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Preferential Trade Agreements (PTAs) and Trade Liberalisation Efforts in the OIC Member States with a Special Emphasis on the TPS-OIC



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The analytical study titled *“Preferential Trade Agreements and Trade Liberalisation Efforts in the OIC Member States: With Special Emphasis on the TPS-OIC”* has been prepared specifically for the 4th Meeting of the COMCEC Trade Working Group, to be held on October 23rd, 2014 in Ankara, with a view to enriching the discussions during the aforementioned Meeting. Key findings of the Study could be found in following paragraphs.

Regional Trade Liberalizations

- Greater openness to international trade can increase the rate of growth of an economy through various channels such as (i) the impact of trade on investment and improvement in the quality of the workforce, (ii) improvements in the allocation of resources, (iii) increases in productivity and efficiency through technology transfer, innovation, and improved access to intermediate goods.
- Regional integration seen as part of the process of greater openness can therefore increase economic growth. Moreover, regional trade liberalisation can stimulate increased bilateral trade between member states. This can occur through shallow integration which usually involves the reduction in tariffs between countries, as well as through deep integration which is concerned with reductions in non-tariff barriers and behind-the-border measures.
- Increase in trade arising from regional integration can boost economic welfare for the economy if it promotes improved specialization on the basis of a country’s comparative advantage (trade creation). However, reductions in tariffs can divert trade away from more efficient suppliers in other countries who are not party to the agreement. This reduces the extent of the gains (trade diversion).
- Regional integration can take many forms ranging from Preferential Trading Agreements (PTAs) and Free Trade Areas (FTAs) to Monetary Unions. Further integration involves increasing the number of products covered by the agreement, deepening the degree of tariff reductions, broadening the scope of the agreement beyond goods trade to allow for services liberalisation and investment, as well as

dealing with a range of other behind-the-border measures.

- Regional trade agreements can have significant impacts on countries which are excluded from the agreement. Those third country effects can involve either (a) reductions in exports to the partner countries which is a consequence of trade diversion or trade reorientation, or (b) reductions in the price of their exports in response to declining market shares.

General Overview of Trade Liberalization Efforts in the OIC Member States

- On average, OIC countries have made substantial trade liberalisation efforts for the last 15 years with the average MFN tariffs for the OIC members declining substantially from almost 20% during 1990s to between 10-12% more recently. Current average MFN tariff levels range from below 5% in some countries to above 20% in others. This provides an upper limit of preference margins available to RTA partners, although a multiplicity of RTAs implies that effectively applied tariffs, at least in some countries, are significantly below MFN averages.
- Ten regional trade agreements involving a total of 28 OIC countries are analysed in depth in the Study. The relative importance of these ten agreements, as proxied by intra-RTA trade share, varies considerably ranging from around 1% to above 20%. There remain significant differences in the RTA shares within individual members’ trade. Where the share of trade is low, there is greater scope for trade diversion and a lower likelihood of welfare improving trade creation.
- The picture with regard to coverage of deeper integration issues for the Member States is mixed. Trade in services is mentioned in almost all the ten analysed agreements, however, typically by means of re-iterating countries’ obligations under GATS. In at least three instances, service provisions go beyond GATS commitments. Only in three out of the nine cases discussed in the Study incorporate competition policy provisions. This reflects different degrees of the development of policies in this area at the national level. Public procurement provisions and especially more ambitious arrangements in that area that would provide for meaningful access to RTA partners domestic public procurement markets are less observed. The majority of analysed RTAs mention intellectual property rights but the actual provisions are

typically light and they never go beyond the Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS). The considered agreements generally do not refer to labour or environmental standards. All this suggests that the degree of deep integration in these agreements is on balance low, and the primary mechanism for greater integration is via lower tariffs.

- Effective implementation remains a challenge in the case of several analysed agreements. In some cases ambitious integration provisions incorporated in the agreements remain partly detached from realities on the ground where some major trade barriers exist either at the borders, or in relation to poor transport infrastructure or other similar issues. Also, administrative capacity may sometimes be lacking to effectively implement some of the more ambitious provisions.

The TPS-OIC

The Study finds out following implications based on thorough analyze of the TPS-OIC and trade structures of its ratifying Member Countries:

- In terms of the dispersion of tariffs (i.e. variability of tariff rates); once again GCC tariffs have the lowest level of dispersion as they are all below 5%; whilst for the other Contracting Countries of TPS-OIC in each case there are significant peaks (i.e. tariff lines which are significantly higher than the average tariff applied by the country).

- Intra-regional TPS-OIC trade is not particularly high. In addition there are existing FTAs involving OIC member states. This suggests that for some of the countries, and between certain bilateral pairs, there is comparatively little scope for further liberalisation, and for increased trade as a result of that liberalisation.

- Once oil is excluded, the similarity of the Parties of TPS-OIC System's exports to the World and to the rest of the Parties of TPS-OIC System is relatively high. A similar picture emerges when the imports are compared. This suggests that there might be some scope for trade creation (or a reduction of any existing trade diversion).

- In general, the effect on the non-ratifying TPS OIC members that might join TPS-OIC will be related to the share of trade and the tariff levels associated with the current members. The higher the trade with these countries, the higher the possible effect.

- It is worth noting the diversity of countries involved in terms of size, structure and economic development. This potentially makes it harder to achieve more ambitious outcomes, and the agreement could be seen as an important stepping stone in the direction of more substantial and more meaningful liberalisation. A more ambitious approach is possible under the Fast-Track element of the agreement, which provides a (voluntary) route for more ambitious liberalisation and therefore for a greater positive impact on trade and economic growth.



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