TRADE OIC/COMCEC/33-17/D(5)

COMCEC

CCO BRIEF
ON
TRADE

November 2017

COMCEC COORDINATION OFFICE

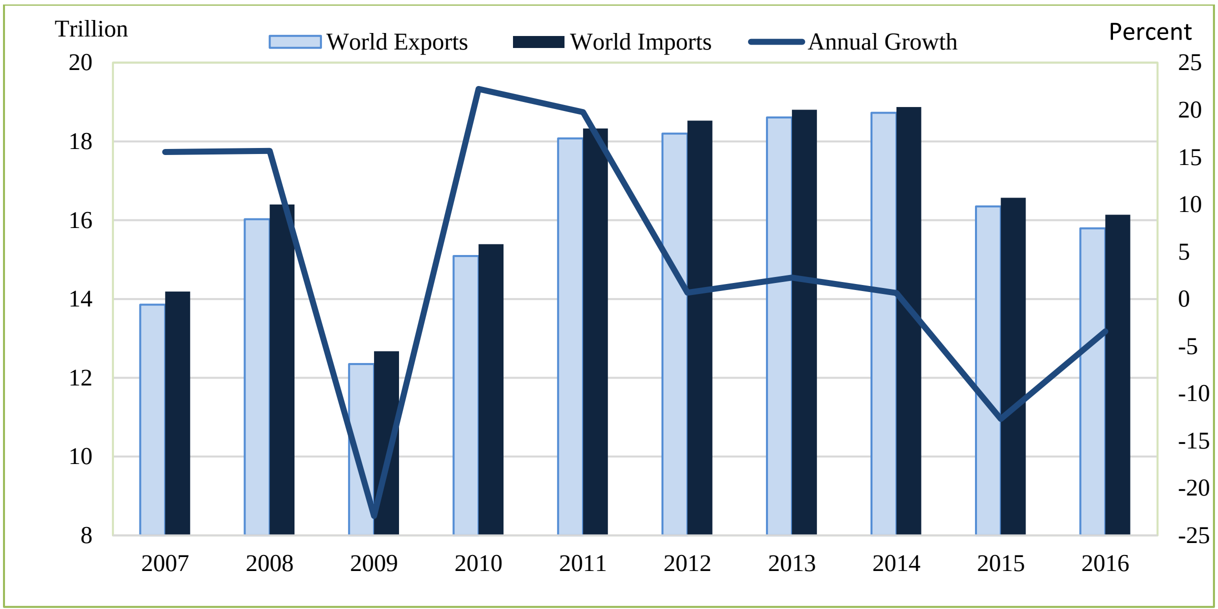
BRIEF ON TRADE COOPERATION

1. Introduction

International trade is an important catalyst for economic and social development. Evidence shows that enhancing international trade in countries contributes to the raising of living standards, investment and employment. Many countries perceive international trade to be an important tool for strengthening their integration with other countries and have taken important steps towards increasing trade and improving 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 had recovered in 2010 and continued to increase in 2012 and 2013, it was unable to recoup the pre-crisis growth rate. According to the WTO, the low world trade growth in 2016 was followed by the weak real GDP growth of 2.3 per cent, whereas in 2015 the real GDP growth was 2.7 per cent.

Figure 1: Global Exports and Imports (2016)

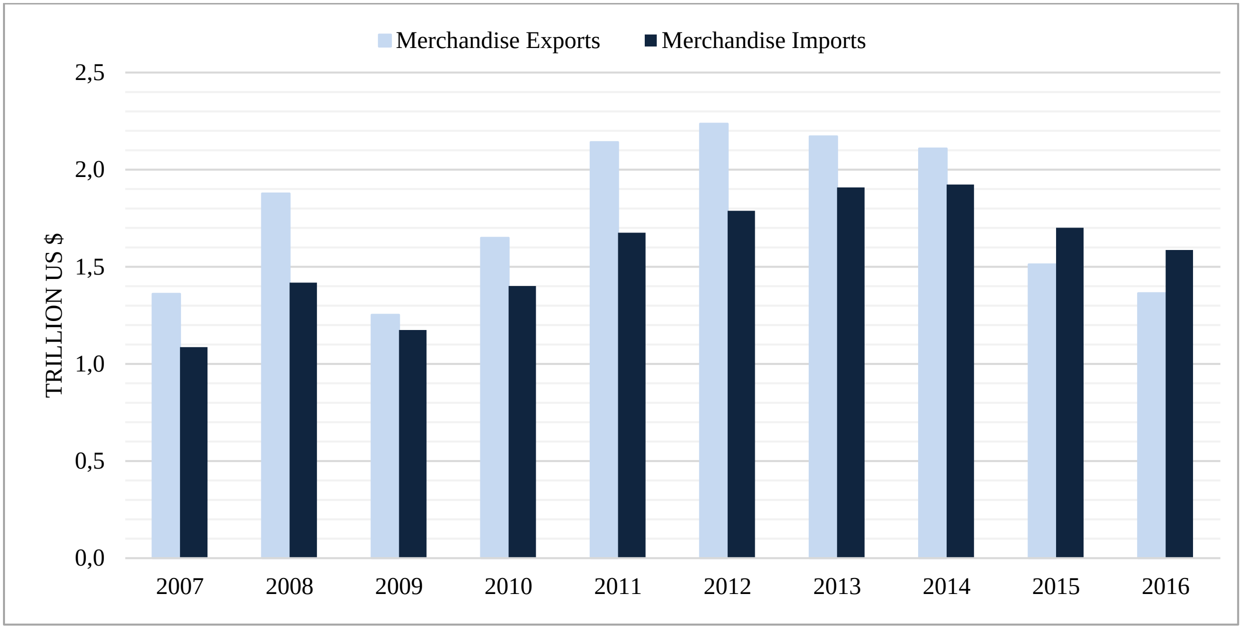


Source: IMF Direction of Trade Statistics

Commodity prices have shown 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 1.3 per cent in 2016. The sharp decline in the dollar value of world trade occurred mainly as a result of the depreciation of local currencies. The decrease in dollar value of the commodities and oil also contributed to this decline.

Trade of the OIC Member Countries

Figure 2: Total OIC Exports and Imports (2016)



Source: IMF Direction of Trade Statistics

The total of OIC exports fell slightly by 12.5 percent from USD 1.6 trillion in 2015 to USD 1.4 trillion in 2016. The low level of growth in the region, the decrease in oil prices and the depreciation of local currencies were among the principal reasons that caused the decrease in exports in the OIC region.

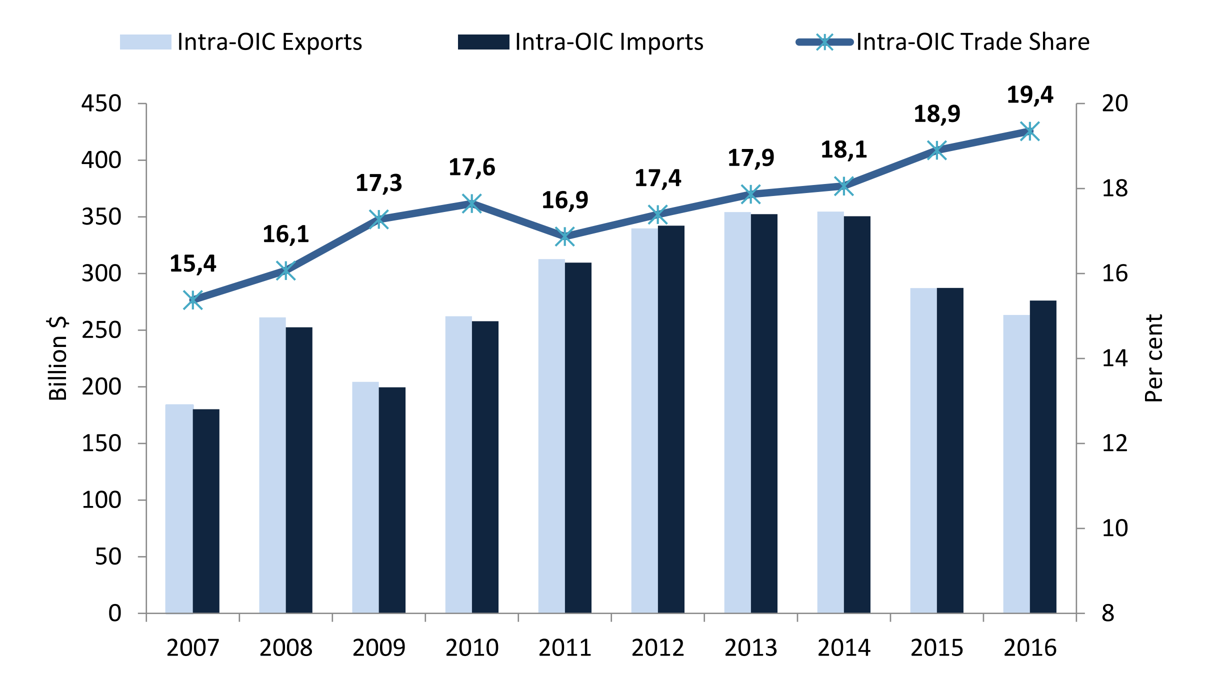
Furthermore, the total of OIC imports, which continued to increase in the 2012 - 2014 period, fell by 11 per cent to USD 1.6 trillion in 2016. Thus, the total of OIC trade fell by 11.7 percent from USD 3.4 trillion in 2014 to USD 3 trillion in 2016.

Developments in Intra-OIC Trade

Despite its high potential, intra-OIC trade is below the desired level, due to various 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. As Figure 3 demonstrates, despite these challenges, the share of intra-OIC trade increased to 19.4 percent in 2016, from 18.9 in 2015.

In 2016, intra-OIC exports accounted for 19.7 percent of the total of OIC exports, while intra-OIC imports accounted for 19 percent of the total of OIC imports. Figure 3 shows the trends in intra-OIC trade since 2007.

Figure 3: Developments in Intra-OIC Trade 2007-2016 (Billion US Dollars)



Source: SESRIC Economic Outlook 2017

2. Global Trends in Trade Facilitation

Since 2013, important developments have taken place with regard to enhancing global trade. 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 by the 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.

The Trade Facilitation Agreement (TFA) mainly specifies measures for eliminating barriers against international trade, through the streamlining and simplifying of customs procedures. According to the WTO, the agreement may increase global merchandise exports by up to $1 trillion per annum. The TFA entered into force with the completion of the ratification by 121 WTO Members, as of September 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, the lack of adequate infrastructure, inefficient legal frameworks, bureaucratic customs operations and the lack of well-functioning coordination mechanisms among the relevant government agencies and the 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 the 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

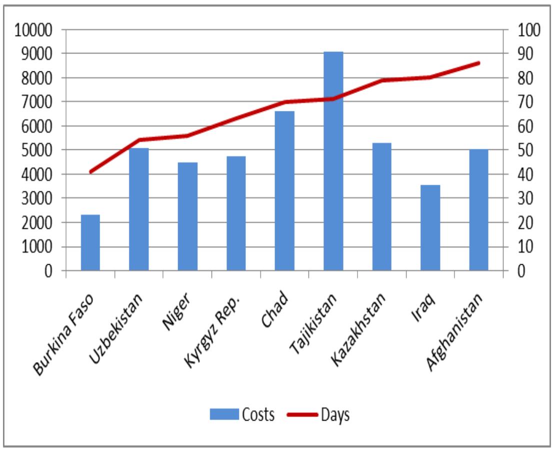
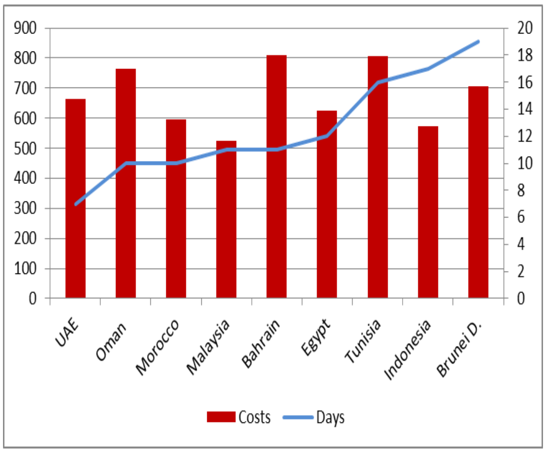


Figure 5: Days for and Cost of Exports in the highest ranked Member States



Source: World Bank

Nevertheless, the Trade Facilitation Agreement could be an important leverage for the Member Countries to improve the present figures. As of September 2017, 27 OIC Member Countries have ratified the Agreement.

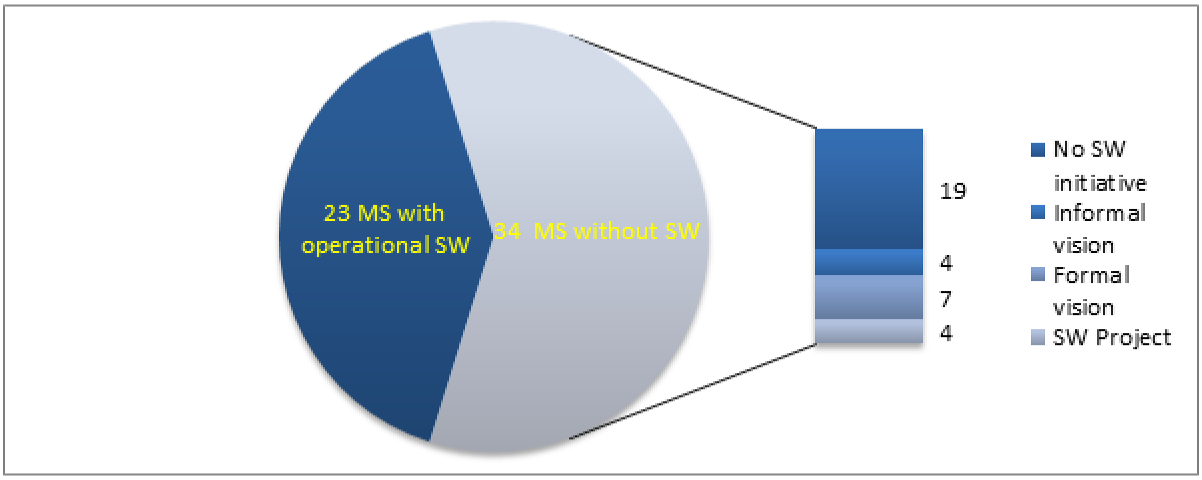
4. Trade Facilitation and Single Window Systems in the OIC Member Countries

Due to the importance of this 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 various aspects of trade facilitation, as strengthening compliance to international standards and improving 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." At 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 in recent years the Member Countries have been showing great interest in Single Window Systems. 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 establishing 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

5. Special Economic Zones in the OIC Region

Special Economic Zones (SEZ) are important instruments for improving national and regional economic growth and increasing national income. They enable countries to attract foreign direct investments, facilitate economic diversification, create employment and deepen as well as extend industry value chains. Taking its importance into consideration, the COMCEC TWG has focused on the theme of Special Economic Zones in the OIC Member States in its 10th Meeting held on November 2nd, 2017. During the meeting, the participants deliberated on the global practices and trends in special economic zones and the current status of the OIC Member Countries regarding the special economic zones.

According to the research report prepared for this meeting, through SEZs, governments can facilitate human capital development, generate government revenue streams, reduce government expenditure on unemployment benefits and provide markets for domestically produced goods and services. SEZs can also contribute to the host country's export rates due to their ability to produce goods and services, which are sold in foreign markets.

The report reveals that there has been a rapid expansion of SEZs worldwide since 1980s. There are approximately 242 SEZs operating within 33 OIC Member Countries. Approximately 36% of SEZs in the OIC Region are Free Trade Zones, while approximately 25% are classified as Export Processing Zones (EPZ). They are followed by Hybrid EPZs and other types of SEZs with 15% and 14% respectively.

For the report, 2 field visits have been conducted for making in-depth analysis. According to the field visits, Penang Zone in Malaysia has attracted about 16 billion USD since 1999 and it is estimated that more than 250 thousand direct and indirect jobs have been created in Penang. Moreover, the export value of the zone was approximately 29 billion US Dollar in 2016, which was equal to 14.5 percent of total national exports.

Moreover, Tanger MED Zone in Morocco has attracted 4.2 billion USD since 2003, which is approximately 8 percent of national FDI flows. It also created more than 65 thousand direct jobs and more than 30 thousand indirect jobs. The export value of zone was 6.5 billion USD in 2016, which is about 25 percent of total Morocco exports.

According to the report, the following challenges are faced by the Member Countries with respect to the development of SEZs:

- Poor governance and regulatory environment - including ease of doing business,
- Poor business environment,
- Inefficient zone management,
- Unreliable utilities infrastructure,
- Poor quality transport infrastructure[1].

In order to address these challenges, the Working Group has come up with the following policy recommendations:

- Designing and programming Special Economic Zones in line with national economic strategies for ensuring their complementarity with national economic growth targets and industry sector priorities,
- Improving economic performance of SEZ programmes through developing unique incentives frameworks – fiscal and non-fiscal - which attract investments and foster effective and efficient business environments,
- Improving the competitive advantage of SEZ programmes through effective site and sector targeting based on a robust understanding of national economic priorities and competitive advantages,
- Designing an efficient legal and regulatory framework to create a 'special' economic operating environment, which considers and complements the existing legal and regulatory environment,
- Assigning/Establishing a single SEZ authority to regulate all SEZs within the country and supporting SEZ programmes through active involvement of key stakeholders and development of SEZ working groups.

6. 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 for fostering 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, the required number of countries having met the 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 System to enter into force there are some practical steps that should be taken by the participating member states. The most important step in this context is the updating of

[1] COMCEC Coordination Office, Special Economic Zones in the OIC Member States: Learning From Experience, 2017.

the concession lists. By November 2017, Turkey, Malaysia, Morocco, Pakistan, Jordan, Bangladesh and Iran have submitted their updated concession lists. In this regard for the operationalization of the system three participating Member Countries need to submit their updated concession lists.

On the other hand, for successful implementation of the System, the Member Countries are required to undertake some internal measures, 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 the completion of these measures, the System would become fully operational.

In addition to the technical preparations for operationalization of the TPS-OIC System, the relevant OIC Institutions have been organizing various activities towards increasing awareness on the potential benefits of the TPS-OIC. In this regard, ICDT organized the Workshop on TPS-OIC in collaboration with the COMCEC Coordination Office on 13-14 September 2017 in Jakarta/Indonesia.

7. COMCEC Project Funding Mechanism

Through its Project Funding Mechanism, the CCO provides grants to the selected projects proposed by the relevant OIC institutions and Member States that have already registered with the Trade Working Group.

In 2016, the Ministry of Trade, Industry and Cooperatives of Uganda implemented the project, 'Improving Delivery of Trade Facilitation Services'. The project owner, as a first step, has conducted a study tour of Egypt and Turkey. The Project Expert met with the relevant organizations to discuss the current status concerning trade facilitation issues in partner countries. The visits also helped to identify solutions for establishing national trade facilitation boards (NTFBs) in partner countries. A two-day workshop was organized to discuss trade facilitation issues and seek possibilities for establishing NTFBs in Uganda, Turkey and Egypt. An analytical report on the topic was produced at the end of the project.

Three projects in the area of trade cooperation are being implemented in 2017. The first project is 'Facilitating Trade Relations between Palestine and Islamic Countries,' which is being carried out by the Ministry of National Economy of Palestine. The project mainly consists of two workshops organized in Algeria and Saudi Arabia, which are aimed at changing the image of the Palestinian export and business environment, as well as current trade relations among the respective countries.

The owner of the second project is the Ministry of Trade and Industry of Suriname. The project is expected to strengthen SME support services in Suriname and Guyana, to enhance their participation in global value chains. The project has three main activities, namely: (i) the preparation of a comparative study among Suriname, Guyana and Turkey on their current situation on 'doing business' for SMEs, (ii) training the SMEs on market access and (iii) creating a SME support unit in the Ministry for assisting SMEs, through a web application called the 'virtual one stop center.'

The last project is being implemented by the ICDT. Its purpose is the simplification and the facilitation of trade procedures in the OIC Member States, by establishing an OIC Observatory on non-trade barriers (NTBs), in order to gather the complaints of OIC's Member States exporters and consider the ways and means of enhancing trade flows between Member Countries. The project is expected to create a separate web module for member countries to report on NTBs, based on the feedback gathered during a seminar also organized under the project.

Moreover, the CCO made the fifth project call in September 2017. Accordingly, for the 2018 implementation period, 7 project proposals have been short-listed in the trade cooperation area.

ANNEX 1

MEMBER STATES THAT SIGNED / RATIFIED THE TPS-OIC AGREEMENTS *(Until November 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	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.