COMCEC

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

COMCEC TRADE OUTLOOK 2016

COMCEC COORDINATION OFFICE
September 2016

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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 2016 has been prepared by Ms. Vildan BARAN expert 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.

The views expressed and conclusions reached in this publication do not necessarily reflect the official views of the COMCEC Coordination Office, COMCEC or the governments of OIC Member Countries.

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INTRODUCTION

International trade is widely accepted as an engine of economic growth, job creation, income generation, and ultimately poverty reduction. While the links are complex and are not automatic, greater trade integration, especially when complimented with good policies and institutions, is strongly associated with sustained economic growth in many parts of the world. However, many developing and least developed countries have had challenges for integrating to the global trade and thus its benefits for such countries have been limited. Additionally, weak recovery pace of the global economic activity since the crisis of 2008-2009 and commodity prices striving to reach to pre-crisis level pose threats to countries that rely on a few goods for exporting, particularly primary goods. In this respect, the current global trading environment necessitates export diversification if countries want to fully benefit from international trade. Furthermore, today's competitive markets require delivery of goods in a timely and cost-efficient manner. This underscores the importance of trade facilitation efforts that many countries around the world attach priority in their trade policies. Apart from national-level efforts, trade facilitation has also gained prominence at the international level. The introduction of WTO Trade Facilitation Agreement in 2013 and its ratification by 92 members of the WTO signifies the importance of this topic on global scale.

In terms of the OIC Member States, they vary substantially 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, differences in trade performance across member countries remained stubbornly significant. While some OIC members depend solely on oil as the source of export revenues, Least Developed OIC members depend mainly on primary commodities exports. Creating an enabling environment for trade that will help enhance export capacity, increase the share of higher value added products and ultimately diversify exports is a persisting challenge for many 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 numerous 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 the development challenges of the Member Countries 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 one of the cooperation areas in the Strategy, with the strategic objective of increasing trade among the Member States. İdentifying trade liberalization, trade facilitation, trade promotion and trade financing as the output areas, COMCEC aims at achieving strategy's targets through its implementation instruments namely Trade Working Group and COMCEC Project Funding.

The present document aims at providing a general outlook of the trade of OIC Member States and identifying common challenges they face in increasing their trade. Despite their economic and social differences, these countries also face some 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.

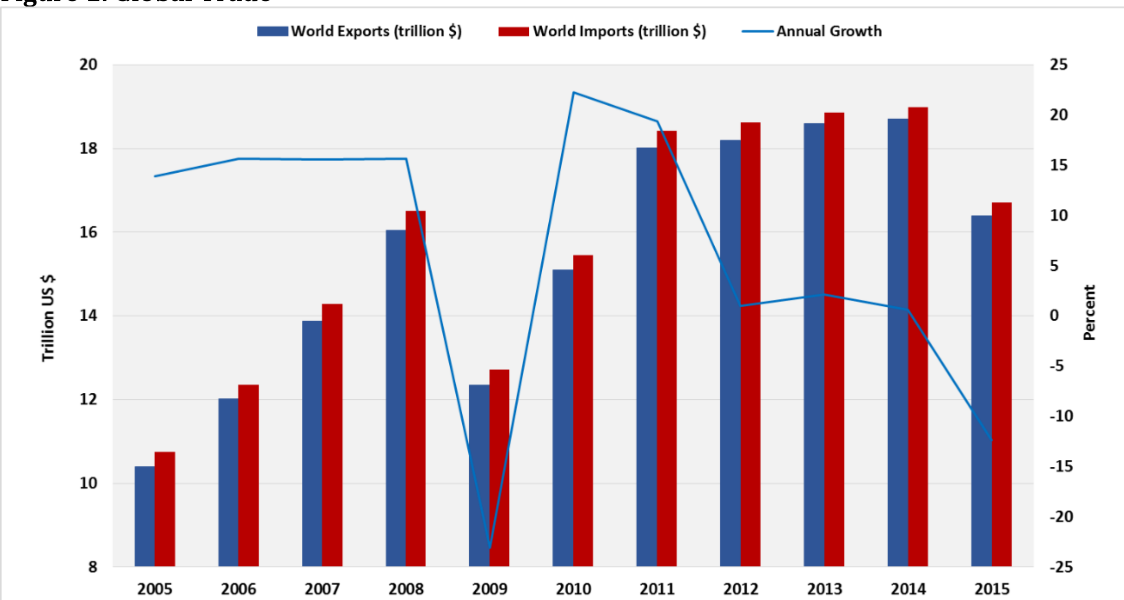
The Fifth Section concentrates on the role of the COMCEC in improving the trading environment in the Member States and enhancing intra-OIC trade.

Finally, the Sixth Section concludes.

1. DEVELOPMENTS IN GLOBAL TRADE

World merchandise trade (in dollar terms) grew at an annual average rate of 12.2 per cent between 2000 and 2008 period. After a speedy recovery from the global crisis, world trade growth has been weak over the last three years, and recorded a sharp decline of 13 percent in 2015 falling to 16.5 trillion US dollars down from 19 trillion US dollars in 2014.

Figure 1: Global Trade



Source: IMF Direction of Trade Statistics

Despite the sharp decline in world trade value, world trade volume (accounted for changes in prices and exchange rates) continued to grow by 2.8 per cent in 2015. The sharp decline in the dollar value of world trade despite the slow growth in volume terms was mostly due to the falling commodity prices and the depreciation of currencies against the US dollar in 2015[1].

It should be noted however that world trade growth has stayed below its long-term average in the last five years. World trade slowdown in 2015 was attributed to several factors including ongoing weak global demand, falling oil and other commodity prices, and China's shift to a new growth model. Demand was especially weak in emerging economies in particular China Brazil and Russia (WB, 2016). China's slower growth compared to previous decade and shift away from investment and manufacturing to consumption and services resulted in a lower import demand especially for minerals and metals. Moreover, strengthening dollar and falling commodity prices were among other factors that weighed on world trade in 2015 (IMF WEO, 2016). Measured in national currency units trade values either stayed the same or fell at a smaller magnitude when compared to trade in dollar terms.

[1] WTO 2016

Table 1: Trade Volume and GDP, Annual % change

	2013	2014	2015
Volume of world trade	**2.4**	**2.8**	**2.8**
Exports			
Developed economies	1.7	2.4	2.6
Developing and emerging economies	3.8	3.1	3.3
North America	2.8	4.1	0.8
Europe	1.7	2.0	3.7
Asia	5.0	4.8	3.1
Imports			
Developed economies	-0.2	3.5	4.5
Developing and emerging economies	5.0	2.1	0.2
North America	1.2	4.7	6.5
Europe	-0.3	3.2	4.3
Asia	4.8	3.3	1.8
World Output real GDP at market exchange rates (2005)	**2.2**	**2.5**	**2.4**
Developed economies	1.0	1.7	1.9
Developing and emerging economies	4.5	4.2	3.4
North America	1.5	2.4	2.3
Europe	0.4	1.5	1.9
Asia	4.4	4.0	4.0

Source: WTO

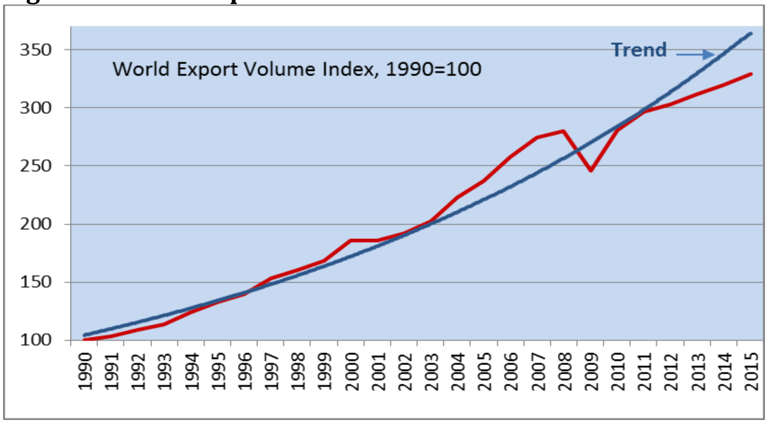
Additionally some structural changes such as slower pace of trade liberalization and the maturation of global value chains also contributed to recent world trade slowdown. Yet short term factors are estimated to have the lion's share in world trade slowdown.[2]

IMF[3] 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 2.0 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.

[2] For a more detailed discussion see Constantinescu, Ileana Cristina; Mattoo, Aaditya; Ruta, Michele. 2016. *Global trade watch: trade developments in 2015*. Washington, D.C.: World Bank Group. http://documents.worldbank.org/curated/en/2016/03/26040867/global-trade-watch-trade-developments-2015

[3] IMF WEO 2015 Chapter 1.

Figure 2: World Export Volume Growth



Source: WTO

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. [4]

"Four main trends shaped the global trade "

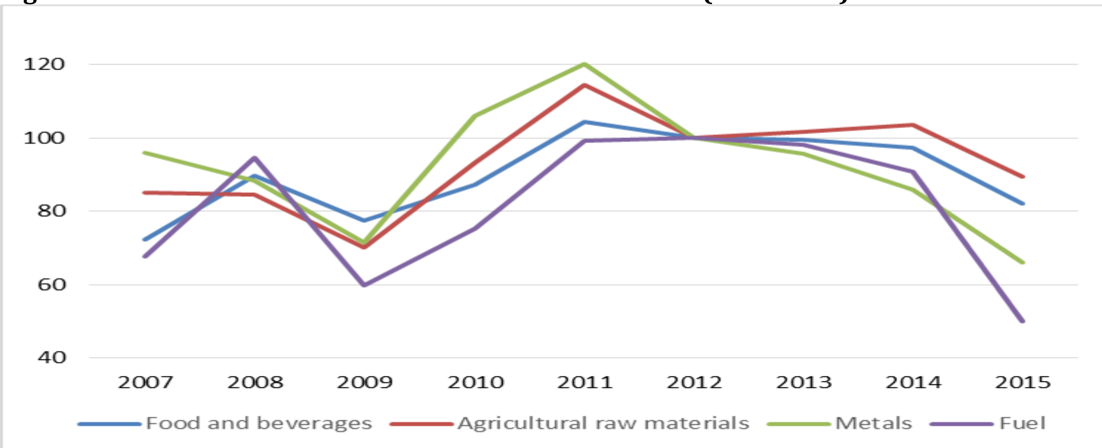
Commodity prices increased steadily beginning from 2003 due to increases in global industrial production, especially in emerging Asian economies (mainly China), the increasing political instability in the Middle-East, supply constraints in oil and depreciation trend in US dollar. After a severe fall 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 2015 commodity prices plummeted by 35.4 per cent mainly due to slowing demand in especially in emerging economies, weak economic recovery in advanced economies, increases in oil and metals supply and a strong US dollar.

Prices of most commodities fell, however the fall in energy prices was more pronounced than in metals and food. According to WB (2015), China's share is 13 percent in world commodity imports and its share goes up to 40 percent for certain metals. Deceleration of growth in China resulted in a decline for basic metals demand. Along with the increases in the supply of most metals, metal prices fell markedly with 23.1 per cent in 2015.

The decline in food prices in 2015 was mainly driven by lower energy prices and improved harvest. As energy prices are an important cost component of agriculture, lower energy prices reduced the cost of producing food commodities resulting in lower food prices. (World Bank 2016)

[4] For more information visit https://www.wto.org/english/res_e/publications_e/wtr14_e.htm

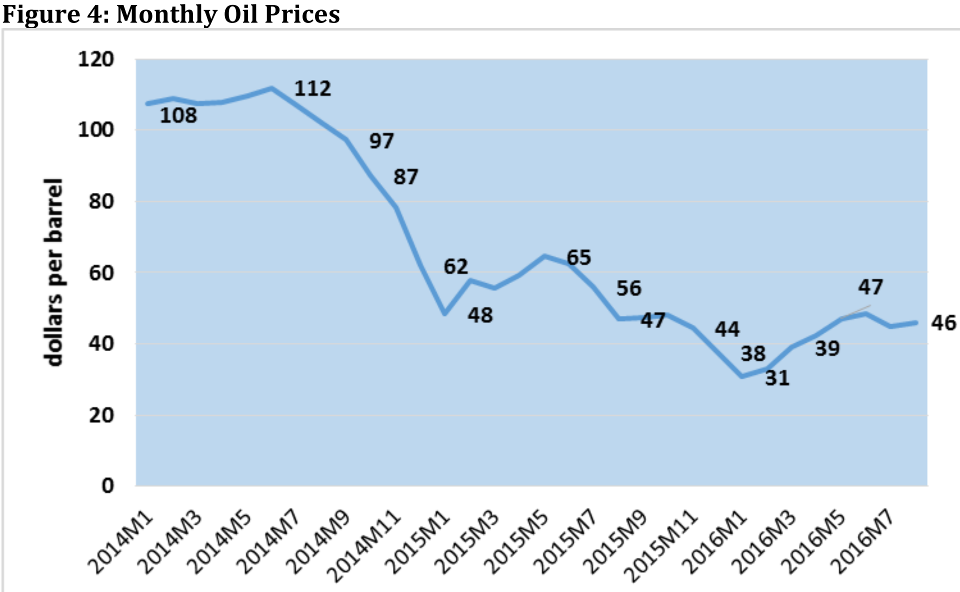
Figure 3: Evolution of the Prices of Selected Commodities (2005=100)



Source: IMF

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 between 2011 and 2013. However oil prices have declined sharply since June 2014. Thus Brent crude oil prices averaged 38 dollars per barrel in December 2015, which was the lowest monthly average price since June 2004. Thus the oil prices declined on average 47 per cent in 2015 (see Figure 4). Although oil prices further declined to 31 dollars per barrel on January 2016, they increased in the following months and averaged 46 dollars per barrel in August 2016.

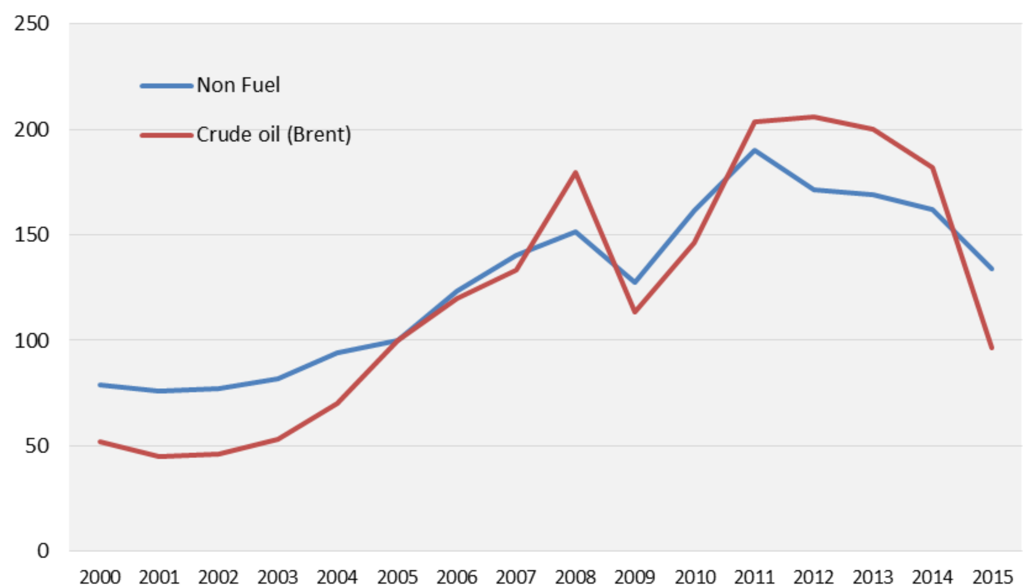
Figure 4: Monthly Oil Prices



Source: IMF Commodity Price Statistics

Oil price collapse was a combination of both demand side and supply side factors including the surge in crude oil production in countries outside the OPEC[5], especially in the United States, increased oil supply due to continued OPEC production, Iran's return to oil market, the weakness of demand and improved energy efficiency in vehicles. (IMF 2016) found that abundant supply accounts almost all the decline in oil prices. According to (Arazki et al 2015) increased financial flows to oil in recent years may have also an impact on increased volatility of oil prices.

Figure 5: Evolution of Oil and Non-Fuel Commodity Price Indices (2005=100)



Non-fuel price index, 2005=100, includes Food and Beverages and industrial inputs prices (includes agricultural raw materials and metals price indices).

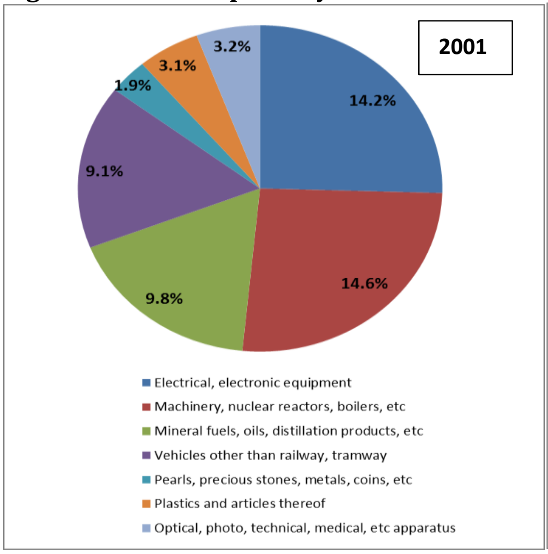
Source: IMF

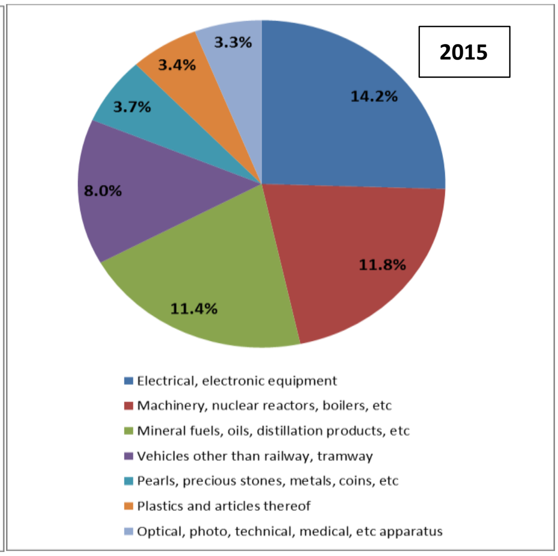
"The share of commodities in the world trade increased due to soaring commodity prices"

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. However due to fall in oil prices, share of mineral fuels in global exports declined to 11.4 per cent in 2015. On the other hand, the share of electrical, electronic equipment in world exports moved to first place in 2015 from second place in 2001. Figure 6 below, shows the composition of world exports in 2015 compared to 2001.

[5] According to (WB 2016) OPEC production increased further, reaching a three year high, with much of the increase coming from Saudi Arabia and Iraq. http://pubdocs.worldbank.org/en/898911452202217524/Global-Economic-Prospects-January-2016-Global-Outlook.pdf

Figure 6: World Exports by Sectors



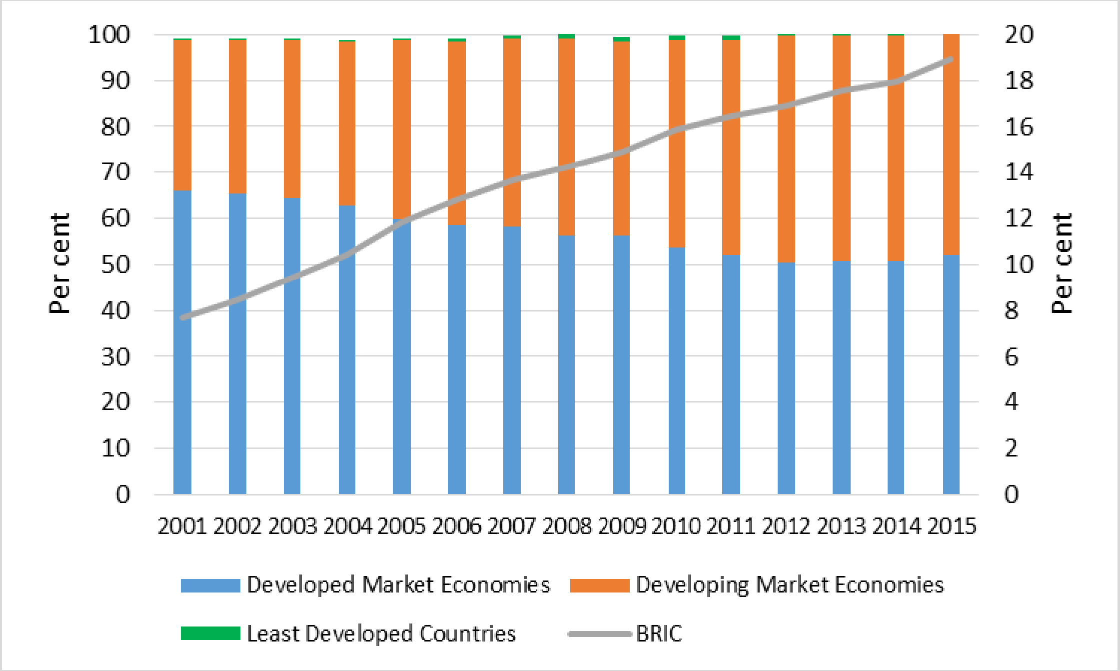


Source: ITC Trademap

Second major pattern 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. The share of developing countries in global trade increased steadily. Their share in world exports increased from 32.7 percent in 2001 to 47.8 percent in 2015. This increase was mainly led by the exports of Brazil, Russia, India and China (BRIC) and other Asian developing countries. The BRIC countries' share in world exports reached from 7.7 per cent in 2001 to 18.9 percent in 2015. The developing countries as a group have increased their share in world imports from 29.5 percent in 2001 to 44.6 percent in 2015. From 2001 to 2015, the BRIC countries' combined share of total world imports rose from 6.2 to 14.7 percent. China alone contributed 10.2 per cent of the BRIC countries' share of world imports in 2015.

Figure 7: Evolution of Share of Developing Countries in World Exports

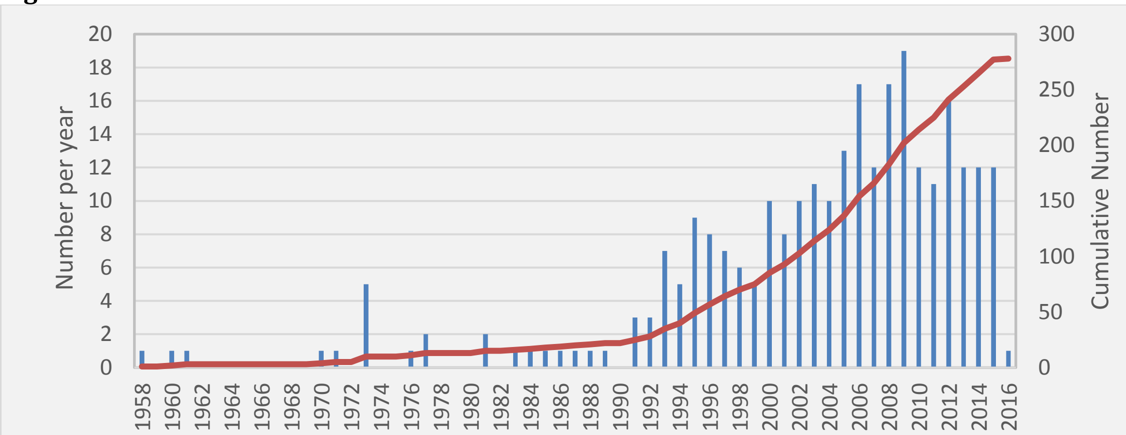


Source: ITC Trademap

A fourth major pattern 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 164 Members and 20 Observers by July 2016, countries also initiated new RTAs to increase their competitiveness in foreign markets during the last decade. As of 1st July 2016 the number of RTAs in force reached 267. Figure 8 below shows the increasing number of RTAs since 1958. According to WTO[6] data Free Trade Agreements and partial scope agreements account for 90 per cent, while customs unions account for 10 per cent of these RTAs.

[6] https://www.wto.org/english/tratop_e/region_e/region_e.htm

Figure 8: Evolution of Number of RTAs Notified to the WTO



Source: WTO 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[7])

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.

[7] 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

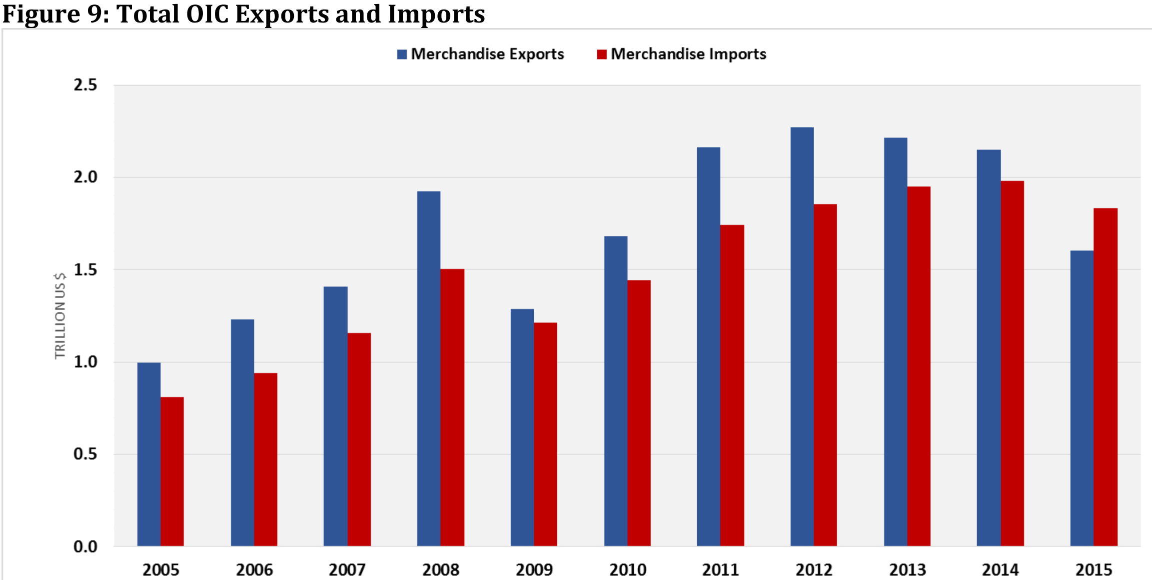
"Total OIC exports fell sharply by 25.4 per cent in 2015 mostly on account of collapse in oil prices and weak global demand"

Although total OIC exports bounced back rapidly from the global crisis owing to increases in global economic activity and oil prices, it remained subdued around 2.2 trillion dollars over the 2012 and 2014 period. However total OIC exports fell sharply by 24.8 per cent to USD 1.6 trillion in 2015. On the other hand total OIC imports which continued to increase modestly over the 2012 and 2014 period, fell by 8.6 per cent to USD 1.8 trillion in 2015. Thus total OIC trade fell by 17 per cent to USD 3.4 trillion in 2015 from USD 4.1 trillion in 2014.

Several factors accounted for the decline in total OIC exports in 2015 including the sluggish pace of world demand growth especially in emerging Asia, the sharp fall in commodity prices in particular the collapse in oil prices, exchange rate fluctuations and ongoing political transition in many countries in Middle East.

Growth performance and rebalancing of Chinese economy away from manufacturing and investment to services and consumption being the main export market for OIC Member States is particularly important as further slowdown in Chinese growth might have negative implications on OIC exports. Chinese economy maintained a remarkable growth by growing 10.8 per cent annually between 2003 and 2011 which lead the surge in commodity prices in 2000s. However the pace of growth started to slowdown since 2012. Chinese growth in the last four years (2012-2015) averaged to 7.4 per cent and estimated to be slowing further in the coming years. This could have spillovers on OIC exports via downward pressure on commodity prices and lower import demand.

Figure 9: Total OIC Exports and Imports



Source: IMF Direction of Trade Statistics

Prices of commodities, in particular fuels, declined sharply starting from June 2014. Brent oil prices declined by almost 50 percent from 98.9 dollar per barrel in 2014 to 52.4 dollar per barrel 2015. As a result, energy exporters of OIC were affected severely by this commodity price decline. (WB 2016)

Table 2 shows the sectors which have the largest negative impact on the percentage fall of the total OIC exports in 2015 in descending order. Mineral fuels and oils were accounted for 64 per cent of the decline in total OIC exports.

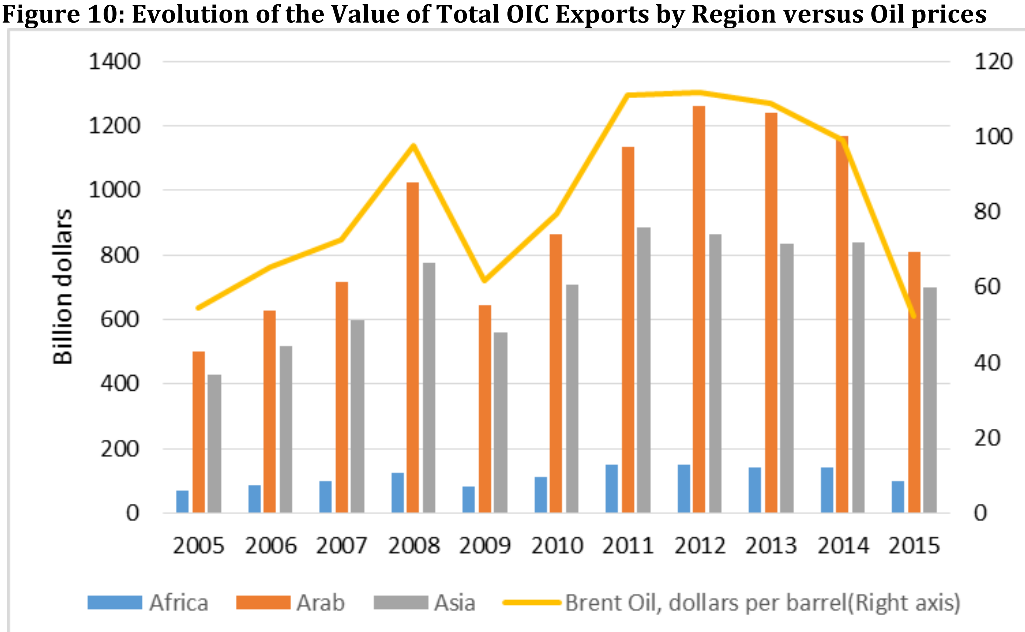
Table 2: Sectoral Contributions to Change in Total OIC Exports

	Per cent Share in Total OIC Exports		Exports(billion dollars)		Per Cent Change	Contribution to Change in Total OIC Exports (%)
	2014	2015	2014	2015	2015/2014	2015/2014
Mineral fuels, oils, distillation products, etc	53.3	47.5	1,215	699	-42.4	-22.6
Commodities not elsewhere specified	5.1	0.3	115	4	-96.7	-4.9
Electrical, electronic equipment	5.7	6.3	130	92	-28.9	-1.6
Machinery, nuclear reactors, boilers, etc	3.1	3.4	72	50	-30.4	-1.0
Pearls, precious stones, metals, coins, etc	3.2	3.8	72	56	-22.6	-0.7
Vehicles other than railway, tramway	2.1	2.5	49	37	-25.4	-0.5
Plastics and articles thereof	2.4	3.1	55	45	-16.9	-0.4

Source: ITC Trademap

Figure 10 shows the evolution of total OIC exports by region versus oil price developments. Although both Arab region and Asian region exports move in tandem with oil prices, as Arab regions exports is heavily dominated by mineral fuels there is a high correlation between the Arab region's exports and the oil price developments. The collapse in Arab region's exports in 2015 was mostly attributable to recent oil price slump.

Figure 10: Evolution of the Value of Total OIC Exports by Region versus Oil prices



Source: IMF

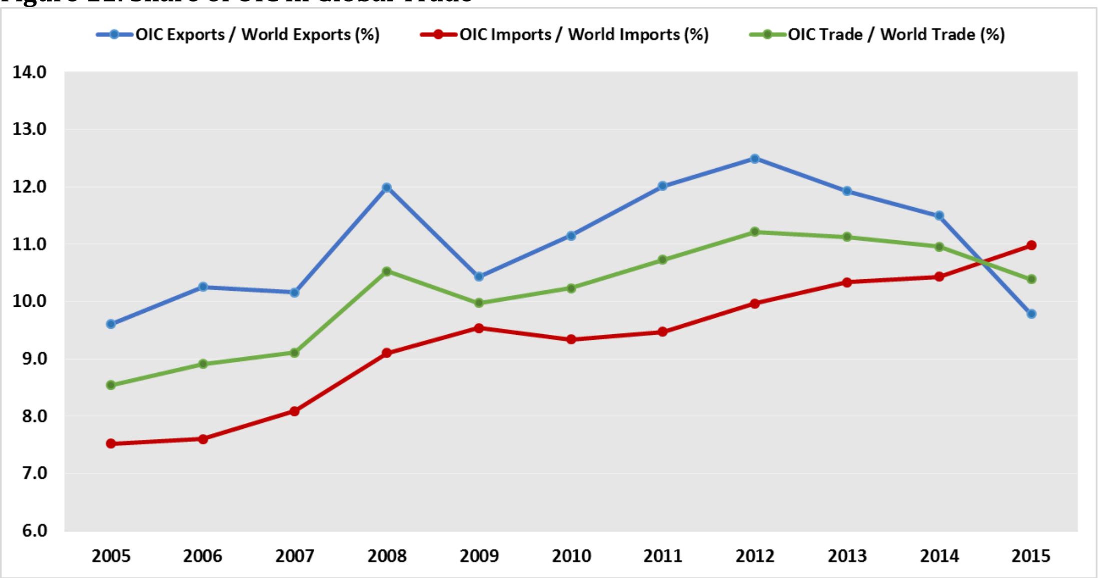
Oil price shock has different effects on oil exporters and importers. While the oil exporters lose export and fiscal revenues that might lead to possible losses in growth, oil-importing countries could benefit from reduced oil import bills and increased real incomes. However those oil importer countries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

"OIC countries' share in global trade receded to 10.4 per cent in 2015"

The share of OIC countries in world trade, reached 10.5 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 11.2 per cent in 2012. However the share of OIC countries in global trade receded to 10.4 per cent in 2015 due to sharp decline in exports.

The share of OIC countries in global exports increased steadily after the global crisis and peaked at 12.5 per cent in 2012. However OIC's share in world exports decreased to 9.8 per cent in 2015 due to steep fall in total OIC exports.

Figure 11: Share of OIC in Global Trade

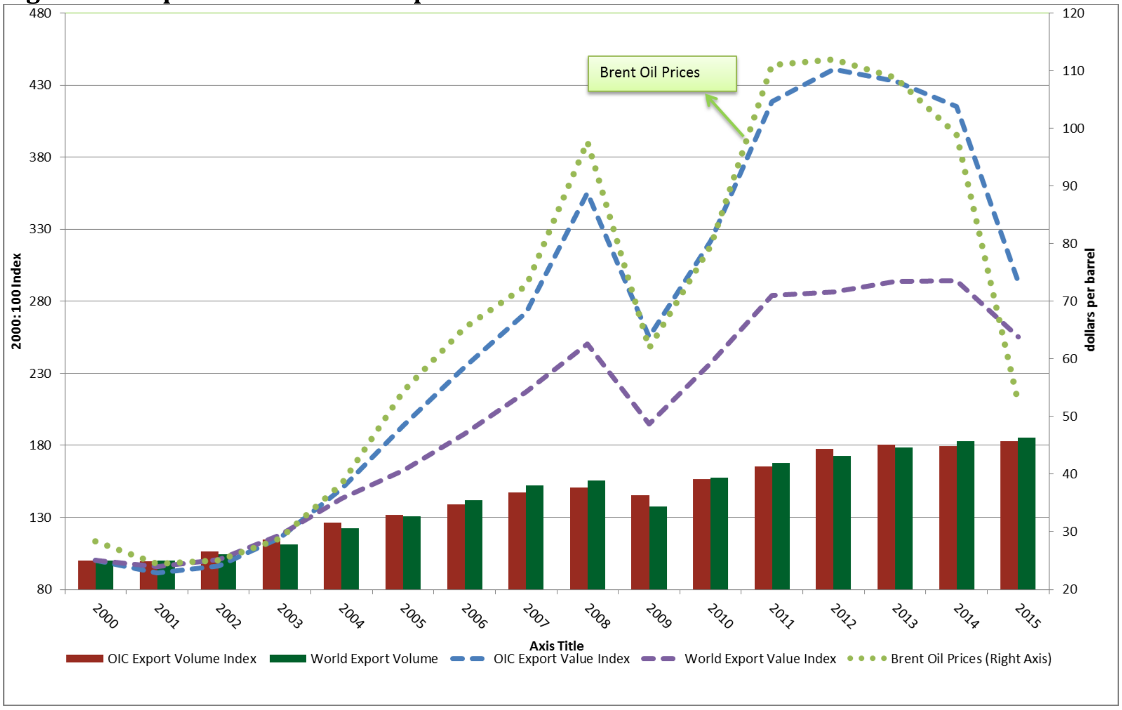


Source: IMF Direction of Trade Statistics

"Due to increased supply in oil, OIC export volume increased slightly despite fall in export values in 2015"

Figure 12 below demonstrates value versus volume (i.e. eliminating the effects of prices and exchange rates) developments in total OIC and world exports. In value terms (i.e. in US dollars), OIC exports yielded higher growth rates than that of world exports especially during the oil price boom period between 2003 and 2012. Total OIC exports moves closely with oil prices owing to heavy dominance of oil in OIC exports. Due to recent oil price collapse dollar value of OIC exports fell sharply in 2015. However it should be noted that due to increased supply especially in fuels, the total OIC exports in volume terms (i.e. eliminating the effects of prices and exchange rates) increased slightly by 1.7 per cent in 2015.

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

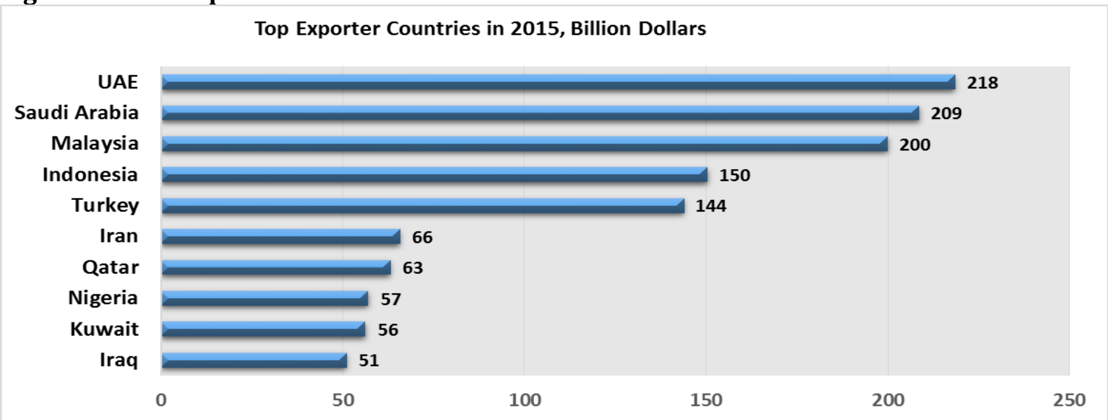


Source: IMF, UNCTADSTAT

2.1. MAIN CHARACTERISTICS OF TOTAL OIC EXPORTS

The top performers in total OIC exports were United Arab Emirates, Saudi Arabia, Malaysia, Indonesia and Turkey together accounting for almost two-thirds of total OIC exports (Figure 13).

Figure 13: OIC Exports to World



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 13.2 per cent of extra-OIC exports destined to China, OIC exports are mainly shipped to developed countries in recent years. The top ten countries accounts for 66 per cent of extra-OIC exports. This points to a high country concentration in total OIC exports which makes OIC countries vulnerable to external shocks that might result from decreasing demand in these countries and/or falling commodity prices.

Table 3: Major Destinations of Total Extra-OIC Exports

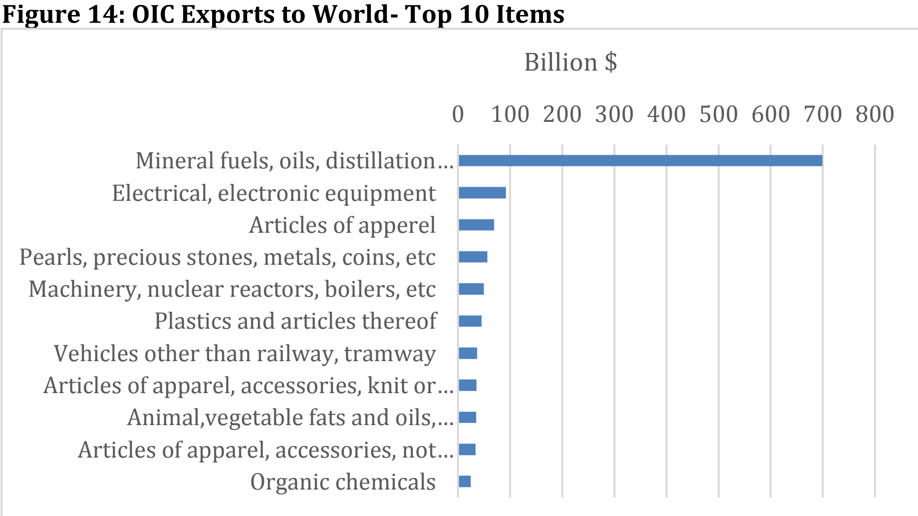
	(Billion $)			Share %		
Countries	2013	2014	2015	2013	2014	2015
China	257	251	168	13.0	13.3	13.2
India	190	177	120	9.6	9.4	9.4
Japan	234	217	117	11.8	11.5	9.2
United States	162	147	99	8.2	7.8	7.8
Korea, Republic of	152	145	81	7.7	7.7	6.4
Singapore	99	99	66	5.0	5.3	5.2
Taiwan	95	90	63	4.8	4.8	4.9
Italy	87	75	50	4.4	4.0	3.9
France	62	60	42	3.2	3.2	3.3
Germany	52	50	41	2.6	2.6	3.2
EU 28	448	429	312	22.7	22.8	24.4
Total of Top Ten Countries	1839	1312	849	70.3	69.5	66.4

Source: UNCTADSTAT

"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 47.4 percent in 2015. This is followed by electrical electronic equipment, articles of apparel, pearls, precious stones and machinery. These five sectors as a whole account for 66 per cent of total OIC exports. (Figure 14)

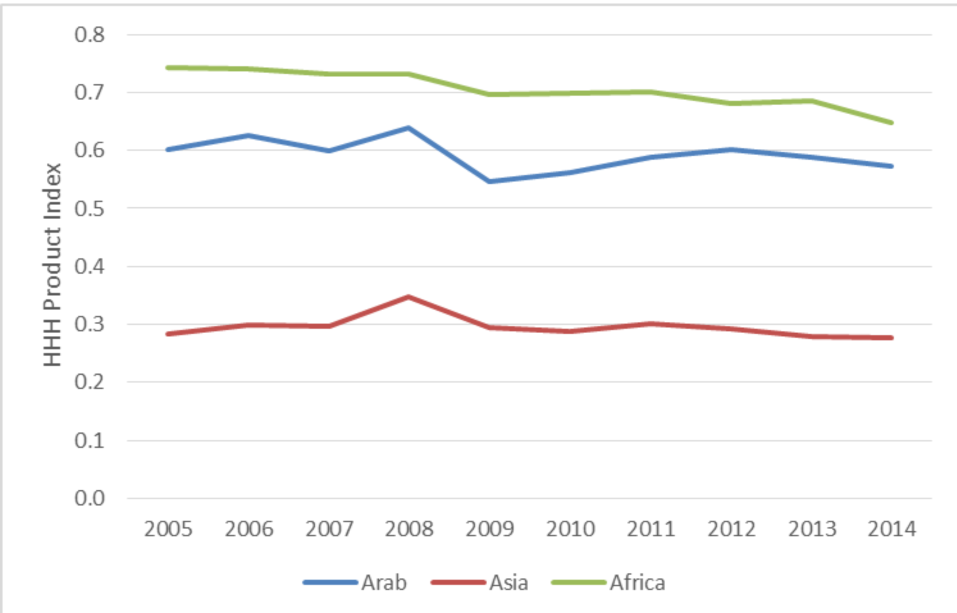
Figure 14: OIC Exports to World- Top 10 Items



Source: ITC Trade map

The resilience of a country against external economic shocks varies depending on among others the degree of export diversification. One common measure of concentration is Herfindahl-Hirschmann Index (HHI)[8] which can take values between 0 and 1 where being close to 0 indicates well diversified exports while a higher value indicates greater concentration of exports on a few commodities. Figure 15 illustrates the evolution of product diversification in the OIC geographic regions for the period 2005-2014 measured by HHI. This measure shows a little tendency towards increasing product diversification across all the regions and there is considerable disparity among regions. Africa has the highest HHI with 0.65 in 2014 which points to a high export product concentration. On the other hand Asia which has the lowest HHI with 0.28 in 2014 has a more diversified export product base. Turkey has the most diversified export product structure with a HHI of 0.07 in the OIC. In the Arab region HHI takes the value 0.57 in 2014, however when looked closely within Arab region some major oil exporters have a very concentrated export product structure measured by HHI such as Iraq (0.97), Libya (0.76) Saudi Arabia (0.74) and Kuwait (0.66).

Figure 15: Herfindahl-Hirschmann Index (Product HHI) Index by region[9]



Source: Author' calculations based on UNCTADSTAT data

[8] The Herfindahl-Hirschmann Index (HHI) is calculated by taking the square of export shares of all export categories in the market:This index gives greater weight to the larger export categories and reaches a value of unity when the country exports only one commodity.
http://unctadstat.unctad.org/wds/TableViewer/tableView.aspx?ReportId=120

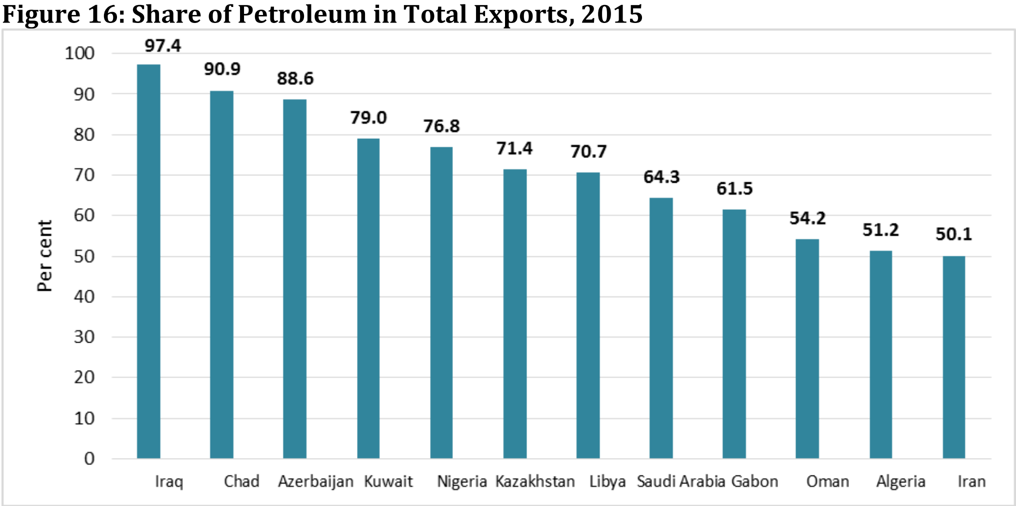
[9] Note: Regional concentration ratios are trade weighted averages of country concentration indices where country's share in regional exports used as weights.

"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 few primary products for their exports or depend heavily on natural resources which might result in a severe export revenue loss in case of either foreign demand and/or commodity price shocks or drought for agricultural commodity exporters. Recent oil price collapse and fall in other commodity prices underlies the importance of policies aiming to step up export diversification to enhance resilience to commodity price volatilities.

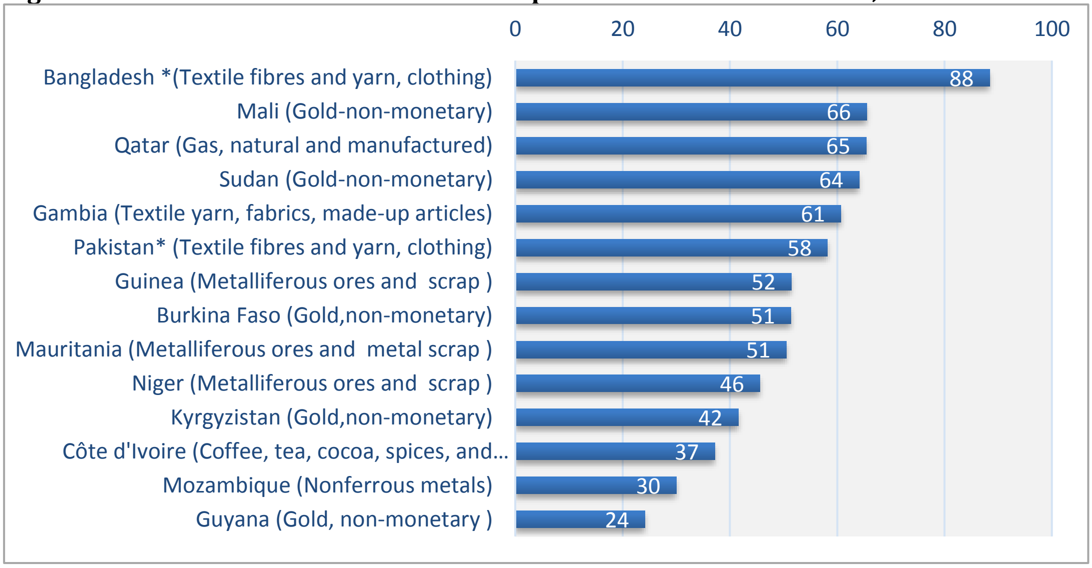
Figures 16 and 17 illustrate the share of the basic commodities in total exports of some member states. Petroleum was the main exported item in many members ranging between 50 to 100 per cent of total exports. On the other hand, the share of non-monetary gold reached more than half of total exports in 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 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 16: Share of Petroleum in Total Exports, 2015



Source: UNCTADSTAT

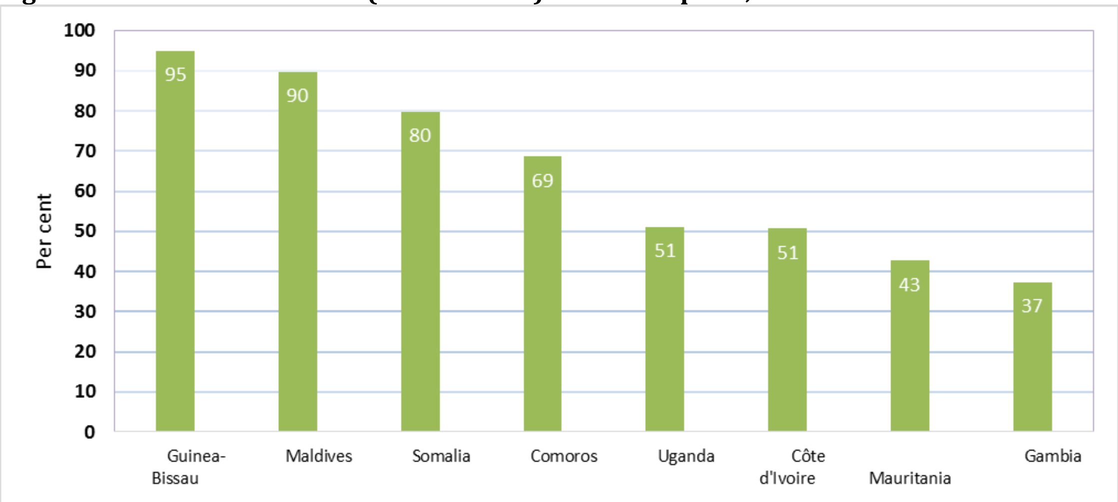
Figure17: Share of Commodities in Total Exports for Selected Countries, 2015



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

The share of basic food items such as food and live animals, oil seeds and animal and vegetable oils constitutes as much as 70 to 90 per cent of exports in Guinea Bissau, Maldives, Somalia and Comoros (Figure 18).

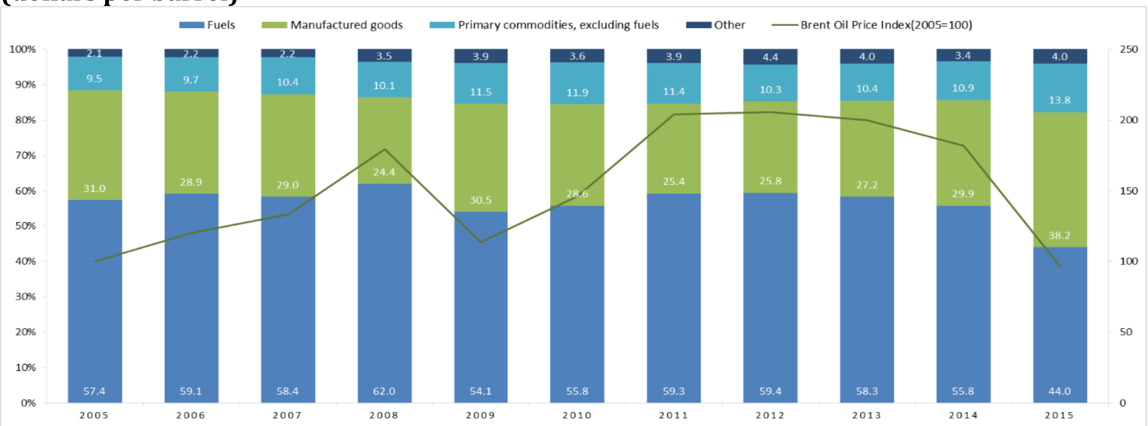
Figure18: Share of Basic Food (SITC 0+22+4) in Total Exports, 2015



Source: UNCTADSTAT

Figure 19 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 38 per cent in 2015, manufactured products constitute a 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 exports ranges between 66 to 94 per cent.(see Table 4).

Figure 19: 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 2015. 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 86 per cent in Pakistan. This is due to the high share of textile fibers, yarn, fabrics and clothing in total manufacturing exports in Bangladesh and Pakistan. The share of high-skill and technology-intensive manufactures in Saudi Arabia, Iran and Malaysia ranges between 64 to 81 per cent. When looked into detail of the manufacturing exports the share of chemical products is 78 per cent and 66 per cent in Saudi Arabia and Iran respectively whereas share of machinery and transport equipment is 63 per cent in Malaysia.

Table 4: Largest Manufactures Exporters by Degree of Manufacturing[10], 2015 (per cent)

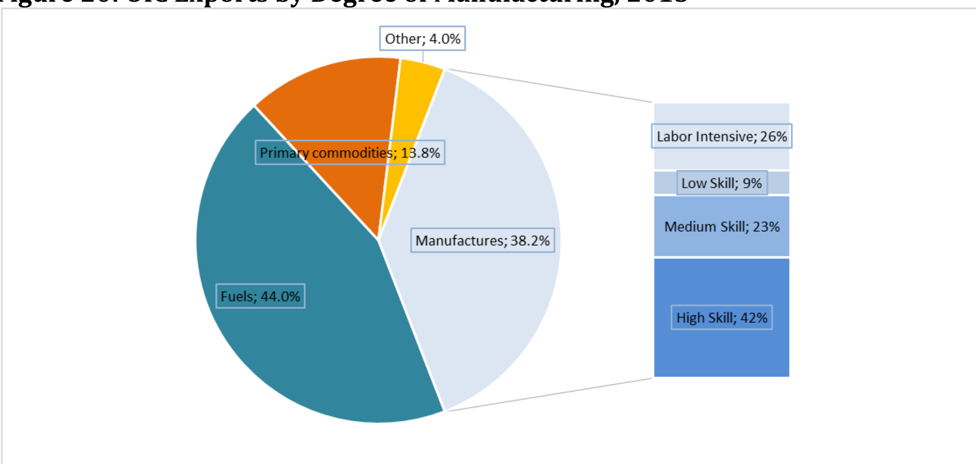
	Share of Manufacturing in Total OIC Manufacturing	Share of Manufacturing in Country's Total Exports	Manufactured goods by degree of manufacturing	Labour-intensive and resource-intensive manufactures	Low-skill and technology-intensive manufactures	Medium-skill and technology-intensive manufactures	High-skill and technology-intensive manufactures
Malaysia	21.3	66.4	100.0	10.3	5.2	20.1	64.4
Turkey	17.2	74.7	100.0	33.0	14.4	37.7	14.9
UAE	16.3	37.9	100.0	9.2	9.5	29.7	51.6
Indonesia	10.5	43.9	100.0	38.0	8.5	25.0	28.5
Saudi Arabia	8.7	27.0	100.0	5.4	7.0	6.8	80.7
Bangladesh	4.8	93.5	100.0	97.3	0.8	0.6	1.3
Pakistan	2.7	76.1	100.0	85.9	2.1	3.9	8.1
Iran	2.5	25.2	100.0	8.2	11.5	11.9	68.5
Morocco	2.4	67.6	100.0	33.2	2.2	33.4	31.3
Tunisia	1.8	79.8	100.0	33.6	5.6	36.0	24.8

Source: UNCTADSTAT

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

The breakdown of OIC manufacturing exports in 2014 by degree of manufacturing reveals that of the total OIC manufacturing exports 42 per cent is high-skill and technology-intensive manufactures, 26 per cent is labor-intensive and resource-intensive manufactures, 23 per cent is medium-skill and technology-intensive manufactures and 9 per cent is low-skill and technology-intensive manufactures. (See Figure 20)

Figure 20: OIC Exports by Degree of Manufacturing, 2015

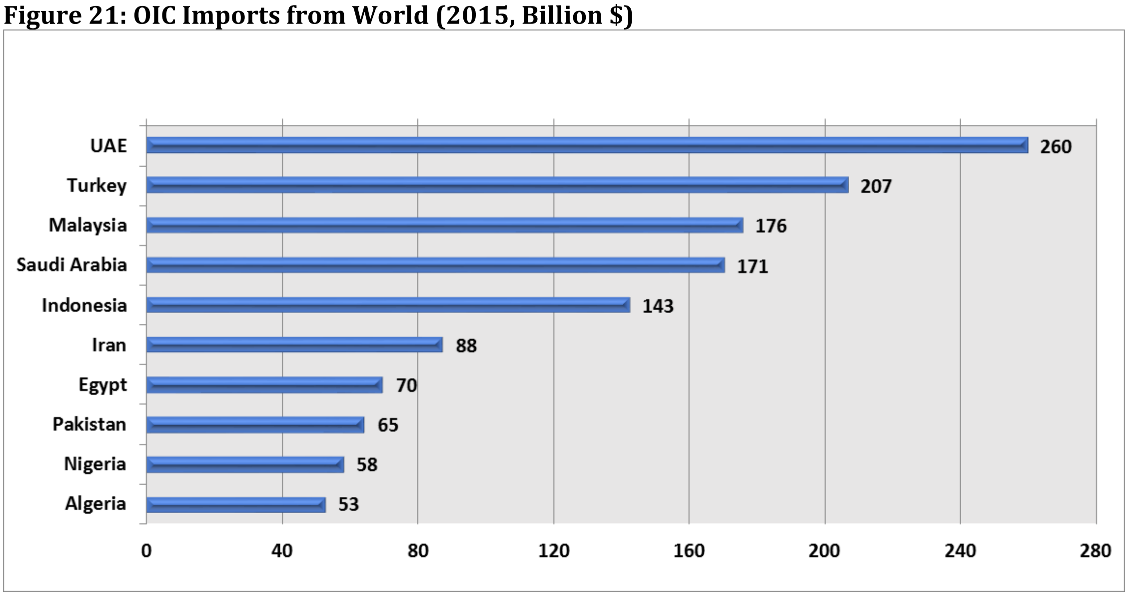


Source: UNCTADSTAT

2.2. MAIN CHARACTERISTICS OF TOTAL OIC IMPORTS

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

Figure 21: OIC Imports from World (2015, Billion $)



Source: IMF Direction of Trade Statistics

As in the case with total extra-OIC exports, total extra-OIC imports originated mainly from developed countries except China. China was in the first place as 19.6 percent of extra-OIC imports made from this country in 2015. Top ten countries accounted for 66.4 percent of total OIC imports in this year (Table 5).

Table 5: Major Countries of Origin of Total Extra-OIC Imports

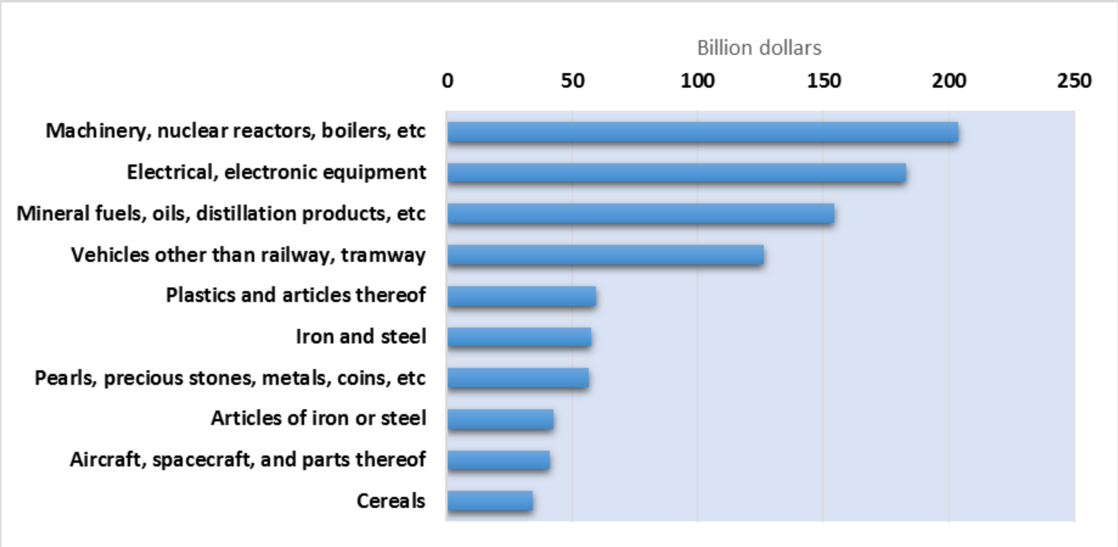
Countries	(Billion $)			Share %		
	2013	2014	2015	2013	2014	2015
China	257	99	91	16.8	18.3	19.6
United States	130	87	78	8.5	8.3	8.6
Germany	98	77	69	6.4	6.4	6.7
India	87	69	66	5.7	5.7	5.7
Japan	79	70	61	5.2	5.0	5.1
Korea, Republic of	67	70	61	4.4	4.5	4.5
France	64	63	57	4.2	4.1	4.2
Russian Federation	70	69	57	4.6	4.5	4.1
Italy	65	63	55	4.3	4.1	4.1
Singapore	73	73	53	4.8	4.7	3.9
EU 28	451	447	399	29.6	29.0	29.2
Total of Top Ten Countries	1440	1188	1048	64.8	65.6	66.4

Source: UNCTADSTAT

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

Mineral fuels and oils which has the highest share in total OIC exports in the last decade went down to third place in 2015 due to decline in oil prices. Total OIC imports is more diversified than the total OIC exports in that manufactured items such as machinery, nuclear reactors, boilers, electrical and electronic equipment, vehicles other than railway, tramway, and plastics also constitute an important part of total imports.

Figure 22: OIC Imports from World - Top 10 Items in 2015



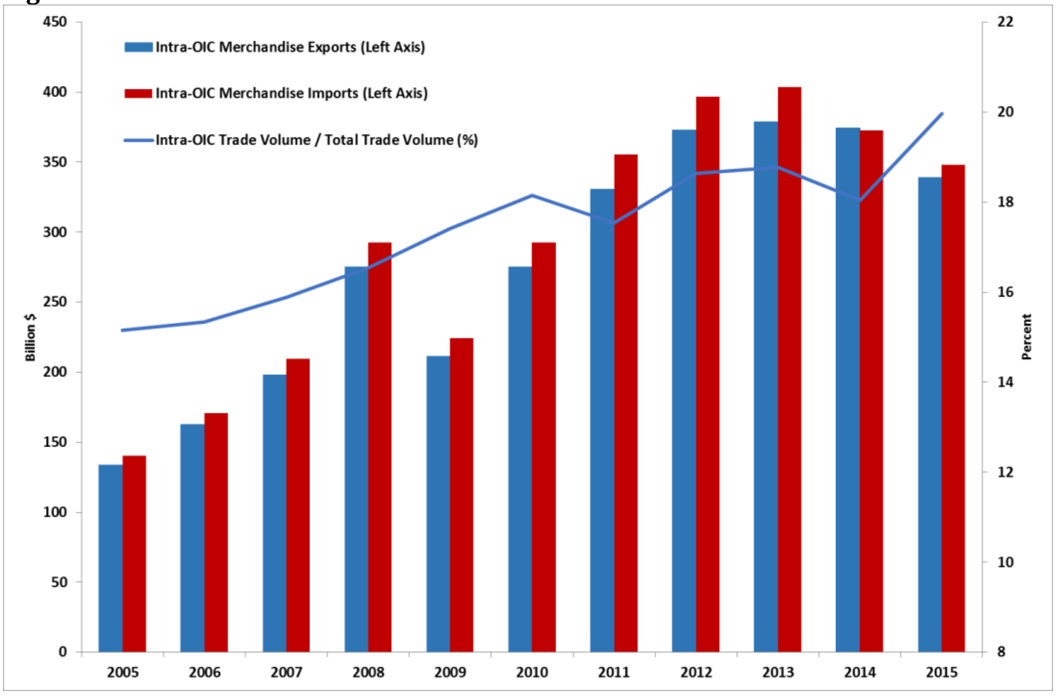
Source: ITC Trade map

3. INTRA-OIC TRADE

Recovering from the global crisis in 2010, the intra-OIC trade (average of intra-OIC exports and intra-OIC imports) continued to increase in the following years and peaked at 391 billion dollars in 2013. However intra-OIC trade has been declining since then. The fall in intra OIC trade is more prominent in 2015 when it fell by 9.2 per cent to 354 billion dollars.

The share of intra-OIC trade in total trade remained roughly constant between 2012 and 2014 averaging 18.5 per cent. However the share of intra-OIC trade increased by 1.9 points to 20 per cent in 2015 thus the long-sought target of 20 percent intra-OIC trade level has been met in 2015. In 2015, intra-OIC exports accounted for 21.1 percent of total OIC exports while intra OIC imports accounted for 19 percent of total OIC imports.

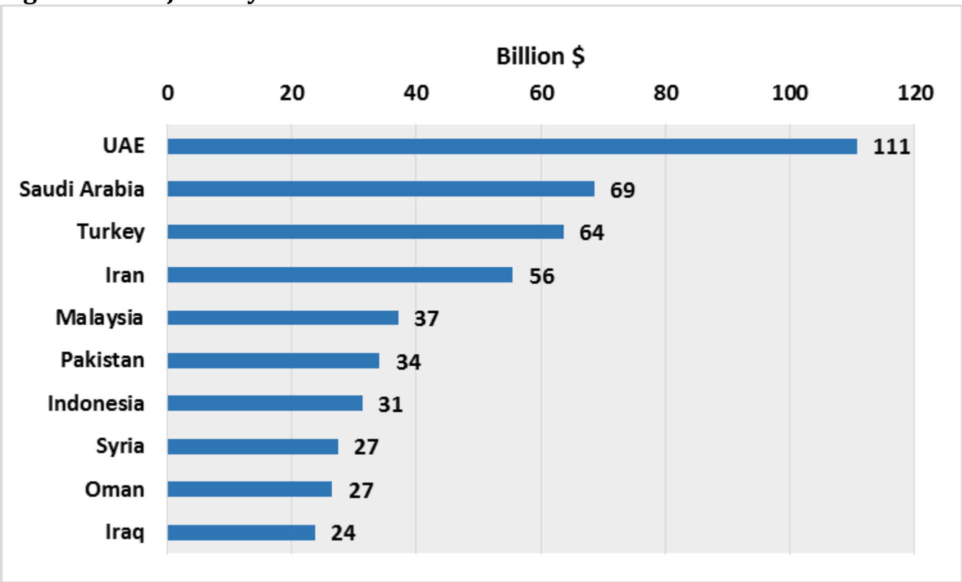
Figure 23: Intra-OIC Trade



Source: IMF Direction of Trade Statistics

Among the top ten leading countries in intra-OIC trade in 2015, United Arab Emirates ranked first followed by Saudi Arabia, Turkey, Iran, Malaysia, Pakistan, Indonesia, Syria, Oman and Iraq. Top ten countries accounted for the 70 per cent of the intra-OIC trade (see Figure 24).

Figure 24: Major Players in Intra-OIC Trade in 2015

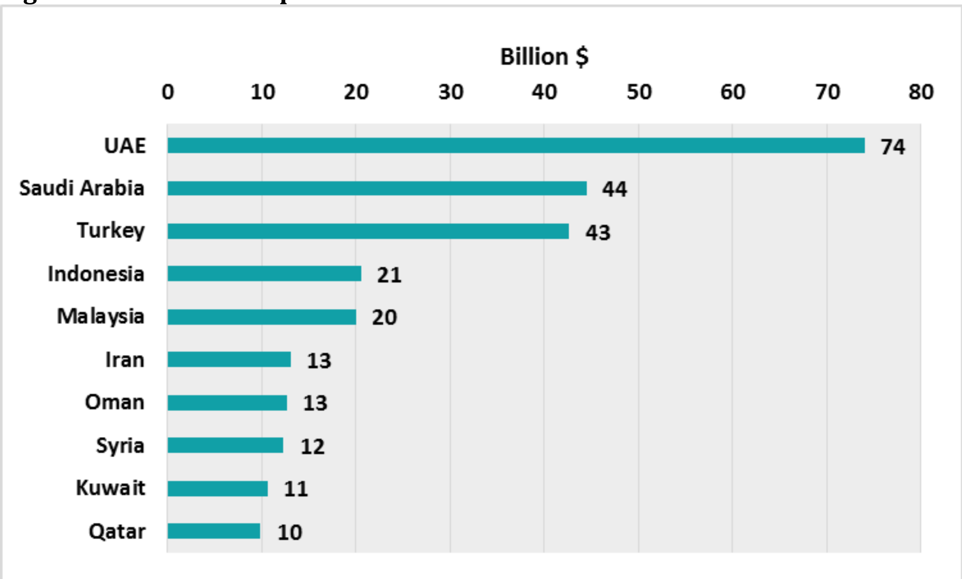


Source: IMF Direction of Trade Statistics

3.1. INTRA-OIC EXPORTS

The United Arab Emirates took the lead in intra-OIC exports in 2015 by realizing 21.9 percent of the total intra-OIC exports and was followed by Saudi Arabia, Turkey and Indonesia. These four countries as a whole accounts for slightly more than half of intra-OIC exports (Figure 25).

Figure 25: Intra-OIC Exports in 2015



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 26). Of the total intra-OIC exports, share of mineral fuels, oils and related products was 16.5 per cent, followed by plastics and articles with 7.1 per cent, pearls, precious stones, contributing 6.1 percent and machinery and nuclear reactors with 5.2 per cent. In 2015 intra OIC exports declined in almost all sectors but the contribution of mineral fuels and oils to this decline was the biggest due to fall in oil prices in this year.

Figure 26: Evolution of Intra OIC Exports by Top 10 Items

Source: ITC Trade map

The structure of the intra-OIC exports also varies according to the three geographical regions of the OIC (Arab, Asia and Africa)[11]. The mineral fuels and related products had the highest share in Africa's intra exports while the share of manufactured goods was highest in Asia regions' intra exports. (See Table 6).

Table 6: Commodity Composition of Intra-OIC Exports by Sub-Regions (% Shares, 2015)

	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	3.3	0.7	1.9	58.5	0.3	10.5	8.1	9.4	4.3	2.9	50.5
Asia	6.5	0.6	4.5	24.7	4.7	6.7	13.9	21.1	14.3	3.0	43.5
Africa	11.6	1.2	9.6	62.4	0.6	1.7	4.3	2.7	1.3	4.6	5.9
TOTAL	5.2	0.7	3.5	44.0	2.2	8.3	10.4	14.1	8.5	3.1	100.0

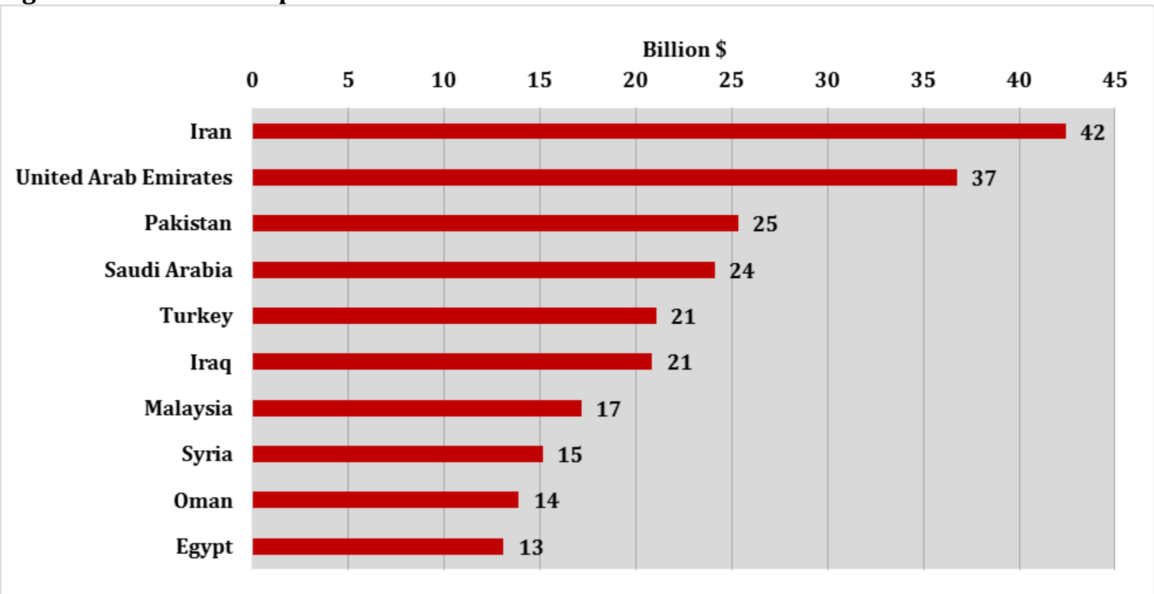
Source: UNCTADSTAT

3.2. INTRA-OIC IMPORTS

The intra-OIC imports of Iran had the highest share in total intra OIC imports with 12.2 percent followed by United Arab Emirates with 10.3 per cent and Pakistan with 7.3 per cent in 2015.

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

Figure 27: Intra OIC Imports in 2015



Source: IMF Direction of Trade Statistics

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 has the highest share while mineral fuels, lubricants and related material has 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, 2015)

	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	11.4	1.1	2.6	7.1	0.8	8.9	16.5	36.5	11.5	3.6	49.6
Asia	6.8	0.7	4.9	10.8	1.3	12.1	16.8	34.8	6.9	4.8	44.1
Africa	12.7	1.7	1.7	15.3	1.3	11.2	16.1	31.6	7.8	0.3	6.3
TOTAL	9.5	1.0	3.6	9.3	1.1	10.5	16.6	35.5	9.2	3.9	100.0

Source: UNCTADSTAT

"20 percent intra-OIC trade target was surpassed by 30 Member States in 2015 "

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 target level was met by 20 percent intra-OIC trade in 2015. However, there is a great diversity among the Member States with regards to achieving the 20 percent target individually.

In 2015, the share of intra-OIC trade of 30 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 88.8 percent in Syria, followed by Afghanistan (60.4 percent) and Somalia (56.1 percent). On the other hand, the share of intra-OIC trade was as low as 3.4 to 6.6 per cent in Brunei, Mozambique and Guinea (Figures 28-29).

Figure 28: Member States Having the Lowest Share of Intra-OIC Trade in Their Total Trade- 2015

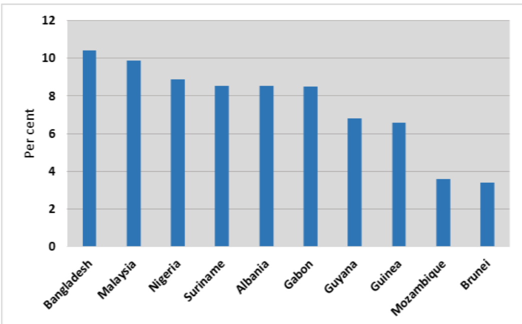
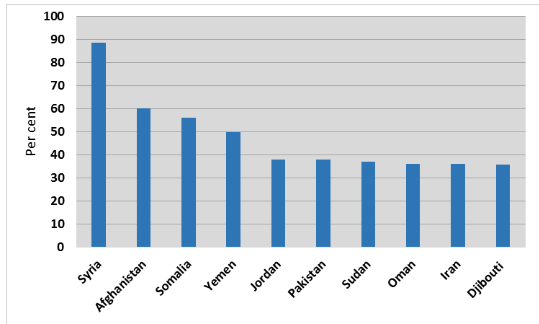


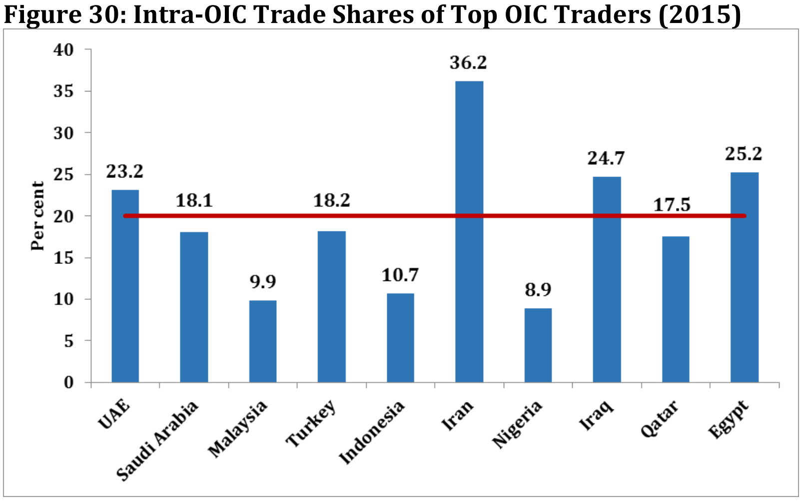
Figure 29: Member States Having the Highest Share of Intra-OIC Trade in Their Total Trade- 2015



Source: IMF Direction of Trade Statistics

With regards to the top 10 leading Members in total OIC trade (see Figure 30), intra-OIC trade shares of United Arab Emirates, Iran, Iraq and Egypt have already exceeded 20 percent target. Turkey and Saudi Arabia were very close to 20 percent with around 18 per cent. On the other hand share of intra-OIC trade remained relatively low in Nigeria, Malaysia and Indonesia.

Figure 30: Intra-OIC Trade Shares of Top OIC Traders (2015)



Source: IMF Direction of Trade Statistics

4. TRADE ENVIRONMENT IN THE OIC MEMBER STATES

In this section, the trading environment in the OIC Member States will be brought into focus with more in-depth analysis of the current state of affairs in terms of trade liberalization, facilitation, promotion and financing.

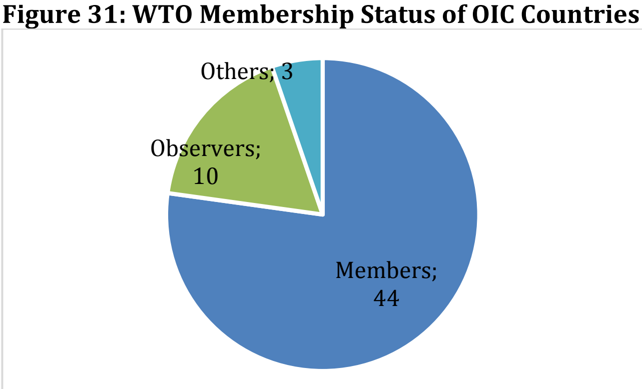
Trade Liberalization:

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) have found that trade liberalization increases trade, supports production, job creation and poverty alleviation, prevents illegal trade and contributes to economic growth. The existing literature has found strong correlation between openness to trade and economic growth. For example, Panagariya (2005) concludes that it's unlikely to find an example of a developing country that has grown rapidly while maintaining high trade barriers.

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. As of August 2016, 44 OIC Member States have acceded to the WTO and 11 Member States have the observer status. Afghanistan is the last OIC Member State that joined the WTO in July 29th, 2016.

Figure 31: WTO Membership Status of OIC Countries



Source: WTO

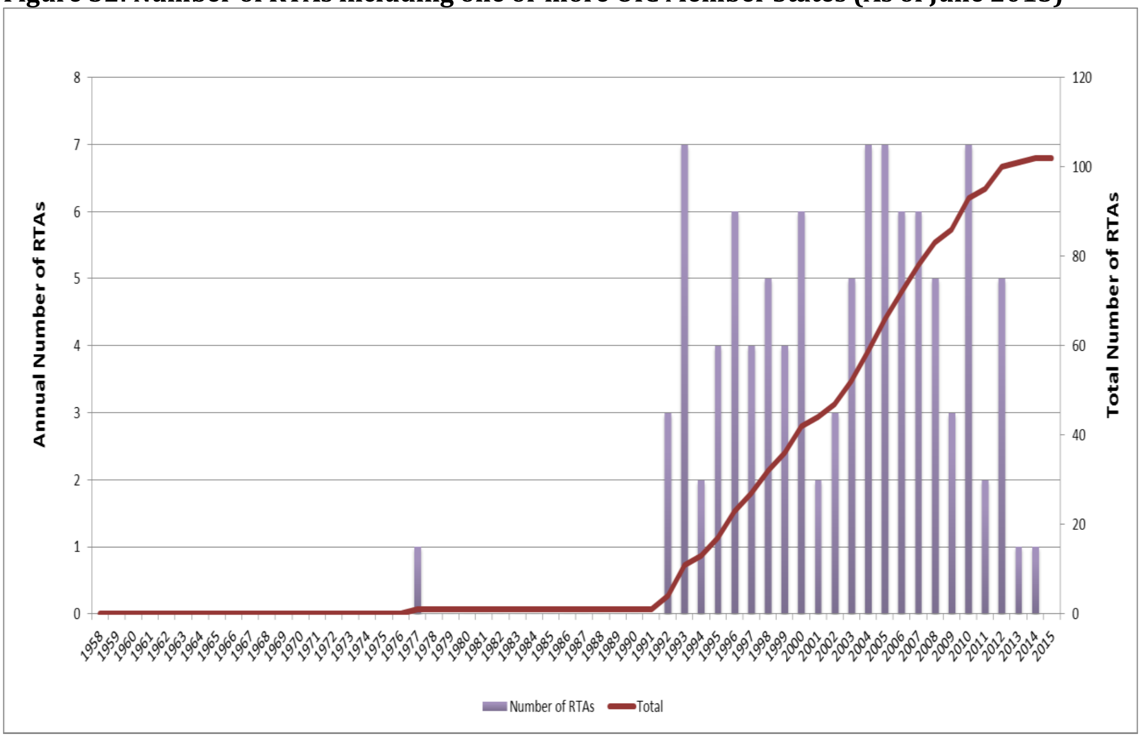
Regional Trade Agreements (RTAs) is another approach for trade liberalization. Two or more countries initiate trade arrangements to liberalize trade among themselves. Members of RTAs get the advantage of exporting to the other parties to the RTAs than the others. The European Union which was first initiated 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.

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.

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

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

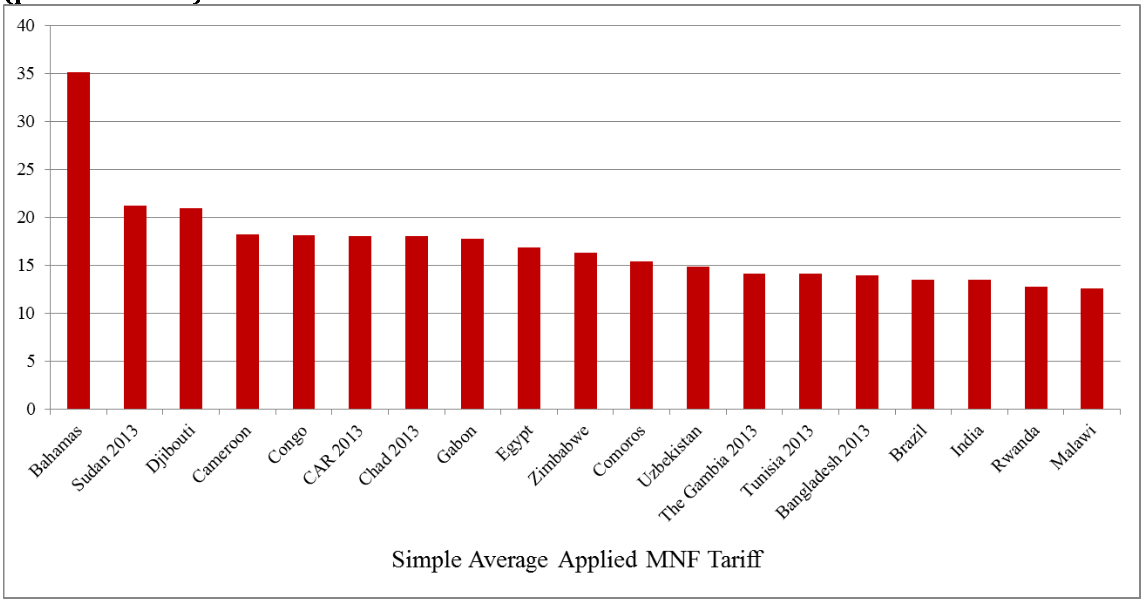


Source: http://rtais.wto.org/UI/PublicAllRTAList.aspx

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.

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 33 illustrates the 20 highest simple average tariff-applying WTO Members. As can be seen in the figure, 11 out of these 20 countries are OIC Member States.

Figure 33: The 20 Highest Simple Average Applied MFN Tariffs among the WTO Members (percent-2014*)



Source: WTO Statistics/* Due to lack of data 2013 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 34 and 35 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.

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

Figure 34: Simple Average Applied Tariffs on Agricultural Products in OIC Member States (percent-2014)*

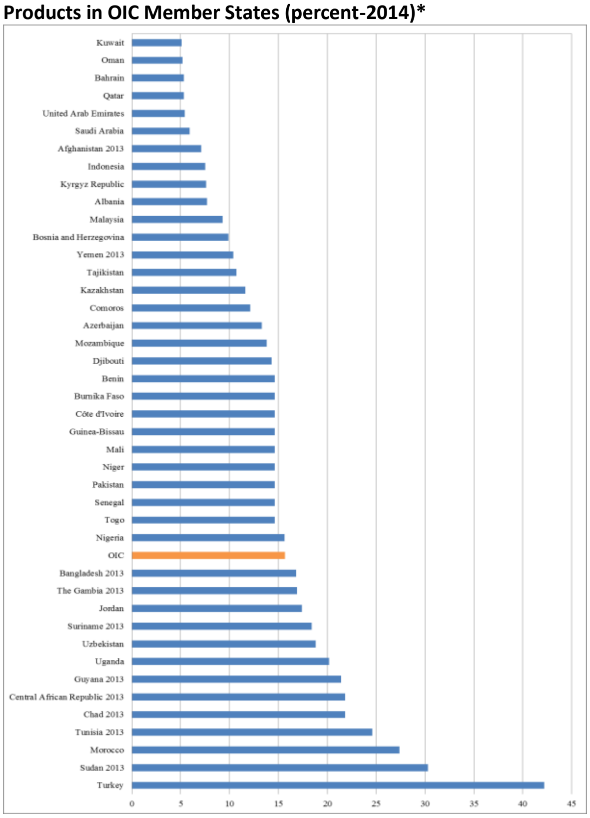
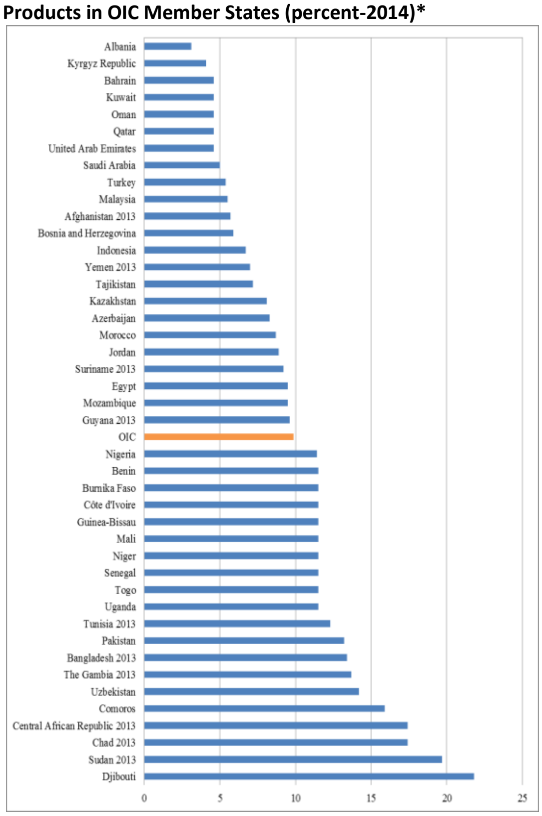


Figure 35: Simple Average Applied Tariffs on Non-Agricultural Products in OIC Member States (percent-2014)*



Source: WTO Statistics/* Due to lack of data 2014 figures were used for some member states

Trade Openness in the OIC

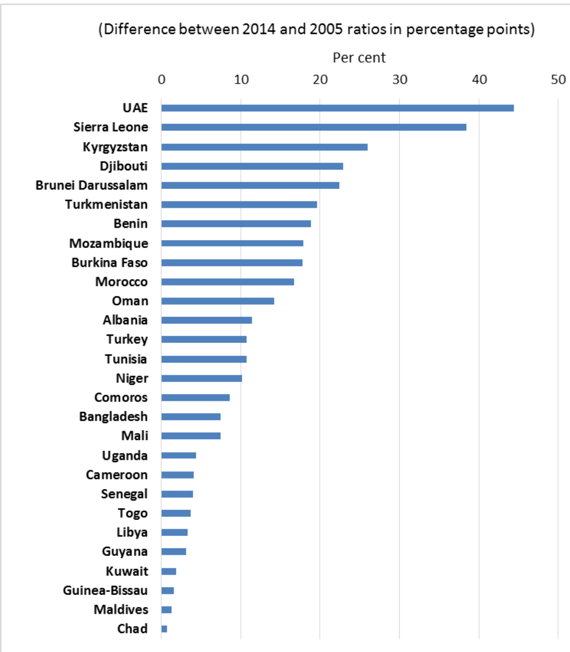
One of the most common measure of openness is to evaluate the ratio of trade (the sum of value of exports and imports of goods) to the gross domestic product (GDP). This could be interpreted as the relative importance of trade to the economy.

Figure 36 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 United Arab Emirates, Sierra Leone and Kyrgyzstan. The trade to GDP ratio in total OIC decreased from 64.1 per cent in 2005 to 60.2 per cent in 2014.

Figure 37 shows top ten countries having the lowest and highest trade to GDP ratios in 2014. United Arab Emirates had the highest share of trade in GDP with 150.6 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.

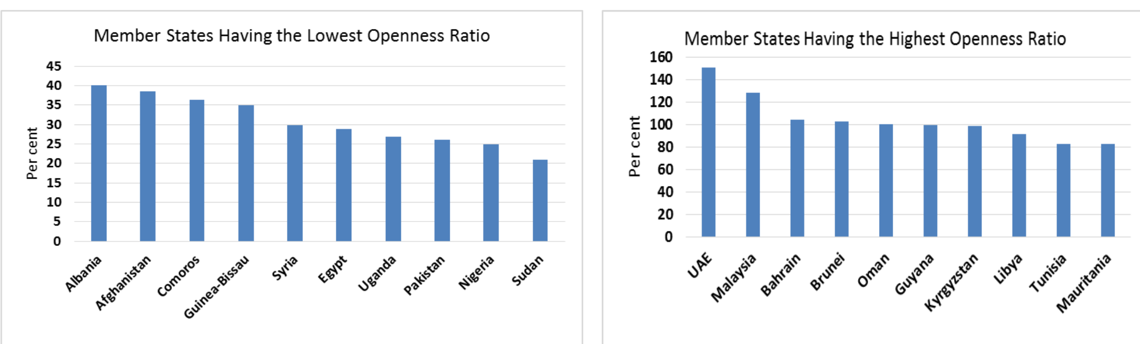
Moreover, several factors such as trade policy, economic structure, and the multinational firms may account for the differences in this ratio (Love and Lattimore, 2009). On the other hand, as a result of the undervaluation of local currencies in low and middle-income countries, the GDP calculated on 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 36: Share of Trade in GDP in OIC Member States



Source: UNCTADSTAT
Note: Those countries which have the positive difference and data were included.

Figure 37: Member States Having the Highest and Lowest Openness Ratios in 2014



Source: UNCTADSTAT

Trade Facilitation:

"Trade Costs are higher in Landlocked Member States"

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.

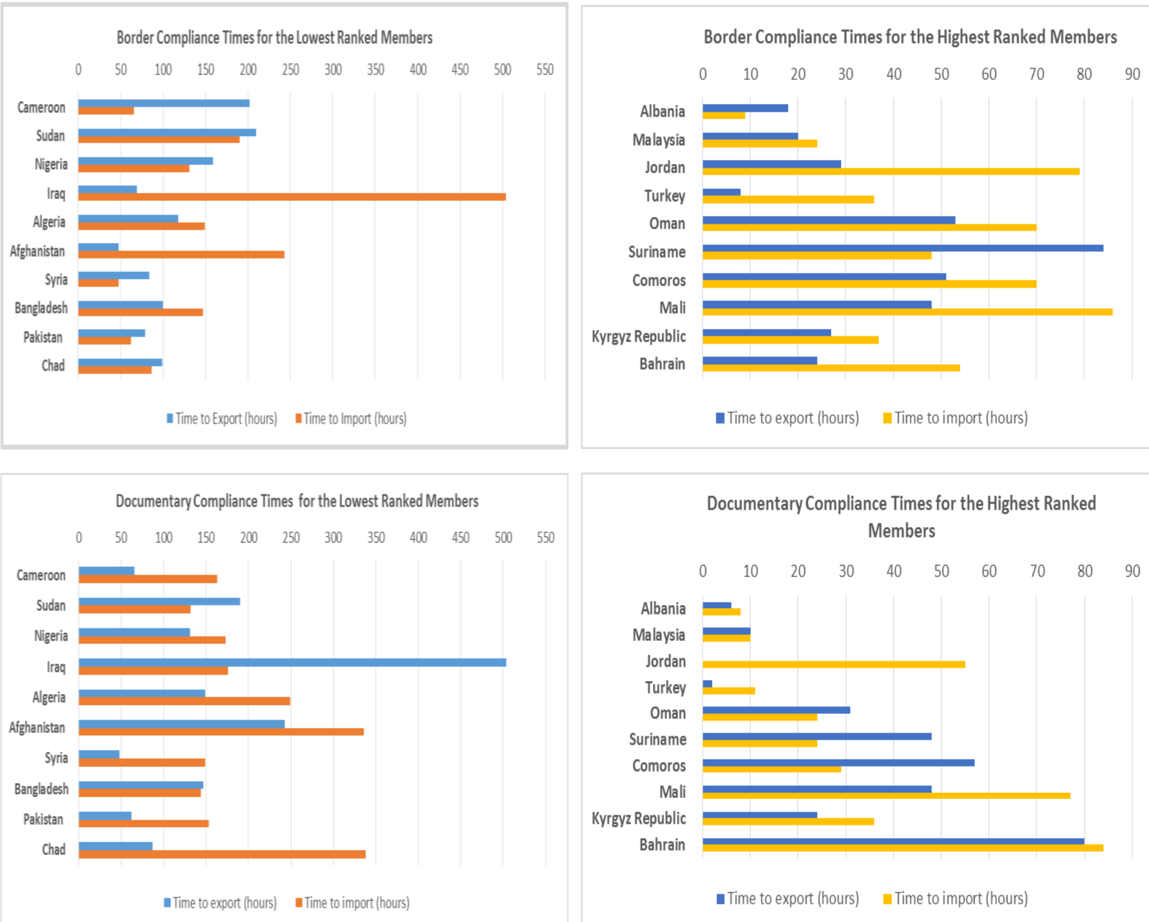
Various studies have been conducted to measure the impact of transport constraints on international trade. For example, based on their research on Middle East and North Africa (MENA) region, Bhattacharya and Hirut (2010) suggest that reducing the transport constraint from the average in the region to 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. World Bank introduced a new methodology for measuring ease of trading across borders. Trading across borders, as measured by Doing Business, measures the time and cost (excluding tariffs) for documentary compliance and border compliance in exporting or importing goods.[12] Figures 38 and 39 illustrate border and documentary compliance costs and times for the lowest and highest ranked OIC member states according to the distance to frontier score for trading across borders. The figures reveals that the cost and times of trade substantially vary among the OIC Member States. For instance, while in Albania, ranking first in trading across borders amongst the OIC, the cost of border compliance in exporting is 181 dollars, it goes up to 983 dollars in Cameroon which has the last place in the rank. On the other hand, in terms of border compliance times in exporting, it takes 18 hours for border compliance in Albania while it takes 202 hours in Cameroon. Reducing trade costs in the OIC member states is important to access and to be more competitive in the international markets.

[12] For detailed information on the methodology please visit World Bank http://www.doingbusiness.org/methodology/trading-across-borders

Figure 38: Trading Across Borders (Border / Documentary Compliance Costs)

Source: World Bank

Figure 39: Trading Across Borders (Border/Documentary Compliance Times)



Source: World Bank
Note: The documentary compliance time data is not available for Jordan.

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 in 2007, 2010, 2012, 2014 and 2016. Tables 8 and 9 illustrate the OIC Member States with the highest and lowest LPI scores for the last three periods. The figures illustrate that countries with more liberal trade policies performed better than the other member states.

Table 8: Best Performing OIC Member States According to the LPI 2016

Country	2012 LPI		2014 LPI		2016 LPI	
	Ranking	Score	Ranking	Score	Ranking	Score
UAE	17	3.78	27	3.54	13	3.94
Qatar	33	3.32	29	3.52	30	3.60
Malaysia	29	3.49	25	3.59	32	3.43
Turkey	27	3.51	30	3.50	34	3.42
Bahrain	48	3.05	52	3.08	44	3.31
Oman	62	2.89	59	3.00	48	3.23
Egypt	57	2.98	62	2.97	49	3.18
Saudi Arabia	37	3.18	49	3.15	52	3.16
Kuwait	70	2.83	56	3.01	53	3.15
Uganda	N.A.	N.A.	N.A.	N.A.	58	3.04

Source: Word Bank

Table 9: OIC Member States with the Lowest LPI Scores According to the LPI 2016

Country	2012 LPI		2014 LPI		2016 LPI	
	Ranking	Score	Ranking	Score	Ranking	Score
Chad	152	2.03	113	2.53	145	2.16
Kyrgyz Republic	130	2.35	149	2.21	146	2.16
Cameroon	106	2.53	142	2.30	148	2.15
Iraq	145	2.16	141	2.30	149	2.15
Afghanistan	135	2.30	158	2.07	150	2.14
Tajikistan	136	2.28	114	2.53	153	2.06
Sierra Leone	150	2.08	N.A.	N.A.	155	2.03
Mauritania	127	2.40	148	2.23	157	1.87
Somalia	N.A.	N.A.	160	1.77	158	1.75
Syria	92	2.60	155	2.09	160	1.60

Source: World Bank

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.

According to the WTO13 implementation of the TFA has the potential to increase global merchandise exports by up to $1 trillion per annum.

TFA will be operational after the formal acceptance of the Agreement by the two third of the WTO members. As of August 2016, 92 members of WTO have ratified the TFA, Senegal and Uruguay being the latest ratifiers. 15 OIC member states have ratified the TFA so far. These are Albania, Brunei Darussalam, Côte d'Ivoire, United Arab Emirates, Guyana, Kazakhstan, Malaysia, Mali, Niger, Pakistan, Senegal, Saudi Arabia, Togo, Turkey and Afghanistan.

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.

[13] WTO, World Trade Report, 2015. https://www.wto.org/english/res_e/reser_e/wtr_e.htm

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.

The Sixth Meeting of the COMCEC Trade Working Group was held on September 17th, 2015 in Ankara, Turkey with the theme of "Establishing Well-Functioning National Trade Facilitation Bodies in the OIC Member Countries". After detailed deliberations, the Working Group came up with the following policy recommendations for trade facilitation bodies in the Member Countries;

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

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[14] 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.

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.

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 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.

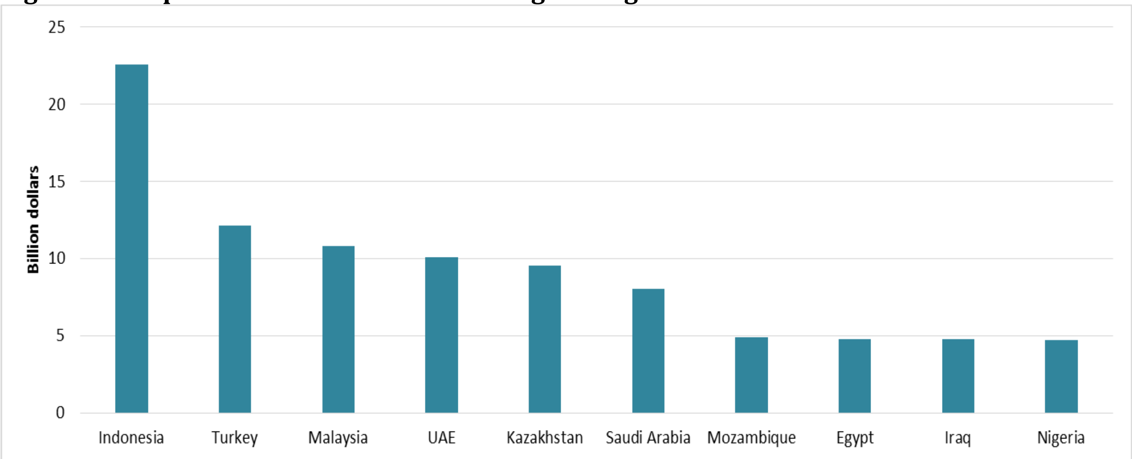
Several studies concentrated on how the FDIs lead to export diversification. Lipsey (2004) and Hailu (2010) suggest that FDIs main contribution is knowledge of the international markets. FDIs also result in indirect inter and intra-industry spillovers to host nation firms which improve their productivity 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 132 billion in 2014 according to the UNCTAD, representing 70 percent of the total FDI inflows to the OIC Member States. The other remaining 47 countries attracted nearly USD 41 Billion FDI in 2014.

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.

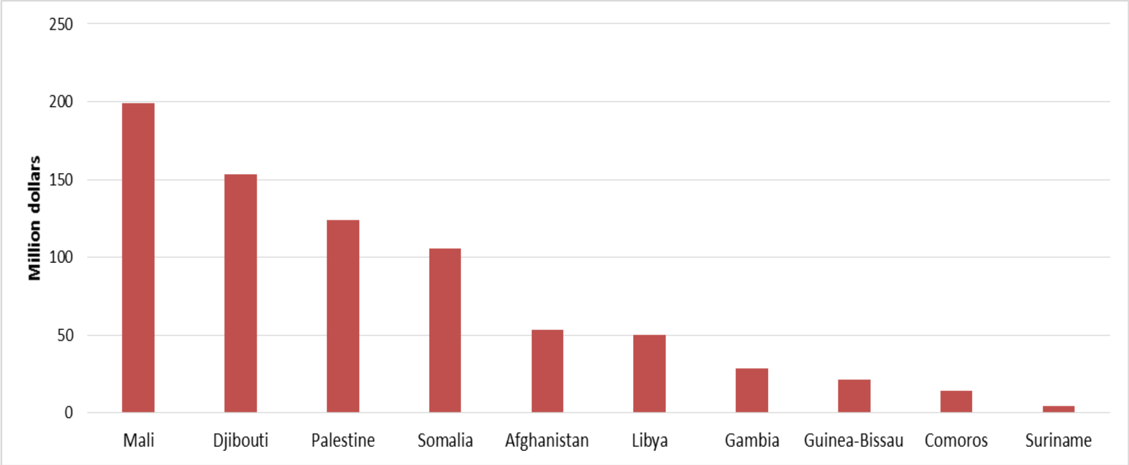
"FDI Inflows are inadequate for export diversification in many Member States"

Figure 40: Top Ten Member States Receiving the Highest FDI Inflows in 2014



Source: UNCTADSTAT

Figure 41: Member States Receiving the Lowest FDI Inflows in 2014



Source: UNCTADSTAT

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).

"Firms face difficulties in getting trade finance in many developing countries"

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.*

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.

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

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.

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, Iran and Morocco. Afterwards, in the 31st Session of the COMCEC, the Ministers agreed to undertake necessary measures to finalize the procedures of TPS-OIC. In this regard, 31st COMCEC Session invited the participating states to update the previously submitted concession lists by March 1st, 2016 for the full implementation of the TPS-OIC. So far, Turkey, Malaysia, Pakistan, Jordan, Bangladesh and Iran submitted the updated concession lists to the TNC Secretariat.

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 31th 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 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 Suriname.

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 September 2016, 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 trainings. SMIIC Information System (IS) Training was held on 19-21 April 2016 in Istanbul. Also the Committee on Standards for Conformity Assessment (SMIIC/CCA) has been established to prepare guides/standards on criteria for bodies involved in testing, calibration, certification, inspection, accreditation, their operation and assessment, and other related standards and especially halal conformity assessment and accreditation guidelines or standards. First meeting of SMIIC Committee on Standards for Conformity Assessment (SMIIC/CCA) was held on 23-24 March 2016, in Istanbul.

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.

The Seventh Meeting of the COMCEC Trade Working Group was held on February 25th, 2016 with the theme of "Strengthening the Compliance of the OIC Member States to International Standards". After extensive deliberations, the Working Group came up with the following policy recommendations for strengthening the compliance of the OIC Member States to international standards.

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

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 10^{th} 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.

The sixth meeting of the COMCEC Trade Working Group was held on September 17th, 2015 with the theme of "*Establishing Well-Functioning National Trade Facilitation Bodies in the OIC Member Countries*". Exchange of opinions and discussions were made on the National Trade Facilitation

Bodies (NTFBs) in the OIC Member States with a view to establish policy advises for both establishing well-functioning bodies and improving effectiveness of the present structures.

The seventh meeting of the COMCEC Trade Working Group was held on February 25th, 2016 with the theme of "*Strengthening the Compliance of the OIC Member States to International Standards*". The Meeting was attended by the representatives of 20 Member States. Extensive deliberations were made on the theme with a view to establish policy advises for strengthening the compliance of the OIC Member States to international standards.

The eight meeting of the COMCEC Trade Working Group will be held on October 6th, 2016 with the theme of "*Improving the Cross Border Cooperation among the OIC Member States for Facilitating Trade*"

6. CONCLUSION

World trade in US dollars fell sharply by 13 per cent to 16.5 trillion US dollars in 2015 down from 19 trillion US dollars in 2014. Despite the sharp decline in dollar value of world trade, the volume of world trade (accounted for changes in prices and exchange rates) continued to grow by 2.8 per cent in 2015. It should be noted however that world trade volume growth has remained weak since the global crisis.

World trade slowdown in 2015 was attributed to several factors including protracted weak global demand, falling commodity prices and China's shift to a new growth model. Demand was especially weak in emerging economies. Moreover, strengthening dollar and falling prices for commodities were among other factors that contributed to the weakness in world trade in 2015 (IMF WEO, 2016). Besides these cyclical factors, some structural factors such as maturation of global value chains and slower pace of liberalization also accounted for the sluggish world trade growth.

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.

Total OIC exports remained subdued around 2.2 trillion dollars between 2012 and 2014. However, total OIC exports fell by 24.8 per cent to USD 1.6 trillion in 2015. On the other hand total OIC imports fell by 8.6 per cent to USD 1.8 trillion in 2015. Thus total OIC exports' share in world exports declined to 9.8 per cent in 2015.

Several factors accounted for the decline in total OIC exports in 2015 including the sluggish pace of world demand growth especially in emerging Asia, the sharp fall in commodity prices in particular the plunge in oil prices, exchange rate fluctuations and ongoing political transition in many countries in Middle East.

The share of intra-OIC trade in total trade has remained roughly constant between 2012 and 2014 averaging 18.5 per cent. The share of intra-OIC trade increased to 20.0 per cent in 2015. The ratio of intra-OIC trade to total trade stayed above 20 per cent target level in 30 member states this year.

OIC exports are dominated heavily by mineral fuels and oil; the share of this sector amounts to 47.5 per cent of total OIC exports in 2015. Commodity concentration is even more apparent when countries examined specifically. Petroleum was the main exported item in many members ranging between 51 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. Examination of export product diversification using Herfindahl index in the OIC geographic regions yields that there a little tendency towards increasing product diversification and there is considerable disparity in all the regions.

Market concentration of OIC exports is also high. Although OIC exports are mainly shipped to developed countries China alone accounted for 13.2 per cent of total extra-OIC exports. The high commodity and country concentration in total OIC trade is a major drawback as this increases the exposure of OIC countries to external economic shocks either a fall in commodity prices and/or demand slowdown in major export destinations.

Recent oil price shock underscores the need and case for policies to reduce reliance on oil revenues and to diversify exports. Commodity prices fell sharply by 35.4 per cent mainly due to slowing demand in especially in emerging economies, weak economic recovery in advanced economies, ample oil supply, increases in metals supply and strong US dollar in 2015. The decline in oil prices was more prominent as oil prices declined by 47 per cent to 52.4 dollar per barrel in 2015 from 98.9 dollars per barrel in 2014.

There are great differences among the member states in terms of economic development and the structure of trade. 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. 44 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.

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.