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# THE ECONOMIC PERFORMANCE OF THE OIC COUNTRIES IN THE NINETIES AND POLICY OPTIONS

## Abstract

This paper examines the macroeconomic performance of the member countries of the Organization of Islamic Conference(OIC) in the decade of nineties with a focus on how they compare with other developing and developed nations. In general, we find that the OIC countries as a group are behind the developing countries, and there exists a wide disparity among the OIC member countries in terms of GDP, debt and FDI flows. The richer OIC member countries should consider setting up industries in the poorer OIC countries in order to take advantage of their locational and relative comparative advantages. Intra-OIC trade can be improved substantially by private sector investment initiatives. Regional cooperation in terms of project-oriented arrangements should pave the way to the eventual OIC common market. OIC countries should emphasize backward and forward linkages in production and investment to reap the economies of scale, to increase the size of domestic and regional markets and to deal effectively with the EC, NAFTA and APEC.

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## 1. Introduction

This paper examines the economic situation in the OIC countries during the nineties using data on OIC member countries. The paper focuses on the recent developments in the OIC countries and the interlinkages of these developments with those in the developing as well as the developed countries. It also sheds light on the meaningful co-operation among the OIC countries. A number of resources including data and publications from the World Bank, IMF, UNCTAD and SESRTCIC have been used in this paper.

The WTO Agreement, together with its annexes, establishes a more comprehensive, binding, permanent and disciplined international trade environment as compared to the earlier GATT system. The earlier GATT was only a multilateral agreement without an institutional framework, except for a small associated secretariat, known as the GATT Secretariat. The WTO has 134 member countries as of 10 February 1999. They account for more than 90 per cent of the world trade. While 37 other countries are observer governments in the WTO, 32 of them have also applied for membership. With the accession of the Kyrgyz Republic on 17 July 1998 to become the WTO's 133rd member, out of the current 56 OIC member countries, 35 countries have already become members in the WTO, while 11 others are in the process of accession.

While the developed countries are working hard to attain freer trade in goods and services on the world scale through the WTO, they are also concentrating their efforts on increasing and strengthening their regional economic and trade groupings.

Such efforts continue under the umbrella of the European Union(EU), the North American Free Trade Area(NAFTA), and the Asia Pacific Economic Co-operation(APEC). The integrity of the EU is being strengthened by the continuous efforts of its members: for one thing, the new currency, the Euro, was introduced at the beginning of 1999; for another, the Union is being enlarged by initiating accession negotiations with new members, particularly from central and eastern European countries. Even in its present form, about two thirds of the EU's foreign trade are already made within the Union. Reinforcement of these economic groupings may hamper the liberalisation efforts of world trade and economy. If members of these economic integration schemes adopt inward-looking policies, as is the case with the EU, the developing countries and the OIC countries will be influenced adversely and may face greater obstacles. For this reason, the OIC countries should also come together in a more concerted, co-ordinated and coherent manner to avoid the undesired effects of the present tendency to divide the global economy amongst the economic interest blocs of the industrial countries.

The Islamic countries are known to be a diverse group in terms of their economic structures and levels of development, political systems, ethnic backgrounds, as well as diversified socio-cultural milieu, although most of them draw on a common source, the Islam. This heterogeneity has often been taken as the major argument against the feasibility of an Islamic Common Market (ICM), where there is supposed to be free flow of products, capital, entrepreneurship, labour and technology among the members, as well as a common tariff wall against third parties. However, we believe that although

this heterogeneity creates a lot of problems, it is also a source of strength if it is positively thought of in terms of diversity and is carefully manipulated. However, desires and hopes often turn to illusions if they are not based on realities, supported with objective factors, a strong *political will* and a *commitment* to translate these objectives into a reality.

The world economy has reached the threshold of a high-technology age. The discovery of new products and processes in microelectronics brought about enormous transformations in global telecommunications and in patterns of production, organisation and management. Newly industrialising developing countries seem to be keeping pace with this environment and making better deals to increase their share in the world economy by rapidly adapting to these technological developments. The rest of the developing countries, on the other hand, may not be able to close the gap with the developed countries if they fail to adjust their economies to these new developments. In such a global economy, competitiveness, productivity, skilled labour, knowledge-based employment and management capacities are now increasingly important elements of economic growth. People, equipped with specialised education and training, and supported by the new technological facilities, will be the engines of future growth. The OIC countries are far behind other countries in terms of technological improvement.

FDI inflows were among the prime moves behind the industrial dynamism of the rapidly growing developing countries. In this context, what is crucial for outward-looking development is that FDI needs to be approached in such a manner that the developing countries' existing or potential

comparative advantage can be fostered and maximised. Like other developing countries, the OIC member countries are seeking to enhance the inflow of FDI to supplement domestic savings and investment and to benefit from the economy-wide associated gains of these financial resources. This approach is part of a broad strategy aiming at sustaining high rates of economic growth, increasing employment opportunities and improving living standards. However, in most of these countries FDI gains have not been satisfactory so far. Indeed, up to now, the OIC countries, as a substantial group of the developing countries, have attracted a small share of the total FDI flows to developing countries. Moreover, the distribution of FDI has been uneven within the OIC countries. There is a significant concentration of FDI inflows in a small number of countries. It is also noteworthy that the most needy, poor and least developed OIC countries are those which attract FDI the least.

The paper is divided into four parts. After introduction, we document the economic performance of the OIC countries in the 1990s. Section three discusses specific recommendations about how to increase FDI and meaningful economic cooperation among OIC countries. A related set of policy issues are outlined in the conclusion.

## 2. Economic Performance of the OIC Countries

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

completely different results in different countries due to the heterogeneity in economic structures.

2.1. Economic Growth of the OIC Countries

The OIC countries will be examined in 4 sub-groups in order to illustrate the developments within the OIC better. The first group is classified as the Least Developed Members of the OIC, which will be named, hereafter, as the LDC group of OIC. This group is made up of those members of the OIC which are designated as least developed by the United Nations, namely, Afghanistan, Bangladesh, Benin, Burkina Faso, Chad, Comoros, Djibouti, Gambia, Guinea, Guinea-Bissau, Maldives, Mali, Mauritania, Mozambique, Niger, Sierra Leone, Somalia, Sudan, Togo, Uganda and Yemen. The second group includes, generally, the middle-income OIC countries, which will be named, hereafter, as the middle-income (MI) group of OIC. These are Bahrain, Cameroon, Egypt, Guyana, Jordan, Lebanon, Malaysia, Morocco, Pakistan, Senegal, Surinam, Syria, Tunisia, and Turkey. The third group comprises the oil-exporting (OE) members of the OIC, namely Algeria, Brunei, Gabon, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Oman, Qatar, Saudi Arabia, and the United Arab Emirates (U.A.E.). The last group comprises the countries in transition, which will be named hereafter as the TC group of OIC. These are Albania, Azerbaijan, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan.

The real GDP growth rates of the OIC countries are given in Table 1. One striking result of this table is that OIC growth rates are lower than the developing countries average. Among the OIC countries, MI performance is better than OE, and OE

performance is better than TC. During the period under consideration, the OIC countries' total population grew at nearly 2.5 per cent per annum. When the effect of such a high rate of population growth on economic growth is taken into account, the OIC's average rate of per capita income growth turns out to be 1.0 per cent in 1994. In 1995, it increased by 1.6 per cent, then, in 1996, it further increased by 3.0 per cent. In 1997, it declined by 2.1 per cent, then dropped sharply at the end of the period under consideration to be even negative (-0.6 per cent in 1998). When these per capita GDP growth rates for the OIC countries are compared with those realised in the developing countries, a significant gap is observed against the OIC group. (Table 2)

## 2.2. Sectoral Distribution of the Output of the OIC Countries

Table 3 provides sectoral distribution of output. From this table, we see that the services sector is an important source of income in almost all the OIC countries, irrespective of their levels of income and development. Second, agriculture is observed to be an important activity mostly in the LDC group and industry in the oil-exporting group. However, the significance of industry in the oil-exporting group comes from oil production. Third, the manufacturing sector does not play a significant role in most of the OIC economies. Yet, in some OIC countries, particularly in the middle-income group, it is gaining importance.

## 2.3. Inflation of the OIC Countries

Inflation in industrial countries decreased gradually from nearly 10 per cent in the early 1980s to 5.2 per cent in 1990

and further down to 1.6 per cent in 1998 (Table 4). Inflation in developing countries reached its peak values in the late 1980s (68.1 per cent in 1990), then it declined down to 14.3 per cent in 1996, and further decreased to 9.4 per cent in 1997. Even the countries in transition, which experienced hyperinflation in the early 1990s, started recently to bring it under control. Inflation in these countries fell from more than 600 per cent level between 1992 and 1993, down to 126.9 per cent in 1995 and further down to 20.8 per cent in 1998.

### 2.4. Merchandise Exports and Imports in the OIC Countries

Tables 5 and 6 display the average rates of change in merchandise exports and imports in the OIC countries. All subgroups of OIC countries experienced positive growth in exports until 1995, after which all of them suffered deceleration in their exports (Table 5). Table 6 compares the import growth in the OIC countries with the growth in each of the other groups. Similar to the developments in the export side of the picture, the OIC countries' imports, in general, accelerated until 1995 and then started to slow down after that year. The same trend is also observed in other groups of countries. 1995 appears to be a very active year for world exports and imports. But a sharp slowing down is observed in world trade since then.

### 2.5. Current Account and Reserve Position of the OIC Countries

Table 7 summarises the current account balance and the international reserve position of the OIC countries according to the number of deficit or surplus countries and to the number of

deteriorating and improving countries, respectively. Although two thirds of the OIC countries had to cope with deficits in their current account balances, and a deterioration is, in general, expected in their reserve positions, the actual picture does not conform to this expectation. Due possibly to compensating developments in their capital accounts, less than half the OIC countries experienced deterioration in their reserves. About two thirds of the OIC countries were able to improve their foreign exchange reserves during the first four years of the period under consideration. Only in 1998, the number of improving countries declined, while the number of deteriorating countries increased. Towards the end of the period under consideration, erosion was observed in the overall foreign exchange reserves of the OIC countries.

## 2.6. Exchange Rate Variation in the OIC Countries

Table 8 gives the reaction of national currencies of the OIC countries to the international trends in the US dollar. In 1994, although the US dollar was depreciating against the major internationally convertible currencies, only the currencies of seven (out of 53) countries could appreciate against the dollar. Parallel to the sliding dollar, most currencies of the OIC countries, 36 of them, also depreciated, that is, they were also devalued against the other major international currencies. In 1995, the position of the OIC currencies was almost balanced: 23 currencies appreciated against the dollar, while 21 were depreciating, and ten remained stable. On the other hand, in 1996 when the US dollar was slightly appreciating against the major currencies, 36 currencies lost ground against it, six currencies gained, and twelve currencies remained stable. In

1997, 36 OIC currencies depreciated, 13 remained stable and only 3 currencies could appreciate against the appreciating dollar. In 1998, the situation was almost the same, with 28 OIC currencies (out of 46) depreciated, 15 remained stable and only 3 currencies could appreciate against the appreciating dollar.

### 2.7. Total Outstanding External Debt and Debt Service of the OIC Countries

Regarding the ratio of total external debt to GNP, it stood at around 68.8 to 86.2 per cent in the OIC countries between 1994 and 1996, whereas it was ranging only between 34.9 and 40.0 per cent in the case of the developing countries during the same years. The figures actually reflect the heavier burden of the external debts in the case of the OIC countries even as compared to the developing countries. However, in 1997, the debt to GNP ratio was reduced to 56.5 per cent while it increased to 37.3 per cent in the case of the developing countries. Debt is still a heavy problem for the economies of the OIC countries. Amongst the OIC groups, the debt to GNP ratio is highest in the case of the LDC group, and lowest in the TC group (Table 9).

For a more complete view of the debt problem, it is necessary to review the developments in the external debt service during the period under consideration. The high concentration of debts should not suggest that only a few OIC countries are facing serious debt problems. The least-developed, low-income OIC countries' debt problems should not be underestimated, especially because of the fact that not only their external debt burden is high compared to their national income, but they are classified as high-risk countries, facing a lot of difficulties in accessing fresh loans (Table 10).

## 2.8 Debt Restructuring in the OIC Countries

Countries in the high-income bracket, of which 11 are OIC members, seldom face problems with debt. The rest 45 (80.4 per cent) of the 56 OIC member states belong to the low and middle-income groups, the figures being 27 and 18 respectively. The OIC countries' intensity of indebtedness does not appear to coincide with their income categories. In 1997, over half (51.8 per cent) of the low-income OIC countries were not severely indebted. In reality, five countries of this group (18.5 per cent) were low indebted and 9 others (33.3 per cent) were moderately indebted. On the other hand, 10 (55.6 per cent) of the OIC middle income countries were equally split between severe and moderate indebtedness. The rest of the group members, 8 countries (44.4 per cent), were low indebted. Overall, 40 per cent of all the OIC-LDCs are severely indebted, 31.1 per cent are moderately indebted and 28.9 per cent are low indebted countries. In general, therefore, it is not unreasonable to assert that some 75 per cent of the OIC countries face a debt-related problem. We now turn to the question of determining the types and the intensity of indebtedness faced by the OIC countries (Table 11).

Of all the OIC countries, only a few middle-income countries have significantly large commercial debts. Thus, only a handful of OIC countries are involved in sizeable commercial debt restructuring, which is done mainly as rescheduling. Low-income OIC countries have a very small share of the OIC total commercial debts, and thus a minor role in commercial debt restructuring activity. However, these relatively small shares are quite significant compared to those countries' own finances. However small it may be in relation to the OIC's debt

totals, new long-term money plays an important role in concerted rescue packages in crisis situations. (Table 12)

## 2.9 Regional Flows of Foreign Direct Investment (FDI)

Recent statistics indicate that while the total value of FDI flows to developing countries amounted to US$166 billion in 1998, only US$16.4 billion went to OIC countries (almost 10 percent). This figure compares very unfavourably with the US$45.5 billion in FDI going to one single country--China. Moreover, 71.7 percent of the total value of FDI flowing to OIC countries (i.e., US$11.7 billion) went to only 11 countries (out of the total 56 member countries). Furthermore, the group of OIC middle-income countries (OIC-MICs) and the group of OIC oil-exporting countries (OIC-OECs) attracted, together, more than 77 percent of total FDI flowing to OIC countries. In contrast, the group of OIC least developed countries (OIC-LDCs) attracted only 6.7 percent, despite the fact that they (21 countries) constitute 37.5 percent of the total number of OIC member countries.

The trends in FDI of the last two decades show that the developed countries are still the main home and host countries for the world flows and stock of FDI as well as for large transnational corporations (TNCs). In the 1990s, the developed countries still accounted for over two thirds of global FDI inflows and four fifths of global outflows. On the other hand, these trends show that the flows of FDI to developing countries have risen sharply, particularly in the 1990s, as many developing countries were becoming more and more attractive destinations for such capital flows. After averaging at US$14.8 billion per annum in the period 1982-87, FDI flows to

developing countries rose to an annual average of US$35.3 billion in the period 1987-92--a more than two-fold increase (Table 13).

In terms of regional distribution, the bulk of these flows went to developing countries in Asia, particularly the region of South and East Asia. The region of Latin America and the Caribbean comes second in terms of its share in total FDI inflows to developing countries. Roughly, these two regions together attracted almost 90 percent of the FDI flows to developing countries in the 1990s, leaving the remaining 10 per cent to be shared among the rest of the developing world. It is also noteworthy that the most needy, poor and least developed countries in the region of sub-Saharan Africa were those which attracted FDI the least. (Table 14)

2.10. Flows of FDI to OIC Countries

The OIC countries, as a substantial group of the world developing countries, have attracted a small share of the total FDI flowing to developing countries. FDI flows to OIC countries accounted for around 20 percent per annum of the total FDI flows to developing countries in the 1980s. However, after the slight increase in the early 1990s, the trend was dramatically reversed in the second half of the decade. Subsequently, the trend reached its slump in 1998 due to the unfavourable contagion effects emanating from the Asian financial crisis after mid-1997. The two major OIC countries attracting the bulk of FDI flows to OIC countries over the last two decades–Indonesia and Malaysia–were among the Asian countries that felt the brunt of the crisis. As a result, while the total value of FDI flowing to developing countries amounted to

US$166 billion in 1998, only US$16.4 billion went to OIC countries (almost 10 per cent). This figure compares very unfavourably with the US$45.5 billion in FDI going to one single country--China. (Tables 15 and 16)

Another observation in terms of the distribution of FDI inflows in the OIC countries is that there is also a significant concentration of FDI flows in certain groups within the OIC countries. The group of OIC middle income countries (OIC-MICs) and the group of OIC oil-exporting countries (OIC-OECs) attracted, together, more than 90 per cent of the total FDI flows to OIC countries in almost all the years over the last two decades. The remaining part of less than 10 per cent was left to be shared by the other two groups: the group of OIC least developed countries (OIC-LDCs) and the group of OIC countries in transition (OIC-TCCs). It is, then, noteworthy that the most needy poor and least developed OIC countries are those which attract FDI the least. In the year 1994, for instance, the group of OIC-LDCs attracted only 1.4 per cent of the total FDI flows to OIC countries, despite the fact that they (21 countries) constitute 37.5 per cent of the total number of OIC member countries. However, this share increased to 6.5 per cent in 1998 compared with the decreasing share of the OIC-MICs group. This may be explained by the fact that OIC-LDCs were less affected by the Asian crisis in 1997 than the countries of the other two groups. Lastly, it is noteworthy that in the context of their efforts to transform their economies under outward-oriented polices, the group of OIC countries in transition (OIC-TCCs) were quite successful in attracting FDI in the second half of the 1990s. (Table 17)

Given the above situation, the attraction of FDI is a particularly important policy for almost all OIC countries. Thus, in the context of their efforts to increase economic growth rates in a sustainable manner, greater emphasis has to be placed on attracting FDI by improving the overall enabling economic environment and by putting in place specific incentives and policies for such investment.

## 3. Policy Questions

The economies of developing countries recorded the highest drop in their real economic output growth rate, from a level of 6.5 per cent in 1996 and 5.7 per cent in 1997 to only 3.3 per cent in 1998. Even the countries in transition, which succeeded for the first time in this decade to reach a positive real economic growth rate of 2.2 per cent in 1997, recorded a negative rate of (-0.2 per cent) in 1998. The impact of the Asian crisis was lower in industrial countries with a drop in their real economic growth rate from 3.2 per cent in 1996 and 1997 to 2.2 per cent in 1998.

On the other hand, although the OIC member countries as a group constitute a substantial sub-set of the developing countries, their situation was not as bright as that of the developing countries. They could not, on average, reach the average growth rate of the developing countries in the period under consideration. When the effect of a notably high rate of population growth, about 2.5 per cent a year, is taken into consideration, the growth gap between the developing countries and the OIC countries becomes more significant. The volume of this gap amounted to 3.9 percentage points in 1994. Furthermore, although, in general, the output growth recorded

in the OIC countries was higher than that in the industrial countries, when the effect of the population increase was included, per capita income growth in the OIC countries fell even below that rate in the industrial countries in some years. Therefore, per capita income growth rates in the OIC countries need to be raised to close the development gap with the industrial countries and keep up with the fast-growing developing countries.

At the level of the OIC sub-groups, economic growth was much higher in the case of the MI group and the LDC group than the OIC average between 1995 and 1998, whereas it was lower in the case of the OE group during the period under consideration. Together, the MI and the OE groups produce about 91.0 per cent of the total OIC income, although they constitute only 69.0 per cent of the OIC population. On the other hand, the LDC and the TC groups produce together the remaining 9.0 per cent of the OIC income, although they make up 31.0 per cent of the OIC population.

Agriculture is, in general, expected to play a major role in the economies of both the developing and the OIC countries as well. However, this statement does not hold for the OIC oil-exporting countries. The share of agriculture is quite low in this group, whereas it is quite high in the case of the OIC-LDCs group. While industry plays an important role in generating income in the OIC oil-exporting countries, its significance comes from oil production, not from the manufacturing sector in these countries. The manufacturing sector does not play a significant role in most of the OIC economies. Yet, in some OIC countries, particularly in the middle-income group, it is gaining importance.

The declining trend of inflation has become well pronounced since 1994 in the OIC as well as the developing countries. Even the TC group of the OIC, which experienced very high rates of inflation after their independence, managed to curb inflation and decrease its rate from a four-digit level in 1994 to only a two-digit level in 1998. Yet, the rates of inflation are significantly higher in the OIC countries than those in the industrial countries and the developing countries. Although the volume of the OIC foreign debt was higher in the most recent years against its level in 1994, the share of the OIC debt in the developing countries' total decreased from 33.1 per cent in 1994 to 30.7 per cent in 1998. However, the debt to GNP ratio was considerably worse in the OIC countries as compared to the developing countries.

Due to their large stock of debt liabilities, OIC developing countries are particularly exposed to the volatility of global markets. Over 70 per cent of these countries' outstanding debts are based on floating interest rates. Almost all rescheduled debts are indexed to LIBOR or a similar base rate. In addition, sizeable proportions of their private debts are short-term, which adds to this volatility.

As a result, 48.2 and 27.8 per cent of the low-income and the middle-income OIC countries respectively are severely indebted (SI). SI countries often suffer both sustainability as well as liquidity problems. Over 33 per cent of the former and 27.8 per cent of the latter groups are moderately indebted and suffer at least severe shortages of liquidity. Thus, on the whole, over 68 per cent of the OIC countries suffer serious problems with their debts. Therefore, a large number of OIC countries

had to restructure their outstanding commercial and official debt obligations.

Some OIC countries, particularly in the low-income bracket, have not taken full advantage of available traditional debt relief solutions. For instance, only a handful of countries of the group have ventured into second hand markets to repurchase their own debts. Even far less OIC countries appeared in debt swap schemes. The reasons behind this are numerous, but the most important among them are the following: (a). Dearth of information and know-how; (b). Lack of cooperation with donor agencies, creditors and debt restructuring institutions; (c). Lack of political and economic stability and problems of security and civil strife.

Experience of the Asian, Russian, and Brazilian crises has shown how the severity of contagion depends not only on the importance of economic and financial linkages with the original crisis country, but also on the origins and nature of the initiating crisis, including the degree to which it was anticipated and the strength of economic fundamentals and policies in the countries potentially subject to attack.

Broader experience of the recent financial crises has particularly highlighted the risks that can be associated with pegged exchange rate arrangements. It is striking that most of the financial crises of the past two years have occurred in countries with pegged exchange rates. It is clear that the greatly increased- and still increasing- mobility of international capital has made considerably more demanding the macroeconomic and structural policy requirements that countries must meet to maintain a pegged exchange rate. It is, therefore, not surprising

that there has been a trend toward greater exchange rate flexibility among developing countries in recent decades. In this context, it is worth mentioning that the national currencies of 21 OIC countries are pegged to different exchange rate systems as of the end of March 1998. However, flexible exchange rate arrangements do not remove the need for policy discipline and for an efficient and robust financial system. In this regard, it is also striking that a number of countries with pegged exchange rates have successfully resisted currency market pressures during the recent financial crises. The best arrangement for any country will depend ultimately on its circumstances and its economic policies.

The OIC countries were not very successful in attracting a large share of the FDI flowing to developing countries in the past two decades. The flow of FDI to OIC countries has also been small in relation to the size of their economies, which implies that the majority of these countries were not able to capitalise sufficiently on the potential developmental benefits of FDI. Indeed, this disappointing picture is a part of a broader overall investment picture in the OIC countries as a group that has been associated with heavy dependence on external influences and low levels both in terms of volume and productivity. Therefore, OIC countries need to do a lot to create an environment conducive to FDI through attaining appropriate levels of savings and investment as well as conducting appropriate economic and institutional policy reforms.

FDI can help OIC economies meet their economic objectives. FDI could be very useful in various respects to OIC countries as it enables them to supplement their domestic

savings and investment and to benefit from the associated transfers of technology, management knowledge, business culture, and access to foreign markets. FDI should be approached as a boost to growth and development but not as a reliable substitute for domestic sources of investment and savings. Attracting FDI should be a part of a broad strategy aimed at sustaining high rates of economic growth, increasing employment opportunities and improving living standards. Attraction of FDI is, therefore, a particularly important policy issue for almost all OIC member countries. In the context of their efforts to increase economic growth rates in a sustainable manner, greater emphasis has to be placed on attracting FDI by improving the overall enabling economic environment and by putting in place specific incentives for such investment.

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

OIC members should strengthen the backward and forward linkages in production and investment to reap the economies of scale, to increase the size of the domestic and regional markets, and to deal effectively with the EC, NAFTA, and APEC. Many

public-good type projects should be undertaken within the region, financed by the richer OIC countries, to strengthen the weak infrastructure linkages by the construction of roads, railways and other means of communication. This will widen the regional market for goods, capital and labour. It will also permit the type of coordinated development strategies pursued in East Asia–capital and labor moving in opposing directions to equalize the wage rate and the rental on capital, and facilitating the location and relocation of industries to take advantage of the availability of cheaper capital, labor and technology within the region.

Economic growth in the OIC countries should be accelerated as a strategy to promote regional economic integration. The access to the markets of developed countries cannot be taken for granted, it will be to these countries' advantage to free themselves from their respective stagnating growth locations by entering more fully in the OIC markets. The individual OIC members and the OIC region as a whole, can then engage in a virtuous circle of greater economic integration which would promote a faster rate of economic growth through the extension of the regional market, the fragmentation of production process in the region and product specialization according to each countries' comparative advantage.

The OIC countries should more fully use the mechanism of the WTO to explore areas where greater export expansion to the world market is possible. The real challenge to survive and prosper in the post-UR world trading order is for the region to work through and around the major trading blocks (the EU, NAFTA, APEC), which together account for 87% of the world

trade. Working through these trading blocks would require participating in as many trading blocs as is feasible. One way is to make use of the links that already exist with one or the other of these trading blocks. For example, Turkey, Egypt, Morocco have important relationships with EU, and Indonesia and Malaysia are linked with ASEAN and APEC. These countries could then apply the MFN clause in dealing with their OIC members. These routes would also facilitate the flow of the FDI and the transfer of technology to those OIC members who are not part of these groupings.

## 4. Concluding Remarks

The new initiatives amongst the OIC countries may, first of all, emphasise co-operation more in terms of project-oriented arrangements rather than focusing on more structured and multi-faceted integration schemes like free trade areas, customs unions, and common markets. Secondly, the partners in these new arrangements will be given more freedom in taking liberalisation measures at their own pace. Thirdly, the arrangements may also allow more opportunities to be negotiated at bilateral levels with the interested partners in line with common interests. Fourthly, these co-operation agreements may assign priority to physical infrastructure, such as transport and communications, as well as support areas like training, research, and technology. Fifthly, the private sector must be encouraged and supported by the necessary measures to facilitate and to promote trade exchanges amongst the OIC member countries. Furthermore, all the barriers to trade may be eliminated gradually on a step-by-step approach.

TABLE 1 : REAL GDP GROWTH RATES IN OIC COUNTRIES
(Average annual, in per cent)

| | 1994 | 1995 | 1996 | 1997 | 1998 |
|---|---|---|---|---|---|
| LDC average (1) | 2.6 | 8.8 | 5.4 | 5.3 | 4.5 |
| MI average (1) | 2.3 | 5.7 | 6.4 | 4.9 | 2.3 |
| OE average (1) | 2.6 | 2.7 | 5.0 | 4.0 | -1.6 |
| TC average (1) | -10.0 | -5.2 | 1.1 | 0.1 | 1.3 |
| OIC countries (1) | 2.7 | 3.7 | 5.8 | 4.6 | -1.4 |
| Developing countries | 6.8 | 6.1 | 6.5 | 5.7 | 3.3 |
| Developed countries | 3.2 | 2.6 | 3.2 | 3.2 | 2.2 |
| United states | 3.5 | 2.3 | 3.4 | 3.9 | 3.9 |
| European Union | 3.0 | 2.4 | 1.8 | 2.7 | 2.8 |
| Japan | 0.6 | 1.5 | 5.0 | 1.4 | -2.8 |
| World | 4.0 | 3.7 | 4.3 | 4.2 | 2.5 |

Note (1) : Averages were computed on the basis of percentage changes for individual countries weighted by 1995 GDP values in terms of the US Dollar.

Sources : IMF, *World Economic Outlook*, May 1999, p. 139. and SESRTCIC Publications.

TABLE 2 : REAL PER CAPITA GDP GROWTH RATES IN OIC COUNTRIES
(Average annual, in per cent)

| | 1994 | 1995 | 1996 | 1997 | 1998 |
|---|---|---|---|---|---|
| Total OIC countries | 1.0 | 1.6 | 3.0 | 2.1 | -0.6 |
| Developing countries | 4.9 | 4.3 | 4.8 | 4.1 | 1.6 |
| Developed countries | 2.5 | 1.9 | 2.5 | 2.6 | 1.7 |

Notes : OIC average was computed on the basis of percentage changes for individual countries weighted by 1995 GDP values in terms of US Dollars.

Source : IMF, *World Economic Outlook*, May 1999, p. 139 and SESRTCIC Publication.

TABLE 3 : SECTORAL DISTRIBUTION OF THE OUTPUT
(in per cent)

| | Agriculture | Industry | Manufacturing | Services |
|---|---|---|---|---|
| LDC average (1) | 32.8 | 19.3 | 8.9 | 47.5 |
| MI average (1) | 18.2 | 23.7 | 15.6 | 51.3 |
| OE average (1) | 16.5 | 43.1 | 12.9 | 40.2 |
| TC average (1) | 25.3 | 28.3 | 8.7 | 43.4 |
| OIC average (1) | 18.3 | 34.2 | 15.1 | 44.8 |

Note (1) : Averages were computed on the basis of percentage shares for individual countries weighted by 1995 GDP values in terms of US Dollars.

Source : IMF, and the SESRTCIC Publication

TABLE 4 : AVERAGE INFLATION RATES IN OIC COUNTRIES
(in per cent)

| | 1994 | 1995 | 1996 | 1997 | 1998 |
|---|---|---|---|---|---|
| LDC average (1) | 30.9 | 22.6 | 22.0 | 10.4 | 9.1 |
| MI average (1) | 41.3 | 36.6 | 31.6 | 31.8 | 31.1 |
| OE average (1) | 20.9 | 41.0 | 13.8 | 10.2 | 25.4 |
| TC average (1) | 1552.5 | 272.1 | 108.1 | 38.2 | 15.1 |
| OIC countries (1) | 68.5 | 44.2 | 23.3 | 18.9 | 26.2 |
| Developing countries | 51.8 | 22.2 | 14.3 | 9.4 | 10.4 |
| Developed countries | 2.6 | 2.5 | 2.4 | 2.1 | 1.6 |

Note (1) : OIC averages were computed on the basis of percentage changes for individual countries weighted by 1995 GDP values in terms of the US Dollar.

Sources : IMF, *World Economic Outlook*, May 1999, p. 150 and the SESRTCIC Publication

## TABLE 5 : MERCHANDISE EXPORTS IN OIC COUNTRIES
(Average annual change, in per cent)

| | 1994 | 1995 | 1996 | 1997 | 1998 |
|---|---|---|---|---|---|
| LDC group | 16.9 | 29.5 | 7.8 | 12.7 | -9.7 |
| MI group | 18.9 | 21.0 | 7.5 | 4.1 | -0.7 |
| OE group | 1.2 | 12.1 | 17.4 | 7.7 | -14.5 |
| TC group | 107.6 | 48.0 | 5.3 | 11.5 | -10.3 |
| OIC countries | 9.1 | 16.9 | 12.9 | 6.6 | -9.2 |
| Developing countries | 17.5 | 21.1 | 7.9 | 7.5 | -0.9 |
| Developed countries | 12.8 | 18.6 | 2.5 | 3.0 | 1.3 |
| World | 14.2 | 19.4 | 4.2 | 4.5 | 0.5 |
| Share of the country groups in the world total (in per cent) | | | | | |
| OIC countries | 7.0 | 6.9 | 7.5 | 7.6 | 6.9 |
| Developing countries | 32.0 | 32.4 | 33.6 | 34.5 | 34.0 |
| Developed countries | 68.0 | 67.5 | 66.4 | 65.4 | 67.0 |

Sources: IMF, *World Economic Outlook*, May 1999, p. 150 and the SESRTCIC Publication

## TABLE 6: MERCHANDISE IMPORTS IN OIC COUNTRIES
(Average annual change, in per cent)

| | 1994 | 1995 | 1996 | 1997 | 1998 |
|---|---|---|---|---|---|
| LDC group | -1.5 | 22.0 | 21.2 | -9.9 | 3.3 |
| MI group | 8.0 | 28.6 | 7.9 | 4.9 | 8.8 |
| OE group | -9.1 | 15.4 | 6.1 | 14.5 | -4.8 |
| TC group | 82.5 | 20.1 | 28.7 | -5.0 | 22.0 |
| OIC countries | 0.6 | 22.3 | 8.5 | 7.5 | 3.1 |
| Developing countries | 13.9 | 22.5 | 7.2 | 6.4 | -1.0 |
| Developed countries | 14.0 | 17.7 | 3.4 | 3.3 | 5.7 |
| World | 14.0 | 19.3 | 4.7 | 4.4 | 3.3 |
| Share of the country groups in the world total (in per cent) | | | | | |
| OIC countries | 6.6 | 6.7 | 7.0 | 7.1 | 7.2 |
| Developing countries | 33.2 | 34.1 | 34.9 | 35.6 | 34.1 |
| Developed countries | 66.8 | 65.9 | 65.0 | 64.4 | 65.8 |

Sources: IMF, *World Economic Outlook*, May 1999, p. 150 and the SESRTCIC Publication

TABLE 7 : CURRENT ACCOUNT AND RESERVE POSITIONS

| | Number of countries | | | | |
|---|---|---|---|---|---|
| | 1994 | 1995 | 1996 | 1997 | 1998 |
| Current account balance | | | | | |
| Deficit countries | 38 | 40 | 32 | 38 | 31 |
| Surplus countries | 14 | 12 | 18 | 11 | 6 |
| Total OIC countries | 52 | 52 | 50 | 49 | 37 |
| Current account balance | | | | | |
| (In bln of US Dollars) | | | | | |
| OIC countries | -24.9 | -35.7 | -8.4 | -12.8 | -29.4 |
| Developing countries | -87.5 | -95.1 | -73.0 | -69.1 | -92.5 |
| Developed countries | 31.3 | 50.1 | 32.6 | 69.9 | 14.3 |
| Change in reserve positions | | | | | |
| Deteriorating countries | 18 | 11 | 16 | 16 | 20 |
| Improving countries | 29 | 36 | 31 | 29 | 20 |
| Total OIC countries | 47 | 47 | 47 | 45 | 40 |

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

TABLE 8 : EXCHANGE RATE VARIATIONS IN OIC COUNTRIES

| | Number of countries | | | | |
|---|---|---|---|---|---|
| | 1994 | 1995 | 1996 | 1997 | 1998 |
| National currencies | | | | | |
| Depreciation | 36 | 21 | 36 | 36 | 28 |
| Stable | 10 | 10 | 12 | 13 | 15 |
| Appreciation | 7 | 23 | 6 | 3 | 3 |
| Total OIC countries | 53 | 54 | 54 | 52 | 46 |
| Trend of US dollar: | | | | | |
| (D) epreciation | | | | | |
| (A)ppreciation | D | D | A | A | A |

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

TABLE 9 : TOTAL OUTSTANDING EXTERNAL DEBT (billion US dollars)

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

Note: Figures in parenthesis indicate the number of countries.
Source: IMF, *World Economic Outlook*, May 1999, and SESRTCIC Publication

TABLE 10 : TOTAL DEBT SERVICE (billion US dollars)

| | 1994 | 1995 | 1996 | 1997 |
|---|---|---|---|---|
| OIC countries | 56.4 (44) | 62.1 (44) | 70.5 (44) | 67.2 (44) |
| Developing countries | 199.2 | 241.9 | 279.4 | 305.2 |
| Share of OIC in developing countries (%) | 28.3 | 25.7 | 25.2 | 22.0 |
| **Debt service to exports ratio (%):** | | | | |
| LDC group of OIC | 14.5 | 13.7 | 11.5 | 10.9 |
| MI group of OIC | 22.4 | 19.0 | 17.0 | 16.9 |
| OE group of OIC | 25.7 | 26.3 | 28.1 | 24.9 |
| TC group of OIC | 2.8 | 4.7 | 5.5 | 10.2 |
| OIC countries (%) | 22.6 (44) | 21.3 (44) | 21.0 (44) | 19.7 (44) |
| Developing countries (%) | 16.1 | 16.0 | 16.6 | 17.0 |

Note : Figures in parenthesis indicate the number of countries.
Source : IMF, *World Economic Outlook*, May 1999, and SESRTCIC Publication

## TABLE 11 : OIC COUNTRIES BY INCOME AND INDEBTEDNESS 1995-97

| LOW INCOME COUNTRIES | | | MIDDLE INCOME COUNTRIES | | |
|---|---|---|---|---|---|
| Severely indebted | Moderately indebted | Low indebted | Severely indebted | Moderately indebted | Low indebted |
| Burkina Faso | Bangladesh | Albania | Gabon | Algeria | Djibouti |
| Cameroon | Benin | Azerbaijan | Guyana | Malaysia | Egypt |
| Guinea | Chad | Kyrgyzstan | Indonesia | Morocco | Iran |
| Guinea-Bissau | Comoros | Tajikistan | Jordan | Tunisia | Kazak-hstan |
| Mali | Gambia | Turkmenistan | Syria | Turkey | Lebanon |
| Mauritania | Pakistan | | | | Maldives |
| Mozambique | Senegal | | | | Oman |
| Niger | Togo | | | | Uzbekist an |
| Nigeria | Yemen | | | | |
| Sierra Leone | | | | | |
| Somalia | | | | | |
| Sudan | | | | | |
| Uganda | | | | | |
| 13 | 9 | 5 | 5 | 5 | 8 |
| 48.2 | 33.3 | 18.5 | 27.8 | 27.8 | 44.4 |

Source : World Bank, *Global Development Finance* 1998, p. 67 and 1999, p. 101 and SESRTCIC Publication. The last two rows show the number and percentage of countries in each group, respectively.

## TABLE 12 : TYPES, STRUCTURE AND SHARES OF COMMERCIAL DEBT RESTRUCTURING OPERATIONS OF OIC COUNTRIES

(January 1980–December 1998)

| | **In billion US dollars** | **In per cent** |
|---|---|---|
| 1/ Rescheduling | 126.267 | 94.45 |
| 2/ Buyback operations | 4.599 | 3.44 |
| 3/ Converted to long term debt | 2.130 | 1.59 |
| 4/ Short-term credit maintenance | 0.610 | 0.46 |
| 5/ Deferment | 0.060 | 0.05 |
| 6/ New long-term money | 0.019 | 0.014 |
| **Total** | **133.685** | **100** |

Source: World Bank Global Development Finance 1998, p.67 and 1999, p.101, and SESRTCIC Publication

TABLE 13 : FDI INFLOW BY HOST GROUPS OF COUNTRIES
(billion US $)

| | Annual average | | | | | | |
|---|---|---|---|---|---|---|---|
| | 1982-87 | 1987-92 | 1990 | 1992 | 1994 | 1996 | 1998 |
| World | 67.5 | 173.5 | 203.8 | 175.8 | 253.5 | 358.9 | 643.9 |
| Developed countries | 52.8<br>(78.1) | 136.6<br>(78.7) | 169.8<br>(83.3) | 120.3<br>(68.4) | 146.4<br>(57.5) | 211.1<br>(58.8) | 460.4<br>(71.5) |
| Developing countries | 14.8<br>(21.8) | 35.3<br>(20.4) | 33.7<br>(16.6) | 51.1<br>(29.1) | 78.8<br>(31.1) | 135.3<br>(37.7) | 165.9<br>(25.8) |
| Least developed countries | 0.20<br>(0.3) | 0.97<br>(0.6) | 0.60<br>(0.3) | 1.46<br>(0.8) | 0.82<br>(0.3) | 1.80<br>(0.5) | 2.95<br>(0.5) |

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

Note : Figures in brackets show the % share in world FDI inflows.

TABLE 14: REGIONAL DISTRIBUTION OF FDI INFLOWS TO DEVELOPING COUNTRIES (in percentages)*

| | Annual average | | | | | | |
|---|---|---|---|---|---|---|---|
| | 1982-87 | 1987-92 | 1990 | 1992 | 1994 | 1996 | 1998 |
| Africa | 12.7 | 8.5 | 6.8 | 6.2 | 6.7 | 4.4 | 4.8 |
| Sub-Saharan Africa | 2.2 | 5.1 | 3.4 | 3.1 | 3.8 | 3.0 | 3.2 |
| Asia | 46.1 | 55.5 | 65.6 | 58.0 | 81.0 | 60.6 | 51.2 |
| West Asia | 2.7 | 2.9 | 6.9 | 3.6 | 2.0 | 0.5 | 2.8 |
| South and East Asia | 42.5 | 52.6 | 58.7 | 54.2 | 77.9 | 58.7 | 46.6 |
| Latin America & Caribbean | 27.4 | 35.1 | 26.4 | 34.5 | 40.0 | 34.1 | 43.2 |
| China | 9.2 | 13.2 | 10.3 | 21.8 | 42.9 | 29.7 | 27.4 |
| Oil exporting countries | 30.3 | 30.4 | 27.8 | 29.4 | 32.0 | 20.1 | 16.5 |

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

*: Percentage shares in total FDI inflows to developing countries.

TABLE 15 : FDI INFLOW IN OIC COUNTRIES (million US $)

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

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

TABLE 16 : CONCENTRATION OF FDI INFLOWS IN SOME OIC COUNTRIES (million US$)

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

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

## TABLE 17: FDI INFLOW TO OIC SUBGROUP COUNTRIES (million US $ and %)

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

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

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

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