TRADE

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COMCEC

CCO BRIEF

ON

TRADE

COMCEC COORDINATION OFFICE

April 2016

BRIEF ON TRADE COOPERATION

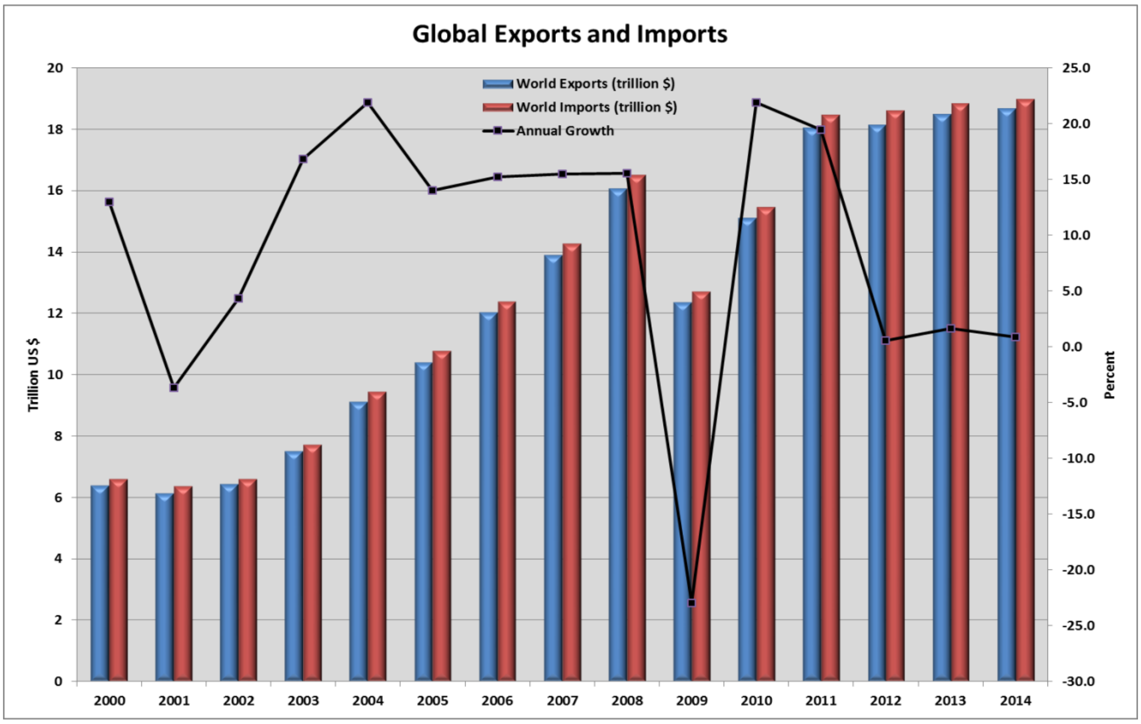
1. Introduction

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

International trade is an important catalyst for economic and social development. Evidence shows that trade can help boost development and reduce poverty, by generating growth through increased commercial opportunities and investment, as well as broaden the productive base through private sector development. In this regard, many countries have taken important steps towards increasing their trade and improving their trading environment through multilateral, regional or bilateral initiatives. As a result, the global trade volume has recorded a dramatic increase and the composition of trade has been enriched and its direction has recently shifted towards the developing world.

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

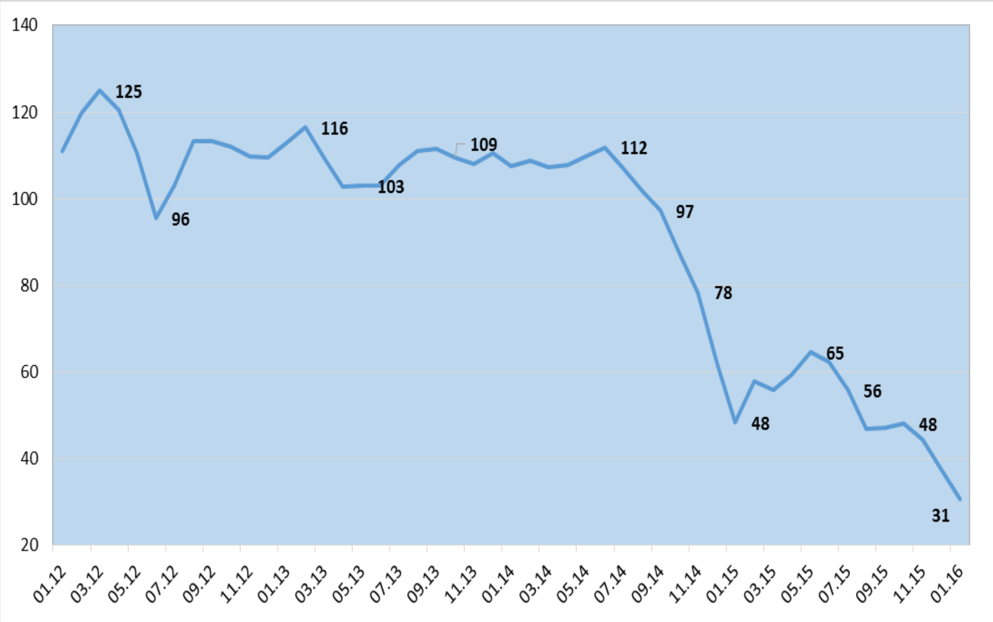
Figure 1: Global Exports and Imports (2014)



Source: IMF Direction of Trade Statistics

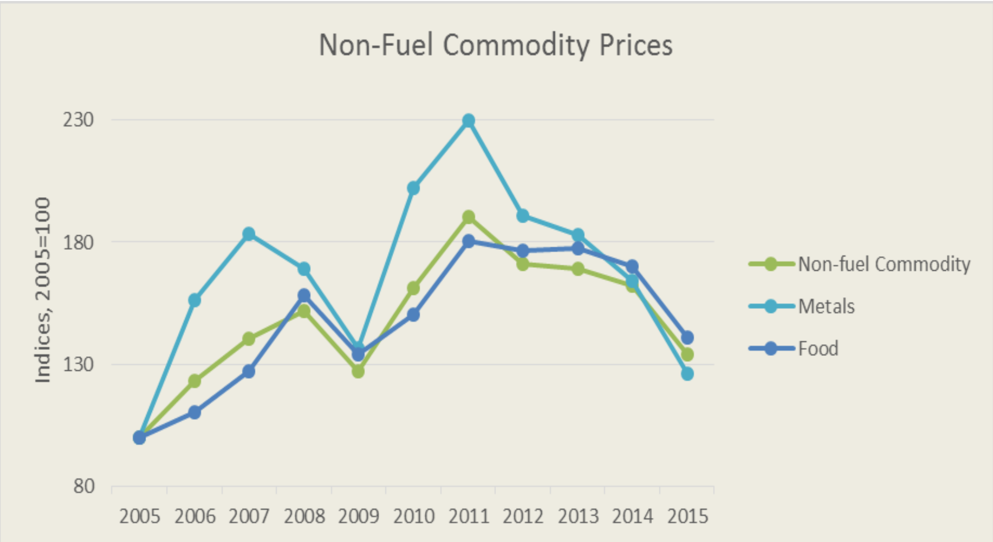
Commodity prices have been in a declining trend since 2012. In 2014, commodity prices fell by 6.3 per cent, mainly due to weak global demand, especially in emerging economies, and to increases in oil and metal supplies. In 2015, a sharper decline was witnessed in both energy and non-energy commodities as energy prices decreased by 39.3 percent and non-fuel prices fell by 19.1 percent between December 2014 and 2015.

Figure 2: Developments in Oil Prices



Source: IMF Commodity Price Statistics

Figure 3: Developments in Commodity Prices



Source: IMF Database

On the other hand, oil prices, which soared during mid-2000s, fell sharply in 2009 but started to increase again starting late 2010 as a result of the political instability in the Middle East. Prices remained relatively stable at around 111 dollars per barrel in the 2011-2013 period; however, fell sharply by 44.4 per cent to 60 dollars between June and December 2014.

Although there was a partial recovery in the first half of 2015, oil prices continued to decline until the end of 2015, where its price on 32 December 2015 was approximately 37 dollars per barrel. Beginning February 2016, prices showed an increase and reached 40 dollars per barrel by the end of March 2016.

Oil prices fell sharply in recent years due to both demand and supply factors. On the supply side, two recent developments contributed to the fall in oil prices, namely: the surge in oil production in non-OPEC countries (especially the United States) and OPEC's new policy of keeping the market share by maintaining the same production levels rather than targeting a price band. Additionally, increasing production in Iraq, and partly in Libya, had a positive impact on global oil supply. On the demand side, several factors played a role in decreasing oil prices, such as the weak demand in some advanced economies and the slowing pace of growth in emerging markets, foremost in China. Moreover, improvements in energy efficiency also played an important role in slowing down global oil consumption.

Trade of the OIC Member Countries

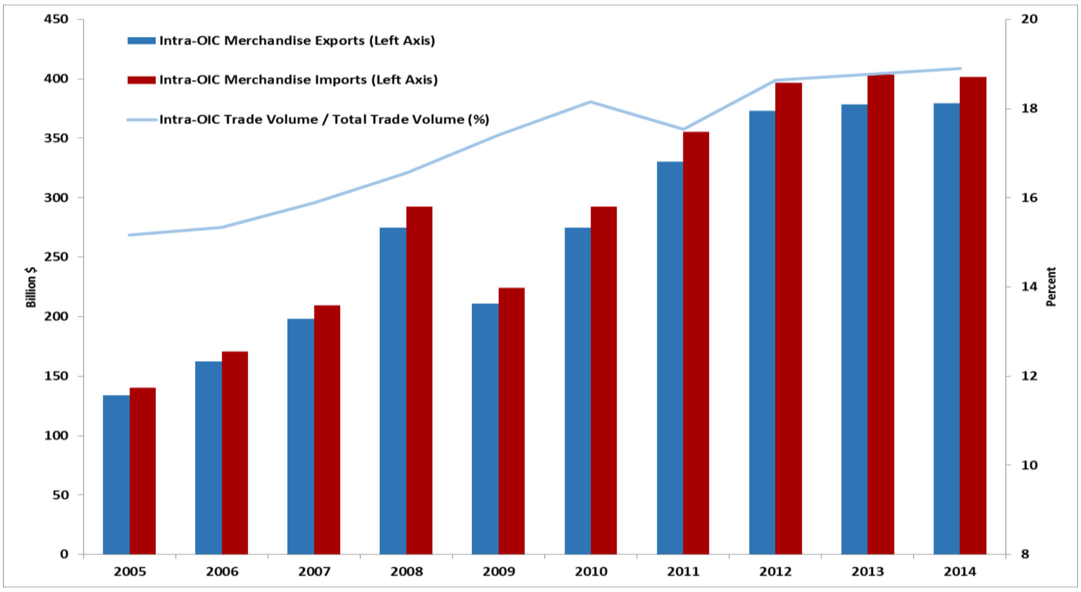
In 2014, total OIC exports decreased by 3.3 per cent and amounted to USD 2.1 trillion. Several factors accounted for the decline in total OIC exports in 2014, including the sluggish pace of world demand growth, the collapse in oil prices in 2014 and the fall in oil demand and ongoing political transition in many countries in the Middle East.

Total OIC imports continued to increase modestly in the last three years where they amounted to USD 2.1 trillion in 2014. Thus, total OIC trade remained at around the same levels of USD 4.2 trillion. Two characteristics of the total OIC exports still constitute a risk for the future: First is the dominant role of mineral fuels in exports. The share of mineral fuels in total OIC exports was 60.2 percent in 2014 (ITC Trade Map). The fluctuations in oil prices constitute an important risk for oil exporters. Second is that the top ten OIC trade countries have constituted 76.9 % of all OIC trade with the world in 2014. Thus, the majority of the Member States have a limited volume of foreign trade and highly depend on the exports of a few commodities.

Developments in Intra-OIC Trade

Despite its huge potential, the intra-OIC trade is below the desired level due to some 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 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. The share of intra-OIC trade peaked at 18.9 percent in 2014, while intra-OIC exports accounted for 17.6 percent of total OIC exports and intra OIC imports reached 20,3 percent of total OIC imports. Figure 4 shows the trends in intra-OIC trade since 2000. The top ten countries accounted for 69 percent of intra-OIC trade.

Figure 4: Developments in Intra-OIC Trade 2005-2014 (Billion US Dollars)



Source: IMF Direction of Trade Statistics

2. Global Trends in Trade Facilitation

Important developments took place since 2013 with respect to enhancing global trade. Trade negotiations reached a significant milestone in 2013 with the agreement of the "Bali Package", which constituted a selection of issues from the broader Doha Round negotiations. The Package was agreed on by 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 (TFA) aims at streamlining trade by cutting "red tape" and simplifying customs procedures; it mainly sets measures to eliminate barriers against international trade through streamlining and simplifying customs procedures. The Agreement has two sections that include provisions for expediting the movement, release and clearance of goods, and differential treatment provisions for developing and least-developed countries. With respect to differential treatment, TFA enables developing and least-developed countries to select three categories for provisions, namely A, B and C, based on their readiness for implementation. WTO also aims at providing technical assistance and capacity building programs to developing and least-developed countries through collaboration with donor Member States to facilitate the implementation of the Agreement.

On the other hand, the Agreement is expected to contribute significantly to the world economy, ranging between USD 400 billion and USD 1 trillion, according to the WTO estimates (WTO Annual Report, 2014). The TFA will be operational after the official acceptance of the Agreement by two thirds of the WTO members. Until March 2016, 72 WTO member countries have officially ratified the WTO TFA.

3. Trade Facilitation in the OIC Member Countries

Recognizing the importance of reducing trade costs, effective implementation of trade facilitation measures is important. In this respect, actions related to Trade Facilitation have critical importance, especially for the OIC Member Countries facing challenges specifically in logistics and customs operations. Some of the main problems could be identified as: restricted logistic services, lack of adequate infrastructure, inefficient legal frameworks, bureaucratic customs operations and lack of well-functioning coordination mechanisms among the relevant government agencies and private sector. When successfully eliminated, these challenges could also present promising opportunities for increasing the trade volumes of Member Countries.

Currently, OIC Member Countries have a wide range of performance with respect to trade operations. Several indices or reports have been developed by international institutions to identify the bottlenecks hindering international trade in countries. The World Bank Doing Business Report is one of these reports; it calculates the average time and cost for doing business in countries. In terms of trading across borders, Doing Business measures money and time consumed during inland transportation and handling, ports and terminal handling and customs clearance and technical control for imports in over 150 countries. The following figures show the average number of days and the average cost of the highest and lowest ranked Member Countries.

Figure 5: Days for and Cost of Exports in the lowest ranked Member States

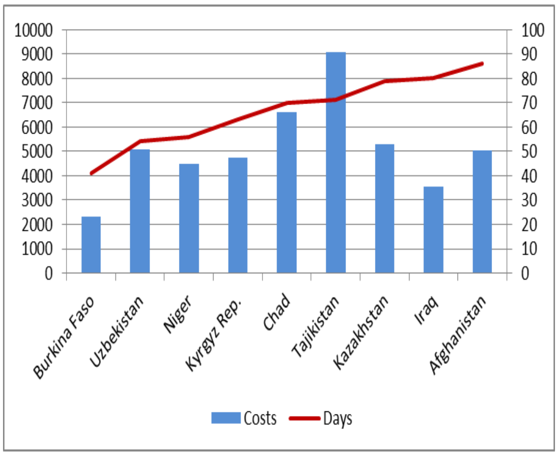
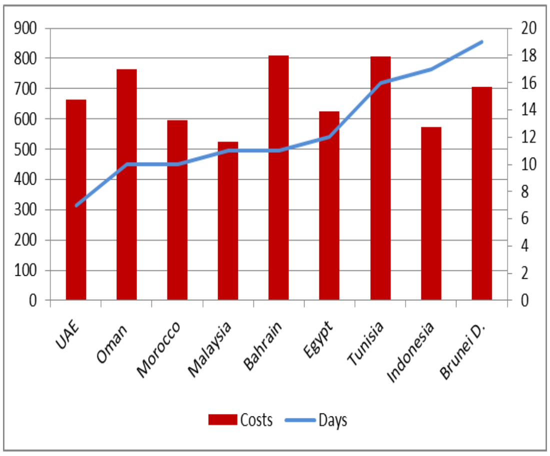


Figure 6: Days for and Cost of Exports in the highest ranked Member States



Source**:** World Bank

If implemented effectively, the Trade Facilitation Agreement could be an important leverage for the Member Countries to improve present figures. In this respect, until March 2016, only 9 OIC Member Countries have ratified the Agreement, while 26 Member Countries have notified the WTO Secretariat in their countries of their readiness to implement the provisions of the Agreement under categories either A, B or C. Due to the importance of the matter for the Member Countries, the COMCEC Trade Working Group has been elaborating on different aspects of Trade Facilitation in its recent meetings. More details could be found under the relevant heading below.

4. Cooperation in the area of trade under the COMCEC

Enhancing 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. Being the flagship project in the area of trade, the Trade Preferential System among the Member States of the OIC (TPS-OIC) is very close to being operational. Operationalization will commence after completion of the internal procedures related to the implementation by the Member Countries. A list showing signing/ratifying TPS-OIC Member Countries could be found in Annex 1 of this document.

Some other important initiatives include various trade finance and export credit mechanisms within the IDB Group, such as ITFC and ICIEC. 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 COMCEC Strategy adopted in 2012 brought a new dynamism to cooperation efforts in the area of trade under the COMCEC. According to the Strategy, cooperation efforts will focus on the structural problems preventing 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.

Being one of the instruments of the COMCEC Strategy, the Trade Working Group has convened six times until now. In each meeting, the WG focused on a specific theme, which was determined from Member Country responses to the previously circulated questionnaire.

Recent Meetings of the COMCEC Trade Working Group

The 7th Meeting of the COMCEC Trade Working Group was held on 25 February 2016 with the theme of "Strengthening the Compliance of OIC Member States to International Standards". Compliance to international standards bears critical importance for the OIC Member Countries, especially with respect to improving export competitiveness and facilitating trade through the elimination of barriers on trade. Compliance to international standards begins with active membership of the OIC Member Countries to the relevant international standardization organizations. At present, there is a varying degree of involvement by the Member Countries; 55 OIC Member Countries are members of Codex while this figure is 35 and 11 respectively for the ISO and IEC.

Besides membership, active involvement in the relevant technical committees of the international standardization bodies is highly important to ensure that finalized norms or standards reflect Member Countries' perspectives and thus could be fully approved and implemented. In this respect, some of the main challenges for the OIC Member Countries are: inefficiencies in standards related to national infrastructure and institutional capacity, weak level of conformity assessment and mutual recognition and lack of membership and participation in the work of international standards, metrology and accreditation organizations.

Based on extensive deliberations on the topic, the Trade Working Group came up with the following policy recommendations for the OIC Member Countries:

- Developing/Strengthening a National Quality Infrastructure.
- Supporting the Member States' Efforts for their Active Participation in the work of International Standardization Bodies.
- Strengthening SMIIC for the Adoption of Harmonized Standards for the development of Quality Infrastructure in the OIC for Enhancing Intra-OIC Trade.

The COMCEC Trade Working Group will continue to focus on trade facilitation in its next few meetings. In this respect, the 8th Meeting of the Working Group will be held on 6 October 2016 in Ankara with the theme of "Improving Border Agency Cooperation among the OIC Member States for Facilitating Trade".

<u>COMCEC Project Funding Mechanism</u>

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. In 2015, the following projects were implemented by the Member States through funding by the COMCEC Coordination Office:

The Gambia: *Capacity-building and Institutional Strengthening of The Gambia Standards Bureau for the Adoption and Implementation of OIC/SMIIC Halal Standards and related Conformity Assessment / Partner Countries: Turkey and Senegal*

Qatar: *Access to Finance for SME and entrepreneurs in the OIC region; Opportunities and Challenges for the Entrepreneurs / Partner Countries: Saudi Arabia, Kuwait, United Arab Emirates, Oman and Bahrain*

Moreover, for 2016, one project submitted by Uganda was selected for implementation. The project will focus on Improving Delivery of Trade Facilitation Services in the beneficiary countries. Partner countries for the project are Egypt and Turkey.

ANNEX 1

MEMBER STATES THAT SIGNED / RATIFIED THE TPS-OIC AGREEMENTS *(Until March 2016)*

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**	**17**	**32**	**17**	**14**

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