

Intellectual Discourse

Volume 26

Special Issue

2018

Special Issue

Rethinking Islamic Economics and Finance: Paving the Way Forward for Inclusive and Sustainable Development



International Islamic University Malaysia
<http://journals.iium.edu.my/intdiscourse/index.php/islam>

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Intellectual Discourse is a highly respected, academic refereed journal of the International Islamic University Malaysia (IIUM). It is published twice a year by the IIUM Press, IIUM, and contains reflections, articles, research notes and review articles representing the disciplines, methods and viewpoints of the Muslim world.

Intellectual Discourse is abstracted in *SCOPUS*, *ProQuest*, *International Political Science Abstracts*, *Peace Research Abstracts Journal*, *Muslim World Book Review*, *Bibliography of Asian Studies*, *Index Islamicus*, *Religious and Theological Abstracts*, *ATLA Religion Database*, *MyCite*, *ISC* and *EBSCO*.

ISSN 0128-4878 (Print); ISSN 2289-5639 (Online)

<http://journals.iium.edu.my/intdiscourse/index.php/islam>

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Published by:

IIUM Press, International Islamic University Malaysia
P.O. Box 10, 50728 Kuala Lumpur, Malaysia
Phone (+603) 6196-5014, Fax: (+603) 6196-6298
Website: <http://iiumpress.iium.edu.my/bookshop>

Islam and the Challenge of Economic Development in the Muslim World: Review and Evaluation of Secular Arguments

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Abstract: The majority of Muslim countries, classified as low or middle income groups, suffer from poverty and face severe challenges in economic development. International development reports attribute the economic problems of Muslim countries to similar factors as those existing in other developing countries. However, some secular studies have analyzed the impact of Islamic culture on the economic variables in the Muslim World, and consequently on its economic development. This paper reviews and evaluates some of these studies. Secular works which are selected and examined in this article can be classified into two main groups. The first group makes no distinction between authentic Islamic culture and contemporary culture which is prevailing in Muslim countries and builds its analysis and conclusion upon this misconception. The second group, however, raises objections towards some specific Islamic laws and traditional rules, considering them among factors which have hindered economic development in the Muslim world.

Key Words: Economic Development; Islamic Political Economy; Religious Culture and Economics.

Abstrak: Kebanyakan negara Islam, yang dikelaskan sebagai golongan berpendapatan rendah atau sederhana, mengalami kemiskinan dan cabaran besar dalam pembangunan ekonomi. Laporan pembangunan antarabangsa menyifatkan masalah ekonomi di negara Muslim kepada faktor sama yang terdapat di negara membangun yang lain. Bagaimanapun, beberapa kajian sekular telah menyelidik kesan budaya Islam terhadap pembolehubah ekonomi

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dalam Dunia Muslim, dan kemudiannya kepada pembangunan ekonomi. Kertas kerja ini mengulas dan menilai tentang setengah kajian-kajian ini. Karya sekular yang terpilih dan diteliti dalam artikel ini boleh dikelaskan kepada dua kumpulan utama. Kumpulan pertama tidak membezakan di antara budaya Islam yang asli dan budaya kontemporari yang lazim di negara Muslim dan membina analisis dan kesimpulan di atas salahtanggap ini. Kumpulan kedua, bagaimanapun, membawa bantahan terhadap beberapa undang-undang Islam tertentu dan peraturan tradisional, yang dianggap sebagai antara punca yang telah menghambat pembangunan ekonomi di Dunia Muslim.

Kata Kunci: Pembangunan Ekonomi; Ekonomi Politik Islam; Budaya Keagamaan dan Ekonomi.

Introduction

Available world statistical data reveals that the Muslim world is generally suffering from underdevelopment and poverty. Only a very small number of countries in the Muslim world are classified as rich, such as the Arab Gulf countries, or enjoying a relatively high level of industrialization, such as Turkey and Malaysia. Muslims make up 19 percent of the world's population but only earn 6 percent of its income.¹

Underdevelopment means structural disequilibrium which is mostly reflected in high dependence on agricultural products, raw materials or mineral production, and lack of a technically developed manufacturing sector. Such structural disequilibrium is noticeable even in the few rich Muslim countries. Development problems are reflected in low annual rates of growth of income per capita, which is seriously aggravated in many cases by the pattern of GNP and its distribution. Muslim countries commonly suffer from weak export performance, unfavorable terms of trade, balance of payments problems, depreciating foreign value of national currencies, and highly increasing foreign indebtedness. In addition, the terribly poor status of the entire social infrastructure, i.e. education, health, sanitations, clean water, etc. leads to low levels of human development.

International development reports attribute the economic problems of Muslim countries to similar factors that are known to exist in other developing countries, such as inefficient financial markets, low rates of savings and investment, idle or underdeveloped natural resources, low rate of technological advance, high rates of population growth, and inability or failure to carry out sound fiscal, monetary, and trade policies.

In the past three decades, in particular, secular economists started to recognize that most of the economic problems which developing countries face are backed by unfavorable socio/political climate, which can be summed up as lack of good education, lack of development vision and aspiration among folks, lack of democracy accompanied by political instability and inefficient organization, inadequacy of legislations, deficiency in law enforcement, and corruption. Focusing on these factors means that development problems have to be viewed from different angles. Accordingly, fresh questions have been raised such to as how political stability affects capital accumulation and flow of foreign investment, how spending on education and health would reflect on labor productivity, and how good governance and enforcement of law would benefit competitiveness and enlarge markets. Recognition of non-economic factors is definitely helping in understanding and selecting best policies for human and economic development.

Some secular economists have gone further to analyzing the role of religions or religious culture on economic variables and consequently on economic development. Only a few of those economists were interested in the role of Islam compared to other religions, and it is important to view and evaluate their contributions in particular. Yet, before reviewing these secular contributions, it is important to emphasize that economic development within an Islamic system is not purely an economic issue. Its success depends on true application of Islamic laws and ethics in all spheres: governance, economic policies, regulations, markets, business, and financial activities. Mankind or human resource is recognized by Islamic economists to be the target as well as the key or prime factor in bringing about economic development. The fruits of development should be fairly shared by members of society as long as the Islamic values of socio-economic solidarity are maintained in application.²

Secular arguments: analytical review, comments and evaluation

Literature which has been published about Islam and its negative impact on development can be classified into several categories. By reviewing articles which have been written on the subject, mainly of political, sociological or religious nature, we may gain some insights. Some work done on the subject has not been included in this study not because it is unimportant but rather because the ideas included have been dealt with in better ways in other studies. Selection of studies for this paper has been done on basis of their wider scope relative to others

as well as based on the serious thought that has been given directly to the economic impact of Islam on development.

After careful consideration, six works have been selected for this paper, namely those of Noland (2003), Guiso et al. (2003), Landes (1998), Bernard Lewis (2002), Kuran (2004, 2011, 2012) and Timmer & McClelland (2004).

Noland (2003) agrees in principle that religions affect economic behavior of individuals, groups and nations³. This statement is significant in that it refutes opinions claiming the opposite, such as those of the Marxists. Another who expressed skepticism about any significant impact of religious beliefs on economic behavior is W. Arthur Lewis, a well-known development economist.

Noland referred to theoretical contributions of many earlier scholars such as Adam Smith⁴, Max Weber (1920)⁵ and, among later ones, McClelland (1961), Hoselitz (1960), Hagen (1962) and Bellah (1963) regarding Jews, Huguenots, Quakers, Jains, and Parsees among others. Noland rejected the “hypothesis that the coefficients on variables of religious affiliation are jointly equal to zero” (p. 17). This hypothesis, he asserts, can frequently be rejected at conventional levels of statistical significance. His work focused, however, on whether any strong or significant statistical relationship can be found between adherence to major world religions (Christianity, Islam and Buddhism) and national economic performance. Where the present study is concerned, we are interested in his findings on Islam and its effect on economic performance and progress. Noland assigned the fifth section in his work to Islam, because “considerable recent commentary has focused on (its) alleged impact” (p. 5).

Noland used both cross-national and sub-national data from three countries: India which has the largest Muslim population in the world after Indonesia and Pakistan, though the Muslims are a minority within India, Malaysia which has a Muslim majority and Ghana where Muslims comprise about a third of the population. He presented empirical evidence on bases of detailed regional data which are available on religious practices. Where India and Malaysia were concerned, he concluded that there is no consistent, systematic relationship between economic growth and the share of a country’s population practicing Islam. In the case of Malaysia, he noted, “Islam does not appear to be a drag on growth or

an anchor on development as alleged” (p. 27). In Ghana, however, he found a significant and positive correlation. Noland on the basis of his empirical analysis could not support the hypothesis that Islam strongly affects economic development, but at same time he refuted claims of some commentators who “claimed that Islam is inimical to growth” (p. 27). On the contrary he emphasized that it has a role but this role may be diverse.

Guiso et al. (2003) used the World Values Surveys⁶ to identify the relationship between intensity of religious beliefs and economic attitudes toward cooperation, the government, working women, legal rules, thriftiness, and the market economy, in order to find how far religions affect economic performance. They found that “on average, religious beliefs are associated with “good” economic attitudes, where “good” is defined as conducive to higher per capita income and growth” (p. 1). They found religions differ with respect to relations between intensity of religious beliefs and economic attitudes, and consequently have different impact on economic growth. The findings are rather interesting:⁷ (a) religious people, except Buddhists, trust the government more than non-religious people. “The effect is stronger for Hindus and Muslims, weaker for Catholics and Protestants”; (b) Judaism has the strongest negative impact on the willingness to cheat on taxes, followed by Protestantism, Catholicism and Hinduism, and Islam”; (c) “The ranking changes somehow when it comes to accepting a bribe. The strongest negative effect is for Buddhists, with Protestants and Muslims next, and Catholics last”; (d) Protestants are “the only religious group” that favors incentives, which is consistent with Max Weber’s claims. This indicates that Muslims, as well as other groups, do not favor “incentives”. Income inequality, as shown in values, is necessary to provide incentives for individual effort. (e) Unlike Christians (particularly Catholics) who are thrifty, and favor private property and competition, Muslims and Hindus are strongly against competition. Muslims are the most anti-market, as they were generally less disposed to agree with statements such as “Competition is good,” and “Private ownership of businesses and industry should be increased”. Guiso et al. concluded that on average “Christian religions are more positively associated with attitudes conducive to economic growth, while Islam is negatively associated” (p. 35).

The econometric approach adopted by Noland, Guiso et al. and others⁸ that depended on available statistical data, has not in fact been

fair to Islam. Apart from all probable bias of sampling population, the available data only reflects characteristics of contemporary Muslims. These may be good Muslims (in so far as practicing regular prayers, fasting, etc.) or they may not be. Besides, many contemporary Muslims have little education about Islamic culture, especially its economic aspect. Modern Muslim societies are not ruled by Shari'ah. Their culture and social life have been very much influenced by western education, legislations and non- Islamic practices during centuries or more of colonialism. Furthermore, data taken from the World Value Surveys have to be subjected to rigorous scrutiny in areas like culture, religions and beliefs. By any means, we cannot fiddle with statistical data without expertise in religious knowledge. Econometric approaches, because of insufficient or inaccurate data, are bound to be misleading and inconclusive as far as social sciences and human issues which need in-depth explanation are concerned. We can see this clearly in Noland's article. He has given a comprehensive theoretical discussion on the role of religion and has generally been fair to Islam. Yet, his work which depended on quantitative measurement is less impressive.

The next two papers that we review were produced by two well-known western historians Landes and Bernard Lewis. These papers contain criticisms of Muslims and shed doubts about their ability to develop because of their culture or beliefs. Landes (1998), in his book *The Wealth and Poverty of Nations*, examined the reasons why some nations and regions of the world through history experienced growth and power while others stagnated or declined. He considered and analyzed changes over long periods of time to explain reasons behind the growth or decline of wealth, showing particular interest in the history of Europe, the United States, Japan, China, Latin America and the Arab world. He presented more than one thesis in explaining historical changes, amongst which, probably the most important, is the "cultural thesis". He believed that the Islamic world stagnated because of rejecting European inventions, e.g. the printing press. in spite of its importance. According to Landes, "The Muslim countries long remained opposed, largely on religious grounds: the idea of a printed Koran was unacceptable. Jews and Christians had presses in Istanbul but not Muslims" (p. 52). As for stagnation in the Muslim world, Landes approved the statement made by Tibi (1990, p. 145): "Islam has long exercised a retardative influence on Arab intellectual and scientific activity. New knowledge and ideas have fallen under suspicion as *bid'a* or heresy" (p.410).

It is difficult to accept Landes' analysis as it is rather inaccurate historically. Some Muslim countries, e.g. Egypt, followed the most advanced European countries in introducing the printing press, railways, and establishing new manufacturing industries in the early 19th century⁹. On the other hand, many Muslim countries were subjugated by the European imperial powers. The question then arises whether it was the unwillingness of these countries to participate in the new industrial era or the willingness of the imperialists to keep them as producers of agricultural goods and raw materials for their own selfish interests. Some truth, however, may be detected in Landes' assertion regarding *bid'a* and its retardative impact. Undoubtedly, some Muslim authorities' stand on *bid'a* was instrumental in their inability to innovate or modify certain Shari'ah rules to suit the ongoing changes in Muslim societies and the need for modernity. But, sweeping statements on *bid'a* cannot be approved¹⁰. Yet, claiming that "Islam has long exercised a retardative influence on Arab intellectual and scientific activity" (p.410), is unacceptable. He ought to have given a convincing historical analysis on how the progressive role of "Islam" in the medieval period had turned through time to be a retardative one. Islam, historically, in the Medieval period opened wide doors for learning, improving human knowledge, developing sciences and clearly was conducive to enlightenment. Europeans have succeeded in getting rid of their "Dark Ages" and moving on to the Renaissance through the help of Islamic culture and knowledge.¹¹ In principle, Islam, as conveyed in the Qur'an and Sunnah, would always motivate Muslims to think, work, move and make *Ijtehad* (fresh thinking in the light of the Qur'an and Sunnah) whenever it is necessary.¹²

Next to be reviewed is the paper of Bernard Lewis (2002), a historian and an expert on Middle Eastern history, who argued that the influence of Islam held the Arab world back and slowed down the process of modernity. Although Lewis gave a fair account of the great Muslim civilization in the medieval period, he also dealt with forces that led to the decline of the Muslim world. Muslims, not only in the Arab world but indeed in all lands of Islam, Lewis says, in comparison to Christendom had become "poor, weak, and ignorant" (p. 151). He contends that the Muslims blame this decline on outside forces, starting from the Mongol invasions of the 13th century till the onslaught of Western imperialism (mainly

British and French) in the 19th century, besides Muslims' failure to prevent the establishment of Israel in place of Palestine in 1948. However, Lewis claims, Muslims have not tried seriously to hold inside, rather than outside, forces accountable for their decline and failure to bring about modernity. Muslims do not blame their religion because he says "blaming Islam as such is usually hazardous and not often attempted. Nor is it very plausible" (p. 156). He classifies present-day Muslims into two groups: Islamists or fundamentalists who adopt the notion that "they fell away from authentic Islam and thus lost their former greatness" (p. 156). And, the second group known as modernists or reformers who believe that the cause of loss is not the abandonment of Islam but in the retention of old ways, and especially in the inflexibility and ubiquity of the Islamic clergy, who, they say, are responsible for the persistence of beliefs and practices that might have been creative and progressive a thousand years ago but are neither today" (p. 156). Modernists, it should be noticed, are not criticizing Islam, *per se*, but fanaticism supported by some fanatical religious authorities. Fanaticism stifles freedom of thought and expression which once upon a time were behind the great Islamic scientific movement. Lewis emphasizes that "lack of freedom" was a major force in retarding the development of the Muslim world. To quote his words "freedom of the mind from constraint and indoctrination, to question and inquire and speak; freedom of the economy from corrupt and pervasive mismanagement; freedom of women from male oppression; freedom of citizens from tyranny, that underlies so many of the troubles of the Muslim world" (p. 159).

One should say that Lewis, unlike some other western writers, has not hidden facts about the early Muslim civilization. He also pointed out the outside and inside forces that were considered responsible not only for holding the Muslim world back but also for crippling forces of modernity and causing more poverty. Yet, one would disagree with him on certain important points. First, he has underestimated the devastating effects and consequences of European imperialism on the Muslim world. British imperialism, mainly motivated by economic interests (flag follows trade!) was keen to firmly establish the interest-based banking system, as well as secular taxation system, and link with the homeland the economies of the empire in India, Egypt, Sudan,

and other occupied Muslim lands. Shari'ah was ignored in Muslim economies not only in the areas of finance and taxation, but also in social life, particularly by legalizing the practice of prostitution and permitting alcoholic production and sale openly in markets. Thus British imperialism, whether it remained seventy, hundred years or more (such as in previously Muslim-ruled India), had strongly polluted culture in Muslim societies and caused damage in a manner that could not be easily repaired later on. French imperialism in North Africa (particularly in Algeria), and some Muslim territories in sub-Saharan Africa, did much more harm than the British. The French moved by their nationalistic and Christian zeal, spared no effort in challenging Islamic culture and replacing it with their own culture. The effect of western imperialism on education was even worse, as students of the high class and later on, the middle class, studied Western culture and languages, while little attention was given to modern empirical sciences and technology. Lewis also underestimated the effect of establishing the new state of Israel on the (Muslim) Arab world in 1948. Brotherhood and unity of the Muslim people is emphasized in Qur'ān, and the Arabs woke up to the disaster of their Palestinian brothers losing their land and becoming refugees everywhere. It was a terrible shock to all Muslims. "It was bad enough to be defeated by the great imperial powers of the West; to suffer the same fate at the hands of a contemptible gang of Jews was intolerable humiliation" (p. 154). The Arabs had many explanations, but the inability to get good governance or to establish strong armies without falling into the hands of military rulers worsened the situation continuously. In expectation of military clashes with Israel, the Arab economies have been heavily burdened by their military budget since 1948. The Egyptian economy, I would say, has been suffering since 1948 because of Israel more than anything else. How far that was due to attempts to restore a land for its Muslim people (the Islamic cause) or due to politics, or due to unsuccessful military campaigns led by adventurous rulers, needs some serious study.

Bernard Lewis' classification of modern Muslims into Islamists or fundamentalists and modernists or reformers is oversimplifying actuality. There exist many shades between black and white. Islamists, not necessarily are extremists as defined by many western observers. They are frequently good believers, working quietly for the revival of Islam gradually through peaceful movements, and academic work (e.g.

the many Islamic scientists, economists, and social workers). They are reformists in the sense that they are not taking all Islamic rules literally. These Islamists are not only the product of modern times. You can go back to Ibn Taymiyya (1263-1328 CE) in the 13th century to find a jurist who is most conservative, but calling on rulers to intervene in the market against monopolists, and to set fair prices for the sake of justice, even though the Sunnah is literally against intervention in market price (Abdelrahman, 2014). These Islamists are different from fundamentalists or fanatics who are in a hurry to implement Islamic values in all spheres of life and looking for political authority (and may even use force in the process) to reach their target. The second group which Lewis defines as modernists or reformers may or may not be qualified to make Shari'ah-compliant innovation in matters that belong to social life, financial transactions, and international relations. Indeed, some of the so-called modernists or reformers have little knowledge of Islam and reformation to them may lead very well to abandonment of the religion which Allah SWT had selected for the Muslims.

Bernard Lewis is quite right in citing the lack of freedom as the major cause for the inability of Muslims to develop. But it should be emphasized that "freedom" is recognized as an essential value in Islam, i.e. in the Qur'an and Sunnah. The Qur'an contains many verses which address non-believers' minds, asking them to think and use their intellect for the sake of adopting the righteous path. Muhammad PBUH, strictly followed the Qur'anic teachings¹³, and consulted his companions in important civil or war matters. Let us also consider his disciples who came after him as rulers of Muslims. They all followed their Prophet PBUH in consulting learned companions and discussing important matters with them. Omar Ibn Al-Khatab, for example, emphasized that all people are born free by will of Allah SWT. Limits on freedom in the Muslim world are imposed by tyrant rulers, vested-interest groups, uneducated religious authorities, and some preachers who use their followers to enforce their opinions on others. Unfortunately, because of such factors, Islam is accused of stifling freedom.

Kuran (2004, 2011, 2012) argued that some Shari'ah rules are not conducive to economic development. He confirmed that trading partnerships were the leading form of business in the medieval Middle East. Partnership contracts enabled merchants to raise money for long distance trade expeditions. In his

opinion, such a form of organization was successful and ahead of its time, as it allowed in some way for limited liability for passive investors. Yet, the same organization proved later on to be unsuitable and the reason for underdevelopment. “An Islamic partnership was poorly suited, then, to large and long-lasting business ventures requiring the active or passive participation of many people” (Kuran, 2011, p. 64). It “lacked entity shielding, in that any member could force its dissolution unilaterally and its assets were exposed to demands from third parties. The death of a partner terminated the partnership automatically giving his heirs an immediate claim on a share of the assets” and “the number of heirs could be large because of Islam’s inheritance law”¹⁴ and “polygyny” (Kuran, 2011, p. 281). Kuran (2004) holds business partnership complying with Shari’ah responsible for the failure of Muslim countries (referring particularly to the Middle East) before the 20th century, to “produce a single case of mass financial mobilization through non-governmental channels for a major business venture, except insofar as foreigners were involved” (p. 71). In this way he emphasized the loss to the Muslim world because of the absence of “corporations”. His recent writings emphasize other obstacles to progress that are related to Shari’ah: the financial system, inheritance practices, waqf, contract law and procedures of the courts. In his book *The Long Divergence: How Islamic Law Held Back the Middle East*, Kuran (2011, p. 292) elaborates and emphasizes his views namely that the economic institutions of Islam, though well-suited to the era in which they emerged, became increasingly disadvantageous over time, and in any modern economy they would be crippling.

In fact, to comment on Kuran’s works, a separate paper is needed as he raises some serious claims against Islam itself, and not just the contemporary Muslims. His claims can be understood only if it is accepted that Islam is the product of human intellect. This of course is absolutely rejected with respect to the Qur’ān and Sunnah. Yet, *Ijtehad* which is compliant with rules and ethics of the Qur’ān and Sunnah is known to be one of the sources of Islamic Law. Only on this basis we can concede that Kuran may have probably meant to blame Muslim scholars for not updating the Shari’ah rules in areas that are essential to their economies,

i.e. market, finance, contracts and etc. But he should have firstly recognized that partnership and other finance or trade contracts which had been practiced for centuries in Muslim societies are not originally Islamic. These contracts were known to exist in the pre-Islamic society and they were approved in Sunnah under conditions that eliminated *riba* (interest), *gharar* (doubtfulness and uncertainty), *ghabn* (cheating and fraud) and other forms of injustice. Muslim jurists worked on them continuously, elaborating and making them suitable throughout the centuries. Why did these contracts continue to exist in the 19th century without any reformation, be it in the Arab world or other Muslim countries, whereas banking and financial organizations and companies were swiftly evolving and growing in Europe? It is important to recognize that economic growth and technological progress in Europe was the main force which motivated continuous development in the financial sector as well as in company legislations, and market regulations. If Muslim scholars had lived in Europe, or faced the same economic conditions in their world, they would have surely responded and done their best to reform their contracts to suit new conditions. Yet, the need to develop the Islamic contracts to suit changes in economic conditions should be clearly distinguished from mingling the Shari'ah's permissible with the impermissible. This is clear when Kuran compared between European who legalised interest payment and thus became able to develop their financial transactions and economies, and Muslim authorities and scholars who maintained their objection to interest prohibition till present time (Kuran, 2011, pp. 151, 164-66). He asserted that Muslims in several towns adopted legal devices or *hiyal* to evade ban on interest, but official "[O]pposition to interest became a proximate cause of the Middle East's failure to modernise its financial institutions" (p. 164) and that "the persistent illegitimacy of interest affected economic modernisation" (p. 152). In fact, he either failed to appreciate or to recognise that in Islam, Allah SWT prohibits *riba* and there is no tradeoff between obedience to Him and growth of wealth.

Kuran (2011) identifies the absence in Islamic law of the concept of a corporation amongst bottlenecks which seriously hampers economic growth in the Muslim world. The concept of corporation

was truly not in the Islamic laws of partnership for some problematic fiqh (Islamic jurisprudence) issues, and fuqaha (Islamic jurists) could not get over such issues until the 1970s. But, it is false to say that the absence of the concept was crippling economic growth because the “corporation” was legalized by secular laws in many Muslim countries during European imperialism. Similarly, the interest system, commercial banks, and commercial insurance (interest-based) were made legal by secular laws. Hence, Kuran needs to answer why the establishment of such institutions which had no supporting roots in Islam could not help economic growth in the Muslim countries (Middle Eastern or others). It seems that Kuran has forgotten that there are many other forces that are responsible for economic growth or development, whether in the heydays of Islam or nowadays.

Kuran’s (2012) criticism of the Islamic Laws of Inheritance as impediments to economic growth is entirely unacceptable¹⁵. He asserted that “Islam’s relatively egalitarian inheritance system raised the costs of liquidating a partnership pre-maturely, thereby limiting the size and duration of partnerships, fragmenting the estates of successful merchants and hindering the preservation of businesses across generations” Kuran (2011, p. 126). First of all, we should not forget that “social justice” is the core of these Qur’ānic laws and not the rate of capital accumulation or economic growth. The Islamic economic system, unlike capitalism, cares for socio-economic justice, and it is a pity, indeed, that some secular scholars are geared to the material values of capitalism to the extent that they cannot appreciate human and social aspects of life. It is difficult to deny the role which laws of inheritance play in fair distribution of wealth and that this, in the long run, reflects on people’s solidarity, aspirations, and willingness to develop far more than capital accumulation, accompanied with wealth and income disparity.

The final study to be reviewed is an issue paper prepared by Timmer & McClelland (2004) for the USAID. In this paper which three models are presented that are considered basic to economic growth: specialization and trade, investment in machines, and increasing returns to knowledge. The paper seeks to investigate whether the Islamic world is ready for, or capable of, responding to these growth models. The paper asserts that Islam, in principle, supports the trade model because it defends property rights and fair exchange¹⁶. Yet, Islam, it claims, has “relatively active discrimination against the knowledge model” (p. 15).

With respect to “investment in machines” the paper emphasizes many factors that are necessarily important to this model of growth in Europe such as the Industrial Revolution, continuous Technological Progress, Capital Accumulation, and Strategies. The Muslim world has entered the age of modern manufacturing only recently in the 20th century, and the question is about why it came much later than the Western world. Furthermore, does Islam have in essence factors which are conducive to faster industrial growth?

Increase of knowledge is in fact the real wealth that supports the other two models of growth. Thus attention should be focused on the “Increasing returns to knowledge” model. Growth of knowledge is investment in human capital. This is reflected in skilled and more productive labor and is the engine of technological advance and business innovation. It is really strange to assert that Islam is unfavorable of or discriminating against the “Knowledge Model”.

It is well known that Islam, historically encouraged people towards learning, thinking, and innovating. Early Muslims translated books written in Greek, Latin, and Persians to read and develop themselves. However, according to Timmer & McClland, “Islamic societies (with exceptions) may be slow to respond to new and external knowledge or assimilate new technologies” (p. 17). The paper is saying “this may be explained in part, by their strict adherence to theocracy and written scripture as the basis of all knowledge” (p. 17). To what extent is such an explanation realistic? How many Muslim countries in the world are strictly ruled by religious authority? Officially, there are four countries in the whole Muslim world, namely Kingdom of Saudi Arabia, Pakistan, Sudan and Iran. How many Muslim countries, even within these four countries, observe or maintain an authentic Islamic pattern of education? Is it not true that the majority of the Muslim countries mimicked the secular pattern of education during the colonial period? How far has such foreign style of education helped the Muslim countries in their development? In many Asian and African Muslim countries, traditional families, particularly in villages, preferred to send their children to religious schools to learn Qur’ān and Hadith (which by the way is a good practice!). But is it not true that Muslim authorities in many countries have deliberately intervened in education programs and imposed modern secular education, which in fact weakened the traditional Islamic pattern of education? In many Muslim countries

currently, children are learning (unfortunately) foreign languages before Arabic, which is the language of Qur'ān. How far have these changes helped “the Growth of Knowledge” model? Or how far has moving towards secular education helped economic development in the Muslim world? There is no denial that religious education in Muslim countries needed and is still in need for modernity. Yet, the problem of learning and the quest for better education and knowledge is far more serious than the simple, or naïve, explanation given by Timmer & McClelland.

In another section of Trimmer & McClelland's paper, “four key factors” are noted, which are considered most important in understanding how to help the economies of Muslim countries¹⁷ move forward. These are: (a) the banking system and quality of investment, (b) trade policy and economic openness, (c) human capital and the role and status of women, and (d) poverty reduction and the Millennium Development Goals (p. 19). These goals include the distinction between public and private responsibilities for providing social safety nets and the role of poverty in causing political conflict.

The paper of Timmer & McClelland says nothing more about the banking system, or the financial sector in the Muslim world (Arab world in particular) than what is said in the literature about developing countries' weak and inefficient banking and financial sector. Reforms of the financial sector, particularly banking, are quite necessary for the productive use of available resources and for higher rate of investment. Reforms should seek better regulations, promotion of competition, financial innovation and modernization, opening of financial markets to domestic and foreign entrants, sound corporate governance, and privatization of any remaining state banks. Such analyses or recommendations do not mean or indicate that Islam is in any way associated with an inefficient financial sector or poor policies in Muslim countries or is an impediment to reformation. Yet, it is said that “Islamic injunction against “unproductive” forms of income, such as interest on loans, could stifle the development of a modern financial sector with its futures markets, hedging instruments, and esoteric risk management strategies” (p. 20). This statement is indeed meaningless, since it is well known that in all Muslim countries, with rare exceptions, the interest rate system (which is non-Islamic) is prevailing in financial markets, protected by legislations, and is behind all monetary and banking policies. The issue which Timmer & McClelland ought to

have actually raised is: why are there all these inefficiencies in Muslim countries' financial markets in spite of their adoption of the non-Islamic interest system in finance, for more than a century now? Where Islam is concerned, we claim that removal of the interest system is expected to help in better allocation of available financial resources, and thus is conducive to economic growth¹⁸.

Timmer & McClelland found nothing in Islam that would hinder policies aiming at achieving free trade policy and economic openness. "The relatively closed nature of Islamic economies, then, is not based on religious principles but reflects the nature of the governments in these countries... trade reforms and increased economic openness should bring substantial rewards in faster growth without challenging Islamic principles" (p. 20). In fact, problems of trade and economic openness are far more serious and diverse. Something should be said about problems facing the developing countries (Muslim countries amongst them) because of free trade under monopolistic conditions of multinational and transnational giant companies, wide economic gap between them and the developed world, and consequent deficits in balances of trade, deterioration of terms of trade, and rising foreign indebtedness.

Concerning "human capital" development, the paper of Timmer & McClelland focuses on the role and status of women in the Muslim world. Available statistical data indicate that women's participation in the labor force in the Muslim world was in the range of 27.5% in the Middle East and North Africa, and 41% in the regions of Europe and Eurasia and in East Asia. The first is the lowest in any region, but the last is almost the same as in Europe. Islam, it must be noted, does not place any restriction on employment of women.. In fact, people living in the Arab world know that women are actively working and participating in production on equal footing with men. Yet statistics do not record informal labor in the agricultural sector, and at homes. Women in the Arab world in many cases could be the main supporters of their families. The paper of Timmer & McClelland is right in showing low participation of women in parliaments. No doubt more participation would empower the role of women in development of the Muslim societies. But at the same time, there is no need to emphasize the importance of this issue because neither women nor men would be able to change matters through parliament under authoritarian rulers and with restriction on freedom.

“Poverty Reduction and the Millennium Development Goals” is the fourth axis in the proposals of the paper of Timmer & McClelland. The paper recognizes problems facing strategies that aim towards poverty alleviation at world level. However, it says that in “Muslim countries there is a widespread network of private charities enjoined by the Qur’ān to share wealth among the poor” (p. 21). In fact, payment of zakat (mandatory charity) is one of five pillars of Islam. zakat in principle is to be imposed on rich people for the interest of the poor. Governments in Muslim countries (with very few exceptions) are not collecting zakat as in the heydays of Islam. Yet, non-government organizations or NGOs are doing excellent work in collecting, and distributing zakat in the most professional manner¹⁹. Investment of zakat can, in addition, play a major role not only in reducing poverty, but also in making low-income and needy people independent of financial help from others. The waqf system can also be revived to play a productive role in improving standards of living in Muslim countries, as in the past. There are many signs of its actual revival in many contemporary Muslim countries.

Conclusion: Review and Islamic Evaluation of Trends of Secular Arguments

Secular arguments which were examined in this article can be classified into two main groups. The first group merely takes Muslim countries literally to represent Islam. No distinction is made between “Islam” and “Muslims”, i.e. between the Islamic Model and factual conditions of contemporary Muslims. Methodologically, this is wrong due to the wide gap which exists between the authentic Islamic Model and the contemporary social and political living conditions of Muslims. We did not find any rigorous analysis about Islam’s capability of meeting the challenge of economic development. The arguments were centred only on examining the reflection of the existing culture or social conditions, and political institutions in Muslim countries on growth or economic success.

The second group of arguments, however, raised objections towards some specific Shari’ah rules, considering them among factors which hindered economic development in the Muslim world. Thus, policies complying with such “Rules” would not help, but cripple the Muslim world. Specifically, Shari’ah rules concerning *riba* prohibition and interest-based financial institutions, partnership contracts, and

inheritance laws, were considered among impediments to economic development. Such arguments are self-defeating because in practice, as discussed earlier, Muslim countries, since the colonial era in the 19th century, have unfortunately replaced these Shari'ah rules with secular legislations. Muslim countries gained nothing in return as far as economic development is concerned! On the other hand, research in Islamic economics and finance reveals that within Shari'ah *Maqāsid* (objectives), some traditional Shari'ah rules can be qualified: new contracts, organizations and products can be innovated to suit contemporary finance in Muslim countries and help them to develop²⁰. Even though Islamic banking is still in its infancy stage, Islamic economists have shown how present-day conditions of Muslims are bound to change if and when an authentic Islamic model of finance and development is put into application²¹. Islamic economists are also aware, by the very nature of the ideological and philosophical roots of their science, that the economic problems in their societies cannot be isolated from value systems, cultural traditions, and institutions. Targets of human and economic development have to be attained within Islamic rules and values. A tradeoff between material growth and religion is unacceptable²².

Secular arguments concerning education, religious authorities, bid'a, and freedom should be given attention. Education in Muslim countries has to undergo serious reformation. Teaching of Islam in religious schools and institutes should be updated after years of stagnation. *Ijtihad* is essential in updating programs and methods of religious education to cope with changes in the lives of Muslims and to enable them to face challenges of development. Updating education should never touch our Islamic '*Aqidah* (faith) or the Shari'ah religious duties. Education should help Muslims in facing the challenges of the 21st century (15th century after the *Hijrah*), and in better understanding Shari'ah rules in markets, financial transactions, socio-economic relations at the national and world levels. This is important for economic and human development in a changing world. New Muslim generations should know how our Shari'ah can be employed in changing our economic life within a framework maintaining authentic Islamic values. Education in fields of social sciences, humanities and ethics should not be separated from our Islamic values but at the same time benefit whenever possible (within Shari'ah boundaries) from global scientific developments and

human experience. The gap in the field of pure sciences between Muslim and the advanced non-Muslim world is too wide and should be closed. Pure sciences are value neutral. Learning modern science theories, new technologies and employing them in practice can never be considered *bid'a*. Secular scholars who assert that the conception of *bid'a* hold Muslims backward should understand that *bid'a* which is a heresy that applies only with respect to innovation in Islamic beliefs (monotheism) and religious duties.

The prevailing ignorance in Asian or African villages about Shari'ah rules not permitting female education should be brought to an end. An educated Muslim woman is no less important than an educated man for our human and economic development, whether at family or society level. People who stand against females' sharing in social and public activities are absolutely mistaken because Muslim women represent half the society and we cannot assume that they would be less committed to Islamic '*Aqidah* and the Shari'ah than men.

Freedom is a serious issue indeed. Islamic religion supports freedom of thought, and *Ash-Shūra* (consultation of the ruler with learned, experienced, and honest subjects). Yet, the history of Muslims by the end of the medieval period and in the following centuries shows that tyrant rulers in many countries repressed their people, stifled their freedom of speech and restricted their social and political activities. Apparently tyrant rulers were consulting only their favorites and obedient supporters. Tyranny weakened Muslim societies and turned them into an easy booty for the imperialists in the 19th century. After gaining their political independence, most of the Muslim countries were unfortunately plagued by puppet governments controlled by western powers, military dictatorship, as well as by corruption, and market monopolies! Thus, some positive steps have become necessary to restore true civilization to the Muslim world by revival of Islamic values of freedom, equality, and justice. Many recent studies and international development reports have shown that these values are truly important and essential to economic and human development. Hence, this is a big challenge facing the Muslim world, and Islamic economists have a big responsibility to build new development models to embrace these values and implement them through suitable institutions and policies.

Endnotes

- 1 See *World development indicators 2015* (World Bank Group, 2015).
- 2 Economic Development within an Islamic system can be defined as follows: “Development is a structural change in the socio-economic environment, taking place concurrently with adoption of Islamic laws and adhering to ethical values; thus triggering off human productive capacities towards maximum and best possible utilization of available resources, within due balance between material and spiritual targets” (Abdelrahman, 2013, p. 156).
- 3 It should be noticed that arguments by scholars, mentioned in the following lines, were presented on the effect of religious factors were mostly linked, or tied with cultural and social conditions rather than theological dimensions.
- 4 Noland cites Anderson (1988) for Smith’s views.
- 5 Noland relies on Ekelund, et. al. (2002) for Weber’s views.
- 6 The World Values Survey (WVS) is a collection of surveys administered to a representative sample of people in 66 countries. Data used in the paper covers the period from 1981 to 1997.
- 7 See Guiso et al. (2003, pp. 5-7).
- 8 See, for example, Chen (2003) and Pfeifer (2001).
- 9 The printing press was first introduced to Egypt by Napoleon Bonaparte during his French Campaign in Egypt and Syria (Wikipedia-1. n.d.). Historically and internationally Egypt was the second country after the UK to have railways. In 1854 Egypt inaugurated the first railway in Africa and the Middle East (Wikipedia-2. n.d.).
- 10 The word *bid’a* in Arabic means innovation, but in Fiqh it means an undesirable or impermissible innovation. In Fiqh, innovation in worshipping duties (such as in prayers and fasting etc.) is absolutely rejected. On the other hand, in all life matters which are of technical nature, innovation is surely required as well as welcome. In fact, innovation is also required in matters related to market and financial transaction but should be carried through *Ijtehad* only by Muslim scholars and experts who have full knowledge of Shari’ah rules of transactions in order to avoid *bid’a* or impermissible innovation. Landes was unaware of these meanings.
- 11 See Watt (2004) and Wikipedia-3.
- 12 See, for example, the Qur’ān 13: 3-4 and 30: 21-24. When the Messenger of Allah (PBUH) sent Mu’adh to Yemen, he instructed him to introduce Islam to the people gradually, starting with the most important beliefs, and then he asked him: How will you judge? Mu’adh said, “I will judge according to what is in the Book of Allah.” The Prophet said: What if it is not in the Book of Allah? Mu’adh said, “Then with the tradition (Sunnah) of the Messenger of Allah.”

The Prophet said: What if it is not in the tradition of the Messenger of Allah? Mu'adh said, "Then I will strive to form an opinion (*ijtihad*).” The Prophet said: All praise is due to Allah who has made suitable the messenger of the Messenger of Allah. (Source: Sunan At-Tirmidhi 1327). This hadith opened the door to *Ijtehad*, i.e. earnest intellectual effort on the part of a Muslim scholar to reach new rule(s) for new situation, phenomena, or problem.

13 According to the Noble Qur’ān, Surah 42: 38, “And those who answer the call of their Lord and establish worship, and whose affairs are a matter of counsel, and who spend of what We have bestowed on them”.

14 Kuran (2012, p. 1094) regards it as “highly egalitarian by pre-modern standards”.

15 Kuran bluntly calls these divine Laws inheritance customs forgetting or ignoring that they are part of the Qur’ānic Revelations.

16 “Muslim traders historically have been very successful” (Timmer & McClland, 2004, p.15)

17 These factors are commonly known in Muslim and non-Muslim developing economies. But the paper mentions that at the beginning of the 21st century, Muslim countries tend to be poorer than non-Muslim countries as revealed by available world data. The average per capita income in the 70 non-Muslim countries located in the five geographic regions was \$5,987, nearly twice as high as the \$3,375 in the 37 Muslim countries (Timmer & McClland, 2004, p. 11).

18 See Abdelrahman (2014), in particular pp. 125-129.

19 Chen (2003) reports on the links between economic distress and resort to more fundamental Islamic values in Indonesia.

20 See for example, Iqbal and Llewellyn (2002).

21 See Abdelrahman (2016).

22 See Chapra (2000) and Abdelrahman (2014).

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ISSN 0128-4878 (Print)

ISSN 2289-5639 (Online)

