



AN ISLAMIC COMMON MARKET: IMPERATIVE FOR ECONOMIC INTEGRATION OF MUSLIM COUNTRIES

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Abstract

A common market is a scheme of economic integration where the member states agree to eliminate all trade barriers to allow the free movement of goods, services, capital and labor amongst each another. Nonetheless, they follow a common tariff policy towards their imports from the rest of the world. A common market of Muslim countries is vital for the resolution of the economic issues like low GDP growth, low per-capita income, foreign trade deficit, poverty, illiteracy, lack of skill labor force, unemployment, reliance on external debt and aid and dominance of US dollar etc. The leading trade partners of Muslim countries are non-Muslim countries especially China, India, USA and European countries etc. It is an alarming situation that Muslim countries are increasing their trade ties with anti-non-Muslim countries like India and Israel. Muslims must strengthen each other financially by the promotion of intra-trade. They may create an Islamic common market (ICM). This research paper examines efforts of OIC member countries in the creation of an Islamic common market. The objectives of this research paper is to discuss the importance and procedure of establishment of an Islamic common market and analyzes the issues of its formation. This research work will add a new asset in literature. It will contribute to the field of Islamic economics. It will help readers learn about the importance of Islamic common market for a prosperous Muslim Ummah. This research paper follows content analysis method.

Keywords: *Islamic common market, Intra-trade, Tariffs, OIC, Economic.*

Islam is a universal religion. Its believers belong to different nations and tribes and they speak different languages yet they all are brothers. The foundation of Muslim brotherhood, based on faith, is strong whereas the foundations of fraternity of other nations are weak and their realms are limited. Allah Almighty commands Muslims



Ummah to be united: “Hold fast to the rope of Allah all together and be not divided.”¹ The Holy Prophet (S.A.W) said that “Allah almighty is pleased with your three deeds, worship Him, do not make associates with Him and hold His rope together and don’t be divided.”² Faith based economic integration of Muslim countries enable them to strive for the welfare of Muslim countries in an optimum way.

Economic integration is a process which lays emphasis on the decrease and the elimination of trade barriers among member countries. It also harmonizes monetary and fiscal policies of member countries. Its basic purpose is to reduce the cost of products and to benefit the consumer of integrated countries. It is also included in their objectives to increase the mobilization of factors (capital, labor, entrepreneurship and technology). It has been defined as, “Economic integration, process in which two or more states in a broadly defined geographic area reduce a range of trade barriers to advance or protect a set of economic goals.”³

Economic integration is a process of preferential trading agreements*, a free trade area*, a custom union, a common market and eventually an economic union.

Balassa explains Economic integration as:

“It can take several forms that represent varying degrees of integration. These are a free-trade area, a customs union, a common market, an economic union, and complete economic integration. In a free-trade area, tariffs (and quantitative restrictions) between the participating countries are abolished, but each country retains its own tariffs against nonmembers. Establishing a customs union involves, besides the suppression of discrimination in the field of commodity movements within the union, the equalization of tariffs in trade with nonmember countries. A higher form of economic integration is attained in a common market, where not only trade restrictions but also restrictions on factor movements are abolished. An economic union, as distinct from a common market, combines the suppression of restrictions on commodity and factor movements with some degree of harmonization of national economic policies, in order to remove discrimination that was due to disparities in these policies. Finally, total economic integration presupposes the unification of monetary, fiscal, social, and countercyclical policies and requires the setting up of the supranational authority whose decisions are binding for the member state.”⁴

As per definition, “A common market is a scheme of economic integration where the member states agree to abolish all the tariffs on each other’s exports, follow a common tariff policy towards their imports from the rest of the world and allow a

free flow of commodities as well as productive factors (capital, labor, entrepreneurship and technology) amongst each another.”⁵

Before discussing possibility of an Islamic common market, an overview of trade of Muslim countries has been mentioned below.

AN OVERVIEW OF THE TRADE OF MUSLIM COUNTRIES

Islamic world can develop intra investment and intra-trade. According to the Annual Report on Trade among OIC member countries, “efforts of member countries of OIC added to the growth of the volume of intra-OIC and foreign trade although they cope with the economic and geopolitical situation. Moreover, there were economic issues such as the parity of the US dollar against local currencies and fluctuations in commodity prices.”⁶ According to the OIC Economic Outlook 2019, “to attain long-term sustainable progress in merchandise trade, OIC countries will require more competitive economic sectors with noteworthy diversification levels and higher technological strength.”⁷ “In 2018, the share of OIC countries in total exports of developing countries accounted to 25.3%. In 2017, it was 23.6%. In 2016, collective share of OIC countries in total exports of world merchandise declined to 8.8%. Since 2005, it was the lowest ratio that has been seen due to fall in commodity prices. In 2017, it reached 9.3% and in 2018 10.2%.”⁸

There was a rise in total merchandise imports of OIC countries. “It accounted to US\$ 1.8 trillion in 2018, whereas it was US\$ 1.7 trillion in 2017. However, the share of OIC countries in global merchandise imports slightly declined. It accounted to 9.2% in 2018 while it was 9.6% in 2017. The share of OIC countries declined in total imports of developing countries. It shared 24.1% in 2018 whereas 25.3% in 2017. The majority of total exports from the OIC countries remained concentrated in a few countries such as United Arab Emirates, Malaysia, Saudi Arabia, Turkey and Indonesia.”⁹

Since 2000, trade among OIC countries has been progressively growing. “In 2018, intra-OIC merchandise exports accounted to 16.9% (US\$ 339 billion) of the total merchandise exports of OIC whereas it was 11.8% (US\$ 64 billion) in 2000. The intra-OIC merchandise imports also rose up as its share was 14% (US\$ 56 billion) in 2000 and 18.8% (US\$ 333) in 2018.”¹⁰

Intra-investing and intra-trading of Muslim countries are limited. They prefer their economic ties with industrialized and developing countries. The leading trade partners of Muslim countries are non-Muslim countries especially China, India, USA and European countries etc. The fact that non-Muslims trade with Muslims and attain economic benefits and then use these earnings against Muslim *Ummah* is agonizing. Holy Qur'an gives a clear-cut decision about Jews. It says, “O you who believe! Take not the Jews and the Christians as *Aufiya'* (your friends,

protectors or helpers), they are but Auliyah of each other. And if any amongst you takes them as Auliyah, then surely he is one of them. Verily, Allah guides not those who are the Zūlmīn (polytheists, wrong-doers and unjust).”¹¹ Presently, India is oppressing Muslims in Kashmir whereas Israel is doing the same in Palestine. Thus, Muslims must strengthen each other financially by the promotion of intra-trade. They may create an Islamic single market.

PROSPECT OF AN ISLAMIC COMMON MARKET

Muslim countries are rich in mineral resources and manpower. A few Muslim countries are developed. However, economy of many Muslim countries is developing or under-developed. Yet, a few Muslim countries are in miserable condition. For the prosperity of Muslim countries, it is necessary to devise some practically valid ways to ensure economic development.

Abdul Rashid Naeem and Rabia Naz put forward “the concept of the single market. It is assumed that economic integration of Muslim nations will boost their domestic productivity and enhance effectiveness in the global forums on world issues. It will also defend them from foreign economic exploitation. In this context, a common market of Muslim countries is prerequisite.”¹² Muhammad Akram Khan discusses, “Muslim countries should set up a common market. They should not only liberalize tariff and trade but also permit the free transfer of the factors of production.”¹³ M. Umer Chapra is of view that “in Muslims countries, a policy of liberalization may be developed in accordance with Islamic principles correlated to the needs and luxuries. Production, import and supply of necessities should be liberalized. Market forces should also be permitted. At the initial stage, necessary indirect taxes should be levied at a lower rate and graduated in the reverse order of their priority. Nonetheless, resources should not be liberalized for the development of luxuries and unnecessary goods. Moral reform is also a prerequisite for price system. Rich must reduce their unnecessary expense.”¹⁴

Most of Muslim countries trade with Europe, Asia and US. A single market may inevitably boost their industrialization and considerably make integrated countries prosperous. This strategy will enhance market size of member countries. It will make them producers and exporters rather than being only importers and consumers. It will provide them an adequate opportunity to compete with other economic blocs more effectively. Increasing trade within Muslim countries will be advantageous for less-developed countries.

Mohd Ma'Sum Billah focuses the importance of a single market. He narrates that “former OIC secretary general Mr. Ezziddin Laraki laid emphasis on the formation of an ICM. He described the essentiality of overcoming the miseries of Muslims at the hands of the West. It is also vital to resolve numerous issues of Muslim

countries such as Palestinian issue, desertification issues of a few African Muslim countries and the situation of Muslim refugees.”¹⁵

Muhammad Nahavandian said that “to guarantee our political independence”, we must gain “economic power and expand our exports”. He further added that “Europe endeavored for 35 years to set up its common market. So, the Islamic countries need at least 20 years to implement their ambition of creating ICM.”¹⁶

The creation of such common market of Muslim countries was suggested at Islamic Summit of OIC in 1974. However, establishment of this market is a long term project. Ahmed Zeinelabdin & Illhan Ugurel describe that “Islamic countries have divergence in political system, economic structure, ethnic background and level of development. Although most of Muslim countries draw from the common source of Islam, but they have different socio-cultural milieus. This heterogeneity is mostly used as the key argument against the possibility of an Islamic common market. It generates many issues and it would ratify to be a source of strength if it is positively and warily manipulated... In order to create a common market, a strong political will and determination is required.”¹⁷ There are numerous obstacles in creating an Islamic common market such as tariffs, quotas, other non-tariff barriers, institutional differences, linguistics and transport costs etc.

Islamic world is facing many impediments in the establishment of a common market. Nabil Md. Dabour discusses the geographical diversity, absence of direct and well-developed transportation, information network and telecommunication services. Direct transportation services among OIC countries are also limited and mostly linked with major centers of developed countries. They are diverse in term of population, international relations, economic and political systems, level and stage of economic growth, resource endowments, socio-economic structures, benefits and main issues. With a few exceptions, structure of production of approximately entire Muslim countries is not diversified. Their productions and exports rely on a limited variety of primary goods. Agriculture and oil productions contribute to the highest shares among the productions of about half of the OIC countries. Diversity of production structure also indicates their level of income and standard of living. It also reflects in resource balance of different countries. The heavy external debt burden is also economically paralyzing many countries. The structure of production and exports are another cause of low level of intra-OIC trade.¹⁸

Muhammad Kabir Hassan explains hindrances in trade among Muslim countries. He deliberates, a few of the hurdles out of the multiple hurdles in the way of trade between OIC countries are the poverty of OIC countries and the lack of updated and reliable information about trade. To check for the surplus demand of some certain commodities to let member countries trade them, a database must be

created. Also, the private sector suffers from lack of opportunities to make contacts for business. The establishment of business contacts needs exhibitions to be organized. Lack of skills for marketing is another hurdle. Products must be made on international standards for style, color, packaging and buyers' specifications or environmental standards. Finally, the exports must also be diversified. A lot of OIC countries have a limited number of products to make up a significant amount of exports.¹⁹ Marketing of product can be improved through development of human capital, sound information system and E-Commerce.

Mohd Ma'Sum Billah points out the issue that Islamic world is not sharing its resources. He says that "Muslim countries have a great potential of economic development both on economic and political basis. They can establish a dominant bloc. Nevertheless, they are not integrated and do not share their resources among themselves. Resolving the issues of Muslim Ummah, formation of an ICM, a genuine threat to the West, would take place soon."²⁰

To create an Islamic common market, Muslim countries may begin with a preferential trade agreement or a free trade area. They may also improve their terms of trade with the rest of the world. As Ahmed Zeinelabdin & Illhan Ugurel put emphasis on gradual establishment of a single market. They narrate that "OIC member countries which had been member of several formal integration arrangements over extended periods of time could not take practical step towards more progressive forms of economic unity in the form of a single market. Moreover, the absence of communication and transportation services, lack of readily available up-to-date information of member countries and the geographical diversity are major obstacles in economic integration. Hence, it must be initiated with modest goals, rather than the entire integration, finally to reach the complete economic integration of Muslim Ummah. It may be started with collaboration in concrete investment projects, limited scope, gradual growth of trade, mutual trust and solidarity. This is the vital requirement for the recognition of ultimate integration."²¹

Ruzita Mohd Amin and Zarinah Hamid write that "one of the key purposes of OIC is the economic cooperation through trade. The charter of the OIC, approved in February 1972, indicated the importance of cooperation for the wide economic development of Muslim community and the significance of assisting individual member countries for rapid enhancement of their productive capacity. Many measures have also been taken in this perspective. In the late 1990s, OIC member countries declared to set up a Trade Preferential System (TPS) to be implemented on 1st January 2009. Its objective is to further stimulate trade in OIC member countries through the exchange of trade preferences. It includes distributing of

certain trade rewards equally among participating countries. It also indicates the increase of intra-OIC trade as a mechanism and a vital step towards the establishment of a free trade area. This area would ultimately develop into an Islamic common market. The Framework Agreement on Trade Preferential System among the member countries of OIC was signed in 2004. In 2005, the 'OIC Ten-Year Action Plan to meet the challenges faced by Islamic Ummah in the 21st Century' was made to increase entire trade by 20% by the year 2015 and to explore the probability of creating an OIC free trade area."²² Nabil Md. Dabour writes, "The Framework Agreement establishing a Trade Preferential System was signed by 23 OIC countries and ratified by nine of them. As a prerequisite, it must be ratified by ten member countries in order to be enforced."²³

In order to make the TPS-OIC system more successful, another scheme would be initiated where tariffs that are currently between zero and 10% will be reduced to 5% and eventually abolished.

Muhammad Kabir Hassan lays emphasis on the significance of Preferential Trade Agreements (PTAs). He explains that "in this process both trade creation (TC) and trade diversion (TD) take place. Reduction in preferential tariff decreases the relative price of imported goods. It stimulates a member country to import goods from its partners instead of producing them. TD takes place when a member state initiates importing a good from its other partners instead of non-partner countries. It is preferable, for the prices fall in the case of partner-sourced imported goods instead of non-partner-sourced imported goods. It is caused by the preferential nature of reduction in tariff."²⁴

Mohd Ma'Sum Billah narrates that "it is prerequisite to implement strategic plan. There are three prerequisites to strengthen economic relations in Islamic world. Firstly, economic unity among Muslim states must be ensured. Secondly, a preferential trade arrangement must be set up. Thirdly, an agreement must be made to ensure Islamic cooperation for investment and export credit."²⁵

In context of a single market, an initiative has been taken by the Gulf Cooperation Council (GCC). "On January 1st 2008, six-members of GCC with combined economies of USD 715 billion launched of a common market to draw more foreign investment to the region."²⁶

Islamic world can be benefited by the single market. Nonetheless, there are numerous adverse effects of this scheme. Nabil Md. Dabor discusses advantages and disadvantages of an Islamic common market in detail. He narrates that an Islamic common market will boost the mobility of labor and goods. It may increase competitiveness, productivity and efficiency. Domestic companies and industries of member countries will face tougher competitive conditions. It will be detrimental to industries and firms of some member countries especially in the short and

medium periods. Whereas, at initial stage of integration, a common market will cause changes in relative prices of factors of production. As, they move to integrated countries which offer better rewards. Hence, in the short and medium periods, it may cause imbalance in economic development among the member countries. However, in long term, it will be eventually eliminated while at more advanced stage a vast single market will be created with relatively equal wages and profit margins.²⁷

CONCLUSION

An Islamic common market will be a gradual process of decrease or elimination of trade barriers among member countries. The leading trade partners of Muslim countries are non-Muslim countries especially China, India, USA and European countries etc. The contribution of Muslim countries in global trade is also rising. They are also focusing to increase intra-trade. Nonetheless, a strong political will is prerequisite to construe the formal measures into definite implementation. Otherwise, all these determinations and efforts for an Islamic common market would prove futile. It is need of the time that leaders of Islamic world set aside all their mutual issues and determine to set a single market for their economic strength. They must sound their information system and focus on the development of science and technology for this is imperative for the dynamic industry and market. Initially, an Islamic single market can be started with preferential trade agreements. It was declared to set it up in late 1990s and to be implemented on 1st January 2009. Yet, it was not enforced. It is the weaker form of economic collaboration. However, they may develop a free trade area and then an Islamic single market. It will contribute to the prosperity of the inhabitants of integrated countries.

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countries) are examples of preferential trade agreements.” (CRS Report for Congress, Agriculture: A Glossary of Terms, Programs, and Laws, 2005 Edition, 16 June 2005, CRS-206; <https://web.archive.org/web/20110810044532/http://ncseonline.org/nle/crsreports/05jun/97-905.pdf> accessed November 5, 2020).

* A Preferential Trade Area- It is a free trade area where tariffs are reduced. However, tariffs are not eliminated completely. A PTA is the first stage of economic integration. It can be established through a trade pact. Almost any PTA has a key objective of becoming a Free Trade Agreement (FTA) according to the General Agreement Tariffs and Trade.

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