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Standing Committee
for Economic and Commercial Cooperation
of the Organization of Islamic Cooperation (COMCEC)

COMCEC TRADE OUTLOOK 2015

COMCEC COORDINATION OFFICE
August 2015

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Ankara, August 2015

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ACKNOWLEDGEMENT

The COMCEC Trade Outlook is a contribution of the COMCEC Coordination Office to enrich the discussions during the Trade Working Group Meetings.

Trade Working Group is established in accordance with the COMCEC Strategy, adopted during the 4th Extraordinary Islamic Summit held in Makkah on 14-15 August 2012, which envisages Working Group Meetings as one of the instruments for its implementation. Trade Working Group Meetings aim at providing the country experts with the chance to elaborate trade cooperation issues thoroughly and share their good practices and experiences.

The COMCEC Trade Outlook 2015 has been prepared by Ms. Vildan BARAN and Mr. Ahmet OKUR experts at the COMCEC Coordination Office, with the objective of providing an overview of international trade of the Organization of the Islamic Cooperation (OIC) Member States. It focuses on trends and characteristics of intra-OIC trade and attempts to identify the major common obstacles hindering trade.

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INTRODUCTION

International trade has been a major contributor to economic growth in various regions in the past decades. Many developing countries managed to increase their growth rates, to create employment and to alleviate poverty through trade. Others still face the challenges of integrating into global trade in such a way to benefit from the increases in global trade.

The 57 OIC Member States show great diversity in terms of geography, size, population and economic development. Although remarkable expansion has been observed in the volume of trade between the OIC and the rest of the world, as well as in the intra-OIC trade, there have been significant differences in trade performance across member countries. Many OIC members depend solely on oil as the source of export revenues, whereas Least Developed OIC members depend mainly on primary commodities exports. Ensuring an enabling environment for trade to enhance export capacity, to increase the share of higher value added products and to diversify exports is a main challenge for OIC Members.

The Standing Committee for Economic and Commercial Cooperation of the Organization of the Islamic Cooperation (COMCEC) is the responsible platform within the OIC for enhancing economic and commercial cooperation among the Member States. Since the commencement of its activities in 1984, COMCEC has initiated many programs and projects towards increasing intra-OIC trade (trade among the Member States), addressing the problems faced in trade liberalization, trade facilitation, trade promotion and trade financing in the Member States.

In order to address these issues more efficiently, the COMCEC Strategy was adopted by the Fourth Extra-Ordinary Islamic Summit Conference held on 14-15 August 2012 in Makkah Al-Mukarramah. Trade is defined as one of the cooperation areas in the Strategy, with the strategic objective of increasing trade among the Member States. Defining trade liberalization, trade facilitation, trade promotion and trade financing as the output areas, COMCEC aims at achieving strategy's targets through new implementation instruments namely Trade Working Group and Project Cycle Management.

The present document aims at providing a general outlook of the international trade of the OIC Member States and identifying common challenges they face in increasing their trade. Despite their economic and social differences, these countries face similar obstacles such as protectionist trade regimes, dependency on commodity exports, burdensome procedures increasing the cost of trade, limited access to overseas markets, inadequate financial resources and underdeveloped financial systems.

Besides giving background information on the activities of the COMCEC for increasing intra-OIC trade, the document also introduces the COMCEC Strategy for increasing trade and addressing the common obstacles faced by the Member States towards reaching this goal.

This Outlook has six sections: The First Section provides the latest trends and developments in global trade.

The Second Section gives a general overview of the total trade of the OIC Member States. It outlines the characteristics of trade between the Member States and the rest of the world by highlighting the composition, direction and the volume of the OIC Member States' trade and by evaluating the degree of openness of the OIC Member States.

In the Third Section a general overview of the intra-trade of the OIC Member States is provided in terms of composition and origin as a group as well as subgroups within the OIC.

The Fourth Section provides a general overview of the trade environment in the OIC Member States. It summarizes the basic challenges commonly faced by many Member States regarding trade liberalization, trade facilitation, trade promotion and trade financing.

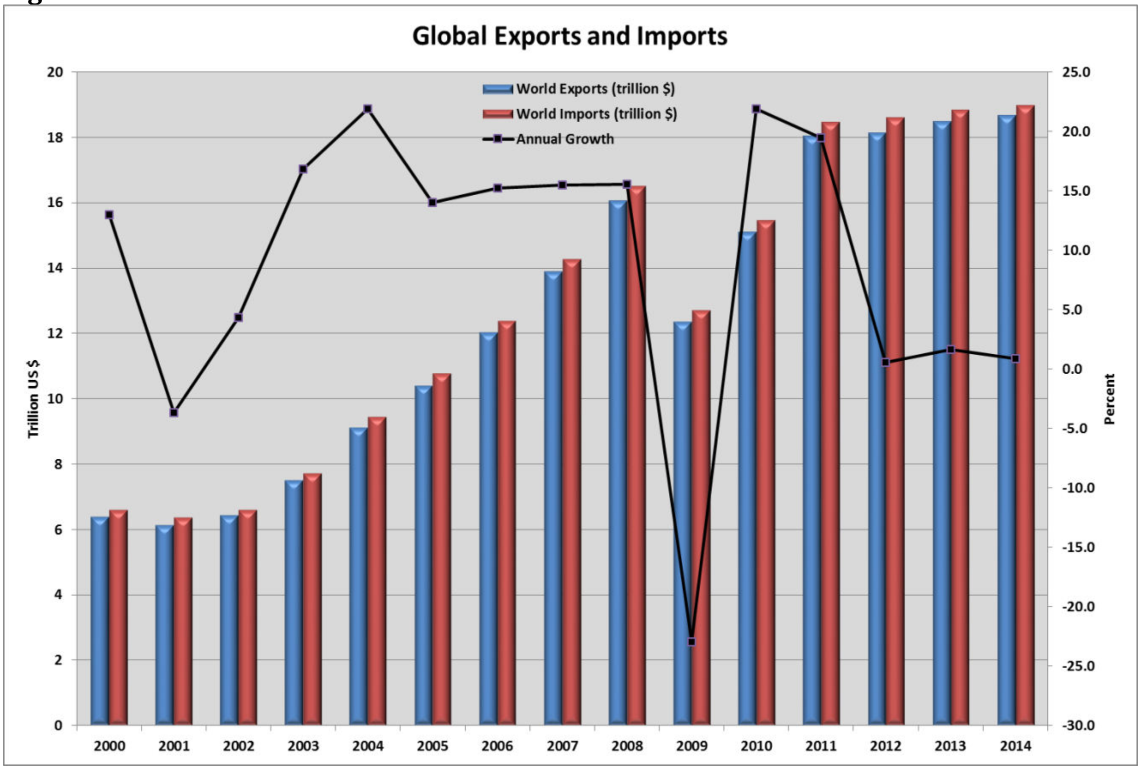
The Fifth Section concentrates on the role of the COMCEC in improving the trading environment in the Member States and enhancing intra-OIC trade.

Finally, the Sixth Section concludes.

1. DEVELOPMENTS IN GLOBAL TRADE

World merchandise trade (in dollar terms) increased drastically in the past decade preceding the global crisis. Although more than five years have passed since the global crisis, the pace of growth of world trade remained subdued. Thus world trade amounted to 18.7 trillion dollars in 2014.

Figure 1: Global Trade



Source: IMF Direction of Trade Statistics

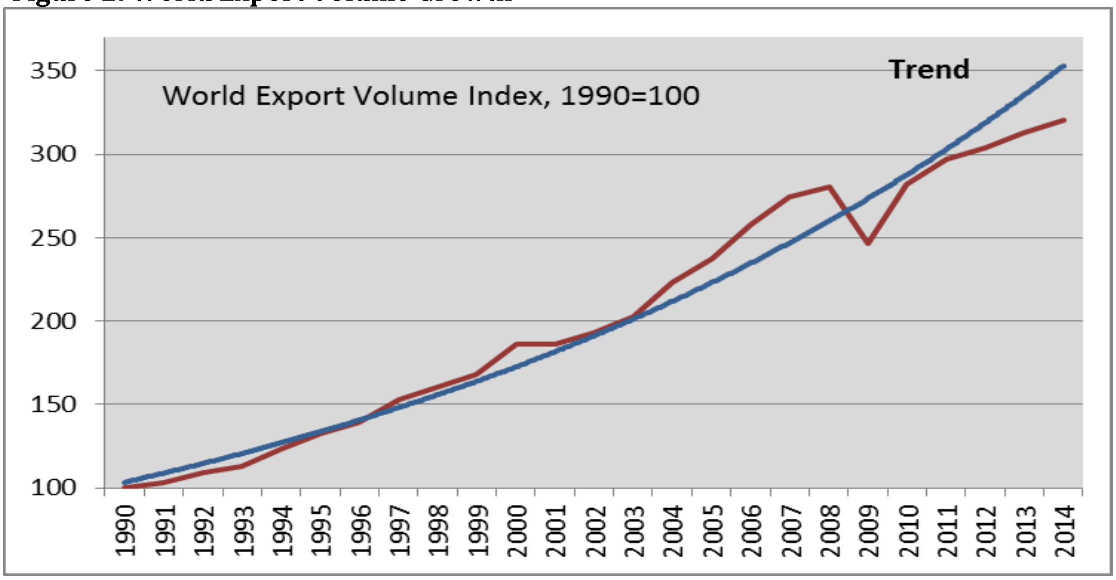
As seen in the Figure 2, world merchandise trade in real terms (i.e. accounting for changes in prices and exchange rates) recorded dramatic increases in this period as well. The average annual growth rate of the volume of world merchandise trade was 5.9 per cent between 1990 and 2008. However, real world merchandise trade growth stayed below its long-term average growth rates in the years following the global crisis. In other words, global trade has not returned to the rapid pace of growth of the pre-crisis years. World merchandise trade growth increased slightly to 2.8 per cent in 2014 from 2.4 per cent in 2013.(WTO 2015)

The slow pace of trade growth in 2014 was mostly on account of weak global GDP growth in this period. Growth performance was especially weak in developing and emerging economies. In Emerging Market and Developing Economies the growth of exports fell from 3.9 in 2013 to

3.6 per cent in 2014 whereas import demand fell from 5.3 in 2013 to 2.0 per cent in 2014. Exchange rate fluctuations particularly appretiation of US dolar, oil price slump and rising geopolitical tensions were among other factors that weighed on world trade in 2014. (WTO 2015)

IMF (2015)[1] discusses also in detail structural factors that might have affected the world trade. It points to a structural shift in the relation between the growth of world GDP and world trade as observed in the income elasticity of trade (the ratio of trade growth to GDP growth). While the income elasticity of world trade was 2 for the period 1986 to 2000, it declined to 1.3 for the period 2001 to 2014. This means world trade became less responsive to GDP growth. The decrease in income elasticity of trade is explained partly by the slowing pace of fragmentation of production into global value chains.

Figure 2: World Export Volume Growth



Source: WTO

"Four main trends shaped the upward trend in the global trade"

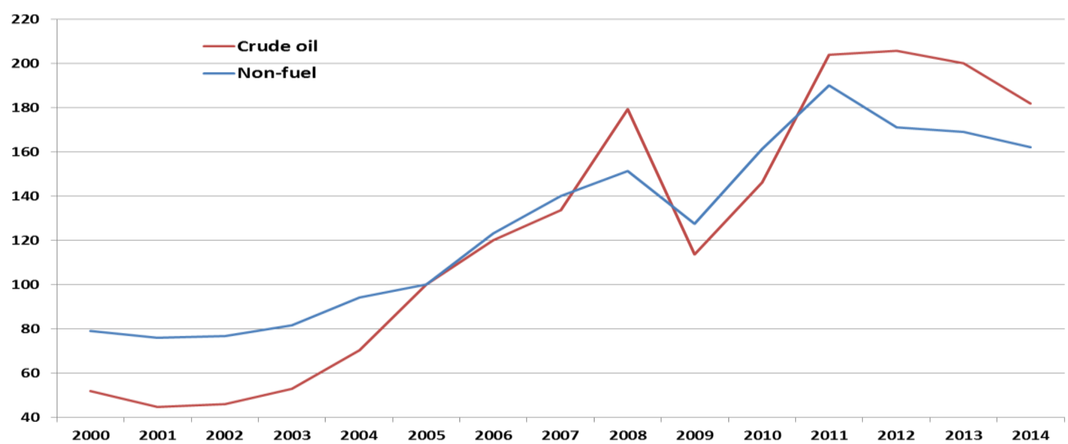
The upward trend in the world merchandise trade over the past decades was characterized by the changes in the patterns of global trade. Four main patterns in this period were the change in the composition of trade due to mainly commodity price developments, increasing participation in global value chains, rising share of the developing countries and the proliferation of preferential trade agreements.(WTO 2014) [2]

[1] IMF WEO 2015 Chapter 1. http://www.imf.org/external/pubs/ft/weo/2015/01/
[2] For more information visit https://www.wto.org/english/res_e/publications_e/wtr14_e.htm

Commodity prices increased steadily beginning from 2003 due to increases in global industrial production, especially in emerging Asian economies (mainly China), the increasing political instability in the Middle-East, supply constraints in oil and depreciation trend in US dollar. After a severe fall in 2009 due to the global economic crisis, commodity prices increased sharply by around 26 per cent both in 2010 and 2011. However 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 increases in oil and metals supply.

The crude oil (Brent) price which was 25.0 dollars per barrel in 2002 increased steadily and reached 97.7 dollars per barrel prior to the global crisis. After falling sharply in 2009, oil prices started to increase and peaked at 112.0 dollars per barrel in 2012 due to mainly political instability in the Middle East. Brent oil prices remained relatively stable and averaged 111 dollars per barrel in the last three years between 2011 and 2013. However oil prices decreased by 9.1 per cent in 2014 while non-fuel commodity prices decreased by 4.0 per cent (Figure 3).

Figure 3: Developments in Oil and Non-Fuel Commodity Price Indices (2005=100)



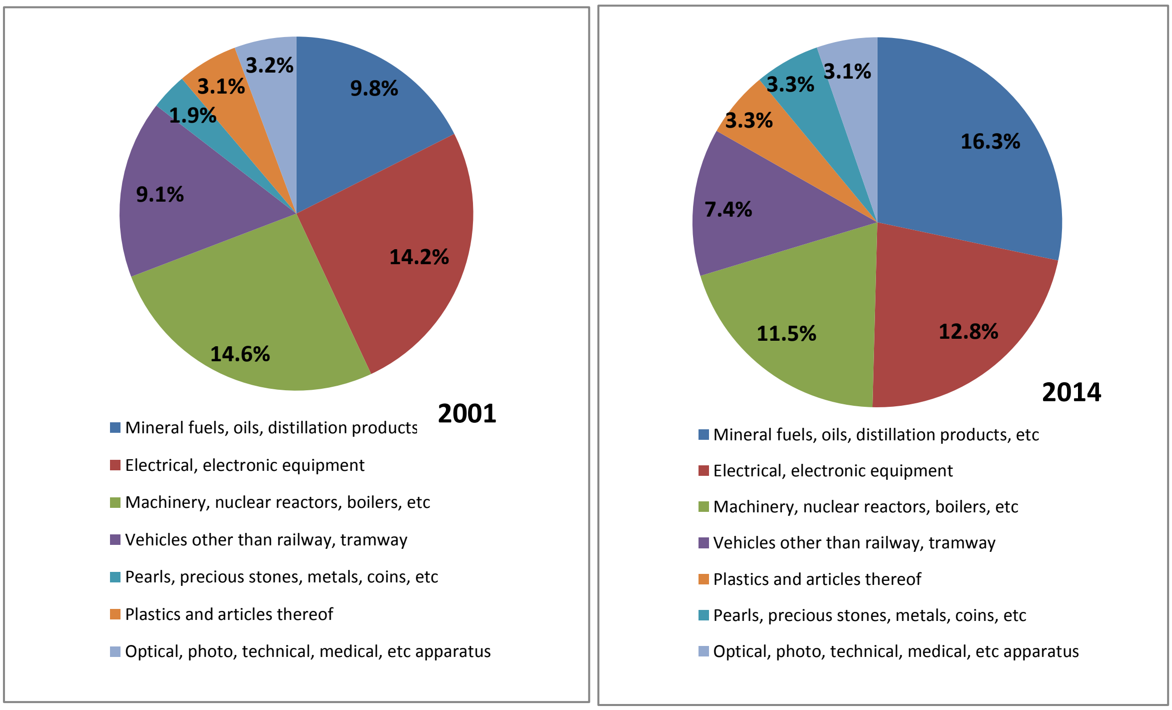
Non-Fuel Price Index, 2005 = 100, includes Food and Beverages and Industrial Inputs Price Indices (includes agricultural raw materials and metals price indicies), Crude Oil (petroleum), Price index, 2005 = 100 Dated Brent spot prices.

Source: IMF

"The share of commodities in the world trade increased due to soaring commodity prices"

High increases in oil prices reflected themselves in the rising share of commodities in global trade. Thus, the share of mineral fuels in global exports rose from 9.8 per cent in 2001 to 16.3 per cent in 2014, moving up to the first place. On the other hand, exports of machinery, nuclear reactors and electrical, electronic equipment which constituted at first and second place with shares of 14.6 percent and 14.2 percent in global trade in 2001 respectively fell to third and second place with shares 11.5 percent and 12.8 percent respectively in 2014. Figure 4 below, shows the composition of world exports in 2014 compared to 2001.

Figure 4: World Exports by Sectors



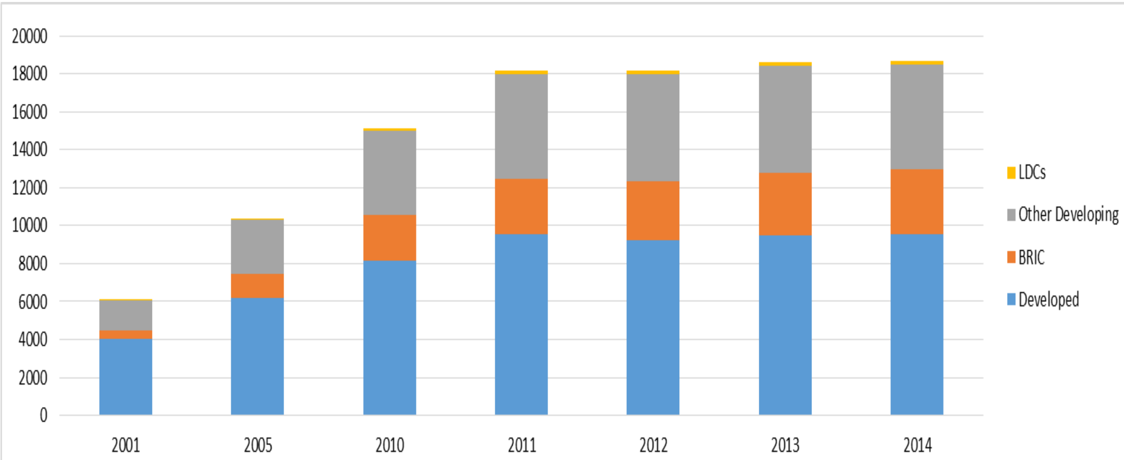
Source: ITC Trademap

Second major trend shaping the world trade was the fragmentation of global production which mainly led by the technological innovations in communication and transportation. These in turn by lowering trade costs enabled countries to specialize in production of specific tasks or components instead of entire final products. According to WTO (2014) almost half of the world's gross exports are based on global value chains (GVCs). Developing countries' participation in GVCs has significantly increased over the past decade as more than half of developing country exports in value-added terms involve global value chains. Moreover GVC based trade among developing countries also increased as reflected in the fourfold rise in the share of trade in parts and components in total trade between developing countries between 1988 and 2013.

The rising share of developing economies in world trade was the third dominant pattern in the world trade. During the last decade the share of developing countries in global trade increased steadily. Their share in world exports increased from 32.7 percent in 2001 to 48.7 percent in

2014. This increase was mainly led by the exports of Brazil, Russia, India and China (BRIC) and other Asian developing countries. BRIC countries' share in world exports reached from 7.7 per cent in 2001 to 18.1 percent in 2014. The developing countries as a group have increased their share in world imports from 29.5 percent in 2001 to 45.2 percent in 2014. The share of BRIC countries in global imports reached 15.6 percent in 2014.

Figure 5: Evolution of Developing Countries' Exports (Billion Dollars)

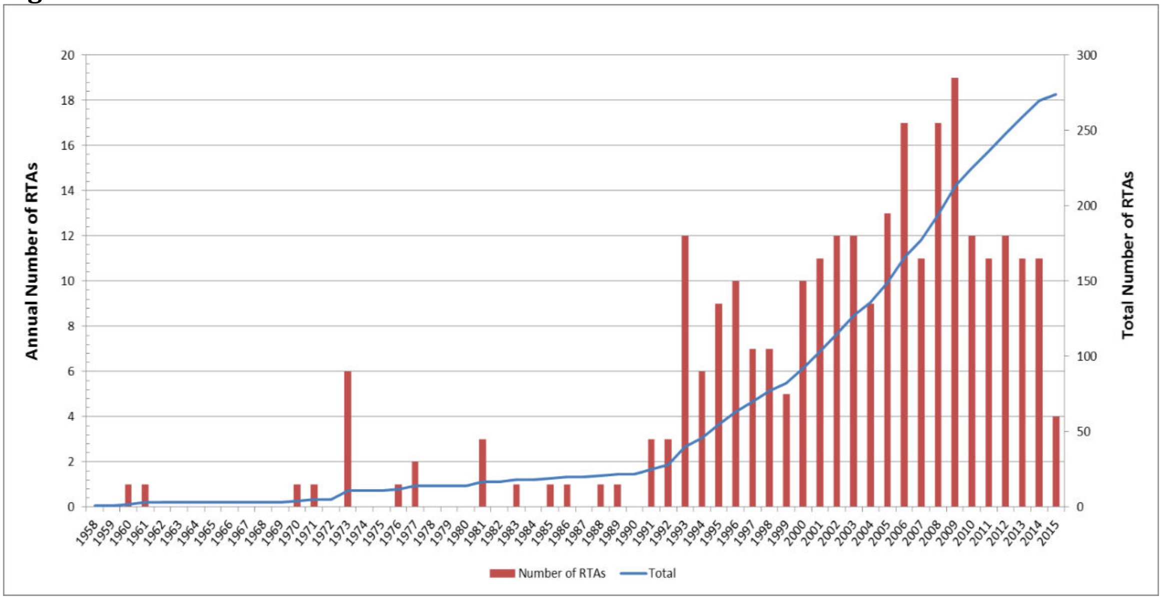


Source: ITC Trademap

A fourth major trend was the proliferation of Regional Trade Agreements (RTAs). Many countries participate to the existing RTAs or initiate new ones. The European Union, The European Free Trade Association (EFTA), The North American Free Trade Agreement (NAFTA), The Southern Common Market (MERCOSUR), The Association of Southeast Asian Nations (ASEAN) Free Trade Area (AFTA), and the Common Market of Eastern and Southern Africa (COMESA) are among the best known RTAs. While the World Trade Organization (WTO) expanded, reaching 161 Members and 23 Observers by April 2015, countries also initiated new RTAs to increase their competitiveness in foreign markets during the last decade. As of April 2015 the number of RTAs in force reached 262. Figure 6 below shows the increasing number of RTAs since 1958. According to WTO[3] data Free Trade Agreements and partial scope agreements account for 90 per cent, while customs unions account for 10 per cent of these RTAs.

[3] http://www.wto.org/english/tratop_e/region_e/region_e.htm

Figure 6: Number of RTAs Notified to the WTO



Source: http://rtais.wto.org/UI/PublicAllRTAList.aspx

Box 1: Preferential Trade Agreements

In the past two decades participation to Preferential Trade Agreements (PTAs) has accelerated and become more widespread. While in 1990 there were only about 70 PTAs in force, number of PTAs that are in force reached to 262 in 2015. (WTO database[4])

A trend observed in recent years is that many countries prefer being part of deeper preferential trade agreements. Moreover, the coverage of PTAs also expanded. According to the World Trade Report 2014, provisions related to competition policy, investment, standards and intellectual property rights are now included in more than 40 per cent of preferential trade agreements.

Table-A below could be used to evaluate whether the steady increase in the number of preferential agreements in recent years affected the trade between member countries. As may be observed from the table, the EU has the largest intra- PTA shares, with intra-export and intra-import shares were 63 per cent and 59 per cent respectively. For NAFTA, intra-PTA export was 50 per cent while intra- PTA imports was 35 percent. However in ASEAN, most of the trade (76 per cent) was with the countries out of the agreement. On the other hand, when some PTAs in the OIC region evaluated; intra-PTA export shares in total are small for GCC, ECO, ECOWAS and WAEMU ranging between 6 to 16 per cent.

[4] http://www.wto.org/english/tratop_e/region_e/region_e.htm

Table A: Intra and Extra Trade in Selected Preferential Trade Agreements - 2014						
	World (billion dollars)		Intra-PTA share in total (%)		Extra-PTA share in total (%)	
	Export	Import	Export	Import	Export	Import
ASEAN (Association of South-East Asian Nations)	1,299	1,236	25.3	23.0	74.7	77.0
CEMAC (Economic and Monetary Community of Central Africa)	38	26	1.7	4.3	98.3	95.7
Commonwealth of Independent States (CIS)	736	473	16.7	22.4	83.3	77.6
Common Market for Eastern and Southern Africa (COMESA)	95	184	11.3	6.4	88.7	93.6
EAC (East African Community)	14	40	18.5	7.0	81.5	93.0
Economic Co-operation Organization (ECO)	412	440	11.1	7.8	88.9	92.2
Economic Community of West African States (ECOWAS)	138	116	9.7	10.9	90.3	89.1
European Free Trade Association (EFTA)	387	297	0.7	0.9	99.3	99.1
European Union (28)	6,119	5,971	62.7	58.9	37.3	41.1
Gulf Cooperation Council (GCC)	1,023	545	6.1	10.5	93.9	89.5
Southern Common Market (ME RCOSUR)	392	362	13.2	13.8	86.8	86.2
North American Free Trade Agreement (NAFTA)	2,493	3,270	50.2	34.7	49.8	65.3
SAARC (South Asian Association for Regional Cooperation)	386	586	6.8	4.2	93.2	95.8
WAEMU (West African Economic and Monetary Union)	24	32	15.8	11.0	84.2	89.0

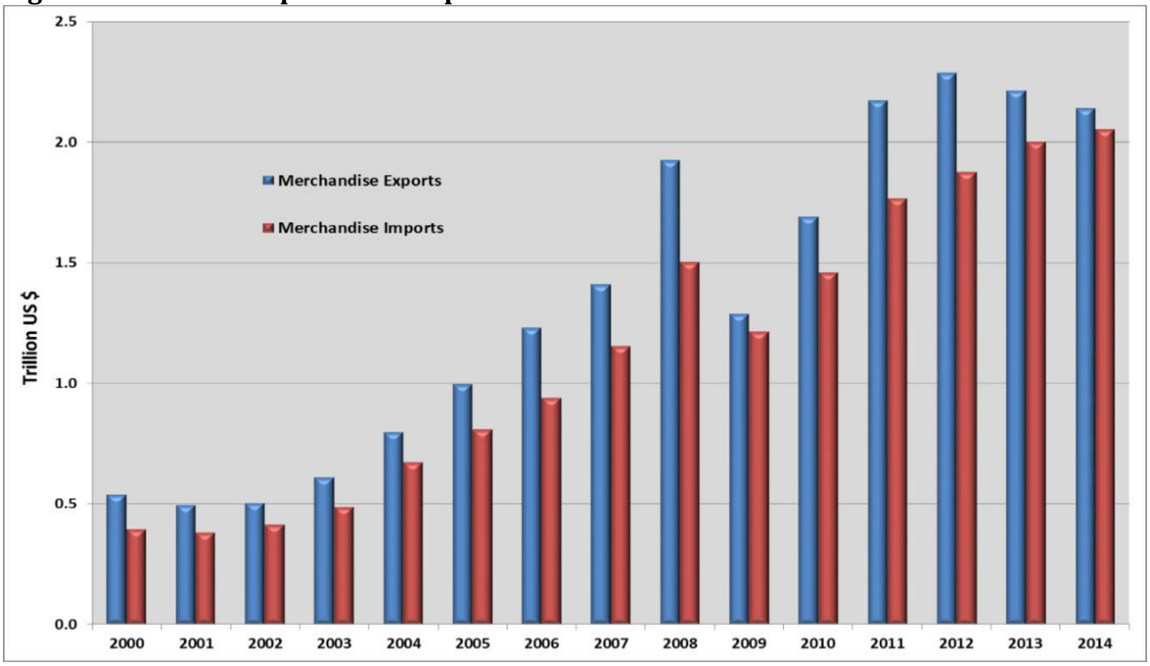
Source: UNCTADSTAT

2. TRADE BETWEEN OIC AND THE WORLD

The total OIC exports increased rapidly from 2002 onwards till the global crisis in 2009 when it declined sharply by 33 per cent. The dramatic increases in total OIC exports resulted from both the surge in commodity prices especially oil prices and the increases in the exports of main manufactures exporters namely Malaysia, Turkey and Indonesia . (see Figure 7). Total OIC exports recovered strongly following the global crisis mainly on account of increases in global economic activity and oil prices. Thus total OIC exports amounted to USD 2.2 trillion in 2011. 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. On the other hand 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 the last three years.

"Total OIC exports fell by 3.3 per cent in 2014 mostly on account of collapse in oil prices and weak global demand "

Figure 7: Total OIC Exports and Imports



Source: IMF Direction of Trade Statistics

Table 1 shows the OIC countries which have the largest negative impact on the percentage fall of the total OIC exports in descending order. Among the mentioned countries, Libya ranks first accounting for the 0.9 points followed by Saudi Arabia by 0.8 points, Algeria and United Arab Emirates by 0.4 points. (Table 1)

Several factors accounted for the decline in total OIC exports in 2014 including the sluggish pace of world demand growth, the fall in commodity prices resulting mainly from the collapse in oil prices in the second half of 2014, fall in oil demand and ongoing political transition in many countries in Middle East.

According to IMF World Economic Outlook[5] growth in advanced countries increased slightly although it was uneven among the countries. United States continued to grow whereas growth prospects in Euro Area and Japan was weak. Emerging Market and Developing Economies' output growth slowed down in 2014. (see Table 2).

Growth performance of China being the main export market for OIC Member States is particularly important as slowdown in Chinese growth might have negative implications on OIC exports. In fact, China's average growth was remarkable in the past decades.

[5] IMF, World Economic Outlook Update, May 2015. http://www.imf.org/external/pubs/ft/weo/2014/update/02/

Table 1: Contributions to Change in Total OIC Exports

	Per cent Share in Total OIC Exports 2013	2014	Exports(billion dollars) 2013	2014	Per Cent Change 2014/13	Contribution to Change in Total OIC Exports 2014/13
Libya	1.8	0.9	39.1	19.8	-49.4	-0.9
Saudi Arabia	15.8	15.6	350.7	333.8	-4.8	-0.8
Algeria	3.0	2.6	65.9	56.0	-15.1	-0.4
UAE	12.1	12.1	268.3	260.0	-3.1	-0.4
Kazakhstan	2.8	2.6	62.9	55.8	-11.3	-0.3
Kuwait	4.5	4.4	100.3	93.4	-6.9	-0.3
Indonesia	8.2	8.2	182.6	176.3	-3.4	-0.3
Qatar	6.2	6.1	136.9	131.6	-3.9	-0.2
Iraq	3.7	3.7	82.8	79.5	-3.9	-0.1
Nigeria	4.4	4.4	96.5	93.8	-2.8	-0.1

Source: IMF Direction of Trade Statistics

Chinese economy grew by 10.8 per cent annually between 2003 and 2011 but the pace of growth started to slowdown in 2012. China continued to grow albeit at a slower pace compared to previous decade as growth in the last three years (2012-2014) averaging 7.5 per cent. China's economic growth is estimated to be slowing further in the coming years and this could possibly weigh on OIC exports.

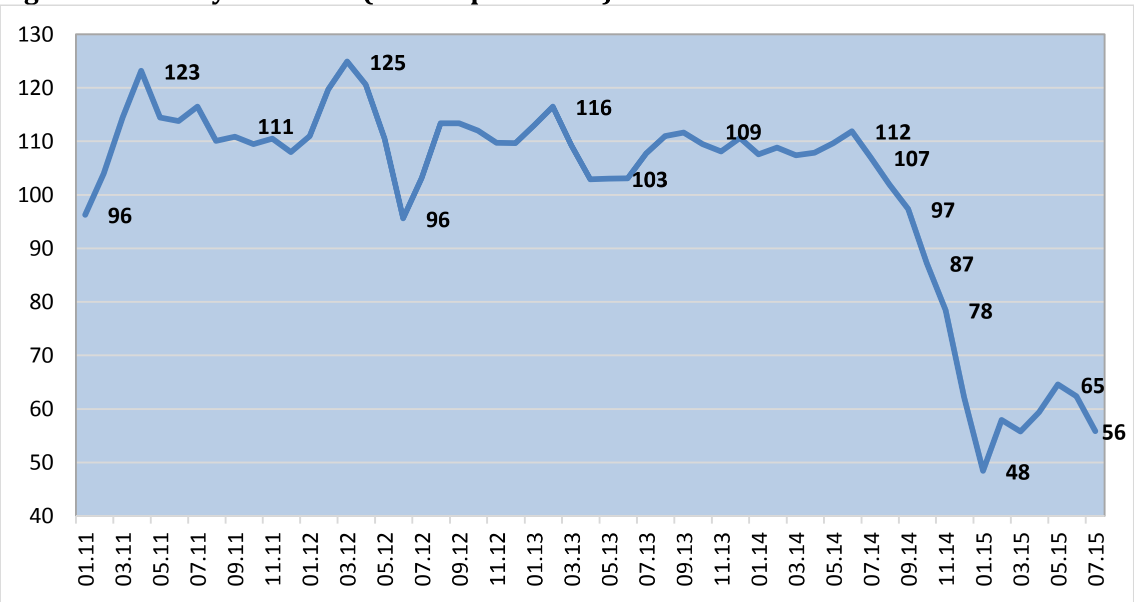
Table 2: Real GDP Growth

	2013	2014
World Output	3.4	3.4
Advanced Countries	1.4	1.8
United States	2.2	2.4
Euro Area	-0.5	0.9
Japan	1.6	-0.1
Emerging Market and Developing Economies	5.0	4.6
Russia	1.3	0.6
China	7.8	7.4
India	6.9	7.2
Middle East and North Africa	2.3	2.4

Source: IMF World Economic Outlook, May 2015 Update

Commodity prices fell by 6.3 per cent in 2014 mainly stemming from the slump in crude oil (Brent) prices. Oil prices which remained relatively stable in the last three years around 111 dollars per barrel fell sharply by 44.4 per cent to 60 dollars in December 2014 from their levels of 112 dollars in June 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. However, in July 2015 oil prices fell by 10.4 per cent mainly owing to expectations for increased oil supply due to continued OPEC production and potential oil exports by Iran. (see Figure 8) (IMF 2015b)

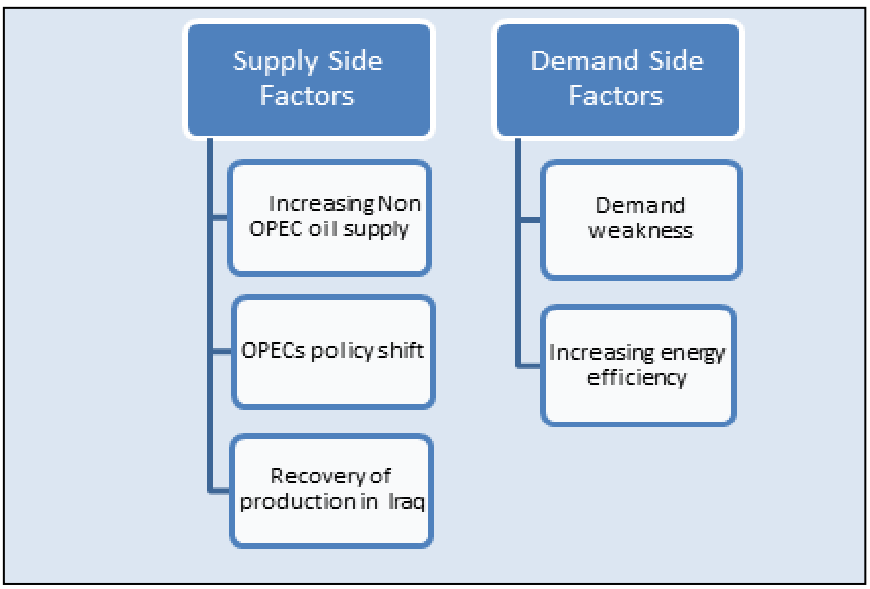
Figure 8: Monthly Oil Prices (dollars per barrel)



Source: IMF Commodity Price Statistics

Both demand side and supply side factors played a role in the collapse in oil prices. On the supply side, the surge in crude oil production in countries outside the Organization of Petroleum Exporting Countries (OPEC), especially the United States increased oil supply. Moreover, OPEC adjusted spare capacity to keep prices within the band of 100-110 dollars per barrel between 2011 and 2014. However OPEC' policy shift on November 27, 2014 towards preserving its market share by maintaining its production level of 30 millions of barrel per day (mbd) 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.[6] Among the demand side factors were the weakness of demand in some advanced countries and slowing pace of growth in Emerging countries especially in China. According to WEO Update (2015) the pace of growth of global oil consumption decreased markedly in 2014 to about 0.7 mbd, about half the growth recorded in 2012–13. This slowdown was mainly owing to consumption declines in especially in Organisation for Economic Co-operation and Development (OECD) countries (mainly in Europe and Japan). Although oil consumption in emerging market economies grew by 2.5 percent in 2014, it remained low at about 1.1 mbd. Additionally, improvements in energy efficiency played an important role in slowing global oil consumption.

Figure 9: Main Factors Driving Recent Oil Price Slump[7]



Source: Authors

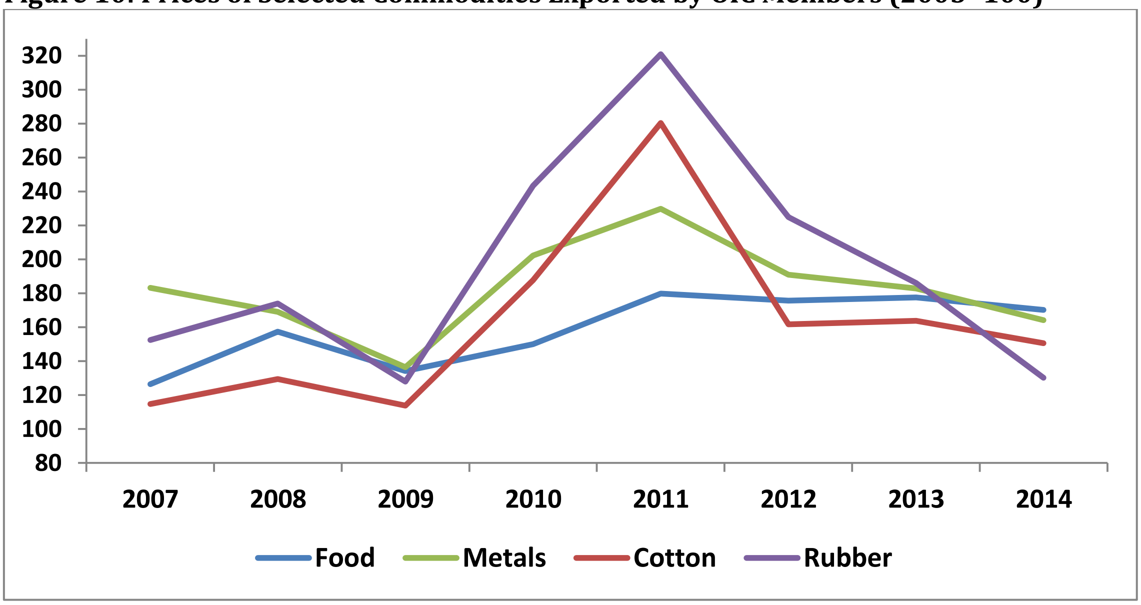
[6] WEO May 2015 Update
[7] For a detailed discussion see IMF, World Economic Outlook, April 2015 and Arezki, Rabah, and Olivier J. Blanchard. 2014. "Seven Questions about the Recent Oil Price Slump," iMFdirect (blog), International Monetary Fund, December 22. http://blogimfdirect.imf.org/2014/12/22/seven-questions-about-the-recent-oil-price-slump.

Oil price shock has different effects on oil exporters and importers. While the oil exporters lose export and fiscal revenues that might lead to possible losses in growth, oil-importing countries could benefit from reduced oil import bills and increased real incomes. However those oil importer countries having close ties with oil exporters through services exports and investment could be adversely affected. (IMF, 2015a)

"Metal prices continued to fall in 2014 mainly owing to weakening Chinese demand and increases in the supply of most metals in 2014"

Besides oil prices, non-fuel commodity prices continued to fall in the third consecutive year with 4.0 per cent decline in 2014. A closer look at the prices of the main commodity exports of some OIC member states reveals that metals prices declined by 10.3 per cent, rubber prices declined by 30.0 per cent, food prices declined by 4.1 and cotton prices declined by 8.1 per cent (Figure 10). China is the world's leading importer of the basic metals. Slowing of demand in China resulted in a decline for metals. Along with the increases in the supply of most metals, metal prices have fallen markedly in 2014. This in turn adversely affected export revenues of the OIC countries which are the exporters of these commodities.

Figure 10: Prices of Selected Commodities Exported by OIC Members (2005=100)



Source: IMF database, http://www.imf.org/external/np/res/commod/index.aspx
Note: Metals Price Index, includes Copper, Aluminum, Iron Ore, Tin, Nickel, Zinc, Lead, and Uranium Price Indices

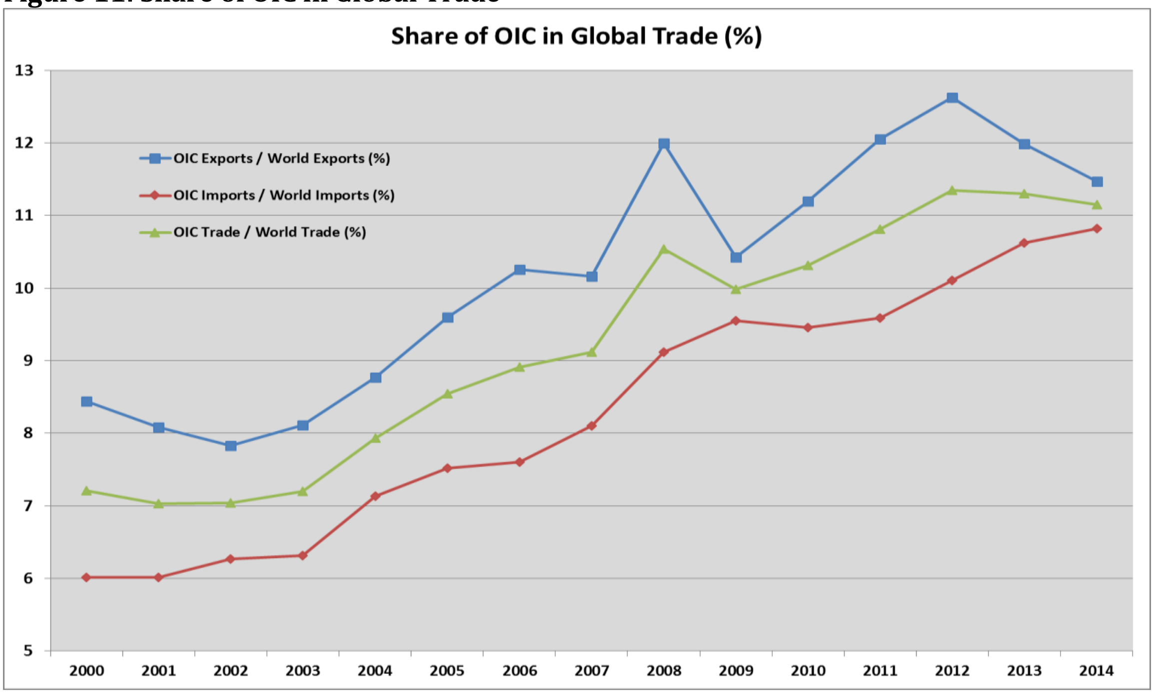
The high rates of growth in total OIC trade in the past decade reflected themselves in the rising share of OIC trade in global trade. The share of OIC countries in world trade, reached 10.5

"OIC countries' share in global trade remained at around the same levels in 2014"

percent in 2008 before falling to 10.0 per cent in 2009 (see Figure 11). The share of OIC countries in global trade recovered strongly after the crisis and peaked at 11.3 per cent in 2012 but remained at around this level since then.

The share of OIC countries in global exports jumped from around 8 per cent in the early 2000s to 12.0 per cent in 2008 but declined to 10.4 per cent in 2009. The share of OIC countries in global exports increased steadily after the global crisis and peaked at 12.6 per cent in 2012. However due to the fall in total OIC exports its share in world exports decreased to 11.5 per cent in 2014.

Figure 11: Share of OIC in Global Trade

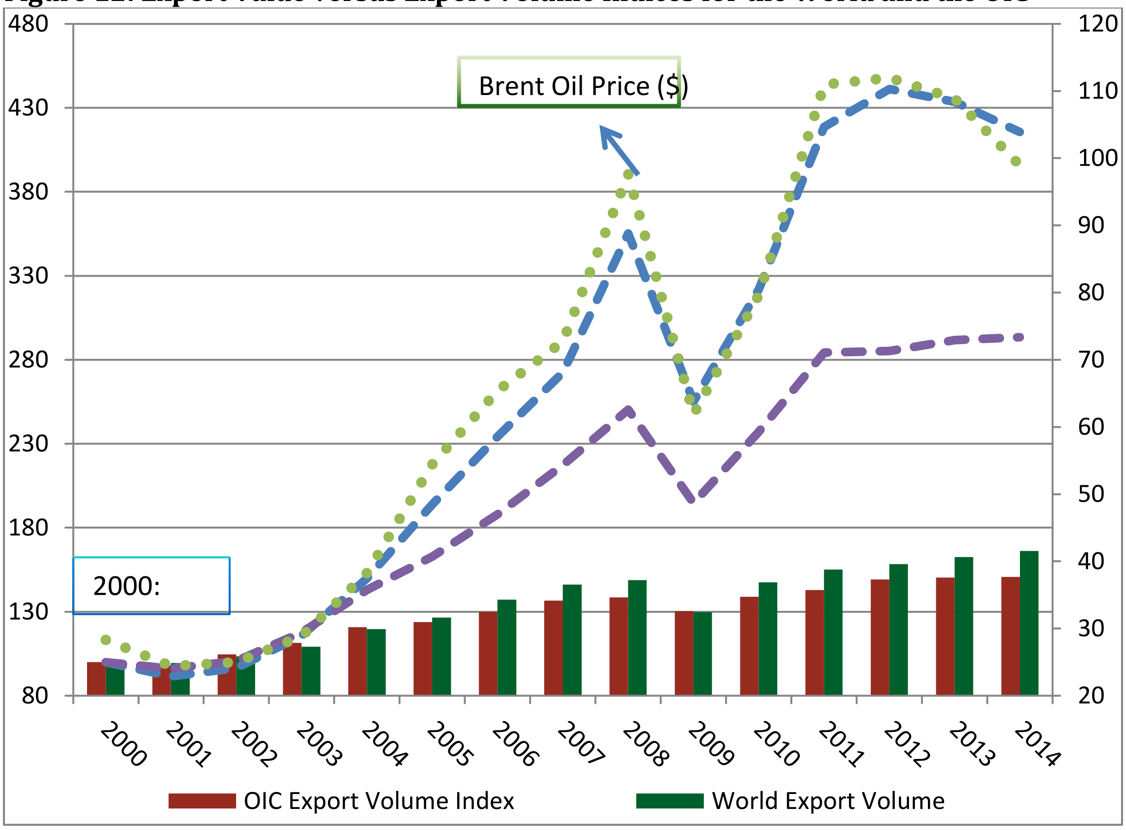


Source: IMF Direction of Trade Statistics

"World export growth outperformed OIC export growth in real terms in the last decade"

Although a remarkable performance in OIC countries in terms of increasing world export market share could be mentioned by looking merely at values, this might be misleading without comparing real trends in trade. Figure 12 below demonstrates value versus volume (i.e. eliminating the effects of prices and exchange rates) developments in total OIC and world exports. As mentioned, in value terms (i.e. in US dollars), OIC exports yielded higher growth rates than that of world exports mainly due to increases in oil prices. As a matter of fact, the performance of OIC exports was substantially in line with oil price movements (Figure 8). Between 2000-2014 periods, the total OIC exports in value terms recorded 10.7 percent increase per year on average whereas the volume increase in the total OIC exports remained at 3.0 percent. The annual average volume growth rate in world exports was 3.7 percent in this period. Thus in terms of annual average volume growth rates, world export growth outperformed OIC export growth for the period under consideration. During this period, it is noteworthy that annual average volume growth in developing country exports (6.5 percent) was above the world average.

Figure 12: Export Value versus Export Volume Indices for the World and the OIC

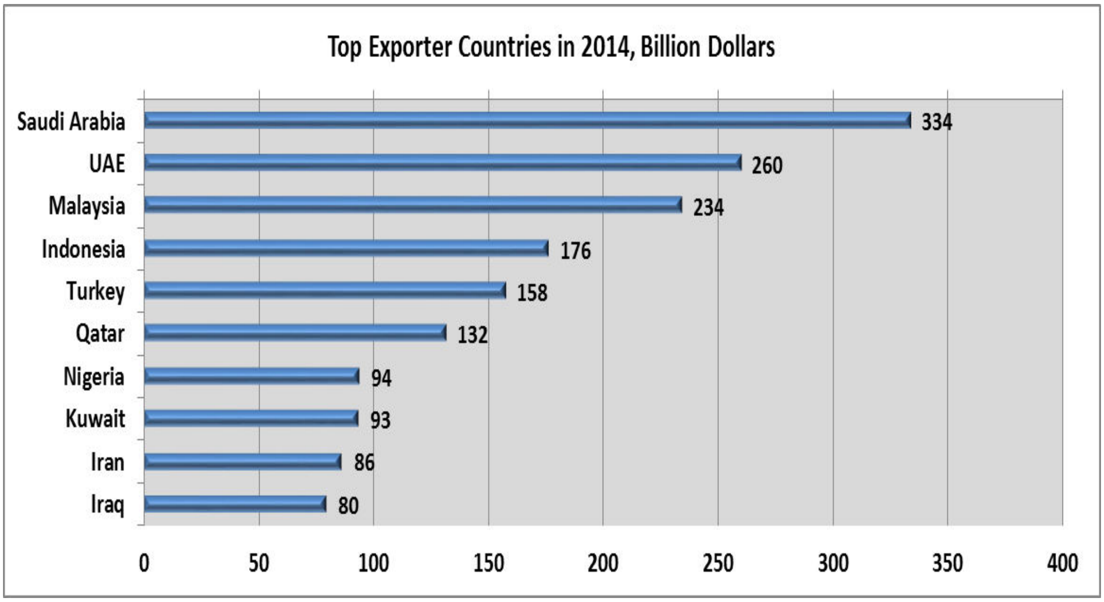


Source: UNCTADSTAT, IMF

2.1. MAIN CHARACTERISTICS OF TOTAL OIC EXPORTS

The top performers in total OIC exports were Saudi Arabia, United Arab Emirates, Malaysia, Indonesia and Turkey together accounting for slightly more than half of total OIC exports (Figure 13).

Figure 13: OIC Exports to World (2014, Billion $)



Source: IMF Direction of Trade Statistics

"The country concentration of total OIC exports is high"

The OIC export markets are highly concentrated (Table 3). Although 11 per cent of total OIC exports destined to China, OIC exports are mainly shipped to developed countries in recent years. High growth rates realized in China increased its demand for oil and other commodities in this period. Furthermore, China's increasing trade relations with the Member States resulted in steady increases in exports to this country. However, slowing pace of growth in China has significant adverse implications for OIC countries' exports. As a matter of fact high country concentration in total OIC exports makes OIC countries vulnerable to external shocks that might result from decreasing demand in these countries and/or falling commodity prices.

"OIC exports are dominated by mineral fuels and oils"

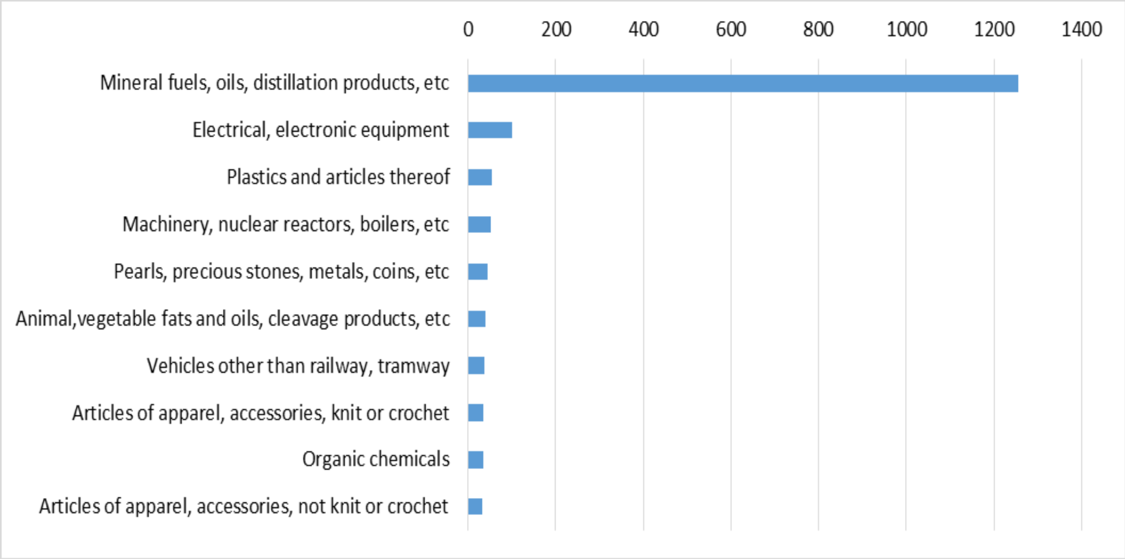
Total OIC exports are highly concentrated. The share of mineral fuels, oils and distillation products in OIC exports is 60.2 percent in 2014. This is followed by electrical electronic equipment, plastics and machinery and nuclear reactors sector. (Figure 14).

Table 3: Major Destinations of OIC Exports

Countries	(Billion $)			Share %		
	2012	2013	2014	2012	2013	2014
China	245	257	249	10.0	10.7	10.8
Japan	246	233	220	10.0	9.7	9.5
India	201	193	187	8.2	8.0	8.1
United States	185	164	150	7.5	6.8	6.5
Korea, Republic of	157	151	146	6.4	6.3	6.3
China, Taiwan Province of	135	139	133	5.5	5.8	5.7
Singapore	100	97	98	4.1	4.0	4.2
Italy	96	84	75	3.9	3.5	3.2
France	61	60	59	2.5	2.5	2.5
Netherlands	60	57	58	2.4	2.4	2.5
European Union EU (28)	460	439	424	18.7	18.3	18.3
Total of Top Ten Countries (2)	1,486	1,435	1,373	60.6	59.7	59.4

(*) Total includes intra OIC exports
Source: UNCTADSTAT

Figure 14: OIC Exports to World - Top 10 Items (2014, Billion $)



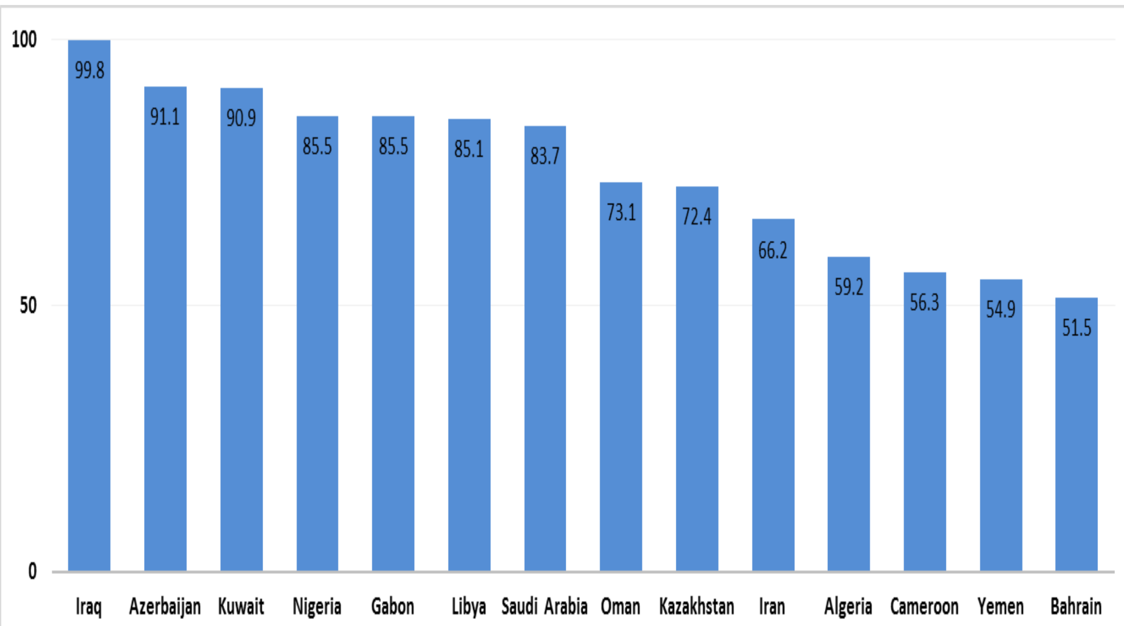
Source: ITC Trade map

"Dependence on a single commodity is common among OIC members'"

The commodity concentration was even higher when countries looked into specifically. Due to their undiversified economic structure many OIC countries rely upon a specific commodity for their exports which might result in a severe export fall in case of either foreign demand and/or price shocks or drought for agricultural commodity exporters. Recent oil price slump and fall in other commodity prices underlies the importance of policies aiming to enhance export diversification.

Figures 15 and 16 illustrate the share of the basic commodities in the total exports of some of the Member States. Petroleum was the main exported item in many members ranging between 52 to 100 per cent of total exports. On the other hand, the share of non-monetary gold reached more than half of total exports in Sudan, Mali and Burkina Faso. The share of textile related items in exports reached 88 per cent in Bangladesh, 61 per cent in Gambia and 58 per cent in Pakistan. Basic metals constituted a noticeable place in the exports of some member states such as Guinea, Mauritania and Niger where the share of metalliferous ores and metal scrap constituted around half of exports.

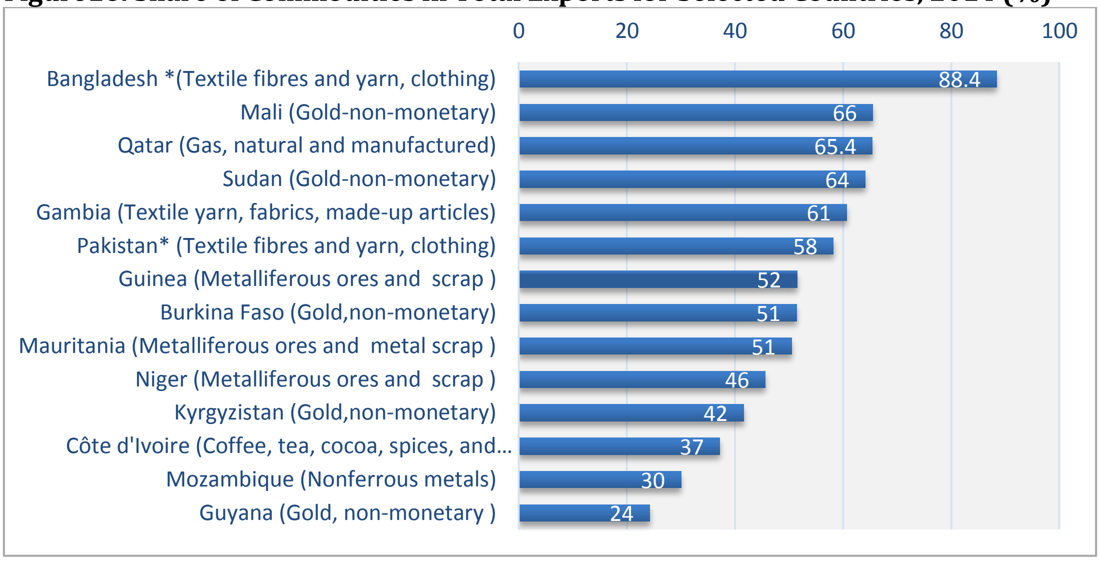
Figure 15: Share of Petroleum in Total Exports (%)



Source: UN Comtrade
Note: Latest available data were used (Iran figure was available for 2011)

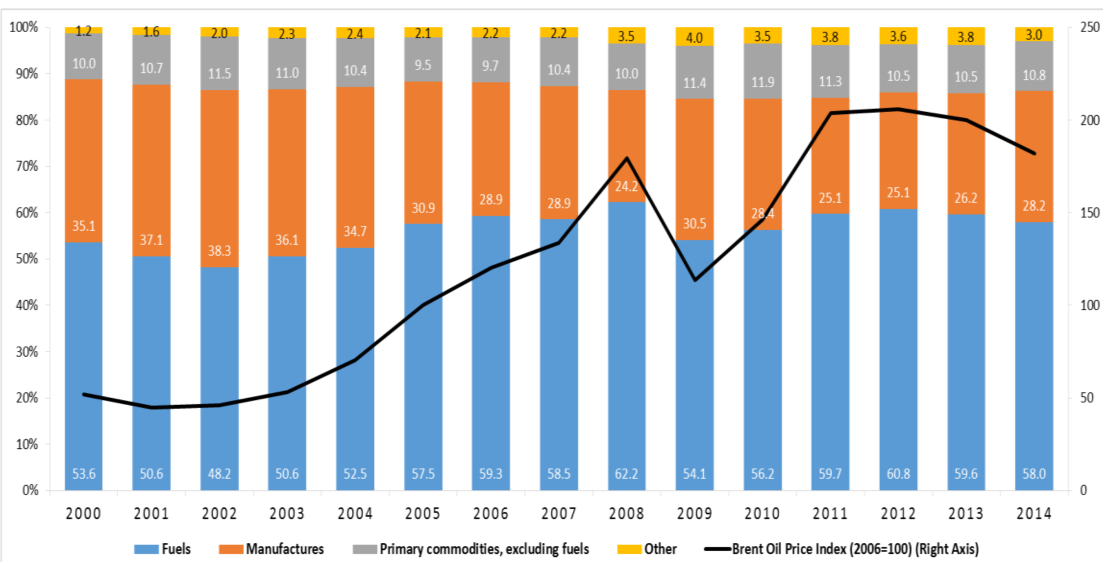
Figure 17 illustrates the evolution of OIC exports by product groups according to SITC Rev 3 versus oil price developments. The share of fuels moved in line with oil prices. Although the share of manufacturing in total OIC exports is around 25 to 28 per cent in recent years, manufactured products constitute considerable part of exports in some OIC countries such as Bangladesh, Turkey, Tunisia, Pakistan, Morocco and Malaysia where the share of manufactured goods exports in total ranges between 93 to 64 per cent.(see Table 4).

Figure16: Share of Commodities in Total Exports for Selected Countries, 2014 (%)



Source: UN Comtrade http://comtrade.un.org/db/mr/daReportersResults.aspx?bw=B
Note: Latest available data were used. * Includes SITC Rev 3 sectors 26,65 and 84

Figure 17: Evolution of OIC Exports by SITC Rev 3 Product Groups (per cent) versus Oil Price (dollars per barrel)



Source: UNCTADSTAT

"High technology manufactures make up 43 per cent of OIC manufactured goods exports"

Table 4 provides the details of the largest manufactured goods exporters of OIC by degree of manufacturing in 2014. Malaysia, Turkey, United Arab Emirates and Indonesia as being the largest manufactured goods exporters realized as a whole 65 per cent of OIC manufactured goods exports. Labor-intensive and resource-intensive manufactures make up 97 per cent of the manufactured exports in Bangladesh and 84 per cent in Pakistan. This is because textile fibers, yarn, fabrics and clothing make up 94 per cent the total manufacturing exports in Bangladesh and 78 per cent in Pakistan. The share of high-skill and technology-intensive manufactures in Saudi Arabia, Iran and Malaysia ranges between 67 to 83 per cent. When looked into detail the share of chemical products in the manufacturing exports of Saudi Arabia and in Iran are 69 per cent and 81 per cent relatively whereas share of electronic goods and parts and components is half of manufactured exports in Malaysia.

Table 4: Largest Manufactures Exporters by Degree of Manufacturing[8], 2014 (per cent)

	Share of Manufacturing in Total OIC Manufacturing	Share of Manufacturing in Country's Total Exports	Manufactured goods by degree of manufacturing	Labour-intensive and resource-intensive	Low-skill and technology-intensive	Medium-skill and technology-intensive	High-skill and technology-intensive	High-skill: Electronics (excluding parts and components) (SITC 751 + 752 + 761 + 762 + 763)	High-skill: Parts and components for electrical and electronic goods (SITC 759 + 764 + 776)	High-skill: Other, excluding electronics
Malaysia	23.0	64.2	100.0	9.9	5.2	18.4	66.5	11.2	37.0	18.3
Turkey	18.6	76.9	100.0	32.7	16.2	36.5	14.6	1.7	0.3	12.6
UAE	12.9	23.5	100.0	13.3	14.3	32.7	39.8	3.3	6.6	29.8
Indonesia	10.6	39.1	100.0	38.4	8.3	23.9	29.4	6.2	4.6	18.6
Saudi Arabia	7.9	14.5	100.0	5.4	6.0	5.6	83.0	0.1	0.3	82.6
Bangladesh	4.3	92.8	100.0	97.1	0.8	0.7	1.4	0.0	0.1	1.4
Pakistan	2.8	74.7	100.0	84.4	2.4	4.3	8.9	0.0	0.3	8.6
Morocco	2.4	66.0	100.0	34.5	2.4	29.7	33.4	0.1	5.1	28.2
Iran	2.3	17.3	100.0	7.7	10.2	10.4	71.6	0.1	0.1	71.4
Tunisia	2.0	76.1	100.0	33.8	5.7	35.7	24.8	4.5	3.9	16.4

Source: UNCTADSTAT

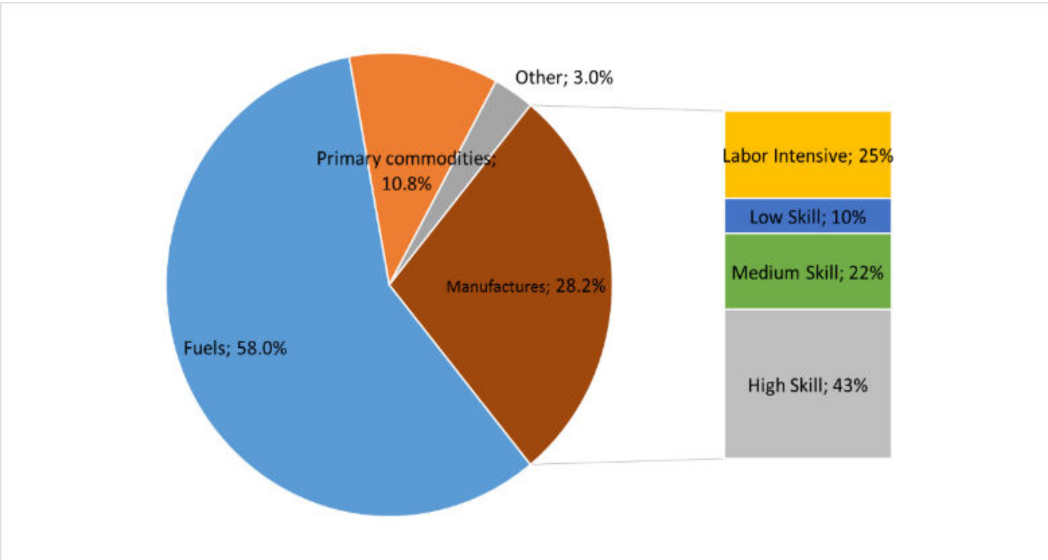
Note: Countries are ranked according to their share of manufacturing exports in total OIC manufacturing exports.

The breakdown of OIC manufacturing exports in 2014 by degree of manufacturing reveals that of the total OIC manufacturing exports 42.8 per cent is high-skill and technology-intensive manufactures, 25.2 per cent is labor-intensive and resource-intensive manufactures, 21.9 per

[8] Classification of products by degree of manufacturing is available in UNCTADstat, http://unctadstat.unctad.org/EN/Classifications.html

cent is medium-skill and technology-intensive manufactures and 10.1 per cent is low-skill and technology-intensive manufactures. (See Figure 18)

Figure 18: OIC Exports by Degree of Manufacturing, 2014

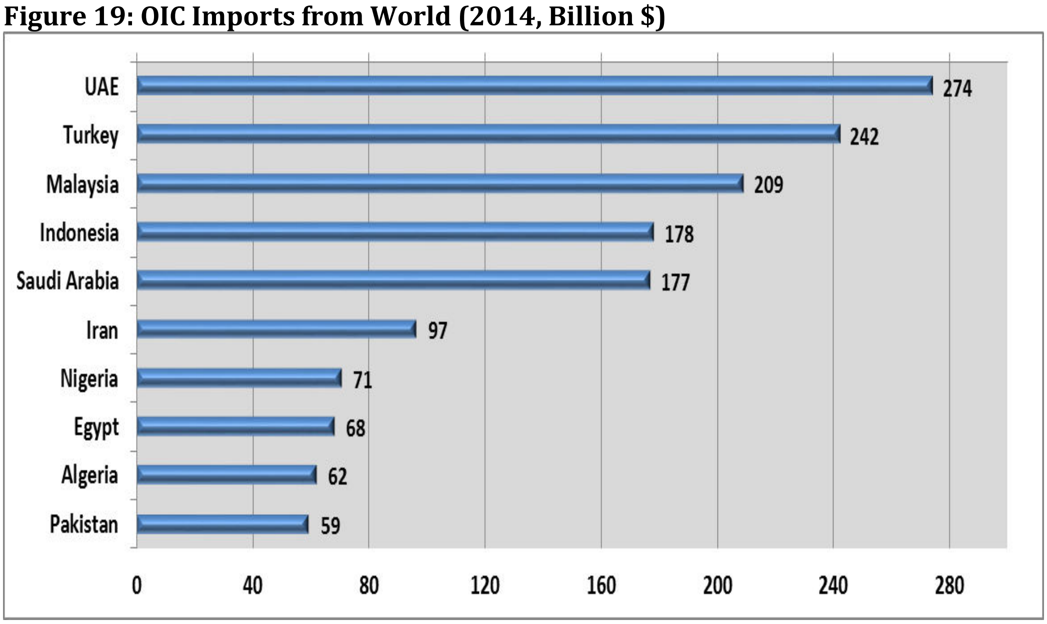


Source: UNCTADSTAT

2.2. MAIN CHARACTERISTICS OF TOTAL OIC IMPORTS

The leading exporters in total OIC exports were the main importers as well.

Figure 19: OIC Imports from World (2014, Billion $)



Source: IMF Direction of Trade Statistics

"The total OIC imports is more diversified than the total OIC exports"

As in the case with total OIC exports, total OIC imports originated mainly from developed countries except China. China was in the first place as 15.3 percent of total OIC imports made from this country in 2014. Top ten countries accounted for 54 percent of total OIC imports in this year (Table 5).

Table 5: Major Countries of Origin of OIC Imports

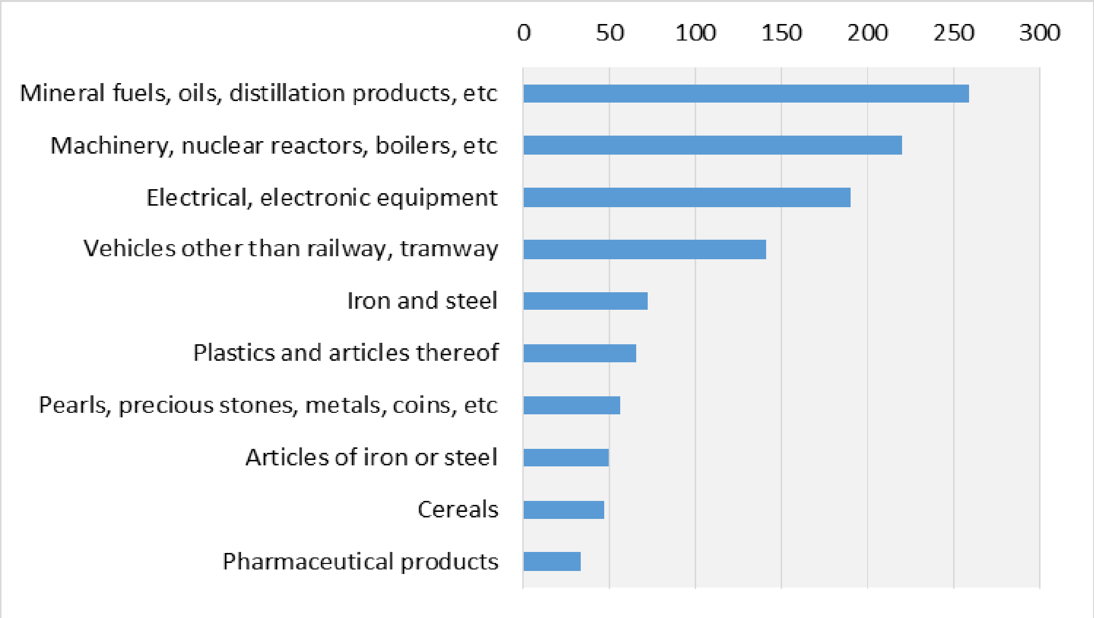
Countries	(Billion $)			Share %		
	2012	2013	2014	2012	2013	2014
China	236	264	293	12.9	13.8	15.3
United States	128	134	131	7.0	7.0	6.8
India	90	92	101	5.0	4.8	5.3
Germany	92	98	97	5.0	5.2	5.1
Japan	87	80	77	4.8	4.2	4.0
Singapore	73	74	71	4.0	3.9	3.7
Korea, Republic of	69	68	70	3.8	3.5	3.6
Russian Federation	71	70	67	3.9	3.7	3.5
Italy	62	66	66	3.4	3.5	3.4
France	63	64	64	3.4	3.3	3.3
European Union EU (28)	415	451	447	22.7	23.6	23.3
Total of Top Ten Countries (2)	971	1,011	1,038	53.2	53.0	54.0

Source: UNCTADSTAT

"The importance of trade has risen in many OIC Members in the last decade"

Although mineral fuels and oils also have the highest share in total OIC imports, manufactured items such as machinery, nuclear reactors, boilers, electrical and electronic equipment, vehicles other than railway, tramway also constitute an important part of total imports, led by the high imports of UAE, Turkey, Malaysia, Indonesia, Saudi Arabia and Iran. (see Figure 20). However, the imports of the remaining Member States is limited due to relatively low income levels, high trade barriers, weak trading capacity and undiversified production structure.

Figure 20: OIC Imports from World - Top 10 Items in 2014 (Billion $)



Source: Trademap

3. INTRA-OIC TRADE

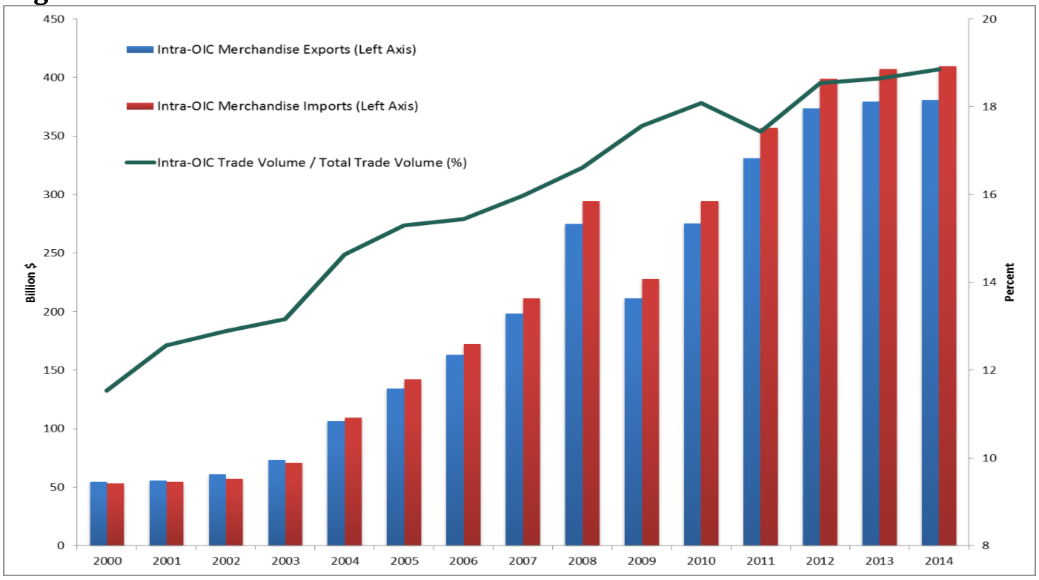
Trade among the OIC Member States rose around five-fold between 2000 and 2008, rising from 53.9 billion dollars to 282.7 billion dollars. Recovering strongly in 2010 after the global crisis, the intra-OIC trade (average of intra-OIC exports and intra-OIC imports) continued to increase in the following years and peaked at 393 billion dollars in 2014.

"Mineral fuels and oils was the leading sector in the intra-OIC exports"

From 2001 onwards, share of intra-OIC trade increased steadily except in 2011 when it declined slightly compared to the previous year. Thus, the share of intra-OIC trade peaked at 18.8 percent in 2014. (See Figure 21). In 2014, intra-OIC exports accounted for 17.7 percent of total OIC exports while intra OIC imports amounted to 19.9 percent of total OIC imports.

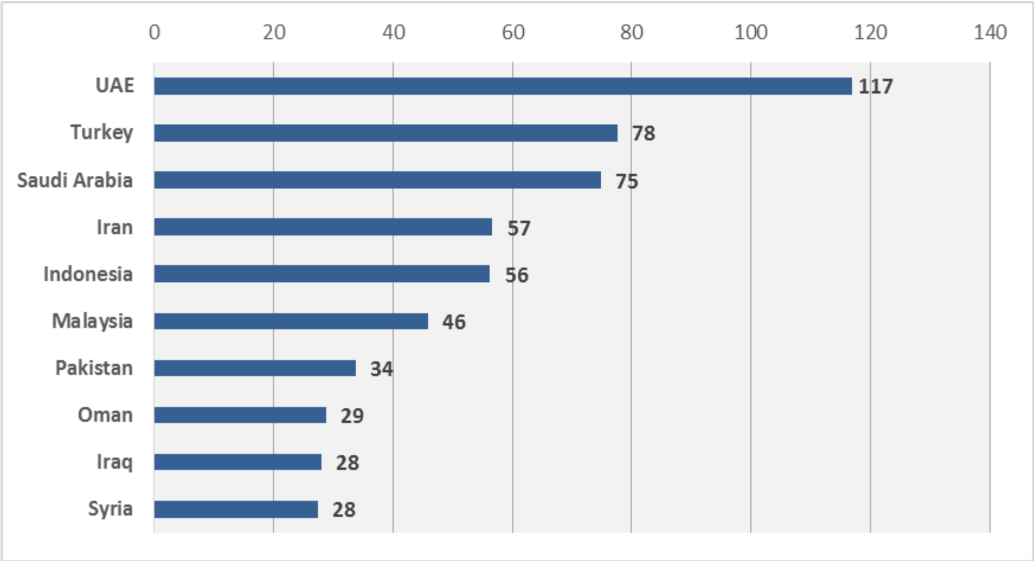
Among the top ten leading countries in intra-OIC trade in 2014, United Arab Emirates ranked first followed by Turkey, Saudi Arabia, Iran, Indonesia, Malaysia, Pakistan, Oman, Iraq and Syria. Top ten countries accounted for the 69.5 percent of the intra-OIC trade (see Figure 22).

Figure 21: Intra-OIC Trade



Source: IMF Direction of Trade Statistics

Figure 22: Major Players in Intra-OIC Trade in 2014 (Billion $)

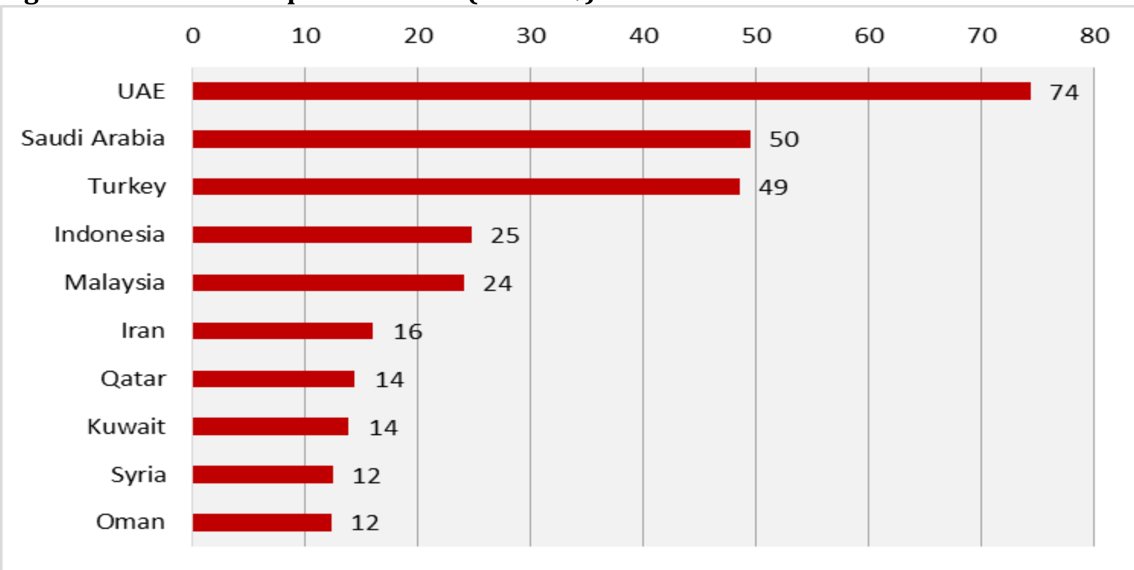


Source: IMF Direction of Trade Statistics

3.1. INTRA-OIC EXPORTS

The United Arab Emirates took the lead in intra-OIC exports in 2014 by realizing 19.6 percent of the total intra-OIC exports and was followed by Turkey and Saudi Arabia around 13.0 percent. (see Figure 23)

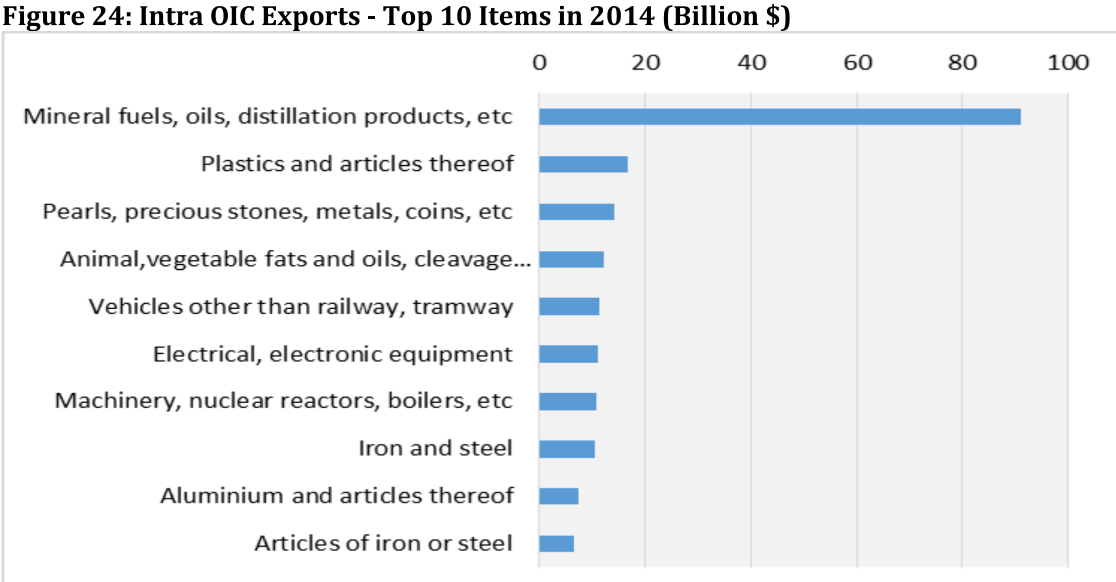
Figure23: Intra-OIC Exports in 2014 (Billion $)



Source: IMF Direction of Trade statistics

Although the sectorial breakdown of intra-OIC exports is similar to that of total OIC exports being dominated by mineral fuels, its share is not as high as in total exports (Figure 24). Of the total intra-OIC exports, share of mineral fuels, oils and related products was 31.0 per cent, followed by plastics and articles contributing 5.7 per cent, pearls, precious stones, contributing 4.8 percent, animal, vegetable fats and oils contributing to 4.1 per cent and vehicles other than railway contributing 3.9 per cent. These five sectors as a whole constitute half of total intra-OIC exports.

Figure 24: Intra OIC Exports - Top 10 Items in 2014 (Billion $)



Source: ITC Trademap

The structure of the intra-OIC exports also varies according to the three geographical regions of the OIC (Arab, Asia and Africa)[9]. The mineral fuels and related products had the highest share in Africa's intra exports while the share of manufactured goods was highest in Asian and Arab regions' intra exports. (See Table 6).

Table 6: Commodity Composition of Intra-OIC Exports by Sub-Regions (% Shares) (2014)

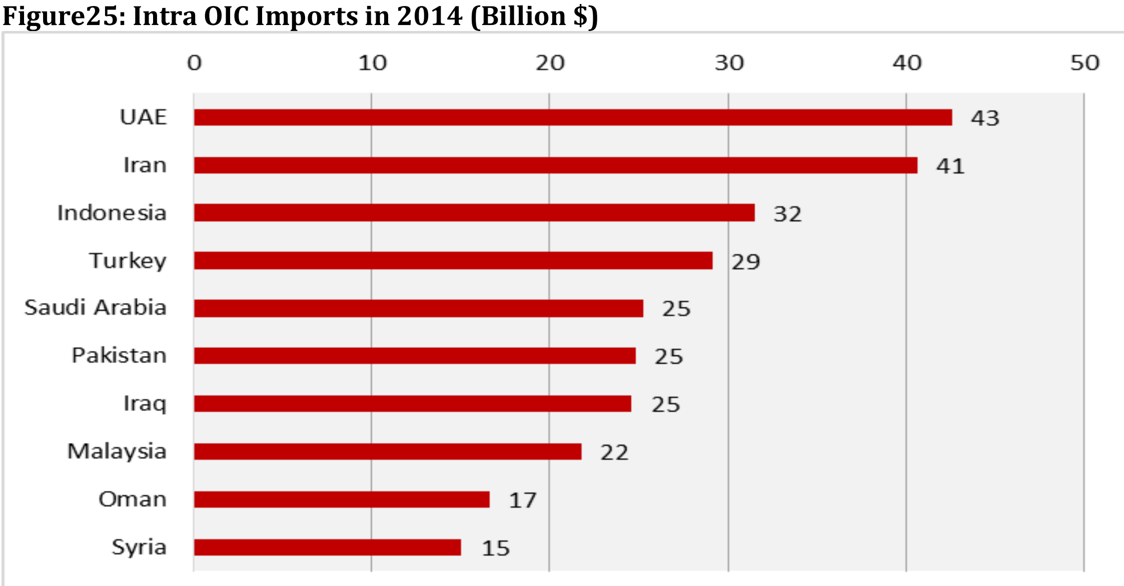
	Food and live animals	Beverages and tobacco	Crude materials, inedible, except fuels	Mineral fuels, lubricants and related materials	Animal and vegetable oils, fats and waxes	Chemicals and related products, n.e.s.	Other Manufactured goods	Machinery and transport equipment	Miscellaneous manufactured articles	Commodities and transactions, n.e.s.	TOTAL
Arab	9.2	0.9	2.9	31.0	0.8	14.2	15.7	15.0	5.8	4.4	58.3
Asia	11.9	0.9	2.8	16.7	7.3	7.8	22.6	13.9	10.0	6.0	37.0
Africa	9.9	1.9	8.4	55.2	1.7	3.8	6.7	7.3	2.2	3.0	4.7
TOTAL	10.3	1.0	3.1	26.9	3.3	11.3	17.8	14.3	7.2	4.9	100.0

Source: UNCTADSTAT

3.2. INTRA-OIC IMPORTS

The intra-OIC imports of United Arab Emirates had the highest share with 10.4 percent followed by Iran with 10.0 per cent and Indonesia with 7.7 per cent in this year.

Figure25: Intra OIC Imports in 2014 (Billion $)



Source: IMF Direction of Trade Statistics

[9] The list of countries by the regions provided in Appendix 1.

The commodity composition of intra-OIC imports according to SITC Rev 3 classification by regions could be observed from Table 7. In Arab and Asia regions, manufactured goods had the highest share while mineral fuels, lubricants and related material had the highest share in intra-imports of Africa amounting to 40.4 per cent.

Table 7: Commodity Composition of Intra-OIC Imports by Sub-Regions (% Shares) (2014)

	Food and live animals	Beverages and tobacco	Crude materials, inedible, except fuels	Mineral fuels, lubricants and related materials	Animal and vegetable oils, fats and waxes	Chemicals and related products, n.e.s.	Other Manufactured goods	Machinery and transport equipment	Miscellaneous manufactured articles	Commodities and transactions, n.e.s.	TOTAL
Arab	14.6	1.4	2.7	21.6	2.3	11.0	21.5	12.7	4.6	3.4	52.5
Asia	6.7	0.7	4.0	34.7	4.5	11.9	13.0	10.4	1.7	9.8	41.5
Africa	10.6	3.2	2.0	40.4	6.1	9.9	12.3	11.3	1.8	0.0	6.0
TOTAL	10.3	1.0	3.1	26.9	3.3	11.3	17.8	14.3	7.2	4.9	100.0

Source: UNCTADSTAT

The third Extra-Ordinary Islamic Summit Conference held in 2005 in Makkah, Saudi Arabia set the target of 20 percent intra-OIC trade by 2015. The intra-OIC trade level peaked at 18.8 percent in 2014. However, there is a great diversity among the Member States with regards to achieving the 20 percent target individually.

"20 percent intra-OIC trade target was surpassed by 28 Member States in 2014 "

In 2014, the share of intra-OIC trade of 28 Members stayed above 20 percent in their total trade. However, in some of the Member States total trade far surpassed the 20 percent. For example the share of intra-OIC trade was 85.3 percent in Syria, followed by Somalia (61.1 percent) and Afghanistan (49.8 percent). On the other hand, the share of intra-OIC trade was as low as 3 to 8 per cent in Guyana, Mozambique and Guinea (Figures 26-27).
Source: IMF Direction of Trade Statistics

With regards to the top 10 leading Members in total OIC trade (see Figure 28), Iran, United Arab Emirates and Iraq have already exceeded 20 percent in their intra-OIC trade. Turkey was very close to 20 percent with 19.4 per cent. On the other hand share of intra-OIC trade remained relatively low in Nigeria, Malaysia and Qatar.

Figure 26: Member States Having the Biggest Share of Intra-OIC Trade in Their Total Trade- 2013

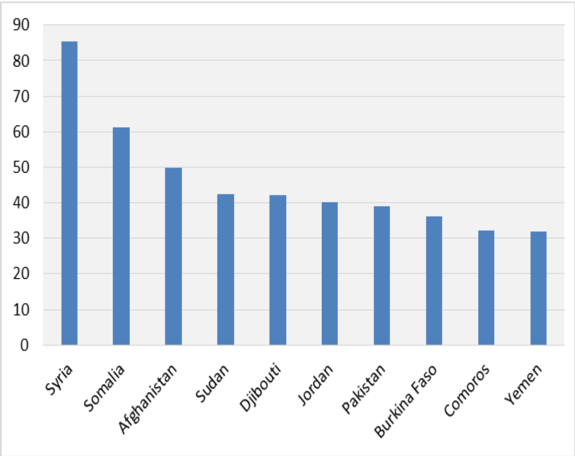
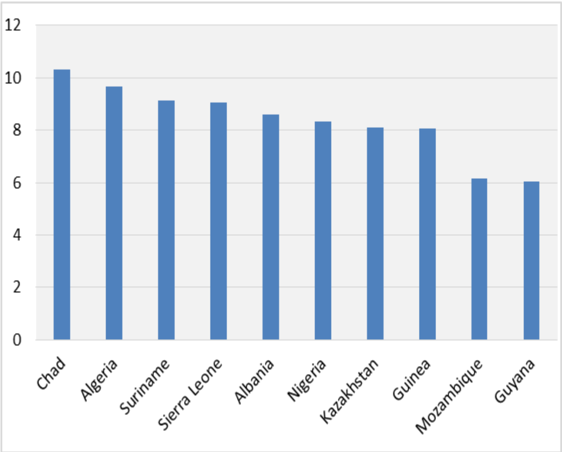
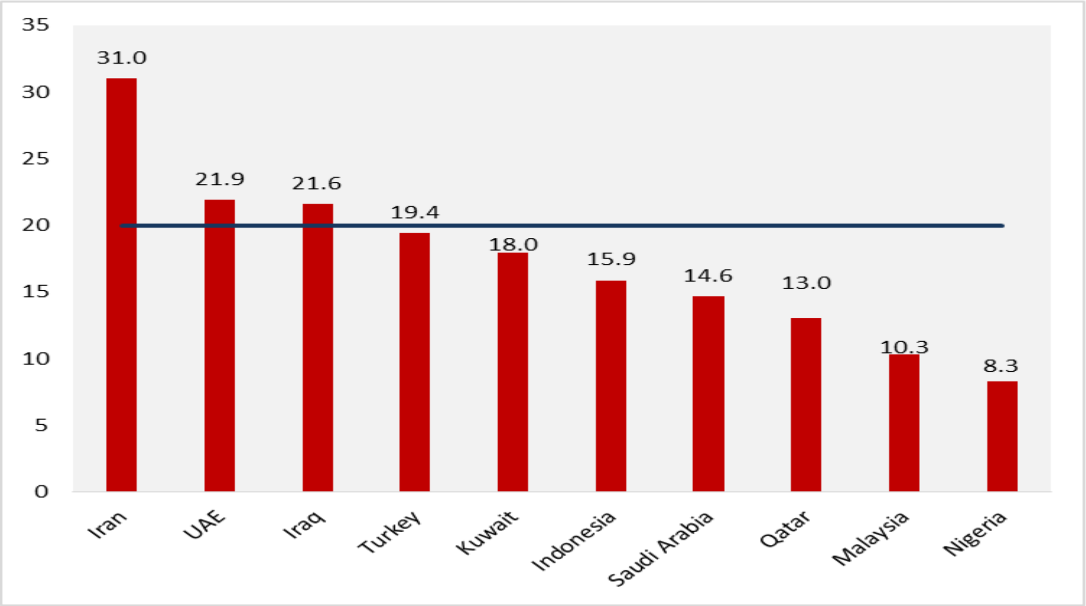


Figure 27: Member States Having the Lowest Share of Intra-OIC Trade in Their Total Trade- 2013



Source: IMF Direction of Trade Statistics

Figure 28: Intra OIC-trade Shares of Top Traders (2014)



Source: IMF Direction of Trade Statistics

4. TRADE ENVIRONMENT IN THE OIC MEMBER STATES

In today's global economic environment, international trade provides great opportunities for the countries. It contributes to economic development and helps in poverty alleviation. However, many countries face difficulties in increasing their international trade.

The OIC Member States are geographically located in different parts of the world. The populations, economic structure and trading policies vary from one country to another. 21 out of 57 Member Countries are classified as the Least Developed Countries (LDCs) according to the UN classification. Despite their heterogeneity in economic terms, many OIC Member States face common obstacles in increasing and diversifying their foreign trade.

This section aims at categorizing the major common obstacles of international trade in the Member States.

Trade Liberalization:

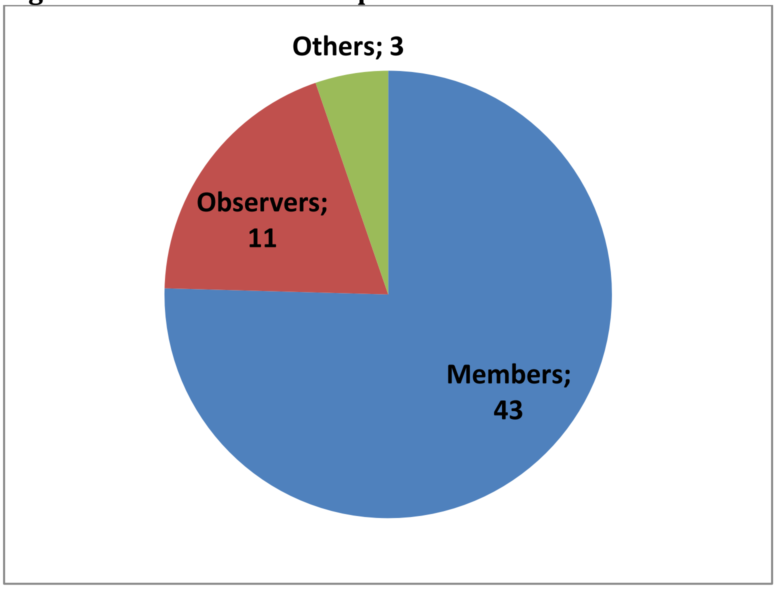
Trade liberalization aims at eliminating the tariffs and other trade barriers hindering the flow of goods and services among the countries. Recent studies such as OECD (2011), Pavcnik (2009) and IMF (2001) expect that trade liberalization increases trade, supports production, job creation and poverty alleviation, prevents illegal trade and contributes to economic growth. For example Panagariya (2005) suggests that it's unlikely to find an example of a developing country that has grown rapidly while maintaining high trade barriers. Moreover, according to the IMF (2001) trade opening (along with opening to foreign direct investment) has been an important element in the economic success of East Asia, where the average import tariff has fallen from 30 percent to 10 percent over the past 20 years.

Trade liberalization has been on top of the agenda of the international economic relations since the Second World War. General Agreement on Tariffs and Trade (GATT) was initiated in 1947 for multilateral trade negotiations to liberalize trade. Since then, the number of countries joining the GATT has increased dramatically.

In 1994, World Trade Organization (WTO) was established to continue these negotiations. The WTO negotiations aim at eliminating the tariffs, non-tariff barriers and other barriers to international trade in goods and services among its members.

Most of the OIC Member States have also showed interest in joining the WTO. Up to date 43 OIC Member States have acceded to the WTO and 11 Member States have the observer status. Yemen is the last OIC Member State that joined the WTO in July 26th, 2014.

Figure 29: WTO Membership Status of OIC Countries



Source: WTO

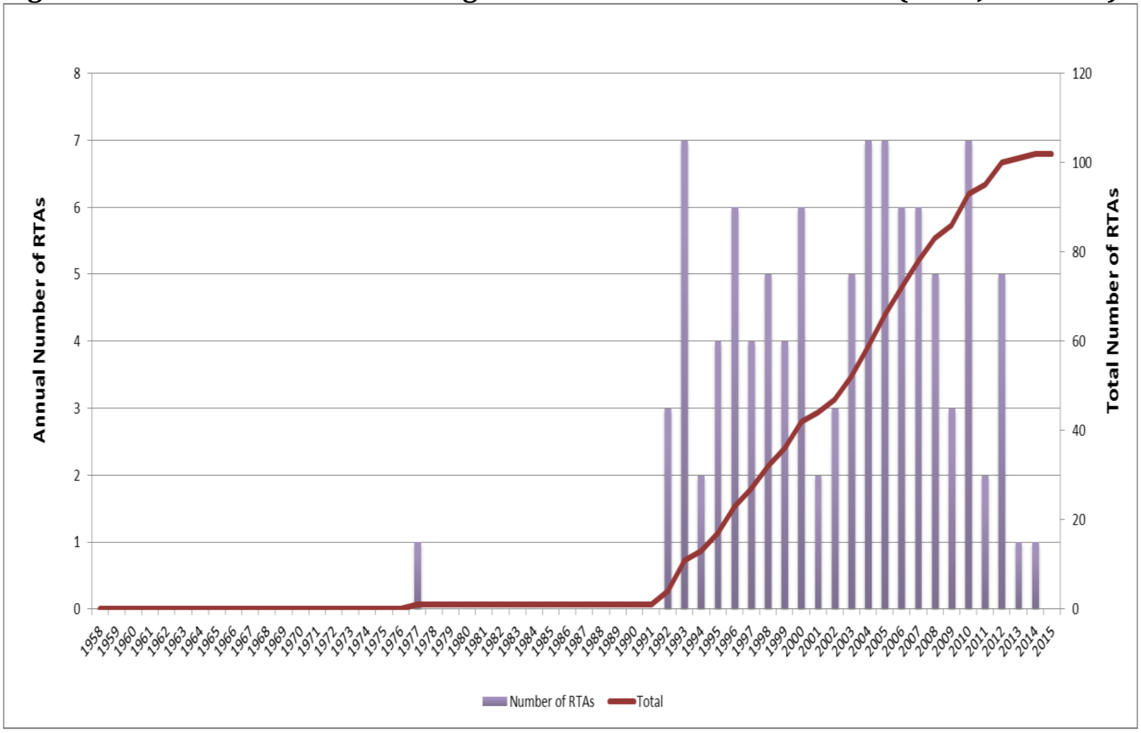
Regional Trade Agreements (RTAs) is another approach for trade liberalization. Two or more countries initiate trade arrangements to liberalize trade among themselves. Members of RTAs get the advantage of exporting to the other parties to the RTAs than the others. The European Union which was first initiated in 1950s made a domino effect on the expansion of the RTAs worldwide. Today, many countries, including the developed ones are party to one or more RTAs.

"OIC Member States have a growing interest on the RTAs"

Most of the OIC Member States also took part in one or more RTAs over time. The number of RTAs which include one or more OIC Member States have reached 102 by the end of 2014. Most of these RTAs are in the form of FTAs. Among these 102 RTAs 25 of them include two or more OIC Member States. Most of the RTAs signed by the OIC Member States are bilateral and concluded with the developed countries.

There are also other approaches for liberalizing trade. Some of the countries which realized that freer trade boosts economic growth also liberalized their trade unilaterally especially the ones who previously experienced the generation of exports from a less restricted trade. Many countries have diversified their economies and enriched the goods subject to export in their countries. To export, countries do not need to produce all the inputs within their borders any more.

Figure 30: Number of RTAs including one or more OIC Member States (As of June 2015)



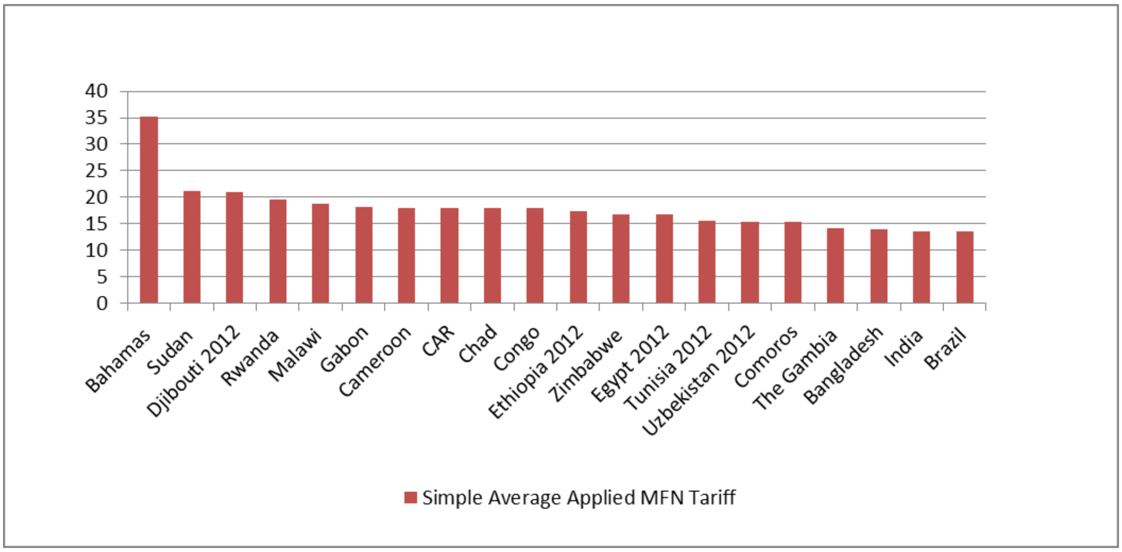
Source: http://rtais.wto.org/UI/PublicAllRTAList.aspx

Imported inputs which are cheaper than domestically produced ones are used by the firms to compete in export markets. For example Nordas, Groli and Grosso (2006) state that in 2001 the import content of export value in the electronics sector was 32% in China, 55% in Ireland, 65% in Thailand and 72% in the Philippines. In many cases countries apply lower tariffs to these kinds of goods.

"Many OIC Member States apply higher tariffs than the WTO Average"

Application of high tariff rates is common in many OIC Member States. Countries apply high tariffs for various reasons such as protecting domestic industry, preventing unemployment, providing income for the central government through customs duties etc. Figure 31 illustrates the 20 highest simple average tariff-applying WTO Members. 11 out of these 20 countries are OIC Member States.

Figure 31: The 20 Highest Simple Average Applied MFN Tariffs among the WTO Members (percent-2013*)



Source: WTO Statistics/* Due to lack of data 2012 figures were used for some countries.

Agriculture sector is one of the crucial sectors for many countries in the world. In this regard, countries apply higher tariffs on agricultural products than on the manufactured products. Figure 32 and 33 below show the simple average applied MFN Tariffs on the agricultural and non-agricultural products in the WTO Member OIC Countries respectively. OIC Member States apply higher tariffs to agricultural products. Countries that have inadequate agricultural production and need agricultural imports apply lower tariffs on agricultural imports. On the other hand, the countries in which agricultural production constitutes a significant part of the economy apply higher tariffs to agricultural imports.

Figure 32: Simple Average Applied Tariffs on Agricultural Products in OIC Member States (percent-2013)*

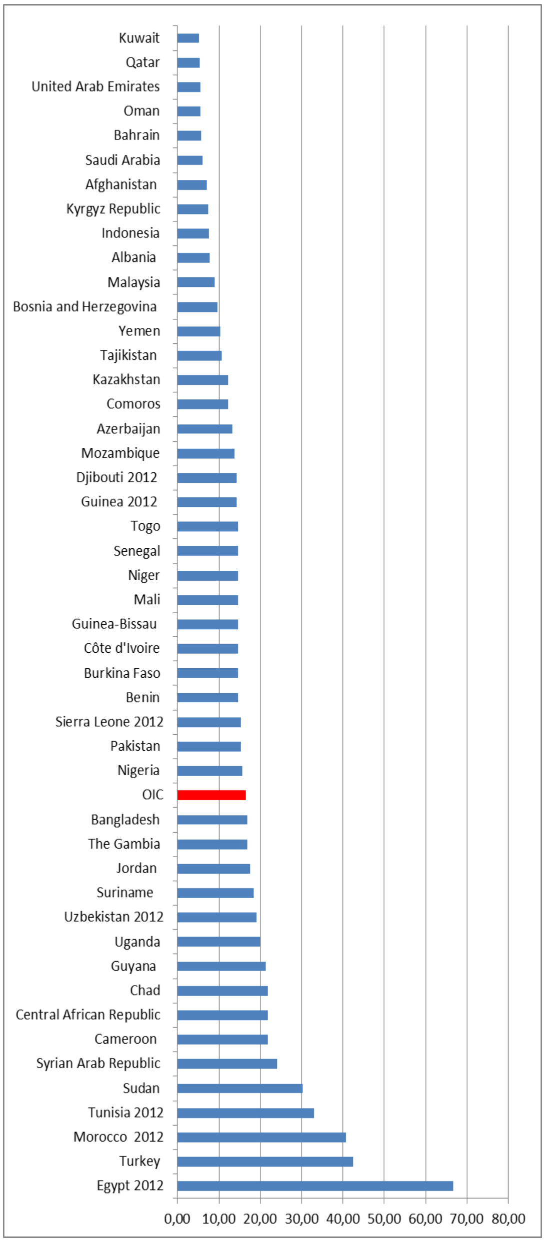
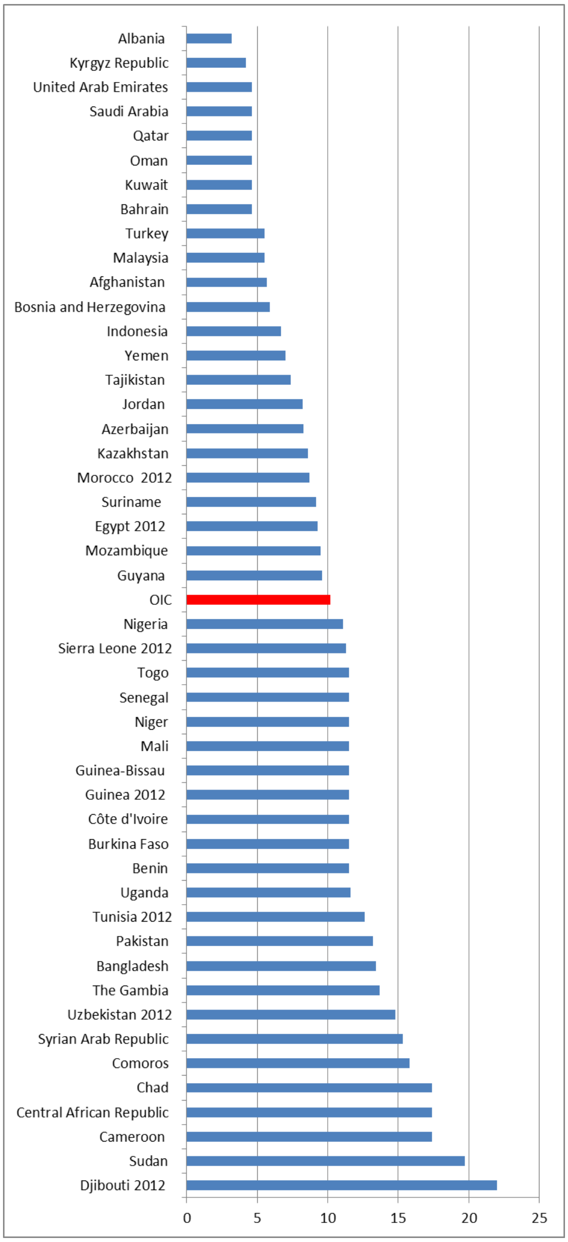


Figure 33: Simple Average Applied Tariffs on Non-Agricultural Products in OIC Member States (percent-2013)*



Source: WTO Statistics/* Due to lack of data 2012 figures were used for some M. States.

Box 2: Doha Development Round: Basics

Doha Development Round is the ninth and final round of WTO negotiations (formerly GATT) that convenes since the Second World War. Doha Round firstly initiated by the Ministerial Conference convened on September 2001 in Doha. Similar to WTO's main objective, Doha Round aimed at lowering trade barriers around the World in order to achieve higher global trade volumes.

Deliberations were made on various Subjects in Doha Rounds namely; Agriculture, Non-agricultural market access (NAMA), Services, Trade facilitation, Dispute settlement etc. Due to disagreements among the developed countries (USA, JAPAN and EU) and developing countries (represented mainly by India, Brazil, China, South Korea, and South Africa) especially on agricultural subsidies and tariffs and non-tariff barriers in agricultural products, Conference has not been able to achieve a progress. Deliberations continued on the basis of Doha Negotiations in the following Ministerial Conferences namely; Cancun 2003, Geneva 2004, Hong Kong 2005 (which also held a session in Paris). On the other hand without compromise of negotiating parties and fruitful results, talks were withheld in 2008. Efforts of the head of the Trade Negotiations Committee as well as several leaders Bali Ministerial Conferences held in 3rd to 7th December 2013. The Conference concluded with mutual agreement of the conflicting parties. Most important result of the Bali Package is that Developed Countries agreed on lowering import tariffs and agricultural subsidies which would facilitate developing countries' global trade. On the other hand it is agreed that contracting countries may set import quotas for agricultural products.

Potential Benefits

While it is a disputed issue who benefits most from the WTO Agreements, it is agreed by majority of the World Countries that being a part of WTO System improve competitiveness of their country and facilitates adopting internationally accepted, modern trade procedures and rules. There have been several studies on the possible economic effects of WTO Agreements. A simulation by Brown, Deardoff and Stern argues that an assumed 33 percent reduction in trade barriers in the Doha Development Round would create an estimated increase in global welfare of $574.0 billion[1]. Former Director of WTO Pascal Lamy in one of his speeches in 2009 expressed that through the Rounds in conservative estimates $130 billion will be put into the global economy[2].

[1] Brown D., Deardoff A., and Stern R.,. Computational Analysis of Multilateral Trade Liberalization in the Uruguay Round and Doha Development Round. 2002. Discussion Paper No. 489 School of Public Policy, The University of Michigan.
[2] http://www.reuters.com/article/2009/08/16/us-trade-doha-forecast-idUSTRE57F0KD20090816 Retrieved on 27/12/2013

Box 3: WTO Agreement on Trade Facilitation

One of the main outcomes of the Doha Development Round is the adoption of Bali Package which comprises 10 Ministerial decisions/declarations on trade facilitation, development and agriculture.

Trade Facilitation Agreement (TFA) mainly brings measures to eliminate barriers against international through streamlining and simplification of 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.

In regards 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 to provide technical assistance and capacity building programs to developing and least-developed countries through collaboration with donor Member States to facilitate implementation of the Agreement. Some of the important arrangements of the Agreement are as follows:

Publication and Availability of Information: Agreement requests each Member States to publish information in a non-discriminatory and easily accessible manner related to Customs Procedures such as applied rates of duties/taxes, laws, regulations and administrative rulings, import/export restrictions, appeal procedures, rules of classifications etc.

Advance Rulings: Member States are expected to issue advance ruling, which in brief is a written decision provided by Customs Authority to an applicant prior to importation of goods, in a reasonable, time bound manner while containing all necessary information.

Right to Appeal or Review: Agreement envisages that each Member States shall enable any person, whom has a legal case with the Customs Authority, to appeal or request a review of the case by an upper administrative authority. It is also requested from Member States to ensure that appeal/review procedures are carried out in a non-discriminatory manner.

Pre-Arrival Processing: Member States are requested to have procedures allowing submissions of import documentation (such as manifests or other required information) prior to arrival of goods to Customs for the sake of expediting release of goods upon arrival.

Electronic Payment: Moreover, Member States are expected to have electronic payment systems for duties, taxes, fees and charges incurred upon importation and exportation.

Freedom of Transit: Agreement requests Member States to not seek, take or maintain any voluntary restraints or any other similar measures on traffic transit. Moreover it is expected that traffic in transit shall not be conditioned upon collection of any fees or charges imposed in respect to transit excluding charges for transportation or administrative expenses related to transit.

After its initialization by the Bali Ministerial Conference on December 2013, Member States began to review the legal text. While the planned deadline for the review passed on July 2014, the text was not adopted due to the disagreements among some members. Final text of the Trade Facilitation Agreement was adopted on November 2014. TFA will be operational after the formal acceptance of the Agreement by the two third of the WTO members. As of July 2015, 8 countries have ratified the TFA namely; Hong Kong China, Singapore, the United States, Mauritius, Malaysia, Japan and Australia. On the other hand, 66 developing and least developed countries convey their notifications to the WTO Secretariat regarding their readiness to cooperate under A, B or C categories.

Trade Openness in the OIC

One of the most common measure of openness is to evaluate the ratio of trade (the sum of value of exports and imports of goods) to the gross domestic product (GDP). This could be interpreted as the relative importance of trade to the economy.

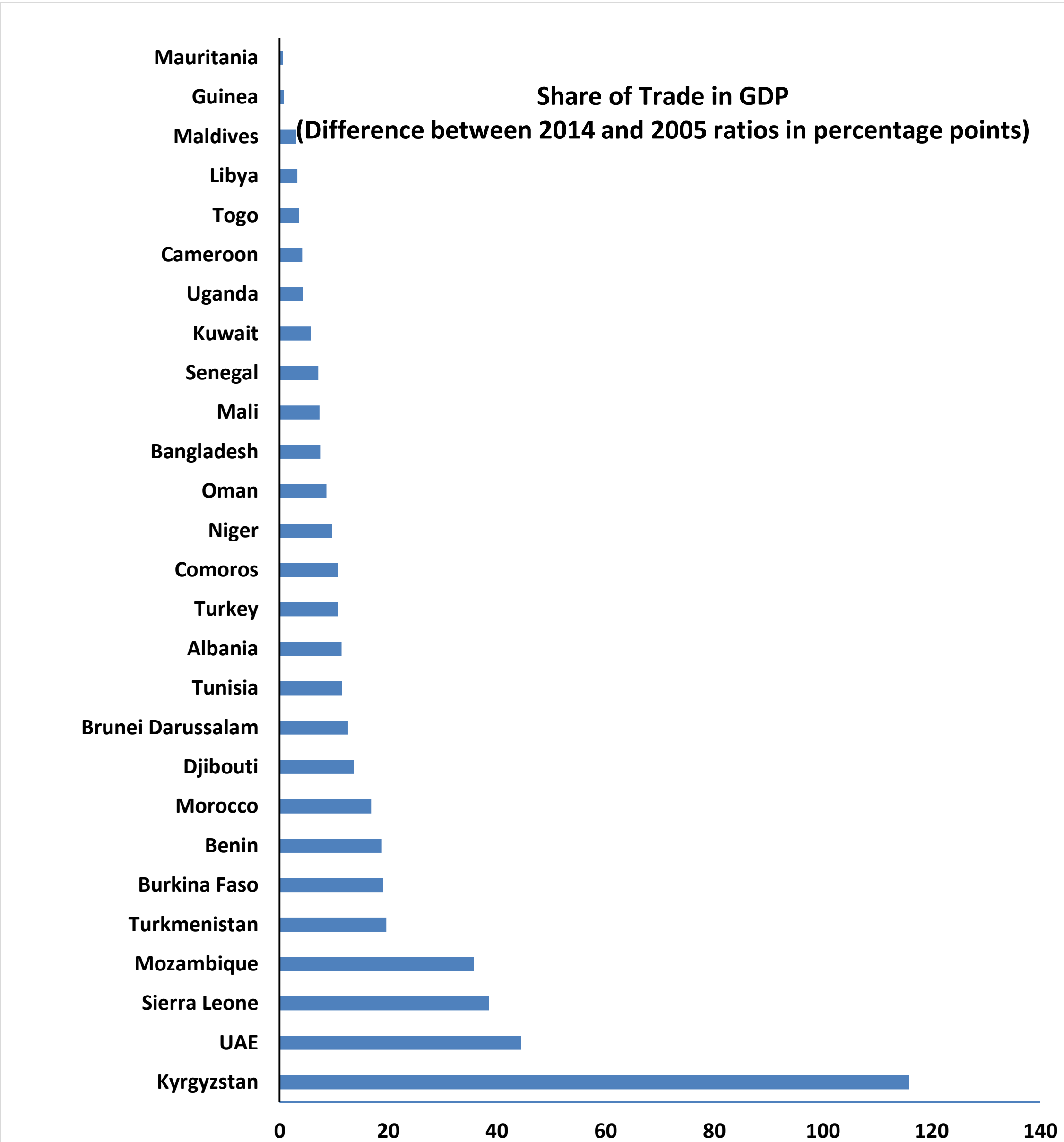
Figure 34 shows the difference between the trade to GDP ratios in percentage points between 2005 and 2014. As it could be followed from the Figure, the importance of trade has risen in many OIC member states in the last decade and trade has become one of the most important sources of growth. The countries which have realized the highest increase in the trade to GDP ratio were Kyrgyzstan, United Arab Emirates and Sierra Leone. The trade to GDP ratio in total OIC decreased from 64.1 per cent in 2005 to 61 per cent in 2014.

Figure 35 shows top ten countries having the highest and lowest trade to GDP ratios in 2014. Kyrgyzstan had the highest share of trade in GDP with 188.8 per cent in 2014. On the other hand, countries having the lowest trade to GDP ratios were Sudan, Nigeria and Pakistan. Some caution is needed in interpreting the share of trade to GDP ratios. Because the importance of trade is higher for small countries (in terms of geographic size and population) than for the large, relatively self-sufficient countries or those that have geographical disadvantage and high transport costs.

Moreover, several factors such as trade policy, economic structure, and the multinational firms may account for the differences in this ratio (Love and Lattimore, 2009). On the other hand, as a result of the undervaluation of local currencies in low and middle-income countries, the GDP calculated on the basis of purchasing power parities is usually two to three times larger than that calculated on the basis of current market exchange rates. Thus, the share of trade in GDP may be biased and tend to be high in low and middle income countries (ICC Open Markets

Index, 2013). This could explain why the ratio of trade is quite high in some LDCs of the OIC like Mauritania.

Figure 34: Share of Trade Ratios in OIC Member State

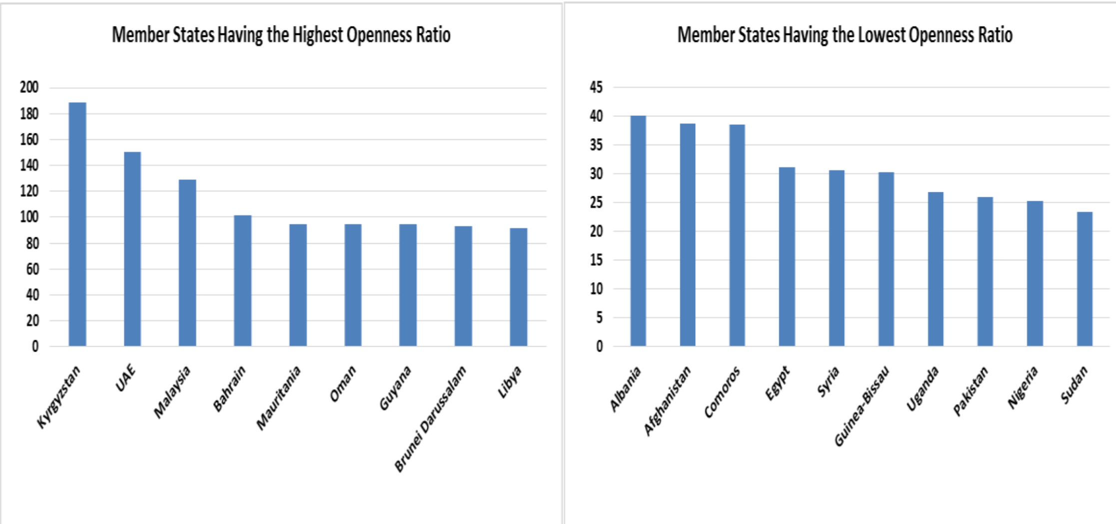


Source: UNCTADSTAT

Note: a) Those countries which have the positive difference were included.

b) Data for Somalia and Yemen was not available.

Figure 35: Member States Having the Highest and Lowest Openness Ratio in 2014



Source: UNCTADSTAT

Trade Facilitation:

Trade Facilitation aims at easing the trade among the countries through decreasing the burden of procedures and cost of making trade. Importers and exporters face various obstacles while making international trade. Issues including export and import procedures, customs formalities, transportation and logistics problems may increase the cost of making trade for the firms. Studies, such as WTO (2004) and De (2009) suggest that higher transport costs is in many cases more restrictive to trade than high tariffs.

"Trade Costs are higher in Landlocked Member States"

Various studies have been conducted to measure the impact of transport constraints on international trade. For example, based on their research on Middle East and North Africa (MENA) region, Bhattacharya and Hirut (2010) suggest that reducing the transport constraint from the average in the region to the world average could have a significant impact on trade volumes, raising exports by 9,5 percent and imports by 11,5 percent, while all other determinants are constant (ceteris paribus). There are several indices or reports developed by the international institutions to identify the bottlenecks in countries which hinder international trade. The World Bank Doing Business Report is one of these reports which calculate the average time and cost for doing business in countries. In terms of trading across borders, Doing Business measures money and time consumed for inland transportation and handling, ports ad terminal handling and customs clearance and technical control for imports in over 150 countries.

Figures 36, 37, 38 and 39 demonstrate the top and lowest ranked OIC Member Countries in the trading across borders sub-indices. Indices takes into consideration the number of documents, costs and time (days) required to import and export for each country. The figures in the left demonstrates the days and money spent in the lowest performers for importing and exporting whereas the figures on the right exhibits values for the best performers within the OIC Group. The figures show the huge difference in the cost of trade among the Member States. One important finding is that except Iraq all of the lowest performers are landlocked countries.

Figure 36: Days and Costs for Imports in the lowest ranked Member States

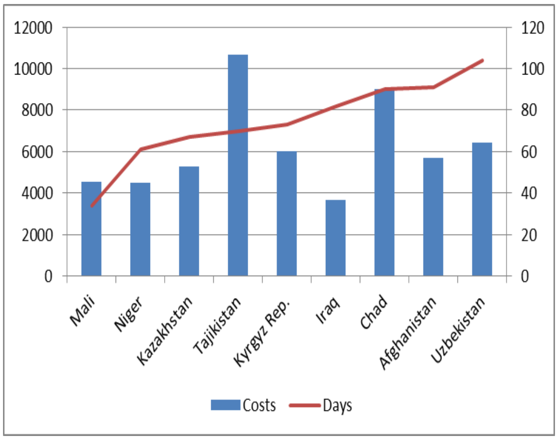


Figure 37: Days and Costs for Imports in the highest ranked Member States

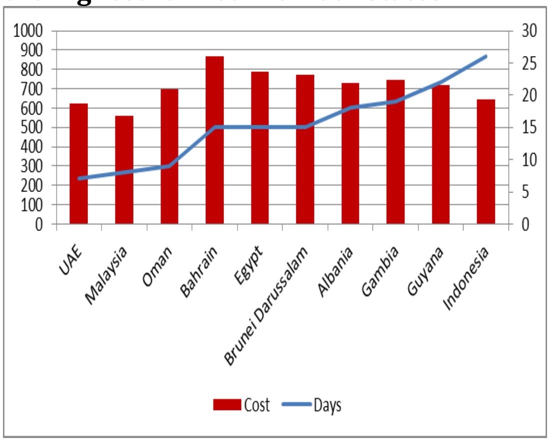


Figure 38: Days and Costs for Exports in the lowest ranked Member States

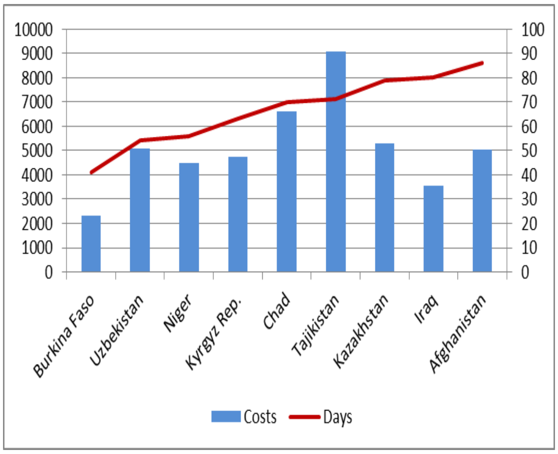
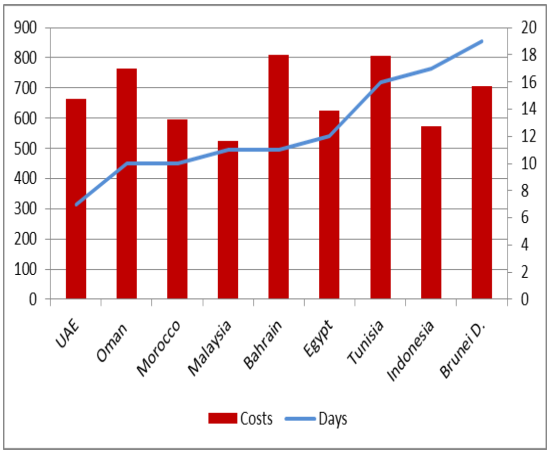


Figure 39: Days and Costs for Exports in the highest ranked Member States



Source: World Bank Trading Across Borders Indices[10]

[10] http://www.doingbusiness.org/data/exploretopics/trading-across-borders

According to OECD (2010), IMF (2010) and Teravaninthorn and Raballand (2009), restricted logistics services, lack of adequate infrastructure, inefficiency of the ports are major problems of transport which lead to high transport costs. Another Index, namely Logistics Performance Index (LPI), developed by the World Bank measures the efficiency of logistics sector in more than 150 countries. The LPI was conducted for four times in 2007, 2010, 2012 and 2014. Tables 8 and 9 illustrate the OIC Member States with the highest and lowest LPI scores for the last three periods.

Table 8: Best Performing OIC Member States According to the LPI 2014

Country	2010 LPI		2012 LPI		2014 LPI	
	Ranking	Score	Ranking	Score	Ranking	Score
Malaysia	29	3,44	29	3,49	25	3,59
UAE	24	3,63	17	3,78	27	3,54
Qatar	55	2,95	33	3,32	29	3,52
Turkey	39	3,22	27	3,51	30	3,50
Saudi Arabia	40	3,22	37	3,18	49	3,15
Bahrain	32	3,37	48	3,05	52	3,08
Indonesia	75	2,76	59	2,94	53	3,08
Oman	60	2,84	62	2,89	59	3,00
Egypt	92	2,61	57	2,98	62	2,97
Morocco	N.A.	N.A.	50	3,03	N.A.	N.A.

Source: Word Bank

Table 9: OIC Member States with the Lowest LPI Scores According to the LPI 2014

Country	2010 LPI		2012 LPI		2014 LPI	
	Ranking	Score	Ranking	Score	Ranking	Score
Burkina Faso	145	2,23	134	2,32	98	2,64
Chad	115	2,49	152	2,03	113	2,53
Tajikistan	131	2,35	136	2,28	114	2,53
Libya	132	2,33	137	2,28	118	2,50
Comoros	120	2,45	146	2,14	128	2,40
Iraq	148	2,11	145	2,16	141	2,30
Sudan	146	2,21	148	2,1	153	2,16
Djibouti	126	2,45	154	1,8	154	2,15
Afghanistan	143	2,24	135	230	158	2,07
Sierra Leone	153	1,97	150	2,08	N.A.	N.A.

Source: World Bank

The figures illustrate that countries with more liberal trade policies performed better than the other Member States.

"Undiversified economic structure is a major problem for many Member States in increasing their trade"

According to WEF (2014), which also measures the performance of countries in enabling trade, performance of some of the OIC Member States in Sub-Saharan Africa, Central Asia and North Africa is below average. On the other hand, some of the Member States such as Gulf Countries, Malaysia, Turkey, Indonesia and Albania performed better than the rest.

The analytical study titled "Facilitating Intra-OIC Trade: Improving the Efficiency of the Customs Procedures in the OIC Member States" was prepared specifically for the 3rd Meeting of the COMCEC Trade Working Group suggests that following factors are important in implementing the customs reforms in the Member States in order to improve their trade performances:

•Political will
•Establishment of well-functioning coordination mechanism among the relevant government agencies and private sector,
•Improving the legal framework,
•Institutional arrangements,
•Human resources management and,
•Allocation of necessary financing.

Recognizing the importance of reducing trade costs, effective implementation of trade facilitation measures is important. This in turn requires close cooperation and coordination among the customs administrations, other relevant government agencies and the private sector. For the last forty years, international institutions such as UNECE and the UNCTAD encourage countries to establish coordination mechanisms for trade facilitation among the stakeholders within each country. Most recently, article 23/2 of the WTO Agreement on Trade Facilitation stated that "Each Member shall establish and/or maintain a national committee on trade facilitation", making national trade facilitation bodies (NTFBs) a requisite of the global trading regime.

Trade Promotion:

Trade promotion, in particular export promotion, is one of the instruments used by the governments to increase their exports. The policies focus on two major areas, namely, SME support and diversification of economic production.

The majority of the firms operating in the world, especially the developing countries are Small and Medium Sized Enterprises (SMEs). SMEs are usually producing in traditional way and focus on local markets. They need to be supported by the government agencies, chambers and business associations to make exports and compete in international markets. In this regard, export promotion strategies focus on the SMEs in many countries.

The SMEs of the OIC Member States also face challenges in exporting. The Workshop held on 12-14 June 2012 in Ankara, Turkey[11] defined the major common obstacles faced by the SMEs in exporting as the following:

- Obtaining reliable foreign representation and maintaining control over foreign middlemen
- Identifying foreign business opportunities
- Limited information to locate/analyze markets
- Inability to contact potential overseas customers
- Keen competition in overseas markets
- Lack of home government assistance
- Offering satisfactory prices to customers
- Accessing export distribution channels
- Difficulties in enforcing contracts
- Lack of knowledge on foreign market requirements
- Limited business development services, marketing and branding
- Excessive transportation / insurance costs

Government agencies, chambers and business unions provide consultancy services, business development assistance, tax advantages, financial support etc. to promote exports in their countries. However due to limited financial resources, underdeveloped human and institutional capacities, many member states could not provide adequate support to their firms.

The undiversified economic structure also constitutes an important obstacle for many OIC Member States in increasing their exports. The dependence on few products in exports also makes these countries vulnerable to foreign demand or price shocks.

Attracting Foreign Direct Investment (FDI) is considered a vital instrument for diversifying the exports. Many empirical studies have examined the impact of FDI inflows on export

[11] The Report and the Recommendations of the Workshop can be reached at http://www.comcec.org/UserFiles/File/28.isedak/SunulanRaporlar/SESRIC/Workshop%20on%20SMEs_Report_Recomm_English.pdf

"FDI Inflows are inadequate for export diversification in many Member States"

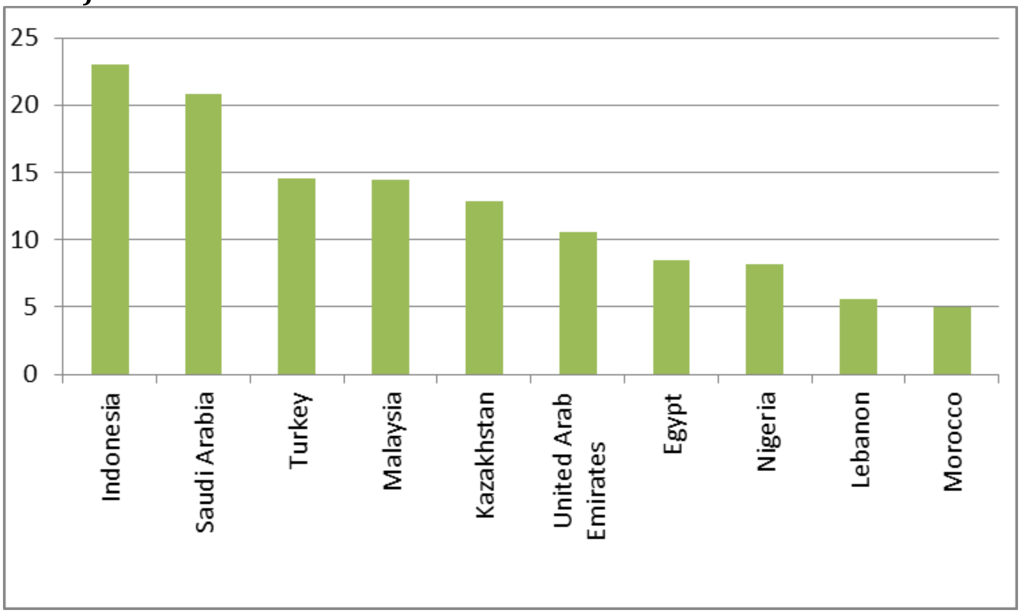
diversification and reached positive results. Focusing on the Low Income Countries, Jayawera (2009) found that the cumulative effect after four years of a US$1bn increase in FDI is estimated to be the creation of 83.5 new export lines for the host countries. Iwamoto and Nabeshima (2012) have tested the impact on 175 countries. They found out that, FDI inflows have positive impact on export diversification of the developing countries, but no significant effect on developed countries. The reason according to the studies is that the Multinational Corporations (MNCs) are more diversified and developing countries are affected by the spill-over effects of the FDI brought by the MNCs. Another study by Hailu (2010), examined the impact of FDI inflows on Sub Saharan Africa countries. The study found out that a 1 percent increase in FDI in the previous year brings about 0.043 percent increase in exports of the following period.

Several studies concentrated on how the FDIs lead to export diversification. Lipsey (2004) and Hailu (2010) suggest that FDIs main contribution is knowledge of the international markets. FDIs also result in indirect inter and intra-industry spillovers to host nation firms which improve their productivity and reduce the fixed costs associated with exporting, thereby increasing the number of firms which are export competitive (Jayawera 2009). Spalla (2010) also suggests that FDIs contribute to international competitiveness of the domestic firms through transfer of the know-how and technology.

The performance of the OIC Member States, except for few in attracting the FDI, is low. Figure 40 below gives the FDI inflows to top ten OIC Member States. FDI inflows to these countries amounted to USD 123 billion in 2013 according to the UNCTAD, representing approximately 71 percent of the total FDI inflows to the OIC Member States. The other remaining 47 countries attracted nearly USD 50 Billion FDI in 2013.

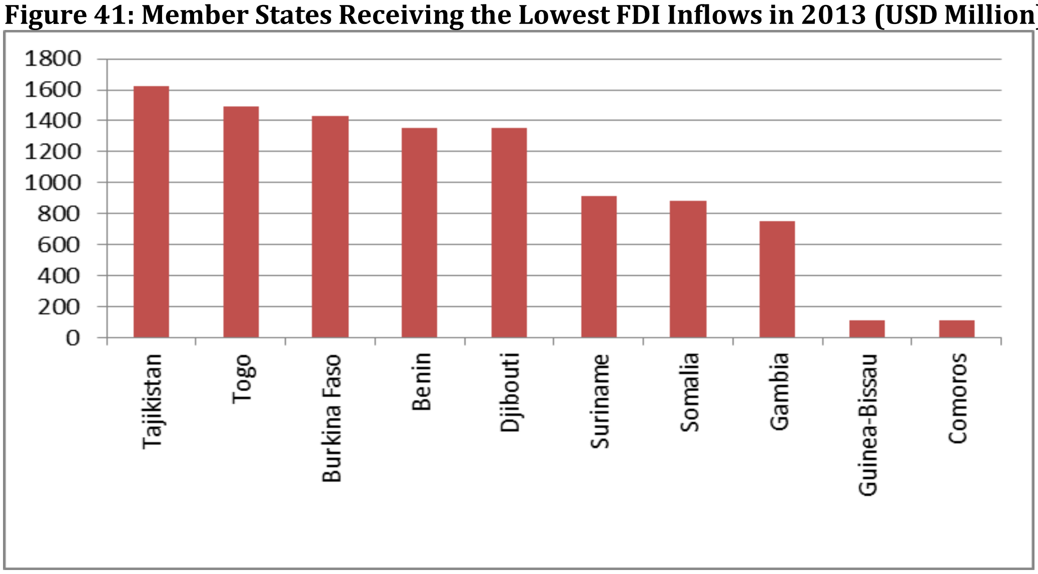
Another obstacle faced by most of the Member States is the concentration of the export oriented FDIs on traditional sectors. Harding and Javorcik (2011) underlined that, if the FDI exports are only products that the host country already exports intensively, the efficiency-seeking FDI could move towards more specialized rather than more diversified exports. Thus, FDI does not contribute too much to export diversification. For example according to UNCTAD (2011), which investigated the sectorial distribution of the FDIs in LDCs, many large projects are in the form of greenfield and expansion projects prospecting for reserves of base metals and oil. The study also cited the lack of political stability and unavailability of skilled workers as main reasons for low performance of investment in the manufacturing sector in Africa.

Figure 40: Top Ten Member States Receiving the Highest FDI Inflows in 2013 (USD Billion)



Source: UNCTADSTAT

Figure 41: Member States Receiving the Lowest FDI Inflows in 2013 (USD Million)



Source: UNCTADSTAT

Trade Promotion Organizations (TPOs) are one of the most important institutions utilized by governments to support SMEs exports. Most of the OIC Member States now have newly established institutions or existing governmental bodies that serve as TPOs. The analytical study titled "Promoting the SMEs Exports in the OIC Member Countries: The Role of the TPOs"

(COMCEC,2013a) commissioned by the COMCEC Coordination Office for the 1st Meeting of the COMCEC Trade Working Group, designates following actions as the main services provided by TPOs;

- Provision of information about overseas markets,
- Business consultancy for new exporters or companies that intend to expand their international business,
- Networking with potential business partners in foreign markets,
- Support in participation to trade fairs and organization of mission tours to foreign markets,
- Seminars and training courses to enhance the managerial ability of exporters and/or mentoring services,
- Financial support to exporters.

The study recommends several strands of actions for policy development to OIC Member States such as;

- Greater emphasis on intra-OIC trade activities through the development of multilateral agreements or possible free trade zone agreements,
- Institutional focus on developing soft infrastructure of skills development and of entrepreneurship,
- Strengthening and development of an exclusive front on new Technologies,
- Promotion of public-private partnerships,
- Development of a data infrastructure, to monitor business dynamics and performance by size of firms.

Trade Financing:

Trade finance is a general term used for financing of the international trade. Some 80 to 90 percent of the world trade relies on trade finance (trade credit and insurance/guarantees), mostly of a short-term nature (WTO 2013).

Exporters usually get payments after delivering the goods to the importers. During this period, which may take several months, the exporter may need financing for delivering the orders on a timely manner. Therefore, financing is needed not only for the import-export process itself, but also for the production of the goods and services to be exported, which often includes imports of machinery, raw material and intermediate goods (UNCTAD 2012).
Available trade financing within a country increases the competitiveness of firms to compete in international markets and encourages the firms especially the SMEs to export. Thus, it helps to diversify the exports of the country. UNESCAP (2005) classified the trade finance methods and instruments into the following three categories:

1) Methods and Instruments to raise capital,
2) Methods and Instruments to mitigate risk,
3) Methods and instruments to effect payment.

With regards to raising capital, firms need financing to ensure adequate production to meet the orders of the commercial transactions on time. They may need to import inputs, hire more workers and etc. In this context pre-shipment and post-shipment financings provide the exporting firms with the ability to cover their expenses until they get the payments from the importers.

There are various risks faced during the international trade such as political and commercial risks. These risks are covered by export credit insurance and export guarantee programs. While export credit insurance protects exporters, guarantees protect banks offering the loans (UNESCAP 2002: 61).

Another issue in trade financing is the type of payment. There are several types of payments in international trade such as open account, Letters of Credit (L/C), payment in advance and documentary collection. Most common type is L/C, which is the most secure way for both exporters and importers. This instrument is particularly suitable for international contracts that are difficult to enforce and riskier than domestic contracts because the creditworthiness of the foreign counterparty is hard to evaluate (Contessi and de Nicola 2012). L/C's are commonly used in trade among the developing countries including the LDCs. Another instrument, namely open account is mostly used in trade among the developed countries and in exports of SMEs to large firms. Malouche (2009) cites SMEs weaker bargaining power position versus large firms as the reason for their use of open account in exports.

Trade finance, provided by commercial banks, export credit agencies, multilateral development banks, suppliers and purchasers, has grown by about 11 per cent annually over the last two decades (UNESCAP 2002: 4). However, in many developing countries, firms still face difficulties in getting trade finance. The trade financing gap is especially noticeable in the least developed countries, where the financial sector tends to be heavily transnationalized and strongly risk-averse, and where a significant share of deposits are invested in very low-risk instruments, including short-term liquid assets and foreign government bonds (UNCTAD 2012).
The situation worsens during the crisis periods. For example during the global economic crisis in 2008, getting trade finance for exporters in the developing countries became more expensive and harder. The results of the survey conducted by the World Bank in 2009 on 14 developing countries demonstrated how difficult the situation was. Overall trends from the survey indicate that trade finance has been noticeably constrained post-September 2008 as illustrated by the increased pricing of the trade loans and short-term financing, shortened

payment terms, requests for more guarantees, and tightened counterparty bank requirements. (Malouche 2009: 22).

Trade finance opportunities in many OIC Member States are underdeveloped. Firms, in particular the SMEs face difficulty in accessing trade finance opportunities in competitive terms. For the Middle East and North African Countries (MENA), AMCML (2012) cites the reasons for the unwillingness of the Banks to engage in trade finance business as low revenue margins and identifies the factors leading to lower profit margins as the following:

- Shift of global trade from traditional trade finance products, such as L/Cs and guarantees, to open accounts that require less banking intervention.
- Reduction in the average value of trade finance transactions due to increased activity of small- and medium-sized enterprises (SMEs) in the international trade.

"Firms face difficulties in getting trade finance in many developing countries, which is an impediment to diversifying foreign trade"

In many OIC Member States, the SMEs play an important role in total exports. However, they face more difficulties than larger firms to get finance. Firms have not traditionally relied too much on traditional trade finance instruments for export finance because either the local banking sector and institutions are poorly developed to start with, or banks find it difficult to find creditworthy customers (Malouche 2009: 19). This Situation is similar in most of the Member States in MENA. MENA banks quote the lack of SME transparency and the weak financial infrastructure (weak credit information, weak creditor rights and collateral infrastructure), as the main obstacles for further engagement in SME finance (Rocka, Farazi, Khouri and Pearce 2011:3).

Out of 57, only 23 OIC Member States have established national export-import banks to provide trade finance for their firms. On the other hand, for even these countries, due to inadequate financial resources, shorter maturity and limited types of products, many firms still face difficulties in exporting and competing in the foreign markets. The COMCEC Trade Working Group, in its fifth meeting held on March 26th, 2015, evaluated the present situation in the Member Countries with respect to Export Credit Agencies (ECAs). After detailed deliberations, the Working Group came up with the following policy recommendations in order to improve the role of ECAs in the Member Countries;

- *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 ECA*
- *Member states are called on to promote public-private dialogue within the ECA context*
- *Member states are encouraged to initiate capacity building activities for strengthening institutional and human capacities of their ECAs*

Despite all odds, especially for SMEs, trade finance promises prospects in future. The analytical study titled "Improving the SMEs Access to Trade Finance in the OIC Member States" (COMCEC,2013b) commissioned by the COMCEC Coordination Office for the 2nd Meeting of the COMCEC Trade Working Group envisages that through appropriate policy and regulatory treatment of trade finance, coupled with recent innovations like supply chain finance and the key role of ECAs and IFIs in supporting access to trade finance, a far more positive view of the immediate future in terms of SMEs access to finance and trade finance is possible. Moreover developments in Islamic Finance and adaptation of Islamic Finance Tools would offer great opportunities for COMCEC Countries.

5. THE ROLE OF THE COMCEC IN INCREASING INTRA-OIC TRADE

5.1. ACHIEVEMENTS OF THE COMCEC

The COMCEC was established in 1981 and began operations in 1984. Trade is one of the major cooperation areas, identified with the objective of enhancing trade among the OIC Member States. The COMCEC has initiated many programs and projects towards reaching this objective.

Trade Liberalization:

As many international organizations, COMCEC has initiated a RTA, called Trade Preferential System among the OIC Member States (TPS-OIC). TPS-OIC is based on three agreements, namely the Framework Agreement, the Protocol on Preferential Tariff Scheme (PRETAS) and the Rules of Origin.
The Framework Agreement, which sets out the general rules and principles for the negotiations toward the establishment of the TPS-OIC, entered into force in 2002 after reaching 10 ratifications.

Following the entering into force, the COMCEC Coordination Office organized First Round of Trade Negotiations to develop a more specific agreement laying out the concrete reduction rates in tariffs in accordance with a time-table for implementation. After four meetings, the Member States agreed on the PRETAS. After the finalization of the PRETAS, the Trade Negotiating Committee, which is the responsible body for the TPS-OIC conducted another round of negotiations for finalizing the Rules of Origin. The round of negotiations closed successfully after the finalization of the deliberations on the Rules of Origin in 2007. The PRETAS entered into force in February 2010, and the Rules of Origin entered into force in August 2011. Therefore, the legal basis of the system was completed.

"TPS-OIC, which promises more intra-OIC trade is close to implementation"

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 Member Countries having met the two conditions are; United Arab Emirates, Bangladesh, Bahrain, Qatar, Kuwait, Malaysia, Oman, Pakistan, Saudi Arabia, Turkey, Jordan and Morocco.

On the other hand, for successful implementation of the System, there are some measures 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 is expected to be operational in the near future. In line with the relevant resolution of the 30th Ministerial Session of the COMCEC, a training seminar on the implementation of the TPS-OIC Rules of Origin was organized on 26-27 January 2015 in Ankara by the COMCEC Coordination Office (CCO) in collaboration with the Turkish Union of Chambers and Commodity Exchanges (TOBB) for the mentioned 12 Member Countries.

Islamic Centre for Development of Trade (ICDT) which is an OIC Institution based in Morocco, Casablanca, has also been organizing raising awareness activities for the TPS-OIC under its capacity as the co-secretariat for the Trade Negotiating Committee (TNC). Beginning with January 2015, ICDT has successfully organized seminar on TPS-OIC in Turkey, Qatar and Surinam.

The TPS-OIC System aims at liberalizing trade and contributes to the development of commercial exchanges among the OIC Member States. In order to contribute to the liberalization of trade in the Member States, COMCEC also encourages the OIC Member States to join the WTO. In this regard, the Islamic Development Bank (IDB) and the ICDT have been organizing several capacity building programmes in cooperation with the Member States.

Trade Facilitation:

An important project developed by the COMCEC towards facilitating trade among the Member States is the Standard and Metrology Institute for Islamic Countries (SMIIC). SMIIC entered into force in May 2010 following the ratification of its Statute by the tenth Member State.

SMIIC is an affiliated institution of the OIC which is responsible for contributing to the development of standards in the OIC Member States. SMIIC aims at realizing harmonized standards and eliminating any standard related factor that adversely affects the trade among the member countries.

After the ratification of its Headquarters Agreement by the Republic of Turkey on March 31st, 2011, headquarters of SMIIC was formally established. As of July 2015, number of SMIIC Member States was reached to 32.

Till today, SMIIC has successfully accomplished a series of events including capacity building programs, forum, seminars and visits to the relevant organizations in the Member States in the area of standards and metrology. One of the important activities of the SMIIC was SMIIC Forum 2015. The Forum organized on May 5th, 2015 in Dubai, UAE following after the 8th General Assembly Meeting and 10th Board of Directors Meeting of the SMIIC which have convened respectively on May 3rd and 4th, 2015. The Forum gathered almost 200 participants from the manufacturers, certification bodies and other related stakeholders and have fruitful deliberations under four main sessions namely; OIC/SMIIC Standards, Fiqh Issues, Conformity Assessment Activities, Accreditation Panel Discussion.

To enrich the depth of the efforts, Financial, Terminology and Technical Committees were established under the SMIIC which dwell upon technical aspects of the relevant topics. The Technical Committees are Halal Food Issues, Halal Cosmetic Issues, Service Site Issues, Renewable Energy, Tourism and Related Services, Agriculture Processes and Transportation. A mechanism with great future potential for cooperation, SMIIC Metrology Committee works actively towards achieving uniformity in metrology and laboratory testing amongst OIC Member States since its first convention on 23-24 September 2013 in Dubai, UAE.

Keeping in mind the importance of the harmonization of standards and accreditation activities, the theme of the 7th Meeting of the COMCEC Trade Working Group was identified as "Strengthening the Compliance of OIC Member States to International Standards". The Meeting which will be organized on February 27th, 2015 in Ankara is expected to review the present structure, opportunities and challenges faced in the Member Countries. An analytical study is currently being prepared specifically for the Meeting to enrich the deliberations. The Study will have to main objectives; Raising awareness of the importance and role of standards-related measures in the OIC Member States and deriving practical recommendations and identify policy options for the OIC member states for the increased use of international standards by business and by public agencies.

Trade Promotion:

One of the challenges facing the Member States in enhancing intra-OIC trade is the inadequate flow of information among exporters and importers. Firms in some of the Member States have very limited opportunities to raise awareness on their products. They need extra support from national and international promotion agencies.

The COMCEC initiated several projects up to date to promote trade among the Member States. One of these initiatives is the Trade Information Network for Islamic Countries (TINIC). The First COMCEC Session, held in 1984, adopted a resolution recommending the establishment of a Trade Information Network for Islamic Countries to facilitate the collection, processing, analysis and propagation of trade information for the benefit of users. The Islamic Center for the Development of Trade (ICDT) prepared a feasibility study on the modality of the network. The TINIC became operational in 1996. It was restructured in 2001 in order to meet the growing needs of the private sector of the Member States.

COMCEC also initiated Islamic Trade Fairs which are organized biannually in one of the Member States. Islamic Trade Fairs bring together the producers from the Member States together to increase awareness and support intra-OIC trade. In recent years, ICDT is also organizing sectorial trade fairs and exhibitions in accordance with the relevant resolutions of the COMCEC.

Moreover, COMCEC initiated the Private Sector Meetings, organized annually in one of the Member States. The Private Sector Meetings bring the business owners, firm representatives and chambers to discuss their common challenges, needs and cooperation opportunities. These meetings also present opportunities for partnership and trade.

Trade Financing:

The COMCEC has initiated the Export Financing Scheme (EFS) and Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC) to contribute to financing trade among the Member States.

The Export Financing Scheme (EFS) was first initiated by the COMCEC as the Longer-Term Trade Financing Scheme. IDB was entrusted with the implementation of the EFS. The 10th IDB

Annual Meeting, held in March 1986 in Amman, Jordan, approved the Longer-Term Trade Financing Scheme. The title of the Scheme was later changed to Export Financing Scheme (EFS) and it became operational in 1988.

The EFS aims at promoting exports of non-conventional commodities by providing the necessary short and long-term funds. The repayment periods under the Scheme were originally between 6 and 60 months for the intra-OIC export. This period has now been extended to ten years for capital goods, such as ships, machinery etc. Each Member State participating in the EFS had one or more national agencies for the Scheme. The role of the national agencies was to coordinate the promotion of the EFS in their countries. Since its inception in 1988, cumulatively over an amount of USD 3 billion of approvals were made under the Scheme.

After the establishment of the International Islamic Trade Finance Corporation (ITFC), in 2005, all trade financing activities of the IDB, including the EFS, were brought under the ITFC. The ITFC commenced business at the beginning of 2008. Most common modes of trade financing provided by the ITFC are murabaha, installment sale and istisna'a.

Since its establishment, the ITFC has increased the volume of operations and business portfolio. In 2014 (1435H) its trade financing approvals reached USD 5.15 Billion (ITFC 2015). In order to have greater impact, it also gives more emphasis on providing finance to Least Developed Member Countries (LDMC's), SMEs and strategic commodities produced in the Member States such as oil, cotton, wheat etc.

The Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC) is a subsidiary organ of the IDB. It was established in 1994 with an authorized capital of ID 100 million (about USD 127 million) and become operational in 1995. ICIEC has 40 Member Countries. The objective of the ICIEC is to expand the scope of trade transactions and the flow of investments among Member Countries of the OIC.

5.2. THE WAY FORWARD: THE COMCEC STRATEGY FOR ENHANCING INTRA-OIC TRADE

The Fourth Extra-ordinary Islamic Summit Conference held on August 14-15, 2012 adopted the COMCEC Strategy. The Strategy defines six cooperation areas and trade is one of them. Enhancing Mobility, Strengthening Solidarity and Improving Governance are the three principles of the Strategy.

"COMCEC Strategy gives special emphasis to improving trade environment"

The Strategy defines the strategic objective of cooperation in the area of trade as "Expansion of Trade among the Member States". In order to reach the strategic objective, the Strategy defines four output areas, namely trade liberalization, trade facilitation, trade financing and trade promotion. For each output areas, the Strategy defines the COMCEC's role as well as the expected outcomes. As it was discussed earlier, many OIC Member States face obstacles in the output areas defined in the Strategy. Through the new implementation instruments, the Strategy aims at contributing to the improvement of the current situation towards increasing intra-OIC trade. To reach these objectives, the Strategy brings two new well defined implementation instruments, namely Trade Working Group and the COMCEC Project Cycle Management (PCM).

Trade Working Group convenes regularly twice in Ankara on different specific themes that possess crucial importance for the Member Countries. Main objective of the Trade Working Group meetings are; producing and disseminating knowledge, sharing experience and good practices among the Member Countries. The Working Group also aims to serve as an effective intermediary for creating a common understanding and approximating policies among the Member Countries to respond to their common development problems. To enrich discussions during the Working Group Meetings, analytical studies on the theme of the respective meetings and Sectoral Outlook report are prepared by the CCO and conveyed to the Member Countries at least one month prior to each meeting. As of August 2015, five rounds of Working Group Meetings were successfully organized.

The first meeting of the Trade Working Group was held on June 20th, 2013 with the theme of "*Promoting the SMEs Exports in the OIC Member States: The Role of Trade Promotion Organizations (TPOs)*". The meeting provided an opportunity for the Member States to share their achievements and obstacles in promoting SMEs exports and benefit from the experience of the other Member States and relevant international institutions.

The second meeting of the Trade Working Group was held in October 31th, 2013 with the theme of "*Improving SMEs Access to Trade Finance in the OIC Member States"*. Experts from the Member States as well as international organizations deliberated on the current status of the SMEs in terms of accessing trade finance in the OIC Member States, the instruments used in trade finance, role of public financial institutions and share of Islamic trade finance tools in the OIC member countries. The detailed information regarding the outcomes of the COMCEC Trade Working Groups is available on the COMCEC website (www.comcec.org).

The third meeting of the COMCEC Trade Working Group was convened on February 27th, 2014 with the title *"Facilitating Intra-OIC Trade: Improving the Efficiency of the Customs Procedures."*

The Meeting reviewed the global trends and best practices in the area of customs modernization and evaluated the efficiency of the customs procedures in the Member States. Moreover, the Meeting also discusses the ways and means of improving the cargo clearance procedures.

The fourth meeting of the COMCEC Trade Working Group was held on October 23rd, 2014 with the theme of "*Preferential Trade Agreements and Trade Liberalization Efforts in the OIC Member States with Special emphasis on the TPS-OIC*". The trade liberalization efforts and successful trade preferential agreements worldwide while examining the current status in the OIC Member States was reviewed in the Meeting.

The fifth meeting of the COMCEC Trade Working Group was held on March 26th, 2015 with the theme of "*Improving the Role of Eximbanks in the OIC Member States*". Participants from 17 Member Countries as well as international organizations shared their experiences, achievements and challenges in the Meeting with a view to establish policy advises for both establishing well-functioning institutions and improving effectiveness of the present structures.

6. CONCLUSION

World trade increased strongly in the past decade until the global crisis. However although more than five years have passed since the crisis, world trade has not returned to high growth rates of the pre-crisis period. World merchandise trade increased slightly by 2.8 per cent in 2014. Along with a structural change in the income elasticity of world trade (i.e decreasing world trade and world GDP relationship), weak global activity mainly accounts for the subdued global trade performance. Despite the improvements in growth in United States growth performance among developed countries was not even. Moreover, pace of growth is losing momentum in emerging market economies. Growth prospect in China in particular is crucial as China being ranked first among the major export markets for OIC countries. China's demand for commodities was also an important deriver of prices of many commodities besides oil as China emerged as a key importer for many commodities in the last decade.

OIC exports which increased dramatically in the years preceding the global crisis recovered strongly after the crisis. However, OIC exports decreased both in 2013 and 2014. The sluggish pace of world demand growth, oil price slump, the fall in non-fuel commodity prices especially in metals prices, fall in oil demand and ongoing political transition in many countries in Middle East accounted for the decline in total OIC exports in 2014. Thus the share of OIC exports in global exports declined to 11.5 per cent in 2014.

Share of intra-OIC trade increased more or less steadily after 2001 (except 2011) and peaked at 18.8 percent in 2014. The ratio of intra-OIC trade to total trade stayed above 20 per cent target level in 28 Member States this year.

OIC exports are highly concentrated in terms of product. Total OIC exports are dominated by mineral fuels and oil; the share of this sector amounts to 60.2 per cent of total OIC exports in 2014. Commodity concentration is even more apparent when countries looked into specifically. Petroleum was the main exported item in many members ranging between 52 to 100 per cent of total exports. Yet some other member states heavily depend on specific primary commodities such as metalliferous ores or agricultural commodities.

OIC exports heavily concentrated also in a limited number of markets**.** Although OIC exports are mainly shipped to developed countries China alone accounted for 11 per cent of total OIC exports. The high commodity and country concentration in total OIC trade is a major drawback as this makes OIC countries vulnerable to substantial export revenue loss following a fall in commodity prices and/or demand in major export destinations.

Recent oil price shock points to the challenge of putting in place policies to differentiate export structure. Commodity prices fell sharply by 6.3 per cent in 2014 mainly on account of collapsing oil prices which remained relatively stable in the last three years around 110 dollars per barrel. Thus the fall in oil prices amounted to 44.4 per cent in December 2014. Although a partial recovery in oil prices realized in the first months of 2015, there is great uncertainty for the future of oil prices.

The impacts of oil price shock differ for oil exporters and importers of OIC. While the oil exporters lose export and fiscal revenues that might lead to possible losses in growth, oil-importing countries could benefit from reduced oil import bills and increased real incomes. However those oil importer countries having close ties with oil exporters through services exports and investment could be adversely affected. Therefore, recent oil price collapse underlies the case for policies for the OIC countries to further diversify their economies to reduce reliance on oil revenues.

There are great differences among the member states in terms of economic development and the structure of trade. Most of the LDCs of the OIC have limited trading capacity and depend on a specific commodity for exports, even though several Member States have achieved considerable diversity in their exports allowing for rapid growth in their trade. Yet, creating an enabling environment for trade remains one of the main challenges for the OIC Member States. To this end, policies towards trade liberalization, trade promotion, and trade finance and trade facilitation become priority areas in policy reform agendas of the Member States.

During the recent decade, most of the OIC Member States have liberalized their trade. 42 out of 57 Member States have acceded to the WTO. Moreover most of them have joined one or more RTAs. However, many of the Member States still apply higher tariffs and non-tariff barriers to the imports.

Secondly, higher transport costs and cumbersome procedures in external trade also constitute a significant problem in some of the Member States, hindering not only their foreign trade but also their economic and social development. Moreover, access to trade finance also constitutes an obstacle in some of the Member States. Inadequate financial resources limit the SMEs export capabilities to export in several Member States.

COMCEC aims at enhancing economic and commercial cooperation among the 57 OIC Member States. Since 1984, COMCEC has initiated many cooperation programs and projects towards increasing intra-OIC trade and addressing the common challenges. Some of these programs and projects have been realized successfully.
Taking into consideration the diversity a trade patterns of the Member States and the common challenges faced by them, the COMCEC Strategy has identified trade as one of its cooperation areas.

Under this cooperation area, the Strategy defined trade liberalization, trade facilitation, trade promotion and trade financing as the output areas in order to reach its strategic objective, which is "enhancing trade among the Member States". Furthermore, the Strategy brought two new implementation instruments, namely Trade Working Group and the Project Cycle Management (PCM) to reach its target.

The implementation of the Strategy with the active participation of the Member States will contribute to improving the trade environment in the Member States and enhancing intra-OIC trade.

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8. APPENDIX:

Table A.1: The Official 3 Regional Groups of the OIC Member States

Arab Group	Asian Group(*)	African Group
Algeria	Afghanistan	Benin
Bahrain	Albania	Burkina Faso
Comoros	Azerbaijan	Cameroon
Djibouti	Bangladesh	Chad
Egypt	Brunei	Cote d'Ivoire
Iraq	Indonesia	Gabon
Jordan	Iran	Gambia
Kuwait	Kazakhstan	Guinea
Lebanon	Kyrgyz Republic	Guinea-Bissau
Libya	Malaysia	Mali
Mauritania	Maldives	Mozambique
Morocco	Pakistan	Niger
Oman	Tajikistan	Nigeria
Palestine	Turkey	Senegal
Qatar	Turkmenistan	Sierra Leone
Saudi Arabia	Uzbekistan	Togo
Somalia		Uganda
Sudan	Guyana	
Syria	Suriname	
Tunisia		
United Arab Emirates		
Yemen		

(*) Guyana and Suriname which are geographically located in Latin America are included in Asian Group.