E-ISSN: 2948-3964, Vol. 2, No. 1, 2023, pp. 13-30

Law, Policy, and Social Science
مجلة القانون والسياسة والعلوم الإجتماعية

Submission date: 13/03/2023 *Acceptance date:* 18/03/2023 *Publication date:* 01/06/2023

THE CONCEPTUAL FRAMEWORK OF INTERNATIONAL TRADE BETWEEN OIC COUNTRIES

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ABSTRACT

This study makes a significant contribution to the international scholarly community by illustrating the conceptual framework of international trade among OIC (Organization of Islamic Cooperation) countries. It provides valuable insights into the impact of trade balance on economic performance. Employing a descriptive analysis approach, the paper meticulously describes the conceptual framework of international trade within the OIC context. Through an exploration of the determinants of trade deficits, this research sheds light on the policy dynamics influencing trade imbalances among OIC countries. The study particularly focuses on the influence of Foreign Direct Investment (FDI) and trade balance on economic growth, revealing their interconnectedness. Furthermore, this study expands the understanding of the relationship between trade balance and economic performance specifically within the OIC countries. By elucidating these connections, it offers valuable insights for policymakers, researchers, and practitioners seeking to enhance economic stability and growth in the OIC region. Overall, this research contributes to the international scholarly community by providing a comprehensive analysis of the conceptual framework of international trade in the OIC context, highlighting the significance of trade balance for economic performance. The findings of this study can inform future studies, policies, and strategies aimed at fostering sustainable economic development and prosperity among OIC countries.

Keywords: *Trade, Trade Deficit, Economic Performance.*

Cite as: Eldeeb, I. M. I., Haris, A., & Muda, M. (2023). The Conceptual Framework of International Trade Between Organisation of Islamic Cooperation (OIC) Countries. *Law, Policy, and Social Science*, *2*(1), 13–30. Retrieved from https://lpssjournal.com/index.php/journal/article/view/25

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Introduction

Trade refers to goods/services exchange involving buying and selling. Trade was done in the beginning of times in the form of bartering, where goods/services were exchanged between producer and buyer without money, and this evolved to the exchange of money (Krings, 2014). In last three decades, international trade among nations has become a part of life and study field, with one of the forwarded top ideas being the theory of comparative advantage. The theory posits that some nations are more efficient in goods/service production compared to others and thus, based on such goods/services nations should import them, to reap the benefits. This is the concept upon which free trade is based on (Mohd, 2005).

One of the pioneering international trade agreements is the General Agreement on Tariffs and Trade (GATT) in 1947, involving the encouragement of free trade between member nations through the regulation and reduction of tariffs on traded goods and provision of a united system for trade disputes resolution. Later, the Uruguay Round of GATT negotiations from 1986 to 1994 resulted in the establishment of the World Trade Organization (WTO) in 1995, which remains the current global organization that deals with trade rules and regulations. The WTO agreements are negotiated and entered into by majority of the trading nations around the globe, with the purpose of assisting the goods/services production, export, import and business activities. In the current times, debate revolves around the benefit that the countries reap from the agreements (Macphee, 2014).

WTO members contend that poor countries have certain needs that must be considered more than their rich and powerful counterparts. In the context of OIC, there are currently 57 members, 40 of which are WTO members and 13 with observer status, and every country being a part to at least a single regional economic community (REC), with most being a part of five or more of such communities. These include the Gulf Cooperation Council (GCC), Common Market for Eastern and Southern Africa (COMESA), West African Economic and Monetary Union (UEMOA), Association of Southeast Asian Nations (ASEAN), the Economic Community of West African States (ECOWAS), the East African Community (EAC), League of Arab States (LAS), Arab Maghreb Union (AMU) and the Southern African Development Community (SADC), Economic Cooperation Organization (ECO) and the Counou Agreement that is affiliated to the European Union (EU), and 77 African Caribbean and Pacific (ACP) nations.

Notably, members to the trade and economic policies are affected by the organizations' policies and trading systems. For instance, the Islamic Development Bank Group, which is described as the financial core of the OIC has a strong partnership with the REC as part of the strategic thrust to reinforce and maintain higher levels of cooperation and integration of economies of member countries and other countries around the world. The OIC market's total economic size that is akin to China's, can play the role of a complementary entity to the global market rather than an alternative. The OIC's top issues and lack of structural change can be tackled through open regionalism, with the use of regional agreements for integration of a global economy.

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In fact, the OIC, based on its inter-governmental connections around the world, is second to the UN, with 57 OIC members countries located over a large proportion of geographical region on four continents, from Albania in the north (Europe), to Mozambique in the south (Africa), to Guyana in the West (Latin America) to Indonesia in the east (Asia). The OIC countries constitute 1/6th of the world area and over 1/5th of the total world population. Economically, the OIC collectively has minimal contribution, with GDP reaching $5.7 trillion in 2012, constituting only 8.3% of the global GDP, in comparison to the $16.62 trillion GDP contributed by the U.S. Owing to the OIC minimal economic dimensions, the commercial engagement between its member countries plays a key role in the economic growth generation, and in raising the living standards of its member nations.

The trade movement maintenance is the top crucial aspect in the economic relationships among nations, with the main engine being the protection of political relationships among governments and the unity of perspectives in view of majority of issues. In relation to this, economic relations may be influenced in case some countries withhold their cooperation in the interest of the whole. On the contrary, if all member countries are inclined to supporting the economic relations for the overcoming of issues for various political directions. Political relationships may culminate in lost economic relationships and other agreements among nations, and it measures the robustness of economic development of each nation's economic system.

The role of trade has returned to the limelight following the latest globalization wave that has been described to have intensive trade integration and trade openness and linked with technological revolution. Over the past thirty years, international trade has experienced a steady increase with an average of world merchandise trade increasing by over 7% every year (quadrupled in terms of volume) between 1980 and 2011 (World Trade Organization, 2019). Technological advances, telecommunication and transport developments have opened up avenues for re-organizing global production and distribution systems around value chains. Another major feature of the evolving global landscape is the higher role of trade in services, even more than merchandise trade. Owing to the challenges in documenting services transaction, the employed traditional measures fail to do justice to their significance and crucial role in global trade (Haug, 2019; World Trade Organization, 2019).

Along with the above-mentioned landscape is the topography of global trade that has been formed by the extensive participation of developing economies in international trade, which was initialized by the industrialization of East Asian Tigers in the early 1960s, pursuing an outward-oriented trade policy, culminating in growth precipitated by exports. (World Trade Organizatiion, 2019).

The attempt to further expand trade partially reflects from the increased spread of regional trade agreements and major trading partnerships across the world. With the fiscal limitation challenges faced by majority of countries, trade is considered to be a crucial element of economic development and growth. In other words, a discussion of global development agenda that ignores global trade dynamics would fall short of completion. Having stated that, the differential trade impacts can be hidden by the changing global dynamics as a result of which the global trade picture

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ends up being ignored. (UNCTAD, 2019). In other words, the Least Developed Countries (LDCs), majority of which is from the African continent, remain vulnerable, with world exports only constituting 1%. Group-wise, LDCs have recorded a systematic trade deficit, with the exception for the years from 2006-2008 high commodity prices cycle (Kasi, 2019).

Literature Review

An important gross domestic product (GDP) component is trade balance, where with other things remaining equal, a surplus GDP increases it while a deficit decreases it. With a strong impact, the realization of the traditional Keynesian multiplier effect with consumption in the same direction is expected. Essentially, trade balance is the difference between imports and exports, and when the former outweighs the latter, then a trade deficit occurs, which are related to the economic development in terms of imports of capital goods, raw materials, intermediate products, and the like (Manual, 2019).

Financially, trade balance influences the total size and the current-account balance composition and generally speaking, it affects the balance of payments (constituting trade balance, income payments, loans and foreign aids, etc.). Throughout the globe, trade imbalances are rampant and persistent over time and for the reduction of the gap with rich nations, their poor counterparts need to rise in an expedient manner as the former are mainly the commercial partners of the latter (Osoro, 2013). This however results in trade deficit, as a result of which risks to growth arise. More importantly, prolonged trade deficit could result in foreign debt, upon which the country is liable to pay interests and if the debt is considered as unsustainable by market agents, then a currency crisis may occur. Thus, prior to this phenomenon, it is crucial for the government to dampen growth of GDP. Moving on to foreign net trade, exports less imports – in this scenario, a trade deficit refers to the insufficiency of exports to pay for the exports and such is the antithesis of a trade surplus (Ademe, 2016).

Net exports or trade balance is a GDP component that displays a perfect equilibrated trade balance, where GDP depends solely on domestic values of consumption, public expenditure and investments. The increase of imports and exports in a simultaneous manner by the same level leaves the trade balance unchanged but any difference in exports-imports dynamics could lead to multiple effects on trade balance (Aye Mengistu, 2014).

More often than not, trade balance is categorized by product and by country in what is known as bilateral trade balances. This places importance on the level of concentration of trade imbalance stemming by one or few commodities, with high concentration, resolved through a targeted industry place (mitigation of imbalance) (Hanif, 2021).

Contrastingly, in case a deficit is found to few partners, the nation can take recourse in proactive and consensus-based trade negotiations to expediently solve the issue. Despite the fact that merchandise balance, including goods and services, is not as general as its trade counterpart, it is

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sometimes utilized owing to available better data. The first causes of changes in trade balance may be attributed to the convergent/divergent dynamics of imports and exports (Kasi, 2019).

Added to the above, any asymmetric impact on imports and exports can affect the trade balance. Specifically, price and non-price competitiveness – in which case if external pressure decreases prices in the county at which the exports are sold, then a trade deficit has a high likelihood. In the context of a hierarchical world, trade balance could depict political power balance (Zainal-Abidin, 2018).

Also, if a country has a faster GDP growth compared to its trade partners, this could lead to trade deficit due to the elasticity of the imports to GDP (may rise more than what is proportional). In relation to this, currency exchange rate could play a role in that a fixed exchange rate and higher inflation rate, compared to commercial partners, could reflect over-evaluation of domestic currency, which in turn, could lead to deep trade deficits of products. All these relationships can be enhanced through a sharp devaluation (Hanif, 2021).

With intensive and autonomous financial transactions, foreign direct investment (FDI) inflow can result in higher imports (production inputs for the new foreign-owned plants) and currency revaluation. Such short-run effect can be balanced by increased future exports, in which case trade balance is adjusted to financial movements (Hanif, 2021). Several policies can be established to realize enhancement of trade balance in a country, with some focusing on the changing demand growths, and others focusing on enhancing the supply-side economic competitiveness.

Similar to any macroeconomic issue, effective policies refer to policies that concentrate on the underlying causes (Kasi, 2019). Some of such policies are listed below:

1. Expenditure-reducing policies: these policies are created to monitor and control demand and confine spending on imports-squeeze on demand, and boosts savings of private sector.
2. Expenditure-switching policies: these are designed to modify the relative exports and imports prices, causing changes in spending that shifts away from imports and directs towards the production of exports and domestic products.
3. Improving the supply side of economic performance: this would promote and encourage competitiveness in the long run.
4. Improving macroeconomic stability to increase the attractiveness of the county towards inward investment. Such investment can contribute to productivity and the capacity of the country to export.
5. Demand management: this entails reducing government spending, interest rates and higher taxes that could influence the dampening of consumer demand and reduce imports demand. This can maximize spare productive capacity that can be appropriated towards exports (Haug, 2019).
6. Natural effects of the economic cycle: it is expected a trade deficit would fall when a recession occurs as some of the deficit partially self-corrects. However, this does not resolve the problem of structural balance of payments.

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7. Lower exchange rate: the country's central bank may opt to lower the exchange rate to enhance competitiveness, decrease the overseas exports price and increase the price of imports. Countries that operate with a managed exchange rate could opt to authorize currency markets intervention for the manipulation of currency value.
8. Supply-side improvements: policies established for productivity enhancements and measures to encourage innovation and incentives increase investment in industries, with export potential in the supply-side measures created to boost exports performance and enhance competitiveness with imports. The time-lags for these policies have longer impact (Krings, 2014).
9. Policies to encourage business start-ups: small businesses should be encouraged to successfully export.
10. Investment in education and healthcare: these can enhance human capital as well as competitiveness in the industries that are characterized by high growth and value like biotechnology, engineering, finance and medicine.
11. Investment in modern critical infrastructure: this is geared towards supporting businesses and industries that are competing in the international market landscape.
12. Protectionist measures: these take the form of import quotas and tariffs that are not as used often due to the WTO commitments and membership to EU.

Theoretical and Empirical Issues

As for the trade policy, majority of the customs unions find it difficult to agree to a CET. With unbalanced initial tariffs across potential members, the task becomes harder, unless countries with higher level of protection seek the help of customs union for trade liberalization. The agreement towards a CET and its application appears to remain the top challenge faced by the customs union – as exemplified by the GCC, and other group countries (World Bank, 2019). CET sustenance can also be a challenge if not an impossibility, and any common tariff would indicate pressure to adjust in the face of relocating industries and in the differing interests of the countries. In the U.S., the 19th century American South had an objection against the high protective tariffs that the U.S. infant industries in the North sought from them. The South had to suffer from raised production costs stemming from the tariffs and was forced to shift their resources to the North, which increased the tensions and resulted in the U.S. civil war. The same can be said about the industrial agglomeration and implicit shifts that led to the end of the East African Common Market (World Bank, 2019).

At the onset, the conditions that EC members faced concerning the CET formation were somewhat positive. The creation of a common tariff came from four initial tariff schedules (with Belgium, the Netherlands and Luxembourg considered to be one customs territory, and the Benelux being a common tariff schedule). Germany and Benelux were two countries that had relatively low tariffs, while France and Italy had high ones – ideally the harmonization rule could have been sought on the unweighted average of the four tariff schedules. The resulting agreement concerning

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the level of external tariff confined the disputes between EC member statements to the tariff lines, where the duty rates had great variations to ensure that every party will not get any satisfaction from the unweighted averaged method outcome (Mohd, 2005).

Such cases constituted a non-negligible number (around 20% of the entire tariff lines) (Ademe, 2016). In this regard, GATT assisted in resolving several of the conflicts through the lowering of tariffs throughout the board using multilateral negotiating rounds – which made the member countries view the averaging method in a more positive light, while compensation was offered to protectionist members, enabling more access to the global export markets. As mentioned in the coming paragraphs, internal trade liberalization was coupled with trade management in major sectors (i.e., coal, steel and agriculture), and the common external trade policy application (Asdullah, 2021). The latter policy had a key role in the EC, which in some ways, became an alternative for foreign policy. Lack of other means for EC to take on international action (absence of common foreign policy) forced the carving of political influence zones by using the intensive discriminatory trade agreements. Such agreements had minimal to no impact on the economy of EC, being that their role is to support the hegemony of EC member states. This can be exemplified by the past 40 years, where the role of EC trade policy is focused on supporting the territorial expansion of the same, that increased in its members from 6 (1957) to 9 in 1973, 10 in 1981, 12 in 1986 and 15 members states in 1995 (notwithstanding the direct extension to the eastern Germany in 1990 which had been ready since the birth of the Community, and was established by special trade agreements between the EC and the German Democratic Republic since the 1960s (Manual, 2019).

Conceptual Framework

The framework for commerce among the OIC's member nations is one of the most pressing concerns the organization faces. There are many different results of population influence on two-sided trade patterns, which are shown in the research on intra-OIC trade patterns. While some writers believe that a larger population might be a more important element in determining levels of trade activity, others maintain that greater levels of trade activity are associated with higher levels of per capita income. There have been a few studies that have sought to understand the dynamics of trade between OIC member countries. Two such studies are Sorhun's evaluation of Turkey's potential for trading with the area and Abidin et al's search for the drivers of Malaysian exports to OIC nations. Both of these studies are examples of research that have attempted to understand the dynamics of commerce between OIC member countries. The major determinants of trade balance were examined by Iram (2020) through the use of annual data for the years (1963-2012). The study explored the long and short run determinants of trade deficit and found that trade deficit coefficients have a positive correlation with budget deficits, FDI and rates of exchange. In the same token, Ngungui (2015) focused on the short and long-run correlation between trade deficit, income, money supply and real exchange rate in the economy of Pakistan, and found exchange rate depreciation to have a positive relationship with trade deficit in both short and long-run. The study findings also showed that money supply and income have key roles as determinants of trade deficit behavior.

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Meanwhile, Manual (2019) examined the trade deficit in Malaysia for the years 1975 to 2013, using four variables namely trade deficit, real effective exchange rate, GDP and money supply. The study findings revealed that the variables positively influenced the Malaysian trade deficit. Similarly, Yoshimine and Norrbin (2011) tested the tax rate effect on trade balance of OECD countries. They reported the adverse influence of corporate tax rate on trade balance, and a positive relationship between corporate tax and trade balance in the examined countries.

Lastly, Daugbjerg (2015) investigated the effect of value-added taxes (VATs) on international trade, using 136 countries. They found that dependence on VATs is related with less exports and imports and that countries employing VATs have a third fewer exports than their non-using counterparts, with 10% VAT revenue related to 2% fewer exports. Also, a positive significant effect of VAT was found on trade deficit.

Washington consensus period, the world and regional growth rates have dipped with the exception of China and the South Asian countries. Such regional economic growth rates deterioration paved the way for challenges against the trade liberalization policies. As for the effects of liberalization on the imports performance, imports generally show an increase following liberalization as supported by Good (2017), Gowa (2015), Inama (2015), Krings and Wu (2012), Ishnazarov (2016) and Erum (2019). With regards to exports, the findings are inconsistent, with some studies (e.g., Epifani, 2009; Eldeeb, 2016; Ngungui, 2015; Azizah, 2017) supporting an increase in exports, while others (Ahmed, 2014; Beck, 2020) found a non-significant relationship. Moving on to the impact of trade balance, no statistical significant effect was revealed by Erum (2019), but liberalization leading to worsened overall trade balance was found by UNCTAD (2019), Ademe (2016), and Hassan (2002).

The significance of trade balance as a determinant of economic growth was also indicated by Hanif (2021) by evidencing that current account reversals owing to prolonged current amount deficits may weaken the growth of the economy, even as far as leading to economic crisis. Meanwhile, Manual (2019) laid stress on the pitfalls of large current accounting deficits, which needs compression with the drying up of external financing. Variables have been recommended to shed light on the differences and they include education, existing development levels, domestic institutions strength, macroeconomic stability and measures adopted against corruption (Kasi, 2019).

Thus, following liberalization, trade deficits may be a reflection of long-term issues and to determine if a member country has experienced a trade liberalization episode, the present study made use of trade liberalization data gathered in Ademe (2016) study, which comprised 140 countries, and is an update of the liberalization dates in Aye Mengistu (2014). Moreover, 41 among 57 OIC member countries were mentioned in Hanif (2021) study, with the excluded countries being Afghanistan, Bahrain, Brunei, Comoros, Djibouti, Iraq, Kuwait, Lebanon, Libya, Maldives, Oman, Palestinian Authority, Qatar, Saudi Arabia, Sudan, Suriname and the UAE. From the total 41 countries, 28 liberalized their trading regime, while 13 still practiced closed trade in 2001. From the former group, Indonesia, Jordan and Malaysia were deemed to be open on or prior to the 1970s, while Yemen has always been open and thus, the countries were not included in the regression. Closed-trade countries as of 2001 included Algeria, Chad, Gabon, Iran, Kazakhstan, Nigeria, Senegal, Somalia, Syria, Togo

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and Turkmenistan. Although improvements were noted in the mean and standard deviation values of the variables, there were significant differences in the statistics throughout the countries. Such differences show that the effects are condition on several factors as opposed to solely on trade liberalization (Manual, 2019).

Balance of payments refers to the capital changes and transfers relating to the situation abroad. Deficit or surplus of balance indicates a penury or a currency surplus that has an influence on the national currency exchange rate. In addition, the balance of payments equilibrium hinges on the exports and imports value, on the level of efficiency of products, and competitiveness, on price level, international services and on the institutional markets' whim (Iram, 2020). Balance of payments deficits results in the higher foreign currency exchange that is detrimental to the national currency as in this situation, it faces depreciation. But an account balance in excess entails high foreign currency amount for which the national currency is exchanged and an increase in the state currency's demand eventually results in the currency's appreciation. Moreover, surplus balance of trade affects the national currency exchange rate in terms of appreciation, but a strong currency encourages imports and discourages exports. In this case, decreased exports (increased in balance of trade deficit) leads to depreciated national currency and so, in other words, an excess of balance of trade is achieved and the balance of payments reaches equilibrium. Appreciated exchange rate in real terms affects the circumstances of balance of trade and decreases the competition among exported products detrimentally. The deficits source in the current account is present in disequilibrium between economies and investment, with the former becoming unsustainable when coupled with the appreciation of the national currency exchange rate. Such appreciation then culminates in cheaper imports, triggering its increase that is meant to be invested and this influences the economy in terms of benefits (Erum, 2019).

Real growth also leads to economic competitiveness and in this regard, the balance of payments impact on the exchange rate may be analyzed based on two perspectives namely the non-alignment and the fundamental perspectives. To begin with, the non-alignment premise advocates that real appreciation stems from the selection of exchange rate regime and the capital flows (foreign to the economy) and this results in decreased in competitiveness level. Based on this perspective, increased account deficits are brought about by appreciation and can be covered through depreciation of the national currency. On the other hand, the fundamental perspective stresses on the fact that appreciated exchange rate does not reflect loss of competitiveness and is identified through fundamental changes occurring at the economic level. In this case, appreciation is deemed to be originating from correction of prior depreciation, far greater, or of economic growth (Manual, 2019). Based on the countries' average exports amount changes for average amount of imports, the gain can be evidenced at the international trade level. Additionally, the exported goods productivity contributes to increased exports, the balance of trade equilibrium as well as the appreciation of currency.

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In the past 20 years, the import costs have taken on a decreasing trend because of the decreasing costs of transportation, information and communication technologies (ICT) enhancements and the foreign direct investment (FDI) liberalization. Majority of industrialized nations in the current times have been facing manufacturing jobs losses, increased inequality of wages, which are parallel with the increased goods imports from low-wage countries, leading to the perceptions of anti-trade. FDI regimes liberalization along with their trade have benefits many individuals and firms, as evidenced by the multinational firms' offshoring of jobs and downsizing of inefficient plants to remain productive, pay higher wages and produce spillovers from their productivity levels. In the same way, trade liberalization may also positively affect long-term economic growth via innovation use, with current studies revealing that companies and industries have higher imports levels from low-wage countries to maximize their levels of innovation and productivity (Haque, 2017). In fact, FDI has captured the attention of researchers who revealed that FDI consumption in developing countries assist in employment and exploitation of nature and human capitals, in attempts towards advanced business practices (management and marketing) implementation, while budget deficit is decreased. It can be stated that FDI has a key role in transference of technology and knowledge, as primary resources. Other related concepts include trade profit is the operations that cover goods/services or information sales and purchase and trade balance, which represents the difference between the exports and imports. The deficit in trade balance arises when the imports exceed the exports, and trade balance is the primary element of the balance of payments. In the context of Pakistan, the government needs to establish affective policy and restrictions on the imports, while promoting the exports (Haque, 2017).

Globalization has become commonplace in today's world, and parallel to this, international trade has been promoted rampantly to encourage the improvement of countries' economies. In fact, international trade has become essential for every country, regardless of their sizes or types. Media has promoted the belief that trade deficits are bad news to the economy of a nation, based on the conventional wisdom that they drag down GDP. In this regard, it is not considered positive for a country if its imports exceed its exports. Thus, favorable trade balance is what determines the country's growth, with surplus increasing GDP, and deficit decreasing it (Nago, 2020).

A country that is subjected to free trade can reap several benefits from the offered trade openness and from the opportunities to trade with other countries or to enter into a trade agreement (e.g., South African Development Authority). Trade openness has been evidenced to have a positive effect on the growth of the economy, and trade openness can enable the increase of ratio of domestic investment to GDP, as evidenced by several theorists. The country may have minimal goods and services but through trading such goods will increase. Free trading represents the absence of barriers to trade (e.g., protectionist policies) and this can have a key role in the country's economy, like Pakistan, which is largely dependent on other countries' imports. Pakistan's main revenues source lie in taxes, capital receipts, and aid. Taxes may be direct and indirect, capital receives cover external and internal borrowings, with the former covering debts taken from abroad the latter covering unfunded debt, public debt, treasury and public receipts, revenue account surplus and Public Sector Corporation

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Surplus. The last revenue source is aid, which is categorized into project and non-project aid (Rath, 2020).

On the other hand, the main government expenditures are debt servicing, defense and public administration, social services, law and order, provision of subsidies, grants to Azad Jammu and Kashmir, railway grants, community services and economic services (Nago, 2020). The development plan concerning the public sector (development budget) has been developed, with the major coins being reserved for infrastructure plans (i.e., water, power, transport and communication). The main objectives of the economic development and government's objectives include employment.

The spread of dynamic globalization has transformed the relationships among nations in the past few decades. Trade links expansions among the countries are major evidence of this, enabling the presence of French Brie in almost every country, and the assembly plants of Korean Kia and German Volkswagen in several countries. Some countries view trade flows in many of its counterparts, while others supported and strengthened their existing relationships (Zhongming, 2017). Trade expansion determining factor is evident by the Uruguay Round of the General Agreement on Tariffs and Trade outcome, which was set up by WTO in 1994. Since then, majority of countries have been taking part in plurilateral trade agreements to support connections. The RTAs have extended from 20 nations (1990) to more than 150 (2010).

Nevertheless, other countries have not been able to achieve stability because of globalization. The monumental shift from fixed to floating exchange rate towards the end of the 20th century has been linked to higher exchange rate risk exposures, although the significance of both occurring (trade expansion and floating exchange rates) have been extensively researched in literature. To begin with, theory posits that a depreciating exchange rate would enhance exports and GDP growth of nations, which holds true for most developing nations (Zahongming, 2017). Their developed counterparts are not as likely to see benefits if they under-value their rates of exchange. On the other hand, some developing nations never showed growth from undervaluation, while the opposite exchange move has been proven not to always have a negative effect on developed nations.

A consensus has yet to be reached as to the effects of exchange rates on trade and as such, on trade balances although theoretical results are often overstated. The top cited factor for disconnect is the global production networks expansion (Ji, 2020), so the question arises as to the World Economic Outlook Reports (IMF, 2015) concerning the disconnect between exchange rates and trade, and the global value chain's role in such disconnect. The findings of the report indicated that total disconnect between exchange rates and trade, while at the same time, the global production networks play a distortive role. In a related study, Alizadeh (2020) revealed a significant correlation between the present account developments and industrial structure changes brought on by regional integration. In addition, trade liberalization has a heterogeneous effect throughout the world, although positive effectives have mainly been revealed (Macgruk, 2020) – but not for developing nations, as evidence shows a negative effect (Ngo, 2020), a mixed effect (Ji, 2020) or no effect (Manual, 2019). Such trade liberalization asymmetry on trade balances can be attributed to the use of various data sets, time periods, theoretical models, estimation methods, measures and selection of sample. The cross-country

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analysis generally showed that trade liberalization had a homogenous effect, largely ignoring the presence of deeper trade integration – regional trade integration is used to shed light on the trade liberalization heterogeneous effect on the trade balance.

Other studies such as Macgruk (2020) revealed that production structure changes as represented by RTAs worsens the trade liberalization effect on the current accounts – supporting the claim that the integration within RTA countries lead to greater levels of correlation between such countries' current accounts via the specialization changes, and this lessens the trade balance elasticity or makes it negative to the competitive changes of RTA trading partners. Multiple models and empirical studies revealed that preferential terms in RTA lead to enhanced trade flows between countries of RTA, preferential treatment of goods generated in other RTA members show higher preference share in consumption. Some studies of this caliber have extended their examination to the role of vertical trade and global value changes (GVCs) in the face of trade balance elasticities changes (Ji, 2020; Macgruk, 2020). However, current studies indicate that this fails to explain for the range of different findings (IMF, 2015). The vertical trade impact matches the more aggregate method employed. Both vertical trade and GVC activity have the likelihood to be present in RTAs, creating higher production links via RTAs specialization (Macgruk, 2020), and neutralizing the RTAs terms-of-trade.

The empirical findings revealed variations in elasticities between RTA and non-RTA trading partners, which are later juxtaposed into theory through model augmentation (Ji, 2020), involving the inclusion of the concept of regional bias analysis. In a multi-country exchange rate adjustment model coupled with flexible prices, regional bias can arise when lower trade costs are present within the region, or when deeper integration occurs between the RTA partners. In this regard, the flexibility of the price assumption enables the tracking of the depreciations effect sans considering the currency pricing, as the latter can be subject to more extensions. Higher sensitivity to specific terms-of-trade reveals that the welfare gain source lies in the competitive depreciation.

In the face of today's trade liberalization, a country's positive trade balance has often reflected its growth and economic improvement. According to Manual (2019), there exists a disconnect in such premise, while later economists began discussing the positive/negative trade balances that some economies are reflecting, as there are cases of that may bring about economic crises if financing is not possible (Alizadeh, 2020). To this end, a trade balance forms a part of the GDP of the country that indicates its economic state. The positive values used to be ignored by local governments and the negative ones are viewed to threaten the growth of the economy. It is complicated to change the total factor productivity or to reveal the comparative advantage in the economy and is out of the government's control, and thus, throughout history, the threat has been viewed to stem from the artificial manipulation of the exchange rate (in turn, the exports prices) to enhance the trade balance value. Based on the traditional open economy interpretation of exchange rate, the real effective exchange rate depreciation is what lowers the price of exports, while increasing that of imports (in comparison to the chosen set of countries). This encourages the net exports and enhances economic income. Although such relationships have been shown through scientific evidence to be diverse, the

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currency wards have occupied the heart of trade balances and economic growth debates. The argument forwarded is that in the realm of complex trade and production links, the relationship between trade balances and manipulation needs re-conceptualization (Ji, 2020). Governments are still concerned with trade balances, but this concern should be confined to two instances; the trade balance with integrated trading partners and those with non-integrated trading partners (with no RTA in place). It demonstrates the lower trade balances in the RTA relationship, with the deepest RTAs connected to the lowest imbalances (MAcgruk, 2020). In relation to this, RTA countries are connected more through their trade networks, with trade balance adjustments divergent from that of their non-RTA trade balance counterparts (Manual, 2019). Specifically, RTA partner depreciation will lead to the enhanced exports to the RTA trading partner and increase in price of imports and in effect, lower improvement in trade balance and less elasticity to changes in price. This may be exemplified by a country that generates one good (e.g., pillows) and has an RTA with a partner to import cotton as an intermediate input. Through depreciation, the pillows will lessen in price to the rest of the countries of the world, making trade balance of the country to be adjusted, although to a lower level with the RTA trading partner – as more intermediate inputs will be required but imported cotton will have to be at a higher price (Zhongming, 2017).

The concern surrounding exchange rate is basically the possibility of its overvaluing or undervaluing, which veers from the host economy's actual state, favoring/harming the exchange terms with partner economies via benefitting/harming the trade of a country. Since the introduction of the Bretton-Woods system and the shift to the floating exchange rate system, an even higher treat is posed, which brought around the discussion of currency wards. Nevertheless, there exists an opposing viewpoint on the importance and the likelihood of the level of exchange rate manipulation. First, the real and nominal exchange rates can be disconnected from the other fundamentals of macroeconomics – which would lead to the undesirable impact of exchange rate depreciation. Second, world integration and breakdown of goods/services production would lead to heterogeneous reactions that may damage the host country (Zhongming, 2020). Most authors who dedicated their work to examining exchange rate elasticities have been focusing on bilateral exchange rate of some currency against the USD. Suffice it to say that the exchange rate has a bilateral nature – it is the price of a currency based on another but since almost all currencies can be traded against the next one, the change effect in the rate of exchange cannot be confined to merely a bilateral association. Thus, a less common approach is by focusing on the effective exchange rates, allowing for the derived elasticities to encapsulate the trade flows composition and the RTAs multi-country nature. Distinguishing between RTA and non-RTA trading partners is the basis of the methodology proposed in the separate real effective exchange rate (REER) indices, which shows the relative price competitiveness of countries with RTA and non-RTA partners in sequence. This considers the country's trade integration – with two exchange rate indices allowing the testing of the assumption of relevance of trade integration with real data – because RTAs are related with trade integration and high good production preferences within RTA (Ji, 2020). On the whole, the study has two concerns about the trade balances; 1) to relate the trade integration to the process of exchange rate adjustment and 2) to determine the

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legal interrelationship between the countries in trade (with RTA in place) role as a proxy for a more precise assessment of the trade balance. The key recent literature on the RTAs is presented in the next sub-section.

Discussion

In the context of the OIC, the need for member states to support intra-OIC trade was stressed in the 21st session of the Standing Committee for Economic and Commercial Cooperation of the Organization of the Islamic Conference (COMCEC). This can be realized via mutual economic cooperation and progressive trade liberalization. Accordingly, some OIC member countries have liberalized their trading regime and mitigated tariffs and trade barriers in order to trade with OIC and non-OIC members, while others are still practicing a closed economy. For instance, in 2010, only 38 out of 57 OIC member countries were noted to be members of WTO. The OIC member countries reaffirmation of their commitment to trade liberalization reflects the significance of trade among them for the purpose of economic development and growth. Research conducted by Ademe (2016) that focused on Malaysian exports to the OIC area is one example of how trade policies have had an effect on the nations that make up the Organisation of Islamic Cooperation (OIC). According to the findings of the research, the market size, the degree to which trade was open, the currency rate, and the expenses of transportation all had a role in Malaysia's exports to the OIC area. The relevance of trade liberalisation in the process of growing exports to OIC member nations was another point that emerged from the research. In addition, the report emphasised that increasing economic cooperation between nations that are members of the Organisation of Islamic Cooperation (OIC) and encouraging regional integration might contribute to economic growth and development within the OIC area. Overall, the findings of the research indicate that member states of the OIC stand to gain a great deal from the implementation of trade policies that encourage market liberalisation, expansion, and regional cooperation. Moreover, the World Bank and the IMF have mandated liberalization as a part of reform packages for loan agreements (Hassan, 2002). In theory, trade liberalization is expected to assist in obtaining and maintaining static and dynamic trade gains. It assists in the promotion of supply growth by focusing on the efficient resources usage, boosting competition and maximizing ideas/knowledge flow throughout national boundaries (Osoro, 2013). As a consequence, this will lead to increased output growth, exports and imports and enhanced economy. Nevertheless, in case the income elasticity of demand for imports is too great an increase due to liberalization, it may limit the growth of the country's economy in the long run (Macphee, 2014). Studies dedicated to trade liberalization indicate that its effects on economic growth have varied greatly across nations (e.g., Foster, 2008; Kneller et al., 2008). In relation to this, some theoretical models and empirical studies supported a positive association (e.g., Osoro, 2013; Mohd, 2005; Krings, 2014; Hanif, 2021), while others support a non-significant association (UNCTAD, 2019; Kasi, 2019). Evidence in this line of study that showed a positive trade liberalization-economic growth association has not been consistent (Bergstrand, 2015). In Manual (2019) study, the author stated that the import substitution policies practice in developing nations up until the 1980s were successful in some ways, but their costs have

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been considerably compounded. Therefore, it can be stated that ineffective performance of such countries in the 1980s should not be attributed to import substitution policies but to the countries' lack of capability to react to economic shocks. In a related study, the influence of foreign capital arrivals on economic growth was examined in Vasyechko's (2012) study, using three main variables, namely FDI, remittance and external debt. The finding showed optimistic and significant relationship between the variables. Also, Mahmood, Ehsanullah and Ahmed (2011) used FDI, GDP, and growth rate (dependent variable), and trade openness exchange rate volatility (independent variable) on data ranging from 1975 to 2005. The authors employed econometric models (ADF), OLS, and GARCH to determine the result. They revealed that GDP and FDI (dependent variables) and trade openness and exchange rate (independent variables) had significant associations, specifically exchange rate with GDP, growth rate and trade openness.

Based on the above discussion, this paper examines the effects of trade liberalization process on GDP per capita, imports, and exports for 24 OIC member nations that practiced trade liberalization for the years from 1970 to 2001. In the balance of payments (BOP) constrained growth model, in the long-run, the economic growth of the country equals the ratio of its export growth to elasticity of import and thus, if the income elasticity of demand increases for imports is high due to liberalization, it may limit the long-term economic growth of the country. The BOP model is based on the premise that long-run trade must balance, with the exports value equalizing to that of the imports. Meanwhile, in the short-run, a trade deficit can be run using finances from capital inflows, but this is not possible in the face of ever-increasing deficit because deficits that exceed a specific percentage of GDP could lead to the requirement of force adjustment (Mohd, 2005). The premise that exchange rate that is competitive and real promotes economic growth has been the topic of discussion in the current academic and policy groups. Specifically, it has been the target of interest in light of currency movements of the major economies that appears to be a disconnection with the developing countries, because of the inconsistent effect on trade. This study combines the question of positive effects of competitive exchange rate (the trade change), with the trade connections and integration of countries through regional trade agreements (RTAs). In particular, the specification tests as to whether long-term improvement of trade balance as gauged through exports to imports ratio (Ji, 2020) was related with depreciations in terms of RTA trading partners or non-partners. The results obtained from a sample of 138 countries from 1990 that took part in regional trade integration, indicated a 10% depreciation in non-RTA trading partners, leading to increased aggregate trade balance at the rate of 4.4% - a similar decrease in RTA trading partners led to lower trade balance at the rate of 3.7%. The contrasting elasticities are robust to alternative trade balance measures in that the positive long-term trade balance reaction to a higher competitive exchange rate matches the conventional macroeconomics predictions, whereas the negative effect of depreciations, in relation to RTA trading partners is initially conflating. The current advances in international trade, particularly integration through regional trade agreements (RTAs) has to be taken into consideration to shed light on the findings. In the global world of complex trade and production connections, the trade balances relationship with exchange rate depreciation (currency wards) needs re-conceptualization. The RTA

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countries integration results in neutralizing the positive depreciation effect through trade effect and worsens trade balance of the depreciating nation (Zhongming, 2017).

Conclusion

This study focuses on the conceptual framework of international trade between OIC countries. The study explains the significant aspect of trade. Moreover, it explains the determinates of trade deficits. Moreover, this study illustrates the effects of trade on economic growth. It also focuses on the foreign direct investment on trade. Study also discovered the effect of trade liberalization on trade balance is significant and the effect's sensitivity that stems from it reflects conditional factors that have been left out in the models. The limitation of study is improving the trade movement between OIC through increase the foreign direct investment and reduce the trade deficits. The Organisation of Islamic Cooperation (OIC), despite its size and potential, is confronted with a number of obstacles in the modern world. Internal crises in member nations like Syria and Yemen provide a significant obstacle for the Organisation of Islamic Cooperation (OIC). These wars not only result in the loss of life and the relocation of communities, but they also limit the Organisation of Islamic Cooperation's capacity to handle other concerns, such as the advancement of the economy and the provision of medical care. The emergence of Islamophobia in certain countries that are not members of the OIC is another difficulty for the organisation. This has a detrimental influence on the Muslim population and contributes to conflict between nations.

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