# MANAGING ECONOMIC DEVELOPMENT: AN ISLAMIC PERSPECTIVE

## KEYNOTES

University Sains Malaysia, Penang

8-10 December 1998

PROF. KHURSHID AHMAD



## I
## A TIMELY AND CHALLENGING ISSUE

- 200 years of Capitalist/Post Industrial Revolution Experience.
- 80 years of Socialist Experience.
- 45/50 years of Third Worl4 Developmental Experience.
- 25 years of East Asian NIC's Experience:
  - Current Global Crisis/Context of Liberalization, Globalization and Privatization
  - Muslim Ummah's urge to carve out a place of dignity and self-reliance for itself

## II
## ECONOMIC DEVELOPMENT

- "A discernable rise in total and in per capita income, widely diffused throughout occupational and income groups, continuing for at least two generations, and becoming cumulative"

**(Benjamin Higgyis)**

- "The widening of the range of alternatives opens to people as consumers and producers"

**)Baner and Yamy)**

- Economic Development means a self-sustaining increase in real per capita income, accompanied by a more equitable distribution of income within society" - Prof J.F.Tones (Wisconsin University) "New Directions for Development in Third World Countries" 1993, p.12.

1. Wealth-creation - increases in production, national income, per capita income.
2. Sustained and cumulative - not short-run/or cyclical.
3. Dramatic change in key variables relating to-.sectoral composition production, trade and factor-use.
4. Not a movement WITHIN the Production Possibility Curve - but in average yearly outward movement of the FRONTIER, representing the production potential of a nation i.e.
   i. Increase in quantity of available factors of production.
   ii. Improvement in the quality of the factors that already exist.
   iii. Technical process - exogenous factors.

5. Effects on QUALITY OF LIFE AND SOCIETY.

III

## CONCEPT AND EXPERIENCE

This involves:

Structural changes, through

a) disorderly process - disequilibriating in the structural sene- involving "creative destruction" and search for new "order"

EXPERIENCE: Wealth-Creation and Health-Distribution DO NOT NECESSARILY GO TOGETHER Hence:

b) Distributionally de-equalizing - worsening distribution of income and immiseration of people

   And

c) Regional and global dislocations/Division of labour/wealth movements.

IV - 18TH CENTURY - GLOBAL EQUATION

Relative Shares of World Manufacturing Output

| Country | 1750 | 1800 | 1830 | 1860 | 1900 |
|---|---|---|---|---|---|
| **Europe** | 23.2 | 28.1 | 34.2 | 53.2 | 62.0 |
| **Russia** | 5.0 | 5.6 | 5.6 | 7.0 | 8.8 |
| **UK** | 1.9 | 4.3 | 9.5 | 19.9 | 18.5 |
| **USA** | 0.1 | 0.8 | 2.4 | 7.2 | 23.6 |
| **Third World** | 73.0 | 67.7 | 60.5 | 36.6 | 11.0 |
| **India/Pakistan** | 24.5 | 19.7 | 17.6 | 8.6 | 1.7 |

Per Capital Levels of Industrialization (1750-1900)
(Relative to UK in 1900 = 100)

| Country | 1750 | 1800 | 1830 | 1860 | 1900 |
|---|---|---|---|---|---|
| **Europe** | 8 | 8 | 11 | 16 | 35 |
| **UK** | 10 | 16 | 25 | 64 | (100) |
| **Russia** | 6 | 6 | 7 | 8 | 15 |
| **USA** | 4 | 9 | 14 | 21 | 69 |
| **Third World** | 7 | 6 | 6 | 4 | 2 |
| **India/Pakistan** | 7 | 6 | 6 | 3 | 1 |

**(Source: The Rise and Fall of Great Powers by Paul Kennedy
Random House, New York, 1087, p. 149.)**

Thus where as the per capita levels of industrialization in. Europe and the third world may have been not too far apart from each other in 1750, the latter's was only oneeighteenth of-the former (2 percent to 35 percent) and only one fifty of the United Kingdom's (2 percent to 100 percent).

Another Fact

1800 EUROPE OCCUPIED OR CONTROLLED
35 percent of the land surface of the world.

1878 CONTROL ROSE TO 67 percent
1914 CONTROL ROSE TO 84 percent
(ibid.p.150)

By the end of the First World War - whole THIRD WORLD was under COLONIAL RULE.
Post Colonial Period - characterized by Capitalist domination and pursuit of west-tutored-development strategies based on "capital fundamentalism" - Debt-based - Aid –controlled development

V - PRESENT SCENARIO

** 22 Rich countries of the world - with l/6th of world population dominate the world.

Share of world GDP - 1992 84%, 1997 86%
(Global Economic Prospects - 1997, A World Bank Book, 1998, p.23)
85% World Trade
86% of Domestic Investment
94% Research and Development

** 500 Multinational corporations control 50% of world trade
** U.N. Development Reports
***1.3 billion poor less than S 1 per day
***1 billion illiterate
***840 million – hungry

** SHARE OF POOREST 20% of World Population:

| | 1960 | 1990 |
|---|---|---|
| Global GNP | 2.3% | 1.3% |
| Global Trade | 1.3% | 0.9% |
| Global Domestic Investment | 3.5% | 1.1% |
| Global Domestic Saving | 3.5% | 0.9% |
| Global Commercial Credit | 0.3% | 0.2% |

(Source: UNDP, Human Development Report, Oxford, 1993)

** SHARE OF RICHEST 20%

| | |
|---|---|
| 1960 - 30 | TIMES MORE THAN POOREST 20% |
| 1991 – 61 | TIMES MORE |
| 1997 - 78 | TIMES MORE |

** TERM OF TRADE

Between 1980 and 1992, the index of non-fuel commodity prices FELL from 171 to 115 while that of manufacturers ROSE from 116 to 164.

Term of trade of commodities vis-a-vis manufacturers fell from 147 to 71 i.e. 52%. Third world countries LOSING over $ 500 billion a year in income - due to terms of trade and protectionist and restrictive barriers * transfer pricing * interest rate pressures * structural inequities.

| | | |
|---|---|---|
| Third World Debt | 1980 | $600 billion |
| | 1990 | $ 1400 billion |
| | 1998 | $2200binion |

Despite debt-repayments of over 3000 billion to Northern Banks and financial institutions and governments between' 1980-1998, i.e. 5 times the figure in 1980 and yet indebted to the turn of over $ 2200 billion.

= Annual debt payments between $ 170-200 billion as against foreign aid of $ 50 billion, a yea;
= Since 1987 for every Stg I worth loan and of Sub-Sahara African countries are paying Stg 1.10 to rich countries in debt repayment and in 10 years its debts have increased four times to $ 32 billion.
= AID to Debt Repayment Ratio 1: 11 in 1997
= Every day Third World countries pay to Rich countries $717 million in debt-service;
= Every baby born owes $ 500.

** Liberalization and free movement of capital/investment/foreign exchange movement/derivatives:

Foreign exchange financial deals= 32 times more than physical trade i.e. $ 1300 billion a day;

** Derivatives/ $ 67000 billion 2-1/2 times global GNP

** National sovereignty circumscribed

** Bretton woods Institutions ineffective

** Need for new financial architecture

Challenge of the 21st Century

> "The gap between rich and poor will steadily widen as we enter the twenty first century, leading not only to social unrest within developed countries but also to growing North-South tension, mass migration and environmental damage from which even the 'winners' might not emerge unscathed"
> **(Paul Kennedy: Preparing for the Twenty First Century, Random House, New York, 1993, p.334)**

Diversity of Cultures - Limits on Free Market

The free market cannot last in an age in which economic security for the majority of people is being reduced by the world economy.

> "A reform of the world economy is needed that accepts a diversity of cultures, regimes and market economics as a permanent reality. A global free market belongs to a world in which western hegemony seemed assured. Like all other varieties of the Enlightment Utopia of a universal civilization it pre-supposes western supremacy. It does not square with a pluralistic world in which there is no power that can hope to exercise hegemony that Britain, the United States and the western-states possessed in the past. It does not meet the needs of a time in which western institutions and values are no longer universally authoritative. It does not allow the world's manifold cultures to achieve modernization that are adapted to their histories, circumstances and distinctive needs"
> **(False Dawn: The Delusions of Global Capitalism: by John Gray, Professor of Oxford University, Fellow of Jesus Colleges, Oxford, Grante Books, London-1998, p.20)**

George Soros (Interview, Italian Magazine "LIBERAL" March 12, 1998

> "On an international scale we need some global regulatory institutions, in the Bretton woods spirit. If we do not create institutions aimed at preserving stability of international markets as well, then we will go towards a crash.
> "The global capitalist system is based on a belief, on the false assumption, that if all this activity of private capital were left alone, the whole system would tend toward stability. As the Asian crisis demonstrates this is simply

false. It is not unstable ^ because of some external shock. It is intrinsically unstable... hence the need for the idea of a global central bank with a control function to ensure stability"