Conflicts in the Middle East and the Performance and Future of D8 Group

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Abstract

About 20 years ago Necmettin Erbakan, the former Turkish Prime Minister, introduced his idea about the establishing of an Islamic group of developing countries, with a large Muslim population and a high economic potential to cooperate in economic and trade activities. This group that has been well known as D8 is an assembled group of 8 Islamic Developing countries including Bangladesh, Egypt, Indonesia, Iran, Malaysia, Nigeria, Pakistan and Turkey.

Using the shift share technique in a trade model, the current paper discusses possible opportunities as well as easing the relations among the D8 group. The results show that there are serious problems to expand trade and economic relations among the D8 members and then the shaping of a fit community in reality. While the group was formed to make an economic development alliance, fostering economic and commercial cooperation among the member nations, figures show that during last decades the members of this group have had very low bilateral and multilateral relations in economic and commercial affairs. This problem has been mainly rooted in economic and political divergences among the members. Indeed, the political problems between important members of the D8, including; Egypt, Iran and Turkey, have played an essential role in this result. Accordingly, there has been no official relationship between Iran and Egypt for more than 37 years. Also, the relations between Turkey and Egypt have dramatically worsened because of their serious disagreements about the Syria's crisis and the Muslim Brotherhood organization in recent years. Beyond doubt, the future of the D8 group directly depends on the strategic plans and action policies of these core countries with triangle cooperation purposes. However, unfortunately due to the old rooted political divergences in the Middle East together with the recent conflicts and crises in this area the future of D8 group is extremely ambiguous.

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1. Introduction

The formation of D8 counties goes back to 15 of June 1997 when 8 countries including Iran, Turkey, Egypt, Malaysia, Bangladesh, Indonesia, Pakistan, and Nigeria met in Istanbul and declared their cooperation. The intention was to develop common Islamic market and to enhance their cooperation. Fluctuations and instability of the world as a diversified marketplace led these countries to expand their activities in order to increase peace, justice, equality, democracy and to remove confrontation. Moreover, to make use of potential and existing trade opportunities and stabilizing their position in the world; the idea was welcomed and boosted by the founders. Their countries have been major members of Organization for the Islamic Cooperation (OIC) and although not very good in terms of trade relation. Therefore, it seems they are aimed to expand their cooperation in recent years. The benefits of this cooperation are the reduction of limitations and barriers in order to maximize trades within the members and make Islamic common market. By this easing policy the export volumes and flows of intra-trades activities can be improved. In this respect and in order to increase speed of investments, it is highly suggested to enhance the political relationships between the members. Vast and diversified resources of D8 countries in addition to the common Islamic culture are magnificent facilitators for collaboration in long run which harness the external pressure by other countries and global financial crisis. To acknowledge the reason for development of such group, Yucel (2009) highlighted that financial development results in enhancement of economic growth. Moreover, the openness of trades and flows of capital are influencers of financial development. Since having free trade area in not developed countries might be harmful for domestic market and its GDP, when they have not achieved required experience to remain competitive, collaboration within a specific region at first will be an excellent choice for strengthening economy. In this regard bilateral trade has been considered as the base of cooperation.

The cooperation among these countries related to agriculture and food industry, energy and minerals, transportations, and industrial cooperation. However, economic and trade relations are deeply affected by political and security factors. In fact, the future of the D8 group obviously depends on the future of the Middle East. Iran, Turkey, Saudi Arabia and Egypt are main regional players in the Middle East. As there are huge divergences among these countries, the future of the D8 group is seriously threatened by this fact. It seems there would be a high possibility to improve the relationships between Iran and Egypt but conflict between Turkey and Egypt and also between Iran and Saudi Arabia will be remained as the main problems in the Middle East. Conversely, by stopping of regional conflicts in the Middle East and hoping to join of new members such as Iraq, Jordan, Saudi Arabia and Syria to the D8 group not only this group would be boosted but the Middle East would definitely be stabilized. These events can encourage Muslim world to make a

big common market and then even think about the establishing of a Muslims money union in action.

By probable solving of political relation in the Middle East, the future of D8 group essentially will be depended on the economic and trade structures and facts of the D8 members. For this reason, the current paper is aimed to find and explain the reasons for cooperation among the D8 countries. Accordingly, the rest of this paper is organized into four sections. In the next section, we will analyze the economic trend and trade performances of the D8 group in last decade. Also, in this section the complicated situation of the Middle East is concerned. Then in Section 3 the methodology of discussions is explored. In this section the shift share technique has introduced as a model to show trade opportunities among the D8 members. Existing of the diversity in the D8 group and the future of this group in the light of the Middle East changes have been discussed in Section 4. This paper is ended by a conclusion in Section5.

2. Trend Analysis

Analysis on trade performance among developing eight (D8) counties has elucidated that percentage of growth in terms of merchandise trade improved over time. From 1995 to 2007, the growth percentage were equal to 18.28% for Bangladesh, 18.89% for Iran, 14.83% for Egypt, 8.63% for Malaysia, 5.56% for Turkey, 0.87% for Indonesia. Pakistan had 0.8% decrease and Nigeria's percentage of merchandise trade was not significant to measure. Comparing these percentages with the world merchandise trade percentage (15.33%) reveals the fact that in Bangladesh and Iran, trade percentage exceeded the world rate overtime and also in Egypt it is very close to world index (Jafari et. al, 2011).

The growth can be expanded and betterment only by considering market size in destination countries, cross-border infrastructure, trade environment, barriers and tariff rates, political economy, currency exchange rates, and population of destination countries . Therefore, it can be argued that these factors are major determinants of trade flows among the D8 group. Accordingly, some evidences show positive correlations between intensity of trades and business cycles among these countries. For instance, the following figure reveals the fact that Per-capita GDP for the developing eight countries increases gradually. However, among them Turkey, Iran and Malaysia have experienced higher growth rate than other members in the Per-capita GDP which are more than double in their values.
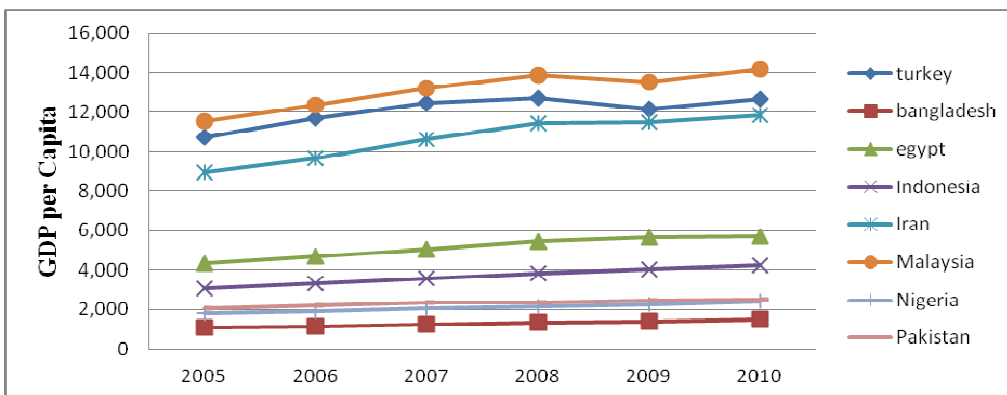
Figure 1: The D8 Group's Per Capita GDP Growth from 2005 to 2010
(D8 Organization for Economic Cooperation, 2012)

Of course all member countries have shown a soaring rate of growth on domestic product from 2005 to 2010. This figure indicates the production value of merchants in D8 countries per Capita. Although the output levels of all eight countries are increasing, as mentioned above, the situations of Turkey, Iran and Malaysia are totally different. Among these three countries, Turkey's economic growth, in response to the financial crisis in the US and the EU, has significantly fluctuated and decreased in 2009. This event stopped Turkey from getting closer to Malaysian economy.

Generally, various factors affect the growth of domestic and national products. They can be categorized as internal (inside a country) or external (imposed from outside of a country) factors. In the Middle East, the effect of environmental factors has always been the target of hot debates. Alterations in different economical areas have been the result of market instability in this region, mainly regarding the existing resources (Ali, 1999). It is not possible to determine border for Middle East. It can be said that it is an area in which political, cultural, and social issues have no border at all. Many multinational enterprises invested in Middle East market and gained considerable returns on their investment. However, regarding the vast and diversified nature, climate, culture, resources, political and economical status, market sophistication exist. Although many businesses intend to penetrate into Middle East market, due to having no enough free trade areas and regarding to the existing of entry barriers, many businesses have not succeeded.

In recent years, there has been slight positive movement on trend of foreign direct investment inflows. For instance, in terms of FDI Inflow, Turkey and Egypt considered as major countries. The main reason for enhancement of inflows was reduction of barriers (Mellahi, Demirbag, & Riddle, 2011). Regardless of existing barriers many attempts performed by MNEs (Multinational Enterprises) to increase their market share and to some extent they were successful. Because in emerging markets higher rate of return index (ROI) can be obtained; however this ROI is correlated with political, financial, and economic risk (Hassan, Maroney, El-Sady, & Telfah, 2003).

In this respect, after the formation of the Developing 8, the community declared its objectives as enhancing the members' economic rank in the world, providing better relations, and creating new opportunities. In this case, not only member countries can be benefited from being economically integrated with each other and use the advantage of strategic alliances and joint venture with reduced barriers, but also they can increase standard of life for their inhabitants (D-8 Organization for Economic Cooperation, 2012). Therefore, the member of this community started to perform intra-trade activity beside its normal inflow.

The countries commenced transaction on agriculture and food security, industrial cooperation, energy and minerals, to name a few and by doing so; they have created a common Islamic market. Consequently they could gain competitive advantage when trading with each other and defend their productions from outsiders attack. Table 1 and 2 indicate the value of trade with foreign countries and with the members.

According to Table 1, existing data (from 2006 to 2010) on trade balance of D8 members with the world elucidates that Bangladesh imported more rather to export. Similar cases observed for Egypt, Pakistan, and Turkey. On the other hand trade balances for Indonesia, Iran, Malaysia and Nigeria were positive. However considering Indonesia, it seems that there is a tendency for this country is gradually becoming an importer rather than an exporter country. Also, for Iran fluctuation and declining trend in the trade balance is seen. Although, the deterioration of the balance trade of D8 members (except Indonesia) is common feature however the behavior of this index in Iran and Nigeria (as the major oil exporter inside the D8) in this year is very similar. In fact, by the rising of oil prices in 2009, propensity to import in these oil exporters has been increased. But according to Table 2 the same tendency has not been observed to import goods and service from the D8 group. Inversely, in Iran both the amount of trade balance as well as the ratio of trade balances has deeply decreased. It means by the rising of income in these countries they were mainly tried to import their goods and services from outside of the D8 group. Interestingly, at the same time the trade deficit of Turkey with the D8 improved, however the ratio trade balances of this country has significantly dropt (see Table 3). This ratio in 2010 has improved; means Turkey after 2009 again attended towards the D8 group. This policy helped Turkey to relatively recover its trade balance with the World.

Trade Balance with the World in Million USD								
	Bangladesh	Egypt	Indonesia	Iran	Malaysia	Nigeria	Pakistan	Turkey
2006	-4,439	-17,982	39,733.2	35,115	30,172	28,519	-17,611	-54,041.0
2007	-5,744	-25,324	39,627.5	43,857	29,221	27,785	-21,115	-63,791.0
2008	-10,193	-32,652	7,823.1	46,825	42,578	33,030	-24,496	-65,195.3
2009	-7,425	-33,047	19,680.8	8,612	31,478	4,136	-16,907	-38,730
2010	-11,077	-26,486	22,176	31,962	34,067	28,388	-16,374	-71,560

Table 1: Trade Balance of D8 Members with the World
(D8 Organization for Economic Cooperation, 2012)

Moreover, Table 2 explains the intra-trade among developing 8 members. For Bangladesh, the negative trade balance shows that this country in addition to import merchants from world countries, it is experiencing the same scenario in Islamic common market. Egypt and Pakistan have held their value of import but still their import exceeds the total export as indicated by negativity of trade balance. Indonesia is rapidly becoming an importer and as the trend shows from 2006 to 2010 this country losing its ground as one of the major exporters. The same scenario is happening to Iran however Iran has held positive trade balance. Within members, Malaysia in the only country which has kept its level of export steady and the trade balance for this country was positive with no significant diminishes.

Trade Balance with D8 Countries in Million USD								
	Bangladesh	Egypt	Indonesia	Iran	Malaysia	Nigeria	Pakistan	Turkey
2006	-690.25	-1,149.99	3,460.19	4,687.95	1,077.22	-35.64	-1,713.51	-6,687.22
2007	-676.93	-1,333.03	1,016.26	5,050.96	1,954.13	465.88	-2,350.26	-8,225.84
2008	-1,085.06	-1,958.32	-15.16	5,045.29	2,567.06	-277.54	-2,804.06	-9,585.78
2009	-1,522.39	-3,260.90	-232.59	331.01	4,218.68	-175.07	-1,930.42	-2,183.83
2010	-1,957.00	-1,547.00	-3,187	3,632	1,989.00	361.00	-2,784.00	-6,922.00

Table 2: Trade Balance among D8 Members
(D8 Organization for Economic Cooperation, 2012)

Also regarding to Table 3, it is important to know that after global crisis in 2008 all members of the D8 (except Iran and Turkey) have intended to be more integrated in 2009. The tendencies of Bangladesh, Egypt, Malaysia and Nigeria to extend their relations with the D8 members are significant. In 2010 while the policies of Iran, Indonesia and Turkey were changed toward the trade with the D8 members but their policies was not supported by the previous countries.

%								
	Bangladesh	Egypt	Indonesia	Iran	Malaysia	Nigeria	Pakistan	Turkey
2006	15	6	8.7	13	3.5	0.01	9.7	12
2007	11	5	2.5	11.5	6	1.5	11	12.9
2008	10	6	0.02	10.7	6	0.08	11.4	14.7
2009	20	10	1	3.8	13	4	11.4	5.6
2010	17.5	6	14	11.3	5.8	1	17	9.6

Table 3: The Ratio of Trade Balance among D8 Members to the Trade Balance
of D8 Members with the World
(Calculations based on the Obtained Data from D8 Organization for Economic
Cooperation, 2012)

Analysis of data specifies that developing eights can be distinguished into
two categories, countries which soon become exporter and members which soon
become exporter in intra-trade activities. This categorization seems inevitable
however, it is highly suggested that members use their comparative advantage
to use their resources and capabilities as the source of their core competency.

In this short research, shift share technique is employed an analytical tool to
assess the possibility of categorization and to enable us to forecast the
movements of Islamic common market.

3. Methodology and the Trade Model Opportunity

To identify import and export opportunity within D8 countries we employed
shift share technique. Regarding markets' thirst, investigating and considering
opportunities of export to and import from potential sectors are good motivators
to use shift share (Castaldi, 2009). Although this technique is accounting-based
(Knudsen, 2000), it absolutely is beneficial to marketers in terms of
supplementary input to their decision making process; which is in addition to
macro and micro environmental analysis in today's existing hyper-competition.
The methodology adopted from a previous research conducted by Sazmand-
Asfaranjan and Ziaei-Moayyed (2012). The usefulness of this technique for the
purpose of forecasting and analysis of growth rate is emphasized by these
authors. The main reason for using shift-share in this research was its ability to
analyze regional growth (Tervo & Okko, 1983) and to follow market trend
(Green & Couture, 1986). More importantly, the role of this technique on
clarifying the growth of economic variable is considerable. The magnificent
advantage of that is independency from primary data (Yasin, Alavi, Koubida, &
Small, 2011). It uses official secondary data revealed by governments, statistic
departments, and reliable organizations to name a few. Shift share is based on
comparison of one period of time to the next one (Millie, 2005).

Here, four years of data for performing mathematical analysis gathered from
web site of Developing 8 organization at developing8.org. Based on this

methodology data will be classified into initial (2007-08) and terminal period (2009-10). Absolute growth, percentage of growth and net shift percentage are the final steps of calculations which assist us in case of interpreting the result.

The calculation sequences in order obtain the specified items (Absolute growth, percentage of growth and net shift percentage) explained below:

Actual Change. After classifying the export data into initial and terminal period, the difference of the value of export between terminal period (V_{Et}) and initial period for a market (J) indicates the value for absolute growth.

$$\Delta V = V_{Et} - V_{Ei}$$

The result might be more than zero ($\Delta V > 0$), less than zero ($\Delta V < 0$) or equal to zero. The first one shows that the value of the market J increased while when the difference is lesser negative market J is faced deduction in value. If the difference is zero, then market would be unaffected.

Total Growth Rate. By dividing the total value of terminal period over initial period for each market, total growth rate (α) will be determined.

$$\alpha = \frac{\sum_{j=1}^{m} V_{Et}}{\sum_{j=1}^{m} V_{Ei}} \ (J=1, 2...m)$$

Expected Value. By multiplying the value of the initial period by total market growth rate (for all market) the expected value will be clarified.

$$EV \ (V_{Et}) = \alpha \ (V_{Ei})$$

Expected Change. It is the difference between the expected value of terminal period and actual value of initial period expected change will be gauged.

$$\Delta E \ (V) = EV \ (V_{Et}) - V_{Ei} = V_{Ei}(\alpha - 1)$$

Net-Shift. The difference between the actual change and Expected export value of terminal period gives us the net shift.

$$N = \Delta V - EV \ (V_{Et})$$

The result of net shift will always be equal to zero, meaning that there is equality between sum of positive net-shifts (N+) and negative net-shift (N-). The N+ has different interval period (J=1 to x) comparing to N- (J=1 to y) as shown in the formula. Worth mentioning that sum of the two intervals period will be the total period (x+y=m).

$$\sum_{j=1}^{m} N = \sum_{j=1}^{m} \Delta V - EV \ (V_{Et})$$

$$\sum_{j=1}^{m} N = \left(\sum_{j=1}^{x} N+\right) + \left(\sum_{j=1}^{y} N-\right) = 0 \ (x+y=m)$$

Total Absolute Net-Shift. As explained by the net-shift formula, the sum of negative and positive net shift values are even therefore, only total of one of the values will be considered (either total positive net-shift values or total negative net-shift values). In the below formula the sign of the numbers are not important, only the values.

$$\beta = \frac{\sum_{j=1}^{m} N}{2} = \sum_{j=1}^{x} N + \text{ or } \sum_{j=1}^{y} N -$$

Percentage Net-Shift. By dividing the value of the net-shift (N) for specified market over β and multiplying by 100 the percentage net-shift will be obtained.

$$P = \left(\frac{N}{\beta}\right) \times 100$$

Briefly, the results of calculation using the above methodology are summarized in following tables. Table 4 indicates the absolute growth, percentage of growth and percentage of net-shift for investigating export opportunity and Table 5 highlights the absolute growth, percentage of growth and percentage of net-shift for assessing the import opportunities of D8 members. Indeed, these tables indicate the export and import countries which are significant to do trade with.

Export Opportunities among D8 Countries between 2007-08 (Initial period) & 2009-10 (Terminal period) (USD Million)					
	Absolute Growth (In thousand dollars)		Percentage Growth (%)		Shift Share (%)	
	Country	Growth	Country	Growth	Country	Net Shift
D8 Countries	Turkey	5,049.89	Turkey	41.95	Malaysia	57.88
	Malaysia	3,320.89	Bangladesh	37.66	Indonesia	35.46
	Indonesia	1,889.48	Pakistan	22.88	Egypt	6.67
	Pakistan	720.03	Nigeria	20.19		
	Bangladesh	492.91	Malaysia	14.24		
	Nigeria	430.07	Egypt	13.70		
	Egypt	380.73	Indonesia	8.71		
	Iran	-2,969.98	Iran	-22.48		

Table4: Export Analysis based on Origin Countries

Table 4 clearly explains the result of export data analysis according to countries of origin. The countries were classified based on the value or percentages from high to low.

According to net-shift result, only three countries had positive shift share percentage in this respect, among D8 countries, Malaysia ranked first with net-shift of 57.88%. Regarding percentage of growth and absolute growth this country ranked fifth (14.24%) and second (USD 3,320.89 m) respectively. Indonesia has the second best net-shift value of 35.46% while not having a very good percentage of growth (8.71%) compared to other members. Indonesia is the third best exporting country according to its export growth value (USD 1,889.48 m).

The table 5 elaborates the significant countries within developing eight members for the purpose of exporting to.

Based on net-shift percentages, Iran has the highest rank (47.70%). Moreover, this country has shown great absolute growth with the value of USD 3,163.26m and percentage of growth of 34.30% (second). Egypt posited itself as the second country in terms of imports according to its net-shift (25.80%). This country also had considerable percentage of growth (25.01%) and value of imports (USD 1,897.28m). Malaysia not only considered as export country, also in terms of imports it ranked third (net-shift of 13.27%), however according to percentage of growth this country ranked fifth (9.55%) and import value of USD 1,634.40. analysis on Bangladesh revealed the fact that although the best percentage of growth belonged to this country (37.66%), it ranked fifth based on its net-shift (7.41%). This country had fourth import value of USD 429.91 m. Nigeria, among all considered as sixth best with the net-shift of 5.82%. This country had 22.25% of growth while ranked fifth regarding its value of export (USD 4.32.48m).

Import Opportunities among D8 Countries between 2007-08 (Initial period) & 2009-10 (Terminal period) (USD Million)					
	Absolute Growth (In thousand dollars)		Percentage Growth (%)		Shift Share (%)	
	Country	Growth	Country	Growth	Country	Net Shift
D8 Countries	Iran	3,163.26	Bangladesh	37.66	Iran	47.70
	Egypt	1,897.28	Iran	34.20	Egypt	25.80
	Malaysia	1,634.40	Egypt	25.01	Malaysia	13.27
	Bangladesh	492.91	Nigeria	22.25	Bangladesh	7.41
	Nigeria	432.48	Malaysia	9.55	Nigeria	5.82
	Pakistan	280.13	Pakistan	3.56		
	Indonesia	-33.51	Indonesia	-0.18		
	Turkey	-3,656.90	Turkey	-17.30		

Table 5: Import Analysis based on Origin Countries

At the end of this section it must be said that since only four years of data were available and collected for this analysis, there might be a slight uncertainty on predicting future movements of market As such it is highly suggested to use at least 8 years of data to increase the assurance of the result.

In the next section it will be discussed that weaknesses and very low bilateral and multilateral relations in economic and commercial affairs have been rooted in divergences among the D8 group especially disagreements between three main members of this group in the Middle East.

4. Diversity and Ambiguous Future of the D8 Group

The results of Table 4 and Table 5 show that there are opportunities for countries like Iran and Egypt to do and enhance their trade and economic relations. But it is asked; are these countries able to do such policy or not? Definitely, for doing a successful trade in a region and an organization such as the D8 group the smoothing of road is an essential issue. In other word an acceptable integration is needed to extend the trade relationships between the members. Otherwise, the economic potential of the members cannot be efficiently emerged and employed. It is fact that the D8 is suffered from a serious problem regarding to the integration issue.

Unfortunately, the D8 group is a good example for having a high diversification among its members. Some of the reasons for this claim can be found in economic indicators. For instance, while the people of three members of this group have averagely earned more than 8000 US dollars but, in average, the people of four members could not experience 4000 at all in last decade, (Figure 1). Also, while Nigeria has had very little tendency to extend its trade relations with the D8 group Turkey and Bangladesh have had high attention to this group (see Table 3). Furthermore, there have not been serious exercises to enhance and expand the D8 community. The low ratios of trade balances and the high fluctuations of these ratios in different years which have been demonstrated in Table are other evidences for this emphasize.

From the other side, the grounds of diversity among the D8 group are mainly caused by political reasons. From this view point, it is discussed if fundamental differences are continued to be existing in the political systems of the D8 nobody can expect to have an integrated community inside the D8 group. Accordingly, the lack of political and economic relationships between Iran and Egypt in last decades can be argued as one of the most important reason for weakness and diversification in the D8 group. However, by the recent fundamental challenges and crises in the Middle East the future of the D8 is deeply determined by the situations of the main players of the Middle East and the D8 members; that is Iran, Egypt and Turkey. It is not difficult to know that in the new atmosphere these countries as well as Saudi Arabia which are located in the main corners of the Middle East with together can build the future of the D8 as well as the Islamic world. Therefore they can make a suitable anchor for the integration in the Middle East. Also, the reliance can significantly promote economic and commercial collaborations inside the D8 group. In fact, by the modifications and changes in political viewpoints of the Middle East countries we can wait for the joining of new members such as Iraq, Jordan, Syria and even Saudi Arabia to this group. By this perspective, the D8 would be boosted and extended alongside to development of the Middle East. These events can lead the Muslim world toward establishing a big common market in reality and even the possibility of making a Muslims unique monetary policy as well as money union in Muslim world.

5. Conclusion

It was discussed that the formation of D8 counties goes back to around 20 years ago when 8 countries including Iran, Turkey, Egypt, Malaysia, Bangladesh, Indonesia, Pakistan, and Nigeria met in Istanbul and intended to enhance their economic and trade cooperation.

Different policies and challenges in the Middle East and among the Middle East members of the D8 inevitably have had a great negative impact on bilateral relations of D8 members. Well consequently, the best way conducting business for these members being engaged in intra-trade activity and butter is trading.

Furthermore it was analyzed the trade opportunity among the D8 members by the shift-share technique. Accordingly, countries classified into two categories; importer countries, which have been Iran, Egypt, Malaysia, Bangladesh, and Nigeria, and exporter countries which are Malaysia, Indonesia and Egypt. In addition Malaysia and Egypt both were considered as good importers and exporters.

Also, it was emphasized that there have been serious problems for trade expanding among the D8 members and shaping a fit community in reality. In other words, the D8 group is deeply suffered from diversification trouble. This problem is rooted in economic and political matters. Therefore, economic and political integrations inside the D8 group not only can resolve the divergence problem inside the group but it can lead the Muslim world and the Organization for the Islamic Cooperation (OIC) toward trade and economic integrations.

It seems there are strong relations between the modifications in the Middle East and the future of the D8 due to the essential roles of three members of the D8. If Iran, Turkey and Egypt, as the anchor of the Middle East and the main core of the D8, follow a win-win game in their political and economic relations it can be said that by the solving of challenges in the Middle East will be lead to improve and boost up the D8 group.

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