

PROLIFERATION OF REGIONAL GROUPINGS: POLICY OPTIONS FOR THE OIC

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Far from being the two sides of the same coin, globalism and regionalism are in fact polar opposites. Powerful economic groupings, exceptions notwithstanding, may even impede world trade liberalisation rather than promote it. This paper discusses the notions of regionalism and globalism and explores the complex and often conflicting nature of the relationship between them. In the light of that discussion, it then analyses economic regionalism among developing countries and provides some empirical insights into its extent, its forms, its agenda, and the factors responsible for its unimpressive performance. Finally, on the strength of the lessons derived from that experience, and given the heterogeneity of Islamic countries, the paper proposes a number of policy options for the OIC countries, arguing against any kind of discrimination and in favour of an outward-looking, cost-effective, low-profile, informal arrangement which would recognise that, in economic co-operation, it pays to be interdependent.

1. A CRITIQUE

Some have argued time and again that “globalism” and “regionalism” are the two sides of the same coin, meaning that the latter can reinforce the former. This argument is strangely simplistic, as it assumes that regionalism is perfectly compatible to and consistent with globalism. This assumption is unrealistic, as empirical observations would show. Strictly speaking, while economic globalism attempts to integrate the world into a single marketplace, economic regionalism tends to divide the world into a number of trade blocs. Herein lies the dilemma for the World Trade Organisation (WTO) whose primary business is to ensure an increasingly freer flow of trade among countries in a borderless fashion. The WTO multilateral trading system, inherited from the General Agreement on Tariffs and Trade (GATT), is based on the principles of non-discrimination, transparency and national treatment. By contrast, regional trading arrangements, by design, are discriminatory.

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Seen in the above terms, globalism and regionalism would work at cross purposes. This contradiction notwithstanding, the GATT had unwittingly accommodated regional groupings under Article XXIV, an important condition of which requires the regional entities not to put up new trade barriers against third countries. Apparently, the rationale for this is that intra-regional trade liberalisation would constitute a move towards freer world trade. This presupposes that some liberalisation, even if discriminatory or preferential, is better than no liberalisation.

The premise on which all this rests is questionable. For one thing, all regional trading arrangements are, by both design and definition, discriminatory to the extent regional concessions are not extended to non-members, even if no “new” barriers are put up in the process against third countries. Such discrimination not only violates the most-favoured-nation (MFN) principle of the GATT and the WTO, but also creates ugly distortions in the pattern of world trade which affect not only producers outside the region but also consumers within the grouping. For another, the regional approach may not be the best way of going about the business of trade liberalisation. More often than not, such negotiations tend to be protracted and ineffective. Experience has shown that negotiators are notoriously cautious and sticky in using their bargaining chips, resting on the assumption that the less they “give away” the better. They rarely understand that it is in their own interest to reduce tariffs even if others do not reciprocate. They often refrain from making the first move, waiting for others to do it. The so-called concessions are invariably subject to some conditionalities, including the nettlesome rules of origin. Besides, implementation requires extensive documentations and paperwork which constitutes a new trade barrier in itself.

As experience has shown, countries are more concerned about costs and benefits when they give “concessions” to the group members without reciprocity than when they do it globally. This is not surprising, since preferential tariff cuts entail both trade-creating (positive) and trade-diverting (negative) effects, while non-discriminatory tariff reductions are unambiguously trade-creating.

Regional trade liberalisation does not necessarily facilitate global trade liberalisation. It even appears that powerful regional groupings can impede the process. It is an open secret that the European Union (EU) had contributed to the slow progress of the Uruguay Round which took five long years before it could be finally wrapped up in 1994. We must hasten to add, however, that there are exceptions, as in the case of ASEAN (Association of South-East

Asian Nations) where some of the regional tariff cuts have been subsequently multilateralised by some member countries.

Regional trading arrangements may be seen as building blocs of a global trading system, if they are overlapping or if there are inter-regional trading arrangements linking the various regional groupings. Even so, one may argue that this is a cumbersome way of liberalising world trade and that unilateral trade liberalisation without discrimination will be the simplest and most efficient approach.

All this notwithstanding, quite paradoxically, there exists some support for economic regionalism even within the WTO. A recent WTO study *Regionalism and the World Trading System* attempts to vindicate regional groupings by concluding that “the regional and multilateral integration initiatives are complements rather than alternatives in the pursuit of open trade”. This view rests mainly on the finding that there is no evidence of an increasing regionalisation of world trade. The fact that regionalism has not led to increased regionalisation of world trade may well be attributed simply to the fact that many regional groupings, especially among the developing countries in Africa, Asia, Middle East and Latin America have been virtually ineffective.

Nevertheless, the share of intra-regional trade has risen from 40.6 per cent in 1958 to 50.4 per cent in 1993, much of which is accounted for by Western Europe where the share of intra-regional trade has increased from 53 per cent to 70 per cent between 1958 and 1993. This clearly shows that West European trade is getting more and more regionalised, which may be attributed largely to its relentless regional integration efforts.

It is not hard to figure out why the WTO tends to adopt a soft line towards regional groupings. The explanation is simple: nearly all WTO members, with the notable exceptions of Japan and Hong Kong, are also members of regional groupings of one kind or another. The number of regional agreements has grown enormously over the years. Between 1947 and 1994, a total of 109 regional agreements were notified to the GATT under Article XXIV. The establishment of the WTO on January 1, 1995 also coincided with the third enlargement of the EU. There was a sharp increase in the number of regional groupings in the 1970s. The more recent increase, especially since 1990, has been particularly explosive.

We must, however, exercise some caution in interpreting the above numbers, as they tend to overstate the importance of regional groupings. In this regard, it is pertinent to note that some of the groupings have ceased to exist *de facto*, while many are inactive, not to mention double-counting due to some groupings superseding earlier agreements. Even after such discounting, it is evident that regionalism is on the rise everywhere. This activity is particularly intense in Europe. The EU is highly inward-looking, if the growing share of intra-EU trade in world trade is any indicator. In this context, North America is different in the sense that it has opted for a more open Free Trade Area (NAFTA) instead of a Customs Union or an Economic Union.

To add to the existing confusion surrounding the concept of economic regionalism, a new term “open regionalism” has been invented. It tends to categorise outward-looking regional groupings as practitioners of open regionalism. The concept of “open regionalism” is misleading, because “openness” is inconsistent with special privileges given to members of the club which is not open to all. This term would make sense, only if it means either that concessions given to members are subsequently extended to others as well or that membership is open to all. If this were the interpretation, open regionalism is nothing but anti-regionalism (Arndt, 1993). In other words, strictly speaking, open regionalism is hardly a variant of regionalism.

2. EMPIRICAL INSIGHTS

Before we examine the policy options for the Organisation of Islamic Countries (OIC), it is important to take at least a cursory look at economic regionalism particularly among developing countries, as it will have a bearing on policy choices. Many developing countries have joined the bandwagon of regional economic co-operation. At present, about two-thirds of the developing countries belong to regional groupings of some sorts. These include 41 sub-Saharan African countries and territories, 30 in Latin America and the Caribbean, 10 in the Mediterranean Basin and the Gulf region and 15 in South and Southeast Asia. In 1990, 92 developing countries and territories were members of regional groupings, accounting for about 80 per cent of the population of the Third World (Battaler, 1992).

All major groupings have had an agenda to promote intra-regional trade, taking the form of preferential trading arrangements as in the case of the ASEAN, LAIA (Latin American Integration Association) and PTA (Preferential Trading Area of Eastern and South African States). Several other groupings have opted for common market set-ups with common external tariffs

and freer factor movements, as is the case with WAEC (West African Economic Community), CACEU (Central African Customs and Economic Union) and CACM (Central American Common Market). Regional industrial co-operation has also been on the agenda of some of these groupings, e.g., the Andean Pact and ASEAN.

The achievements of the Third World regional groupings, in general, are not impressive, although there are some exceptions. Empirical studies have shown that trade diversion exceeded trade creation in LAFTA (Latin American Free Trade Area), predecessor of LAIA, with negative static welfare effects (George *et al.*, 1977) and that trade diversion was the major source of growth of intra-LAFTA trade (Langhammer and Hiemenz, 1990). The Caribbean Community or CARICOM has been bogged down with many unresolved problems which include the rules of origin and the exploitation of marine resources.

The African continent houses the largest number of ineffective, aborted or dormant regional groupings. EAC (East African Community) was dissolved in 1977; WAEC (West African Economic Community) is inactive; ECOWAS (Economic Community of West African States) is obscure; SADCC (South African Development Co-ordination Conference) is ambivalent; CACEU remains sedated, and PTA is crawling. Nonetheless, the spirit of economic regionalism is very much alive in Africa, as reflected in the Lagos Plan of Action launched by the Organisation of African Unity (OAU) which envisages a huge free trade area among all African countries by the year 2000. And, this remains just a pipe dream. There has not been much intra-regional trade flows in Africa, despite the mushrooming of regional integration schemes (Langhammer and Hiemenz, 1990).

Regional groupings in the Middle East have made very little impact and have not drawn much international attention. Ambitious plans like the Arab Common Market and the Maghreb Customs Union are no more than proposals. The establishment of the Gulf Co-operation Council (GCC), however, seems encouraging. The Regional Co-operation for Development (RCD), founded in 1964 by Iran, Turkey and Pakistan, was dormant after the Iranian revolution in 1979 and has been replaced by Economic Co-operation Organisation (ECO) since 1984.

In Asia, ASEAN and SAARC (South Asian Association for Regional Co-operation) have made their presence felt. Of these two, the former has a much longer history and more impressive track record than the latter. ASEAN has

been more successful as a regional forum for political co-operation than as a regional economic grouping. ASEAN's economic agenda, which included preferential trading arrangements and industrial co-operation and complementation schemes, launched hastily in the late 1970s, failed to make an impact. More promising is the AFTA (Asean Free Trade Area), scheme established in 1993. This scheme has gone through several revisions and is expected to be fully in place by 2003 for the ASEAN-6 (2006 for Vietnam, and 2008 for Laos and Myanmar).

Under AFTA, all tariffs will be reduced to 0-5 per cent and all non-tariff barriers will be dismantled. The most striking feature of AFTA is that it is very outward-looking. The objective of AFTA is to make ASEAN products competitive internationally rather than to increase intra-regional trade which now accounts for about one-fourth of total trade. It is also worth noting that ASEAN has also been widened over the years from the original five to the current nine member countries with the admission of Laos and Myanmar in July 1997. ASEAN's goal is to encompass all 10 South-East Asian countries which include Cambodia whose membership has been delayed due to domestic political strife.

The track record of SAARC is relatively dismal. There has been no meaningful regional co-operation among the member countries either at economic or political level. The issue of uneven distribution of costs and benefits seems to be the spanner in the works. However, SAARC has plans to venture into a "free trade area" arrangement called SAPTA (South Asian Preferential Trade Area) which may or may not include all SAARC member countries. At present, there is too much rhetoric and too little substance in SAARC. It is of relevance to note that, quite ironically, the share of intra-SAARC exports in total exports of SAARC countries has been declining since the establishment of the regional grouping (Samad, 1991). A recent simulation study has shown that discriminatory trade liberalisation among the four leading South Asian countries (India, Pakistan, Bangladesh and Sri Lanka) would cause welfare losses with trade diversion outweighing trade creation and that the impact will favour India and Pakistan at the expense of Bangladesh and Sri Lanka (Hossain, 1997).

The unimpressive performance of regional groupings in the Third World can be attributed to many factors. 1) The lack of political will is one of the obstacles. More often than not, the question of trade-offs between economic desirability of regional integration and political costs in terms of power erosion and loss of sovereignty has tended to frustrate the integration process.

2) The lack of complementarity and the social preference for industrialisation have rendered regional co-operation politically difficult, as member countries are unwilling to open their domestic markets for regional products that would compete with their own. 3) Nationalism has led many countries either to implement their commitments half-heartedly or to neutralise them with counter measures. 4) Societal factors have also contributed to the ineffectiveness of economic regionalism, with inter-ethnic rivalry leading to the imposition of restrictions on firms that stand to benefit from intra-regional trade. 5) The fear of economic domination by the large partner country represents another impediment, as small countries tend to look at the large ones with suspicion and distrust. 6) Heterogeneity of membership is another barrier, for the lack of homogeneity and commonality frustrates consensus building. 7) The question of uneven distribution of costs and benefits has been a divisive issue. 8) Macroeconomic mismanagement, which often results in severe inflation, soaring debts, exchange rate overvaluation and external payments deficits, tends to unleash domestic forces that oppose intra-regional trade liberalisation.

3. LESSONS

It is common knowledge that politics tend to override economics. Experience has shown that political will is a critically important ingredient for regional economic co-operation. It is impossible to mount regional economic programmes in the absence of co-operation at the political level in the first place. Many regional integration schemes in Latin America and Africa had failed primarily for this reason, as these groupings had paid hardly any attention to the political dimension. By contrast, the founding fathers of ASEAN were wise enough to devote the first ten years to laying a strong political foundation before coming up with economic programmes.

Some regional schemes had failed largely because they were too ambitious at the outset. It is important to ensure that the targets are kept within reach so that success can breed success. Failure to achieve the declared targets within the stipulated time frame erodes credibility and confidence, which makes the subsequent rounds of co-operation extremely difficult to launch, let alone implement.

Experience also shows that the larger the grouping, the tougher the task of regional integration, since the capacity to arrive at consensus tends to vary inversely with the size. If the grouping is too big, it may become unwieldy. But, then, if it is too small, it may not have the clout. There is thus a need to strike an optimum which however may differ from region to region and from

time to time. However, the problem associated with large size can be reduced greatly, if regional integration is sub-regionalised by allowing some members to opt out of a particular scheme on which there is no consensus, as practised in ASEAN where it takes just two countries to start ASEAN industrial joint ventures and just three to set up a Growth Triangle.

For a regional group to succeed, member countries need to take a holistic view, instead of looking at each programme in isolation. It is possible for one member to gain little or even lose out in one programme but gain much in another. The spirit of give and take, which is crucial for regional co-operation, would find meaningful expressions, if members take a long-term view in a holistic manner.

Politically, it is easier for complementary economies to cooperate with one another than it is for the competing ones, since complementarity will ensure that regional imports do not threaten domestic products. But, then, perfect complementarity would mean pure trade diversion without any trade creation. The overemphasis on complementarity has done a great disservice to regional economic co-operation, as it has led to the exclusion of too many important items in tariff concessions. The complementarity argument makes economic sense only in the *ex post*, not *ex ante* context. Complementarity should be seen not as a pre-requisite for regional economic co-operation but as one that evolves over time through competition based on intra-regional division of labour.

Evidently, regional integration cannot succeed without full private sector participation. Many regional industrial projects have failed to take off, mainly due to the lack of private sector involvement. Experience tells us that the private sector strongly resents the idea of bureaucrats making decisions for them. There is certainly a need to give the private sector sufficient leeway with regard to the choice of products, plant locations and marketing. The ASEAN experience underscores the importance of regular consultations between the businessmen and the bureaucrats.

Trade and investment are interlinked. If the ASEAN experience is anything to go by, the major trading partners are also the main sources of foreign direct investments. It is therefore important to keep the intra-regional investment channels open, in addition to liberalising intra-regional trade. Interestingly, even extra-regional investment flows do contribute the regional integration of process, as shown again by the experience of ASEAN where

increased intra-regional trade flows in recent times is largely attributed to the networking of multinational corporations (MNCs) in the region.

Another important lesson is that it is much easier for countries with liberal economic regimes to cooperate with one another in a regional arrangement than it is for countries with highly regulated economies. Regulations and controls tend to impede or frustrate private sector intra-regional initiatives. ASEAN's experience in this regard is again instructive. The limited extent of intra-ASEAN economic co-operation until the mid-1980s may be attributed in no small measure to the fact that most ASEAN economies were subject to a variety of stringent domestic regulations. Policy reforms in the form of deregulation, decontrol and liberalisation undertaken by member countries in an unilateral fashion since the mid-1980s have facilitated intra-ASEAN private sector interactions.

Last, but by no means least, geopolitical cohesiveness and solidarity among member countries are among the hallmarks of vibrant economic regionalism. It would be wise to steer away from divisive issues and to concentrate on items where commonality of interest could ensure consensus, as demonstrated by ASEAN where the diversion of attention from intra-regional to extra-regional issues helped foster ASEAN unity and political understanding during its infancy, paving the way for a meaningful economic co-operation later on.

4. POLICY OPTIONS

The concept of a "region" is by no means straightforward. The term "natural grouping" connotes the existence of highly complementary supply structures, with considerable on-going intra-regional trade based on comparative advantage, which will ensure that third countries will not suffer if the grouping were to opt for preferential trading arrangements (Langhammer, 1995). It is not difficult to see why the OIC can hardly be categorised as a "natural grouping" in the above sense. Nor does the term "natural trading bloc" (Krugman, 1991) is appropriate for the OIC, as this term refers to a bloc of countries which trade with one another on the basis of low intra-regional transport cost, given the vast geographical spread of the OIC membership. This line of reasoning will lead us to think that the OIC represents an "unnatural region" of some sort. Nonetheless, the OIC represents a grouping as well as a "region". After all, a "region", defined broadly, is a grouping of countries based on some criterion. The distinguishing or, one might contend, overriding criterion in the OIC case is the Faith of Islam.

No country, however big, can afford to be totally self-sufficient. No region, however vast, can stay on its own without having to pay a price. God Almighty, in His infinite wisdom, has created the Earth in such a way that it pays nations and regions to be interdependent. The world is too small to be divided into autarkic blocs of any kind. And, the God-given resources can serve mankind best if the world remains intact as a single, borderless marketplace. Thus, the question of the OIC (or any other grouping, for that matter) delinking itself from the rest of the world does not arise. Such a move would indeed be against the spirit of Islam which takes a holistic view of the entire universe.

The *prima facie* case in favour of regional economic integration is much weaker than that presented in textbook models. The main theoretical premise for regional economic arrangements is that the first-best “free trade” option is politically not feasible and that the second-best option would be to liberalise trade within regional blocs. Whether economic regionalism represents the second-best or the third-best or the fourth-best would depend on the form it takes.

All regional groupings, by definition, are discriminatory, although the degree of discrimination may vary from one to another. Preferential treatment accorded to member countries tends to divert trade from third countries (shifting from low-cost third source to higher-cost partner source) while creating trade among members (shifting from high-cost domestic source to lower-cost partner source). Viner (1950) has labelled the latter as “trade creation” and the former as “trade diversion”.

However, Viner’s conclusion that a Customs Union (CU) is beneficial, if trade creation exceeds trade diversion, is no longer acceptable. Trade diversion is likely to be smaller in a Free Trade Area (FTA) than in a CU where common external tariffs exist quite unlike the former where member countries continue to have their own individual tariff regimes. Regardless, preferential tariff cuts are clearly inferior to unilateral, non-discriminatory tariff reductions. For the latter would enable a country to enjoy the benefits of trade creation without having to suffer the negative effects of trade diversion (Cooper and Massel, 1965). In other words, the static gains from non-preferential tariff cuts unambiguously exceed those from preferential tariff cuts.

Much would, however, depend on the regional group’s objective. If the objective is to liberalise trade, the above logic would suggest that it is better to

do it on a non-preferential basis without having to form a regional grouping. However, a caveat is in order: there may be less resistance from vested interests if tariffs are reduced intra-regionally on a reciprocal basis first before multilateralising the tariff reductions than if tariffs are cut unilaterally.

If the objective is protection, not liberalisation, a regional approach would be better than going it alone. Protection would be less costly on a regional basis than on a national basis, due not only to the presence of trade creation effects but also to the economies of scale associated with the bigger size of the regional market. But, then, prolonged protection is certainly not desirable.

It will not be easy to formulate a common policy approach that would satisfy all OIC members which have arrived at different stages of development, using different development strategies. While many of them still adopt an inward-looking import-substitution strategy, some of them are very open economies riding on an aggressively outward-looking export orientation strategy. Therefore, an OIC-wide Customs Union arrangement is not a practical proposition.

However, a Free Trade Area for OIC is not implausible, as it can accommodate a diversity of member countries' trade regimes vis-à-vis the rest of the world. In any case, theoretical literature suggests that FTA is better than CU under most circumstances, and this would depend in the final analysis on whether the common external CU tariffs yield lower or higher prices than the FTA prices - determined by the intersection of combined supply curve with domestic demand curve - in the home market (Shibata, 1967).

Be that as it may, an OIC-wide FTA - which may be called "Islamic Free Trade Area" (IFTA) - may encounter practical difficulties. For one thing, it may be quite unwieldy, given the large number of countries. For another, the rules and regulations that will govern such details as customs valuation, tariff classification, conversion of quotas into tariff equivalents and rules of origin will add enormously to the cost of managing it, not to mention the number of meetings and quantum of paperwork all this will generate. What is more, all these may turn out to be an exercise in futility, if intra-IFTA trade generated does not increase substantially. High transportation cost may well be the spanner in the works, given the geographical spread of such a grouping. The "economic distance" measured in terms of transportation cost may disproportionately exceed the physical distance.

The problem of unwieldiness can be overcome by re-grouping the OIC into several sub-regional groupings according to geographical proximity, but all other problems including the question of “economic distance” will still remain. It is good to remember at this juncture that several smaller and somewhat homogeneous Islamic subgroupings in North Africa, Middle-East and Central Asia are already in place, not to mention the somewhat heterogeneous Islamic co-operation entity comprising Turkey, Iran, Pakistan and the Central Asian republics, without much impact.

It is highly pertinent to note that FTAs will become increasingly obsolete with tariffs being reduced multilaterally under the WTO initiatives. The preferential margins are bound to diminish over time. Formal trading arrangements among the OIC members, cast in a legalistic framework, may be tantamount to too much ado about nothing, if not totally counter-productive. Thus, it would make little economic sense for the OIC countries to allow themselves to be caged into a trade bloc in the name of Islam.

All this does not mean that the OIC should do nothing about economic relations among its members. Far from it. There can be effective economic co-operation without too much formality or institutionalisation which could introduce rigidities of sorts, raise transaction costs and entail large budgetary allocations. Useful lessons may be drawn from the ASEAN experiments. The ASEAN experience shows that informal arrangements work much better than formal ones. ASEAN is a loosely structured organisation which functions somewhat informally without binding rules. It is important to note that ASEAN has carefully avoided signing of treaties. Even the much-hyped AFTA scheme represents no more than an Agreement of just nine pages which contrasts sharply with NAFTA’s legal documents that run into many thousand pages. The danger with the latter approach is that commercial transactions may well be stifled by tons of documentations which, as observed earlier, would constitute new barriers to trade.

In the present context, the formation of the Developing-Eight (D-8) comprising Turkey, Pakistan, Nigeria, Malaysia, Iran, Indonesia, Egypt and Bangladesh appears to be a move in the right direction. It is noteworthy that the D-8, at its inaugural summit in Istanbul in June 1997, has identified several action-oriented priority projects in the areas of trade and investment, telecommunications, health care, rural development, science and technology, human resource development, agriculture, energy, privatisation, Islamic banking, environment, tourism, and culture and sports. By design, the D-8 is a forum with no adverse implications for any of the existing regional, bilateral

and multilateral commitments of the member countries. It is encouraging to note that the D-8 is serious about establishing joint business councils among the chambers of commerce and industry and other related bodies.

It is important for the OIC to ensure that the D-8 experiment will succeed, as the eight countries account for roughly 80 per cent of the world's Muslim population, notwithstanding the fact that they only represent less than one-seventh of the 54 members of the Organisation. For economic co-operation to take on a meaningful form, it is necessary for the D-8 to solicit active private sector participation right from the beginning. And, the private sector participation will be forthcoming, only if the business environment in the member countries is conducive. It is therefore absolutely essential that the member states of the D-8 play no more than a facilitating role by minimising or removing existing disincentives such as bureaucratic controls and offering at the same time additional fiscal and other incentives for intra-D-8 investments. This will minimise the risks of costly mistakes being made in the name of regional co-operation. Needless to say, such risks are high, if co-operation takes the form of government-sponsored projects. The D-8 economic co-operation, after successful experimentation, can be extended eventually to all other OIC members.

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

Instead of getting into legally binding trade and investment agreements, the OIC could play a useful role by underwriting or brokering "Islamic" trade fairs and meetings among the industrialists and business icons of its member states. Most of them are currently unaware of the opportunities that exist in these countries. The flow of information and dissemination of facts and figures in the form of a databank could go a long way in stimulating interests and hence investment and trade among the OIC countries. The establishment of OIC industry clubs may lead to intra-industry networking that would not only

pave the way for lucrative joint ventures but also influence policy thinking in their respective countries.

5. CONCLUDING REMARKS

The fact that regional groupings are proliferating *ipso facto* is not a valid reason for the OIC to join the bandwagon. The costs of a rigidly structured and highly institutionalised grouping of Islamic countries will probably exceed the benefits. Even if the benefits were to exceed the costs, the net gain may well be considerably smaller than what a loosely knit alternative arrangement could possibly offer. The latter tends to be more cost-effective, if the experience elsewhere is anything to go by. As alluded to earlier, informal arrangements often work better than formal ones. It will be wiser to formalise later what works informally first than to formalise first something that will not work after.

It is important to ensure that economic regionalism *à la* OIC will assume an explicitly outward-looking posture, so as to be in tune with the global trends. To put it differently, the Islamic countries must seek regional approaches for trade and investment liberalisation. The on-going globalisation trend will present both challenges and opportunities. Islamic countries should respond positively by co-operating with one another, to meet the challenges and to exploit the opportunities. An inward-looking defensive approach will not only be a retrogressive step that would leave the OIC members way behind the rest of the world but also be a costly exercise in terms of market distortions it could cause.

In any case, the OIC should remain wary of ambitious schemes and high expectations. Its credibility will be tarnished, if the targets are set too high and not delivered. The OIC will be doing a great service to the cause of economic co-operation among the member states by avoiding too high a profile and too much visibility especially in the initial stages. A preferential trading arrangement among 54 Islamic countries will be extremely unwieldy and costly. The OIC can avoid elaborate arrangements and high budgetary costs by simply asking its members which are also members of other subregional groupings to extend their subregional privileges and concessions to all other OIC countries as well as on what may be termed the “Most Favoured Islamic Nation” principle. This would provide easier market access for OIC members in one another’s market, as most of the OIC members already belong to one regional grouping or another. This will be most cost-effective, as it obviates the need for numerous meetings and protracted negotiations.

Needless to say, easier market access by itself cannot ensure increased intra-OIC trade. Active trade and investment facilitation by the OIC and its member governments are also required to generate sizeable trade flows within the Islamic grouping. However, increased intra-OIC trade *per se* need not be the objective of this exercise. Rather, the main aim of these efforts should be to make the Islamic economies internationally competitive so that they can penetrate successfully into the global market. In the final analysis, to an exporter, what really matters is how much a country exports, not the destination for its exports. Thus, it is important to ensure that OIC economic co-operation will render its member economies outward-looking with a global orientation.

The setting up of a loosely structured Forum for regular consultations among the policymakers and the businessmen of the Islamic countries can jump-start the whole process. There is certainly a need to relax visa restrictions and simplify visa procedures in these countries especially for business travels. The significance of the private sector participation in regional economic co-operation cannot be exaggerated, although the governments do have an important facilitating role to play as well. The governments, if they are really serious about promoting regional economic co-operation, should take the back seat and let the private sector steer the course.

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