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FURTHERING ECONOMIC COOPERATION AMONG THE OIC COUNTRIES: TRENDS AND POTENTIALS.

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ABSTRACT

The end of the twentieth century witnessed proliferation of the Preferential Trade Agreements (PTA) that, nowadays, also signed under the auspices of international organizations if they seek to increase level of cooperation through cross-border trade. Since this is amongst the core objectives of the Organization of Islamic Cooperation (OIC), to date, several steps have been taken in this regard and some level of progresses achieved. Nevertheless, researches devoted to study the trends in trade relations of countries and countries' potentials for trade expansion are limited, and to our best, none answer questions about the strength of trade relations, and degree of match in the import and export structure of the countries that usually evaluated as a preconditions for trade liberalization. To fill these gaps, we apply two broadly used trade indicators, the Trade Complementarity Index and the Trade Intensity indexes to the TPS-OIC agreements, the most far-reaching PTA among the OIC countries. The obtained results suggest that, generally, trade relations were more intense among the selected countries vis-à-vis the world throughout the studied years (2010-2013). The Newly Industrialized Countries in the study enjoy the highest level of complementarity in the export structure and might attain more trade expansion if the TPS-OIC agreement would be finalized. The obtained results should be informative to both policymakers and academic audience.

Keywords: Preferential Trade Agreements, Organization of Islamic Cooperation, Trade Complementarity Index, Trade Intensity Index.

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1. INTRODUCTION

The end of the twentieth century witnessed proliferation of the Preferential Trade Agreements (PTAs), trade cooperation agreements group of countries that provides preferential access of curtain products to their own markets. Nowadays, majority, if not all, of the countries around the world recognize PTAs as one of the main instruments for further economic development and, in its "deeper" stages - where the goal of the agreements are not restricted to trade related border measures, channel for political stability and peace. As a matter of fact, the amount of PTAs increased more than eightfold from 1995 and reached 604 as of January 2015 (WTO, 2015). Today, all of the members of the World Trade Organization (WTO) belong to one or more PTAs.

Contrary to its earlier examples, nowadays, PTAs are not restricted to representatives of the same regions, as cross-regional, inter-continental agreements become more and more common. These agreements takes place either by the direct wills of the participating countries, or under the auspices of larger international organizations that seeks to increase level of cooperation through cross-border trade.

Since main objective of The Organization of Islamic Cooperation (OIC) determined as to stimulate the *"Ummah"* (i.e. Muslim Nations) into a unified body, enhancing trade relations among its member states is its one of the main priorities. To this end, many related agreements have been signed to date, both as a unified body or separate groupings. Among them, materialization of The Framework Agreement on Trade Preferential System among the Member States of the OIC (TPS-OIC) in 1990 can be shown as the most remarkable achievement. As of March 2015, 40 out of 57 members of OIC have already signed the TPS-OIC agreement, among which 30 have also ratified. 11 members[2] among the entire pool of signatories have concluded other associated singings and ratifications and submitted the concession lists to the Trade Negotiation Committee, which is the last task before the signatory countries towards the implementation of the agreement. These countries are Bahrain, Oman, Qatar, Saudi Arabia and the United Arab Emirates, Bangladesh, Jordan, Malaysia, Morocco, Pakistan, Turkey (hereafter TPS countries).

Notwithstanding the recent developments, researches devoted to study potentials for trade expansion among the OIC countries, especially among the TPS countries are limited, and to our best, none answers questions about the strength of their trade relations in comparison to the remaining countries, and degree of match in the export and import structures of the countries that often evaluated as a preconditions for trade liberalization.

To fill these gaps, we utilize two trade indicators, the Trade Intensity and the indexes Trade Complementarity Index (1) to evaluate the power of trade relations among the studied countries through looking into their export trends and (2) to guess their likelihoods to gain from trade expansion. These two tools have broadly applied in the literature and usually recognized as suitable in providing information to the policymakers about the potentials of the PTAs.

Our study contains those 11 member countries listed above, and Kuwait[3]. Here we consider trade in goods only for the most recent years for which data available (2010-2013). The remainder of the paper is organized as below: the next section provides brief review of the literature, section 3 provides describes the methodology used, section 4 highlights finds of the study while section 5 concludes.

[2] Indeed, one more member country, Syria has also submitted the concession lists. But, "*due to rising human right violations*", the membership of Syria was suspended by the 4th Extraordinary Summit of the OIC in 2012 until undetermined the time. This in mind, we excluded Syria from this list and also from our study.

[3] See the literature review section for reasons behind its inclusion to the study.

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2. LITERATURE REVIEW.

2.1 The OIC and the TPS-OIC.

The OIC is the inter-governmental organization of 57 members from 4 continents, which aims to unite the *"Ummah"* as a unified body through increasing the level of cooperation among them that may lead to the active representations of Muslims in the World. Because of importance of international trade in strengthening links, enhancing trade relations among its member states determined as one of the main objectives of the organization. To date, and many related agreements have been materialized in this regard, both as a unified body or separate groupings. Among them, signing of the Framework Agreement on Trade Preferential System among the Member States of the OIC (TPS-OIC) in 1990 can be shown as the most remarkable achievement. The agreement lays down general principles in the direction of establishing a trade preferential system among its member states on the basis of principles akin to Most Favored Nation (MFN) treatment among the members of the WTO.

The Agreement became effective in 2002, upon its ratification by ten OIC member countries, and followed by two associated agreements - Protocol on the Preferential Tariff Scheme for TPS-OIC (PRETAS) in 2005 and TPS-OIC Rules of Origin (TPS-RoO) in 2007 – upon which operation of the agreement legally depends and only after their ratification by at least 10 TPS-OIC signatories legal basis for TPS-OIC agreements had to be finalized. The PRETAS lays down concreate reduction rates in tariffs, where reduction parts consist of fast and normal tracks, and also incorporates para-tariff and non-tariff barriers. The second associated agreement, TPS-RoO, is agreed for identifying the origin of the products eligible for tariff discounts. These two agreements came into force in 2010 and 2011, respectively, after minimum ratification requirements met. As of March 2015, a total of 40 members of OIC have signed Framework Agreement, 30 of which have also ratified. The number of member countries finished legal basis of TPS-OIC agreements (i.e. signed and ratified PRETAS and TPS-RoO) equals to 16.

To ensure the effective implementation of the trade preferential system, the Member States should also notify the Trade Negotiation Committee (TNC) about their specific annual installments of tariff reductions together with the reduction applied products (COMCEC 2011). This is the last step towards realization of Trade Preferential System among OIC countries and will be finished when the concession lists will be submitted by at least ten member states. To date, 12 members among the entire pool of signatories have satisfied this requirement, which are Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates, Bangladesh, Jordan, Malaysia, Morocco, Pakistan, Turkey. Five of listed countries (Bahrain, Oman, Qatar, Saudi Arabia and the United Arab Emirates) are also members of the Gulf Cooperation Council (GCC) together with Kuwait, which has signed all of the TPS-OIC agreements but has not finalized ratifications. Since Customs Unions set common external tariffs towards non-member countries, common tariffs submitted by the remaining GCC members are agreed with Kuwait, and also applicable to Kuwait. In this case, in order to agreement be applicable to the GCC countries, all of the members have to finish ratification of the agreement. Hence, even though the minimum requirement for the implementation of TPS system reached, the agreement cannot be applied to 5 members of the GCC without conclusion of the legal basis of the agreement by Kuwait and the TPS-OIC agreement will be effective following associated ratifications finalized by Kuwait or if the minimum requirement satisfied by the inclusion of other member states.

Nevertheless, the above-mentioned developments have not paid enough attention by researches as only limited literature available in the area. Among them the most noteworthy one are the study conducted by Hassan et al. (2010), and Amin et al. (2011). Hassan et al. (2010) examine overall trade relationships of the OIC countries by applying the gravity model of international trade. Their study is also reach with review of other PTAs among the OIC countries. Their findings suggests strong significant effect of GDP, distance other gravity related variables on the trade among the countries.

Amin and Hamid (2009) estimate investigates intra-trade activities among some of the PRETAS signatories by utilizing Revealed Comparative Advantage, trade concentration , and trade competition profiles of the studied countries. They found higher potential for intra trade and recommend to further the efforts for higher cooperation.

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To our knowledge, none of the studies conducted to date examines intensity of trade relations, similarities in the import and export structures of the countries by utilizing trade indicators. The mentioned factors usually evaluated as a preconditions for trade liberalization and usually accepted useful in providing information to the policymakers about the potentials of the PTAs. All these in mind, here conduct our analyze by utilizing two trade indicators, the Trade Complementarity Index and the Trade Intensity indexes that are the major tools in answering the raised questions.

2.2 **Trade Intensity indexes.**

The trade intensity index provides valuable information about whether the PTA signatory country exports more to another PTA country than world does on average or less. More generally, it tells whether observed level of export between countries is more or less than observed level with the world, where higher values are desirable. Because of the usefulness of this indicator, it has been applied in the range of researches to study the intensity or strength of the export levels. For instance, Mall (2014) uses this tool to study trade relations of Pakistan and China, Laparde et al. (2014) employs it on group of emerging countries, Castro (2012) uses it for the BRIC countries etc.

2.3 Trade Complementarity Index.

As its name indicates, the trade complementarity index is used to measure the level of match between PTA countries' export and import structure. If the estimated value is enough high, then potentials to gain from trade liberalization is assumed to be strong. It is originally proposed by Michally (1996) and from then on, have been applied in a numerous amount PTA related works. Some of the contemporary application of this index can be found in Ahmed and Batool (2015), who have used it to study perspectives for India-Pakistan sectoral trade, in Yuan (2013), who has utilized it to study ASEAN countries, and Jian (2012) who uses it for to estimate complementarity between China and central Asia countries.

3. METHODOLOGY.

The Trade Complementarity Index is used to measure the level of match between countries' export and import structure. Its mathematical definition is as below:

$$TCI = \left[1 - \sum_{k=1}^{n} \left| \frac{m_{jk}}{M_j} - \frac{x_{ik}}{X_i} \right| \right] * 100 \qquad (1)$$

Here m_{jk} is the value of the import product k by country j, M_j is the country j's total import. X_i is country i's total export and x_{ik} is the value of exports of product k from the country i. Its value ranges between 0 and 100, where the value equal to 100 indicates perfect match between export and import structure of the studied country pairs.

It should be noted that, if the transport costs between countries are higher, greater values of the indicator might be misleading. This factor will carefully be handled in the discussion of the results. Additionally, since small countries usually have relatively more concentrated export structures than larger economies, the index may also suffer from aggregation bias. This in mind, we have not calculated the TCI for the countries that are relatively small and have somewhat homogenous export structure. In our judgement, Bahrain, Kuwait, and Qatar and United Arab Emirates are that group of countries.

As stated above, TII is used to calculate whether PTA signatory country exports more or less to another PTA countries than world does on average. Its general formula can be shown as below.

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$$TII = \frac{\frac{x_{ijk}}{X_{ij}}}{\frac{x_{wjk}}{X_{wk}}} * 100 \qquad (2)$$

Where x_{ijk} is the value of export of product *k* from country *i* to country *j*, X_{ij} is the total export of country *i* to *j*. The denominator also follows same logic, where *w* represents the world. Its value ranges from 0 to infinity, where values greater than 100 assumed to indicate country's export expanded to it pair more intense than its export expansion to the world on average (WITS 2013).

As it might be clear from the discussions above, here we are studying aggregate trade between countries, rather than trade in selected products. Hence, subscript *k* can be dropped from the equation. Additionally, because our aim in utilizing this index is to calculate intensity of trade among the TPS countries, that is intra-TPS trade intensity, we need to replace the subscript for "other country" *j* and denote another subscript for TPS countries. After these minor modification, our TII index will take form as given below:

$$TII_{TPS} = \frac{\frac{x_{ij}}{X_i}}{\frac{x_{wj}}{X_w}} * 100 \qquad (3)$$

Furthermore, because of possible seasonal variations in the export and import structures of the countries, we have done all calculations for both of the indicators for four years – 2010, 2011. 2012 and 2013 and have taken simple average of the results (i.e. divided by four).

The data used for calculation has been obtained from the United Nations COMTRADE database and from the World Integrated Trade Solution (WITS) software. All estimations have been carried out by utilizing the WITS software.

4. RESULTS AND DISCUSSION.

Below we provide results obtained from the TII and TCI indexes for each studied countries in an alphabetic order and give brief description.

4.1 The Trade Intensity Index.

A brief look at the results obtained from the TII index suggest intense trade relation among TPS countries throughout the studied year, as results for 9 out of dozen countries are higher than 100. The index reaches its peak in the case of Bahrain, with the value of about 614. Results obtained for Jordan (417.3) United Arab Emirates (300.5) and Pakistan (255) are also noteworthy.

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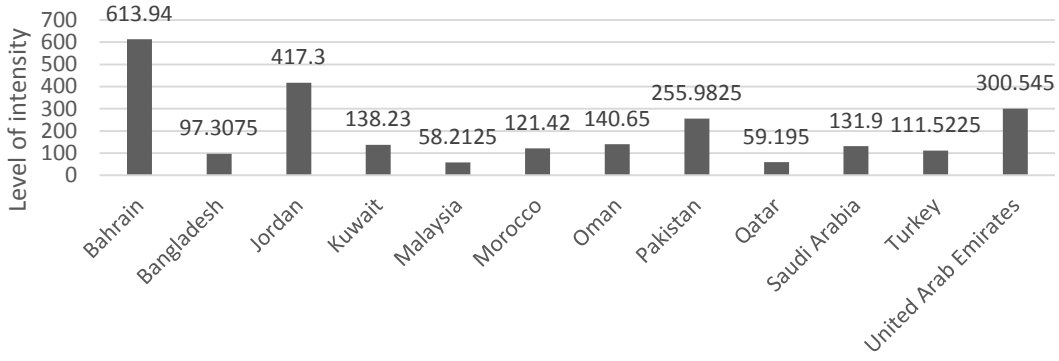

Table 1. TII index of the TPS countries for 2010-2014.

Source: Author's calculation by using the WITS software.

Among the studied countries, only for Bangladesh, Malaysia and Qatar attained the TII value of lesser than 100, where Bangladesh's (97.30) value is slightly less than the benchmark value. In general, obtained results are advocates of relatively more intense trade relations among the TPS countries throughout the studied period.

4.2 Trade Complementarity Index.

The results obtained from TCI indicates that complementarity in the export structure of Turkey, Malaysia and Morocco to the 8 TPS countries' import are higher in comparison to other 5 countries. Values for these countries changes around 50 percent, which indicates around half of the export goods dispatches from these countries also are in the import list of the remaining countries.

These results indicates that in the case that the TPS-OIC agreement would take place and if the trade related costs are not higher among the traded pairs (e. g. because of distance), the mentioned countries would benefit more from trade expansion.
It should be noted that two of these countries, Malaysia and Turkey are also Newly Industrialized Countries, which enjoys more divers export structure relative to other countries. This factor might have higher influence on the results obtained. On the other hand, the only least developed country in the study, Bangladesh has the lowest level of complementarity where the results changes between 30-32 percent.

	Bangladesh	**Jordan**	**Malaysia**	**Morocco**	**Oman**	**Pakistan**	**S.Arabia**	**Turkey**
Bangladesh		44.6925	58.045	50.2175	39.8275	51.76	38.7975	58.8025
Jordan	31.865		57.775	47.9675	40.3925	45.0775	39.5175	66.68
Malaysia	31.2125	43.2725		48.675	48.7275	41.42	47.39	61.0775
Morocco	31.69	43.8375	64.5575		47.2425	46.435	46.215	65.4625
Oman	30.38	41.3275	59.4675	46.1275		40.4225	39.86	61.93
Pakistan	30.7925	45.05	60.415	49.725	39.06		38.13	61.385
S.Arabia	32.82	64.11	58.66	50.0025	38.2425	45.47		67.71
Turkey	31.1575	43.2725	62.5075	47.6875	47.3125	42.0775	45.965	

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Table 2. TCI index between 8 TPS countries. Results are simple average of the studied years. The horizontal line corresponds for exporter countries, while the vertical line for importer countries, so the results needed to be interpreted towards downwards. Source: Author's calculation by using the WITS software.

On country basis, highest level of complementarity was between Turkey and Saudi Arabia, where the indicator is equal to 67.71. Turkey's export's complementarity with Jordan's (66.68) and Morocco's (66.46) are also striking. Malaysia also enjoys higher level of complementarity with Morocco (64.55) and its match with Turkey (62.50) is also noteworthy.

Results for other country pairs are also informative and straightforward to interpret, but we left analysis of those results to the interested readers.

5. CONCLUSION

This study intended to evaluate strength of trade relation and degree of complementarity in the export and import structure of TPS countries. The obtained results suggest that, generally, trade relations were more intense throughout the studied years (2010-2013) among the TPS countries vis-à-vis the world. When it comes to complementarity, the Newly Industrialized country pairs, Malaysia and Turkey, along with Morocco, enjoy higher level of complementarity in the export structure while the only least developed country in the study, Bangladesh, possess the least complementarity. These results suggests that, *ceteris paribus*, the first three countries might enjoy more trade expansion if the TPS-OIC would finalized. Among the studied countries, Turkey's complementarity level with other countries is more noteworthy.

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