

ISLAMIC ECONOMIC THOUGHT AND THE NEW GLOBAL ECONOMY

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The paper examines the teachings of the Qur'an and the Sunnah and the views of a number of classical Muslim scholars with respect to the unity of mankind and its implications for integration of the world economies through increased specialization and division of labor and removal of restrictions on the free flow of goods, services, labor and capital. It then discusses the extent to which these teachings and views fit within the framework of the New Global Economy. It argues that the philosophy ingrained in Islamic teachings and the writings of Muslim scholars considers the promotion of justice to be indispensable for achieving the desired integration of the world economies. The paradigm of the New Global Economy, unfortunately, lacks this commitment to justice. Hence the resistance to globalization. The author argues that Muslim countries should, nevertheless, support globalization, but should simultaneously struggle for the injection of justice in its paradigm. This will, however, not be sufficient by itself. They should also strive for introducing greater justice in their own economies and also adopt a number of measures that would help them meet successfully the challenges of globalization.

1. INTEGRATION OF THE WORLD ECONOMIES

The concept of the New Global Economy is essentially a somewhat reformulated version of Neoclassical Economics. In the 1950s socialism and Keynesian Economics had a great following. The ruling philosophy was that development cannot be promoted by relying solely on markets and prices. It was necessary for the state to play a dominant role. However, the failure of socialism in the 1970s and 1980s along with the crisis of the welfare state have laid to rest the concept of excessive role for the state in the economy. Even Keynesian Economics

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has not been able to hold the ground because of stagflation in the 1970s and the inability of governments to use the Keynesian strategy to redress unemployment. Hence there is a resurgence of Neoclassical Economics.

Neoclassical Economics believes that the removal of controls and the liberalization of markets are necessary for accelerated development. The government should play only a minimum role in the economy. The New Global Economy has picked up this strain of Neoclassical Economics and emphasizes liberalization of trade, and the free movement of capital, labor, technology and information. Since the major Western powers along with the IMF and the World Bank have adopted this view, all countries around the world are being induced, if not coerced, to liberalize their economies, and particularly trade, for the sake of expanding world trade. Such a liberalization of trade will, it is argued, bring “new opportunities for expanded markets and the spread of technology and management expertise, which in turn hold out the promise of greater productivity and higher standard of living”.¹ This will help promote integration of the world economies and lead to faster economic development of all countries. Any country which does not fall in line will become marginalized and thereby hurt its own long-run interest.

However, while the concept of the New Global Economy incorporates the Neoclassical Economic philosophy of liberalization, it departs from it in some respects, at least theoretically if not practically. It has realized that it would be difficult to attain all-round development if only economic variables are emphasized. It is, therefore, being argued, and rightly so, that in addition to economic growth, development must also encompass important social goals like eliminating poverty, improving the quality of life, and enhancing opportunities for better education and health. Since market failure makes the realization of these goals difficult without the help of the government, the role of good governance, which received short shrift in Neoclassical Economics, is also being emphasized.²

It is, of course, a welcome development that the New Global Economy has not only adopted the goal of integration of the world economies through greater liberalization but has also gone beyond the limited horizon of Neoclassical Economics by taking into consideration a number of socio-economic and political variables which are important for promoting accelerated growth but which were neglected by Neoclassical Economics. This brings us to the question of whether the concepts of integration and liberalization had any place in Islamic thought and whether socio-economic and political variables were also taken into account in Islamic economic analysis.

¹ World Bank (1999/2000), *World Development Report*, p. III.

² *Ibid.*

2. ISLAM AND THE NEW GLOBAL ECONOMY

The goal of integration of the world economies is not something new to Muslim thinking. Unity of mankind is an essential corollary of the fundamental Islamic concept of the Unity of God (*Tawhīd*). If God is one, then mankind is also one. The distinctions created by nationality, race and color are artificial and have no place in a religion, which stands for human brotherhood. The Qur'an clearly states that people were created as one nation (*ummah*) but became divided because of their differences (al-Qur'an, 10:19).³ Conflicts of interest, prejudices, exploitation and misuse of power have taken their toll in dividing mankind. However, the ultimate objective of Islam is to reunite all of them (al-Qur'an, 11:119).

There are several ways of achieving integration of mankind. One of these is the creation of better understanding among people through greater interaction and cooperation with a view to remove, or at least reduce, the prevailing prejudices, misunderstandings and conflicts. Since economics plays a dominant role in human life, the process of integration may be accelerated if the economies of different countries are also integrated. This will promote increased mutual dependence. Integration of the economies may, however, be difficult to realize without the removal of all artificial barriers through liberalization so as to allow free movement of goods, capital, labor, technology and information.

3. THE ROLE OF JUSTICE IN INTEGRATION

Islam clearly indicates that efforts to bring about such integration are not likely to succeed if there is an absence of justice and fairness in human interaction. Hence the Qur'an declares justice to be one of the primary purposes for which God sent His messengers to mankind (al-Qur'an, 57:25).⁴ The Prophet (peace and blessings of God be on him) also declared injustice to be equivalent to "absolute darkness"⁵ because injustice undermines solidarity, accentuates conflict and tensions, and aggravates human problems. In conformity with this commitment to justice and fairness, Islam tried to bring about integration of different economies under its influence with justice and fairness during the heyday of Muslim civilization.⁶ This was previously vitiated by the long-prevailing tribal conflicts in Arabia and the

³ This idea has been emphasized a number of times in the Qur'an in different places. See, for example, 2:213, 5:48, 11: 8 and 16:93.

⁴ This is not the only verse of the Qur'an which emphasizes justice. There are several others which do the same, see also Chapra (2000), pp.64-670.

⁵ *Sahih Muslim* (1955), Vol. 4. p. 1996:56, *Kitab al Birr wa al Silah wa al Adab, Bab Tabrim al-Zulm*, from Jabir ibn [Abdullah. The Prophet (peace and blessings of God be on him) used the word *zulumat* in this *hadith*. *Zulumat* is the plural of *zulmah* or darkness, and signifies several layers of darkness, leading ultimately to 'pitch' or 'absolute' darkness, as is also evident in the Qur'anic verse 24:40.

⁶ For an analysis of why this could not be sustained later on, see Chapra (2000) pp.173-252.

destructive wars between the Sassanians and the Byzantines, who levied onerous taxes and tariffs to finance their wars and thus thwarted trade as well as development. The whole area under Muslim rule became an extended common market with minimum taxes, growing monetization of the economies, and free and safe movement of goods, capital and human beings.

This provided a great boost to trade, which flourished from Morocco and Spain in the West, to India and China in the East, Central Asia in the North, and Africa in the South. This expansion of trade is indicated not only by the available historical documents but also by the Muslim coins of the seventh to the eleventh centuries found through excavations in countries like Russia, Finland, Sweden, Norway, the British Isles, and Scotland – countries which were on the outskirts of the then-Muslim world.⁷ This contributed to all-round development, embracing agriculture, crafts and trade, and “made possible a development of industrial skill which brought the artistic value of the products to an unequalled height”.⁸ There was a substantial rise in the incomes of all people. The benefits of development were thus not monopolized just by a single country but were rather equitably shared by all.

4. JUSTICE VERSUS NEGOTIATIONS

The goal of integration of the world economies is common to both Islam and the New Global Economy. However, the strategy for achieving such integration is different. While Islam emphasizes justice based on moral criteria, the New Global Economy relies on negotiations based on self-interest. This is where the two part with each other. The New Global Economy continues to cling to the secularist trappings of Neoclassical Economics, which has no room for value judgments and which considers maximization of wealth and want satisfaction to be the main goals and the serving of self-interest to be the primary motivating force.

It is, however, not possible to render justice without first deciding what is right and what is wrong, what is just and what is unjust, and what is desirable and what is not desirable. This requires value judgments. How to make these value judgments? This is a crucial question on the answer to which depends the realization of justice. All major world religions, including Islam, insist that value judgments must be based on Divinely revealed moral criteria. The anathema of Neoclassical Economics to value judgments deprives it of a moral basis for realizing justice. If value judgments based on moral criteria are ruled out, then the primary way of determining right from wrong would be self-interest, which all parties would try to serve through negotiations. In such negotiations, it is generally the rich and the powerful who are able to gain the maximum advantage because of

⁷ Kramer (1952), p.100, see also pp.101-6.

⁸ Udovitch (1970), p.104.

their economic and political muscle, which they use fully to bully the weak and the powerless into submission.

5. MULTIDISCIPLINARY APPROACH

Just as the Islamic concept of Unity of God is reflected in the unity of mankind, it is also reflected in the unity of human life. Consequently human life is not considered to consist of separate watertight compartments. All aspects of human life - moral, intellectual, social, historical, demographic and political - are closely interlinked. They influence each other and it is not, therefore, possible to study Economics in isolation of other aspects of human life. While, it may be possible to assume certain variables as constant in the short-run for ease of analysis, it is highly unrealistic to ignore them totally. Hence the decision of the New Global Economy to take into account the social and the political variables is commendable.

6. THE CONTRIBUTION OF MUSLIM SCHOLARS⁹

The ideas of Islam about the unity of mankind and the unity of human life became reflected in Islamic economic thought from the earliest period of Islamic history until they reached their culmination in Ibn Khaldun's (d.808H/1406G) model of socio-economic and political dynamics as elaborated in his *Muqaddimah*, or Introduction to the Study of History.¹⁰ '*Asabiyyah* occupies a central place in this model. It refers to group feeling or solidarity between people which helps reduce conflict and hostility (*Judwan*),¹¹ promotes mutual cooperation and dependence, and accelerates all-round development. Although Ibn Khaldun was referring to *Asabiyyah* within the area ruled by a particular political authority, this need not necessarily have been the result of any conceptual limitation on his part. It was perhaps due to the availability of limited transport and communications facilities at that time. With the advanced communications and technology of modern times, the concept of *Asabiyyah* should be understood to stand for solidarity between all the nations of the world and the integration of their economies and societies in keeping with the Islamic goal of human brotherhood. If mutual cooperation and dependence can promote development in a region, why not in the world as a whole.

⁹ For the contribution of Ibn Khaldūn and other Muslim scholars to Economics, see Spengler (1964); DeSmogyi (1965); Mirakhor (1987); Siddiqi (1992); Islahi (1996) and Chapra (2000), pp.145-72.

¹⁰ Several different editions of the *Muqaddimah* are now available in Arabic. The one to which references appear in this paper was published in Cairo by *al-Maktabah al-Tijariyyah al-Kubra* without any indication of the year of publication. It has the advantage of showing all vowel marks, which makes the reading relatively easier. Page references in this paper are from this edition. The *Muqaddimah* was translated into English in three volumes by Franz Rosenthal. It's first edition was published in 1958 and the second edition in 1967. Selections from the *Muqaddimah* were published by Charles Issawi in 1950.

¹¹ Ibn Khaldūn, *Muqaddimah*, p.43.

Ibn Khaldun tried to explain rationally why the cooperation and mutual dependence that *ʿasabiyyah* promotes would accelerate development. It would lead to division of labor and specialization, which would, in turn, increase efficiency and raise output several times. He thus emphasized the catalytic role that division of labor and specialization play in economic development and human progress.¹² He ruled out the feasibility or desirability of self-sufficiency and left no ambiguity about this by emphasizing that: “it is well-known and well-established that individual human beings are not by themselves capable of satisfying all their economic needs. They must all cooperate for this purpose. The needs that can be satisfied by a group of them through mutual cooperation are many times greater than what individuals are capable of satisfying by themselves”.¹³ This indicates his conviction that specialization, which division of labor leads to, is indispensable for economic growth. What is true of individuals and groups is also true of nations. He was thus the forerunner of the theory of comparative advantage on which the modern theory of international trade is based.

He also gave a scientific explanation of why trade would promote development. He argued that development does not depend on the stars (i.e. luck) or the existence of gold and silver mines.¹⁴ It rather depends on economic activity¹⁵ and division of labor¹⁶ which in turn depend on the largeness of the market¹⁷ and tools.¹⁸ Tools, however, require saving, which was defined by him as the “surplus left after satisfying the needs of the people.”¹⁹ Increase in the size of the market boosts the demand for goods and services which promotes industrialization (*sanāʿi*), raises incomes, furthers science and education,²⁰ and accelerates development.²¹

Thus within the framework of both Islamic teachings and Islamic economic thought, there is a strong rationale for promoting trade between nations because it promotes growth and lowers the cost of living, thereby help ensuring well-being. There is, therefore, no justification for trade restrictions, which prevent the integration of mankind.

¹² Although the importance of division of labour in the satisfaction of human needs was indicated by even the Greeks, its importance for growth and human well-being did not get clearly appreciated in the West until Adam Smith (1723-90), nearly four hundred years after Ibn Khaldūn. See Groenewegen (1987), for development of the concept of division of labor in Western economic literature.

¹³ Ibn Khaldun., *Muqaddimah*, p.360.

¹⁴ *Ibid.*, p.366.

¹⁵ *Ibid.*, pp.360 and 366.

¹⁶ *Ibid.*, p.360.

¹⁷ *Ibid.*, p.403.

¹⁸ *Ibid.*, p.365.

¹⁹ *Ibid.*, p.365.

²⁰ *Ibid.*, pp.399 and 421.

²¹ *Ibid.*, pp.363 and 403.

Ibn Khaldun was, however, not the first Muslim scholar to have emphasized the need for division of labor and specialization. Even before him a number of scholars emphasized this. More than 300 years before Ibn Khaldun, Shams al-Din al-Sarakhsi (d. 483 H/1090G) stated: “the farmer needs the work of the weaver to get clothing for himself, and the weaver needs the work of the farmer to get his food and the cotton from which the cloth is made.... And thus everyone of them helps the other by his work...”²² Ja[far al-Dimashqi (d. after 570H/1175G), writing about a century after al-Sarakhsi, takes the idea further by saying that: “no individual can, because of the shortness of his life span, burden himself with all industries. If he tries to do so, he may not be able to master the skills of all of them from the first to the last. Industries are all inter-dependent. Construction needs the carpenter and the carpenter needs the ironsmith and the ironsmith needs the miner, and all these industries need premises. People are therefore, necessitated by force of circumstances to be clustered in cities to help each other in fulfilling their mutual needs.”²³

While these thinkers were talking generally about individuals and groups, their analysis can easily be extended to nations and convincingly argued that division of labor and specialization are also indispensable for nations because no country can be self-sufficient. Promotion of mutual dependence, leads to expansion of the market for the individual as well as the country and helps bring about greater solidarity. This enhances mutual dependence, accelerates trade and development and further cements solidarity and integration, which are among the important objectives of Islam.

Moreover, in sharp contrast with Neoclassical Economics, Muslim scholars had adopted an interdisciplinary approach in their analysis and did not focus their attention primarily on economic variables. They considered over-all human well-being to be the end-product of interaction over a long period of time between a number of economic as well as moral, intellectual, social, demographic, historical and political factors in such an integrated manner that none of them is able to make an optimum contribution without the support of the other. Good governance, on which the World Bank has now started putting emphasis, was an essential component of this interdisciplinary approach of Muslim scholars. This interdisciplinary approach reached its climax in the socio-economic and political dynamics of Ibn Khaldun’s *muqaddimah*. Therefore, the incorporation of socio-economic and political variables into the analysis by the New Global Economy is also not something new to Islamic economic thought.

²² Al-Sarakhsi, Vol. 30, p.264.

²³ Al-Dimashqi (1997), pp.20-21.

7. EMPHASIS ON JUSTICE IN ISLAMIC ECONOMIC THOUGHT

Ibn Khaldun as well as his predecessors realized at the same time that division of labor and specialization cannot be sustained for long without justice and fair play in human dealings. It is justice which helps spread the fruits of development equitably among all participants and thereby creates an enabling environment for *fasabiyah* or solidarity. Lack of justice will not only hurt mutual dependence but also reduce the incentive to work harder, invest and innovate. The desired expansion in output, the goal of specialization, will not be realized. Markets will not, therefore, expand and development will not be accelerated.

All leading jurists throughout Muslim history, therefore, without any exception, held justice to be an indispensable part of the developmental process. Abu Yusuf (d. 182H/798G) indicated to Caliph Harun al-Rashid (d. 193H/809G) that rendering justice to those wronged and eradicating injustice accelerates development.²⁴ Al-Mawardi (d.450H/1058G) argued that comprehensive justice promotes solidarity, law and order, development of the country, expansion of wealth, growth of population, and security of the country, and that “there is nothing that destroys the world and the conscience of the people faster than injustice”.²⁵ Ibn Taymiyyah (d.728H/1328G) considered justice to be an essential outcome of *Tawhid* or belief in One God.²⁶ Hence, according to him, “justice towards everything and everyone is imperative for everyone and injustice is prohibited to everything and everyone. Injustice is absolutely not permissible irrespective of whether it is to a Muslim or a non-Muslim or even to an unjust person.”²⁷ Ibn Khaldun also unequivocally stated that it is not possible to develop without justice.²⁸ He went to the extent of emphasizing that “oppression brings an end to development”²⁹ and that “a decline in prosperity is the inevitable result of injustice and transgression.”³⁰

Justice, however, according to Ibn Khaldun, requires the existence of a *wazi*, restraining power or political authority, to make the markets function smoothly and create a proper environment for the realization of development with justice.³¹ In the international market also, someone has to play this role so as to prevent the rich and powerful nations from bullying the poor countries. Who could be in a better position to play such a role than the World Trade Organization (WTO)? If the WTO cannot ensure justice and fair play in international trade, it will not be able to

²⁴ Abu Yusuf (1352 A.H), p.111; see also pp.3-17.

²⁵ Al-Mawardi (1955), p.125.

²⁶ Ibn Taymiyyah (1961), *Majmu' al-Fatawa*, Vol.18, p.165.

²⁷ Ibn Taymiyyah (1961), Vol. 18, p.166; See also his *Minhaj al-Sunnah* (1986), Vol. 5, p.127.

²⁸ Ibn Khaldun, *Muqaddimah*, p.287.

²⁹ *Ibid.*, p.288.

³⁰ *Ibid.*, p.288.

³¹ *Ibid.*, p.302-3; see also p.43.

succeed in realizing its goal of increasing integration of the world economies. Unfortunately the WTO is not structured to play this role. It is dominated by powerful industrial countries who are using their economic and political strength to pursue their own vested interests, and the WTO has become an instrument in their hands.

This in a way is the gist of Islamic economic thought related to the integration of the world economy. God is One and, therefore, mankind is also one, and human life is a unity, not divisible into watertight compartments. Integration of different people around the world should be an essential goal of mankind. This goal can be attained through increased mutual dependence and free movement of goods, people, capital, and information. Creating artificial barriers is only going to frustrate the goal of realizing unity of mankind, and promoting the well-being of all. However, sustainable integration can take place only if there is justice. If there is no justice, integration may progress initially but may become frustrated later on when nations realize that the benefits of integration are not equitably distributed.

8. JUSTICE AND THE NEW GLOBAL ECONOMY

While the 'New Global Economy' emphasizes economic integration, it does not give to justice the important place that it deserves and which it received in Islamic thought. One of the implications of justice is that equals must be treated equally and unequals unequally. This implies that while the exports of industrial countries should rise, those of developing countries should also rise, and preferably at a higher rate than those of industrial countries so as to lead to a rise in the share of these countries in world trade and reduce the gap between the rich and the poor countries. The share of developing countries in world exports cannot, however, rise until all obstacles to the expansion of their exports to industrial countries are removed. The expansion of developing country exports is not possible without their accelerated development so that their ability to produce for exports at competitive prices also rises. This is, unfortunately, not happening. In this case all that liberalization will do is to raise the imports of developing countries and suffocate whatever production capacity they have already been able to create.

The examples of a few successful countries are being unduly emphasized to show how liberalization helps development. It is not being borne in mind that Taiwan, Korea and a number of other countries which have succeeded in promoting their exports had resorted to a substantial degree of protection initially.³² They did their best to minimize their imports of non-essential goods. Moreover, most historical examples of development from Germany, the U.S. and Japan have also involved protection. Asking developing countries to do what even the developed

³² See, Chapra (1992), p.180.

countries did not themselves do in the past, and are not doing even now, is unrealistic advice.³³

The rationale for this is that different countries are in different stages of development and do not, therefore, have the same social, economic and political environment for development and increase in exports. A growth-friendly environment needs to be created. Integration would promote development in poor countries only if they can compete in the export market. But increased export competitiveness requires a healthy and educated labor force, and adequate social and physical infrastructure. These are, at present, beyond the financial means of most poor countries. They do not also have the resources needed to create and manage safety nets and re-train and re-employ labor displaced by globalization.³⁴ This creates a fertile climate for social turmoil and political instability. They cannot thus derive maximum benefit from globalization unless they get assistance from rich countries. This assistance is, unfortunately, not forthcoming. As Jeffrey Sachs has rightly pointed out: "US aid for the poorest countries is a meager \$5 per American per year, in a country with an income of \$ 36,000 per capita. This causes other rich countries to limit their own efforts. The rest becomes a charade: lots of high-flown rhetoric from the G-7, the International Monetary Fund and the World Bank."³⁵ Developing countries also need access to rich-country markets. But these are also protected in sectors where the developing countries have a comparative advantage. It would also be helpful if questions related to migration of labor and transfer of technology were also addressed to ensure that these take place in a way that would help accelerate development in poor countries.

The availability of both financial assistance and liberalized markets will help promote development in developing countries. Such development will then become transmitted to industrial countries through a rise in their exports to developing countries. Everyone will then benefit. If, however, the developing countries do not grow, then the industrial countries cannot succeed in raising their own exports except for a short period at the cost of development and employment in developing countries. Unemployment is already one of the most serious problems in most developing countries and any significant rise in it will be socially and politically destabilizing. In the excessive pursuit of their self-interest, the industrial countries fail to bear in mind the revelation of empirical research that, with a few exceptions, exports from developing countries have relatively limited effect on wages and

³³ Global trade in farm products has been liberalized only slowly. While tariffs on manufactured goods have dropped from averages of 40 to 4 percent, agricultural tariffs have stayed in the 40 to 50 percent ranges, *The Economist* (9 June 2001), p.81.

³⁴ For a survey of the costs of adjusting to trade reform, see Matsuz and Tarr (1998) and UNDP (1999).

³⁵ Sachs (2001), p.15.

employment in their countries.³⁶ This indicates that they do not face the same socially destabilizing difficulties that developing countries face. Justice, therefore, demands that developing countries be treated differently and allowed to resort to protection until they are in a position to compete with industrial countries. This respite should not, of course, be unlimited but only for a reasonable period of time. Moreover, developing countries should not be forced to liberalize their foreign exchange markets until they have been able to create the enabling environment needed for this purpose and accumulated sufficient reserves to defend their currencies.

The absence of justice in the paradigm of the New Global Economy has led to an undue stress on negotiations. Experience shows that in negotiations it is usually the poor countries which have to yield while the rich and the powerful are able to have their own way. Long-drawn negotiations and the twisting of arms employed by the powerful industrial countries have made accession to the WTO a highly complex and time-consuming affair. Accordingly, Dr. Ahmad Mohamed Ali, President of the Islamic Development Bank, rightly pointed out recently that accession of developing countries to the WTO is like passing through a dense jungle choked with overgrowth, winding paths, and giant, man-eating beasts.³⁷

The industrial countries use their economic power to squeeze as much out of the developing countries as they can. This is evident from the fact that in 1997 industrial countries deployed an average of 6.8 highly qualified officials to pursue the mind-numbing legalistic negotiations at the WTO. The developing countries could muster on an average only about half of that number.³⁸ Even these officials were perhaps not as highly trained and sophisticated as those from the industrial countries. Moreover, the average for developing countries is also misleading because a number of these countries at the poorer end have even fewer qualified staff than what the average indicates, and are hence even less well-equipped to pursue the complex negotiations effectively. Developing countries are thus unable to get the most favorable terms for their trade.

The injustice may be easily visualized from the fact that the big industrial countries are pressing the oil-producing countries to increase their supply of oil with the objective of lowering international oil prices. The fact that this will reduce the oil revenue of oil-producing countries and thereby reduce their ability to finance development does not concern them. Such a tactic is against the demands of justice which requires that the industrial countries should lower their own taxes on oil, which in some countries constitute around 75 percent of the pump price of

³⁶ For an illuminating survey of this research, see Cline (1997), Anderson and Brenton (1998), also offer an analysis of the effect of trade and technology on income inequality in the US.

³⁷ Islamic Development Bank (1997), p.1.

³⁸ World Bank (1999/2000), p.55.

oil. Moreover, petrochemicals which are a major export of oil-producing countries are also subject to trade restrictions. So are agricultural products and textiles, which constitute the major exports of most developing countries. Subsidies granted by industrial countries to agriculture are the most damaging. These make the agricultural products of industrial countries artificially cheap on world markets, thereby making the export of these goods by developing countries incompetent.

It fails to be realized that developing countries have a comparative advantage in agriculture and if the subsidies granted by industrial countries prevent a rise in the export of agricultural goods by developing countries, then these countries cannot attain the export surplus they need to get the foreign exchange required for developing their agriculture and industries. In the absence of an adequate export surplus that these countries badly need, they are forced to borrow heavily. This raises their debt-servicing burden and squeezes further the resources available for development. Given such an unjust environment, it is not possible to bring about the kind of integration of the world economies, which Islam stands for and which Muslim thinkers emphasized in their writings.

9. THE SEEDS OF FAILURE

The result is that while poor countries have liberalized their markets, rich countries have remained resolutely protectionist, especially in areas like textiles, agriculture and petrochemicals. Consequently, income inequality has increased between rich and poor countries.³⁹ It is this impact of globalization on poor countries, which led to the debacle at the WTO meetings in Seattle in 1999, as well as the violent protests at the IMF/World Bank meetings in Prague in September 2000 and the G8 meetings in Genoa in July 2001. The Economist has rightly pointed out that “contrary to popular wisdom, the reason for collapse in Seattle was not the presence of several thousand disgruntled demonstrators. Instead, it was a failure of the self-appointed vanguard of America and Europe to respond to the concerns of developing countries.”⁴⁰ Even Mike Moore, the WTO’s Director General, has boldly and unexpectedly admitted that when the demonstrators say that “the system’s unfair, they are not always wrong.”⁴¹ Trevor Manuel, the Chairman of the IMF meetings in Prague in September 2000, therefore, rightly remarked in his opening address that “growing inequality poses the greatest risk to the future of the world economy. If the majority of the world’s population is increasingly marginalized and economically disenfranchised then globalization will fail.” He was, therefore, right in saying that “fair access to the markets of the developed countries is critical for substantial growth and development”.⁴² This is

³⁹ For an empirical analysis of the impact of globalization on income inequality and growth, See Aghion and Williamson (1998).

⁴⁰ *The Economist* (11 November 2000), p.109.

⁴¹ Cited by *The Economist* (11 November 2000), p.112.

⁴² IMF (9 October 2000) *Survey*, p.2.

the same message that Muslim scholars have always given throughout the centuries by their unequivocal emphasis on justice.

As a result of this absence of justice in the WTO's framework, "globalization", in the World Bank's own words, "is feared and condemned because of the instability and undeserved changes it can bring to workers who fear losing their jobs to competition from imports; to banks and financial institutions and even entire economies that can be overwhelmed and driven into recession by flows of foreign capital; and not least, to the global commons, which are threatened in many ways with irreversible change".⁴³

10. THE FUTURE COURSE OF ACTION

Given the unjust attitude of industrial countries, should the Muslim countries prevent liberalization from taking place? This would be a highly undesirable move. Justice can never be attained by withdrawing into a cocoon. It can be attained only by struggle. In this struggle what can help the Muslim countries is their unity. Therefore, the Organization of the Islamic Conference (OIC) and the Islamic Development Bank (IDB) have an important role to play.

It is, however, important to bear in mind here that trade restrictions by industrial countries are not the primary hindrance in the accelerated development of Muslim countries. These restrictions represent only one of the challenges they face. This challenge can be met with struggle and unity. The most difficult challenge they face is the low educational and technological qualification of their people who are, according to Ibn Khaldun, the end as well the means of development.⁴⁴ If they do not have the ability and the motivation to put in the kind of effort that is needed for expanding output and exports, Muslim countries cannot derive full benefit from globalization. Other important factors in development are the values and institutions of their society, the political authority (*wazi* in Ibn Khaldun's terminology), the economic system, and the prevalence of justice domestically.

There is no doubt that the values provided by Islam are positive with respect to development.⁴⁵ These values, however, need to be inculcated in the people, who do not reflect them at present. The kind of educational system needed for this purpose is, however, not as yet fully available in Muslim countries. Due to corruption, the resources of Muslim economies do not always get directed to their best uses. The economic system has in many countries been repressive, in sharp contrast with the teachings of Islam. This has discouraged investment and innovation and served as

⁴³ World Bank (1999/2000), p.III.

⁴⁴ Resenthal (1967), Vol.1, lxxi.

⁴⁵ See Chapra (1985), pp.122-25 and Chapra (2000), pp.309-14.

one of the most important hindrances to development.⁴⁶ Justice is also not available to the poor and the downtrodden in many Muslim countries. The landowning families in general rule the roost and use the political as well as the economic system to serve their vested interest at the cost of development.

While, protection may be desirable in the initial phase of development, and we should try to achieve as much of it as is possible within the prevailing world climate, concentrating too much on it may only sow the seeds of our retardation. This is because the removal of foreign competition will reduce the motivation to increase efficiency that our agriculture and industry require. It will also slow down the pace of reforms, which are badly needed in our social, political and economic life to enable us to meet the challenges of competition. Moreover, protection means higher prices to be paid by the consumers for the goods and services that they import. This is injustice within the Islamic value system. While this injustice may be tolerated for a short period if it is absolutely necessary in the general public interest, nobody has a right to impose injustice permanently on the people. Very often trade restrictions are not imposed in the larger public interest but rather to benefit some vested interests. Hence, liberalization would not only raise efficiency and development but also promote justice, which, according to Ibn Khaldun, is indispensable for development.

Therefore, there is no need to be overly scared of globalization. It is a challenge as well as an opportunity. As indicated earlier, Muslims have been among the pioneers of globalization. The whole area under Muslim rule became an extended common market and contributed to all-round development and a substantial rise in the incomes of all people. So why should we be afraid of globalization now. We should, of course, fight for justice but at the same time not forget to ensure the introduction of necessary political, legal, economic and social reforms necessary for utilizing our resources effectively and thereby meeting the challenges of globalization.

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⁴⁶ See Chapra (2000), pp. 74-75.

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