

**AN EMPIRICAL INVESTIGATION
OF ECONOMIC COOPERATION
AMONG THE OIC MEMBER
COUNTRIES**

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Working Paper 0212

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As of August 1998, financial support towards the ERF Working Papers Series from the Commission of the European Communities (through the FEMISE Program) is gratefully acknowledged. The views expressed in the Working Papers are those of the authors and do not necessarily reflect the views of the European Commission.

Abstract

The regional economic blocks among OIC countries play an important role in economic improvement for these countries. The paper provides recommendations and policy options for establishing an Islamic common market. These recommendations will be derived from assessing the success and failure of the existing preferential trading agreements and regional economic groupings among the OIC countries. Also, the paper assesses trade potentials among the OIC member countries. To achieve these objectives, the paper estimates a gravity model of trade creation and diversion among the various economic blocks of the OIC member countries.

1. Introduction

While multilateral trade liberalization goes on within the World Trade Organization (WTO) framework, regionalism also gains simultaneous momentum as an indispensable form of increasing trade amongst both developed and developing countries. Although these are not conflicting or mutually exclusive phenomena, these inclinations towards regional blocs are shaped by fierce competition in political and economic spheres. Mutual economic benefits and vested interests are driving forces behind this renewed regionalism. The success story of the European Union and its extension has created interests among many countries of forming such economic blocs.

The purpose of this paper is three fold. First, this paper examines the success and failure of the existing preferential trading agreements and regional economic groupings among the OIC countries. Second, this paper assesses trade potentials among the OIC member countries. Finally, it provides recommendations and policy options for establishing an Islamic common market. To achieve these objectives, this paper provides an economic scorecard of the OIC member countries. Then, this paper estimates a gravity model of trade creation and diversion among the various economic blocks among the OIC member countries. Data and information from the UNDP COMTRADE DATABASE, SESRTCIC database, the World Bank, and the IMF have been used to execute the empirical analysis of this paper.

There are two principles behind free trade agreements (i.e., GATT, WTO). The first, known as the most-favoured-nation (MFN) clause which requires that any trade concession extended to a country must be automatically and immediately applied to all other GATT/WTO members. The second principle requires all the members to treat imported goods in the same manner as domestic products. Although these two very basic principles were agreed under the GATT/WTO, there are, indeed, some effective exceptions to these rules. One exemption from the most-favoured-nation clause is the case of free trade areas and customs unions. Only in these economic groupings is 'discrimination' made permissible against the non-member countries. Another exception to the principle of non-discrimination is the special status of the developing countries.

Similarly, in the European Union (EU), the North American Free Trade Agreement (NAFTA) and the Asia-Pacific Economic Co-operation (APEC), the OIC member countries have also established and/or joined many regional economic co-operation schemes. Some are formed with other OIC countries, others include non-OIC partners. A number of economic blocks are already at work among the OIC member countries such as GCC, ECO, AMU etc. These cooperative arrangements are, however, are not particularly successful.

The growth of regionalization and especially the EU raise 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 blocs. 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 relative erosion in market access. How important such 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 polarised markets as their traditional links. One important modality in this direction has been the establishment (or reactivating) of regional integration schemes.

The Islamic countries are known to be a diverse group in terms of their economic structures and levels of development, political systems, ethnic backgrounds, as well as a diversified social cultural milieu, although most of them draw on a common source, Islam. This heterogeneity has often been taken as the major argument against the feasibility of an Islamic Common Market (ICM), where there is supposed to be free flow of products, capital, entrepreneurship, labor and technology among the members, as well as a common tariff wall against third parties. However, we believe that although this heterogeneity creates a lot of problems, it is also a source of strength if it is positively thought of in terms of diversity and is carefully manipulated. Like the EC, NAFTA and APEC countries, the OIC countries share a lot of similarity in culture and socio-economic condition, but as opposed to EC countries they are a mix of low income, middle-income and high-income countries. Liberalization of trade in OIC countries offers significant gains for all the economies in the region. The study will have important implications for policy making about the future course in economic cooperation among the 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 of the same proportion as if they were to trade with the rest of the world. The low level of trade related services, 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.

This paper is divided into six sections. Following introduction, section two evaluates the existing economic blocs of the OIC Member Countries. In section three, an economic scorecard is provided with special reference to detailed trade statistics among the OIC countries. In Section four, 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 Islamic common market in section five. Section six concludes the paper.

2. An Evaluation of the Existing Economic Blocs OIC Member Countries

The developing countries in the World Trade Organization (WTO) significantly outnumber the developed countries. Of the 137 WTO members, over 72 percent are either developing or least developed countries. Despite this makeup however, decisions and policies of the WTO are still determined by the developed countries.

In recent years during various WTO conferences, the developing countries have been pressured by developed countries to accept or at least discuss the topics of interest to the developed countries within the framework of the multilateral trade negotiations. This was the case during the First WTO Ministerial Conference in Singapore in December 1996. These topics of interest included discussions on information technologies, financial services, basic telecommunications, labor standards, trade and investment relationship, rules of competition, and government procurement. In addition to this, they had to conclude an information technology agreement (ITA) only two years after the Uruguay Round. Prior to this, such an agreement would have been reached only after a long negotiation process during which the issues could first be discussed in detail. Later agreements were also reached in the fields of financial services and basic telecommunications, all to the advantage of the developed countries. Unfortunately, the developing countries could not obtain reciprocal commitments from the developed countries in their areas of interest (i.e. agriculture, textiles, clothing, and movement of natural persons).

Out of 56 OIC countries, only 38 are members of WTO. Three of the five members who joined the WTO in 2000 are Muslim countries: Albania, Jordan and Oman. Another 8 or 9 Muslim countries are currently in the process of accession, which leaves only 9 with no formal links as yet with the WTO. Of these Iran is one. A Muslim country's relationship with the WTO will depend mainly on its engagement in the global economy and its commitment to the general principles of free trade and non-discrimination upon which the WTO is founded. Muslim countries can participate in the WTO on three general levels. First, countries can act individually by attending and contributing to WTO Committee meetings and sessions of the General Council, by submitting policy and specific negotiating positions on WTO issues, by tabling proposals for future

WTO work, and by notifying domestic trade policy developments to WTO. Second, countries can join together in order to advance broad positions for future WTO work or for WTO negotiations. Third, countries that share long-term interests can join together in a standing group to pool resources in order to formulate advantageous policies at WTO and to influence multilateral trade negotiations.

2.1 Preferential Agreements among OIC Countries

A distinction can be made between the major regional integration schemes comprising only the OIC countries, and other groupings composed of other developing countries and the OIC countries as well. In the former group belong 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 Organization (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). (See Table 1).

2.2 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 the member countries later on. 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. (See Table 2).

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 aims, at the outset, 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 sets unified modalities of payments between the central banks and provides for 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 aims 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 tries 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 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 customs tariffs and similar barriers in some product categories.

2.3 Regional Groups Among OIC Member and Non-Member Nations

In this group, we have studied 9 integration groupings amongst the African OIC countries and 5 others amongst the OIC members in the Euro-Asian region. 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. (See Table 3a).

In the case of the Mano River Union (MRU), the main objective is to set up a customs union amongst participants. The Indian Ocean Commission (IOC) aims

to establish just a preferential trade area, and the Cross-Border Initiative (CBI) a free trade area.

In Euro-Asia, the number of regional economic groupings of the 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. Amongst 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.

2.4 Performance Evaluation of OIC Countries Sub-regional Groupings

The main objective and the basic justification of economic integration are to enable the participating countries to attain together higher rates of growth and development. 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, 1987). 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 with other developing countries.

The historical experience of the various integration schemes among the OIC countries have shown that the conceptual and practical difficulties that these countries have faced with regard 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 especially the member countries in the African and Arab groups of the OIC have been participating in such schemes, 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 of powers to take economic and social decisions at the national level.

The first point is of capital importance. Not only is the coordination of investment essential for establishing region-wide industries, which will make it possible to reduce costs of production, 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 going 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 other's 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) amongst one another. 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).

3. Economic Score Card and Trade Report on the OIC Member Countries

Since the OIC countries, unlike the industrial countries, are not made up of an economically homogeneous group, overall group analysis is rather difficult and may conceal some underlying factors and somewhat conflicting developments. The very same economic causes may easily produce a set of completely different results in different countries due to the heterogeneity in economic structures.

3.1 Economic Growth of OIC Countries

The OIC countries will be examined in 4 sub-groups in order to illustrate the developments within the OIC better. The first group is classified as the Least Developed Members of the OIC, which will be named, hereafter, as the LDC group of OIC. This group is made up of those members of the OIC which 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, Sierra Leone, Somalia, Sudan, Togo, Uganda and Yemen. The second group includes, generally, the middle-income OIC countries, which will be named, hereafter, as the middle-income (MI) group of OIC. These are Bahrain, Cameroon, Egypt, Guyana, Jordan, Lebanon, Malaysia, Morocco, Pakistan, Senegal, Surinam, Syria, Tunisia, and Turkey. The third group comprises the oil-exporting (OE) members of the OIC, namely Algeria, Brunei, Gabon, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Oman, Qatar, Saudi Arabia, and the United Arab Emirates (U.A.E.). The last group comprises the countries in transition, which

will be named hereafter as the TC group of OIC. These are Albania, Azerbaijan, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan.

Table 4a presents real GDP growth rates while Table 4b presents real per capita GDP growth rates. One striking result of these tables is that OIC growth rates are lower than the developing countries average. Among the OIC countries, MI performance is better than OE, and OE performance is better than TC.

3.2 Structure of Output of the OIC Countries

The services sector is an important source of income in almost all the OIC countries, followed by agriculture and industry. 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 gaining importance (See Table 5).

3.3 Inflation of the OIC Countries

The overall inflation level is now more or less stable in OIC countries. Even the countries in transition, which experienced hyperinflation in the early 1990s, started recently to bring it under control. Inflation of the OIC countries is generally lower than those of developing countries (See Table 6).

3.4 Current Account and Reserve Position of the OIC Countries

Less than half the OIC countries experienced deterioration in their reserves. About two thirds of the OIC countries were able to improve their foreign exchange reserves during the first four years of the period under consideration. In 1999, the OIC as a group shows a current account surplus. An increased number of countries show an increase in improving position in reserves in 1999. (See Table 7).

3.5 Total Outstanding External Debt of the OIC Countries

Debt is still a heavy problem for the economies of the OIC countries. Amongst the OIC groups, the debt to GNP ratio is highest in the case of the LDC group, and lowest in the TC group. The OIC group holds one third of developing countries debt. (See Table 8).

3.6 Flows of FDI to OIC countries

The OIC countries, as a substantial group of the world developing countries, have attracted a small share of the total FDI flowing to developing countries. The two major OIC countries attracting the bulk of FDI flows to OIC countries over the last two decades-Indonesia and Malaysia were among the Asian countries that felt the brunt of the financial crisis. Another observation in terms of the distribution of FDI inflows in the OIC countries is that there is also a significant concentration of FDI flows in certain groups within the OIC countries. The group of OIC middle income countries (OIC-MICs) and the group of OIC oil-exporting

countries (OIC-OECs) attracted, together, more than 90 per cent of the total FDI flows to OIC countries in almost all the years over the last two decades. The remaining part of less than 10 per cent was left to be shared by the other two groups: the group of OIC least developed countries (OIC-LDCs) and the group of OIC countries in transition (OIC-TCCs). (See Tables 9a-c).

3.7 Aggregate Exports and Imports of the OIC Countries

The OIC countries still as a whole trade more with the outside world than with its own partners. Experience has shown that the poorer OIC countries visualize cooperation mainly from the assistance angle, while the richer ones look at it from a mutual benefits angle. The OIC countries are producers of primary products, be they minerals or agricultural products. Because of this structure, the foreign trade is characterized, with few exceptions, with export of raw materials and import of manufactured goods. Hence the foreign trade partners of the OIC countries are mostly the developed countries. There are a number of impediments to trade among the OIC countries. First, most of the OIC countries are poor. Second, there is lack of reliable and updated trade information among these countries. Third, there are limited opportunities for business contacts among the private bodies of the OIC countries. Fourth, there exists lack of marketing and distribution skills among the business people of the OIC countries. Finally, the exportables of many OIC countries are not diversified.

While the merchandise export is growing in double-digit levels in the developing countries during 1996-2000 period, the OIC exports are only growing at the single digit level. At the same time, the OIC countries are importing more and more from the rest of the world. (See Tables 10a-b). Table 11a and 11b provide a detailed countrywide breakdown of export and import figures of the OIC countries. It also shows the breakdown of imports and exports to Islamic countries and non-Islamic countries.

4. Gravity Model Econometric Analysis of the OIC Regional Blocs

4.1 Methodology and Data

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 a 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.

The gravity model has long been used for empirical studies of the pattern 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 their 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:

$$\log(\text{TRADE}_{ijt}) = a + B_1 \log(\text{GDP}_{it}\text{GDP}_{jt}) + B_2 \log(\text{PCI}_{it}\text{PCI}_{jt}) + B_3(\text{DISTANCE}_{ij}) + B_4(\text{BORDER}_{ij}) \quad (1)$$

where TRADE_{ijt} 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 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), B_1 , B_2 and B_4 should be positive, and B_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 have 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 various different documents.

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 distance are not the same. Insofar as economic distance is mis-measured, 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 heterogeneity problems. 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 and 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

We have run gravity model estimations for 1999. The results are reported in Tables 12 through 14. Table 12 presents descriptive statistics while Table 13 presents 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, 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 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; 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 percent 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 0.327 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 0.114, indicating that poorer countries trade less with each other. The coefficient on the log of distance is -0.628 indicating that when distance between two nonadjacent countries is higher by 1 percent, trade between them falls by 0.628 percent. The coefficient on adjacency, at 1.092, indicates that two countries sharing a common border trade roughly three times as much $[\exp(1.092) = 3.20]$ as two otherwise similar countries.

If there were nothing to the notion of trade blocs, 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, D8 and GCCAMUECO are statistically significant with positive signs. These results indicate that these blocs are trade creating, and they do not divert trade from low-cost producers as the coefficients of GCCN, and D8N are not statistically significant. In addition, SAARCN has a positive and significant coefficient indicating that it does not divert trade from its 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 8 $[\exp(2.104) = 8.20]$ times more among themselves than two otherwise-similar country in 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 a trade diverting (negative trade diversion is used as a criticism against the formation of preferential trading arrangements). 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 $[\exp(0.747) = 2.111]$ 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 bloc; (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.

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. In free trade areas, participants aim mainly to expand trade activities among themselves. 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. A common market allows a free flow of not only the goods but also the services and the factors of production such as capital, labour, entrepreneurship, etc., across countries. A monetary union establishes a central monetary authority, which will determine monetary policy for all the participating countries. 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 labour.

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 56 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 (e.g. 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 small volume of intra-Islamic trade.

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-Islamic 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 polarisation between the EU, Japan and the US poses the question of whether regionalism leads to trade wars and regional protectionism, or whether these trade blocs 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 blocs, the EU, NAFTA and APEC, started to concentrate on not only the issues of trade facilitation and liberalisation but also on comparatively new issues such as trade in services, investment opportunities, intellectual property rights, labour standards, protection of environment, 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 blocs are increasingly providing opportunities far beyond the liberalisation 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.

5.3 Policy Suggestions of Establishing an Islamic Common Market

Regional economic groupings aim to accelerate the economic growth and development of the countries in the scheme. A common market is a higher form of regional economic integration scheme as compared to simpler forms such as preferential trade areas, free trade areas or customs union. A common market allows 1. A free flow of not only the goods across countries but also the services and the factors of production such as capital, labor, entrepreneurship, etc.; 2. A common external tariff policy against third parties and the abolishment of all the tariffs on each other's exports. However, such a scheme also necessitates the co-ordination of commercial, industrial, financial and economic policies. There are five steps suggested by the SESRTCIC on how to move to an ICM gradually over time.

5.3.1 Trade Liberalization Among the OIC Member Countries

The Establishment of an Islamic common market will create a free trade environment by abolishing all the barriers (tariff, para-tariff and non-tariff) to trade in goods and services amongst themselves and apply a common external tariff policy against third parties at a certain stage. Two effects will occur because of an ICM. The first one is trade creation and the second one is trade diversion. Trade creation occurs when high-cost domestic production is replaced by imports from other members. Trade diversion occurs when low-cost imports from third parties are replaced with higher-cost goods from member countries. The formation of the Islamic Common Market will create a broader market. ICM may increase efficiency and competitiveness through making use of the advantages of economies of scale in production of goods already being produced in the region. It may also make possible the production of new commodities within the region. More competitive industries and countries will benefit from a

better climate and levels of trade and production will increase in the long run. *This fact will certainly promote the overall welfare of the OIC Community.*

5.3.2 Free Flow of Factors of Production

The Islamic Common Market should also create conditions for the free flow of all the factors of production, particularly capital, labor, and entrepreneurship. There may occur further differences between the economic growth rates of the member countries. But these differences tend to decline in the long run, and disappear completely at the end. *This scheme is expected to increase total production and income and the resulting welfare of the Community.*

5.3.3 Co-ordination of Economic Policies

Another facet of the establishment of the Islamic Common Market is the co-ordination of commercial, industrial, monetary, financial and economic policies amongst the member countries. *The establishment of the Islamic Common Market implies the gradual surrender of the authority of the national governments over their domestic economic policies.* In general, implementation of such measures and reforms to streamline the OIC economies may cause social and political unrest and may be problematic. However, when these structural reforms are made within the framework of forming a Common Market or for harmonizing the commercial and economic policies, people may tolerate them better.

5.3.4 Promotion of Regional Stability and Solidarity

Creation of an Islamic Common Market will also contribute to the promotion of regional stability, solidarity and security amongst the member countries. In general, economic co-operation and unification result in political co-operation and unification. Furthermore, economic and political unification brings about economic strength and political power. In this way, the OIC countries may reach their initial objectives. OIC, as a grouping of developing countries, should endeavor to design and implement joint action that would aim to protect its members from the adverse effects of the rapid changes taking place in the world. Due to the expansion of the market, trade and income creation may result in increased exports, increased trade exchanges, more investments, more output, higher rates of employment, new business opportunities, and new goods produced in the region.

5.3.5 Coordination of Investment in the OIC Region

The OIC countries have attempted two types of co-operation and integration schemes: those comprising OIC countries only and those with other developing countries. The most serious difficulties within the region encountered in investment are three-fold:

- The effective co-ordination of investment throughout the region.

- The need to compensate member countries which may suffer losses in the early stages.
- The step-by-step surrender by member countries of powers to take economic and social decisions at the national level.

In order to avoid the increasing disequilibria between participating countries it is essential that financial compensation should be made to the weaker members.

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, Tajikistan, 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 transfer. 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 build 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 latter.

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 run 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 the 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 the 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 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 latter 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 decade of the 1990s. While there are benefits of 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 a 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 for 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 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 globalized 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 local 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 a 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 of the business community and calling for 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 is needed. A Business Forum, involving entrepreneurs of the member states, should be convened soon so that a simultaneous meeting of proposed the 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 the best use of vast geography and potentials of the member countries, to diversify and facilitate trade and to upgrade the 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 have shown the fragility of the global economy and the dangers of unchecked and unmanaged globalization. The developing countries face problems arising not only out of global economic slowdown but also a deepening socio-economic crisis due to evident iniquities 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 credits. 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 biased, and gives distorted news about the developing countries. The Muslim world can make efforts to make a news agency, which will reflect the points of view and angle of its own people. The Developing-8 member states have a common bond of Islamic culture and heritage and unity of the Muslim Ummah 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 the recent financial crisis. Although the degree of damage varies from one country to another following the effect of the global financial and economic crisis, consultations and cooperation within the framework of D-8 would facilitate individual contributions towards shaping institutional and financial reforms in the global economy.

The new initiatives amongst the OIC countries may, first of all, emphasise 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. Fifth, 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.

6. Summary and Conclusions

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. Removal of tariff and non-tariff barriers under the OIC block countries can open up some profitable intra-regional trade channels. Based on the analysis in this paper, the following recommendations are suggested to make the preferential trade agreements more effective among the OIC member countries.

- 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.
- 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.
- 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.
- The rate of economic growth in the OIC countries should be accelerated as a strategy to promote regional economic integration.
- The OIC countries should fully use the mechanism of the WTO to explore areas where greater export expansion to the world market is possible.
- 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 transfer. 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.

- 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.
- The OIC countries can increase financial cooperation among themselves via clearing union arrangements, export credits and payments unions.
- 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.
- 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.

A number of concrete policies can be implemented to further the cause of the Islamic common market. 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 that 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. Fourth, 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, establish a multi-disciplinary research organization within OIC secretariat to provide deliberate planning and policymaking. Sixth, immediate steps should be undertaken to establish an OIC information broadcast to project OIC views on contemporary ideological, political, and economic issues. Contribution of the Muslim world in promoting global peace, progress, and prosperity for humanity at large should be consolidated and projected internationally through the electronic media.

An Islamic Common market should be a long-term ideal for the OIC member countries, to be approached carefully and in stages. It should be based on some important initiatives that have so far been taken in trade preferences, joint

ventures, co-ordination and harmonization of various sets of economic policies, regional schemes of monetary and financial co-operation, the establishment of regional integration schemes, such as the Gulf Cooperation Council or Economic Cooperation Organization, and linked to one another with special preferential arrangements. This could constitute the concrete foundation of an overall Islamic Common Market Framework made up of regional components.

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Table 1: Cont'd

	A	U	C	C	E	E	I	M	W	A	C	G	A	B	C	E	E	S
	E	D	O	B	C	C	O	R	A	M	A	C	S	S	I	A	C	A
	C	E	M	I	C	O	C	U	E	U	E	C	E	E	S	E	O	A
	A	E		A	W			M					A	C				R
	C	S		S	A			U					N					C
		A			S													
Libyan A. Jamahiriya	*										*	*						
Morocco											*							
Oman													*					
Palestine												*						
Qatar													*					
Saudi Arabia													*					
Syria													*					
Tunisia	*										*							
United Arab Emirates												*	*					
Yemen												*						

Source: SESRTCIC (2000)

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 Organization.
- SAARC: South Asian Association for Regional Co-operation.

Table 2: Regional Blocs of Only OIC Member Countries

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 Co-operation Organization (ECO)	10	Preferential trade area.

Source: SESRTCIC, 2000

Table 3: Regional Blocs of OIC Member Countries with Other Countries In Africa

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 & monetary union.
Central African Customs & Economic Union (UDEAC)	6	3	Stage 1: Customs union. Stage 2: Common market. Stage 3: Economic & monetary union.
Common Market for Eastern & 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 & Monetary Union (WAEMU)	7	6	Stage 1: Common market. Stage 2: Economic & monetary union.
Association of South East Asian Nations (ASEAN)	7	3	Stage 1: Free trade area. Stage 2: Customs union.
Black Sea Economic Co-operation (BSEC)	11	3	Preferential trade area.
Commonwealth of Independent States (CIS)	12	6	Stage 1: Free trade area. Stage 2: Customs union.
East Asian Economic Caucus (EAEC)	10	3	Regional co-operation.
South Asian Association for Regional Co-operation (SAARC)	7	3	Preferential trade area.

Source: SESRTCIC, 2000

Table 4a: Real GDP Growth Rates (Average annual % change)

	1983-92	1996	1997	1998	1999	2000
OIC-LDC	3.3	5.3	5.8	5.1	4.9	5.0
OIC-MIC	5.2	7.2	5.1	-2.6	1.0	5.5
OIC-OEC	2.0	3.4	4.3	3.5	-6.2	3.3
OIC-TC	-0.2	1.2	1.4	2.1	4.6	8.0
OIC countries	3.7	5.5	4.7	0.3	-1.4	4.7
World (*)	3.4	4.0	4.2	2.8	3.5	4.8
Developed countries (*)	3.3	2.9	3.5	2.7	3.4	4.1
Developing countries (*)	4.7	6.5	5.8	3.5	3.8	5.8

Source: (*) IMF, *World Economic Outlook*, May 2001, p. 165. SESRTCIC (2001)

Table 4b: Real per Capita GDP Growth Rates (Average annual % change)

	1996	1997	1998	1999	2000
OIC-LDC	2.4	2.5	3.0	1.9	2.0
OIC-MIC	3.8	1.9	-1.3	0.5	2.9
OIC-OEC	1.4	1.8	1.6	-3.0	1.5
OIC-TC	3.0	3.5	1.4	7.7	10.0
OIC countries	2.8	2.0	0.2	-0.7	2.2
Developed countries (*)	2.3	2.8	2.1	2.8	3.6
Developing countries (*)	4.8	4.1	2.0	2.4	4.3
Memo:					
Total OIC Population	2.0	2.4	2.0	2.1	2.1

Source: (*) IMF, *World Economic Outlook*, May 2001, p. 165. SESRTCIC (2001)

Table 5: Structure of Output (Value added as % of GDP, average 1995-99)

	Agriculture	Industry:	Of which Manufactur e	Services
OIC-LDC	30.3	22.0	11.6	50.0
OIC-MIC	17.9	34.0	21.6	46.9
OIC-OEC	12.5	47.5	9.0	39.8
OIC-TC	23.7	30.1	13.8	46.1
OIC countries	16.7	38.4	15.9	44.2

Source: IMF and SESRTCIC Publications (2001).

Table 6: Average Inflation Rates (Annual % change in consumer prices)

	1983-92	1996	1997	1998	1999	2000
OIC-LDC	21.1	23.8	9.0	8.2	6.0	5.2
OIC-MIC	20.1	24.4	24.3	39.3	22.6	15.1
OIC-OEC	8.4	10.3	5.5	6.1	5.4	4.5
OIC-TC	0.9	98.4	38.8	15.6	15.4	15.8
OIC countries	15.4	22.0	17.2	24.9	15.3	10.8
Developed countries (*)	4.6	2.4	2.1	1.5	1.4	2.3
Developing countries (*)	46.9	15.4	9.9	10.4	6.7	6.1
Countries in transition (*)	42.4	42.4	27.4	21.8	43.9	20.1

Source: (*) IMF, *World Economic Outlook*, May 2001, p. 165. SESRTCIC (2001)

Table 7: Current Account and Reserves Position

	1995	1996	1997	1998	1999
Current account balance					
(billion US \$)					
OIC countries	-34.3	-7.8	-4.6	-17.1	16.6
Developed countries (*)	59.0	42.3	95.1	34.8	-133.1
Developing countries (*)	-96.9	-74.5	-60.5	-92.2	-18.5
Number of OIC countries with:					
(-) current account balance	42	38	42	40	26
(+) current account balance	11	14	10	8	11
Reserves Excluding Gold (billion US \$)	144.4	151.2	155.6	174.1	181.5
Number of OIC countries with:					
Deteriorating position	12	13	15	22	14
Improving position	35	34	32	23	30
Memorandum:					
<i>Foreign debt (billion US \$)</i>	573.1	580.9	583.5	627.6	625.3
As % of developing countries	26.6	25.8	25.0	24.4	24.4
FDI (billion US \$)	16.8	18.6	20.1	15.6	12.2
As % of developing countries	15.7	14.2	11.6	8.8	6.6

Source: (*) IMF, *World Economic Outlook*, May 2001, p. 165. SESRTCIC (2001)

(-) Deficit current account balance. (+) Surplus current account balance.

Table 8: Total Outstanding External Debt (In Billions Of US Dollars)

	1994	1995	1996	1997
OIC countries	660.6	692.0	708.6	712.0
	(51)	(51)	(51)	(49)
Developing countries	1993.6	2162.6	2238.4	2316.6
Share of OIC in developing countries (%)	33.1	32.0	31.7	30.7
Debt to GNP ratio (%):				
LDC group of OIC	115.8	112.4	97.4	80.6
MI group of OIC	65.3	101.7	79.4	58.2
OE group of OIC	75.9	70.1	56.5	53.6
TC group of OIC	13.2	15.4	15.2	21.5
OIC countries	71.5	86.2	68.8	56.5
	(44)	(44)	(43)	(43)
Developing countries	40.0	38.2	34.9	37.3

Note: Figures in parenthesis indicate the number of countries.

Source: IMF, *World Economic Outlook*, May 1999, and SESRTCIC Publication

Table 9a: FDI inflows to OIC countries (million US \$)

	Annual average						
	1982-87	1987-92	1990	1992	1994	1996	1998
Total OIC countries	3085	6738	7628	12065	13809	19021	16404
OIC as % of :							
World	4.6	3.9	3.7	6.9	5.4	5.3	2.5
Developed countries	5.8	4.9	4.5	10.0	9.4	9.0	3.6
Developing countries	20.9	19.1	22.6	23.6	17.5	14.0	9.9

Source: UNCTAD: *World Investment Report*, various years. United Nations. New York, and Geneva and SESRTCIC Publication

Table 9b: Concentration of FDI Inflows in some OIC Countries (million US\$)

	Annual Average						
	1982-87	1987-92	1990	1992	1994	1996	1998
Egypt	809	806	734	459	1256	636	1076
Indonesia	282	999	1093	1777	2109	6194	-356
Malaysia	844	2387	2333	5183	4342	5078	3727
Morocco	42	203	227	423	551	354	258
Nigeria	371	845	588	897	1959	1539	1500
Oman	139	103	141	104	76	75	50
Pakistan	86	227	244	335	419	919	497
Saudi Arabia	149	-35	1864	-79	350	-1129	2400
Tunisia	150	160	76	526	432	238	650
Turkey	92	578	684	844	608	722	807
Kazakhstan	-	17	-	100	660	1137	1158
Total	2964	6290	7984	10569	12762	15688	11767
% of OIC countries	96.1	93.1	104.7	87.6	92.4	82.5	71.7

Source: UNCTAD: *World Investment Report*, various years. United Nations. New York, and Geneva and SESRTCIC Publication

Table 9c: FDI inflows to OIC subgroup countries (million US \$ and %)

	Annual average						
	1982-87	1987-92	1990	1992	1994	1996	1998
OIC-LDCs	57 (1.8)	297 (4.4)	-73 (-1.0)	850 (7.0)	200 (1.4)	420 (2.2)	1065 (6.5)
OIC-MICs	2470 (80.1)	5402 (80.2)	5355 (70.2)	9802 (81.2)	10129 (73.4)	14508 (76.3)	7380 (45.0)
OIC-OECs	555 (18.0)	1020 (15.1)	2346 (30.8)	1253 (10.4)	2547 (18.4)	2049 (10.8)	5374 (32.8)
OIC-TCCs	0 (0)	17 (0.3)	0 (0)	160 (1.3)	933 (6.8)	2044 (10.7)	2585 (15.8)

Source: UNCTAD: *World Investment Report*, various years. United Nations. New York, and Geneva. and SESRTCIC Publication

Note: Figures in brackets show the % share in total FDI inflows to OIC countries.

Table 10a: Merchandise Exports (Average annual % change)

	1996	1997	1998	1999	2000
OIC-LDC	7.9	2.6	-4.7	10.1	14.1
OIC-MIC	9.0	2.9	-8.7	12.5	13.6
OIC-OEC	16.0	4.1	-38.5	18.2	30.4
OIC-TC	4.3	-0.2	-20.1	5.5	30.9
OIC countries	12.0	3.3	-20.9	14.6	22.0
Developed countries	2.5	3.0	2.3	6.4	8.5
Developing countries	7.3	6.0	-10.6	1.2	15.1
World	4.1	4.0	-2.1	4.8	10.7
Share in the world total (%)					
OIC countries	7.5	7.5	6.3	7.0	8.1
Developed countries	64.6	63.9	66.9	68.0	66.4
Developing countries	33.9	34.7	32.0	30.8	32.4

Source: (*) IMF, *World Economic Outlook*, May 2001, p. 165. SESRTCIC (2001)

Table 10b: Merchandise Imports (Average annual % change)

	1996	1997	1998	1999	2000
OIC-LDC	6.7	-0.2	7.9	9.1	9.2
OIC-MIC	5.9	1.8	-19.9	5.0	18.9
OIC-OEC	6.8	0.3	3.8	-0.1	12.5
OIC-TC	19.9	-6.8	-10.3	-6.4	17.4
OIC countries	6.7	0.9	-9.8	3.2	16.3
Developed countries	3.3	2.4	0.6	3.7	8.7
Developing countries	6.8	6.1	-4.1	7.4	19.9
World	4.5	3.6	-1.2	5.1	12.9
Share in the world total (%)					
OIC countries	6.9	6.7	6.2	6.1	6.4
Developed countries	65.6	64.7	65.9	64.9	61.9
Developing countries	34.7	33.3	33.2	34.1	37.1

Source: (*) IMF, *World Economic Outlook*, May 2001, p. 165. SESRTCIC (2001)

Table11a: International Trade among OIC and non-OIC Countries Imports To Islamic Countries
(Million US Dollars)

	From Islamic Countries					From Non-Islamic Countries					Total				
	1992	1993	1994	1995	1996	1992	1993	1994	1995	1996	1992	1993	1994	1995	1996
Afghanistan	32	32	47	59	71	366	389	298	300	425	398	421	345	359	496
Albania	...	...	...	...	...	541	602	...	...	...	541	602	...	...	...
Algeria	458	565	915	780	705	8,190	8,196	8,655	9,346	7,810	8,648	8,761	9,570	10,126	8,515
Azerbaijan	189	208	415	373	618	809	427	363	293	671	998	635	...	666	1,289
Bahrain	1,954	1,675	1,749	1,957	2,110	2,580	2,580	2,439	2,123	2,341	4,534	4,255	4,188	...	4,451
Bangladesh	436	371	380	510	492	3,295	3,644	4,204	5,986	6,595	3,731	4,015	4,584	6,496	7,087
Benin	23	21	18	20	39	419	324	521	820	822	442	345	539	840	861
Brunei	195	256	339	395	434	2,232	2,345	2,785	3,095	4,255	2,427	2,601	3,124	3,490	4,689
Burkina Faso	27	30	27	34	41	571	583	515	663	742	598	613	542	697	783
Cameroon	122	106	102	114	115	1,182	881	749	1,026	1,092	1,304	987	851	1,140	1,207
Chad	33	41	49	21	24	130	100	90	139	148	163	141	139	160	172
Comoros	2	3	2	1	2	103	104	112	157	166	105	107	114	158	168
Djibouti	57	81	47	54	66	423	361	326	367	308	480	442	373	421	374
Egypt	609	884	660	1,256	1,302	7,684	13,658	8,933	10,483	18,211	8,293	14,542	9,593	11,739	19,513
Gabon	83	85	106	83	100	989	951	676	856	878	1,072	1,036	782	939	978
Gambia	18	21	19	14	14	376	355	190	126	258	394	376	209	140	272
Guinea	53	52	47	48	84	792	735	622	720	742	845	787	669	768	826
Guinea-Bissau	5	1	...	6	11	110	132	153	133	95	115	133	...	139	106
Guyana	7	2	4	2	...	...	...	...	...	...	...	...	...	...	...
Indonesia	1,867	1,685	1,530	2,001	2,937	25,416	26,648	28,857	38,235	40,008	27,283	28,333	30,387	40,236	42,945
Iran	2,406	2,153	2,114	2,287	2,196	20,700	14,497	9,471	9,843	11,588	23,106	16,650	11,585	12,130	13,784
Iraq	315	329	343	422	133	288	204	155	194	94	603	533	498	616	227
Jordan	893	920	985	1,150	844	2,364	2,621	2,423	2,540	3,197	3,257	3,541	3,408	3,690	4,041
Kazakistan	...	...	176	394	576	460	1,483	3,533	4,313	3,685	...	...	3,709	4,707	4,261
Kuwait	301	760	1,249	306	267	6,981	6,152	5,477	6,799	7,411	7,282	6,912	6,726	7,105	7,678
Kyrgyzistan	3	9	149	226	370	67	103	97	166	425	70	112	246	392	795
Lebanon	680	520	859	902	945	3,426	3,978	5,074	6,376	6,637	4,106	4,498	5,933	7,278	7,582

Table11a: Cont'd.

	From Islamic Countries					From Non-Islamic Countries					Total				
	1992	1993	1994	1995	1996	1992	1993	1994	1995	1996	1992	1993	1994	1995	1996
Libya	890	818	689	839	881	4,275	4,556	3,464	4,011	4,256	5,165	5,374	4,153	4,850	5,137
Malaysia	1,108	1,299	1,592	1,944	1,312	38,819	44,317	57,963	75,718	76,485	39,927	45,616	59,555	77,662	77,797
Maldives	14	18	24	118	155	177	175	198	239	267	191	193	222	357	422
Mali	51	58	66	62	77	716	751	652	956	1,066	767	809	718	1,018	1,143
Mauritania	49	57	59	62	59	550	534	503	575	577	599	591	562	637	636
Morocco	681	1,028	1,212	1,181	1,284	7,339	5,830	5,956	6,524	8,722	8,020	6,858	7,168	7,705	10,006
Mozambique	150	121	107	119	132	760	913	946	1,191	1,321	910	1,034	1,053	1,310	1,453
Niger	9	11	12	18	21	453	459	438	527	545	462	470	450	545	566
Nigeria	190	226	230	247	276	9,002	7,309	5,139	5,381	6,314	9,192	7,535	5,369	5,628	6,590
Oman	1,261	1,451	1,418	1,460	1,501	2,508	2,663	2,497	2,788	3,195	3,769	4,114	3,915	4,248	4,696
Pakistan	2,099	2,430	2,741	3,531	3,793	7,276	7,062	6,143	7,929	8,357	9,375	9,492	8,884	11,460	12,150
Qatar	322	302	359	396	479	1,703	1,591	1,724	2,621	2,359	2,025	1,893	2,083	3,017	2,838
Saudi Arabia	2,521	2,826	2,536	2,936	3,283	30,752	25,376	20,808	24,513	33,146	33,273	28,202	23,344	27,449	36,429
Senegal	206	117	64	131	143	1,052	879	820	1,092	1,532	1,258	996	884	1,223	1,675
Sierra Leone	10	13	15	15	17	216	237	238	231	332	226	250	253	246	349
Somalia	42	76	92	103	100	186	201	217	168	174	228	277	309	271	274
Sudan	497	560	624	610	656	793	694	595	722	762	1,290	1,254	1,219	1,332	1,418
Surinam	...	...	1	9	1	554	1,010	443	500	574	...	...	444	509	575
Syria	412	409	635	654	994	3,042	3,731	4,833	4,055	5,512	3,454	4,140	5,468	4,709	6,506
Tajikistan	...	15	176	348	315	74	124	371	462	353	...	139	547	810	668
Togo	89	68	91	128	132	890	595	648	926	925	979	663	739	1,054	1,057
Tunisia	463	353	402	687	752	5,999	5,865	6,169	7,345	6,997	6,462	6,218	6,571	8,032	7,749
Turkey	3,333	2,697	3,428	4,324	4,805	21,047	26,658	19,850	31,442	36,791	24,380	29,355	23,278	35,766	41,596
Turkmenistan	...	141	124	360	256	142	273	650	1,004	1,057	...	414	774	1,364	1,313
Uganda	26	25	26	33	36	372	432	510	707	703	398	457	536	740	739
UAE	2,045	2,484	2,607	3,262	3,777	15,369	17,036	18,417	23,945	25,311	17,414	19,520	21,024	27,207	29,088
Uzbekistan	1	261	98	390	899	299	528	1,861	2,393	3,864	300	789	1,959	2,783	4,763
Yemen	792	969	817	710	1,079	1,795	1,852	1,271	862	2,364	2,587	2,821	2,088	1,572	3,443

Table 11b: International Trade among OIC and non-OIC Countries Exports from Islamic Countries
(Million US Dollars)

	From Islamic Countries					From Non-Islamic Countries					Total				
	1992	1993	1994	1995	1996	1992	1993	1994	1995	1996	1992	1993	1994	1995	1996
Afghanistan	12	17	13	85	36	169	663	89	81	89	181	680	102	166	125
Albania	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Algeria	329	288	248	641	916	10,808	9,810	8,343	10,190	11,982	11,137	10,098	8,591	10,831	12,898
Azerbaijan	490	358	279	206	293	1,081	635	358	338	337	1,571	993	637	544	630
Bahrain	347	411	543	522	621	6,987	8,340	9,390	11,691	13,608	7,334	8,751	9,933	12,213	14,229
Bangladesh	190	158	186	189	200	1,847	2,119	2,464	2,940	3,150	2,037	2,277	2,650	3,129	3,350
Benin	23	86	49	54	63	40	50	127	160	200	63	136	176	214	263
Brunei	5	4	31	6	6	2,491	2,369	2,075	2,078	2,323	2,496	2,373	2,106	2,084	2,329
Burkina Faso	6	9	8	15	31	510	167	138	168	163	516	176	146	183	194
Cameroon	192	174	208	262	274	1,538	1,509	1,615	1,855	1,948	1,730	1,683	1,823	2,117	2,222
Chad	6	3	2	2	4	67	63	80	122	120	73	66	82	124	124
Comoros	2	...	...	...	...	25	54	18	11	14	27	...	...	...	...
Djibouti	47	77	82	60	84	28	33	35	48	50	75	110	117	108	134
Egypt	568	758	624	608	809	2,482	4,368	2,851	2,833	4,430	3,050	5,126	3,475	3,441	5,239
Gabon	76	75	95	90	80	2,210	2,063	2,202	2,316	2,770	2,286	2,138	2,297	2,406	2,850
Gambia	10	14	10	6	...	222	140	25	22	22	232	154	35	28	...
Guinea	32	32	42	63	60	535	672	654	640	728	567	704	696	703	788
Guinea-Bissau	0	...	...	1	1	13	29	69	92	84	13	...	...	93	85
Guyana	3	1	1	1	3	...	...	...	...	...	...	...	...	...	...
Indonesia	2,216	2,547	1,809	2,698	2,895	31,761	34,296	36,405	41,306	45,164	33,977	36,843	38,214	44,004	48,059
Iran	1,619	2,162	1,159	1,193	1,332	18,249	15,858	15,439	18,008	20,530	19,868	18,020	16,598	19,201	21,862
Iraq	396	403	379	411	13	213	68	3	13	2	609	471	382	424	15
Jordan	602	526	585	756	615	391	472	560	718	886	993	998	1,145	1,474	1,501
Kazakistan	2	84	79	196	609	242	704	2,796	3,883	5,621	244	788	2,875	4,079	6,230
Kuwait	352	595	842	1,049	942	4,133	8,386	8,587	10,307	9,904	4,485	8,981	9,429	11,356	10,846
Kyrgyzistan	...	7	159	252	252	76	105	122	231	242	...	112	281	483	494
Lebanon	322	377	372	369	694	252	279	172	456	377	574	656	544	825	1,071

Table 11b:Cont'd

	From Islamic Countries					From Non-Islamic Countries					Total				
	1992	1993	1994	1995	1996	1992	1993	1994	1995	1996	1992	1993	1994	1995	1996
Libya	791	409	711	933	1,131	9,143	7,131	7,079	7,532	8,902	9,934	7,540	7,790	8,465	10,033
Malaysia	2,352	2,713	3,457	4,281	4,543	38,357	44,415	55,291	69,441	73,703	40,709	47,128	58,748	73,722	78,246
Maldives	...	1	...	...	1	40	34	48	50	104	...	35	...	...	105
Mali	17	13	14	23	30	187	214	162	214	250	204	227	176	237	280
Mauritania	16	24	32	33	39	433	401	418	542	534	449	425	450	575	573
Morocco	490	510	475	464	563	3,915	3,293	3,496	3,608	6,410	4,405	3,803	3,971	4,072	6,973
Mozambique	17	10	13	4	4	249	189	207	230	226	266	199	220	234	230
Niger	8	7	7	9	8	173	227	103	159	77	181	234	110	168	85
Nigeria	151	240	219	388	427	12,209	11,392	11,128	11,356	14,409	12,360	11,632	11,347	11,744	14,836
Oman	379	393	374	384	397	4,681	4,367	4,507	4,890	6,001	5,060	4,760	4,881	5,274	6,398
Pakistan	1,397	1,234	1,126	1,481	1,532	5,872	5,467	6,206	6,510	7,767	7,269	6,701	7,332	7,991	9,299
Qatar	414	384	333	362	385	3,214	2,671	2,590	3,278	4,082	3,628	3,055	2,923	3,640	4,467
Saudi Arabia	6,686	6,755	6,442	7,145	7,947	43,601	35,603	36,142	44,321	49,353	50,287	42,358	42,584	51,466	57,300
Senegal	148	165	96	135	164	593	365	388	395	642	741	530	484	530	806
Sierra Leone	...	1	1	2	3	150	117	267	193	201	...	118	268	195	204
Somalia	97	91	114	130	155	33	30	29	25	24	130	121	143	155	179
Sudan	112	128	101	139	174	203	224	351	390	300	315	352	452	529	474
Surinam	...	...	...	...	...	403	397	375	504	489	...	...	...	...	...
Syria	812	814	1,018	1,161	1,294	2,271	2,332	2,529	2,809	2,785	3,083	3,146	3,547	3,970	4,079
Tajikistan	...	6	47	154	243	29	118	445	595	527	...	124	492	749	770
Togo	39	39	42	53	64	208	159	242	321	318	247	198	284	374	382
Tunisia	514	489	461	607	559	3,530	3,322	4,182	5,178	4,960	4,044	3,811	4,643	5,785	5,519
Turkey	2,656	2,965	2,968	2,855	3,673	11,950	12,384	15,187	18,441	17,723	14,606	15,349	18,155	21,296	21,396
Turkmenistan	...	127	274	438	223	64	197	399	1,443	1,470	...	324	673	1,881	1,693
Uganda	13	34	19	11	16	166	101	350	522	543	179	135	369	533	559
UAE	3,426	3,240	3,460	3,544	3,729	18,939	18,006	18,271	20,925	24,375	22,365	21,246	21,731	24,469	28,104
Uzbekistan	...	30	76	347	429	162	581	1,768	2,110	2,220	...	611	1,844	2,457	2,649
Yemen	25	110	210	277	173	305	264	722	1,665	4,365	330	374	932	1,942	4,538

Table 12: Descriptive Statistics for 1999

Series	Obs	Mean	Std	Minimum	Maximum
LOGTRADE	465	1.212	1.923	0.000	7.990
LOGGDP	465	46.102	2.486	39.576	51.335
LOGPCI	465	14.113	1.918	10.162	19.436
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

Table 13: Correlation Matrix for 1999

	LOGTRADE	LOGGDP	LOGPCI	LOGDISTANCE	BORDER	GCC	GCCN	SAARC
LOGTRADE	1							
LOGGDP	0.562	1.000						
LOGPCI	0.299	0.411	1.000					
LOGDISTANCE	-0.276	0.121	-0.110	1.000				
BORDER	0.359	0.099	0.058	-0.580	1.000			
GCC	0.346	0.118	0.423	-0.456	0.287	1.000		
GCCN	0.039	0.170	0.608	0.096	-0.085	-0.126	1.000	
SAARC	0.015	-0.001	-0.054	-0.038	-0.025	-0.015	-0.056	1.000
SAARCN	0.048	-0.001	-0.141	0.268	-0.126	-0.086	-0.109	-0.038
AMU	0.076	0.026	-0.004	-0.112	0.233	-0.021	-0.079	-0.009
AMUN	-0.060	0.052	-0.007	0.131	-0.099	-0.100	-0.118	-0.044
ECO	0.079	0.075	-0.017	-0.029	0.149	-0.008	-0.032	-0.004
ECON	0.183	0.284	-0.063	0.106	0.020	-0.069	-0.093	0.132
D8	0.324	0.327	-0.082	0.062	0.009	-0.039	-0.146	0.115
D8N	0.141	0.419	-0.100	0.268	-0.014	-0.138	-0.120	0.051
GCCAMUECO	0.356	0.271	0.443	-0.208	0.286	0.449	0.194	-0.033
GCCAMUECON	-0.097	0.121	0.197	0.182	-0.214	-0.179	0.372	0.028

Table 13: Cont'd.

	SAARC	AMU	AMUN	ECO	ECON	D8	D8N	GCCAMUECO	GCCAMUECON
LOGTRADE									
LOGGDP									
LOGPCI									
LOGDISTANCE									
BORDER									
GCC									
GCCN									
SAARC									
SAARCN	1.000								
AMU	-0.054	1.000							
AMUN	-0.099	-0.063	1.000						
ECO	0.099	-0.005	-0.026	1.000					
ECON	0.313	-0.043	-0.084	-0.018	1.000				
D8	0.176	-0.024	-0.117	0.219	0.209	1.000			
D8N	0.238	-0.086	-0.119	-0.035	0.378	-0.160	1.000		
GCCAMUECO	-0.015	0.281	0.243	0.114	0.219	-0.056	-0.051	1.000	
GCCAMUECON	-0.024	-0.112	0.235	-0.046	0.124	-0.017	-0.035	-0.399	1

Table 14: Gravity Model Regression Results for 1999

Variable	Coeff	T-Stat	Coeff	T-Stat	Coeff	T-Stat	Coeff	T-Stat
Constant	-14.344*	-9.958	-10.643*	-5.592	-11.000*	-6.537	-14.235*	-9.922
LOGGDP	0.435*	13.550	0.340*	7.824	0.327*	8.063	0.436*	13.648
LOGPCI	-0.043	-0.694	-0.014	-0.224	0.114*	2.640	-0.045	-0.735
LOGDISTANCE	-0.555*	-4.727	-0.554*	-4.745	-0.628*	-5.819	-0.559*	-4.788
BORDER	0.965*	3.225	1.014*	3.448	1.092*	3.791	0.872*	2.900
GCC		3.409	2.134*	3.953			1.115***	1.768
			0.370**					
GCCN	0.174	0.794	*	1.665			-0.019	-0.083
SAARC	0.394	0.479	-0.127	-0.156			0.461	0.563
SAARCN	0.690*	3.649	0.529*	2.777			0.676*	3.588
AMU	0.293	0.486	0.595	0.989			-0.438	-0.645
AMUN	-0.031	-0.193	0.173	1.006			-0.264	-1.383
ECO	-0.110	-0.076	-1.399	-0.979			-0.800	-0.548
ECON	0.070	0.311	-0.012	-0.054			-0.179	-0.720
D8			2.083*	4.599	2.110*	5.349		
D8N			0.296	1.392	0.328***	1.810		
GCCAMUECO							0.695**	2.289
GCCAMUE								
CON							0.000*	0.000
R-square	0.475		0.499		0.478		0.480	
F-statistic	35.963		34.075		71.722		33.911	
Significance of F	0.000		0.000		0.000		0.000	
DW	2.138		2.073		2.066		2.140	

Table 14: Cont'd.

Variable	Coeff	T-Stat	Coeff	T-Stat	Coeff	T-Stat	Coeff	T-Stat
Constant	-10.559*	-5.579	-14.330*	-10.074	-11.993*	-8.270	-9.789*	-5.434
LOGGDP	0.342*	7.909	0.432*	14.075	0.362*	11.131	0.309*	7.471
LOGPCI	-0.016	-0.268	0.006	0.125	0.046	1.022	0.074	1.593
LOGDISTANCE	-0.557*	-4.798	-0.587*	-5.443	-0.564*	-5.382	-0.612*	-5.718
BORDER	0.918*	3.113	0.850*	2.843	0.896*	3.084	0.850*	2.926
GCC	1.337**	2.146						
GCCN	0.162	0.686						
SAARC	-0.058	-0.072						
SAARCN	0.515*	2.713						
AMU	-0.196	-0.289						
AMUN	-0.078	-0.394						
ECO	-2.171	-1.494						
ECON	-0.277	-1.124						
D8	2.104*	4.672			1.836*	5.311	2.235*	5.649
D8N	0.282	1.335					0.375**	2.050
GCCAMUECO	0.747**	2.519	0.513**	1.974	0.644**	2.537	0.738*	2.871
GCCAMUECON	0.000*	0.000	-0.222	-1.358	-0.162	-1.019	-0.102	-0.636
R-square	0.505		0.458		0.489		0.492	
F-statistic	32.604		66.453		64.374		57.247	
Significance of F	0.000		0.000		0.000		0.000	
DW	2.074		2.131		2.041		2.048	

Notes: *=1%; **=5%; ***=10% Significance level