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CCO BRIEF ON TRADE

COMCEC COORDINATION OFFICE

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BRIEF ON TRADE COOPERATION

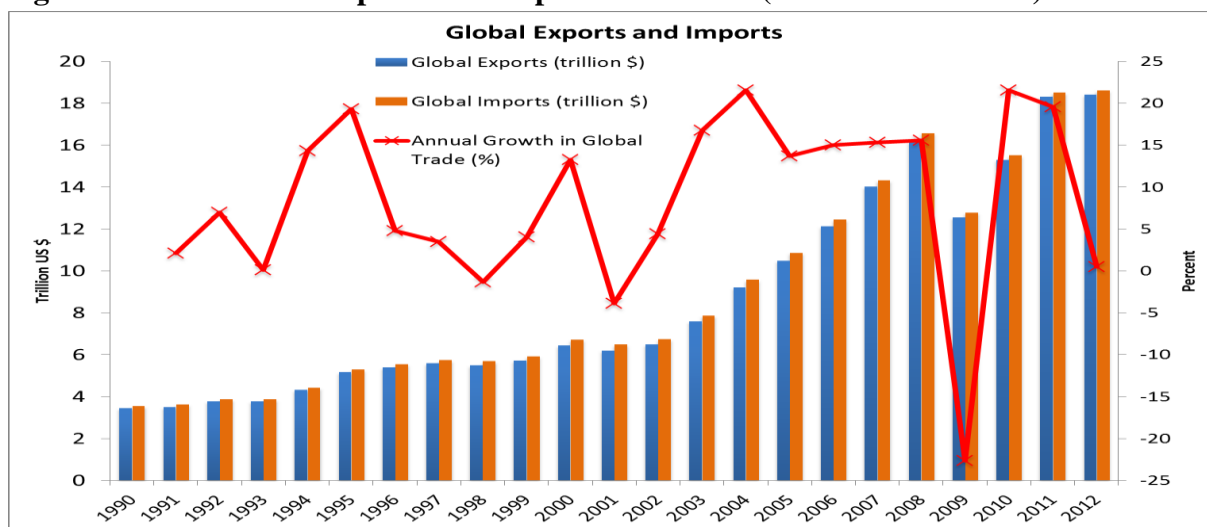
This document is prepared by the COMCEC Coordination Office with a view to give a brief summary on the developments on trade in the world and in the OIC Member States as well as the recent cooperation efforts in the area of trade under the auspices of the COMCEC.

Aswell known, international trade is an important catalyst for economic and social development. Evidence shows that enhancing international trade contributes to raising the living standards, investments and employment in the countries. Moreover, from the perspective of international relations, many countries perceive international trade as an important tool to strengthen their integration with other countries. In this regard many countries have taken important steps towards encouraging more trade and improving their trading environment through multilateral, regional or bilateral initiatives especially since World War II. 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 registered a significant increase during the last decade, except for the year 2009, in which both global exports and imports diminished drastically by 22 percent due to negative impacts of the global financial crisis. According to WTO, the world trade grew on average by 16.5 percent between the years 2003 and 2008. Although global trade has recovered in 2010, and continued to increase in 2011 and 2012, the improvements have been slow to catch up with the pre-crisis growth projections, due to the concerns on Euro area, the earthquake in Japan, the slowing Chinese economic growth, the falling non-fuel commodity prices and the political turmoil in the Middle East.

Figure 1: Total Global Exports and Imports 1990-2012 (Trillion US Dollars)



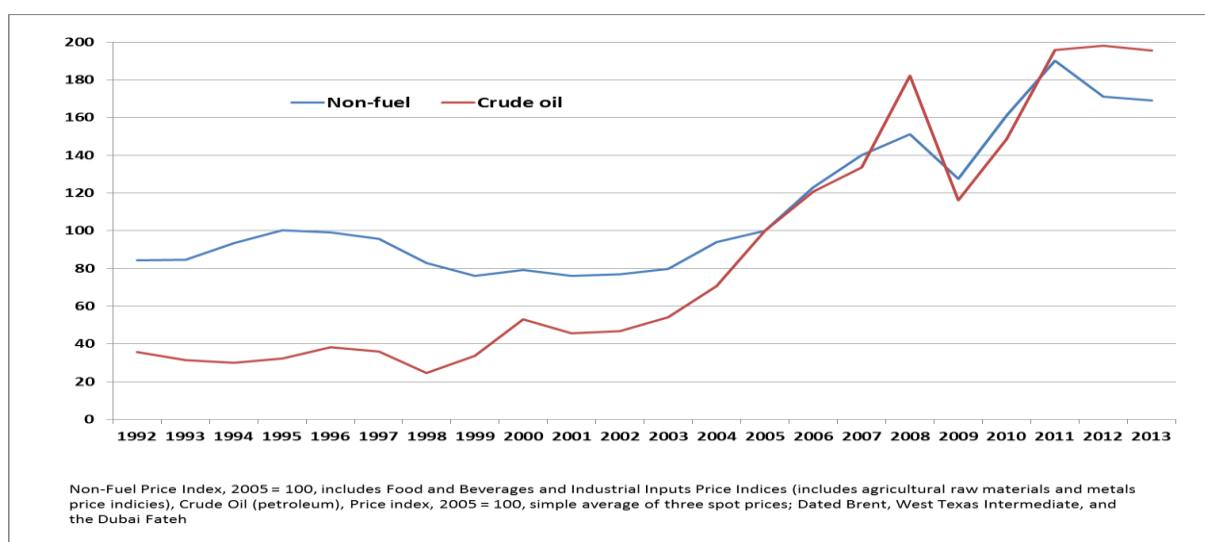
Source: WTO 2013

Due to the brittle structure of the global economy, prices in raw materials, commodities and energy products (foremost oil) have shown ascending shifts in the last decade. Commodity

prices increased steadily beginning from 2003 due to increases in global industrial production, especially in emerging Asian economies, the increasing political instability in the Middle-East, supply constraints in oil and depreciation trend in US Dollar. After a severe fall in 2009 due to the global economic crisis, commodity prices increased sharply by around 26 per cent in 2010 and 2011. However commodity prices declined in 2012 and 2013 mainly due to the slowdown in global output.

Following the sharp decline in 2009 due to the global crisis, oil prices recovered quickly and increased by 31 percent in 2011. Oil prices jumped to 111 dollars per barrel in 2012 but in 2013, both oil and non-fuel commodity prices decreased approximately by 1 percent. With a slight decrease in 2013, oil prices descended to 109 dollars per barrel (Figure 2).

Figure 2: Developments in Oil and Non-Fuel Commodity Price Indices (2005=100)



Source: IMF Database

Another important trend in the global trade during the last decade was the shift of the global trade towards developing countries. According to ITC Trade Map Data, Developing Countries' share in world exports increased from 32 percent in 2001 to 49 percent in 2012. Remarkable increase in the exports of BRIC (Brazil, Russia, India and China) countries and the rising commodity prices contributed significantly to the aforementioned growth.

Increasing the global trade is atop of the agenda of many countries and international institutions. After the financial crisis, access to affordable trade finance became a challenge for the firms especially for the SMEs in many countries. G-20 and other international institutions, especially the multilateral development banks have taken some initiatives to increase trade finance opportunities.

It is worth noting that, important developments took place during 2013 for enhancing global trade. The WTO Ministerial Conference held in Bali on 4-6 December 2013 decided to conclude the WTO Agreement on Trade Facilitation, which aims at simplification and harmonization of trade procedures especially the customs formalities in the WTO Member

States. The Agreement is expected to be operational in the near future. International institutions, including World Bank and World Customs Organization increased their efforts for technical assistance and capacity building in developing countries and the LDCs.

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

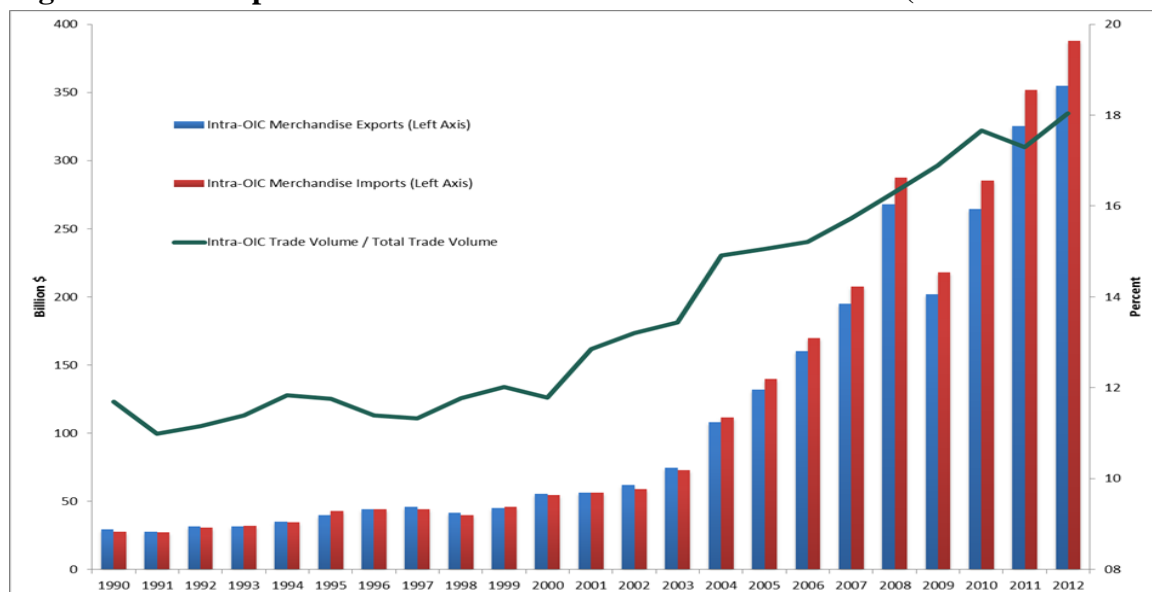
The total trade of the OIC Member States increased steadily during the last decade. However, in 2009, parallel to the descending world trade volume, the OIC total trade volume decreased by 27 percent compared to the previous year. The decline was even bigger in the OIC exports due to the decreasing demand 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 registered an increase by 26.9 per cent in 2010 and 29.9 percent in 2011 respectively. Similarly, in 2012 total OIC trade continued to grow but at a modest pace with 5.2 per cent mainly due to the falling non-fuel commodity prices, negative impacts of the European Debt Crisis and the Arab Spring.

However, two characteristics of the total OIC exports still 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 was 63.6 percent in 2012. The fluctuations in oil prices constitute a significant risk for these countries. Secondly, the top ten countries in the OIC trade have constituted 72 % of all OIC trade with the world in 2012. This means that the majority of the Member States have a limited volume of foreign trade and highly depend on the exports of few commodities. Thus, the contribution of these countries in total OIC trade increase is very limited. Although the composition of the total OIC imports is more diversified than the exports, 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, lack of sound payment and banking systems, undiversified economic structures, differences in technical standards and metrology, burdensome customs 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 these challenges, intra-OIC trade has also shown a remarkable increase in recent years with the contribution of the soaring commodity prices and considerable increase in the trade of the top ten countries. According to the ICDT, the intra-OIC trade reached 18.45 percent in 2012. Figure 3 shows the trends in intra-OIC trade in the last two decades. On the other hand, depth analysis of intra-OIC trade shows that the top ten OIC countries by trade volume still constitute a major share in intra-OIC trade amounting to 71 percent of all intra-OIC trade in 2012.

Figure3: Developments in Intra-OIC Trade 1990-2012 (Billion US Dollars)

Source: ICDT and SESRIC

Cooperation in the area of trade under the COMCEC

Enhancing the intra-OIC trade is one of the main objectives of the COMCEC. Since 1984, COMCEC has initiated many programs and projects to enhance commercial cooperation among the OIC Member States. 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 programs and activities initiated by the COMCEC to increase intra-OIC trade.

The implementation of the TPS-OIC, which is one of the most important projects of the COMCEC, is still pending. For implementation, at least 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. Out of these 9 countries, 4 are GCC members (United Arab Emirates, Qatar, Oman and Saudi Arabia). There is a customs union among the GCC Member States which obligates its members to jointly fulfill the required two conditions mentioned above. The GCC Secretariat has submitted the list of concessions on behalf of its six members. Nonetheless, Kuwait and Bahrain have not completed the ratification of the Agreements. For the System to be effectual in the GCC countries, the ratification of the PRETAS and the Rules of Origin by Kuwait and the ratification of the Rules of Origin by Bahrain need to be completed. Efforts under the COMCEC have been ongoing for the implementation of the agreement at the earliest.

The COMCEC Strategy adopted in 2012 brought a new dynamism to the cooperation efforts in the area of trade under the COMCEC. According to the Strategy, the cooperation efforts would focus on the structural problems which prevent the development of trade among the Member States and with the rest of the world. In this context, the Strategy designated four output areas, namely Trade Liberalization, Trade Facilitation, Trade Financing and Trade

Promotion. In order to contribute addressing the obstacles faced in these four areas, the Strategy brought two new implementation instruments, namely COMCEC Trade Working Group and the COMCEC Project Cycle Management. COMCEC Trade Working Group convenes regularly (twice a year) with the participation of the technical experts from the Member States to identify common obstacles, to share experiences and good practices and to discuss policy options to overcome their obstacles. Moreover, Trade Working Group Meetings provide the opportunity for the Member States to discuss global developments on trade and its possible implications on their economies.

The Trade Working Group has convened three times since June 2013. In each Meeting, the WG focused on a specific theme, which was determined through a questionnaire circulated to the Member States in June 2013.

The First Meeting of the Trade Working Group was 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 provided 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 was held on October 31th, 2013 in Ankara with the theme of “Improving SMEs Access to Trade Finance in the OIC Member States”. Experts from the Member States as well as international organizations deliberated on the current status of the SMEs in terms of accessing trade finance in the OIC Member States, the instruments used in trade finance, the role of public financial institutions and the share of Islamic trade finance tools in the OIC member countries. The Third Meeting of the Trade Working Group was held on February 27th, 2014 in Ankara with the theme of “Facilitating the intra-OIC Trade: Improving the Efficiency of the Customs Procedures in the Member States”. Experiences, achievements and challenges of the Member States on Customs Procedures were discussed in the Meeting. The detailed information regarding the outcomes of the COMCEC Trade Working Groups is available on the COMCEC website (www.comcec.org).

The other implementation instrument brought by the COMCEC Strategy is the Project Cycle Management (PCM). Through PCM, the COMCEC Coordination Office provides grants to the selected projects proposed by the Member States which have already registered in the Trade Working Group. COMCEC Coordination Office will provide funding to five trade cooperation projects in 2014 which were submitted by the Member States and OIC Institutions.

In order to contribute to the implementation of the COMCEC Strategy, relevant OIC Institutions are also organizing cooperation activities. The lists of activities to be organized by the OIC Institutions are submitted to the COMCEC Sessions.

Besides these activities, COMCEC Coordination Office will organize experience sharing programmes and capacity building programs in cooperation with relevant international and OIC Institutions to help Member States addressing their needs in the area of trade.

MEMBER STATES THAT SIGNED /RATIFIED THE TPS-OIC AGREEMENTS (As of May 2014)								
No.	Member States	Framework Agreement		PRETAS		TPS-OIC Rules of Origin		Submission of the Concession Lists
		Signed	Ratified	Signed	Ratified	Signed	Ratified	
1	Bahrain	✓	✓	✓	✓	✓	---	✓*
2	Bangladesh	✓	✓	✓	✓	✓	✓	✓
3	Benin	✓	---	✓	---	✓	---	
4	Burkina Faso	✓	---	✓	---	✓	---	
5	Cameroon	✓	✓	✓	---	✓	---	
6	Chad	✓	---	---	---	---	---	
7	Comoros	✓	---	✓	---	✓	---	
8	Cote d'Ivoire	✓	---	✓	---	✓	---	
9	Djibouti	✓	✓	✓	---	✓	---	
10	Egypt	✓	✓	✓	---	---	---	
11	Gabon	✓	✓	---	---	---	---	
12	Gambia	✓	✓	✓	✓	✓	✓	
13	Guinea	✓	✓	✓	---	✓	---	
14	Guinea-Bissau	✓	---	✓	---	✓	---	
15	Indonesia	✓	✓	✓	---	✓	---	
16	Iran	✓	✓	✓	✓	✓	✓	
17	Iraq	✓	✓	---	---	---	---	
18	Jordan	✓	✓	✓	✓	✓	✓	✓
19	Kuwait	✓	✓	✓	---	✓	---	✓*
20	Lebanon	✓	✓	---	---	---	---	
21	Libya	✓	✓	---	---	---	---	
22	Malaysia	✓	✓	✓	✓	✓	✓	✓
23	Maldives	✓	✓	---	---	---	---	
24	Mauritania	✓	---	✓	---	✓	---	
25	Morocco	✓	✓	✓	✓	✓	✓	
26	Niger	---	---	✓	---	✓	---	
27	Nigeria	✓	---	✓	---	✓	---	
28	Oman	✓	✓	✓	✓	✓	✓	✓
29	Pakistan	✓	✓	✓	✓	✓	✓	✓
30	Palestine	✓	✓	✓	✓	✓	✓	
31	Qatar	✓	✓	✓	✓	✓	✓	✓
32	Saudi Arabia	✓	✓	✓	✓	✓	✓	✓
33	Senegal	✓	✓	---	---	---	---	
34	Sierra Leone	✓	---	✓	---	✓	---	
35	Somalia	✓	✓	✓	✓	✓	✓	
36	Sudan	✓	---	✓	---	✓	---	
37	Syria	✓	✓	✓	✓	✓	✓	✓**
38	Tunisia	✓	✓	✓	---	✓	---	
39	Turkey	✓	✓	✓	✓	✓	✓	✓
40	UAE	✓	✓	✓	✓	✓	✓	✓
41	Uganda	✓	✓	---	---	---	---	
		40	30	33	16	32	15	12

*The State of Kuwait and the Kingdom of Bahrain have not yet ratified TPS-OIC Agreements.

** The Syrian Arab Republic's membership was suspended by the 4th Extraordinary Summit of the OIC.