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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 giving a brief summary on the developments in trade in the world and in the OIC Member States as well as recent cooperation efforts in the area of trade under the auspices of the COMCEC.

As it is well 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 increasing their trade and improving the trading environment through multilateral, regional or bilateral initiatives. As a result, the global trade volume has recorded a dramatic increase, the composition of trade has been enriched and recently, its direction has shifted towards the developing world.

Recent Developments in Global Trade

The world trade registered a significant increase between 2003 and 2008, followed by a drastic decline in 2009, and a sluggish recovery since then. According to WTO, the average annual growth rate of the world trade was 16.5 percent between the years 2003 and 2008. Although global trade recovered in 2010, and continued to increase in 2012 and 2013, the improvements have been slow to catch up with the pre-crisis growth projections, due to the concerns on Euro area, the slowing down of the Chinese economy, and the political turmoil in the Middle East.

Figure 1: Total Global Exports and Imports 1990-2013 (Trillion US Dollars)

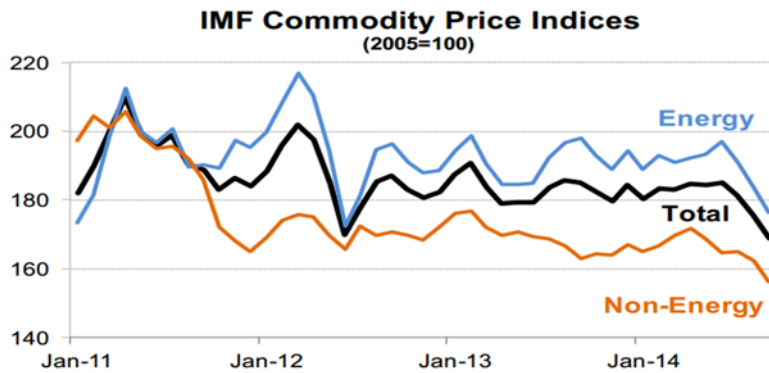


Source: WTO 2014

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 the global output. Similarly, following the sharp decline in 2009, 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).

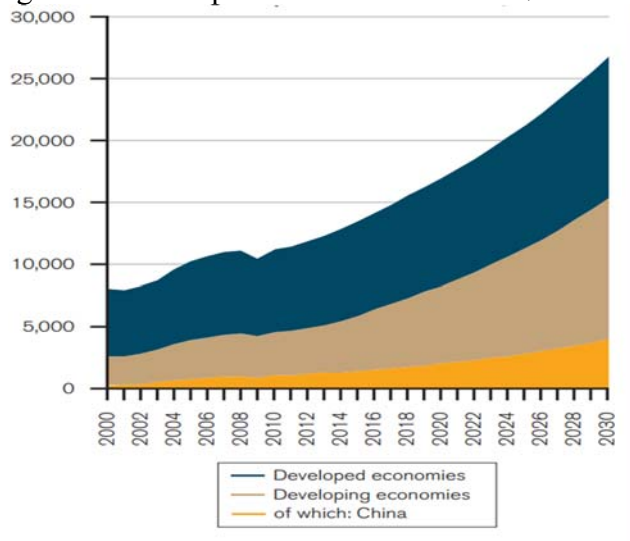
Figure 2: Developments in Commodity Price Indices (2005=100)



Source: IMF WEO, October 2014

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 47.1 percent in 2013. Remarkable increase in the exports of BRIC (Brazil, Russia, India and China) countries and the rising commodity prices contributed significantly to the aforementioned growth. It is estimated that the developing countries' share of the global trade will continue to increase in the coming decades.

Figure 3: Real exports in billion 2005 US\$



Source: WTO, World Trade Report, 2013.

It is worth noting that important developments took place during 2013-2014 for enhancing global trade. Trade negotiations reached a significant milestone in 2013 with the agreement of the “Bali Package”, a selection of issues from the broader Doha Round negotiations. The Package was agreed on by the ministers at the end of the WTO’s Ninth Ministerial Conference, held in Bali in December 2013. It comprises 10 ministerial decisions/declarations covering trade facilitation, agriculture and development. The Trade Facilitation Agreement is the most important component of the package. The Agreement aims to streamline trade by cutting “red tape” and simplifying customs procedures. It contains special provisions for developing countries to help them implement the Agreement. Benefits to the world economy are estimated to be between US\$ 400 billion and US\$ 1 trillion (WTO Annual Report, 2014).

Another recent major development in the international trade agenda is the introduction of the so-called mega free trade agreements. Two such agreements are noteworthy. Originally, a four-way FTA between Brunei, Chile, New Zealand and Singapore, the Trans-Pacific Partnership (TPP) now encompasses eight additional countries: USA, Australia, Canada, Japan, Malaysia, Mexico, Peru and Vietnam. South Korea might also join the group. The TPP aims to achieve extensive liberalization of both goods and services, and entails comprehensive coverage of trade in services, investment, government procurement, non-tariff measures and regulatory topics. The TPP can significantly impact global trade dynamics, given that goods trade among TPP partners amounted to more than US \$2 trillion in 2012 (World Economic Forum, 2014).

The Trans-Atlantic Trade and Investment Partnership (TTIP) negotiations, launched in June 2013, aim at achieving a far-reaching trade agreement between the US and the EU, focusing on trade liberalization and behind-the-border and other non-tariff barriers. It is estimated that the more significant gains from TTIP will come from the elimination of non-tariff measures and alignment of standards regulations. It is widely accepted that the implementation of these two mega-FTAs will have a deep impact on the global trade.

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. Similarly, in 2012 total OIC trade continued to grow but at a modest pace with 5.2 percent mainly due to the falling non-fuel commodity prices, negative impacts of the European debt crisis and the increased geopolitical risks in the MENA region. On the other hand total OIC exports fell by 3,2 percent in 2013, induced mainly by the weak world demand and the falling commodity prices.

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 the mineral fuels in total OIC exports was 61.8 percent in 2013 (ICDT, 2014). The fluctuations in oil prices constitute an important risk for these countries. Second, the top ten countries in the OIC trade have

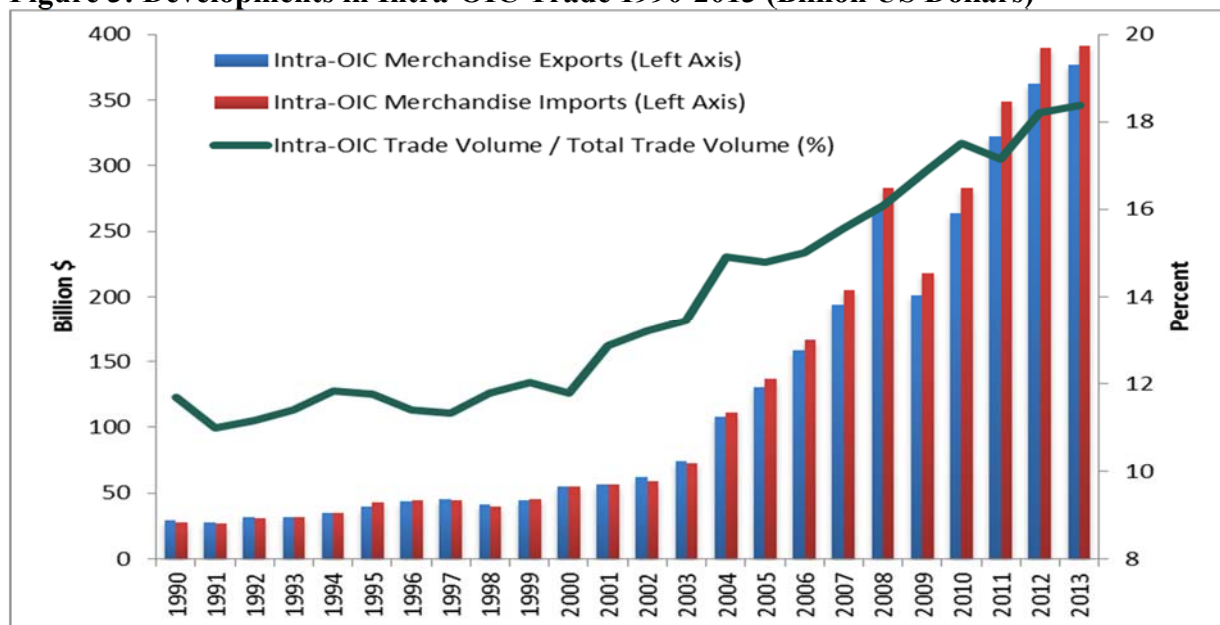
constituted 77 percent of all OIC trade with the world in 2013. Thus, the majority of the Member States has a limited volume of foreign trade and highly depends on the export of few commodities. Accordingly, the contribution of these countries in total OIC trade increase is very limited. The composition 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, high 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 the considerable increase in the trade of the top ten countries. According to the ICDT, the intra-OIC trade reached 18,47 percent in 2013. Figure 3 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 share in intra-OIC trade amounting to 71 percent of all intra-OIC trade in 2012.

Figure 3: Developments in Intra-OIC Trade 1990-2013 (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), various trade finance and export credit mechanisms within the IDB Group such as the EFS and ICIEC, 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 its 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, 11 Member States have met these two conditions. Out of these 11 countries, 5 are GCC members (United Arab Emirates, Qatar, Oman, Bahrein and Saudi Arabia). There is a customs union among the GCC Member States which obligates its members to fulfill the required two conditions mentioned above. The GCC Secretariat has submitted the list of concessions on behalf of its six members. Nonetheless, Kuwait has 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 needs 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 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 to 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 in trade and its possible implications on their economies.

The Trade Working Group has convened four times since November 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 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 Fourth Meeting of the Trade Working Group was held on October 23rd, 2014 in Ankara with the theme of “*Preferential Trade Agreements (PTAs) and Trade Liberalisation Efforts in the OIC Member States with a Special Emphasis on the TPS-OIC*”. The participants deliberated on the present level of trade liberalization in the OIC Region and discussed potential impact of PTAs with special focus on the TPS-OIC. The Meeting also came up with a set of policy advices to enable member countries to benefit more from the ongoing trade liberalization efforts as well as to enhance trade cooperation among the member states. In this regard, the policy advices were building capacity for effective implementation of PTAs, preparing the ground for the implementation of TPS-OIC, and raising awareness on the TPS-OIC System.

The Fifth Meeting of the Trade Working Group will be held on March 26th, 2015 with the theme of “Improving the role of Eximbanks in the OIC Member States for Increasing their Exports” while the Sixth Meeting of the Trade Working Group will dwell upon the theme of “Establishing Well Functioning Trade Facilitation Bodies in the OIC Member States” on September 17th, 2015. As usual, both Working Group Meetings will be held in Ankara, Turkey.

The detailed information regarding the outcomes of the COMCEC Trade Working Groups is available on the COMCEC website (www.comcec.org).

The second 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.

With a view to initiating experience sharing and capacity building programs in cooperation with relevant international and OIC Institutions, COMCEC Coordination office aims to help Member States addressing their needs in the area of trade. Within this framework, the CCO has sent the member states a detailed capacity inventory questionnaire which included 35 trade-related subjects and asked member states in which subject they would be interested in providing or receiving technical assistance and capacity building.

MEMBER STATES THAT SIGNED / RATIFIED THE TPS-OIC AGREEMENTS (As of November 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	Cot 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	16	13

*The State of Kuwait has not yet completed ratification of the TPS-OIC Agreements.

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