



BRIEF ON TRADE

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CCO BRIEFS

TRADE

COMCEC COORDINATION OFFICE

MAY 2013

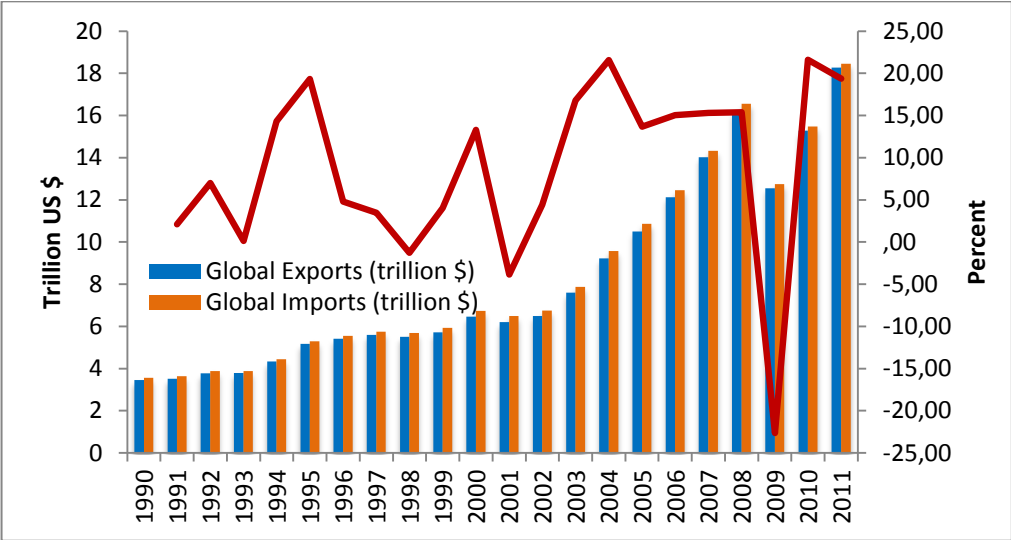
BRIEF ON TRADE COOPERATION

International trade is an important catalyst for economic and social development. Enhancing International trade contributes to raising the living standards, investments and employment. In this context, international trade has been on the top of the agenda of international economic relations since World War II. Many countries have taken important steps towards encouraging more trade and improving their trading environment through multilateral or unilateral initiatives. During this period, the global trade volume has recorded a dramatic increase, the composition of trade has been enriched and its direction has shifted towards the developing countries.

Recent Developments in Global Trade

The world trade has registered a significant increase during the last decade except for the year 2009. According to WTO, the world trade grew on average by 16.5 percent between the years 2003 and 2008. However, in 2009 due to negative impacts of the global financial crisis, both global exports and imports diminished drastically by 22 percent. Although global trade has recovered in 2010 and continued to increase in 2011, improvements have been slow to catch up pre-crisis growth projections due to the ongoing concerns on Euro area, the earthquake in Japan, slowing Chinese economic growth and political turmoil in the Middle East.

Figure 1: Total Global Exports and Imports 1990-2011 (Trillion US Dollars)



Source: WTO 2013

Due to the brittle structure of the global economy, prices in raw materials, commodities and energy products (foremost oil) have shown ascending shifts in last decade. For example, oil and non-fuel commodities have recorded 31.9 percent and 17.8 percent increase respectively in 2011. This trend increased the share of commodities in global trade during the last decade (See Figure 2 and 3).

Figure 2: Composition of Global Exports In 2001

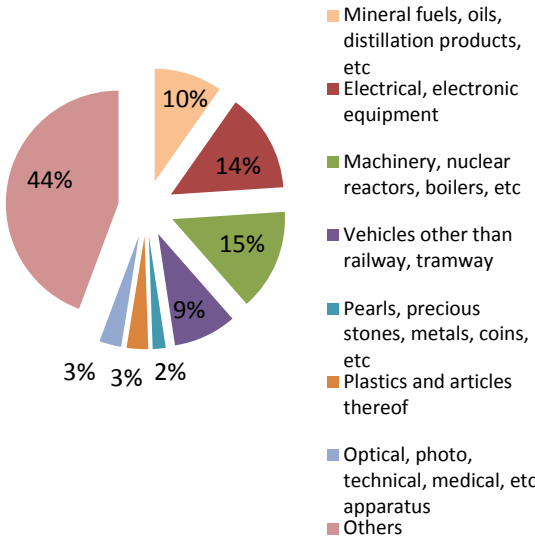
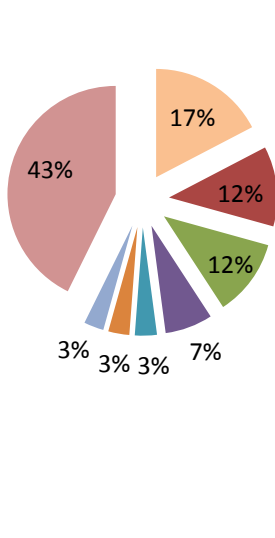


Figure 3: Composition of Global Exports in 2011



Source: ITC Trademap

Moreover the direction of global trade has shifted towards the developing countries during the last decade. According to ITC, Developing Countries’ exports in 2001 constituted 34 percent of global exports while in 2011 the figure has increased to 48 percent. The remarkable increase in the exports of BRIC (Brazil, Russia, India and China) countries and the rising commodity prices contributed significantly to the aforementioned growth.

Recent trends in Trade of OIC Countries and Intra-OIC Trade

The total trade of OIC Member States has increased steadily during the last decade as well. However, in 2009 parallel to descending world trade volume, OIC total trade volume decreased by 27 percent from the previous year. The decline was even bigger in OIC exports due to the decreasing demand of larger economies for oil. As a result of the recovery of global demand and increases in oil and commodity prices, the OIC’s total exports showed an increase by 25.2 per cent in 2010. Similarly owing to the high oil and commodity prices, the OIC total trade volume has increased in 2011 despite the negative impacts of the European Debt Crisis and the Arab Spring.

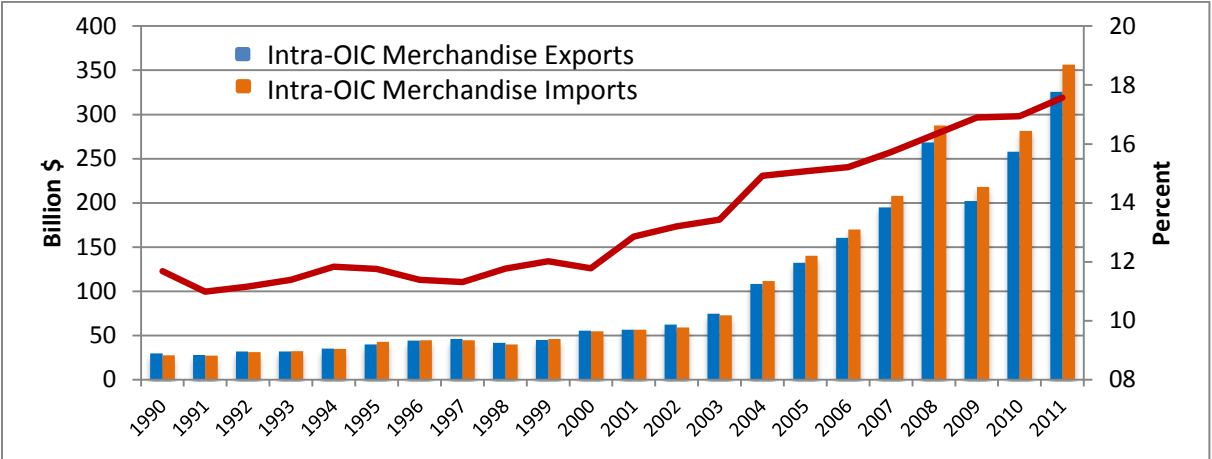
Despite this remarkable increase, two characteristics of the total OIC exports constitute a risk for the future. First is the dominant role of the mineral fuels in the exports. The share of mineral fuels in total OIC exports realized as 61.4 percent in 2011. The fluctuations in oil prices constitute an important risk for these countries. Secondly, the top ten countries in OIC trade constituted 73% of all OIC trade with the world in 2011. Majority of the Member States have limited volume of foreign trade and highly depend on exports of few commodities. Therefore, the contribution of the majority of the Member States in trade increase has been limited. The composition of the total OIC imports is more diversified than the exports. However, the top ten countries still have the biggest share in the total OIC imports.

Developments in Intra-OIC Trade

Despite its huge potential, the intra-OIC trade is below the desired level due to several major structural problems. High tariff rates, non-tariff trade barriers, higher transport costs, inadequate financial resources, primitive payment and banking systems, undiversified economic structures, differences in technical standards and metrology, burdensome custom procedures and strict visa requirements for businessmen are some of the main factors hindering not only intra-OIC trade but also sustainable economic growth.

Despite the rooted problems and challenges, intra OIC trade has shown a remarkable increase in recent years with the contribution of the soaring commodity prices and considerable increase in trade of the top ten countries. According to the ICDT the intra-OIC trade reached its highest level of 17,80 percent in 2011. Figure 4 below shows the trends in intra-OIC trade in the last two decades. On the other hand in depth analysis of intra-OIC trade shows that the top ten OIC countries by trade volume still constitute a major part in intra-OIC trade which is 71 per cent of all intra-OIC trade in 2011.

Figure 4: Developments in Intra-OIC Trade 1990-2011 (Billion US Dollars)



Source: ICDT and SESRIC

Cooperation in the area of trade under the auspices of the COMCEC

COMCEC has initiated many programs and projects to enhance commercial cooperation among the OIC Member States. In 2005, the Third Extra-Ordinary Islamic Summit Conference set the target of 20 percent intra-OIC trade to be reached by 2015. Since then, the COMCEC has accelerated its efforts towards reaching this target. Trade Preferential System among the Member States of the OIC (TPS-OIC), Road Map for achieving intra-OIC trade, Trade Fairs, institutionalization of SMIIC and WTO related Technical assistance are some of the important fields that COMCEC works on to increase intra-OIC trade.

The Framework Agreement, which sets out the general rules and principles for the negotiations toward the establishment of the TPS-OIC, entered into force in 2002. The PRETAS, which complements the Framework Agreement by laying out the concrete reduction rates in tariffs in accordance with a time-table for implementation, entered into force in February 2010. The Rules of Origin, which will be applied for the identification of the origin of products eligible

for preferential concessions under the TPS-OIC, entered into force in August 2011. Therefore, the legal basis of the system was completed.

For the operationalization of the TPS-OIC, however, the Member States which signed and ratified the TPS-OIC agreements should also fulfill their obligations arising from the provisions of these agreements, such as submission of the list of concessions and completion of the necessary internal legislative and administrative measures including printing TPS-OIC Certificate of Origin and providing specimen impressions of stamps to the TNC Secretariat. Furthermore to make the TPS-OIC system operational, 10 Member States have to fulfill the two conditions at the same time, namely the ratification of the three TPS-OIC Agreements and submission of the list of concessions to the TNC Secretariat. Till now, 9 Member States have met these two conditions.

Since the 28th Session of the COMCEC, Benin and Mauritania have signed the three TPS-OIC agreements while Sudan, Cote d'Ivoire and Niger have signed the PRETAS and the Rules of Origin agreements. Islamic Republic of Iran ratified the Rules of Origin agreement whereas Gambia ratified PRETAS and Djibouti ratified the Framework Agreement.

New COMCEC Strategy

The strategic objective of the Strategy in its trade section is to enhance trade among the member states. To reach this objective, the COMCEC Strategy designated four output areas, namely Trade Liberalization, Trade Facilitation, Trade Financing and Trade Promotion. COMCEC will focus on the common obstacles faced in these areas to increase the trade capacities of the member states, which would result in more trade among the Member States.

The Strategy brings two new implementation instruments, namely COMCEC Trade Working Group and the COMCEC Project Cycle Management to reach its objective. COMCEC Trade Working Group aims at regularly (twice a year) bringing the technical experts from the Member States to discuss their common issues, share experiences and good practices, disseminate knowledge and develop common understanding.

The First Meeting of the Trade Working Group will be held on June 20th, 2013 in Ankara with the theme of "Promoting the SMEs Exports in the OIC Member States: The Role of Trade Promotion Organizations (TPOs)". The meeting is expected to provide an opportunity for the Member States to share their achievements and obstacles in promoting SMEs exports and benefit from the experience of the other Member States and relevant international institutions. The second meeting of the Trade Working Group will be held in the 4th quarter of 2013.

The other mechanism presented by the new COMCEC Strategy is the Project Cycle Management (PCM). Through PCM, the COMCEC Coordination Office will provide grants to the selected projects proposed by the Member States which have already registered to the Trade Working Group. The first project calls will be made in September 2013.
