Manufacturing here refers to manufacturing activities outside hydrocarbon-related ones, such as oil refining.

rather than a structural shift toward tradable, higher-productivity activities that are critical for export diversification and long-term economic resilience.

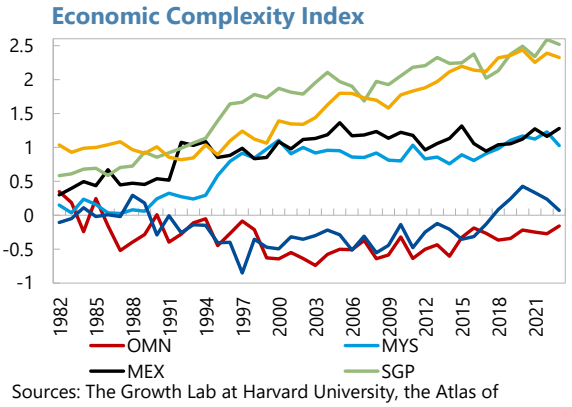
7. Oman continues to have one of the most concentrated export structures among GCC countries and global peers. The limited size of its tradable nonhydrocarbon sectors is reflected in a narrow export base. UNCTAD's Export Product Concentration Index suggests that, notwithstanding some progress made over the past two decades, Oman's exports remain notably concentrated, exceeded only by Kuwait and Saudi Arabia within the GCC. Compared to other oil-exporting peers such as Australia and Norway, Oman's export base is much less diversified, and the gap is even wider when benchmarked against highly diversified economies like Singapore and Mexico (Figure 2).

8. Manufacturing sector is predominantly concentrated in oil-related industries and metal production, limiting its role in export diversification and sophistication. Refined petroleum, chemicals, and metals account for around 60 percent of Oman's manufacturing output, while more complex, higher-added-value products—such as machinery and equipment—remain minimal (Figure 3). This narrow manufacturing base constrains Oman's ability to expand beyond hydrocarbons-linked exports. By way of comparison, Singapore's exports are dominated by highly complex products, with electronics and machinery together representing more than 50 percent of total exports in 2021–2023, reflecting a diversified and knowledge-intensive manufacturing base that is deeply integrated into global value chains.

Figure 3. Manufacturing Output and Economic Complexity



Source: United Nations Industrial Development Organization.



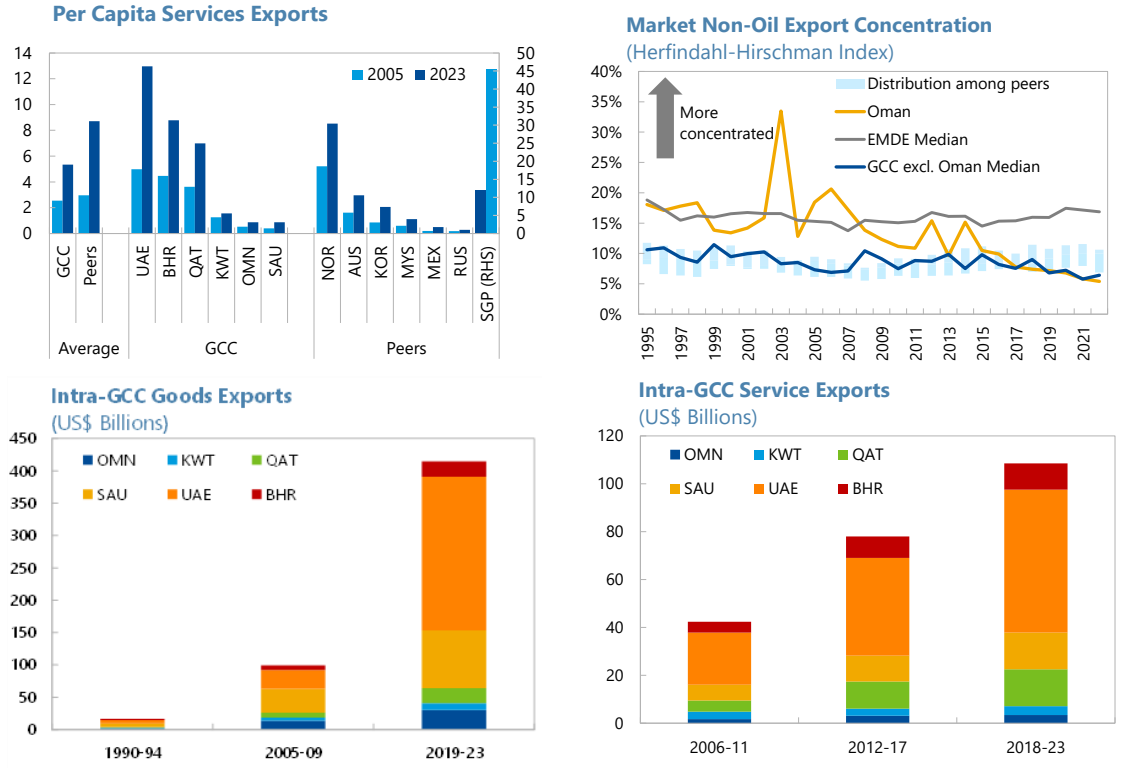
Sources: The Growth Lab at Harvard University, the Atlas of Economic Complexity.

9. Economic complexity remains low. The Economic Complexity Index (ECI), which measures the diversity and sophistication of a country's export basket as a proxy for its productive capabilities and knowledge intensity, has remained persistently low in Oman over the past four decades. Countries with similar levels of economic complexity in the early 1980s, including commodity exporters such as Malaysia and Mexico, have successfully transitioned toward high–value–added, knowledge–intensive exports and steadily climbed the economic complexity ladder.

10. Services' exports remain subdued. In 2023, Oman's per capita services' exports stood at just $1,500, among the lowest in the GCC and well below commodity-rich peers, such as Norway and Australia (Figure 4). Gains over the past two decades have been very limited, especially compared to the UAE, Bahrain, and Qatar. Within Oman's service exports, transport and tourism dominate, accounting for 34 percent and 28 percent, respectively, while the share of information and communication technology exports remains relatively modest at less than 5 percent. This composition underscores the need to expand and upgrade the tradable services sector to converge toward regional and global peers.

11. Market concentration of non-oil exports has been reduced markedly. After standing out with a high market concentration for its non-oil exports, Oman managed to steadily diversify its non-oil export destinations since the early 2000s to levels commensurate with GCC and global peers, likely mitigating the risk of demand shocks from overreliance on a limited number of trading partners. Despite strong regional trade growth over the past two decades, Oman's export penetration in GCC markets remains limited. Geographic proximity, shared cultural ties, and high-quality infrastructure across the GCC are factors known to foster trade, and should be leveraged by Oman to boost nonhydrocarbon exports and strengthened economic resilience amid heightened geopolitical and global trade policy uncertainty.

Figure 4. Additional Export Diversification Indicators



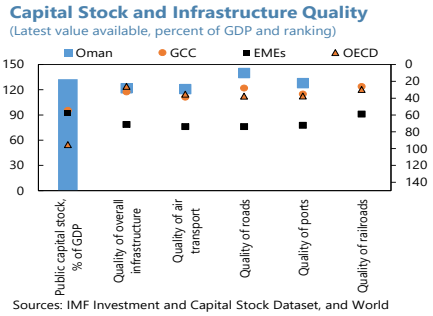
Sources: OECD-WTO Balanced Trade in Services (BaTIS), The Growth Lab at Harvard University, the Atlas of Economic Complexity, and IMF staff calculations.

C. Export Diversification: Modest Gains Despite Past Policy Efforts

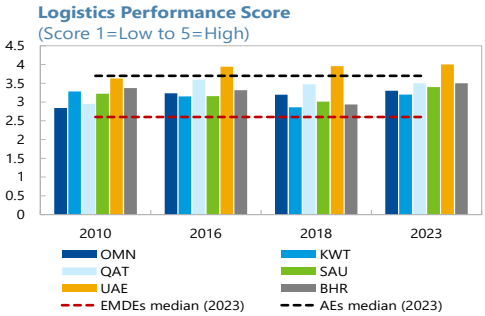
12. The standard policy advice for oil-rich countries to diversify away from oil and achieve strong, sustainable, growth focuses on addressing government failures. Central to this strategy is investing in human capital—through education and skills development—to enable the workforce to shift toward higher-productivity, non-oil sectors. Equally important is improving the business climate by strengthening institutions, enhancing regulatory quality, and upholding transparency and the rule of law—areas often undermined by weak governance and rent-seeking behaviors. Tackling such government failures is crucial to attracting private investment and fostering entrepreneurship. In parallel, targeted public investments in infrastructure and technology can catalyze growth in manufacturing, services, and green industries. Ensuring macroeconomic stability through prudent fiscal management and reduced reliance on oil revenues is also vital. Greater trade and investment openness, including regional integration and global market access, can expand the export base and support innovation.

13. Oman has made notable progress in tackling most government failures. Efforts to upgrade physical infrastructure, invest in human capital, and ease product and labor market regulations have laid important groundwork to promote economic diversification. Nonetheless, these reforms have yielded limited gains in export diversification, suggesting that overcoming government failures alone is insufficient. A broader, more targeted strategy is needed to expand the export base beyond hydrocarbons.

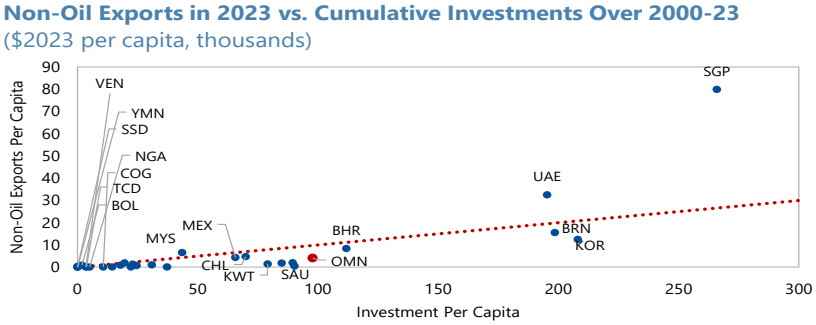
Figure 5. Oman's Quality of Infrastructure



Sources: IMF Investment and Capital Stock Dataset, and World Economic Forum.



Source: World Bank Logistics Performance Index Surveys.

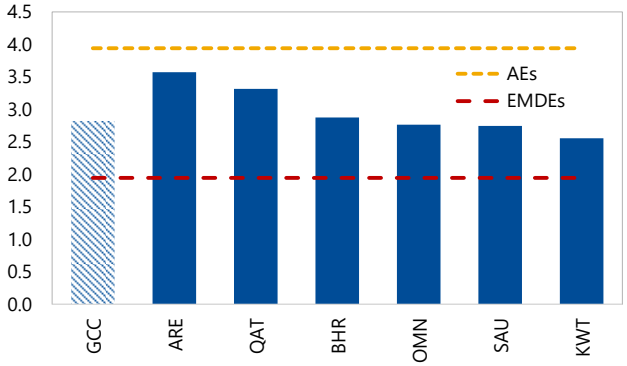


Note: Cumulative investments per capita are calculated by dividing the sum of real investments (in $2023) over 2000-2023 by population in 2023. The dotted line is a 45-degree line with a y to x axis scale of 1x10 (equivalent to a return of 10 percent).
Source: WEO and IMF staff calculations.

14. Oman enjoys high-quality infrastructure (Figure 5). Developed infrastructure reduces transaction costs and improves connectivity, supporting competitiveness and attracting investment for nonhydrocarbon sectors, such as manufacturing, logistics, and tourism. Oman's infrastructure ranks among the best both regionally and globally, with public capital stock exceeding 120 percent of GDP and the quality of roads, ports, and airports consistently receiving high marks. Oman has also made steady efforts in improving its logistics' performance—another enabler of foreign trade and private sector investment, resulting in a rise in its score in the World Bank Logistics Performance Index from just under 3 in 2020 to nearly 3.5 in 2023, placing it well above the EMDEs' average and close to regional peers. These achievements reflect a long-standing strategy of channeling oil windfalls into infrastructure development to support economic diversification. However, returns on infrastructure investment in terms of non-oil exports remain relatively low. Between 2000-2023, non-oil exports per capita amounted to just around $4 for every $100 of cumulative infrastructure investment made—about half the level achieved by countries such as Malaysia and Mexico. This suggests that while good infrastructure is a critical enabler, it must be complemented by coordinated policies to unlock its full potential for export diversification.

15. Oman's governance environment is broadly favorable, but there remains scope for further improvement. Sound governance boosts investor confidence and encourages private investment, which in turn supports economic diversification and enhances the returns on infrastructure and human capital investments. According to the World Bank's Governance Performance Index, Oman's quality of governance aligns with the GCC average and stands above the average of EMDEs (Figure 6). While continued progress is needed, current governance conditions are unlikely to hinder the development of a competitive nonhydrocarbon export sector.

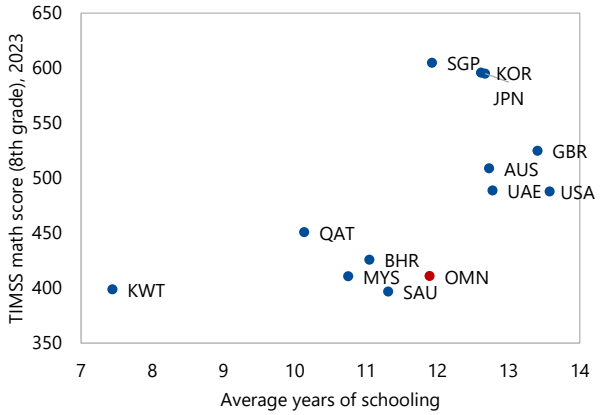
Figure 6. Governance Performance Index
(Average 2018-2022, ranges from 0-5



Source: World Bank's WGI. Note: The index is a composite of the rule of law, government effectiveness, control of corruption and regulatory quality indices. All indices have been normalized by adding 2.5 to the original values.

16. Significant efforts have been made to strengthen education, but challenges remain in improving outcomes. Education spending stands at nearly 5 percent of GDP – above the GCC average—and has led to a rise in average years of schooling from 8.3 years a decade ago to nearly 12 years currently, positioning Oman as the second-best performer in the GCC region and close to AEs (Figure 7). However, learning outcomes have not kept pace with this investment, as evidenced by the low average math scores, underscoring the need to shift the policy focus toward improving the quality and relevance of education, which is key to creating internationally competitive tradable sectors.

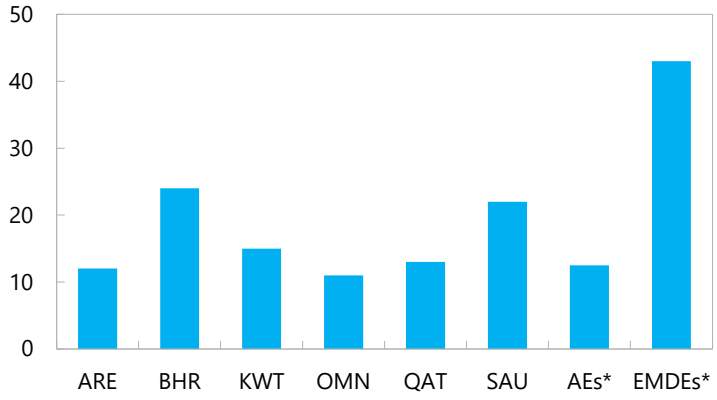
Figure 7. Years vs. Outcome of Schooling



Sources: Trends in International Mathematics and Science Study (TIMSS); United Nations Development Programme.

17. Oman's openness to trade and investment provides a strong foundation to enable the emergence of a competitive export sector. A country's degree of openness to trade and investment supports economic and export diversification by facilitating the movement of goods, services, and capital—key drivers for private sector development and export-led growth. Oman maintains relatively low numbers of restrictions on exchange, trade, and transfers—comparable to the UAE and Qatar, and well below the average for EMDEs (Figure 8). Oman's openness supports foreign investment, private sector development, and deeper integration into global markets—critical enablers of competitive nonhydrocarbon exports.

Figure 8. Restrictions on Exchange, Trade, and Transfers
(2022, number of measures)

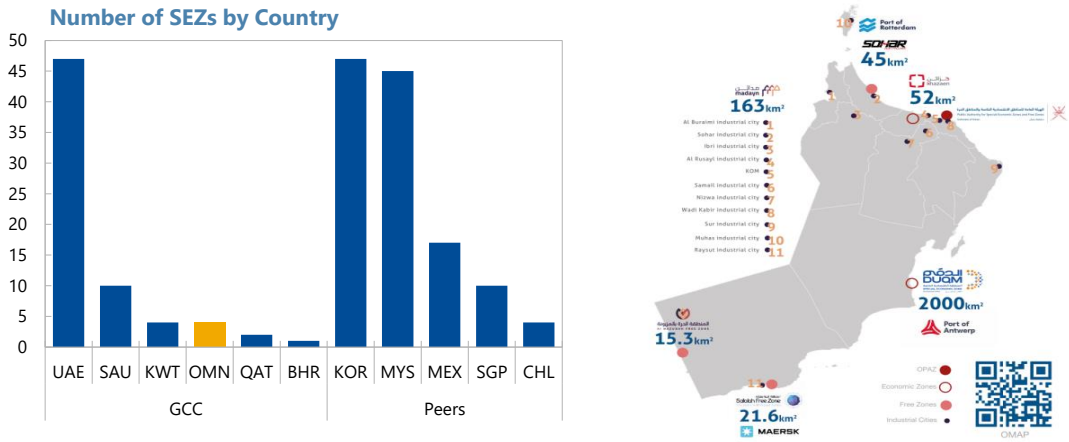


Sources: IMF AREAER database and IMF staff calculations.
Note: Numbers for AEs and EMDEs are median. Aggregate measure of trade restrictions based on the unweighted sum of IMF's AREAER binary variables related to (i) exchange measures; (ii) arrangements for payments and receipts; (iii) imports and imports payments; (iv) exports and exports proceeds, and (v) payment and proceeds from invisible transfers and current transfers.

18. Oman's network of special economic zones (SEZs) is a key pillar of its diversification strategy (Figure 9). The first zone—Salalah Free Zone—was launched in 1999, followed by Sohar (2010), Duqm (2011), Al Mazunah and Khazaen (2018), complemented by eleven industrial cities (Madayn). These SEZs offer 100 percent foreign ownership, tax exemptions up to 30 years,

streamlined regulations, modern infrastructure, and trade facilitation services—targeting manufacturing, logistics, and petrochemicals. By end-2024, cumulative investment across SEZs and industrial estates amounted to around $55 billion. Strategically located, the zones leverage duty-free access to the GCC market (approximately 60 million consumers), Oman's free trade agreement with the United States, and geographic proximity to major Asian economies—such as China and India. These advantages position SEZs as gateways for deeper integration into global value chains (GVCs) and as catalysts for expanding nonhydrocarbon tradable sectors.

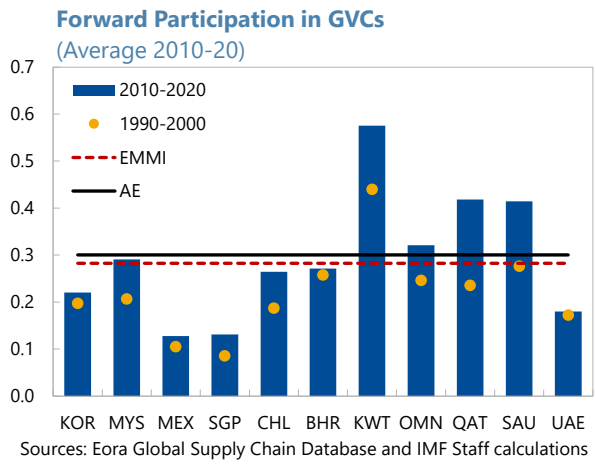
Figure 9. Special Economic Zones in Oman



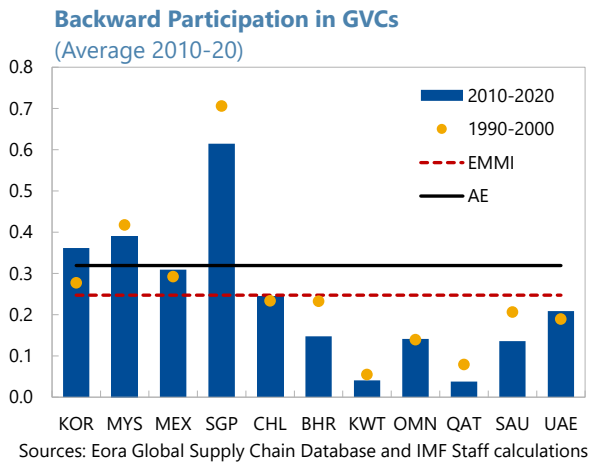
Sources: UNCTAD and Oman's Public Authority for Special Economic Zones and Free Zones.

19. Oman's integration into GVCs remains limited. Integration into GVCs can serve as an important indicator of economic and export diversification as it reflects the extent to which a country participates in the production and trade of a wide array of goods and services across different stages of value creation, often beyond its traditional export strengths. Oman's contributions to international production networks are largely concentrated in hydrocarbons and related products. While forward GVC participation is relatively high—reflecting Oman's role as an exporter of crude oil, refined petroleum, natural gas, and petrochemicals, backward participation remains persistently modest (Figure 10), underscoring the lack of a diversified and export-oriented manufacturing base that leverages foreign inputs in higher-value-added sectors. In contrast, countries with deep industrial sectors and diversified export portfolios, such as Malaysia, Korea, and Singapore have higher backward participations in GVCs.

Figure 10. Global Value Chains: Backward and Forward Participation



Sources: Eora Global Supply Chain Database and IMF Staff calculations



Sources: Eora Global Supply Chain Database and IMF Staff calculations

D. Lessons from Korea, Singapore, and Malaysia on Export Diversification

20. **Korea.** Korea's industrial transformation illustrates the role of state-led discipline and targeted industrial policy—implemented in the 1960s and 1970s—in pushing an economy beyond its initial comparative advantage. During this early industrialization phase, the government channeled concessional finance, infrastructure investment, and technology transfers into priority industries such as steel, shipbuilding, and later electronics. Crucially, support was contingent on meeting export targets, embedding global competition as the disciplining mechanism. Over time, Korean firms upgraded rapidly along the value chain—from assembling simple manufactures to producing world-class heavy industry and high-tech products. Export sophistication rose sharply, helping sustain fast growth and income convergence.

21. **Singapore.** Singapore leveraged its strategic location and strong institutions to diversify into logistics, petrochemicals, and advanced services. Early investments in port efficiency and free-trade facilitation positioned the country as a global hub. The creation of Jurong Island as an integrated petrochemical cluster showcased how co-location, world-class infrastructure, and predictable regulation can attract multinational firms and catalyze technology transfer. Export performance improved not only in volume but in complexity, as Singapore moved into electronics, biopharma, and digital services. The combination of export orientation, innovation policy, and continuous human-capital upgrading allowed Singapore to climb steadily up the product sophistication ladder.

22. **Malaysia.** Malaysia's experience underscores how participation in GVCs can accelerate export diversification. Beginning in the 1970s, Penang's free-trade zone attracted multinational electronics firms with incentives and skilled labor, embedding Malaysia into the global electronics supply chain. Complementary policies—vocational training, infrastructure investment, and gradually expanding domestic supplier networks—allowed Penang to develop an entire ecosystem, sometimes referred to as the "Silicon Valley of the East", that now accounts for over 5 percent of

global semiconductor sales. Export sophistication increased accordingly, with electronics becoming a cornerstone of Malaysia's non-commodity growth. However, the experience also highlights the importance of continuous upgrading: sustaining complexity requires innovation and movement into emerging technologies.

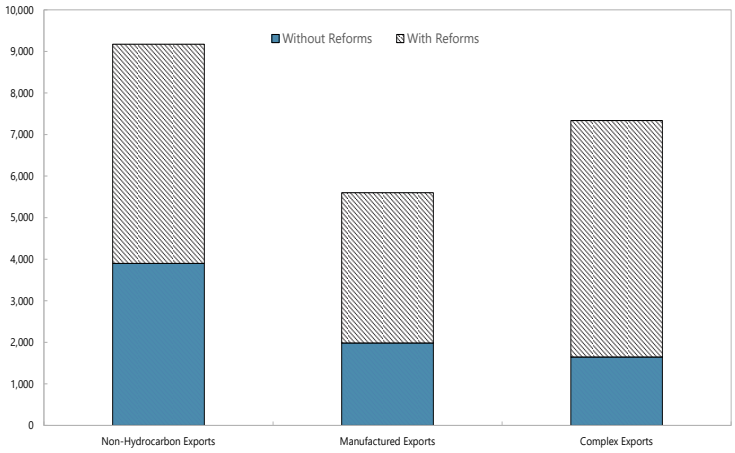
23. Key Lessons. The three cases demonstrate that climbing the product sophistication ladder requires more than passive liberalization. Strategic interventions—export discipline (Korea), logistics and cluster development (Singapore), and GVC participation with skills upgrading (Malaysia)—were decisive in transforming export structures. Common ingredients include targeted state support that is temporary and performance-based, openness to global markets as the disciplining force, and heavy investment in human capital and innovation systems.

E. Reforms as Catalysts for Export Diversification

24. Staff empirical analysis illustrates potential export diversification gains that could accrue from reforms in Oman. A Regression analysis links export diversification measures to factors identified in the literature as having an impact on countries' capacity to increase nonhydrocarbon exports (Annex I). Results indicate that improvements in government effectiveness and logistics performance—as measured by the World Bank—could significantly raise nonhydrocarbon exports, including of manufacturing and complex products.

25. Improving government effectiveness can play a catalytic role in boosting Oman's nonhydrocarbon exports. [3] Enhancing governance—through streamlined regulations and licensing, faster customer clearance, consistent enforcement, and better interagency coordination—reduces transaction costs and strengthens firms' competitiveness. Empirical estimates suggest that a one-unit increase in the government effectiveness index could raise per capita nonhydrocarbon exports by $5,707, manufacturing exports by $3,909, and complex exports by $4,279 (Annex I. Table 1). Enhancing Oman' governance effectiveness score from its 2023 level to the average in Qatar, Saudi Arabia, and the UAE could yield gains of around $5,277 in per capita

Gains from Government Effectiveness Reforms
(In OMR per capita)

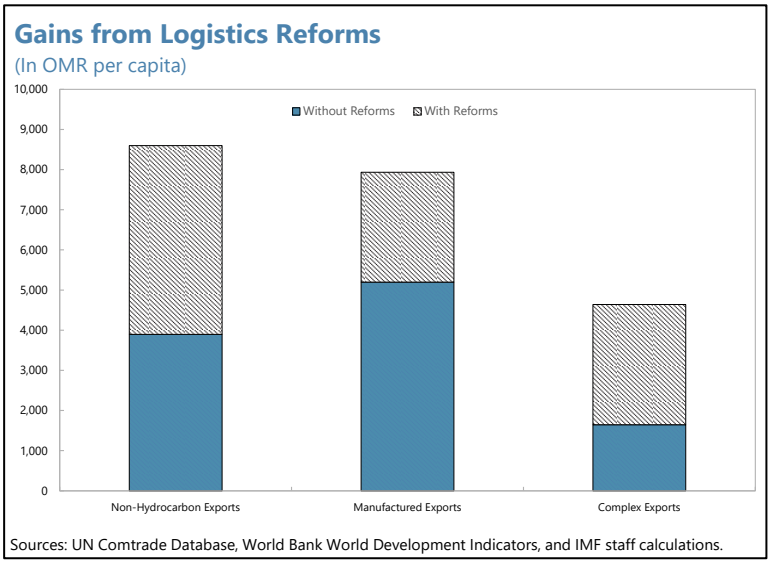


Sources: UN Comtrade Database, World Bank World Development Indicators, and IMF staff calculations.
Notes: Reform level reflect the enhancement of Oman's governance effectiveness score from its 2023 level to the 2023 average in Qatar, Saudi Arabia, and the UAE.

[3] Government Effectiveness is one of the six dimensions of governance measured by the Worldwide Governance Indicators (WGI) project, compiled by the World Bank. It reflects perceptions of quality of public service, competence and independence of the civil service, quality of policy formulation and implementation, and credibility of government commitments.

nonhydrocarbon exports, $3,615 in manufacturing exports, and $5,690 in complex exports (Text Figure).[4]

26. Stronger logistics performance could boost Oman's nonhydrocarbon exports. Better-quality logistics—across ports, customs, warehousing, and digital trade facilitation—lowers time and cost required to access international markets. Better logistics also improve reliability, which is crucial for exporters in time-sensitive sectors (e.g., fisheries, agriculture, pharmaceuticals, and high-value manufacturing). Empirical analysis indicates that a one-unit increase in the quality of trade and transport-related index (a measure of logistics performance) is associated with $6,714 higher per capita nonhydrocarbon exports, and gains of $4,625 and $4,279 for manufacturing and complex exports, respectively (Annex I. Table 1). Oman could gain an additional $4,700 of per capita nonhydrocarbon exports, $3,237 in manufacturing exports, and $4,205 in complex exports by further improving its logistics performance to the level observed in the UAE in 2023 (Text Figure).[5]



F. Policies to Promote Export Diversification

27. Oman faces a critical juncture in its development path. Reducing dependence on hydrocarbon revenues and building a diversified, sophisticated export base will be central to achieving the ambitions of Vision 2040. International experience shows that successful diversification requires a combination of broad-based structural reforms, targeted industrial policies, and strong institutions.

28. Accelerate structural reforms to enable private sector–led growth. Oman should intensify efforts to reduce the state's footprint in the economy and create the conditions for a dynamic private sector. Key priorities include accelerating labor market reforms to promote private sector employment, further streamlining business regulations, and enhancing transparency in state-owned enterprises (SOEs). These measures would help level the playing field and unlock private investment into nonhydrocarbon activities. Phasing out untargeted subsidies and strengthening competition policy would further reduce market distortions and improve resource allocation. A more

[4] The average index for Qatar, Saudi Arabia and UAE stood at 1.2 in 2023. $5,277 = $5,707 (1.2-0.27), with 0.27 being the government effectiveness score for Oman in 2023 (see Annex I. Figure 1).

[5] The logistics performance index for the UAE stood at 4 in 2023. $4,700 = $6,714 (4-3.3), with 3.3 being the logistics performance score for Oman in 2023 (see Annex I. Figure 2).

competitive environment is essential for emerging sectors—such as advanced manufacturing, logistics, and ICT services—to thrive.

29. Deepen integration into GVCs. Greater integration into regional and global production networks can play a catalytic role in accelerating Oman's export upgrading. Singapore and Malaysia leveraged their geographic locations and free-trade agreements to become key nodes in electronics and services supply chains. Oman can harness its strategic position on the Arabian Sea to build competitive export platforms in manufacturing and services, especially through its SEZs, such as Duqm and Sohar. Further strengthening the trade logistics would boost Oman's capacity to export nonhydrocarbon goods. Policies that reduce non-tariff barriers, improve trade facilitation, and promote regional connectivity—particularly with Africa and Asia—would strengthen Oman's role in GVCs and expand markets for nonhydrocarbon exports.

30. Leverage Oman's SEZs as catalysts for export diversification. Oman's network of SEZs and industrial cities provides a strong platform to accelerate nonhydrocarbon export diversification. With coordinated industrial policy, these zones could play a role similar to Singapore's Jurong Island or Malaysia's Penang cluster—anchoring global value chain participation and driving technology transfer. Nonetheless, international experience shows that success depends on using industrial policy tools as complements —not substitutes —to broader structural reforms, and on ensuring they are narrowly targeted to address specific market failures. To that end, clear performance benchmarks, sunset clauses, and robust governance and accountability mechanisms will be essential to minimize rent- seeking, prevent inefficiencies, and ensure fiscal affordability, while remaining consistent with WTO obligations. Targeted measures are particularly needed to ensure that SEZs generate meaningful spillovers into the domestic economy: linking local SMEs to multinational firms, developing sector-specific vocational training centers, and embedding sustainability standards to align with global demand for low-carbon products. If strategically managed, Oman's SEZs could become engines of nonhydrocarbon export.

31. Invest in human capital and innovation systems. A central lesson from East Asian experiences is the pivotal role of skills upgrading and innovation in sustaining export diversification. Oman should strengthen its national innovation ecosystem by increasing investment in R&D, fostering linkages between universities and industry, and promoting technology adoption among SMEs. Education and vocational training systems need to be aligned with the requirements of a knowledge-based economy, with emphasis on STEM, digital skills, and entrepreneurship. Public programs that incentivize private R&D spending and foster collaboration in priority sectors can create the ecosystem needed for export sophistication.

32. Mobilize finance for diversification and green transition. Expanding financing instruments is essential to channel capital into priority nonhydrocarbon sectors. Singapore and South Korea effectively deployed development banks and credit guarantees to crowd in private investment. Oman could strengthen its financial ecosystem by scaling up venture capital, supporting green finance, and aligning fiscal incentives with diversification objectives. In this context, important frameworks have been recently introduced, including a 2024 Sustainable Finance Framework and new regulatory guidance by the Central Bank of Oman to promote green finance. However, further

work is needed to fully establish key preconditions that can support the emergence of a full-fledged green finance market, including a full green taxonomy, comprehensive disclosure standards, and robust Project Investment Management/PPP and project-pipeline systems.

33. Leverage sovereign investment vehicles to catalyze export diversification. The Oman Investment Authority and Future Fund Oman can play a pivotal role in mobilizing private capital by acting as an anchor for investors. Through co-investment and blended-finance structures, they can de-risk tradable projects in priority sectors. A transparent privatization and IPO pipeline for mature SOEs, paired with governance upgrades and performance contracts, would deepen local capital markets and create investable opportunities for institutional investors. At the firm level, targeted supplier-development and export-readiness programs (standards, certification, quality infrastructure) tied to SEZ/industrial-estate ecosystems can lift SME capabilities and embed Omani firms in GVCs.

34. Strengthen institutions to enhance the reform momentum. Institutional quality is central to sustaining structural transformation. Successful diversification cases show that capable, technocratic institutions are essential to discipline industrial policy, enforce competition, and ensure effective resource allocation. The empirical analysis indicates that upgrading government effectiveness could result in significant export diversification gains. Against this background, Oman should accelerate the rollout of a full-fledged medium-term fiscal framework, develop a sovereign asset-liability management framework, and adopt a credible and transparent fiscal rule to insulate policy from oil price cycles. At the same time, government entities such as Invest Oman and the Public Authority for Special Economic Zones should be empowered with the mandate, resources, and accountability to deliver on export diversification targets. Embedding reforms within a strong institutional framework will reinforce credibility and sustain momentum over the long run.

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Annex I. Structural Reforms and Nonhydrocarbon Exports: An Empirical Analysis

Empirical Method

This annex describes the empirical method used to assess the potential impact of structural reforms on export diversification. The analysis employs a panel regression where measures of export diversification are regressed on a set of country-level variables identified in the literature as relevant drivers. Estimated coefficients are then used to quantify the effect of reforms on Oman's nonhydrocarbon exports. The model is specified as:

$$Exp\_Div_{i,t} = \alpha + \sum_{j=1}^{N} \beta_j X^j{}_{i,t} + \varepsilon_{i,t}$$

$Exp\_Div_{i,t}$ denotes per capita export diversification in country i, in year t. α is a constant. $X^j{}_{i,t}$ is a vector of country-level variables, including Research & Development in percent of GDP (R&D), credit to the private sector in percent of GDP, rent from natural resources in percent of GDP, and measures of logistics performance, governance quality, education, and the natural logarithm of per capita GDP as a control for income level. $\varepsilon_{i,t}$ is an error term.

Data

The sample covers 135 countries over 2000-2023, drawing on the United Nations Conference on Trade and Development (UNCTAD), the World Governance Indicators database of the World Bank, and the World Economic Outlook.

Export diversification is measured alternatively as nonhydrocarbon/nonmineral exports per capita, manufacturing exports per capita, and complex exports per capita. Complex exports are those with a Product Complexity Index higher than zero. Logistics performance is measured by an index (1-5 scale), with greater values indicating better performance. The empirical analysis uses the "Quality of trade and transport-related infrastructure" component, which assesses the adequacy of ports, railroads, roads, and IT infrastructure for trade. The quality of governance is captured by the Government Effectiveness component of the World Bank's Worldwide Governance Indicators (-2.5 to +2.5), with higher scores indicating more effective governments. The quality of education is measured by the Learning-Adjusted Years of Schooling index of the World Bank, where higher values indicate better learning outcomes.

Results

Regression results (Annex I. Table 1) show that logistics performance and government effectiveness are positively and significantly associated with all three export diversification measures (nonhydrocarbon exports, including manufacturing and complex products). For example, a one-unit increase in logistics performance leads to a $6,714.3 rise in per capita nonhydrocarbon exports,

while a similar improvement in government effectiveness corresponds to $5,707. The coefficient estimates are used to quantify the potential positive impact of upgrading Oman's logistics and governance performance to regional benchmarks on its nonhydrocarbon exports. Other variables of interest, such as education and R&D, are statistically insignificant, whereas the negative coefficient on private sector credit is anomalous, warranting further investigation.[6]

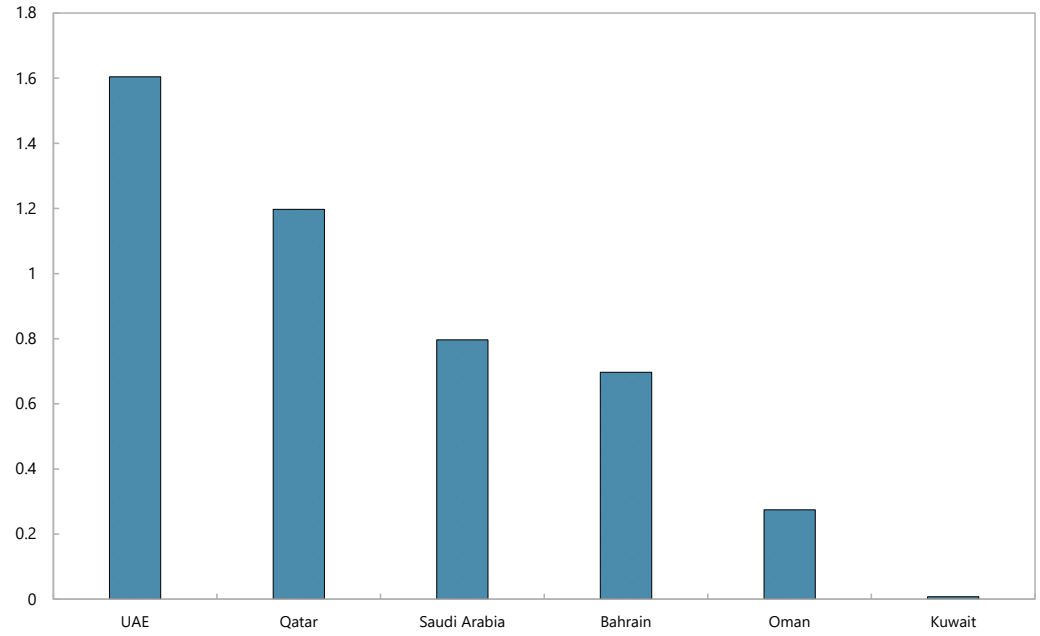
Annex I. Table 1. Regression Results of Export Diversification

	(1)	(2)	(3)
Dependent Variable	**Nonhydrocarbon/ Nonmineral Exports Per Capita**	**Manufacturing Exports Per Capita**	**Complex Exports Per Capita**
Research & Development Expenditures (% of GDP)	-1295.43	-592.11	-730.63
	(1014.96)	(793.67)	(894.86)
Rent from Natural Resources (% of GDP)	-20.57	-21.35	-15.19
	(63.89)	(46.08)	(53.76)
Logistics Performance (index, 1 to 5)	6714.32***	4624.61***	6007.45***
	(2039.82)	(1379.63)	(1730.31)
Log GDP Per Capita	1109.09	-957.14	-910.01
	(3226.69)	(2393.27)	(2807.73)
Credit to the Private Sector (% of GDP)	-66.73***	-37.50**	-51.35***
	(18.88)	(14.74)	(16.41)
Learning-Adjusted Years of Schooling	163.78	212.69	296.00
	(450.51)	(359.92)	(377.13)
Government Effectiveness	5706.79**	3909.08**	4279.11**
	(2217.17)	(1610.15)	(2047.08)
Constant	-17374.87*	-7120.29	-11088.9
	(9365.28)	5668.04	(7599.30)
Country Clusters	Yes	Yes	Yes
Observations	135	135	135
R-squared	0.60	0.57	0.55

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

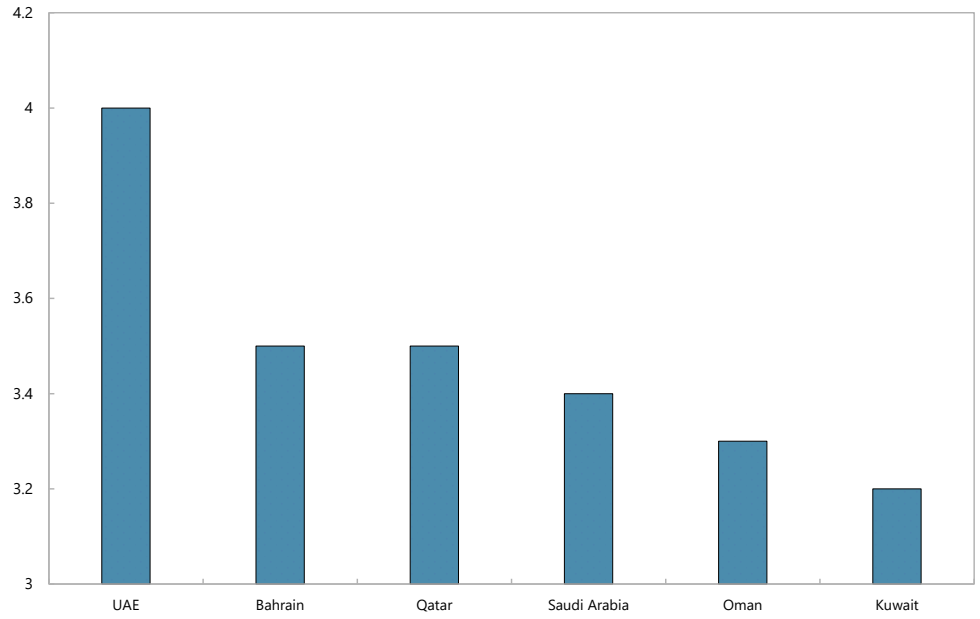
[6] The empirical model was also estimated with an additional independent variable capturing trade restrictions, based on indicators from the IMF AREAER database. This variable is constructed as the unweighted sum of binary variables covering (i) exchange measures; (ii) arrangements for payments and receipts; (iii) imports and imports' payments; (iv) exports and exports' proceeds; and (v) payments and proceeds from invisible transfers and current transfers. The results suggest that this variable is not significantly associated with measures of export diversification.

Annex I. Figure 1. Government Effectiveness Scores in the GCC



Source: World Bank Worldwide Governance Indicators.

Annex I. Figure 2. Trade Logistics Scores in the GCC



Source: World Bank World Development Indicators.