Standing Committee
for Economic and Commercial Cooperation
of the Organization of Islamic Cooperation

COMCEC
TRADE OUTLOOK
2013

COMCEC COORDINATION OFFICE

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Vildan BARAN

Murat DELİÇAY

COMCEC Coordination Office

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For further information please contact:

COMCEC Coordination Office
Necatibey Caddesi No: 110/A
06100 Yücetepe
Ankara/TURKEY
Phone : 90 312 294 57 10
Fax : 90 312 294 57 77
Web : www.comcec.org
e-mail : comcec@comcec.org

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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 thoroughly trade cooperation issues and share their good practices and experiences.

COMCEC Coordination Office acknowledges that **COMCEC Trade Outlook 2013** has been prepared by Ms. Vildan BARAN and Mr. Murat DELİÇAY, experts at the COMCEC Coordination Office, with the objective of providing an overview of international trade of the Organization of the Islamic Cooperation (OIC) Member States. It focuses on trends and characteristics of intra-OIC trade and attempts to identify the major common obstacles hindering trade.

CONTENTS

INTRODUCTION

The world has witnessed rapid developments in international trade since World War II. Global trade volume has increased steadily, trade composition has changed and its direction has shifted towards the developing countries.

During this period, almost all countries gave priority to boosting and diversifying their trade to increase their share in world trade and contribute to their economic welfare. In this framework, they implemented strategies and policies developed unilaterally or multilaterally towards reaching this end. However, many developing countries, especially the Least Developed ones could not increase their trade and enrich the contents of their exports sufficiently.

In the last decade, various economic and political developments, especially the soaring commodity prices, global economic crisis, food crisis and European debt crisis had adverse impact on the global economy especially on the world trade. The developing countries which were struggling to diversify their economies and export markets were severely hit in this period.

Evidence shows that, countries that established an enabling environment for trade have boosted volume and diversity in their foreign trade. They have liberalized their trade, eased trade procedures, promoted trade in manufacturing sectors and the SMEs and improved their financial sector for meeting the funding needs of traders. Others, which could not reached their targets still need to take extra steps in this regard to promote their trade.

The OIC is composed of 57 Member States spread all over the world. Their population, economic structure and level of development have vary greatly. While some of the Member States have achieved important progress in increasing their trade especially in exports, many of them still face difficulties in enhancing their trade capacities.

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

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

This study aims at providing a general outlook of the international trade of the OIC Member States and identify the common challenges faced in increasing their trade. Despite their economic and social differences, these countries face similar obstacles such as unliberalized trade, dependency on commodity exports, burdensome procedures which increase the cost of trade, inadequate financial resources and underdeveloped financial system.

While giving background information on the activities of the COMCEC for increasing intra-OIC trade, the Study also aims at introducing the COMCEC Strategy for increasing trade and addressing the common obstacles faced by the Member States towards reaching this goal.

This Outlook is comprised of four sections: The First Section deals with the latest trends and developments in global trade. It summarizes trends and patterns in global trade.

The Second Section gives a general overview of the trade of the OIC Member States. It outlines the characteristics of intra-OIC trade and Member States trade with the rest of the world. While doing so, the Section highlights the composition, direction and the volume of the OIC Member States, as a single group as well as subgroups within the OIC.

The Third Section provides a general overview of the trade environment in the OIC Member States. It summarizes the basic common challenges faced by many Member States in international trade with respect to trade liberalization, trade facilitation, trade promotion and trade financing.

The Fourth Section concentrates on the role of COMCEC in improving the trading environment in the member states and enhancing intra-OIC trade.

The Study ends with concluding remarks.

I. Developments in Global Trade

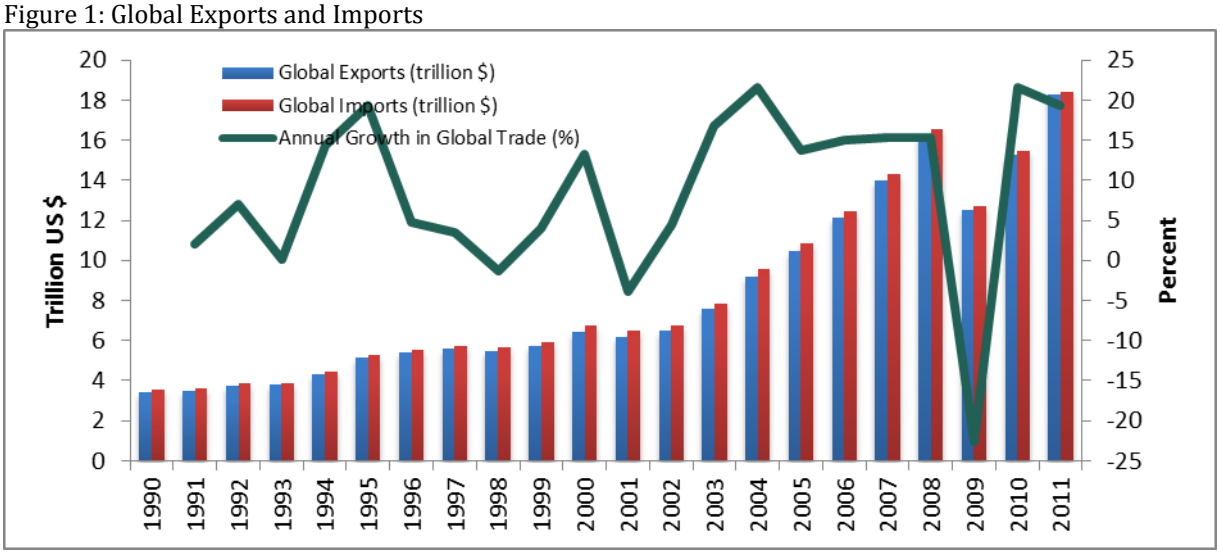
The world has witnessed rapid developments in international trade since World War II. Global trade has increased steadily, trade composition has changed and its direction has shifted towards the developing countries.

Until the recent global economic crisis, the international trade realized a steady growth during the last decade. During 1990-2008, the global trade in value terms (sum of exports and imports of goods in US dollars) peaked at 32.7 trillion dollars in 2008 up from 3.4 trillion dollars in 1990. Most of this increase was realized during 2003-2008 period when the world trade was growing at an annual average of 16.5 percent (Figure 1).

The global economic crisis in 2008 had a severe adverse impact on international trade. As a result of the crisis, both exports and imports decreased drasticaly to 12.5 trillion dollars and 12.7 trillion dollars respectively in 2009. This was mainly accounted for the global slowdown and fall in commodity prices.

"The global trade realized steady growth during the last decade except for 2009"

Figure 1: Global Exports and Imports



Source: WTO 2013

In 2010 world trade increased 19 percent to 30.7 trillion dollars but it was still below pre crisis level. In 2011 world trade increased 19.5 per cent to 36 trillion dollars surpassing the peak in 2008.

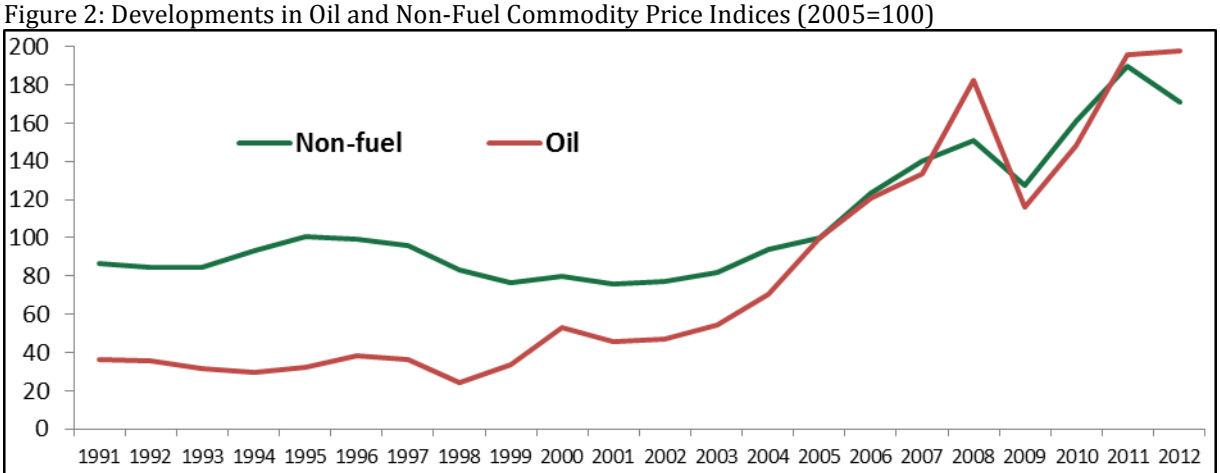
However, the global trade in volume terms (i.e. excluding the influence of prices and exchange rates) increased by 13.8 percent in 2010 in line with the recovery in world economy before slowing down to 5.0 percent in 2011. According to WTO (2012) this was mainly due to increasing financial risks in the Euro Area, natural disasters in Japan and Thailand, Arab Spring and the weak growth performances in developed countries.

The prices of the commodities increased steadily beginning from 2003 due to increases in global industrial production, especially in emerging Asian economies, the increasing political instability in the Middle-East, supply constraints in oil and depreciation trend in US Dollar. Despite the sudden fall in 2009 due to the global economic crisis in 2008, prices recovered sharply in 2010.

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

The prices of oil and non-fuel commodities recorded an increase of 31.9 and 17.8 percent respectively in 2011. The crude oil price (Brent) which was 25 dollars per barrel in 2002 increased at an anual average of 27.6 percent between 2002-2008. Although a decline occurred in 2009 due to the global crisis, oil prices sharply increased by 39. 3 percent and reached 111 dollars per barrel in 2011 as a result of ongoing political instability in the Middle East.

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



Note: Non-Fuel Price Index, 2005 = 100, includes Food and Beverages and Industrial Inputs Price Indices(includes Agricultural Raw Materials and Metals Price Indices. Oil Price Index, 2005=100, simple average of three spot prices; Dated Brent, West Texas Intermediate, and the Dubai Fateh

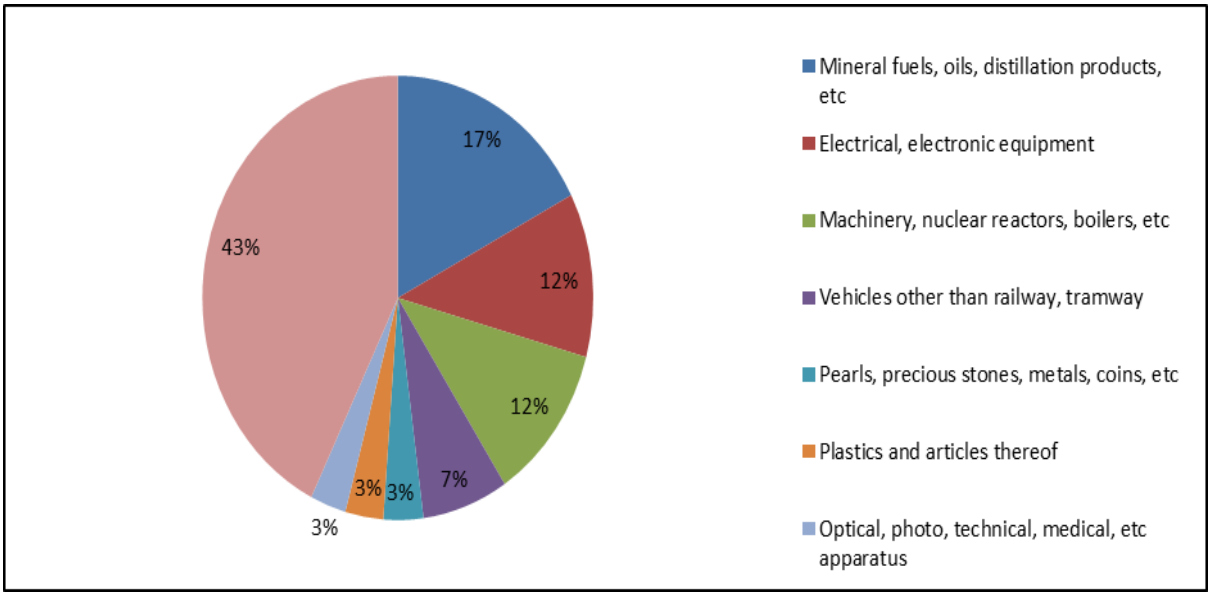
Source: IMF Database

As a result of these developments, the share of commodities in global trade has recorded substantial increase. For example, the share of mineral fuels in global exports rose from 9.7 percent in 2001 to 17.4 in 2011, moving up to the first place. On the other hand, trade of machinery, nuclear reactors and electrical, electronic equipment which constituted at first and second place with shares of 14.6 percent and 14.2 percent in global trade in 2001 respectively, fell to third and second place with shares of 11.9 percent and 11.5 percent respectively in 2011. Figure 3 below, shows the composition of world exports in 2011.

The most noteworthy annual average export growth recorded during 2001-2011 period was in ores slag and ash with an increase of 26,3 percent, followed by mineral fuels (17.9 percent), pearls, precious stones, metals (17.9 percent) and copper and articles thereof (17.8 percent).

On the other hand, annual average export growth of major product groups such as vehicles other than railway, tramway (8.6 percent), machinery, nuclear reactors (8.7 percent), electrical, electronic equipment (9.4 percent), articles of apparel (9.6 percent) were below the world average in 2001-2011.

Figure 3: World Exports by Sectors in 2011



Source: ITC Trademap, 2013

During the last decade the share of developing countries in global trade increased. With regards to exports, their share increased from 34 percent in 2001 to almost 48 percent in 2011. This increase was led by the exports of Brazil, Russia, India and China (BRIC) which reached total share of 16 percent in global exports in 2011.

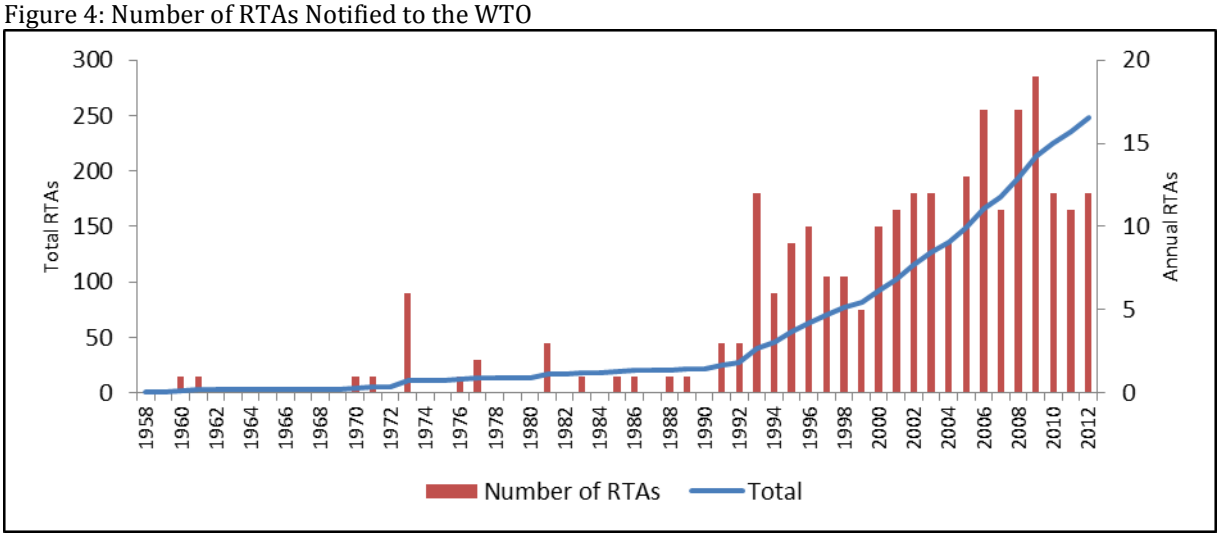
With regards to global imports, the developing countries as a group have increased their share from 31 percent in 2001 to almost 44 percent in 2011. The share of BRIC countries in global imports was 14 percent in 2011.

"Developing Countries increased their share in global trade"

Despite this remarkable increase, it was not adequately reflected on trade of all the developing countries. Countries that diversified their exports or benefited from the price increase in commodities registered more increase than the others.

While the World Trade Organization (WTO) continued to expand reaching 159 Members and 25 Observers by March 2013, countries also continued to initiate new Regional Trade Agreements (RTAs) during the last decade for increasing their competitiveness in foreign markets. In 2012 the number of effective RTAs surpassed 250. Figure 4 below shows the increasing number of RTAs since 1958.

Figure 4: Number of RTAs Notified to the WTO



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

"Regional Trade Agreements continued to attract countries"

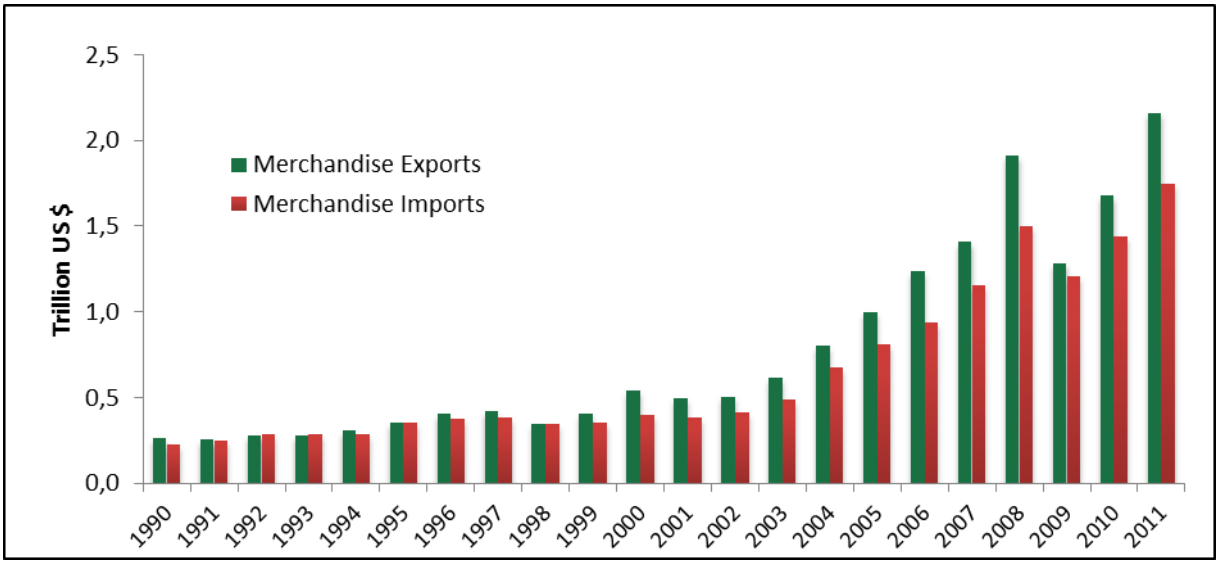
The rise in regional trade was one of the factors in increasing global trade. The rise in RTAs among countries stands as the dominant factor in the evolution of the regional trade. Sluggish progress in multilateral trade negotiations under the Doha Round of multilateral trade negotiations led many countries to join 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. OECD (2013) suggests that, RTAs cover more than half of international trade and operate alongside global multilateral agreements under the World Trade Organization (WTO).

II. Developments in Total OIC Trade with the World

The total OIC trade recorded a steady increase until the global economic crisis in 2008. This positive trend was mainly driven by the dramatic increase of the exports of the relatively high trading Member States such as Malaysia, Turkey and Indonesia. Soaring commodity prices was an another factor pushing the trade figures higher, constituting a significant place in total OIC trade. However, in 2009, due to the sharp decline in the demand of developed countries and the falling commodity prices, total OIC exports fell sharply by 33 percent to USD 1.3 trillion (see Figure 5).

Figure 5: Total OIC Exports and Imports



Source: SESRIC

In 2010, following the recovery in global demand and increases in both oil and non-fuel commodity prices, total OIC trade (sum of exports and imports) increased by 28 percent and amounted to USD 3.2 trillion. In the same year, although the growth rate of OIC exports was higher than that of global exports, total OIC exports amounted to USD 1.7 trillion, which was still below the pre crisis level. Total OIC imports increased by 24.6 percent and amounted to USD 1.5 trillion in 2010.

In 2011, despite the decline in the growth of the global demand and the negative impact of the Arab Spring, total OIC trade continued to increase with the contribution of soaring oil and commodity prices (see Figure 2). OIC countries total exports reached 2.1 trillion dollars while imports recorded 1.8 trillion dollars. Thus, total OIC exports grew 6.8 percentage points faster than the world exports in 2011.

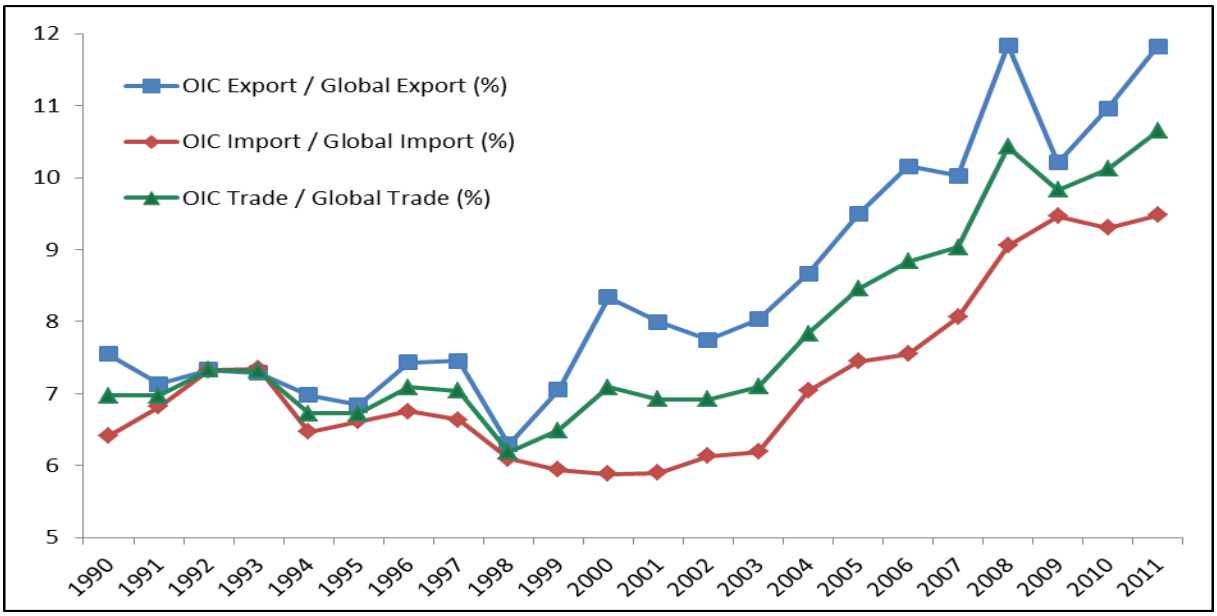
The share of OIC countries in world trade, moved around 7 per cent between 1990 and 2003, increased steadily in the following years and recorded as 10.4 percent in 2008 before falling to 9.8 per cent in 2009 (see Figure 6).

"Share of OIC Countries in global trade increased in value terms but not in volume terms"

The share of OIC countries in global exports jumped from around 8 per cent in the early 2000s to 11.8 per cent in 2008 but declined to 10.2 per cent in 2009. On the other hand, their share in global imports increased from around 6 per cent in the early 2000s to 9.1 per cent in 2008.

However, unlike the exports, the share of OIC total imports in world imports continued to increase in 2009, reaching 9.5 per cent. A possible explanation for the increasing trend in OIC imports inspite of the global crisis is the high imports realized by Turkey, United Arab Emirates, Malaysia, Indonesia and Saudi Arabia.

Figure 6: Share of OIC in Global Trade



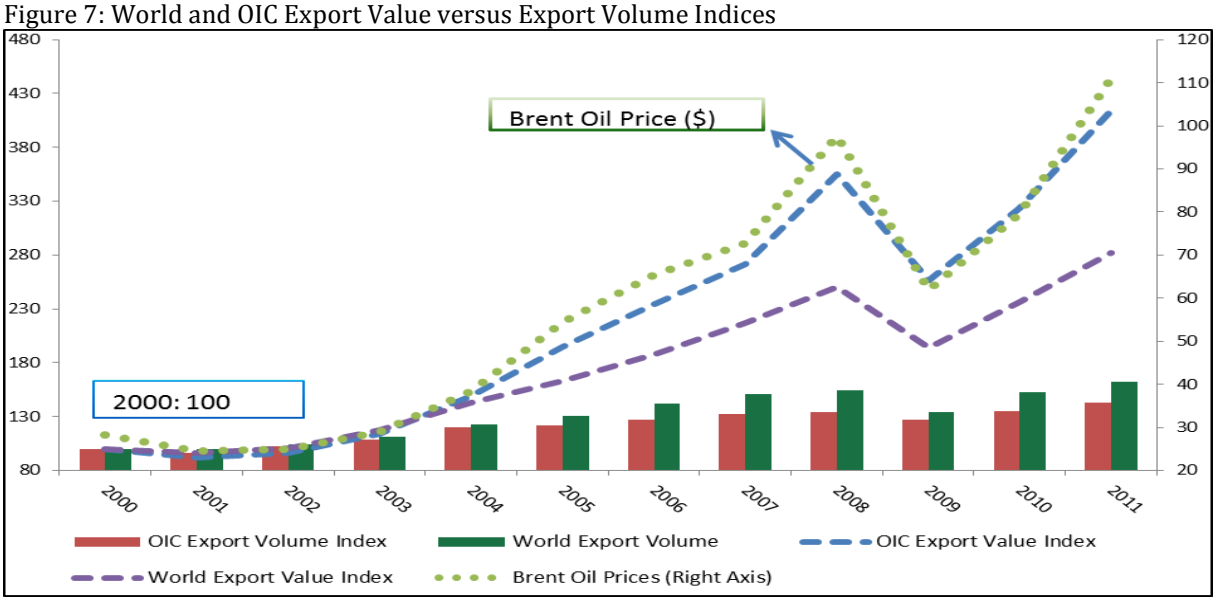
Source: WTO, SESRIC

Intra-OIC exports increased at a higher rate than that of the world exports in 2011 and thus the share of OIC countries in global exports increased to 11.8 percent.

Although a remarkable performance in OIC countries in terms of increasing world export market share could be mentioned by looking merely at values, this might be misleading without comparing real trends in trade. Figure 7 below demonstrates value versus volume developments in total OIC and world exports. As mentioned, in value terms, OIC exports yielded higher growth rates than that of world exports mainly due to increases in oil prices. As a matter of fact, the performance of OIC exports was substantially in line with oil price movements during 2000-2011 period (Figure 7). Between 2000-2011 period, the total OIC exports in value terms (i.e in US dollars) recorded 13.8 percent increase on average whereas the volume increase in the total OIC exports remained at 3.3 percent. Moreover, the annual average volume growth rate in world exports was 4.5 percent in this period. Thus in terms of annual average volume growth rates, world export growth outperformed OIC export growth for the period

under consideration. During this period, it is noteworthy that annual average volume growth in developing country exports (7.3 percent) was above the world average.

Figure 7: World and OIC Export Value versus Export Volume Indices

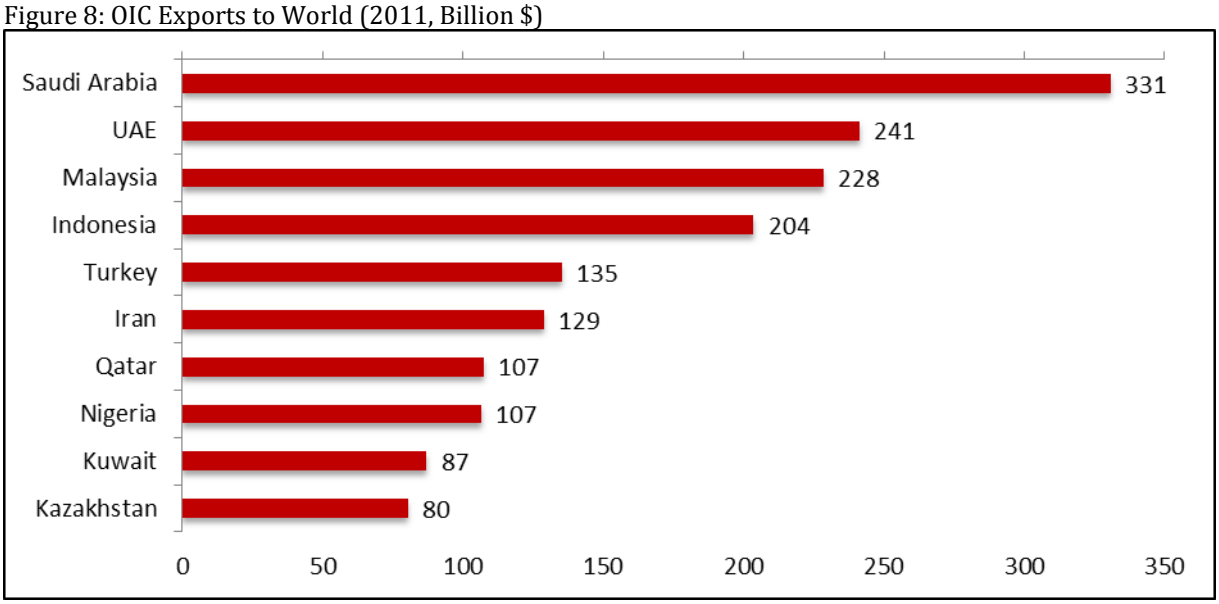


Source: UNCTADSTAT, IMF

A. Main Characteristics of Total OIC Exports

The remarkable increase in total OIC exports stemmed mainly from exports of Saudi Arabia, United Arab Emirates, Malaysia, Indonesia, Turkey, Iran, Qatar, Nigeria, Kuwait and Kazakhstan. These top performers together accounted for 76.4 percent of total OIC exports.

Figure 8: OIC Exports to World (2011, Billion $)



Source: SESRIC

"The total OIC exports concentrated in few countries, with China taking the lead"

Apart from China, the developed countries have constituted major destinations for the total OIC exports in recent years. However, high growth rates realized in China increased its demand for oil in this period. Futhermore, China's increasing trade relations with the Member States resulted in steady increase in exports to this country and moved up China to the first export destination in 2010 and in 2011.

Thanks to rising commodity prices, the total OIC exports to the developed countries have also increased despite the slowdown of growth in these countries. On the other hand, except for China, the share of developing countries in total OIC exports is limited. The major export markets for the OIC Member States were the developed countries.

The total OIC exports concentrated in few countries as demonstrated in Table 1, which make them vulnerable to external shocks that might result from decreasing demand in these countries and/or falling commodity prices.

Table 1: Major Destinations of OIC Exports

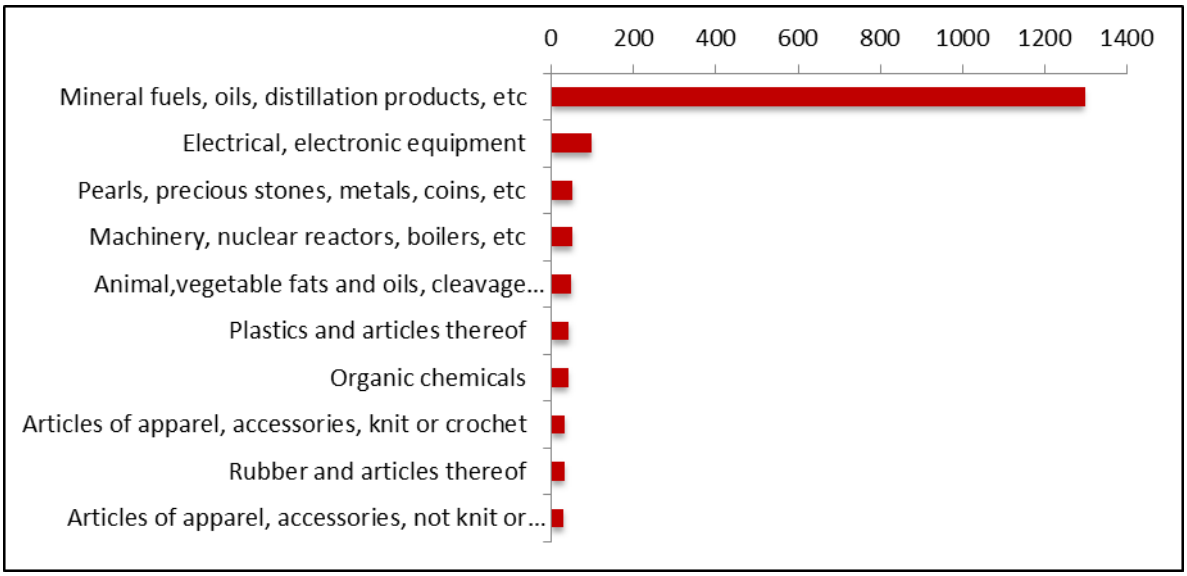
Countries	(Billion $)			Share %		
	2009	2010	2011	2009	2010	2011
Total (1)	**1,279**	**1,695**	**2,110**	**100.0**	**100.0**	**100.0**
China	125	194	274	9.8	11.4	13.0
Japan	138	178	239	10.8	10.5	11.3
USA	136	175	213	10.6	10.3	10.1
India	94	128	176	7.3	7.6	8.3
Republic of Korea	80	107	152	6.3	6.3	7.2
Singapore	66	84	103	5.2	5.0	4.9
Italy	59	78	90	4.6	4.6	4.3
France	47	55	72	3.7	3.2	3.4
Germany	46	55	69	3.6	3.2	3.3
Spain	37	46	58	2.9	2.7	2.7
Total of Top Ten Countries(2)	828	1,100	1,446	64.7	64.9	68.5
Other Countries (1)-(2)	451	595	664	35.3	35.1	31.5

Source: ITC Trademap

"The total OIC exports is dominated by mineral fuels and oils"

The share of mineral fuels, oils and related products in total OIC exports increased from 56.4 percent in 2010 to 61.4 percent in 2011. This increase resulted mainly from the oil supply constraints due to political instability in the Middle East, which pushed the prices up. Although the share of manufactured products constitute a considerable place in exports of some OIC Member States (such as Malaysia, Turkey and Indonesia), this sector's share in total OIC exports is very limited. (see Figure 9)

Figure 9: OIC Exports to World - Top 10 Items (2011, Billion $)

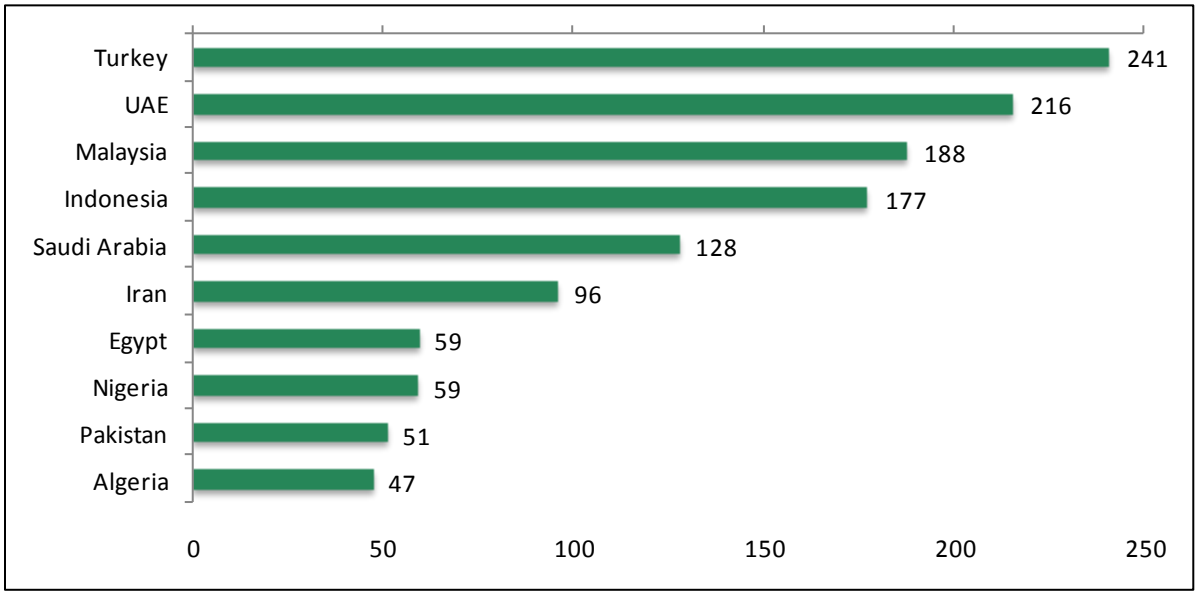


Source: Trademap

B. Main Characteristics of Total OIC Imports

The total OIC imports are also dominated by the leading exporters. The total share of top ten countries in OIC total imports amounted to 72.2 percent in 2011.

Figure 10: OIC Imports from World (2011, Billion $)



Source: SESRIC

Similar to exports, total OIC imports originated mainly from developed countries. However, China was in the first place as 14.9 percent of total OIC imports made from this country in 2011. Top ten countries accounted for 61.4 percent of total OIC imports in this year.

Table 2: Major Countries of Origin of OIC Imports

	Imported Values (Billion $)			Share %		
Exporters	**2009**	**2010**	**2011**	**2009**	**2010**	**2011**
Total	1,079	1,299	1,491	100.0	100.0	100.0
China	146	180	222	13.5	13.9	14.9
United States of America	78	93	109	7.2	7.2	7.3
Singapore	68	87	108	6.3	6.7	7.2
Germany	70	82	93	6.5	6.3	6.2
India	55	65	83	5.1	5.0	5.6
Japan	51	67	70	4.7	5.2	4.7
Republic of Korea	41	52	65	3.8	4.0	4.4
France	56	60	65	5.2	4.6	4.4
Italy	50	55	59	4.6	4.2	4.0
Russian Federation	43	50	41	4.0	3.8	2.7
Total of Top Ten Countries(2)	658	791	915	61.0	60.9	61.4
Other Countries (1)-(2)	421	508	576	39.0	39.1	38.6

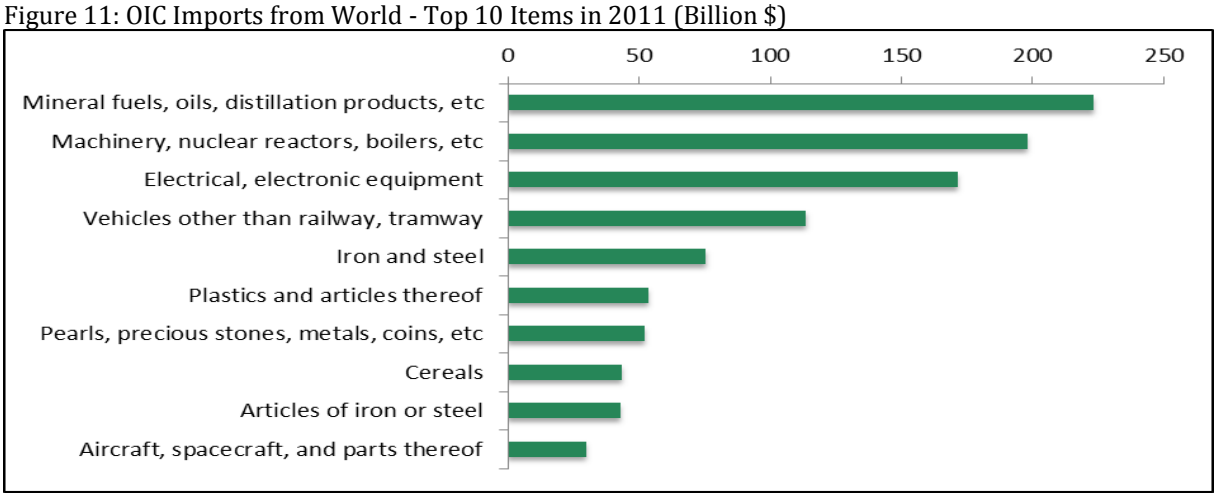
Source: ITC Trademap

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

Mineral fuels and oils also have the biggest share in total OIC imports. However, its share is not as high as that of total-OIC exports. On the other hand, the total imports demonstrates a more diversified nature in terms of product composition. Manufactured items such as machinery, nuclear reactors, boilers, electrical and electronic equipment, vehicles other than railway, tramway also constitute an important part of total imports, led by the high imports of Turkey, Malaysia, Indonesia, UAE and Saudi Arabia (see Figure 11).

However, the imports of the remaining Member States is limited due to relatively low income levels, high trade barriers, weak trading capacity and undiversified production structure.

Figure 11: OIC Imports from World - Top 10 Items in 2011 (Billion $)



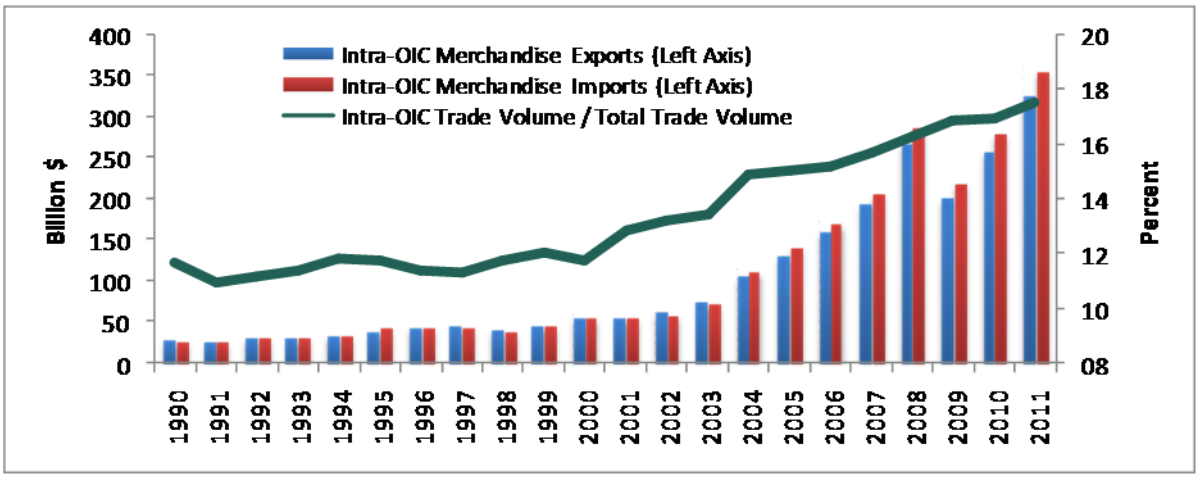
Source: Trademap

III. Intra-OIC Trade

Trade among the OIC Member States constituted on the average 11.6 percent of total OIC trade during 1990-2001 period. Starting from 2001, intra-OIC trade increased at higher rates compared to its total trade. Thus, the share of intra-OIC trade peaked at 17.71 percent in 2011(see Figure 12).

In 2011, intra-OIC exports accounted for 15.3 percent of total OIC exports while intra OIC imports amounted to 20.3 percent of total OIC imports in this year.

Figure 12: Intra-OIC Trade

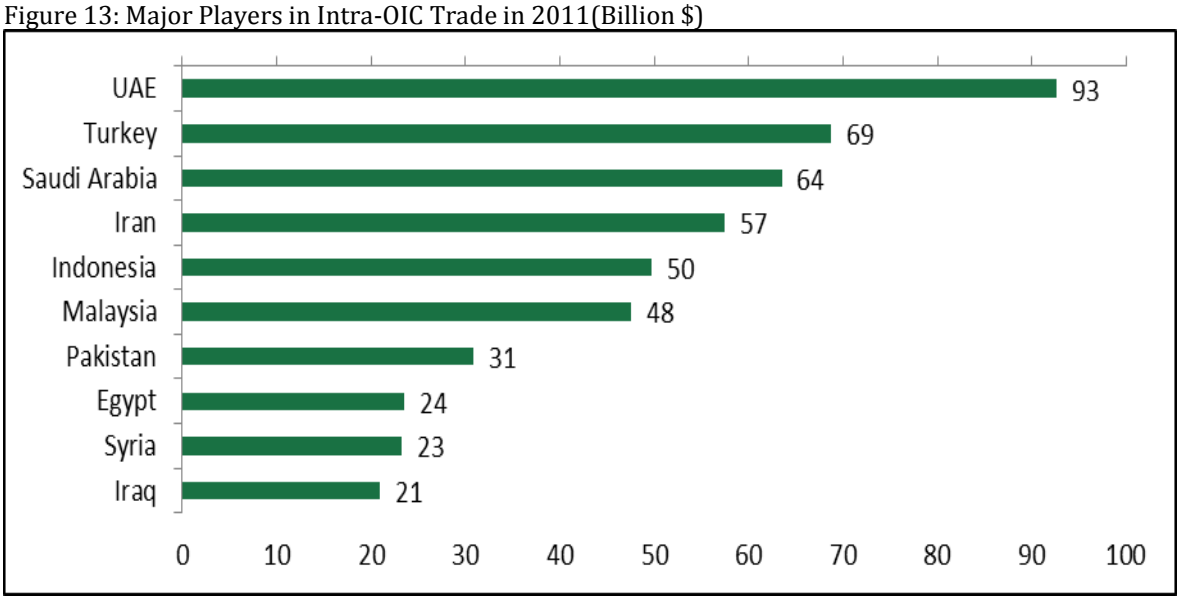


Source: ICDT and SESRIC

The intra-OIC trade which is around 50 billion dollars in the early 1990s reached 556 billion dollars in 2008. However, due to the global crisis intra-OIC trade decreased to 420 billion dollars in 2009. In 2010 intra-OIC trade increased at a higher rate than that of the total OIC trade and reached to record high levels in 2011.

In 2011 most of the increase in intra-OIC trade resulted mainly from the increases in the trade volumes of leading ten countries. These countries accounted for the 70.8 percent of the intra-OIC trade. United Arab Emirates ranked first contributing with 13.7 percent of total intra-OIC trade, followed by Turkey which contributed with 10.2 percent of total intra-OIC trade (see Figure 13).

Figure 13: Major Players in Intra-OIC Trade in 2011(Billion $)

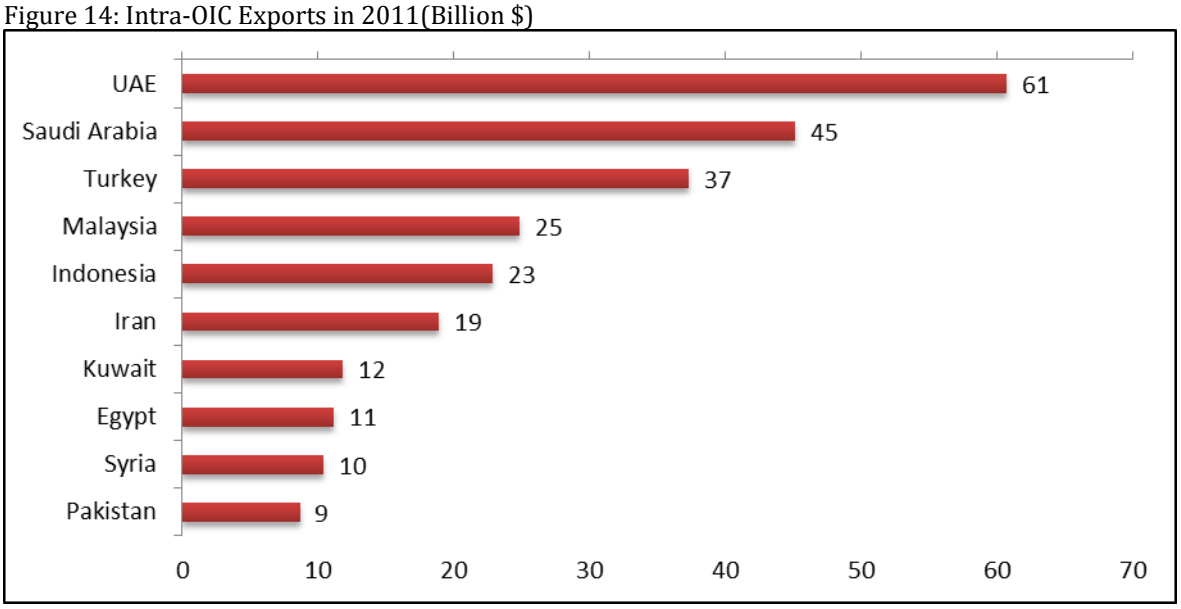


Source: SESRIC

A. Intra-OIC Exports

The leading ten countries in intra-OIC trade (except Iraq) also dominated the intra-OIC exports. Their share in intra-OIC exports accounted for 73.8 percent of the total intra-OIC exports in 2011. As illustrated in Figure 13, the United Arab Emirates took the lead by realizing 18.7 percent of the total intra-OIC exports and is followed by the others.

Figure 14: Intra-OIC Exports in 2011(Billion $)



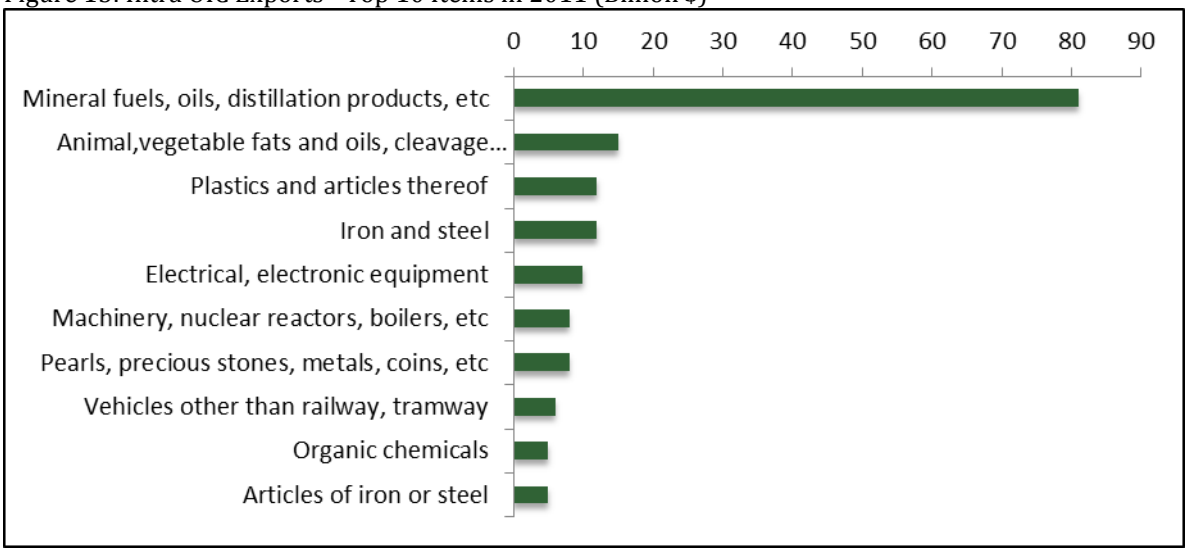
Source: SESRIC

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

Figure 15 reveals the fact that the intra-OIC exports is concentrated on a few commoditites. Of the total intra-OIC exports, mineral fuels, oils and related products come atop, followed by animal, vegetable fat and oils

contributing 6.2 percent. In total intra-OIC exports the respective shares of other items were as follows: plastics 4.8 per cent, iron and steel 4.7 per cent, electrical, electronic equipment 4 per cent, machinery, nuclear reactors, boilers 3.4 per cent, pearls, precious stones, metals 3.3 per cent, vehicles other than railway and tramway 2.6 per cent, organic chemicals 2.1 and articles of iron or steel 2.0. These top items in the ranking collectively account for 66.6 percent of total intra-OIC exports.

Figure 15: Intra OIC Exports - Top 10 Items in 2011 (Billion $)



Source: ITC Trademap

The structure of the intra-OIC exports also varies according to the three geographical regions of the OIC (Arab, Asia and Africa)[1]. The high share of mineral fuels and related products was even more apparent in the regional break down of intra-OIC trade. 55.2 percent of intra-OIC exports originated from Arab countries in 2011, having the highest share. Within this region, major oil exporter countries namely, United Arab Emirates and Saudi Arabia together account for more than half of this region's intra-OIC exports. Asia region came second with 40.1 percent share led by Turkey, Malaysia, Indonesia and Iran.

"Arab and Africa regions exported mainly mineral fuels while in Asian Group manufactured products had the highest share in intra-OIC exports"

On the other hand, the African region' share was only 4.7 percent with Nigeria and Côte d'Ivoire together accounting for 61.8 percent of the region's total intra-OIC exports (See Table 3 below for commodity composition of intra-OIC exports by regions in 2011).

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

Table 3: Commodity Composition of Intra-OIC Exports by Sub-Regions (% Shares) (2011)

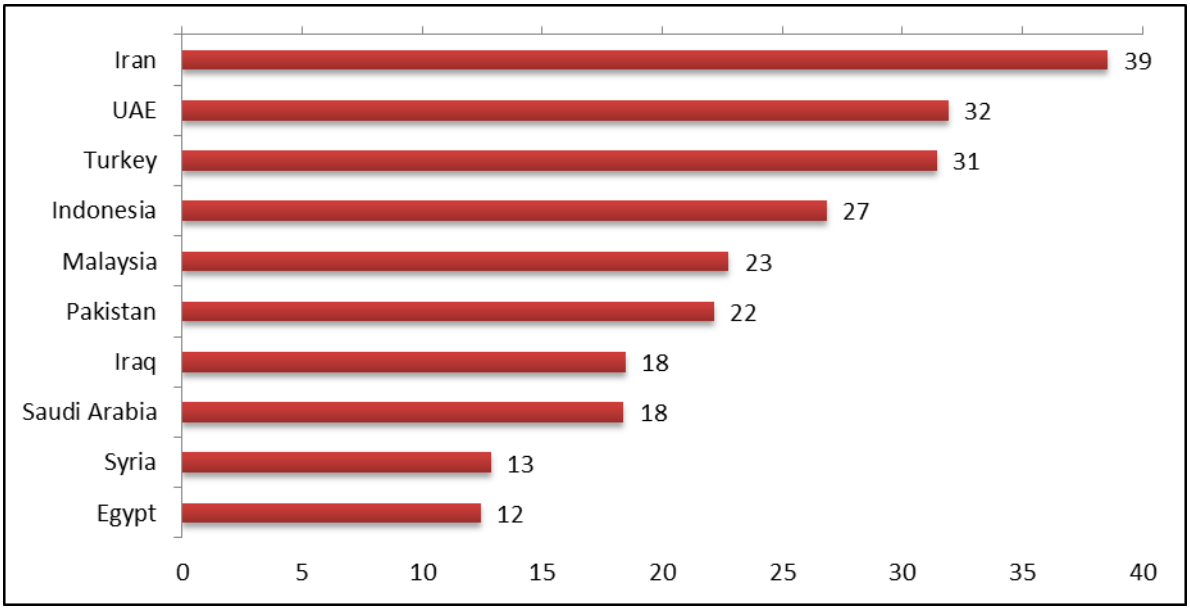
million $	Food and live animals	Beverages and tobacco	Crude materials, inedible, except fuels	Mineral fuels, lubricants and related materials	Animal and vegetable oils, fats and waxes	Chemicals and related products, n.e.s.	Manuf. goods	Machinery and transport equipment	Misc. manuf. articles	Commod. and transac. n.e.s.	TOTAL
Arab	10.5	1.2	3.6	31.3	0.9	14.1	17.0	13.2	4.5	3.7	55.2
Asia	11.2	0.7	2.9	17.9	9.8	6.9	24.1	12.2	7.2	7.0	40.1
Africa	11.0	1.8	8.9	54.4	2.2	4.6	6.4	4.9	1.9	4.1	4.7
TOTAL	10.8	1.0	3.6	27.0	4.6	10.8	19.4	12.4	5.4	5.0	100.0

Source: UNCTADSTAT

B. Intra-OIC Imports

The intra imports of the top ten countries accounted for almost two thirds of the total intra-OIC imports (67.1 percent) in 2011. The intra-OIC imports of Islamic Republic of Iran had the highest share with 11.0 percent in the same year.

Figure 16: Intra OIC Imports in 2011(Billion $)



Source: SESRIC

"Arab region as a group performed highest in intra-OIC imports"

The Arab Group has the biggest share in intra-OIC imports in 2011. Almost half of total intra-OIC imports were made by Arab countries. Within the Arab group, the share of United Arab Emirates, Iraq and Saudi Arabia totally reached 46.9 percent of this region's intra-imports. This region was followed by Asian and African Groups with the shares of 45.5 percent and 5.6 percent respectively. Intra-imports of Turkey, Iran, Indonesia, Malaysia and Pakistan as a whole constituted 84.7 per

cent of Asian intra-imports. Intra-imports of Nigeria, Côte d'Ivoire and Cameroon collectively accounted for 55.8 per cent of intra-imports of African imports.

The commodity composition of intra-OIC imports according to SITC Rev 3 classification by regions could be observed from Table 4. In Arab region, manufactured goods had the highest share amounting to 24 per cent followed by mineral fuels, lubricants and related material (17.4 per cent) and food and live animals (15.6 percent).

Mineral fuels, lubricants and related material had the highest share in intra-imports of Asia and Africa amounting to 31.9 per cent and 38.4 per cent respectively.

Table 4: Commodity Composition of Intra-OIC Imports by Sub-Regions (% Shares) (2011)

million $	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.	Manuf. goods	Machinery and transport equipment	Misc. manuf. articles	Com. and transac., n.e.s.	TOTAL
Arab	15.6	1.9	2.4	17.4	3.3	11.0	24.0	12.7	7.6	4.2	48.9
Asia	5.5	0.9	4.3	31.9	6.1	11.1	16.0	10.6	3.5	10.0	45.5
Africa	11.9	1.8	1.6	38.4	4.8	9.7	15.5	12.4	3.7	0.1	5.6
TOTAL	10.8	1.4	3.2	25.1	4.6	11.0	19.9	11.7	5.5	6.6	100.0

Source: UNCTADSTAT

The dominance of mineral fuels and oils in total intra-OIC imports was similar to the case of intra-OIC exports in 2011. Mineral fuels and oils accounted for 25.1 per cent of total intra-OIC imports. This item was followed by manufactured goods with a share of 19.9 per cent. In total intra-OIC imports the respective shares of machinery and transport equipment, chemicals and related products and food and live animals were around 11 per cent.

The third Extra-Ordinary Islamic Summit Conference held in 2005 in Makkah, Saudi Arabia set the target of 20 percent intra-OIC trade by 2015. The intra-OIC trade level reached 17.71 percent by 2011 according to the ICDT. However, according to the figures, there is a great diversity among the Member States with regards to achieving the 20 percent individually.

In 2011, the share of intra-OIC trade of 29 Members stayed below 20 percent in their total national trade. In some of the Member States total trade far surpassed the the 20 percent. For example Somalia has realized 67.5 percent intra-OIC trade, followed by Syria (55.6 percent) and Djibouti (46.5 percent). On the other hand, the share of intra-OIC trade was very low in some countries such as Guyana (3.2 percent), Mozambique (5.2 percent) and Nigeria (6.2 percent).

"20 percent intra-OIC trade target was surpassed by almost half of the Member States in 2011"

With regards to the top 10 leading countries in intra-OIC trade (see figure 17), five of them have alredy exceeded 20 percent in their intra-OIC . Fore example, according to data from ITC Trademap and SESRIC, the intra-OIC trade shares in 2011 for these countries were as follows: Syria (55.2 percent), Pakistan (40.2 percent), Egypt (26.2 percent), Iran (25.6 percent) and UAE (20.3 percent). Turkey and Iraq are very close to reach 20 percent with 18.3 and 19.6 per cent respectively. On the other hand, share of intra-OIC trade was relatively low in Saudi Arabia, Malaysia and Indonesia (13.9, 13.1 and 11.4 per cent respectively in 2011)

Figure 17: Member States Having the Biggest Share of Intra-OIC Trade in Their National Trade

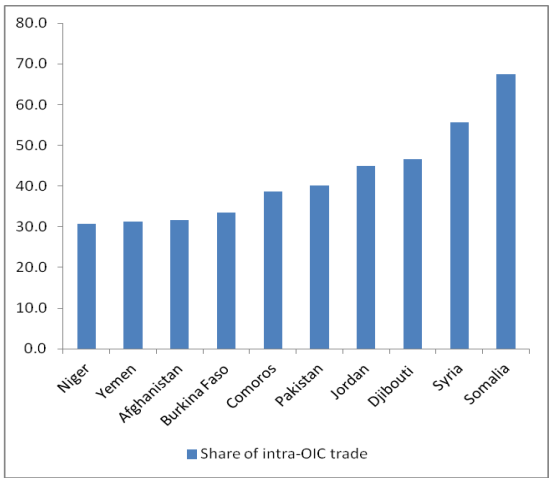
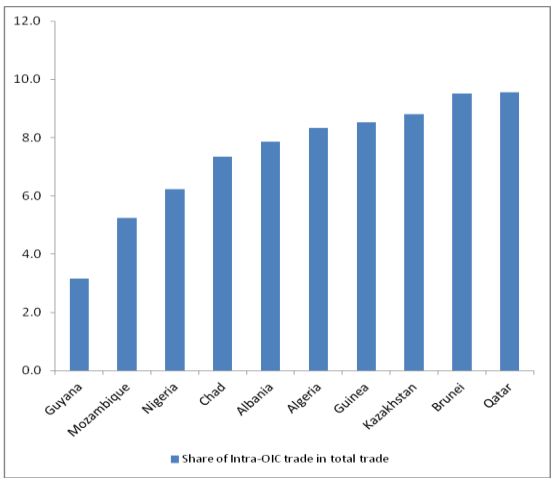


Figure 18: Member States Having the Lowest Share of Intra-OIC Trade in Their National Trade



Source: ITC Trademap and SESRIC data

IV. Trade Environment in the OIC Member States

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

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

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

Trade liberalization

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

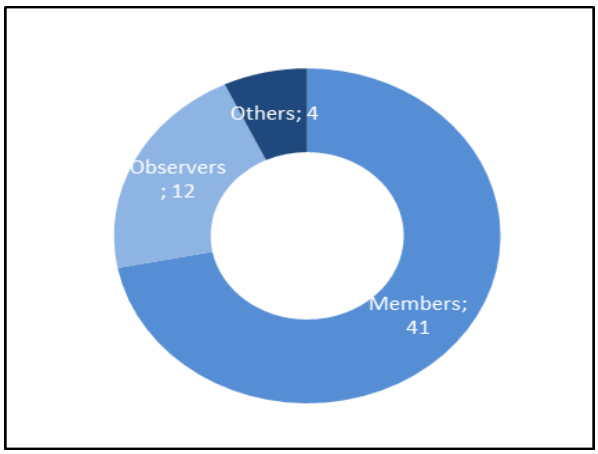
Trade liberalization has been on top of the agenda of the international economic relations since the Second World War. General Agreement on Tariffs and Trade (GATT) was initiated in 1947 for multilateral trade negotiations to liberalize trade. Since then, the number of countries joining the GATT has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

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

Most of the OIC Member States have also showed interest in joining the WTO. Up to date 41 OIC Member States have acceded to the WTO and 12 Member States have the observer status. Tajikistan is the last OIC Member State that joined the WTO in 2013.

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

Figure 19: WTO Membership Status of OIC Countries

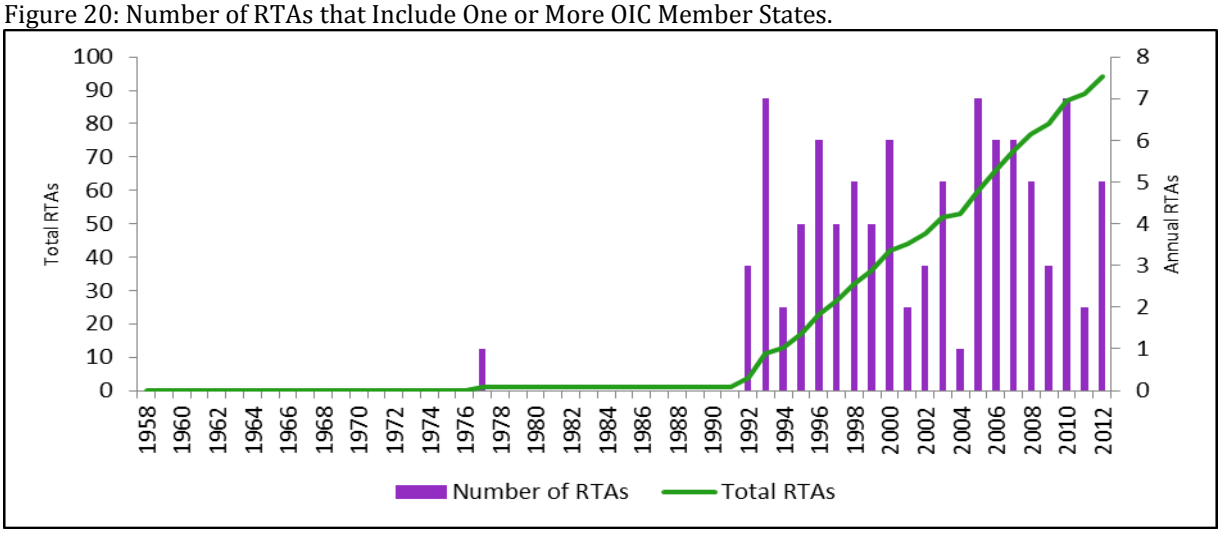


Source: WTO

Regional Trade Agreements (RTAs) is the 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 1950's 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 91 by the end of 2012. Most of these RTAs are in the form of FTAs. Among these 91 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.

Figure 20: Number of RTAs that Include One or More OIC Member States.

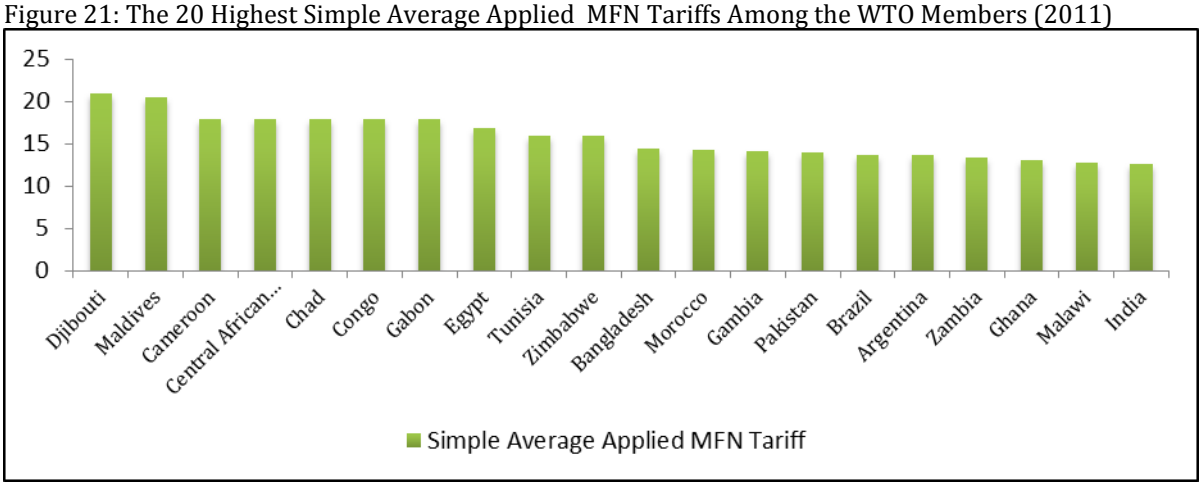


Source: http://rtais.wto.org/UI/PublicAllRTAList.aspx

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. Imported inputs which are cheaper than domesticaly 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 less tariffs to these kind of goods.

Figure 21: The 20 Highest Simple Average Applied MFN Tariffs Among the WTO Members (2011)

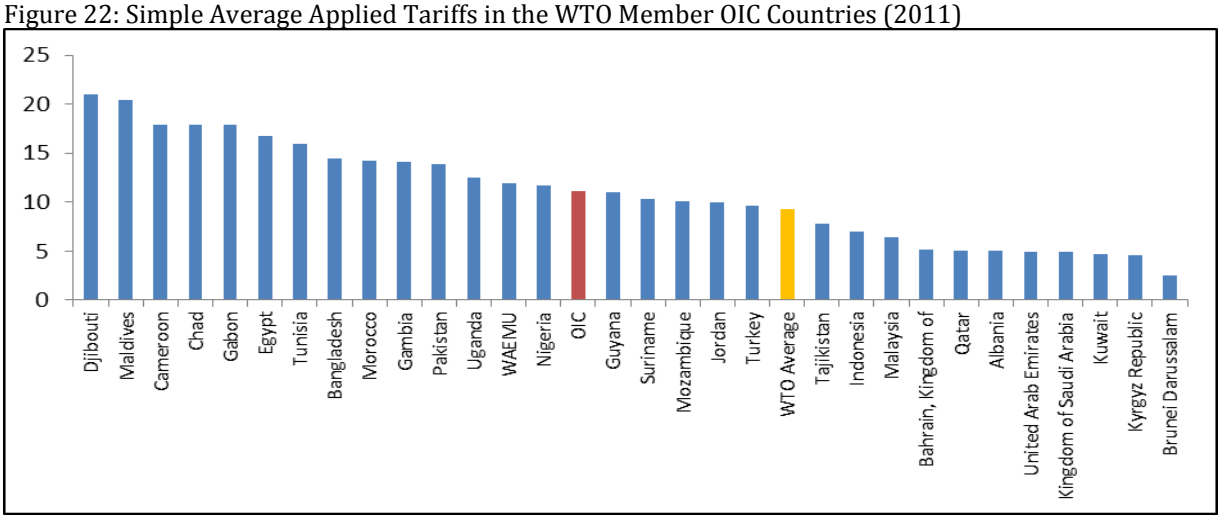


Source: WTO Statistics

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 21 illustrates the 20 highest simple average tariff-applying WTO Members. 11 out of these 20 countries are OIC Member States.

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

Figure 22: Simple Average Applied Tariffs in the WTO Member OIC Countries (2011)



Source: WTO Statistics

On the other hand, some of the OIC Member States are applying lower tariffs to their imports. Figure 22 shows above the simple average tariffs applied by the WTO Member

OIC Countries. The red column is demonstrating the simple average tariffs within the WTO Member OIC Countries and the yellow column stands for the WTO average.

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 23 and 24 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 are applying higher tariffs to agricultural products. Countries that have inadequate agricultural production and need agricultural imports apply lower tariffs on agricultural imports. On the other hand, the countries in which agricultural production constitutes a significant part of the economy apply higher tariffs to agricultural imports.

Figure 23: Simple Average Applied Tariffs on Agricultural Products in OIC Member States (percent-2011)

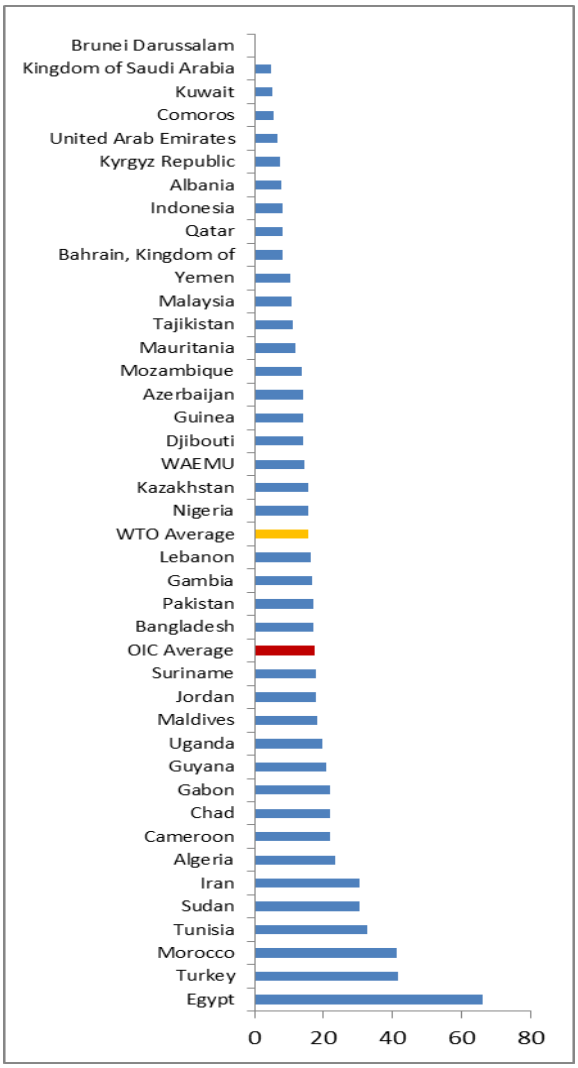
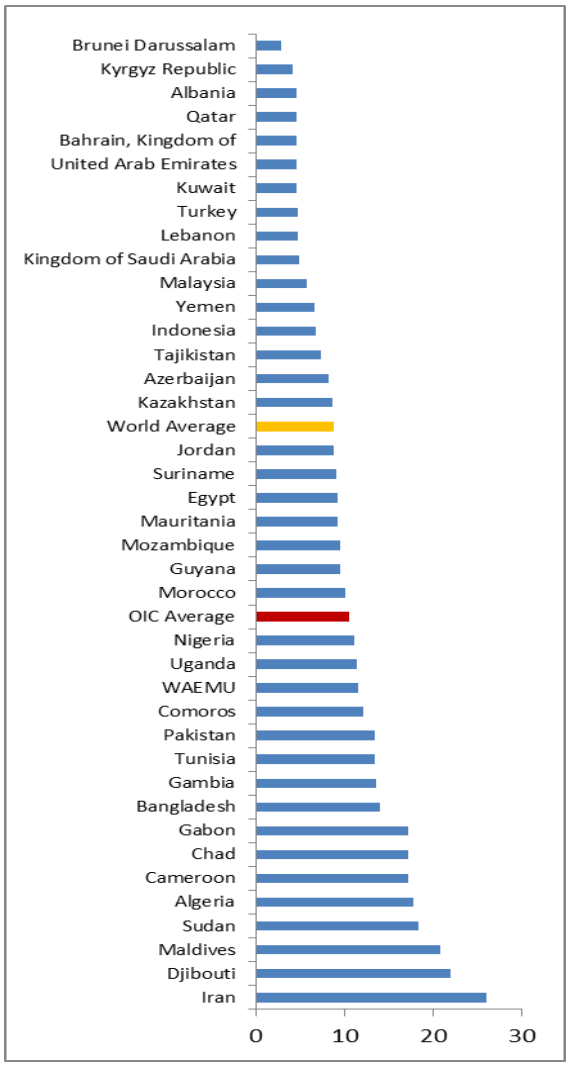


Figure 24: Simple Average Applied Tariffs on Non-Agricultural Products in OIC Member States (percent-2011)



Source: WTO Statistics

Trade Facilitation:

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

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 9½ percent and imports by 11½ percent, ceteris paribus.

"Trade Costs are higher in Landlocked Member States"

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 calculates the average time and cost for doing business in countries. In terms of trading across borders, Doing Business measures money and time consumed for inland transportation and handling, ports ad terminal handling and customs clearance and technical control for imports in over 150 countries.

Figures 25 to 28 demonstrate the overal situation in the OIC Member States interms of cost and money spent for importing. The left column demonstrates the lowest performers and the figures on the right column shows the best performers within the OIC Group. The figures show the huge difference in the cost of trade among the Member States. One important finding is demonstrated in Figure 25. The countries demonstrated in the Figure 25 are landlocked OIC Member States. These countries have the lowest performance within the group in inland transportation and handling, showing the difficulties faced in international trade.

Figure 25: Inland Transportation and Handling of Imports in Selected Member States

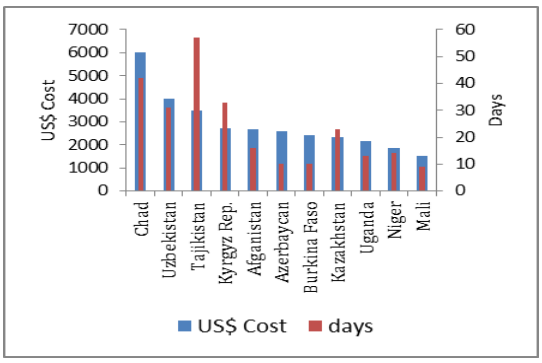
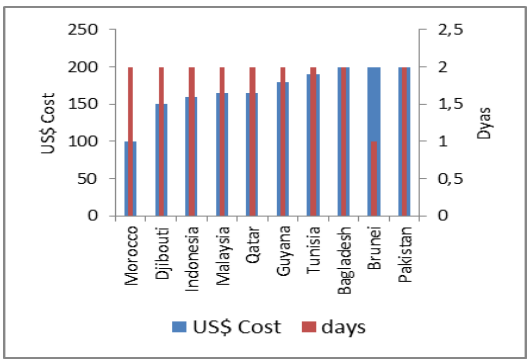


Figure 26: Best Performer OIC Member States in Inland Transportation and Handling of Imports



Source: World Bank "Doing Business 2012"

Figure 27: Port and Terminal Handling of Imports in Some OIC Member States

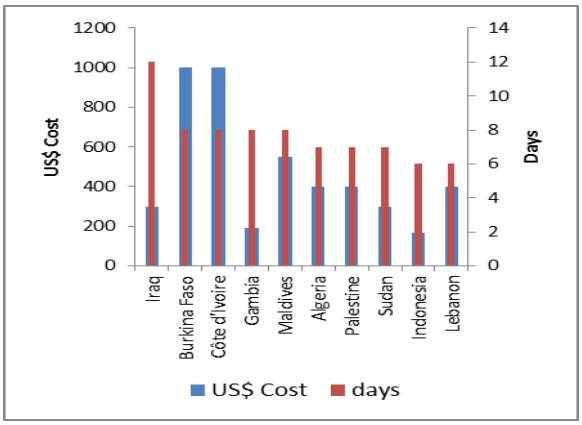
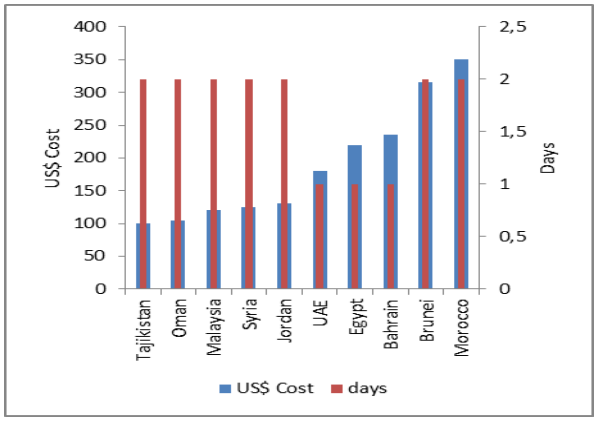


Figure 28: Best Performer OIC Member States in Port and Terminal Handling of Imports



Source: World Bank "Doing Business 2012"

According to OECD (2010), IMF (2010) and Teravaninthorn and Raballand (2009), restricted logistics services, lack of adequate infrastructure, inefficiency of the ports are major problems of transport which lead to high transport costs. Another Index, namely Logistics Performance Index (LPI), developed by the World Bank measures the efficiency of logistics sector in more than 150 countries. The LPI was conducted for three times in 2007, in 2010 and in 2012. Tables 5 and 6 illustrate the OIC Member States with the highest and lowest LPI scores.

Table 5: Best Performing OIC Member States According to the LPI 2012

Country	2007 LPI		2010 LPI		2012 LPI	
	Ranking	Score	Ranking	Score	Ranking	Score
UAE	20	3,73	24	3,63	17	3,78
Turkey	34	3,15	39	3,22	27	3,51
Malaysia	27	3,48	29	3,44	29	3,49
Qatar	46	2,98	55	2,95	33	3,32
Saudi Arabia	41	3,02	40	3,22	37	3,18
Bahrain	36	3,15	32	3,37	48	3,05
Morocco	94	2,38	N.A.	N.A.	50	3,03
Egypt	97	2,37	92	2,61	57	2,98
Indonesia	43	3,01	75	2,76	59	2,94
Oman	48	2,92	60	2,84	62	2,89

Source: Word Bank

Table 6: OIC Member States with the Lowest LPI Scores

Country	2007 LPI		2010 LPI		2012 LPI	
	Ranking	Score	Ranking	Score	Ranking	Score
Burkina Faso	121	2,24	145	2,23	134	2,32
Afghanistan	150	1,21	143	2,24	135	2,30
Tajikistan	146	1,93	131	2,35	136	2,28
Libya	N.A.	N.A.	132	2,33	137	2,28
Iraq	N.A.	N.A.	148	2,11	145	2,16
Comoros	85	2,48	120	2,45	146	2,14
Sudan	N.A.	N.A.	146	2,21	148	2,1
Sierra Leone	144	1,95	153	1,97	150	2,08
Chad	142	1,98	115	2,49	152	2,03
Djibouti	145	1,94	126	2,45	154	1,8

Source: World Bank

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

According to WEF (2012), 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.

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 in many countries focus on the SMEs.

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

The SMEs of the OIC Member States also face challenges in exporting. The Workshop held on 12-14 June 2012 in Ankara, Turkey[2] defined the major common obstacles faced by the SMEs in exporting as the following:

- Obtaining reliable foreign representation and maintaining control over foreign middlemen

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

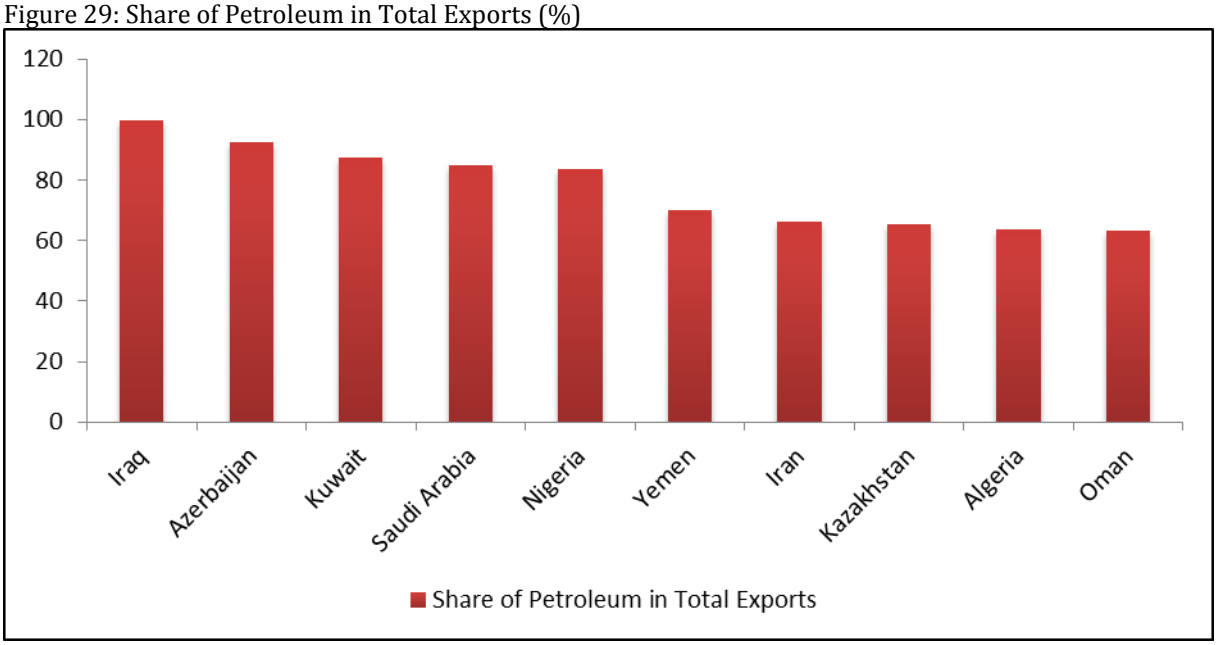
- Identifying foreign business opportunities
- Limited information to locate/analyse markets
- Inability to contact potential overseas customers
- Keen competition in overseas markets
- Lack of home government assistance
- Offering satisfactory prices to customers
- Accessing export distribution channels
- 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.

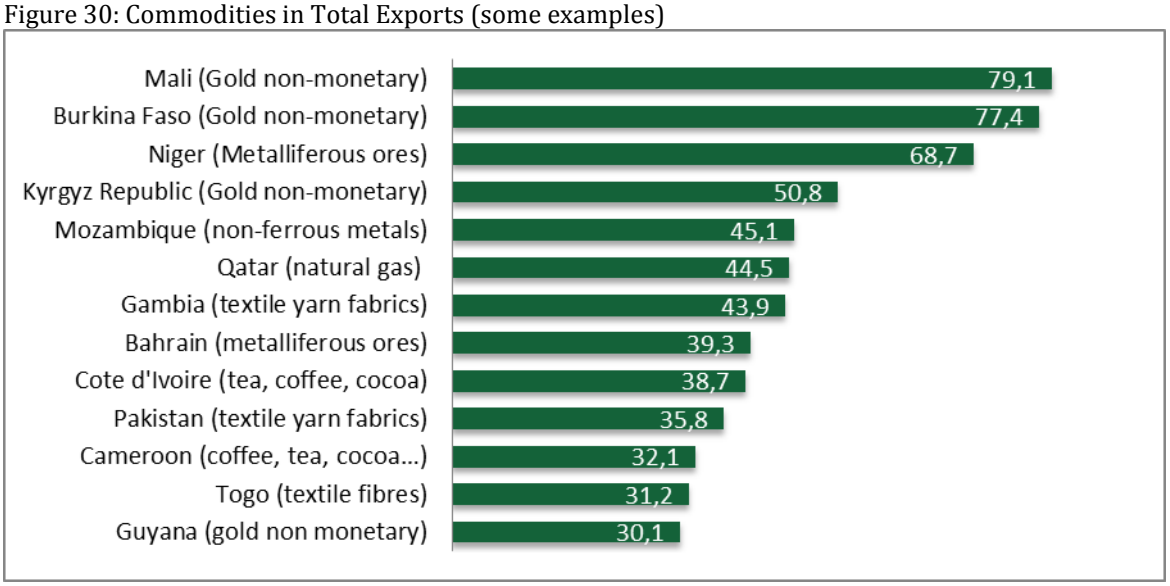
Figures 29 and 30 illustrate the share of the basic commodities in the total exports of some of the Member States.

Figure 29: Share of Petroleum in Total Exports (%)



Source: http://comtrade.un.org/db/mr/daYearsResults.aspx
Note: For Iraq and Kuwait 2009 figures are used.

Figure 30: Commodities in Total Exports (some examples)



Source: http://comtrade.un.org/db/mr/daYearsResults.aspx
Note: 2010 figures used for Mali

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) has 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, 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 the domestic firms international competitiveness through transfer of the know-how and technology.

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

The performance of the OIC Member States, except few of them in attracting FDI is, wxcwpt for few, low. Figure 31 below gives the FDI inflows to top ten OIC Member States. FDI inflows to these countries amounted to USD 103.2 billion in 2011 according to the UNCTAD,

representing 77 percent of the total FDI inflows to the OIC Member States. The other remaining 47 countries attracted USD 30.8 Billion FDI in 2011.

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 sectoral distribution of the FDIs in LDCs, many large projects are in the form of greenfield and expansion projects prospecting for reserves of base metals and oil. The study also cited the lack of political stability and unavailability of skilled workers as main reasons for low performance of investment in the manufacturing sector in Africa.

Figure 31: Top Ten Member States Receiving the Highest FDI Inflows in 2011 (USD Billion)

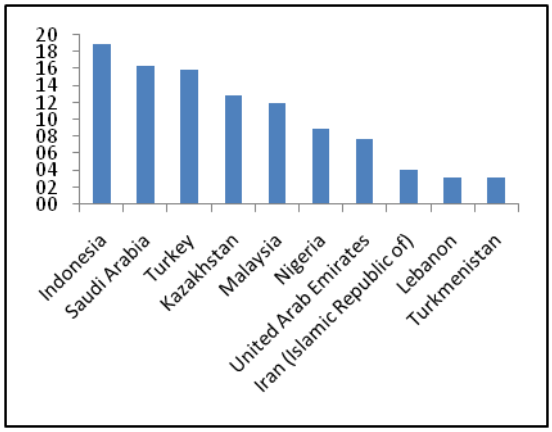
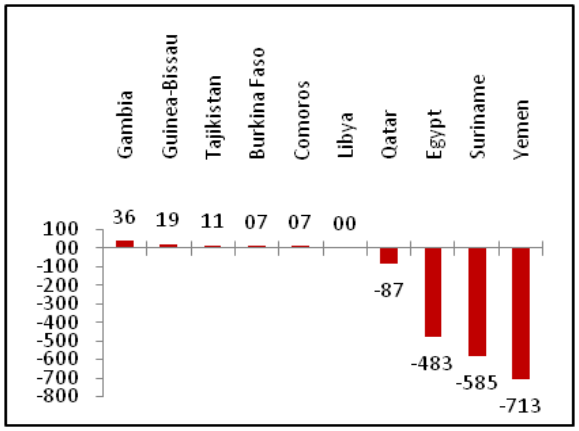


Figure 32: Member States Receiving the lowest FDI Inflows in 2011 (USD Million)



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 the payment 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 during 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 etc. In this context pre-shipment and post-shipment financings provide the exporting firms with the ability to cover their expenses until they get the payments from the importers.

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

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

Trade finance, provided by commercial banks, export credit agencies, multilateral development banks, suppliers and purchasers, has grown by about 11 per cent annually over the last two decades (UNESCAP 2002: 4). However, in many developing countries, firms still face difficulties in getting trade finance. The trade financing gap is especially noticeable in the least developed countries, where the financial sector tends to be heavily transnationalized and strongly risk-averse, and where a significant share of deposits are invested in very low-risk instruments, including short-term liquid assets and foreign government bonds (UNCTAD 2012).

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

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 traditionally relied little 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).

Many OIC Member States have established their national export-import banks to provide trade finance for their firms. However, 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.

V. The Role of COMCEC in Increasing Intra-OIC Trade

A. Achievements of the COMCEC

The COMCEC was established in 1981 and started operation in 1984. Trade is one of the major cooperation areas, identified with the objective of enhancing trade among the OIC Member States. 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, COMCEC Coordination 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.

The TPS-OIC will be operational after the submission of the list of concessions and completion of the necessary internal legislative and administrative measures including printing TPS-OIC Certificate of Origin and providing specimen impressions of stamps to the TNC Secretariat by the parties. 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. Till now, 9 Member States have met these two conditions. 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 are 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, SMIIC headquarter was formally established. Since 2010, SMIIC has convened its General Assembly and Board of Directors five and six times respectively.

Recently, SMIIC Forum 2012 was held in Antalya, Republic of Turkey during 08-09 November 2012. Over 150 attendees from 35 countries and relevant international and regional institutions attended the Forum.

SMIIC has established Financial and Terminology Committees as well as Technical Committees. The Technical Committees are Halal Food Issues, Halal Cosmetic Issues, Service Site Issues, Renewable Energy, Tourism and Related Services, Agriculture Processes and Transportation. SMIIC has also initiated capacity building programmes in the areas of standards and metrology.

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 sectoral 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.

Lastly, COMCEC developed a Road Map for increasing intra-OIC trade in 2008. OIC Institutions working in the area of economic cooperation meet annually to review the implementation of the Road Map and report to the COMCEC Sessions. The Road Map increased the awareness on the activities of the COMCEC and the OIC Institutions and is expected to promote intra-OIC trade to reach 20 percent intra-OIC trade by 2015 as decided by the 3rd Extra-ordinary Summit Conference held in 2005.

Trade Financing

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

The Export Financing Scheme (EFS) was first initiated by the COMCEC as the Longer-Term Trade Financing Scheme. IDB was entrusted with the implementation of the EFS. The 10th IDB Annual Meeting, held in March 1986 in Amman, Jordan, approved the Longer-Term Trade Financing Scheme. The title of the Scheme was later changed to Export Financing Scheme (EFS) and it became operational in 1988.

The EFS aims at promoting exports of non-conventional commodities by providing the necessary short and long-term funds. The repayment periods under the Scheme were originally between 6 and 60 months for the intra-OIC export. This period has now been extended to ten years for capital goods, such as ships, machinery etc. Each Member State participating in the EFS had one or more national agencies for the Scheme. The role of the national agencies was to coordinate the promotion of the EFS in their countries. The cumulative approvals under the Scheme, since its inception in 1988, have amounted to USD 2.6 billion.

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 2011 (1432H) its trade financing approvals reached USD 3.02 Billion (ITFC 2012). 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.

B. 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; 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.

Trade Liberalization

Higher tariffs, para-tariffs and non tariff barriers are important impediments to development. Some of the OIC Member States are implementing high tariffs and other measures which restricts their trade with the rest of the world. Many studies put forward the fact that, higher tariffs not only restrict imports but also limit the exports. Therefore, the COMCEC Strategy identified the trade liberalization one of its output areas under trade. With regards to trade liberalization, the Strategy defines the aim of the COMCEC to reduce existing tariffs and eliminate non-tariff barriers to facilitate the movement of goods among the member countries.

Expected outcomes of the COMCEC's efforts in trade liberalization are as follows:

- Improved understanding of opportunity cost of protectionist trade policies,
- Operationalization of TPS-OIC,
- Reduce Tariffs,
- Elimination of non-tariff barriers,

- Streamlined trade policies,
- Promotion of the accession of the member countries to the WTO

Trade Facilitation

Transport and logistics costs and customs procedures are important factors affecting international trade. Many developing countries, including some of the OIC Member States have higher costs and longer procedures in commercial transactions which limit their foreign trade. COMCEC's objective in trade facilitation is to enhance competitiveness of the Member States through enabling time and cost effective trade transactions. Improvement in these areas will contribute developing external trade of the concerned Member States.

Trade Facilitation efforts under the auspices of the COMCEC expects the following outcomes:

- Simplified and streamlined trade procedures,
- Enhanced capacity of customs administrations,
- Improved trade related logistics services,
- Facilitation of direct payments.

Trade Promotion

International trade of the OIC Member States, especially the intra-OIC trade is far below its potential. Many Member States highy depend on trade of limited products and their economies are undiversified. Moreover, the SMEs which constitute a significant place in almost all Member States have limited opportunities and capabilities to compete in international markets. Trade promotion requires joint efforts of relevant government agencies, chambers, business unions and firms.

In this context, COMCEC will aim to enhance the interaction among the private sectors of the Member States and contribute to the development of their export capacities.

The expected outcomes of the COMCEC's efforts in promoting trade are as follows:

- Increased awareness on ongoing trade projects,
- Enhanced communication among private sector representatives/institutions of the member states,
- Creation of online networks for the interaction of business people,
- Developed capacity of Trade Promotion Organizations in the Member States, especially in the LDCs,
- Improved export strategy and international marketing capacities of SMEs

Trade Financing

Access to financing in competitive terms is one of the important necessities for many firms to engage international trade. Without available financing many firms could not produce the items for exporting. Access to trade finance is one of the important obstacles faced in many Member States. Thus, they could not engage in export business.

In order to contribute to the development of access to finance in the OIC Member States, COMCEC will aim at promoting and enriching trade financing mechanisms to promote intra OIC trade.

While doing so, COMCEC expects the outcomes of its efforts to be as follows:

- Increased awareness on the existing financing mechanisms,
- Identified new trade financing instruments,
- Improved insurance mechanisms against payment risks.

Implementation of the Strategy

"Strategy brings well defined implementation instruments and clear financial framework"

To reach these objectives, the Strategy brings two new, well defined implementation instruments, namely Trade Working Group and the COMCEC Project Cycle Management.

The Trade Working Group aims at bringing the relevant trade experts from the Member States regularly together. The Trade Working Group will serve as a platform for the Member States to share experience and best practices, to disseminate knowledge and develop common understanding.

Another implementation instrument of the Strategy is the COMCEC PCM. The PCM is simple and has clearly defined procedures and financial framework. The COMCEC Coordination Office will provide funding to the technical cooperation, capacity building and research projects proposed by the Member States or the OIC Institutions according to the following terms:

- Projects need to be compliant with the Strategy's Principles, targeting the strategic objectives of the strategy, focusing on output areas and pursuing multilateral cooperation among COMCEC Member Countries,

- Technical cooperation, Capacity building and research projects,

- Call for Project Proposals starts in September 2013 and ends with the beginning of the project implementation period,

- Funds would be grant in nature and would be provided by the Turkish Government for the 2013-2015 period,

- The reference documents of the PCM namely, Program Implementation Guidelines, Project Fiche, Logical Framework and Visibility Manual which would be issued by COMCEC and be available for download through COMCEC web site,

CONCLUSION

During the last decade the volume, direction and composition of the world trade has changed significantly. The volume of the world trade registered a steady increase until 2011, except in 2009 due to the adverse impact of the global economic crisis in 2008. Developing countries, as a group, increased their share in both global exports and imports and contributed to the development of world trade. Moreover, the share of the commodities in world trade also increased dramatically due to the soaring prices and increasing demand for commodities from the developing countries.

During this period, many countries have continued to develop policies and programmes unilaterally and multilaterally to increase and diversify their foreign trade. In this context, they mainly focused on four areas, namely trade liberalization, trade facilitation, trade promotion and trade finance to improve the trading environment. However, most of them still have limited external trade due to various reasons. Higher tariffs and non tariff barriers, higher transport costs and burdensome customs procedures, limited access to trade finance and undiversified economies are among the most common obstacles faced by these countries.

OIC Member States are developing countries, including 21 LDCs. However, level of economic development and foreign trade vary among the Member States. Some of the Member States have achieved diversifying their economies and recorded relatively higher external trade. On the other hand, some of them highly depend on few commodities and have limited foreign trade.

Intra-OIC trade and total OIC trade with the rest of the world has increased steadily during the last decade. The soaring commodity prices contributed to the increase of the value of total exports. Because an important characteristic of OIC trade is the significant share of commodities in total OIC trade. Both in exports and imports, commodities have the biggest share. For example the share of mineral fuels, oils and related products reached to 61.4 percent in total OIC exports in 2011. Total OIC trade and intra-OIC trade are dominated by few Member States. For example the share of top ten Member States in intra-OIC trade is around 70 percent.

During the recent decade, most of the OIC Member States have liberalized their trade. 41 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 their imports.

Secondly, higher transport costs and longer 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 capabilities to export in the concerned 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 succesfully.

Taking into consideration the afore-mentioned diversity among the Member States and the common challenges faced by many of them, COMCEC has adopted a Strategy which includes 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 instruments of the Strategy aim at imroving the trading environment in the Member States. The Trade Working Group aims at enhancing solidarity among the Member States to address the common obstacles by providing a platform for exchanging experiences and best practices, disseminating knowledge and developing a common understanding to address issues of common concern.

The PCM aims at contributing to the realization of the objectives of the Strategy by implementing the technical cooperation and capacity building projects proposed by the Member States, to be financed by the COMCEC Coordination Office.

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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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	Guyana	Uganda
Sudan	Suriname	
Syria		
Tunisia		
United Arab Emirates		
Yemen		

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

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