Export Financing Scheme For The Muslim World

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INTRODUCTION **

One of the main impediments to trade among the Muslim Countries is the deficiency of development of export financing arrangements. The exporters within the Muslim World find themselves at a disadvantageous position while competing with the exporters of industrialized countries who are not only liberally enjoying export credit facilities but also getting the political support of their respective governments. In industrial countries and in advanced developing countries, every financial incentive is provided to the exporters and would be exporters. The whole philosophy is that no exporter in indusrtial countries such as United States, Frances, Germany, Japan or the United Kingdom shall lose a deal or a sale, if the sale is well - founded, for lack of credit. The policy makers in export oriented countries firmly believe that the availability of export credit is as important a competitive tool as price, quality, or service.*** The activities and philosophies of export - import banks of economically advanced countries are in this direction. The availability of export credit is one of the important variables in expanding exports and diversifying production. Liberal export credit can provide not only reasonable incentives to foreign buyers but also could generate trade among the Muslim Countries. Within the Western World, well developed capital markets, export credit institutions and banking network enable any exporter to get help for his export - financing needs without red - tapism and difficulties. However, the exporter within the Muslim World has to

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*** C. G. Alexandrides and George P. Moschis, **Export Marketing Management** (Praeger Publishers, New York, 1977), pp. 93 - 110.

face not only the difficulties related to finance, but also has to struggle against all kind of impediments and traps laid down for him. The producers of Islamic states need all kind of help to expand their exports, including the assistance from foreign trade financing institutions. For instance, General Electric Company, one of the biggest multi - national corporations, has got the support of U.S. Export - Import Bank to participate in construction of one of the Wold's largest gas turbine projects in Saudi Arabia. Furthermore, the same bank has been supporting contractors in their activities in other countries, such as Abu Dhabi, Sudan and Egypt. Needless to say, within the Muslim World there are many construction firms, which can undertake the construction of large projects, road, and industrial complexes. What they need is the conscious governmental support among the Muslim Countries and assistance from proposed export - import financing institution for the Muslim Countries. The realization of suggesting the establishment of an effective foreign trade financing institution aimed at increasing the exports of goods and services is very encouraging and a positive step in the right direction.

CURRENT SITUATION OF TRADE AMONG MUSLIM COUNTRIES

Though efforts are being made in all Islamic Forums to promote greater trade and economic cooperation in the Islamic Community of World, traditional market links dominate the trade activities of the Muslim States. Like the rest of the developing countries, their exports and imports are directed to the industrial countries of the world. If new economic relationships among the Islamic countries are to be established to counter the existing patterns of trade, it is necessary that Muslim leaders make substantive commitments to economic cooperation not only in the field of trade arrangements but also in the establishment of joint projects which serve several Islamic countries.

The Muslim world has to devise ways and means, institutional arrangements, legal instruments and appropriate policy measures with a clear commitment to increasing trade among themselves. Furthermore, measures should be made to encourage various forms of cooperation toward economic integration as a base for the future generations in strengthening the Islamic Ummah.

The actual trade volume between the Muslim Countries is almost negligible. For instance, in 1398H (1978), the imports of Afghanistan, Algeria, Egypt, Indonesia Iraq, Kuwait, Libya, Saudi Arabia and United Arab Emirates from the member countries of Islamic Development Bank constituted 6.5, 0.40, 2.98, 4.54, 5.44, 3.72, 3.51, 7.16 and 10 19 per cent of their total imports respectively. This is due to the fact that the bulk of their import originates from industrial countries. For example, Saudi Arabia's imports from Turkey, Egypt, Bangladesh, Sudan, Morocco, Syria and Pakistan constituted approximately one per cent of its total imports. It is interesting to note, however, that the imports of Pakistan, Bangladesh, Jordan, Lebanon, Sudan, Syria, Tunisia, Turkey and Chad from the member countries were 18.8, 11.84, 19.91, 16.49, 16.49, 12.92, 18.45, 7.26, 14.72 and 6.14 per cent of their total imports respectively in 1398H (1978). The relatively high percentages mentioned above were due mainly to one product, namely, oil.

The magnitude of the problem can be further highlighted by looking at the direction of trade of certain Muslim countries. For example, Turkey in 1978, imported 58.59 per cent of its domestic needs from the industrial world, 22.32 per cent from oil exporting countries, 0.13 per cent from Bangladesh, 0.70 per cent from Egypt, 0.19 per cent from Morocco, 0.35 per cent from Pakistan, 0.11 per cent from Sudan and 1.03 per cent from Syria. For the clarification of the issue, the case of Iraq is very clear. Iraq imported 0.22 per cent of its needs from Bangladesh, 0.31 per cent from Egypt, 0.02 per cent from Morocco, 1.44 per cent from Pakistan, 0.07 per cent from Sudan, 0.02 per cent from Turkey, 0.07 per cent from Iran, and 0.34 per cent from Malaysia respectively, which is less than 4 per cent of total imports of Iraq in 1978. The low percentages of imports from the Muslim World are due mainly to the lack of harmonious political relationship and lack of incentives of mutual cooperation an trade.

However, total exports of member countries to member countries, including re-exports, were just 6.37 per cent of their total exports in 1978. Total imports from the member countries were a little higher and it was 8.35 per cent for the same year. That is due solely to the importation of oil by non-oil producing members. In other words, 92 per cent of imports are from non-member countries. Nevertheless, the share of the member countries in total world exports and imports are 10.3p and 8.47 per cent, respectively. Needless to say, there is plenty room to expand trade among the Muslim countries if proper incentive system is devised such as establishing an export-import bank for the Muslim countries with initial capital of 8 billion of US $, which is nothing more than a modest start since the majority of the Muslim countries have been suffering under the heavy burden of high industrial and oil prices. Such a proposal would help to smooth the adjustment of the Muslim countries to the realities of the 80s. Furthermore, the accumulating surplus funds and foreign assets of some member countries will be approximately around US $300 billion toward the end of 1980 (The Morgan Trust Company's estimation). The allocation of US $8 billion or more for the foreign trade financing activities of Muslim World is a necessary choice - a choice the Muslim World has to take in order to generate production and trade for meaningful cooperation and coordination of their economic activities. Indeed, it is the time for the Muslim countries to make serious attempts to refrain from creating weak, and ineffective financial istitutions serving no worthy cause other than producing public consumption activities for certain member countries by generating illusion of successes. As a result, the establishment of an effective export - import bank will not only accelerate economic development and trade among the Muslim countries, but also will increase global trade in its totality.

THE EXPORT POTENTIALITIES OF MUSLIM WORLD

There exist a great deal of potentialities of exports from the Muslim World not only in primary goods and mineral resources, but also in manufactured and engineering goods. It is a matter of high policy and establishment of proper incentive schemes that would generate the mass scale production and exportation of all kinds of goods and services from the Muslim World. The actualization of an effective Export - Import bank for the Muslim World as tangible financing institution has a great merit and could play, without doubt, an integral part in development financing. Furthermore, it might attract the surplus funds of Muslim World into the international sector in order to help co - finance the projects within the Muslim World in partnership with developmental agencies.*

Countries like Indonesia, Bangladesh, Pakistan, Egypt, Iran and Turkey with their large population are able to produce manufactures and engineering goods. Furthermore, the establishment of an export - import bank would encourage producer - exporters and export of cont-

* The same line of reasoning is expressed by UNCTAD, **EXPORT CREDIT AS A MEANS OF PROMOTING EXPORTS FROM** Developing Countries, Geneva, 23 August, 1977.

racting and engineering services for the development and progress of the Muslim World. Moreover, countries with relatively rich resources such as Malaysia and Algeria are able to produce manufacturing goods with relative success. The Muslim World is blessed abundantly with petroleum, bauxite, phosphate rock, tin, rubber, jute, ground nut, palm oil, ground nut oil, cotton and many other important minerals and raw materials. It is true that the Muslim World is occupying a very important position in exporting certain strategic commodities such as crude petroleum, tin, fertilizers, rubber, rough wood and cotton, but its share in exporting other commodities is significant as well, such as fish, rice, fruit, coffee, spices, natural gas, textile yarn and thread, textile and others. Nevertheless, some Muslim Countries have started to export road motor vehicles, electrical machinery, telecommunication equipment, non - electric machines, toys and sporting goods. However, the process of rapid industrialization and expansion in certain Muslim Countries such as Pakistan and Turkey can be accelerated if problems related to energy is solved successfully. As a whole, the terms of trade is working against majority of the Muslim Countries and their purchasing power is shrinking rapidly in comparison to industrialized and oil exporting countries. The diversification of production base and expansion of exports are the only means to meet the challenge of industrialization and economic development which can become swifter if proper incentives laid down through export - import financing of exports of manucatures of Muslim Countries. As it has been indicated, further diversification and expansion of exports from majority of Muslim Countries, almost all of which are on the process of developing stage, demand support and encouragement for new exporters, both for non - traditional exports on more favourable payment terms and traditional products in which there is intense competition.* The establishment of an export - import financing scheme would serve both goals. Furthermore, oil - producing countries are undertaking some industrial projects, products of which have to be exported in favourable terms, which need favourable export credit schemes.

THE EXPECTED GAIN FROM EXPORT - IMPORT SCHEME

The establishment of an export - import bank for the Muslim countries will change the traditional pattern of trade and dynamize their economic growth and development by :

* UNCTAD. Export Credit insurance as a means of expanding and diversifying exports of manufactures from the developing countries, New York, 1976, pp. 1 - 14.

1. increasing exports and trade among Muslim countries:
2. expansion of production base through utilization of resources otherwise would not have been utilized for want of credit;
3. obtaining technological development and increasing productivity through economy of scale and efficiency in export - oriented projects geared to a larger market which is possible through extended credits and generous financial incentives;
4. providing credits to contractors within the Muslim World by enabling them to compete with the contractors of Western World and advanced developing countries such as Korea and Singapore, on equal footing since the majority of contractors of Muslim origin not only lack the backing of international financial centers, but also lack the support and encouragement of export - import banks for there has not been a satisfactory development of such institutions in the Muslim World, hence, economic under - development has prevented the development of financial centers, whether they are export - oriented or not;
5. creating dynamic linkages and Muslim interdependency, thus furthering economic cooperation and extending trade ties through joint public and private ventures in order to create an environment conducive for further coordination of economic plans geared toward regional integration of fragmented small Muslim states;
6. creating incentives in order to make the products of Muslim World competitively attractive to foreign buyers.

Indeed the expected gains from such a scheme are overwhelming.

FOREIGN TRADE FINANCING SCHEME

The establishment and promotion of export credit institutions among the Muslim Countries is a must for the improvement of trade between them. Formation of foreign trade financing institutions in the Muslim World in the direction of tying the Muslim Countries with joint ventures and financing of capital goods on long - range base would be more conducive in encouraging the development of trade among them and changing the existing traditional pattern of trade. Such institutions can help large, medium and small enterprises expand their worldwide trade and bring them into contacts with Muslim and international trade networks. A foreign trade financing institution within the Muslim World has to consider the following if an effective trade pattern is to emerge between them :

(a) The continuity and certainty of credit over time;

In other words, the buyer of a product is not expected to change trade pattern with a credit given once and for all. There must be a guarantee of credit from Foreign Trade Financing Institutions to continue to finance the purchase of, say phosphate rock from Jordan not only this year alone, also the years to come. If credits and incentives are provided to the buyers of phosphate rock from Jordan on a continuous base, then there are valid economic factors for the users to establish a trade pattern based on these economic realities.

(b) Maintaining the supply lines and training facilities to the buyers over the long period of time.

This point is again very important. For instance. Pakistan has been buying fertilizers from the United States for almost 25 years. If Pakistan is asked to change this well established pattern in favour of producers of fertilizers in the Middle East, not only she expects credits to be provided on favourable and continuous base, but also she wants to be sure about the supply lines and training facilities comparable to the Americans.

(c) The export credit institutions should offer the finance of exportation of a complete range of capital goods, agricultural products, and consumer goods. Furthermore, incentives should be given for the diversification and promotion of export - oriented production.

(d) The Industrial countries, Western export credit agencies and multi - national firms have a tremendous interest in preventing and circumscribing any competition from the establishment of export credit institutions aimed at promoting the export of goods and services between the Muslim Countries and coordinating of economic projects on a regional base geared to the promotion of efficient and effective export - oriented production. International Financial Centers and Credit agencies will oppose the establishment of an effective export - credit institution aimed at the development of a new healthy trade pattern between Muslim Countries. Instead, they would prefer the surplus funds of Muslim Countries, which was US $185 billion one year ago* and is estimated by Morgan Trust Company to approach to US $300 billion toward the end of 1980, to be deposited in Western Financial Centers to be eaten by inflation and frozen by political decision.

CONCLUSION

Trade between the Muslim Countries has to be increased if viable **integrated regional markets** of Muslim Countries have to be realized. A comprehensive **Export - Import Financing Scheme** is one of the important factors to stimulate trade among them. The potentialities, the resources and the surplus funds of Muslim world can be a source of strength, specialization, industrialization, self - sufficiency and unity if they are properly invested with sense of historical vision and properly invested paying attention to the identification, preparation and appraisal of projects toward increasing trade and integrating their economies to establish a real power block respected by friend and enemy alike. Otherwise, the resources and purchasing power of Muslim Countries would be spent on plain consumption and on uneconomic multi - billion projects, thus **enriching international contractors and trades** by creating a con**sumption oriented society imitating** the **West** in every thing and **producing nothing.**

* Sharif Ghalib, «Where the Oil Money is» Euromoney, April 1979, pp. 83 - 91.

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