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Moves Towards an Islamic Common Market: Evaluation of the Potentials

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ABSTRACT

The Organization of Islamic Cooperation members had proposed the establishment of an Islamic Common Market among themselves in the early 1970s. This notion currently listed among the core objectives of the Organization and, to this end, the members adopted the TPS agreement in 1990. This study provides the first systematic and comprehensive evaluation of the TPS signatories' potential to increase trade by applying five different trade indexes suggested in the literature. The findings reveal different characteristics of the TPS countries and shed light on their potential for enhancing economic cooperation. In general, the results are in favor of the establishment of a Preferential Trade Agreement among the TPS signatories.

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1. Introduction

Possibly motivated by the spiritual and cultural connections among themselves, in the early 1970s, the members of the Organization of Islamic Cooperation (OIC) had proposed the establishment of an Islamic Common Market (ICM) among themselves. However, since the establishment of a Common Market requires some preliminary condition satisfied and the OIC members as a group had met none, the member countries set the establishment of the ICM as their ultimate goal and agreed to take initial necessary steps for the future realization of the ICM. Now, the enhancement of intra-OIC economic and trade cooperation and the establishment of the ICM are listed among the core objectives the Organization (OIC, 2008).

Several agreements, programs and plans have been adopted during the past years leading towards the realization of the ICM, among which the Trade Preferential System among the Member States of the OIC (hereafter TPS), adopted in 1990, can be shown as the most relevant. The realization of the TPS would create a Preferential Trade System among the OIC countries. Currently, the agreement is signed by 40 of the 57 members of the OIC. The Agreement was expected to come into force in 2016 among the twelve of the signatories which have concluded all the required steps. These countries are Bahrain, Bangladesh, Jordan, Kuwait, Malaysia, Morocco, Oman, Pakistan, Qatar, Saudi Arabia, Turkey and the United Arab Emirates (UAE) (hereafter TPS countries).

Over the past years, a number of studies has investigated the proposed ICM and offered policy recommendations for its successful implementation (Dabour, 2004; Hassan & Islam, 2001; Hassan, Sanchez, & Hussain, 2010; Mohd Amin & Hamid, 2009; SESRTCIC, 2003; Zaman & Khan, 1983; Zeinelabdin & Ugurel, 1998). However, the TPS agreement, which is the most likely predecessor

for the ICM, has not taken enough attention and the signatories' potential to increase economic cooperation has not been systematically and comprehensively studied. Particularly, the factors that usually looked for during the PTA negotiations for evaluating the potentials of PTA signatories to increase trade, such as the strength of trade relations, the degree of complementarity between the export and import structures of the signatories, the concentration (diversification) of exported products and export markets has not been accounted for. We fill these gaps in the literature by applying five different indexes to the trade flows of the TPS countries. To provide more precise results, we use the most recent trade data and the highest level product disaggregation available. Moreover, we also provide an up-to-date review of the economic cooperation activities among the OIC members, which is not present in the literature. The results shed light on the potential of the TPS countries in enhancing economic cooperation among themselves.

The rest of the paper is organized as follows: The next section provides a review of the economic cooperation activities among the OIC members. The third section provides a brief review of the literature on the ICM and TPS. The fourth section outlines methodologies used and data sources. The fifth section provides results while the last section concludes and offers policy recommendations.

2. Economic Cooperation Activities among the OIC Countries

2.1 Calls for the Establishment of an Islamic Common Market

The Organization of Islamic Cooperation (OIC), established in 1969, aims to achieve a higher level of cooperation among its members and protect its members' interests in the global arena.

The Organization was acting as a political forum at the outset, but the role of economic cooperation in the development of interstate relations was recognized by the members very soon and several strategies in this regard in the early years of the Organization².

In 1974, during the second Islamic Summit Conference, the members announced a substantial target, the establishment of an Islamic Common Market (ICM) among the OIC themselves. A Common Market (also called Single Market) is a relatively advanced level in the preferentialism activities and can only be realized after Preferential Trade System, Free Trade Area and Customs Union have established. Since the OIC countries had not even realized the preliminary schemes, the members agreed to choose a step-by-step approach and the establishment of the ICM unofficially set as members' ultimate goal.

In 1997, during the 8th Islamic Summit held in Tehran, the necessity of the ICM once again stressed and the establishment of the ICM highlighted as a profound step towards strengthening Islamic solidarity. In 2008, the Charter of the Organization modified and strengthening intra-Islamic economic and trade cooperation and the establishment of the ICM listed among the core objectives of the Organization (OIC, 2008).

It is worth to noting that apart from politicians, religious leaders of the Islamic World such as the Imam (Leader) of the Grand Mosque in Makkah (Arab News, 2008) and supreme leader of Iran, Ayatollah Sayyed Ali Khamenei (OIC, 1997), have also called for the establishment of the ICM over the past years.

² See Ihsanoglu (2010) and Kayaoglu (2015) for more detailed discussion on the history, structure, objectives and roles of the OIC.

2.2 Agreements and Plan of Actions *en route* to an Islamic Common Market³

The OIC members have concluded several agreements, programs, and plans to build the fundamentals of an ICM from the 1970s onwards⁴. In 1977, the members signed the General Agreement on Economic, Technical and Commercial Cooperation with the objective of encouraging capital and investment flows and stimulating exchange of information and skills among the member countries. The agreement came into force in 1981 and followed by the signing of the OIC Plan of Action to Strengthen Economic Cooperation (POA) - a ten-chapter document in which each chapter was devoted to a specific area of cooperation⁵. The POA was highlighting problems in each cooperation area and setting objectives and program of action for each sector to facilitate its application. Nevertheless, lack of political will and dissimilarities between the political and economic structure of the Islamic Countries hindered successful implementation of both of the agreements (Ihsanoglu, 2009). Furthermore, Ihsanoglu (2009) argues that the POA itself was suffering from a number of flaws, such as the absence of a time frame, specific quantitative targets and priority settings. He argues that the nonexistence of these factors had turned the POA into a “declaration of intention rather than a plan”. These limitations addressed in the OIC Ten-Year Program of Action (TYPOA) adopted in 2005, during the chairmanship of Ihsanoglu himself to the OIC.

The level of intra-trade among a group of countries is commonly used for assessing the economic significance of countries to each other and for evaluating the level of cooperation. One of the objectives of the TYPOA was to increase intra-OIC trade to 20 percent from the prevalent 15

³ The author is thankful to Mr. Nabil Dabour (SESRTCIC) and Mr. Ahmet Okur (COMCEC) for providing additional information about the agreements, which was not readily available.

⁴ See SESRTCIC (2003) and Dabour (2004) for the detailed review of the agreements.

⁵ The Plan of Action revised in 1994 to incorporate the changes in the world economy.

percent during the next ten years. In spite of the conflicts and civil wars in Islamic countries like Syria and Iraq, which stand on the center of the traditional trade routes, the intra-OIC trade could be raised to 19.9 percent in 2014, slightly below the target (SESRIC, 2015). Even though there might be reasons other than the collaborative work and commitment of the member countries for the increase in intra-OIC trade, such as the implementation of non-TPS Preferential Trade Agreements (PTAs) among the OIC countries, this progress should be stressed as a significant achievement. For comparison, intra-trade among the ASEAN countries, a group of countries that have established an FTA among themselves in 1992 and have undergone serious trade negotiations and reforms, amounted to 24.1 percent in 2014 (ASEAN, 2016).

During the 13th Islamic Summit in April 2016, the OIC countries adopted the Program of Action covering years 2016-2025 (OIC, 2016). The Program highlights the importance of trade for development and mentions the level of intra-trade among the countries as insufficient. However, it does not include any quantitative targets as was in the TYPOA. Instead, the Istanbul Declaration announced at the Summit, which is more of a statement rather than a plan, calls the members to increase the intra-OIC trade to 25% during the upcoming ten years by implementing the TPS agreement and other instruments. This factor makes the Program subject to Ihsanoglu's critics and can be seen as its limitation.

2.3 The Trade Preferential System of the OIC countries (TPS)

The establishment of a Common Market requires some preliminary levels of economic cooperation be achieved. To this end, some of the OIC members signed the TPS agreement in

1990. The TPS aims to promote trade among the OIC countries through the exchange of tariff, para-tariff, and non-tariff measures. It consists of three different agreements and only after their signing and ratification at least by the same ten OIC members the legal basis of the TPS could be finalized. These agreements are the Framework Agreement on the TPS, which provides general principles in the formation of the TPS; the Protocol on the Preferential Tariff Scheme for TPS (PRETAS), which outlines tariff reduction schemes; and the TPS Rules of Origin, which describes eligible products for tariff discounts under the agreement.

To date, 17 members of the OIC have concluded the legal basis of the agreement⁶. However, the countries concluded the legal basis also had to inform the COMCEC about the schedule of application of the tariff reductions and reduction applied products (COMCEC, 2011). As of March 2016, 12 countries⁷ have fulfilled this requirement, which are Bahrain, Bangladesh, Jordan, Kuwait, Malaysia, Morocco, Oman, Pakistan, Qatar, Saudi Arabia, Turkey and the UAE. Now, the implementation of the TPS depends on the conclusion of legislative and administrative measures in the signatory countries, which was expected to be finalized by 2016 (MODT, 2016).

3. Previous Studies on ICM and the TPS

To date, a considerable amount of literature has investigated the proposed ICM. Among these studies, the study done by Zaman and Khan (1983) seems to be the first. The authors review the

⁶ The complete list of the signatories of the TPS agreements is available from the webpage of the COMCEC at <http://www2.comcec.org/UserFiles/File/TPS-OIC/TPS-OIC-Sign.pdf> (Accessed on February 23, 2017)

⁷ As of February 2017, Iran and Syria have also submitted concession lists to the COMCEC. However, the estimations for the study had been carried out earlier than Iran's submission and, hence, we are not able to include Iran to the study. Syria's membership has been suspended due to human rights violation in the country, which restricts it from participating in the TPS.

developments of the world economic situation, political and socio-economic structures of the OIC member countries and trade and financial linkages between the OIC countries. They conclude that increasing cooperation among the members would be productive.

The study conducted by Zeinelabdin and Ugurel (1998) can be shown as the first comprehensive review of the economic cooperation activities among the OIC countries and the notion of ICM. Along with Zeinelabdin and Ugurel (1998), other in-depth studies, such as studies by Hassan and Islam (2001), SESRTCIC (2003), Dabour (2004) and Hassan et al. (2010) also review the economic cooperation activities among the OIC countries, put emphasis on the diverse economic and political structures of the Islamic countries, advocate a gradual approach, stress the need for increasing intra-OIC trade and strong political will for the formation of the ICM⁸.

As mentioned above, the implementation of the TPS would satisfy the first step towards the establishment of the ICM. In this regard, the TPS can be regarded as the most likely predecessor of the ICM. However, despite its importance in the establishment of the ICM, only limited attention has been paid to the empirical evaluation of the TPS countries' potential in enhancing trade. Indeed, to the best of our knowledge, only three studies have been devoted to the issue over the 25 years of negotiation period.

Mohd Amin and Hamid (2009) apply the Revealed Comparative Advantage index (RCA) to the export flows of five of the signatories of the PRETAS (Jordan, Malaysia, Pakistan, Turkey and the UAE). They find the level of tariffs in the areas with comparative advantage low and show this as a promising factor towards the realization of the ICM. An application of the RCA index can also be

⁸ Hassan (2001) and Hassan et al. (2010) also provide review of other PTAs among the OIC members, such as ECO, GCC, SAARC and etc.

found in Mohd Amin, Hamid, and Md. Saad (2011). However, it should be noted that the RCA index is not designed to evaluate the potential of countries to gain from a PTAs, but to measure country's relative advantage in production of specific products (WITS, 2014; World Bank, 2010).

The level of diversification of the exported products among the partners is often measured to evaluate prospects for expanding trade among PTA signatories. In this view, if the partners are exporting more diversified products to each other, then the members can enhance exports in more products, which can escalate the expansion of trade. Mohd Amin et al. (2011) evaluate the concentration and diversification of exports in 6 signatories of the PRETAS (Egypt, Jordan, Malaysia, Oman, Saudi Arabia, and Syria) and find small potentials for increasing trade. However, they are not following the generally recommended method for assessing concentration (diversification) level of export structures, which is the Herfindahl-Hirschman Product Concentration (HHPC) index (Mikic & Gilbert, 2009; WITS, 2014; World Bank, 2010). Additionally, the authors carry out the estimations in a relatively aggregated level (SITC 4-digit level), which may not provide precise evaluation of diversification and concentration levels in their studied countries.

One other way of evaluating trade expansion potentials is to estimate how PTA signatories' export distributed among themselves. If the export of a member is predominantly concentrated in some of the countries, then benefits from a PTA would depend on the economic situation in those countries. If, for instance, any economic crisis takes place in those countries, then this might negatively affect the exporting country. The evaluation of export market concentration is done by applying the Herfindahl-Hirschman Market Concentration (HHMC) index. Both the HHPC and HHMC indexes are based on the independent works of Hirschman (1945) and Herfindahl (1950).

Dennis and Shepherd (2011) and Ergüzel, Tunahan, and Esen (2016) apply these methods to assess product and market concentration in various regions.

When the realization of a PTA is considered, one of the most looked factors is the strength of trade relations among the PTA participants. If trade relations among the participants have been powerful over the past years, then the chances to increase trade among the members are assumed to be higher. In the literature of the recent years, two different approaches⁹ are used to evaluate strength of trade relations - the Trade Intensity Index (TII) proposed by Brown (1947) and Kojima (1964), and relatively new index, the Growth Orientation of Markets Index (GOMI) outlined in Reis and Farole (2012). In TII, the obtained results depend on the volume of export among the considered countries and their share in the world trade, and in the GOMI the results depend on the dynamics of export growth among the considered pairs and the world. Some illustrative applications of the TII can be found in Ng and Yeats (2003), De Castro (2012), Iapadre and Tajoli (2014), and the GOMI in Varela (2013), García-Herrero et al. (2014) and Kathuria et al. (2016).

Another way of evaluating the potential of the PTA signatories to expand trade is to measure the level of match between the PTA signatories' export and import structures. If the level of match among the partners is high, then it is said that chances for gaining from a PTA are strong as the PTA members can trade more products with each other. The evaluation of the degree of similarity is done by applying the Trade Complementarity Index (TCI), which was proposed by Michaely (1996) and has since been applied in numerous PTA related studies, such as by Ng and Yeats (2003), De Castro (2012) and Pasha and Imran (2015).

⁹ Another, yet less empirical way of evaluating significance of trade relations among countries is to look at their share in each other's total trade. This will provide result equal to numerator of the TII index. See SESRIC (2015) for the detailed analysis of the OIC members' share in Intra-OIC trade flows.

Yet, to the best of our knowledge, none of the indexes outlined above (HHPC, HHMC, TII, GOMI, and TCI) has been applied to assess the potentials for trade expansion among the TPS countries. Hence, the questions about the potentials of the TPS countries to expand trade remain widely unanswered. This study fills these gaps in the literature by applying the above-mentioned indexes to the export and import flows of the TPS countries.

4. Methodology

4.1 Trade Intensity Index (TII)

The TII is used to evaluate the strength of trade relations among the signatories of PTAs. Following WITS (2014) and Jafarli (2015), the modified form of the TII can be shown as below:

$$TII_i = \left[\frac{\frac{x_{iTPS}}{X_i}}{\frac{x_{wTPS}}{X_w}} \right] * 100$$

Where x_{iTPS} is the value of export from country i to the TPS countries, X_i is the total export of country i . The denominator also follows the same logic, where w represents the world.

The value of the TII ranges from zero to infinity. If the values are greater than hundred, then it is said that the country's export expansion to its pair is more intense than its export expansion to the world (WITS, 2011).

To account for the possible seasonality in the export and import flows of the studied countries, we have estimated the TII for four years – 2010, 2011, 2012 and 2013 - and will report the results as a simple average (i.e. divided by four)¹⁰.

4.2 Growth Orientation of Markets Index (GOMI)

One another way of evaluating the strength of trade relations is to look into growth dynamics of exports between the considered countries and the world, which is done by employing the GOMI. The general formula of the GOMI is as below:

$$GOMI = CAGR_{ij} - CAGR_{wj}$$

$$CAGR_{ij} = 100 * \left[\left(\frac{X_{ijt_2}}{X_{ijt_1}} \right)^{\frac{1}{t_2-t_1}} - 1 \right]$$

$$CAGR_{wj} = 100 * \left[\left(\frac{X_{wjt_2}}{X_{wjt_1}} \right)^{\frac{1}{t_2-t_1}} - 1 \right]$$

Where CAGR is the Compound Annual Growth Rate – a year-after-year growth of exports among the considered pairs, X_{ijt} is the value of total exports from exporter country i to importer country j at time t and X_{wjt} is the value of total exports from the world (w) to country j at time t .

If the export of the considered country grows more than the export of rest of the world in partner's market ($CAGR_{ij} > CAGR_{wj}$), then the GOMI takes positive value. In this case, it is said that the exporter is well-positioned to increase its exports in the considered country than the

¹⁰ The results for all studied years are available from the author upon request.

world in average. Intuitively, signing a PTA among these countries would stimulate export growth further. On the other hand, negative values ($CAGR_{ij} < CAGR_{wj}$) of the GOMI indicate that the exporter did not grow in the importer's market as the world did, and can signal potentials for the exporter to grow its share in the importer's market. The values of the CAGR also depend on the n^{th} root of the total growth rate among the countries, where $n = t_2 - t_1$.

For eight of the TPS countries, we have estimated the GOMI for four recent years, 2011-2015. Due to unavailability of data, we have estimated the index for Bangladesh and Saudi Arabia for years 2009-2013, and for Kuwait and the UAE for years 2010-2014.

4.3 Trade Complementarity Index (TCI)

The TCI is used to measure the level of match between PTA signatories' export and import structure. If the value of complementarity is high, then potentials to gain from trade liberalization is assumed as strong. The mathematical definition of the TCI can be shown as below:

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

Where m_{jk} is the value of the import of the product k by country j ; M_j is the country j 's total import; x_{ik} is the value of export of product k from country i ; and X_i is country i 's total export.

The value of the index changes between zero and one hundred, where values above 40 suggest a higher degree of match in export and import structures of the studied countries.

Usually, small countries have relatively more concentrated export structures than larger countries. Due to this, the TCI may return high values for small countries, which can be misleading. To avoid confusion and provide a better comparison, we do not calculate the TCI for Bahrain, Kuwait, Qatar and the UAE. All of these countries are relatively smaller in size and have oil-dominated export baskets. To provide more precise estimations, we have estimated the TCI at HS 6-digit level (HS 6), which is usually the highest level of disaggregation in international trade statistics. As in the TII, we account for seasonality by estimating the index for four years (2010-2013).

4.4 Herfindahl-Hirschman Product and Market Concentration Indexes (HHPC and HHMC)

The level of concentration and diversification of the exported products and export markets of the countries are measured by applying the HHPC and HHMC indexes, respectively. The normalized forms¹¹ of the HHPC and HHMC for the TPS countries can be shown as below:

$$HHPC_i = \left[\frac{\sum_{k=1}^{n_i} \left(\frac{x_{ikTPS}}{X_{iTPS}} \right)^2 - \frac{1}{n_i}}{1 - \frac{1}{n_{iTPS}}} \right] * 100$$

$$HHMC_i = \left[\frac{\sum_{j=1}^{m_i} \left(\frac{x_{ij}}{X_{iTPS}} \right)^2 - \frac{1}{m_i}}{1 - \frac{1}{m_i}} \right] * 100$$

¹¹ If not normalized, then the value of the index changes between 1 and 10000. See Hirschman (1945) and Herfindahl (1950) for more details.

In HHPC, x_{ikTPS} is the value of the exported product k from a TPS country i to other TPS countries; X_{iTPS} is the total export of the country i to the TPS countries; and n_{iTPS} is the total number of products exported from country i to the TPS members.

In HHMC, x_{ijTPS} is the value of the exports from a TPS country i to a TPS country j ; X_{iTPS} is the total export of the country i to TPS countries; and m_{iTPS} is the number of TPS countries (markets) country i exports.

The values of the HHPC and HHMC change between zero and unity, where values close to unity indicate the concentration of exported products (export markets) and values close to zero diversification of the exported products (export markets), respectively. For the HHPC, we have used HS 6-digit level trade data. We account for seasonality by calculating these indexes for years 2010-2013.

4.5 Data Sources

The estimation of all of the indexes has been carried out by using the World Integrated Trade Solutions Software (WITS, 2014), which extracts data on trade flows from the UN COMTRADE database. Due to unavailability of reported data for some of the countries for recent years, we have done all of the estimations by using mirrored data.

5. Results

5.1 Results from the TII and the GOMI

Figure 1 reports the results from the TII. A brief look at the results suggests an intense trade relation among TPS countries throughout the studied years, as the results for nine out of the dozen countries are higher than the benchmark value of 100 percent. The average value of the index for the TPS countries reaches to 203.5 percent, which suggests that trade among the TPS countries was about two times more than what would be expected based on their trade relations with the rest of the world. By contrast, Yeats (1998) finds intensity between the MERCOSUR countries and between the MERCOSUR and the AFTA countries less than 100 percent. The results obtained from the study of Pigato and Gourdon (2014), who studies China-Eastern Africa trade relations, are also less than the results for the TPS countries.

The index reaches its peak in the case of Bahrain, with a value of about 614 percent. The value of the index for Jordan (417.3), the UAE (300.5) and Pakistan (255) are significantly high as well. Among the studied countries, index values only for Malaysia and Qatar are considerably lower than 100 percent.

The results from the GOMI (Table 1) suggest that, on average, the TPS countries' export to themselves grew 6.67 percent more than the world's export to the region during the considered years.

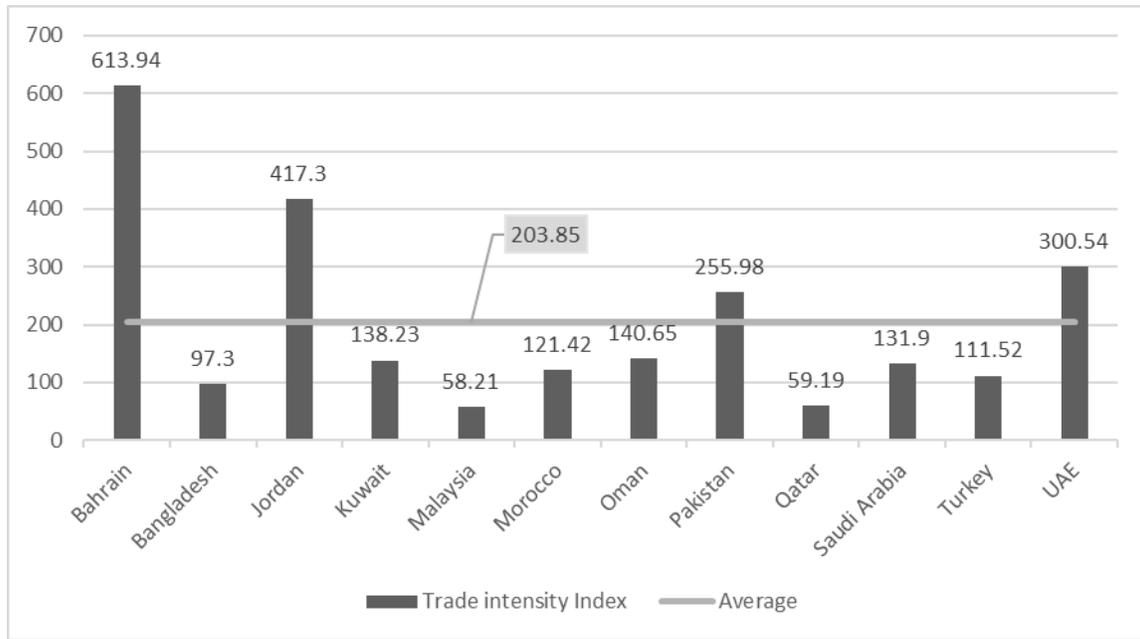


Figure 1. Trade Intensity among the TPS Countries

The highest average export growth rate among the TPS countries observed for the UAE, whose export to the TPS region grew 25.34 percent more than the world's. Remarkably, the levels of export growth of Turkey and the UAE have not been lower than the world's export growth level in any of the TPS countries' markets, which give the clues of significant trade expansion from these countries to the TPS countries. By contrast, Kathuria et al. (2016), García-Herrero et al. (2014), and Reis and Farole (2012) do not observe always positive values in their studies on the trade relations of Bangladesh, Chile, and Pakistan with their regional partners.

On the country basis, the highest values of the GOMI recorded for the exports of Saudi Arabia to Bahrain (50.78 percent), the UAE to Turkey (48.61 percent) and Bahrain to Bangladesh (45.39 percent). These results indicate that if the TPS agreement would take place, due to established strong relations, these countries would benefit more in terms of trade expansion.

On the other hand, the highest average import increase took place in the markets of Bahrain (12 percent) and Oman (10.84 percent). Remarkably, on average, imports from the TPS countries increased more than the imports from rest of the world in all of the countries' cases, as none of the average results returns negative value.

Among the studied countries, only Malaysia's and Pakistan's average exports to the TPS was below than zero during the observed years, by -1.35 and -1.92 percent, respectively. On the country basis, the lowest values of the GOMI observed for the exports of Pakistan to Turkey (-15.44 percent), Morocco to the UAE (-15.05) and Bahrain to Malaysia (-14.37 percent). These results signal that these exporting countries did not fully utilize potentials for trade expansion with their partners.

The results from the GOMI also reveal interesting characteristics of trade relations among the TPS countries. Firstly, for some of the countries (e.g. Bahrain-Saudi Arabia, Bangladesh-UAE, Morocco-Oman) we record high growth rates in both directions. Secondly, for group of the countries (e.g. Bahrain-Malaysia, Jordan-Malaysia) we observe lower than expected growth rates in both directions. Thirdly and interestingly, for some of the countries, we record opposite growth trends in export flows. For instance, export growth from Kuwait to Morocco was 8.52 percent lower but from Morocco to Kuwait 22.88 percent higher than the world level. The cases of the UAE with Malaysia, Morocco and Oman, and the case of Qatar and Pakistan are also examples to this trend.

Table 1. The Growth Orientation of the Individual TPS Countries

		EXPORTERS											TPS Average	
		Bahrain	Bangladesh	Jordan	Kuwait	Malaysia	Morocco	Oman	Pakistan	Qatar	S. Arabia	Turkey		UAE
IMPORTERS	Bahrain		0.18	23.2	-5.68	-3.76	13.36	9.41	1.6	7.3	50.78	2.78	44.93	12
	Bangladesh	45.39		4.61	-6.22	-2.76	7.94	13.82	-1.17	4.34	----	4.6	11.53	7.46
	Jordan	0.4	4.16		-9.54	-12.46	-11.74	-5.06	2.17	12.64	1.66	6.5	37.46	2.18
	Kuwait	22.86	2.99	22.76		3.07	22.88	-5.97	1.25	8.46	0.24	3.39	28.75	9.22
	Malaysia	-14.37	4.76	-1.88	13.96		5.64	14.59	4.19	-3.36	-2.25	8	34.76	5.34
	Morocco	11.17	1.1	7.47	-8.52	0.31		20.21	0.31	2.1	-0.29	13.54	15.3	5.22
	Oman	-2.56	6.96	9.94	8.63	4.55	28.91		3.25	3.36	22.94	16.59	27.49	10.84
	Pakistan	1.63	0.56	7.05	7.8	-12.37	0.57	14.13		16.71	-7.02	2.58	10.92	3.55
	Qatar	-13.19	-0.52	8.54	5.07	4.31	21.76	7.75	-8.9		-1.86	17.29	8.75	4.08
	S. Arabia	23.89	6.04	9.85	9.12	-0.29	18.51	6.62	0.89	-2.81		7.75	35.64	9.6
	Turkey	28.74	3.73	8.79	-2.21	6.8	12.18	7.89	-15.44	3.87	-8		48.61	7.91
	UAE	17.41	41.64	4.08	6.17	-3.62	-15.05	-11.42	-11.21	1.7	3.18	5.8		3.22
TPS Average		10.11	5.97	8.7	1.55	-1.35	8.75	6	-1.92	4.53	5.39	7.4	25.34	6.67
World		-4.79	10.76	0.91	12.07	-1.33	4.17	-2.84	-2.10	-3.12	2.61	0.95	13.36	2.56

The results of the TII and GOMI may be influenced by factors that do not depend on countries, such as remoteness of the partners from each other, and also from the presence of barriers to trade among countries, which can either be because of tariff or non-tariff measures (NTMs). Since the TPS encompasses the abolishment of NTMs as well, it may be further simulate the trade exchange among some of the TPS countries.

In general, the obtained results suggest that, on average, the TPS countries have strong relations with the rest of the members. In this view, forming a PTA among the TPS countries would be enforcing present strong trade relations and be in the benefit of strengthening economic cooperation.

5.2 Results from the TCI

The results obtained from the TCI are presented in Table 2. The averages of the results indicate high complementarity in the export structures of the TPS8 countries as the average value of the index is above 47 percent. Among the studied countries, Turkey's and Malaysia's average complementarity with rest of the TPS8 countries are particularly high, both above 60 percent. In comparison, De Castro (2012) finds complementarity for the BRIC (Brazil, Russia, India, and China) countries, which have more advanced and diversified export structure than the TPS8 countries, below than 60 percent. The results in Pasha and Imran (2015) and Ng and Yeats (2003) are either far below than 60 percent or values at this level are very rare. Among the rest of the TPS8 countries, Morocco's complementarity (48.62) is higher than the average level for the TPS8 countries (47.49).

Table 2. The Trade Complementarity among the TPS8 Countries

		Exporters								Average
		Bangladesh	Jordan	Malaysia	Morocco	Oman	Pakistan	S. Arabia	Turkey	
Importers	Bangladesh		44.69	58.04	50.21	39.82	51.76	38.79	58.8	48.87
	Jordan	31.86		57.77	47.96	40.39	45.07	39.51	66.68	47.03
	Malaysia	31.21	43.27		48.67	48.72	41.42	47.39	61.07	45.96
	Morocco	31.69	43.83	64.55		47.24	46.43	46.21	65.46	49.34
	Oman	30.38	41.32	59.46	46.12		40.42	39.86	61.93	45.64
	Pakistan	30.79	45.05	60.41	49.72	39.06		38.13	61.38	46.36
	S. Arabia	32.82	64.11	58.66	50.01	38.24	45.47		67.71	51
	Turkey	31.15	43.27	62.5	47.68	47.31	42.07	45.96		45.71
Average		31.41	46.5	60.2	48.62	42.97	44.66	42.26	63.29	47.49

In general, higher values for the TCI can be expected for countries which have a more diversified export structures. This possibility is confirmed by the findings of this study. On the one hand, comparatively higher values of the TCI observed for the Newly Industrialized Countries in the study - Malaysia, Morocco, and Turkey, and on the other hand, the lowest average value observed for Bangladesh, which is the only Least Developed Country in the study.

On a country basis, the highest level of complementarity observed between Turkey and Saudi Arabia, where the indicator is equal to 67.71 percent. Jordan's complementarity with Saudi Arabia (64.11) is also remarkable. On average, Saudi Arabia, Morocco, and Bangladesh's import match with the TPS8 countries' export at the highest rate, 51, 49.34 and 48.87 percent, respectively. These results indicate that if the TPS agreement would take place and if the trade-related costs are not higher among the traded pairs, these three countries' trade liberalization towards the TPS8 countries would expand trade more than the remaining countries.

5.3 Results from the HHPC and HHMC

The results obtained from the HHPC index are presented in Figure 2, where the name of countries indicated with their ISO-3 codes¹². As can be seen from the figure, the average (AVG) of the TPS countries market concentration is equal to 11 percent, which suggests that, in general, the individual TPS countries' exports to the TPS market are not concentrated in fewer products.

¹² BHR – Bahrain, BGD – Bangladesh, JOR – Jordan, KWT – Kuwait, MAR – Morocco, MYS – Malaysia, OMN – Oman, PAK – Pakistan, QAT – Qatar, SAU – Saudi Arabia, TUR – Turkey, UAE – United Arab Emirates. AVG - the average of results.

However, their exports to the world are more concentrated (20 percent) and the concentration levels are diverse.

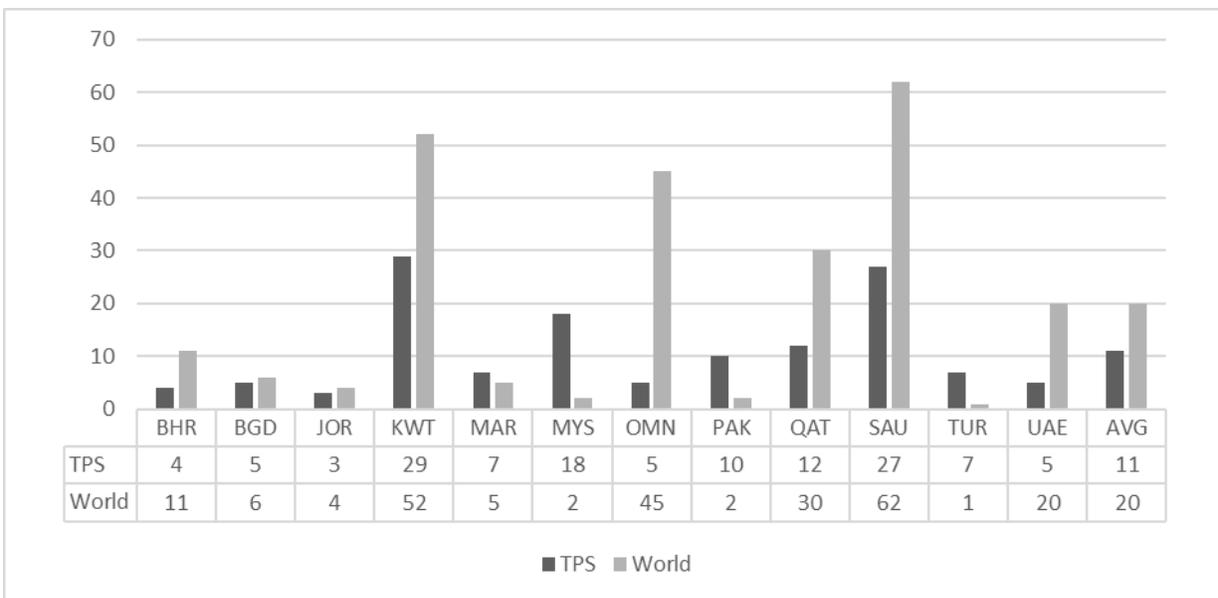


Figure 2. The Product Concentration Levels of the Exports of the TPS countries

Jordan (3 percent), Bahrain (4 percent), Bangladesh, Oman and UAE (all 5 percent) have the highest level of diversified exports to the TPS markets, which indicate that these countries can expand exports to the TPS countries in a number of products. Interestingly, export structures of all of these countries to the world are more concentrated than their export to the TPS countries. Particularly, in the case of Oman, the concentration of exports in the world market (45 percent) is significantly higher than its product concentration in the TPS countries (5 percent).

The highest level of product concentration in the TPS countries’ markets was observed for Kuwait (29 percent), Saudi Arabia (27 percent) and Malaysia (18 percent). This indicates that these countries may experience export expansion in few products only, which will also depend on the market circumstances. Among these countries, product concentrations of Saudi Arabia (62

percent) and Kuwait (52 percent) in the world market are especially high, which reflect their dependence of from exports of fewer products and their vulnerability to trade shocks. On the other hand, the highest level of product diversification in the world markets observed for Turkey (1 percent), Malaysia and Pakistan (both 2 percent). These results suggest high potential for these countries to diversify their exports in the TPS countries.

Our findings for Jordan, Kuwait, Morocco, Oman and Saudi Arabia are consistent with the findings of Dogruel and Tekce (2011) who studies product concentration in selective Middle East countries for years 1991-2009. In comparison, Mohd Amin et al. (2011) find export expansion potential for Jordan only.

Figure 3 reports the results from the HHMC index. Similar to the findings from the HHPC index, the average of the results suggest less concentration of the individual TPS countries in aggregate TPS market (14 percent), and relatively more market concentration in the world market (17 percent). This suggests that, in general, the TPS countries are not highly depended on fewer countries for exports. However, concentration levels of the individual TPS countries are various. The highest level of market diversification recorded for Jordan (3 percent), Saudi Arabia (7 percent) and Turkey (8 percent), which suggest a potential for export expansion in majority of the TPS countries. Intuitively, the total export flows from these countries may not be significantly affected if trade shocks take place in some of the TPS countries. However, Turkey's market concentration in the world (21 percent) is significantly higher than its concentration in the TPS countries. On the other hand, the highest level of market concentration in the TPS countries observed for Bangladesh (29 percent), Malaysia (22 percent) and Oman (18 percent). This suggests that export

expansion for these countries can be expected in fewer of the TPS countries, which will also depend on the economic situation in those countries.

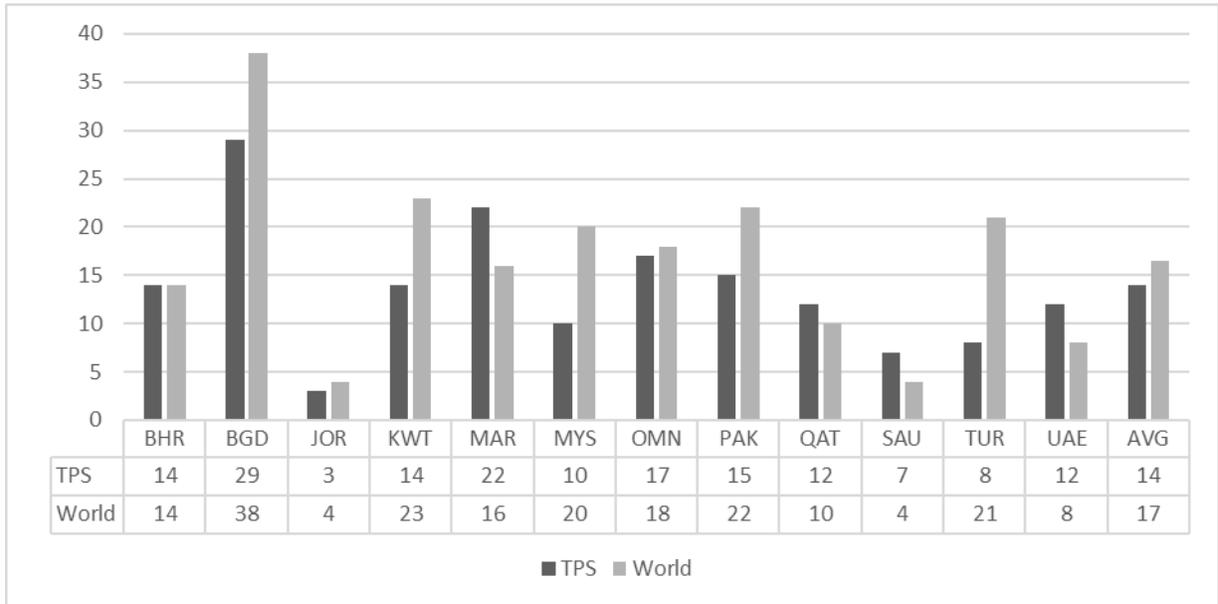


Figure 3. The Market Concentration Levels of the TPS countries

Among the TPS countries, the highest level of market concentration in the world market observed for Bangladesh, Kuwait, and Pakistan (38, 23, 22 percent, respectively). Similarly, these results indicate the dependence of these countries from few trade partners and their vulnerability to economic situations in those countries. On the other hand, the lowest values observed for Jordan, Saudi Arabia (both 4 percent), and the UAE (8 percent), which suggest the opposite.

6. Summary and Policy Recommendations

6.1 Summary

This study is devoted to the OIC members' long-aspired dream, the establishment of an Islamic Common Market (ICM). At the outset, we provide a brief but up-to-date review of the economic cooperation activities among the OIC countries, particularly focusing on the nation of ICM and the main agreement in this regard, the TPS. We highlight the increase in intra-OIC trade to 20% as a remarkable achievement, but the absence of specific targets in the newly adopted program as its limitation.

The outcomes of the empirical estimations are diverse and change from country to country. However, in all of the estimations, the averages of the results are in favor of the establishment of a Preferential Trade Agreement (PTA) among the TPS countries. The findings from the first two empirical tools suggest that, on average, the individual TPS countries had two times more intense relations with the rest of the members than what would be expected, and the levels of export growth among them have been higher than their export growth levels in the world market. Remarkably, the export growth levels of Turkey and the UAE have not been below than the world's export growth level in any of the TPS countries. These results indicate that forming a PTA among the TPS countries would be increasing present intense trade relations and be in the benefit of strengthening economic cooperation.

In our next empirical study, we observed a high level of average complementarity in the export and import structures of the TPS countries, which is in favor of forming a PTA as well. Among the studied countries, the average complementarity of the Newly Industrialized Countries in the study

(Malaysia, Morocco, and Turkey) are particularly high, which indicate that these countries would expand exports more if trade-related costs (tariffs and NTMs) decreased. We also find that the trade liberalization of Saudi Arabia, Morocco and Bangladesh towards the TPS countries would expand trade more than other countries. Remarkably, the levels of trade intensity, compound growth, and complementarity among the TPS countries are higher than the levels observed among the members of previous preferentialism schemes, such as the MERCOSUR and the BRIC.

Lastly, we evaluate the product and market concentration levels of the TPS countries in the TPS and world market. The average of the results suggests less concentrated product and market structures for the TPS countries. Specifically, Jordan found to have the highest level of market and product diversification, which suggest that it has more potential to increase trade in majority of the TPS countries and in more products. However, the TPS countries have a relatively higher level of product and market concentration in the world market than in the TPS market. In some of the countries' cases, the concentration levels are particularly high, suggesting vulnerability of some of the countries to trade shocks and economic situation in a small number of countries.

6.2 Policy Recommendations

To date, the most profound step taken for the establishment of the ICM is the signing of the TPS, which will satisfy the first level in the preferentialism activities. However, without an active involvement of the OIC, some of the OIC members have already established comparatively higher levels of preferentialism schemes among themselves. For example, the GCC members already formed a Common Market, and the members of the GAFTA are in the process of establishing a

Customs Union. In today's world, PTAs are not only signed among the countries and union-country type agreements become more and more common. In this connection, the establishment of ASEAN-China, GCC-Singapore, MERCOSUR-Israel type trade agreements between GCC, GAFTA and the rest of the OIC countries under the sponsorship of the OIC would boost trade cooperation between the OIC members and also provide another basis for the establishment of the ICM. As a matter of fact, currently, Jordan, Malaysia and Turkey are in hard negotiations with the GCC to establish a PTA among themselves.

As in the many aspects of social life, the globalization has also changed the view of the international trade. If before the 1960s cross-border trade was mainly taking place between countries, today, according to UNCTAD (2013), as much as 80 percent of the global trade occurs among the Trans National Corporations (TNCs). In this regard, encouraging investment flows from capital rich OIC countries (such as the GCC member countries) to the investment-hungry OIC countries, such as transitional economies or the Least Developed Countries, and facilitating the establishment of the branches of the TNCs from the OIC countries in those countries would be in the benefit of increasing economic cooperation. This can be achieved, for example, by updating the related agreement on investment matters signed in 1981 to reflect the current world conditions¹³ and by organizing an OIC level business networking events.

As discussed above, some of the TPS countries, especially the GCC countries, have a relatively more concentrated export structure, which makes them vulnerable to trade shocks and limits their chances to enhance trade. This issue can be handled by either horizontal or vertical diversification of exports. The horizontal diversification refers to the harmonization of the share of the exported

¹³ See Dabour (2004) for the description of the agreement.

products in the export basket without adding new products to the basket but the vertical diversification requires the inclusion of new products to the export basket. Because of long-term development implications, the vertical diversification is more preferable. The vertical diversification can be achieved by creating appropriate competition climate in home countries and by encouraging trade in non-traditional export sectors. This would result with more diversified and innovative products that can compete in global market and decrease dependence from few products.

According to the terms of the TPS agreement, the Non-Tariff Measures (NTMs) among the TPS countries will be abolished upon the commencement of the TPS (COMCEC, 2016). However, the elimination of the NTMs among the PTA signatories are one of the major difficulties as the NTMs increasingly used as a protectionist tool in place of the discounted tariffs (WTO, 2012). This fact is also correct for the GAFTA countries (ESCWA, 2015). In this regard, to facilitate the successful implantation of the TPS, a special attention would be needed to the elimination of the NTMs as, otherwise, discounts in tariffs may not be translated into increases in cross-border trade.

In a concluding remark, it worth to noting that currently there are 423 Preferential Trade Agreements which have already entered into force (WTO, 2016). Yet, many of these agreements have not been properly implemented and, therefore, have played a limited role in the improvement of economic cooperation among their signatories. If the TPS realized, one more PTA will be added to the list. However, whether it will bring positive changes to the lives of the OIC citizens as the EU, NAFTA, ASEAN and MERCOSUR did, or will gather dust on the shelves of history, will be depend on the political will, level of involvement and commitment of the TPS signatories.

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