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Globalization and its challenges for OIC countries

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Abstract: Globalization is a multifaceted and complex process casually refers to variety of phenomena that reflect increasing integration of economies around the world. As countries are speeding up their openness in recent years, there have been increasing concerns related to the globalization and its impacts on different aspect of life. Like other developing countries, the OIC countries were also seeking to enhance their share in the global economy. In fact, the new challenges facing these countries are how they increase the opportunities and decrease costs of globalization. This article attempts to shed light on the effects of globalization and its challenges in the case of OIC countries. We conclude that the OIC countries need to do a lot of homework to make use of globalization benefits. On the other word, there is urgent need for them to design and implement efficient polices. We categorized these policies into two groups. The first group of policies will encourage the foreign capital flow in the countries. In addition, it recommends policies for OICs to benefit from foreign capital. The second group of policies concentrate on the recognition of comparative advantage of each country and diversification of the export of OIC to improve international trade.

Key wrods: Field of Research: Globalization, economic growth, Organization of Islamic Cooperation

INTRODUCTION

Globalization is not a new phenomena and our world has experienced it from many years ago (Baldwin and Forslid, 2000, Bhandari and Heshmati, 2005, Collins and Williamson, 1999, Obstfeld and Taylor, 1997). Globalization is complicated process, which affects different aspects of our lives such as economics, cultural, environmental and political in the countries. This broadly concept is commonly reflect increased economic interdependence of countries. Economic globalization include flows of goods and services across borders, international capital flows, reduction in tariffs and trade barriers, and immigration which contribute to the spread of technology, knowledge, culture and information across borders.

The broadly effect of globalization on different aspects of life grab a great deal of attention over the past three decades. The proponents of globalization have argued that the openness and integration is a beneficial process for countries. It will bring prosperity to the larger number of people in the world. They strongly believed that globalization is a key to economic development and reduction of poverty and inequality (Bhagwati, 2004, Dollar and Kraay, 2002, Fischer, 2003). On the other hand, opponents called globalization as a depressing process that makes our world more unequal due to the limited role of government and the increased gap between those who participle in the integrating world and those who do not(Batra, 2005, Rodrik and Subramanian, 2009).

However, most economists agree that globalization is an important factor in building an economic system. Globalization, particularly trade expansion and capital flows, not only offers new opportunities, but also raises new challenges for developing countries (Craig, 2008). Investigation the effects of globalization on economic indicators is an interesting topic in globalization literature.

Being a significant subset of the developing world, the OIC countries are inevitably faced with serious economic problems. The serious concern, that majority of the OIC countries are faced by it, is the development and inequality dilemma. These issues are more important in Islamic countries duo to their religious that emphasis on the income equality in countries.

In spite of vast number of studies, this link remains especially for developing countries as open question and has not been settled so far. In fact, there is ambiguous and obscure relationship between them. The objective of our study is to shed light on the effects of globalization in OIC countries. The recent challenges facing these countries are how they increase the opportunities and decrease costs of globalization. We will be recommended some policies for OIC countries to be successful in the integration to the world.

The paper is organized as follows. Section two describes the role of globalization in developing countries. Section three introduces OIC organization. It will be followed by investigating the trend of economic growth and globalization of the OICs. Section four presents policy recommendations. The final section summarizes and concludes the paper.

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The Role Of Globalization In Developing Countries:

Globalization has had several significant and beneficial effects on many economies. However, the anti-globalization movements claim otherwise. In this section, we will briefly explain the positive and negative effects of globalization to better understanding of this process.

The Positive Effects Of Globalization:

The current wave of globalization has brought many beneficial changes in the participating countries. On the global level, globalization has paved the way for move of capital, goods, services, labor and technology across borders. Higher rate of growth and standards of living is also brought by globalization (Thacker, 2008).

The principle of comparative advantage, with increasing economies of scale and scope, as well as specialization, justifies the case for trade reforms and opening up the trade system. For instant, trade globalization shift labor-intensive activities to developing countries highly endowed with low-cost labor. Productivity growth is higher in periods of liberal trade policy (Havrylyshyn, 1990).

Trade and financial globalization reduces monopolies power by increasing competition between domestic producers that were previously isolated from international competition. Increasing competitiveness improves resource allocation, promotes efficiency and accelerates growth (Edwards, 1997). The more open the economy, the greater its ability to innovate and increase its long run growth (Romer, 1986). Economic globalization provides access to better technology and inputs. By opening up the economy, potential markets for producers and exporters expand, which gives them incentives to investment in research and development.

The benefits of globalization are not limited in economic aspects, as, it has provided important advantages in politics, culture and environment. By accessing to the different types of media, people are more aware on the issues like human rights, gender inequality and democracy. In addition, WTO has some restrict roles to prevent trade of unfriendly environmental products and world-polluted activities.

The Negative Effects Of Globalization:

Despite numerous advantages to globalization, various disadvantages remain. Globalization is like a game; countries that participating in the global world are winners and others are the losers of the game. In fact, many drawbacks of globalization are happened in the marginalized countries.

By the late 1990's, the term globalization was increasingly used to declare concern about the result of significant global changes in the welfare of different groups, the disparities among people, the sovereignty and identity of countries, and the health of the environment (Hirst and Thompson, 1999). In fact, globalization has increased the gap between globalized and other countries. The growth rate of developed countries improved by globalization, but it became worth in those developing countries that did not participate in this process. The marginalization of these countries has caused increase in inequality and poverty (Thacker, 2008) .

In the globalization process, the activities of modern sectors and market-oriented are affected more. The cost of globalization for developing open countries is related to lack of transferring of knowledge between modern and informal sectors. Therefore, the differences in productivity between these sectors are continued and income inequality increases within the different groups of people in these countries. In addition, opening to global markets, taxation on exports and imposing tariffs on imports, the main source of government revenue in developing countries (5-62 percent of government revenue), will be decreased (Greenway and Milner, 1991).

Opening to the international markets will worsen the balance of payments and fiscal problems for developing countries. This is because this process tends to be generating a rapid increase in imports while the rise in exports tends to be slower (Abuhasan, 1996).

Spread of crisis is also faster in the open economy. The recent global crisis in the USA banking system rapidly developed and spread to the European bank. It also has affected developing countries, whether those more integrated in financial markets such as East Asian countries, or those who integrated through trade such as Cambodia and Nepal (Green *et al*., 2010).

Aside from economic concerns, the negative effects of globalization are also in political and cultural. Eliminating the ability of the nation to establish and implement their own policies or autonomy is the negative side of globalization. Countries that object to restructuring the economy through liberalization have significantly reduced governmental means of carrying out individual programs of law enforcement and development (Thacker, 2008).

Another disadvantage of globalization is rapid depletion of environmental resources of poor countries. Foreign investors working in cooperate with unprincipled locals were given easier access to take advantage of natural resources in lower standards of environmental protection (Nissanke and Thorbecke, 2006). The obvious example is exploitation of Shell Company of oil resources in southern of Nigeria, Niger Delta. By the violation of weak environment protection law in Nigeria, Shell Company destroyed environment, fishing and farmland, by flaring the gas at low level of ground.

Organization Of Islamic Cooperation:

The focus of this study is on the OIC countries, which in recent years has emerged as one of the world's most dynamic growth areas. The association of The Organization of the Islamic Cooperation (formerly known as Organization of the Islamic Conference) was established in 25 September 1969 in Morocco. OIC is the second largest inter-governmental organization after the United Nations which has membership of 57 states spread over four continents; Europe, Africa, Latin America, and Asia. OIC is populated by 650 million people (22.3 percent of world population), with a gross domestic product of 4590 billion US dollars and 11.2 percent of world merchandise exports. These members have abundant, rich and diversified human and natural resource that contains 70 percent crude oil reserves, 50 percent natural gas reserves, 45 percent of total raw material and 65 percent of natural resource of the world (SESRTCIC, 2009). Based on World Bank, OIC countries can be categorized in three income groups: low income, middle income and high-income countries. OIC was established with political forum. Afterwards, in order to have effective organization, they realized cooperation in both political and economic among members is necessary. Thus, the third Islamic conference determined that its goals were to merge the resources of members together for improving solidarity and to consolidate cooperation among member states in the economic, social, cultural, political, and scientific sphere; and to improve cooperation between Muslim world and other countries for providing benefits to its members (Yeni *et al*., 2008).

The OICs face many challenges in 21st century. In 2005, the extraordinary meeting held in Makkah to address these challenges. The outcome of the meeting is determination of a program that called the Ten-Year of Action. This program emphasizes on the reform in all spheres such as science and technology, education, trade enhancement, and emphasizes good governance and promotion of human rights in the Muslim world, especially with regard to rights of children, women and elderly and the family values enshrined by Islam.

Committee for Economic and Commercial Cooperation (COMCEC) has formed to achieve the economic goal of the program. These economic goals are include establish an Islamic common market by exert efforts to strengthen trade cooperation and achieve economic integration among members; strengthen cooperation among members to achieve sustained socioeconomic development for effective integration in the global economy, in conformity with the principles of partnership and equality.

Considering the Ten-Year program and its goals, OICs know the importance and priority of integration in the global market to overcome the serious problems such as inequality and low level of economic growth. Nevertheless, after five years pass from approval of the program, OICs are not able to devote significant share of global markets. The countries data showed that the share of OIC countries in the world exports market increased from 9.5 percent in 2005 to 11.7 percent in 2008. However, the 73.9 percent of the total exports of the OIC countries in 2008 was concentrated in 10 countries only (SESRIC, 2009).

The overall picture of OICs:

The OIC countries are a significant part of developing countries with different level of income and growth. They have numerous amount of natural resource such as energy, land, mining and agriculture. Nevertheless, these potential and prominent factors do not seem to have effective roles in economic improvement of these countries. As, the average economic performance of these countries is compared to developing countries, the weakness of their performance is apparent. Almost 22 percent of world population is living in OIC countries that contribute only 7.5 percent of world GDP and 11.2 percent of world export (in current US Dollars).

The diversity in the conditions of OIC members reflects high levels of heterogeneity and divergence in the economic structure and performance of these countries. As, in 2008, 71 percent of GDP and 73 percent of total export of all OIC members were concentrated in only ten countries. This situation has been reflected into a huge gap between the rich and the poor OIC countries, where the GDP per capita in the richest OIC country was 220 times higher than that in the poorest country in 2008(SESRIC, 2009).

Growth Trend:

The average Gross Domestic Product (GDP) of the OICs has taken on a continuous upward trend during 1980-2008. GDP in 1980 were 82.9 billion (current US$) rising to 1.04 trillion in 1990. Compared to 2000 level of 1.58 trillion $, GDP has return to 3.7 trillion $ in 2008, doubling the 2003 level of 1.89 trillion (Figure1). The upward GDP trend of the OICs was broken in 1982, 1998, 2001 and 2008, due to the sharp decline in oil price, Asia financial crisis, the global economic slowdown and the world economy crisis witnessed in those years, respectively. With these amounts, it is observed that OIC countries increased their share in world GDP during this period. The share of OICs from world GDP was 5.4 percent in 2004, which increased to 7.5 percent in 2008 (SESRTCIC, 2009). Nevertheless, considering that even some individual non-OIC countries recorded higher shares in world GDP, and some others recorded almost similar shares, it seems that the share 7.5 percent recorded by the 57 OIC countries is still insufficient.

It is worth to mention that the figure 1 is affected significantly by the growth performance in the oil-exporting and the middle-income OIC countries such as Indonesia, Turkey, and Malaysia which the share of their GDP is quit high in OICs. The middle-income countries are produced almost 76% of GDP of OICs in 2008.

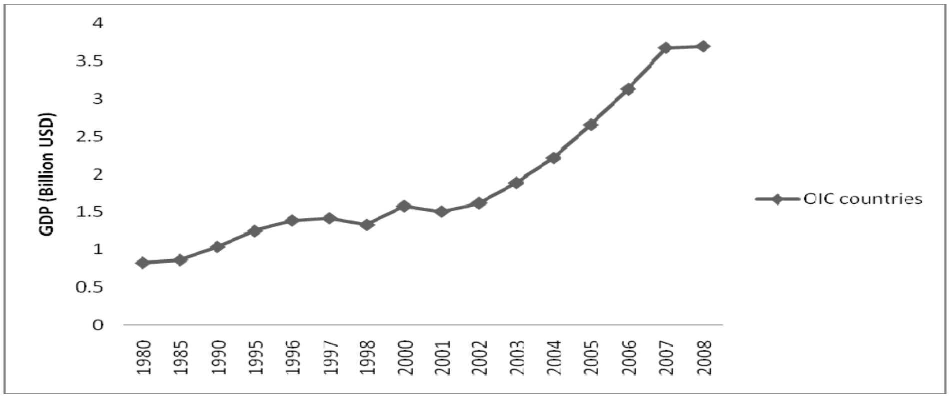

Fig. 1: GDP at current prices (Billion UD$)
Source: Author calculation based on WDI

The average real GDP growth rate of the OICs has taken on a continuous upward trend between 1980 and 2008 (Figure 2). The real GDP growth rate of the OIC countries was 6.9% in 2004, the highest level during the period under consideration.

The growth rate of GDP was still lower than that of the developing countries (Figure 2). The strong recovery of OICs, which the average growth rates of them were higher than world average, was during the 2004-2004. The reason for sharp increase in real GDP for the period 2001-2004 can be attributed to the increase of oil prices during this period (SESRTCIC, 2006).

Fig. 2: Real GDP growth rate of world
Source: UNCTAD

In figure (3), the selected OICs will be examined in 3 sub-groups, Low, Middle and High income based on the categorization of World Bank in order to better illustrate the growth rate of the OIC. All OIC countries that categorized in high income group are oil producer, obviously being vulnerable to global changes in the oil market. For instant, Kuwait petroleum accounts for nearly half of GDP, 95% of export revenues, and 95% of government income. Before 1990s, high income countries experienced negative growth rate which caused by serious glut in the world market as a result of slowed economic activity in industrial countries.

In 1988, the world economy grew almost double in the 1986-1987, which increase demand in oil market. In 1990, the oil shock again happened because of Gulf war, but this shock is less extreme than previous one. The high income countries had experienced upwards growth rate before world crises of 2007 in order to the rose in global oil price.

The middle income countries experienced very low or negative growth rates forth times for the period under consideration. The slowdown of growth rate, after increasing due to the oil price boom in 1973, was during 1980-1985 after sharp decline in the oil prices. This reduction of oil price cause world economy crisis that severely affects economic growth rate of OICs special oil exporting countries. The OICs also experienced negative growth rates in 1998 because of the impact of financial crisis in Asia. Among Middle income OICs, Malaysia and Indonesia are those which affected more by Asian financial crisis. Their growth rate became sluggish again in 2001 due to September 11 and weak global economy demand.

Before being hit by the global economic crisis, the middle income OICs economy averaged a 5.8% per cent growth rate between 2000 and 2007 with pick the 5.1% level in 2005. As the sub-prime crisis originated in the United States turned into a global crisis in fall 2008, the world recorded a contraction in real GDP in 2009. The world economy crisis, which began in USA in 2007, dragged the world economy in a deep recession. Almost no countries, developing or developed, could escape from the impact of economic crisis, although less integrated countries have been less affected.

During 1980-2008, the Low income countries of OIC grew, in general, at moderate rates. In 1995, they realized a very high rate of growth when their exports increased by 28.4 per cent. A remarkable increase in exports of the Low-income group pushed their growth performance upwards. In addition to the improvement observed in the average growth rate of the group, a decline is also observed in the number of countries which experienced negative growth rates in recent years. For instant, Bangladesh has upward growth rate in order to decrease tariff rate in 1995-1996 and increase the export and import by diversify her exportable products. The countries which experienced low or negative growth rate are those in civil war, like Sierra Leone (1991-2002), Guinea (1990s) and Uganda (1986).

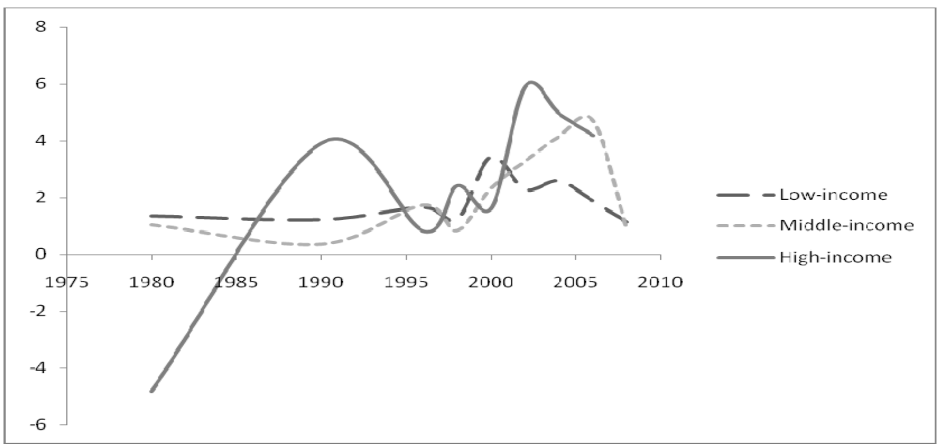

Fig. 3: GDP per capita growth rate of selected OICs based on income level
Source: WDI

The average performance of OICs is influenced by the developments in the major countries within them. The top ten growing countries in 2008 were Qatar, Azerbaijan, Turkmenistan, Niger, Iraq, Lebanon, Uzbekistan, Uganda, Kyrgyz Republic, and Tajikistan (SESRTCIC, 2009) (Figure 4).

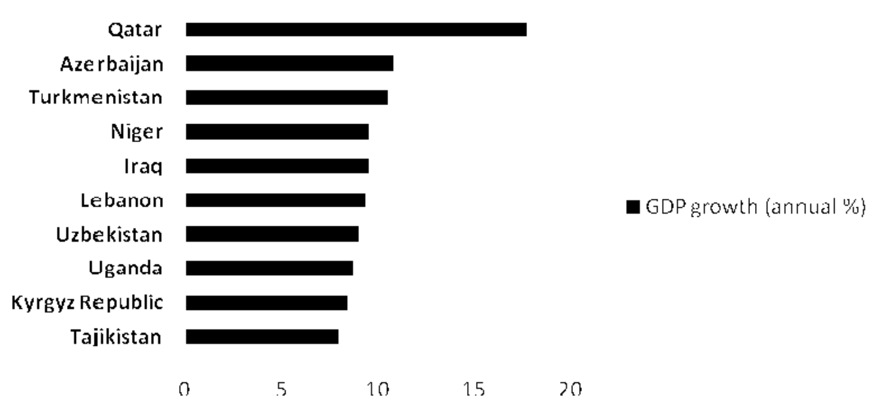

Fig. 5: The top ten growing countries in 2008
Source: WDI

Globalization in OIC countries:

The new wave of globalization (1980- present) is distinctive due to the participation of developing countries in the global economy by changing their inward-oriented policy to outward-oriented policy. But, the overall picture of globalization show that they still are not able to catch up developed countries. Like other developing countries, the OIC member countries have been seeking over the last decade to enhance their share in the global economy through financial and trade globalization.

There are different globalization index that measure it by using different indicators. Among these indexes, KOF is the best index as it measure volume of trade and capital as well as restriction on them(Parisa SAMIMI *et al.*, December 2011). The KOF Index of Globalization was introduced in Dreher (2002) and is updated and described in detail in (Dreher *et al*., 2008).

The picture of globalization show slight upward trend during 1980-2008. As mentioned above, economic globalization is an important issue that takes into consideration in the Ten-Year program. The KOF index show that economic globalization has been on the rise since the 1980s (Table1). It increased from 36.7 in 1980 to 53.6 in 2008 with a moderate upward trend.

Table 1: KOF, export and import as percentage of GDP

Index	1980	1985	1990	1995	1998	2000	2002	2006	2008
KOF	36.75	37.41	39.22	42.45	44.83	47.31	48.55	53.79	53.65
export	32.27	21.58	25.2	29.6	27.7	32.72	30.33	36.01	35.12
Import	25.28	23.85	25.05	30.53	28.41	27.5	26.78	28.9	34.05

Source :(Dreher *et al.*, 2008)and WDI

Overall, after world crisis in 1982, most of OICs improved its trade and industrial policy regimes. OICs trade and financial markets were protected prior to mid 1980s. From 1980s, OICs has declined their barriers to foreign investors, enter into era of outward-orientation and relied more on FDI to diversify their export.

The economic globalization of selected OICs that categorized in three groups based on the level of income is illustrated in figure (6). The level of economic globalization measured by KOF index that account trade and financial globalization have raised in all income groups during 1980-2008. The level of KOF in low-income countries is lower than other groups. This may be caused by their weak infrastructure and economic structure which make them unattractive to foreign investors or vulnerable to the external shocks in their trade. In addition, many of these countries are affected by civil wars which damaged their infrastructure and caused unstable economic conditions. These countries characterized by high level of inflation (Uganda), high rate of corruption (Burkina Faso), high rate of unemployment (Senegal) and low level of human capital (Sierra Leone).

The Middle-income OICs have experienced an upward trend of economic globalization during 1980-2008. Most of these countries started to integrate to the world markets since 1980s. The most successful middle-income countries specially in attracting FDI are Turkey, Malaysia, and Indonesia. The figure (6) reported the highest level of globalization in high-income countries. As explained in the first section, these countries are Oil exported which high level of foreign investment of them are in oil sector and almost all export of them are oil product.

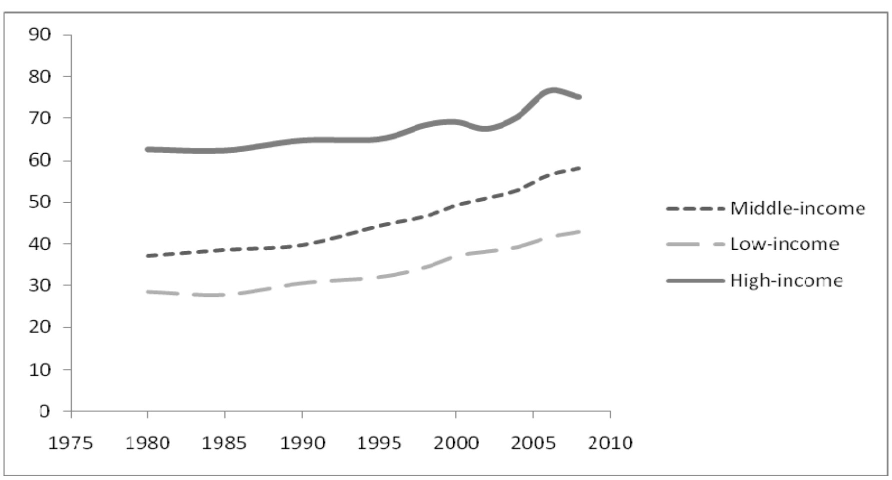

Fig. 6: Economic globalization of selected OICs based on income level
Source: (Dreher *et al.*, 2008)

The analysis of KOF index in OIC countries show that a small number of OIC members are more globalize such as Turkey, Malaysia, and Indonesia. It is obvious, then, that these countries are those which have more market-oriented economies more liberalized and regulated markets, more privatized economic activities, and a better infrastructure.

The above picture shows that the OIC countries were not very successful in participating in global economy. In fact, when individual country data is considered, it would appear that sharing of less developed OIC countries in global is really insignificant.

This picture implies that although globalization has an important role in development, this role cannot be considered in many of OIC countries. The role of OIC in the world economy has also been small in relation to the size of their economies, which implies that the majority of these countries were not able to make use of on the potential developmental benefits of globalization

Given the above situation, participation in global economy is a particularly important policy for almost all OIC countries. Thus, in the context of their efforts to increase their share in global economy, greater emphasis has to be placed on attracting foreign investment and improve their trade conditions.

For catch up these goals, specific incentives and policies should be done.

Recommendation:

As developing countries are speed up to the globalization, there is urgent need for OIC countries to choose polices which would enable these countries to have the benefits of global integration. Many economists believe that countries need to have reached the takeoff point before they can take advantage of the potential benefits of openness and globalization. To reach the take off point, OIC countries need to ordain some policies.

Like other developing countries, government is very important power in OIC members. So, the main responsibility lies with the governments as prominent factor to minimize the damage and maximize the opportunities of globalization in country. In this process, government should also mange trade and financial flows more carefully. Some policy options that maybe considered are as follow:

Recommendations To Increase Financial Globalization:

There are three types of foreign capital flow in to OIC countries: Loans, foreign portfolio investment and foreign direct investment. The first type, dept financing or Loans, is not desirable as servicing is not directly linked to the performance of the underlying investment. The second type, FPI, is also not the likely form of foreign capital since it can be eliminate from the financial markets in the case of crisis in the country. This may cause crisis more adverse like the experienced of Asian countries during 1997 recession. The third one is the most desirable kind of foreign capital which is only type of capital to link the host country's economy with the global economy.

Foreign investors in the form of FDI bring highly productive resources for OICs such as superior technology, transfer of managerial, increase domestic investment and improve the skills composition of the labor force because of "learning by doing" effects. The foreign investment can be lead to the new tradable sectors to help the process of export diversification.

Therefore, government as main power in these countries can encourage and enhance FDI through various polices. Here some of these policies recommended:

- Foreign investors are attracted towards conditions that are more profitable and secured with stable economic and political condition. The initial policy of government should be reducing the uncertainty and transaction costs; and providing equal and accessible information for investors.
- Improvement in the human capital, as the new technology brought by FDI needs skilled workers.
- An economy with powerful infrastructure is more attractive for investors.
- The potential benefit of FDI to the host economy is appear when government encourage investors to train local managers and workers and familiar them with new technology in the world.
- Government can mention some rewards for successful investors such as tax exemption or reduce the tariff on their imported inputs.

Recommendations To Increase Trade Globalization:

There is some recommendation for OIC countries to be successful in the process of trade openness. These countries should design and implement some policies during the process of switch from inward-oriented regime to outwards-oriented.

- OICs should recognize their ability to produce which goods or services more efficient and cheaper than other countries which called comparative advantages.
- OICs need to diversify their trade specially exports. In fact, the export structure of OICs is not diverse enough to decrease the vulnerability of their trade to external shocks. It is necessary for OICs as developing

countries to diversify their exports, since dependency on a few sectors may hamper growth if they experience fluctuations in demand or prices.

- One of the basic policies to follow is developed human capital. In fact, the majority of OIC countries are labor-intensive, so developed the human resource for these countries in early age of globalization is prominent.

Conclusion:

This paper made efforts to shed light on the effects of globalization in OIC countries. Success of countries in the globalized world depends on a variety of factors. To take advantage of globalization, OIC countries need to design and implement some policies before and during integrating with the world economy. The success of the openness policies have been found to depend on the presence of a minimum level of reforms and economic development by participating countries.

Before integrating to the world economy, countries need to create pattern of comparative advantages. They should recognize their ability to produce which goods or services more efficiently and cheaper than other countries. The successful developing countries in the process of globalization, such as some of East Asia countries, are those, which evolve their comparative advantages over time and also train their workers and improve technology/knowledge base. Other factors necessary for successful globalization are political and social stability, good infrastructure, and diversification of exports.

The Results of this research will provide important information to OIC countries so that they propose the best policies to face Globalization process. It also would bring transparency, and help the policy-makers in OIC countries confront some cost that occur in the globalized economy. With the information at hands, OIC countries can see whether the policies of OIC organization are on the path of integration to harvest maximum benefits from globalization.

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