

# ***Globalization, Industrial Policy, and Development<sup>1</sup>***

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<sup>1</sup> **Industrial policy includes all measures adopted by governments to promote industrialization , increase output and productivity, adopt and adapt technology , and reduce income inequality, and alleviate poverty.**

## **I. Introduction**

Moslem and other developing<sup>2</sup> countries have tried, since their independence, to develop and bridge the economic and prosperity gap between themselves and their former colonizers, the industrial countries. The objective of these development efforts was to raise the standard of living of these newly independent countries by achieving high and sustainable rates of economic growth through a more diversified economic structure and a highly productive labor force. In their quest for development, these countries have experimented with many paradigms as a result of both domestic and international developments. For example, in the 1960s, international institutions like the World Bank and the IMF as well as many leading economists saw that the developing countries suffered from many distortions in their factors markets, the foreign exchange market, and the goods market which, according to them, justified government intervention through industrial policies to rectify these distortions and thus smooth the working of the market to promote economic development. Unfortunately many of the developing countries, Moslem countries included, took an overdose of this prescription and the result was more than four decades of government reign on these economies with lost opportunities and wasteful development that have widened instead of closing the economic gap with the industrial countries. However, this is not a verdict against industrial policy per se,

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<sup>2</sup> Moslem and Developing countries are used interchangeably in this paper because Moslem countries are part of the Developing countries.

since the successes of the East Asian Economies (the Asian Miracle) is attributed, in large part, to a successful intervention by the state in these economies, an issue that we turn to later on . Since the 1990s , however , the same international institutions that used to rationalize the use of industrial policies to promote economic development , have called for a role back of the role of the state in these economies through the privatization of public enterprises, the reduction of budget deficits , the elimination of trade barriers , and other policies aimed at returning to the market as the main instrument of development . This " market paradigm" gained a greater momentum in the mid-1990s with the signing of the Uruguay round of trade and the succession of the GATT by the World Trade Organization (WTO) as a platform for trade negotiations with wider scope and binding resolutions . This means that the future use of industrial policy by Moslem countries that are members of the WTO is not left to individual countries, but they must be within the context of the rules and regulations of the WTO. Therefore, the present paper attempts to explore the future of development in Moslem countries in an open world economy with a diminishing role of industrial policy as an instrument of development

The rest of the paper is organized as follows Part II begins with a conceptual framework of the meaning, objectives, and spheres of industrial policy. Part III, evaluates the role of industrial policy in the successful development of the East Asian economies . Part IV exposes the limitations that the membership of the WTO imposes on the future use of industrial policies as a mechanism of

development. Part V proposes some policies on how Moslem countries can improve their chances of development in a competitive world economy that is run by the WTO. And part VI concludes .

## **II. Industrial Policy: A conceptual framework**

Industrial policy is not well defined but a good working definition that serves our purpose in this paper is the one given by the World Bank which defines industrial policy as " government efforts to alter industrial structure to promote productivity based growth " (World bank, 1992 ). In practice industrial policy has been used to achieve factor productivity growth in the long-run and other short-run objectives such as employment , increased output, more equitable distribution of income , and technological development ( Bora , Lloyd, and Pangestu , 1999 :1-13). The arguments in favor of industrial policy is rooted in the different forms of market failures such as externalities, missing markets, and others. The case for such policy was best stated by Japan's Vice-Minister Ojimi of the Ministry of International Trade and Industry(MITI) when he said that :

" The MITI decided to establish in Japan industries that require intensive employment of capital and technology , industries that in consideration of comparative cost of production should be the most inappropriate for Japan , industries such as steel, Oil-refining , petrochemicals, automobiles, aircraft, industrial machinery, of all sorts, and electronics, including electronic computers. From a short-run, static viewpoint, encouragement of such industries would seem to conflict with economic rationalism. But from along-range viewpoint, these are precisely the industries where income elasticity of demand is high, technological progress is rapid, and labor productivity rises fast (Singh,1994:1814).

The track record of industrial policy also shows that the instruments of this policy have been diverse and covered the manufacturing as well as other sectors like agriculture, mining , and services . Some of these instruments aimed at protecting domestic industries from external markets which included , among others, import tariffs , quotas, licensing , local content requirement , and export promotion . Other instruments were directed toward domestic markets to improve competition and to regulate market entry. And there were those instruments that have targeted the operation of factors market like financial markets, capital markets and foreign subsidiaries.(Pangestu,2000:149-150).Finally, it is worth noting that the industrial policy was not static over the years but has rather changed with changing domestic and international condition. This evolution from a strategy of import substitution to that of export promotion and then to the building of knowledge-based infrastructure was induced by the size of the domestic market , the need to attract foreign investment and foreign technology , and to face foreign competition (Pangestu, 2000:151-153).

### **III. Industrial Policy: The Record**

Does industrial policy promote economic development or does it hinder it ?

To answer this question we need to sift through the historical record especially the experiences of the East Asian economies whose success stories have attracted the attention of many observers in recent years. There are of course lessons to be learned from the experiences of other regions such as the industrial countries, Latin America, and other regions. However, we think

that the industrial countries development took place far in the past, and in a different domestic and global environment than the one faced by today's Moslem countries, thus their experiences have less relevance than those of the East Asian countries. As for the rest of the developing countries be it Latin America , the Middle East or other Moslem countries , I do not see any breakthroughs in which the role of industrial policy can be assessed. By contrast, since the early 1970s, a number of East and South-East Asian countries (Hong Kong, Indonesia, Japan, Malaysia, Singapore, South Korea, Taiwan ,and Thailand) were able to achieve an annual growth rate in real GDP per capita exceeding 5.5% which is high by world standards . This growth was also accompanied by a structural transformation represented by an increasing share of manufacturing in both GDP and Exports , higher labor Productivity, and a declining income inequality which made them deservedly the Asian Tigers. In what follows, therefore, I will explore the role of industrial policy in the cases of four of these tigers , namely, Taiwan, South Korea, Hong Kong, and Singapore.

## **Taiwan**

There is no doubt that industrial policy had contributed significantly to the industrial development of Taiwan since the late 1940s. Wade(1990) and Smith(2000) and others have argued that an important factor in Taiwan's success was its industrial policy that have helped establish new industries and successful manufacturing sectors . Taiwan's development was launched in the early 1960s, following the announcement of" the nineteen point

program" with its emphasis on improving the investment climate through the simplification of procedures and the liberalization of regulative measures relating to economic matters (Lin, 1973:96). The improvement of the investment environment was complemented with a number of subsidies in the form of tax incentives. For example, there was a reduction of business income tax from 32.5% to 18% of annual income, the tax holidays for new investment was extended three to five years, tax exemptions to exports sales and undistributed dividends to be invested, and deferred payments on imports duties on equipments and in 1965 a number of sectors- basic metals , electrical machinery, and petrochemicals- were given full exemption from import duties on plant equipment. The government in Taiwan went even further than that by establishing industries like plastics, textiles, electronics, fibers, and steel(Rodrik,1999:53-54). These public enterprises guaranteed the availability of inputs for the private sector and many of them were privatized at later stages thus expanding the size of the private sector from 28% of GDP in 1947 to 84% in 1985(Chien-Kuo Pang,1988) .Development in Taiwan was also encouraged by the highly skilled and highly trained managers that were also prohibition from doing private business or accepting any presents from the private sector however small , not even a meal at the restaurant( Vogel, 1991:31).

## **South Korea**

A number of factors have contributed to the priority given to industrialization in South Korea including: a military regime committed to development to

encounter an enemy in the North and the desire to emulate the experiences of Taiwan and Japan. Besides the elimination of all obstacles to investment, the government have also subsidized investment through the extension of credit to large corporation at very low real interest rate ( Jones and Sakong, 1980:104). The Government in South Korea have also played a direct role in guiding the investment of the private sector to accord with its industrial objectives (Amsden, 1989:80-81). And as in Taiwan , the Korean government have also established public enterprises that have played an important role in the profitability of private investment by guaranteeing the availability of needed inputs and many of these industries were characterized with scale economies and also have high linkages with the rest of the economy (Jones and Sankonk, 1980).

### **Hong Kong**

Hong Kong is more of a city state than an economic country. Its small population and in turn small market size have shaped the development strategy adopted by this city state since the early 1950s. But Unlike Taiwan and South Korea, Hong Kong did have free trade and was able to catch up with those successful economies in the region . For until 1950, Hong Kong was a trade center that bridged mainland China with the rest of the world. However, the importance of this role was diminished with the starting of the Korean War and the ensuing closer of border with China. Also, during this period , many business leaders migrated from Shanghai to Hong Kong where they embarked on the building of a strong industrial base with the help of low

labor cost , adequate financing and the market outlet in the industrial countries. Although development in this city state took place in a liberal trade environment, the government, nevertheless played an active role in the development process. The efficient and corruption free British administration at that time helped in the planning and implementation of manufacturing activities, may be in attempt to prove the superiority of the Market system in comparison to the communist system that ruled neighboring China. For example , in the 1950s, the British administration established many housing units and in the 1970s and 1980s, it expanded the available infrastructure like railroads, education, training , and established a university for science and technology . Then, this same administration allocated industrial zones for companies with large numbers of labor at subsidized rents that were below the market rate. It has negotiated the opening up of markets for its export-oriented industries like textiles, and it has also promoted a domestic environment that is corruption-free and in which the due process of law was preserved, all of which have encouraged the development of the industrial sector(Lee, 1996:35-42). The diversification drive in Hong Kong continued and included in addition to textiles products, toys, watches, plastic products and some electronics. This diversification momentum was enhanced by the importance of the island as a trade and financial center especially following the re-opening of borders with China in the 1970s.

## **Singapore**

The government of Singapore under the leadership of its long-serving Prime Minister Lee Kwan Yu have played a crucial role in turning this small port into a city state whose per capita income at the turn of the century was similar to that of the U.K . The involvement of the government began with the provision of a social security system, accommodation, and medical services. The government bureaucracy was lead by university graduates with distinguished careers that were recruited in a system characterized with meritocracy and minimum corruption. Also, given the small size of the island, it was decided that an outward looking development strategy was the best for the country. Accordingly, the government aimed at attracting foreign direct investment with a number of incentives such as maintaining low wages, highly trained labor force, political stability, and a well developed physical infrastructure (Young,1992:22). These and other incentives have induced many multinational companies to establish subsidiaries in Singapore for the production of electronics and equipments .Moreover , the Singapore government has launched a number of industries including petrochemicals , oil refining , and other oil related industries. It has also joined forces with Japan to produce shipbuilding and ship maintenance to exploit the strategic location of Singapore and use ts ports as a bridge linking Japan with the Middle East( Vogel,1991:76-81).

It is clear from the above survey of the development experiences of the East Asian economies that their successful development was due , in large part , to

the role of industrial policy at different times and in different forms and at different degrees. This conclusion was confirmed by the World Bank in one of its recent reports in which it states that " Past experiences point to the fact that by leaving its role in development , the state is not contributing to development , so is its excessive involvement in the economy " ( World Bank, 1997:111). In addition, all today's developed countries adopted one form or another of industrial policy until their economies reached the stage of being ready for a liberal trade regime. According to Wade (1990)" Britain was protectionist when trying to catch up with Holland. Germany was protectionist when trying to catch up with Britain . The United States was protectionist when trying to catch up with Britain and Germany, right up to the end of the World War II. Japan was protectionists for most of the twentieth century up to the 1970s , Korea and Taiwan to the 1990s" ( XV). In other words we can hardly find a modern economy that have succeeded to industrialize with out resorting to some form of industrial policy.

#### **IV. Industrial Policy under the WTO**

Although the membership of the WTO restrains to a great extent, the ability of a country to employ industrial policy as a mechanism of development, there are still some instruments that can be used as long as they are transparent , have built-in performance requirement and have a clear exist point ( Bora et al , 1999:17). In what follows , we try to explain the position of the WTO on the most important instruments of industrial policy.

## **Infant Industry Protection**

The promotion of infant industries was and still is a crucial matter in the development process. As such, the WTO rules does leave some leeway for those developing countries that are at their " early stages of development" to use certain types of technology subsidies to protect their domestic industries. For example, Article XVIII, Section A , of the GATT does include an explicit mechanism for infant industry protection , but little use has been made of this mechanism by the developing countries because it requires a payment of compensation for the trading partners. However, the Article XIX safeguard provision does permit transparent protection of limited duration without requiring compensation( Stiglitz,2000:451-452). Also , Section B of Article XVIII gives developing countries some flexibility in using trade barriers to protect their balance of payments(Finger , 2000:1098).

## **Import protection**

Many Moslem countries rely on tariffs and non-tariff barriers and on subsidies to protect their domestic industries. Generally tariffs have been on the decline especially over the last two decades in both industrial and developing countries. The same thing can not be said about non-tariff barriers , however , which have increased sometimes to make-up for the protection that was reduced by falling tariffs . One non-tariff barrier that has been used by many Moslem countries like Indonesia, Malaysia and others, is the

domestic content requirement<sup>3</sup> an instrument used to promote large-scale industries like automotive industries. According to the WTO this instrument disadvantages imports and thus it has been decided that it should be phased out by its members no later than January 1, 2002 unless an extension is granted. Developing and developed countries alike have also used safeguard and anti-dumping measures to discourage what they may consider as un-fair competition by other countries which could be detrimental to domestic industries. In theory at least, ant-dumping measures are accepted by the WTO and they can be used to safeguard the balance of payments, to promote an infant industry, to protect national security , to offset dumping , and many other uses(Finger,2000:199-202). However, the use of these measures requires prior notification, compensation, while at the same time allowing retaliation, all of which did exist under the GATT.

### **Subsidies and Export Promotion**

The Agreement on Subsidies and Countervailing Measures (SCM) prohibits the use of export subsidies by countries whose per capita income exceeds \$ 1000 and it prescribes rules for the use of countervailing measures to offset injury to domestic industries caused by foreign production subsidies. This agreement covers any financial contributions (fiscal incentives, loan guarantees, grants, loans, equity infusions, and the provision of goods and services ) made by the government or encouraged by it to a specific

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<sup>3</sup> **This practice stipulates that a minimum percentage of a product's total value must be produced domestically. It is a policy adopted by the host countries to constrain a subsidiary of a multinational company from importing all its inputs ( called foreign sourcing) from the home country depriving the host country of such purchase ( Carbaugh, 2002:165)**

enterprise, industry, or region( Pangestu,2000:154). Hence the WTO rules concern specific subsidies and not economy wide subsidies that are determined by objective criteria and are not distorting to the allocation of domestic resources with regard to tradables (English and Wulf,2000:168-169). Examples of specific subsidies include those subsidies that focus on firms of a specific size or subsidies that are conditional on export performance or the employment of domestic inputs or directed at industries of a given region. Before 1995 , Korea used to have 26 types of subsidies totaling about 2.5 trillion won per year but in 1995 it reduced the number of subsidies to only one subsidy to small and medium-sized firms which came to 15.2 billion won ( WTO, 1996). Yet the constraint on exports subsidies is more strict than production subsidies which leaves some leeway for the use of the latter by developing countries as long as the industrial countries do not reciprocate since they can also take advantage of the same loopholes in the subsidies on production. Finally, although the WTO is silent on another form of export-promotion, namely, export-processing zones(EPZs), many of the export-promoting policies used in EPZs including lower tax rates , special credit facilities, public provision of infrastructure and other policies might be considered as a form of subsidies conditioned on exports which is prohibited under the WTO rules( English and Wulf,2000:165-167).

### **Trade-Related Aspects of Intellectual Property Rights (TRIPS)**

The implementation of the agreement on intellectual property rights requires developing countries to change some of their legislations and to improve the

quality of enforcement institutions to protect these rights and it consists of three parts, namely, standards, enforcement, and dispute settlement. Of course, this means that less restrictions will be imposed on foreign direct investment (FDI) which implies a more favorable investment environment for multinational firms<sup>4</sup>. This more competitive environment will raise the cost of products and protected technologies in developing countries. It will force domestic firms in developing countries to be more efficient and innovative and it also may contribute to the transfer of technology given the proper policy and institutional environment. However, it should be noted that the implementation of the WTO rules in this and other areas is very expensive. For example, Mexico spent more than \$30 million to upgrade its intellectual property laws and enforcement that were already far better than those in most of less developed countries (Finger and Schuler, 2000:493-503). This means that Moslem and other developing countries should try, in future negotiations, to obtain a binding commitment from the industrial countries to share part of the implementation cost with developing countries.

### **General Agreement on Trade in Services(GATS)**

Services encompasses a broad range of industries whose share in absolute output and employment is larger than other industries in almost all countries. There are two categories of services, intermediate and final. Intermediate services include transport, financial services, communication, distribution, gas and electricity, business services, and construction. Final services include

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<sup>4</sup> **The U.S International Trade Commission estimates that U.S companies will receive about \$60 billion a year if the Intellectual Property Rights are implemented (Chomsky, 1993).**

education, tourism and travel, recreation, and environmental services(Hodeg,2000:221).Trade in services can be cross-border supply which does require the physical movement of supplier or consumer (ex. electronic or physical transactions across borders such as air or maritime transport and financial trading) , it can be consumption abroad whereby the consumer moves to the country of the supplier(ex. Tourism and education ) , it can be commercial presence where a foreign firm sells services in the territory of a member country (ex. local telecommunications or electricity) , and lastly , the supply of services can take place through the temporary movement of natural persons. However, the liberalization of trade in service is not as easy as that of trade because of the lack of data on trade in services and also because it is difficult to define and quantify barriers on trade in services. As a result, the signatories of the Uruguay Round two sets of rules to deal with the barriers. One set applies to all policies impacting on trade in services and a second set of rules which include the specific commitments that are applicable to those sectors that listed in each member's schedule. Specific commitments are made by each member first deciding which services sectors will be under the GATS market access and national treatment rules and then by deciding what measures will be kept in place for the sector which violates the two rules. (Adlung et al , 2000:259-262).

Many developing countries , however , fear that most of the gains from liberalizing trade in services will accrue to the industrial countries which have

a comparative advantage in most services that are human capital-intensive and physical capital-intensive or both.

### **Trade-Related Investment Measures (TRIMs)**

The agreement on trade-related investment measures that was concluded at the Uruguay round did no more than fine-tune the GATT agreement of 1947 .

As such , the agreement presents an illustrative list to identify those policies that violate GATT's articles on national treatment and quantitative restrictions respectively (Articles III.4 and XI.1). Many developing countries are concerned about the possibility of the enlargement of this list in the future and the inadequacy of the length of the transition period that is given to them to roll back their existing ones. Only 20% of the members have notified the WTO having policies that contravene the agreement, none of them were developed countries or least developed countries , while some developing countries considered the notification period of 90 days to be too short (Bora, 2000:171-172). Also, a third of the members that were required to implement their obligations failed to do so which indicates that the agreement still needs further explanation of what is required and how to go about implementing it .

### **V. Policy Implications**

Two major conclusions can be drawn from the preceding analysis. One is that the majority of today's industrialized countries relied heavily on the use of industrial policy to industrialize and diversify their economic structures. And the second conclusion is that the WTO, which most Moslem countries are members of, prohibits many of the industrial policy that developing countries

need in their efforts to bridge the development gap that exists between their economies and the industrial countries. So the big question here is: how can Moslem and other developing countries face up to the challenges of development in an increasingly competitive world economy led by the WTO? In other words how can the agendas of development and trade converge in the developing countries in the coming years? In the rest of the paper, I will try to answer this question by highlighting the three levels at which policies in Moslem countries should change in the coming years to improve the maneuvering space of these countries in the global game and thus enhance their chances of development. These levels include : internal reforms, regional integration , and active participation at the WTO. A brief discussion of each of the three policy levels follows .

### **Internal Reforms**

Without a doubt, today, Moslem countries are weak and far behind others in their level of development be it material well-being , quality of services , or the degree of freedoms . Few examples will make this point crystal clear. According to a recent report by the IMF, the MENA<sup>5</sup> countries have experienced a significant decline in their real per capita income in the 80s and a very low growth in the 90s compared to the rest of the world. For example, during 1980-2001 ,the annual growth of real per capita income in the MENA countries was zero compared to 6.3% and 1.3% in East Asian countries and the other developing countries respectively. The track record of these

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<sup>5</sup> According to the World Bank classification , MENA stands for Middle East and North African Countries which include the Arab countries , Malta , the Palestinian Entity , Iran and Israel.

countries on the attraction of foreign investment was also disappointing. Since the mid-1990s, roughly \$ 1.5 trillion worth of foreign direct investment moved from the industrial to the developing countries. Of this total less than 5% went to the MENA countries which amounts to less than 0.5% of their GDP. At the same time the foreign assets of the GCC countries alone are estimated at more than \$ 800 billion at the turn of the century. Moreover, unemployment is on the rise even in the GCC countries that are so dependent on migrants, yet, where the number of unemployed during the late 1990s was put at 475000 the majority of which are university graduates. This figure equals about 4.5% of the total labor force and about 17.8% of the national labor force. Of course, unemployment is worse and more costly in the other resource-poor Moslem countries especially if we remember that the expected growth of the labor force in the MENA countries during the first decade of the this century is about 3.4% a year, twice the growth in other developing countries. The figures on intra-Moslem countries trade, the composition of trade, the quality of human resources and institutions are even worse. For example, the regional trade among the 20 Arab countries has never exceeded 10% of their total exports compared to 46.9% for ASEAN, 61.3% for EU, and 55.5% for NAFTA. The external debt of the Arab countries, in 2001, was estimated at \$ 125.6 billion or about 45.95% of the GDP of the indebted countries. The debt service for the same year was \$13.9 billion or about 14.8% of these countries' exports for the same year.(AMF, 2002:326-329). And the non-oil exports of the MENA countries with a total population of 300 million

was about \$28 billion in the year 2002 which was half the exports of Finland with a population of 5 million people (World Bank,2003:40) .This is because Moslem countries failed to achieve any significant diversification in their economic structures , revenues , or exports and thus were deprived from having sustainable economic growth based on manufacturing exports as was the case in the East Asian economies . Add to all this the billions of dollars that were squandered on defense spending that have increased the probability of war rather than reducing it. The military expenditures of 14 Arab countries during 1991 -1998 was about \$ 283.2 billion, that is an annual average of \$35.4 billion (SIPRI,2002). Lastly, the 2002 Arab Human Development Report published by the U.N and supervised by some Arab intellectuals , points out that, today, the Arab region has the worst record of human freedoms among the seven regions of the world ( UNDP , 2002:27) .

It is obvious from the preceding analysis that Moslem countries are in a crisis and this crisis can not be solved through the deflections of our failures to external forces and enemies. Instead, we should remember that an important lesson of history is that nations decay from within before being defeated from outside. Within this context, I think that Moslem countries need to initiate a number of reforms on the national level that will contribute to their regional cooperation and ultimately enhance their role in the world economy. These internal reforms should cover the following areas :

**First**, the active participation of individuals in the decision making process is crucial for the enhancement of the legitimacy and quality of Moslem

governments. This inclusiveness or political participation is also essential for the development of accountability and transparency that improves the performance of individuals and institutions alike leading to a better allocation of resources. For this to happen Moslem society should have elected bodies , free press , independent judiciary systems that fights against all forms of corruption.(World Bank, 2003:1 -23).

**Second**, the promotion of a stable financial system founded on the development of a comprehensive regulatory system , the development of primary and secondary financial markets to complement the banking system , the encouragement of Islamic financial institutions , the attraction of foreign direct investment that could bring with it managerial skills, technical knowledge , and market outlet, and the discouraging of speculative capital in any way possible such as using a version of the Tobin Tax.

**Finally**, the development of the educational system to produce the kinds of skills that are needed in the private sector and that are growth-promoting such as mathematics , computer, engineering , sciences , etc. This can be done through increased spending on Research and Development , transfer of technology , the migration of skilled persons, and through training and retraining .

### **Development through Regional Integration**

The internal reforms that were discussed in the previous section are necessary but not sufficient for a successful development in the Moslem countries because all these countries are constrained either by the limited size of the

domestic market, the scarcity of capital and foreign exchange , or lacking in human or physical resources .Thus the only way to relax these constraints is through the formation of regional blocs like the NAFTA, the EU, and the ASEAN . A good start would to be to extend the Pan-Arab Free Trade Area agreed upon in the late 1990s to include other Moslem countries while at the same time deepening the existing regional blocs like the GCC by consolidating the level of integration to a common market or higher. Although regional integration among Moslem countries might not have a significant static gains in the short-run due to the similarity of their economic structures, it will nevertheless contribute to these countries' development and will enhance their standing in the world economy. The following are some of the ways in which regional integration among Moslem countries and between them and other countries can be conducive to development in the long-run.

**First**, WTO members are permitted to enter into regional integration schemes as long as these schemes are conducive to worldwide free trade , that is , they do not result in higher trade barriers against non-member countries.(Article 25 , WTO,1999). This is a recognition that regional blocs may address a number of issues that are of importance to their member countries, yet are not given adequate weight in the context of the WTO negotiations (Sager,1997). As a result, many small countries, Moslem countries included, might benefit from regional integration as an effective mechanism for realizing economic gains without relying on the slow and complex WTO negotiations (Lynch and Sekwat,1991). Moreover, regional integration between Moslem Countries will

make the negotiations with the WTO easier and faster since these countries will presumably have one team representing them instead of negotiating individually especially if they reach the stage of a customs union where they unify their external tariff ( Kahler, 1995) .

**Second**, regional integration is expected to lead to the expansion of trade between member countries since it implies the removal of tariff and non-tariff barriers to trade. It will also enlarge the local market and enable these these countries to take advantage of economies of scale and to industrialize efficiently. The existing small markets are presently far below the minimum efficient plant size in almost all activities. An enlarged market increases competition between producers and encourages investment both from inside and from outside the new ly formed regional bloc. If the source of foreign investment is the industrial countries, there maybe some technological transfer as well .

**Third**, by integrating their economies, Moslem countries can reduce the probability of conflicts both between themselves and between them and their neighbors. The classical example of the role of regional integration in the reduction of tensions and conflicts is the European Coal and Steel community of 1951 that was used to contain Franco-German tensions. Other examples of regional integrations that were intended to reduce the risk of regional conflicts include the agreement between Argentina and Brazil in Latin America (Ricupero,1998) and the agreement between Indonesia and Malaysia in Southeast Asia(DeRosa,1995). The security -enhancing role of regional blocs

is attributed to the fact that they raise the level of interaction and trust among the people of the member countries, increase the stake that each country has in the welfare of its neighbors , and increase the security of access to the neighbor's strategic raw materials (Schiff and Winters,1998).

**Fourth**, regional integration can put Moslem countries in a stronger bargaining position vis-à-vis the rest of the World . Again, Europe is a good example here because the European Community was able to achieve more in its international negotiations than could its members acting individually ( Lawrence,1991 and Sapir,1993).

**Finally**, by integrating their economies , Moslem countries can become more committed to trade reforms and other socio-economic measures such as democratization that are adopted by the bloc. In other words, individual countries tend to give in to pressure groups who are opposed to certain policies or measures despite their importance to the society as a whole. However, this policy reversal becomes costly once a country is a member of regional integration. The advantage of this gain from regional integration is that it makes the region more credible in the eyes of its people and foreign investors, which in turn leads to more investment and better opportunities for development (Whalley,1996, and Baldwin et al. (1997)).

### **Improving Participation at the WTO**

Before the conclusion of the Uruguay Round, Moslem countries, like other developing countries, were not active participants in the trade negotiations that took place between the industrial countries. Therefore, the eight rounds

of trade negotiations that began in 1947 and culminated with the Uruguay round in 1994 were dominated by the industrial countries' interests and priorities .For example , in the Uruguay round , the discussion centered on issues like services , intellectual property rights , and agricultural products all of which are important to the industrial countries , but little attention was given to the transfer of technology or labor mobility that are more important to developing countries in general . This means that if Moslem countries want to influence the agenda and the outcome of trade negotiations within the context of the WTO, they will have, in the coming years, to promote an active participation in this organization. Three levels of participation are worth noting. **First**, Moslem countries should have missions of adequate size and resources dealing with issues relating to the WTO and these missions should be based in Geneva<sup>6</sup>. Also, these missions should not be involved in any other forms of representations like the UN or any other activity not directly related to the working of the WTO. Second, these missions should have active participation in the daily affairs of the organization including, the allocation of formal chairmanships, the various WTO councils and subsidiary bodies as well as being part of the WTO governance and dispute settlement processes (Michalopoulos,1999:116-117).The third and most important element of an effective representation and participation in the WTO is the building of institutional capacity in the capitals of Moslem countries. The complex and technical nature of the matters discussed at the WTO and the fact that the

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<sup>6</sup> For example, In 1997, the average size mission for developing countries was about 3.5 persons compared to 6.8 for developed countries (Michalopoulos, 2000: 126).

organization is a member-driven organization<sup>7</sup> necessitates that Moslem and other developing countries build the appropriate institutions that are equipped with highly qualified personnel capable of fulfilling a number of crucial tasks in their dealings with the WTO including " the drafting of the needed legislations and regulations, the meeting of procedural notification requirements , the staffing of government institutions with technical personnel able to implement the policies and commitments undertaken and the monitoring of trading partners' implementation of WTO obligations to assess whether market access has been unfairly denied or trade rights violated and to prepare the right response" ( UNCTAD and WTO, 1999).The three reforms needed for a more influential role of Moslem countries at the WTO need a concerted effort beginning with individual states passing through regional blocs like the GCC and the Pan-Arab Free Trade Agreement and reaching up to a Pan-Islamic Organization like an organization of Islamic Free Trade Agreement that should be considered . Some forms of integration might also take place between Moslem countries and both Industrial and other developing countries.

## **VI. Conclusions**

The present paper tackles the implications of the Moslem countries membership in the World Trade Organization (WTO) for their future development. The analysis points to a number of conclusions. **First**, with the formation of the WTO, Moslem countries will be striving to realize their

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<sup>7</sup> **This means that most of the analytical work , the presentation of proposals, the conclusions of agreements and the handling of disputes are all done by the member countries and their representatives . In other words , it is a self-service organization.**

development goals in an international environment that is dominated by competition and international institutions where the rules of trade are set by the powerful. **Second**, many of the industrial policies that were used by today's industrial countries to develop are prohibited under the WTO. As such, Moslem countries will face the two challenges of development and globalization in the coming years. **Third**, under these changing and challenging conditions and in order to improve their chances of development in a globalizing world economy, Moslem countries will have to initiate internal reforms, combine them with both regional integration and a more active participation at the WTO.

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