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Economic Cooperation Among OIC Countries: A Case Study of Turkey and Malaysia

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Abstract

This paper investigates the bilateral relationship between two Organization of Islamic Cooperation (OIC) member countries – Turkey and Malaysia – in terms of economic cooperation. Although their cultural, political, and social relationship goes back to the thirteenth century, their current economic relationship has not yet reached the desired level. Although it has grown steadily over the last decade, the annual turnover is not as much as it should be. In 2000 the volume of trade between them was a modest USD 242 million; by 2006 it increased to USD 994 million, which made Malaysia Turkey's seventh largest trading partner in Asia. The following year, the trade volume exceeded USD 1.3 billion, an increase of 34 percent. Despite this growing trade, the trade balance has long been in Malaysia's favour. Turkey's trade deficit amounted to USD 1.2 billion dollars, an increase of 33%, in comparison with the corresponding figures for 2009. Surprisingly, by 2010 Turkish exports to Malaysia had risen to USD 93 million and imports from Malaysia had doubled to more than USD 498 million. Expectations are that bilateral trade in 2012 will rise to USD 2.5 billion, with Malaysian exports making up a large portion of that figure. Since it reached to this expectation it would be USD 5 billion by 2015. As Turkey and Malaysia belong to the OIC, they need to develop a bilateral strategic partnership. For this reason, Ankara has introduced such initiatives as "A Strategy to Improve Commercial and Economic Relations with Asia Pacific Countries," "The Turkish and Malaysian Joint Economic Commission (JEC)," The Turkish-Malaysian Business Council," and others. This research will try to find ways to increase their bilateral economic cooperation.

*Keywords***:** Economic Cooperation; OIC countries; Turk-Malay; Bilateral Trade; Business;

1. Introduction

The Organization of Islamic Cooperation (OIC) consists of fifty-seven countries with different levels of economic development as well as varieties of natural resources, both of which can open the door for economic cooperation among them. Right now, the OIC has no homogenous economic, natural resource, political, and cultural identity. If we look at it from a socioeconomic perspective, we see a mixture of

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low-income (e.g., Djibouti and the Comoros), middle-income (e.g., Turkey and Malaysia), and wealthy oil-exporting (e.g., the Gulf countries, Libya, and Algeria) countries. All of these characteristics are suitable for building economic cooperation through trade. And yet there has never been any visible cooperation among these nations.

One reason for this lack of visible cooperation could be the absence of a definite framework and infrastructure that could point out the potential economic gains from such economic cooperation (Benito et al. 2010, p. 66). It is here that the bilateral relationship between Turkey and Malaysia, in terms of economic cooperation, becomes instructive. Both countries have worked hard to achieve their current level of economic development and enjoy a strategic location. Turkey is located right at the meeting point of Europe, Asia, and Africa, while Malaysia is gateway of South East Asia.

This paper, which examines how Turkish-Malaysian economic cooperation can be developed, comprises five sections: (1) an overview of economic cooperation among OIC countries in general, and between Turkey and Malaysia in particular, as well as an analysis of their economic as well as trade performance; (2) a literature review of several methods used by previous researchers on how to increase economic cooperation between selected OIC countries;(3) an analysis of Turkey and Malaysia’s trade data; (4) a proposed method to enhance their economic relationship; and (5) a conclusion.

2. Economic Cooperation

Economic cooperation is a broad concept and key to economic growth and development. A powerful instrument, it drives economic development by offering a given country the opportunity to expand beyond its domestic market. In the case of the United States, its main source of revenue is trade with the rest of world. If we consider the OIC member countries, however, we immediately notice the absence of economic cooperation among them. In fact, most of them engage in trade with non-members, a practice that results in regional blocs among OIC countries with non-OIC countries, such as the Association of Southeast Asian Nations (ASEAN) and the Commonwealth of Nations. Hence, there is no visible economic cooperation among OIC countries. In fact, middle-income and the oil-exporting member countries have trade agreements with United States and Europe.

It is believed that such trade agreements have actually caused the economic performance of OIC countries to deteriorate, for they have failed to attain any remarkable economic achievement despite their several decades of political independence. This is a quite unsatisfactory result, because OIC countries are endowed with enough potential and actual resources that could make significant contributions to such diverse sectors as agriculture, energy, mining and human resources. And yet none of these are reflected in their visible economic and social development. In fact, the relevant ratings of a country’s development Gross Domestic Product (GDP), export and import figures, per capita income, and other macro-economic indicators, reveal that OIC countries lag behind developing countries. Their combined GDP was only 6.1% of the world’s total output and 9.2% of its total merchandise export. Moreover, the severe impact of the 2008 and 2009 financial crisis upon them is good indicator of their lack of economic cooperation (Sokak, 2007, p. 9). Although the global financial crisis, which started in the United States and spread worldwide, was less severe for those countries in relative terms, have not been directly integrated into and linked with the global economy.

As it is mentioned above, the United States is one of the main trading partners with the OIC’s middle-income and oil-exporting countries. As a result and without any further elaboration, they faced an economic depression. “They have been affected by slowing down in economic growth, deteriorating current account balances, shrinking remittances and development assistance, and rising unemployment and poverty." (Iqbal 2009, p. 2). This reality should cause them to ask how they can improve and increase their level of economic cooperation. The best way to do so would be to engage in more trade among themselves. Trade is both essential and a prerequisite for a sustainable economy (Hamid et al. 2009, p. 1). Thus, most countries are engaged in bilateral or multilateral trade. Bilateral trade is designed to lower trade barriers and thereby increase economic integration. Most countries engage in trade to achieve one overall goal: mutual benefit.

3. The Economic Performance of Turkey and Malaysia

A country's economic performance is determined through several macroeconomic indicators, the most crucial of which is its GDP. In today's economy, industrial growth and the service sector play a vital role in GDP growth. Turkey's initial push for industrial growth took place in 1980, when its economic strategy of import substitution was replaced by an outward-oriented development strategy. As a result, its real industrial growth increased from negative (-0.5) to average 7.73 % in 1980 and 4.4% in1990 (Ariffin et al. 2009, p. 1). This indicator shows that an export (viz., outward-oriented) strategy plays an important role in upgrading a country's economic performance. Nonetheless, economists realized that such an export-driven strategy might have unpredictable effects on the domestic economy that would make it vulnerable to external shocks. Despite this drawback, however, this particular strategy, it is still among the engines of growth in any economy. This is particularly clear in the case of Malaysia, as the following quotes show:

> Since Independence in 1957, the Malaysian economy has undergone rapid structural changes. As a result of profound emphasis on the manufacturing sector in the late 1960 and the establishment of a Free Trade Zone Area (FTZ) in the early 1970s, the economy has gradually turned from trade-oriented economy based on agriculture commodities to a more diversified export-oriented country. Thus by 1993, the manufacturing sector accounted for nearly 29% of total GDP, compared to only 14% in 1975 and 19% in 1985. By contrast, the contribution of the agriculture sector dropped markedly from 29% in 1975 to 16% in 1993, while the contribution of the services sector remained stable at an average of 43% during the same period (BNM 1994). In terms of export structure, the contribution of manufactured products and its share to total export value had risen sharply from 11% in 1970 to nearly 68% in 1993. During the same period, the contribution of major agriculture commodities drastically dropped from78% to 20% (Quarterly Economic Bulletin 1994).

Thus, we can see that both Turkey and Malaysia have been trying to enhance their economic performance. Turkey's achievements have really been quite impressive, as the following table shows.

Table 1: Turkey's real GDP and Inflation rates.

Indicatory	2008	2009	2010	2011
Real GDP	0.7	-4.8	8.9	6.6
Inflation rate	10.4	6.3	8.6	6.0

Source: World Bank (World Development Indicators)

Relative to the global crisis and economic meltdown for most developing countries, Turkey maintains real GDP of 6.6 percent. Even though its imports/exports goods and services from/to almost fifty countries, its inflation rate decreased dramatically from 10.4% in 2008 to 6.0% in 2011. As the global economy passes through a massive crisis, specifically Europe and the United States, some countries have been severely affected while others, which have barely survived, have somehow managed to keep their economies on track. Turkey, which is considered to be member of the second group, therefore serves as a benchmark for other Islamic countries with regard to their social, economic, and political sectors.

An analysis of the Malaysian economy reveals that this country also belongs to the second group. For example, for the fourth quarter of 2009 its economy reported a 4.5% growth rate. This was the result of a sustainable growth of private consumption and increases government spending, both of which boosted domestic spending (http://www.pmo.gov.my). Furthermore, the economy was resilient, especially during the first three quarters of 2011, growing by an average of 5.1% (1Q11: 5.2%, 2Q11: 4.3%, 3Q11: 5.8%). Growth in the last quarter of 2011 is expected to be much lower due to various external and internal developments such as political instability and international outcomes. However, inflation moderated slightly in November 2011 to 3.2% year-on-year (http://www.mier.org.my). In addition, there are indicators that the economy will maintain its strength in 2012, given the softening of the American and European economies. Datuk Seri Mustapa Mohamed, the minister of international trade and industry, stated: “We are working very hard to sustain our (economic) numbers since we are not overly dependent on Europe and the US, although they are important trading partners to us”(http://www.btimes.com.my). Hence, Malaysia’s economic performance is quite impressive, given the fact that the global economy continues to experience a downtown and many large American and European companies have closed. They are also experiencing higher inflation and unemployment rates.

Malaysia is currently planning to pursue further economic integration with other countries through bilateral and/or multilateral trade initiatives. The initiative that forms the core of this paper is the newly emerging Turkey-Malaysia bilateral relationship, which is designed to enhance further economic cooperation due to their already good economic achievements and strategic locations. As the future progress or expectation of this economic cooperation remains undefined, I will empirically analyze the existing data to show how this existing relationship can be improved.

3.1 Malaysia’s Trade Performance

Malaysia’s economic strategy of export-led growth is highly dependent upon trade. This mechanism, which continues to develop the national economy, continues to make a major – and increasingly valuable – contribution to the country’s GDP. In 1971, the volume of total merchandise trade accounted for 73% of the GDP; its share increased by a 187% in 2000 and traced 142% in 2009 (Shan et al. 2009, p. 1). Malaysia’s main trading partners are Japan, the United States, and the member countries of the Association of Southeast Asian Nations (ASEAN) and the European Union (EU). Lately, the importance of South Korea, Hong Kong, and Taiwan has increased, while that of the EU has declined. This indicates that Malaysia is gradually moving away from the EU in order to expand its trade with Asian as well as other Muslim countries.

Malaysia’s international trade has experienced very strong growth throughout the last three decades and now plays vital role in the national economy. The country has managed to maintain a positive trade balance, exporting more goods than its imports, even during Asia’s 1997 financial crisis. Moreover, even during the current global economic crisis characterized by a slow economic recovery in the United States

(1.8%) and the Euro zone sovereignty debt crisis weakened the demand that is hunting most open economy courtiers, Malaysia's trade balance has remained positive. The table below provides the relevant total export, import, and trade balance data since 1980 (http://1-million-dollar-blog.com).

Table 2: Malaysia's trade performance

Year	Total Exports (RM Billion)	Total Imports (RM Billion)	Trade Balance (RM Billion)	Change of trade Balance (RM Billion)
2000	373.27	311.46	61.81	-7.76
2001	334.28	280.23	54.05	0.29
2002	357.43	303.09	54.34	27.01
2003	397.88	316.54	81.35	0.29
2004	481.25	399.63	81.62	21.74
2005	536.23	432.87	103.36	4.83
2006	588.97	480.77	108.19	-7.85
2007	605.15	504.81	100.34	41
2008	663.49	521.61	141.88	23.53
2009	553.30	434.94	118.35	-8.12
2010	639.43	529.19	110.23	110.23

In absolute terms, Malaysia's trade performance has been quite impressive. We can see that its trade balance remains positive even in the case of marginal differences between exports and imports. Even though the trade balance is highly fluctuating, it remains highly a positive trade balance. These observations illustrate that although Malaysia's trade balance is affected by its partners' economic performance as well as ongoing global economic problems, it is not severely affected by such factors.

3.2 Turkey's Trade Performance

Before 1980, Turkey's economic policy was based on import substitution and authoritarian foreign exchange rate controls. In the early 1980s, Turkey began to take steps to create an open and competitive macroeconomic structure by adopting free market economic principles (Doganer et al. 2012, p. 1), since the tendency of the globe towards open market strategy. To promote export competitiveness, it adopted tax rebates, removed duties on imported intermediate goods, and subsidized export credits. Since the 1990s, Turkey has focused on lowering tariffs, eliminating controls on capital flows, and forming a customs union with the EU. Then in 1995 it joined the World Trade Organization (WTO) and a year later signed a customs union with the EU. This allowed it to make inroads and increase its export market share by focusing on its textile, apparel, and automotive clusters (Katsarakis,2007, p. 7). Since then, there has been a non-stop transformation from exporting agricultural products to exporting manufacturing products. A parallel transformation that began in 2001 sought to eradicate the country's trade deficit with the EU. So far, it has managed to reduce the trade deficit EU, however, its trade deficits with its Asian trading partners and the oil-exporting countries continue to increase.

Table 3: Turkey's trade performance

Year	Total Exports (billion EUROS)	Total Imports (billion EUROS)	Trade Balance (billion EUROS)
2008	89,5	135,5	-45,9
2009	73,2	99,8	-26,6
2010	85,9	138,9	-52,9

Source:World Bank (World Development Indicators)

From the above table, we can see that value of imports is greater than the value of exports. In other words, Turkey has a negative trade balance. Moreover, its trade deficit worsened in 2008 and 2009, for the value of imports (-45.9 billion) was higher than that of exports (-52.9 billion). On the other hand, the trade deficit moderated in 2009, perhaps because the Euro zone is facing a sovereignty debt crisis due to weakened demand from 2010 until 2013. This result supports what was noted above: Even though the economic transformation has helped reduce the trade deficit between Turkey and the EU, it nevertheless contributes to Turkey's increased trade deficits with Asia and the oil-exporting countries. To further support this conclusion, I present below the trade figures between Turkey and the Eurozone countries.

Table 4:Turkey and Eurozone trade balance

Year	Exports (billion EUROS)	Imports (billion EUROS)	Trade Balance (billion EUROS)
2009	44,1	36,2	7,9
2010	61,3	42,3	18,9
2011	72,7	47,6	25,1

Source:World Bank (World Development Indicators)

We can observe that Turkey has a positive trade balance with its Eurozone trading partners. In addition, its exports to the Eurozone countries are increasing in very remarkable way, while its imports are decreasing dramatically. One reason for this could be that Turkey's economic transformation has begun to bear serious fruit. Thus, I conclude that Turkey's trade balance has two dimensions: (1) global trade, which continues to shows a negative value, and (2) trade with a Eurozone country. Knowing the trade performance of both countries, it would be worthwhile to ask what is it that brings these two countries to initiate economic cooperation with each other?

4. Bilateral Trade between Turkey and Malaysia

This bilateral trade relationship represents a renewal of a historical connection that goes back to the era of Sultan Abdulhamid II, who ruled the Ottoman Empire from 1876 to 1909. The Turkish-Malaysian relationship has firm cultural, religious, and historical roots (Kayadibi, 2011, p. 197). According to Mehmet Ozay: "Turkish power and diplomacy in the late nineteenth and early twentieth centuries could in no way match the strength of European colonial power in South East Asia. Yet leaders of the Malay world as well as the masses looked to the Ottoman for inspiration and leadership" (Ozay,1990, p. 27). In a nutshell, Turkish-Malaysian links are both old and clear (Ozay,1990, p. 29). Their recent growing economic integration is the starting point of a fruitful relationship that will improve the economic performance of both countries. In addition, their geographical locations will also allow them to benefit from the opportunities in their respective regions.

Malaysia has trade and economic connections with the countries of the Asia-Pacific region, while Turkey has agreements with the EU, the Middle East, and the Balkans. Thus, a free trade agreement (FTA) between them would represent a major opportunity for both of them to expand their trade contacts beyond their respective zones in order to maintain their economic standard. For this very reason, Malaysia's Ministry of International Trade and Industry (MITI) decided to initiate negotiations for an FTA with Turkey in late 2009. Both countries have devoted themselves to carrying out their own practicability studies on this proposal. The positive results and approval from the Malaysian government resulted in the launch of the first Trade Negotiating Committee meeting between Turkish and Malaysian trade officials, held in Ankara between May 31 and June 1, 2010. Areas being negotiated under the Malaysia-Turkey Free Trade Agreement consist of trade in goods, legal issues, trade remedies, and cooperation (http://www.seanews.com.tr/). In addition, in a statement to *Sunday's Zaman*, Turkey's Foreign Trade under secretariat indicates:

> Turkey attaches great importance to enhancing and deepening its trade and economic relations with the countries in the Asia-Pacific region. For this purpose, starting from 2005, Turkey has been implementing the "Trade Development Strategy towards Asia-Pacific Region." Malaysia, as a big economic power in the region, occupies a significant place for Turkey. Turkey believes that an FTA between Turkey and Malaysia would best correspond to the interests of the parties. (http://www.seanews.com.tr/).

Turkey and Malaysia can build a productive relationship when both parties decide to combine their strengths. Turkey, Malaysia's eighth-largest trading partner among the OIC member countries, has experienced significant growth in terms of its trade with Malaysia: annual average expansion rate of 22.4% since 2006. Yet the volume of mutual trade and investment remains relatively small: Malaysia's trade with Turkey accounts for only 0.3% of its total trade and its investment in Turkey totaled just USD56.2 million at the end of 2010 (Ibrahim 2012). Those figures represent the initial point of future progress and enhancing the relationship between these two OIC-member countries.

5. Economic Cooperation between Turkey and Malaysia

This recent cooperation is a continuation of a historical relationship based upon several similarities: (1) a leader-follower model of development that failed to secure the Islamic injunction of social justice

(Lately both countries have started to promote privatization as source of development (Ozay, 1990, p. 42-47) and (2) an economic strategy characterized by export-led growth, which means that they have to find trading partners to pursue their own economic development despite divergent cultures, locations, and political view.

Notwithstanding these differences, Turkey and Malaysia can become good trading partners if they optimize both their differences and their similarities to pursue their ultimate goal: to enhance their social and economic wellbeing. In 2009, the total trade in goods between them reached RM2.1 billion (2008: RM3.2 billion). Malaysia's exports to Turkey in 2009 (viz., electrical and electronic products, textiles and clothing, chemicals and chemical products, crude rubber and rubber products) were worth RM1.7 billion (2008: RM2.7 billion); its imports from Turkey (viz., iron and steel products, chemicals and chemical products, machinery, appliances and parts, and electrical and electronic products) were valued at RM462 million (2008: RM318 million).

For the first quarter of 2010, bilateral trade stood at RM614.4 million: exports amounted to RM488.1 million, and imports amounted to RM126.4 million. Trade in services with Turkey increased threefold between 2008 and 2009. Malaysia's trade in services with Turkey in 2009 were valued at RM836.4 million: exports amounted to RM489.3 million, and imports amounted to RM347.1 million. Wholesale and retail trade, as well as the restaurant and hotel business, were major services exports from Malaysia. Malaysia imports manufacturing-related services from Turkey. However, the question is how to develop economic cooperation in a way that elevates both countries to the status of model trading partners that the other OIC countries can emulate. To answer that question one first needs to undertake a critical exploration of Malaysia's foreign policy.

6. Malaysia's Foreign Policy

James. N. Roseanau defines foreign policy as "a set of administrative decisions taken in the name of the states that are intended to achieve certain goal in international arena. In other words, foreign policy applies to anything beyond the legal boundaries of a particular state and policy is defined as a guide to action intended to realize the goals a state has set for itself" (Moten et al, 2009, p. 386). Foreign policy is a crucial element of a government's overall policy, because it defines the country's relationship with other countries. It also helps to prioritize the country's relationships with others. Normally, each country adopts a particular approach to rationalize its objectives and goals in general. Thus, given that foreign policy is mostly determined by various external and domestic factors, the relevant tools and instruments must be dynamic so that they can deal with any emergent or unanticipated domestic or external changes that occur (Harun, 2009, pp. 23-38). As Ruhanas Harun contents that (Harun, 2009, pp. 26-30) Malaysia's foreign policy has been changed from its loyal pro-West position of the1950s and 1960s to one of non-alignment in 1970. This latter position, which started during Tun Razak's administration, continues today. When Mahathir Mohamed came to power in 1981, he engineered a fundamental change in foreign policy. It is said that he intended to keep foreign policy under his close control. In his capacity of prime minister, he initiated an order of priority in foreign policy, one that provided Malaysian foreign policy executives with the following hierarchy: ASEAN, the Islamic countries, and the Non-Aligned Movement (NAM).

Under his successor, his deputy Abdullah Ahmad Badawi, Malaysia's foreign policy stance became more measured but kept its national interests front and center. In June 2009 Abdullah was succeeded by Dato Seri Najib Tun Razak. Since taking office he has visited Indonesia, Brunei, Singapore, China, France, and many other countries. With regard to his foreign policy priorities, he favours East Asia, especially ASEAN and China.

The underlying question is where the Middle East in general and Turkey in particular stand in Malaysian foreign policy? The relationship between Malaysia and the Middle East was not very deep until Malaysia was forced to compete vigorously against well-established Indonesia, as well as Asia and Africa, for Middle Eastern aid. In an effort to strengthen this particular relationship, Mahathir shifted Malaysia's foreign policy toward the Muslim world by making it and the OIC as second only to the Asian region. Despite this effort to achieve closer relations, the Middle East's unpredictable political nature continues to create obstacles that hinder the envisaged bilateral and multilateral relationships.

In the case of Turkey, however, both countries have had a close link since the early twentieth century, a time when political events and social developments in Turkey had an impact on Malay society. But since Turkey placed its national interest firmly within the European context, the Turkish-Malaysian relationship never really took off. Thus, it may suffer from some political and economic limitations, although these factors need not be a hindrance in enhancing relations in areas that can be mutually beneficial.

7. Literature Review

"Economic integration essentially refers to the degree of freedom of exchange of goods, services, capital, technology and other information between countries and the freedom of movement of people (including for work)." (www.transtasman-review.productivity.govt.nz). Many experts have analyzed economic cooperation, particularly the method or way to increase economic cooperation between/among given countries. Countries normally engage in some kind of cooperation, whether it is economic or non-economic, to achieve specific goals and objectives. For example, Malaysia initiated the Association of Southeast Asian Nations (ASEAN) the main objective of which was to bring regional securities and enhance economic integration. Lately this association has moved to a zero tariff rate (Ariffin et al. 2009, p. 9). It is noted that "In the 1980s, the need for foreign markets led Turkey to try to strengthen cooperation with trading partners worldwide with initial attempts being made to tie trade with the Middle East. In the meantime, Turkish business people also worked to improve trade with countries in North America, East Asia, and Eastern Europe"(Ariffin et al. 2009, p. 9). By following a growth-led strategy, Turkey has tried to strengthen its relationship with its trade partners.

Clearly, the main purpose of any cooperation or integration between/among countries is to enhance their mutual benefit. This cooperation could be in the form of sharing information or coordinating their economic and other policies. One type of international cooperation is the regular collection of information about recent economic developments. This type of cooperation imposes the least constraint on national policymaking, such as the collection of relevant information about developments in important macroeconomic variables (Horne et al. 1988, pp. 259-296). This raises the issue of how or what are the applicable tools that can be used to improve or strengthen cooperation among countries.

Throughout history, many organizations and associations have come together to initiate economic cooperation. After doing so, they followed a particular method to drive the relationship forward. One success story is the European Union (EU), which cooperates in economic and political matters. So far, member states have achieved many notable successes such as Germany, Italy and Switzerland, just to name a few. Thus, it serves as a benchmark against which counties that want to follow a similar procedure can measure their level of social and economic cooperation. For instance, at their 1990 conference on economic co-operation, EU members agreed to make some economic reforms to deepen their economic cooperation, among them the following (http://www.osce.org/):

1. To permit and support direct contacts between businesspeople at all levels of commerce, stages of industry, and end-users.
2. To publish and make available comprehensive, comparable, and timely economic, commercial, and demographic information as a basis for economic research, cooperation, and efficient conduct of business relations.
3. To facilitate and promote economic cooperation by undertaking comprehensive cooperation between/among their respective statistical services in the bilateral and multilateral contexts.
4. To recognize the particular importance of small and medium-sized enterprises in their economic cooperation. These enterprises will benefit particularly from improvements in the business environment and the strengthened market forces.
5. To prepare, insofar as the appropriate conditions exist, to support the Small and Medium Enterprises (SME) sector by promoting business cooperation networks that facilitate the search for business partners.

OIC countries have cooperative economic relationships with both countries in region and the developed countries. Not all of this cooperation is progressive, however, (Benito et al. 2010, p. 73-74) for specific obstacles have blocked the establishment of impressive cooperation among members. Among them are the following (Benito et al. 2010, p. 73-74): (1) the absence of any effective coordination of regional investment, which is crucial because it reduces production costs; (2) the oil-producing countries' unwillingness to compensate the low- and middle-income members, which prevents the necessary economic integration. Setting up some kind of financial compensation network for the less well-off economies would further both economic integration and equilibrium; and (3) the economic integration of member states would gradually lead to economic gain and political power within the region.

A good idea would be to establish a zero tariff arrangement and follow a common import tariff policy with regard to the rest of the world. As the OIC countries' policies currently are very different and tremendously influenced by politics, progressive economic cooperation cannot be expected in the near future. Nevertheless, there are regional groups among the OIC countries, some of which contain one or more of the least-developed OIC countries. Thus, there is some indication of willingness to breach existing political or economic constraints. Moreover, there is room for successful economic integration if two conditions are met: a powerful economic identity and an economic transformation designed to achieve efficiency.

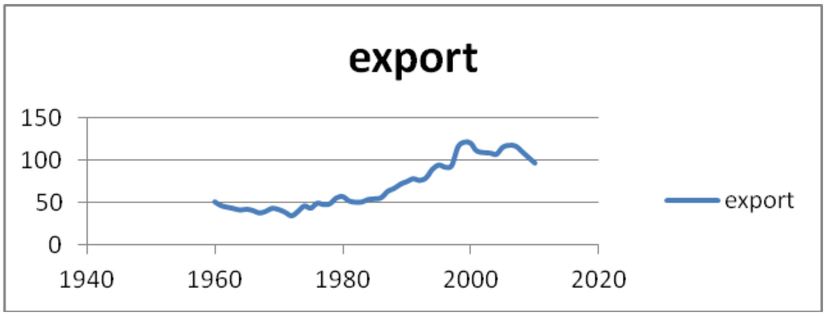
In order to establish or progress an ideal economic cooperation for OIC countries the following policies can be suggested (Benito et al. 2010, p. 73-74). First, the volume of intra-regional trade among them is low while their dependency on industrial countries is high. Thus they should remove tariff and non-tariff barriers, for doing so will open up some profitable intra-regional trade channels. Also, Tajul Ariffin posits that the conflict between globalization and regionalism could be mitigated if OIC countries would initiate progressive cooperation via implementing some cost-effective and low-profitable programs. Moreover, they should take advantage of economies of scale through forward and backward linkage investment and production among themselves. In sum, a free trade agreement (FTA) may always boost an economy.

There is an opportunity for growth in Turkish-Malaysian economic cooperation, considering that they enjoy great economic prosperity and warm relations between their peoples. These regional economic powers are in the midst of negotiating a FTA that, if successful, will enhance bilateral trade and help both of them access other markets. Given Turkey's status as the sixteenth largest economy in the world and a country with a large population and a higher GDP than Malaysia, it is considered an attractive market for Malaysian products. The Turkish Embassy's commercial counselor's office in Kuala Lumpur organized a trade delegation that traveled to Malaysia in January 2013 with the goal of encouraging Malaysia to import more Turkish products (http://www.seanews.com.tr).

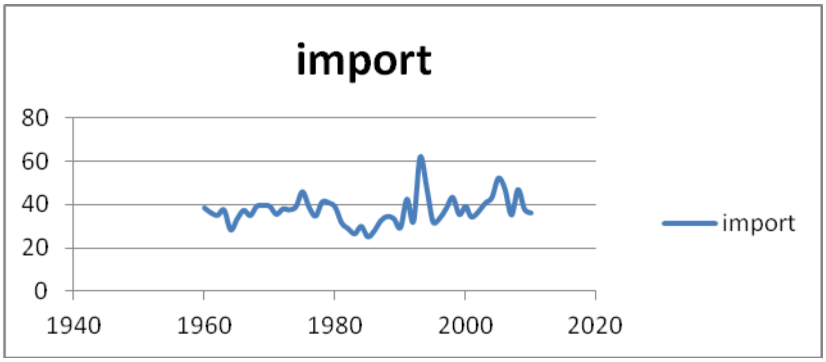
8. Malaysia's Trade Data

Malaysian exports from 1960 to 2010 (http://data.worldbank.org) measured as a percentage of GDP. Exports are not highly fluctuating, and their value ranked from 30% to 120% of GDP. This high export volume, which stood at 140%of GDP in 2000, started to decline during the first decade of the twenty-first century. In 2010, the country experienced its highest volume of exports. This volume started to decline in 2011 and continues to do so. On the other hand, Malaysian imports from 1960 to 2010 measured as a percentage of GDP. Malaysia's import fluctuated strongly; its values were ranked between 30%and 70% of GDP. The highest import volume of Malaysia was 60% of GDP (1998), which was due to the Asian financial crisis; it started to decline sharply the following year. In 2010, Malaysia experienced a low volume of exports, a trend that has continued ever since. An overall analysis shows that Malaysia enjoys a constant trade surplus.

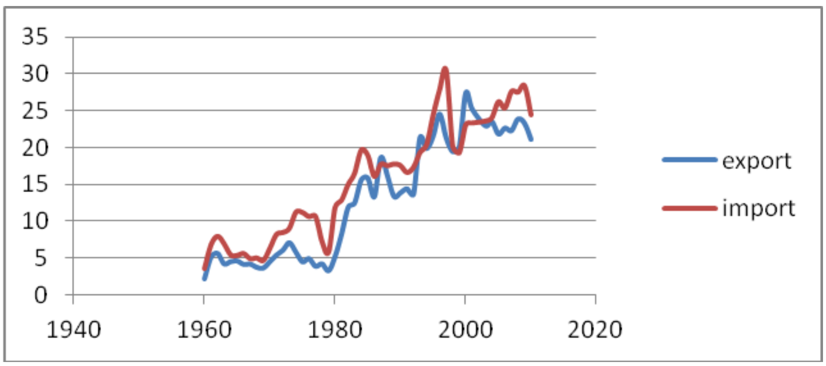
Graph1: Malaysian Exports



Graph 2: Malaysian Imports



Graph 3: Turkey's Trade Data



Turkey exports and imports from 1950 to 2010 (http://data.worldbank.org) measured as percentage of GDP. During this period, Turkey's exports and imports fluctuated quite a bit. As a result, their value ranked from 5% to 30% percent of GDP. The high export volume of 28% of GDP occurred in 2000. Beginning with the middle of the decade, it started to decline. In 2010, Turkey experienced a low volume of exports; the volume continues to decline. Imports ranked between 5% and 30% of GDP. The high import volume of30% of GDP occurred in 1998; it started to decline sharply in 2000. In 2010, Turkey experienced its highest volume of exports, a trend that started to decline slightly in 2011 and continues to do so. In general, Turkey's import of goods and services is higher than its exports, which means that the country has a trade deficit. This could be due to higher imports of energy. Thus, the best way to promote economic cooperation between both countries is free trade.

8.1 A Free Trade Agreement

An FTA, defined as a system of international trade in which there are no restrictions or taxes on imports and exports, (http://oald8.oxfordlearnersdictionaries.com) seeks to further strength economic cooperation between/among countries. Many studies had proved that such agreement enhance economic growth and development. For example, the FTA between the EU and South Korea has meant that EU exporters of industrial and agricultural products no longer have to pay any South Korean tariffs. If the agreements between these two countries take place, it is estimated that costs savings will amount to€1.6 billion annually (EU South Korea free trade agreement 2011).

> [The] Copenhagen study shows that the EU may significantly increase its exports of services to [South] Korea, because of its comparative advantage and the high level of protection in [South] Korea. On the other hand, [South] Korea is expected to increase its exports of goods, especially motor vehicles and electronic machinery. This study also stresses significant production effects for goods and services aswell as GDP growth effects for [South] Korea, estimated to be about 1.6% (Decreux et al,2010, p. 8).

Thus, this particular FTA is expected to engender a remarkable improvement in each party's economic performance. Furthermore, Lee shows that it might raise South Korea's GDP growth as much as 6 percent. Much of this gain would accrue from productivity improvement due to increased competition with American producers (Lee, 2008, pp. 52-73). Implementing such an agreement brings about many economic benefits. If we consider an FTA among Asians countries, all of them would gain in terms of productivity, investment, income, and welfare effects. As a result, according to Lee the gains from establishing an Asia-wide FTA are estimated at USD 25.6 billion of GDP. Moreover, such an agreement could lead to an increase of more than 1% in GDP growth for several Asian countries, including Malaysia (David et al, 2000, p. 8).

8.2 A Turkey-Malaysia FTA

Turkey has a great weakness that might hamper its economic performance: insufficient raw materials, as its energy needs related to production intensify, its reliance on imported oil and natural gas will remain high. At this point in time, its imports of raw oil are almost constant or increasing, depending upon the growth of its industrial production. The total amount of oil imports varies between 22,750 thousand tons and 24,000 thousand tons. Its total import bill began to increase rapidly after 2005. In 2006, the price of oil tripled and continued to rise rapidly in the first half of 2008. In fact, it had reached five times of its 1996-2001level (İzmen et al, 2009, p.10). As natural gas is used heavily as a primary energy source in heating and industry, its price rises right along with the price of oil, which causes the country's trade performance to deteriorate. Turkey is currently 72% dependent on energy imports; the Ministry of Energy estimates this figure will rise to 80% by 2020 (İzmen et al, 2009, p.10).

In addition to Turkey's 2001 economic crisis, energy plays a vital role in its trade deficit and causes higher energy imports in which the biggest imports are from USA, therefore, for Turkey to maintain in that good economic state, it has to diversify its energy importers. Malaysia is an oil-exporting country and is rich in other natural resources as well: palm oil, coconut oil, petroleum crude oil, and so on. Thus, if both countries initiated an FTA, it would help Turkey reduce its trade deficit through exporting the oil from Malaysia. As the Ministry of Energy forecast that Turkey would have to import 80% of its oil by 2020, the country needs to boost its economy by having an oil-exporting partner like Malaysia. In addition to increasing their already strong bilateral relationship, the economic potential has rapidly increased from USD 1.7 billion to USD 11.7 billion of foreign trade, as stated by Turkey's economy minister Zafer Caglayan on 12 October 2012. He indicated that although the total foreign trade of both countries was more than USD 776 billion, the value of their bilateral trade was only USD 1.7 billion ([1]http://www.worldbulletin.net).

Turkey's construction industry is ranked second in the world (after China's), and there is great opportunity for Malaysia to build strong bilateral relationship with it in that area. In the words of Hasan Önal, commercial counselor of the Turkish Embassy in Malaysia, growth will be driven by vast new construction projects and the signing of the FTA, which is predicted to be concluded in the first half of 2012. Turkish firms should be allowed to participate in Malaysia's infrastructure projects. It is believed that the FTA will establish the concrete ground to increase our trade volume to a balanced and sustainable manner by diversifying our trade composition. To further strengthen the argument trade exchange that took place between Turkey and Malaysia was mainly oil and industrial machineries. Bahari (2012) mentioned that Turkey's main export products to Malaysia last year were mineral oil, iron and steel, boron and borate, machinery, tobacco, transformers, and processed food products. In contrast, the main imported products were palm oil and palm products, rubber and rubber products, electronic integrated circuits, synthetic fiber and yarn, and office machinery. "A higher degree of integration could be expected to result in increased trade and factor flows. Prices for goods, services and factors of production will tend to converge in two countries that are highly integrated as the costs of exchange (or 'transaction costs') are lowered."(www.transtasman-review.productivity.govt.nz). To sum up, Turkey and Malaysia can assist each other via the construction industry and the oil or energy sector.

8.3 Oil Import Costs in Turkey

The emergent import dependency represents a major challenge in the areas of cost and quantity. For example, the cost of energy import increased from USD 13.4 billion to USD 20.5 dollars between 2004 and 2005 alone, mainly because of rising oil prices and changes in the Euro/USD rate. The consequence of growing import dependency is heavy (Caha, 2006, p. 83-88).

Table 5: Turkey's oil imports in USD

Year	Value of oil imports
2006	28.859
2007	33.881
2008	48.281
2010	38.497

Source: http://www.indexmundi.com/turkey/oil_imports.html: date 6/ 6/ 2012

8.4 Malaysia's Construction Cost

Turkey has an advantage over Malaysia in the construction sphere. Malaysia faces current tightness in steel supplies among contractors while rising raw material prices (e.g., iron ore and scrap metal) are squeezing the steel mills' operational costs and profit margins (The Business Times 2008). If free trade were implemented between them, Malaysia could acquire a competitive advantage by importing steel iron from Turkey, and Turkish firms would be given the chance to participate in Malaysia's infrastructure projects. Smith's trading principle was the principle of absolute advantage: a nation will import those good that is absolutely more efficient in producing than its trading partner. A nation will import those goods in which it has an absolute cost disadvantage, it will export those goods in which it has an absolute cost advantage (Carbaugh, 2008,p. 33).

9. Conclusion

Cooperation between Turkey and Malaysia is far more than an economic gain. It is rather the reinstitution of a former strong bond. Despite their differences, both share the same Islamic cultures and religion among the majorities as well as worldview, which is the dominant factor to collaborate with each other as they are members of the OIC. Moreover, strengthening their relationship will increase the sense of collaboration among the other OIC countries that such cooperation among them is a kind of parameter to boost economic development which paves a way for other serious collaborations. In this way Turkey and Malaysia can serve as a role model, for at this point in time the other OIC countries have no incentive to consider such an arrangement. Given that the cost of Turkey's energy imports increased from USD 13.4 billion to USD 20.5 between 2004 and 2005 alone, an FTA would enable it to experience immense potential growth and overall economic development. Once the restrictions or taxes on imports and exports disappear, production costs will be reduced and its competitive advantage increases.

By moving forward with their FTA, Turkey and Malaysia can enhance their economic performance. Malaysia will acquire increased access to the Middle Eastern and European markets for its products and services, and Turkey will be able to introduce its products and services to South East Asia. An FTA is a good indication of effective coordination, and such coordination is essential for the success of any economic cooperation. The envisaged economic integration between Turkey and Malaysia will lead to economic and political gains within their specific regions. Moreover, this represents a great opportunity for Malaysia to protect its domestic economy against the softening European and American economies. In short Turkey and Malaysia, both of which are huge economic powers in their respective regions, would see an FTA boost bilateral trade and grant both of them more access to other markets.

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