ISLAMIC DEVELOPMENT BANK
ISLAMIC RESEARCH AND TRAINING INSTITUTE

KEY ISSUES AND ECONOMIC IMPLICATIONS

OF A UNIFIED EUROPEAN MARKET AFTER 1992 FOR OIC MEMBER COUNTRIES:

OPTIONS AND RESPONSE

Discussion Paper
No. 6

ISLAMIC RESEARCH AND TRAINING INSTITUTE

Establishment

The Islamic Research and Training Institute was established by the Board of Executive Directors of the Islamic Development Bank (IDB) in 1401H (1981). The Executive Directors thus implemented Resolution No. BG/14-99 which the Board of Governors of IDB adopted at its Third Annual Meeting held on 10 Rabi Thani 1399H (14 March 1979). The Institute became operational in 1403H (1983).

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The purpose of the Institute is to undertake research for enabling the economic, financial and banking activities in Muslim countries to conform to *Shari 'ah,* and to extend training facilities to personnel engaged in economic development activities in the Bank's member countries.

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The President of the IDB is also the President of the Institute. The IDB's Board of Executive Directors acts as its supreme policy-making body. The Institute is headed by a Director responsible for its overall management and is selected by the IDB President in consultation with the Board of Executive Directors. The Institute consists of three technical divisions (Research, Training, Information) and one division of Administrative and Financial Services.

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KEY ISSUES AND ECONOMIC IMPLICATIONS OF A UNIFIED EUROPEAN MARKET AFTER 1992 FOR OIC MEMBER COUNTRIES: OPTIONS AND RESPONSE

M.A. MANNAN

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		Page
	List of Tables	6
	Foreword	7
	Preface	9
1.	Background and Objectives	11
2.	The Great Transformation in Europe and its Global Implications	13
3.	Emerging Sectorial Issues and Areas of Policy Concern	25
4.	Structure and Pattern of Trade Relations between the OIC and the EC	31
5.	Structure and Basic Characteristics of Trade among Islamic Countries	37
6.	Impact of a Unified Europe on the OIC Community by Regions	**45**
7.	Role of the IDB and Its Operational Strategies	51
8.	Suggestions and Recommendations	**53**
9.	Conclusion	61
Appendices		
I	Salient Features of EC and EFTA Agreement as on October 22, 1991	**65**
II	Summary of the Treaty Establishing the EEC (Treaty of Rome, Effective from January 1, 1958)	**69**
	Bibliography	**73**

TABLES

FOREWORD

As an international financial institution serving the Ummah, Islamic Development Bank (IDB) is aiming at fostering the economic development and social progress of member countries and Muslim communities in non-member countries in accordance with principles of Shari'ah (Islamic Law). In order to achieve its objectives and to discharge the necessary obligations at an operational level, pertaining to research, training and dissemination of information, IDB established Islamic Research and Training Institute (IRTI) in 1401H (1981) and it became operational in 1403H (1982).

In fulfillment of its objectives IRTI undertakes a number of activities within the framework of its Annual Plan which include conducting in-house research, sponsoring research studies by outside scholars, holding seminars and symposia independently as well as in collaboration with the sister institutions, etc.

This discussion paper, 'Key Issues and Economic Implications of a Unified European Market after 1992 for the members of Organization of Islamic Conference (O1C): Options and Response', by the author is the revised version of the study, presented at the Seminar on 'Impact of a Unified European Market by 1992 on Islamic Countries' held in Casablanca, during October 29-31, 1991, organized jointly by Islamic Center for Development of Trade (ICDT) and IRTI/IDB. Upon the clearance of the Task Force, established by the management, this study was subsequently submitted to the Sixth Islamic Summit held in Dakar, Senegal during 9-12 December, 1991.

Since this paper presents a succinct view of the regional variations in the prospective impact of the Single European Market by 1992 on OIC member countries, by **six** regional affiliations, such as, GCC, Mediterranean, Sub-Saharan, ASEAN, it is hoped that publication of this paper would contribute to enlightened discussions and constructive dialogue on the subject which is of vital importance for developing common strategy at the OIC level in the negotiations and future cooperation between Islamic Countries and European Community.

Prof. Dr. Abdel Hamid EI-Ghazali,
Director, IRTI.

PREFACE

This is the revised version of the study presented at the seminar on `**Impact of a Unified European Market by 1992 on Islamic Countries',* held in Casablanca, during 29-31 October 1991, organized jointly by the Islamic Center for Development of Trade (ICDT) and Islamic Research and Training Institute (IRTI) of Islamic Development Bank (IDS).

This study has demonstrated that prospective trade diversion will affect various regions within the OIC with varying degrees of intensity. Regions with a higher proportion of manufactured exports with greater content of value added will run a greater risk of diversion of exports to the European Community (EC).

On the other hand, regions within the Organization of Islamic Conference (OIC) that have a higher proportion of primary exports are likely to be less affected by trade diversion. The economies in the OIC, rich in natural resources are in this category. However, recognizing the complexity and difficulty in pinpointing the actual magnitude of the impact of the Single European Market as well as recognizing the urgent need for building the in-house capacity of the OIC community to overcome such difficulties on a long-term sustainable basis, this study has stressed the need for constructive dialogue and cooperation with the EC as well as the countries of the 'South' at the OIC level.

The author is grateful to the Director, IRTI, Prof. Dr. Abdel Hamid El-Ghazali, Dr. A/O. Abudu, Dr. Ridha Saadallah, Dr. Murwan Saifuddin and Dr. Mukhtar Hamour, for their valuable comments on the study. The author is also grateful to Dr. Badruddin Allah, Director-General, ICDT, Casablanca, Dr. M. Ariff, Dr. N. Chowdhury, Dr. Rashiduzzaman and Dr. Saleem Ilkin, and Dr. Farouk Abdel Hamid Shakouir for their valuable academic support and observations on the earlier draft of the paper. I am, however, responsible for the views expressed in this study.

M.A. Mannan

Date: December 01, 1992

1

BACKGROUND AND OBJECTIVES

The 19th Islamic Foreign Ministers' Conference held in Cairo, Arab Republic of Egypt, from 9-13 Muharram 1411H (31 July to **4** August, 1990) through its Resolution No. ICFM/19-90/EC-23 'requests the General Secretariat in Coordination with Ankara Center and Casablanca Center to undertake a periodical in-depth study and also requests Islamic Development Bank to carry out a similar study on the Economic and Social Repercussions of the establishment of a unified European Market on the Islamic World'. The Twentieth Islamic Conference of Foreign Ministers, held in Istanbul, Republic of Turkey, from 24-28 Muharram 1412H (4-8 August 1991) Resolution No. ICFM (20-91)EC (DR-2/REV.2) also requests the Islamic Development Bank (IDB) to carry out this study incorporating appropriate ideas to overcome the difficulties that may arise therefrom in the light of international developments.

Against this background, the present study seeks to analyze the possible effects of the Single European Market (SEM) by 1992 and to identify some of the key policy issues, sectorial concerns and possible economic and social repercussions for the member countries of the Organization - of Islamic Conference (OIC). It is, however, felt that the integration of the SEM should be seen within the broader framework of the changes that are taking place in Eastern Europe and the USSR. As such this study also intends to examine the possible economic effects of this transformation for Islamic countries with an indication of policy options and reorientation strategy at an operational level. In this study, the policy approach is adopted at the macro-level, especially at the level of major groups of countries. At this stage, it would be difficult to pinpoint the actual magnitude of the possible effects of these changes and challenges as they are very diverse and complex and as they affect the mobility of various factors of production as well as the flow of trade, capital investment, labor migration, aid and technology transfer in several ways. This report will, therefore, deal primarily with the potential effects of the flow of trade, investment diversion and migration restriction on the various sectors of the economies of Islamic countries in particular and Third World countries in general.

This study will first deal with the problems of the internal and external adjustments of the Single European Market by 1992 and the Eastern European and USSR transformation towards a market economy. The emerging issues and sectorial concerns for Third World countries in general will then be identified. Next, an attempt will be made to provide a broad picture of the structure and characteristics of foreign trade relations between the EC and the OIC as well as of trade among OIC member countries. The objective of this attempt is to better understand the possible implications of the emergence of a new Europe and to build up an in-house strategy at the OIC level. Lastly, the question of possible options and responses in the form of a set of suggestions and recommendations at the OIC Community level will be discussed in detail, and will be followed by concluding observations.

2

THE GREAT TRANSFORMATION IN EUROPE AND ITS GLOBAL IMPLICATIONS

At this stage, it is important to say a few words about the nature of the change and the challenges of a unified Europe which may have far-reaching political, social and economic implications for the entire world. It appears that the concept of economic freedom has made a fundamental breakthrough in Europe. This is evident not only from the prospect of a Single European Market by 1992, but also from the transformation of the centrally planned economies of Eastern Europe and the USSR that is currently taking place. A widening of the EC is also evident from the fact that on October 22, 1991, the European Economic Community (EEC) and the European Free Trade Association (EFTA) reached an historic agreement on the world's largest common market, a 19-nation European Economic Area (EEA). From January 1, 1993, the newly-formed EEA will offer limitless access to its members with a market of some 380 million consumers. It is the biggest and the strongest integrated economic area in the world as explained in Appendix I. Furthermore, the ideas of the Conference on Secur'ty and Cooperation in Europe have taken on concrete form much faster than expected, and the frontiers between East and West with its bloc system also seem to be losing their significance faster than, previously, could have been imagined. Europe is gaining in importance and autonomy in development and pragmatism is replacing ideologies. The failure of the centrally-planned economic system became increasingly evident.

The traditional Soviet-style socialist economic systems which had caused production inefficiencies, sectorial imbalances and internal and external deficits are at present undergoing varying degrees of economic liberalization. The recent pursuit of economic as well as political reforms by the USSR and Eastern Europe has also, to some extent, underscored the urgent need for economic liberalization in planned economies in Asia and Africa, which have long been dependent on the USSR and Eastern Europe for most of their trade and capital requirements. It is virtually impossible to predict the pace, scope and consequences of these reform movements. The processes involved are too diverse and complex. The problems of economic adjustment and the risk of friction must not be underestimated. This is particularly true for Eastern European countries whose domestic markets, previously isolated and controlled, are now exposed to the price signals prevailing in world markets, causing structural problems and painful adjustment for both individuals and the economy as a whole. But the fact is that 'poliicymakers in the planned economies now face considerable difficulties in designing economic liberalization measures. First, the successful transformation of a planned into a market economy has no historical precedent. Second, liberalization experiences elsewhere highlight the point that governments should not undertake all liberalization measures simultaneously. Reform measures can fail and even exacerbate the existing crisis , if sequencing is wrong'.'

The fact is that there is a simultaneous need for macroeconomic stabilization and systematic reform. Everything on the reform agenda of Eastern Europe and the USSR can be considered urgent. At issue are questions about how best to manage the transition and the sequence of measures that would lead to a strong and market based supply response to sustainable growth.

The wave of liberalization, privatization and decentralization may result in a gradual shift in the direction of trade between East and West to the disadvantage of Islamic countries in several ways. The East-West intra-industrial division of labor may be stimulated by geographical closeness, external economies and wage differentials. Owing to a relatively wide network of state-supported educational and research institutions, the Eastern European need for technical assistance is also less intensive and extensive and its prospects of intra-industrial division of labor better than those of Third World countries.

Though economic reforms depend on political developments, the process of change appears to be irreversible. For Eastern Europe and the USSR, there are also military budget savings (the peace dividend) and the West is well disposed to supporting economic reforms in the USSR. 'The main stumbling blocks are, however, the decentralization of power and the issue of the private ownership of the means of production. Nevertheless, the increased competition resulting from the shift towards a market economy would profoundly affect the pattern of ownership of the means of production. In this context, it is important to note that one of the major lessons to be learned from China's experience is that decollectivization and privatization of agriculture can lead to a tremendous increase in output".[2]

Hence, it appears that economic reform in Eastern Europe and the USSR may lead to a substantial increase in output in the 1990's particularly in the agricultural sector and promote the intensive mobility of goods, services and production factors. An evaluation of the economic impact of these changes on Third World countries is very difficult. Yet, it seems that there will be an increase in specialization among producers in Western and Eastern Europe and the USSR, affecting the established hierarchy of preferences and privileges, industrial organizations, the environment, consumer protection, the exchange rate systems, etc. In addition, the recognition of the failure of the centrally planned Autarki model supports a move towards a broader European Community and a

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Asian Development Bank Outlook, Asian Development Bank (ADB), Manila, Philippines, 1991, p26.

2 Ibid., p.27

perceived trade-off favoring Eastern European countries against Asian, Latin American and the poorest African countries. October 19, **1992.**[3]

Thus, the consequences of the opening up of Eastern Europe to western industrialized nations and the rest of the world go far beyond the question of 'aid'. For the western industrialized nations, this means not just more capital investment, more financial aid and more labor mobility, but above all more personal commitment by multinational companies, as reflected in the flow of investment of venture capital, management and training know-how. Even if the economic structure of Greater Europe is still emerging, the future role of the Soviet Union remains unsettled and it is clear that the process of decentralization in the USSR may eventually lead to the establishment of a few autonomous and independent states. Thus, the EC as a model has won a de facto victory in Europe. The irreversible process of economic transformation has begun in Europe with its global implications. The key problem for Islamic countries is how to make a unified response to the adverse effects of this transformation and to manage this uncertainty.

EMERGENCE OF A SINGLE EUROPEAN MARKET BY 1992

It should be pointed out, that the single internal market of the European Economic Community by the end of 1992 would be inconceivable without accompanying efforts to secure greater economic and social cohesion within the Community.

In a way 'Europe 1992' is not such a dramatic enterprise in the sense that EC members committed themselves to take steps towards the creation of economic union, more than 30 years ago (for the original six) by signing the Treaty of Rome on January 1, 1958 (as summarized in Appendix II). 'The new impetus derives principally out of the approval of the Single European Act in 1987, which sets the 1992 target, and the adoption of qualified majority voting within the council in place of the previous unanimity requirement. Despite this impetus, considerable work will be required to put this Act into practice. This is evident from the fact that the EC Commission is now in the process of issuing at least 279 directives designed to remove existing barriers. Even if all of these are approved by 31 December 1992, they will have to be incorporated into the national laws of each of the 12 member states' October 19, 1992''. At the implementation level, bureaucratic adjustments and appeals by aggrieved companies and people to the European Court of Justice in Luxembourg, may not

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Serjio Alessandrini, 'Systematic Changes in Europe and Economic Implications for LDC's', European Journal of Development Research, Vol. 2, No.2, Frank Cass, London, December, 1990.

C. Stevens, 'The Impact of **Europe 1992** on the **South',** I.D.S. **Bulletin, Vol.** 21, No. 1 Sussex, January, 1990.

be completed by 31 December, 1992. As such, it may not be possible to make a detailed analysis of how specific measures will affect a particular Islamic country. What perhaps is possible now is to identify the types of micro and macro effects most likely to affect particular groups of countries .

'Take, for example, the common agricultural policy (CAP). At present, despite its name, there is no common policy in the sense of uninhibited trade within the Community. A highly complex system of special exchange rates and border taxes has grown up to enable some governments to pay their farmers more than others. The removal of border controls as part of '1992' will render some of the existing controls inoperable. The EC's response to this new circumstance is likely to include the closer alignment of member states' prices. This price adjustment could be upwards (which might tend to increase EC output) or downwards (with output declining); in either case, the effect on food importing and exporting in Islamic countries could be substantial".[5]

Similarly, if border controls are removed within the Community, it may lead to progressive dismantling of impediments to labor movements within the Community. It is likely to involve additional restraints on migrant workers from Islamic countries, such as Turkey and the countries of North Africa.

The impact of the dismantling of direct controls on trade, the removal of indirect barriers, and a program for monetary union would result in a number of critical issues having serious implications for OIC member countries in several ways.

As stated earlier, the European Community's economic integration is expected to deepen the economic division *vis-a-vis* third party countries, including all Islamic countries, and is expected to increase the tendencies towards protectionism. In addition, companies and workers negatively affected by disinvestment and internal competition may ask for protection from abroad. The abolition of border controls and non-tariff barriers will, it follows, inevitably put outsiders at a disadvantage. The trade diversion effect, in particular, could be harmful to some third party countries, while the suppliers from member states will enjoy easier access to their partners' markets. The harmonization of technical rules and standards and the local product content requirements are other examples of harmful effects that increase the protection of the domestic market'.'

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o **Ibid., p.50.**

o Sergio Alessandrini, op.cit., p.204.

The spread in the number of goods and services for which there are demands for higher standards would create serious informational problems particularly small or poor ones for whom the fixed informational costs are higher relative to the actual or potential trade flow. New entrants will suffer because the act of setting standards increases the barriers to entry. Developing countries will suffer because many of the products to be regulated are among their exports: toys, fireworks, plants, fruit and vegetables, fish and shellfish, and meat.'

It may noted here that until all goods are free of barriers, every shipment is expected to be checked only to ensure that it does not come under one of the remaining controls this means delays procedures and the result may create a barrier to entry at least in the short-run. This potentially, has large trade diversion effects. These controls may help large outside suppliers who supply several EC countries. This will put small suppliers at a disadvantage, constrained by the high cost of transits and transshipment. A recent report compiled by the 101-member General Agreement on Tariffs and Trade (GATT) indicated that some 50 bilateral trade pacts already restricted imports in textiles, cars, steel, electronics and shoes, often from competitive foreign suppliers and thereby distorting competition. If this approach is continued after 1992, the result would be a major threat for a multilateral trading system which is founded on the principles of nondiscrimination, transparency and undistorted competition.

A complex hierarchy of preferential arrangements has already evolved, some with blocks like the six nation European Free Trade Association and others with developing nations. The EC, the world's largest trading block which accounts for one-fifth of global commerce, is moving towards closer integration among its member states. If this is not matched by a parallel lifting of external barriers, it would hit heavily-indebted Islamic countries as well as Eastern and other East and Central European nations.

For example, EC farm policy - stimulate Community output via price supports and subsidize exports, - has distorted competition in a number of world markets. Protection of the EC textiles and clothing industry through 19 bilateral agreements curbing imports also imposed a heavy cost on EC consumers and foreign suppliers. It is estimated that the cost to consumers of protecting one worker's job in the Community's textiles and clothing industry was more than three times his wages.

GATT also reported that, the EC was one of the 'most intense users' of measures to protect produce against foreign imports that it considered had been 'dumped" at unfairly low prices. Between 1980 and 1989, it implemented 256 anti-dumping actions, of which 120 were in force in 1989. In most of these cases, foreign exporters agreed to raise their prices, and in others anti-dumping duties

' **Shela Page,** 'Why is 1992 Different?', European Journal of **Development** Research, Vol. 2, No.2, Frank Cass, London, December, 1990, p.237.

were imposed on the offending imports. If this trend continues, and it is expected to continue after 1992, it would certainly put exporters from developing countries at a disadvantage.

The Single European Market (SEM) has its impact on factors of production. The removal of formal internal restrictions on the mobility of labor and capital, may relax domestic regulations or standards. The EC is also moving towards monetary and fiscal coordination and/or union, reinforcing other improvements in market functions. In trade related services, these changes could lower the cost of all trade, if the removal of capital controls and monetary union fiscal harmonization via Value Added Tax (VAT) promotes more efficient financial and other markets.

Furthermore, the creation of the SEM in 1993 and the opening of formerly centrally planned socialist economies are likely to affect the magnitude and direction of Foreign Direct Investment (FDI) flows in the next decade. FDIs have become an increasingly important source of capital for most Islamic countries due to the reduction in commercial bank lending which followed the emergence of the 1982 debt crisis. The contributions which can accompany FDIs in terms of technology, management skills and access to markets have also been recognized by many developing countries in recent years, leading to a reshaping of the regulations affecting such flows. Furthermore, economies of scale in information on investment opportunities abroad could increase the level of Community FDI. Joint efforts to promote FDI in some regions (such as ASEAN) could lower the risks to investing firms through a Community investment guarantee instrument. On the other hand, the complete liberalization of intra-EC capital movements, together with incentives given for intra- Community firms to cooperate, could divert FDI in favor of the EC regions which currently have the most barriers (the southern countries of the Community).[8] Thus, structural changes that are taking place within Europe are likely to affect the least developed and developing Islamic countries adversely.

However, in order to attract direct foreign investment, what perhaps is needed is not a short-term special incentive package but a long-term agreement on the basis of sharing and participation in joint venture and equity projects. The special incentive schemes that include tax incentive, simplification of formalities and procedures, repatriation of profit and guarantee against non-economic risks should facilitate the implementation of joint venture projects.

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a **Alessandro Pio, 'The Impact of the 1993 Single European Market on Investment Flows between the European Community and Developing Countries. The case of Latin** America' European Journal of **Development Research, Vol. 2, No. 2,** Frank Cass, London, December, 1990, **p.22.**

POTENTIAL EXTERNAL EFFECTS

From the preceding discussion, the potential external effects of 1992 can be summarized in Table 1:°

Table 1
Potential External Effects of 1992

Positive	Negative
Trade Creation (from faster EC growth)	Trade diversion (lower costs of EC products)
Less protectionism (no national NTBs)	More protectionism (more severe Community NTBs)
More liberal trade policy (majority voting)	Less liberal trade policy (to alleviate social costs)
Investment creation (from faster EC growth)	Investment diversion (increased attractions of EC)
More cost effective aid (EC-wide procuring tying)	Lower total aid budget (less commercial incentive) (increased social fund demand)
Easier migration (removal of national barriers)	More restrictive migration (reinforcement of EC barriers)

Note: NTBs = Non Tariff Barriers.

The net direct trade impact on the outside world will be the result of interaction between positive and negative effects. To the extent that 1992 removes barriers between EC national markets resulting in faster economic growth. This may result in increased EC imports and will tend to increase the competitiveness of domestic supplies relative to imports. So the share of the EC market supplied by imports may decline. Whether or not the absolute level of imports falls depends upon whether this trade diverting effect is larger or smaller than the trade creation of faster EC economic growth. Similar considerations apply to the effects on Foreign Direct Investment (FDI) as mentioned earlier.

C. Stevens, Op.cit, p. 52.

There exits dispute among economists on the scale of the direct effects".[10] But for most Islamic countries, the indirect effects, resulting from EC political decisions, may prove to be the more important because they will influence the distribution of benefits and costs between states outside the Community.

Depending upon the strength of their political relations with EC states, some countries may be more and others less protected from the adverse effects of 1992. Moreover, apart from the New Industrialized Countries (NICs), most Third World countries will be less affected by the overall dynamics of the EC economy than by changes to the markets for specific products which represent a large bulk of their exports. Countries exporting mainly primary products will tend to be less affected (positively or negatively) than those exporting manufactured goods due to various factors (i.e., higher standards, etc). • Because of the generally higher income elasticity of demand for manufacturers, they will be more affected by the trade creation of faster EC growth, but they are also more vulnerable to trade diversion (whether from more efficient European production or from protectionism)"."

ISOLATING THE EXTERNAL EFFECTS OF 1992 ON A REGIONAL BASIS

At a macro level the potential external effects of 1992 show that a major restructuring by one of the principal traders and investors in the world economy will have the following significant effects on other countries:

(a) The sectorial effects.
(b) The macroeconomic effects.
(c) The effects of the removal of indirect barriers involving various legal and administrative measures as part of the process.
(d) The microeconomic effects of the reorientation of the EC and its members with other countries.

In this context, using the methodology of measuring trade creation and diversion effects, an analogy could be extended to 'investment creation' and 'investment diversion'. This analogy may not apply when it is extended to labor, because the mobility of labor is unlikely to be as acceptable as that of capital or even goods. "Besides, it would be too complex and time-consuming to analyze the impact of the changes following from 1992 by policy change by country or

'° Netherlands, Proceedings of Conference 'Europe 1992 **and** the Developing Countries' organized by the Netherlands Ministry of Foreign Affairs, The Hague, 6-7 October. 1990.

" C. Stevens, Op.cit, p.53.

by economic sector one-by-one and by specific product or by specific factors of production. The **objective** of 1992 (in contrast to those of the **Treaty** of **Rome)** is not just to remove obstacles, but to create a new type of market and to ensure its efficient functioning. To discuss its effects in conventional terms risks underestimating both the case-by-case results and the broader impact of the process.1[2.]

Therefore, at this stage, it would be useful to show the broad **impact** of 1992 on major Groups of Countries as summarized in Table 2 below."

Table 2
Potential Effects of 1992 for Different LDCs

Country Group	**Potential Effects**
NICs, MICs **(e.g. East Asia,** ASEAN)	Increased protectionism
Mediterranean (e.g. Algeria, Morocco, Tunisia)	Trade diversion Investment diversion Migration restriction
Latin America	Investment diversion Increased protectionism
Africa, Caribbean, Pacific (ACP)	Trade diversion Investment diversion

In this context, it may be mentioned that currently the EC has two tiers of non-tariff barriers (NTBs) to imports: Community-wide barriers, plus additional national restrictions imposed by a number of member states on some products from certain countries as permissible under Article 115 of the Treaty of Rome. This Article is expected to be inoperative as part of the 1992 exercise.

One set of illustrative figures is provided in Table 3, which lists the requests for protection under Article 115 approved by the Commission during the

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Sheila **Page, Op.cit., p.237.** ,a

Op.cit, C. Steveps, p.53.

period 1979 to 1987 according to the requesting country.[14] The list is an incomplete one, since there is a variety of other ways through which states can impose national controls, notably 'voluntary' export restraint (VER) agreements which are sometimes even negotiated on an industry-to-industry rather than government-to-government basis.[15]

Nonetheless, the table provides a useful insight into the relative incidence of national restrictions. It suggests that states that export primarily to France, Ireland and Italy have more reason to be worried about possible increased competition from the NICs and other third party exporters than do countries exporting primarily to Germany/Denmark or having a broad geographical spread.

Table 3
Article 115: Case Acceptances by Member State, 1979-87

	1979	1980	1981	198 2	1983	1984	1965	1988	1987	Total
Benelux	44	25	17	19	22	14	4	0	1	146
Denmark	3	4	0	0	0	0	0	0	2	9
France	124	105	80	85	57	39	88	87	82	685
Germany	6	1	2	2	4	0	0	0	0	15
Greece			0	0	0	0	0	0	0	0
Ireland	33	57	32	26	48	59	57	45	52	409
Italy	17	23	23	29	37	34	30	20	23	238
Portugal								0	1	1
Speln								4	13	17
United kingdom	33	7	12	13	20	19	9	5	3	122

Source: Sapir 1989.

Table 4 rearranges the data according to the type of product for which Article 115 restrictions have been requested.[16] Overwhelmingly, the most important product is textiles (including clothing) due to the most extensive set of

Sapir, A, 'Does 1992 Come before or after 1990 CEPR Discussion Paper No. 313 London, 1989.

14 Pelkmans, Jacques, 'The European Community's Trade Policy towards **Developing** Countries', in Christopher **Stevens and** Joan **Verloren van** Themaat (eds.), Europe and the International Division of **Labor, Hodder** and **Stoughton,** London, 1987.

16 **Sapir,** *A.,* op.cit

national quotas, negotiated under the framework of the Multifibre Agreement (MFA).

One element in the EC's negotiating agenda is how to cope with the removal of national quotas. For most developing countries, the crucial feature of the successor regime is the overall size of any global quota

Table 4
Article 115 Case Acceptances, by Product Category, 1979-87

	1979	1980	1981	1982	1983	1984	1985	1988	1987	Total
Textiles	199	184	120	116	131	120	119	102	105	1178
Other manufactures	59	53	43	52	49	37	45	38	49	423
Agricultural Products	2	5	3	8	8	8	12	3	3	50

Source: Sapir 1989.

The fact is that the EC will be taking decisions as part of the 1992 program which will affect the interests of Islamic countries. At present, the precise implications are uncertain. But, when the EC Commission does table detailed proposals, the window of opportunity for third parties to influence the decision is both limited and wide open at the same time.

The scope for influence is limited in the sense that, since it is an autonomous European affair. Their scope for influence is centered on any concurrent negotiations in which they are legitimate parties. These include the GATT Round of multilateral trade negotiations, the renegotiation of the Multifibre Agreement, and the EC's next Generalized System of Preference. Therefore, a start must be made now to identify those items on the agenda of potential significance to various Islamic countries and groups, to monitor their progress and to seek out opportunities for influence. Again, the scope of influence is wide in the sense that it provides a great opportunity to develop the internal capacity of the OIC Community through joint Islamic economic action.

In this context, it is important to mention that a positive effect in trade negotiations produced in the Uruguay Round may be relevant to what the experience of negotiating 1992 can offer the Third World in general and Islamic countries in particular. In this regard, the EC already has, and continues to gain, much more experience than others in introducing new areas into trade negotiations by encouraging countries to accept that previously 'purely national' parts of the economy, services, investment incentives, subsidies with international effects and government procurement, are now legitimate areas for international concern.

EMERGING SECTORIAL ISSUES AND AREAS OF POLICY CONCERN

The preceding discussion of the potential effects of diversified changes in economic and social fields has been able to identify some critical areas of sectorial concern for Third World countries which includes all Islamic countries. What is **needed, however,** is a **balanced perspective** and a discussion of the issues and problems on both sides of the EC's borders.

The identified areas of sectorial and policy concern are as follows:

3.1 INDUSTRIAL SECTOR AND FLOW OF TRADE

The EC's new approach will mandate minimum set of industrial standards and then require member countries to recognize other EC countries' standards.

Thus for example, the elimination of 12 separate standards and requirements allows Europe-wide marketing. But new European standards could exclude foreign products from all EC countries. Clearly, standards can **become** barriers to trade. The Commission has identified several high **priority areas** for the harmonization of standards, including motor vehicles, tractors and agricultural machines, food industries, pharmaceuticals, chemicals and construction.

Restrictive rules of origin and local content **requirements are also** emerging as issues of concern to Third World countries exporting to the EC market. The adoption of a restrictive import policy, export subsides and anti-dumping action among others seems to justify this criticism with respect to the higher degree **of** processing required for a product to be **considered 'European'** and, thus, eligible for duty-free circulation within the EC. This is a typical **example** which has fuelled the current belief that after 1992 a 'Fortress Europe' will emerge, denying foreign partners entry into the single market. 'A real danger in the coming years is that protectionist policies will become stronger in the three trading blocs crystallizing round the USA, Europe and Japan. Such policies might not only lead to trade wars between those blocs themselves. They would also be very damaging to the poorer countries of the Third World, in so far as these were still trying to export to the industrialized world or were still being required to do so in order to pay off their debts'." However, the prospects for the future of EC external relations with Islamic countries have to be **analyzed** in

" J. **Robertson, <u>Future</u> <u>Wealth.</u> Cassell, London, 1990, p.74.**

terms of competitiveness, not preferences, which determines the volume of market penetration at least in some industrial sectors where, in the past, the trade policy has been more an attempt to adapt the preferential **agreements** existing before the various enlargements of the EC. Now the whole system of preferences is being questioned.

3.2 AGRICULTURAL SECTOR AND FLOW OF TRADE

The Common Agricultural Policy (CAP) instituted in 1962, has allowed the EC to become more than self-sufficient in many agricultural commodities and has provided more stable incomes to the European farming population. The CAP today, however, consumes some 70% of the EC budget, and through its complicated network of protection, price supports and subsidies, has created large surpluses of many agricultural products. EC export subsidies, used to dispose of some of these surpluses, have helped to create a distorted and unstable market in agricultural commodities displacing some third-country farm exports.

The single market program will have only a small direct effect on the CAP. The harmonization of agricultural health rules for animals and plants will reduce barriers to trade among EC member countries. As the Community eliminates border controls, it must act on the taxes or subsidies levied at the frontier on agricultural trade. Furthermore, monetary harmonization should result in the elimination of the special agricultural exchange rates which have also served to protect markets from intra-EC competition.

'Agricultural subsidies represent an area of major concern for both developing countries and Eastern Europe. World farming subsidies averaged $246 billion a year in the three years 1984 to 1986. The chief offenders are the richest countries. The chief sufferers are the poorest countries. Between 1980 and 1986, farm subsidies rose from 15% to 35% of farmers' income in the USA, from 36% to 49 % in the EEC, and from 54% to 75% in Japan. The resulting reduction in food imports into those countries and the resulting increase in the export of food surpluses from them at low prices have reduced export markets for agricultural products from many Third World countries and -even worse - have seriously damaged their rural economies by reducing incentives for domestic food production'.[18]

3.3 EC GOVERNMENT PROCUREMENT POLICY

The annual value of government procurement in the EC is estimated at about $550 billion. of which roughly 20% is subject to open tendering and only

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I' J. Robertson, Op.cit. p.74.

2% awarded to non-national firms. The substantial opening of EC procurement practices by the end of 1992 is expected to extend competition into the **telecommunications,** water, energy, and transport sectors. It also **has proposed** to improve the remedies open to suppliers who believe that the contracting authority has violated their Community right to bid. An **EC restrictive content rule** of origin will be the likely vehicle used for limiting third-country competition.

3.4 FLOW OF CAPITAL AND DIRECT FOREIGN INVESTMENT

This issue has already been discussed in some detail, its impact on Islamic countries by regions will be dealt with later.

3.5 MOBILITY OF IMMIGRANT WORKERS

The Single European Act of 1985 is designed to realize the internal market, to ensure the free movement of goods, persons, services and capital. It is generally accepted that the controls at the borders of each member State will be abolished for Community citizens and that, presumably, residence controls will be abolished as well Matters relating to the free movement of persons remain subject to the unanimity rule which has been exempted from the rule of qualified majorities. This rule is not intended to extend the freedom of movement for workers, entrepreneurs, etc. to non-citizens of the Community.

The Single European Act leaves third-country immigration matters firmly in the hands of each of the 12 EC members. Another area where the lack of unified rules is causing concern is the access of immigrant workers to public sector jobs, certain restrictions resulting from excessively lengthy **procedures** and other administration conditions affecting the family reunification of immigrant workers (i.g., housing, employment requirements, etc.). This is indeed a **serious** area of concern for Islamic countries.

3.6 THE WIDENING OF EC FRONTIERS: EXTENDING THE SCOPE OF HORIZONTAL INTEGRATION

The EC by the creation of the Single European Market, is not only intensifying its vertical integration but is also in the process of **expanding** its borders (horizontal integration). Turkey, Austria and have Sweden have **applied** for full membership to the EC. EFTA countries have recently signed a **treaty** with EC with **a** wide coverage. Last but not the least, some **Eastern European** Countries (especially Poland, Czechoslovakia and Hungary) **have stated** their inclination to apply for EC membership at some point in the future. They **have** received a positive response from some of the EC countries.

Therefore, evolution in Eastern Europe has cast an entirely new light on the future of Europe. EC Market integration and expansion will remain a serious cause for concern for the OIC Community. What is then needed is a common negotiating platform at the OIC level.

At this stage, it is important to point out that the political aspects of economic integration in Europe have profound implications for Third World countries as explained below.

3.7 NATIONALISM AND ECONOMIC INTEGRATION OF EUROPE

The political challenge of economic integration arises from many historical instances. Trade follows the flag. History repeats itself. Therefore, as all of Europe is passing through a period of tremendous political and economic change, the classic bipolarity dividing the continent along capitalist and communist lines is no longer valid. The demise of the Soviet Union as a military and ideological threat will substantially alter the old security arrangements. It is likely that there will be a new NATO appropriate to the priorities of the EC.

One possible political and global security arrangement is to replace the current multipolar system with a new tripolar United States of Europe comprising the EC, the United States of America and Japan. After the changes in the **USSR** and the Gulf, USA enjoys unique military prestige without any serious opposition. The EC will become the new superpower through its economic **integration** and possible political union.

One of the gloomiest possibilities is the rise of a hegemonic division of the world by which integrated Europe may seek to dominate the Muslim countries of the Middle East and North Africa, its neighbors outside the continent.

There is also a danger of various forms of parochialism in Europe. There are ardent nationalists among the EC leaders who may come up with a slogan of **'Europe** for **Europeans'** only. Once fiscal and monetary unity is **achieved** through a single currency the EC may become more inward looking.

With .Portugal, Greece, Spain and Ireland, having less developed economies compared to other members, the EC has a 'North' and 'South' problem of its own. The poorer members of the EC will not like cheaper competition from North Africa, the Middle East and other Muslim countries. The weaker economies are likely to gain more by the anticipated monetary unification through **a** single currency.

As Europeans prepare for unity in 1992, nationalism has been rising with an accompanying upsurge in racially motivated attacks on 'foreign workers', especially from Turkey and North Africa (Algeria, Tunisia and Morocco), which, despite tightened laws and more carefully controlled borders, are willing to send thousands of immigrants to the Mediterranean's north shore.

To the extent that the EC moves towards helping Europe and the **USSR,** its commitments towards the Muslim countries of the Third World is likely to diminish. In broad terms, the interactions between the EC and the Islamic World will be a replay of the contradictions between the developed countries and the LDC's.

These issues and areas of concern are by no means exhaustive. A close review of these **key** issues will, however, generate an agenda for collective action at the OIC level. In the subsequent section, these issues will be **examined** in some detail in light of the existing realities of Islamic countries.

STRUCTURE AND PATTERN OF TRADE RELATIONS BETWEEN THE OIC AND THE EC

Since the flow of trade affects the various sectors of the economy of Islamic countries, it is perhaps in order to explain very briefly the nature and structure of the trade relationship that the EC has with the OIC Community.

OIC/EC trade relations are largely governed by various agreements concluded either bilaterally by member states or collectively in the case of regional groups such as ACP (Africa, Caribbean Islands and Pacific), GCC (the Gulf Cooperation Council) and ASEAN (Association of South East Asia Nations).

There is a need to develop a common strategy at the OIC level in dealing with the EC. Despite the fact that the EC claims to have a global approach reflected in the Lome Convention, and in so called Mediterranean agreements, it has developed its own unique pattern of trade relationship. The diversified pattern of trade relationship may be summarized as follows:

26.Countries concluded preferential agreements with the EEC; 11 Countries have signed cooperation framework agreements; 7 Countries have not yet concluded any bilateral agreements for their trade relations with the EC as per details below:

Preferential Trade Agreements Algeria, Benin, Burkina Faso, Cameroon, Comoro Islands, Egypt, Djibouti, Jordan, Gabon, Gambia, Guinea Bissau, Lebanon, Mali, Morocco, Mauritania, Niger, Senegal, Sierra Leone, Somalia, Sudan, Syria, Chad, Tunisia, Turkey and Uganda.
Non Preferential Trade Agreements Saudi Arabia, Bahrain, Bangladesh, Brunei, United Arab Emirates, Indonesia, Kuwait, Malaysia, Oman, Qatar and Yemen.
No Agreement Afghanistan, Iraq, Iran, Libya, Maldives, Pakistan, Palestine.

Source: Houki ICDT (1991).[18]

.Q **Zine El-Abidien Houki, 'The Trade Relation's between the EEC and the Members of the OIC, ICDT, Casablanca, (1991).**

As regards the structure of the OIC's foreign trade, it may be noted that in 1988, imports mainly consisted of capital goods, which came first with **32.3%** of the total, followed by manufactured products with 27.5%, food products and fuels, with a share of 16% and 13.5%, respectively, as seen below:

1988 IMPORTS PER MAIN CATEGORIES

Machinery & transport equipment	**32.3%**
Other manufactured products	**27.5%**
Agricultural & food products	**16.0%**
Fuels	**13.5%**
Textiles	6.0%
Others	**4.7%**
Total	100%

At the exports level, ten products or groups of products account for 72% of the OIC's exports. The first position is held by fuels which account for **54.4%** of the OTC's exports and represent 39% of the world exports of this product. The nine other products are wood, yarns and threads, articles made of material and hosiery, electric and electronic equipment, rubber, fruit and vegetables, fishing products, fertilizers and raw cotton. Table 5 classifies countries according to the relative importance of their exports of these products.

Table 5
Relative Importance of OIC Countries' Exports of Ten Major Products

Fishing Products	Fruit & Vegetables	Rubber	Wood	Cotton
Indonesia	Turkey	Malaysia	Malaysia	Mali
Morocco	Morocco	Indonesia	Indonesia	Benin
Mauritania	Iran		Gabon	Chad
Bangladesh	Egypt		Cameroon	Sudan
Senegal	Indonesia			Burkina Faso
Malaysia	Afghanistan			Syria
Tunisia	Tunisia			Egypt
				Cameroon
				Iran

Yarns & Threads	Ready To Wear	Fertilizers	Fuel	Electric & Electronic Equipment
Pakistan	Bangladesh	Tunisia	Saudi Arabia	Malaysia
Egypt	Tunisia	Morocco	Iraq	Turkey
Bangladesh	Turkey	Turkey	U.A.E.	Tunisia
Turkey	Morocco	Jordan	Iran	Indonesia
	Pakistan	Indonesia	Algeria	Saudi Arabia
			Indonesia	
			Libya	
			Kuwait	
			Malaysia	
			Oman	
			Brunei	
			Qatar	
			Bahrain	
			Syria	
			Gabon	
			Egypt	
			Tunisia	

Source: Houki ICDT (Oct 1991)

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20 Houki, ICDT Op.cit, (1991).

OIC/EC Trade

The EC is the first trading partner of the 01C. In 1988, it represented 26.9% of its exports and 35% of its imports. These percentages varied from one area to another. Table 6 gives a geographical distribution of trade between the EC and the OIC by major, groups of countries in terms of absolute numbers as well as percentages.

Table 6
The Trade Between the EC and the OIC by Major Group of Islamic Countries

(in Million US$)

		1975		1988		
COUNTRIES	World	EEC		World	EEC	
IMPORTS	US$	US$	%	US$	US$	%
Maghreb	13,646	8,706	63.8	25,850	15,820	61.2
Africa S/ Sahara	**2,363**	1,526	64.6	1,526	2,807	58.8
Middle East	11,384	4,759	41.8	30,202	11,235	37.2
G.C.C.	11,518	3,686	32.0	42,581	14,562	34.2
Asia	12,401	2,480	20.0	43,257	6,921	16.0
TOTAL	51,312	21,157	39.6	126,276	51,345	35.0
EXPORTS						
Maghreb	13,698	7,260	53.0	23,664	16,092	68.0
Africa S%Sahara	2,967	1,584	53.4	4,727	2,269	48.0
Middle East	31,086	11,595	37.3	25,760	9,686	37.6
G.C.C.	50,126	17,895	35.7	51,661	7,388	14.3
Asia	33,671	1,751	5.2	62,633	9,959	15.9
TOTAL	131,548	40,085	30.5	168,445	45,394	26.9

Source: Houki, ICDT 1991.[21]

The above table shows that Maghreb and Sub-Saharan Africa are the main trading partners with the EC, followed by the countries of the Middle East other than those of the GCC. Asian countries more than trebled their exports

s, Houki, ICDT, Op.cit., (1992).

between 1975 and 1988. Concerning imports, the overall downward tendency did not affect the GCC, whose exports dropped to 14.3% from the level of 35.7% in 1975. However, while the EC accounts for an important share of the 0IC's foreign trade, the OIC represents only 4% of the foreign trade of the EC. Therefore, the OIC is only a complementary market for the EC, while for a number of OIC countries, the European Market is' an outlet and a supplying source of major importance.

5

STRUCTURE AND BASIC CHARACTERISTICS OF TRADE AMONG ISLAMIC COUNTRIES

At this stage, it would be useful to say a few words about the structure and basic characteristics of trade among OIC member countries to better understand the effects of the SEM. The IDB's Annual Reports clearly show that while a significant impetus for cooperation and integration among Islamic countries comes from the volume and intensity of the trade flows among them, owing to the lack of complementarity among their economies and the inadequacy of infrastructure, and other traditional constraints, intra-trade has not reached a satisfactory level although member countries share certain common characteristics with regard to the direction and commodity composition of their foreign trade.

Table 7 shows the share of primary products in total exports in 1988. With few exceptions, primary products account for more than 50 % of the total exports of member countries. The share of primary products in imports varies considerably between countries depending on their food imports. However, the degree of concentration of their imports on manufactured goods is relatively higher, exceeding 80% in many countries.

Since member countries are exporters of primary products, their export earnings are quite volatile as a result of swings in demand and resultant price changes. What is needed is the diversification of the member countries' commodity structure, as well as the geographical concentration of their trade in their traditional market through the promotion of nontraditional exports, the development of manufacturing capacities, the penetration of new outlets, etc. The Promotion of intra-trade has considerable potential in this context. The growth in the output and export of developing countries and member countries is closely correlated with economic activities in industrialized countries. Any slowdown in the economies of the latter is reflected in the economies and export performance of OIC member countries.'

Table **8** shows that while the share in world exports of the oil-producing, low/middle income and least developed member countries was 4.5%, Z2% and 0.3% respectively during the 1980's, their imports constituted 3.2%, 2.5% and 0.5% of world imports respectively . The share of the least developed countries in total world exports displayed relative stagnation. As a result, their comparative

22 15th IDB Annual Report (1989-90), p.44.

and competitive position vis-a-vis the rest of the world has deteriorated. Some of the least developed member countries such as Afghanistan, Burkina Faso, Chad, Mali, Niger and Uganda are landlocked countries whose major commercial cities are at least 1,000 km away from the nearest port in a neighboring country. Consequently, this detracts from any comparative and competitive **advantage the** country might have in certain products.

The volume of trade among Islamic countries has been persistently low in both relative and absolute terms. Intra-trade averaged around 10% of the total merchandise trade over the period 1980-89. The corresponding figure for the year 1989 is around 10.8%, as shown in tables 9 and 10. The volume of trade among **these countries varies** directly with their total trade, both being determined by similar variables. Member countries import most of their needs from non-member countries, specifically from industrialized countries as well as from some developing countries. If oil is excluded, the volume of intra-trade would be very much less.

There are many obstacles not only to increasing trade among Islamic countries, but also to promoting the exports of goods and services to industrialized EC countries. For example, the quota restrictions against imports of textiles and garments by high income OECD countries not only restrict least developed member countries' exports and specialization, but also diminish most OIC member countries' chances of specializing in sectors in which they would have **comparative advantages.** The textile and garments exports **of** Bangladesh, Burkina Faso, Mall, Pakistan, Afghanistan, Egypt, Morocco, Tunisia, Turkey and Iran to high-income OECD countries account for more than 60% of their exports of manufactures (Table 11). A concerted effort for trade liberalization in the international arena, especially in textiles and garments, will bring extra gains through specialization and opportunities for employment in member countries. But, the export potential of OIC member countries has not been fully utilized owing to the restrictive and protectionist policies adopted by the industrialized countries that include the EC countries.

Table 7
Structure of Foreign Trade of IDB Member Countries
1988 (1408 - 1409H)

(Percentages)'

COUNTRY	EXPORTS: Fuels, Minerals and Metals	Other Primary Commodities	Textiles and Clothing	Machinery and Transport equipment	Other Manufactured Goods	All Primary Commodities	All Manufactured Goods	IMPORTS						
	1	**2**	**3**	**4**	**5**	**6 (1+2)**	**7 (3+4+5)**	**8**	**9**	10	11	12	13 (8+9+10)	14 (11+12)
Afghanistan														
Algeria	96	1	0	1	3	97	4	30	2	5	27	35	37	62
Bahrain	-	-	-	-	-	-								
Bangladesh	2	29	-	0	69	31	69	23	W	9	20	38	42	58
Benin	36	38	-	7	19	74	26	14	31	3	16	37	48	53
Brunei														
Burkina Faso	0	98	-	1	1	98	2	19	3	4	33	41	25	74
Cameroon	53	35	1	2	9	88	12	23	1	2	35	39	25	74
Chad														
Comoros														
Djibouti														
Egypt	69	12	12	0	7	81	19	19	2	8	29	41	29	70
Gabon	59	27	-	3	11	86	14	22	2	3	36	37	27	73
Gambia														
Guinea								-	-		-	-	44	56
Guinea Bissau													29	70
Indonesia	49	22	8	1	20	71	29	3	' 18	5	39	36	26	75
Iran														
Iraq														
Jordan	43	10	5	6	36	53	47	19	16	5	23	38	40	61
Kuwait	90	1	-	4	5	91	9	17	1	2	39	41	20	80
Lebanon														
Libya	99	0	-	1	1	99	2	15	1	2	33	49	18	82
Malaysia	18	37	4	26	15	55	45	15	6	5	47	**28**	26	75
Maldives														
Mali	0	70	-	1	29	70	**29**	13	16	1	**43**	**26**	30	**69**
Mauritania	32	**65**	**-**	0	2	97	2	21	5	2	**36**	36	28	72
Morocco	21	29	18	2	30	50	50	12	13	17	24	34	42	**58**
Niger	76	20	-	1	3	96	4	21	8	10	30	32	39	62
Oman	91	2	0	5	2	93	7	15	3	2	41	39	20	80
Pakistan	1	30	54	2	13	31	**69**	14	19	13	28	25	46	53
Qatar														
Saudi Arabia	90	1	-	4	5	91	9	17	1	2	34	46	20	80
Senegal	25	50	3	6	18	75	27	40	12	3	16	30	**55**	46
Sierra Leone	21	21	-	1	**58**	42	**59**	23	8	4	19	46	**35**	**65**
Somalia	0	95	-	0	5	**95**	**5**	**22**	**4**	8	**39**	27	**34**	66
Sudan	13	80	-	3	4	93	7	7	19	2	**36**	**36**	28	72
Syria	50	25	6	3	16	75	25	17	11	5	**28**	39	33	67
Tunisia	19	17	30	6	28	**36**	**64**	18	7	14	22	**39**	**39**	61
Turkey	6	30	32	7	**25**	**36**	**64**	**2**	20	8	**34**	**36**	30	70
Uganda	4	96	-	0	0	100	0	6	9	2	**45**	**38**	17	**83**
U.A. Emirates	79	4	-	0	16	**83**	16	**4**	**3**	1	**43**	**49**	8	82
Yemen Rep."	88	3	-	7	2	91	9	25	15	5	22	32	**46**	**53**

Note: **- Not available. The source document does not provide data for those countries with populations less than 1 million.**

*** Individual percentages may not add up to 100 due to rounding.**

Yemen A.R. + Yemen P.D.R.

Source: World Bank, *World Development Report,* **1990 and**

15th Islamic Development Bank Annual Report 1410H (1989-1990) p.45.

Table 8
Total Trade of Member Countries as Compared to that of Developing Countries and the World, 1980 -1989

(US $ billion)

		1980		1981		1982		1983		1984		1985		1986		1987		1988		1989	
		Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
¢ C a)C W	WORLD	1,895.5		-	-	1,720.2	-	1,681.3	-	1,786.6	-	1,811.5	-	1,978.8	-	2,353.3	-	2,707.5		-	-
	Developing countries	636.3		33.6	33.1	564.6	32.8	541.9	32.2	571.9	32.0	553.3	30.5	516.0	26.1	635.5	27.0	740.5	27.3	786.8	27.0
	Member counUies	302.2		15.9	15.2	231.9	13.5	204.8	12.2	198.0		11.1	9.9	133.7		6.8		6.9		6.3	6.9
	A. Ol7-e xporting	254.9		13.4	12.6	185.5	10.8	158.4	9.4	146.7		8.2	7.1	87.6		4.4		4.4		4.0	4.5
	B. Low/middle income	41.9		2.2	2.3	41.2	2.4	41.4	2.5	45.4	2.5	462	2.6	40.7	2.1	51.4	22	56.9	2.1	63.0	2.2
	C. Least devel oped	5.4	0.3	5.4	0.3	5.2	0.3	5.0	0.3	5.9	0.3	5.4	0.3	5.4	0.3	6.2	0.3	7.6	0.3	7.7	0.3
cc a	WORLD	1,946.4		-	-	1,793.4	-	1,738.5	-	1,849.7	-	1,890.3	-	2,063.7	-	2,433.0	-	2,793.1		-	-
	Developing countries	557.8		28.7	31.4	574.3	32.0	538.1	31.0	540.8	29.2	529.8	28.0	534.4	25.9	632.0	26.0	755.4	27.0	765.1	25.5
	Member countries	170.0		8.7	10.3	204.7	11.4	195.7	11.3	183.5	9.9	161.2	8.5	147.2	7.1	155.2	6.4	176.4	6.3	188.0	6.3
	A Oil-exporting	103.3		5.3	6.4	132.6·	7.4	122.6	7.1	107.7	5.8	88.6	4.7	77.8	3.8	77.3	3.2	91.7	3.3	97.2	32
	B. Low /middle income	53.1		2.7	3.2	60.4	3.4	62.0	3.6	64.2	3.5	60.8	3.2	58.1	2.8	65.1	2.7	70.6	2.5	75.7	2.5
	C. Least developed	13.6		0.7	0.7	11.7	0.7	11.1	0.6	11.6	0.6	11.8	0.6	11.3	0.5	12.8	0.5	14.1	0.5	15.1	0.5

Note: Percentage figures are being computed against world totals.

Source: IMF, Direction *of Trade* Statistics Yearbook, *1989 and* 1990. Exports and Imports are reported in f.o.b. and c.i.f. respectively.

The oil-exporting member countries' group comprises Algeria, Indonesia, Iran, Kuwait ,Libya, Oman, Qatar, Saudi Arabia, and United Arab Emirates.

'The least developed member countries' group includes those twenty countries so designated by the United Nations (Afghanistan, Bangladesh, Benin, Burkina Faso, Chad, Comoros, Djibouti, Gambia, Guinea, Guinea-Bisau, Maldives, Mali, Mauritania, Niger, Sierra Leone, Somalia, Sudan, Uganda, Yemen AR and Yemen PDR) as well as Senegal and 15th Islamic Development Bank Annual Report 1410H (1989-1990) p.47.

Table 9
The Flow of Trade Among Member Countries Between 1980 and 1989 (1400-1410H)

(Percentage)·

Country	Exports to member countries										Imports from member countries									
	1980	1981	1196	1983	1164	1985	1986	1987	1988	1989	198	1981	198	1983	1964	1985	1986	1987	1988	1989
Afghanistan	14.3	24.6	16.6	8.5	4.8	32	3.4	2.2	1.4	2.3	5.9	6.4	3.0	0.3	3.1	1.9	3.9	3.1	3.4	0.9
Algeria	0.0	0.5	0.4	0.3	0.5	1.9	2.6	2.8	2.4	2.3	0.7	1.3	2.0	2.6	2.7	3.0	3.7	4.7	5.9	6.0
Bahrain	38.3	31.3	40.7	332	30.7	26.3	25.4	23.0	10.9	28.9	67.7	64.9	57.3	522	48.6	52.7	44.2	45.5	48.5	50.4
Bangladesh	18.4	21.3	19.9	20.6	18.1	192	14.7	10.7	12.7	10.6	13.6	25.9	19.9	18.5	10.9	142	12.1	11.7	12.9	11.8
Benin	4.0	6.8	6.7	3.3	1.2	2.2	3.9	9.2	9.0	8.6	11.4	9.7	7.9	12.1	2.8	2.4	4.7	5.0	2.6	2.6
Brunei	1.0	0.6	0.4	0.5	0.1	0.1	0.1	0.1	0.1	0.1	4.2	5.3	4.3	4.7	4.8	4.7	3.9	8.4	5.5	6.7
Burkina Faso	2.5	5.0	32	4.0	4.7	2.4	4.2	7.1	3.9	2.9	0.8	12	1.6	1.6	2.9	3.3	2.3	2.8	2.4	2.7
Cameroon	2.6	2.3	2.7	4.9	3.0	1.2	1.6	2.1	5.0	8.3	8.6	9.1	7.8	4.4	4.5	4.8	4.7	6.8	6.4	7.6
Chad	14.0	10.9	13.9	4.2	5.1	7.0	4.4	5.8	0.9	39.5	16.4	10.3	15.0	104	9.6	9.1	12.6	12.1	10.5	19.2
Comma			-	-	-	-	12	0.0	0.0	13.7						-	7.5	6.5	17.4	11.1
Djibouti			86.6	65.2	66.8	84.3	83.3	74.6	77.9	86.0			9.1	13.7	17.1	13.5	18.0	17.8	30.6	26.9
Egypt	3.9	5.7	7.5	5.5	4.3	3.1	4.8	4.1	6.9	9.0	1.4	2.5	3.1	1.6	2.8	4.6	4.4	5.0	5.9	5.4
Gabon	2.6	2.6	2.4	3.1	0.7	2.1	3.9	1.5	2.5	2.1	4.5	3.7	3.3	3.3	4.1	14	1.4	1.7	6.7	10.9
Gambia	10.8	16.5	12.6	9.9	9.2	9.2	8.0	4.0	5.3	4.6	1.4	4.5	74	5.9	8.5	7.4	4.4	2.8	2.4	3.1
Guinea	8.9	6.6	9.2	52	5.8	7.9	9.6	9.7	9.2	5.1	3.9	3.4	3.2	4.4	4.1	5.4	2.7	4.9	6.0	5.2
Guinea Bissau	5.9	10.8	5.1	6.4	3.2	4.1	11.3	1.6	1.1	18	32	7.1	68	3.6	3.8	3.9	11.7	5.2	4.9	4.6
Indonesia	0.9	1.0	1.5	1.4	1.9	2.4	3.4	2.6	4.3	46	7.8	1.0	9.1	68	11.5	5.3	7.6	44	8.4	8.1
Iran**						-	-	-	11.6	9.1				-	-	-	-	-	10.6	13.5
Iraq	10.1	17.4	19.9	17.7	13.8	11.4	14.1	14.8	20.0	20.9	7.6	8 1	10.1	16.0	20 5	16.4	15.7	23.9	26.6	18.4
Jordan	50.4	42.9	65.8	37.1	46.4	42.7	37.1	40.7	42.8	368	19.1	209	19.8	22.5	23.1	17.9	18.1	27.5	27.3	30.3
Kuwait	13.0	12.1	23.0	20.6	16.3	16.1	15.4	14.0	19.3	16.1	5.6	7.2	8.1	6.7	5.2	63	6.1	10.7	17.9	" 5
Lebanon	69.9	65.8	10.3	662	64.3	54.1	43.9	35.6	38.1	56.8	16.0	17.6	14.8	12.1	133	17.1	16.9	22.8	12.4	14.1
Libya	1.8	5.2	6.5	7.4	8.0	1.8	9.2	4.3	2.1	2.9	2.0	4.8	45	4.4	4.3	3.9	2.1	5.4	65	9.2
Malaysia	3.4	4.3	3.9	3.6	7.3	3.7	43	4.4	60	6.0	9.2	8.2	6.1	5.4	5.6	5.3	3.5	3.6	3.8	3.0
Maldives	3.6	19.7		2.8	11.6	0.0	4.6	0.8	0.3	03	1.6	0.0	1.0	2.3	3.6	1.8	1.4	1.0	1.5	2.5
Mali	0.5	1.1	2.5	4.9	9.8	9.6	7.2	19.6	26.4	292	12.0	10.9	9.5	9.4	7.7	6.3	4.6	5.3	6.7	7.7
Mauritania	0.7	0.2	0.2	0.7	2.5	1.9	0.5	5.2	6.0	8.0	47	14.1	9.9	8.7	16.6	14.7	6.5	19.0	16.1	15.7
Morocco	63	9.1	9.8	130	12.1	11.6	7.6	10.2	9.2	11.3	207	21.5	20.9	21.0	24.7	21.4	8.4	13.1	11.0	14.3
Niger	2.3	22	0.3	0.3	18.9	2.3	2.0	1.5	1.1	1.4	11.2	5.7	3.9	2.0	4.8	4.5	2.6	2.0	2.7	3.5
Oman	0.0	0.0	0.7	1.0	0.4	1.1	1.9	0.5	1.3	0.5	17.5	20.2	23.6	22.3	21.0	19.1	25.2	29.4	23.6	24.8
Pakistan	25.8	29.9	32.5	282	25.1	22.6	19.9	172	16.9	14.9	350	35.1	35.4	32.7	33.0	30.3	18.8	22.8	21.8	24.4
Qatar	4.9	5.8	5.5	4.3	3.9	4.8	6.8	8.5	11.0	8.9	6.4	8.9	6.5	7.3	7.0	6.1	6.6	8.1	14.1	13.5
Saudi Arabia	6.4	7.5	9.8	12.8	12.9	13.8	12.3	95	13.5	11.1	5.2	3.2	5.2	5.5	5.9	6.3	6.8	6.6	7.0	8.3
Senegal	10.9	21.3	14.5	17.7	12.0	14.8	11.7	10.9	11.1	11.6	11.9	8.1	8.7	6.0	8.8	9.3	7.6	7.9	4.5	3.8
Sierra Leone	-	6.1	0.9	0.0	0.0	0.2	0.4	0.2	0.4	0.3	-	0.8	0.5	9.4	5.7	5.1	2.6	0.6	1.5	0.8
Somalia	74.8	87.7	77.1	76.3	78.9	59.7	64.1	60.1	64.5	70.5	12 5	29.2	21.5	21.8	22.2	25.4	19.7	11.9	16 3	18.7
Sudan	17.7	27.5	41.0	37.5	28.5	37.0	39.3	31.8	25.6	26.5	152	24.3	23.4	26.4	25.5	23.3	20.5	21.1	25.1	28.6
Syria	20.5	13.1	17.7	11.8	10.t	6.3	105	6.4	20.0	21.7	23.6	25.4	24.5	15.7	10.6	9.8	14.6	72	13.8	17.9
Tunisia	6.8	8.3	7.0	7.8	4.4	5.9	12.9	9.8	11.5	13.6	9.3	13.3	6.5	4.0	6.3	8.3	8.3	8.0	9.0	10.6
Turkey	25.4	36.6	35.7	29.9	28.6	28.1	23.1	25.0	38.2	26.8	24 5	34.3	34.6	29.9	22.6	16.5	14.7	11.5	20.7	18.8
Uganda	8.8	113	2.8	3.9	1.7	1.6	1.3	22	8.7	3.5	1.4	4.2	1.4	5.0	3.5	3.7	7.7	8.4	10.3	5.6
U. A.	5.1	7.0	8.1	4.9	7.3	5.2	9.3	9.6	116	8.0	14.0	12.6	14.7	13.4	10.9	10.3	10.3	8.8	13.1	14.8
Yemen Rep."			-	-	-	-	-	57.8	10.7	9.6						-		25.0	21.3	24.9
Total	6.9	8.4	10.6	10.3	10.1	6.8	10.1	9.4	11.8	10.8	11.1	10.7	11.9	112	11.3	11	9.8	103	122	12.2

* • **Percentage of intra-exports to total exports (f.o.b) and iutra-imports to total imports (cr.f).**

** ▪ **Iran became a member of the Bank in 1988.**

*** ▪ **Yemen A.R. + Yemen P,D.R.**

Source: IMF, *Direction of Trade Statistics Year book,* **1990 and previous Annual Reports of the Bank and 15th Islamic Development Bank Annual Report 1410H (1989-1990) p.55.**

Table 10
Volume of inter- and intra-trade for Member, Industrialized and Developing Countries in 1989 (1409-1410H)

(US $ billion)

EXPORT To / From	World	Industrialized countries	Developing countries	Oil-exporting	Non-oil exporting developing countries	Member countries
World	2,912.2 (100.0	2,115.9 (72.66)	737.3 (25.3)	98.3 (3.4)	639.0 (22.9)	175.9 (6.0)
Industrialized countries	2,125.4 (73.0	1,609.9 (75.7)	459.5 (21.6)	68.6 (3.2)	390.9 (18.4)	114.0 (5.4)
Developing countries	786.8 (27.0)	475.6 (60.4)	251.2 (31.9)	28.9 (3.7)	222.4 (28.3)	58.6 (7.4)
Oil-exporting countries	154.5 (5.3)	101.4 (65.6)	**46.8** **(30.3)**	3.9 **(** 2.5)	42.8 (27.7)	12.4 (8.0)
Non-oil developing countries	632.3 -(21.7)	374.1 (59.2)	204.5 (32.3)	24.9 (3.9)	179.5 (28.4)	46.4 (7.3)
Member countries	201.8 (6.9)	122.6 (60.7)	68.7 (34.6)	10.6 (5.3)	58.1 (28.8)	21.8 (10.8)

Source: Compiled and computed from *IMF,* *Direction of* ***Trade*** *Statistics* ***Yearbook,* 1990.**
The classification of countries follows the source document. Figures in bracket denote the percentage share of the corresponding values *vis-a-vis* the world total and 15th Islamic Development Bank Annual Report 1410H (1989-1990) p.48.

Table 11
OECD Imports of Manufactured Goods from IDB Member Countries: Origin and Composition

Country	Value of Imports of manufactures, by origin (US $ million)		Composition of 1988 Imports of manufactures by high-income OECD countries (percent)				
	1968	1988	Textiles and clothing	Chemicals	Electrical machinery& electronics	Transport	Other equipment
Chad'	0	1	7	1	4	0	88
Bangladesh	0	774	84	0	0	0	16
Somalia	1	5	1	2	18	10	70
Burkina Faso	30	36	62	2	1	1	34
Mali	7	33	66	13	0	0	20
Uganda	0	6	2	1	2	2	94
Niger	0	367	0	98	0	0	2
Pakistan	161	2,159	79	0	0	0	21
Benin	0	15	1	1	3	47	48
Guinea	30	133	0	38	0	0	62
Yemen	2	34	1	0	7	4	88
Indonesia	10	3,339	33	3	1	0	62
Mauritania	0	3	25	5	3	6	61
Sudan	2	18	14	8	2	24	52
Afghanistan	10	50	91	1	0	1	8
Sierra Leone	BO	69	6	0	1	0	99
Senegal	9	37	7	33	6	4	50
Egypt	28	448	62	5	2	1	31
Morocco	18	1,468	62	19	5	2	12
Cameroon	1	58	36	2	1	1	59
Tunisia	11	1,295	62	15	8	1	14
Turkey	23	4,356	71	5	2	1	21
Jordan	0	123	4	50	5	2	40
Syria	1	23	32	8	2	3	55
Malaysia	28	6,047	16	3	58	0	23
Lebanon	18	185	17	2	3	1	78
Algeria	13	239	1	21	1	18	60
Gabon	9	115	0	69	1	1	29
Oman	1	278	0	0	3	34	62
Libya	5	280	0	88	1	0	11
Iran	107	478	90	1	1	0	8
Iraq	4	133	1	9	4	13	73
Saudi Arabia	8	2,095	0	47	1	1	51
Kuwait	6	164	0	17	7	17	59
United Arab Emirates	0	366	27	22	5	2	44

- The countries have been listed according to their per capita income starting from the poorest. Source: World Bank, *World Development Report*, 1990 and 15th Islamic Development Bank Annual Report 1410H (1989-1990) p.57.

IMPACT OF A UNIFIED EUROPE ON THE OIC COMMUNITY BY REGIONS

Rapid technological progress and the growing integration of global markets have transformed the role of economic interdependence in the world. Vigorous and dynamic participation in the channels of trade and primary resource flows will, to a growing extent, determine national welfare. As the technology advances, competitive pressures keep mounting. Market size and specialization become important determinants of national and international economic and financial performance. In such a market setting, national boundaries, however hallowed on an emotional level, constitute a limitation on the size of the market and therefore, on the scope of specialization.

It should come as no surprise, therefore, that nineteen of the world's wealthiest countries in Europe have agreed, after elaborate but politically responsive discussions, to form a Single European Market (SEM) from January 1st, 1993. This has provided fresh impetus towards the eventual formation of the American Free Trade Association (AFTA) and the Pacific Basin Initiative (PBI). Each of these major trade groupings is sustained by complementarity of economic structures, geographical contiguity (and, therefore, a common geo-political identity), and a certain mutuality of national interests. Somewhat paradoxically, technological change and the pressures for the integration of markets are strengthening the case for free trade zones. Multilateralism in trade relations now seems to be relevant for OIC developing countries. The era of bilateralism in trade relations appears to be over.

IMPACT ON REGIONAL TRADE FLOW BY REGIONS

The economies of OIC member countries represent varying stages of industrial development and agricultural processing. Prospective trade diversion will affect various regions within the OIC with varying degrees of severity. Regions with a higher proportion of manufactured exports with greater content of value added will run a greater risk of a diversion of exports to the European Community. This may be either because of a diversion of demand to more efficient suppliers within the EEC or simply because of protectionism or in technical terms, the elasticities of substitution between source-differentiated imports into the European countries accessing the EEC in 1992. On the other hand, regions within the OIC that have a higher proportion of primary exports are likely to be less affected by trade diversion. The economies in the OIC, rich in natural resources and exporting resource intensive products to the EFTA and the EC are in this category. Their exports are frequently complementary to the structure of production in EFTA and EC countries. Theoretically speaking, economic integration typically raises the demand for import of complementary goods from nonmember countries.

However, the largest proportionate trade diversion would be to the disadvantage of the Maghreb group of countries. Morocco and Tunisia would be particularly affected. In the ACC group of countries, Jordan is likely to be the most acutely affected. The Sub-Saharan African countries in the OIC are likely to be affected moderately through trade diversions.

In Asian OIC member countries, the prognosis ranges from gloomy (Turkey and Pakistan) to indifferent (Indonesia, Malaysia). The non-oil OIC countries in the Mediterranean basin and in Sub-Saharan African will be harder hit, because the completion of European integration will render Spain, Portugal and Greece the major suppliers of a large range of agricultural and horticultural products which these OIC countries had traditionally exported to the EC. Non-oil Asian countries are likely to be less affected because they have always had a lower preferential status in the EC than OIC countries in the Mediterranean and African regions.

OIC members rich in oil or other industrial raw materials (e.g., tin, rubber, bauxite, phosphorus) are likely to be less adversely affected. According to one estimate, in the event that Europe reaps the entire range of dynamic efficiency gains and the benefits of full income growth, the main beneficiaries of trade creation would be the fuel exporters who are expected to capture some 80% of the potential gains. This is mainly due to the high income elasticity of demand for fuel as compared with other primary products.

IMPACT ON SECTORIAL TRADE FLOWS

Insights into the sectorial product, and where possible, level denomination of the trade diversion, will help specify target areas for OIC action.

Agricultural and horticultural products (citrus fruits, olive oil, dates, tomatoes) are likely to be major casualties. The textiles and clothing industry within the EEC and EFTA has become well integrated and highly efficient, thus minimizing dependence on imports within the main categories. With Spain and Portugal becoming full members of European integration by 1992 and if community-level quotas replace national level quotas, the textiles and clothing industry (T&C) in OIC states is bound to run into considerable trade restriction. This is because, after the complete accession by Spain and Portugal, the community-wide quota may well be significantly lower than the sum of all national quotas due to the fact that Article 115 is likely to be inoperative by 1992. Thus, there is likely to be a one-off decline in the size of the effective import demand for T&C, which will mean a collective trade diversion for the T&C exporters within the 01C. The overall impact among individual 01C countries will depend upon whether the country at hand is currently geared to the top, the middle or the bottom end of the T&C market. Also adversely affected may be OIC exports of leather goods (Morocco), sports goods (Pakistan), and building materials (Jordan).

The full impact of European integration will not be **instantaneously** felt, but will become apparent progressively. Consequently, the repercussions, gradual as they are, will have to be treated as such.

IMPACT ON THE OIC LABOR MARKETS

One of the items on the European integration agenda is the unification of the labor markets of the 19 countries of the European Economic Areas **(EEA).** The key feature of this has been the free mobility of labor. This would give rise to a complex process of adjustment of wage rates and the spatial distribution of the labor force. While the impact of this on the competitiveness of Europe's agriculture and industry would be favorable, it would very likely cause economic harm to Maghreb, Turkish and Pakistani workers in Europe.

According to one estimate, over 5 million out of the total of 7.8 million emigrants are from Islamic countries. Turkey, Algeria and Morocco are the three largest suppliers of emigrants to the EC. Remittances of these migrants constitute a very important foreign exchange source for these countries. Demographic pressure from poor Islamic countries remains one of the major problems of our times and its consequences extend far beyond the scope of migration. The basic overall solution in the long-run will have to comprise the development of new forms of cooperation that would involve large scale aid and concerted assistance directed to these countries to enable them to find domestic jobs for their migrants and, therefore, to decrease migration pressures. The common management of migratory flows in the short to medium term may also be considered as one of the components of an overall cooperation policy.

IMPACT ON THE OIC CAPITAL MARKET

European integration, by raising Europe's prospective long-term profitability associated with the growing size of its market and its efficiency in the allocation of resources, will attract private foreign investment causing a redirection of capital flows to Europe's advantage.

A country's membership in the EC has become the prime determinant of its investment rating by multinational corporations and financial institutions. With the stock and financial markets within the EC growing more competitive and securing better returns for individual investors, capital flights gravitating towards the EC are clearly in prospect.

There is a connection between the determination of the optimal location of production and marketing facilities, and the direction of private foreign investment. Put differently, changing the direction of trade flows will bring in its wake the redirection of capital flows. There is a real chance that OIC countries experiencing trade diversion may also suffer a de-establishing cutback in net private investment. The countries particularly at risk are Morocco, Tunisia, Turkey and Jordan. This would be the case because presently European capital is the major player in the market for private foreign capital in these countries.

The three OIC countries in the ASEAN (i.e. Indonesia, Malaysia and Brune) are likely to be more insulated from capital redirection. The effect on Pakistan and Bangladesh is also likely to be minimal.

For historical reason, the EC is the main source of capital flows to Africa. The concentration of European investment in Africa is found in the setting up of substitution industries as well as in exploiting natural resources, mines and extracting industries. Recently, the volume of investment has declined in favor of Asia, America and the Middle East. This decline is likely to intensify as a result of the market economy transformation that is taking place in Eastern Europe and the USSR. It appears that Eastern Europe would attract more investment from a single European market compared to investments in Third World countries. This change in the direction of investment is likely to put the West African countries of the OIC at a disadvantage.

The picture that emerges is one of a marked differentiation in the prospective capital-account performance of 01C countries. Oil exporters may make capital-account gains, while non-oil 01C countries with a larger proportion of labor-intensive manufactures and horticultural exports will suffer from capital-account strains. The potential effects of a Single European Market on OIC member countries by regions are summarized in Table 12 below:

Table 12
Potential Effects of the Single European Market by 1992 on OIC Countries by Regions

♦	OIC Member States **by** **Regional** Affiliation	**Trade** Diversion			Investment Diversion			Migration Restriction			Trade Creation
		low	medium	high	low	medium	high	low	medium	high	medium /high
1.	GCC Countries										
2.	**Mediterranean** Countries										
a	ACC Countries (Le. **Jordan)**		.								
4.	Sub-Saharan African Countries		•							.	
5.	**ASEAN**										
a	**SAARC South** Asian Countries										

Note: 1. The Mediterranean countries most adversely implicated are Morocco and Tunisia (i.e. Maghreb Group).

2. OIC countries which are ASEAN Member are Malaysia, Indonesia and Brunei.

Source: Adapted from a synthesis of the papers presented at the seminar on 'Impact of Single European Market by 1992 on OIC Member Countries' held in Casablanca, during October 29-31, 1991, organized by ICDT & IDB.

Table 12 above presents a succinct view of the regional variations in the prospective impact of the Single European Market by 1992. Several observations are pertinent at this juncture: First the Maghreb and Sub-Saharan countries will be more adversely affected, than populated South Asian Countries such as Bangladesh and Pakistan. On balance, the oil rich GCC countries are expected to make trade gains, which will favorably affect their industrialization process.

ASEAN members of the OIC e.g., (Indonesia and Malaysia) have less cause for concern than many other countries which rely on a narrow range of products. Trade diversion is unlikely to affect the primary exports of these countries as there are few European substitutes for Southeast Asian primary commodities. However, there may be some diversion of manufactured trade from Indonesia and Malaysia to Portugal, Spain and Greece which produce close substitutes. Brunei is likely to be least affected of all, as its oil exports are immune to trade diversion. In any case, much of Brunei's oil is marketed in the Asia Pacific region. Indeed, Brunei may benefit from the Single European Market as demand for its oil is expected to rise after 1992. This, however, does not mean that the **ASEAN** Islamic countries have nothing to worry about in so far as the SEM is concerned. The 'widening' of the EC, more than the deepening of integration in the EC, can cause problems as nonmembers can be crowded out in the process. Even if trade diversion is not a serious problem for the ASEAN Islamic countries, the SEM may divert investments away from these countries as Asia-Pacific investors will try to get a foothold in the SEM by investing in Western Europe at the expense of Southeast Asia.

At the same time, one should not underestimate the possible positive effects, such as the spill over or spread out effects emanating from a vibrant EC. The scope for increased intra-industry trade is likely to grow as a borderless Western Europe undergoes structural changes. The harmonization of standards, procedures, etc. within the EC should augur well as it would be easier for third countries to deal with a uniform set of rules and regulations than a multiplicity of them (although coming to grips with the new sets of rules, standards and norms is not going to be an easy task). The fact remains that the full **impact of the SEM is** likely to felt gradually. A post-integration study is definitely required.

ROLE OF THE IDB AND ITS OPERATIONAL STRATEGIES

In the context of this great transformation, it is pertinent to indicate the role which the IDB has been playing and is expected to play in the future. The IDB is the institutional expression of the economic cooperation and development of OIC member countries. Ever since its establishment in 1975, the IDB has contributed to the development process of its member countries under the clear assumption that the policies of the IDB, being a Bank of the member countries, are essentially geared to complement and supplement the efforts of its member countries in accordance with the principles of the Shari'ah.[23] In pursuance of such policies, the Bank has adopted the following five strategies:

(a) participating in various projects and trade financing and promotion activities to further develop the economic base of OIC member countries;
(b) assisting member countries in their efforts at strengthening economic cooperation both at the national and international level;
(c) maintaining consultation/coordination with various regional, sub-regional and intra-regional economic integration groups in Africa and Asia where Islamic countries are members;
(d) maintaining working relations with other international institutions of the UNO with similar objectives and mutual affiliations; and
(e) keeping an open-door policy of economic cooperation with any other institutions with similar objectives.

These strategies are intended to consolidate the gains of economic cooperation and expand the capacity and potentials of economic institutions of the member countries of the OIC, thereby contributing to the process of economic development.

In pursuance of the above mentioned strategies, by 1989, the IDB had approved more than US$ 10 billion to augment the expansion of trade, productive capacities and economic potential of the Islamic world through various financial operations and modest finance, including loans, equity participation,

23 **See, an address** by Dr. Ahmad Mohamed All, President, IDB, to the **meeting** jointly organized by Islam and the West and the French Association of Banks, held in Paris, France, in **1988.**

leasing, profit-sharing, and technical assistance covering almost all the sectors of the economy of member countries (e.g., agriculture, industry, transport and communication, public utilities and social activities).

Among other modes of financing, the IDB also employs:

(a) Import trade financing (ITFO) which emphasizes industrial raw materials and other inputs with repayments falling between **9-24** months;
(b) The Longer Term Trade Financing Scheme (LTTFS) for the promotion- of nontraditional exports with repayments falling between 2-5 years as developed under the auspices of the Standing Committee for Economic and Commercial Cooperation (COMCEC); and
(c) The Islamic Bank's Portfolio (IBP) for direct access by the private sector with repayments due in 18 months for purchase sale transactions and up to 7 years for leasing operations.

Other schemes that are at advanced stages of preparation include the Export Credit Insurance Scheme and the Multilateral Islamic Clearing Union to promote intra- trade. The IDB also shares with the Islamic Center for Development of Trade (ICDT) the task of making preparations for the Trade Information Network.

Given its resources, it should be possible for the IDB, in addition to providing funds for development projects, to play an important role in terms of:

(a) Trade financing to increase the volume of intra-Islamic trade.
(b) Countertrade among Islamic Countries;
(c) Additional Islamic financial instruments and modes of financial transactions so that funds that are available can be put to more effective and productive uses;
(d) Strengthening its research capabilities to make contributions to policy making in Islamic countries;
(e) Acquiring negotiating skill through organizing suitable training programs;
(f) Assisting member countries to come to grips with the new standards, rules and regulations arising from economic integration in Europe;
(g) Providing technical assistance for undertaking restructuring and readjustments in Islamic countries in the wake of the rapidly changing international environment, and
(h) Providing increased research support for the introduction of inter-Islamic commercial transactions coupled with Islamic norms, values, instruments and economic behavior.

SUGGESTIONS AND RECOMMENDATIONS

Recognizing the complexity and difficulty in pinpointing the actual magnitude of the impact of the Single European Market (SEM) (within a broader framework of the process of the economic and social transformation that is taking place in Eastern European countries including the USSR) on different Islamic countries of the OIC, and recognizing the urgent need for building the in-house capacity of the OIC community to overcome such difficulties on a long-term sustainable basis, this study has stressed the need for constructive dialogue and cooperation with the EC as well as the countries of the 'South' at the OIC level. The main suggestions and recommendations of the study are given below at three levels: (1) Operational, (2) Unilateral policy and (3) Cooperational.

1. OPERATIONAL LEVEL[24]

1.1 In view of the fact that different Islamic countries of the OIC community already have different types of bilateral agreements and specific protocols with the EC, it is important to draw up a common strategy at the OIC level in the negotiations and future cooperation between Islamic countries and the EC. It is also important to draw up a collective strategy at the OIC level to minimize the adverse effects of protectionism and other inequities in the existing arrangements on the economies of the Islamic World.

1.2 In light of the widening of the EC along with the deepening of economic integration within the EC, efforts should be made to ensure that the EC's single market remains open as much as possible to Islamic Countries. The EC's treatment of Eastern European countries vis-a-vis Islamic countries should be based on the principles of fairness, equity and nondiscrimination.

1.3 Efforts should be made to minimize the adverse effects resulting from the restrictions on labor mobility and so-called `foreign workers' who are predominantly from Islamic countries.

[24] Also adopted by the Seminar on **'The Impact of Single European Market by 1992 on Islamic Countries' held In Casablanca, during 29-31 October 1991, Jointly organized by ICDT and the 1DB.**

1.4 A task force should be created in early 1993 by ICDT in cooperation with the IDB and the Ankara Center to classify the approximately 279 directives to be issued by the EC commission which are designed to remove existing barriers within the EC by December 31, 1992. The incorporation of these directives into the national laws of each of the 12 EC member states, should be analyzed along with their economic and social effects on Islamic countries should be analyzed.

1.5 A meeting of the Islamic Chamber of Commerce of Islamic countries should be held as soon as possible to create awareness among all Islamic countries and to identify measures for overcoming difficulties at the operational level.

1.6 In view of the global implications of the SEM, a follow-up study covering the post integration period should be arranged on a priority basis in 1993 by ICDT in cooperation with the IDB and the Ankara Center. A seminar on 'Management of Trade in Modern Muslim Society' should also be organized.

1.7 Since Islamic countries are already members of different regional economic groups such as ASEAN in Asia, GCC in the Middle East and MAGHREB in Africa, efforts should be made at the OIC level to forge a <u>common negotiating platform</u> with the EC on trade, labor, aid and related policies and issues. In this respect, the OIC Community should cooperate and collaborate with non-member countries of the South.

1.8 Within the framework of global perspectives, the OIC should cooperate with the South which proposed sweeping changes in the rules governing international economic relations including trade and monetary reform, increasing aid, controlling multinational corporations and enacting arrangements enabling them to have access to the decision making process in major international economic institutions.

1.9 Efforts should be. made to undertake specific country-by-country studies to increase and diversify intra-trade within the OIC Community through greater liberalization, tariff concessions, bilateral and multilateral agreements and the dissemination of more specific and comprehensive market information at more frequent internals, including the exchange of information relating to customs procedures, regulations, safety standards, standardization, etc. In this context, the implementation of the Trade Preferential System among OIC member countries should be expedited.

1.10 Serious efforts should be made to increase the level of financial flows to OIC member countries so as to assist them in their economic reform efforts and to compensate them for the decrease in the inflow of external resources/aid. This should be linked to a greater self-reliance and structural reform and balancing the sustainable development with the environment. For the least developed member countries, this means the priority should be given to food security and agricultural development, especially agro-based labor intensive industries.

1.11 Efforts should be intensified to develop innovative financial instruments and Islamic capital markets for raising funds from the private sector, promoting cooperation among national development financing institutions of member countries and Islamic banks and encouraging the financing of joint venture and co-financing projects.

1.12 Conscious efforts should be made for the development of human resources through appropriate training and educational programs to improve the quality of human capital. In this context, a special fund should be created at the OIC level to promote technical cooperation, to contain the ever increasing 'brain-drain' from Islamic countries and to utilize intra-OIC expertise on an agreed preferential basis through mutual recognition of professional degrees in appropriate fields.

1.13 Technical assistance' should also be given under certain conditions for sectoral and market studies to assist in identifying investment opportunities and export-oriented projects, and for studies on complementarities and future studies of Islamic countries and institution building in OIC countries.

2. SUGGESTED UNILATERAL POLICY MEASURES AT THE OIC LEVEL

It has already been pointed out that Islamic countries may not react to the bloc formation in the EC negatively. Our response should be positive in two important ways: (a) taking up the challenge so that products from Islamic countries will become more competitive in the EC market through better resource allocation via increased cooperation among Islamic countries and (b) setting our own houses in order - eliminating inefficiencies and mismanagement in our individual economies.

There has always been a tendency to blame the external world for all our economic ailments. It is often forgotten that much can be done at home to overcome these difficulties. This observation calls for domestic policy reforms in the following areas:

2.1 Macroeconomic Policy

It is important to get the macroeconomic policy right for. Macroeconomic imbalances and instability will derail policy reforms no matter how well conceived and implemented. Conservative monetary policy, prudent fiscal policy and realistic exchange rate policies can help ensure internal and external equilibria.

2.2 Industrial Policy

The import substitution pursued in most Islamic countries should be reviewed. Industries that have shown no sign of 'growing up' should be asked to 'shape up or ship out'. Too much protection tends to breed inefficiency and inertia. Exposing domestic industries to external competition will force them to be more efficient. A reorientation of domestic industries towards export markets will also inject efficiency.

2.3 Agricultural Policy

The agricultural sector in most Islamic countries remains underdeveloped and inefficient. Again, overprotection may be the cause of inefficiency. Research and development (R&D) activities are almost nil in most Islamic countries. There is a need to reorganize in principle the agricultural sector based on the comparative advantage.

2.4 Marketization and Privatization

The excessive planning and high profile of the public sector in many Islamic countries should also be reviewed. Market forces, if given a greater leeway, can help allocate resources more efficiently. While there is certainly a legitimate role for the public sector in any economy, some public enterprises can be privatized without sacrificing their socioeconomic objectives. Liberal policies towards the private sector can stimulate investment, output and employment.

2.5 Human Resource Development

It is worth repeating that the most precious resource is the human resource - if it can be developed to the fullest. In a world of rapidly changing technology, the absorptive capacity of the Islamic World can be enhanced only through investment in human capital. It is only through this investment appropriate technology suited to the OIC Community environment can be developed. Islamic countries should therefore pay particular attention to human resource development.

3. LINES OF COOPERATION AMONG ISLAMIC COUNTRIES AT THE OIC LEVEL

While further co-operation among Islamic countries of the OIC is seen as a valid option, cooperation at the 01C level should be strengthened bearing in mind the following areas :

3.1 In addition to preferential treatment for the products of OIC members and the exchange of information, consultations among OIC countries on international issues should be held so that there can be some convergence of ideas and positions. This should help OIC countries to arrive at policy positions and improve their 'bargaining power' vis-a-vis non-Muslim countries. This, however, should not amount to confrontation of any sort.

3.2 Bloc formations in advanced countries - such as the EC - present both problems and opportunities. OIC countries should organize themselves to minimize the adverse effects and to maximize the positive effects emanating from such external developments. Opportunities in the EC and North America should be identified and the information - research findings - should be disseminated to 01C members.

3.3 While the harmonization of rules and standards in the EC will augur well for Islamic countries in the sense that they will only have to deal with one set of rules and standards in the EC instead of a multiplicity of rules and standards, it will not be easy for the average Islamic country to come to terms with such new rules. Many OIC countries do not have the skill or expertise to handle the complex set of rules and regulations that will emerge in the EC after 1992. The 01C should organize training facilities - through IRTI/IDB or ICDT - for its member countries.

3.4 Since trade and investment flows are interlinked, it is necessary to increase investment linkages among Islamic countries in order to promote intra-Islamic trade. Impediments to intra-Islamic capital flows should be phased out and positive steps should be taken to encourage investment by Islamic countries.

3.5 Economic cooperation among Islamic countries is loosely structured at present, in view of the heterogeneity of their economies which are not only geographically dispersed but are also at different stages of development. Many Islamic countries already belong to regional groupings (e.g., Malaysia in ASEAN, Pakistan in SAARC and Nigeria in ECOWAS). Such complexities do present problems, which are, however, not insurmountable.

Economic cooperation among Islamic countries need not mean the disengagement of existing regional ties. Nonetheless, Islamic countries which already belong to regional groupings may be required to extend similar privileges to other Islamic countries on an MFN basis.

3.6 Efforts should be made to provide all possible technical assistance to newly autonomous and independent Muslim republics emerging out of drastic changes in the USSR.

Although the increased economic cooperation through institutional development and the consequent evolution of the unity of the Islamic Ummah should be seen as a viable alternative and valid option for the member states of the Organization of the Islamic Conference, the increased level of economic cooperation needs to be translated into a specific action program with a clear vision of the 21st Century.

The Islamic world has about 20% of the world's population, 50% of the world's oil, and 40% of the world's exporting raw materials and other resources. The potential of the Islamic Ummah in the areas of further economic cooperation is very great indeed. This economic cooperation may not be seen as an end in itself but as a means to an end. In conventional terms, this increased economic cooperation will lead to increasing output, employment and income arising out of specialization, comparative advantage and economies of scale. It would lead to improvements in the terms of trade of the member countries concerned. While the vertical and horizontal integration of enterprises are expected to bring greater economic efficiency, increased economic cooperation brings greater economic integration. It is through the efficient management and conscious coordinated efforts of Islamic institutions in formal, informal and voluntary sectors that the forces of economic cooperation among Islamic countries can be generated at the sub-regional, regional and trans-regional levels, thereby internationalizing the production relations among the OIC Community as represented by its forty-six member states.

It is the Islamic substance in the content of economic cooperation that should make joint Islamic economic action distinctive in character. Therefore, cooperation in the field of trade, money, banking and finance needs to be linked to a vision of authentic substantiable development for a just and compassionate society within the framework of the classic declaration of Makkah Al-Mukarrarnah made at the Third Islamic Summit in 1401H (1981).

These are some of the areas where response at the OIC level can be built up in planned phases in the wake of the great transformation in East-West relations resulting from the collapse of communism and the consequent emergence of a formidable economic block in the remaking of a new Europe. As noted earlier, OIC member countries have the necessary numerical strength, resource base and cultural moorings. What is needed is the political will with a social vision of the 21st Century in conformity with the principles of Shari'ah.

CONCLUSION

The challenge of the 90's provides an opportunity to respond to the future in a more efficient and coordinated manner. As mentioned earlier, the period of changes generates the forces of uncertainty. Therefore, the need for collective action and cooperation is perhaps more important than ever before in the efficient management of this uncertainty. There is a need to give priority to establishing an Islamic action plan within this matrix of global perspectives.

In the wake of the great transformation in East-West relations, there is an urgent need to establish the direction of joint economic action by OIC member countries within the perspectives of the 21st Century. In the areas of economic cooperation, some notable progress has been made since the classic declaration of Makkah Al-Mukarramah at the Third Islamic Summit in 1401H (1981). A number of significant economic institutions have emerged, yet the task is far from complete. The new challenges of the 1990's provide new opportunities as well.

As far as the IDB is concerned, international cooperation is vital for success in promoting economic development in the Islamic world. But the task of economic unity at hand is too huge and complex for any institution, irrespective of the resources or expertise at its disposal. Furthermore, in the absence of cooperation and effective coordination, scarce resources would be wasted and there would be a great deal of duplication of efforts with its attendant inefficiency and ineffectiveness.

In this context, the lessons of experience of the integration groupings of developing countries should be carefully analyzed to avoid a duplication of efforts. It is, however, felt that there is a clear need for the consolidation of gains of economic cooperation. What is needed is a better coordination of efforts made so far. As a part of the operational strategy, there is a need for the identification of complementarities in the economies of Muslim countries for further expansion of economic cooperation. In addition, there are several other critical factors such as : (a) the widening economic gap between North and South, (b) the failure of the North-South dialogue, (c) the growing protectionist trend in the North, (d) the decrease in the flow of external resources in the developing countries of the South, (e) the increasing debt burden, and (f) the marginal effects of the integration groupings of developing countries particularly in respect of real intra-group trade liberalization. All of these must be taken into consideration in determining the new strategy and orientation.

Concerted efforts should also be made to promote the development of those OIC member countries which are least developed. There is a clear need to pool Islamic countries' resources so that joint Islamic action can be better coordinated,-not in order-to confront the East-West economic **alliance but** to protect the legitimate interest of the 46 OIC member countries (of which 21 belong to the category of least, developed countries) in order to bring about a better equilibrium for the benefit of-all mankind.

APPENDIX I

SALIENT FEATURES OF EC AND EFTA AGREEMENT AS ON 22 OCTOBER 1991

On October 22, 1991, the European Community (EC) and the **European** Free Trade Association (EFTA) reached a historic **agreement on** the **world's** biggest common market, a 19-nation European Economic Area (EEA) stretching from the Arctic to the Mediterranean. EFTA comprises Austria, Finland, Iceland, Norway, Sweden, Switzerland and Liechtenstein.

From January 1, 1993, the newly-formed EEA will offer either limitless or little-hampered access to its members with a market of some **380** million consumers.

'It is the biggest and strongest integrated economic area in the world and advantageous for both the EC and EFTA:.

Here are some key points of the treaty:

Trade In goods:

Products originating in any of the 19 EC and EFTA countries will flow freely throughout the EEA from 1993, avoiding customs duties, discriminatory domestic taxes and quotas, and with easier border controls. Goods can be stopped on the grounds of security, safety and health and the EC and EFTA must still agree on a system under which certain goods will be classified as from within or outside the EEA. The accord outlaws state monopolies. Special arrangements have been necessary for agricultural and fishery products, energy and coal and steel.

Movements of workers and service:

From 1993 individuals should be able to live, work and offer services throughout the bloc.

To help the process, EFTA will bring its social security legislation in line with that in the EC. Professional diplomas awarded in one country will be recognized throughout the area. Switzerland, which has strict limits on immigration, has received an extra five years to implement the rules fully.

Capital movement:

These will be freed up, including, banks, insurance and securities, tele-communications, information services **and transport. But there are** restrictions on investment in real estate and direct investment in EFTA countries.

Competition policy:

EFTA countries will take on board the EC's competition rules, including those on anti-trust matters, the abuse of a dominant position, public procurement, mergers and state aid. EFTA will set up a special surveillance body to ensure that companies on its territory play fairly by the rules.

EFTA will take over EC rules on company law, consumer protection, education, the environment, research and development and social policy.

Trade In farm produce:

The EEA deal means EFTA members can keep their own domestic farm policies, rather than joining the EC's common agricultural policy. Both sides will work toward a 'progressive liberalization' of agricultural trade, bearing in mind any decisions on agriculture in the Uruguay Round of talks under the General Agreement on Tariffs and Trade.

There will be reviews every two years, for the first time at the end of 1993, to seek ways of reducing trade barriers.

Trade In fisheries:

Under a last-minute deal Norway and Iceland will enjoy duty-free access to EC markets from 1993 for some fish species like cod and haddock and from 1997 for others. Norway did not manage to secure better access for more sensitive stocks like salmon, herring, mackerel and prawns. Under the accord, Spanish and Portuguese boats will be able to fish up to 11,000 metric tons of cod in Norwegian waters by 1997, a deal opposed by the Norwegian fishing industry. The accord represents only a third of what Spain originally sought.

Norway and Iceland prevented a clause allowing Spanish fishermen to invest in their fleets, even though the European Court of Justice earlier this year overturned a British law preventing Spanish fishermen from gaining British fishing quotas by registering there.

Alpine truck transit:

The EC has agreed with Austria to cut truck emissions by 60% over 12 years and with Switzerland to switch the bulk of its goods transport to railways. A host of other EC transport legislation would apply to EFTA countries, including EC rules opening the air transport sector to increased competition.

Institutional arrangements:

The common market will be managed by a special EEA council of ministers, which will meet at least once every six months, and on a day-to-day basis by a joint committee comprising civil servants from the European Commission and EFTA countries.
The two sides will also set up an independent joint court, linked to the EC's European Court of Justice in Luxembourg, which will deal with EEA-related disputes and all appeals on competition policy. Each EFTA state will nominate one judge. Plenary sessions will include five judges from the EC and three from EFTA.

Money:

EFTA agreed to pay 1.5 billion European Currency Units ($1.8 billion) in soft loans, at a 3% interest rate 'reduction from prevailing interest rates' with a two-year grace period, and 500 million ECU's ($600 million) in grants into a fund to help poorer EC members Spain, Portugal, Greece and Ireland. The money must be used to pay for environmental and educational projects.

Source: Arab News, Wednesday, Oct 23, 1991

APPENDIX - II

SUMMARY OF THE TREATY ESTABLISHING THE EUROPEAN ECONOMIC COMMUNITY (TREATY OF ROME) (EFFECTIVE FROM 1 JANUARY 1958)

PART 1: PRINCIPLES

The aim of the Community is, by establishing a Common Market and progressively approximating the economic policies of the member states, to promote throughout the Community a harmonious development of economic activities, a continuous and balanced expansion, an increased stability, an accelerated raising of the standard of living and closer relations between its member states. With these aims in view, the activities of the Community will include:

(a) the elimination between member states of customs duties and of quantitative restrictions in regard to the importation and exportation of goods, as well as of all other measures with equivalent effect;

(b) the establishment of a common customs tariff and a common commercial policy towards third countries;

(c) the abolition between member states of the obstacles to the free movement of persons, services and capital;

(d) the inauguration of a common agricultural policy;

(e) the inauguration of a common transport policy;

(f) the establishment of a system ensuring that competition shall not be distorted in the Common Market;

(g) the application of procedures that will make it possible to co-ordinate the economic policies of member states and to remedy disequilibria in their balance of payments;

(h) the approximation of their respective municipal laws to the extent necessary for the functioning of the Common Market;

() the creation of a European Social Fund in order to improve the possibilities of employment for workers and to contribute to the raising of their standard of living;

the establishment of a European Investment Bank intended to facilitate the economic expansion of the Community through the creation of new resources; and

(k) the association of overseas countries and territories with the Community with a view to increasing trade and to pursuing jointly their effort toward economic and social development.

Member states, acting in close collaboration with the institutions of the Community, shall co-ordinate their respective economic policies to the extent that is necessary to attain the objectives of the Treaty; the institutions of the Community shall take care not to prejudice the internal and external financial stability of the member states. Within the field of application of the Treaty and without prejudice to certain special provisions which it contains, any discrimination on the grounds of nationality shall be hereby prohibited.

The Common Market shall be progressively established in the course of a transitional period of 12 years. This transitional period shall be divided into three stages of four years each.

PART II: BASES OF THE COMMUNITY

Free Movement of Goods

Member states shall refrain from introducing between themselves any new import or export customs duties, or charges with equivalent effect, and from increasing such duties or charges as they apply in their commercial relations with each other. Member states shall progressively abolish between themselves all import and export customs duties, charges with an equivalent effect, and also customs duties of a fiscal nature. Independently of these provisions, any member state may, in the course of the transitional period, suspend in whole or in part the collection of import duties applied by it to products imported from other member states, or may carry out the foreseen reductions more rapidly than laid down in the Treaty if its general economic situation and the situation of the sector so concerned permit.

A common customs tariff shall be established, which, subject to certain conditions (especially with regard to the Italian tariff), shall be at the level of the arithmetical average of the duties applied in the four customs territories (i.e., France, Germany, Italy and Benelux) covered by the Community. This customs tariff shall be applied in its entirety not later than at the date of the expiry of the transitional period. Member states may follow an independent accelerating process similar to that allowed for reduction of inter-Community customs duties.

Member states shall refrain from introducing between themselves any new quantitative restrictions or measures with equivalent effect, and existing restrictions and measures shall be abolished not later than at the end of the first stage of the transitional period. These provisions shall not be an obstacle to prohibitions or restrictions in respect of importation, exportation or transit which are justified on grounds of public morality, health or safety, the protection of human or animal life or health, the preservation of plant life, the protection of national treasures of artistic, historic or archaeological value or the protection of industrial and commercial property. Such prohibitions or restrictions shall not, however, constitute either a means of arbitrary discrimination or a disguised restriction on trade between member states. Member states shall progressively adjust any state monopolies of a commercial character in such a manner as will ensure the exclusion, at the end of the transitional period, of all discrimination between the nationals of member states in regard to conditions of supply and marketing of goods. These provisions shall apply to any body by means of which a member state shall *de pre or de facto* either directly or indirectly, control or appreciably influence importation or exportation between member states, and also to monopolies assigned by the state. In the case of a commercial monopoly which is accompanied by regulations designed to facilitate the marketing or the valorization of agricultural products, it should be ensured that in the application of these provisions equivalent guarantees are provided in respect of the employment and standard of living of the producers concerned.

The obligations incumbent on member states shall be binding only to such extent as they are compatible with existing international agreements.

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ISLAMIC DEVELOPMENT BANK

Establishment

The Islamic Development Bank is an international financial institution established in pursuance of the Declaration of Intent issued by the Conference of Finance Ministers of Muslim Countries held in Jeddah in Dhul Q'adah 1393H, corresponding to December 1973. The Inaugural Meeting of the Board of Governors took place in Rajab 1395H, corresponding to July 1975, and the Bank was formally opened on 15 Shawwal 1395H corresponding to 20 October 1975.

Purpose

The purpose of the Bank is to foster the economic development and social progress of member countries and Muslim communities in non-member countries individually as well as jointly in accordance with the principles of Shari'ah i.e., Islamic Law.

Functions

The functions of the Bank are to participate in equity capital and to grant loans for productive projects and enterprises besides providing financial assistance to member countries in other forms for economic and social development. The Bank is also required to establish and operate special funds for specific purposes including a fund for assistance to Muslim communities in non-member countries, in addition to setting up trust funds.

The Bank is authorized to accept deposits and to mobilize financial resources through Shari'ah compatible modes. It is also charged with the responsibility of assisting in the promotion of foreign trade, especially in capital goods, among member countries; providing technical assistance to member countries; and extending training facilities for personnel engaged in development activities in member countries to conform to the Shari'ah.

Membership

The present membership of the Bank consists of 53 countries. The basic condition for membership is that the prospective member country should be a member of the Organization of the Islamic Conference, pay its contribution to the capital of the Bank and be willing to accept such terms and conditions as may be decided upon by the IDB Board of Governors.

Capital

Up to the end of 1412H (June 1992), the authorised capital of the Bank was two billion Islamic Dinars. (The value of the Islamic Dinar, which is the accounting unit in the Bank, is equivalent to one SDR -Special Drawing Right- of the International Monetary Fund). Since Muharram 1413H (July 1992), in accordance with a Resolution of the Board of Governors, it became six billion Islamic Dinars, divided into 600,000 shares having a par value of 10,000 Islamic Dinars each. Its subscribed capital also became four billion Islamic Dinars payable according to specific schedules and in freely convertible currency acceptable to the Bank.

Head Office and Regional Offices

The Bank's principal office is in Jeddah in the Kingdom of Saudi Arabia. Two regional offices were opened in 1994; one in Rabat, Morocco, and the other in Kuala Lumpur, Malaysia. In July 1996, the Board of Executive Directors also approved the establishment of a Regional Office at Almaty, Kazakhstan, to serve as a link between IDB member countries and Central Asian Republics. The office became operational in July 1997 and is now a full fledged Regional Office.

Financial Year

The Bank's financial year is the lunar Hijra Year.

Language

The official language of the Bank is Arabic, but English and French are additionally used as working languages.