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The FTA Between the U.S. and Oman: Boosting the American Auto Industry

Tensions in political and economic relations between the United States and countries in the Middle East have been intensifying since 9/11. Free trade agreements help stabilize and maintain workable relations between these countries. Amidst these struggles and disintegrations, Oman and the United States continue to enjoy a stable alliance and benevolent relations; the Free Trade Agreement between Oman and the United States helped solidify this alliance that has lasted 183 years, and serves as an exemplar to the troubled region.

The Free Trade Agreement between Oman and the United States went into effect on January 1, 2009, eliminating tariffs and non-tariff barriers for U.S. exports to Oman, including the auto industry. This Free Trade Agreement helped the United States auto industry, which was just emerging from the 2008 global financial crisis, where the industry suffered a huge hit for several reasons. Consumer behavior shifted away from prior patterns of spending, and toward holding onto their cash. Banks were much warier of handing out loans to businesses. At the same time, oil prices increased, making owning cars more expensive for consumers on an ongoing basis. The overall consumer demand for cars decreased, which in turn led to declining production of cars, resulting in job losses for employees in the industry. Businesses, such as the “Big 3” American auto manufacturers (Chrysler, GM and Ford), had to be bailed out by the United States government in order to stay afloat. The Free Trade Agreement was effective in helping the U.S. auto industry recover from the financial crisis by making it easier and cheaper for Omanis to buy the American made cars.

The 2006 Free Trade Agreement between the U.S. and Oman was neither the first trade agreement nor the first indication of good relations between the two countries. In 1958, both countries renewed the Treaty of Amity, Economic Relations, and Consular Rights, which was originally signed in 1833. The two countries sustained good relations over decades following the treaty's inception; then in 1972, the U.S. and Oman established formal diplomatic relations. Eight years later, both countries signed a military cooperation agreement, which was revisited and renewed in 2010. In 2006, both the U.S. and Oman signed the Free Trade Agreement, but it did not actually enter into force until 2009. The United States auto industry had already begun its decline by 2007, increasing the need for the FTA, which would eliminate tariffs and non-tariff barriers of U.S. exports to Oman.

The U.S. auto industry began losing money and experienced diminishing profits by 2007. Sales were down 2.5% in 2007 from 2006, which may not seem significant, but it yields a difference of millions of cars. For every car company in the Big 3 (later renamed the Detroit 3), the market decreased by percentages between 0.1% (Chrysler) and 1.8% (GM). As an additional casualty, Ford, which had been the number two car company in car sales in the U.S., was edged out by Toyota in 2007, a major loss for the American company. For GM, during 2006 and 2007 certain models of their cars were selling more strongly; however, overall, they ended 2007 with a 6.3% decline in sales. Chrysler actually did experience an increase in sales, but only by 1%. However, some of their models ended up with weakened sales compared to prior year. The Big 3 led the general trend in the auto industry at this time, signifying the decreasing trend in sales. This trend could very well have influenced the FTA between the U.S. and Oman, since the U.S. auto industry was one of the most highly visible industries that would benefit the most from the elimination of tariffs and non-tariff barriers between the U.S. and Oman.

The FTA did indeed benefit the U.S. auto industry, evidenced by the numbers of car exports to Oman. In 2009, the U.S. exported 3,473 units to Oman. By 2014, that number of car exports to Oman had tripled to 10,529 units. In 2013, the U.S. globally exported \$57.1 billion worth of cars, a major increase from the 2009 baseline, which was \$28.8 billion worth of cars. Oman's 2009 market for U.S. cars was worth \$92 million, and grew over triple to \$303 million in 2014. The U.S. auto industry experienced a record high of car exports in 2014, which was not entirely because of the FTA with Oman, but part of that can certainly be attributed to it.

Clearly, the auto industry in the United States expanded overall in the years following the 2008 global financial crisis. The growth may be largely attributable to the U.S. government bailouts that the auto companies received to avoid their having to declare bankruptcy. However, the U.S. auto industry was affected by the FTA with Oman. Through the treaty's removal of tariffs and non-tariff barriers, the United States and Oman encouraged the Omani citizens to purchase the cars from the U.S. manufacturers, and the citizens availed themselves of this incentive. The increase in sales helped the U.S. auto industry rebound from the debt burdens that they had accumulated during the crisis, and also led to saving jobs for the employees who worked for the auto companies.

Even though the numbers may be small, the FTA did prove to help the U.S. auto industry. It was effective in that it led to a dramatic increase in car exports to Oman. The increase from 3,473 units in 2009 to 10,529 units in 2014 was huge, leading people to come to the conclusion that the U.S. auto industry was one of the biggest beneficiaries of the eliminated trade barriers between the two countries. When coming out of a financial crisis, having sales triple even in only one country can only help strengthen a company's financial outlook. This FTA between the United States and Oman certainly helped the auto industry recover from its debts incurred during

the crisis, and even could have contributed to the fact that the auto companies were able to pay off their loans from the American government because they expanded sales which further strengthened the companies' finances. From a political perspective, it is refreshing to have this visible industry's positive experience sourced from a country in the Middle East, a region where we assume instability and deterioration have governed diplomacy over the post-9/11 last era.

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