Pakistan Economic and Social Review
Volume XLIII, No. 2 (Winter 2005), pp. 227-248

ECONOMIC INTEGRATION
Hidden Bounty for the Muslim World

RASHID A. NAEEM and RABIA NAZ*

Abstract. The article examines theoretical benefits and potentials of the formation of economic integration among the Muslim World. The degree of economic integration has often been used as a gauge of the success of economic moderate and structural adjustment policies. The Muslim World, as it stands today, is characterized by paradoxes and contradictions. Formation of economic integration among Muslim countries assumes to enhance their domestic productivity and efficacy in the international forums on global issues. It will also protect them from the external economic exploitation. In this regard, economic integration at the stage of common market is need of the hour among the Muslim countries. The efficacious economic integration among the Muslim countries considering the bounty for the Muslim World could also be valuable for the rest of the world through the generation of dynamic effects.

I. INTRODUCTION

Throughout the process of Muslim countries economic integration, there has been concern about the exploitation by the developed countries on a massive scale. The last few centuries will be remembered in the collective Muslim memory as a period of failure in the arena of economic integration. At the beginning of the new millennium, there are more than a billion Muslims living mostly in their independent states, which are grossly underdeveloped. The Muslim world finds itself politically impotent, economically weak and socially confused. Despite their resources that have fattened others, the

*The authors are Chairman and Researcher at the Department of Economics, Allama Iqbal Open University (AIOU), Sector H-8, Islamabad (Pakistan).

Muslim countries are a strange combination of power and utter helplessness. They possess all the ingredients of power, for example, wealth, vast territory, huge human potential, large armies, stocks of all sorts of most lethal and sophisticated arms, still, they can be pushed around. In spite of the political sovereignty attained by the Muslim countries, exploitation continues to crop up, although more circuitously and subtly.

Ironically, this very Muslim world, which has suffered at the hands of the developed countries, is now being projected as a threat to the developed countries. The Muslim countries as a group still operate below their potentials. They are not taking full advantage of the opportunities that the global economy has to recommend. Countries throughout the world are fortifying their economies, some by extreme modifications and others by performing laws that update existing systems. The wisdom of an exclusive economic integration is now a common discussion among Muslim countries. What is required that is to establish new traditions and reinforce the accessible ones in order to move rapidly and shorten the process of economic integration's establishment. The article is organized as follow:

Section II provides the theoretical background by discussing the theory of economic integration and its various forms. It also presents the examination of the static and dynamic effects of economic integration both for the member and non-member countries. This section also evaluates the review of literature; the research work done in this regard.

Section III considers the economic capability of the Muslim world. In this regard, the resources of the Muslim World, *i.e.* land, natural, manpower, their economic structure, etc. are analyzed. The magnitude of intra trade among the Muslim countries is also analyzed.

Finally, section IV provides the summary and conclusion. It concludes that the establishment of economic integration among the Muslim countries is the need of the time. The strong economic integration among them can built a scenario enabling them to overcome their internal and external horrible problems attached with their economy.

II. THEORETICAL CONSIDERATION

Progressive economic integration, the gradual process of reducing barriers to trade, is one of the most important forces that have shaped the post-World War II world economy. The second half of the twentieth century represents an age of integration. For the last fifty years, countries in almost all parts of the globe have been attempting to combine their separate national economies into larger economic regions. This section is devoted to examine critically the process of economic integration and its static and dynamic effects for both the member and non-member countries.

The economic integration is often represents as a process going from a preferential trade agreement to a total economic integration. The nations forming an economic integration desire to capture the economic benefits associated with the reduction of the barriers between their economies and the international economy. Economic integration involves more than simply the free flow of trade on a regional level. Groups of nations have also attempted to liberalize inter country factor movements, to establish fixed exchange rates on a regional basis and to harmonize and coordinate national fiscal and monetary policies. All of these efforts have been based on desire of the participating countries to capture the potential economic benefits associated with the formation of economic integration.

FORMS OF ECONOMIC INTEGRATION

The economic integration process among nations takes place at various forms/stages. The economic literature is rich enough in this regard. These forms/stages are examined below briefly.

Of the types of economic integration that involve liberalizations of trade between the participating nations the most limited in scope are **preferential trading agreements** (PTA). It is perhaps the simplest form of economic integration. Under PTA, participating countries reduce restrictions on trade between themselves, while maintaining a higher level of restrictions on goods imported from nations outside the agreement.

A **free trade area** is the basic form of economic integration wherein all barriers are removed on trade among members, but each member country retains its own set of trade barriers with non-members. Plessis (1987, pp. 315-316) defines a free trade area as association, which removes all tariffs and other trade impediments to trade between member countries, but each member country maintains its own level and form of protection against non-member countries.

A **custom union** represents the formal achievement towards integration and a greater surrender of economic sovereignty. Under the customs union, countries agree to get rid of all internal tariffs and other trade impediments as in the case of free trade area but additionally agree to practice common and coordinated trade policy towards the rest of the world.

A **common market** is an extension of the customs union. In addition, it attempts for the free movement of labor and capital among the members. It abolishes customs regulations and quantitative restrictions affecting their trade. In this sense, common market takes economic integration a step further by not only liberalizing trade, but also liberalizing the movement of factors of production among the member countries.

The **economic union** is the most advanced form of economic integration. Under economic union member countries agree to harmonize their economic policies. Member countries eliminate customs regulations and quantitative restrictions affecting their trade flow. As well as they apply the harmonized economic policies; the freedom of individual nations to engage in independent macroeconomic policy is diminished. An economic union not only has all the individuality of a common market, but it's the most complete form of economic integration. Further, it involves the transfer of responsibility of designing and implementing the economic policy from individual member nations to a supranational decision-making body representing all members. Such an arrangement involves the establishment of a single monetary and banking system, a unified monetary and fiscal policy and to establish an institutional framework for designing and implementing the single economic policy on behalf of the entire members of the union (the European Commission in case of European Union).

EFFECTS OF ECONOMIC INTEGRATION

For a long time it was simply taken for granted that the formation of economic integration would increase the welfare of its members. Free trade was considered as the optimum form of trade, so that any step towards free trade would be a movement towards greater welfare. This belief was somewhat shaken when Viner (1950) argued that economic integration with its discriminatory tariff changes represents both a movement towards free trade and a movement towards potentially greater protectionism through the common external trade policy. The formation of an economic integration leads two separate effects: trade creation and trade diversion. The former improves the international allocation of resources and increases the welfare while the later has the opposite effects.

As a consequence of abolishing tariffs resulting from the formation of economic integration, the home expensive products are replaced by similar low cost products within the customs union. This is the case of trade creation – the positive trade and welfare effects of customs union formation. It consists of a production effect, in the more efficient sources within the customs union thereby saving resources. This change towards a more rational pattern of international specialization improves the allocation of resources since products are produced within the customs union more efficiently. In addition, it will also have a positive welfare effect because of an increase in consumer surplus. A trade-creating customs union also increases the welfare of non-members because the increase in its real income causes spill over effect in the form of increased imports from the rest of the world (Wilson, 1990, pp. 234).

Trade diversion, on the other hand, occurs when the tariff changes that follow the creation of a creation union result in price changing in such a way as to lead member to buy goods and services produced relatively less efficiently in partner countries in place of those produced more efficiently and cheaply in non-member countries. In this instance, the source of imports is shifted from a more efficient source outside the customs union to a less efficient one within the customs union. This would be the case of trade diversion the negative trade and welfare effect of a customs union. To the extent that a customs union discriminated against non-members, it has a negative welfare effect (Williamson, 1991, pp. 180). The process of trade creation and trade diversion is illustrated in Chart 1.

The theory of customs union pioneered by Viner argues that there is no general presumption about whether a customs union or free trade area increases or decreases the real income of member countries and the world. The outcome depends on the balance between trade creation and trade diversion. For a customs union to be beneficial to participants, trade creation effect must outweigh trade diversion effect.

Although mainstream static customs union theory gives us some important insights into the economic effects of a customs union, it should be treated with certain caution for various reasons. For instance, the assumptions on which the static analysis is based are clearly somewhat less than totally realistic. Factors such as monopoly power, scale economics transport costs, information deficiencies, unemployment, adjustment costs, and non-tariff barriers are conveniently ignored. Recently, the analysis of customs union effects has shifted away from those static effects to the dynamic effects. This area of customs union theory concentrates on the effects of a customs union referring to the long-term changes occurring in the economic structure of the countries participating in customs union, rather than on the once-and-for-all effects outlined above (Johnson, 1957; Scitovsky, 1958; Balassa, 1963; and Cooper and Massell, 1965). There is some debate among economists as to what exactly constitutes a true dynamic

CHART 1

Process of Trade Creation and Trade Diversion

The formation economic integration leads towards two separate effects: trade creation and trade diversion effects. The former is the welfare increasing while the latter has the opposite effects. Thus, one can evaluate the trade effects of economic integration by comparing the relative dimensions of these two effects. Let A be the home country, B the free trade partner and C the rest of the world. It is assumed that country A and B forms a customs union, and C remains outside.

	Before Tariff Cut			After Tariff Cut		
	A	B	C	A	B	C
Production Costs	35	26	20	35	26	20
100% Tariff in A		26	20		–	20
Price in A	35	52	40	35	26	40

Before freeing of trade with country B, consumers in country A only bought and consumed the home produced goods. After establishing free trade with B, tariff free imports would reach in country A at a price lower than the home-produced goods. This will displace the home products by the low cost product within the customs union. This is the case of trade creation – the positive trade and welfare effect of customs union.

Trade diversion occurs when with the formation of economic integration tariffs are changed in such a way as to lead members to by goods and services produced relatively less efficiently in partner countries in place of those produced more efficiently and cheaply in the non-member countries. Again, the previous example can illustrate this; if the initial tariffs were 50% instead of 100%, a different situation would emerge:

	Before Tariff Cut			After Tariff Cut		
	A	B	C	A	B	C
Production Costs	35	26	20	35	26	20
100% Tariff in A	–	13	10	–	–	10
Price in A	35	39	30	35	26	30

Before the formation of a customs union demand in country A was entirely met by imports from C. After the formation of a customs union with country B, its imports would be shifted from the efficient and cheapest source C to less efficient B within the customs union due to tariff cut. This would be the case of trade diversion – the negative trade and welfare effect of a customs union.

effect. However, the explanations of dynamic effects normally include expansion of production in many sectors, reduction in unit costs, creation of new and competitive industries, faster technological progress and also benefits from internal and external economics of scale. Under these conditions, the share of investment in GNP is permanently raised and a higher growth of the economy is attained. Accordingly, the main channels through which a scheme of economic integration leads to economic gains may be regarded as the specialization of production according to comparative advantage, economics of scale arising from the potential utilization of production units due to enlarged size of the integrated market, improvement in terms of trade resulting from a stronger bargaining position in the international markets, enhanced economic efficiency brought about by intensified competition and changes in the rate of growth attributed to changes in both the quantity and quality of factors of production (Lipsy, 1975).

It is important to note that to measure the dynamic effects of a customs union is much more difficult and problematic than to measure the pure static effects. The most direct consequences of the formation of economic integration for a non-member country can be indeed a loss of market share in the member countries, resulting from trade diversion.

On the other hand, the non-member countries may be benefited by potential benefits from the formation of a customs union, such as increased output and consumption within the union, which would increase the demand for imports into the union, although such benefits will take time to materialize. In the short-run, the static effects of customs union for the non-members are expected to be of adverse nature. However, an appropriate change in the common external tariff could avoid this. Indeed, this external tariff could be adjusted in such a way that trade between the customs union and the non-member countries involves more or less the same collection and quantities of goods as before the formation of the union.

To sum up, the examination of customs union theory suggests that in a static framework, while trade creation is generally welfare improving, trade diversion need not necessarily reduce welfare. Occasionally, a customs union may generate ‘external trade creation’ resulting in an increase in imports from non-member countries. This occurs if non-member country’s goods are complementary to goods whose internal demand is increased in the union. In this case, the non-member countries exports are expected to increase as a consequence of the formation of economic integration.

REVIEW OF LITERATURE

Viner (1950) who pioneered the development of the theory of customs union examined the impact of economic integration on welfare and introduced the concept of trade creation and trade diversion. However, he made restrictive assumptions and ignored the consumption and other effects. Meade (1955) argument has received a considerable support form Lipsy (1960), who argued that the trade diversion effect of forming a custom union for complimentary countries as they will continue to import the commodities that they all have a comparative disadvantage. Johnson (1957) then added the two triangles to obtain the total welfare gain of custom unions. The main conclusion of these studies, mainly measuring the static effects, has been that if trade creation and trade expansion exceeds the trade diversion, economic integration would be welfare-promoting and *vice versa*. Empirical studies give conflict results and one cannot conclude desirability or otherwise of such groupings. The analysis presented by Viner, Mead and Lipsy has been static and it may be argued that dynamic effects may be even stronger. Consequently, the analysis of measuring the customs union's implication has shifted away from those static effects to the dynamic ones. However, the estimates of dynamic gains from economic integration have been subject to controversies as well [*see*, for example, Wonacott and Lutz (1989), Summers (1991), Baghwati (1993), Helpman (1995), Baldwin and Venables (1995), Srinivasan (1997), and Levy (1997)].

During 1980s and 1990s, most of the work in the area of economic integration has been towards examining the dynamic effects of trading blocks. Bhagwati (1993) and Bhagwati and Panagariya (1996) examined the issue on the basis of two alternative assumptions. Firstly, regional and multilateral processes do not interact and proceed independently. Second, whether the formation of regional blocs makes the success of the multilateral process more, or less likely. They concluded that regional block is an unnecessary irritation in the way of trade. Wonnacott and Lutz (1989), Summers (1991) and Krugman (1993) have espoused "Natural Trading Partner" hypothesis and concluded that more the two countries trade with each other relative to the outside world, the less likely that a union between them will be harmful. The results relating to the joint welfare of the union are, however, independent of the volume of trade. While Panagariya (1999) suggests that free trade areas tend to reduce the union's joint welfare [*see*, Vamvakidis (1998) and Clausing (2001)]. Krugman (1991, 1994) believe that economic integration between natural partners is likely to be welfare inducing, the others, including Bhagwati (1994), fear that economic integration may lead to trade diversion.

Various studies have examined the impact of trade policies by examining the trade share before and after the formation of regional blocs. Such studies implicitly assume that the share of trade with partner countries would not have changed in the absence of the agreement [*see*, Krueger (1999); Cline (1978); de la Torre and Kelly (1992); Drysdale and Garnaut (1993); Robertson (1970); Saxonhouse (1994), Rashid A. Naeem, (1994)]. More recent studies done by Brown, Deardroff and Stem (1992), Brown and Stem (1989), Haaland and Norman (19920, Frankel and Wei (1995), Frankel and Kahler (1993), Frankel (1997), Krueger (1999) used the modern econometric models to estimate the effects of economic integration on the extent of trade creation relative to trade diversion. Their results are confusing one. They have been unable to distinguish the extent of trade creation relative to trade diversion. They examined trade flows at a highly aggregate level and fail to examine the extent of trade liberalization across goods and industries with the formation of economic integration.

Because of both the trade creation and trade diversion, it is not possible to make any general statement about the welfare effects of economic integration. Whether or not the member countries and rest of the world will gain or lose from the formation of economic integration. However, it will depend on the pre- and post-tariff rates and the nature of agreements. It is argued that the generation of dynamic effects and external trade creation the trade creation will outweigh the trade diversion effects. The economic integration to be potential beneficial-trade creation must by definition be the outcome.

III. SIGNIFICANCE OF THE MUSLIM WORLD

This section examines the significance of Muslim countries in the world. There are around 56 independent Muslim countries with a population of over one billion, covering about 20% of the land area of the world enriched with natural and man power resources (*see* Table 1). Muslim countries have tremendous economic potentials; they possess 70% of the oil and account for 40% of the worlds export. Because of the marvelous geographical importance the Muslim world have also a strategic importance in the world.

RESOURCES OF THE MUSLIM WORLD

The Muslim world is abundant in natural and man power resources. These recourses cover almost their economy. Most of the Muslim countries depend on their natural recourses, which is relatively significant for the rest of the world.

TABLE 1

Countries in the Muslim World – 2002

Middle East and North Africa (18)				
Algeria	Bahrain	Egypt	Iran	Iraq
Jordan	Kuwait	Lebanon	Libya	Morocco
Oman	Qatar	Saudi Arabia	Syria	Tunisia
UAE	West Bank/ Gaza	Yemen		
South Asia (4)				
Afghanistan	Maldives	Pakistan	Bangladesh	
Europe and Eurasia (7)				
Albania	Azerbaijan	Kyrgyzstan	Tajikistan	Turkey
Turkmenistan	Uzbekistan			
East Asia and the Pacific (3)				
Brunei	Indonesia	Malaysia		
Africa (16)				
Burkina Faso	Comoros	Chad	Djibouti	Eritrea
Ethiopia	Gambia	Guinea	Mali	Mauritania
Niger	Nigeria	Senegal	Sierra Leone	Somalia
Sudan				

Source: UNDP, The Arab Human Development Report, 2002.

1. Land Resources

The Muslim word occupies vast land reserves. Because land is a basic factor of production, it may be used for increasing output. The vastness of the landmasses of the Muslim world can be understood by having a glance at statistics; for example, Chad has an area of 1,382,000 sq. km, and Saudi Arabia 2,150,000 sq. km. The list of countries included in Muslim world is given in.

2. Natural Resources

The Muslim world is rich in natural resources. The longest river of the world, the Nile (6,671 km. long), is encompassed by Muslim countries. Turkey guards the northern gateway of the Mediterranean. The Mediterranean’s eastern gateway is controlled by Egypt through Suez and port Saeed. The Mediterranean is almost 60% a Muslim lake, and the Gulf is almost 100% under Muslim countries jurisdiction.

So also is the Red Sea. There are important Muslim outposts in the Atlantic and the pacific, too. Over 50% of the known petroleum, reserves are believed to lie in the Muslim world. It also has large amounts of other natural and agricultural resources. For instance, barley (75% of the world's production [wp]), cocoa (25% of wp), copra (30% of wp), cotton (40% of wp), dates (93% of wp), natural rubber (70% of wp), rice (40% of wp), pepper (40% of wp), coat (huge reserves), natural gas (tremendous reserves), phosphate (35% of wp), tin (52% of wp), and heavy reserves of iron explored, trenched, and refined by the technically advanced Western countries. The Muslim world on its own is unable to benefit adequately from the bounties of nature (UNDP, 2002).

3. Manpower Resources

Another argument being extended for the economic cooperation of the Muslim world relates to manpower. It is noted that the population of the lower income economies of the Muslim world is large: Bangladesh (110.6 million population), Pakistan (150 million), Indonesia (181.3 million), Egypt (53.6 million) and Sudan (25.8 million). The population of the lower-middle-income countries of the Muslim world is also quite large. For example, Morocco has a population: (25.7 million), Turkey (57.3 million), Algeria (25.7 million), and Iran, (57.7 million). Overall, The Muslim world has a surplus of human resources (UNDP, 2002).

ECONOMIC STRUCTURE OF THE MUSLIM WORLD

Muslim countries' economies are based on agriculture. The share of industrial and manufacturing sectors in GDP has increased considerably over the years. Except in a few countries, the backbone of the economy is still agriculture or services. Nearly all-Muslim countries of the African continent are primarily agrarian. Some have significant services sectors, too (among those that do not are Egypt and Nigeria). The industrial contribution to the GDP accounted for around 38% and 30% in Nigeria and Egypt, respectively, which is relatively better then the rest of the continent. In the case of Nigeria, its relatively large industrial sector is attributed to an abundance of mining reserves.

The Asian Muslim countries have a lit more industrial base than the Muslim African countries, especially the members of ASEAN, Malaysia and Indonesia. The accumulated share of industrial and manufacturing sectors to GDP is 60%. In south Asian region, Pakistan and Bangladesh have recently augmented the contribution of their industrial and manufacturing sectors to GDP. In both countries, services and agriculture are the two biggest sectors, but the industrial and manufacturing sectors are sizeable, too. In terms of capital-intensiveness, financial reserves, and mining resources, the countries of the Middle Eastern region have a distinct advantage. The economic position and structured distribution of the economies of Turkey, Iran, Algeria, Morocco, Syria, and Jordan are satisfactory. In fact, in these countries prospects for further improvement are high.

Manufacturing distribution indicates that most Muslim countries have attained capable manufacturing levels in consumer products include food items, beverages, tobacco, textile and clothing. This is particularly true of Pakistan, Egypt, and the six central Asian republics, which have the abundance of cotton. Nevertheless, the technical expertise in the field of manufacturing is limited.

The Muslim world has been endowed with one of the most valuable natural resources in the modern world, *i.e.* oil. Of all proven oil reserves 65% are in the Middle East. If the known oil reserves of Muslim Africa are included, the proportion of the Muslim oil reserves rises to over 70%. The 44% of natural gas reserves are also lie in the Muslim world, of which 36% lie in the Middle East; there is an enormous abundance of energy resources in the Muslim lands. The Muslim countries Algeria, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, and United Arab Emirates are mainly endowed with oil and gas reserves.

Table 2 and 3 enlists the Muslim countries and the relative importance of their trade flows – major items imported and exported by the Muslim countries. The structure of exports and imports also sheds light on the economic structure of these countries. The structure of exports and imports of Muslim countries shows that there exists a large list of complimentary and supplementary good. It indicates the potentials for increased trade flows among the Muslim countries. The comparative advantage in the production and exports vary from country to country and commodity to commodity. This seems to be sufficient condition for the success of economic integration as suggested by the theory of customs union.

STRATEGIC IMPORTANCE OF THE MUSLIM WORLD

The Muslim belt is strategically located. It begins from Morocco and ends in Indonesia, almost touching Australia. The region can be more closely linked together by the Principal arteries of communications, *i.e.* by air, rail, road, and sea. This natural benefit gives it an overriding edge over other regions. Forty-eight Muslim countries (showed in Table 1) are located in the five geographical reigns, the Middle East and North Africa (18 countries), Europe

TABLE 2

Export Commodities of the Muslim Countries – 2002

Countries	Commodities
Afghanistan	Opium, fruits and nuts, hand-woven carpets, wool, cotton, hides and pelts, precious and semi-precious *gems*
Algeria	Petroleum, natural gas, and petroleum products 97%
Bahrain	Petroleum and petroleum products aluminum, textiles
Benin	Cotton, crude oil, palm products, cocoa
Burkina Faso	Cotton, livestock, gold
Cameroon	Crude oil and petroleum *products*, lumber, cocoa beans, aluminum, coffee, cotton
Cote d'Ivery	Cocoa, coffee, timber, petroleum, cotton, bananas, pineapples, palm oil, fish
Djibouti	Hides and skins, coffee (in transit), peanut products, fish, cotton lint, palm kernels, re-exports
Gambia	Cashew nuts, shrimp, peanuts, palm kernels, sawn lumber, Crude oil
Guinea-Bissau	Phosphates, fertilizers, potash, agricultural products, manufactures, pharmaceuticals
Indonesia	Electrical equipment, wood and wood products, palm oil
Iraq	Oil and refined products, fertilizers, crude oil
Jordan	Foodstuffs and tobacco, chemicals, precious stones, metal products
Kuwait	Petrol, natural gas, jewelry, paper products
Lebanon	Petrol, liquefied natural gas, wood and wood *products*
Malaysia	Electrical products, palm oil, rubber, textiles, chemicals
Morocco	Petroleum *products*, fruits, vegetables
Niger	Uranium ore, livestock, cowpeas, onions
Pakistan	Textiles (garments, cotton cloth, and yarn), rice, leather, sports goods, and carpets and rugs
Senegal	Fish, groundnuts (peanuts), petroleum *products*, phosphates, cotton
Sierra Leone	Diamonds, rutile, cocoa, coffee, fish
Sudan	Oil and petroleum *products*; cotton, sesame, livestock, groundnuts, gum Arabic, sugar
Suriname	Aluminum, crude oil, lumber, shrimp and fish, rice, bananas
Uganda	Coffee, fish and fish products, tea; gold, cotton, flowers, horticultural products
Uzbekistan	Ferrous and nonferrous metals, fuel and petroleum *products*, chemicals, machinery and transport equipment, *food products*
Yemen	Crude oil, coffee, dried and salted fish

Source: *World Statistics Yearbook* 2002 and *World Investment Report* 2001.

TABLE 3

Import Commodities of the Muslim Countries – 2002

Countries	Commodities
Afghanistan	Capital goods, food, textiles, petroleum products
Algeria	Capital goods, foodstuffs, consumer goods
Bahrain	Crude oil, machinery, chemicals
Benin	Foodstuffs, capital goods, petroleum products
Burkina Faso	Capital goods, foodstuffs, petroleum
Cameroon	Machinery, electrical equipment, transport equipment, fuel, food
Cote d'Ivery	Fuel, capital equipment, foodstuffs
Djibouti	Foods, beverages, transport equipment, chemicals, petroleum products
Gambia	Foodstuffs, manufactures, fuel, machinery and transport equipment
Guinea-Bissau	Foodstuffs, machinery and transport equipment, petroleum products
Iraq	Food, medicine, manufactures
Jordan	Crude oil, machinery, transport equipment, food, live animals, manufactured goods
Kuwait	Food, construction materials, vehicles and parts, clothing
Lebanon	Foodstuffs, electrical products, vehicles, minerals, chemicals, textiles, fuels
Malaysia	Electronics, machinery, petroleum products, plastics, vehicles, iron and steel products, chemicals
Morocco	Crude petroleum, textile fabric, telecommunications equipment, wheat, gas and electricity, transistors, plastics
Niger	Foodstuffs, machinery, vehicles and parts, petroleum, cereals
Pakistan	Petroleum, petroleum products, machinery, chemicals, transportation equipment, edible oils, pulses, iron an steel, tea
Senegal	Foods and beverages, capital goods, fuels
Sierra Leone	Foodstuffs, machinery and equipment, fuels and lubricants, chemicals
Sudan	Foodstuffs, manufactured goods, refinery and transport equipment, medicines and chemicals, textiles, wheat
Suriname	Capital equipment, petroleum, foodstuffs, cotton, consumer goods
Uganda	Capital equipment, vehicles, petroleum, medical supplies; cereals
UAE	Machinery and transport equipment, chemicals, food
Yemen	Food and live animals, machinery and equipment, chemicals

Source: *World Statistics Yearbook* 2002 and *World Investment Report* 2001.

TABLE 4

Intra-Trade Flows among the Muslim Countries – 2002

(Million US $)

S. #	Country	Total Imports	Imports From MC	MC's Share%	Total Exports	Exports from MC	MC's Share%
1.	Afghanistan	---	369	---	99	36	36.36
2.	Albania	1448	111	7.67	330	11	3.33
3.	Algeria	13068	1132	8.66	---	1612	---
4.	Azerbaijan	1712	478	27.92	1677	176	10.49
5.	Bahrain	3943	1580	40.07	7600	783	10.30
6.	Bangladesh	7819	869	11.11	5736	232	4.04
7.	Benin	1511	197	13.04	199	38	19.10
8.	Brunei	1636	327	19.99	3418	41	1.20
9.	Burkina Faso	641	262	40.87	171	23	13.45
10.	Cameroon	2151	443	20.60	1999	102	5.10
II.	Chad	451	53	11.75	66	10	15.15
12.	Comoros	89	10	11.24	28	0	0.00
13.	Cote d'Iviry	3056	660	21.60	4761	946	19.87
14.	Djibouti	669	179	26.76	155	138	89.03
15.	Egypt	18512	1702	9.19	6985	1023	14.65
16.	Gabon	---	90	---	36361	3281	9.02
17.	Gambia	409	71	17.36	29	4	13.79
18.	Guinea	880	163	18.52	870	91	10.46
19.	Guinea-Bissau	112	24	21.43	120	3	2.50
20.	Guyana	562	13	2.31	548	6	1.09
21.	Indonesia	41682	4832	11.59	57144	5463	9.56
22.	Iran	20937	3440	16.43	24744	2057	8.31
23.	Iraq	5522	1166	21.12	8440	1143	13.54
24.	Jordan	7226	5226	71.92	2747	1261	45.90
25.	Kazakhstan	7147	470	6.58	10911	1399	12.82
26.	Kuwait	8550	1762	20.61	15662	1976	12.62
27.	Kyrgyz Stan	587	222	37.82	486	178	36.63
28.	Lebanon	6329	1173	18.53	971	537	55.30
29.	Libya	5419	813	15.00	9877	1120	11.34
30.	Malaysia	81964	4104	5.01	87000	5692	6.54
31.	Maldives	387	95	24.55	212	5	2.36
32.	Mali	1419	383	26.99	166	22	13.25
33.	Mauritania	859	115	13.39	436	64	14.68
34.	Morocco	11881	1978	16.65	---	551	---
35.	Mozambique	1534	1	0.07	682	I	0.15
36.	Niger	395	156	39.49	156	59	37.82
37.	Nigeria	12497	755	6.04	17334	2188	12.62
38.	Oman	9290	2100	22.60	9290	509	5.48
39.	Pakistan	11238	4855	43.20	9886	2375	24.02
40.	Palestine	---	---	---	241	---	---
41.	Qatar	4055	665	16.40	11812	420	3.56
42.	Saudi Arabia	32334	3705	11.46	68064	9390	13.80

43.	Senegal	1958	335	17.11	949	286	30.14
44.	Sierra Leone	490	58	11.84	99	2	2.02
45.	Somalia	351	150	42.74	85	75	88.24
46.	Sudan	2177	503	23.11	1902	239	12.57
47.	Suriname	604	8	1.32	375	10	2.67
48.	Syria	5125	979	19.10	6868	1870	27.23
49.	Togo	941	131	13.92	304	103	33.88
50.	Tunisia	9528	875	9.18	6799	804	11.83
51.	Turkey	23278	5956	25.59	35058	4532	12.93
52.	Turkmenistan	737	15	2.04	721	245	33.98
53.	UAE	49503	4201	8.49	37648	6968	18.51
54.	Uganda	994	39	3.92	324	11	3.40
55.	Uzbekistan	2203	418	18.97	1757	375	21.34
56.	Yemen	2870	1387	48.33	3025	609	20.13
57.	Total	428680	63844	14.89	503327	61095	12.14

Source: Statistical, Economic and Social Research and Training Center for Islamic Countries (SESRTCIC), Basic Indicators for Islamic Countries 2002.
--- Data not available; MC Muslim countries

and Eurasia (7 countries), South Asia (4 countries), East Asia and Pacific (3 countries), and Sub-Saharan Africa (16 countries). The Arab world consists of (22 countries) that form Arab League.

INTRA-TRADE AMONG THE MUSLIM COUNTRIES

The magnitude of intra-trade among the Muslim Countries is marginal despite the economic integration movements like ECO, OIC, D-8, etc. and having various trade and cooperation Agreements. The examination of data presented in Table 4 shows the extent of intra-trade flows among the Muslim Countries. It presents the analysis of their trade flows both for exports and imports in value and in share percentage terms. The extent of intra-trade among them is 15% in case of imports and 12% in case of exports. There are wide fluctuations across various countries. For example, intra-imports are for Jordan 80%, for Yemen 48%, for Somalia 43%, for Bahrain, Burkina Faso, and Niger 40%. The share of Pakistan in intra-imports is also encouraging, *i.e.* 43%. Similarly, the share of intra-exports also varies significantly from country to country. It is the lowest in case of countries like, Uganda, Surename, Sierra Leone, Qatar, Niger, Maldives, Guyana, etc. Oppositely, the share of countries like, Djibuti (89%), Somalia (88%), Lebanon (55%), Kazakhstan (46%), Niger (38%), Kyrgyzstan (37%), etc. is large. The share of Pakistan in the intra-exports among the Muslim Countries is 24%. However, the data shows that there exist large potentials for increased trade flows among the Muslim Countries if their economies are well integrated.

In this regard, the intra-industry trade can playa pivotal role in promoting trade flows and enhancing the level of economic relations among the Muslim Countries. This is because this type of trade can flourish even in situations where the trade and production structures of the trading partners lack long complementarities. It results in trade expansion and dynamic scale economies. Therefore, economic integration among the Muslim Countries needs to be strengthened by devising mechanism to promote intra industry trade among them. One way to accomplish this is through sharing production arrangements that involve the initiation of part of a manufacturing process for a specified good in one country and the transfer of the activity to another country for further processing in line with their comparative advantage. This will enable the Muslim countries to enhance the pace of their economic development and achieve greater economic cooperation and integration by involving a vertically integrated intra production structure in sectors (like, leather products, textile and clothing, basic machinery, etc.) that are of economic significance in their economies. This would allow the Muslim Countries to specialize in different lines of production within a particular industry and thus achieve dynamic benefits of economic integration based on their comparative advantage.

It seems that similar comparative advantage and low trade complementarity are the main impediments to trade among the Muslim Countries. Nevertheless, other impediments such as limited capacity to generate exportable surpluses, restrictive trade policies, and political problems, passive existing trade agreements and lack of political will have also inhibited the growth of intra-trade among the Muslim Countries. However, through intra-industry trade; achieving vertical specialization; joint export marketing of competing intra-export products; deepening trade liberalization, promoting monetary and fiscal cooperation and encouraging joint industrial ventures can result in large volume of intra-trade among the Muslim Countries. But economic integration is unlikely to succeed without political harmony and convergence in economic perceptions, which are essential prerequisites for an active economic integration. The determination of Muslim Countries is also required to establish one active economic integration movement rather than to establish many passive economic integration movements side by side as is the present situation.

PAKISTAN’S TRADE RELATIONS WITH THE MUSLIM WORLD

The Islamic Republic of Pakistan is a country located in South Asia. Pakistan borders India, Iran, Afghanistan, China and the Arabian Sea. With over 150 million people, it is the sixth most populous country in the world. It is the second largest Muslim country in the world and an important member of the ECO, OIC and D-8. It is also one of the few declared nuclear weapons states.

The natural resources include land, its fertility and forests, minerals, climate, water resources, sea resources. It caused growth not only in income but also secure its economy. The total area of Pakistan is about 80 million hectares (79.6 million hectares) of which 25.2% is cultivated area, 3.6% is under forests (total 3.8%). Pakistan has now attained a diversified base of manufactures ranging from essential consumer goods to chemicals, steel, heavy engineering, machineries and industrial tools. Domestic productions of items such as refined sugar, steel, fertilizer, and cement has helped in imports substitution and has saved substantial amount of foreign exchange.

International trade plays a vital role in the economy of any country. It is considered as engine of growth and a key factor in the economic development of a country. As regards Pakistan, it has rich labour force and real resources. Pakistan's exports earnings have increased in the past few years; for example, during the 1990s its economy grew at an annual rate of 6%. Exports, however, stagnated at around $ 8 billion during the same period. However, exports crossed $ 9.2 billion in 2000-01. By the year 2001-2002, Pakistan's exports stood worth $ 11.03 billion. In the year 2002, the share of primary commodities, semi manufactures, and manufactured goods in the countries total exports was 10.9%, 18.2% and 70.3% respectively. Arab countries are Pakistan's largest trading partners. During the 1990s, Pakistan's exports to Arab countries remained stagnant about 12%. Major exportable items were, textile, Rice, fruits and vegetables, etc. Remittances about one billion Pakistani workers in the Persian Gulf have been the countries largest source of foreign exchange earnings. The trade relations of Pakistan are historically high and stable. This is also reflected with the high intra-trade flows of Pakistan with the Muslim countries. The intra-import share of Pakistan with these countries as high as 43%, while intra-export share is 24% as the Table 4 indicates.

Pakistan has been importing large items from abroad. The main items are machinery and spare parts, petroleum and products, synthetic fiber, silk yam, insecticides, plastic material, medical products, iron, steel and aluminum, rubber crud, tea, etc. (for detail, *see* Tables 2 and 3). The import bill of the above non-food items was around $ 12.18 billion in 2002. The share of consumer goods, raw materials for consumer goods and raw materials for capital goods and capital goods in the country's total imports was 13.9%, 48.7% and 5% and 28.3% respectively (*Economic Survey*, 2002-2003).

Pakistan's trading commitments with the Muslim worlds are also specified in the imports. They are the major sources of petroleum supply. Their share in the country's total imports shows increasing trends. Their share increased from 18% in 1990 to 24% in 1999. The largest share of this trade is oil, for which the Saudi Arabia, Kuwait, and UAE are the largest suppliers.

IV. SUMMARY AND CONCLUSION

The examination of economic integration theory indicates that the formation of economic integration expedites the process of economic development through trade expansion, improvement in productivity/efficiency, specialization in accordance with comparative advantage and improved quality of product, reduction in wastages. In view of the tremendous economic resources there exists potential prospects for the Muslim countries to integrate their economies. However, the Muslim countries should accept short-term costs (trade diversion) for the long-term dynamic benefits to be generated with the establishment of an active economic integration. The efficacious economic integration among the Muslim countries, at least at the stage of common market, will make substantial economic welfare gains, increasing the collective bargaining power in international issues, and achieve other non-economic national goals and avoid future exploitation.

It seems that similar comparative advantage and low trade complementarity have been the main impediments to flourish trade among the Muslim countries. Nevertheless, other impediments such as limited capacity to generate exportable surpluses, restrictive trade policies, and political problems, passive existing trade agreements and lack of political will have also inhibited the growth of intra-trade among the Muslim Countries. However, through intra-industry trade, achieving vertical specialization, joint export marketing of competing intra-export products, deepening trade liberalization, promoting monetary and fiscal cooperation and encouraging joint industrial ventures can result in a large volume of intra-trade based on comparative advantage among the Muslim Countries. But economic integration is unlikely to succeed without political harmony and convergence in economic perceptions, which are essential pre-requisites for an active economic integration. In this regard, the determination of Muslim Countries is also required to establish one active economic integration movement, at least at the stage of common market, rather than to establish many passive economic integration movements side by side as is the present situation.

REFERENCES

Bela, Balassa (1965), *Trade Liberalization and Revealed Comparative Advantage*. The Manchester School of Economics and Social Studies.

Brown and Stern (1989), US Canada bilateral tariff elimination: The role of product differentiation and market structure. In *Trade Policies for International Competitiveness*, ed. R. Feenstra. Chicago: University of Chicago Press.

Brown, Deardroff and Stern (1992), A North American free trade agreement: Analytical issues and a computational assessment. *World Economy*, Volume 15, pp. 11-19.

Baghwati (1993), Regionalism and multilateralism: An overview. In *New Dimension in Regional Integration*, eds. Jaime de Melo and Arvind Panagariya. Cambridge University Press.

Baghwati (1994), Regionalism and multilateralism: An overview. In *New Dimensions in Regional Integration*, ed. J. de Melo and A. Panagariya. Cambridge: Cambridge University Press.

Baldwin and Venables (1995), Regional economic integration. In G. Grossman and K. Rogoff (eds.), *Handbook of International Economics*, Vol. 3, Section 1.2, Elsevier Science, Amsterdam.

Bhagwati and Panagariya (1996), Preferential trading areas and multilateralism: Strangers, friends of foes? In *The Economics of Preferential Trade Agreement*, eds. Jagdish Bhagwati and Arvind Panagariya. Washington, DC: AEI Press.

Cooper and Massell (1965), A new look at customs union theory. *Economic Journal*.

Cline (1978), Benefits and costs of economic integration in Central America. In *Economic Integration in Central America*: *A Study*, ed. W. R. Cline and C. Delagado. Washington, DC: Brookings Institution.

Clausing (2001), Trade creation and trade diversion in the Canada-United States free trade agreement. *Canadian Journal of Economics*.

De la Torre and Kelly (1992), Regional trading arrangement. *IMF Occasional Papers* No. 93.

Drysdale and Garnaut (1993), The Pacific: An application of a general theory of economic integration. In *Pacific Dynamism and the International*

Economic System, ed. C. F. Bergsten and M. Noland. Washington, DC: Institute for International Economics.

Ministry of Finance, *Economic Survey*, various issues.

Frankle and Kahler (1993), *Regionalism and Rivalry*: *Japan and the US in Pacific Asia*. Chicago: University of Chicago Press.

Frankel and Wei (1995), European integration and the regionalization of world trade and currencies: Economics and politics. In *Monetary and Fiscal Policy in an Integrated Europe*, ed. B. Eichengreen *et al.* New York: Springer.

Frankel (1997), *Regional Trading Blocks in the World Economics System*. Washington, DC: Institute for International Economics.

Hodgson, S. John (1983), *International Economic Relations*. Prentice-Hall International Editions.

Haaland and Norman (1992), Global production effects of European integration. In *Trade Flows and Trade Policy after* '1992', ed. L. A. Winters. Cambridge: Cambridge University Press.

Helpman (1995), *Political and Trade Policy*. National Bureau of Economic Research Working Paper.

Johnson (1957), The European common market: Risk or opportunity? *Weltwirtschafticbes Archiv*, Vol. LXXIX.

Krugman (1991), The move toward free trade zones. In *Policy Implications of Trade and Currency Zones*: *A Symposium Sponsored by the Federal Reserve Bank of Kansas City*. Kansas City: Federal Reserve Bank of Kansas City.

Krugman (1993), Regionalism versus multilateralism: Analytical notes. In *New Dimensions in Regional Integration,* eds. Jaime de Melo and Arvid Panagariya. Cambridge, UK: Cambridge University Press.

Krugman (1994), Regionalism vs. multilateralism: Analytical notes. In *New Dimension in Regional Integration*, eds. J. De Melo and A. Panagariya. Cambridge: Cambridge University Press.

Krueger (1999), Trade creation and trade diversion under NAFTA. *NBER Working Paper*.

Lipsy (1975), The theory of customs union: Trade diversion and welfare. *Economica*, Vo1ume 24.

Levy (1997), A political economics analysis of free trade agreements. *American Economic Review*.

Meade (1955), *The Theory of Customs Union*. Amsterdam: North-Holland.

Plessis, duo SPJ (1987), *International Economics*. Butterworth Publishers (Pvt.) Ltd.

Panagariya (1999), *Preferential Trading and Welfare*: *The Small-Union Case Revisited*, mimeo, U. Maryland.

Robertson (1970), Effects of EFTA on member countries. In *Europe's Free Trade Area Experiment*, eds. H. Corbet and D. Robertson. Oxford: Pergamon Press.

Naeem, Rashid A. (1994), A Study of Pakistan's Trade and Economic Relations with the European Community in the Context of EC's Trade and Development Policies. Unpublished Ph.D. dissertation.

Scitovsky (1958), *Economic Theory and Western Europe Integration*. George Allen and Unwin, London.

Summers (1991), Regionalism and the world trading system. In *Policy Implications of Trade and Currency Zones*, Symposium sponsored by Federal Reserve Bank, Kansas City.

Saxonhouse (1994), Trading blocks and East Asia. In *New Dimensions in Regional Integration*, ed. J. De Melo and A. Panagariya. Cambridge: Cambridge University Press.

Srinivasan (1997), *Common External Tariffs of a Customs Unions*: *Alternative Approaches*. Japan World Economy.

UNDP (2002), *The Arab Human Development Report*, 2002.

Viner (1950), *The Customs Union Issues*. New York: Carnegie Endowment for International Peace.

Vamvakindis (1998), Regional integration and economic growth. *The World Bank Economic Review*.

Wonnacott and Lutz (1989), Is there a case for free trade areas? In *Free Trade Areas and US Trade Policy*, ed. Jeffrey Schott. Washington, DC: Institute for International Economy.

Wilson (1990), *International Economics*: *Theory, Evidence and Practice*. University of Warwick, UK.