TRADE

OIC/COMCEC-FC/33-17/D(3)

COMCEC

CCO BRIEF ON TRADE

COMCEC COORDINATION OFFICE

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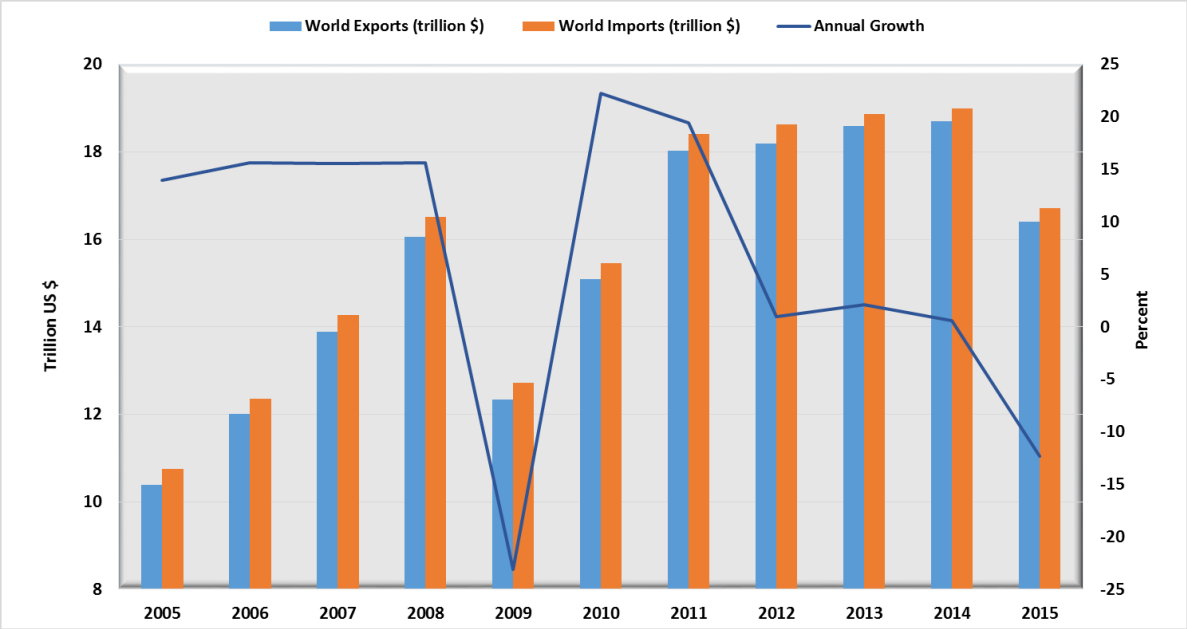
BRIEF ON TRADE COOPERATION

1. Introduction

International trade is an important catalyst for economic and social development. Evidences show that, enhancing international trade contributes to raising the living standards, investments and employment in countries. Many countries perceive international trade as an important tool to strengthen their integration with other countries and have taken important steps towards increasing their trade and improving the trading environment through multilateral, regional or bilateral initiatives.

World trade registered a significant increase between 2003 and 2008, followed by a drastic decline in 2009. Although global trade has recovered in 2010, and continued to increase in 2012 and 2013, it couldn't catch up with the pre-crisis growth rates.

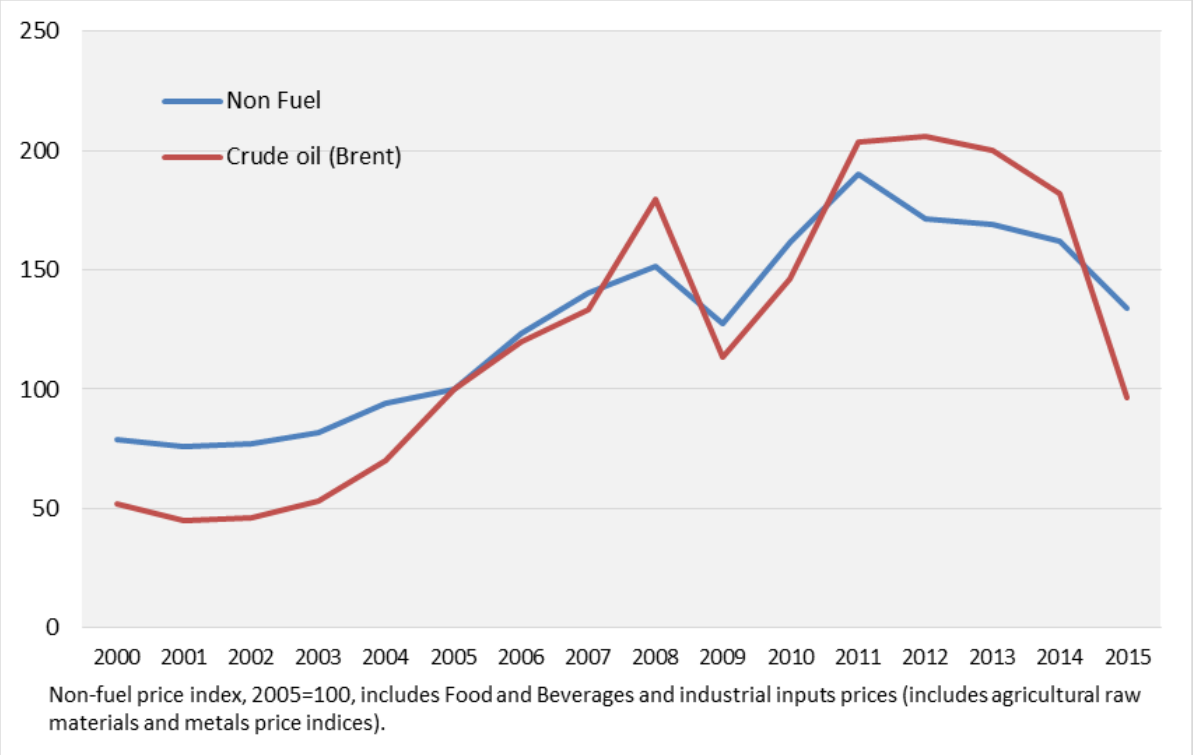
Figure 1: Global Exports and Imports (2015)



Source: IMF Direction of Trade Statistics

Commodity prices have taken a declining trend since 2012. 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. Despite the sharp decline in world trade value, world trade volume (which accounted for changes in prices and exchange rates) continued to grow by 2.8 per cent in 2015. The sharp decline in the dollar value of world trade occurred mainly as a result of the depreciation of the local currencies. The decrease in dollar value of the commodities and oil also contributed to this decline.

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



Source: IMF Database

Oil prices fell sharply in recent years due to both demand and supply factors. On the supply side, two 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

The total OIC exports fell sharply by 25.4 percent from USD 2.2 trillion in 2014 to USD 1.6 trillion in 2015. The low level of growth in the region, the decrease in oil prices and the depreciation of local currencies were among the important reasons which contributed to the decrease in exports in the OIC region.

On the other hand, the total OIC imports, which continued to increase in the 2012 - 2014 period, fell by 7.4 per cent and to USD 1.8 trillion in 2015. Thus, the total OIC trade fell by 16 percent from USD 4.1 trillion in 2014 to USD 3.4 trillion in 2015.

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, oil and distillation products in the OIC

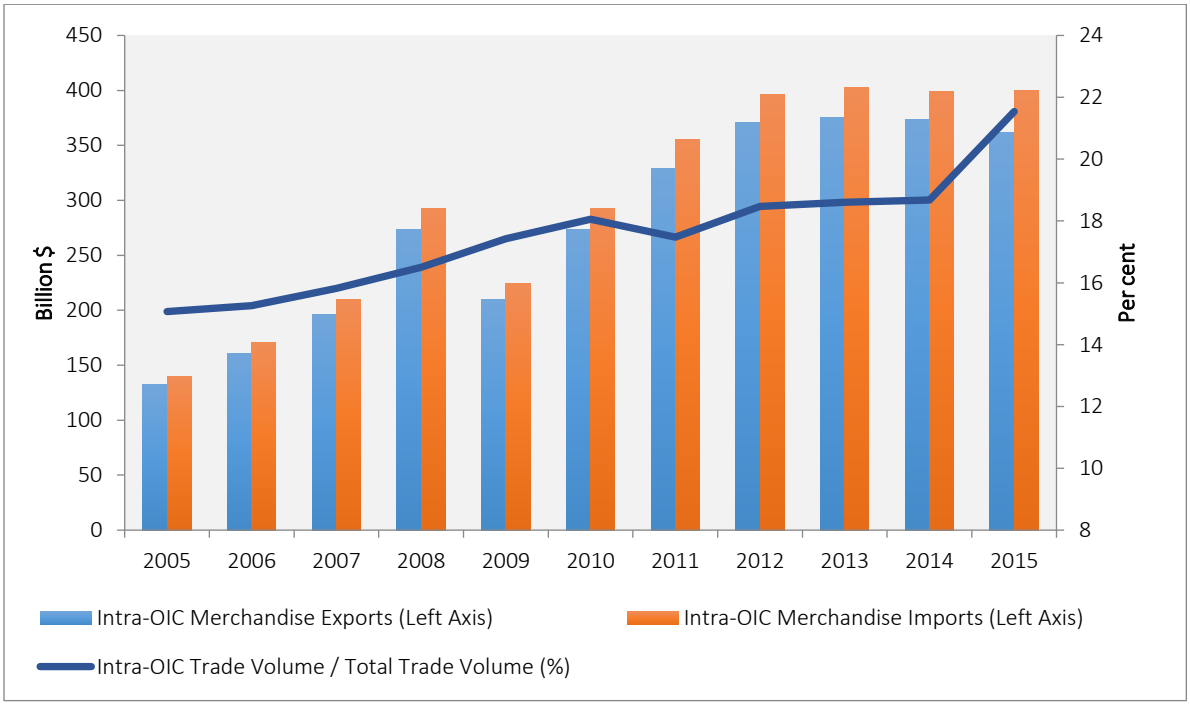
exports was 47.4 percent in 2015. The fluctuations in oil prices constitute a considerable risk for oil exporters. Second is that ten OIC countries in terms of their trade volume and value have constituted 70 percent of all OIC trade with the world in 2015. Thus, the majority of the Member States has a limited foreign trade volume, and highly depends on the exports of few commodities.

Developments in Intra-OIC Trade

Despite its high potential, intra-OIC trade is below the desired level, due to some structural problems. Protectionist trade policies, high tariffs, non-tariff barriers, weak trade related logistics and infrastructure, underutilized trade financing and insurance mechanisms are major problems faced in the region. Moreover, many member countries do not have sufficient financial resources or sound payment and banking systems. Despite these challenges, after remaining roughly constant between 2012 and 2014, averaging 18.6 percent, the share of intra-OIC trade increased to 21.5 percent in 2015.

In 2015, intra-OIC exports accounted for 21.8 percent of the total OIC exports, while intra OIC imports accounted for 21.3 percent of the total OIC imports. Figure 3 shows the trends in intra-OIC trade since 2005.

Figure 3: Developments in Intra-OIC Trade 2005-2015 (Billion US Dollars)



Source: IMF Direction of Trade Statistics

2. Global Trends in Trade Facilitation

Important developments took place with respect to enhancing global trade since 2013. Trade negotiations reached a significant milestone in 2013, with the agreement on the "Bali Package", which constituted a selection of issues from the broader Doha Round negotiations. The Package was agreed upon by ministers at the conclusion of the WTO's Ninth Ministerial Conference, held in Bali in December 2013. The Package comprises 10 ministerial decisions/declarations covering trade facilitation, agriculture and development. The Trade Facilitation Agreement is one of the most important components of the Package.

Trade Facilitation Agreement (TFA) mainly specifies measures to eliminate barriers against international trade, through streamlining and simplifying customs procedures. The Agreement has two sections, which include provisions for expediting the movement, release and clearance of goods and differential treatment provisions for developing and least-developed countries respectively.

With regards to differential treatment, TFA enables developing and least-developed countries to select three categories of provisions, namely A, B and C, based on their readiness for implementation. WTO also aims to provide technical assistance and capacity building programs for developing and least-developed countries. Some of the important arrangements of the Agreement are publication and availability of information, advance rulings, the right to appeal or review, pre-arrival processing, electronic payment and freedom of transit. According to the WTO, the agreement may increase global merchandise exports by up to $1 trillion per annum. TFA has entered into force with the completion of the ratification by 112 WTO Members as of February 2017.

3. Trade Facilitation in the OIC Member Countries

Recognizing the significance of reducing trade costs, trade facilitation is of particular importance for the member countries. Some of the main challenges faced by the Member Countries in trade 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 the Member Countries.

The performance of the OIC Member Countries varies in terms of 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 4: Days for and Cost of Exports in the lowest ranked Member States

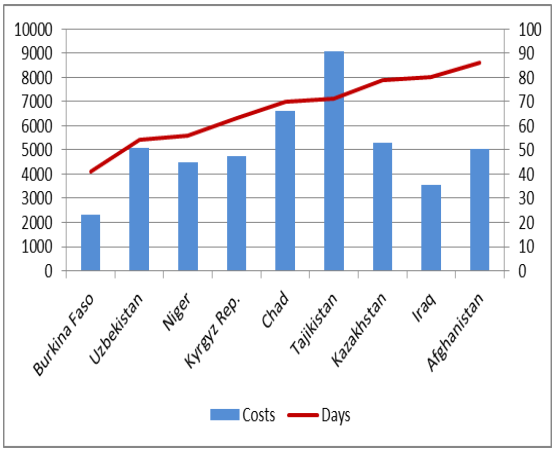
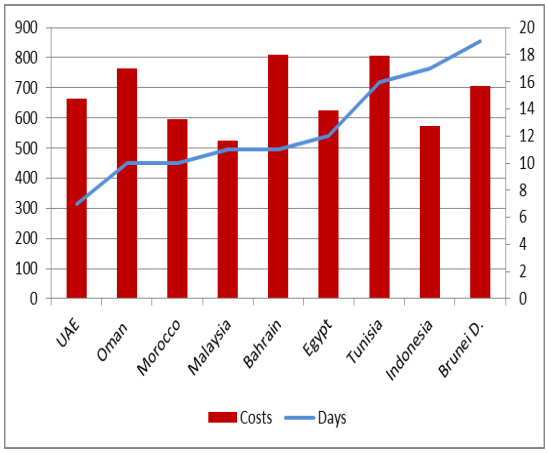


Figure 5: Days for and Cost of Exports in the highest ranked Member States



Source: World Bank

However, the Trade Facilitation Agreement could be an important leverage for the Member Countries to improve the present figures. Until April 2017, 24 OIC Member Countries have ratified the Agreement.

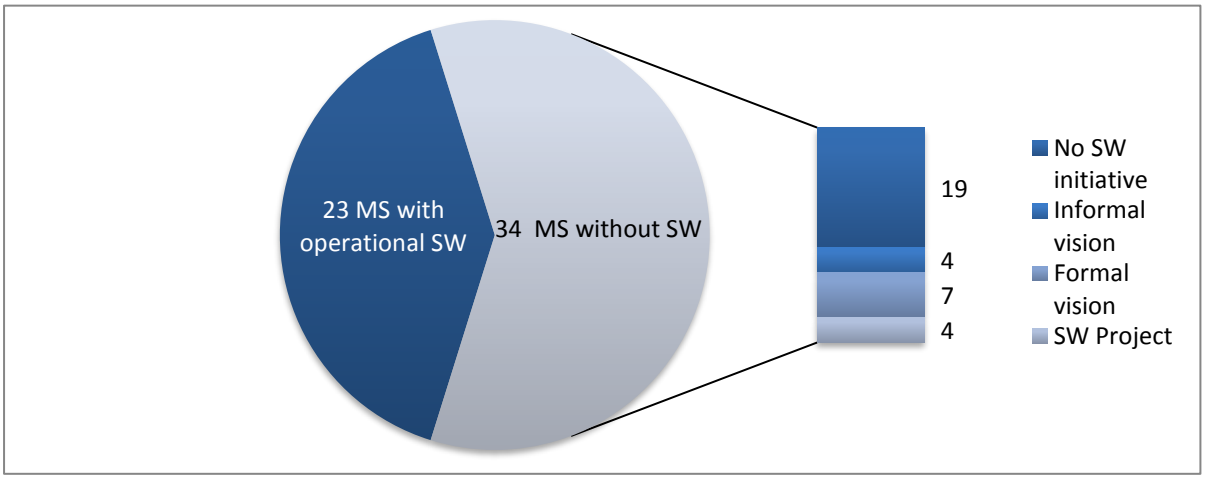
4. Trade Facilitation and Single Window Systems in the OIC Member Countries

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. In this regard, last year, the 7th and 8th Meetings of the COMCEC Trade Working Group focused on the various aspects of trade facilitation as strengthening the compliance to international standards, and improving the border agency cooperation.

Moreover, the 9th Meeting of the COMCEC Trade Working Group (TWG) was held on March 9th, 2017 with the theme of "Single Window Systems in the OIC Member States". In this meeting, the TWG elaborated on the current state of the Member Countries on the implementation of the Single Window System, which is an important instrument for facilitating international trade in the member countries.

The research report, which was specifically prepared for this meeting, highlighted that the Member Countries have been showing great interest to the Single Window Systems in the recent years. Accordingly, 23 Member Countries have Single Window Systems whereas at the beginning of 2010, only 7 member countries had such a system. Moreover, 4 member countries are in the process of establishment of a Single Window System and 11 member countries have a vision to establish their Single Window Systems (see Figure 6).

Figure 6: Single Window Implementation Status in the OIC Member States



Source: "Single Window Systems in the OIC Member Countries", COMCEC Coordination Office

The major challenges in the initiation or implementation of the single window systems in the member countries are as follows:

- Weak quality of preparatory work at the initial stage of implementation
- Non-implementation of necessary changes in legal and regulatory framework and business process level
- Inflexibility and lack of interoperability of IT architecture
- Lack of backup and business continuity
- Lack of cost effectiveness at the operational level of Single Windows
- Limited performance since weak IT infrastructure
- Lack of systematic approach for business process and data mapping

The 9th Meeting of Trade Working Group has come up with the following policy recommendations:

- Strengthening Single Window efforts in OIC Member States by developing integrated Single Window strategies that reflect national and regional requirements and actively engage the stakeholders in this process
- Improving the effectiveness of Single Window projects by identifying and implementing necessary changes in the laws and regulatory framework and operational practices,
- Prioritizing flexibility, scalability, safety and interoperability of IT architecture of Single Windows Systems,
- Promoting cross-border interconnectivity and interoperability of the national Single Window Systems in the OIC Region towards establishing Regional Single Window Systems

The 10th Meeting of the COMCEC Trade Working Group will be held on November 2nd, 2017 in Ankara with the theme of "Special Economic Zones in the OIC Member States: Learning from Experiences"

5. The Flagship Project of the COMCEC on Trade: TPS-OIC

Since the establishment of the COMCEC, trade has been one of the most important cooperation areas. In order to enhance trade among OIC Member Countries, the COMCEC has initiated many programs and projects towards reaching this objective. Trade Preferential System among the Member States of the OIC (TPS-OIC) is one of the most important projects of the COMCEC to foster intra-OIC trade.

In order to make the TPS-OIC system operational, 10 Member States have to fulfill two conditions at the same time, namely the ratification of the three TPS-OIC Agreements and the submission of the list of concessions to the TNC Secretariat. As of December 2014, required number of countries having met necessary requirements of the System has been reached. The list showing signing/ratifying TPS-OIC Member Countries can be found in Annex 1.

However, for the entry into force of the System there are some practical steps that should be taken by the participating member states. The most important step in this context is updating the concession lists. By April 2017, Turkey, Malaysia, Pakistan, Jordan, Bangladesh and Iran have conveyed their updated concession lists.

In this regard, the 32nd COMCEC Ministerial Session held last year invited the GCC Secretariat, on behalf of its six member states, to convey their updated concession lists at their earliest convenience to the TNC Secretariat with a view to early utilizing market access opportunities to be brought by the TPS-OIC.

On the other hand, for successful implementation of the System, some internal measures are required to be undertaken by the Member Countries such as; printing TPS-OIC Certificate of Origin documents, conveying specimen impressions of stamps to the Trade Negotiating Committee Secretariat and completing the necessary internal legislative and administrative measures. After completion of the mentioned measures, the System would become fully operational.

6. COMCEC Project Funding Mechanism

The member countries, having registered to the Trade Working Group, have the chance to propose multilateral cooperation projects within the framework of the COMCEC Project Funding, which is another important implementation instrument of the Strategy. The projects to be financed under the COMCEC Project Funding need to serve multilateral cooperation and be designed in accordance with the objectives and the expected outcomes defined by the Strategy in its trade section. In this regard, the project titled "*Improving Delivery of Trade Facilitation Services"* was implemented successfully by Uganda with two partner countries: Turkey and Egypt within the scope of the 3rd Project Call in 2016. Moreover, the Fourth Project Call was made in September 2016. In this framework, the following three projects are being implemented in 2017:

- The project titled "Facilitating Trade Relations between Palestine and Islamic Countries" is implemented by Palestine in partnership with Algeria and Saudi Arabia,

- The project titled “Strengthening of SME support services in Suriname and Guyana to enhance participation in global value chains” is implemented by Suriname in partnership with Guyana and Turkey,
- The project titled “Facilitating Trade: Identifying Non-Tariff Barriers among the OIC Member States” is implemented by ICDT in partnership with Morocco, Senegal and Egypt.

ANNEX 1

MEMBER STATES THAT SIGNED / RATIFIED THE TPS-OIC AGREEMENTS *(Until April 2017)*

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

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