

## ISLAM AS A CATALYST FOR ECONOMIC INTEGRATION? THE CASE OF THE DEVELOPING-EIGHT

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### ÖZET

D8, bir grup kalkınmakta olan ülke tarafından kurulmuş bir ekonomik iş birliği inisiyatifidir. Söz konusu oluşumun temel amacı, üyeler arasında ekonomik iş birliğini artırmaksa da, bu konudaki yetkinliği kısıtlı kalmıştır. Bunun sebebi D8'in algılanmasının tamamen ideolojik bir temelde ve mevcut ekonomik potansiyeli gözardı eden bir şekilde oluşması ve oluşumun İslami kimliğinin ekonomik entegrasyon imkânlarını gölgede bırakmış olmasıdır. Makalenin tezi, İslam'ın küresel ekonomik konularda ayırıcı bir faktör olmak zorunda olmadığı ve ideolojik/dinî temele dayalı algılamanın yerini ekonomik unsurların alması durumunda bir katalizör olabileceği şeklindedir. Makale, bu ve diğer sorunlar açısından D8'in bir iyileşme sürecinde olduğunu ve üye ülkelerin D8'in işlemesi için etkin bir altyapı oluşturmak amacıyla kendi iç kalkınmalarına ağırlık vermeleri gerektiğini öne sürmektedir.

**Anahtar Kelimeler:** D8, İslam, küreselleşme, bölgeselcilik, ekonomik iş birliği.

### ABSTRACT

The Developing Eight (D8) is an economic cooperation arrangement formed by a group of developing countries. Although this grouping aims at enhancing economic cooperation among its members, its effectiveness in this regard was hindered, because the perception of D8 was based solely on ideological grounds, ignoring the economic potential of member countries and its identity as a pan-Islamic initiative has overshadowed its prospects for economic integration. This essay claims that Islam does not necessarily have to be a disjunctive factor in global economic relations and D8 has the capacity to prove that it can also be catalyst in this regard, if the pure ideological/religious perception is replaced by economic considerations within the framework of mutual benefits. The essay further states that both in this aspect and with regard to the other problems of the D8, there is currently a process of improvement and that the member countries should do is to ensure their internal development in order to establish an efficient infrastructure on which the D8 would operate.

**Key Words:** D8, Islam, globalization, regionalism, economic cooperation.

## INTRODUCTION

The Developing Eight (D8) is an economic cooperation initiative within the framework of the South-South dialogue, formed by a group of developing countries, namely Bangladesh, Egypt, Indonesia, Iran, Malaysia, Nigeria, Pakistan and Türkiye. It was officially established at a summit held on 15 June 1997 in Istanbul. An analysis of the official declaration issued at the inaugural summit shows that the motivation behind the establishment of this grouping was to create synergy in order improve the member countries' positions in the global economy by creating new opportunities in trade. The Istanbul Declaration pointed to the adverse effects of globalization, stating that "...tension, instability, conflict and confrontation have developed in various parts of the world and old policies of double-standards, discrimination and oppression have continued and in some cases intensified". It was a call for developing countries to join forces and to establish "close and effective co-operation and consultation" in order to obtain a "bigger share in global trade activities and an adequate role in the global economic decision-making" through "fostering a global partnership in the world economy based on a constructive dialogue through a democratic and participatory process."<sup>1</sup>

The D8 brought together a selection of developing countries and this selection was not random. Although neither the Istanbul Declaration nor any other founding document explicitly put it forward as a condition, all of the members of the D8 are Muslim countries. In fact, as can be seen on **Table 1**, seven of them (with the exception of Malaysia) are the most populous Muslim countries. Furthermore, they all (with the exception of Iran) adherents of a moderate Sunni version of Islam and proponents of Western values of democracy.

**Table 1: Countries with the Highest Muslim Populations**

		<b>Total Population</b>	<b>Muslim Population</b>	<b>% Muslim pop.</b>	<b>GDP per capita (US\$)*</b>
<b>1</b>	Indonesia	234, 693, 997	207, 000, 105	88. 2%	942
<b>2</b>	Pakistan	164, 741, 924	161, 447, 086	98%	596
<b>3</b>	India	1, 129, 866, 154	151, 402, 065	13. 4%	n/a
<b>4</b>	Bangladesh	150, 448, 339	129, 987, 364	88. 3%	415
<b>5</b>	Egypt	77, 505, 756	70, 530, 237	91%	1, 662
<b>6</b>	Turkey	69, 660, 559	68, 963, 953	99%	3, 390
<b>7</b>	Nigeria	128, 771, 988	64, 385, 994	50%	420
<b>8</b>	Iran	65, 397, 521	64, 089, 571	98%	1, 962
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<b>21</b>	Malaysia	24, 821, 286	14, 467, 694	60. 4%	4, 434

\* As of 2005. In current prices.

**Sources:** US Census Bureau, US State Department, Islamic Development Bank.

<sup>1</sup> Developing-Eight Countries Istanbul Declaration, 15 June 1997. Accesible through the web site of the Ministry of Foreign Affairs of Turkey. <http://www.mfa.gov.tr/d-8/istanbuldeclaration02.htm>

The D8 can be seen as an offshoot of the Organization of Islamic Countries (OIC) and all D8 members are OIC members as well. One might ask why there was a need for an alternative grouping when there was the OIC. Firstly, the D8 was founded as a response to the weaknesses of the OIC. As stated by Aral, “the founders of the D8 were aware of the dangers to its proper functioning of too much bureaucracy and outside intervention by powerful third states or political groupings which have apparently undermined the effectiveness of the Organization of the Islamic Conference.” (Aral, 2005: p. 91). This motivation behind the idea of the D8 should be read together with the selection of countries that form the D8. Whereas the 57-country OIC is dominated by the oil-rich Middle Eastern countries, the D8 represents the bulk of the world’s Muslims, with a total population of around 900 million, by bringing together non-Arab countries (with the exception of Egypt) from three different continents.

During the ten years since its inception, D8 held five summits (Istanbul 1997, Dhaka 1999, Cairo 2001, Tehran 2004 and Bali 2006), nine Council of Foreign Ministers meetings, 18 commission meetings, one special session of commission and around 50 meetings at technical level. However, in contrast to the great enthusiasm shared by its founders at the time of its founding, D8 has since failed to deliver its promises and lapsed into obscurity. This proposition is supported by the comparative analysis of trade data from the eight countries in question, which clearly reveals two facts: (i) the rate of increase of trade volume among these eight countries almost remained unchanged after the establishment of the D8: (ii) although trade among these eight countries increased faster than their overall trade with the rest of the world, the establishment of D8 had minimal, if any, effect on this.

The following comparative analysis of trade data takes three specific years as reference in order to visualize the changes brought about by the existence of the D8. 1996 is taken as the last year before the establishment of the grouping, 2004 is taken as the year of the most recent available data. The extent to which the existence of D8 affected the member countries’ trade is analyzed by investigating the changes in trade volumes and rates of increase in trade over two 8-year periods, one before the founding of D8, 1988-1996: and the other after the founding of D8, 1996-2004.

**Table 2:** Shares of intra-D8 trade within the overall trade volume of member countries

	1988		1996		2004	
	Total trade volume (mil. US\$)	Share of intra-D8* trade (%)	Total trade volume (mil. US\$)	Share of intra-D8 trade (%)	Total trade volume (mil. US\$)	Share of intra-D8 trade (%)
<b>Bangladesh</b>	4,246	8.06	6,468	7.65	11,197	10.40
<b>Egypt</b>	10,778	3.26	12,192	7.79	16,570	8.93
<b>Indonesia</b>	32,467	2.28	63,063	6.06	77,732	10.33
<b>Iran</b>	14,541	10.21	31,882	6.86	52,690	7.88
<b>Malaysia</b>	37,667	2.55	94,857	4.12	143,182	6.08
<b>Nigeria</b>	10,932	0.28	13,483	2.03	54,406	1.78
<b>Pakistan</b>	11,145	5.86	15,949	10.38	19,996	13.02
<b>Turkey</b>	25,998	6.22	37,381	6.07	77,365	6.50
<b>D8</b>	<b>147,774</b>	<b>4.18</b>	<b>275,276</b>	<b>5.65</b>	<b>453,139</b>	<b>7.09</b>

\* Since the D8 was founded in 1997, “intra-D8 trade” should be interpreted as “trade among the eight countries that currently make up the D8” for the years 1988 and 1996.

**Source:** Calculated using data from the United Nations Commodity Trade Statistics Database and the Statistical, Economic and Social Research and Training Centre for Islamic Countries (SESRTCIC).

**Table 3:** Changes in trade volumes of member countries \*

	1988-1996		1996-2004	
	Change in total trade (%)	Change in trade with D8 countries (%)	Change in total trade (%)	Change in trade with D8 countries (%)
<b>Bangladesh</b>	52.33	44.47	73.11	135.42
<b>Egypt</b>	13.12	170.09	35.91	55.63
<b>Indonesia</b>	94.24	416.54	23.26	110.05
<b>Iran</b>	119.26	47.18	65.26	89.99
<b>Malaysia</b>	151.83	306.07	50.94	122.98
<b>Nigeria</b>	23.34	800.07	303.50	254.75
<b>Pakistan</b>	43.11	153.65	25.37	57.21
<b>Turkey</b>	43.78	40.39	106.97	121.57
<b>D8</b>	<b>86.28</b>	<b>151.69</b>	<b>64.61</b>	<b>106.56</b>

\* All the changes are given in cumulative values for eight-year periods.

**Source:** Calculated using data from the United Nations Commodity Trade Statistics Database and the Statistical, Economic and Social Research and Training Centre for Islamic Countries (SESRTCIC).

As seen in **Table 2**, the average share of the trade among the eight countries that currently form the D8 within their overall trade moved up from 4.18 % in 1988 to 5.65 % in 1996, a 1.47 point increase over the eight years before the foundation of the D8. In 2004, this average share moved up to 7.09 %, a 1.44 point increase over the 8 years after the foundation of the D8. Although the share of intra-D8 trade within the member countries' total trade volume continued to increase, it did so at a decreasing rate, which means that –all other things being equal– the existence of the D8 as an economic cooperation initiative did not have a trade facilitating effect among the countries in question.

**Table 3** shows that in both two eight-year periods (one before, the other after the foundation of D8) although the volume of the eight countries' trade among themselves increased faster than their overall trade with the rest of the world, the rate of increase diminished after the establishment of D8. Therefore, this second observation also supports the conclusion drawn from the first one mentioned above.

A similar story can be told about the D8's failure to facilitate foreign direct investment (FDI) flows among the member countries. In recent years, the eight countries managed to attract FDI from the world at an increasing rate due to opening of their economies and the consistency of the fiscal policies they are implementing. In 2006, Türkiye attracted \$19.8 billion in FDI, Egypt \$6.8 billion, Indonesia \$5.3 billion, Malaysia \$4.0 billion, Pakistan \$2.6 billion, Nigeria \$2.45 billion, Iran \$140 million and in 2005, Bangladesh had attracted \$840 million.<sup>2</sup> However, most of these FDI flows originated from developed countries such as the USA, Germany, France, Japan, to some extent India and Gulf countries. The United Nations Conference on Trade and Development (UNCTAD) reported that the South-South FDI has expanded significantly fast over the past 15 years<sup>3</sup>, however the volume of intra-D8 flows remained limited with a handful of projects originating from Turkey and Malaysia. According to the same UNCTAD report, the bulk of South-South FDI is intraregional in nature, and this is the very reason of why intra-D8 investment flows remained low, given that the D8 member countries do not share the same geographical region. So far, the D8 failed to produce concrete projects to increase FDI flows among its members.

That the D8 failed to contribute to member countries' economic growth process by facilitating trade and investment flows does not necessarily mean that the organization has become obsolete. It should be remembered, that in its earliest days, the D8 had been the target of harsh criticisms ranging from

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<sup>2</sup> **Sources:** The Economist Intelligence Unit (EIU), Bangladesh Board of Investment.

<sup>3</sup> **World Investment Report 2006**, United Nations Conference on Trade and Development, Geneva.

questioning whether it will be able to hold a second summit<sup>4</sup> to calling the initiative the “Club of the Poor” or “Gathering of the Blind and the Deaf”.<sup>5</sup> Despite all the shortcomings and failures, the D8 managed to deny these criticisms. It has initiated several cooperation schemes through its working groups on energy, industry, small and medium sized enterprises, finance and banking and undertook capacity-building work. Concrete steps towards trade facilitation have been taken in the form of a Preferential Trade Agreement, a Multilateral Agreement on Administrative Assistance on Customs Matters and an Agreement of Easing Visa Procedures for D8 Businessmen, which all await parliamentary ratification. D8 Trade Fairs and D8 Business Forums have provided a platform for the business circles of the member countries to get together and initiate deals. Other than these small but meaningful steps, the D8 continues to advise member countries on issues of importance for the whole organization. The Bali Declaration, which was signed on 13 May 2006, points to potential areas of cooperation, which are alternative and renewable energy resources, ICT, space technology, bio-technology, microfinance, maritime logistics and eco-based tourism.<sup>6</sup>

As stated by the Secretary General of the organization, the D8 aims to achieve an intra-organizational trade volume of \$100-125 billion, representing 10-15 % of cumulative D8 trade, by the end of the next decade.<sup>7</sup> This paper’s thesis is that not only is this plan, i. e. increased intra-D8 trade, attainable, but the D8 can achieve much more by serving as a platform for its member countries to integrate more efficiently with the global system and by incorporating each of them into the specific powerful networks of economic globalization, to which they are only poorly connected as of the current day. The paper will start with an attempt to identify the reasons behind the organization’s failure to deliver its promises, specially pointing to the gap between fact and perception vis-à-vis the D8, which has widened due to the over-politicization of this economic cooperation initiative. It will then explore the ways of how the obstacles that prevent the D8 to achieve its true potential can be removed and what the conditions thereof are.

### **The Gap Between Fact and Perception as a Reason of D8’s Failure**

The common denominator of the countries that chose to participate in the D8 was their large Muslim majorities, however their motivation to do so can be best explained through the lens of economic pragmatism rather than religious and/or

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<sup>4</sup> “Roundtable: Kemal Kirişçi and Bülent Aras, Four Questions on Recent Turkish Politics and Foreign Policy”. **Middle East Review of International Affairs**, V.: 2 No. 1, March 1998.

<sup>5</sup> Frefel, Astrid, “Der Türkische Ministerpräsident Fördert Soziökonomische Front gegen die G7”, **Der Standard**, 8 January 1997.

<sup>6</sup> “Developing-Eight Countries Bali Declaration”, 13 May 2006. Accesible through the web site of the organisation. <http://www.developing8.org/page/documents/summit/47/>

<sup>7</sup> Alam, Dipo, “D8 Countries in 10 Years Time”, **Today’s Zaman**, 18 June 2007.

political ideology. In 1997 when the grouping was founded, there was no homogeneity in the D8 vis-à-vis the economic structure and performance of the member countries (this is still not the case). It included emerging markets with high growth potential (Turkey, Malaysia and Indonesia), economies in transition from state control to free markets (Egypt, Iran, Nigeria and Pakistan) and an economy plagued by poverty (Bangladesh). What brought these countries, that had different priorities and goals with regard to their economies, was the desire to establish synergy that would boost their economic performance by opening new markets and enabling access to new resources. Aral points to their “immediate concerns, priorities and interests mostly related to material rewards” and also emphasizes on the contention of the member countries to have established “a new international platform for enhancing dialogue and cooperation among Muslim countries”. (Aral, 2005: p. 92)

The problem was, while the D8 was founded purely on the grounds of mutual economic benefits and was not designed to constitute the core of an Islamic Union or a similar entity, its rhetoric differed significantly in some member countries, mainly due to domestic political considerations, and this also resulted in divided opinion among the members. Even during its inaugural summit, some members overemphasized Islam as the thread that connected them and regarded to the initiative as a challenge against the Western-dominated world order, whereas others sought to downplay the role of Islam. What some leaders said during the Istanbul Summit in 1997 clearly exhibits the lack of consensus in this respect. Whereas the then Indonesian Foreign Minister Ali Alatas said that “the purpose of D8 is not to be an Islamic vehicle”, the then Iranian President Hashemi Rafsanjani was calling the D8 to react against the transfer of the US Embassy in Israel from Tel Aviv to Jerusalem, the capital claimed by both the Israeli government and the Palestinians.<sup>8</sup>

The rhetoric that mattered most came from the founding father of the D8, Necmettin Erbakan, the then Prime Minister of Turkey, who had taken the office after a 7-month period of political uncertainty following the parliamentary elections in December 1995. His Welfare Party (WP) had a narrow victory with 21.3 % of the vote and it had to form a coalition with the conservative center-right True Path Party (TPP). It was the first time in the history of the Republic of Türkiye that an Islamic party formed the government as the main coalition partner. As Erbakan became the Prime Minister, the TPP was criticized by Turkey’s secular elites for cutting a Faustian deal.

Erbakan is an ideologue and a seasoned politician, whose career was defined by seeking ultimately to orient away from the West. His world view was summarized as follows: “For the past quarter century, Erbakan and his party have consistently criticized U.S. ‘imperialism’, accused NATO of exploiting

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<sup>8</sup> DeMarco, Edward, “Islamic Countries form Developing Eight Economic Group”, **The Chronicle**, 16 June 1997.

Türkiye, condemned Turks who favor their state's integration with Western Europe as contemptible Westernizers, denounced Zionism and Jews, and urged that Türkiye integrate with the Islamic world by establishing an 'Islamic NATO', an Islamic Common Market, and an Islamic United Nations."<sup>9</sup>

The period of the WP-TPP coalition, called "Refahyol" in Turkish and lasted only 11 months, was an extraordinary one for as far as foreign policy was concerned. Turkey's foreign policy has traditionally two unchangeable principles. As detailed by Koçer, the first principle is "preserving the status quo", which in practice means abstaining from irredentist policies and maintaining the balance within the established system. The second principle of the Turkish foreign policy is "Westernism". (Koçer, 2003: pp. 37-38). However, the foreign policy approach of the WP was not compatible with these principles. According to Özcan, Erbakan's party had a "synthetic" foreign policy approach based on Islamist elements and the concept of "fundamental change", to be established in compliance with a new world order that was supposed to be based on the rules of Islam. (Özcan, 1998: p. 267) The result of this conflict between the established principles of Turkish foreign policy and the WP's views was that during this coalition period, foreign policy initiatives have been influenced by internal political concerns and the search for new ideologies. Özcan stated that the foreign policy in this period was dominated by "a mentality that excluded the relevant institutions or ignored their suggestions; attempted to influence the electorate as if the foreign policy implemented was not that of a country but of a party and its leader; viewed foreign policy as an image making tool rather than a problem solving and relationship building process." (Özcan, 1998: p. 286).

Erbakan had intended the D8 to become a Muslim counterweight against the industrialized Group of Seven (G7). In his rhetoric, the D8 represented the poor and the oppressed, whereas the G7 represented the rich and the oppressing, and the future of the world depended on these two groups' reconciliation on global issues. He even envisaged the D8 and the G7 to negotiate a new world order at a "Second Yalta Conference"<sup>10</sup>, referring to the wartime meeting in February 1945 between the leaders of the USA, United Kingdom and the Soviet Union, who discussed the post-war world order.

During his term in the office, Erbakan chose a careful language, refrained from overemphasizing Islam as an alternative path for Turkey and pictured rapprochement with Muslim countries not as an "alternative" for Turkey's existing ties with the West (including the European Union accession process) but as a "complementing" factor that would position Türkiye as a bridge between the East and the West. However this attitude did not nullify Erbakan's call for an "Islamic Union", which he did not only champion when he was in opposition, but also continues to do so today. What he explicitly said a few days

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<sup>9</sup> Makovsky, Alan, "How to Deal with Erbakan", *Middle East Quarterly*, March 1997.

<sup>10</sup> *ibid.*

before Turkey's parliamentary elections in July 2007, was implicitly a part of his rhetoric ten years ago: "D8 is a core. We will gather the 60 Muslim countries around it. With D60, we will form the Islamic Union. We will establish the Islamic NATO. We will switch to Islamic currency. We will create the Islamic common market. We will embrace each other as a real ummah. Even if America dislikes it. We will gather all of the oppressed nations around us, the D160. Who are these? These are Russia, China, India, Brazil, a population of billions. They are all oppressed by Zionism".<sup>11</sup>

From the first day on, the rhetoric of Erdogan and other D8 leaders, which emphasized the Islamic identity, overshadowed the economic rationale of D8. The resulting misperception blocked the D8's road towards global integration and increased economic performance, due to three reasons: (i) the perception of the D8 as an religion-based, antagonistic challenge against the domination of the West doomed the organization to alienation from the rest of the world; (ii) divided opinion among member countries, i.e. between those who adhered to the rhetoric and those who considered it purely on economic grounds, resulted in the failure to establish a common language for well-defined common objectives; (iii) when the leaders who had signed the Istanbul Declaration left (or were forced to leave) the office, their successors refused to inherit this (mis)perception and therefore distanced themselves from the D8.

### **Economic and Political Instability in the Developing World**

Another reason behind the failure of the D8 to provide greater economic cooperation for its member countries was the general economic and political instability in the developing world. Over the last ten years, D8 countries have gone through serious cases of turbulence, where in most cases the political crisis was intertwined with economic turmoil and social unrest. Weakening of internal structures (in some cases to near collapse) in member countries reduced dramatically both the resources and the commitment they could invest in D8.

D8 has been especially unfortunate in the sense that one of the most serious crises ever faced by its member countries struck only two weeks after the signing of the Istanbul Declaration that officially launched the organization. The devaluation of the Thai baht on 2 July 1997 unleashed a contagion that spiraled down East Asian economies, including D8 members Malaysia and Indonesia. Economic unrest triggered social upheaval in this region, leading to a forced resignation of the Indonesian President Suharto, one of the signatories of D8, in May 1998. In Malaysia, it was the Deputy Prime Minister Anwar Ibrahim who paid the price for the turmoil, who, after having a conflict with Prime Minister Mahathir Muhammad, was fired, arrested and eventually sentenced to prison.

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<sup>11</sup> "Necmettin Erdogan's speech at the 4<sup>th</sup> Turkey Conference organised by ESAM" (Economic and Social Research Center) on 19 July 2007 in Istanbul.

After the Asian Crisis, international finance circles became reluctant to lend to developing countries, leading to an economic slowdown in developing countries all around the world. Türkiye has been one of the worst hit and its economy went through a series of financial crises in 2000-2001: by then Erbakan had long left the office of the Prime Minister. Around the time when the D8 was founded, the Turkish military had already increased the harshness of its public warnings to Erbakan's government, eventually prompting him to step down the same year. In 1998, the WP was banned from politics.

In Pakistan, Prime Minister Nawaz Sharif was removed from the office through a military coup d'état in October 1999 and sent to exile in Saudi Arabia. Pakistan's foreign policy remained preoccupied with the tension with India, which in 1998 turned into a nuclear stand-off. In Nigeria, General Sani Abacha, during whose presidency the D8 was established, was a brutal and corrupt leader. He was found dead in June 1998 under dubious circumstances, but Nigeria's problems did not end with his demise and its economy continued to suffer due to corruption. Bangladesh remained entangled in poverty and a lack of pluralism. Iran suffered the confrontation between political liberals and the Islamic revolution's conservatives, whereas Egypt is yet to carry out reforms for more democracy.

When, on one hand, economic and political instability in developing countries prevented them from paying more attention to cooperation schemes such as the D8, on the other, political discrepancies among the member countries of D8 significantly reduced their ability to establish consensus and move as a single bloc in certain global issues. Whereas one member (Iran) is openly antagonistic towards the hegemony of the West in the global order (especially towards the USA), others do not have institutionalized objections against the West; some of them (Turkey, Pakistan) are close allies of the USA and a member is even on the way to become West itself (Turkey's accession to the European Union).

On the other hand, D8 members consist of secular, semi-Islamic and Islamic political regimes. It is exactly this divergence in Islam's role in political and economic life, which slows down the work of a religion-based economic cooperation initiative such as the D8. As Aral wrote: "Indeed, although all the D8 member states were bound by the common thread of Islam, individual members' perspective of Islam and its relation to politics, law and public life on the one hand, and of the extent of the role which should be played by Islamic principles in matters of foreign trade, institutional structure, legal provisions and foreign policy on the other, widely differed. Such differences also prevailed in the area of foreign policy." (Aral, 2005: p. 104)

These differences also lead to tension among member countries, which negatively affect the work of D8. This notion can be best illustrated by investigating the relations between Egypt and Iran. These two countries have

had no diplomatic ties since the 1979 Islamic Revolution in Iran due to Egypt's Camp David Accord with Israel signed one year before Iran's revolution. There have been several attempts, most notably in 2000 and 2004 to restore normal relations, but they failed. This situation does not only adversely affect the performance of the D8, but also proves that so far, the connective economic motive of the D8 has not been strong enough to force the members for political reconciliation in order to achieve mutual economic benefits. It should be remembered that in February 2004, the Egyptian President Hosni Mubarak had refused to attend the D8 Summit in Tehran, purely on political grounds.<sup>12</sup>

### **Economic Integration Versus Economic Cooperation**

In order to obtain a better understanding of what the D8 really is and what it can achieve, purified from the politicians' rhetoric, the idea of the D8 as an economic venture should be placed within the proper theoretical framework. Although economic theories do not provide a clear-cut explanation of economic integration, several authors have examined different aspects of economic integration, following the pioneering work of Balassa, who proposed to define economic integration as a process and as a state of affairs: "Regarded as a process, it encompasses measures designed to abolish discrimination between economic units belonging to different national states; viewed as a state of affairs, it can be represented by the absence of various forms of discrimination between national economies." (Balassa, 1961: p. 1)

Balassa also provided a discussion of various stages of economic integration, which are: (i) a free trade area (where tariffs and quantitative restrictions between the participating countries are abolished); (ii) a customs union (which suppresses discrimination in the field of commodity movements within the union and equalizes tariffs in trade with non-member countries); (iii) a common market (where not only trade restrictions but also restrictions on factor movements are abolished); (iv) an economic union (which combines the elements of a common market with harmonization of national economic policies in order to remove discrimination that was due to disparities in these policies); (v) complete economic integration (which presupposes unification of monetary, fiscal, social and countercyclical policies and requires the setting up of a supranational authority whose decisions are binding for member states). (Balassa, 1961: p. 2)

It is difficult to place the D8 within Balassa's framework, because it is not even in the first stage of integration. This should not be interpreted as a failure of the D8: rather it is a result of technical restrictions. The binding effect of other international commitments of member countries, such as Turkey's Custom Union with the European Union, make it impossible for the D8 to create a multilateral free trade system and it is not the D8's aim to challenge the existing

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<sup>12</sup> Saad, Rasha, "Crossing the Street", *Al-Ahram Weekly*, 26 February 2004.

structures. The founding documents of the D8 clearly state that the grouping “will be a forum with no adverse effect on bilateral and multilateral commitments of the member states emanating from their membership to other international or regional organizations”.

Meanwhile, the absence of a free trade area does not necessarily mean that there is no trade integration among D8 countries. The most substantial step towards this goal had been taken in May 2006, when the D8 member countries signed a preferential trade agreement (PTA), which is yet to be ratified by the member countries’ parliaments.<sup>13</sup> Furthermore, there are also joint trade facilitation projects undertaken by the D8.<sup>14</sup>

For these reasons, it would be appropriate to classify the D8 as an initiative of “economic cooperation” rather than “economic integration”. Balassa makes the distinction between these two concepts. Accordingly, whereas cooperation is aimed at lessening discrimination, the process of economic integration comprises measures that entail the suppression of some forms of discrimination. (Balassa, 1961: p. 2). In other words, economic integration is a more institutionalized form of economic cooperation.

### **Regional Versus Global**

What distinguishes the D8 from other multilateral economic cooperation initiatives is that its membership is based on (even if it is only *de facto*) common faith, rather than geographical proximity. Whether this makes the D8 a “global” rather than a “regional” integration is a difficult question to answer. The Macquarie Concise Dictionary defines “region” as “any more or less extensive, continuous part of a surface or space; a part of the earth’s surface of considerable and usually indefinite extent”, whereas “global” is defined as “relating to or covering the whole world; all embracing, comprehensive.” In this sense, the D8 defies both classifications. It is not regional, because its members are not from a single region of the world, they are from three different continents and they lack common national borders (with the exception of Türkiye-Iran and Indonesia-Malaysia). It is also not global, because its inclusion of members is on an eclectic basis, it is not all embracing.

Although, in geographical terms, it is difficult to decide whether the coverage of the D8 is regional or global, from the economic theory point of

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<sup>13</sup> The PTA covers around only 8 % of D-8 countries’ tariff lines that are above 10 %. Tariffs greater than 25 % will be reduced to 25 %, tariffs between 15-25 % to 15 %, and tariffs between 10-15 % percent to 10%. The reduction will be completed within four years for developing member countries and eight years for least developed members.

<sup>14</sup> Additionally, some country pairs have their own bilateral free trade agreements independent from the D8 (such as the Turkish-Egyptian FTA) and some already achieved a certain level of integration within the framework of other structures (such as Indonesia and Malaysia within ASEAN).

view, it can be regarded to as a product of the wave of economic regionalism that dominated the world from the 1990's onwards, termed as the "new regionalism" by some authors, and marked with a substantial increase in the regionally based institutionalized co-operation among countries (Christiansen, 2001: p. 513). Christiansen further makes the point that the new regionalism is a result of globalization: "As countries in one continent agree to integrate their economies, creating free trade zones, customs unions, or more, the effects are felt elsewhere. Frequently, there has been a response 'in kind', i.e. the attempt to match the efforts of economic integration elsewhere. An important driving force for these processes has been the end of the Cold War: the removal of superpower conflict with its repercussions in many parts of the world provided new opportunities for regions to co-operate in matters of trade and security.

This idea behind regionalism perfectly matches with originating point of the D8.<sup>15</sup> The only difficulty in calling the D8 a regional initiative is the geographically dispersed nature of its members. The Asia Pacific Economic Cooperation (APEC) is also spread on different continents, yet is called a regional initiative. The official web site of the D8 organization states that "D-8 is a global arrangement rather than a regional one, as the composition of its members reflects." One could ask the question if it would be called regional, in a similar fashion with the APEC, if only the D8 had a different name, for instance, the "Asian-African Economic Cooperation"?

Considering the above, it can be concluded that the D8 is neither global nor regional. It is the product of regionalism in the age of globalization, hence the most appropriate to identify it would be to call D8 a "regionalist" organization, a regionalist economic cooperation consistent with globalization.

#### **Economic Cooperation/Integration Arrangements in Comparison**

According to Gilpin, regionalism has assumed diverse forms; different regional arrangements can have different mixes of political and economic goals and they can also vary in their institutional form (Gilpin, 2001: pp. 342-3). It is a common practice of scholars to compare different arrangements and different organizations with each other in order to better understand the structures and performances of different arrangements. **Table 4** is a modified form of a chart prepared by Christiansen; a few parameters from the original chart have been excluded and a new column for the D8 is added as an attempt to clarify how the D8 differs from other arrangements and in what ways they are similar to each other.

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<sup>15</sup> The Istanbul Declaration opens with the following statement: "We, the heads of state/government of... ., having reviewed the international political scene and concluded that the post Cold War international situation including rapid globalization of the world economic structure, has created both opportunities and challenges for developing countries, . . ."

**Table 4.** Differences between different types of economic cooperation arrangements

Parameters	European Union (economic integration)	Regional Co-operation (general)	D8
<b>Institutional characteristics</b>	Presence of autonomous supranational institutions that initiate and enforce common policies.	Reliance on purely intergovernmental forms of decision-making.	Reliance on purely intergovernmental forms of decision-making (The supreme organ is the Summit of the Heads of State/Government of member countries, which convenes once every two years. There is a Council composed of the Ministers of Foreign Affairs, and a Committee as the executive body.)
<b>Forms of decision making</b>	Extensive use of qualified majority voting (i. e. states have no veto over decisions).	Consensual decision making (i. e. states have veto over decisions).	Consensual decision making (i. e. states have veto over decisions).
<b>Political integration</b>	Development of a political union with a system of economic, political, social rights	Concentration on economic cooperation.	Concentration on economic cooperation. Heterogeneity of political systems among member states.
<b>Range of issues covered</b>	Expansion of competencies into much wider areas (single currency, environment, culture, etc).	Emphasis on trade, investment and related economic issues.	Trade, Industry, Communication and Information, Finance, Banking and Privatization, Rural Development, Science and Technology, Poverty Alleviation and HR Development, Agriculture, Energy, Environment, Health, Tourism, Culture and Sport.
<b>Legislative procedures</b>	Establishment of a democratic process, based on a directly elected parliament.	Minimal, if any, involvement of parliaments	Minimal, if any, involvement of parliaments. In most cases “lack of commitment” by the parliaments is a factor slowing down the work of D8.
<b>Foreign policy cooperation</b>	Common foreign policy.	Limited to participation in multilateral trade negotiations.	Minimal, if any, mostly remaining as rhetoric, not translating into practice. <sup>16</sup> Significant disparity of foreign policy views among member states.

<sup>16</sup> During the Bali Summit in May 2006, the leaders asserted the right of Islamic countries to peaceful nuclear energy. Although Tehran viewed this as a sign of support for its nuclear programme and Iran’s President Mahmoud Ahmadinejad “thanked” member countries for their initiative, it did not mean that the D8 chose a common foreign policy stance supporting Iran.

### Conditions For Success

Ten years after its foundation, the D8 is now better positioned to overcome its problems and to proceed towards its goals of higher trade integration and trade facilitation for its members. The biggest dilemma of the D8 was, as mentioned above, the gap between the (mis)perception of the grouping as a prototype of an Islamic Union and its economic rationale. Although this gap still exists, it is definitely narrowing in the post-9/11 world, where political Islam is on the fall and even Islamist leaders do not see any benefits in supporting the rhetoric of the founding fathers of D8. As the gap closes, D8 enjoys more support and commitment from the member countries. It was this increasing support, which accelerated the institutionalization process of the D8 and thus made the opening of a Permanent Secretariat in Istanbul possible.

The closing of the gap and the resulting change in attitudes towards the D8 are clearly evident in the policies of the Turkish government. Three coalition governments formed after Erbakan had left the office have strictly distanced themselves from the D8, because they viewed it as an Islamic vehicle. The elections in November 2002 brought a party with Islamist roots to power, the Justice and Development Party (JDP) which formed a single-party majority government. Instead of trying to orient Turkey away from the West, as some feared, the JDP became the champions of Turkey's cause to join the European Union. During this period, the JPD also showed an increased commitment towards the D8, emphasizing on its economic potential and completely contrasting with Erbakan's hard-line rhetoric. Prime Minister Recep Tayyip Erdoğan's words at the Bali Summit in May 2006, "Money has no religion, nation or country. Money is like quicksilver, it flows to where it finds suitable ground"<sup>17</sup> clearly show the Turkey's paradigm shift and pragmatism vis-à-vis the D8.

Member countries of the D8, who have been suffering of political and economic crises over the last ten years, are currently enjoying the greatest level of stability they have ever had since the establishment of D8. Given these two trends, i.e. more commitment from the member countries as a result of the shift from rhetoric to fact and increasing levels of economic and political stability, the road is open for the D8 to move forward towards achieving its economic goals.

A sine qua non condition for an economic cooperation imitative such as the D8 to succeed that the individual economies inside the grouping achieve a certain level of development first, so that there will be a strong foundation on which to build the multilateral cooperation structures. As Kahnert wrote: "the extent of the benefits which an integration scheme can bring depends largely on the economic development already achieved by the partner countries, on the

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<sup>17</sup> "İslam bankacılığı söylemi tuzaktır.", **Sabah**, 15 May 2006.

form their development, particularly industrial development, has taken, on the size of their subsistence sector and on their natural resources, climatic conditions, supply of labor and capital, etc.” (Kahner et al., 1969: p. 31)

Although the D8 countries are at different levels of economic development, they all derive their advantages from their enormous supply of skilled labor and natural resources. In order to make better use of these advantages in the long term and provide a solid infrastructure for the D8, member countries now require to undertake a certain set of economic reforms and ensure that: (i) Market mechanisms, entrepreneurship and private sector development are adequately promoted; (ii) Macroeconomic stability and a strong business climate is in place so that the economy in question can benefit from international economic interactions by minimizing the setbacks involved and attract long term capital flows; (iii) Agricultural, industrial and human resources are utilized in the optimal way, without wasting them through inefficient structures; (iv) Steps are taken towards bridging the digital divide, information and communication technologies are utilized efficiently<sup>18</sup>; (v) Local industries are developed with an export oriented approach. When these conditions are fulfilled, the D8 will have the ability to design and realize substantial projects related to trade and investment facilitation among its member countries and achieve higher global competitiveness.

Delivering a speech at the Third Annual World Islamic Economic Forum in Kuala Lumpur in May 2007, the President of Indonesia, Susilo Bambang Yudhoyono, said: “We must change their attitudes towards us from something negative or indifferent –if not hostile- to something positive and enthusiastic.”<sup>19</sup> The D8 should be viewed as an opportunity in this regard. Although it is not (and not going to be) an Islamic Union and it is dedicated to integrating itself with the dominant global economic networks (rather than considering alternative (and usually globally incompatible) schemes such as Islamic banking) its members’ common denominator is Islam and such an approach combining Islam as a cultural element that bring people together with widely-accepted international practices of business and trade is a perfect combination that would create mutual benefits, not only for the D8 members but the whole world. In other words, Islam can indeed be a catalyst for economic integration, if its influence remains within the cultural/social/spiritual realm, and this would contribute a great deal to the promotion of Islam’s image in the post-9/11 world, in the way President Yudhoyono desires.

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<sup>18</sup> As of 2005, the number of personal computers per 100 people was 2.9, and the number of internet users per 1,000 people was 7.4 for the D8 in general. There are great differences among member countries, e. g. in Malaysia there are 19.2 PC’s for each 100 people, while this number is 0.9 in Nigeria. (Source: Islamic Development Bank). These figures can be compared with 82 in Switzerland, 56 in Germany, 13 in Russia.

<sup>19</sup> Fuller, Thomas, “Can the Muslim world be re-branded?”, **International Herald Tribune**, 28 May 2007.

### **D8 and Globalization**

All of the world's major economic cooperation arrangements have goals going beyond trade facilitation. For instance, APEC's aim is to provide a platform for dialogue that brings together the two major economic powerhouses of the world (USA and East Asia). The Black Sea Economic Cooperation (BSEC), on the other hand, can be regarded to as a mechanism that aims to integrate the Eurasian countries with European structures, especially in matters related to energy security. These are crucial attempts within the framework of what can be called the "governance of globalization".

Globalization is an objective and irreversible trend that has to be governed so that it can be beneficial for countries (and for individuals). However, Muslim countries have so far remained remarkably behind as far as fruitful governance of globalization is concerned. There are two issues related to this shortcoming, to both of which the D8 can offer a solution. In this way, the D8 can serve the greater purpose of contributing to its member countries' process of globalization.

Firstly, the struggle between the radical and more accommodating versions of Islam pose an important challenge against globalization for the Muslim world. It is evident that the societies embracing the latter are more open to the dynamics of globalization and as a grouping that brings together such countries (with the exception of Iran), the D8 can serve as tool that would establish synergy to help the member countries better govern globalization, reap more benefits and reduce adverse effects in a collaborating way.

Secondly, globalization has progressed faster than a majority of country could keep pace with. This was especially the case for Muslim countries; in the Post-Cold War world their foreign policy interests remained limited with some specific regions. For instance, Turkey's foreign policy approach was traditionally limited with the European Union, relations with the USA and involvement in Trans-Atlantic structures. Only recently it began to show greater (and concrete) interest in the Middle East and Eurasia. In this sense, the D8 is an important opportunity for member countries to open to regions that they had long ignored. Davutoğlu emphasized this point from the Turkish point of view: "East Asia with its increasing importance in international political economy and Africa with its rich natural resources still remained ignored in attempts of opening to the world. D8 provided a meaningful framework to overcome these weaknesses." Davutoğlu further stated that for Türkiye, particular members of D8 could be used as a base for new openings, e. g. Indonesia and Malaysia to East Asia, Egypt and Nigeria to Africa. (Davutoğlu, 2007: p. 282). In this way, the D8 provides all of its member countries with the opportunity of having "bases" from which they can open to regions, where they previously had not much of an existence.

### **Turkey and Indonesia**

Most of the regional economic cooperation initiatives in the world have a de facto leader, such as the USA in NAFTA and the Russian Federation in BSEC. While it is debatable how the existence of leader affects and directs the performance of such organizations, the D8 as an economic cooperation initiative currently in its infant stages, has much to benefit from an increased commitment by one or more than one of its members that would lead the progress of the grouping. Naturally, the official leading role will be undertaken by those countries that hold the chairmanship, but the D8 would enjoy substantial value added if two of its members put in more efforts.

One of these countries is Turkey, who was the initiator of the idea of D8 and who currently hosts the Permanent Secretariat of the organization. Turkey is one of the most economically powerful countries within the D8 and furthermore, as a candidate for European Union accession and its geo-strategic location bridging Asia with Europe, Turkey would take the lead in fostering the ties of D8 countries with the West.<sup>20</sup>

The second country would be Indonesia, which in the long-term offers great prospects, although it is currently behind Malaysia in terms of economic performance. It has the largest amount of human resources and raw materials (including oil and gas) in its region. It is geo-strategically located on the maritime routes connecting Europe with China. Indonesia had gone through severe (and frequently violent) periods of political stability, however in recent years there has been remarkable improvement in this aspect and as Indonesia solves its problems, it will be able to make better and more efficient use of the resources it has. Indonesia is the “sleeping giant” of East Asia, which, as soon as it awakes, will have a more assertive position in the global context and the D8 will benefit from this.

Turkey and Indonesia similar economic, cultural and political structures. Both countries have adopted the principles of liberal market economy (although at different rates), they both have large Muslim populations yet they are secular, they have both adopted a progressive and accommodating form of Islam and they are both democracies. In conclusion, it would be fair to foresee the Ankara-Jakarta axis playing a decisive and constructive role for the future of the D8. This approach is by no means exclusive, the D8 requires the efforts and harmony of all of its members, however strengthening of relations between Turkey and Indonesia, which can actually traced back to the 16<sup>th</sup> century, is a vital condition for D8’s success.

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<sup>20</sup> A simple example in this respect can be given from the field of trade facilitation. Any D8 country investing in Turkey (in the form of direct investment) will have the opportunity to export the output of this investment to the European Union without facing tariffs.

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