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ECONOMIC PERFORMANCE OF THE OIC COUNTRIES AND THE PROSPECT OF AN ISLAMIC COMMON MARKET

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Economic Performance of the OIC Countries and the Prospect of an Islamic Common Market

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Abstract

This paper examines economic performance of the OIC member countries and analyzes the prospect of Islamic common market by analyzing trade data within a gravity model framework. There is scope of trade creation for OIC member countries if all impediments to trade and business can be eliminated. The paper also examines various sub-regional grouping within the context of gravity model, and finds that D8 comprising eight bigger OIC member countries is trade creating. For example, two countries in D8 block would trade 22 times more among themselves than two otherwise-similar country in outside the block would. The paper suggests a number of policy parameters which if followed will lead to more trade among member countries. The issue of Islamic common market should be examined further in light of new data and changed global perspectives. This paper is complements and extends Hassan (2002) and Hassan and Islam (2001), where similar conclusions were derived and policies were suggested.

ملخص

تدرس هذه الورقة الأداء الإقتصادي للدول الأعضاء في منظمة المؤتمر الإسلامي وتحلل التطلعات المستقبلية لسوق إسلامية مشتركة وذلك عن طريق تحليل بيانات التجارة في إطار نموذج جاذبية التجارة (gravity model). ثمة فرصة لخلق تجارة بين الدول الأعضاء في منظمة المؤتمر الإسلامي إذا أزيلت المعوقات التي تواجه التجارة والأعمال.

تفحص هذه الورقة أيضا مجموعات إقليمية فرعية متنوعة ضمن سياق نموذج جاذبية التجارة ووجدت أن مجموعة الدول الثماني الإسلامية النامية هي دول خالقة للتجارة.

فعلي سبيل المثال، فإن التجارة بين دولتين من مجموعة الدول الثماني الإسلامية النامية تزيد عن التجارة بين دولتين أخريين من خارج المجموعة بما يعادل 22 ضعف. تقترح الورقة عدد من المحددات والتي إن إتبعت سوف تؤدي إلي مزيد من التجارة بين الدول الأعضاء.

إن قضية السوق الإسلامية المشتركة يجب أن تبحث مستقبلا في ضوء بيانات جديدة ومنظور عالمي متغير. تعتبر هذه الورقة بمثابة إستكمال وإمتداد لورقة حسن (2002) وحسن وإسلام (2001) واللتان خرجتا بنتائج وإقتراحات متشابة.

1. Introduction

The Islamic countries are known to be a diverse group in terms of their economic structures, levels of development, political systems and ethnic backgrounds. They have different socio-cultural milieus, although most of them draw from a common source —Islam. This heterogeneity has often been used as the major argument against the feasibility of an Islamic Common Market (ICM), which accommodates a free flow of products, capital, entrepreneurship, labor and technology among members, and places a common tariff wall against third parties. However, we believe that although this heterogeneity creates a lot of problems, diversity can prove to be a source of strength if it is carefully and positively manipulated. However, desires and hopes often turn to illusions if they are not based on concrete facts, supported with objective factors, a strong political will and a commitment to translate these objectives into a reality.

Like the EC, NAFTA and APEC countries, the OIC countries share a lot of similarity in culture and socio-economic conditions, but as opposed to EC countries they are a mix of low income, middle-income and high income countries. Liberalization of trade among OIC countries offers significant gains for all the economies of the region. A very close look at the existing structure of trade reveals that, in the context of trade liberalization among countries, the interaction between policy-determined barriers (such as tariffs, quotas and other non-tariff barriers) and natural barriers (like transport costs, linguistic and institutional differences) is important. Integrating all these issues together will provide a comprehensive analysis of feasibility and prospects of economic cooperation in terms of enhanced trade within OIC countries. The study will have important implications for policy making with regards to the future of economic cooperation among the OIC member countries. A number of contemporary Muslim economists have very recently argued in favor of an Islamic Common Market, without in-depth empirical research [Alatas (1987); Nasser (1988); Mdaghri (1988); Mdaghri (1988); Zaman(1988); Shelby (1988); Cindoruk (1988); Cindoruk (1992); Ahmad (1995); Anjum (1996); Ahmed and Urugel (1996); Ariff (1998); Naqvi (1998)]. In spite of being small in number, these research papers carry a wealth of knowledge, insightful economic analysis, and practicable policy guidelines for all the Islamic economic agents in the context of establishing the ICM. This paper extends the existing literature on ICM by carrying out a formal analysis of trade creation and diversion among many existing, and proposed, blocks of OIC member countries.

The share of intra-OIC trade in the overall trade of member countries revealed that trade globalization and the assimilation of member states into the world market have not been beneficial to the intra-OIC trade in the same proportion as they have been to trade with the rest of the world. The low level of trade related services, the lack of trade information, the tariff and non-tariff barriers and the existing trade structures were obviously not helpful in promoting regional cooperation. Countries with unstable and narrow export bases offer little encouragement to potential regional partners for any long-term economic relations. Similarly, their dependence on non-member countries, both for exports and imports, tends to marginalize their relationship with the OIC member countries.

In what follows we provide detailed trade statistics for the OIC countries in Section 2. In Section 3, we present a gravity model type analysis of potential benefits that occur due to forming economic groupings among the OIC member countries. In Section 4, we provide the results of a gravity model of trade creating and trade diverting potentials of existing and future economic blocks of the OIC countries. We discuss recommendations and policy options for establishing an Islamic common market in Section 5.

2. Economic Performance of OIC Countries

2.1. Economic Growth of OIC Countries

The OIC countries will be examined in 3 sub-groups in order to better illustrate the developments within. The first group is classified as the Least Developed Members of the OIC, (hereafter, the LDC group of OIC). This group is made up of OIC members that are designated as least developed by the United Nations, namely Afghanistan, Bangladesh, Benin, Burkina Faso, Chad, Comoros, Djibouti, Gambia, Guinea, Guinea-Bissau, Maldives, Mali, Mauritania, Mozambique, Niger, Senegal, Sierra Leone, Somalia, Sudan, Togo, Uganda and Yemen. The second group includes the middle-income OIC countries (hereafter, the (MDC) group of OIC). These are Albania, Cameroon, Côte d'Ivoire, Egypt, Guyana, Indonesia, Jordan, Kazakhstan, Kyrgyz Rep, Lebanon, Malaysia, Morocco, Pakistan, Palestine, Surinam, Syria, Tajikistan, Tunisia, Turkey, and Uzbekistan. The third group comprises the oil-exporting (FEC) members of the OIC, namely Algeria, Azerbaijan, Bahrain, Brunei, Gabon, Iran, Iraq, Kuwait, Libya, Nigeria, Oman, Qatar, Saudi Arabia, Turkmenistan, and the United Arab Emirates (U.A.E.).

The real GDP growth rates of OIC countries are given in Table 2 and Table 3. One striking result of these tables is that the OIC's GDP as a percentage of the developing countries' GDP is very low. Among the OIC countries, MDC performance is better than FEC. During the period under consideration, the OIC countries' total population grew at nearly 1.7 percent per annum. When the effect of such a high rate of population growth on economic growth is taken into account, the OIC's average per capita income turned out to be $1191 in 2000. In 2001, it decreased to $1131, and in 2002, it recovered to $1181. In 2003 and 2004 it increased to $1341 and $1528 respectively. When these per capita GDP numbers for the OIC countries are compared with those realized by developing countries, the OIC are significantly disadvantaged.

2.2. Sectoral Distribution of the Output of OIC Countries

Table 4 offers the sectoral distribution of output. From this table, we see that the services sector is an important source of income in almost all the OIC countries, irrespective of their levels of income and development. Second, agriculture is an important activity in the LDC group and industry in the oil-exporting group. However, the significance of industry in the oil-exporting group comes from oil production. Third, the manufacturing sector does not play a significant role in most of the OIC economies. Yet, in some OIC countries, particularly in the middle-income group, it is becoming important.

2.3. Inflation in OIC Countries

Inflation in industrial countries decreased significantly from nearly ten percent in the early 1980s to 5.2 percent in the 1990s and dropped to 2.2 percent in 2000 and again to 2.0 percent in 2004. Inflation in developing countries reached peak values in the late 1980s (68.1 percent in 1990), then declined to 14.3 percent in 1996, dropped to 7.1 percent in 2000 and reached its lowest of 5.7 percent in 2004. The inflation rate in the MDC group, with the relatively highest inflation rate, decreased from 17.5 percent in 2000 to 6.6 percent in 2004 (Table 5).

2.4. Current Account and Reserves Position of OIC Countries

Tables 6 and 7A summarize the current account balance and the international reserves position of the OIC countries. Although, approximately two thirds of the OIC countries had to cope with deficits in their current account balances, and duly a deterioration of their reserve positions would have been expected, the actual picture did not conform to this expectation. Possibly due to

the improvement of their capital accounts, almost all OIC countries experienced improvement in their reserves during the period under consideration.

2.5. Total Outstanding External Debt and Foreign Direct Investment of the OIC Countries

Regarding the total external debt, it stood at approximately 627.8 and 694.6 billion US dollar in the OIC countries between 2000 and 2004, while the percentage of total developing countries ranged between 26.8 and 27.2 percent for the same years. The figures actually reflect the heavier burden of the external debts in the case of the OIC countries even as compared to developing countries. Debt is still a big problem for OIC countries. Amongst the OIC groups, the debt burden is highest in the case of the MDC group, and lowest in the LDC and FEC groups (Table 7B).

2.6. Regional Flows of Foreign Direct Investment (FDI)

Foreign direct investment is relatively low when compared to developing countries; it ranged around 8.4 percent to 12.9 percent during the period under consideration. The lowest foreign direct investment was for the LDC. The foreign direct investment was higher for the MDC group than both the FEC and the LDC. In 2001, the lowest amount of foreign direct investment for all OIC countries was 1.5, 6.1, and 1.5 billion US dollars, respectively. (Table 7B)

2.7. Aggregate Exports and Imports of the OIC Countries

Tables 8, 9, and 10 were composed to display the average rates of change in merchandise exports and imports. The OIC countries' exports amounted to $536.7 billion (representing 8.4 percent of the world exports) in 2000. That amount first decreased to $505.0 billion in 2002, and towards the end of the period, in 2004, it peaked to $801.6 billion. In the meantime, the share of OIC countries in world exports has fluctuated between 8.4 and 8.8 percent between 2000 and 2004. This share increased from 6.9 percent in 1995 to 7.6 percent in 1997. However, in 2002, the share of OIC group as a whole fell to 6.9 percent.

On the other hand, developing countries were able to continuously increase their share from 23.9 percent in 2000 to 19.5 percent in 2003 and 27.5 percent in 2004. However, developing countries showed a negative annual percentage change in year 2001. Meanwhile, the share of the industrial countries in world exports declined continuously from 7.1 percent in 2000 to -2.8 percent in 2001 and started recovering in 2002, 2003 and 2004 to 3.1, 15.0 and 17.5 percent respectively (Table 8). The rates of increase in OIC countries' exports were always realized at levels above those in developing and developed countries during the period 2000-2004, excluding 2001. This picture indicates that OIC countries were able to benefit enough from the expansion in world trade during these years. As a result, the OIC countries were able to increase their share in world exports during the period 2000-2004.

During the period under consideration, the highest rates of increase in exports of all groups were recorded in 2004 — except for the OIC which recorded the highest increase in 2000. However, the OIC export increase in 2004 was the second highest during the period under consideration; OIC countries realized a 31.5 percent, developing countries 27.5 percent, and the developed countries 17.5 percent increase during that year. As a result, the world average was equal to 21.3 percent. In year 2001 the annual rate of increase was negative for all groups; in the case of OIC countries, it fell to -7.5 percent. For the developed countries it fell to -2.8 percent and for developing countries it fell to -5.6 during the same year.

Regarding the performances of the OIC sub-groups, all of them managed to accelerate their rates of export increase during the period 2001-2004. After reaching peak levels in 2000, they could not preserve these high figures, and all of them suffered from a deceleration in their exports — to a negative percentage change. Then they started a recovery process to reach the peak in 2000. At the end of the period under consideration, they realized rates of increase between 29.0 and 33.2 percent. The highest annual rate of increase of 33.2 percent was observed for the FEC group in 2004, followed by a 29.8 percent annual increase in the MDC group and 29.0 percent increase in the LDC group.

Among the OIC countries, the FEC represented the highest share of total exports, it ranged between 47.6 and 51.6 percent. The MDC represented the second highest share, ranging between 45.4 and 49.3 percent while the LDC represented the lowest share ranging between 2.9 and 3.1 percent. On the other hand, the OIC imports increased from $397.3 billion in 2000 to $700.5 billion in 2004. The OIC share in world imports followed the same trend. It increased from 6.0 percent in 2000 to 7.4 percent in 2004. (Table 9)

Table 9 compares the import growth in OIC countries with the growth in each of the other groups. Similar to the developments on the export side, the OIC countries' imports accelerated during the period of our study with a negative rate of change for the MDC in 2001. The same trend is also observed in other groups of countries. This period appeared to be a very active phase for world exports and imports. Yet a sharp slowing down was observed in 2001.

The rate of increase realized in OIC countries' imports fell down from 12.8 percent in 2000 to -0.6 percent in 2001 then rose to 11.3 percent in 2002, 18.7 percent in 2003 and 34.3 percent in 2004. The general trend in developing countries was similar to that in OIC countries. In developing countries, the rate of increase of imports reached 18.8 percent in 2000 and declined to -2.2 percent in 2001 and then started to recover and reach 6.6 percent in 2002, 18.4 percent in 2003 and 28.7 percent in 2004. In industrial countries, the rate of increase of imports also slowed down to -3.5 percent in 2001 after recording a high rate of 10.7 percent in 2000 but went up to 18.5 percent in 2004.

Regarding the sub-groups of the OIC countries and during the period 2000-2004, all of them— LDC, MDC and FEC groups — recorded high rates of increase in 2004. The LDC group followed a stable trend. The rate of change accelerated during the period, dropping only slightly in 2001 without reaching negative. The MDC had the general OIC trend starting with 5.5 percent in 2000, turning negative in 2001 and rising to 38.6 percent in 2004. It is worth mentioning that the decrease in the rate of change between 2000 and 2001 for the MDC was a high negative rate of 12.3 percent. For the FEC it started with a negative 4.8 rate of change in 2000 but contrary to the others it soared high to 23.9 percent in 2001only to drop to 11.9 percent in 2002 and rise again gradually to reach 29.5 in 2004.

As a result of the developments in exports and imports summarized above, the trade balance of the OIC countries fluctuated widely in recent years and recorded surpluses of $139.5 billion, $101.6 billion, $65.5 billion, $87.8 billion and $101.1 billion in 2000, 2001, 2002, 2003 and 2004, respectively. The surplus was the general feature of the trade balance for OIC countries. However, almost all the sub-groups of OIC, excluding the FEC, experienced deficits throughout the period under consideration.

There are a number of impediments to trade among OIC countries. Firstly, most of the OIC countries are poor. Secondly, there is lack of reliable and updated trade information among these countries. A database at the commodity level needs to be created to spot excess demand in certain commodities so member countries can trade those commodities among themselves. Thirdly, there are limited opportunities for business contacts among the private bodies of the OIC countries. Exhibitions are not organized on a regular basis so that such contacts can be established. Fourthly, there is a lack of marketing and distribution skills among the business people of OIC. Products do not always meet buyers' specifications or international standards concerning packaging, color, style and environmental standards. Finally, the exports of many OIC countries are not diversified. For many OIC countries, a small number of products account for a significant chunk of their exports.

2.8. OPEC Crude Oil Production

Table 10 represents the two types of OPEC oil, OPEC-10 and OPEC-Venezuela, and also includes total OPEC oil production. It includes the annual amounts for years 2003, and 2004 and the first four months of 2005. OPEC production of crude oil has steadily increased over the studied period —from 26965 barrels in 2003 to 29068 barrels in 2004 then gradually to 29309, 29442, 29677 and 29953 barrels in the first four months of year 2005. The same trend is noticed for the other two types of oil.

2.9. World Oil Demand-Supply Balance

Table 11 reports that total world demand compromised of OECD countries and developing countries, and the world oil supply compromised of non-OPEC and OPEC NGLs and OPEC crude oil productions. The balance between supply and demand in the oil market was a positive 0.6 barrel in 2000, then decelerated to 0.0 barrel in 2001 and decelerated even more to negative 1.1 barrel in 2002. Afterwards, it started recovering but stayed at negative 0.2 barrel in 2003 but turned to positive 0.7, 1.2 barrels in 2004, 2005, respectively.

The world demand increased during the period of the study from 76.5 barrels in 2000 to 83.1 barrels in 2005. This increase in demand came from both OECD and developing countries and ranged from 48.0 barrels in 2000 to 49.6 barrels in 2005 for OECD, and from 19.3 barrels in 2000 to 21.1 barrels in 2005 for developing countries. About two thirds of the demand came from OECD countries. China as a high growth country represented about 6% of total world demand; its demand ranged from 4.7 barrel in 2000 to 6.4 barrel in 2005.

On the other side, the world supply of oil also increased during the period under consideration and the rate of change was sometimes higher than that of the demand and sometimes lower — justified by an alternating balance sign. The oil world supply recorded 77.0, 77.2, 76.7, 79.3, 82.8 and 84.3 in 2000, 2001, 2002, 2003, 2004 and 2005, respectively. About thirty percent was supplied by OPEC crude oil production — 28.0 barrels in 2000, 27.2 barrels in 2001 and 25.4 barrels in 2003. Later the supply rose to 27.0, 29.1 and 29.9 in 2003, 2004 and 2005. Meanwhile the non-OPEC production supply also increased during the period of study and ranged from 49.0 in 2000 to 54.4 in 2004.

3. Preferential Trading Agreements among OIC Countries

A distinction can be made between the major regional integration schemes comprising only OIC countries, and other groupings composed of other developing countries in addition to OIC countries. The former group belongs to four regional groupings: the Arab Maghreb Union

(AMU), the Council of Arab Economic Unity (CAEU), the Gulf Co-operation Council (GCC), and the Economic Co-operation Organisation (ECO).

The latter group includes regional integration schemes in Africa such as the African Economic Community (AEC), the Central African Customs and Economic Union (UDEAC), the Common Market for Eastern and Southern Africa (COMESA), the Cross-Border Initiative (CBI), the Economic Community of Central African States (ECCAS), the Economic Community of West African States (ECOWAS), the Indian Ocean Commission (IOC), the Mano River Union (MRU) and the West African Economic and Monetary Union (WAEMU). The second group also includes similar formations in Euro-Asia like the Association of South East Asian Nations (ASEAN), the Black Sea Economic Co-operation (BSEC), the Commonwealth of Independent States (CIS), the East Asian Economic Caucus (EAEC) and the South Asian Association for Regional Co-operation (SAARC).

3.1 Regional Groups within OIC Member Nations

Some regional integration schemes in this group, namely the Arab Maghreb Union (AMU), the Council of Arab Economic Unity (CAEU) and the Gulf Co-operation Council (GCC) aim to establish customs unions at the first stage and to establish a common market amongst member countries later on (Table 1b). The ECO, on the other hand, is a preferential trade arrangement in which the participating countries apply a preferential treatment to some selected products from the member countries.

In the case of the Arab Maghreb Union, the common market is called the Maghreb Economic Space in which the free movement of citizens, goods, services and energy products within the region is foreseen. The AMU, in general, aims to strengthen economic and cultural relations, ensure regional stability and increase trade exchanges amongst the countries in the region. On the other hand, the Governors of the Central Banks of the AMU signed a multilateral payments agreement to facilitate inter-bank operations within the region. The agreement set unified modalities of payments between the central banks and provided monthly settlement of balances between the countries without interest. The AMU allows bilateral arrangements between the participating countries. It also provides for the possibility for other Arab and African countries to join the Union at a later stage.

In the case of the Council of Arab Economic Unity, the ultimate aim is to establish an Arab Common Market in stages. It first aimed to establish a customs union. All restrictions on trade between the member countries, including quotas and the restrictions on residence, employment and transport, are to be abolished. The CAEU provides a flexible framework for economic co-operation.

The Gulf Co-operation Council also aims to establish ultimately a common market amongst its members by realizing free movement of goods, services and factors of production. In order to achieve this objective, the GCC tried to formulate and consolidate similar regulations in various fields including, inter alia, economic and financial affairs, agriculture, industry, commerce, customs and communications, education and culture, social and health affairs, information and tourism, and legislative and administrative affairs. It further aims to secure stability in the region through economic and political co-operation and co-ordination of commercial, monetary, financial, and economic policies.

On the other hand, the ECO aims to take measures towards the progressive removal of barriers within the region and expansion of intra- and inter-regional trade. In this sense, it does not aim to set up a conventional integration form like a free trade area, a customs union, a common market or a monetary and economic union. Rather, it is a preferential trade area in which member countries try to reduce custom tariffs and similar barriers in some product categories.

3.2 Regional Groups among OIC Member and Non-Member Nations

In this group, we have studied 9 integration groupings among the African OIC countries and 5 others among the OIC members in the Euro-Asian region (Table 1c). Actually, the African OIC countries are very active in establishing and developing regional economic groupings. Furthermore, the regional integration schemes of the African OIC members, in general, aim to attain higher forms of regional integration, like common markets or economic and monetary unions. For example, the African Economic Community (AEC), the Central African Customs and Economic Union (UDEAC), the Common Market for Eastern and Southern Africa (COMESA), the Economic Community of Central African States (ECCAS), the Economic Community of West African States (ECOWAS) and the West African Economic and Monetary Union (WAEMU) are designed to establish such higher integration schemes.

In the case of the Mano River Union (MRU), the main objective is to set up a customs union among participants. The Indian Ocean Commission (IOC) aims to establish just a preferential trade area, and the Cross-Border Initiative (CBI) a free trade area (Table 1c). In Euro-Asia, the number of regional economic groupings of OIC countries and others is less compared to the African OIC members. Furthermore, these groupings do not intend to establish higher forms of regional economic integration. Among them, the ASEAN and the Commonwealth of Independent States (CIS) aim to enhance economic integration up to the level of a customs union. The rest is either a preferential trade area or only a simple regional co-operation agreement.

3.3. Lessons from OIC Countries Sub-regional Groupings

The main objective or the basic justification of economic integration is to enable the participating countries to attain higher rates of growth and development together. Only such a prospect would convince the sovereign states in this highly nationalistic age to submit to the restraining framework of a common organizational set up where discretionary national policies would rarely be allowed to reign. (Ahmed and Urugel, 1996; Farid, 1993). The OIC member countries in Asia, in the Middle and Near East, and especially in the Far East, have also been active participants in various economic co-operation and integration schemes, some of which are quite old, while there are others that have recorded significant progress. Their experiences would also prove highly useful to the OIC as a whole. The OIC countries have attempted two types of cooperation and integration schemes: those comprising OIC countries only and those with other developing countries.

The historical experience of the various integration schemes among the OIC countries have shown that the conceptual and practical difficulties these countries have faced with regards to the integration projects are indeed considerable. They arise in fields as diverse as the transport and communications systems inherited from the colonial period (quite unsuitable for intra-regional trade), the competitive structures of the industries and natural resources of countries potentially interested in joining regional groups, the existence of vested interests unwilling to give up the protection they now enjoy, unrealistic exchange rates, and even the shortage of basic statistical

data, which often rules out any reliable assessment of the probable repercussions of the integration process.

It is readily observed from the above selective and cursory review that the member countries in the African and Arab groups of the OIC have especially been participating in such schemes, and many of which have set for themselves very advanced forms of integration as eventual targets. In fact, more than two-thirds of the OIC member countries have been associated with regional and sub-regional economic co-operation and integration schemes, and interestingly but understandably, the Least Developed OIC countries figure in many of them. This should be construed as an indication, on the part of the majority of the OIC countries, of the political will and readiness to join together with other developing countries within quite ambitious schemes to achieve advanced forms of economic integration as soon as possible. This should be considered as a very useful asset for the OIC as a whole, as it readies itself to embark upon community wide action to expand and extend cooperation. (Cindoruk, 1992, 1988; Ahmed and Urugel, 1996).

The most serious difficulties are encountered in three fields: the effective co-ordination of investment throughout the region, the need to compensate member countries which may suffer losses in the early stages and the step-by-step surrender by member countries with powers to take economic and social decisions at the national level.

The first point is of importance. Not only is the coordination of investment essential for establishing region-wide industries, which will make it possible to reduce costs of production, but it is also the cornerstone of any planning that aims at an equitable distribution of the fruits of development. Without such planning and the compensatory measures that go with it, poles of development that will appear would aggravate the disequilibria between participating countries. Again with the aim of preventing a widening gap between participating countries, it is essential that financial compensation should be made to the weaker members. But in most of the associations of developing countries, this compensation cannot be provided without external help.

By definition, a common market is a scheme of economic integration where the members agree to abolish all the tariffs on each others' exports, follow a common tariff policy towards their imports from the rest of the World, and allow a free flow of commodities as well as productive factors (capital, labor, entrepreneurship and technology) between themselves. Yet, even those OIC member states who had been parties to various formal integration schemes over extended periods of time could not manage to take such substantive steps on the road to more advanced forms of economic integration like common markets. Furthermore, the geographical diversity, the lack of transportation and communication facilities, and the scarcity of readily available current information about one another are also significant impediments to such integration. It would be better at the start to be content with objectives more modest than the complete integration of the economies. It is by beginning with cooperation in concrete investment projects, limited in scope, or even with the step-by-step expansion of trade between the OIC countries, that the climate of mutual trust and solidarity, which is an essential prerequisite for the realization of ultimate integration, can best be created. (Ahmed and Urugel, 1996).

In view of the rapidly changing World scene, where the South is going to face a more integrated North than before, and taking into consideration the problems mentioned above, the approaches to OIC cooperation need to be remodeled to attain two goals simultaneously: to create powerful economic entities capable of facing the challenges emanating from the emergence of huge

economic blocs and to achieve structural transformation of the OIC countries' economies in order to attain economic efficiency and social welfare. Such an orientation would require that more emphasis be put on development cooperation. One of the most useful and practical approaches to such an orientation would be through regional economic integration schemes interlinked with one another at the OIC level.

An Islamic Common market should be a long-term ideal for the OIC member countries, to be approached carefully and in stages. Though far from reaching an advanced stage, some important initiatives have so far been taken in a multitude of economic co-operation fields comprising trade preferences, joint-ventures, co-ordination and harmonization of various sets of economic policies, regional schemes of monetary and financial co-operation. Once these modalities are made to work more thoroughly, the establishment of regional integration schemes, linked to one another with special preferential arrangements, could seriously be considered. This could, in turn, constitute the concrete foundation of an overall Islamic Common Market Framework made up of regional components. (Ahmed and Urugel, 1996).

4. The Gravity Model of OIC Member Countries' Various Groupings

4.1. Methodology and Data

A Gravity model offers a systematic framework for measuring the normal pattern of trade. International trade flows are determined by comparative advantage, possibility of intra industry trade, transport cost etc. Trade policy may revise the normal trade flows. A gravity model of international trade estimates the trade flow as a function of variables that directly or indirectly affect the determinants of normal trade flow. We can use the gravity model to examine whether a lower magnitude of intra-OIC trade is a normal outcome or not.

The gravity model has long been used for empirical studies of patterns of trade. Specifically, the volume of trade between two countries should increase with their real GDPs (the so-called gravity variable), since large countries should trade more than small ones, and with per capita incomes, since rich countries should trade more than poor ones. It should diminish with geographical distance because proximity reduces transportation and information costs. Since the dependent variable in the gravity model is bilateral trade between pairs of countries, each variable (other than distance) is entered in product form. Researchers then add dummy variables for participation in various preferential arrangements. If one finds a positive coefficient on the dummy variable indicating that two countries, both of which participate in the same preferential arrangement, trade more with one another than predicted by their incomes and distance, then the conclusion drawn is that the arrangement is trade-creating for its members. If there is a negative coefficient on the dummy variable indicating that only one member of the pair participates in a particular preferential arrangement, this is taken as evidence of trade diversion vis-a-vis the rest of the world. (Bayomi and Eichengreen, 1995; Eigengreen and Irwin, 1996).

The typical gravity model specification relates bilateral trade to income, population (or per capita income), distance and congruity between the trading partners:

$$\log\left(TRADE_{ij,t}\right)=\alpha+\beta_1\log\left(GDP_{it}\cdot GDP_{jt}\right)+\beta_2\log\left(PCI_{it}\cdot PCI_{jt}\right) \\ +\beta_3\left(DISTANCE_{ij}\right)+\beta_4\left(BORDER_{ij}\right) \quad (1)$$

where $TRADE_{ij,t}$ is bilateral trade between countries *i* and *j* at time *t* (measured in U.S. dollars), *GDP* is real gross domestic product (the so-called gravity variable), *PCI* is per capita income, *DISTANCE* is distance between two countries, and *BORDER* is dummy variable which takes a value of 1 if two countries have a common border and 0 otherwise. As trade is expected to increase with size of domestic economy (*GDP*), per capita income (*PCI*) and common border (*BORDER*) and to decline with distance (*DISTANCE*), β_1 , β_2 and β_4 should be positive, and β_3 negative.

Annual data on bilateral trade flows among OIC countries has been collected from IMF's Direction of Trade Statistics, and the SESRTCIC database. The UNCTAD and the United Nations COMTRADE database has also been used to compare import and export trade flows of OIC countries. A substantial amount of data has also been collected by hand from different various documents.

The Gravity model, however, has a number of weaknesses. One is that the coefficients on dummy variables for subgroups of countries will pick up all respects in which those countries differ in their trade performance that are not controlled for in the gravity equation. Dummy variables for preferential arrangements serve as a catch basin for omitted factors. Another difficulty is the measurement of distance. The underlying theory appeals to transaction costs to trade, and in empirical implementation it is posited that such costs should rise with distance. But economic and geographic distances are not the same. Insofar as economic distance is mismeasured, its effects may be loaded into the dummy variables intended to capture the effects of regionalism. The third problem is the omission of third country effects. It is generally assumed that bilateral trade depends only on economic conditions in the two countries considered. In practice, however, bilateral trade will also depend upon competitiveness relative to other countries and markets. More generally, insofar as economic variables in third countries affect trade flows between other country pairs, gravity equations suffer from omitted-variables bias. Finally, the practice of pooling data for industrial and developing countries creates a heterogeneity problem. While this maximizes degrees of freedom, the relationship between trade and economic characteristics may vary between the two groups of countries. The income elasticity of trade may be different at high and low levels of income or for different types of goods, for example. Transaction costs may have very different structures in countries with more or less articulated markets. Results based on heterogeneous cross sections may therefore suffer from subsample instability and heteroskedasticity. (Bayomi and Eichengreen, 1995).

4.2. Analysis of Empirical Results

A more systematic way of adjusting for the natural determinants of trade is by means of the Gravity model. The assumptions of the model are that trade between two countries is proportionate to the product of their GNPs and the product of their per capita GNPs. An increasing function of adjacency (when two countries share a common land border), and inversely related to the distance between them. Dummy variables are added when both countries in a given pair belong to the same regional grouping. This provides the means of determining how much trade within each region is due to factors common to trade throughout the world and how much remains to be explained by regional effects.

We have run Gravity model estimations for 1998. The results are reported in Tables 12 though 14. Table 12 presents descriptive statistics while Table 13 presents the correlation matrix of various explanatory variables used in the gravity model. We use regional block variables in our

analysis in three ways. First, we use five regional blocks of countries, GCC, SAARC, AMU, ECO and D8, for these blocks represent a significant amount of trade among themselves. SAARC block consists of Bangladesh, India, Nepal and Bhutan, Pakistan, Sri Lanka and Maldives. GCC consists of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and UAE. AMU block consists of Algeria, Mauritania, Morocco and Tunisia, whereas ECO consists of Iran, Pakistan and Turkey. D8 block consists of Bangladesh, Pakistan, Malaysia, Indonesia, Egypt, Iran, Turkey and Nigeria. Second, we form a hypothetical trading block GCCAMUECO among the member countries of GCC, AMU and ECO blocks to examine the likely effects of such grouping if they were to materialize. Third, we add a term for each grouping in order to capture trade-diversion effects. These terms are indicated by a suffix "N", standing for trade with non-members of the grouping in question.

We present the regression results in Table 14. To check the robustness of our results, we perform three regression runs: first, with the existing and hypothesized trading block countries; second, with existing trading block countries; and finally, with the hypothesized trading block countries. We have 31 countries in our data set, so that there are 465 data points [$=(33\times 32/2)$] for a given year. We find all three standard gravity variables (GDP, GDP per capita, distance and contiguity) to be highly significant statistically at the 1% level of significance. All variables have their expected signs. The positive sign for GDP per capita variable suggests that as the GDP per capita of a country improves, it trades more with its block member.

The dependent variable in all regressions is the value of trade (imports plus exports), in log form, between pairs of countries. The estimated coefficient on the log of the product of the two countries' GDPs at about 0.349 indicates that trade increases with size but less than proportionately. This reflects the fact that small countries tend to be more dependent on trade than larger, more diversified ones. The estimated coefficient on the product of per capita GDPs is about 0.349, indicating that poorer countries trade less with each other. The coefficient on the log of distance is –0.369 indicating that when distance between two nonadjacent countries is higher by 1%, trade between them falls by 0.37%. The coefficient on adjacency, at 1.162, indicates that two countries sharing a common border trade roughly three times as much [$\exp(1.162)=3.20$] as two otherwise similar countries.

If there were nothing to the notion of trade blocks, these basic variables would soak up most of the variation in bilateral trade flows, leaving little to attribute to a dummy variable indicating whether two countries are members of the same regional grouping. Variations in intra-regional trade would be due solely to the proximity of countries and their rates of economic growth. The dummy variables for GCC, ECO, D8 and GCCAMUECO are statistically significant, but only D8 has positive sign. These results indicate that only D8 block is trade-creating, but all other regional blocks do not create trade among themselves. In addition, SAARCN has a positive and significant coefficient indicating that it does not divert trade from its low cost outside producers. However, the coefficient of ECON is negative and significant indicating that it reduces trade from low-cost outside producers.

For example, D8 dummy variables are statistically significant, indicating the preferential trading agreements among these countries would yield trade creation benefits. Two countries in D8 block would trade 22 times more among themselves than two otherwise-similar country outside the block would. However, two countries in the D8 block would not divert trade from non-D8 block countries, signifying that the formation of D8 block will not be trade-diverting (negative

trade diversion is used as a criticism against the formation of preferential trading arrangements) $\exp(1.873) = 6.50$.

Only the SAARC block within the OIC member countries would not be trade-creating. However, SAARC countries would trade more with non-SAARC countries. If two countries are members of GCCAMUECO, they would trade more than two [$\exp(0.823) = 2.281$] times as much as would two otherwise-similar countries, and trade more than two times with non-ECO countries.

5. Recommendation and Policy Options for Establishing an Islamic Common Market

5.1. Economic Cooperation and Regionalism

The classical literature on the subject of preferential trading arrangements as developed by Viner (1950) concludes that a regional arrangement is more likely to be welfare-improving if: (1) there is a broad scope for production specialization among countries within a block; (2) tariffs and non-tariff barriers to intra-trade are substantially reduced; (3) tariffs and non-tariff barriers with third countries are lower after the formation of trade agreements; (4) in order to expand the scope of net welfare gains, trading agreements should allow accession by any interested country, regardless of geographical location; (5) trading agreements should support member countries to introduce and expand unilateral liberalization measures; and finally (6) trading agreements should restrict the use of unfair trade policies and minimize the protectionist effects of rules of origin, and whatever policies undermine trade competition.

In Preferential Trade Agreements (PTAs), both trade creation (TC) and trade diversion (TD) occur. TC occurs when preferential tariff cuts cause a partner nation to start importing from its other partners rather than producing the goods itself, due to the fall in relative price of the imported good through tariff removal, regardless of its preferential nature. TD occurs when a partner country starts importing a good from its other partners rather than from non-partner countries, due to the fall in the price of the partner-sourced import good relative to the non-partner-sourced import good, caused by the preferential nature of the tariff cut. Since the PTA involves some trade liberalization, there is a potential welfare gain to the member country in the standard economic model (due to TC), but because the PTA involves a new distortion in the market due to the preferential or discriminatory nature of the tariff cut. There is also a potential welfare loss (due to TD). The potential overall welfare effect is ambiguous and must be decided empirically, rather than theoretically, case by case.

Depending upon the level of integration, regional economic groupings may be classified into six major groups as follows: 1. Preferential trade areas; 2. Free trade areas; 3. Customs unions; 4. Common markets; 5. Monetary unions; and 6. Economic unions.

A preferential trade area is the weakest form of economic grouping. The member countries reduce customs tariffs in some product categories. They apply a preferential treatment to some groups of goods from the member countries as compared to the rest of the world. Higher tariffs would remain in place for all remaining product categories.

In free trade areas, participants aim mainly to expand trade activities among themselves. For this purpose, they eliminate customs tariffs on the products they produce themselves. However, they maintain their own external tariff on imports from third parties. For this reason, free trade areas are criticized on the ground that import products from third countries may penetrate into the grouping through the customs of the Member State with the lowest tariff and may then be re-

exported to the other participants. In order to prevent such trade, free trade areas generally develop very elaborate rules of origin.

A customs union, on the other hand, is a higher form of free trade area, and eliminates the deficiency mentioned above. In a customs union, the participants not only agree to abolish or reduce tariffs between themselves, they also set a common external tariff policy against third parties. In this manner, the member countries, on the one hand, secure the free or privileged flow of tradable goods amongst themselves, and on the other hand, they form a discriminatory trade block against the non-member countries. In this case, the main concern becomes the co-ordination of the trade policies amongst the member countries instead of developing elaborate rules of origin.

A common market allows a free flow of not only the goods but also the services and the factors of production such as capital, labor, entrepreneurship, etc., across countries. It also establishes a common external tariff policy against third parties. However, such a scheme necessitates the co-ordination of commercial and industrial policies. Citizens of a common market can work and invest in any member country without any restriction.

A monetary union establishes a central monetary authority, which will determine monetary policy for all the participating countries. That authority issues a common currency to be circulated among the member countries. The EU has become a monetary union with the introduction of EURO as a common currency since July 1, 2002.

In an economic union, the participants will maintain free trade in goods and services, set common external tariffs among members, allow the free mobility of capital and labor. Additionally, they also agree to harmonize their national economic policies, and act as a single economic unit. The European Union (EU) is also a very good example of such an integration scheme. In the EU, the integration efforts extended even to the harmonization of social policies.

5.2. The Economic Rationale for the ICM

The economic rationale for the establishment of the ICM is provided by the empirical evidence about the extremely poor development performance of the majority of the disintegrated Islamic world's 52 national economies over quite a long time period in spite of the fact that the contemporary Islamic world as a whole possesses all the material prerequisites of the economic development. (Ahmed and Urugel, 1996; Anjum, 1996). The negative or extremely poor growth performance of the Islamic countries is because of the failure of international trade to work as the engine of growth for the Islamic countries because of the following factors: (i) inconsistent economic policies of the Islamic countries' governments; (ii) contemporary Islamic countries' reliance only on exports of few primary products (such as agricultural products, raw materials, fuels etc.) for earning foreign exchange to finance their development projects; (iii) low income elasticities of demand in case of primary products; (iv) continuously deteriorating prices of primary products as compared to the prices of manufactured goods in the international markets; (v) exports of the Islamic countries being effectively discouraged by the secular developed countries through the imposition of discriminatory policies of quite high tariffs, quotas and other non-tariff barriers on their imports of manufacturing goods especially from the Islamic countries thereby making the Islamic countries highly vulnerable in the field of international trade and hence damaging their industrialization process; (vi) the Islamic countries' negative capital flows due to the excess of their imports over exports; (vii) inelastic exports; (h) exponentially rising debts of the Islamic countries; (i) overvalued exchange rates; (j) too small domestic markets and

external outlets for the output of the Islamic countries' to realize the economies of scale; (k) quite a snail volume of intra-Islamic trade.

In this background it can be logically concluded that the Islamic countries can never completely realize all the potential gains from their trade in the international market which is overwhelmingly dominated by the non-Islamic countries that are inherently and extremely hostile towards Islamic countries and that the establishment as well as promotion of the ICM is the uniquely comprehensive solution of all the above-mentioned problems of the contemporary Islamic countries from the point of view of their most honorable survival on the global level. The ICM has the potential of being the largest diversified market of the contemporary world. It is capable of providing adequate opportunities for its constituents to fully develop as well as exploit their Islamic cultural links in order to achieve socio-economic solidarity and to generate massive aggregate demand. The resulting immense aggregate demand can in turn trigger the Islamic world's producers to avail the economies of the large-scale production and match their massive production with the massive aggregate demand thereby leading to the self-sufficiency of the Islamic world, reduced economic dependence on the non-lslamic countries for financial resources along with imports and exports from the point of view of achieving economies of scale, significantly high positive flow of capital, tremendously improved foreign currency reserves and immensely enhanced bargaining power of the Islamic countries in the international trade and financial markets. Hence the ICM can activate and promote the trade-creation-oriented, intra-Islamic trade, based on the Islamic doctrines of honesty and economic justice, as the real engine of sustainable economic growth and development for all the Islamic countries by providing them access to the largest global ICM.

The polarization between the EU, Japan and the US poses the question of whether regionalism leads to trade wars and regional protectionism, or whether these trade blocks would facilitate the world trading system under the auspices of the WTO. In either case, the basic fact is that competition in such areas as trade of goods and services will be on a much higher scale.

Additionally, the major economic blocks, the EU, NAFTA and APEC, started to concentrate on not only the issues of trade facilitation and liberalization but also on comparatively new issues such as trade in services, investment opportunities, intellectual property rights, labor standards, environment protection, technological standards, co-ordination of monetary, financial, fiscal and economic policies, etc. These resemble the major discussion topics of the multilateral negotiations within the framework of the WTO. However, these blocks are increasingly providing opportunities far beyond the liberalization process within the context of the WTO. Private-sector interest in enhancing market access and in strengthening investment opportunities has provided a further impetus to the search for new trading arrangements and the enlargement of the old ones.

The growth of regionalization, and especially the EU, raises a number of issues and problems for the OIC countries. The OIC community, no doubt, is and will be affected by the developments relating to the growth of these regional economic blocks. The OIC countries cannot be indifferent to these schemes which cover virtually all their major export markets, including Europe and North America. The main impact of the growth of these schemes will be on the trade of goods and services, investment and technology transfer. The creation of regional schemes implies, by definition, that members receive preferential access to one another's markets. Hence, non-members must suffer a relative erosion in market access. How important such an erosion would be for specific non-members depends upon a number of complex factors. All of these

developments necessitate closer co-operation and collaboration among the OIC countries, especially that the majority of them strive for greater access to the newly polarized markets as their traditional links. One important modality in this direction has been the establishment (or reactivating) of regional integration schemes.

5.3. Policy Suggestions

A striking feature of the OIC economies is that the volume of intra-regional trade is very low and the dependence on the industrialized countries considerable. To the extent that regional trade is limited by the absence of complementarity in production and resource base and financing difficulties, immediate benefits from trade creation within OIC may be limited. Removal of tariff and non-tariff barriers under the OIC block countries can open up some profitable intra-regional trade channels. In the long run, structural change through regional planning can create new vertical and horizontal linkages to generate dynamic benefits from integration.

Ariff (1998) argues that globalization and regionalism often conflict with each other. Powerful economic blocks may impede trade rather than promote it. He argues in favor of outward looking, cost-effective, low-profile, informal arrangements among the OIC member countries. He contends that D-8 formation is a move in the right direction with no adverse implications for any of the existing regional, bilateral and multilateral commitments of the member countries. For economic cooperation to take on a meaningful form, it is necessary for the D8 to solicit active private sector participation right from the beginning, and the private sector participation will be forthcoming only if the business environment in the member countries is conducive. It is, therefore, essential that the member states of D8 play no more than a facilitating role by minimizing or removing existing disincentives such as bureaucratic controls and offering at the same time additional fiscal and other incentives for intra-D8 investments.

Ariff (1998) also argues that much intra-OIC trade can be created, not through preferential trading arrangements which will cause trade distortions and which will also be costly to manage, but through intra-OIC private sector investment activities. There is enough empirical evidence to show that trade and investment are intimately interrelated. It is not by coincidence that the major trading partners are also the main sources of foreign direct investment for most countries. Investments open up new corridors for two-way trade for the importation of raw materials and intermediate inputs and the exporting of final products, not to mention the positive externalities which would accrue to other firms that are not directly involved in the investment projects.

Naqvi (1998) contends that the OIC members should strengthen the backward and forward linkages in production and investment to reap the economies of scale, to increase the size of the domestic and regional markets, and to deal effectively with EC, NAFTA, and APEC. ECO arrangements could be strengthened further. The trade within the OIC is highly concentrated in about 6 countries (Saudi Arabia, Malaysia, Indonesia, UAE, Iran and Turkey), while the rich countries of the region (Brunei, Gabon, Libya, Kuwait and Qatar) take any part in promoting intra-OIC trade, production and investment relationships: they export goods and capital mainly to OECD countries and import from them mostly wasteful luxury goods. By reversing this trend, the OIC countries belonging to the high-income and high-middle income, and low-middle income groups should bring their intra-OIC trade to the level already achieved by Saudi Arabia, Malaysia, Indonesia, Turkey, UAE and Iran at least in the short run. There should be a freer and much bigger flow of goods, capital and labor within the region.

Naqvi (1998) also opines that many public-good type projects should be undertaken within the region, financed by the richer OIC countries, to strengthen the weak infrastructure linkages by the construction of roads, railways and other means of communication. This will widen the regional market for goods, capital and labor. It will also permit the type of coordinated development strategies pursued in East Asia— capital and labor moving in opposing directions to equalize the wage rate and the rental on capital, and facilitating the location and relocation of industries to take advantage of the availability of cheaper capital, labor and technology within the region.

Naqvi (1998) further argues that the rate of economic growth in the OIC countries should be accelerated as a strategy to promote regional economic integration. The access to the markets of developed countries cannot be taken forgranted; it will be to these countries' advantage to free themselves from their respective stagnating growth locations by entering more fully in the OIC markets. The individual OIC members and the OIC region as a whole, can then engage in a virtuous circle of greater economic integration which would promote a faster rate of economic growth through the extension of the regional market, the fragmentation of production process in the region and product specialization according to each countries' comparative advantage.

Naqvi (1998) explains that the Sub-Saharan African members of OIC, where economic scarcity, famines and tribal wars threaten to undermine the social, political, and economic fabrics, should be brought under an elaborate regional development plan sponsored by the OIC. Resources from the rich members of the OIC must flow there, in the form of grants, equity capital, low-interest loans, to beef up their economies. This investment flow will also increase the size of the regional market by enlarging the per capita incomes of these countries and by creating a greater demand for regional exports. The oil-exporting countries should diversify the exports by instituting balanced production and export structures where agriculture, manufacturing and service sectors should play a greater role. The share of manufacturing sectors must steadily rise to about 40% of their GDPs within a decade. They should also produce high value added goods, such as biotechnology and computer software, where there is a strong world demand.

Naqvi (1998) recommends that the OIC countries should more fully use the mechanism of the WTO to explore areas where greater export expansion to the world market is possible. Also, legal battles will have to be fought within the WTO to meet the threats of anti-dumping actions, countervailing duties, an arbitrary use of safeguard clauses etc. by the developing countries. However, the real challenge to survive and prosper in the post-UR world trading order is for the region to work through and around the major trading blocks (EU, NAFTA, APEC), which together account for 87% of the world trade. Working through these trading blocks would require participating in as many trading blocks as is feasible. One way is to make use of the links that already exist with one or another of these trading blocks. For example, Turkey, Egypt and Morocco have important relationships with the EU, and Indonesia and Malaysia are linked with ASEAN and APEC. These countries could then apply the MFN clause in dealing with their OIC members. These routes would also facilitate the flow of the FDI and the transfer of technology to those OIC members who are not part of these groupings.

Although it appears that the scope of economic cooperation among Muslim countries is limited at present, it still offers an opportunity to initiate this cooperation even in a restricted sense. The historical experiences of EEC and ASEAN can serve as good examples. EEC was started in 1951 with the establishment of the European Coal and Steel Community and had only six founding members (Belgium, Luxembourg, France, W. Germany, Italy and the Netherlands). The

association covered only two items- coal and steel. Now, EEC not only includes all Western European countries, but also Southern European Countries and plans are under way to integrate three Eastern European countries as well.

Forming an economic community based on cultural/religious grounds may not necessarily be unique to Islamic countries. Samuel Huntington (1993) contends that civilization identity will be increasingly important in the future and one consequence is that economic regionalism is increasing along civilization lines. He cites the example of the European Community, which he claims, rests on the shared foundation of European Culture and Western Christianity. He also cites other examples such as the rapid expansion of economic relations between the Chinese/Confucian oriented culture countries such as China, Hong Kong, Taiwan, Singapore and the overseas Chinese communities in other Asian countries. He further mentions the formation of Economic Cooperation Organization, consisting of ten non-Arab Muslim countries, based on their common culture and religion, namely Iran, Pakistan, Turkey, Azerbaijan, Kazakhstan, Kyrgystan, Tadjikstan, Uzbekistan and Afghanistan.

The OIC member countries should participate more fully in the world trading regime, which consists of WTO, APEC, ASEAN, EU, NAFTA, and maximize the intra-OIC linkages through a freer movement of goods, capital, labor and technology. The OIC members should strengthen the backward and forward linkages in production and investment to gain economies of scale, to increase the size of domestic and regional markets. This kind of policy would be consistent with the globalization of world trade on a non-discriminatory basis and at the same time building geographically discriminatory trading arrangements on the pretext of helping the cause of a freer world trading system. (Ariff, 1998; Naqvi, 1998).

The OIC countries should make efforts to diversify their exports, enhance their potentials for trade in non-traditional and manufactured goods, expand trade complementarities, and take supportive measures to increase trade at regional and sub-regional levels. In order to improve intra-trade among the OIC countries, the richer capital-surplus OIC countries need to invest their surplus funds in member countries either in the form of direct investment (long term) to help economic growth or portfolio investment (short term) to help develop their capital markets.

The OIC countries can increase financial cooperation among themselves via clearing union arrangements, export credits and payments unions. The lack of internally generated foreign exchange in many of the OIC countries mean that most of the funds needed to finance imports must be obtained abroad. Often the financing is in the terms of development assistance or export credits made available by the developed countries. While this type of concessionary financing increases north-south trade, it does not provide any assistance in intra-OIC trade. Increased financial assistance among OIC countries may be able to achieve the later.

The international inconvertibility of the currencies of the member countries hinders trade. Since payments for trade (between the currencies) generally have to be made in convertible currencies, their own currencies are of little use. However, the provision of convertible currencies runs up against the foreign exchange constraint faced by the OIC countries. The operational issue is then to devise financial arrangements that facilitate greater trade and investment linkages and in the process circumvent the need for convertible currencies. Three such arrangements are: clearing union, export credit and payments union. An OIC Clearing House can be formed with the help of Islamic Development Bank. Another financing option to increase trade could be the provision of export credits by the OIC countries. The foreign exchange surplus OIC member countries can

provide short-term export credits only allowing the exporters to obtain local currency payments while waiting for payment in convertible currency. This type of arrangement is efficient if proceeds from export earnings are used to purchase goods from the importing country. Otherwise, the importing country is once again faced with the prospect of obtaining convertible currency. Finally, payments unions can also facilitate trade among the OIC countries. A payments union envisages the setting up of a fund that will be used to provide medium-term balance of payments credit to the subscribing countries.

Any financial arrangement, however, among the OIC countries will be limited by the non-convertibility of the currency of the many OIC member countries. The success of arrangements such as export credit facilities, the OIC Clearing Union and payments union will depend on the participation of the Islamic Development Bank in providing access to convertible currencies. An alternative route could be a willingness on the part of the trade surplus countries to accept non-convertible currencies as payment.

The turmoil in the world financial market causes more harm to developing countries than to developed countries as the former countries are ill-equipped to deal with an increasingly volatile world financial market. Globalization has great potential as an engine of development and growth and has yielded considerable benefits in the 1990s. While there are benefits for globalization, it is important to recognize its accompanying risks of destabilization and increased inequality between developed and developing countries, particularly the least developed ones, and within countries. There is need to address all aspects of globalization, including financial liberalization, and to establish appropriate safeguards to minimize the risks and to ensure that benefits of globalization are shared by all.

The global financial crisis, in particular the severity of the crisis in Asia, has highlighted weaknesses in the global economic and financial system. It also provided a clear message that for the effective functioning of the market economy, governments must play a positive role in the development and management of the international financial institutions, systems and infrastructure. There is a compelling need for reforms to guard against possible recurrence of such crisis as well as new threats of instability and protectionism. Such reforms should be a global effort with the participation of developing countries, so that the diverse experiences, problems and circumstances of countries at different stages of development are taken into account. There should be greater transparency and disclosure in the international financial market. This should also apply to all those in the public sector as well as the private sector, particularly large market players, such as hedge funds.

In order to make the OIC capital markets more attractive, the OIC member countries should take a number of specific measures to improve the liquidity of these markets, reduce transaction costs and improve pricing efficiency. The regulatory regime should focus on three main areas: the new issues market and related disclosure, accounting and listing standards; secondary market trading activities, including market surveillance and enforcement; and supervision of market practitioners through registration and prudential standards. These measures include legal provisions to prohibit insider trading, the means to enforce them, improving accounting and reporting standards, and simplifying procedures for listing new firms. OIC members should diversify their portfolio liabilities, encourage the use of several tools of investment notably acquisitions and promote joint ventures.

An equitable global trading regime, while benefiting both developed and developing countries should take fully into account the conditions of the developing countries through appropriate measures. The emergence of a rule-based trading regime, as institutionalized in the WTO, is a welcome step towards the effective and beneficial integration of countries into the global economy. There ought to be concrete measures in the WTO system designed to help countries that are particularly disadvantaged in the global marketplace. The special concerns of countries that are constrained by structural weaknesses and that also have to contend with tariff and non-tariff barriers when seeking access to markets in developed countries should be meaningfully addressed. Developed countries should provide adequate resources to the developing countries for investment and institutional capacity building to enable them to better deal with the challenges of a globalizes economy and open trading system.

Investment policies of the OIC countries should be determined based on the specific country situations. Each country should determine which type of FDI is consistent with its environmental, industrial and sectoral needs. The quality rather than quantity should be encouraged. Investment incentives should be evolved within the overall industrial and development policy of the country. In chasing FDI, the tendency towards location-competitiveness should be avoided. An environment conducive to private sector development should be promoted. This will simultaneously attract FDI, which will supplement domestic finance for development and help developing countries integrate with the global economy.

The roles of the government and the private sector are complementary and there can be synergy from close cooperation between the two. A vigorous dynamic private sector is indispensable for sustained growth. The governments have a vital role to play in improving social conditions and expanding social opportunities by appropriate measures in key-sectors. Access to world markets, greater inflows of foreign investments and larger external assistance and alleviation of foreign debt are essential to the developmental efforts of developing countries.

The formation of a Business Forum will bring businessmen of the OIC countries together. The D-8 will not be successful without effective support from the business community and creating an environment in which the private sectors of the respective countries can interact and cooperate. In order to increase the trade volume among the member countries, the issue of free movement of member states' businessmen within the D-8 countries for more interaction and cooperation should be addressed. A Business Forum, involving entrepreneurs of the member states, should be formed soon so that the simultaneous meeting of proposed Business Forum with the D-8 Summit could promote partnership for development and progress between the private sectors and the governments. The OIC countries can develop an investment information network among OIC member states, and setup investment promotion agencies to welcome and guide potential investors.

The D-8 would take an important place among other international cooperation schemes by forming another channel of dialogue between developed and developing countries. The D-8 should focus energies together for building the common future by making best use of vast geography and potentials of the member countries, to diversify and facilitate trade and to upgrade social and economic conditions of the people. The active involvement of private enterprise in trade and investment among the member countries of the D-8 should be strengthened.

Market instability and volatile financial flows had shown the fragility of the global economy and dangers of unchecked and unmanaged globalization. The developing countries face problem arising not only out of global economic slowdown but also a deepening socio-economic crisis due to evident inequities of the international economic system. There is a need to monitor, regulate and manage globalization to attain the objective of growth coupled with equality. International financial institutions must not tag unnecessary conditions to credit. Barriers that have been raised to exports from developing societies on unreasonable and flimsy social pretexts have to be pulled down.

D-8 is a smaller club with the intention of harnessing indigenous resources of the member states. The wealth and potential of the Islamic and developing nations have not contributed to the welfare or the progress of people. Muslim countries can unite on a common platform. They should provide each other with their list of areas of support so that cooperation can be enhanced. The developing countries are heavily dependent on the western media for dissemination of information, which is heavily tilted, and gives distorted news about developing countries. The Muslim world can make efforts to make a news agency, which will reflect the point of view of its own people. The D-8 member states, having the common bond of Islamic culture and heritage and the unity of the Muslim nation, could promote economic emancipation of their peoples and enable them to face the emerging challenges of the next millennium.

A higher degree of international cooperation coupled with a higher degree of transparency and prudence in the markets could have well prevented the outbreak and expansion of recent financial crises. Although the degree of damage varies from one country to another following the effect of global, financial and economic crises, consultations and cooperation within the framework of D-8 would facilitate individual contributions towards shaping institutional and financial reforms in the global economy.

A number of concrete policies can be implemented to further the cause of Islamic common market. We argue that it is better to follow a gradual approach than one shot approach. First, it is better to create subgroups of OIC based on regions with geographical proximity so as to achieve more active cooperation which is practicable only in smaller groups comprising countries who share common geography with similar historical, cultural, and political experiences. Second, it is imperative to expand the scope of OIC effectiveness by involving participation by the communities through NGOs and private business sector organizations. Third, it is imperative to increase the number of ministerial level conferences so as to cover all important fields of statecraft. These conferences should be attended by respective ministers dealing with each subject. Fourth, it is crucial to accelerate the process of economic cooperation and interdependence so as to achieve better interaction and understanding. Economic system being the pivotal issue, efforts should be made to develop a consensus on Islamic economic system relevant to the present times. Fifth, it is necessary to establish a multi-disciplinary research organization within OIC secretariat to provide deliberate planning and policy making. This organization should maintain very close collaboration with similar governmental and non-governmental organizations in OIC member countries. Exchange of research work and open debate on all important issues should be encouraged and recommended options should evolve with a futuristic outlook. "Initiatives" should be taken by the Muslim world preempting the malicious designs of the anti-Islam groups. Sixth, immediate steps must be undertaken to establish an OIC information broadcast to project OIC views on contemporary ideological, political, and economic issues. Contributions of the Muslim world in promoting global peace,

progress and prosperity for the humanity at large should be consolidated and projected internationally through the electronic media.

The new initiatives amongst the OIC countries may, first of all, emphasize co-operation more in terms of project-oriented arrangements rather than focusing on more structured and multi-faceted integration schemes like free trade areas, customs unions and common markets. Secondly, the partners in these new arrangements will be given more freedom in taking liberalization measures at their own pace. Thirdly, the arrangements may also allow more opportunities to be negotiated at bilateral levels with the interested partners in line with common interests. Fourthly, these co-operation agreements may assign priority to physical infrastructure, such as transport and communications, as well as support areas like training, research, and technology. Fifthly, the private sector must be encouraged and supported by the necessary measures to facilitate and to promote trade exchanges amongst the OIC member countries. Furthermore, all the barriers to trade may be eliminated gradually on a step-by-step approach.

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Table 1A: PTA and Regional Economic Groupings of the OIC Countries

	AEC	UDEAC	COMESA	CBI	ECCAS	ECOWAS	IOC	MRU	WAEMU	AMU	CAEU	GCC	ASEAN	BSEC	CIS	EAEC	ECO	SAARC
Sub-Saharan Africa																		
Benin	*					*			*									
Burkina Faso	*					*			*									
Cameroon	*	*			*													
Chad	*	*			*													
Comoros	*		*	*			*											
Djibouti	*		*															
Gabon	*	*			*													
Gambia	*					*												
Guinea	*					*		*										
Guinea-Bissau	*					*												
Mali	*					*			*									
Mauritania	*					*				*	*							
Mozambique	*		*															
Niger	*					*			*									
Nigeria	*					*												
Senegal	*					*			*									
Sierra Leone	*					*		*										
Somalia	*										*							
Sudan	*		*								*							
Togo	*					*			*									
Uganda	*		*	*														
Middle East, North Africa																		
Algeria	*									*								
Bahrain												*						
Egypt	*										*							
Iraq											*							
Jordan											*							
Kuwait											*	*						
Lebanon																		
Libyan A. Jamahiriya	*									*	*							
Morocco										*								
Oman												*						
Palestine											*							
Qatar												*						
Saudi Arabia												*						
Syria											*							
Tunisia	*									*								
United Arab Emirates											*	*						
Yemen											*							

Asia and Europe						
Albania		*				
Afghanistan					*	
Azerbaijan		*	*		*	
Bangladesh						*
Brunei	*			*		
Indonesia	*			*		
Iran					*	
Kazakhstan			*		*	
Kyrghyz Rep.			*		*	
Malaysia	*			*		
Maldives						*
Pakistan					*	*
Tajikistan			*		*	
Turkey		*			*	
Turkmenistan			*		*	
Uzbekistan			*		*	

Source: “Regional Economic Groupings of the OIC Countries” Journal of Economic Cooperation, 21, 2 (2000), 67-114.

Notes:
AEC: African Economic Community.
UDEAC: Central African Customs and Economic Union.
COMESA: Common Market for Eastern and Southern Africa.
CBI: Cross-Border Initiative.
ECCAS: Economic Community of Central African States.
ECOWAS: Economic Community of West African States.
IOC: Indian Ocean Commission.
MRU: Mano River Union.
WAEMU: West African Economic and Monetary Union.
AMU: Arab Maghreb Union.
CAEU: Council of Arab Economic Unity.
GCC: Gulf Co-operation Council.
ASEAN: Association of South East Asian Nations.
BSEC: Black Sea Economic Co-operation.
CIS: Commonwealth of Independent States.
EAEC: East Asian Economic Caucus.
ECO: Economic Co-operation Organisation.
SAARC: South Asian Association for Regional Co-operation.

Table 1B: Major Regional Integration Schemes Comprising Only the OIC Countries

Name of the organization	Number of members	Form of regional integration
Arab Maghreb Union (AMU)	5	Stage 1: Customs union. Stage 2: Common market.
Council of Arab Economic Unity (CAEU)	12	Stage 1: Customs union Stage 2: Common market.
Gulf Co-operation Council (GCC)	6	Stage 1: Customs union. Stage 2: Common market.
Economic Cooperation Organization (ECO)	10	Preferential trade area.

Source: SESRTCIC, 2000

Table 1C: Major Regional Integration Schemes of OIC Member Countries with Other Countries

In Africa

Name of the organization	Number of members	Number of OIC members	Form of regional integration
African Economic Community (AEC)	52	25	Stage 1: Free trade area. Stage 2: Customs union. Stage 3: Common market. Stage 4: Economic and monetary union.
Central African Customs and Economic Union (UDEAC)	6	3	Stage 1: Customs union. Stage 2: Common market. Stage 3: Economic and monetary union.
Common Market for Eastern and Southern Africa (COMESA)	21	5	Stage 1: Customs union. Stage 2: Common market. Stage 3: Monetary union.
Cross-Border Initiative (CBI)	14	2	Free trade area.
Economic Community of Central African States (ECCAS)	11	3	Stage 1: Customs union. Stage 2: Common market.
Economic Community of West African States (ECOWAS)	15	12	Stage 1: Common market. Stage 2: Monetary union.
Indian Ocean Commission (IOC)	5	1	Preferential trade area.
Mano River Union (MRU)	3	2	Customs union.
West African Economic and Monetary Union (WAEMU)	7	6	Stage 1: Common market. Stage 2: Economic and monetary union.

Source: SESRTCIC, 2000

Table 2: Population, GDP and Per Capita GDP

	2000	2001	2002	2003	2004
Population (Millions)					
OIC-LDC	346.3	355.3	364.5	373.2	382.3
OIC-MDC	653.7	664.9	676.9	690.0	701.6
OIC-FEC	296.2	303.1	310.2	317.7	325.3
OIC countries	1,296.2	1,323.2	1,351.5	1,380.9	1,409.2
As % of:					
World Total	21.3	21.5	21.6	21.8	22.0
Developing countries	25.4	25.6	25.8	26.0	26.1
GDP (Current Billion $)					
OIC-LDC	101.7	104.0	111.5	125.8	142.6
OIC-MDC	776.2	719.2	801.5	932.3	1,062.4
OIC-FEC	592.1	601.6	606.9	705.1	844.5
OIC countries	1,470.0	1,424.8	1,519.9	1,763.2	2,049.6
As % of:					
World Total	4.7	4.6	4.7	4.9	5.0
Developing countries	23.7	22.7	23.7	24.4	24.3
Developed countries	5.8	5.7	5.8	6.1	6.4
Per Capita GDP ($)					
OIC-LDC	327	326	341	375	415
OIC-MDC	1193	1,087	1,190	1,358	1,522

OIC-FEC	2,169	2,153	2,122	2,408	2,817
OIC countries	1,191	1,131	1,181	1,341	1,528
World average	5,170	5,061	5,190	5,742	6,345
Developing countries	1,215	1,215	1,222	1,357	1,566
Developed countries	25,571	25,018	25,899	28,770	31,596

Source: SESRTCIC DATABASE.

Table 3: Real GDP

(Average annual % change)

	2000	2001	2002	2003	2004
Real GDP					
OIC-LDC	4.6	5.6	5.1	5.4	5.5
OIC-MDC	5.6	0.6	4.9	4.9	6.1
OIC-FEC	5.5	2.6	2.8	7.2	5.3
OIC countries	5.5	1.8	4.1	5.9	5.7
World	4.6	2.5	3.0	4.0	5.1
Developed countries	3.8	1.2	1.6	2.0	3.4
Developing countries	5.8	4.2	4.7	6.4	7.2

Source: SESRTCIC DATABASE.

Table 4: Structure of Output

(Value-added as % of GDP, average 1999-2003)

	Agriculture	Industry:	Of which Manufacture	Services
OIC-LDC	28	25	12	47
OIC-MDC	17	33	20	50
OIC-FEC	10	47	10	43
OIC countries	15	38	15	47

Source: SESRTCIC DATABASE.

Table 5: Average Inflation
(% change in annual average consumer price indices)

	2000	2001	2002	2003	2004
OIC-LDC	4.2	3.7	5.4	5.8	6.6
OIC-MDC	17.5	18.8	16.5	9.7	6.6
OIC-FEC	2.6	3.4	3.8	4.5	5.1
OIC countries	10.5	11.5	10.6	7.3	6.0
Developed countries	2.2	2.1	1.5	1.8	2.0
Developing countries	7.1	6.7	6.0	6.0	5.7

Source: SESRTCIC DATABASE.

Table 6: Trade Balance and Current Account (Billion US$)

	2000	2001	2002	2003	2004
Trade balance					
OIC-LDC	-8.3	-9.2	-10.7	-15.5	-19.1
OIC-MDC	-12.3	7.2	-1.4	-1.1	-26.5
OIC-FEC	160.1	103.6	77.7	104.5	146.7
OIC countries	139.5	101.6	65.5	87.8	101.1
World	-210.4	-251.6	-212.8	-258.8	-370.7
Developed countries	-348.9	-307.4	-294.3	-382.6	-496.5
Developing countries	141.8	60.0	84.4	127.0	129.2
Current Account					
OIC-LDC	-4.3	-5.3	-4.5	-5.5	-6.3
OIC-MDC	1.0	13.7	16.5	18.2	8.3
OIC-FEC	87.3	52.2	30.4	67.4	128.2
OIC countries	84.0	60.6	42.4	80.1	130,2
Developed countries	-250.9	-201.6	-218.1	-231.9	-327.8
Developing countries	88.2	40.8	85.0	149.1	246.6

Source: SESRTCIC DATABASE.

Table 7A: Foreign Exchange Reserves (Billion US$)

	2000	2001	2002	2003	2004
Reserves Excluding Gold					
OIC-LDC	8.9	9.7	12.2	15.6	18.0
OIC-MDC	117.4	119.9	148.9	186.2	212.3
OIC-FEC	80.6	91.3	97.3	114.5	150.5
OIC countries	206.8	220.9	258.3	316.3	380.7
As % of					
Developed countries	24.2	25.4	26.0	25.9	27.1
Developing countries	17.6	17.2	16.9	16.3	15.5

Source: SESRTCIC DATABASE.

Table 7B: Total External Debt and Net Foreign Direct Investment (Billion US$)

	1999	2000	2001	2002	2003
Total External Debt					
OIC-LDC	76.2	72.6	69.2	74.5	80.3
OIC-MDC	472.6	479.6	469.3	501.3	535.0
OIC-FEC	78.9	76.4	71.8	72.2	79.3
OIC countries	627.8	628.6	610.4	647.9	694.6
As % of					
Developing countries	26.8	27.5	27.0	27.7	27.2
Foreign Direct Investment					
OIC-LDC	1.2	1.5	2.1	3.1	3.4
OIC-MDC	8.2	6.1	8.7	9.0	10.7
OIC-FEC	6.1	1.5	2.8	4.2	5.4
OIC countries	15.4	9.2	13.6	16.3	19.6
As % of					
Developing countries	8.4	5.5	7.8	10.6	12.9

Source: SESRTCIC DATABASE.

Table 8: Merchandise Imports
(CIF, Million US$)

	2000	2001	2002	2003	2004
OIC-LDC	23,817	24,908	26,429	34,281	43,308
OIC-MDC	256,112	224,545	250,316	287,099	397,784
OIC-FEC	117,372	145,472	162,785	200,418	259,474
OIC	397,301	394,926	439,530	521,797	700,565
As % of					
World	6.0	6.2	6.6	6.7	7.4
Developed countries	9.1	9.4	10.2	10.4	11.8
Developing countries	18.0	18.3	19.1	19.1	19.9
OIC-LDC/OIC	6.0	6.3	6.0	6.6	6.2
OIC-MDC/OIC	64.5	56.9	57.0	55.0	56.8
OIC-FEC/OIC	29.5	36.8	37.0	38.4	37.0
Annual % change					
OIC-LDC	5.5	4.6	6.1	29.7	26.3
OIC-MDC	24.1	-12.3	11.5	14.7	38.6
OIC-FEC	-4.8	23.9	11.9	23.1	29.5
OIC	12.8	-0.6	11.3	18.7	34.3
World	13.3	-3.1	3.9	16.8	22.1
Developed countries	10.7	-3.5	2.5	16.0	18.5
Developing countries	18.8	-2.2	6.6	18.4	28.7

Source: SESRTCIC DATABASE.

Table 9: Merchandise Exports
(FOB, Million US $)

	2000	2001	2002	2003	2004
OIC-LDC	15,516	15,757	15,684	18,741	24,174
OIC-MDC	243,765	231,734	248,906	286,034	371,287
OIC-FEC	277,449	249,073	240,486	304,909	406,208
OIC	536,730	496,564	505,076	609,684	801,668
As % of					
World	8.4	8.1	7.9	8.1	8.8
Developed countries	13.3	12.7	12.5	13.1	14.7
Developing countries	22.8	22.3	21.1	21.3	22.0
OIC-LDC/OIC	2.9	3.1	3.1	3.1	
OIC-MDC/OIC	45.4	46.7	49.3	46.9	46.3
OIC-FEC/OIC	51.6	50.2	47.6	50.0	50.6
Annual % change					
OIC-LDC	32.3	1.6	-0.5	19.5	29.0
OIC-MDC	16.9	-4.9	7.4	14.9	29.8
OIC-FEC	52.2	-10.2	-3.4	26.8	33.2
OIC	33.3	-7.5	1.7	20.7	31.5
World	12.7	-3.8	4.7	16.7	21.3
Developed countries	7.1	-2.8	3.1	15.0	17.5
Developing countries	23.9	-5.6	7.5	19.5	27.5

Source: SESRTCIC DATABASE.

Table 10: OPEC Crude Oil Production
(1000b/d)

	OPEC-10	OPEC-Venezuela	Total OPEC
2003	25,644	24,660	26,965
2004	27,052	26,488	29,068
2005 January	27,496	26,611	29,309
2005 February	27,596	26,742	29,442
2005 March	27,832	26,978	29,677
2005 April	28,081	27,300	29,953

Source: OPEC, 2005a, p.15

Table 11: World Oil Demand-Supply Balance (mb/d)

	2000	2001 2002 2003 2004	2005			
Total World Demand	76.5	77.2 77.9 79.5 82.1	83.1			
- OECD	48.0	48.0 48.1 48.9 49.6	49.6			
- Developing Countries	19.3	19.7 20.2 20.5 21.3	21.1			
- Memo: China	4.7	4.7 5.0 5.6 6.5	6.4			
Total Supply	77.0	77.2 76.7 79.3 82.8	84.3			
- Total non-OPEC Supply and OPEC NGLs	49.0	50.0	51.4	52.3	53.7	54.4
- OPEC Crude Oil Production	28.0	27.2	25.4	27.0	29.1	29.9
Balance	0.6	0.0 -1.1	-0.2 0.7	1.2		

Source: OPEC, 2005a, p.15

Table 12: Descriptive Statistics for 1998

Series O	bs	Mean	STD	Minimum	Maximum
LOGTRADE	465	1.000	1.800 0.000 7.845		
LOGGDP 465	18.349	2.439	11.939	23.403	
LOGPCI	465	14.016	1.901	10.200	19.268
LOGDISTANCE	465	7.643	0.786 3.638 8.895		
BORDER	465	0.088	0.284 0.000 1.000		
GCC	465	0.032	0.177 0.000 1.000		
GCCN	465	0.323	0.468 0.000 1.000		
SAARC	465	0.006	0.080 0.000 1.000		
SAARCN	465	0.181	0.385 0.000 1.000		
AMU	465	0.013	0.113 0.000 1.000		
AMUN	465	0.232	0.423 0.000 1.000		
ECO	465	0.002	0.046 0.000 1.000		
ECON	465	0.125	0.331 0.000 1.000		
D8	465	0.043	0.203 0.000 1.000		
D8N	465	0.363	0.482 0.000 1.000		
GCCAMUECO	465	0.142	0.349 0.000 1.000		
GCCAMUECON	465	0.490	0.500 0.000 1.000		

Notes: The data for this table was collected from the IMF direction of Trade Statistics and UN Comtrade Database.

Table 13: Correlation Matrix for1998

	LOGTRADE	LOG GDP	LOG PCI	LOG DISTANCE	BORDER	GCC	GCCN	SAARC	SAARCN	AMU	AMUN	ECO	ECON	D8	D8N	GCCAMUECO	GCCA MUECON
LOGTRADE	1.000																
LOGGDP	0.533	1.000															
LOGPCI	0.184	0.399	1.000														
LOG DISTANCE	-0.151	0.111	-0.124	1.000													
BORDER	0.308	0.114	0.072	-0.579	1.000												
GCC	0.108	0.124	0.423	-0.456	0.287	1.000											
GCCN	0.024	0.177	0.608	0.096	-0.085	-0.126	1.000										
SAARC	0.024	0.002	-0.051	-0.038	-0.025	-0.015	-0.056	1.000									
SAARCN	0.079	0.005	-0.132	0.268	-0.126	-0.086	-0.109	-0.038	1.000								
AMU	0.079	0.032	0.004	-0.112	0.233	-0.021	-0.079	-0.009	-0.054	1.000							
AMUN	-0.033	0.065	0.008	0.131	-0.099	-0.100	-0.118	-0.044	-0.099	-0.063	1.000						
ECO	0.095	0.083	-0.008	-0.029	0.149	-0.008	-0.032	-0.004	0.099	-0.005	-0.026	1.000					
ECON	0.186	0.313	-0.030	0.106	0.020	-0.069	-0.093	0.132	0.313	-0.043	-0.084	-0.018	1.000				
D8	0.369	0.337	-0.075	0.062	0.009	-0.039	-0.146	0.115	0.176	-0.024	-0.117	0.219	0.209	1.000			
D8N	0.149	0.431	-0.094	0.268	-0.014	-0.138	-0.119	0.051	0.238	-0.086	-0.119	-0.035	0.378	-0.160	1.000		
GCC AMUECO	0.239	0.296	0.464	-0.208	0.286	0.449	0.194	-0.033	-0.015	0.281	0.243	0.114	0.219	-0.056	-0.051	1.000	
GCC AMUECON	-0.087	0.131	0.206	0.182	-0.214	-0.179	0.372	0.028	-0.024	-0.112	0.234	-0.046	0.124	-0.017	-0.035	-0.399	1.000

Table 14: Gravity Model Regression Results for 1998

Variable	Coeffi Cient	*t*-stats	Coeffi Cient	*t*-stats	Coeffi Cient	*t*-stats	Coeffi Cient	*t*-stats	Coeffi Cient	*t*-stats	Coeffi Cient	*t*-stats	Coeffi Cient	*t*-stats
Constant	-3.255*	-2.596	-3.391*	-2.688	-3.993*	-3.446	-3.846*	-3.332	-3.455*	-3.023	-4.270*	-3.938	-3.189*	-3.088
LOGGDP	0.349*	7.445	0.347*	7.349	0.412*	12.232	0.413*	12.333	0.319*	7.188	0.413*	12.905	0.312*	7.394
LOGPCI	0.043	0.693	0.045	0.726	0.033	0.528	0.031	0.498	0.016	0.335	-0.027	-0.561	0.009	0.215
LOGDISTANCE	-0.369*	-3.089	-0.366*	-3.042	-0.401*	-3.316	-0.406*	-3.376	-0.225**	-2.056	-0.235**	-2.145	-0.249*	-2.284
BORDER	1.162*	3.827	1.268*	4.182	1.165*	3.772	1.063*	3.431	1.123*	3.779	1.081*	3.542	1.232*	4.222
GCC	-1.787*	-2.753	-0.904**	-1.601	-1.128**	-2.009	-1.935*	-2.973						
GCCN	-0.339	-1.357	-0.11***	-0.455	-0.266	-1.168	-0.477**	-1.965						
SAARC	0.239	0.286	0.162	0.193	0.593	0.699	0.667	0.789						
SAARCN	0.547*	2.789	0.563*	2.852	0.674*	3.455	0.658*	3.392						
AMU	-0.793	-1.131	0.081	0.129	-0.075	-0.120	-0.870	-1.239						
AMUN	-0.291	-1.392	-0.013	-0.698	-0.153	-0.904	-0.407**	-2.046						
ECO	-2.339	-1.563	-1.488	-1.009	-0.101	-0.068	-0.852	-0.565						
ECON	-0.499**	-1.958	-0.208	-0.893	-0.212	-0.904	-0.483***	-1.863						
D8	1.873*	3.920	1.852*	3.849	-	-	-	-	2.064*	5.008			2.116*	5.263
D8N	-0.022	-0.099	-0.006	-0.026	-	-	-	-	0.104	0.544			0.142	0.765
GCCAMUECO	0.823*	2.696	-	-	-	-	0.755**	2.413	0.073	0.264	-0.141	-0.518		
GCCAMUECON	0.000*	0.000	-	-	-	-	0.000*	0.000	-0.293***	-1.718	-0.399**	-2.339		
R-square	0.401		0.393		0.362		0.369		0.394		0.356		0.389	
F-statistic	21.725		22.445		22.960		21.868		38.659		43.713		50.280	
Significance of F	0.000		0.000		0.000		0.000		0.000		0.000		0.000	
DW	2.079		2.061		2.169		2.186		2.095		2.216		2.080	

Note: *, **, *** indicate significance at 1 percent, 5 percent and 10 percent levels respectively.