MACROECONOMIC TRENDS IN THE WORLD ECONOMY: WHITHER REGIONAL ECONOMIC INTEGRATION?

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The efficacy of the macroeconomic approach to regional economic integration is questioned in the light of the many microeconomic issues that are presently embedded in global regional integration. The policies of the World Trade Organisation in concert with the Bretton Woods Institutions are investigated in a general systems framework to bring out the problems associated with the overly monetary, fiscal and trade policies orientations of these institutions. The economic futures of members of the Organisation of Islamic Conference are highlighted in the context of global regional economic integration under the policy auspices and perspectives of the World Trade Organisation and the Bretton Woods Institutions.

1. OBJECTIVE

Our principal objectives in this paper will be first to delineate the comparative state of the economies of regional groupings over a period of time and in respect to each other. From this we will derive the features of trade and development under macroeconomic policing and the expectations this holds for regional economic integration in the near future. Secondly, in the perspective of such a study we will examine a general equilibrium framework for analysing the expected effects of the policies of the World Trade Organisation on the development futures of regional economic integration. Our major economic groupings will be the Industrialised Countries, the Developing Countries, the primary exporters including oil exporters and exporters of manufactures. An aggregate state of the members of the Organisation of Islamic Conference (OIC) within these categories will be studied.

Among the kinds of macroeconomic policies we will examine are a combination of fiscal and monetary policies for external sector stabilisation. On the balance-of-payments side and relating this with economic growth and development, we will examine movements of trade in merchandise and capital as a result of a combination of interest rate and exchange rate variations. Such variations will be shown to be volatile in the world economy today, causing

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instability in the developing countries and adverse effects on the terms of trade. Thus, even in the face of trade liberalisation all the world over, we will notice that hidden tariff-like effects (e.g., non-tariff barriers) disparage the growth potential of the less developing countries. The primary exporters get locked in this cycle of impoverishment and balance-of-payments instability.

2. REGIONAL ECONOMIC DEVELOPMENT AND INTEGRATION

We open our discourse with the question: What can we expect to be realised in regional economic development and integration? In the context of macroeconomic policing, regions are integrated together by policy co-ordination affecting the flow of merchandise and capital in ways that sustain non-inflationary economic growth and hopes to promise aggregate social welfare. In an ideal sense of socio-economic development, we should expect that these two goals, namely, attaining economic growth (efficiency) and distributive equity, are to be complementary to each other. Under such a criterion of integrated goals, macroeconomists have for sometime now spoken of optimising an aggregate version of social welfare based on growth rate, inflation rate and unemployment rate, subject to attaining desired conditions of price-stability, unemployment target, balance-of-payments stability and non-inflationary growth targets (Gordon, 1967). To the list of variables in the macroeconomic social welfare function we can also include the consumption variable to account for sustainability. The consumption variable can then be interrelated with the other ones mentioned above (Nordhaus & Tobin, 1972).

Yet the above will not be a complete picture, as fiscal, monetary and trade policies should be included into the social welfare function to extend the generic interrelationships. Regional economic development in terms of economic integration would then be defined as a process of co-ordinating the macroeconomic policies to meet certain targets of communal social welfare. There can be two approaches to this kind of macroeconomic co-ordination (Guth, 1988).

In the industrialised countries today we find that the geographical concept of region has been used to establish uniform co-ordination in NAFTA, EC and in the milieu of policy-making by the Bretton Woods Institutions. But the latter case along with the now founded spheres of influence, such as APEC and IMF-World Bank-led privatisation and the WTO-led liberalisation efforts, has opened up the concept of regional development in the geographical sense to a wider sphere of global influence by the same set of macroeconomic co-ordination policies. In the latter case we find that developing countries and the

transition countries are being swayed to join in one borderless world of trading and resource relationships.

What happens in such a milieu of macroeconomic co-ordination? "Globalised" regions are not simply geographical entities but a part of global capitalism, which Heilbroner tells [us] is a perpetuating relationship in resource control, management and ownership for accumulation of capital (Heilbroner, 1985). Within this entirety, such institutions, policies and programs are enacted that can sustain and perpetuate the capitalist relationship. Global capitalism is thus born as a politico-economic system of relations on the basis of the extended domain of its institutions and resource control for sustaining ownership and the formation of capital.

The physical idea of geographical regions now becomes a medium for realising the relations of global capitalism. World Trade Organisation and its supportive Bretton Woods Institutions can then be seen as being mobilised by such a vision of the capitalist ego through the use of the geographical idea of region. The entire concept of region with the rise of global capitalism has thus become numinous (The Commission on Global Governance, 1995).

3. REGIONAL ECONOMIC INTEGRATION UNDER THE IMPACT OF MACROECONOMIC POLICIES

Macroeconomic policies are formulated by centralised [institutions] authorised to mobilise the capitalist ego. Institutions that formulate and are guided by and used for implementation of such policies must also be equally driven by the same capitalist fervour. The Idea of capitalism in this milieu of global transformation now forms the preferences of all the sub-cultures. Money for example, is now seen as an aggregate commodity priced by interest rate and made unstable by the combination between interest-rate and exchange-rate volatility. Fiscal policy is now entrenched in deepening tax burden and declining purchasing power, lower economic welfare. Yet there exists a tenuous relationship between general tax revenues and "automatic" stabilisation of unemployment. The case of industrialised countries shows that there has not existed a positive relationship between tax burden and declining unemployment rate (Supply & Services Canada, 1981). The relationship between tax burden and globalisation remains unclear according to research done at the IMF (IMF Survey, May 26, 1997).

3.1. Monetary Policy Effects on Price Level, Output and Employment

The fact of the matter is that money as construed in economic theory and as the capitalists would like to extend its mighty sway, is indelibly determined by interest rate. That is, an increase in interest rate would increase the willingness to supply money by financial intermediaries, but will constrain the demand for funds. Returns on real capital will fall and this will decrease the volume of funds to be held in investments. Thus, increasing volumes of bank deposits will increase savings but not investments. Consequently, a permanently depressed real sector activity pervades in a capitalist economy as uncertainties abound around the points of interest rate and quantities of money. Decrease in monetary demand condition and real investments causes higher unemployment to prevail. A higher willingness to supply funds at high rates of interest met with lower demand causes a permanent uncertainty of inflationary expectations. The monetary side of the balance sheet of firms suggests a structural trade-off between unemployment and price level.

Even in the long-run, which though is not an observable case, the natural price-level and unemployment rate cause the aggregate supply curve for output to be inelastic. Now the real output is found to play no role in productivity gains and resource mobilisation (of both labour and capital). Consequently, an economy always yields to fatigue and saturation at the full-employment level. Even the long-run expectation of uncertainty, as mentioned above, makes the full-employment point to be distanced. The result is a family of uncertain inelastic aggregate supply curves at randomly shifting full-employment points of output. A very sensitive contributor to such uncertain conditions of full-employment is speculative expectations generated by excess demand for goods and services.

The bond market now becomes floated by uncertain assets that inflate the market for securities but run the risk of liquidation. Money comes into the economy as a result, but no real sector activities occur. This causes prices to increase under the monetary impact of speculative assets transacted in the financial sector. Yet the financial sector and the real sector remain delinked. This is a feature that has not been accounted for in the usual Keynesian model of aggregate demand. Consequently, the magnetisation of risky assets in the aggregate demand function causes the full-unemployment point of output to be unrelated to productive income multipliers. The money multiplier works intensively by the force of multiple credit expansion; but the generated volume does not finance real sector activities.

3.2. Combining Monetary Policy Effects with Fiscal Policy Effects

The real sector fatigue, caused by speculative demand for money and random family of aggregate demand and aggregate supply curves, causes an unstable relationship for the long-run trade-off between inflation rate and unemployment rate. This kind of objection to a combination of monetary and fiscal instabilities has been made by the accelerationist hypothesists and the monetarists (Sawyer, 1982; Choudhury, 1994). Such instabilities increase with the force of rational expectations as aggregate demand and aggregate supply curves now tend to escape their proper identification properties. No effective macroeconomic forecasting and policy co-ordination can then be read off the plethora of expected full-employment points that now emerge (Turnovsky 1995; Brown & Hogendorn, 1994a; Minford & Peel, 1983).

Now if we are to introduce open economy relations to the aggregate demand and aggregate supply, output, employment and price-level interrelationships, we obtain similar results. Exchange rate mechanism joins with interest rate policies to further de-stabilise the economic activities from the monetary side of the balance-of-payments table. Upon this, uncertain movements of capital by their varying mix between net portfolio investments and net direct investments combine in the capital accounts balances with the monetary balances to affect reserve requirements and open-market transactions. Consequently, the activation of the bonds markets and the selling of currencies through methods such as swaps and arbitrage, completely de-stabilise the open economy.

Take for example the two-gap theory of international trade. It is theoretically claimed that the saving gap is financed by trade surplus. Yet as the saving gap increases, the absorption gap (gap between potential output and aggregate demand) increases. This leads to lower levels of economic equilibrium and can increase the trade deficits. Hence, a negation of theory occurs (Brown & Hogendorn, 1994b). But theory returns to support the fact that now a continuing trade deficit and unmet investment demand will appear. Increasing trade deficits will carry with them increasing budget deficits. In other words, increasing savings gap if financed externally, will run the risk of increasing the twin-deficits--trade deficits and budget deficits (Bergsten, 1988). Budget deficits increase by a trade-off of spending and financing priorities between the private sector and the public sector (Bayoumi, 1990). Private sector priority requires lower taxes, particularly lower corporate taxes and lower effectiveness of "automatic" stabilisation in times of deficits and unemployment. Now the budget deficit worsens.

On the other hand, with the priority on public sector spending and financing, taxes must increase. But subsequently, the resulting of output de-

multiplier, will cause lower incomes. The result is a higher absorption gap and possibly adverse trade deficits.

The two-gap consequences need to be filled in by externalising debts, liabilities, monetary reserves and entering uncertain secondary capital markets. Each of these is a sensitive function of the term structures of many varying interest rates and exchange rates with these being intertwined. Thus, instability is intrinsic in the financing of liabilities and monetary movements by the very nature of the pricing conditions on capital and due to the delink of the monetary sector from the real sector. This is the permanent and inherent nature of the global capitalist order both by virtue of its philosophy and transactions. Macroeconomic policies and programs are now in a perpetual dilemma. As much as they would like to stabilise the open-economy transactions, the very nature of assets transacted and the instruments of financing them, cause instability to occur (Mehmet, 1995).

4. SOCIAL WELFARE AND REGIONAL ECONOMIC INTEGRATION

At the end, what is the status of social welfare in the context of regional integration? Growth is either of the two kinds--non-inflationary with unemployment; or where social spending is encouraged, there inflation is always a looming fear, or taxes and deficits remain rampant. Between these two conflicting ends of monetary and fiscal policy in regional co-ordination globally, economies are required to yield to a prescribed choice. In capitalism it is always the first one against the second to realise effective privatisation and liberalisation for meeting the ends of capital accumulation. A lack of other visions limits alternative analysis (Heilbroner & Milberg, 1995).

This kind of transformation process has deep implications for theory, policies and programs in macroeconomic co-ordination. In turn, regional economic integration gets affected by differences in the effects of economic growth and development, structural properties and exogenous policy effects premised on interest rates and exchange rates. The social welfare function of economic integration becomes a lateral aggregation of a system of regions driven by its own internally coherent set of strengths and specialisations. Such a comparative cost advantage doctrine is yet another way of viewing that the world economy is made up of geographically homogenous regions within, but are differentiated among themselves. The net result of such regional development is the formation of customs unions. Protection thus abounds even though there is a cry for trade liberalisation. This case is particularly found in the case of EC and the US-China trade relationships (Hauchler & Kennedy, 1994).

On the side of a theory of economic integration, global instabilities of macroeconomic co-ordination mean that the aggregate social welfare maximisation subject to the conditions and constraints as mentioned earlier, is impossible. Along with this methodological question arises the issue of preference formation in the polity and international financing institutions. Here we find that prescriptive optimal states of resource mobilisation and market arrangements based on competing behaviour and growth orientation for capital accumulation are self-defeative of social well-being. Social welfare is then a concept that is opposed to the concept of social well-being. The former is based on a macroeconomic trade-off between economic growth and distributive equity; the latter is premised on pervasive complementarity between these two goals (Choudhury, 1997a).

On the side of institutions both domestic and international ones, we find an attitude of increasing dominance in the politico-economic affairs of nation states. In this regard, we find today the case of the IMF in promoting sweeping privatisation in the transition countries and Russia (Borensztein, 1993). We find the increasing presence of the US in promoting economic integration among the Sextet Region in the Middle East Region (Choudhury, 1996; Awartani & Kleiman, 1995). Large corporations demand protection of their property rights in developing countries to step up their operations. In the attempt, some of the most devastating environmental depravation has been caused by multinationals (Korten, 1995).

Apart from these political effects on developing countries, there is also economic dominance. In this regard (Barber, 1992) Nigeria's dependence on western technology gave rise to a rentier economy in the resource sector, with share capital of foreign multinationals ranging from 51-74 per cent. Through the introduction of Western modes of production in Nigeria, foreign direct investments turned Nigeria into a monetised economy on credits. This subsequently caused immense amounts of external debts and inflationary pressure, and bonded Nigeria to the vagaries of the exogenous financial policies (Mikailu, 1997). Historically, we have the example of the Ottoman World, whose external debts were monetised by the colonial powers. This caused hyperinflation and serious insolvency in the private sector (Garraty & Gray, 1982).

On the policy side, we find that the combination of interest-rate and exchange-rate mechanism has caused unpredictable movements in the recipient countries of loan capital and direct investments. In Figure 1 we show that recipient countries will always find themselves at the mercy of the policies

as these are enacted through any of the multiple regimes of interactions between (high, low)--interest rates and (high, low)--exchange rates (Choudhury, 1996). Such multiple regimes are indicated by the intermeshing of arrows as shown. The leverage of variability in such policies remain in the hands of the financing countries and by the dictates of such countries through their financial multinationals operating abroad. The financial uncertainties intensify with increasing separation between the financial sector and the real sector. This is precisely the function of exogenous money and monetary policy. They equally randomise all those assets that they so monetise.

## 5. PERSPECTIVES ON MONETARY POLICY WITH THE UNCERTAIN STRUCTURE OF PRIVATE CAPITAL FLOWS

The entire series of interactions in Figure 1 is too complex to cover here. But we can examine a few. The extent to which FDI flow in and out of net direct investments or net portfolio investments is a function of interest rate (i) and exchange rate (e) combinations shown in Figure 1. The ratio, (i/e), can increase, decrease or stabilise by all kinds of changes in interest rate and exchange rate--only the relative magnitudes matter. Thus, when interest rates as well as exchange rates increase, the relative magnitude cannot predict the precise flows of private capital. Then too, it matters in which areas the net direct investments component of total private capital flows. Net direct investments are enhanced by lower interest rates and higher yields; net portfolio investments are enhanced by higher interest rates except in the case of equities.

On top of these effects on total private capital flows, monetary policies will also exert their due influence. Higher interest rates for purposes of controlling money supply can lead to an increase in net portfolio investments. This flow will be used to balance off external deficits occurring both in the current accounts and capital accounts. Now to leave money supply unchanged, central banks can sell foreign reserves as treasury bills to buy back domestic currency through open-market transactions. In the open market operations transactions occur between commercial banks; the central bank does not intervene.

In the face of globalisation, an increasing popularity for such modes of transactions are making the commercial banks active in determining active monetary policies. Consequently, there is a high risk in allowing speculative assets to flow in the midst of such transactions. Such private capital flows contribute to the uncertainties of monetary policy on stabilisation matters. Private capital flows thus become susceptible to such risky capitulations (Axilrod, 1996).

Furthermore, as increasing interest rates (i_h) along with increasing exchange rates (e_h) cause private capital flows into net portfolio investments with increasing private sector financial activity, the monetary volume does not change; only the monetary sector equilibrium shifts with the shifting money demand curves. It simply changes with levels of (i_h,e_h). To the extent that net portfolio increases speculative assets, the delink between the financial sector and the real sector will continue. This will annul the effectiveness of monetary policy on productivity and real output through an income multiplier. One notes that our disaggregation of total foreign direct investment into net direct investment and portfolio investment has caused a change in the Mundell-Fleming theorem relating to the effectiveness of monetary policy with flexible exchange rate and high capital mobility (Mundell, 1963).

Figure 1
Unpredictable Movements in Interest-Rate and Exchange-Rate Regimes and Their Effects on Foreign Direct Investment
Flows
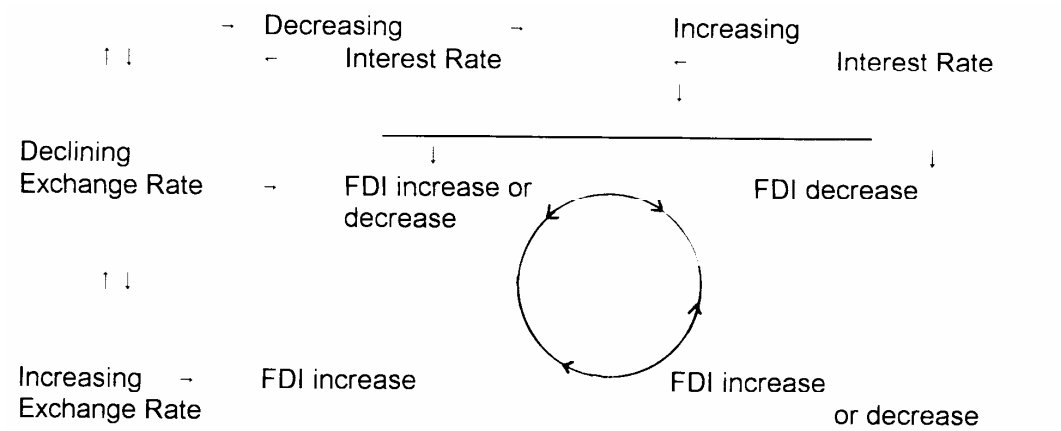
6. EFFECTS OF UNCERTAIN PRIVATE CAPITAL FLOWS ON REGIONAL ECONOMIC INTEGRATION

The instability caused by uncertain and uncontrollable variations in (i,e)-FDI relations causes serious difficulty in co-ordinating monetary policies within regional integration. It is then absolutely difficult to co-ordinate macroeconomic policies inter-regionally without enduring high levels of social cost caused by shifting resources from the real sector activity--as manifest in improving current account balances--to speculative activities involving uncertainties in the capital and monetary accounts balances. Rising deficits, liabilities and insolvency now de-stabilise the economic conditions as they also reduce aggregate social welfare.

Regional economic integration, either in the form of trading blocs or globally has thus become a painful experience in interregional competition and intraregional economic inefficiencies. The nascent regional capital markets have been perennially subjected to unsustainable performance in the face of exogenous financial and monetary policies.

Ariff (1997) points out that the rates of change in share price indexes in Muslim countries' capital markets have remained volatile between 1980 and 1991. Besides, a cursory examination of the Kuala Lumpur Stock Exchange performance shows that high interest rates in the face of stable exchange rates have been associated with unstable private capital flows (*Economic Report,* 1994-95). The Seventh Malaysian Plan points out that financial volumes in KLSE have increased due to derivatives and debt instruments in the form of bonds and equities. While equities can provide some hedging against speculation, bond and derivative markets are highly risky (Govt. of Malaysia, 1996). We see that although KLSE is providing private investors with much of their investible funds, yet the speculative financial structure of these resource flows is fraught with overheating and uncertainty.

Speculative financial items lead to competition in attracting funds to the regional capital markets in South-East Asia. Consequently, there is no indigenous policing of capital market instruments except to submit to global patterns and pressures. In such kinds of competing capital market instruments, many of the alternative forms of financing development on a regional basis and for improving the communal social welfare are lost. Kader and Ariff (1997) point out that marginalisation of alternative forms of communal financial instruments for regional development has suffered in Malaysia. Islamic financing in Malaysia has come to face substantive competition from the conventional financing sector.

7. BRINGING TOGETHER THE MONETARY, FISCAL AND DEVELOPMENTAL INSTRUMENTS FOR REGIONAL ECONOMIC INTEGRATION

Consider the following sequence of interrelationships:

$$(m,f)[i.e]_j \rightarrow (S,I)[i,e]_j \rightarrow (X,M)[i,e]_j \rightarrow (G,T)[i.e]_j \rightarrow (D,K,A)[i,e]_j \rightarrow (P,U,Y)[i,e]_j, \quad (1)$$

where, (m,f) denotes a combination of monetary (m) and fiscal (f) policies, both depending upon $(i.e)$ combinations. Such a common dependence of the variables is shown by the $[.]$ bracket outside.

(S,I) denotes savings and investment schedule showing the saving gap.

(X,M) denotes export and import schedule showing the current accounts balance (deficit).

(D,K,A) denotes debt, capital, asset schedule showing the interrelationship among capital accounts (D), monetary reserves (A) and capital flow (K).

(G,T) denotes the government expenditure and tax revenue schedule showing the fiscal relationship to monetary policy through the interrelationships among $(S,I)[i,e]$ and $(X,M)[i,e]$.

(P,U,Y) denotes the price (P), unemployment (U) and output (Y) schedule showing the macroeconomic social welfare relationship among these.

$\rightarrow$ denotes relationships from one level to another.

j denotes countries within a region. Alternatively, these can denote the regions in a globalising environment.

Regional economic integration must mean that relation (1) must be aggregated in some appropriate way to represent co-ordination of the policies, programs and outcomes in the region or world as a whole. In the case of Free Trade Agreements, the aggregation of (1) is possible only within a region but not outside, as common import tariffs are imposed. A customs union would also experience a similar limitation in aggregation. A common market will attain a greater degree of aggregation to include mobility of capital and labour. This would be specified in the communal social welfare function. An

economic union stands for effective co-ordination of the entire sequence shown in relation (1). But the aggregation is still within a regional bloc.

Since all facets lead to a limited domain of aggregation, extending relation (1) to the world would mean a lateral aggregation of the more interactively integrating regional blocs. Lateral aggregation of social welfare indexes implies that competition and individuation among different trading blocs will necessarily exist. Thus, the policies and programs of NAFTA and EC would jointly compete with Southeast Asian countries. Here is where the exogeneity of interest-rate and exchange-rate mechanisms become so precarious to financial instruments of global governance. We have discussed the developmental predicaments and uncertainties associated with such regimes.

The other way is to induce other regional trading blocs into a comprehensive trading bloc. Here the world-system of Eurocentricity prevails and global capitalism flourishes in such a venue to the detriment of social well-being (Amin, 1989). The implications of random (i,e)-regimes are increasing costs of protectionism, standardisation (e.g., structural adjustment) and marginalisation of social well-being in the face of interregional, and in adverse cases, also of intraregional competition and hegemony (Frey, 1984; Ansari, 1986). Such costs increase astronomically as the variables shown in relation (1) become increasingly interlinked. We have noted this during the lost decade of development in the eighties (Raymond, 1991) due to the adverse shocks caused by roller coasting of high interest rates, exchange rate volatility, IMF-World Bank conditionalities and debt burden.

During the nineties, we noticed the gradual erosion of GATT policies to reward developing countries with market access, higher protection of their agricultural goods and textiles, and guaranteeing the flow of cheaper technologies (Agosin *et al*., 1995). What then has the future in store for a better economic integration of the world for a better prospect of regional economic integration? We will have to examine these issues and problems in the light of the policies and programs of the World Trade Organisation.

8. GENERAL SYSTEMS OF TRADE AND DEVELOPMENT FOR REGIONAL ECONOMIC INTEGRATION UNDER THE WTO POLICIES AND PROGRAMS

Much has been written on the economic effects of WTO policies and programs on the developing countries. These studies have taken the form of commodity specification, sectors and institutional implications of WTO policies and programs (Multilateral Trade Organisation, 1993; Statistical, Economic and

Social Research and Training Centre for Islamic Countries & Islamic Centre for Trade and Development, 1994; Naqvi, 1994). Yet there has not been a general systems-oriented socio-economic analysis as to how the WTO policies and programs will affect macroeconomic activities.

In what follows, we will once again invoke relation (1) in the light of the WTO policies and programs to deduce the expected results on economic development, social well-being and regional economic integration for the developing countries. Our particular regional and analytical groupings are chosen for the following reasons: In the developing countries, we do not find established forms of regional economic integration, though most countries have an express commitment to promote intercommunal trade and development (Weiss, 1986). No effective policy co-ordination among developing countries has occurred, as all of them tend to follow the dictates of the Bretton Woods Institutions and now of WTO. International trade and disparate levels of development among developing countries have caused intensive competition among them to gain access to Northern Markets (Feldstein, 1988).

The absence of well-established regional economic groupings causes problems of intercommunal competition to gain access to Northern markets. This marginalises the inter-communal economic solidarity and makes the developing countries prone to the gains and losses from WTO in differentiated ways. For the above reasons, when we invoke the idea of regional economic integration for the developing countries, we will mean the milieu of geographical and macroeconomic co-ordination implied in economic solidarity.

Our general-systems analysis of WTO policies and programs hinges upon simulating the social well-being given in (1) with the additional input of two further variables. These are the policy vector denoted by x, and sustainability criterion variable denoted by c. The constraints of the simulational social well-being criterion are the policy-state variables interrelationships shown in (1). On the side of output, prices and factor mobility, we will also include the production function, say, $Y = F(K,L,x)[i,e]$, where x denotes the policy vector, $x=(m,f,D,G-T)[i,e]$. In the context of economic union and common market, we must also consider factor mobility to be functionally determined by current account balances (X-M) and capital account balances (S-I), with investment I being determined by both Y and K. These variables in turn are simulated by the impact of x.

The appearance of (i,e) for all of these variables means that this policy-pair remains exogenous to the socio-economic conditions and policies of developing countries. They are determined by the Bretton Woods policy enforcement or by the financial multinationals in developing countries. This argument follows what we have argued above: The opening up of the world to global capitalism has dichotomised it between real sector activities and financial activities. Global real sector developments are now entrenched in the developing countries and the transition countries. Global financial activities are controlled by the industrialised countries. The phenomenon of shifting industries from the industrialised countries to the developing ones is known as de-industrialisation (Gardner, 1988). The accumulated flight of capital from the developing countries to the industrialised ones is a well-known fact (Lessard & Williamson, 1987).

Figure 2 shows how the interrelationships can be generated with the WTO policies and programs, given the exogeneity of the (i,e) instruments affecting developing countries. The directions of the arrows indicate how the primary effects flow into the next set of variables and relations.

For instance, all of (Y,P,U,c,x) enter the social well-being criterion. However, also consideration of sustainability (c) and national policy vector are required to meet the joint WTO-IMF-World Bank goals of economic stabilisation (P,D,G), structural adjustment (Y) and deficit reduction (D,G,T).

The WTO-policies and programs around TRIPs, TRIMs, GATs, GSTP, MFN, MFA, subsidy and countervailing, will influence the (c,x)-policies to qualify the flow of capital and the allocation of capital into certain required sectors (agricultural, manufacturing, services, textiles, tropical commodities, primary resources etc.) and towards using certain indigenous technology and resources (K,L). Factor utilisation will become increasingly important with growing regional economic integration and with the inclusion of GATs in world trade.

Such an utilisation of factors, subject to the (c,x)-constraints, will determine Y in the production menu. But the production menu itself is also determined directly by (c,x). (K,L) as factors of production are also in turn determined by the derived demand function in Y.

The derived demand as also the intensity of impact of (K,L) on Y, will be influenced by export-led growth (X,M). This will be influenced by the policies of MFA, MFN, Trade liberalisation, non-tariff barriers, subsidies and countervailing measures and market access. The output Y will then generate

the exports (X) and the demand for imports (M). The relationship between the current account balance and Y is two-ways, as shown.

The state of the factor markets through the above sequences of interactions will determine employment (hence U). Here the policies of TRIPs and TRIMs governing sectorial allocation of FDI and as influenced by (c,x)-policies will influence factor markets. Capital mobilisation will thus influence (S,I). The unemployment rate so obtained will have its trade-off with the inflation rate (P).

In the entire general system, we note that (i,e)-policies that are formulated by industrialised economies remain exogenous to all variables and relations. This is the key to the study of the WTO impact on developing countries, as the (i,e)-policies impact upon the general systems variables, the WTO policies and the dispute settlement systems.

The following legend holds for Figure 2:

GATs: General agreement in services; MFA: Multifibre agreement; MFN: Most Favoured Nations Clause; NTBs: Non-tariff barriers; TRIMS: Trade related investment measures; TRIPs: Trade related intellectual property rights.

8.1. Endogenous Variables

a: all WTO-IMF-World Bank policies and programs; b: TRIPs, TRIMs, Economic Union; c: continuation of (b); d: policy impacts on u (TRIPs, TRIMs, subsidy); e: market access, private capital flows (TRIMs, MFN, currency devaluation, primary and manufacturing sectors); f: price stabilisation; g: stabilisation effect on social welfare function, SW; h: privatisation and liberalisation effects on SW; 1: effect of (h) on economic growth; 2: derived demand for factors; 3: potential output generation; 4: economic growth effect on SW; 5: market effects on u (efficiency-equity trade-off); 6: the (u,p)-trade-off; 7: domestic policy effects on SW (hence responses to policy effects from WTO and the industrial countries); 8: trade effects on SW (all WTO policies and programs); 9: domestic policy effects to market transformation (effect of WTO-IMF-World Bank policies and programs); 10: price stabilisation in the external sector (all WTO-IMF-World Bank policies, terms of trade).

8.2. Exogenous Effects

Perturbations caused in developing economies by the interest rate and exchange rate mechanisms of industrial policies.

Note that double-directional arrows denote endogenous cause-effect interrelationships in a simulational general systems model. Only the (i,e)-policies remain exogenous in this system.

9. ANALYSIS OF THE GENERAL SYSTEM IN THE LIGHT OF WTO POLICIES

Many different scenarios of simulations can be discussed, as these arise from a combination of interactions among the WTO policies and their impact upon the variables of social well-being through (c,x), given the exogeneity of (i.e). Greater complexities arise, as the interactive policy impacts influence a combination of socio-economic variables and relations as mentioned above.

Furthermore, with the relations shown in Figure 2 denoting a region or a country within a regional bloc, the problem of aggregation reappears. Here the disparateness of the member countries does not allow for a uniform impact of the WTO policies throughout the region. Thereby, unique simulation results cannot be expected even within a region or economic grouping. If the countries are to be grouped as follows: the least developing agricultural countries, the middle income countries with primary exports, nonfuel exports and manufacturing exports, and the higher income developing countries with primary fuel exports, capital exports (loans, grants) and FDIs -- then the study of regional economic integration as an intercommunal process in the general system analysis suffers.

We will take an example here to substantiate some of the effects of WTO policies and programs in the general system shown in Figure 2 for developing countries. We will consider the case of uncertain combinations between interest-rate and exchange-rate mechanisms in the medium run and deduce from Figure 1 that private capital flows may increase or decrease as a result. Private capital flows will increase in net portfolio investments as interest rates in developing countries increase and attract capital inflows (Kenan, 1985).

High exchange rates produce an opposite result, for net direct investments decline as export orientation declines. Now a worsening of current account balance is financed by an improvement in capital account. Monetary account is relieved from use, but net portfolio investments are mobilised through the private financial markets that are increasingly entering risky portfolios. Hence, economic uncertainty and instability increases. Monetary policies in attaining

price stability lose effect. On top of this, any program by governments and the private sector to get into higher aggregate demand stimulation, fuels inflationary pressures. Thereafter, private capital flows draw down on all outlets. This ebb and flow of net direct investments and net portfolio investments, alternate randomly, as regimes of (i,e)-combinations alter and interrelate.

Figure 2
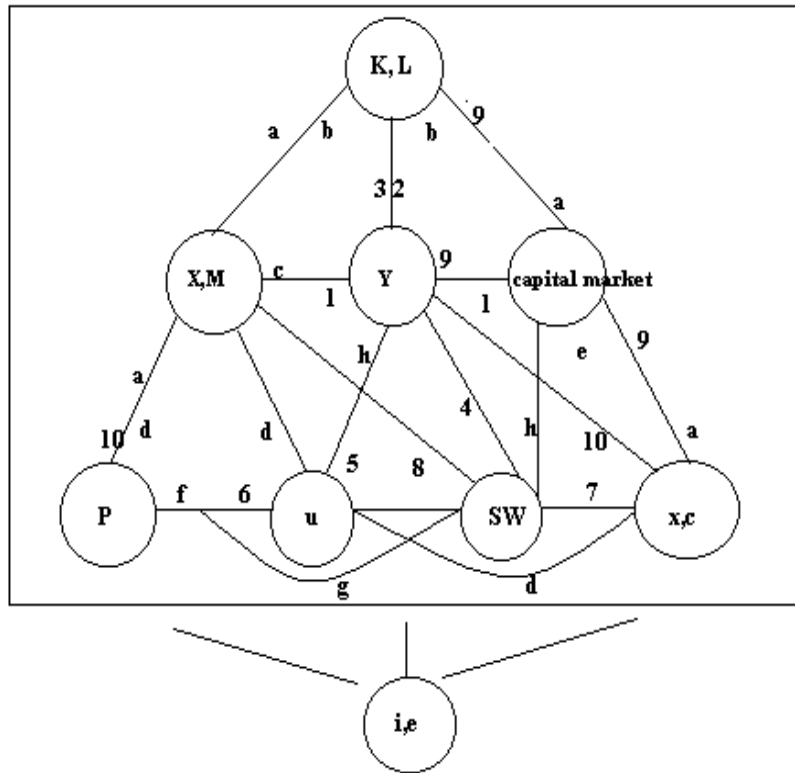
General Systems of Interrelationships in Regional Integration under WTO
Policies

The sustainability variable c as well as the effectiveness of x-policies are weakened. The transmitted instability in factor markets for (K,L), cause instability in the product market (Y,X,M). To correct such a situation, developing countries, particularly the agricultural and primary producers, need infant industry protection and diversification of net private capital flows into resource-based real sector developments, freer market access for the agricultural and primary exportables, and lower cost technologies as well as locally patented rights and trade marks. These are issues that lead to intensive dispute settlement mechanisms, as TRIPs and TRIMs are unable to deal with such preferential treatment of the developing countries in the face of MFA, trade liberalisation in merchandise and capital flows. FDI mobilisation cannot thus be guaranteed under the adverse situation with any possible WTO policy corrections.

The given WTO policies and programs thereby fail to arrest the plummeting terms of trade of agricultural and primary commodity producers. Sufficient export revenues cannot be raised from market-driven transactions, and (i,e)-variations permanently de-stabilise their economies.

Consider next the case of developing countries in the process of industrialisation by developing their indigenous manufacturing and service sectors. Here at least two WTO policies go against them. First, non-tariff barriers, according to which can be determined the composition of local and foreign value added in manufacturing by surveillance mechanism, can define the text of exclusion of these developing countries' enjoyment of GSTP. Subsequently, increasing tariffs on value-added goods exempted from GSTP will receive the usual tariff-levies under WTO. Knowing that much of the world trade on manufactures takes place between the industrialised countries, the newly industrialising developing countries will find themselves against the odds of intensive protection by EC and NAFTA Free Trade Areas.

On the other hand, a liberalisation of trade in manufactures and technology opens up trading highways for importing developing countries. Such a situation with GSTP revisions and the skewed nature of world trade in manufactures and technologies cannot be altered. Rather, it is accentuated by WTO policies on MFN, trade liberalisation, subsidy, antidumping and TRIPs.

Industrialised countries are today faced with severe budget deficits, short-run uncertainties in interest rates, high long-term interest rates and a diversion of massive amounts of funds to the transition countries. Recently the US Government was concerned with a massive flow of US dollar currencies to save Mexico from the Peso Crash. Industrialised countries have therefore to

contend with restrictive monetary and fiscal policies at home. Consequently, their amelioration of the promised 0.7 per cent of GDPs into Official Development Assistance for poor countries has not been realised.

WTO has not included developmental policies with trade-related policies and in their dispute settlement agreements. Thus, grants and fiscal requirements to finance the social sector in developing countries will run against the WTO policy focus on market-driven instruments of global economic transformation.

10. EMPIRICAL EVIDENCE TO THE ANALYTICAL PART OF PAPER

We will now examine empirical evidence in reference to the following principal problems: First, we will study key economic indicators for the world economy to point out whether there has been any substantial change in the economic structure ever since the inception of WTO in 1995. Secondly, We will study financial data for the developing countries in reference to the macroeconomic indicators to show how such policies can be expected to correlate with the financial data in the light of our analysis. Thirdly, we will examine some implications of WTO for the OIC countries in terms of trade and development.

Table 1
Some Principal World Macroeconomic Variables
(annual percentage rates of change unless otherwise mentioned)

	1990	1994	1995	1996	1997
World Real GDP (%)	2.6	3.7	3.5	3.8	4.1
Real GDP (%)					
Industrialised	2.5	2.8	2.1	2.3	2.5
Developing	4.3	6.6	5.9	6.3	6.2
Fuel Exporters	4.4	0.1	2.2	2.8	3.5
Non-Fuel Primary	4.2	7.3	6.3	6.6	6.4
Manufacturing	4.3	9.1	8.2	7.5	7.1
Africa	1.8	2.9	3.0	5.0	5.0
Asia	5.9	9.1	8.6	8.0	7.5
Middle East & Europe 5.3	0.5	3.6	3.9	3.3	-
Transition Countries	-	-8.8	-1.3	0.4	4.0
Rate of Inflation (%)					
Industrialised	5.0	2.3	2.4	2.3	2.4
Developing	61.8	46.8	19.8	13.3	10.8
Fuel Exporters	14.1	32.3	39.2	29.2	12.5
Non-Fuel Primary	69.3	48.5	18.0	11.8	10.7
Africa	15.6	36.8	32.1	21.3	9.1
Asia	6.6	13.4	10.9	7.9	7.8

Middle East & Europe	21.9	31.5	32.5	25.6	26.4
Transition Countries	34.6	264.8	128.0	41.3	16.8

Table 1 (continued)

	1990	1994	1995	1996	1997
Export Value					
Industrialised	15.0	11.9	18.6	3.1	6.4
Developing	13.6	14.6	19.9	11.2	10.4
Fuel Exporters	27.2	0.3	9.8	11.0	8.7
Non-Fuel Primary	10.2	17.3	21.6	11.2	10.6
Manufacturing	9.1	18.4	21.9	11.6	11.3
Africa	16.4	1.1	14.4	7.1	5.1
Asia	11.3	18.5	22.5	12.2	11.7
Middle East & Europe	21.8	5.7	10.0	10.5	11.0
Import Value					
Industrialised	14.8	12.8	18.2	3.7	6.3
Developing	13.3	12.0	20.3	12.5	10.9
Fuel Exporters	8.1	-12.1	9.5	6.5	17.9
Non-Fuel Primary	14.2	15.2	21.4	13.0	10.2
Manufacturing	12.9	17.2	25.3	13.3	11.0
Africa	9.6	5.9	17.7	7.4	3.9
Asia	13.6	17.0	24.0	14.4	11.6
Middle East & Europe	14.8	-9.0	16.3	8.1	14.7
Current Account Balances					
(billions of US$)					
Industrialised	-116.1	-7.8	13.9	2.5	9.7
Developing	-5.4	-76.8	-90.2	-112.2	-125.9
Fuel Exporters	12.5	-6.0	-2.2	9.6	6.2
Non-Fuel Primary	-9.5	-9.7	-10.8	-17.4	-16.8
Manufacturing	7.2	-1.5	-36.4	-56.1	-56.9
Africa	-3.6	-11.8	-15.9	-16.6	-15.8
Asia	2.3	-5.2	-27.9	-51.1	-56.9
Middle East & Europe	-2.3	-10.3	-13.3	-8.2	-11.0
Transition Countries	-21.9	-2.4	-1.9	-14.4	-22.0
Terms-of-Trade					
Industrialised	-0.6	0.2	0.5	0.2	-0.2
Developing	1.1	0.2	-1.4	-0.4	-0.6
Fuel Exporters	12.2	-0.5	-6.8	3.2	-0.4
Non-Fuel Primary	-1.7	0.6	-0.7	-1.0	-0.6
Manufacturing	-2.6	0.2	-1.1	-1.7	-0.6
Africa	0.5	0.4	-0.6	-5.3	0.4
Asia	-1.6	-0.1	-0.8	-1.5	-0.5
Middle East & Europe	11.5	-1.0	-7.0	4.7	0.2
Debt Ratios					
Developing	34.8	33.0	31.7	30.2	28.8
Fuel Exporters	36.4	35.3	28.6	23.3	19.8
Non-Fuel Primary	80.4	66.6	55.9	50.7	44.0

Manufacturing	20.8	22.4	22.1	22.7	23.0
Africa	61.4	74.8	66.7	62.8	66.3
Asia	23.8	24.6	23.6	23.1	22.7
Middle East & Europe	35.5	31.6	27.8	24.5	21.0

Source: IMF 1996, *World Economic Outlook*, October 1996.

11. STATISTICAL FACTS OF REGIONAL ECONOMIC GROUPINGS

11.1. Principal Economic Indicators Industrial and Developing Countries

The figures shown in Table 1 indicate that rates of growth of output and trade values for developing countries will remain unchanged or decline on a trend between 1994-97. Terms of trade will worsen. Inflation will remain unchanged in the industrialised countries, but will remain high in developing countries. Transition countries will be the major beneficiaries of lower inflation rates. This will be due to fiscal constraints. This picture is repeated whether we consider disaggregation of the developing countries by regions or analytical criteria.

The growth rate of export values will decline on a trend. The balance of payments on current account for all regions and analytical groups will also worsen. Their debt/GDP ratios (debt-service ratios) will worsen in some cases or remain almost unchanged on a trend (IMF, 1996). These results reinforce our critique that WTO policies and programs will be unable to address and improve many of the structural problems of development.

11.2. Private Capital Flows: Developing Countries

The picture here is as predicted in the analysis. Table 2 shows that although net portfolio investments remain lower than net direct investments for Asia and the total of developing countries, they are fast increasing. Net portfolio investment has increased significantly in Africa to almost equal the volume of net direct investments. In the Middle East and Europe, net portfolio investment remains significantly higher than net direct investment. The increasing trend in net portfolio investment in equity funds has made the capital markets highly volatile. IMF estimates a range of volatility between 23.9 (Malaysia)-50.4 (Taiwan) (IMF, 1995). These results support our analysis on increasing capital market volatility that can cause de-stabilisation and ineffectiveness of WTO policies. The latter situation is reflected by our observations in Table 1.

Table 2
Private Capital Flows, Developing Countries by Regions

(In billions of US dollars)

	1977-82	1983-89	1990	1991	1992	1993	1994
	Annual average						
All developing countries[1]							
Total net capital inflows	30.5	8.8	39.8	92.9	111.6	154.7	125.2
Foreign direct investment							
plus portfolio investment (net)	0.7	19.8	25.7	51.3	77.2	141.1	118.0
Net foreign direct investment	11.2	13.3	19.5	28.8	38.0	52.8	56.3
Net portfolio investment	-10.5	6.5	6.2	22.5	39.1	88.3	61.7
Other	29.8	-11.0	14.2	41.7	34.5	13.6	7.2
Asia							
Total net capital inflows	15.8	16.7	25.6	50.7	39.2	72.0	73.4
Foreign direct investment							
plus portfolio investment (net)	3.3	6.6	9.4	18.0	27.3	59.5	65.0
Net foreign direct investment	2.7	5.2	9.8	14.9	19.9	35.6	36.9
Net portfolio investment	0.6	1.4	-0.4	3.1	7.4	23.9	28.1
Other	12.5	10.1	16.2	32.7	11.9	12.5	8.4
Western Hemisphere							
Total net capital inflows	26.3	-16.6	17.9	28.6	52.6	62.3	38.6
Foreign direct investment							
plus portfolio investment (net)	6.9	3.2	12.4	27.9	40.2	67.6	44.2
Net foreign direct investment	5.3	4.4	6.8	11.2	12.9	13.8	14.8
Net portfolio investment	1.6	-1.2	5.6	16.7	27.3	53.8	29.4
Other	19.4	-19.8	5.5	0.7	12.4	-5.3	-5.6
Other[2]							
Total net capital inflows	-11.6	8.7	-3.7	13.6	19.9	20.3	13.2
Foreign direct investment							
plus portfolio investment (net)	-9.5	10.0	3.9	5.4	9.7	13.9	8.8
Net foreign direct investment	3.2	3.7	2.9	2.7	5.3	3.3	4.6
Net portfolio investment	-12.7	6.3	1.0	2.7	4.4	10.6	4.2
Other	-2.1	-1.3	-7.6	8.3	10.2	6.4	4.4

Source: International Monetary Fund, World Economic Outlook data base.
[1] Flows exclude exceptional financing. A number of countries do not report assets and liabilities separately. For these countries, it is assumed that there are no outflows, so that liabilities are set equal to the net value. The extent that this assumption is not valid, the data underestimate the gross value. Adjustments are also made to the World Economic Outlook data to net out the effects of bonds exchanged for commercial bank loans in debt and debt service reduction operations and to provide additional detail on selected private capital flows. [2] Excludes capital exporting countries such as Kuwait and Saudi Arabia.

11.3. Instabilities in Short and Long Term Interest Rate and Exchange Rate Movements in Industrialised Countries

The comparison between interest rates (short-term & long-term) and exchange rates shows that there is no predictable trend in the (i/e) ratio. Now in combination with the results reflected in Table 2, we can predict the direction or the composition of private capital flows. The capital market remains volatile in view of the [i.e.]-policy combinations enacted by the industrialised countries and their subsequent effect on the direction of private capital flows (Table 3). Thus our analysis is supported by this empirical evidence and the results reflected in Tables 1 and 2.

Table 3
Selected Interest Rate and Exchange Rate Variations

	1994	1995	1996	1997
Interest Rates (i)				
World real six month LIBOR	2.8	3.6	3.5	3.7
On US dollar	5.1	6.1	5.6	6.0
On Japanese	2.4	1.3	1.0	2.4
On deutsche	5.3	4.6	3.3	3.8
World real long-term interest rate	4.7	4.3	4.1	4.2
Exchange Rates (e)				
(US Dollar nominal exchange rates)				
Japanese Yen	102.2	94.1	107.7	-
Deutsche mark	1.62	1.43	1.48	-
Pound Sterling	1.53	1.58	1.55	-
i/e) Ratio x 100				
LIBOR on Yen/Yen	2.30	1.38	0.93	-
LIBOR on deutsche/deutsche	327.1	321.68	223.00	-
World LIBOR/Yen	2.73	3.83	3.25	-
World LIBOR/deutsche	172.84	251.75	236.49	-
World LIBOR/pound	183.01	227.85	225.81	-

Source: IMF 1996.

11.4. Monetary and Fiscal Policy Sensitivities: Developing Countries

Developing countries by regions and analytical groups are moving into stricter budgetary controls and monetary policy. This is an indication of the fact that governments, mainly in intensively privatising economies of the developing world, are leaving interest rates and capital flows to be determined by the private sector with minimal degree of central bank intervention. Likewise, exchange rates are left in a float. Developing countries are also wary about inflationary pressures as the economies overheat by expansion. Thus, both

fiscal and monetary discipline are required to stabilise the economy around non-inflationary growth.

To the extent that capital inflows and outflows meet with uncertainties generated by [i,e]-movements in the world economy due to the policies enacted by industrialised countries, contractionary fiscal and monetary policies in developing countries can adversely affect the total balance of payments situation. Now capital and monetary accounts become inadequate in financing the balance of payments deficits in current account. External debts increase as a result or reserves will have to be depleted. Both of these methods of financing generate de-stabilising conditions for developing countries. The picture is true either by regions or analytical groupings (Table 4). Consequently, the structural forces in the world economy appear to go against WTO-IMF policies and programs of liberalisation of trade and capital flows and external sector stabilisation.

Table 4
Fiscal Balances as Percentages of GDP and Monetary Expansion: Developing Countries by Regions and Analytical Groups.

	1990	1994	1995	1996	1997
Fiscal Balances					
Developing Countries	-2.9	-2.4	-2.1	-2.0	-1.6
Africa	-3.3	-6.1	-3.9	-3.4	-1.4
Asia	-2.7	-1.9	-1.7	-1.8	-1.4
Middle East & Europe	-8.7	-5.7	-4.7	-3.9	-4.5
Analytical Groups					
Fuel	-5.9	-7.5	-4.5	-1.9	-0.7
Manufacturing	-1.9	-1.4	-1.8	-1.7	-1.4
Nonfuel primary	-4.7	-4.0	-2.9	-3.5	-2.4
Service	-11.2	-3.4	-2.2	-2.0	-1.5
Monetary Expansion					
(annual percentage change)					
Developing Countries	80.7	59.0	22.5	20.2	17.7
Africa	17.5	49.1	30.9	19.8	13.0
Asia	21.5	21.8	19.8	18.4	16.4
Middle East & Europe	18.3	37.3	33.4	28.6	26.4
Analytical Groups					
Fuel	17.2	31.0	28.2	20.8	13.0
Manufacturing	103.4	92.8	21.8	17.2	15.5
Nonfuel primary	190.9	46.8	21.6	13.8	21.3
Service	22.6	18.4	16.1	15.9	14.4

Source: IMF 1996, *World Economic Outlook*, October 1996.

12. PRODUCTIONS AND TRADE OF OIC MEMBERS

The case of Muslim countries as a group is all the more precarious in world trade and development. Statistical results quoted by SESRTCIC (1995) point out that real growth rate of GDP per capita was on the whole negative average annual rates between 1985 and 1993. Yet the export growth recorded a simple average annual rate of 7.32 percent between 1989 and 1993. Between 1985 and 1993, the terms of trade for merchandise declined for most of the OIC members with a slim appreciation in a few cases. In 1993, both the current account balances and the overall balances were negative almost everywhere, except for Malaysia.

This suggests that the OIC group as a whole experienced declining FDI flows, official flows and portfolio investments, to boost the capital account balances toward writing off some of the current account deficits. The Official Development Assistance declined by 16.80 percent on a simple average annual basis between 1990 and 1992. When these are netted against the very high inflation rates in almost all OIC member countries, the net real flows of both FDI and ODA were significantly negative.

Thus in the face of all these external sector debilities, even with an export growth rate of 7.32 percentage on a simple average annual basis between 1989 and 1993, the debt accumulation soared. The debt/export ratio stood at 158.84 percent in 1993, a figure embarrassingly higher then the same ratio for the developing countries as a whole (Islamic Development Bank, Oct. 1995).

The conclusion of these comovements in the external sector variables is obvious. Much of the economic growth of the OIC member countries was being financed by borrowing. Neither the ODA nor the FDI flows helped in alleviating the external sector disequilibrium. The capacity to repay debt remains weak. This intensifies the vulnerability of these countries to the monetary and trade policies of the industrialised nations.

Besides, the repercussions of economic growth on borrowed capital from the international financial markets and the inability of export growth to alleviate the accumulating debt make these countries compete against each other for access to Northern markets. This fact is well authenticated by the structure of trade flows of the OIC countries (Islamic Development Bank, 1994-95). In 1994, only 10.3 percent of world trade of OIC group flowed between themselves as opposed to their access to developed economies at a ratio of 58.1 percent and to developing economies as a whole at 37.6 percent. Such a structure of OIC trade has not changed over the last decade. The

effectiveness of IDB policies and of the will of Muslim nations toward Islamic economic integration must then be seriously questioned.

Under the post-Uruguay regime of WTO it is estimated (Choudhury, 1997b) that the share of agricultural products in total world export for the OIC group will be a mere 5.8 percent. Of this, resource-based processing and products will have minimal shares (e.g., meat preparation, dairy product, cereal preparation, etc.). Where natural rubber and cocoa are estimated to record higher shares, their terms of trade have declined sharply between 1970 and 1994 (UNCTAD, 1994).

The relaxation of Multifibre Agreement (MFA) in the Uruguay Round will not help the OIC textile producers. A mere 12.5 percent of world export revenue is expected to be earned by them. TRIPs and TRIMs will both leave the OIC members unbenefited. Low FDI flows and weak technological change in the OIC members caused by external sector disequilibrium mentioned above will adversely affect the OIC countries. We note that the international investors' risk-rating placed the OIC member countries in the rank between 26 and 130 or below, with Malaysia being the 26th rank (*Euromoney,* Sept. 1991).

In all therefore, with falling terms-of-trade in commodities and marginally resource-based manufactures in world exports, the general tempo of trade liberalisation will harm the export revenues of the OIC primary producers while volumes of exports will increase to glut markets, and thereby, suppress terms of trade on a long-run basis. With lower export revenue and increased costs of economic growth, intercountry competition for gaining access to Northern markets by the OIC members will intensify. This will eventually adversely affect the pricing, production and growth situation of the OIC group (Choudhury, 1993a).

Industrialisation of their economies in which almost all OIC countries are focusing, at the expense of agricultural development, will be costly. In such a situation, the debt-creating flows in the balance of payments caused by industrialisation on borrowed funds will cumulate. The industrialisation debacle for the OIC bloc will also be caused by the institutionalist surveillance of the industrialisation process by GSTP conditionalities. This will compound the losses to nascent manufacturing industries by the erosion of the infant-industry protection following restrictions by NTBs. Even for Malaysia, which is presently experiencing a significant shift from agriculture to manufacturing and industry, a general improvement in labour productivity has not occurred (Alias & Choudhury, 1996). Consequently, distribution of income and wealth,

generated by a productive, self-reliant labour force armed with skills and empowerment, has not occurred.

13. CONCLUSION

We have now come to the conclusion by noting the empirical support in the second part for the analytical arguments in the first part. We find conclusively that regional economic integration in the present agenda of globalisation is at best a segmentation of the globe into competing groups of nations. Within this arrangement, the structural problems of development, institutional arrangements and policies leave many member countries worse-off. The rise into economic growth, trade liberalisation, privatisation and external sector stabilisation are not without immense social costs. The most noticeable among these are the cost of social well-being caused by a trade-off between economic growth and distributive justice and all that these entail. Such predicaments have entered our global equation of trade and development because of the way global capitalism perceives human preferences in theory and practice. A change in just these two very areas is mandatory.

The global future is found to be governed by the rise of strong institutions, such as the World Trade Organisation in concert with the Bretton Woods Institutions. But their preferences, policies and programs are manifestations of the self-same theory and practice of methodological individualism, marginalisation and conflict between economic growth and distributive justice. They cannot thereby bring about structural change for the benefit of marginalised groups in the world economy. We have found this fact to be true both for regional and analytical groupings in developing countries.

Most importantly, by a combination of macroeconomic policy and socio-economic analysis, we have found both by analysis as well as by empirical results, that the socio-economic position of the world tomorrow under WTO-Bretton Woods institutional governance is not expected to be any different from what it is today. The future of the Muslim countries in this case is particularly precarious.

Beyond WTO and the Bretton Woods Institutions and the theory and practice of macroeconomic co-ordination as ordained by such institutions must exist positive alternatives. These must be searched, discovered and implemented. The common well-being of the human planet lies in such other more morally viable alternatives calling forth pervasive interlinkages in a unified world order (Choudhury, 1993b; Sztompka, 1991).

Underlying all the enigma of a permanent nature of uncertainty in the world economy that intensifies for the OIC-members is the unpredictable and destabilising effects of interest rate (short-term in speculation and long-term in investment) and its conjoint variable, the exchange rate, on the whole gamut of policy variables and socio-economic variables. The effects intensify through the various WTO policies in the light of their subservience to the interests of global capitalism raised by major industrialised countries.

We have thus concluded that the nature of money and monetary policies must be rethought in terms of their de-linkage from speculative ways of holding savings in portfolio FDIs, and instead, developing closer linkage between money and real economic activities. This consideration led us to consider trade and development as interlinked issues of academic and practical attention. Such is not the view given in received developmental doctrines, global agenda and international economic theory.

The endogenous nature of money in relation to real economic activities in the midst of economic integration and the implication of this on inter-regional development in the OIC-members means directing development from the grassroots levels upwards to the national development programs and incorporating such programs in policy co-ordination among the members. This is a challenging and bold task toward re-structuring development, trade and inter-regional integration; but it must be undertaken for prompting the communal social welfare.

Therefore there are two major policy recommendations to be made out of this paper. These are as follows:

13.1. Policy Recommendations

1. The OIC must establish forums and working agenda to see to it that as soon as possible her member economies are induced to de-link their FDI portfolio from savings held in the form of speculative portfolio and interest-bearing assets. Along with this the direction of money and monetary policy must be toward interlinking money with real economic activity inter-regionally in the OIC bloc.

2. The interlinking of money with real sectorial activities necessitates development from and at the grassroots level in member countries. Hence the focus of grassroots development must be central in the development programs of OIC members taken up within the community of membership. National development plans of such kind must then be co-ordinated inter-regionally for

a comprehensive approach to trade and development with the role of endogenous money and monetary policies playing a central role in such transformation (Choudhury, 1997b).

APPENDIX

The instability of financial capital movement to [i,e]-variations is established by the following regression results:

Table A1: Instability of Net Financial Flows (K) to Interest Rate (i) and
Exchange Rate (e) Variations

	1988	1989	1990	1991	1992	1993	1994	1995	1996
i(Japan)	3.6	4.9	7.2	7.5	4.6	3.0	2.1	1.2	0.4
e(Japan/US)	28.2	138.0	144.8	134.7	126.7	111.2	102.2	94.1	107.7
(i/e)x100	11.91	3.55	4.97	5.56	3.63	2.70	2.05	1.28	0.37
log(i/e)									
x100	1.08	0.55	0.70	0.75	0.56	0.43	0.31	0.11	-.43
K(bill.US$)	35.4	45.9	56.4	163.9	142.1	177.6	157.6	195.6	183.9

Source: *International Monetary Fund* 1996, *World Economic Outlook*.

$K = 181.7212 - 13.2451X$, where $X = (i/e)x100$
$R^2 = 0.4916$; number of observations = 9; DF = 7.
Standard error of estimate of K = 48.92. Thus. $t > t_{.05,7}$ (reject hypothesis on K-estimate). Standard error of estimate of â-coefficient = 5.09. Thus $t < t_{.05,7}$ (accept hypothesis on â-estimate). Hence the contradictory values of the t's at 95% level of confidence, establish the instability of the linear regression relation.

With the log-linear form we obtain similar estimates. Such a log-linear form was used by Pontiff (1997) to define the premium of a closed-end fund in terms of the (price/asset value)-ratio:

$K = 174.2172 - 100.8750logX$.
s.e (K) = 50.54; s.e(â-coeff.) = 41.32.
Thus, $t > t_{.05,7}$ for both s.e.-values. $R^2 = 0.4574$.

The inferences and nature of the trend-relations are similar in both cases -- with linear and log-linear forms.

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