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

COMCEC

COMCEC TRADE OUTLOOK
2014

COMCEC COORDINATION OFFICE
January 2014

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For further information please contact:

Ms. Vildan BARAN
Expert

Mr. Murat DELIÇAY
Expert

Mr. Ahmet OKUR
Expert

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
vbaran@comcec.org
mdelicay@comcec.org
aokur@comcec.org

ACKNOWLEDGEMENT

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

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

The COMCEC Trade Outlook 2014 has been prepared by Ms. Vildan BARAN, Mr. Murat DELİÇAY and Ahmet OKUR, experts at the COMCEC Coordination Office, with the objective of providing an overview of international trade of the Organization of the Islamic Cooperation (OIC) Member States. It focuses on trends and characteristics of intra-OIC trade and attempts to identify the major common obstacles hindering trade.

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INTRODUCTION

Global trade has gone through rapid changes after the Second World War period. The reduced trade barriers, fall in transportation and communication costs and the growth of vertical specialization have been among the major forces behind the increase in global trade in the last decades.

As international trade considered as an engine of growth for many years, rapid changes in global trade are challenging countries to follow policies inclined to the changing patterns of trade. Thus, it is important for countries to create an enabling environment for trade in order to adapt these patterns in global trade and in this way grasp the opportunities to boost their trade. To this end policies towards ensuring an enabling environment for trade gain importance.

The 57 OIC Member States show great diversity in terms of geography, size, population and economic development. On the one hand, some OIC countries which are among the major oil exporters of the world heavily rely on oil for export revenues, on the other hand, many Least Developed OIC members either have very low trade capacity or mainly rely upon limited number of primary commodities for their exports. This is why enhancing trade capacity and diversifying exports is crucial 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 many programs and projects towards increasing intra-OIC trade (trade among the Member States), addressing the problems faced in trade liberalization, trade facilitation, trade promotion and trade financing in the Member States.

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

This study aims at providing a general outlook of the international trade of the OIC Member States and identifies 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, limited access to overseas markets, 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 five 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 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' trade. Moreover, the Section evaluates the 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 single 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 common challenges faced by many Member States in international trade with respect to trade liberalization, trade facilitation, trade promotion and trade financing.

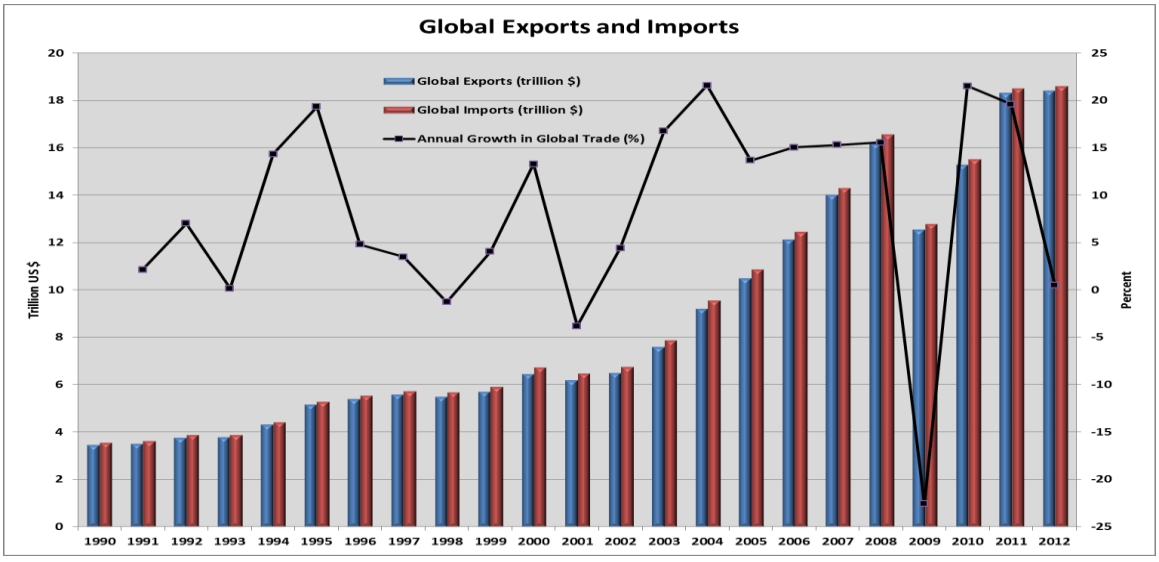
The Fifth Section concentrates on the role of the COMCEC in improving the trading environment in the Member States and enhancing intra-OIC trade.

The Study ends with concluding remarks.

1. DEVELOPMENTS IN GLOBAL TRADE

There has been substantial increases in international trade flows in the last decades as world merchandise trade (in dollar terms) increased by 9 per cent per year on average between 1990 and 2008. Although the global trade declined sharply due to the global crisis in 2009, it rebounded in 2010. However mainly due to the slow growth performance in developed economies especially in the Euro Area and Japan, and the falling commodity prices, world trade in nominal terms remained almost at around the same levels of the previous year with 1.8 trillion dollars in 2012.

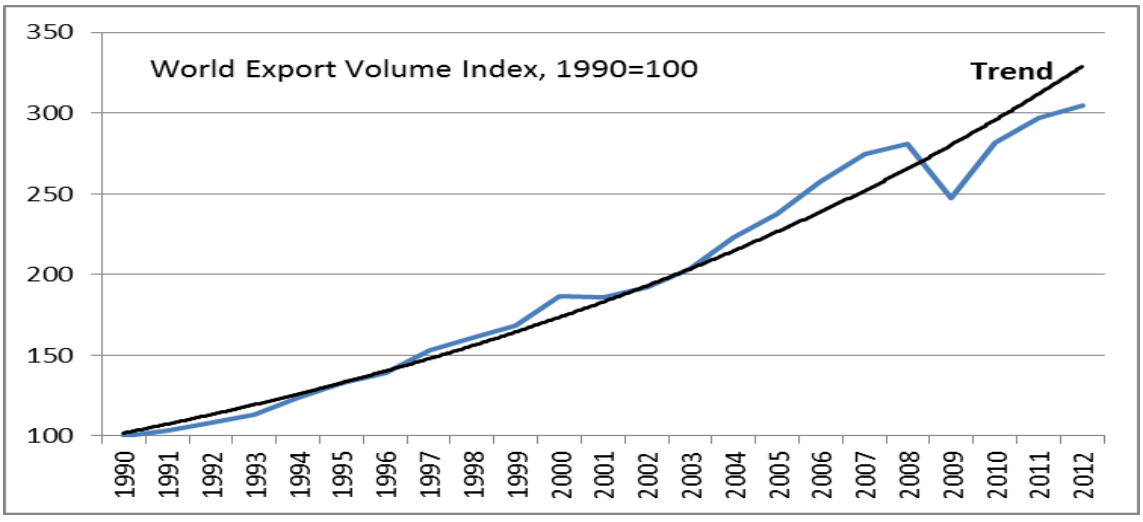
Figure 1: Global Trade



Source: WTO 2013

As seen in the Figure 2, world merchandise trade in volume terms (i.e. accounting for changes in prices and exchange rates) recorded dramatic increases in this period as well. The growth in the volume of world merchandise trade was 5.9 per cent per year on average between 1990 and 2008. However real world merchandise trade growth stayed below its long-term average growth rates in the years following the global crisis. In other words, global trade has not returned to the rapid growth rate of the pre-crisis years. The growth of world trade volume was 2.1 per cent in 2012.

Figure 2: World Export Volume Growth



Source: WTO, 2013

"The upward trend in the global trade was accompanied by the changes in the world trade

The slower growth in the dollar value of world trade compared with trade in real terms resulted from the falling prices for traded goods in 2012. Among the commodities of which prices declined sharply in this year were cotton, coffee, iron ore and coal (WTO, 2013).

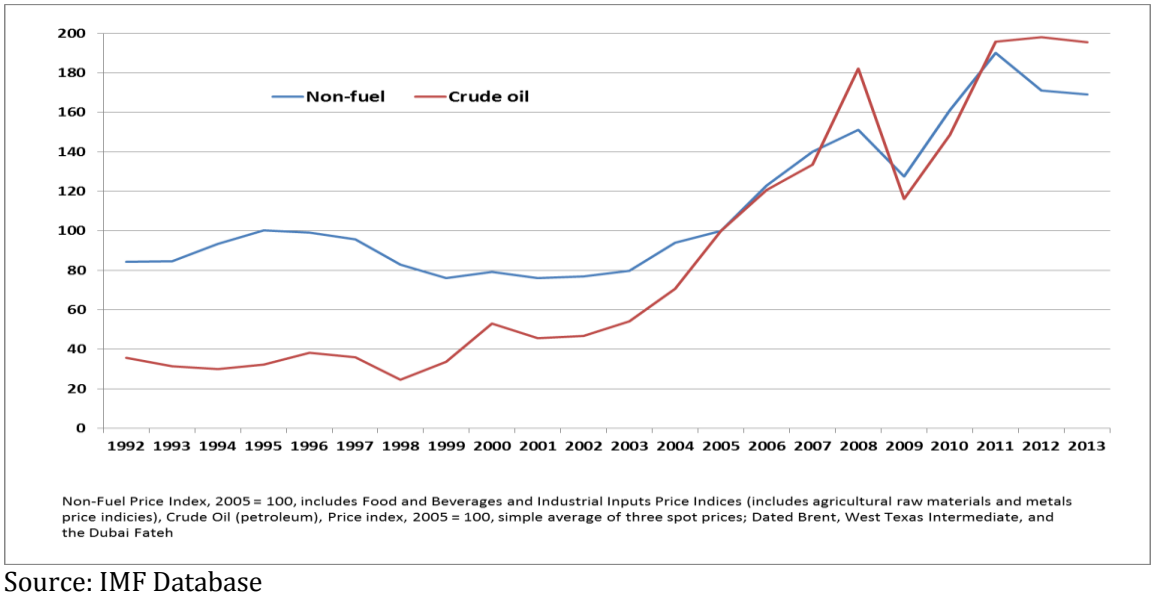
The increasing trend in the world merchandise trade was characterized by the changes in the patterns of global trade. Main patterns in this period were the change in the composition of trade, increasing share of the developing countries and the rise in preferential trade agreements.

Commodity prices 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. After a severe fall in 2009 due to the global economic crisis, commodity prices increased sharply by around 26 per cent in 2010 and 2011. However commodity prices declined by 3.2 per cent in 2012 mainly due to the slowdown in global output.

In 2012, oil prices increased by 1 per cent while non-fuel commodity prices decreased by 10 per cent. The crude oil (Brent) price which was 25 dollars per barrel in 2002 increased at an annual average of 25.6 percent between 2002 and 2008. Following the sharp decline in 2009 due to the global crisis, oil prices recovered quickly and increased by 28.7 per cent in 2010. Oil

prices jumped to 111 dollars per barrel in 2011 and stayed around almost the same level in 2012 mainly as a result of the ongoing political instability in the Middle East (Figure 3).

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



Source: IMF Database

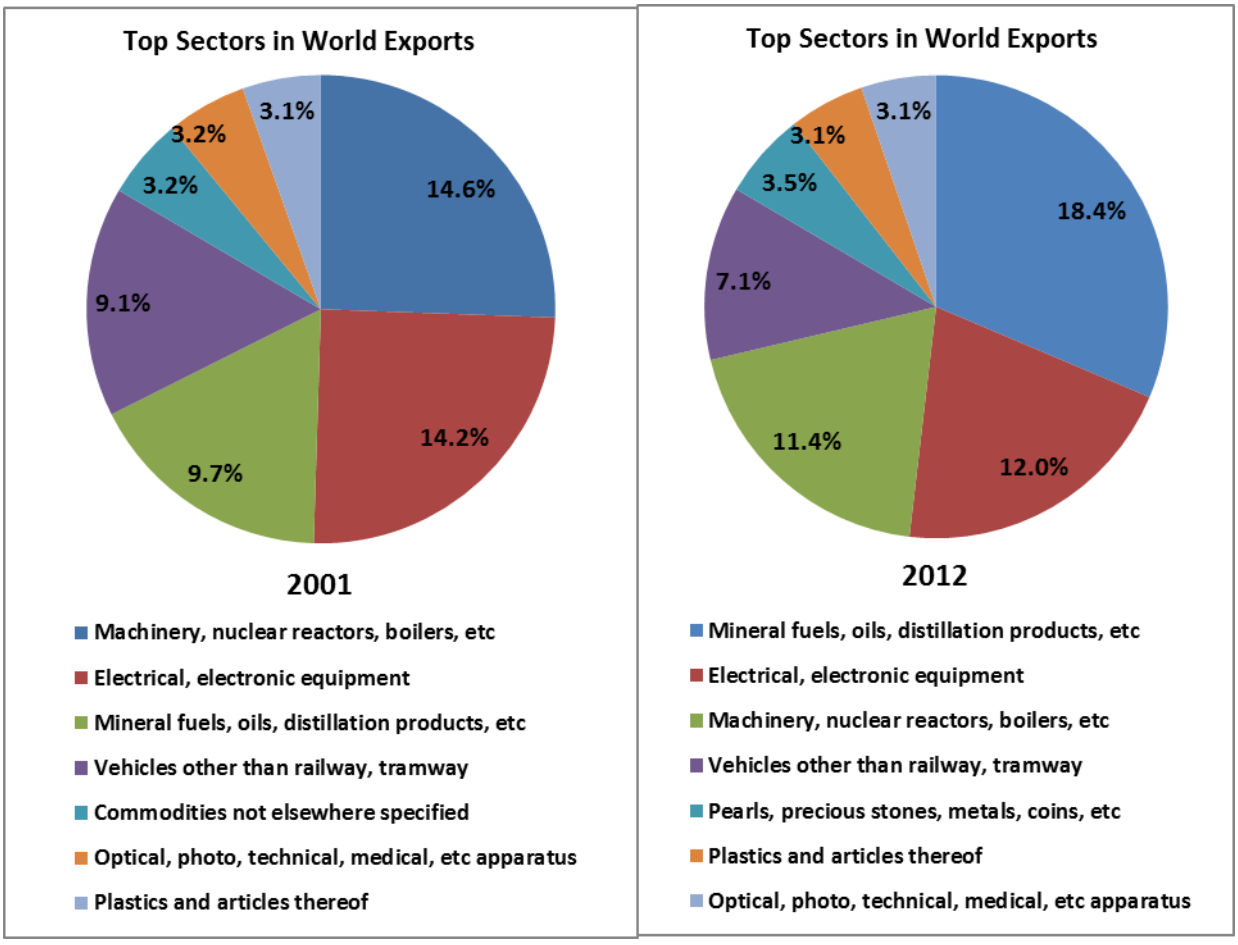
"The share of commodities in the world trade increased due to soaring commodity prices"

The high increases in oil prices reflected itself in the rising share of commodities in global trade. Thus, the share of mineral fuels in global exports rose from 9.7 percent in 2001 to 18.4 in 2012, 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 12 percent and 11.4 percent respectively in 2012. Figure 4 below, shows the composition of world exports in 2012 compared to 2001.

The most noteworthy annual average export growth recorded during 2001-2012 period was in ores slag and ash with an increase of 20.4 percent. On the other hand, annual average export growth of major product groups such as vehicles other than railway, tramway (7.2 percent), machinery, nuclear reactors (7.2 percent), electrical, electronic equipment (7.9 percent),

articles of apparel, accessories, not knit or crochet (5.5 percent) were below the world average export growth between 2001 and 2012.

Figure 4: World Exports by Sectors



Source: ITC Trademap, 2013

The increased share of developing economies in world trade was another dominant pattern in the world trade. During the last decade the share of developing countries in global trade increased steadily. According to ITC Trade Map Data, their share in world exports increased from 32 percent in 2001 to 49 percent in 2012. This increase was mainly led by the exports of Brazil, Russia, India and China (BRIC) and other Asian developing countries. BRIC countries' share in world exports reached 17 percent in 2012.

"Developing Countries increased their share in global trade"

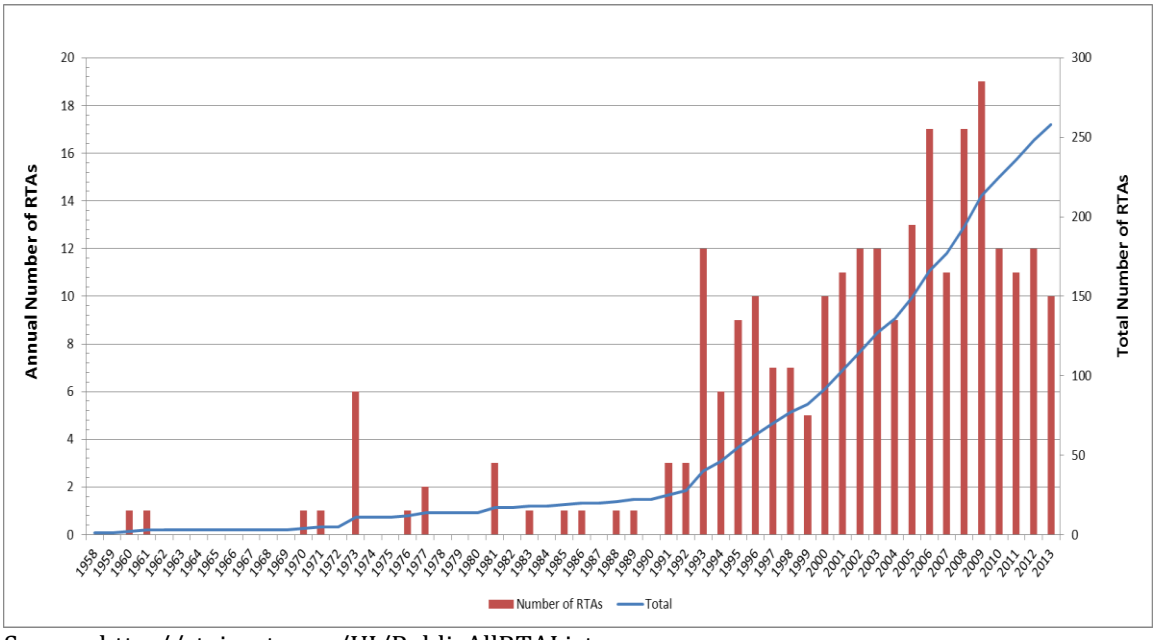
The developing countries as a group have increased their share in world imports from 29 percent in 2001 to 45 percent in 2012. The share of BRIC countries in global imports reached 15.6 percent in 2012.

Despite this remarkable increase, it varies substantially across the developing countries Countries that diversified their exports or benefited from the price increases in commodities recorded more increase than the others.

"Participation to Regional Trade Agreements continued to increase"

While the World Trade Organization (WTO) expanded, reaching 159 Members and 25 Observers by March 2013, countries also initiated new Regional Trade Agreements (RTAs) to increase their competitiveness in foreign markets during the last decade. As of 2013 the number of effective RTAs reached 258. Figure 5 below shows the increasing number of RTAs since 1958.

Figure 5: Number of RTAs Notified to the WTO



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

The rise in RTAs among countries stands as the dominant factor in the evolution of the regional trade. Due to the slow progress in multilateral trade negotiations 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.

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 258 in 2013. (WTO database)

World Trade Report 2011 provides a very detailed analysis of PTAs. According to the Report the average number of PTAs that a WTO member is party was 13 in 2010. The value of trade taking place between PTA members increased faster than the world trade. Thus the share of intra-PTA trade in world trade has increased from 18 per cent in 1990 to 35 per cent in 2008. In these figures intra-EU trade has been excluded as EU treated as a single entity. The share of intra- PTA trade in world trade rose from about 28 percent in 1990 to 51 percent in 2008 when intra-EU trade has been included. (World Trade Report, 2011, page 64)

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 62 per cent and 56 per cent respectively. For NAFTA, intra-PTA export was almost half of the total exports, while intra- PTA imports remained at 33 percent. However in ASEAN, most of the trade (around 75 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 2 to 13 per cent. Extra trade is greater than 80 percent for nearly all the remaining PTAs.

Table A: Intra and Extra Trade in Selected Preferential Trade Agreements - 2012

	World (billion dollars)		Intra-PTA share in total (%)		Extra-PTA share in total (%)	
	Export	Import	Export	Import	Export	Import
Association of South-East Asian Nations (ASEAN)	1,253	1,220	26.0	23.5	74.0	76.5
Asia Pacific Trade Agreement (APTA)	2,928	2,883	11.1	17.6	88.9	82.4
Economic and Monetary Community of Central Africa (CEMAC)	45	27	1.6	3.1	98.4	96.9
Commonwealth of Independent States (CIS)	803	561	15.9	25.9	84.1	74.1
Common Market for Eastern and Southern Africa (COMESA)	134	174	6.9	5.9	93.1	94.1
East African Community (EAC)	15	37	21.0	8.9	79.0	91.1
Economic Co-operation Organization (ECO)	437	429	11.1	7.9	88.9	92.1
Economic Community of West African States (ECOWAS)	155	105	6.0	10.4	94.0	89.6
European Free Trade Association (EFTA)	392	290	0.8	0.9	99.2	99.1
European Union (EU-27)	5,803	5,842	61.6	56.0	38.4	44.0
Gulf Cooperation Council (GCC)	1,062	488	4.8	10.0	95.2	90.0
Latin American Integration Association (LAIA)	1,049	1,018	16.4	17.0	83.6	83.0
Southern Common Market (ME RCOSUR)	448	394	14.9	16.8	85.1	83.2
North American Free Trade Agreement (NAFTA)	2,371	3,191	48.5	33.4	51.5	66.6
South Asian Association for Regional Cooperation (SAARC)	355	601	5.7	3.4	94.3	96.6
West African Economic and Monetary Union (WAEMU)	23	30	13.4	9.9	86.6	90.1

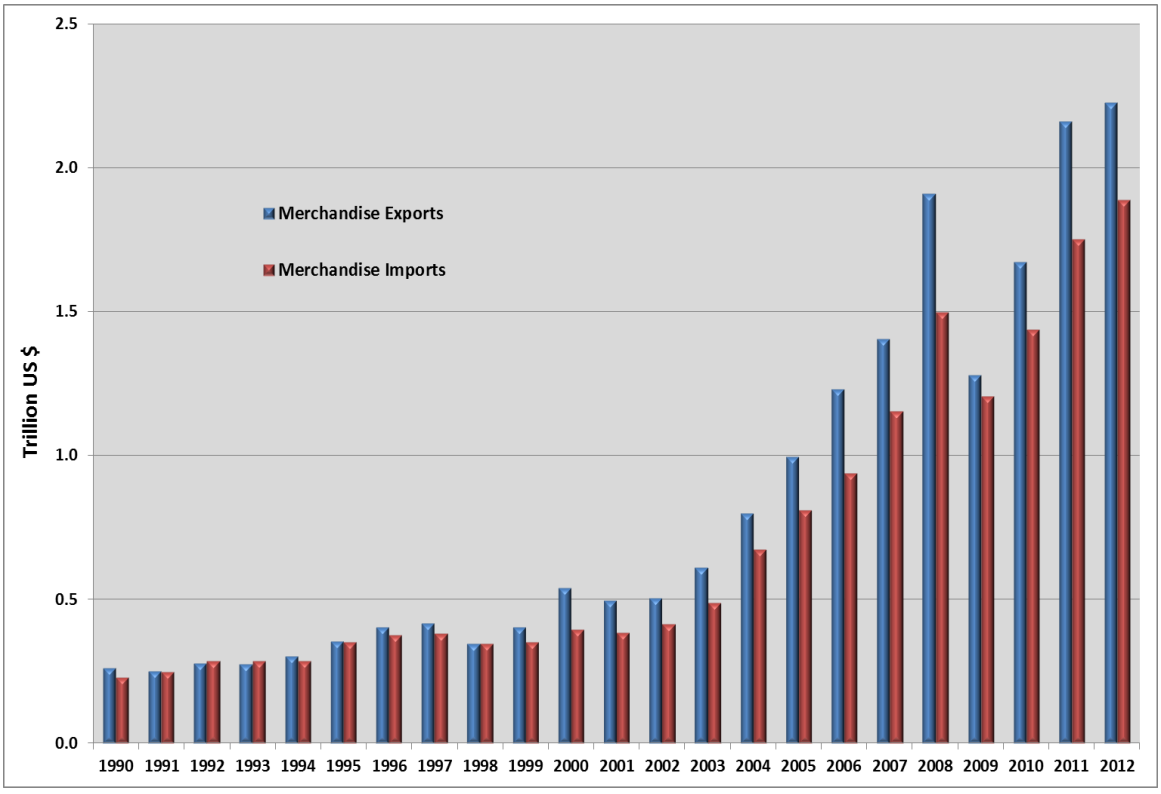
Source: UNCTADSTAT database

2. DEVELOPMENTS IN TOTAL OIC TRADE WITH THE WORLD

The total OIC trade increased at double digits from 2002 onwards till the global crisis in 2009 when it declined sharply by 27 per cent. The dramatic increases in total OIC exports resulted from both the increases in the exports of main manufactures exporters namely Malaysia, Turkey and Indonesia and the surge in commodity prices especially that in oil prices. Thus, total OIC exports increased to 1.9 trillion dollars in 2008 (see Figure 6).

Total OIC trade yielding around 25 per cent increases on a year on year basis in 2010 and 2011 recovered strongly following the global crisis. This was mainly accounted for the increases in global economic activity and oil prices. Thus total OIC trade (sum of exports and imports) amounted to USD 3.9 trillion in 2011. In 2012, total OIC trade which reached to 4.1 trillion dollars continued to grow but at a modest pace with 5.2 per cent. This was mainly due to the slowdown in global demand, ongoing political transition in many countries in Middle East and falling non-fuel commodity prices.

Figure 6: Total OIC Exports and Imports



Source: SESRIC

The downward trend in growth performance especially in Europe affected several OIC member states in Mediterranean, Central Asia and Sub Saharan Africa either having Preferential Trade agreements or close trade relations with European Union(EU) such as Tunisia, Morocco, Mauritania, Syria, Egypt, Pakistan and Jordan (IMF Regional Outlook 2012).

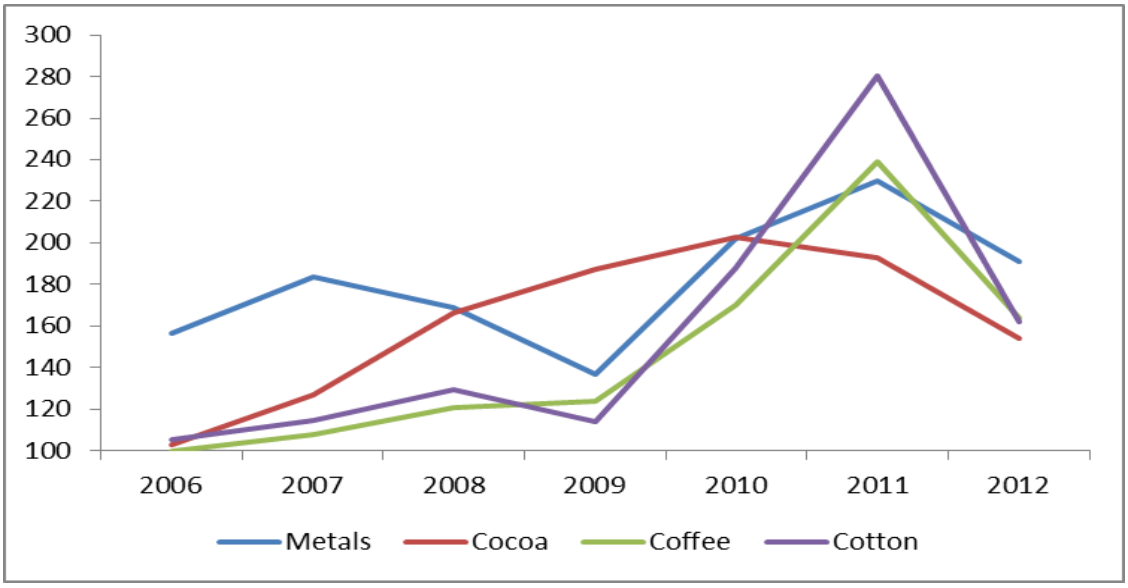
The activity in the Middle East, North Africa, Afghanistan, and Pakistan (MENAP) region has been held back by ongoing difficult political transitions in many countries and more recently, slower oil production in oil exporters. (IMF WEO, 2013). This in turn negatively affected imports of this region.

"Prices of basic metals, cotton, cocoa and coffee declined sharply in 2012"

Moreover, crude oil prices which reached record high levels in 2011 with 111 dollars per barrel remained at around the same levels in 2012 with 112 dollars per barrel. However, non-fuel commodity prices which include food and beverages and industrial inputs price indices declined by 10 per cent in 2012. When looked into detail the prices of many commodity which are the main exported items in many OIC member states, it is observed that; metals

prices declined by 17 per cent, cotton prices declined by 42 per cent, cocoa prices declined by 20 per cent, coffee prices declined by 31 per cent and palm oil prices declined by 13 per cent (Figure 7).

Figure 7: Prices of Selected Commodities Exported by OIC Members (2005=100)



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

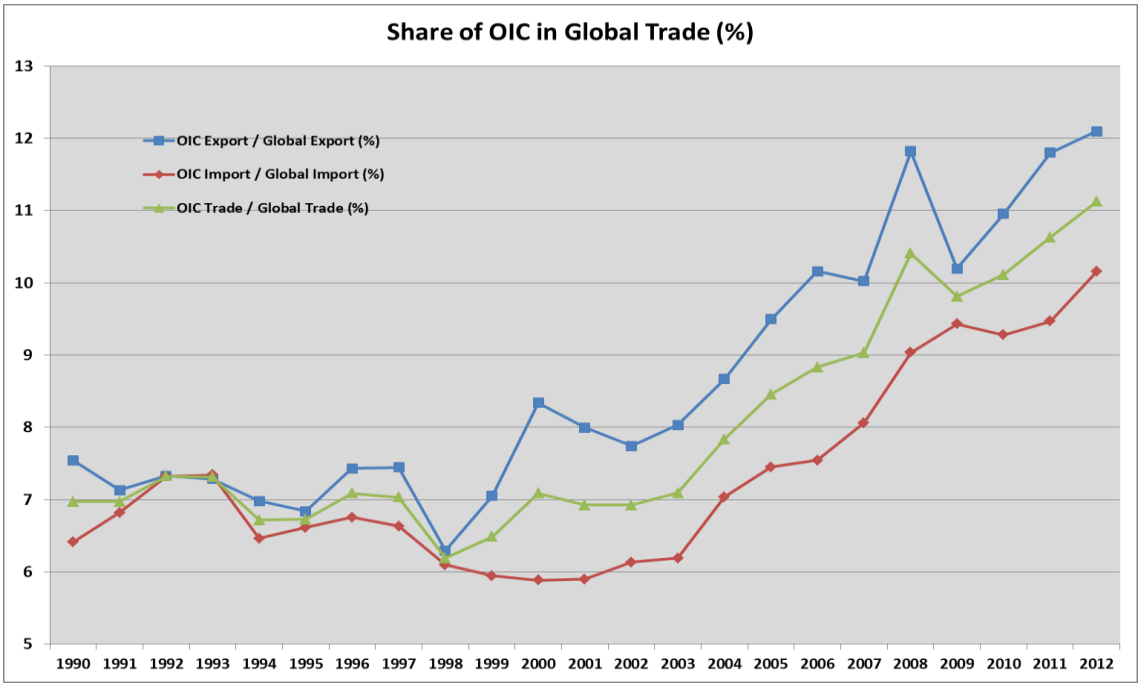
"Share of OIC countries in global trade peaked at 11.1 per cent in 2012"

The high rates of growth in total OIC trade reflected itself in the rising share of OIC trade in global trade. 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 8). The rate of growth of total OIC trade was higher than that of the global trade in the aftermath of global crisis. Thus, the share of OIC countries in global trade increased in this period and peaked at 11.1 per cent in 2012.

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. The share of OIC countries in global exports increased steadily after the global crisis and peaked at 12.1 per cent in 2012.

On the other hand, the share of OIC countries 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 which was led by the high imports realized by Turkey, United Arab Emirates, Malaysia, Indonesia and Saudi Arabia. The share of OIC countries in global imports realized as 10.2 per cent in 2012.

Figure 8: Share of OIC in Global Trade

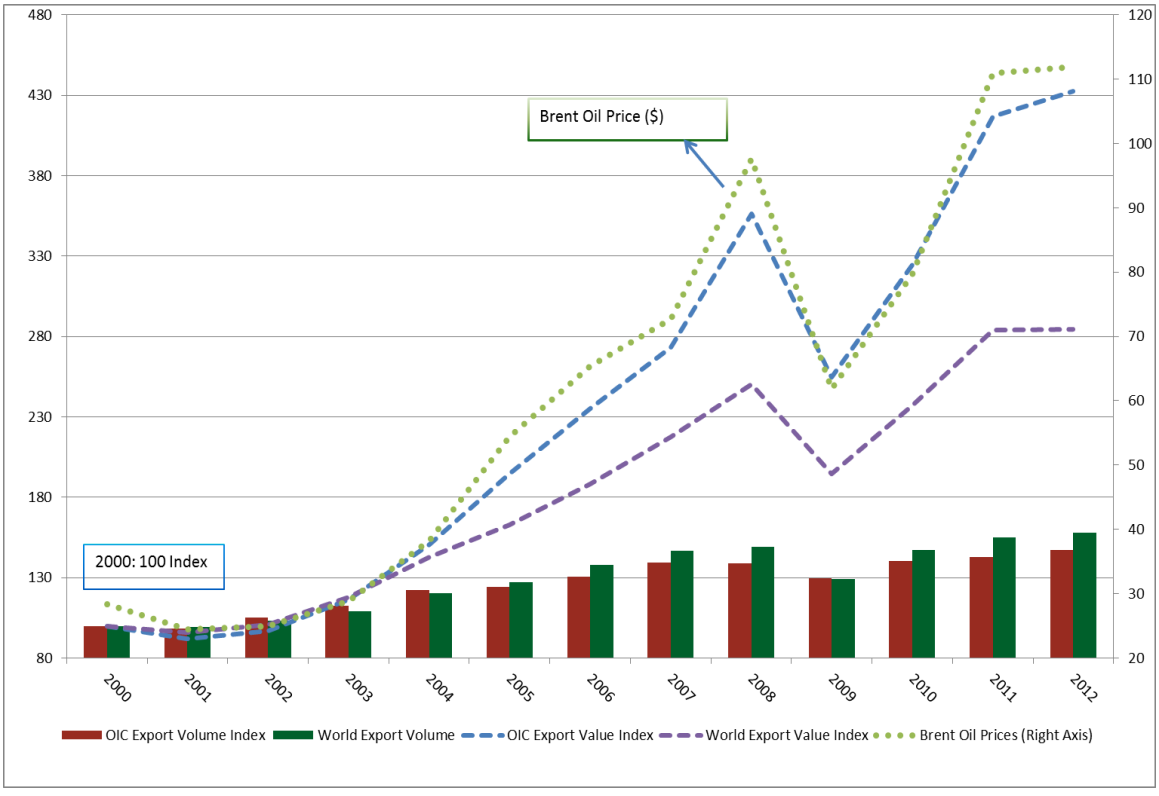


Source: WTO, SESRIC

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 9 below demonstrates value versus volume (i.e. eliminating the effects of prices and exchange rates) developments in total OIC and world exports. As mentioned, in value terms (i.e. in US dollars), OIC exports yielded higher growth rates than that of world exports mainly due to increases in oil prices. As a matter of fact, the performance of OIC exports was substantially in line with oil price movements (Figure 9). Between 2000-2012 period, the total OIC exports in value terms recorded 13 percent increase per year on average whereas the volume increase in the total OIC exports remained at 3.3 percent. The annual average volume growth rate in world exports was 3.9 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 (7.0 percent) was above the world average.

Figure 9: World and OIC Export Value versus Export Volume Indices

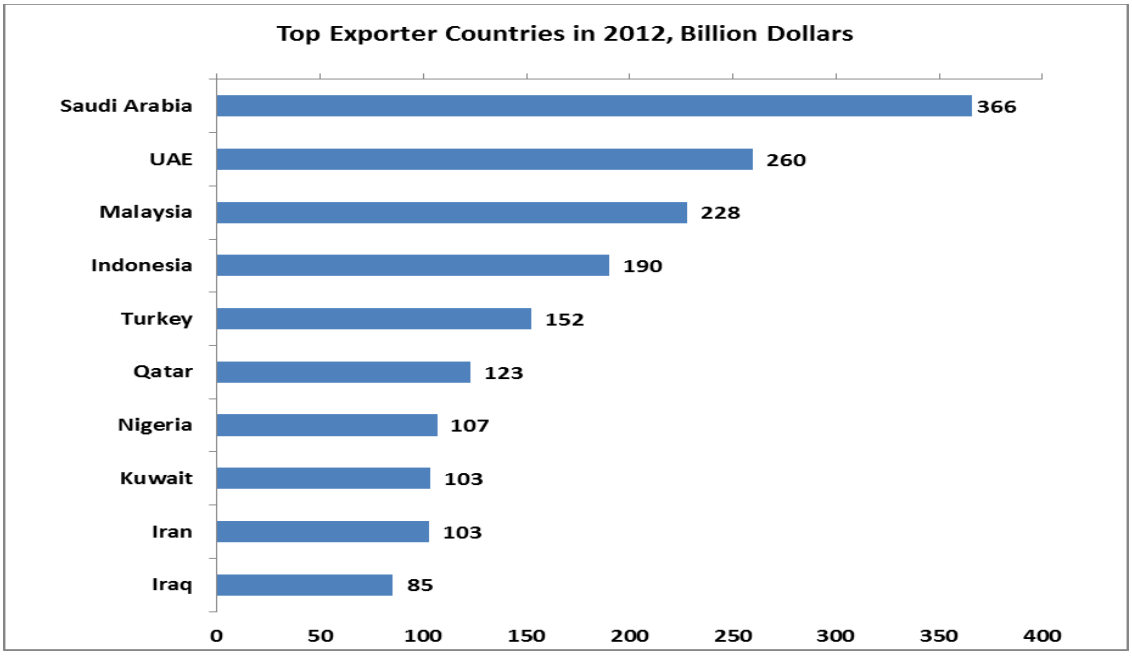


Source: UNCTADSTAT, IMF

2.1. MAIN CHARACTERISTICS OF TOTAL OIC EXPORTS

The top performers in total OIC exports were Saudi Arabia, United Arab Emirates, Malaysia, Indonesia and Turkey as slightly more than half of (to be precise 53.7) total OIC exports was realized by these five countries (Figure 10).

Figure 10: OIC Exports to World (2012, Billion $)



Source: SESRIC

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

The total OIC exports are highly concentrated (Table 1). Although China alone accounted for 13 per cent of total OIC exports, the total OIC exports mainly directed to the developed countries in recent years. While the United States of America and Japan were the first and second export destinations for total OIC exports between 2003 and 2009 period, China moved up to the first export destination from 2010 onwards. Moreover, the share of the European Union in total OIC exports which was 27 per cent in 2003 declined to 21 per cent in 2012. This might be as a result of falling demand in EU countries. On the other hand, high growth rates realized in China increased its demand for oil in this period. Furthermore, China's increasing trade relations with the Member States resulted in steady increase in exports to this country.

Thanks to rising commodity prices, the major export markets for the OIC Member States remained to be the developed countries 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. High country concentration in total OIC exports makes OIC countries vulnerable to external shocks that might result from decreasing demand in these countries and/or falling commodity prices.

Table 1: Major Destinations of OIC Exports

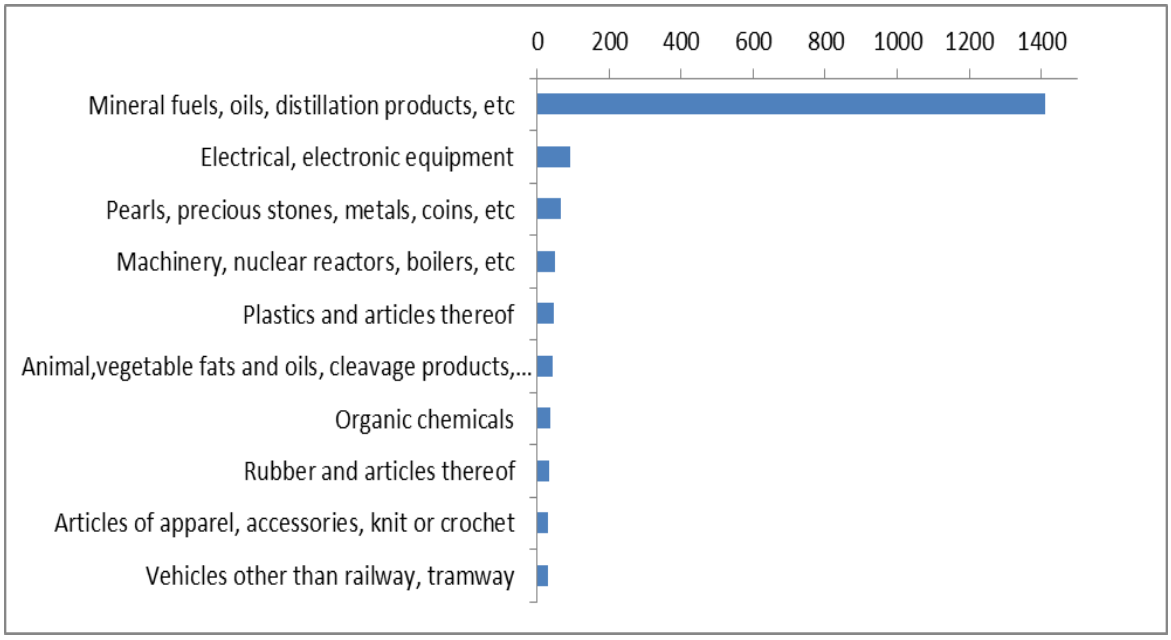
Countries	(Billion $)			Share %		
	2010	2011	2012	2010	2011	2012
Total (*) (1)	1,710	2,192	2,200	100.0	100.0	100.0
China	194	274	285	11.3	12.5	12.9
Japan	178	239	253	10.4	10.9	11.5
United States of America	175	213	206	10.3	9.7	9.4
India	128	176	197	7.5	8.0	8.9
Republic of Korea	107	152	158	6.3	6.9	7.2
Singapore	84	103	113	4.9	4.7	5.2
Italy	79	90	89	4.6	4.1	4.0
Germany	55	70	68	3.2	3.2	3.1
France	55	72	65	3.2	3.3	3.0
Chinese Taipei	47	55	62	2.7	2.5	2.8
European Union (EU 28)	375	467	467	21.9	21.3	21.2
Total of Top Ten Countries(2)	1,102	1,443	1,496	64.4	65.8	68.0
Other countries (1)-(2)	609	749	704	35.6	34.2	32.0

(*) Total includes intra OIC exports
Source: ITC Trademap

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

Mineral fuels, oils and related products in total OIC exports increased from 56.9 percent in 2010 to 63.7 percent in 2012. 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, Pakistan, Tunisia, Jordan and Albania), this sector's share in total OIC exports is limited (Figure 11).

Figure 11: OIC Exports to World - Top 10 Items (2012, Billion $)



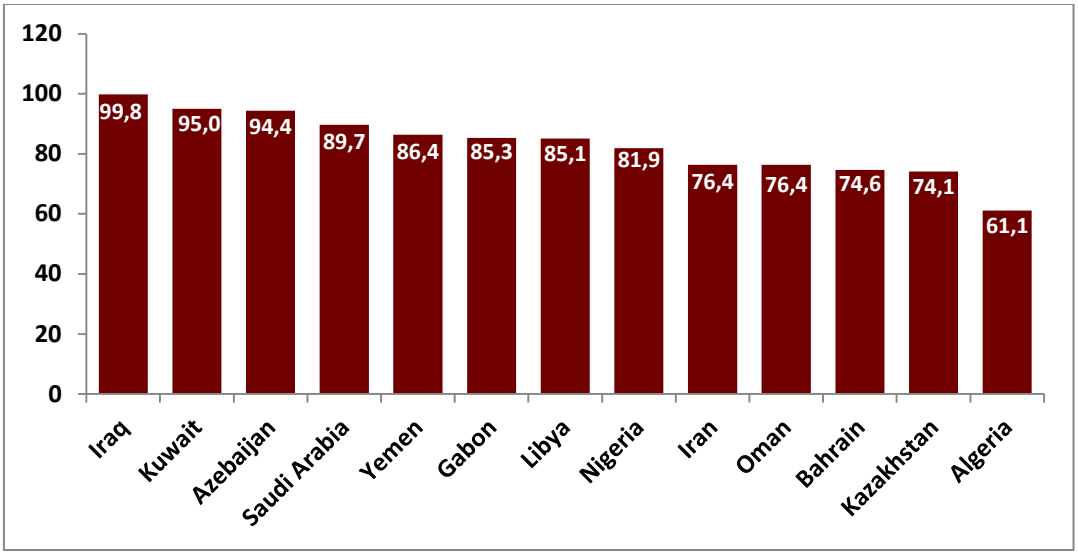
Source: ITC Trademap

The commodity concentration was even higher when countries looked into specifically. Due to their undiversified economic structure many OIC countries rely upon a specific commodity for their exports which might result in a severe export fall in case of either foreign demand and/or price shocks or drought for agricultural commodity exporters.

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

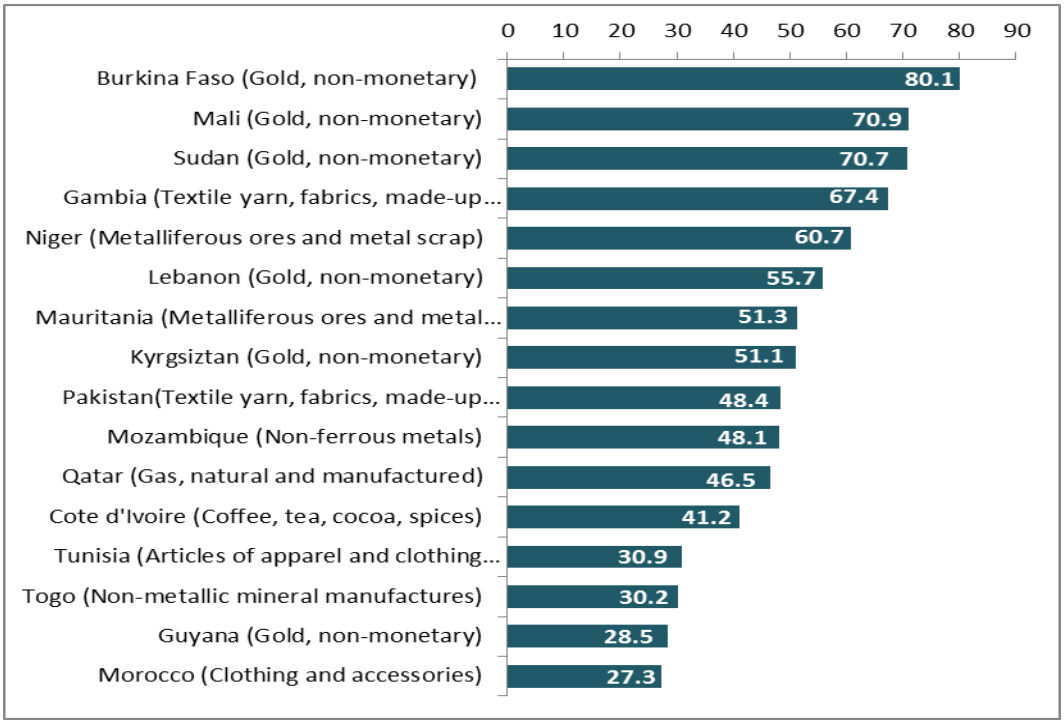
Figures 12 and 13 illustrate the share of the basic commodities in the total exports of some of the Member States. The share of petroleum exports in total ranged between 61 to 100 per cent for the top oil exporters of OIC in 2012. On the other hand, the share of non-monetary gold reached more than half of total exports in Burkina Faso, Mali, Sudan, Lebanon and Kyrgyzstan. The share of basic metals and textile yarn constituted a noticeable place in the exports of some member states such as Niger, Mauritania and Mozambique where the share of metalliferous ores and metal scrap and non-ferrous metals ranged between 48 per cent to 61 per cent and Gambia and Pakistan where the share of textile yarn was 67 per cent and 48 per cent respectively.

Figure 12: Share of Petroleum in Total Exports, 2012 (%)



Source: http://comtrade.un.org/db/mr/daYearsResults.aspx
Note: 2009 figures for Iraq and Kuwait and 2011 figures for Bahrain were used.

Figure 13: Share of Commodities in Total Exports for Selected Countries, 2012 (%)

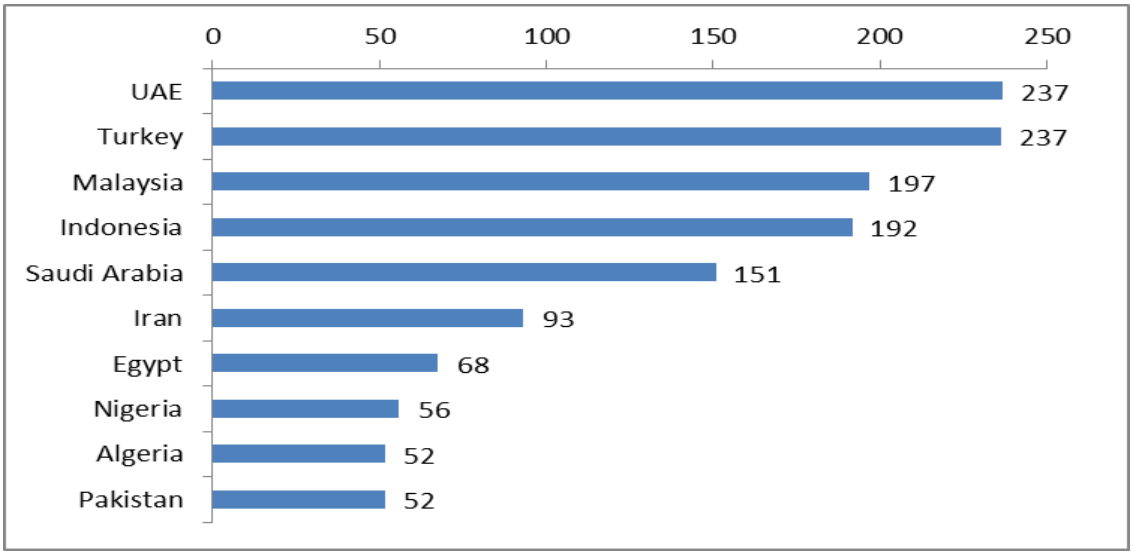


Source: UN Comtrade http://comtrade.un.org/db/mr/daReportersResults.aspx?bw=B
Note: Available data for Burkina Faso, Gambia, Qatar and Tunisia was for 2011.

2.2. MAIN CHARACTERISTICS OF TOTAL OIC IMPORTS

The leading exporters in total OIC exports were the main importers as well. The total share of top ten countries in OIC total imports was 70.8 percent in 2012.

Figure 14: OIC Imports from World (2012, Billion $)



Source: SESRIC

As in the case with total OIC exports, total OIC imports originated mainly from developed countries except China. China was in the first place as 15.9 percent of total OIC imports made from this country in 2012. Top ten countries accounted for 61.9 percent of total OIC imports in this year (Table 2).

Table 2: Major Countries of Origin of OIC Imports

Countries	(Billion $)			Share %		
	2010	2011	2012	2010	2011	2012
Total (*) (1)	1,309	1,548	1,589	100.0	100.0	100.0
China	180	222	253	13.8	14.3	15.9
United States of America	93	109	114	7.1	7.0	7.2
Singapore	87	108	108	6.6	7.0	6.8
Germany	82	93	93	6.3	6.0	5.9
India	65	83	89	5.0	5.4	5.6
Japan	67	70	76	5.2	4.5	4.8
Korea, Republic of	52	65	69	4.0	4.2	4.3
France	60	65	62	4.6	4.2	3.9
Italy	55	59	62	4.2	3.8	3.9
Russian Federation	43	54	58	3.3	3.5	3.6
UEU28	364	421	428	27.8	27.2	26.9
Total of Top Ten Countries(2)	785	928	984	59.9	60.0	61.9
Other countries (1)-(2)	524	619	605	40.1	40.0	38.1

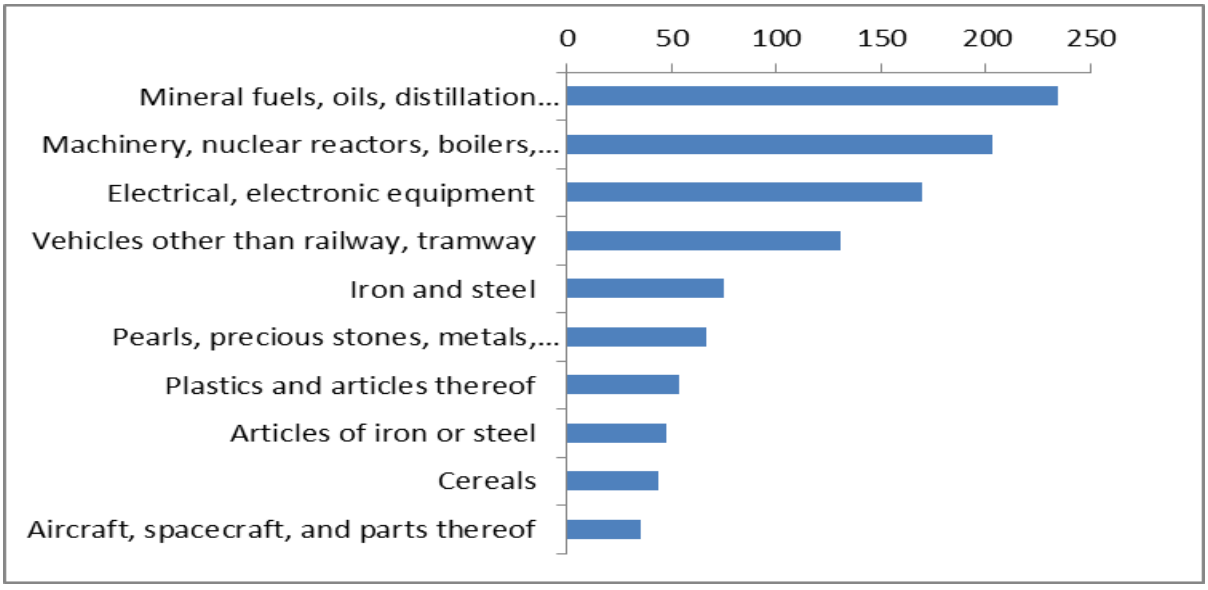
Source: ITC Trademap

Although mineral fuels and oils also have the highest share in total OIC imports, manufactured items such as machinery, nuclear reactors, boilers, electrical and electronic equipment, vehicles other than railway, tramway also constitute an important part of total imports, led by the high imports of Turkey, Malaysia, Indonesia, UAE and Saudi Arabia (see Figure 15).

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

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

Figure 15: OIC Imports from World - Top 10 Items in 2012 (Billion $)



Source: Trademap

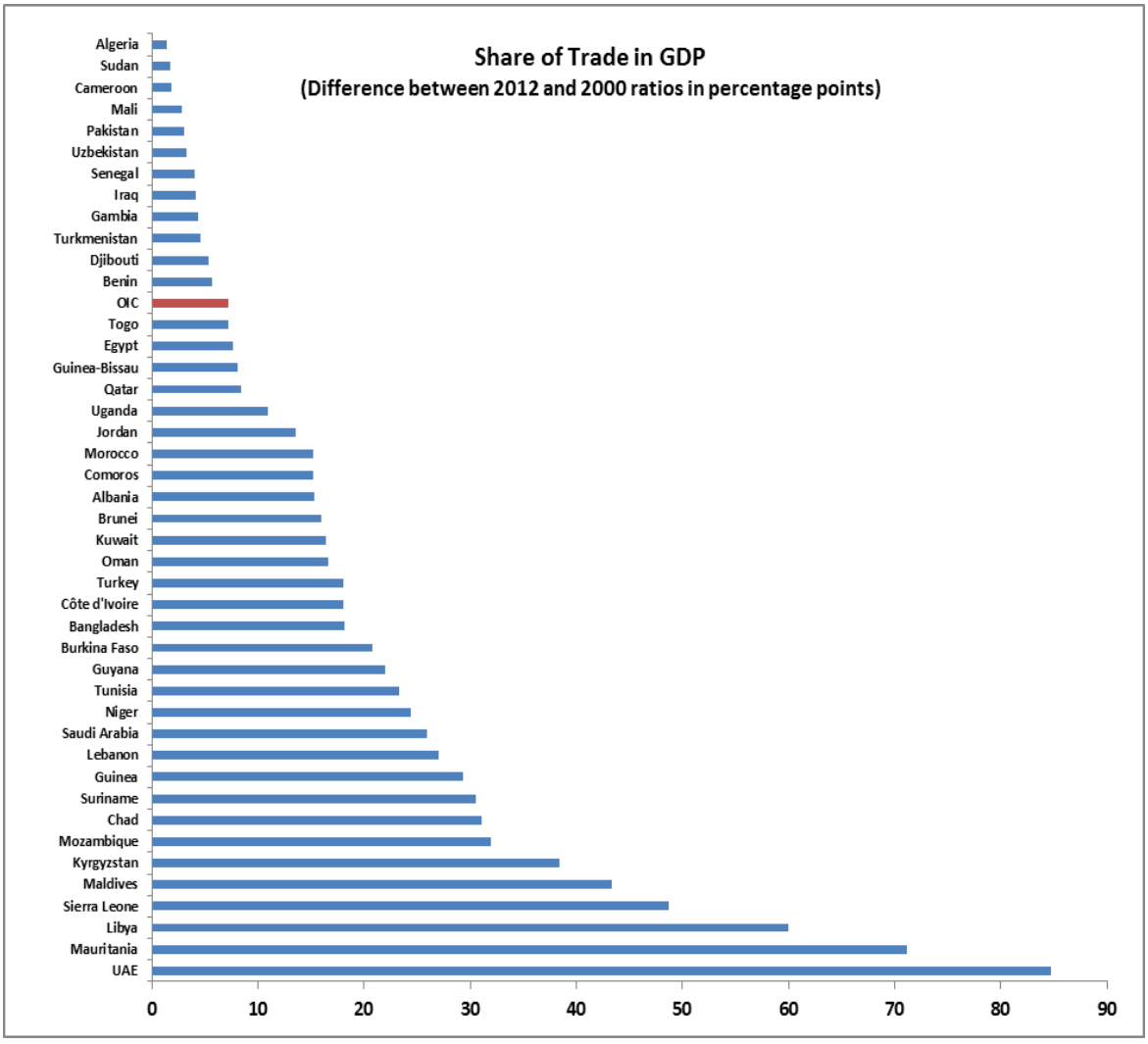
2.3. TRADE OPENNESS IN OIC

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.

"The importance of trade has risen in most of the OIC Member States in the last decade"

Figure 16 shows the difference between the trade to GDP ratios in percentage points between 2000 and 2012. As it could be followed from the Figure, the importance of trade has risen in most of the 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, Mauritania and Kyrgyzstan as the difference ranged between 86 to 71 percentage points between 2012 and 2000. The trade to GDP ratio in total OIC which was recorded as 50 per cent in 1995 increased to 66 per cent in 2012 yielding an increase of 16 percentage points.

Figure 16: Share of Trade Ratios in OIC Member States



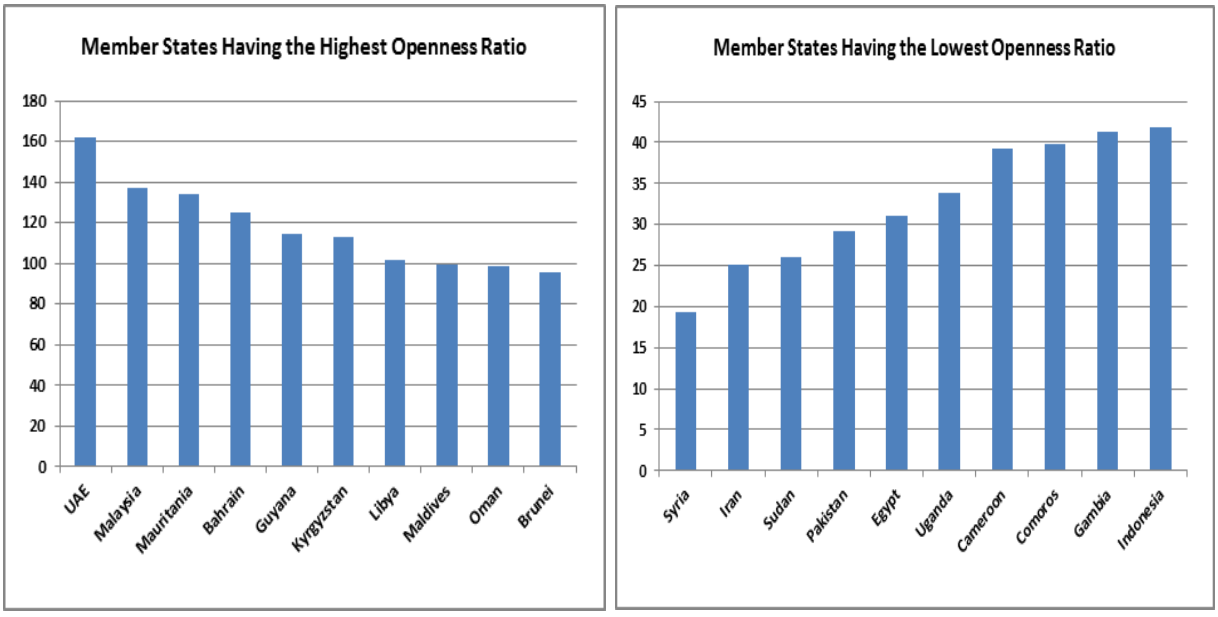
Source: UNCTADSTAT

Note: Countries included according to data availability

Figure 17 shows top ten countries having the highest and lowest trade to GDP ratios in 2012. United Arab Emirates had the highest share of trade in GDP with 162 per cent in 2012. The reason for this is that United Arab Emirates is one of the major transit trading location in the world. On the other hand when we leave aside Iran and Syria, countries having the lowest trade to GDP ratios were Sudan, Pakistan and Egypt.

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 and Maldives.

Figure 17: Member States Having the Highest and Lowest Openness Ratio in 2012



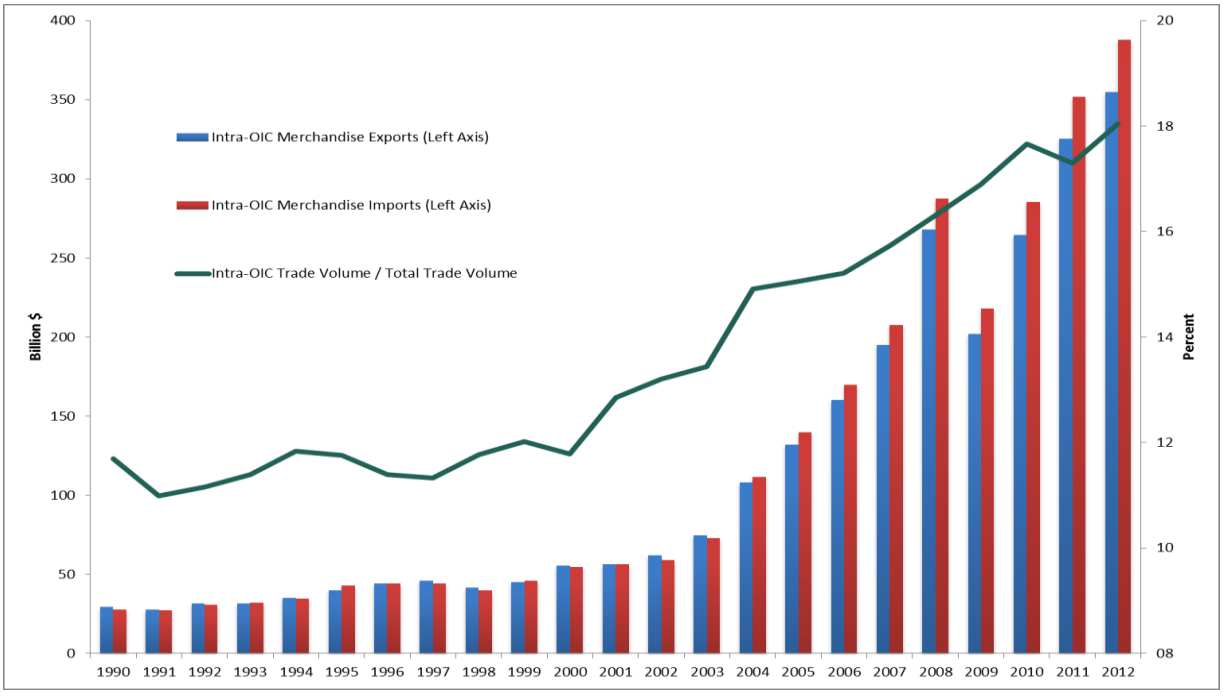
Source: UNCTADSTAT

3. INTRA-OIC TRADE

Trade among the OIC Member States which is around 50 billion dollars in the early 1990s peaked at 742 billion dollars in 2012. The intra-OIC trade constituted on the average 11.6 percent of total OIC trade during 1990-2001 period. Starting from 2001, share of intra-OIC trade increased steadily except in 2011 when it declined slightly compared to the previous year. Thus, the share of intra-OIC trade peaked at 18.2 percent in 2012 (see Figure 18).

In 2012, intra-OIC exports accounted for 15.9 percent of total OIC exports while intra OIC imports amounted to 20.5 percent of total OIC imports in this year.

Figure 18: Intra-OIC Trade

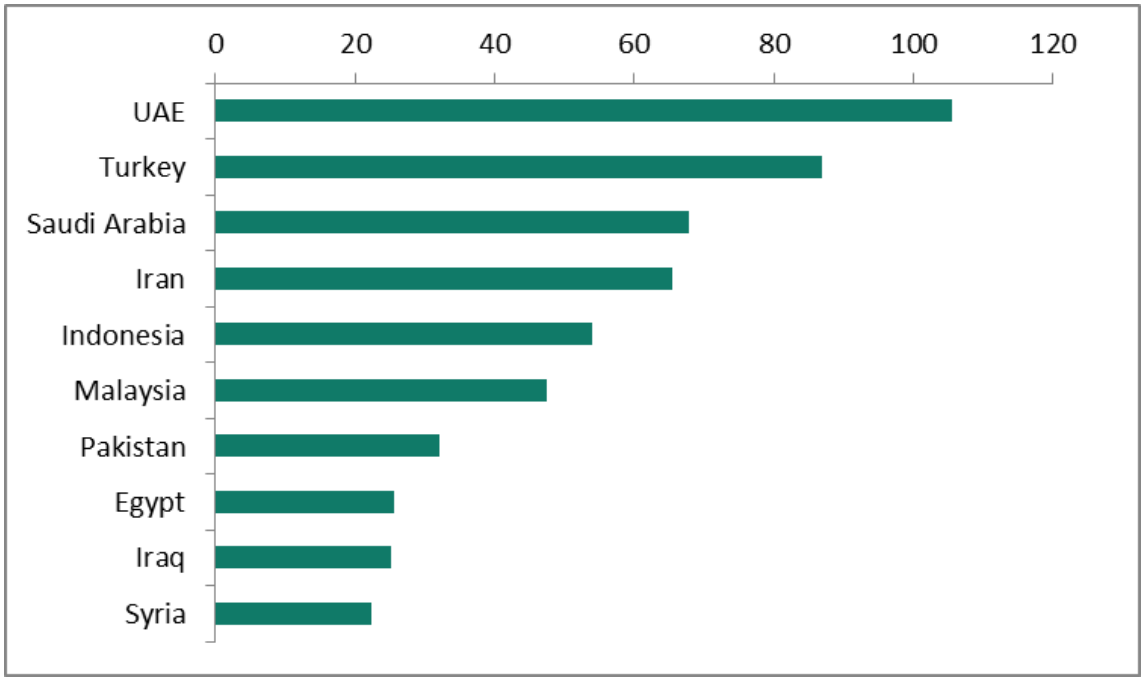


Source: ICDT and SESRIC

In 2012 most of the increase in intra-OIC trade resulted mainly from the increases in the trade volume of United Arab Emirates, Turkey, Iran and Iraq thus increasing their intra-trade shares. Among the top ten leading countries in intra-OIC trade, intra-trade of Malaysia and Syria declined by 0.3 per cent and 4.6 percent respectively in 2012. Top ten countries accounted for the 71.3 percent of the intra-OIC trade. United Arab Emirates ranked first contributing with

14.1 percent of total intra-OIC trade, followed by Turkey which contributed with 11.6 percent of total intra-OIC trade (see Figure 19).

Figure 19: Major Players in Intra-OIC Trade in 2012(Billion $)

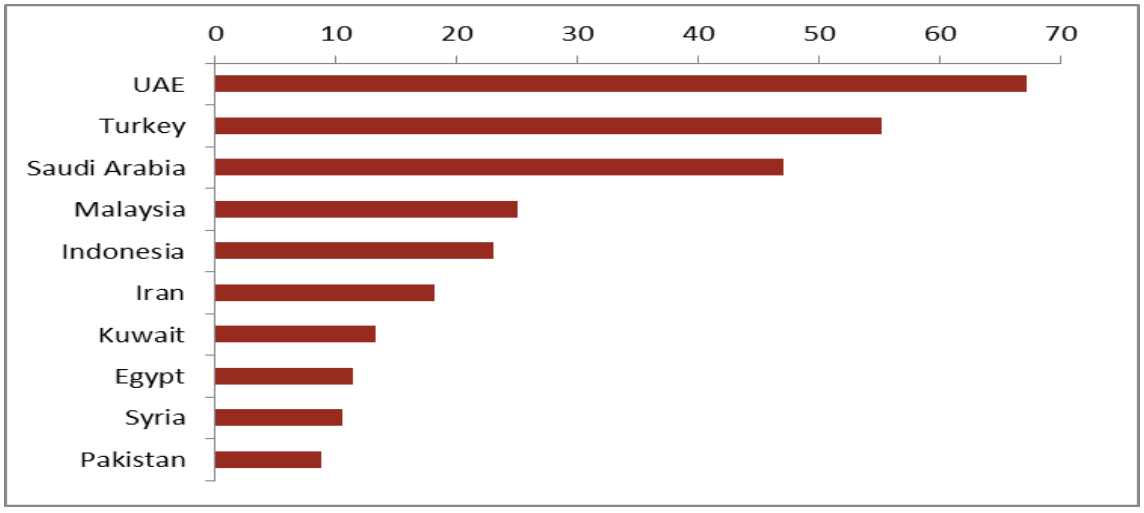


Source: SESRIC

3.1. INTRA-OIC EXPORTS

The leading ten countries in intra-OIC trade except Pakistan replacing Iraq also dominated the intra-OIC exports. Their share in intra-OIC exports accounted for 78.3 percent of the total intra-OIC exports in 2012. As illustrated in Figure 20, the United Arab Emirates took the lead by realizing 18.8 percent of the total intra-OIC exports and was followed by Turkey with 15.4 percent. It should be noted here that Turkey increased its intra-exports by almost half per cent (47.9 per cent to be precise) in 2012.

Figure 20: Intra-OIC Exports in 2012 (Billion $)

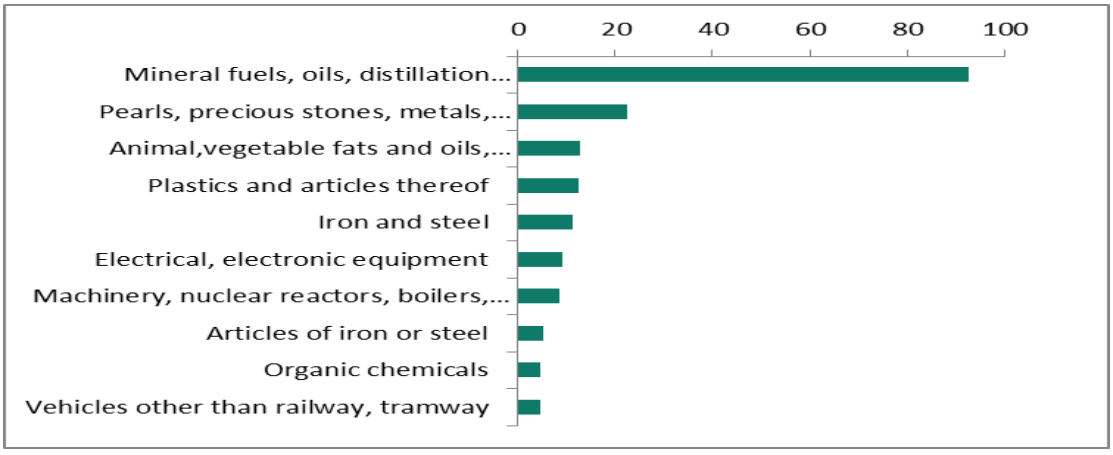


Source: SESRIC

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

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 21). Of the total intra-OIC exports, share of mineral fuels, oils and related products was 34.8 per cent, followed by pearls, precious stones, contributing 8.5 percent, animal, vegetable fat and oils contributing 4.8 per cent and plastics and articles contributing 4.7 per cent. These four sectors as a whole constitutes slightly more than half (52.9 per cent) of total intra-OIC exports.

Figure 21: Intra OIC Exports - Top 10 Items in 2012 (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 breakdown of intra-OIC trade. 55.6 percent of intra-OIC exports originated from Arab countries in 2012 having the highest share. Within this region, the major oil exporter countries namely, United Arab Emirates and Saudi Arabia account together for more than half of this region's intra-OIC exports. Asia region came second with 39.8 percent share led by Turkey, Malaysia, Indonesia and Iran. On the other hand, the African region's share was limited with 4.7 percent with Nigeria and Côte d'Ivoire together accounting for 66.5 percent of the region's total intra-OIC exports (See Table 3).

Table 3: Commodity Composition of Intra-OIC Exports by Sub-Regions (% Shares) (2012)

Million $	Food and live animals	Beverage. and tobacco	Crude material inedible, except fuels	Mineral fuels, lubricants. and related material	Animal and vegetable oils, fats and waxes	Chemic. and related products, n.e.s.	Manuf. goods	Machine. and transport equip.	Misc. manuf. articles	Commodities. and transac. n.e.s.	TOTAL
Arab	9.7	1.0	4.5	30.9	0.9	13.4	16.3	13.4	4.7	5.3	55.6
Asia	10.1	0.8	2.6	15.5	7.7	6.8	22.5	12.0	8.5	13.5	39.8
Africa	10.2	1.7	8.3	57.0	1.4	4.4	5.6	6.1	1.7	3.6	4.7
TOTAL	9.9	0.9	3.9	26.0	3.6	10.4	18.2	12.5	6.1	8.5	100.0

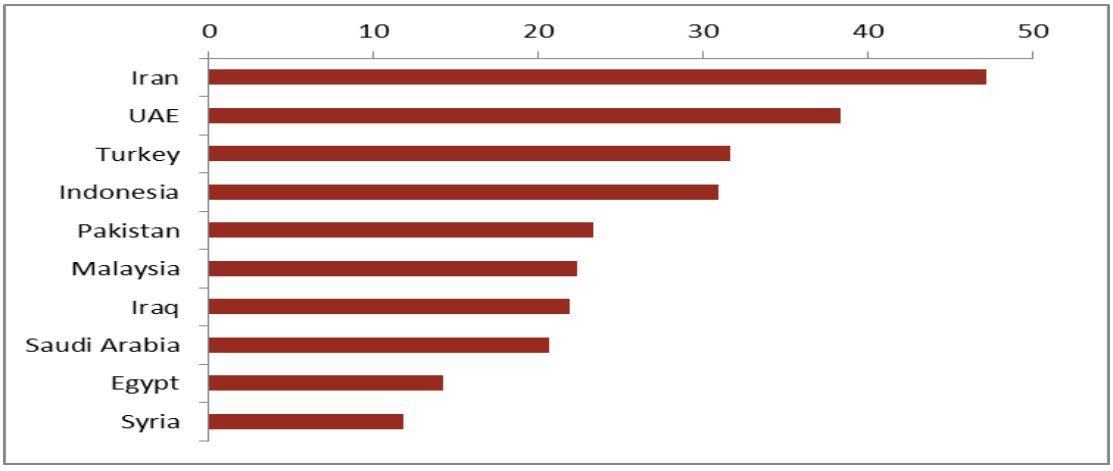
Source: UNCTADSTAT

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

3.2. INTRA-OIC IMPORTS

The intra imports of the top ten countries accounted for almost two thirds of the total intra-OIC imports (67.5 percent) in 2012. The intra-OIC imports of Iran had the highest share with 12.1 percent followed by United Arab Emirates with 9.9 per cent and Turkey with 8.1 per cent in this year.

Figure 22: Intra OIC Imports in 2012 (Billion $)



Source: SESRIC

"Arab region had the highest share in intra-OIC imports as well"

The Arab Group has the biggest share in intra-OIC imports in 2012. Slightly more than half of intra-OIC imports were made by Arab countries. Within the Arab group, the share of United Arab Emirates, Iraq and Saudi Arabia totally reached 47.8 percent of this region's intra-imports. This region was followed by Asian and African Groups with the shares of 42 percent and 5.2 percent respectively. Intra-imports of Turkey, Indonesia, Iran, Malaysia and Pakistan as a whole constituted 84 per cent of Asian intra-imports. Intra-imports of Nigeria, Côte d'Ivoire and Cameroon collectively accounted for 49.7 per cent of intra-imports of Africa region.

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 22.3 per cent followed by mineral fuels, lubricants and related material (18 per cent) and food and live animals (14 percent).Mineral fuels, lubricants and related material had the highest share in intra-imports of Asia and Africa amounting to 33.3 per cent and 39.8 per cent respectively.

Table 4: Commodity Composition of Intra-OIC Imports by Sub-Regions (% Shares) (2012)

Million $	Food and live animals	Bevera. and tobacco	Crude materia inedible, except fuels	Mineral fuels, lubri. and related mat.	Animal and vegetable oils, fats and waxes	Chemic. and related product, n.e.s.	Manuf. goods	Machin. and transport equip.	Misc. manuf. articles	Commod. and transac. n.e.s.	TOTAL
Arab	14.0	1.4	5.8	18.0	2.8	10.2	22.3	11.6	8.4	5.5	52.8
Asia	6.1	0.7	4.0	33.3	5.5	11.5	14.4	10.1	3.3	11.1	42.0
Africa	11.9	1.9	2.7	39.8	5.5	8.8	11.9	13.7	3.7	0.1	5.2
TOTAL	10.6	1.1	4.9	25.5	4.1	10.7	18.5	11.1	6.0	7.6	100.0

Source: UNCTADSTAT

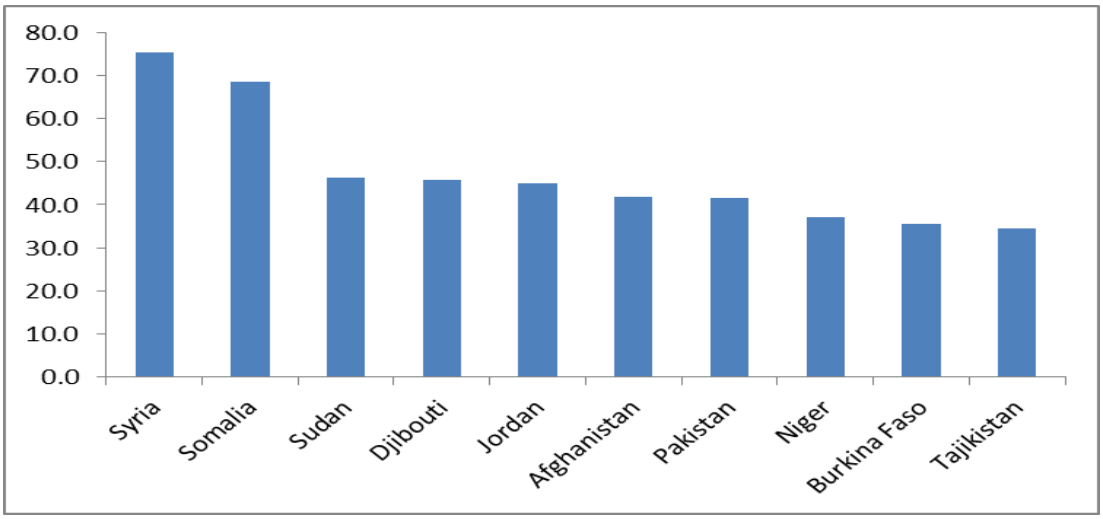
Mineral fuels and oils accounted for 25.5 per cent of total intra-OIC imports in 2012. This item was followed by manufactured goods with a share of 18.5 per cent. In total intra-OIC imports the respective shares of machinery and transport equipment, chemicals and related products and food and live animals were around 11 per cent in 2012.

"20 percent intra-OIC trade target was surpassed by 30 Member States in 2012 "

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 18.2 percent by 2012 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 target individually.

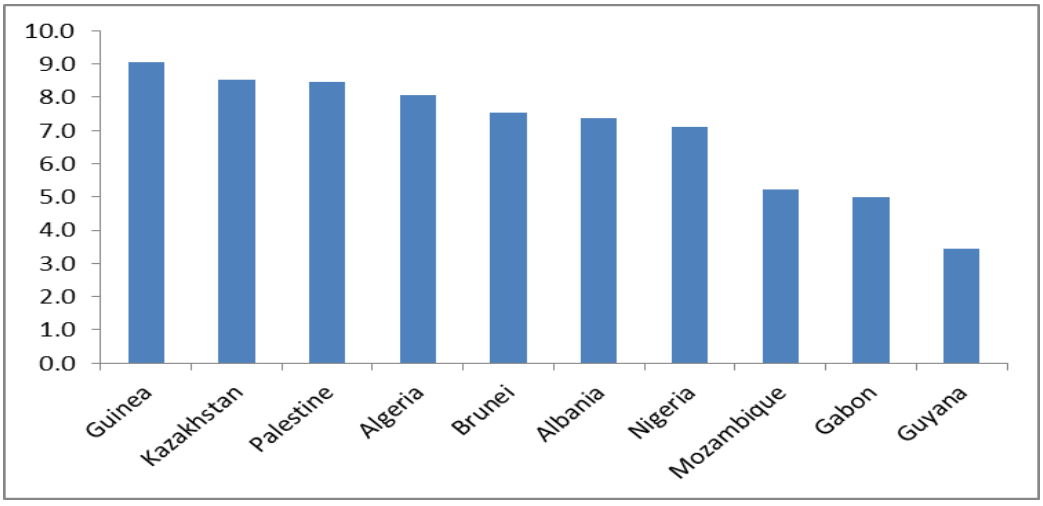
In 2012, the share of intra-OIC trade of 30 Members stayed above 20 percent in their total national trade. However, in some of the Member States total trade far surpassed the 20 percent. For example Syria has realized 75.3 percent intra-OIC trade, followed by Somalia (68.5 percent) and Sudan (46.3 percent). On the other hand, the share of intra-OIC trade was as low as 3 to 5 per cent in Guyana, Gabon and Mozambique (Figures 23-24).

Figure 23: Member States Having the Biggest Share of Intra-OIC Trade in Their National Trade- 2012



Source: ICDT

Figure 24: Member States Having the Lowest of Intra-OIC Trade in Their National Trade- 2012

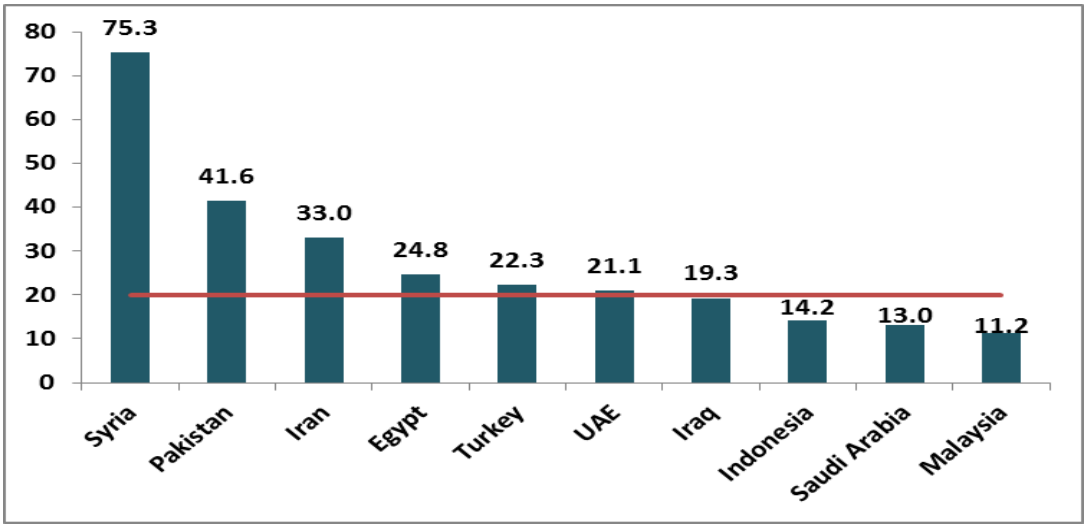


Source: ICDT

With regards to the top 10 leading countries in intra-OIC trade (see Figure 25), six of them have already exceeded 20 percent in their intra-OIC. According to the data from ICDT (2013), the intra-OIC trade shares in 2012 for these countries were as follows: Syria (75.3 per cent), Pakistan (41.6 per cent), Iran (33 per cent), Egypt (24.8 per cent), Turkey (22.3 per cent) and UAE (21.1 percent). Iraq was very close to reach 20 percent with 19.3 per cent. On the other

hand share of intra-OIC trade was relatively low in Indonesia, Saudi Arabia and Malaysia (14.2, 13.0 and 11.2 per cent respectively in 2012).

Figure 25: Intra-trade Shares of Top Performers (2012)



Source: ICDT

4. TRADE ENVIRONMENT IN THE OIC MEMBER STATES

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

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

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

Trade Liberalization:

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

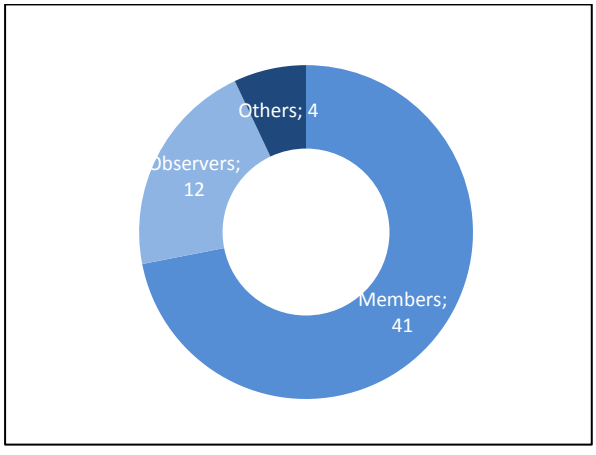
Trade liberalization aims at eliminating the tariffs and other trade barriers hindering the flow of goods and services among the countries. Recent studies such as OECD (2011), Pavcnik (2009) and IMF (2001) expect that trade liberalization increases trade, supports production, job creation and poverty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

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

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

Most of the OIC Member States have also showed interest in joining the WTO. Up to date 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.

Figure 26: WTO Membership Status of OIC Countries



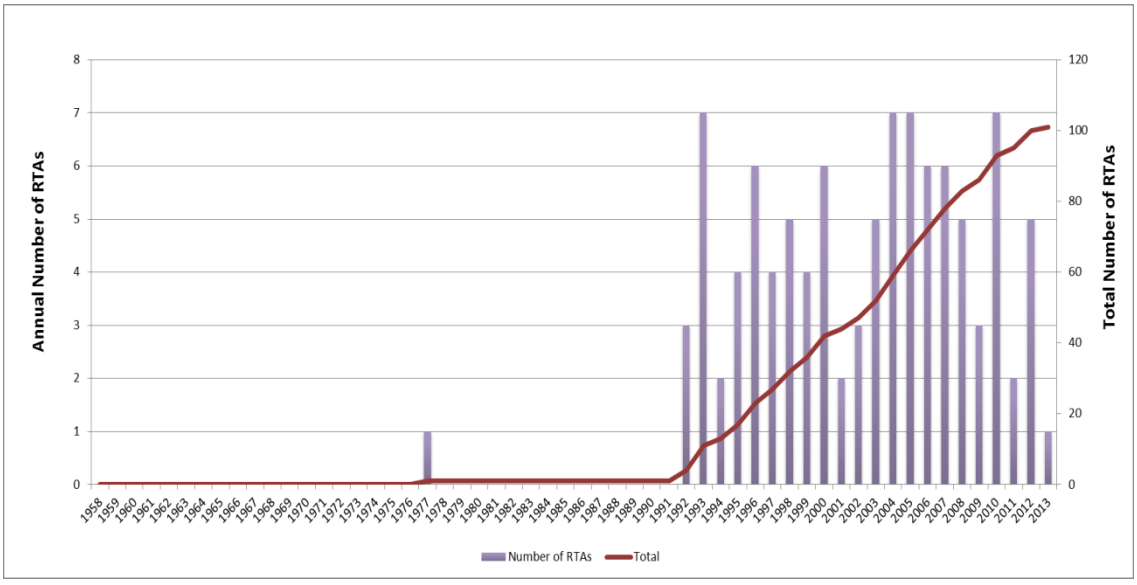
Source: WTO

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 97 by the end of 2013. Most of these RTAs are in the form of FTAs. Among these 97 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 27: Number of RTAs that Include One or More OIC Member States.



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

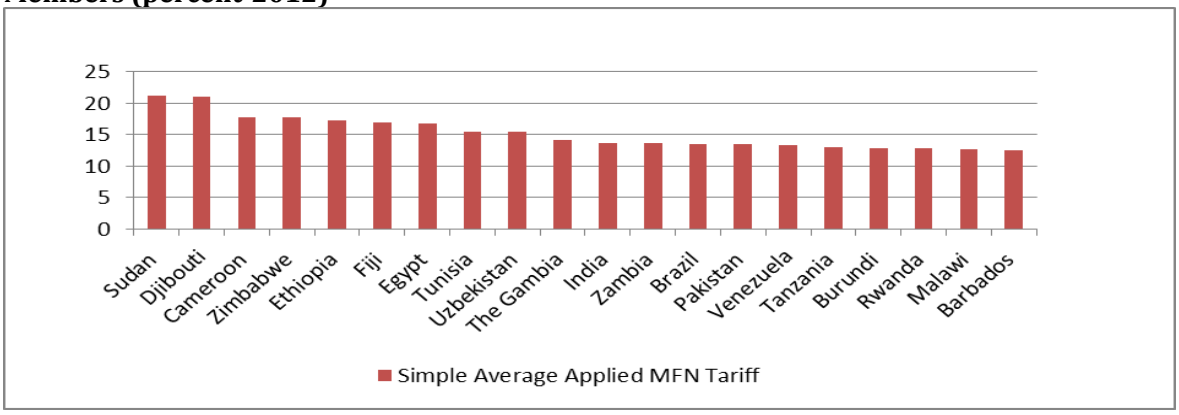
There are also other approaches for liberalizing trade. Some of the countries which realized that freer trade boosts economic growth also liberalized their trade unilaterally especially the ones who previously experienced the generation of exports from a less restricted trade. Many countries have diversified 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 domestically produced ones are used by the firms to compete in export markets. For example Nordas, Groli and Grosso (2006) state that in

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

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.

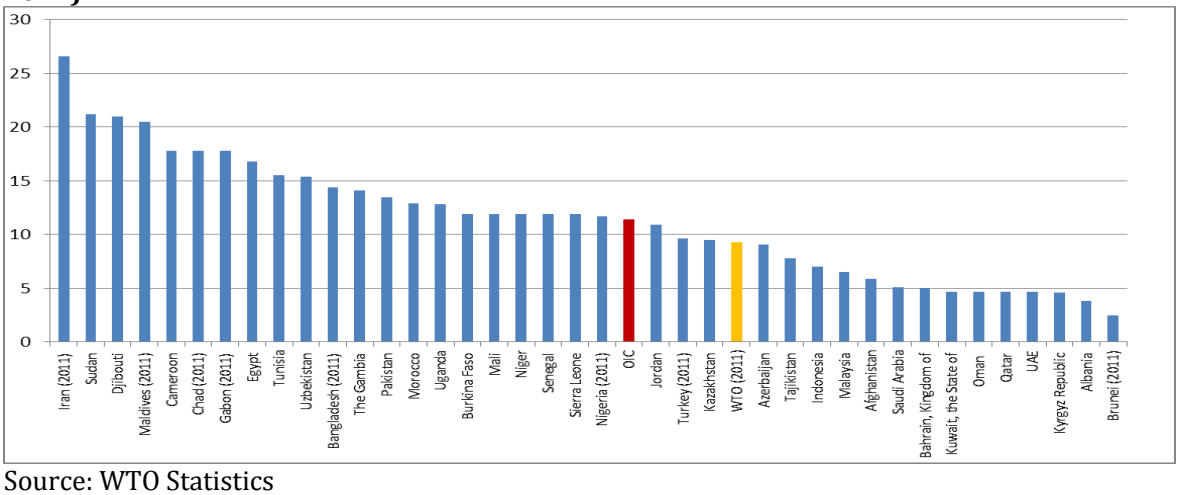
Application of high tariff rates is common in many OIC Member States. Countries apply high tariffs for various reasons such as protecting domestic industry, preventing unemployment, providing income for the central government through customs duties etc. Figure 28 illustrates the 20 highest simple average tariff-applying WTO Members. 8 out of these 20 countries are OIC Member States.

Figure 28: The 20 Highest Simple Average Applied MFN Tariffs Among the WTO Members (percent-2012)



Source: WTO Statistics

Figure 29: Simple Average Applied Tariffs in the WTO Member OIC Countries (percent-2012)*



Source: WTO Statistics

* Due to lack of data 2011 figures were used for some Member States.

On the other hand, some of the OIC Member States apply lower tariffs to their imports. Figure 29 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 30 and 31 below show the simple average applied MFN Tariffs on the agricultural and non-agricultural products in the WTO Member OIC Countries respectively. OIC Member States apply higher tariffs to agricultural products. Countries that have inadequate agricultural production and need agricultural imports apply lower tariffs on agricultural imports. On the other hand, the countries in which agricultural production constitutes a significant part of the economy apply higher tariffs to agricultural imports.

Figure 30: Simple Average Applied Tariffs on Agricultural Products in OIC Member States (percent-2012)*

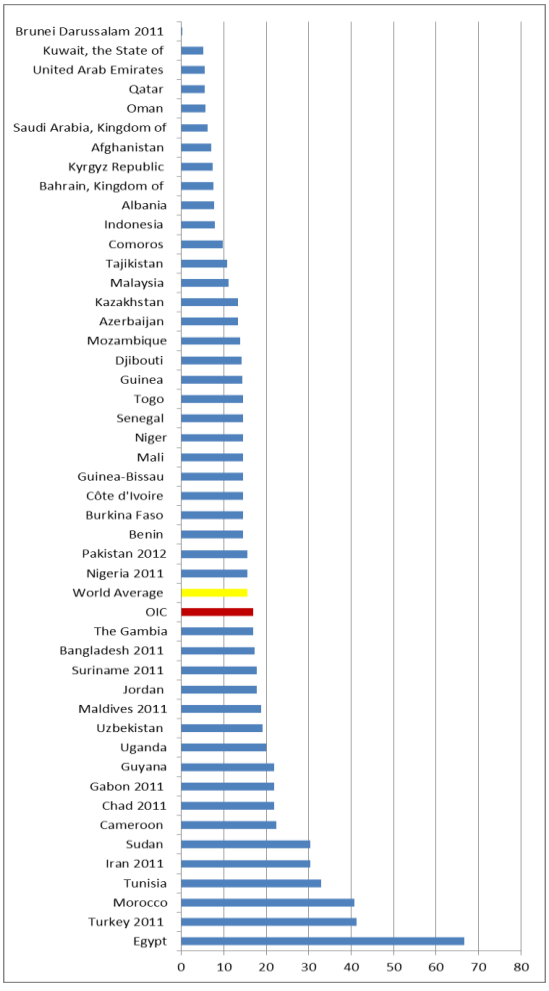
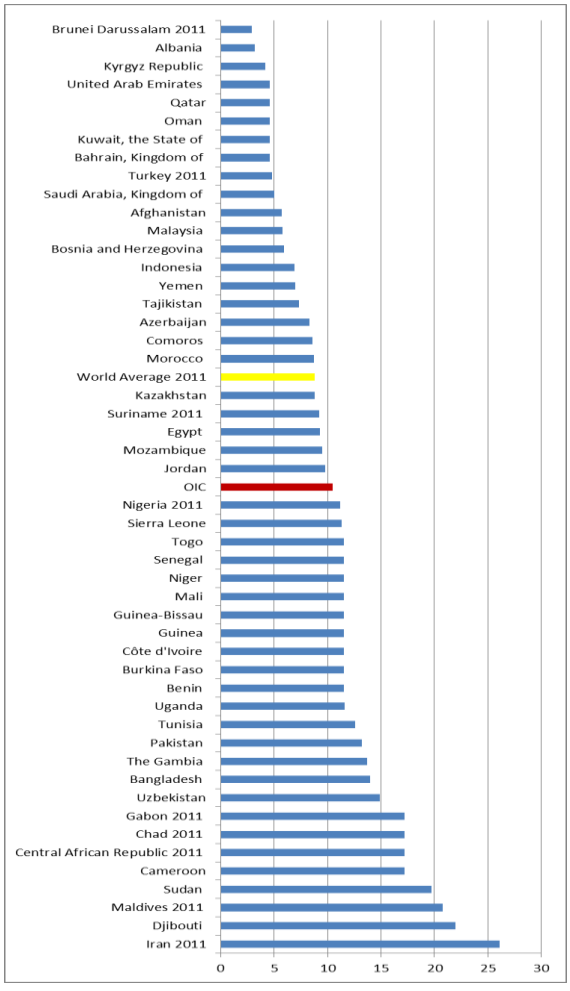


Figure 31: Simple Average Applied Tariffs on Non-Agricultural Products in OIC Member States (percent-2012)*



Source: WTO Statistics / * Due to lack of data 2011 figures were used for some of the Member States.

Box 2: Doha Development Round: Basics

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

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

Potential Benefits

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

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

Trade Facilitation:

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

"Trade Costs are higher in Landlocked Member States"

Various studies have been conducted to measure the impact of transport constraints on international trade. For example, based on their research on Middle East and North Africa (MENA) region, Bhattacharya and Hirut (2010) suggest that reducing the transport constraint from the average in the region to the world average could have a significant impact on trade volumes, raising exports by 9,5 percent and imports by 11,5 percent, while all other determinants are constant (ceteris paribus).

There are several indices or reports developed by the international institutions to identify the bottlenecks in countries which hinder international trade. The World Bank Doing Business Report is one of these reports which calculate the average time and cost for doing business in countries. In terms of trading across borders, Doing Business measures money and time consumed for inland transportation and handling, ports ad terminal handling and customs clearance and technical control for imports in over 150 countries.

Figures 32, 33, 34 and 35 demonstrate the top and lowest ranked OIC Member Countries in the trading across borders sub-indices by the Doing Business Report 2013. The Report takes into consideration the number of documents, costs and time (days) required to import and export for each country. The figures in the left column demonstrates the days and money spent in the lowest performers for importing and exporting whereas the figures on the right column exhibits values for the best performers within the OIC Group. The figures show the huge difference in the cost of trade among the Member States. One important finding is that except Iraq all of the lowest performers are landlocked countries.

Figure 32: Days and Costs for Imports in the lowest ranked Member States

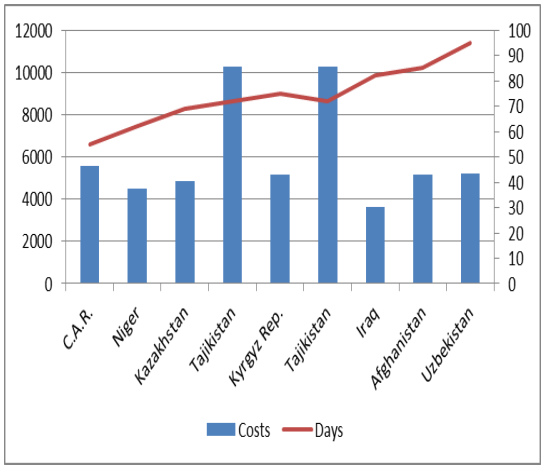


Figure 33: Days and Costs for Imports in the highest ranked Member States

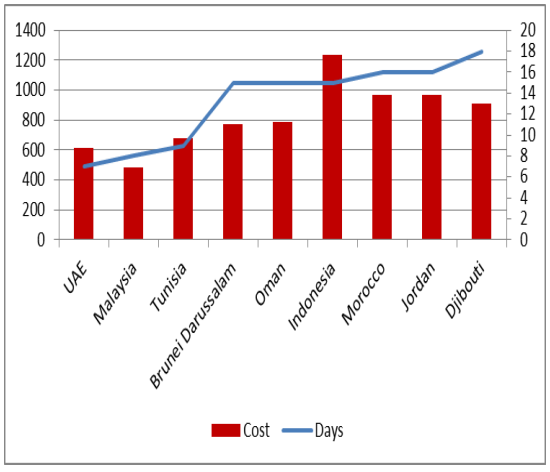


Figure 34: Days and Costs for Exports in the lowest ranked Member States

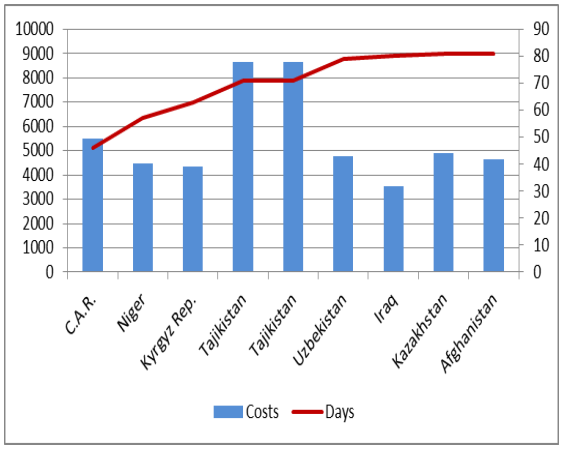
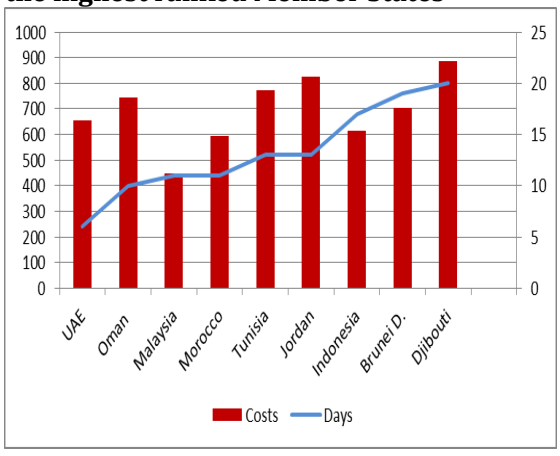


Figure 35: Days and Costs for Exports in the highest ranked Member States



Source: World Bank "Doing Business 2013"

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.

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

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[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
- 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.

[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

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.

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

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.

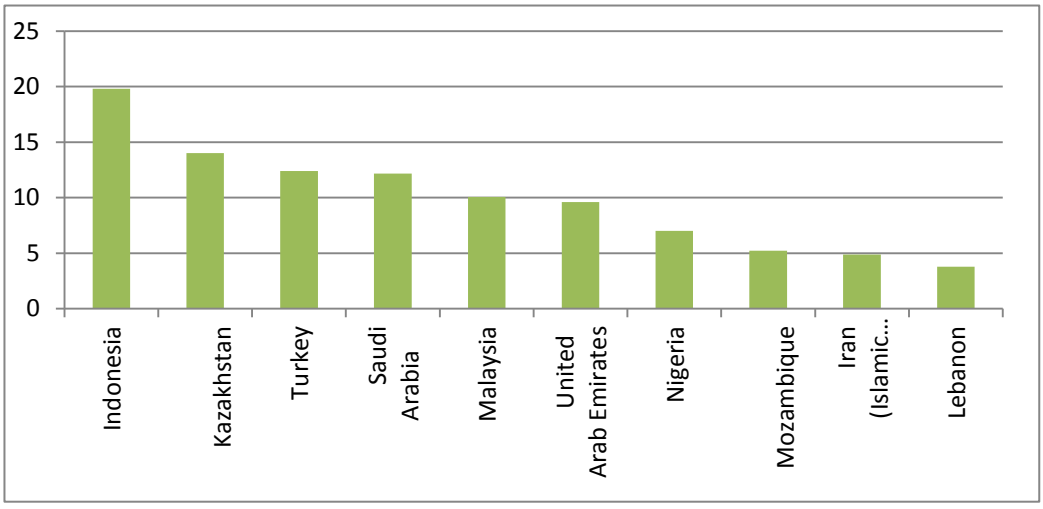
Several studies concentrated on how the FDIs lead to export diversification. Lipsey (2004) and Hailu (2010) suggest that FDIs main contribution is knowledge of the international markets. FDIs also result in indirect inter and intra-industry spillovers to host nation firms which improve their productivity 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 36 below gives the FDI inflows to top ten OIC Member States. FDI inflows to these countries amounted to USD 99 billion in 2012 according to the UNCTAD, representing 71 percent of the total FDI inflows to the OIC Member States. The other remaining 47 countries attracted USD 40.4 Billion FDI in 2012.

Another obstacle faced by most of the Member States is the concentration of the export oriented FDIs on traditional sectors. Harding and Javorcik (2011) underlined that, if the FDI exports are only products that the host country already exports intensively, the efficiency-seeking FDI could move towards more specialized rather than more diversified exports. Thus,

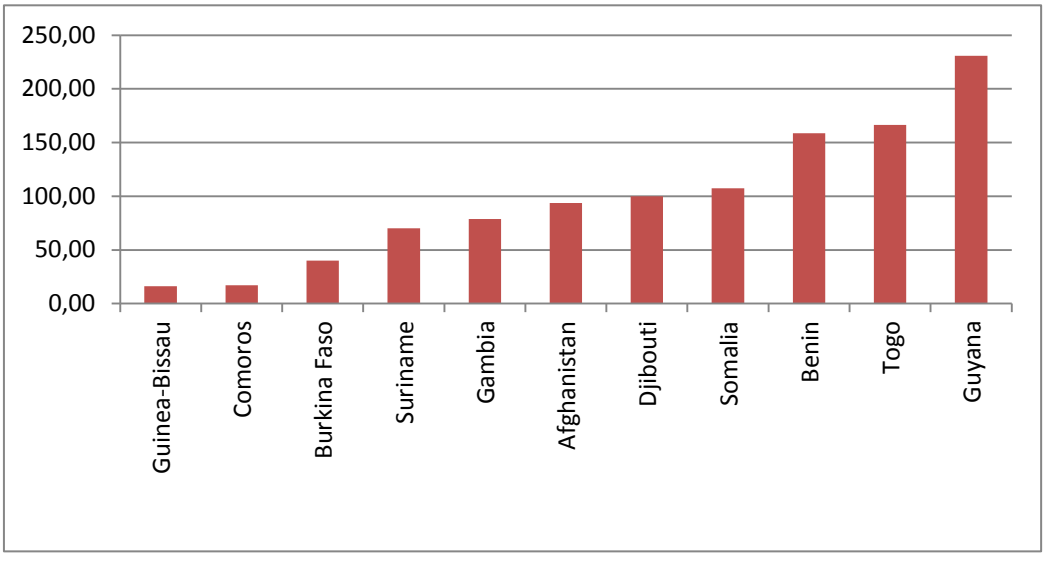
FDI does not contribute too much to export diversification. For example according to UNCTAD (2011), which investigated the sectorial distribution of the FDIs in LDCs, many large projects are in the form of greenfield and expansion projects prospecting for reserves of base metals and oil. The study also cited the lack of political stability and unavailability of skilled workers as main reasons for low performance of investment in the manufacturing sector in Africa.

Figure 36: Top Ten Member States Receiving the Highest FDI Inflows in 2012 (USD Billion)



Source: UNCTADSTAT

Figure 37: Member States Receiving the Lowest FDI Inflows in 2012 (USD Million)



Source: UNCTADSTAT

Trade Promotion Organizations (TPOs) are one of the most important institutions utilized by governments to support SMEs exports. Most of the OIC Member States now have newly established institutions or existing governmental bodies that serve as TPOs. The analytical study titled "Promoting the SMEs Exports in the OIC Member Countries: The Role of the TPOs" (COMCEC,2013a) commissioned by the COMCEC Coordination Office for the 1st Meeting of the COMCEC Trade Working Group, designates following actions as the main services provided by TPOs;

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

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

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

Trade Financing:

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

Exporters usually get payments after delivering the goods to the importers. During this period, which may take several months, the exporter may need financing for delivering the orders on a timely manner. Therefore, financing is needed not only for the import-export process itself, but also for the production of the goods and services to be exported, which often includes imports of machinery, raw material and intermediate goods (UNCTAD 2012).

Available trade financing within a country increases the competitiveness of firms to compete in international markets and encourages the firms especially the SMEs to export. Thus, it helps to diversify the exports of the country.

UNESCAP (2005) classified the trade finance methods and instruments into the following three categories:

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

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

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

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

Trade finance, provided by commercial banks, export credit agencies, multilateral development banks, suppliers and purchasers, has grown by about 11 per cent annually over the last two decades (UNESCAP 2002: 4). However, in many developing countries, firms still face difficulties in getting trade finance. The trade financing gap is especially noticeable in the least developed countries, where the financial sector tends to be heavily transnationalized and

strongly risk-averse, and where a significant share of deposits are invested in very low-risk instruments, including short-term liquid assets and foreign government bonds (UNCTAD 2012).

The situation worsens during the crisis periods. For example during the global economic crisis in 2008, getting trade finance for exporters in the developing countries became more expensive and harder. The results of the survey conducted by the World Bank in 2009 on 14 developing countries demonstrated how difficult the situation was. Overall trends from the survey indicate that trade finance has been noticeably constrained post-September 2008 as illustrated by the increased pricing of the trade loans and short-term financing, shortened payment terms, requests for more guarantees, and tightened counterparty bank requirements. (Malouche 2009: 22).

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

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

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).

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

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.

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.

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

Trade Liberalization:

As many international organizations, COMCEC has initiated a RTA, called Trade Preferential System among the OIC Member States (TPS-OIC). TPS-OIC is based on three agreements, namely the Framework Agreement, the Protocol on Preferential Tariff Scheme (PRETAS) and the Rules of Origin.

The Framework Agreement, which sets out the general rules and principles for the negotiations toward the establishment of the TPS-OIC, entered into force in 2002 after reaching 10 ratifications.

Following the entering into force, the COMCEC Coordination Office organized First Round of Trade Negotiations to develop a more specific agreement laying out the concrete reduction

rates in tariffs in accordance with a time-table for implementation. After four meetings, the Member States agreed on the PRETAS. After the finalization of the PRETAS, the Trade

Negotiating Committee, which is the responsible body for the TPS-OIC conducted another round of negotiations for finalizing the Rules of Origin. The round of negotiations closed successfully after the finalization of the deliberations on the Rules of Origin in 2007. The PRETAS entered into force in February 2010, and the Rules of Origin entered into force in August 2011. Therefore, the legal basis of the system was completed.

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. As of December 2013, however, the number of the Member Countries having met the two conditions is 9 namely, United Arab Emirates, Bangladesh, Qatar, Malaysia, Oman, Pakistan, Saudi Arabia, Turkey and Jordan. Out of these 9 countries, 4 are the GCC members (United Arab Emirates, Qatar, Oman and Saudi Arabia). There is a customs union among the GCC Member States which obligates its members to fulfill the required two conditions mentioned above jointly. The GCC Secretariat has submitted the list of concessions on behalf of its six members. Nonetheless, Kuwait and Bahrain have not completed the ratification of the Agreements. For the System to be effectual in the GCC countries, the ratification of the PRETAS and the Rules of Origin by Kuwait and the ratification of the Rules of Origin by Bahrain need to be completed.

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, headquarters of SMIIC was formally established. In 2013, SMIIC has convened its 5th General Assembly Meeting and 7th Board of Directors Meeting.

SMIIC has also initiated capacity building programmes in the areas of standards and metrology. A workshop for the OIC Least Developed Countries (LDCs) Member States was held on 7-10 May 2013 in Kocaeli and Ankara, Turkey in which 21 representatives from 19 OIC LDCs was briefed on how to build and enhance Standardization, Metrology and Accreditation capacities in their countries. Similarly a training program with the aim of contributing to Trade Facilitation efforts was organized by SMIIC with a theme on" Enhancing of Competitive Capacity of SMEs in the OIC Member Countries" in coordination with Turkish Standards Institution (TSE) on 19-23 August 2013 in TSE Quality Campus premises, Kocaeli-Turkey. Relevant experts of the Member States attended the program and visited SMIIC headquarters to have presentations on SMIIC and its activities.

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 Metrology Committee convened for the first meeting on 23-24 September 2013 in Dubai, UAE.

Trade Promotion:

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

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

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

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

Trade Financing:

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

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

The EFS aims at promoting exports of non-conventional commodities by providing the necessary short and long-term funds. The repayment periods under the Scheme were originally between 6 and 60 months for the intra-OIC export. This period has now been extended to ten years for capital goods, such as ships, machinery etc. Each Member State participating in the EFS had one or more national agencies for the Scheme. The role of the national agencies was to coordinate the promotion of the EFS in their countries. 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 2013 (1432H) its trade financing approvals reached USD 4.93 Billion (ITFC 2013). 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.

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.

"COMCEC Strategy gives special emphasis to improving trade

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).

The First Meeting of the Trade Working Group was held on June 20th, 2013 in Ankara 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 in Ankara 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 will be convened on February 27th, 2014 with the title *"Facilitating Intra-OIC Trade: Improving the Efficiency of the Customs Procedures."* The Meeting is expected to review the global trends and best practices in the area of customs modernization and evaluate the efficiency of the customs procedures in the Member States. Moreover, the Meeting will also discuss the ways and means of improving the cargo clearance procedures.

6. CONCLUSION

World trade which increased steadily until the recent global crisis recovered strongly after the crisis. However mainly due to the slow growth performance in developed economies, world trade in real terms remained below pre crisis trend levels in 2012.

The structural changes in the pattern of world trade have accompanied the increases in the trade. In the past two decades, the direction and composition of the world trade have changed significantly. Developing countries increased their share in global trade mainly due to the increasing trade of BRIC countries. 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. Another dominant pattern in the last decades was the acceleration of participation to Preferential Trade Agreements. In 2013, the number of preferential trade agreements that are in force reached to 258.

Total OIC trade and intra-OIC trade have also increased steadily during the last decade. The soaring commodity prices contributed to the increase of the value of total exports as the OIC trade is highly dominated by mineral fuels and oil. Both in exports and imports, mineral fuels and oil have the biggest share. High commodity and country concentration in total OIC trade is a major drawback as this makes OIC countries vulnerable to substantial export revenue loss that might result from fall in commodity prices and/or global demand.

The high rates of increase in the exports of the OIC countries manifested itself in the rising share of the OIC in global trade as well. Thus, in 2012 share of OIC in global exports peaked at 11.1 per cent. However when the real trends evaluated world export growth outperformed OIC export growth.

Share of intra-OIC trade increased steadily in the past decade (except in 2011 when it declined slightly). Thus, the share of intra-OIC trade peaked at 18.2 percent in 2012. In this year the ratio of intra-OIC trade to total trade stayed above 20 percent target level in 30 Member States.

There are great differences among the member states in terms of economic development and the structure of trade. Most of the LDCs of the OIC, have limited trading capacity and depend on a specific commodity for exports. Whereas several Member States have achieved diversity in their export structure and maintain high increases in trade. Yet, creating an enabling environment for trade remains one of the main challenges for the OIC Member States. To this end, policies towards trade liberalization, trade promotion, trade finance and trade facilitation gain significance.

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 the imports.

Secondly, higher transport costs and cumbersome procedures in external trade also constitute a significant problem in some of the Member States, hindering not only their foreign trade but also their economic and social development.

Moreover, access to trade finance also constitutes an obstacle in some of the Member States. Inadequate financial resources limit the SMEs export capabilities to export in several Member States.

COMCEC aims at enhancing economic and commercial cooperation among the 57 OIC Member States. Since 1984, COMCEC has initiated many cooperation programs and projects towards increasing intra-OIC trade and addressing the common challenges. Some of these programs and projects have been realized successfully.

Taking into consideration the diversity a trade patterns of the Member States and the common challenges faced by them, the COMCEC Strategy has identified trade as one of its cooperation areas.

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

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

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8. APPENDIX:

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

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

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

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