BRIEF ON TRADE COOPERATION

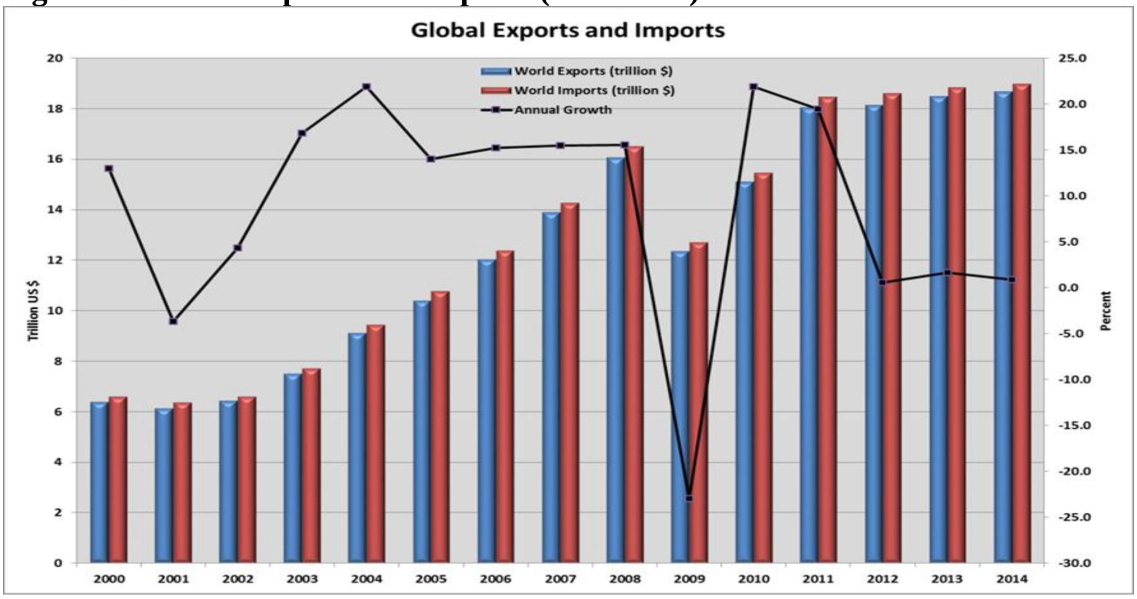
This document is prepared by the COMCEC Coordination Office with a view to give a brief summary on the developments on trade in the world and in the OIC Member States as well as recent cooperation efforts in the area of trade under the auspices of the COMCEC.

International trade is an important catalyst for economic and social development. Evidence shows that trade can help to boost development and reduce poverty by generating growth through increased commercial opportunities and investment, as well as broadening the productive base through private sector development. 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 and the composition of trade has been enriched and recently, its direction has shifted towards the developing world.

1- Recent Developments in Global Trade

The world trade registered a significant increase in 2003-2008, 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 has recovered in 2010, and continued to increase in 2012 and 2013, the improvements have been slow to catch up with the pre-crisis growth rates, due to the concerns on 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 (2000-2014)

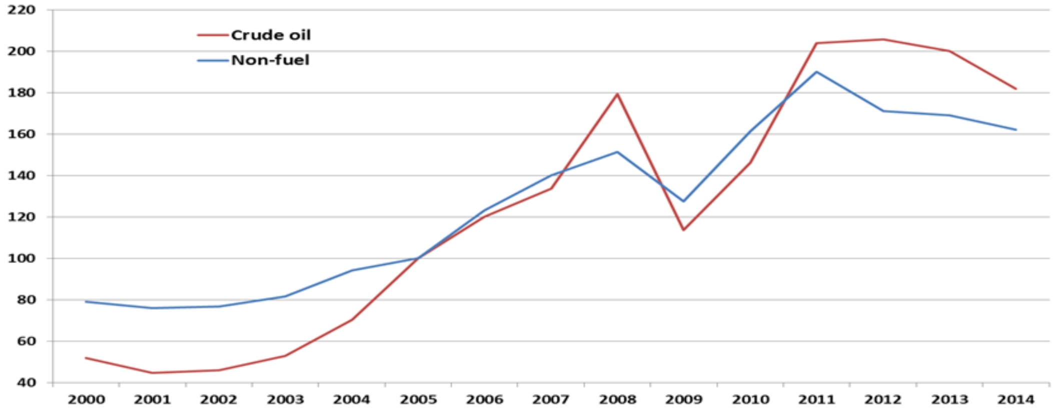


Source: IMF Direction of Trade Statistics

As an indicator of global demand and supply levels, commodity prices increased steadily beginning from 2003 owing to strong global growth, increases in global industrial production, especially in emerging economies (mainly China), the increasing political instability in the

Middle-East, and depreciation trend in US dollar. Against a severe fall in 2009 due to the global economic crisis, prices retracted strongly in 2010 and 2011. However commodity prices have been in a declining trend since 2012. In 2014 commodity prices fell by 6.3 percent, mainly due to weak global demand especially in emerging economies and increases in oil and metals supply.

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



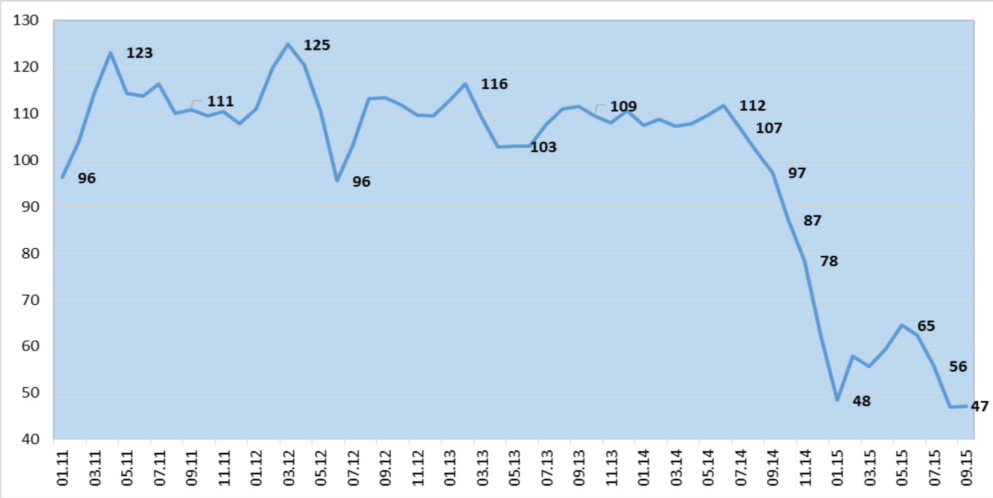
Non-Fuel Price Index, 2005 = 100, includes Food and Beverages and Industrial Inputs Price Indices (includes agricultural raw materials and metals price indicies), Crude Oil (petroleum), Price index, 2005 = 100 Dated Brent spot prices.

Source: IMF

On the other side, oil prices which soared during mid-2000s fell sharply in 2009 but started to increase beginning from late 2010 as a result of political instability in the Middle East. Prices remained relatively stable around 111 dollars per barrel in 2011 and 2013 period. However, they fell sharply by 44.4 per cent to 60 dollars between June and December 2014. Although oil prices declined further to 48 dollars per barrel in January 2015, there was a partial recovery in the first half of 2015. On the other hand, beginning with July 2015, a decline was examined in the oil prices, in which prices are averaged to 47 dollars per barrel in August and September 2015, specifically due to increasing volatility in exchange rates and concerns over lower oil demand growth in emerging market economies.

Both demand side and supply side factors played a role in the collapse in oil prices in recent years. On the supply side the surge in oil production in non-OPEC countries, especially the United States and the OPEC's policy shift towards keeping its market share by maintaining its production level rather than targeting a price band contributed to sharp fall in oil prices. Additionally, increasing production in Iraq and partly in Libya also increased oil supply. Among the demand side factors were the weakness of demand in some advanced countries and the slowing pace of growth in emerging market economies especially in China. Additionally, improvements in energy efficiency played an important role in slowing global oil consumption.

Figure 3: Monthly Brent Oil Prices (dollars per barrel)



Source: IMF Commodity Price Statistics

It is also worth noting that important developments took place since 2013 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 upon 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 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). Final text of the Trade Facilitation Agreement was adopted in November 2014. TFA will be operational after the formal acceptance of the Agreement by the two third of the WTO members. As of September 2015, 17 countries have formally accepted the WTO TFA.

2- Recent Trends in Trade of the OIC Countries

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. However, following a mild increase in 2012, total OIC exports decreased by 3.3 per cent in the second consecutive year in 2014 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, 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 and amounted to USD 2.1 trillion in 2014. Thus total OIC trade remained at around the same levels of USD 4.2 trillion in this period.

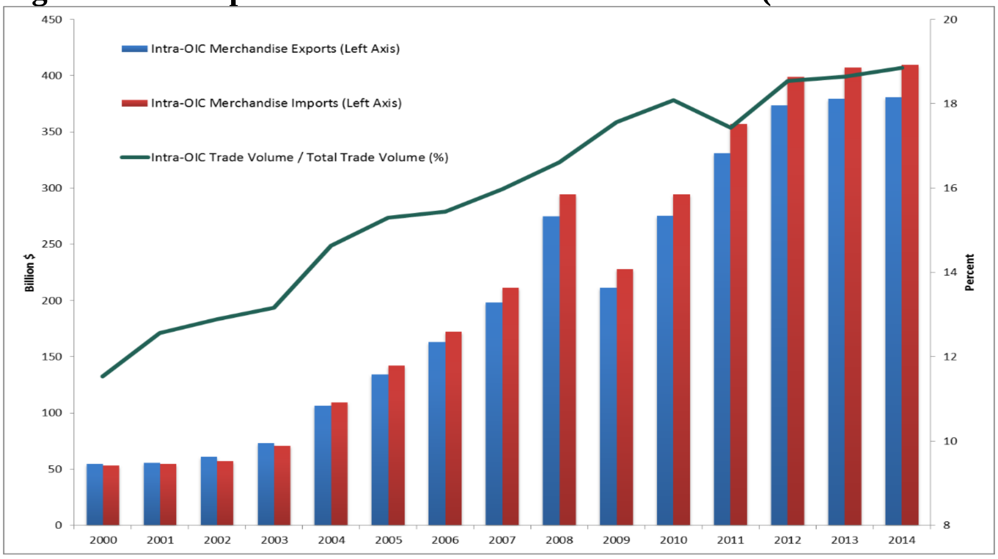
Two characteristics of the total OIC exports still constitute a risk for the future: First is the dominant role of the mineral fuels in the exports. The share of mineral fuels in total OIC exports was 60.2 percent in 2014 (ITC Trade Map). The fluctuations in oil prices constitute an important risk for oil exporters. Second, the top ten countries in the OIC trade 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 exports of few commodities. Accordingly, the contribution of these countries in total OIC trade 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.

3- 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 custom 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 18.8 percent in 2014, while intra-OIC exports accounted for 17.7 percent of total OIC exports whereas intra OIC imports amounted to 19.9 percent of total OIC imports. Figure 4 shows the trends in intra-OIC trade since 2000.

Among the top ten leading countries in intra-OIC trade in 2014, United Arab Emirates ranked first followed by Turkey, Saudi Arabia, Iran, Indonesia, Malaysia, Pakistan, Oman, Iraq and Syria. Top ten countries accounted for the 69.5 percent of the intra-OIC trade.

Figure 4: Developments in Intra-OIC Trade 2000-2014 (Billion US Dollars)



Source: IMF Direction of Trade Statistics

4- 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. Being the flagship project in the area of trade, Trade Preferential System among the Member States of the OIC (TPS-OIC) is very close to operationalization after completion of some tasks by the Member Countries related to implementation. Various trade finance and export credit mechanisms within the IDB Group such as ITFC 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 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.

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.

Meetings of the COMCEC Trade Working Group in 2015

In its fifth meeting, held on March 26th, 2015 in Ankara, Turkey, the COMCEC Trade Working Group focused on improving the role of Export Credit Agencies (ECAs) in the OIC Member States. ECAs are financial institutions or facilities established by governments whose mandate is to support and encourage exports and outward investment by providing financial services in support of international trade and investment transactions.

The OIC countries are relatively new in the business of export credit support. Out of the 57 member countries, only 23 have ECAs, Eximbanks or similar programs. Among these, Egypt, Indonesia and Iran have both an insurance and lending agency, bringing the total number of entities in the region to 26. Regional entities also exist in the OIC such as the Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC) and Arab Investment and Export Credit Guarantee Corporation (DHAMAN).

After fruitful deliberations, the fifth meeting of the COMCEC Trade Working Group came up with the following policy recommendations:

- Member States are encouraged to examine and assess the financing needs of their exporters
- Member States are invited to enhance transactional cooperation among their ECAs
- Member States are encouraged to review the soundness of their ECAs with the aim of improving the overall performance of the ECAs
- Member states are called on to promote public-private dialogue within the ECA context

The 6th Meeting of the COMCEC Trade Working Group was held on September 17th, 2015 with the theme of "Establishing Well-Functioning National Trade Facilitation Bodies in the Member States." NTFBs aim to achieve higher level of trade facilitation which could be defined as the act of simplification of procedures in international trade operations. Historically, international organizations encouraged countries to establish NTFBs. Most recently, the World Trade Organization (WTO), included the matter into the negotiations of its Trade Facilitation Agreement (TFA) (Article 22.3), which was accepted in Bali in December 2013.

Approximately, out of 57, 39 OIC Member States have formed a variety of coordination mechanism that could be identified as NTFBs. Therefore, it could be said that the vast majority of OIC Members are in compliance with this requirement of the WTO's TFA. On the other hand, while it may differ from country to country, many member countries come across common obstacles when trying to establish their NTFBs. Some of the main obstacles are; lack of political priority, lack of designation of a leading agency, no clear objectives, no permanent secretariat and lack of regular convening of NTFB meetings.
After extensive deliberations on the topic, the Trade Working Group underlined the following policy recommendations for the OIC Member Countries:

- Establishing effective communication systems within the framework of the work of the NTFBs
- Involving the private sector in the activities of the NTFBs
- Extending technical assistance to the member states for establishing/maintaining NTFBs
- Designing Performance Evaluation Criteria for the Existing NTFBs

The 7th Meeting of the COMCEC Trade Working Group will be held on February 25th, 2016 with the theme of "Strengthening the Compliance of OIC Member States to International Standards".

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, three projects submitted by the Member States and OIC Institutions were selected for funding by the COMCEC Coordination Office.

MEMBER STATES THAT SIGNED / RATIFIED THE TPS-OIC AGREEMENTS *(As of November 2015)*

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**	**13**

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