

D-8 PREFERENTIAL TRADE AGREEMENT

THE WAY AHEAD

EXECUTIVE SUMMARY

D-8 Preferential Trade Agreement (PTA) which was signed on 13th May, 2006 in Bali, Indonesia is regarded as one of the most tangible outcomes of D-8 cooperation in trade. The agreement has been a manifestation of the mutual desire to deepen trade relations among Member States and marked the beginning of economic dialogue at a higher level. The PTA, after many rounds of discussions and multilateral negotiations, became effective as of 25th August, 2011 onwards.

Even though it has been more than a decade after the signing, the D-8 PTA has failed to yield the expected outcome for the Member States due a number of challenges addressed throughout this paper.

Background

Data reveals that Member States have an increasing willingness to trade among themselves. The D-8 intra-trade which stood around USD 15 billion in 1997 has increased more than six folds and surpassed USD 100 billion in 2017. However, contrary to what has been targeted, this significant increase has not been due to the D-8 PTA but due to business networks and bilateral & multilateral trade relations that have been developed in the past 20 years.

Challenges and Proposed Solutions

- The major challenge surrounding the D-8 PTA is that the Agreement is not operational due to the lack of customs notifications and pending issues related to implementation. As highlighted in many of the Supervisory Committee meetings, it is imperative that the Customs Working Group meet at the earliest to address and solve the relevant issue.
- D-8 Member States have engaged in a number of bilateral and multilateral trade agreements in the past years and there are new agreements in their agenda (see Annex VI). In spite of the apparent and growing interest in one another, Member States are reluctant to facilitate, develop and upgrade the D-8 PTA to a more assertive level. It would be enlightening if Member States could share their views on the proposed benefits of and their reservations regarding the full implementation of D-8 PTA, areas where it overlaps/contradicts with other trade agreements, as well as ways to make it complimentary to such existing arrangements.
- It is observed that on bilateral basis, Member States are willing to improve trade cooperation ambitiously by signing FTA's. The D-8 PTA on the other hand remains rather trivial with most of the offer lists being comprised of least or non-traded items which bear little significance for the national economies. Member States are advised to consider revising and upgrading their offer lists in line with the economic complementarities of the Member States.
- The D-8 Roadmap of 2008 foresees an intra-trade of USD 500 billion by 2018 which is unattainable given the current economic realities. It is imperative that this target be revised for the D-8 Decennial Roadmap and strategies be mapped out to achieve this target.

STATUS OF IMPLEMENTATION OF THE D-8 PREFERENTIAL TRADE AGREEMENT (PTA) UNDER THE TRADE COOPERATION

1. INTRODUCTION

As per (D-8) Roadmap of 2008, **trade sector** is considered as one of the priority areas of cooperation. Due to the relatively high impact of trade sector in enhancing economic cooperation, the leaders of the D-8 had underlined some essential objectives in the D-8 Charter including the lofty goal of increasing D-8 intra-trade to around USD 500 billion by the end of 2018. As of 2017, D-8 intra-trade amounted to USD 109.2 billion, soaring up after two years of dismal performance. As we are approaching to the end of 2018, it is evident that the USD 500 billion target is unattainable and needs to be revised realistically in light of the latest quantitative projections or be extended over a longer time span. Regardless of the way our Member States choose, it is imperative to expedite the implementation of the D-8 Preferential Trade Agreement (hereafter referred to as “D-8 PTA”), which will contribute in terms of growth and volume of the annual D-8 intra-trade. It also requires an active and effective collaboration between and among governments, trade agencies and involvement of private sectors of the D-8 Member States.

This paper aims at presenting a timeline of the development of D-8 PTA with a critical view on the challenges faced by the Member States as well some proposed solutions. Section 2 provides a concise summary of the trade structure of Member States. Section 3 summarizes the development of D-8 PTA over the course of time by giving reference to High-Level Trade Officials and Supervisory Committee Meetings. Section 4 addresses the challenges and pending issues regarding the full implementation of the D-8 PTA as well as proposing solutions. Section 5 concludes.

2. OVERVIEW OF THE D-8 TRADE SECTOR

The D-8 **total trade to the world** amounted to USD 1.6 trillion or 4.5 per cent of the total world trade in 2017, which amounted to USD 35.1 trillion. The Organization of Islamic Countries (OIC) trade to the world amounted to USD 3.2 trillion or 9 per cent of the total trade to the world. A significant 49 per cent of the OIC total trade were from the D-8 Member States. All D-8 Member States are also the member of the OIC.

In 2017 the top five export destinations of D-8 Member States were **China** (USD 77.5 billion), the **United States of America** (USD 63.0 billion), **Singapore** (USD 45.9 billion), **Japan** (USD 41 billion) and **India** (USD 39.5 billion). The top five import partners were **China** (USD 158.6 billion), the **United States of America** (USD 46.8 billion), **Singapore** (USD 43.3 billion), **Germany** (USD 41.7 billion) and **Japan** (USD 39.3 billion).

Top five products exported to the world were **HS 27-Mineral fuels, oils, distillation products** (22.8 per cent), **HS 85-Electrical machinery and equipment** (11.8 per cent), **HS 84-Machinery, nuclear reactors, boilers** (6.0 per cent), **HS 15-Animal, vegetable fats and oils, cleavage products** (5.1 per cent) and **HS 61-Articles of apparel, accessories, knit or crochet** (4.6 per cent). Top five products imported from the world were **HS 27-Mineral fuels, oils, distillation products** (15.2 per cent), **HS 85-Electrical machinery and equipment** (13.3 per cent), **HS 84-Machinery, nuclear reactors, boilers** (12.1 per cent), **HS 87-Vehicles other than railway or tramway rolling stock** (5.3 per cent) and **HS 72-Iron and Steel** (5.0 per cent). List of total exports, imports and total trade of the D-8 Member States to and from the world as in **Annex I**. In 2017, the D-8 intra-trade amounted to USD 109.2 billion, with intra D-8 exports standing at USD 53.2 billion and intra D-8 imports at USD 56.0 billion. In 2017, top three exporters among the D-8 Member States were **Indonesia** (USD 15.5 billion) followed by **Malaysia** (USD 14.8 billion) and **Iran** (USD 8.6 billion). The top three importers of D-8 were **Turkey** (USD 14.4 billion) followed **Indonesia** (USD 10.4 billion) and **Malaysia** (USD 9.7 billion). Breakdown of the D-8 intra trade is in **Annex II**. The D-8 Member States' ranking as major exports and import destinations are compiled in **Annex III**.

3. DEVELOPMENT OF D-8 PTA

D-8 Preferential Trade Agreement (PTA) was signed on 13th May, 2006 at the 5th D-8 Summit held in Bali, Indonesia. In accordance with the provisions of Article 34 of the D-8 PTA, the Agreement officially entered into force between Iran, Malaysia, Nigeria and Turkey as of 25th August, 2011. Indonesia, Pakistan and Bangladesh ratified the PTA on 4th October, 2011, 8th February, 2012 and 17th November, 2017 respectively.

The main body responsible for the discussion and negotiation of the D-8 PTA was the High-Level Trade Officials (HLTO) which held its first meeting in 2004 in Iran and completed its task at the 11th HLTO meeting held in Turkey, in 2010. Subsequently, following entry into force of the PTA in August, 2011, and according to the Article 27 of the D-8 PTA, the Supervisory Committee (SC) of D-8 PTA was established to continue discussion and expedite the implementation of the Agreement. Thus far two Trade Ministers Council meetings, four regular SC meetings and one special session of the SC have been held.

3.1 Trade Ministerial Meetings and The Supervisory Committee of the PTA

1st Meeting of the SC of the D-8 PTA, 22nd March, 2012 – Istanbul, Turkey

The Meeting decided that:

- D-8 Member States should undertake the transposition of Harmonized System (HS) Code 2007 to HS Code 2012 for their respective offer list.
- Concessions in the revised lists would remain unchanged.
- Tentative cut-off date for the first instalment of tariff reduction shall be 15th August, 2012.
- The Meeting also discussed and approved, with amendments, the Rules of Procedure for the Supervisory Committee.
- Following exchange of views on the establishment of the “Arbitration Panel” (Article 26 of the D-8 PTA), the Meeting took note of its importance to solve any dispute among the Members of D-8 PTA through the Dispute Settlement Mechanism (DSM).

2nd Meeting of the SC of the D-8 PTA, 29th March, 2013-Ankara, Turkey

- D-8 Member States delivered their respective progress on the current state of cut-off date which was set as 15th August, 2012.
- The Meeting noted that the internal processes of implementation of the cut-off date for the first instalment of all Contracting Members were currently underway.
- The Meeting further agreed to set a new cut-off date as 1st August, 2013 for the implementation of the first instalment, by the Contracting Members.
- An ad hoc Working Group was established by the SC to discuss and subsequently draft a DSM protocol to devise a simple and facilitative mechanism.
- The Working Group further agreed to continue their work intersessionally.
- The SC also agreed that Contracting Members should provide the Secretariat with specimen signature(s) and impressions of stamps used by their Customs or the competent authorities for the issuance of D-8 Certificate of Origin and with the addresses and specimen of stamps of the Customs or competent authorities responsible for verifying those certificates, as stipulated by Article 12 of the Operational Certification Procedures (OCP).

1st TMC Meeting, 24-25 June, 2013- Abuja, Nigeria

- After having two successive meetings, in line with Article 27 of D-8 PTA, the Supervisory Committee was required to present an annual report to the Trade Ministers Council Meeting (TMC).
- In this meeting, the Chairman of the SC presented the progress report of the D-8 PTA, in particular the internal process of implementation of the cut-off date for first instalment of the tariff reduction.
- After deliberations, the first TMC meeting agreed to endorse 1st November, 2013 as the new cut-off date of implementation for the first instalment of tariff reductions.
- The meeting also took note of the submission of a formal proposal by Bangladesh regarding their request for 30 per cent of the Local Value Addition criteria for LDCs.

3rd Meeting of the SC of the D-8 PTA, 9-10 April, 2014- Ankara, Turkey

- The Contracting Members submitted an update on their progress pertaining to D-8 PTA implementation.
- The Meeting took note of Bangladesh's proposal regarding their status as the LDC.
- The Meeting was informed that Malaysia officially gazetted D-8 PTA in December, 2013.
- Other Contracting Members have yet to exhaust their internal process for the D-8 PTA implementation. As of 31st December, 2014, all the 06 (six) Contracting Parties of the D-8 PTA had submitted their respective offer lists (transposed HS Code 2012) and specimen signature(s) and impressions of stamps of custom.

4th Meeting of the SC of the D-8 PTA, 16-17 February, 2016- Islamabad, Pakistan

The Meeting;

- established an ad-hoc working group to resume discussion on the consolidated DSM document.
- decided that the SC should continue its work on the consolidated draft DSM document to finalize it in the next meeting.
- decided that the special session of the Supervisory Committee under the chairpersonship of Pakistan would convene in May, 2016 in Istanbul.
- agreed 1st July, 2016 as the implementation date of PTA requested all Parties to complete their internal procedure before the agreed date.
- recognized the necessity of Customs Working Group to meet to discuss implementation issues regarding the RoO.

2nd TMC Meeting, 17th February, 2016- Islamabad, Pakistan

The Council agreed;

- to implement D8 PTA from 1st of July 2016,
- to enhance efforts to increase the intra-trade of D-8 Member States to 15% - 20% of their global trade or about USD500 billion by the end of 2018,
- to task the Customs officials of the member countries to convene a meeting within 3 months in view of preparing implementation of D8-PTA rules of Origin.,

- to task the SC to finalize the DSM document in its special session in Istanbul,
- to encourage remaining D-8 Member States to ratify the D-8 PTA at the earliest,
- to expedite the gazette notification,
- to call upon Member States to expand Revised Offer Lists so that private sector finds incentive in trading.

The Council agreed to discuss Bangladesh's request to have 30% Local Value Addition Criteria for LDCs as a separate agenda item at the Special Session of the SC to be held in Istanbul.

Special Session of the SC of D-8 PTA 30-31 May, 2016, Istanbul, Turkey

- Delegates discussed various options to conclude the Annex on DSM document.
- SC confirmed that the absence of an agreed Annex on DSM would not affect immediate implementation of the PTA on 1st July, 2016.
- SC urged remaining Contracting Members to complete their internal procedure so that implementation could be effectuated on 1st July, 2016.

After detailed discussion, the Committee agreed to develop a dispute settlement mechanism based on the following understanding:

1. It would be in the form of a protocol establishing the Annex on DSM to the PTA based on the current consolidated text.
2. In addition, the protocol would add the following provisions to the Annex on DSM:
 - a) A conflict of provisions clause (between the Annex on DSM and the PTA).
 - b) An accession clause.
 - c) An entry into force clause which follows the mechanism under Article 34 of the PTA.
3. The protocol would not bring any amendment or modification to the text of the PTA.

As agreed in this session of the SC meeting, Indonesia prepared and sent the draft DSM document to D-8 Secretariat on 24th November, 2017 and the relevant document has been circulated to Member States for their perusal.

After deliberations, Meeting agreed to discuss Bangladesh's request for Local Value Addition Criteria at the upcoming regular session of SC.

4. CHALLENGES, and PROPOSED SOLUTIONS

Despite being the most tangible outcome of D-8 economic cooperation, the D-8 PTA has failed to yield the expected outcome due to a number of challenges and pending issues that needs to be addressed at the earliest.

4.1 Completion of Internal Procedures for Implementing D-8 PTA

One of the most pressing issues regarding D-8 PTA is that the Agreement remains non-operational due to incomplete internal procedures and lack of customs notifications. Thus far, only Malaysia and Turkey have completed their internal procedures. The problems regarding implementation are creating a sense of void and hindering further development of the PTA agenda.

The Secretariat is in view that the Customs Working Group meeting is of vital importance to solve the pending issues regarding implementation and urges Member States to act at the earliest to hold the aforementioned meeting. The Secretariat also encourages Member States to complete their internal procedures to expedite the full implementation of D-8 PTA.

It is also advisable that Member States inform their exporters and importers about the D-8 PTA provisions, set up mechanism to coordinate and exchange information between government agencies, producers' associations, industrial organizations and chambers of commerce.

4.2 Rules of Origin (RoO)

Both Bangladesh and Egypt had their concerns regarding the RoO on different basis: Bangladesh's proposal of 30% Local Value Addition (LVA) for LDCs. Egypt proposed 50% based on its concern that the proposed LVA in the agreement is too low. To tackle these concerns, D-8 Member States will be reducing the tariff-rates in four years' instalment, but Bangladesh is given six to eight years' instalment for tariff reduction. In addition, Egypt was asked to join later. This indicates that there is no other issue pertaining to RoO and the Contracting Parties of D-8 PTA able to implement the Agreement according to the agreed RoO.

Given D-8 Member States' bilateral and multilateral trade agreements among themselves (see Annex VI) as well as their international commitments, the Secretariat urges Member States to provide detailed views of the RoO and LVA. Thereby the Secretariat will have a better insight about the considerations and reservations of the Member States.

4.3 Offer List of Tariff Reduction

The offer lists submitted by the Contracting Members of D-8 PTA were selected based on agreed percentage whereby it will cover 8 per cent of each Contracting Member's total Harmonized System (HS) lines with tariff rates above 10 per cent. Tariff reduction modality is based on the **applied tariff rates** on goods specified in the national tariff schedules. All Contracting Parties have already submitted their offer lists based on transposed HS Code 2012. It is observed that on bilateral basis, Member States are willing to improve trade cooperation ambitiously by signing new PTA's and even FTA's that grant significant tariff reductions to one another. The D-8 PTA on the other hand remains rather trivial with most of the offer lists being comprised of least or non-traded items which bear little significance for the national economies. In this regard, Member States may wish to consider including intermediate goods in their offer lists, capitalizing on the complementarity of their production structure.

It is also worthy noting that the sub-committee of experts on the identification and elimination of para-tariffs and non-tariff barriers established by SC need to convene the meeting at the earliest and thoroughly discuss the issue of tariff barriers and non-tariff measures.

4.4 Finalization of Dispute Settlement Mechanism

According to Article 26, of the D-8 PTA, any dispute arising from the interpretation and/or application of this Agreement shall first be settled amicably through mutual consultations, among the concerned disputing Members. Indonesia has already circulated the DSM document and it has been circulated to Member States for their consideration.

The D-8 Member States need to finalize the DSM document at the earliest. The upcoming 5th Supervisory Committee is expected to finalize DSM, re-examine customs documentation, review rules for cross-border transportation and reach a final conclusion. Without concluding the DSM mechanism document, the implementation of the D-8 PTA will be further delayed.

4.5 Trade Facilitation/Infrastructure

The D-8 Member States need to inform the Customs Authority to provide necessary infrastructure to facilitate trade among the D-8 Member States. Member States might consider conducting training programmes on customs processes and procedures, capacity building (i.e. training program to enhance the knowledge and skills to customs personnel, and administrative assistances, with the view of facilitating the PTA implementation. Without proper infrastructure and well-trained personnel, it may affect the objectives of implementation of the D-8 PTA.

4.6 5th SC and the Customs Officials Meeting

The Secretariat is in view that 5th SC meeting and the Customs Official Meeting be held at the earliest to discuss and finalize the draft DSM and Implementation of Multilateral Agreement Among D-8 Member Countries on Administrative Assistance in Customs Matters and the establishment of Contact Office. The discussion of D-8 PTA has been prolonged since the last 10 years and it is high time for the D-8 Organization to fully implement the Agreement in the D-8 Member States. In this context, D-8 Member States needs to finalize all provisions for the implementation of the PTA.

4.7 Revising the Intra-Trade Target

The D-8 Roadmap of 2008 foresees an intra-trade of USD 500 billion by 2018 which is unattainable given the current economic realities. It is imperative that this target be revised for the D-8 Decennial Roadmap and strategies be mapped out to achieve this target.

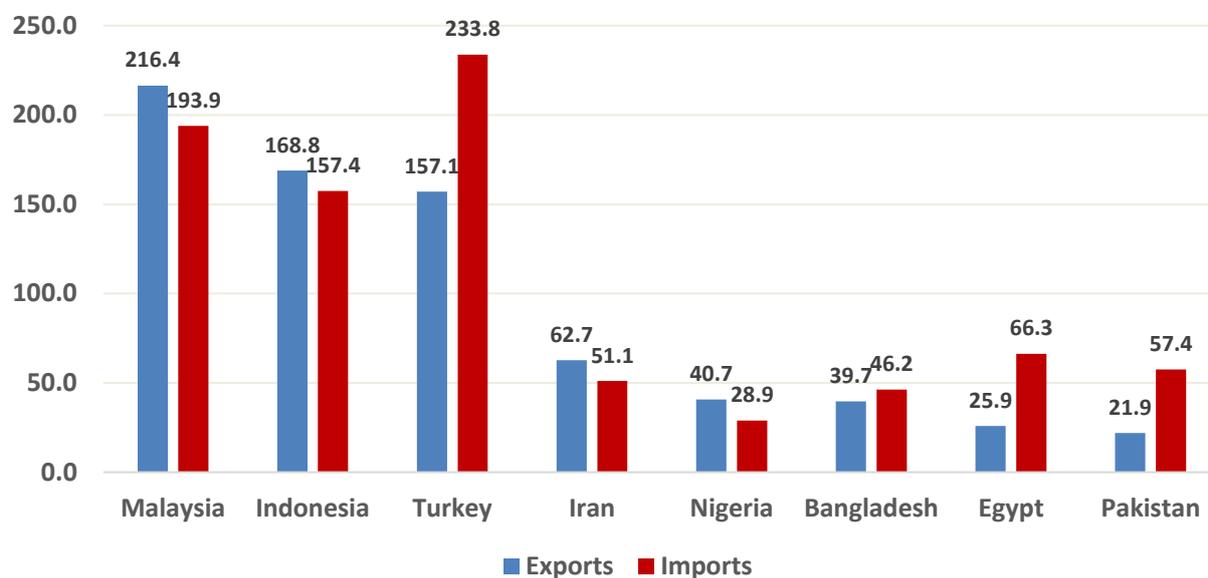
5. CONCLUSION

According to the D-8 Roadmap 2008, D-8 Member States need to achieve D-8 intra-trade of at least 15-20 per cent of their total trade to the world by end of 2018. It is of utmost importance for the D-8 Member to expedite the process of completing the internal procedure of the D-8 PTA, even though, the implementation of D-8 PTA, will not possibly increase the D-8 intra-trade to the targeted amount of USD 500 billion by 2018, given the economic realities. However, implementation of the D-8 PTA will further open-up an opportunity to negotiate and discuss about reduction of tariff barriers and non-tariff measures and future negotiation on

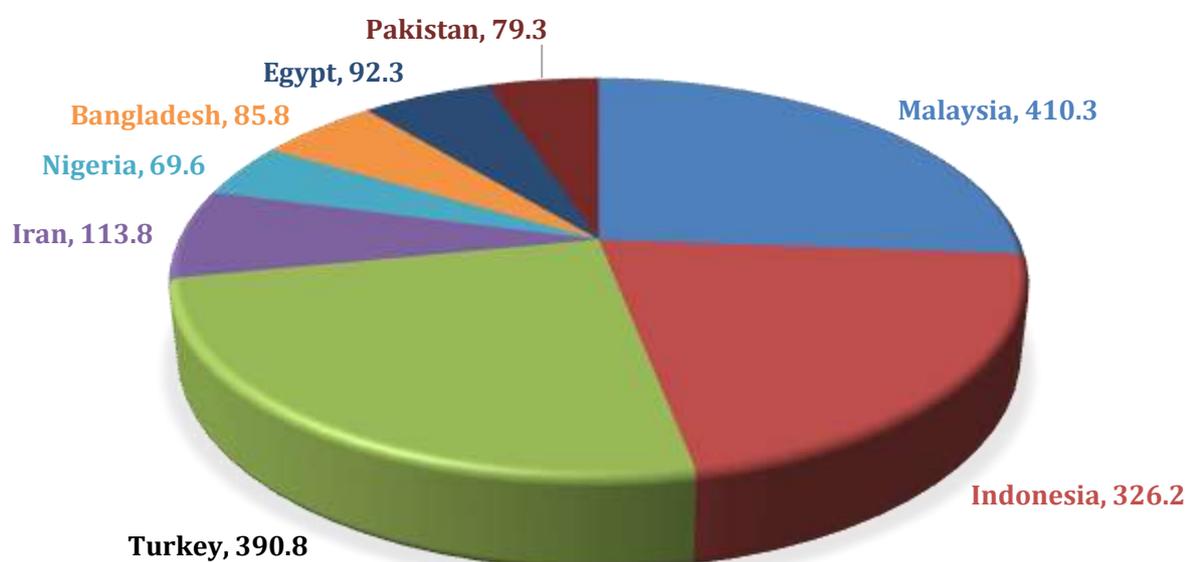
possibility of having free trade zone or free trade agreement with the objective of enhancing D-8 intra-trade to a significant level.

The discussion of D-8 PTA has been prolonged since last 10 years. Thus, it is imperative that the D-8 Member States continue discussion and finalize all provisions for implementation of the D-8 PTA. By doing this, we will not only facilitate discussion on the pending issues but also a pave a way forward to finalize and implement the D-8 PTA among the Contracting Parties which has been signed since 2006 and entered into force in August 2011. Needless to say, that these pragmatic approaches need to be accorded due attention, henceforth pursued in earnest further to enhance trade cooperation. Once the D-8 PTA fully implemented, then the D-8 could start discussion on possibility of signing a free trade agreements or other possible trade agreement not limited to goods but may be including services sector and investment.

**Graph 1: D-8 Member States' Exports to and Imports from the World, 2017
(USD billion)**

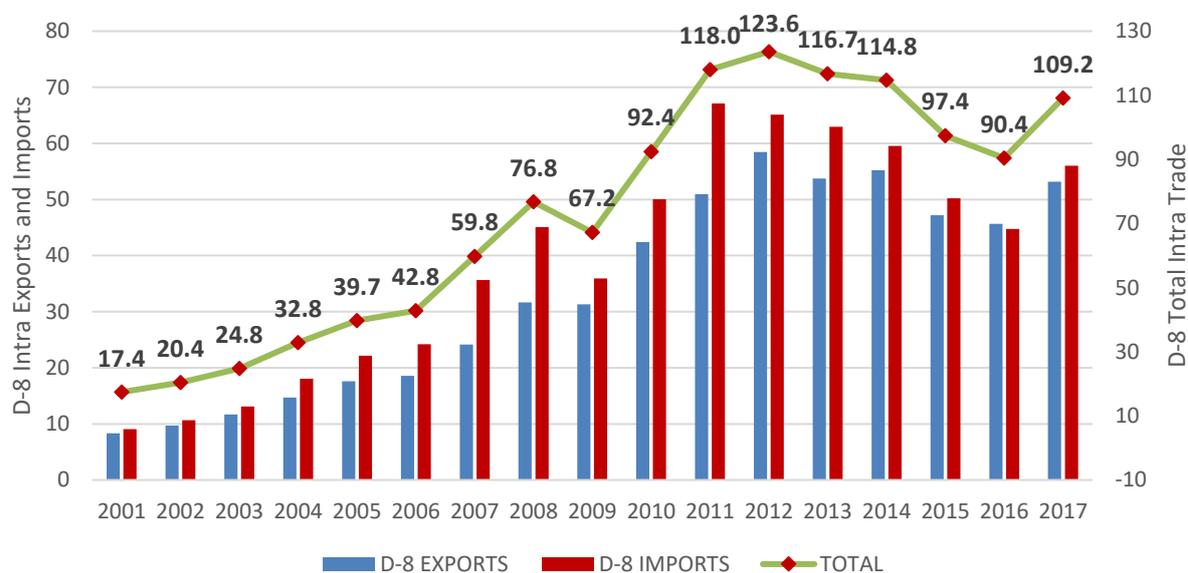


**Graph 2: D-8 Member States' Total Trade with the World, 2017
(USD billion)**



Source: ITC Trade Map Database

**Graph 3: D-8 Intra-Trade, 2001-2017
(USD billion)**



Source: ITC Trade Map Database

Table 1: Export and Import Ranking of D-8 Member States, 2017

No.	D-8 Member States	Export Ranking of D-8 Member States	Import Ranking of D-8 Member States
1	Bangladesh	54	51
2	Egypt	65	45
3	Indonesia	28	29
4	Iran	44	49
5	Malaysia	26	25
6	Nigeria	53	66
7	Pakistan	68	47
8	Turkey	31	19

STATUS OF THE D-8 PTA RATIFICATION

Country	PTA	
	Date of Ratification	Offer List (Transposed HS2012)
<i>Bangladesh</i>	17 th Nov, 2017	<u>Not yet</u>
<i>Egypt</i>	<u>Not yet</u>	<u>Not yet</u>
<i>Indonesia</i>	04 October 2011	06 September 2013
<i>Iran</i>	03 July 2008	02 September 2014
<i>Malaysia</i>	20 July 2006	25 June 2013
<i>Nigeria</i>	14 July 2010	07 November 2013
<i>Pakistan</i>	08 February 2012	25 June 2013
<i>Turkey</i>	18 April 2011	07 August 2013

SUMMARY OF TARIFF LINES AND TARIFF REDUCTION SCHEDULE

Country	Number of Tariff Lines	Highest MFN Rate	Average 1st Year Tariff Rate	Average 2nd Year Tariff Rate	Average 3rd Year Tariff Rate	Average 4th Year Tariff Rate
Indonesia	165	15	14	13	12	10
Iran	296	30	25	20	15	10
Malaysia	228	25	20	18	15	10
Nigeria	177	20	No change	No change	18	10
Pakistan	254	25	18	16	12	10
Turkey	87	30	25	20	15	10

Table 2: D-8 Intra-Trade Statistics from 2014 to 2017*

Country	2014		2015		2016		2017	
	Trade Volume with D-8 (USD bn)	% of D-8 Intra Trade	Trade Volume with D-8 (USD bn)	% of D-8 Intra Trade	Trade Volume with D-8 (USD bn)	% of D-8 Intra Trade	Trade Volume with D-8 (USD bn)	% of D-8 Intra Trade
Bangladesh	4.91	4.0	4.60	4.8	4.83	5.2	5.28	4.8
Egypt	6.21	5.1	6.31	6.5	5.71	6.1	6.51	6.0
Indonesia	32.82	27.0	24.70	25.6	22.68	24.4	27.86	25.5
Iran	15.21	12.5	10.95	11.4	11.07	11.9	12.95	11.9
Malaysia	24.37	20.0	21.51	22.3	20.71	22.3	24.93	22.8
Nigeria	7.76	6.4	3.23	3.4	2.94	3.2	3.18	2.9
Pakistan	5.72	4.7	5.12	5.3	5.14	5.5	6.01	5.5
Turkey	24.64	20.3	19.94	20.7	19.99	21.5	22.48	20.6
D-8 Intra Trade (USD bn)	121.65		96.35		93.07		109.19	
D-8 Trade with World (USD bn)	1,653.84		1,344.97		1,403.01		1,568.23	
D-8 Intra-Trade as % of Trade with World	7.36		7.16		6.63		6.96	

*Trade Statistics are compiled from ITC Trade Map Database

**Slight differences in figures stem from discrepancies between direct and mirror data

ANNEX VI

REGIONAL TRADE AGREEMENTS	Bangladesh	Egypt	Indonesia	Iran	Malaysia	Nigeria	Pakistan	Turkey	Status
Economic Cooperation Organization Trade Agreement (ECO)				x			x	x	Signed and in effect
Malaysia-Turkey Free Trade Agreement					x			x	Signed and in effect
Malaysia-Pakistan Free Trade Agreement (MPCEPA)					x		x		Signed and in effect
South Asian Free Trade Area (SAFTA)	x						x		Signed and in effect
ASEAN Free Trade Area			x		x				Signed and in effect
Pakistan-Indonesia Free Trade Agreement			x				x		Signed and in effect
Iran-Turkey Preferential Trade Agreement				x				x	Signed and in effect
Egypt-Turkey Free Trade Agreement		x						x	Signed and in effect
Global System of Trade Preferences among Developing Countries (GSTP)	x	x	x	x	x	x	x		Signed and in effect
Trade Preferential System of OIC (TPS-OIC)	x	x	x	x	x	x	x	x	Signed but not in effect
Bangladesh-Pakistan Free Trade Agreement	x						x		Negotiations launched
Indonesia-Turkey FTA			x					x	Negotiations launched
Iran-Pakistan Free Trade Agreement				x			x		Negotiations launched
Pakistan-Turkey Free Trade Agreement							x	x	Negotiations launched
Regional Comprehensive Economic Partnership (RCEP)			x		x				Negotiations launched
African Continental Free Trade Area (AfCFTA)		x				x			Ongoing
Malaysia-Iran FTA				x	x				Proposed
Bangladesh-Indonesia Preferential Trade Agreement (IB-PTA)	x		x						Proposed