

**GLOBALISATION--GLOBAL INTEGRATION--WITH OR WITHOUT  
REGIONAL ECONOMIC INTEGRATION?  
CHALLENGES CONFRONTING THE OIC COUNTRIES**

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As a significant subset of the developing world, the member countries of the Organisation of the Islamic Conference (OICMCs) will inevitably be faced with the serious impact of globalisation on the one hand, and with the negative as much as the positive implications of regionalisation on the other. Their own efforts over a period of more than two decades to enhance regional co-operation and integration at the OIC level seem to have made little impact. In view of the confusing or unpredictable trends witnessed in the world economy at the threshold of the 21st century, the question “*where to go from here*” is pertinent to raise. Internal dynamics and exogenous changes at the global level will certainly force the OIC countries to adjust and reform at the national level, while configuring, if possible, viable courses of action to enhance intra-regional co-operation/integration. This paper attempts to review the emerging trends in global and regional integration and to consider their implications for the OIC countries in the light of the latter’s efforts over the last two decades.

**1. INTRODUCTION**

The fact that the international economy has become more interdependent and the world trading system is being threatened by a growing tendency towards regionalism, is raising controversy as to whether regionalism, going on in a sinister way, will win over multilateralism. Industrial nations defending greater liberalisation or globalisation are seen in some ways polarising the world economy through competing “fortress” regional blocs (EU and NAFTA). This contradictory course of action means that they continue protecting their markets, limiting market access, while putting pressure on the rest of the world to liberalise in the name of globalisation. Thus, the world may be confronted in the earlier decades of the twenty-first century with a point of conflict over what may appear as two truly competing, if not opposing, trends. When regionalism consolidates and wins, it is then inevitable that trade wars will be fought by regional camps and fortresses. The threat that regional blocs will

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eventually block the way towards greater world-wide economic welfare, on the one hand, and global security and peace, on the other, seems to be a real one. As highlighted aptly by Anderson and Norheim (1993), the issue for the 1990s and beyond is whether the recent and prospective proliferation of regional agreements will be accompanied by a continuation or a reversal of this trend towards a more liberal and more integrated trading world. On the other hand, it is argued that the trade blocs or regional integrations in various forms would enable the world trading system under the auspices of GATT/WTO to function more rather than less efficiently, as they will reinforce moves in the direction of liberalism. The only difference will now be that trade competition will be on a much greater scale, not any more just among nation states but also among the supra-nationals.

In the midst of the controversy of multilateralism versus regionalism and the underlying trends, the integration of developing countries with the global economy poses as many opportunities as challenges. According to the World Bank, integration matters for the reason that there is a close association between growth performance and integration. It is also posited that many of the countries that are lagging in global integration or have not reformed to conditions of globalisation, are among the poorest or bad performers. Being a significant subset of the developing world, the member countries of the Organisation of the Islamic Conference (OICMCs) are inevitably faced with serious impacts of globalisation on the one hand, and negative as much as positive implications of regionalisation on the other. So far, over a period of more than two decades, their own efforts to enhance regional co-operation and integration at the OIC level have been disappointing. At the turn of the century, with such confusing or unpredictable trends, the question "*where to go from here*" is pertinent to raise. Internal dynamics and exogenous changes at the global level will force them to adjust and reform at the national level, while at the same time, if possible, configuring viable courses of action to enhance intra-regional co-operation/integration, which has so far has failed to make significant progress. The economic prospects of the OIC countries, as a group, appear rather disquieting, if not bleak, except for the few. The time may be running out fast, while they display indifference, lack of commitment, even indulgence in unproductive actions or efforts for achieving regional cohesion and solidarity. This paper attempts to review the emerging trends in global and regional integration and to consider their implications for the OIC countries in the light of the latter's efforts over the last two decades.

## 2. GLOBALISATION- THE INTERNATIONAL REALITY

It has only been in the last twenty years that the world economy has become so structurally interdependent that the term *global*, as distinct from *international* has been coined and become widely used. As globalisation is often used synonymously with internationalisation, the former implicitly goes deeper to emphasise the minimisation of the roles of national actors and the decrease in the relevance of national borders (WB-GEP, 1996). With the world becoming a global village or envisaged to be a big customs union, *globalisation implies increased integration of world markets for goods, services, and capital*, which is consequently increasing permeability of national boundaries to the flow of technology, trade-capital, information and ideas. Thus, in simple terms, globalisation is defined as the integration of production, distribution, and use of goods and services among the economies of the world. The signs of globalisation are manifested at the factor level in the increasing flows of capital and labour, and at the product level in unprecedented growth in world trade.

Globalisation refers to, according, for example, to McGrew and Lewis (1992), “the multiplicity of linkages and interactions between states and societies which make up the present world system. It describes the process by which events, decisions, and activities in one part of the world come to have significant consequences for individuals and communities in quite distant parts of the globe. Globalisation has two distinct phenomena: scope (or stretching) and intensity (deepening). On the one hand, it defines a set of processes which embrace most of the globe or which operate world-wide; the concept therefore has a spatial connotation. On the other hand, it also implies an intensification on the levels of interaction, interconnectedness or interdependence between states and societies which constitute the world community. Accordingly, alongside the stretching goes a deepening process”.

Again, as pointed out by McGrew and Lewis (1992), two main causes of globalisation are worth focusing on: the first is the pressure on the firms by consumers and competitors alike to continually innovate new products and upgrade the quality and/or to reduce the price of existing goods and services--this compelling the firms to forge strategic alliances and networks; the second cause of globalisation is the renaissance of market-supporting policies pursued by national governments, and the growth of market-led regional integration. The privatisation of state enterprises, the liberalisation and deregulation of markets especially for services and the removal of structural distortions have all worked to stimulate cross-border corporate integration, trans-national corporations (TNCs) being at the forefront.

Globalisation is normally viewed, from the point of view of international political economy, as part of the on-going process or a stage in the advancement of market-driven capitalism. As Dunning (1994) defines it, it is one of the stages or eras in the development of capitalist economies. The timing of each is approximate, and is decided by what is called the “dominant” paradigm of techno-economic organisation and the socio-institutional framework of capitalism prevailing at the time. The three techno-economic paradigms, as identified by several authors, are the *craft or batch (1770-1875)*, *mass or scale (1875-1980)*, and *flexible or innovation-driven systems of production*. *The three forms of capitalism are entrepreneurial, hierarchical and alliance capitalism; and the three spatial dimensions related to these systems and stages of capitalism are the sub-national or national, the national or international, and the regional and global*. It is further pointed out that the combination of US-led hierarchical capitalism, advances in transport and communication technologies, and the emergence of many new, independent nation states have helped fashion the internationalisation of economic activity--increasingly linked by aid, trade and investment--for most of the present century. As such internationalisation has reached every corner of the world including China and the former Soviet bloc, not to mention the South, the developing world, it is proper to call it global.

The globalisation of economic activity, coupled with network-related flexible production systems, has changed the face of capitalism and is also claimed to have put pressure on democracy. For national governments and socio-institutional systems, the key implications of globalisation and alliance capitalism are stated to be twofold. The first is that the cross-border mobility of knowledge, information and capital has further enhanced the mobility of capital. The second is the requirement of less confrontational and more co-operative partnership between the government and the private sector. Under the present international reality, it is seen that the economic prosperity of a country is increasingly less determined by its natural resources, and more by its stock of knowledge (technology), the skills and expertise of its people, the capacity of its institutions--both private and public--to efficiently organise these assets. The political contours of nations and regions are being redrawn by the fusing forces of economic integration on the one hand and the ideological schisms and cultural (ethnic) disintegration on the other (McGrew and Lewis, 1992; Attali, 1997).

It is forcefully argued, notably by the Bretton Woods institutions, that all countries can benefit from “globalisation”, that is through full participation in

the world's market, including financial markets. Protectionist pressures must be resisted and reversed, and the principles of openness and multilateralism must be maintained. No country can afford to forgo the benefits of integration into global markets: the alternative is marginalisation and stagnation. The challenges of globalisation add to the need of the developing countries to press ahead with their adjustment and reform efforts.... Monetary stability, macroeconomic discipline, sound financial systems, and efficiently working market mechanisms are essential for all countries that embrace globalisation (Camdessus, 1995).

The playing field has been levelled and markets have become more open; market efficiency is called to play its full commanding role. The international economic system is left even more so to be supervised by the Bretton Woods institutions (IMF-WB), GATT/WTO, supplemented by a number of UN bodies and a variety of formal and informal regional arrangements. Though global, the world is yet composed of two major economic blocs the developed/industrial economies led by the US and the EU (North) and a diverse group of developing countries (South). Thus, globalisation still has two segments: a global North and a global South. The North has efficiently and effectively organised itself within powerful economic blocs. Specially for the South, variations in the capacity of nations and individuals to exploit the new opportunities presented by the global market place pose a serious challenge. In addition, as acknowledged by many, globalisation has serious ramifications and undesirable aspects, particularly in respect of inequality, stability, and the loss of national sovereignty, which may weaken the socio-economic and political fabric of the society in the precarious states of the South.

The debate on globalisation and its economic, political and social ramifications continues unabated, and it becomes more and more confusing (Rodrik, 1997). In a direct way, the debate has focused on the topic itself, either a criticism or defence of globalisation. On a slightly different platform, the debate has been proceeding under the banner of multilateralism versus regionalism or protectionism. In either way, those central issues under discussion included the autonomy of the national governments in regulating their economies and the social costs involved, that is the social impact of openness. It is again noted by Rodrik that international economic integration poses a serious dilemma: globalisation increases the demand for social insurance while simultaneously constraining the ability of governments to respond effectively to that demand.

Among the many challenging globalisation (with its totalising discourse, dehumanising proclivities, and catastrophic environmental consequences),

Attali (1997) inclines to adopt a more fundamental-philosophical view, reflecting on the interactions of market-driven globalisation and democracy: While suggesting that small nations must unite with their neighbours to achieve a critical mass in the face of market-driven globalisation, he contends that market economy and democracy appear to be deeply intertwined, with both tied to the fundamental concept of private property. There are however serious shortcomings of the market economy and democracy which would eventually lead the Western civilisation to disintegration. To prevent such a catastrophe, it should be acknowledged that the marriage of democracy and the market economy suffers from certain fundamental shortcomings; the first is that the guiding principle of the market economy and democracy cannot go hand in hand, and secondly, these two sets of principles often contradict one another, and third, they carry within themselves the seeds of their own destruction. Eventually, if not averted and contradictory forces not balanced (i.e., a stronger role for the state), democracy will fade away, having been replaced by market mechanisms and corruption.

Similar qualms expressed about the discomfiting side of globalisation are noted, for example, by Kaul (1997). Despite the positive effects of globalisation in some regions of the world and for segments of the global work force, we are witnessing widening socio-economic disparities between countries and within countries.... We find that, between 1960 and 1991, the share of world income (real GDP) for the richest 20% of the global population rose from 70% to 85%.. Over the same period, all but the richest quintile saw their share of world income fall.... inequity in the global distribution of income has doubled. In fact, the richest 20% of the world population has more than 85% of the most economic opportunities: 83% of income, 81% of world trade and 95% of commercial lending. Developing countries which have just opened up and liberalised have often seen their terms of trade decline and their overall economic situation deteriorate, rather than improve when trade expanded. This has for example been the experience of many countries in sub-Saharan Africa. According to Kaul, a recent study on the effects of financial liberalisation concludes that governments have never before been under pressure to act "market-comform" [sic] to comply with what financial markets consider prudent policies. Governments which fail to comply or fail to undertake adjustment will have to pay a premium on the interest costs of their finances, or if the loss of credibility is more severe, confront a financial crisis. With the increased volatility which marks today's financial markets, financial transactions are increasingly short-term, giving capital the freedom to choose and to move. Countries, while competing for foreign capital, have to adjust to the swings in capital flows. Foreign Direct Investment (FDI) flows increased at

a phenomenal rate as globalisation consolidated; a number of factors were responsible for the unprecedented swift change in the FDI trends: a shift in domestic policy considerations favouring outward as opposed to inward-orientation liberalisation of the economy coming under more market discipline, privatisation and deregulation of important industries and sectors, and greater market access on global, regional and national basis. Transnational companies--TNCs--(the economic power of the biggest TNCs being as great as, if not bigger than, the GDP of many developing countries) now dominate large chunks of the world economy. More than two-thirds of the world's commerce is controlled by the largest 500 multinationals. They are the chief players and benefitters from the globalisation process which allows them to shift investments to most advantageous locations (UNCTAD, 1994b).

Global integration has progressed against the consolidation of regional integration arrangements, which facilitated the formation of and/or the enlargement of regional integration agreements. At the outset, the critical view of regionalisation contends that these arrangements reduce global welfare through diverting trade or through trade wars. Regionalism reduces global welfare when no trade creation but more trade diversion occurs, as the latter causes a shift from a low cost to a high cost regional source. Debate on globalism versus regionalism reverts to whether the structural integration of regions is a building bloc or a stumbling bloc towards globalisation. Still controversial, the common view is that it is a little of each (McGrew and Lewis, 1992). One of the driving forces behind the spread of regionalism is predominantly the erosion of guarantees of market access in the major industrial countries, expedited by those singular impediments to trade, most visibly anti-dumping and countervailing duties (Hindley & Messerlin, 1993). Even though networks of firms lock nations into regional or global webs of interdependence, the issue of whether the regional economic interests will thwart the benefits of globalisation or the strength of globalisation will be able to subdue the emergence of regional fortresses is yet to be settled. Nevertheless, regionalism is likely to remain an important factor in the global economic relations in the foreseeable future, as the principal regional blocs, such as EU and NAFTA countries, continue to strive for greater access to foreign markets, and for solutions to economic problems and disputes that in many cases might be resolved only through regional co-operation (Robson, 1993).

The Uruguay Round took place amid concerns that the multilateral trading system would degenerate into a fatal protectionism, heightened trade tensions and disputes, and hence reverse what has been gained on globalisation. Where regional trade blocs would antagonistically compete and adopt policies

detrimental to the expansion of the world trade, the Round's successful conclusion, as claimed (UNCTAD, 1994a), served to mitigate the discriminatory aspects and practices of the regional arrangements and to "multilateralise" large elements of these regional agreements, by reducing tariff preferences for regional partners through multilateral tariff reductions, and by establishing disciplines of equal or greater stringency than those in the regional agreements. Though its initiation has not been related to regionalism, the completion of the Uruguay Round has brought important repercussions. As a WTO (1995) study asserts "there is little doubt that... the spread of regionalism (was a) major factor in eliciting the concessions needed to conclude". On the WTO's general assertion there was a perception that the failure of the Round would lead to regional fragmentation, and this certainly encouraged the spread of defensive regionalism. A successful completion of GATT Uruguay Round is expected to set the underlying pace of integration throughout the world in the coming decades.

### **3. REGIONAL ECONOMIC INTEGRATION OR MARGINALISATION**

It is observed that the challenges facing the global community, and the international and multilateral institutions particularly, is the proliferation of regional trading arrangements. For many countries, preferential trading arrangements appear to be at least as attractive as multilateral approaches to trade liberalisation. The clamour among Central European countries to join the EU and among Latin American countries to join NAFTA illustrates this point (Ardnt and Milner, 1996). Given the uncertain commitment to multilateralism in many countries in the South as well as in the North today, regionalism is however expected to remain an important factor in international trade relations during the next decade or more, as both developing and developed countries alike continue to get greater access to the markets beyond their borders.

The literature on regionalism vs multilateralism is growing as economists and few political scientists grapple with the question of whether regional integration arrangements (RIAs) are good or bad for the multilateral system as a whole. Are RIAs building blocs or stumbling blocs--in Bhagwati's (1991) memorable phrase--or stepping stones towards multilateralism.... The answer is that nobody knows for sure yet. It is claimed that the EU allows one convincingly to reject the hypothesis that one act of regionalism necessarily leads to the collapse of the multilateral system (Yarbrough and Yarbrough, 1992; Winters, 1996).

As far as developing countries and hence the OICMCs are concerned, the central issue that is relevant is not so much whether globalism or regionalism will dominate, but rather whether integration can be achieved in a successful, if not optimal, way. Failure to integrate into the world markets and the international economy will carry, for a considerable part of these countries, the danger of marginalisation. For the developing countries, one of the frequent recommendations has been more and faster liberalisation, meaning greater integration.

A surge of protectionism in the 1970s was followed by a decade of liberalisation in the 1980s and 1990s. The largely unilateral wave of liberalisation among developing countries since the mid-1980s represented an effective shift in development strategy from inward-oriented to outward-oriented (export-promoting). Yet, developing countries' fear that global markets for goods and services are difficult to penetrate helps explain why some, notably many members of the OIC in the Middle East and Africa, have adopted a gradualist and overly cautious approach to liberalise trade and undertake reforms for integration. Based on the ratio of trade to GDP or ratio of foreign direct investments (FDI) to GDP, two most common direct indicators of integration, the World Bank observed that the developing countries showed wide disparities in both the level and the rate of integration, the overall ratio falling in 44 out of 93 countries over the last decade.

Close association is observed between growth and the speed of integration; the positive effect of freer trade and foreign investment on growth is found to be one of the most critical factors explaining this association. Factors affecting the growth of intraregional trade among developing countries include the wave of trade liberalisation in developing countries over the last decade, the dynamism of regional growth, and access to external financing (WB-GEP, 1996). It is also noted that balanced integration (with export and import capacities expanding sustainably) is tied with faster growth of exports, which can be attained only by a prudent combination of complementary domestic and border policies that encourage the long-term productive investment in the tradable (export) sector (Otsubo, 1996).

According to the World Bank, regionalism is a sufficiently diverse and new phenomenon as to defy simple conclusions. Recent experience--notably, the growth of East Asian trade--suggests that it is neither necessary nor a sufficient condition for successful integration with either the world or a regional economy. Nevertheless, preferential trading arrangements (PTAs) between developing and industrial countries can carry important benefits for developing countries by securing markets, encouraging investment, and

enhancing the discipline and credibility of reform. The benefits of trade arrangements between developing countries tend to be much smaller (WB-GEP, 1996). The expansion of NAFTA to include Mexico and the network of special/association agreements (EU's customs union with Turkey) tying various developing countries to the EU illustrate the wide array of new forms of integration between developing and industrial countries. If this is the new form of regional integration, then, the developing countries would better mobilise efforts to integrate, eg., by way of PTAs, with these industrial country groupings instead of underwriting regional integration agreements among themselves. While this option is certainly open to a few developing countries that are eligible to join or become associates or already have ties either with the NAFTA or the EU (this being for example the case for Poland, Turkey, Hungary, and Czech Republic), for much the South, this proposal has no practicality. According to conventional wisdom, membership in a club containing rich nations can help poorer countries as in the case of Mexico, Greece, Portugal to close the income and wealth gap faster than otherwise, even in the absence of fiscal transfers. However, in a reference to the Central European countries, it is argued that although Hungary, Poland, and the Czech Republic have already captured most of the gains from trade with the EU, they can achieve many, though not all, of the remaining benefits unilaterally by seeking further tie-in arrangements with the EU. It may therefore be not clear-cut that the benefits of bloc membership necessarily and always exceed the costs, especially when it is possible for a non-member to capture many of the benefits of the full membership.

In the 1970s, export pessimism led many developing countries to enter into the inward-looking and largely unsuccessful "South-South" regional integration arrangements, which generated, with high protection, more trade diversion than trade creation. Thus, integration among developing countries, based upon import substitution on the regional level, fell far short of initial expectations. Although at first intarregional trade increased in some trading groups, it remained a rather modest share of total trade, it had a tendency to decline in the 1970s, and stagnated in most of the 1980s. In addition, ambitious plans for joint industrialisation could not be implemented. Higher intraregional trade shares observed in some cases may have been the result of substantial trade diversion from more efficient extraregional imports to less efficient intraregional sources.

The reasons for failure were partly predetermined by the heritage of most member countries, small size of the market, low level of economic, industrial and infrastructural development, similar production and export patterns, and

different political and economic policy orientation. Some of the problems associated with trade blocs arose from the growing disparity among members. Trade liberalisation was blocked or substantially slowed down, highly protective barriers to trade remained untouched or were not harmonised on the regional level, and controversy about the distribution of gains and losses could not be settled in a satisfactory way. Dramatic changes in the world economy further affected the environment for regional integration and co-operation (Indai, 1991).

Regional integrations were usually based on geographical considerations as reflected in the official name of most regional groupings, less attention was paid to differences in socio-political facts and economic orientation among member countries. The legacy of permanent territorial and unresolved ethnic issues made co-operation even more complicated. The international economy tended to hinder rather than support the harmonisation of national economic policies in regional integrations. Despite continued strong momentum on global trade liberalisation and the overwhelming negative experience with the regional integration groupings among developing countries in the past two decades, more recently, the idea of regional integration seems to reveal some signs of revitalisation.

Among current regional integration arrangements only the EU is large enough and long-lived enough to have had identifiable consequences on itself as an entity and on the world trading system. In East Asia, more specifically ASEAN illustrates the relatively successful case of a regional integration in the South. It provides an important case study in open regionalism--had the highest rate of intraregional exports. ASEAN demonstrates a relatively recent outward-looking agreement among countries with more liberal trade regimes that have privatised and deregulated large parts of their economies. Export-oriented economies, as typified by ASEAN economies, proved competitive not only in extraregional but also increasingly in intraregional markets. In most cases, according to some assessments (e.g., World Bank), it was not the regional trading ground that created international competitiveness, but the successful outward-looking policies that enhanced competitiveness in the region. Strengthening of the private sector and closer co-operation in infrastructural development played an important role (WB-GEP, 1996).

Regionalism has proceeded in waves--the 1960s, and the later 1980s and 1990s--as a response to the need to create their own market areas in case other blocs turn inwards, and the desire to create bargaining power. Despite generally negative experiences, new approaches to regional co-operation started to re-emerge in the 1990s. Attempts to revitalise dormant regional

groups to form new blocs and to set up new priorities are on the increase. Although trade remains the most important element of the new initiatives, fundamental changes have taken place in the assessment of the possibilities and limits of regional integration. Regionalism ensures the success of reform and attracts inflow of FDI, as it removes a source of uncertainty and encourages openness. Countries interact and respond to shocks in the world economy.

In special reference to integration efforts in Africa, the Middle East, and Latin America where regional arrangements are concentrated, none of the preconditions as the potential emergence of a large and differentiated regional market, the diversified production patterns in which industrial goods prevailed so competition and specialisation efforts would become stronger, and the fact that extensive trade and capital flows and certain infrastructure long before common trade policy had been initiated were and are sufficiently present in regional integrations among developing countries. Low per capita income, aggravated by uneven distribution, low per capita import impose a major constraint on the total volume of effective regional demand. Member countries often display modest differences in relative factor endowments, exporting competing goods that are produced in every or several member countries, and import goods, services, and production factors (capital and technology) that are not available within the region. Nevertheless, the complementarity of intra-regional trade--the extent to which a country's exports match trading partners' import needs--rose markedly in various sub-regions of the developing world.

Yet, the question still remains: is regionalism actually advantageous to developing countries? According to the World Bank (see WB-GEP, 1996, p.43) the first part of the answer is they are not necessary for success. East Asia's spectacular success (miracle), as mentioned above in the context of ASEAN, has evolved largely independently of special arrangements with industrial countries or institutions of regional integration.. The second part of the answer is that integration is not sufficient for economic success. Not every country with an EU association agreement experienced an export boom. This emphasises the fact that the benefits of improved market access are rather limited for most developing country partners unless they gain access to industrial countries' protected "sensitive" markets, such as agriculture textiles, and clothing, and steel, which are constrained. As the World Bank report underlines, the benefits of integration (global or regional) are not static. The depth of a regional agreement is measured by the scope of precommitments to co-operation, harmonisation, and liberalisation. Major gains stem not only from changes in the level of intraregional trade but also from higher

investment, increased competition, better use of economic resources, the economies of scale that emerge from access to larger regional market.

Obviously, integration may be promoted on a regional basis or a global basis. Global integration will be accompanied by trade creation, whereas regional integration will be accompanied not only by trade creation but also by trade diversion. Thus, intraregional trade cannot be considered as an alternative to fundamentally global-market oriented trade flows. However, in the 1990s, intra-regional trade and economic relations are predicted to grow in parallel to, or even at a higher rate than extraregional contacts. The formation of powerful economic and trading blocs such as the single market of the EU, NAFTA, major initiatives in the Pacific basin (APEC, AFTA -ASEAN Free Trade Area), and the Eastern Europe's desire to link up with the EU, seem to generate more intra-trade and to foster trends towards a new regionalism in the world economy. This consolidation is expected to continue the fact that the GATT Uruguay Round negotiations have successfully delivered. In order to minimise economic losses and to avoid marginalisation, regional groups of developing countries will be increasingly forced to work out common positions and to join one of the influential groups. Both factors require the gradual yet rapid dismantling of barriers to the free flow of production factors within regional integrations.

The post-Uruguay Round has obviously introduced a new dimension in the course of both multilateralism and moves towards regional integration. In view of the fact that differential and more favourable treatment for developing countries with their potentially greater access to the international markets, it is to be expected that genuine efforts by the developing countries to integrate on a regional or sub-regional basis would be undermined, if not derailed, as the coverage of MFN tariff concessions and elimination of further barriers to trade would undercut the advantages of intra-regional concessions under PTAs. Furthermore, the fact that trade liberalisation under the GATT Round is to enable the developing countries to have greater access to global markets would act as deterrent to the developing country regional integrations. In the meantime, the GATT Round has resulted in the extension of multilateral trade disciplines to cover a much larger number of countries due to the recent accession to GATT of many developing countries including a number of OIC countries, who thereby accepted contractual obligations exposing them to the threat of possible trade sanctions. Developing countries in particular face the challenging task of implementing the Round Agreements. The Agreements including the WTO Agreement commit the signatory countries to comply with the new trading rules and obligations and consequently commit themselves to ensure conformity of their national laws, regulations, and administrative

procedures. As highlighted by UNCTAD, the dramatic increase in the level of discipline accepted by developing countries through their acceptance of all the multilateral trade agreements resulting from the Uruguay Round and the binding of their tariff schedules have significantly reduced the flexibility of governments in the use of trade and domestic policy instruments. Consequently, many WTO members will not be able to emulate the development strategies pursued successfully by many countries in the past and will need to adapt to the constraints and opportunities of the new system. In short, development strategies in future will have to be adapted to the post-Uruguay Round trading system (UNCTAD 1994).

Significant tariff reductions negotiated on industrial products by the "Quad" countries (Canada, US, EU, Japan), as a major outcome of the Round, are expected to enable developing countries to have greater access to the market of developed countries. Like their developed counterparts, most developing countries made substantial tariff concessions, as part of their commitment under the Round and also part of their domestic liberalisation policies undertaken unilaterally, and bound their tariffs to an impressive extent (UNCTAD 1994). While developing countries stand to benefit from liberalisation in all sectors, a significant proportion of their exports incur duties exceeding 10 %, in particular for those sectors or exportables such as non-tropical agriculture, textiles and clothing, and leather and footwear; these sectors, in which developing countries have considerable comparative advantage, signify high tariffs and tariff escalation. Negotiations are foreseen for agriculture in 1999 and on services in the year 2000.

However, the situation is not that bright for the developing countries in the post-Uruguay Round era: some formidable barriers remain, which will make them turn intra-regional. Impediments to trade and barriers to market access remain pervasive. To mention just a few, the demand for antidumping is more likely to increase than decline in the coming decades. Still there are some serious external obstacles. Antidumping actions remain a favoured device of protectionists in the North, world agriculture remains highly protected and subsidised, the MFA MultiFibre Arrangement continues to be a major distortion, only to be phased out in 2005. The elimination of NFA quotas and the commitment to reduce tariffs to zero by 2010 may well result in a shift by affected import-competing industries towards antidumping and other forms of contingent protection. Furthermore, with the exception of certain commitments to encourage technology transfer to the least developed countries, there are no special provisions to facilitate the transfer of technology. The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs) establishes

disciplines for copyright, trade marks, geographical indications, industrial designs, patents, layout designs of integrated circuits, copyrights protection for computer software, protection for data banks. The imposition of such stricter rules in these areas makes it more difficult and expensive for the developing countries to acquire technology from the developed world. As UNCTAD (1994) also shares the same view, developing countries are expected to incur costs in applying this new regime. These countries will not only face higher royalty payments and higher prices associated with those products manufactured under license at home or abroad, but also have to cope with an administrative machinery in implementation.

In contrast to the 1960s, when different viable options were available, today there is hardly any other reasonable alternative to adjustment to the requirements of the largest market (EU-NAFTA) in the world economy. In the 1990s marginalisation may be involuntary and imposed by powerful international economic developments. Deregulation, GATT-led liberalisation and regionalisation, as parallel and decisive international processes, are likely to affect all countries that cannot forge stronger economic alliances, not just among themselves but also with one or more of the major gravity centres of the global economy, namely the enlarged EU, NAFTA, and Japan-East Asian (APEC). Though, at present, the world economy is much more open and deregulated than 30 years ago, developing countries are likely to face more uncertainties and qualitatively different challenges particularly coming from the EU. The common position of regional integration of developing countries will be challenged, as the EU as well as NAFTA will lead to the dilution of the preferential preferences, the elimination of national import quotas, the stiffening of competition, the maintenance of common agricultural policy, new association treaties and the enlargement of the trade blocs.

Most member countries of different regional groups are unilaterally dependent on the EU whose strong economic impacts threaten the previously achieved trade advantages. Some regional groups are planning to link intra-group trade liberalisation to strengthening economic links with one or more of the leading economic powers. ASEAN has a dialogue with the Maghreb Union, the GCC wish [to have] free trade pacts with the EU, others to have preferential trade agreements, like the Lomé Convention. At the moment there are no alternative dynamic partners on the horizon. Thus it is not surprising that arguments in favour of warming up old and frustrated regional integration schemes have been gaining ground recently (Asante, 1990; Indai, 1991).

A number of developing countries are small and may be nonviable. As proposed (Tinbergen, 1996; Attali, 1997), particularly small countries should

better conclude treaties by which they integrate themselves into larger units (regional). However, the possibility of costly trade diversion rather than trade creation suggests that regional agreements between developing countries, big or small, would lead them to integrate further with the world market by continuing to lower external tariffs (common or national) and by integrating with the major economic entities mentioned above. It is contended that if a regional arrangement is joined by one or more aggressive members which have a substantial weight in international trade, or the union is composed of countries with strong economies, then the union would be in a position to extract a more favourable deal from the rest of the world. This is because the grouping will be taken seriously in its threats to retaliate.

#### **4. OIC ECONOMIC CO-OPERATION/INTEGRATION: SO FAR TWO DECADES OF FUTILE EXPERIMENT?**

Given its (OIC) accomplishments and the stage reached in the process of co-operation, the use of the term *integration* is not proper in the OIC context, as the term implies a fairly advanced stage of and formalised state of co-operation among a group of countries. Realistically, it may be proper to call it a loose or shallow co-operation, not at all shallow integration. Consequently, it is improper to talk of a regional integration arrangement in the real sense of the word. The OICMCs have not formally established a configured form of economic integration confined to the membership, be it a free trade area, or a customs union, or a common market on a regional basis, covering the entire membership. With a membership of 52 countries, it is almost beyond imagination and not even realistic to contemplate a regional integration grouping of that size and order. It may surprise many to find references and studies related to the discussion of an Islamic Common Market. Apart from other considerations, only the sheer numbers present the very constraint to such a regional integration in its entirety. Therefore, it would make little sense to attempt to make any meaningful assessment of the OIC's regional integration efforts and try to justify its formation. Nearly a period of two decades has passed since the establishment of the Organisation of the Islamic Conference (OIC); though conceived initially as a political forum, the Organisation from the very beginning attached priority to enhance economic co-operation among its member states.

Like so many of their counterparts in Africa and Latin America, integration efforts by the OIC, as signified by the adoption of various schemes or modes of integration, such as the OIC Trade Preferential System or the idea of establishing an Islamic Common Market proposed in the OIC Plan of

Action or the COMCEC fora decisions, were not generated on the basis of sound principles, analysis, and regional or global realities. Except for the launching of certain schemes particularly in the area of trade, attempts and undertakings lacked directional frame, coherence, and sophistication, as they did not go beyond a detailed description of mutual desires, loosely formulated general proposals, without articulated conceptual, financial, and institutional depth in design. Regional co-operation or integration covered almost all possible areas of co-operation instead of concentrating upon a few realistic or implementable priorities. Above all, there was not going to be a coherent regional formation or entity, acting as a centrifugal force of integration; instead, the conceived approach was gradual, [on a] step-by-step basis, or permitting sub-regional fragmentations, there were so many regional or sub-regional groupings in existence inside as well as outside the OIC contour, to which members were associated in one form or another.

Though aspirations go back to the early 1970s (Lahore Summit of 1974), the occasion that marks the start of serious efforts and formal formulation of ideas for co-operation among the members of the OIC is the Third Islamic Summit Conference held in Makkah Al Mukarramah -Taif in January 1981, which adopted in its declaration a “Plan of Action to Strengthen Economic Co-operation among the Member States” (PA). This ten-chapter blueprint defined the sectors and areas of co-operation in terms of objectives, broad initiatives and policy proposals for joint action. It was not until the establishment of the Standing Committee for Economic and Commercial Co-operation (COMCEC) in 1984, on the occasion of the Fourth Islamic Summit Conference in Casablanca, that action programmes and concrete proposals began to be formulated on six sectoral areas of the PA, of which trade was accorded top priority. At its first meeting, COMCEC conceived *a short-term implementation programme for the promotion of trade among member states*, which sought the establishment of various schemes and facilities designed to enhance intra-OIC trade. It is worth noting that three financial schemes (longer-term trade financing, export credit guarantee, and multilateral clearing union) along with a trade preferential system were finalised after a lengthy period of feasibility study, in which the Islamic Development Bank and a number of OIC institutions were involved and hence deserve some credit in the accomplishment. In the light of the slow progress achieved in OIC co-operation and the need to face challenges and changes gaining momentum in the global economy with waves of liberalisation, deregulation, and the enhanced role of the private sector, the OIC/COMCEC initiated, at the request of the Sixth Islamic Summit in 1991, another round to formulate a new strategy and a revised plan of action for economic co-operation, which were embodied in an official document containing the new strategy or the new Plan

of Action (NPA), endorsed by the COMCEC and the Sixth Islamic Summit in 1994.

Looking ahead, the new strategy, as defined in the “Objectives and Basic Principles of the new Strategy to Strengthen Economic Co-operation among OIC Member Countries”, once again like the 1981-PA, sets the aim of establishing a *more integrated OIC* community, in line with the recent developments concerning the formation of large economic blocs as one of the means to ensure fuller participation in the globalisation process. In the accomplishment of this, it reiterates that “will benefit from the experience of regional and inter-regional co-operation involving the OICMCs, based upon the principle of mutuality of interest for all participating countries, to serve as an immediate step towards economic integration among member countries”. It goes on to state that “such co-operation will help create *powerful economic units* capable of facing the challenges emanating from the emergence of large economic blocs. Thus, the idea of integration, while spelled out only in a very general way, still posits the emergence or establishment of *powerful economic units* (may be sub-regional blocs within the OIC geography). In this conception, as part of modality and mechanism, there is the mention of a *realistic and gradual approach, the increased role of the private sector*, encouraging economic liberalisation with a view to creating a sound environment for integration and benefiting more fully from the globalisation process. A concerted effort is envisaged in which time-framed sectional programs and more specifically joint ventures are suggested as the main modes of co-operation in all areas, taking advantage of the complementarities in factor endowments, production, externalities, and enlarged markets.

As in the 1981-PA, the new Plan is categorical: “OIC co-operation will aim at promoting, expanding and creating trade among the member countries through appropriate action that would be conducive to the realisation of greater integration in stages and over time, taking into account the existing OIC schemes and programmes, and without prejudice to their obligations to the rest of the world.” In its totality, the new OIC design for co-operation still lacks the necessary thrust, synergy, commitment that a serious integration attempt calls for. Even more specifically, the new strategy was explicitly “non-committal”... Such programmes and projects should not involve unnecessary additional public financial commitments, in view of the more prominent role to be given to the private sector. Thus, the initiatives and implementations are being left to the private sector to shoulder and drive OIC co-operation, with minimal involvement by governments. Nor was there a sense of urgency voiced in the strategy to take certain priority actions that would have positive

impacts in the short-run and hence would meaningfully contribute to the rolling of the process of integration.

In retrospect, however, throughout the process from the very start in the late 1970s there were probably more politics (gimmicks) than economics at work. One would find it difficult to observe a serious commitment to forge some sort of a coherent economic alliance, which would lay down the foundations of a viable system that would serve to achieve a gradual integration in the long run. The institutional machinery and modalities set to work and the operational structure of the OIC, theoretically designed to facilitate the program of action, can vividly explain one of the fundamental causes of the chaotic inefficiency of the system, as mentioned by Ahmed and Ugurel of SESRTCIC in their study (1996), to quote “once the(se) recommendations (on an issue) reach the higher fora, like the relevant ministerial meetings, the annual conferences of the OIC Foreign Ministers or the Islamic Summit of the Heads of States, however, they are either sent out for further study or transformed into rather general resolutions that would not contain any concrete commitments. In some cases the original set of recommendations would be approved by the relevant ministerial conference as well, but they would either be diluted in content and/or generalised by the Foreign Ministers or be left in oblivion by the member states.....the history of the subject of economic integration is a good example of the above pattern. Going back to the early years of the OIC, the establishment of an Islamic Common Market and/or different other forms of integration and advanced economic co-operation schemes have been mentioned by different quarters in various OIC and Islamic fora as a “natural” or expected manifestation for the OIC. Yet, very little that is concrete has been achieved so far”. As observed by many, the Organisation lacked the necessary capacity, infrastructure, and commitment to mobilise. No less responsibility lies with the member states, which set high aspirations, unrealistic ideals and goals against the means, technical and financial capacities they were prepared to offer, thus showing much lack of political will.

There have been of course a number of factors and forces at work that have contributed to the slow progress of, and undermined the efforts aimed at, OIC economic co-operation. Many of these factors and forces endogenous to the OIC membership are highlighted in various reports and studies, official documents of OIC institutions (e.g., SESRTCIC, IDB, ICDT). As a recent study by Ahmed and Ugurel (1996) can be referred to, this paper will not dwell on this issue to a great extent. It will only mention a few distinctive points. Most of all, a glance at the socio-economic characteristics of the OIC membership can tell much of the story. The OIC membership, commanding a

population of over 1 billion geographically spread widely on three continents, is composed of a heterogeneous group of nations in terms of their social, economic, and political structures, stages of development and income levels, resource endowments (land, human, capital, technology). Amongst the membership, in terms of its composition (according to the World Bank/UN definitions), there are 19 nations that belong to the UN group of Least Developed Countries, four nations are in the high-income category (Brunei, Kuwait, Qatar, United Arab Emirates), six countries are in the upper-middle-income category (Gabon, Malaysia, Bahrain, Oman, Saudi Arabia, Libya), and sixteen countries are in the lower-middle-income category (Djibouti, Indonesia, Maldives, Kazakhstan, Turkmenistan, Uzbekistan, Turkey, Iran, Iraq, Jordan, Lebanon, Syria, Palestine, Algeria, Morocco, Tunisia). Thus, per capita income (1994), with large variations in-between, ranges from around \$170 (Sierra Leone/ Chad/ Uganda) to over \$20,000 (United Arab Emirates/ Kuwait). Income differences to some extent reflect production structures; agriculture and primary industry are predominant in the lower income groups while industry and manufacturing assume a greater proportion in domestic production in the higher income groups; the manufacturing base is relatively more diversified only in a handful of member countries.

The level and the average rate of growth of intraregional trade achieved over a period of decades or more is an adequate indicator to illustrate the degree of integration among the OIC member, even if no other measures are used. As is shown in many reports of the OIC institutions, the level and composition of intra-OIC regional trade has not reached its potential or optimal level. This failure is attributed to the interplay of a number of factors, namely, the lack of complementarity/linkages among the economic structures of the member countries. Furthermore, the geographical diversity, the lack of national and regional transportation and communication facilities, and the scarcity of readily available current information in the member countries about one another were significant impediments to such integration. Intratrade expansion demands yet more co-ordinated and serious efforts by member countries themselves and their institutions, including the OIC.

The narrow industrial production base and/or high commodity concentration of primary products in exports against the high concentration of manufactures on the side of import, as typical of developing countries, made them natural trade partners with or dependent on the industrial countries. The export concentration index for most of the OICMCs is above 0.550; in the case of oil exporters it is above 0.700. For only a few of them (Indonesia, Malaysia, Morocco, Turkey), having a wider manufacturing base, the index comes down

below 0.200 (WB-WDR, 1996). As tables in the Annex indicate, the volume of trade among the OICMCs has been persistently and consistently low; as a proportion of their total trade it averaged around 10% over more than a decade. If, however, certain commodities such as petroleum are left out of the computations, because of their disproportional weight, it will be seen that the volume of intra-OIC trade will be drastically cut (a rough estimate can be obtained by comparing exports of oil-exporters to the OICMCs with total intra-OIC-trade in the annexed tables). Thus, the figure for intratrade adjusted for petroleum turns out to be extremely low. In the post oil-shock era, intratrade received some boost, as rich oil-exporting member countries offered temporarily a growing import market to the OIC regional partners, this potential remained rather modest, compared to extraregional opportunities, and mostly used by more efficient extraregional suppliers. Oil income changed the power relations within the OIC, and regional solidarity remained at the mercy of the oil-exporters, who paid more attention to their own solidarity and to sustaining their balanced relations with the West. Oil-rich states did however generate foreign investment flows into some parts and attracted some labour migration from the OIC region. Though direct investment flows were not proportional to the funds available or the desperate need for funds, workers' remittances however provided an important source of foreign exchange contributing positively to the balance of payments of those immigrant countries. Although difficult to estimate, a significant part of intra-OIC trade may be due to these factor incomes. While low figures would be taken to suggest that there exists considerable potential for the expansion of intraregional trade, they essentially point to the fact that it will certainly take more than a couple of OIC-COMCEC-sponsored schemes to lift intratrade, and surely not in the shorter run.

More than two-thirds of the OICMCs are associated with a number of regional/sub-regional groupings from east to west; many of them participate in non-OIC regional arrangements as well as in various sub-regional integration schemes. Some of these economic groupings have been in existence for quite some time, while others are relatively recent. Sub-regional integration groupings that comprise only the OICMCs are, for example, the Gulf Cooperation Council (GCC), the Arab Maghrib Union (AMU), the Economic Cooperation Organisation (ECO), the Preferential Trade Agreement for North Africa (PTA NA). Some of the non-OIC economic groupings in which the OICMCs participate include: the Association of South-East Asian Nations (ASEAN), the African Economic Unity (AEC), the Economic Community of the West African States (ECOWAS), the West African Economic Community (CEAO), the Mano River Union (MRU), the Preferential Trade Area for Eastern and Southern Africa (PTA) and South Asian Association for Regional

Co-operation. (SAARC). In one way, such numbers of groupings and member country participations may be interpreted as an indication of their political will to agree to integrate, and of their conviction of the potential benefits that such forms of integration can produce. Once again, in some respect, the existence of such sub-regional or regional groupings may be taken to suggest that OIC integration can make use of these experiments. But, most of these formations, with the possible exception of the ASEAN and the GCC, have shown dormancy or limited success to survive. As mentioned earlier, the ASEAN stands out to be one of the most successful regional integration models established amongst the developing countries. Unlike the ASEAN, the GCC, a rich men's club, is composed of countries all of whom are members of the OIC and was initially a loosely organised regional grouping, whose primary aim was political (national and regional security) rather than economic; it became active in the area of trade, finance, and infrastructure, abolished national tariffs in intraregional trade all at once in 1983. One point needs to be made is that none of the above groupings has been formed under the initiatives of the OIC.

In the same light, one is also inclined to argue that the existence of such sub-regional groupings would undermine the development of a genuine OIC integration arrangement. Participating members would have no incentive to loosen their links with the present regional set-up and venture into a new arrangement with no apparent advantages, even though their integration is considerably loose or minimal (intraregional trade as a proportion of total trade is recorded around 6% in the case of ECO or GCC). In the case of ASEAN members, OIC integration would not provide incentives (either through trade diversion or trade creation) to persuade such member states as Malaysia and Indonesia to divorce themselves from ASEAN or APEC in favour of an OIC origination. In fact, the lack of enthusiasm on behalf of the OICMCs can be detected in their willingness to sign and ratify some of the important OIC agreements, particularly the Agreement on the Promotion, Protection and Guarantee of Investments and the Trade Preferential System among OIC Member States (TPSOIC). The former agreement was adopted in 1981, but went into effect in 1988, after being signed by 21 and ratified by 15 states. Similarly, the Longer Term Trade Financing Scheme operational under the IDB has 22 participating member states.

In particular reference to the TPSOIC, which is deemed to have special and crucial role to play in OIC integration, the slow progress is even more disappointing. The scheme aims at the promotion of trade among OICMCs through the exchange of trade preferences, which are not limited to tariffs but are to be progressively extended to para-tariff and non tariff concessions. It is

important to note from the aims and principles that the “Agreement shall not be conceived as a substitute to any of the existing and future preferential trade arrangements involving the participating States, but as a supplement to them. Tariff, para-tariff and non-tariff preferences applicable within existing and future sub-regional, regional and inter-regional groupings to which OIC Member States belong shall retain their essential character...”. Despite such general or unbinding remarks and escape clauses, the framework Agreement has been signed by 20 OIC Member States (Burkina Faso, Gambia, Guinea, Indonesia, Iran, Jordan, Morocco, Libya, Uganda, Palestine, Sudan, Senegal, Chad, Tunisia, Cameroon, Saudi Arabia, Egypt, Lebanon, Pakistan, Turkey) and was ratified only by 5 countries (Iran, Libya, Senegal, Pakistan, Turkey), over a period of 7 years. Since the number of ratifications is less than the number (10) required for the Agreement to come into force, it will probably need another few more years to pass. While it is reassuring to see that some principal trading nations of the OIC (namely members of ECO) have signed and ratified the Agreement and hence have shown willingness to join, some others seem to show indifference or lack of interest. To bear practical fruits or for the arrangement to have some chance of success, it is necessary that such countries like Malaysia, Indonesia, members of the AMU and GCC participate in the arrangement. When data for 1990 and 1994 are taken as indicators of a permanent state of affairs, the latter set of countries (most strikingly Malaysia and Saudi Arabia) have large surpluses on their intraregional trade balances.

There is another important factor that acts as a critical hindrance to the expansion of intraregional trade and hence integration efforts in the OIC context. This concerns international politics. It has been shown that political-military alliances have positive effects on trade and integration. It was shown that there are political incentives for states to engage in more trade or freer trade with allies than with adversaries (Mansfield, 1993). On the basis of empirical findings, he reports that higher levels of trade have been conducted between states which were allies than between states which were potential or actual foes. Preliminary findings indicate that, on average and holding constant a variety of other factors, the existence of a bilateral alliance more than doubles the predicted flow of trade between its members, and the existence of a multilateral alliance increases trade between its members by more than one-third. A preliminary inquiry into the OIC political stage suggests that there is some truth in this observation. There has existed and still exists considerable enmity among so many OIC states, who are even or mostly neighbours. Political stability in terms of sub-regions appears precarious. This factor can partly explain why a low volume of trade exchanges exists among certain countries as well as those of the OIC as a whole.

## 5. CHALLENGES CONFRONTING THE OIC COUNTRIES

The emerging diverse and unpredictable trends in global and regional integration have serious implications for the OICMCs. While globalisation will exert its pressure in the direction of more liberalised and dependent economies, regionalism is likely to remain an important factor in global economic relations in the foreseeable future, as the principal regional blocs, such as the EU and NAFTA, Japan-led APEC, will in all probability, be polarised-gravity centres. Like other developing countries, the OICMCs' common approach will be to strive for greater access to these markets, as their traditional links and reliance will continue as before. The regional consolidations in other parts of the world, and particularly the enlargement of the EU and NAFTA as well as the positive expectations of the post-Uruguay multilateralism would lead the OICMCs to be complacent. Given the fact that, over a period of more than two decades, their joint efforts to enhance regional co-operation, let alone integration, at the OIC level have been disappointing, it is highly unlikely that greater enthusiasm for an OIC regional integration will emerge. Domestic considerations and exogenous changes at the global level will force them to adjust and reform at the national level. There is however no certainty, from the present state of affairs, that they will entertain the same sense of urgency in the regional context.

In the face of the challenge to integrate, national and regional dynamics within the OICMCs may tend to exert pressures of divergence rather than convergence. The regional economic and political environment or climate would be hardly conducive if such preconditions continue to prevail. Such factors as high dependence on extraregional partners, small size of their market, low level of economic, industrial and infrastructural development, similar production and export patterns, significant socio-economic disparities, geographical preference (as reflected in the official name of most sub-regional groupings) legacy of permanent territorial and unresolved ethnic issues and conflicts, narrowly-based production patterns, the lack of complementarity in trade and so on, while providing enough justification for efforts towards closer co-operation, will no doubt hinder an OIC-wide integration arrangement.

Yet, again, in the face of the pressures of multilateralism on the one hand and the unfolding world of regional blocs on the other, the OICMCs in order to avoid marginalisation and not to be on the losing side, they need to work out common strategies of integration schemes. If liberalisation (under MFN or trade preferences) holds the key to integration, one option they can already utilise is to forge ahead with their existing sub-regional integration

arrangements and improve cross ties with other sub-regional groupings in the region. This may be particularly true for ECO, GCC, and AMU. Their members would stand to gain from deeper forms of integration, as major gains stem not only from changes in the level of intraregional trade but also from higher investment, increased competition, better use of economic resources, and the economies of scale that emerge from access to larger regional markets. It is beyond doubt that regionalism ensures the success of reform and attracts inflow of FDI, as it removes a source of uncertainty and encourages openness. Countries interact and respond to shocks in the world economy. Firms initially choose to extend their territorial boundaries by trading with or investing in neighbouring countries or in countries in which they have language or ethnic ties.

If the new international order maintains peace and stability, as an intertemporal development, the above mentioned three sub-regional groupings may in time develop close cross links, which would be considered as a first step to establish a larger formation in the region. In the OIC efforts for a looser co-operation, within the contexts of the new OIC Strategy, the real issue is not much how to mobilise the private sector, which is assigned the leading role in inter-OIC co-operation, but to bring the governments to participate and provide support more so than before. States have to be more committed in all respects. Regional institutions, particularly in technical and financial fields, should be strengthened and endowed with adequate resources (e.g., IDB) to play a more strategic role. In all this, it appears that the main responsibility to forge regional solidarity and to sustain common welfare would be expected to fall on the member states with better factor endowments and richer resources. In this context, the members of the ASEAN and GCC can significantly contribute, notably in promoting intraregional trade and capital flows. At best these countries can expand their trade with some of the pivotal OIC countries, which have high coefficients of import. For any future attempts and schemes undertaken within the OIC framework, the active participation of these high income countries is essential if the schemes are to have a chance of success.

In their assessment of the OIC's experiment in co-operation and in reference to the impediments and the feasibility of a common market, Ahmed and Ugurel (1996) propose: "In the face of these obstacles, therefore, it appears that it would be better to start with objectives more modest than complete integration, which, nevertheless, should remain as a long-term objective. It is by beginning with co-operation in concrete investment projects, limited in scope, or even with 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 realisation of ultimate integration, can be best created. It

should also be remembered that, though far from reaching an advanced stage, some important initiatives have already been taken so far within the OIC in a multitude of economic co-operation fields. Once these initiatives and modalities of co-operation are consolidated and linked together within a wider and more flexible framework, as foreseen in the new OIC Plan of Action, a concrete foundation for more extensive integration schemes among the member countries, like an Islamic Common Market, would have been established. It appears that existing and to-be-established sub-regional and regional integration schemes participated in by the OIC countries, and linked to one another with special preferential arrangements, could very well serve as the foundation stones of an overall OIC integration scheme advanced features”.

Therefore, given the present conditions and the depth of co-operation activities, an OIC regional integration on a global scale is as distant as ever. In the face of serious obstacles and impediments, the OIC should have no choice except proceeding with a modest and practical approach to integration as outlined here and in other similar studies. The process of integrating economies at varying levels of development and with differing structures is an insurmountable task by itself. Preconditions need to be met before the OIC world entertains high aspirations of an Islamic Common Market. Fragile relations, prior concerns for national economic or political stability, lack of mutual trust, and the difficulty to mobilise resources would serve to undermine all positive efforts. Further and serious research and investigations would have to be undertaken in order to look into the prospects and to formulate coherent and effective strategies or programmes that would help the OICMCs to confront the challenge and danger of marginalisation. The international political economy is expected to have more complex and diverse issues of global integration. On the trade front alone it remains to be seen how those so far left to the GATT Rounds will be resolved to the benefit of both developed and developing countries; while the former countries advise liberal and freer trade, they are themselves engaged in practices that are detrimental, harmful and damaging to the international order and global economic welfare.

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