

Conference on Islamic Economics in the 21st Century

The International Islamic University Malaysia (IIUM) organized an international conference on *Islamic Economics in the 21st Century* in collaboration with the Islamic Research and Training Institute (IRTI) of the Islamic Development Bank (IDB). The conference was held in Kuala Lumpur from August 9 to 12, 1999.

Malaysia's Education Minister, and current President of the IIUM, Dato' Najib Tun Abdul Razak, performed the official opening of the conference. In his address to the guests and the conference participants, he said that the current financial crisis has weakened us and pushed us back in our economic development. The critical question is how do we meet such a challenge today and in the future, which will be much more competitive in the new century. He hoped the deliberations would be carried out with the Asian economic crisis in the backdrop. He argued that the outgoing century gave freedom to Muslims from the yoke of colonialism and imperialism. Unfortunately Muslim world still remains politically divided and economically dependent. We need to be united. We are indeed at the threshold of a new global financial, economic as well as societal structure for the 21st century. The new structure has to be fair and just. We need to break the poverty cycle that has long engulfed most of the Muslim world. Humane agenda has to be central to any economic system. In this regard, Islam has much to offer to the world. Muslim scholars should articulate their views so that their voice could be heard while a new financial and economic landscape is still in the making.

Along with the conference, a one-day workshop of the "Co-ordination Committee of Teaching and Research Institutions in Islamic Economics" was held on 13th August. Working papers were prepared by the International Institute of Islamic Economics (IIIE), International Islamic University Pakistan, International Islamic University Malaysia, IRTI, Department of Economics at the Loughborough University (England), SESRTCIC of Turkey, Institute of Islamic Understanding Malaysia, Islamic Development Management Project, USM, and the Centre for Research in Islamic Economics, King Abdulaziz University

(Saudi Arabia). The meeting focused mainly on the capacity building role of the participating institutions in Islamic economics, banking, finance and economic cooperation among Muslim countries.

The organizers received eighty-two (82) papers for presentation in the conference. Only twenty-two (22) papers were selected for presentation. Forty-five papers were circulated to the participants. The participants could obtain any or all of those papers. Hence all the participants had the opportunity to review and obtain up to 67 papers. The remaining 15 papers were withheld from circulation at the request of their authors for further editing.

The conference proceedings may be divided into six themes:

1. Shari'ah Foundations and Islamic Economics;
2. Socioeconomic Institutions under Islam;
3. Regional Economic Cooperation among Muslim Countries;
4. Macroeconomics and the Role of Central Banks in Muslim Economies;
5. Islamic Banking and Finance; and
6. Islamic Banking in Selected Muslim Countries.

Shari'ah Foundations and Islamization of Economics

Syed Othman al-Habshi, President of Universiti Tun Abdul Razak (UNITAR) delivered the keynote address on "Islamic economics in the 21st Century." He stressed that the development of Islamic economics demands clear direction of research based on empirical evidence. Muslim nations need to implement all Islamic injunctions including *zakāh* as a basis of fiscal policy and completely ban *ribā*. We must Islamise not only financial system but also the laws of our countries in order to gauge how an Islamic economy actually works. It must be done in the presence of the WTO framework and advances in the information technology.

Panel on "Islamization of Economics in the 21st Century" was anchored by Mohammad Ahmad Sakr, President of the Islamic University (Ghaza) in Palestine and K. S. Jomo, Professor of economics in University of Malaya, Malaysia.

Jomo painted a very dismal picture of the state of Islamic economics by reviewing the record in Muslim countries. He said that the research to date is shallow and sub-standard. Most researches published under the name of Islamic economics represents a dubious copy of economic models found in the conventional economics. Originality that must be the hallmark of Islamic endeavors is lacking. Similarly application of

“Islamic” ideas did not bear fruit. For instance, application of *zakāh* has failed to bring measurable success in eliminating the gap between the rich and the poor in Muslim countries. Sakr emphasized that there is need to restructure curricula in the *sharī‘ah* schools as well as in the modern schools. *Sharī‘ah* scholars are not familiar with the modern terminology and functioning of contemporary economic institutions like insurance. On the other hand, researchers and teachers in the modern schools do not understand *fiqh* approaches and terminology. Bold theorizing requires the researchers and teachers to be well versed in Qur’anic knowledge.

Elmi, a Somali scholar, discussed the issue of *ribā* and provided fresh interpretation of the concept of *ribā* and rationale for its prohibition. Sami al-Suwailem provided new interpretation of the concept of *gharar* using the framework of game theory. He claimed that *gharar* transaction is a zero-sum game with uncertain payoffs. The discussion on *gharar* was extended to demonstrate an integrated theory of risk.

Socioeconomic Institutions under Islam

Innovative approaches to *waqf*, *zakāh* and role of ombudsman in the contemporary Muslim societies were proposed and discussed under this theme. There were two papers on *waqf* entitled “Need for a New Approach of the Socioeconomic Development: Role of *Waqf* in the 21st Century” by Mohammed Boudjellal, and “Socio-economic Development Role of *Waqf* in the 21st Century and Restructuring of its Administration” by AbulHasan M. Sadeq. Paper on “Performance of the Institution of *zakāh* in Theory and Practice” was presented by Monzer Kahf. Muhammad Akram Khan presented a paper entitled “Role of Supreme Audit Institutions in Shaping the Islamic Economy in the 21st Century”.

Mohammed Boudjellal of World Assurance in Algeria proposed a new institutional framework for managing *waqf* on the basis of: (1) “financiarisation” of *waqf* properties; (2) division of labour; and (3) institutionalization of *waqf*. AbulHasan Sadeq, Professor of Economics in the IIUM, discussed the desirable socio-economic development objectives of *waqf*, and reviewed the character and performance of the *waqf* institutions in Bangladesh. He proposed a “pro-active model of *waqf* administration.” Haji Mohamed Dahan, Director of the Zakat Collection Center in Malaysia demonstrated that *waqf* institution is not one of the important determinants in socio-economic development of the more developed countries. He emphasised that good governance,

efficient civil service and enterprising corporate sector shall precede the reform of the *waqf* institution in Muslim countries.

Monzer Kahf of the IRTI, IDB compared the theoretical analysis of *zakāh* with its application in several Muslim countries. He concludes there is a need for a drastic revision of the common wisdom held by Muslims about *zakāh* because the expectations from *zakāh* are not tenable in reality. The discussant, Syed Mohd Ghazali Syed Wafa of the Universiti Kebangsaan Malaysia, stressed on the 'ibādah and administrative aspects.

Muhammad Akram Khan, currently Additional Secretary, Ministry of Economic Affairs in Pakistan, held that the traditional role of the Supreme Audit Institutions (SAIs) is inadequate, and proposed an extended role for them.

Regional Economic Cooperation Among Muslim Countries

The theme of "Economic Cooperation among Muslim Countries in the 21st Century" included a keynote address by Sultan Abu Ali of Egypt.

Sultan Abu Ali expressed the view that strengthening the economies of Muslim countries can only be achieved through regional cooperation, and integration among Muslim countries. Reviewing the capabilities of the Muslim countries he argued, that a dynamic view of economic cooperation among Muslim economies would accelerate the process of sustainable development. He discussed the challenges ahead of Muslim nations, in the light of the prevalent macroeconomic trends of globalization, regionalism, information economy, and privatization, stressed closer cooperation among Muslim countries in the areas of trade, aid, technology and production activities.

Syed Nawab Haider Naqvi of Pakistan favoured replacement of several regional blocs by a large consolidated economic bloc to face challenge of globalization. On the other hand, Mohamed Ariff argued for a loose and liberal arrangement at the outset to be converted into integrated blocs at suitable time in future.

Muhammad Iqbal Anjum covered details on objectives, structures, resource base, major industries, areas of economic cooperation and achievements of three prominent Muslim regional blocs including Economic Cooperation Organization (ECO), Gulf Cooperation Council (GCC) and Developing Eight (D-8). He painted a bright picture. However, Syed Nawab Haider Naqvi, as a discussant of the paper, pointed out the weaknesses and dismal performance of the regional blocs. He argued that success in convergence demands expansion in the intra-regional trade, and freer movement of trading goods,

services, capital and labour within the blocs. In his view, ECO, GCC and D-8 must operate on a well thought-out strategy to meet the dual challenge of globalization and regionalism. There is a need to expand the size of the integrated area, use economic integration for industrial efficiency and growth, establish intra-regional payments system and move towards a monetary union.

Farda M. Asadov from Azerbaijan Academy of Sciences presented the current concerns regarding exploitation and access to world market of oil and gas resources in the Caspian region. He highlighted the interests, concerns and attitudes of several countries including Russia, USA, Turkey, Iran and others. He pleaded for economic co-operation of Muslim states for development in Azerbaijan. Amer al-Roubai of the International Institute of Islamic Thought and Civilization (ISTAC) Malaysia contributed an insightful economic analysis of the political debate covered in the paper.

Macroeconomics and Role of Central Banks

M. Shaukat Ali of the Ministry of Planning and Development, Pakistan, presented a formal macroeconomic model. The model is interest-free and based on certain assumptions regarding factors of production, speculative demand for money, price stability, money supply management devoid of the practice of interest. He demonstrated the superiority of the proposed model by comparing the simulation results of the model with those of the existing system in Pakistan. The discussant, Ghazali Atan of the Metrowangsa Asset Management Malaysia, criticized some of the assumptions employed in the model in the light of realities in the financial markets. Usamah A. Usman of the King Fahd University of Petroleum and Minerals (KFUPM) criticised the role of interest for hindering the functions of money and causing economic instability and proposed an alternative profit-sharing based model. Sayyid Tahir, Director General of the International Institute of Islamic Economics, International Islamic University in Pakistan identified some weaknesses in the model and advanced his own model to overcome them.

Magda Kandil, currently with the International Monetary Fund, investigated the nature and impact of monetary policies in several Arab countries including Algeria, Egypt, Jordan, Kuwait, Morocco, Saudi Arabia, Syria and Tunisia between 1955-1990. She concluded that the monetary policy appears to be an important component of economic growth in the economies under consideration. It is important to relax supply constraints that limit capacity and increase the inflationary

pressure of expansionary monetary policy. Relaxation of the constraints will guarantee a smooth flow of credit that is necessary to sustain output growth. Usamah A. Usman, discussant of the paper, criticized the modeling and the findings of the paper.

Islamic Banking and Finance

This session included a keynote address by Mabid Ali al-Jarhi on "Islamic Banking and Finance in the 21st Century," as well as six papers relating to the theme.

Mabid Ali al-Jarhi reviewed the failures in research and application of Islamic economics including banking and finance. He maintained that finance could be optimal only through a combination of debt and equity. He stressed comparative studies of commercial, universal and Islamic banking. Sources of instability in the financial markets were identified. He argued that Islamic banks should be subjected to regulations on deposits, deposit insurance, capital controls and closure rules.

Muhammad Shahid Ebrahim of the University of Brunei Darussalam asserted that Islamic banks face an inordinate amount of risk in their respective portfolios that necessitate careful structuring. The author presented a model to assist Islamic banks to design their client's consumption asset facilities optimally using the instruments of *bai' bi'l thaman 'ajil*, *ijarah* and decreasing *muḍārabah*. Working of the model was elaborated using cases of auto financing and home financing. Ahmed Kameel Meera of IUM, as a discussant, suggested some improvements in the objective functions, constraints and methods for deriving optimal solutions. Adiwarmen A. Karim of Bank Muamalat in Indonesia reviewed some prominent optimal contract models that compare debt financing contracts and profit-sharing financing contracts. Overall the models favour debt contracts. However, he concluded that Islamic banks should allocate their assets to both the mark-up (debt) based schemes and profit-sharing schemes for optimal portfolio because exclusively one or the other scheme will not be optimal. Sami al-Suwailem, as a discussant, countered this position by demonstrating the superiority of profit-sharing scheme over the debt schemes.

Rodney Wilson of the University of Durham (United Kingdom) reviewed the experience of banks and fund management groups in Saudi Arabia and England. He argued that Islamic investors can screen equity investments in the stock markets in the entire world to identify companies that are potentially acceptable for investment in terms of

degree of compliance with the *sharī'ah*. Humayon Dar and John Presley of the Loughborough University, England, argued that overwhelming use of fixed-return modes of financing by Islamic financial institutions (IFIs) is due to failure of Islamic finance to address the issues of management and control between financier and entrepreneur. They found that the larger IFIs make less use of fixed-return modes than the smaller ones. They also proposed a model of an ideal Islamic organisation wherein decision management is a horizontal process in which representative members of all groups within the organisation are consulted. Muhammad Shahid Ebrahim, discussant of the paper, advanced the view that fixed-return modes are common because of the development stage of Islamic banks, which are in their infancy. As the banks will grow, the share of the fixed-return modes will diminish.

Mohamed Obaidullah of Xavier Institute of Management, India and Rodney Wilson of Durham University, England in their study entitled "Risk Sharing and Management in Infrastructure Financing: An Islamic Evaluation" argued that risk-return relationship is central to Islamic financing. A host of operational and contractual aspects related to infrastructure projects under Build-Operate-Transfer (BOT) framework are analysed from the *sharī'ah* perspective as well as business perspectives. Readers can find the discussion and application of almost all the Islamic concepts and modes of financing in the BOT contracts including *ribā*, *gharar*, *ijārah*, various forms of *shirkah* and *muḍārabah*, *kafālah*, *mursad* loan, *hebah*, *istisna'*, *salām*, *ḍaman*, *istijsrār*, *takāful*, *joalah*, *einah*, *bi'l thaman 'ājil*, *istighlal*, *dayn*, and so on. Tariqullah Khan of the IRTI contributed a thorough discussion of Islamic modes for infrastructure project financing and managing risks under the Islamic modes.

Syed Musa al-Habshi proposed a portfolio model for Islamic banks. In this context he discussed contractual analysis of financing assets, redefined cost of funds and explained profit distribution between the Islamic banks and their clients. He also favoured the accrual basis accounting over the cash basis accounting. Muhammad Akram Khan enlarged the paper through his discussion by adding additional material under each section of the paper.

Islamic Banking in Selected Muslim Countries

Five papers fall under this theme. There were two papers from Malaysia, two from Bangladesh and one paper from Islamic Republic of Iran.

Awang Adek Husin of Bank Negara Malaysia summarized the development of Islamic banking, role of the central bank and future direction of Islamic banking in Malaysia. Mohd. Azmi Omar of the IIUM, as discussant of the paper, concluded that the performance of Islamic banks was superior to that of conventional banks during the recent financial crisis in Malaysia. Saiful Azhar Rosly and Sano Koutoub Moustapha, both of IIUM, favoured the Malaysian practice of *bay al'dayn* on *fiqhī* grounds and also explained the framework of bonds issues based on the concept of *bay al'dayn* in Malaysia. On the contrary, Sami Houmoud of IRTI, discussant of the paper, believed that the *bay al'dayn* is *ribāwī* and hence prohibited.

M. A. Hamid of the Rajshahi University reviewed Islamic banking expectations from the academic literature and evaluated the operations of Islamic Bank Bangladesh Ltd. (IBBL) on the basis of those expectations. He finds a gap between the expectations and the realities. The discussant, AbulHasan M. Sadeq of IIUM, criticised the author's position on interest, expectations of Islamic banking and the realities of IBBL. Mohammed Solaiman of University of Chittagong used Jaworski and Kohli model for measuring market orientation of Islamic banks in Bangladesh. His study investigates eighteen (18) activities. The author recommended information technology based computerized banking facilities, strong and effective ethical market-oriented regulatory framework, emphasis on ethical education and integrated communication management system for better management and ethical based marketing. Syed Abdul Hamid al-Junid of Universiti Tun Abdul Razak (UNITAR) focussed on comparison of ethical values pronounced by Islam and the state of corruption in most Muslim societies. He also presented the views of scholars on the observed anomalies and emphasized internalization of Islamic ethics for managers.

Sayed Ali Asghar Hedayati of the Central Bank of Islamic Republic of Iran examined the methods of providing credit facilities permitted under the Usury-Free Banking Law. He also discussed short term financing, training inadequacy, financing of budget deficits, monetary policy instruments and role of the central bank and impact of the Islamic banking on international banking. Kazem Sadr of the Shāhid Beheshti University reviewed the contribution of Islamic banking to economic growth, role of asymmetric information and cost of monitoring the adverse effects, equity in allocation of banking resources, and stability of demand for money under Islamic banking regime.

The conference was attended by more than 250 participants hailing from seventeen (17) countries. The delegates came from universities, economic research institutions, socioeconomic institutions (like *waqf* and *baital māl*), central banks, commercial banks, merchant banks, discount houses, stock exchanges, securities exchange commission, legal firms and accounting firms. In a nutshell, academicians, bankers, fund managers, policy makers and welfare organizers interested in application of Islamic economics came together to deliberate on the direction of Islamic economics in the 21st century. The success of this conference can be gauged by the fact that every session was packed by the audience during all four days of the conference even though the conference hall was located in the center of the city adjacent to a popular shopping mall.

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