

ISLAMIC APPROACH  
TO  
DEVELOPMENT  
SOME POLICY IMPLICATIONS

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Published by Institute of Policy Studies  
Nasr Chambers, Block 19, Markaz F-7  
Islamabad Phone: 818230-814711  
Telex 5771 IPS PK Fax (051) 824704

Printed by Shirkat Press Lahore

Price Pakistan Rs  
Overseas \$

ISBN 969-448-021-3

# CONTENTS

Preface...5

1. Introduction...7
2. The Development Syndrome...11
3. Muslim World's Disenchantment...15
4. Islamic Concept of Development...19
5. Goals of Development Policy...27
6. Towards a New Strategy:  
Geo-Economic Considerations...31
7. A Strategy of Self-Reliance...35
8. Some Thoughts on Muslim Economic Union...43
9. Epilogue...51

Appendix:

Socioeconomic Profile of 30 Muslim Countries...53

Table 1 Basic Indicators...54

Table 2 Growth of Production...55

Table 3 Agriculture, Food and Industry...56

Table 4 Merchandise Trade...57

Table 5 Development Assistance  
and External Debts...58

Table 6 Central Government Expenditure...59

Notes...61

## PREFACE

If the development experience of the Muslim countries in particular and of the Third World countries in general spread, as it is, over the last forty years has failed to inaugurate a new era of sustained growth and widespread well-being, can there be an alternate road? Capitalistic as well as socialistic roads have landed mankind into a *cul-de-sac*. Is there a way out?

Muslims claim they have an alternative. Islam is not merely a religion that deals with private relationship between man and God, it provides guidance for the entire gamut of life, including man's economic life and destiny. An effort has been made in this small book to spell out some of the major features of an Islamic approach to economic development and what are its implications for the formulation of a development strategy.

I had a chance to speak on different aspects of this subject from different platforms. King Faisal Foundation invited me to speak on Islamic concept of development (May 1992). Earlier, I had an occasion to speak at International Economic Conference in Istanbul on Muslim common market (May 1987). On the occasion of the 3rd International Conference on Islamic Economics (Kuala Lumpur, January 1992) I had an occasion to give the keynote speech which also dealt with the development experience of the Third World countries. Materials discussed on all these occasions were available in transcripts of those presentations. Now an effort has been made to integrate the diverse presentations into a set of thesis on Islamic approach to development. I am grateful to my brother Sahibzada Mohibul Haq, to add in the form of appendix valuable statistical material on the Muslim world. I hope in its present form this small book would be of some

*Islamic Approach to Development*

help to those who want to understand what Islam has to say on economic development and how that guidance can be the source for the formulation of new strategies for the development of the Muslim countries individually, and of the Islamic Ummah, collectively.

ISLAMABAD  
December 8, 1993

Khurshid Ahmad

## Introduction

The 'god' that has been jubilantly worshipped in the post-Second World War era, both in economically rich and politically triumphant countries of the West as well as in the poverty-stricken and newly independent countries of the ex-colonial empires in Asia and Africa, has been the 'god' of development. As the German scholar, Wolfgang Sachs, succinctly puts: "The last 40 years can be called the age of development... Like a towering lighthouse, guiding sailors towards the coast, 'development' stood as *the* idea which oriented emerging nations in their journey through postwar history. No matter whether democracies or dictatorships, the countries of the South proclaimed development as their primary aspiration, after they had been freed from colonial subordination. Four decades later, governments and citizens alike still have their eyes fixed on this light flashing just as far away as ever: every effort and every sacrifice is justified in reaching the goal, but the light keeps on receding into the dark... Since then the relations between North and South have been cast in this mould: 'development' provided the fundamental frames of reference for that mixture of generosity, bribery and oppression which has characterised the policies towards the South. For almost half a century, good neighbourliness on the planet was conceived in the light of 'development'."

The scenario is now changing. "Today," adds Wolfgang Sachs, "the lighthouse shows cracks and is starting to crumble. The idea of development stands like a ruin in the intellectual landscape." In fact, "this epoch is coming to an end."

The time is ripe to write its obituary."<sup>1</sup> And obituaries have started appearing.

*The First Global Revolution*,<sup>2</sup> a report by the Council of the Club of Rome, is one recent obituary from an international think-tank. The report of the United Nations Development Programme, *Human Development Report 1992*<sup>3</sup> is another obituary, written in a somewhat different vein. The Club of Rome intellectuals start with the lament: "Humankind seems to be gripped by a *fin-de-siecle* attitude of uncertainty at the threshold of the new century, but the era of a millennium brings still deeper mystique with its sense of widespread change and the uncertainty accompanying it."<sup>4</sup>

The results of developmental efforts, the report regretfully confesses, "have been uneven and often disappointing" and warns "the grave problems of world poverty, aggravated by population growth, could well give rise to great and disruptive disharmony on a wide scale, from which the industrial countries cannot escape the consequences." The report suggests that "it is strongly in the self-interest of the rich countries that a new, powerful and radically different approach be taken to the problems of world development."<sup>5</sup>

*The Human Development Report 1992* brings to focus the glaring reality that the rich have grown richer and the poor become poorer at the end of the three decades of the so-called universal developmental effort. In 1960 wealthiest one billion of the world's five billion population were 30 times better off than the poorest one billion. According to the latest estimates, taking into account internal discrepancies within nations, the top one fifth are probably around 150 times better off.<sup>6</sup> *The Guardian* editorially comments that the "de-

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<sup>1</sup> Wolfgang Sachs, "Introduction," in *The Development Dictionary: A Guide to Knowledge as Power*, ed. Wolfgang Sachs. London: Zed Books Ltd., 1992, p.1.

<sup>2</sup> Alexander King and Bertrand Schneider, *The First Global Revolution*, A report by the Council of the Club of Rome. London: Simon & Schuster, 1992.

<sup>3</sup> *Human Development Report 1992*, New York: United Nations Development Programme, 1992.

<sup>4</sup> *The First Global Revolution*, op.cit., p.xv.

<sup>5</sup> Ibid pp.16 and 19.

<sup>6</sup> *The Independent* London, April 24, 1992; *The Guardian*, London, April 24, 1992  
*The Economist*, London, April 25, 1992.

veloping countries enter the market as unequal partners and leave with unequal shares.”

Although the editorial falls short of calling this act of penalisation of the Third World by “international economists and financiers” an attempt “to defraud the developing countries,” it does accept that through “what is at best self-deception these actions have the same result.” The tragic consequence is that “for a sizable slice of the world’s population, three decades of much-trumpeted development have been three decades of de-development.”<sup>7</sup>

This is the international context in which we are examining today the whole “development syndrome” and the way the challenge can be met from an Islamic perspective.

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<sup>7</sup> *The Guardian*, London, April 25, 1992. Our focus above has been the global situation. The condition within the rich and developed countries is no different. About the US the latest information released by the Congressional Budget Office shows that the richest one percent of the population got almost 70 percent of the increase in average family income between 1977 and 1989. The situation becomes more startling if the income rise of the richest 20 percent is taken during this period. The richest 20 percent took more than 100 percent of the growth in average income with the result that the bottom 40 percent of the population actually lost ground and transferred part of what they were getting 15 years back to the richest 20 percent. See “To Close the Wealth Gap,” *The New York Times* editorial reproduced in *International Herald Tribune*, April 23, 1992.



## The Development Syndrome

Man has always been searching for short cuts to realise his ideals. With political freedom, the Third World's self-realisation of its economic and social plight deepened. Its exposure to the West made it even more conscious of its abject poverty and of the widening gap between the rich and the poor. During the era of colonial rule, the Third World heard many success stories of western development; in the post-colonial period it was invited to follow the growth path pursued by the West. Economic development was offered to the people of the Third World as an answer to all their problems.

In the pursuit of development, industrialisation was seen as "the quick way to prosperity" and capital formation was emphasised as the key to industrialisation. Transfer of western technology and foreign aid were seen as sufficient to make up for the two major gaps in savings and balance of payments. Import-substitution and, to a lesser extent, export-promotion strategies were developed to realise the dream. Economic development became the new god at whose altar everything else was to be sacrificed — values, cultural patterns, social norms, customs, religion, ethics and what not. It was assumed that a rising GNP would usher in a new age of prosperity and affluence. Mankind would enter a new millennium of affluence by following in the footsteps of the developed countries of the West.

This summary may rightly be described as rather too simplistic. But it is equally true that the development strategies based on western models, as they were introduced in the

Third World, contained a host of simplifications, carefully wrapped in sophisticated jargon, and not without an element of arrogance about the superiority of the western way of life. The most positive, even enthusiastic, response came from the Third World's western-educated elite, who had been brought up in the cradle of colonialism and had inherited power from the departing masters. This alliance of convenience between the West and the new power-elite of the Third World is now under severe strain because the development strategy that was assiduously pursued has failed to produce the required results. In almost every developing country, indigenous forces not so favourably disposed towards the western models are engaged in a search for new paths more in keeping with their own cultural identity. They are challenging the westernising minority almost everywhere.

Even if it is conceded that too many hopes were pinned on the drama of development, the record of the last 30 years is still disappointing. The problems of poverty, underdevelopment and stagnation continue unameliorated. Two centuries after the advent of the industrial revolution and three decades after the inauguration of a grandiose development crusade, it is disturbing to note that a majority of the human race remains poor, suffering from under-nourishment, under-shelter, disease and illiteracy. The World Bank acknowledged with regret that the failure to achieve a minimum level of income above the "poverty line" has kept some 40 percent of the populations of the less developed countries in a condition of "absolute poverty."

Although some "enclaves" of development have emerged as a result of developmental efforts, they have failed to result in any broad-based changes in the society; nor were they able to mobilise all major sectors of society in the cause of development. Over-emphasis on capital has generated distortions in price structure, exchange rates, tax system, wage-scales, forms of technology and so on. Distributional aspects have been largely ignored with the result that economic and social disparities within societies have increased. Employment-generating effects have been far far below the required minimum. Even natural population increase and consequent inflow in the labour force could not be absorbed in the economy through new employment opportunities. In spite of

import-substitution strategies, dependence on imports continues and, as terms of trade have generally moved against the developing countries, trade and balance-of-payments gaps have increased. International indebtedness has also rocketed (over \$1.3 trillion) while the net flow of real resources from the developed countries to the Third World has not only tapered off, in some cases even a reverse flow has begun. The energy crisis has further aggravated the resource constraints. The overall picture remains bleak.

A word may also be added about the international context in which developmental efforts of the Third World countries have taken place. The relation of dependence that was built into international economic relations during the colonial period continues unabated. The gap between the rich and the poor nations is widening. Prices of internationally traded goods show erratic movements injurious to the interests of the developing countries. Inflation is being aggravated by the monetary and trade policies of the developed countries. Twenty of the 24 developed countries are pursuing protectionist policies vis-a-vis imports from the Third World. Consequently Third World countries are caught in severe balance-of-payments problems. International monetary institutions are unable to handle the situation. The UNDP study, *Human Development Report 1992*, accepts that the structure and working of the World Bank and IMF must undergo fundamental changes if they are to be responsive to the needs of the poorer countries of the world. Crises are being postponed, not controlled. The fate of development in the Third World is very much tied to the reform and restructuring of the international economic order. There has been a lot of heat and smoke in the North-South dialogues; there is, however, very little light. It seems pretty dark even beyond the tunnel.<sup>8</sup>

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<sup>8</sup> See Ahmad, Khurshid, "A Muslim Response", in *World Faiths on the New World Order*, edited by J. Gramillion, et al Washington, Inter-Faith Plan Colloquium, 1978. See also Amin, Samir, "Self-Reliance and New International Economic Order," *Monthly Review*, July/August, 1977, pp. 1-21; Cohen, Benjamin J., *The Question of Imperialism: The Political Economy of Dominance and Dependence*, New York: Basic Books, 1973; Bedjaoui, Mohammad, *Towards a New International Order*, New York: Hobus & Merer, 1979; ICE, *The Muslim World and the Future Economic Order*, London: Islamic Council of Europe, 1979.

## Muslim World's Disenchantment

Muslims feel dissatisfied with the whole developmental effort on all the above counts. They are further disturbed by the amoral character of the entire growth philosophy, which is steeped in the ethos of western culture and its secular liberalism. In the context of the Muslim societies this has acted as a centrifugal force, tearing the Muslim societies into warring nationalities, regions and classes. A totally materialistic approach is alien to the Islamic way of life and the historical tradition of the Muslim people. Islam wants to transform human society and restructure its socioeconomic life according to the values of justice and fair play. It also seeks to weld the moral and material approaches into a unified and integrated approach to life and its problems. Any approach that splits life into secular and religious dimensions is anathema to Islam.

The western approach has been based on a disrespect, albeit not always explicitly articulated, for other cultures and social systems. As a result, efforts have been made to transplant western values and cultural patterns on to other peoples, leading to the disintegration of their cultures. This has been justified as imperatives of the process of modernisation. All this has been systematised into a theory of change stipulating that values and institutions that favour and strengthen exclusively materialistic considerations — motives, incentives, results — are the prime movers of social systems. Competition and reward have been made to replace long sustained humanistic attitudes and customs. People's motivation patterns, valued social institutions, relationships and systems of pecuniary reward and punishment have had to change to suit the al-

leged demands of economic development. Even those who do not subscribe to the Rostowian stages of growth do accept the substance of his analysis of the nature and direction of social change.<sup>9</sup>

Muslims look upon the entire developmental exercise as a grotesque effort aimed at cultural imperialism. Their main objections may be summarised thus:

a) The West-inspired approach to material prosperity has promoted in Muslim society an imitative mentality which is inimical to creativity and destroys originality. This not only aggravates the trends towards moral decay in the society but also perpetuates the hegemony of western culture on Muslim lands. It promotes an active collusion between the West and the westernised elite in the Muslim world because development of Third World countries as cultural satellites of the West is bound to ensure an ever-increasing demand for western products.

b) A systematic application of this development strategy has proved to be highly divisive in Muslim society, splitting it up into modern and traditional, liberal and conservative, urban and rural, rich and poor and so on. This has perpetuated colonial traditions and encouraged consumption habits that tear the modern sector from the rest of the society and tie it in with its counterparts in the western world. This has led to the enrichment of a privileged minority and the impoverishment of the mass of people. It has engendered economic and social dualism and new tensions and conflicts within society. Lifestyles are changing in such a way that a high consumption-oriented privileged society is being imposed upon a mass of people committed to a

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<sup>9</sup> See Rostow, W.W., *The Stages of Economic Growth* and Rustow (ed.), *The Economics of Take-off into Sustained Growth*, London: Macmillan, 1965. See also Black, C.E., *The Dynamics of Modernisation*, New York, 1966.

different set of values and traditions. This is alienating the allegedly developing sections of the society from the rest. Symbols of modernisation are becoming targets of hatred.

c) The entire experiment has been terribly wasteful and extremely costly. Import substitution has failed to enhance the real technological capabilities of the economy, yet it is making a large number of people addicted to new luxuries and lifestyles that the society cannot, and should not, afford. A high consumption society is being created in countries which have little to consume. The patterns of consumption and production have become distorted, and tilted to serve the whims and fancies of a privileged minority. The real gains to society have been minimal.

d) There has been a metamorphosis of attitudes in the direction of hedonistic individualism. Concern for individual standards of living has taken precedence over that of strengthening the economic base of the nation. Greed and corruption have raised their ugly heads.

e) At the root of this approach is the assumption that an economic system can move on its own without simultaneous deliberate changes in political system, social institutions and moral attitudes of the people. It is assumed that the delicate balance that exists between different aspects of individual and social life will readjust itself in the light of the changed economic situation. The experience, on the other hand, is that this has divided the society and added to friction, rivalry, confusion and waste.

Consequently, the totality and integrity of the social system have been ignored. This is at variance with the Islamic approach which stands for a happy balance between different

aspects of life and aims at the development of an integrated personality in the individual and a happy balance in society.

Such an imitative and exclusively materialistic strategy of economic development is repugnant to Islam, which is not a religion in the limited sense of the word, but has its own socioeconomic programme based on its own world view and a set of ethical values and principles. Historical evidence indicates that the efforts to transplant western values and culture are proving counter-productive. Modernisation experiments have only touched the fringe of the Ummah and have failed to take root in its mainstream. This approach has been superficial as it has sought for artificial change, which is bound to prove abortive. A number of western developmental institutions have failed to become an integral part of the society on which they have been transplanted.

Moreover, the conditions in which development took place in the West in the 18th and 19th centuries and the conditions which prevail in contemporary Muslim societies are very different. It is naive to assume that what worked in the West at a particular moment in history will equally work anywhere. Again, there is reaction against many of the modernisation ideals of the West within the West, particularly among its younger generations which are increasingly attracted to what has been described as "counter-culture".<sup>10</sup> The scenario is changing and today's Muslims, particularly young people, do not want to perpetuate what they deem as instruments and symbols of western dominance. The Muslim mind craves for the evolution of a new development strategy.

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<sup>10</sup> Paul Streeton writes: "Perhaps the most important reason is that the transfer of western institutions and standards has been disappointing and, indeed, in some cases has created or aggravated obstacles to development... Without any anti-western animus, it is reasonable to argue that models that have been evolved in different historical and physical settings cannot be directly transplanted into entirely different cultures or can be ransplanted only at a cost... The differences in both initial conditions and current conditions call for different responses, though the history of the newly-developed economies clearly has something to teach." Streeton, Paul, "Alternatives in Development," *World Development*, Vol. 2, No. 2, February 1974, p. 6.

## Islamic Concept of Development

Islam is deeply concerned with the problem of economic development, but treats it as an important part of a wider problem, that of integrated human development. The primary function of Islam is to transform the individual morally and reconstruct his social environment with a view to guiding human development on correct lines and in the right direction. It deals with all aspects of man's economic life but always in the framework of total human development. This is why the focus, even in the economic sector, is on moral and integrated human development, with the result that economic development remains an indivisible element of the moral and socioeconomic development of the individual and human society.

The philosophical foundations of the Islamic approach to development are as follows:

- 1) *Tawhid* (God's unity and sovereignty). This lays down the rules of God-man and man-man relationships.
- 2) *Rububiyyah* (divine arrangements for nourishment, sustenance and directing things towards their perfection). This is the fundamental law of the universe which throws light on the divine model for the useful development of resources and their mutual support and sharing. It is in the context of this divine arrangement that human efforts take place.



3) *Khilafah* (man's role as God's vicegerent on earth). This defines man's status and role, specifying the responsibilities of man as such, of a Muslim and of the Muslim Ummah as the repository of this *khilafah*. From this follows the unique Islamic concept of man's trusteeship, moral, political and economic, and the principles of social organisation.

4) *Tazkiyah* (purification plus growth). The mission of all the prophets of God was to perform the *tazkiyah* of man in all his relationships — with God, with man, with the natural environment and with society and the state.

The Islamic concept of development follows from its concept of *tazkiyah*, as it addresses itself to the problem of human development in all its dimensions: development is concerned with growth towards perfection through purification of attitudes and relationships. The result of *tazkiyah* is *falah* — prosperity in this world and the hereafter.

It may be helpful to refer to some of the verses of the Qur'an which have direct bearing on the formulation of an Islamic concept of development.

“O mankind! We have created you from a male and a female and made you into nations and tribes so that you may know each other. Verily the most honoured of you before Allah is the most righteous of you; surely, Allah is most knowing, aware”. (al-Qur'an, 49:13)

• “And the earth — We have spread it out wide, and placed on it mountains firm, and caused (life) of every kind to grow on it in a balanced measure and provided thereon means of sustenance for you (i.e. humans) as well as for all (living things) whose sustenance does not depend on you. And there is not a thing that does not have its (source and) treasures (inexhaustible) with Us; but We only send

*Islamic Concept of Development*

down thereof in accordance with a measure well-defined". (al-Qur'an, 15:19-21).

- "O you who believe! when the call to prayer is sounded on the day of congregation, hasten to the remembrance of Allah (i.e. the prayer) and leave all worldly commerce: this is the best for you if you knew. And when the prayer is ended, disperse freely on earth (i.e. devote yourself to your economic pursuits) and seek to obtain (something) of Allah's bounty; but remember Allah often, so that you may prosper." (al-Qur'an, 62:9-19).

- "As for anyone — be it man or woman — who does righteous deeds, and is a believer — him shall We most certainly cause to live a good life; and most certainly shall We grant unto such as these their reward in accordance with the best that they ever did." (al-Qur'an, 16:97).

- "There shall most certainly come unto you guidance from Me; and he who follows My guidance will not go astray, and neither will he be unhappy. But as for him who turns away from My guidance — his shall be a life of narrow scope (i.e. sterile, and spiritually narrow, without any real meaning or purpose) and on the Day of Resurrection We shall raise him up blind." (al-Qur'an, 20:123-124).

- "Yes, indeed, (O man), We have given you a place with authority on earth, and have appointed thereon means of livelihood (for the fulfilment) of your life; (yet) how seldom are you grateful." (al-Qur'an, 7:10).

- "And so, partake of all the lawful, good things which God has provided for you as sustenance, and render thanks unto God for His blessings, if it is (truly) Him that you worship." (al-Qur'an, 16:114).

- "Say: things good and things bad are not equal, even though the abundance of the bad may

dazzle you. Be, then, conscious of God, O you who are endowed with insight, so that you may prosper.” (al-Qur’an, 5:100).

- “Truly, successful is one who causes his self to grow in purity.” (al-Qur’an, 91:9).

- “Truly, the successful is one who attains growth in purity (in this world).” (al-Qur’an, 97:14).

- “Do not acquire wealth from each other wrongfully, nor knowingly offer it to authorities with the objective of unjustly acquiring the wealth of others.” (al-Qur’an, 2:188).

- “And seek, with the wealth that God has given you, the abode of the Hereafter, but do not forget your share in this world. And do good (to others) as God has done good to you, and spread not mischief, for God does not like those who do mischief.” (al-Qur’an, 28:77).

- “And in their wealth is a known right for the needy (who asks) and the deprived.” (al-Qur’an, 70:24).

- “And they prefer others over themselves even though they are themselves destitute.” (al-Qur’an, 59:9).

Some of the sayings of the Prophet (peace be upon him) which bring into sharp focus some of the priorities of an Islamic developmental strategy are given below:

- “Your God is One, your father is one, and your faith is one; your father is Adam, and Adam was created from dust; an Arab has no superiority over a non-Arab nor a white over a black except by righteousness. (*al-Bukhari*)

- Do not despise each other, do not turn your back towards each other, and do not vie with each other (in worldly things), but be like brothers, creatures of the One God. (*Sahih Muslim*).

### *Islamic Concept of Development*

- Any Muslim who plants a tree or cultivates a field that a bird, or a human being, or an animal eats from it, this act will be counted as an act of charity. (*al-Bukhari*).
- Earning a lawful livelihood is obligatory upon every Muslim. (*Suyuti, al-Jami' al-Saghir*).
- A man has not earned better income than that which is from his own effort. (*Sunan Ibn Majah*).
- No one of you should refrain from seeking a livelihood and say, 'O God! give me sustenance', for the sky will certainly not rain gold and silver.
- Seek of the bounty of God and be not a burden on others.
- Do not beg anything from people. (*Abu Dawud*).
- The hand that is above is better than the hand that is below. (*al-Bukhari*).
- He who seeks the world lawfully, to refrain from begging, to cater for his family, and to be kind to his neighbour, will meet God with his face shining like the full moon. (*Mishkat*).

In the light of the above quoted fundamental principles and values as well as specific guidance in respect of certain aspects of individual and collective economic developmental effort, different elements of the concept of development can be derived. The following are its essential features:

- a) The Islamic concept of development is comprehensive in character and includes moral, spiritual and material dimensions. Development becomes a goal and value-oriented activity, devoted to the optimisation of human well-being in all these areas. The moral and the material, the economic and the social, the spiritual and the physical are inseparable. It is not the well-being of a few individuals or certain groups of society that Islam aims at; it is the well-being of all human beings that is the target. Moreover, it is

not merely "welfare" in this world that is the objective. The welfare that Islam seeks extends to the life hereafter and there is no conflict between the two. This dimension is altogether missing in the contemporary western concept of development.

- b) The focus for development effort and the heart of the development process is *man*. Development, therefore, means development of man, his attitudes and ambitions, his behaviour and lifestyle and his physical and sociocultural environment. According to the contemporary concept it is the physical environment alone — natural and institutional — that provides the real arena for developmental activities. Islam insists that the centre of all activity is man, whose well-being is also the real measure of success. This means that man is to act as the *premium mobile*, not merely in a mechanical sense, but in the fulness of the human potential. Change within, as well as, without are relevant in the application of the Islamic approach.<sup>11</sup> As such, human ideals, attitudes, incentives, tastes and aspirations are as much targets for policy instruments as physical resources, capital, labour, education, skill and organisation. Thus on the one hand, Islam shifts the focus of effort from the physical environment to man in his socioeconomic setting and on the other, enlarges the scope of development policy, with the consequent enlargement of the number of target — and instrument — variables in any model of the economy. Another consequence of this shift in emphasis is that maximum participation of the people at all levels of decision-making and implementation would be made integral to the development process.
- c) Economic development is looked upon by Islam as a multi-dimensional activity.<sup>12</sup> As efforts would have

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<sup>11</sup> "God does not change the condition of a people unless they first change that which is in themselves." (al-Qur'an, 13:11).

<sup>12</sup> This aspect is now increasingly realised by development economists. One of the lessons, insists Max F. Millikan, we must learn from the developmental experiences of mankind is to see development "as a systematic interaction of a large number of elements." See Millikan, Max F., "A Strategy of Development", in UN: *The Case for Development*, New York: Praeger Special Studies, 1973, p. 25.

to be made simultaneously in a number of directions, the methodology of isolating one key factor and almost exclusive concentration on that would not work. Islam seeks to establish a balance between all the different factors and forces and as such *all* of them would have to be harnessed and mobilised. This also underpins the need for balance and equilibrium between these different forces and factors.

- d) Economic development involves a number of changes, quantitative as well as qualitative. Involvement with the quantitative, justified and necessary in its own right, has unfortunately led to the neglect of the qualitative or unquantifiable aspects of development in particular and of life in general. Islam would try to rectify this imbalance.
- e) Among the dynamic principles of social life, Islam has particularly emphasised two: first, the optimal utilisation of resources that God has endowed to man and provided in his physical environment; and, second, their equitable use and distribution for the promotion of justice amongst all human relationships. Islam commends *shukr* (thankfulness to God by making use of His blessings) and '*adl* (justice) and condemns *kuf'r* (denial of God and His blessings) and *zulm* (injustice).

In the light of this analysis, the development process is mobilised and activated through *shukr* and '*adl* and disrupted and distorted by *kuf'r* and *zulm*.<sup>13</sup> As such the Islamic developmental effort would be directed towards strengthening

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<sup>13</sup> The Qur'an says: "It is God who has created the heaven and the earth. He sends down rain from the skies, and with it brings out fruits to feed you. It is He who has made the ships subject to you, that you may sail through the sea by His command. He has also harnessed the rivers for you. And also the sun and the moon, both diligently pursuing their courses. He has subdued for you the day and the night and has given you of all that you ask for. If you try to count God's favours to you, you would never be able to count them all. But man is given up to injustice and ingratitude." (al-Qur'an, 14:33-34). In the context of this divine policy for human sustenance and development, it is very important to say *inna al-insana la-zaluman kaffar*. This refers to things that disrupt and destroy the process of human development. More specifically reference is to the disvalues of ingratitude, i.e. non-utilisation of what God has given, and injustice, i.e. their misuse in the social sense. See al-Sadr, M. Baqar, *Iqtisaduna*, Beirut 1968.

*shukr* and establishing 'adl and towards cleansing human society of *kufir* and *zulm*.

This approach is fundamentally different from the approach of those who look upon production and distribution in an either/or relationship with the development process. The developmental effort, in an Islamic framework, is directed towards the development of a God-conscious human being, a balanced personality committed to and capable of acting as the witness of truth to mankind and towards establishing a society that is just, growing and capable of meeting the real needs of man and society without exploiting others or encroaching upon their rights.

In an Islamic framework, therefore, economic development has to be a goal-oriented and value-realising activity, involving the active participation of man and directed towards the maximisation of human well-being in all its aspects. It also entails building the strength of the Ummah so as to discharge all over the world its role as God's vicegerent on earth and as "the mid-most people" (*ummatun wasatun*) to bring mankind to the just social order that Islam envisions for all human beings. Development means moral, spiritual and material development of the individual and society leading to maximum socioeconomic well-being with the establishment of a just order resulting in the ultimate good of mankind, here and hereafter.

## Goals of Development Policy

Now, we can formulate the general goals of development policy and also spell out some of the more specific targets for a developmental plan for a Muslim society.

a) Human resource development should be the first objective of our developmental policy. This would include the inculcation of correct attitudes and aspirations, the development of character and personality, education and training, producing skills needed for different activities, the promotion of knowledge and research and the evolution of mechanisms for responsible and creative participation by the common people in key developmental activities, in decision-making at all levels and, finally, in sharing the fruits of development. This calls for a high priority to be given to the expansion and Islamisation of education, the overall moral orientation of the people and the evolution of a new structure of relationships based on cooperation, sharing and co-participation. This also entails the need for a highly efficient machinery for the mobilisation of human resources and the inculcation of a spirit of self-sacrifice.

b) Expansion of useful production. Continuous and sustained increase in national productivity is an important objective. However, our concern would be, on the one hand, with the quantum and efficiency of production, and on the other, with the achievement of a correct product-mix. Production in a truly Islamic framework would not mean production of anything and everything for which there may be a demand or which the rich may be able to buy. Production would be concerned with things which are useful for man in the light of



the value-pattern of Islam and the general experience of mankind. In Islamic economics *halal* (permissible) and *haram* (forbidden) are clearly spelled out and constitute the boundaries within which production and consumption mix are to be planned. The production of all those things whose use is forbidden in Islam would not be allowed; the production of those whose use is discouraged would be discouraged, and all that is essential and useful would be given priority and encouragement. In the light of this policy, the pattern of production and investment would be moulded according to the priorities of Islam and the needs of the Ummah. We feel that three priority areas would be:

- i) Abundant production and supply of food and basic items of necessity (including construction material for building houses and roads and basic raw materials) at reasonable prices.
- ii) Defence requirements of the Muslim world.
- iii) Self-sufficiency in the production of basic capital goods and heavy machinery.

c) Improvement of the quality of life. Efforts should be made towards improving the real standards of moral and social living of all people and not merely increase in per capita income or a few indications of economic change. This would call for a high priority for at least the following:

- i) Moral uplift, better education and a high degree of social cohesion along with maximum security for life, honour and property.
- ii) Employment creation, with all its consequent structural, technological, investmental, regional and educational adjustments.
- iii) An effective and broad-based system of social security, assuring the basic necessities of life for all those who are unable to undertake gainful employment or otherwise deserve society's help and assistance. Zakat should be the nucleus of this system.

*Goals of Development Policy*

- iv) Equitable distribution of income and wealth. A Muslim society must pursue an active incomes and wages policy directed towards raising the income levels of the lowest income groups, giving high priority to the abolition of poverty and deprivation, followed by efforts at reducing the rate of inequality and concentration of wealth in society, and leading to a greater diffusion of wealth and power in all sections of the society. A marked reduction in the absolute levels of poverty and a reduction in the extent of income differentials would occupy a high-weight position amongst the indicators of developmental performance. To serve this purpose the tax system would also have to be reorganised.
- v) Cheap housing and transport.
- vi) Priority to education; testimonial and vocational training and facilities for research and innovation.

d) Balanced development, i.e., balanced and harmonious development of different regions within a country and between different sectors of society and economy. Decentralisation of the economy, devolution of power to regions and proper development of all parts and sectors is not only a demand of justice, but is also essential for maximum progress. This would also remedy economic dualism from which most of the Muslim countries suffer and would also lead to greater integration within each country. This is an area which would call for abundant use of principles of regional analysis, econometric techniques and input-output methodologies with appropriate changes to incorporate those variables which would be essential for the development of an Islamic socioeconomic framework.

e) New technology, i.e., evolution of indigenous technology, suited to the conditions, needs and aspirations of the Muslim countries. The development process would become self-sustained only when we become not only independent of foreign aid, but when, after mastering the technology that has grown in a different economic and cultural environment, we

are able to internalise the process of technological creativity and begin to produce technology that bears the stamp of our distinctiveness. This would call for a high priority for research and a new spirit to face the challenges of our times.

f) Reduction of national dependence on the outside world and greater integration within the Muslim world. It is a direct demand of the Ummah's position of *istikhlaf* that its dependence upon the non-Muslim world in all essentials must be changed to a state of economic self-reliance, self-respect and gradual building-up of strength and power.<sup>14</sup> Effective defence preparations to maintain the independence of the Muslim world and ensure the peace and serenity of mankind are objectives that must feature prominently in our developmental planning.

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<sup>14</sup> See the Qur'anic injunction: "Against them make ready your strength to the utmost of your power, including steeds of war, to strike terror into (the hearts of) the enemies of God and your enemies and others besides whom you may not know." (al-Qur'an, 8:61).

## Towards a New Strategy: Geo-Economic Considerations

To achieve the objectives spelled out earlier a new planning strategy will have to be developed at the macro and micro levels. Capital formation would be given the importance that it deserves, but in the new model it would not be *premium mobile*. Human motivation and participation, socio-economic infrastructure, feedback from welfare programmes, role of innovation and appropriate technology would also be important aspects of the process. The role of capital would be examined not merely in the context of growth rates and marginal propensity to save, but also in relation to a different product and technology-mix, resulting in lower capital/output ratios and varying patterns of production and consumption. Job creation and elimination of unemployment would be a crucial target. Institutional arrangements will have to be made for the formulation and implementation of plans at lower levels, particularly at the division, the district, the town and the village levels. Planning machinery would not have a mere horizontal existence at the apex: it would also operate along the vertical line reaching down to the grassroots. There should be an effective chain of inward and outward linkages connecting different sectors of society in the nation's total participation in the growth process.

We have dwelt upon the ideological considerations at some length. A development strategy cannot be based merely on ideological considerations. The other set of considerations relates to the geo-economic aspects: the resourcebase, the state of factor endowments, and the political, economic and societal institutions and their characteristics.

### *Islamic Approach to Development*

All Muslim countries belong to the group of developing countries, some at middle and lower middle stages and most at the lower rungs of the ladder. This is a reflection of the setback to their socioeconomic progress caused by imperialist western conquests in the eighteenth and nineteenth centuries, from which they were able to recover only in the mid-twentieth century. Political freedom is only now being backed by efforts to construct an independent economic base, which would be the only guarantee, in the long run, for their survival as self-respecting independent national entities working together with other Muslim nations for establishing an Islamic way of life and also for world peace and prosperity based on it.

The region's resource base includes concentrated areas of high agricultural production, mineral wealth and large reservoirs of diverse sources of energy including not only oil and gas but also coal and hydroelectric potential. The human resourcebase is not only quantitatively large, but also qualitatively advanced to a stage where, despite a large brain-drain involving a reverse transfer of human capital and the technology it embodies from Muslim developing countries to the developed world, a number of countries have advanced their institutional base of technology to the extent which gives them the capability for a breakthrough into most modern fields, viz, nuclear energy, electronics and aerodynamics.

The resource base is so dispersed over the countries that natural complementarities are highlighted, even though present trade among the Muslim countries is rather limited. In 1992, such trade added up to only 10 percent of their total exports. Some of the countries such as United Arab Emirates, Qatar, Saudi Arabia, Kuwait, Oman, Algeria and Libya have as a common feature a highly developed oil production and export sector, with some initial attempts at diversification into industry, but with an atrophied agricultural sector. Their main resource has emerged, since the adjustment of oil prices to realistic levels in 1970's and 1980's, as the surplus of capital which is available for investment within their own national borders as well as abroad. The unfortunate fact is that the bulk of these investment resources are finding their way into the capital markets of the industrial nations and not into direct physical investment in the Third World countries gener-

ally or more specifically in the Islamic countries.

There is a different group of Muslim oil-exporting developing countries where the mining industry (with a large weight of oil-extraction) forms the main export-oriented sector, but the agricultural and manufacturing sectors are relatively well developed. For instance, in Indonesia, the mining sector accounts for only 20 percent of GDP despite the substantial weight of the oil-producing sub-sector, with agriculture and industry accounting for 20 and 9 percent respectively. Such countries possess an internal balance of resources for development. Their main requirements are technology and the expansion of trade with other Muslim countries.

The third major group consists of countries whose mining sector is less significant and who are thus large exporters of primary products based on agriculture, but with varying degrees of progress in manufacturing for the domestic market and exports. Countries depending largely on agricultural primary exports and with a limited manufacturing sector include Chad, Mali, Guinea, Somalia, Sudan, Uganda, Upper Volta, Niger and the Arab Yemen Republic. There are other countries within this group which, while continuing to export agricultural primary products, have acquired a relatively high percentage share of manufactures in total exports. Notable in this group are Egypt and Sierra Leone in Africa, and Lebanon, Turkey, Pakistan, Malaysia and Bangladesh in Asia. Major assets in such countries are a large labour force, and skills and an institutional framework conducive to development, together with a large domestic market. Their main limitation has been the availability of capital with the problems involved in extracting savings for development at low levels of domestic per capita income.<sup>15</sup>

It can be clearly perceived from this bird's eye view of the Muslim world's economic complementarities that any strategy for the development of the human and material resources of this significant part of the globe must be based on mutual cooperation and collective Muslim self-reliance. This is not only an economic necessity; this is essential for seeking eco-

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<sup>15</sup> Socioeconomic profile of 30 Muslim countries is presented in the appendix, which provides some essential comparable information for 1988, as given in the *World Development Report*, 1990.

conomic development in an Islamic framework which would be the only meaningful form of development for the Muslim countries. Unless the Muslim world seeks to pursue its developmental goals on the basis of self-reliance, it is likely to fall prey to one of the dominant economic philosophies prevalent in the world.

In view of these characteristics of the Muslim countries, a development strategy under an Islamic aegis will have two important dimensions: one ideological-cum-economic aspect which would facilitate the maximum mobilisation of internal resources and orient their development to serve Islamic socioeconomic objectives. The second dimension relates to cooperation between Muslim countries, their organisation into sub-groups on the basis of geographic affinity, economic complementarity and political understanding. These sub-groups would be related to a yet wider grouping of the entire Muslim world, committed to pursue certain defined common goals through an institutional infrastructure which is in its early stages of evolution. The Muslim world would be related to the larger community of the Third World, cooperating with it for the achievement of the common goal of setting up a more just new international economic order.

## A Strategy of Self-Reliance

We have argued in favour of a strategy of self-reliance for the Islamic Ummah and its components, i.e. the Muslim countries. It would be helpful to delve a little more on some of the essential aspects of self-reliance. Crucial to this approach is the need for a radical departure from the current practice of aid-based development. It is our considered view that suspension of foreign aid would prove a blessing and not otherwise. It is an undeniable fact that the aid-based development effort during the last four decades has not been able to produce the results that were expected of it, and there is an urgent need to scientifically and rigorously evaluate the net contribution of what the Third World countries in general and Pakistan in particular had been receiving in the name of aid.

The term "aid" is a misnomer. There is only a small part which comes in the nature of a grant which can justifiably be called aid. The rest is either concessional loans or loans which are received more or less on market terms. The share of the latter is increasing in view of market-preference policies of the World Bank and other aid-giving agencies. As such not only the loan component of this alleged aid has been constantly increasing during the last two decades, the rates of interest on which these loans are advanced are approximately market rates of interest.

We must realise that a large part of the aid is tied. It cannot be utilised according to one's own preferences, nor can it be used for purchasing the cheapest available supplies from the world. Instead, the donor country has a very substantial part of the commodities (or services) which it wants to sell at a price which suits the donor country and normally the differential is so large that in certain cases even up to 30 percent



more is paid only because the supplies can be had only from the donor country. This aid is a greater help to the exports of the donor country than the receiving one.

Then, of course, there are other costs including transport, insurance, technical know-how. Once everything is taken into view, we discover that the net contribution is minimal. Currently, around 70 percent, of the aid received is directed towards loan-interest payment. The remaining 30 percent is the gross contribution; its net contribution is marginal.

It also deserves to be noted that the geo-political situation has changed. It will be imprudent on our part to expect that whatever support and aid we were expecting or getting in the past could continue in the future. As such, we find that as a nation we have no option but to go for self-reliance.

Doubtless we should have friendly relations with all countries of the world, yet we must not remain dependent on aid. Ideologically also, we realise that one of the issues on which Islam is very sensitive is the independence, sovereignty, honour and self-respect of the Muslim Ummah. The Ummah is *shuhada'ala nnaas*, and you cannot be a witness of Islam to the world if you are dependent on them economically, intellectually, technologically, scientifically and financially. So self-reliance is the only way.

What is self-reliance? We may define it as a condition in which a nation makes free and voluntary choices in the disposition of its resources and output and in setting its economic and political priorities. This state of affairs is totally distinct from a situation where decision-making is constrained by a political or economic situation dictated by external compulsions. Self-reliance signifies the capacity and capability of the country or group of countries to face any crisis on the basis of internal strength. This is only possible if the economy can maintain equilibrium on the basis of commercial transactions including trade and capital movements. In short, it implies self-confidence and the capacity of autonomous goal-setting and decision-making, rejecting all forms of dependence, invited or imposed.

Self-reliance does not mean self-sufficiency: no country can

be totally self-sufficient and as such we must not equate self-reliance with self-sufficiency. Though the Muslim Ummah, taken as a whole, has also the capability to become almost self-sufficient, even then in the interest of future development and other global considerations we think, trade relations with the rest of the world would be integral to any concept of self-reliance.

That is why self-reliance does not mean isolationism or autarky: We are part of the world and we would maintain a network of relationships at all levels, including trade and capital movement.

Furthermore, self-reliance is not a static concept: it is growth-oriented and dynamic; Yet it is very important that self-reliance must be our national objective. Also, self-reliance is not exclusively an economic concept: it represents an approach to life and its problems.

While self-reliance is not achieved overnight, there is a certain type of gradualism to which we have been addicted to and that has taken us nowhere. To take one instance, Pakistani planners claimed in the First Five-Year Plan (1955-1960) that within 25 years Pakistan would be self-financing — self-sustained growth was the term used. But where are we after 40 years of planning? More dependent than from where we started; this type of gradualism is not going to work. For that reason we suggest a radical departure from the past though it entails some risk — a calculated risk. Time has come that the nation take this calculated risk.

The Muslim Ummah should adopt self-reliance as a national covenant, a fundamental principle of the socioeconomic policy and a basis for individual life in the national context. It would be helpful if there is a legislation on the subject, a national self-reliance act, so that there is an explicit legal framework wherein policy-making takes place.

The programme to achieve self-reliance would have to be multi-dimensional. One of the dimensions is that the government would have to launch a programme of curtailing conspicuous consumption and check nondevelopmental expenditure. Another law should be enacted putting a ceiling on

both budgetary deficit and deficit-financing, because rhetoric apart, even blunt criticism from experts, economists and parliamentarians has not been able to deter the governments from incurring reckless expenditure, deficits and deficit-financing.

The present gigantic size of the government, as well as the all-pervasive presence of the government in the country's economic life, has immensely contributed towards the dependence of the country on the outside world. An important element of the proposed strategy of self-reliance is a significant reduction in the size of the government. It needs to confine itself to:

- protecting ideology, sovereignty and security of the nation;
- protecting the rights of the weak, and the underprivileged in the society;
- creating a congenial social and administrative environment for economic activities in the country; and
- taking care of these strategically important activities where private sector is unable to fulfil country's needs.

Development plans would have to be totally restructured and many of its economic chapters would need to go to the private sector. Education, health and the social sector should be the primary concern of the public plan.

A kind of a decentralisation would be required to transfer a number of functions from the centre to the provinces and from provinces to the local administration.

There would also be a need to totally restructure the taxation system because resource mobilisation is not possible without a fundamental change in the taxation system. To protect the interests of the consumer it may be essential to establish a public utilities commission under an act of the parliament. This can also safeguard against monopolistic price manipulation, etc. Similarly, a long period tariff policy would be needed and the institution of tariff commission would have to play a very crucial role in ensuring self-reliant

development.

The most important plank of this strategy would be a switchover from interest system to an equity-based mode of financing. Shift towards self-reliance in the context of countries like Pakistan may be impossible without elimination of *riba*. As such, our most revolutionary proposal is that a cut-off date be fixed for the elimination of *riba*, first from the domestic economy and then from external government dealings.

This is not the place to go into details on how interest is to be eliminated and what alternatives are available at the domestic and external levels. Enough literature has been produced on the subject. Here, we would only share the thoughts of some of the leading economists and bankers suggesting that the new approach bears great promise for the future. <sup>16</sup> Dr Mohsin Khan, writing in the IMF staff paper says:

Indeed it is readily apparent that the Islamic model of banking based on the principle of equity participation bears a striking resemblance to the proposals made in the literature on the reform of the banking system in many countries. The Islamic system may well prove to be better suited to adjusting to shocks that result in banking crises and disruption on the payment mechanism of the country. In an equity-based system that excludes predetermined interest rate and does not guarantee the nominal value of deposits, shocks to asset positions are immediately absorbed by changes in the values of the share deposits held by the public in the banks. Therefore, the real value of assets and liabilities of banks in such a system will be equal at all points in time. In the more traditional banking system since the nominal value of deposits is fixed such shocks can cause a diversion between real assets and liabilities. It

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<sup>16</sup> M Umer Chapra, *Towards a Just Monetary System*, Leicester, The Islamic Foundation, 1985; *Elimination of Riba from the Economy*, Institute of Policy Studies, Islamabad, 1994.

is not clear if this would be correct and how long the process would take.<sup>17</sup>

Another quote from Prof Haus Alba'ch, a leading German economist, who says that Islamic banks belong to the class of equity-participation banks:

They supply equity in the form of venture capital to investors whose share is their ingenuity and their labour. Secondly, they supply equity in the form of equity capital as participants in the type of project which in general has a majority shareholder. They may be ideally suited to meet the need for equity capital in developing countries where the business risk is particularly high as well as in the industrialised countries where the development of new processes and new projects involves high risk and requires large amount of venture capital.<sup>18</sup>

Prof Traute Wohlers-Scharf of the OECD has to make the following observation about riba-free banking:

Islamic banking is trying to develop the relationship between finance on one hand and industry and commerce on the other. This new relationship is the basis of the Islamic economic system being set up. Though Islamic principles have yet to be put to the test in the competitive environment of international finance, the two systems are similar in that they both strive for closer ties between financial intermediation and economic asset creation. Islamic banks could make a useful contribution to economic growth and development particularly in a situation of recession, stagflation and low growth level because the core of their operation is oriented towards productive investment. All countries, both in

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<sup>17</sup> Mohsin Khan, "Islamic Interest-Free Banking," Staff Paper, Vol. 33, No. 1, March 1986, p. 19.

<sup>18</sup> *Islamic Banking*, proceedings of the Baden-Baden seminar, London.

*A Strategy of Self-Reliance*

the North and in the South, need more venture capital. Loan capital is available, particularly from industrialised countries but at high interest rates. However, even medium-scale entrepreneurs find it difficult to raise sufficient risk capital for expansion and innovation. This has acted as a brake on productivity and economic growth in the North. Thus, practical and immediate cooperation possibility exists between Islamic banks and enterprises all over the world. The intermediation process remains to be fully developed.<sup>19</sup>

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<sup>19</sup> Traute Wohlers-Scharf, *Arab and Islamic Banks*, OECD, Paris, 1983.

## Some Thoughts on Muslim Economic Union

We have argued for a development strategy aiming at self-reliance will have to move away from narrow nationalism and towards greater cooperation and integration of the Muslim world. Let us now briefly examine the question: can the Muslim world emerge as an economic bloc? My very emphatic answer is yes, and that is must.

Muslim countries today constitute about one-third of the total membership of the United Nations. There are around 56 independent Muslim states having a population of around 800 million covering about 20 percent of the land area of the world and stretching between Atlantic and the Pacific. The Muslim world straddles from North Africa to Indonesia, in two major blocs, the bulk being concentrated in the heart of Africa and Asia and a smaller group in South and Southeast Asia. Despite differences in language, racial stock and level of economic development, the Muslim world constitutes a homogeneous unit characterised by common faith and cultural and behavioural characteristics emanating from Islamic traditions. A recent report by Rodney Wilson published as the Economists Intelligence Unit Special Report on Islamic Business: Theory and Practices affirms "indeed many western companies engaged in business worldwide would find it better sense to see the Islamic world as a unit rather than to deal with separate regional divisions covering the Middle East, North Africa, South and Southeast Asia."

The Muslim world is also important because it occupies a strategic position between Asia and the European hemisphere. Despite the disintegration of the yester-superpower of the

Soviet Union, the Muslim world constitutes a vast geo-economic bloc between Russian Federation and Western Europe on the one hand and the Mediterranean and the Atlantic Oceans on the other. The northern gateway of the Mediterranean is guarded by Turkey, the master of the Bosphorus and Dardanelles and the eastern gateway is controlled by Egypt through Suez and Port Saeed. The Mediterranean is almost 60 percent a Muslim lake while the Gulf is almost 100 percent under the Muslim control. So is the case with the Red Sea. There are important Muslim outposts in the Atlantic and the Pacific.

The Muslim world is rich in natural resources and manpower. Around 60 percent of the world petroleum reserves are in the Muslim world. It also has huge reserves of iron, phosphates, copper, manganese, tin, rubber along with rich resources in the fields of agriculture and livestock.

The Muslim countries can be grouped into three major categories: one, the rich oil-producing countries. Second, densely populated countries with reasonably high degree of industrialisation having physical as well as human infrastructure indispensable for economic and social development. The rest which are less densely-populated countries at different levels of industrialisation, yet contain great potential for growth. About a dozen Muslim countries have achieved reasonably high level of industrialisation and almost self-sustaining command over technology, which can make immense contribution towards the transfer of technology and industrialisation of the rest of the Muslim world. Turkey, Pakistan, Iran, Kazakhstan, Egypt, Algeria, Indonesia, Malaysia and Bangladesh among this group can play an outstanding role.

While trade between the Muslim countries is not very significant there has been an increasing degree of transfer of capital and manpower within the Muslim countries during the last two decades. This movement of capital and manpower has opened up new avenues of economic cooperation and integration. Moreover, there has been a rich historical tradition of intense trade between these countries.

A number of institutional developments have also taken place which constitute important stepping stones towards



greater cooperation among the Muslim countries. Among these are the establishment of Arab Common Market between Egypt, Syria, Jordan and Iraq; the Gulf Cooperation Council between Saudi Arabia, Kuwait, Qatar, Bahrain, the UAE and Oman; the creation of Economic Cooperation Organisation between Turkey, Iran and Pakistan and the recent inclusion of six Central Asian states into this organisation; the establishment of the International Islamic chambers of commerce; the Islamic Development Bank, Jeddah; the Union of Arab chambers of commerce; the Organisation of the Islamic Conference; the OIC Institute of Statistical Economic and Social Research and Training, Ankara; establishment of over 60 interest-free banks in Muslim countries with over 200 branches in different parts of the world; and a number of joint ventures between different Islamic countries represent major landmarks towards the emergence of an economic bloc of the Muslim world.

A number of Muslim countries have emerged as financial giants over the oil-price revolution of the 1970s, with the result that the economic balance of power of the world has changed in favour of the Muslim countries. Huge reserves have been built by a number of Muslim countries and vast capital resources are available. In this background, we should examine two fundamental questions:

- Should the Muslim countries seek greater economic integration and become one bloc?
- In view of the objective economic and political conditions is it possible for them to emerge as an economic bloc?

As to desirability at least for three reasons they must strive to become an economic bloc:

1) On religious, moral and ideological grounds the Muslims constitute one Ummah and it is an imperative of their faith and history that the Muslim countries which enjoy political sovereignty must join hands to emerge also as an economic bloc leading towards self-sustained growth of the Islamic Ummah.

2) For strategic reasons it is important that the Muslim world must reduce its dependence upon the western and non-Muslim countries, many of whom have been responsible for the underdevelopment of the Muslim world and the Third World and who control and manipulate the present-day world economic order in a manner detrimental to the best interests of the Muslim world and the rest of the developing countries. This hegemony of the West can be broken only if an alternative bloc comes into existence. The Third World is not in a position to do so because of a number of economic, geographic and political reasons. Muslim world, on the other hand, has greater cultural homogeneity, geographic contiguity and economic complementarities. As such, this is the only way to attain economic independence from the world system and make conditions congenial for the fullest development of the Muslim world. This objective cannot be achieved by individual Muslim countries, despite whatever leverage some of them might develop. The way the influence of OPEC has been curtailed bears witness to it. The only way to seek economic de-colonisation is through economic integration of the Muslim world.

3) The future of the Third World depends very much upon the future of the Muslim world. The agony of the Third World cannot be brought to an end unless the Muslim world succeeds in achieving this objective and as such sets an example for the other countries of the Third World for whom it is possible to emerge as an economic bloc, to seek disengagement from the West-dominated world economic system. The Muslim bloc can act as a counter-veiling power helping the Third World to seek real de-colonisation. All this is possible only if the Muslim world emerges as an economic bloc.

These three basic reasons are sufficient to establish the desirability of an Islamic economic union.

Is it possible to achieve what is desirable? Yes, for the following reasons:

- a) Compactness of the Muslim world into two major geographic regional regions which are also culturally homogeneous.

*Some Thoughts on Muslim Economic Union*

- b) Developed lines of communication and transport. Air, sea, road and even rail links are available which provide effective communication infrastructure for the integration of the Muslim world.
- c) Diversity of resources available in different Muslim countries ensuring economic complementarity along with a degree of economic competitiveness.
- d) Availability of capital resources and a number of financial institutions, both on Islamic and secular lines, which can provide the financial mechanism through which this development can take place.
- e) Availability of highly-trained professional and skilled manpower in different parts of the Muslim world as well as presence of a huge reservoir of Muslim expertise working in the West. In the past, the Muslim world has suffered from brain-drain to the West, but now flow of Muslim brain power from the West to the Muslim homeland can be great source of strength and power.
- f) Different levels of industrialisation in different Muslim countries with the result that exchange of technology and experiences is possible within the Muslim world.
- g) Finally, development of a number of institutions — financial, economic and political — during the last three decades has paved the way for the emergence of an economic bloc of the Muslim world.

What are the major hindrances? Some of them are as follows:

- i) Non-availability of effective political will.
- ii) Efforts of the western countries to keep the Muslim world disunited.

*Islamic Approach to Development*

- iii) Dependence of the Muslim world on the industrialised countries of the world in respect of certain strategic supplies and inputs for industrial development.
- iv) Absence of institutions for strategic planning and effective machinery for the implementation of common economic programmes for the Muslim world.

There should be a think-tank of the Muslims which, under the auspices of OIC, Faisal Foundation or such international Muslim organisations, should systematically work for developing the idea of Muslim economic union and see how the obstacles could be removed. The political climate should also be made congenial for this.

Establishment of new institutions to move in that direction should also be considered. Some of them could be:

- i) One or more multinational Muslim corporations or authorities for the development of agriculture and livestock industries in the Muslim world.
- ii) Establishment of one or more international Islamic companies with the primary objective of developing economic resources within the Muslim world, particularly in the areas of food, livestock, fishing, natural resources, consumers industries, heavy industries and defence industry. In fact, a number of corporations can be established to take care of these areas.
- iii) Development of an effective capital market within the Muslim world.
- iv) Delinking of the Muslim currencies from dollar, pound sterling and SDR and development of a common Islamic dinar. Also, development of other measures to minimise the ill-effects of the vagaries of the changing exchange rates and other international monetary disequilibrium.

*Some Thoughts on Muslim Economic Union*

- v) Development of joint shipping, air, cargo and tanker companies and other transport industries and agencies.
- vi) Development of common service industries in the fields of banking, insurance and re-insurance.
- vii) There is also a need for the development of a technology bank for the Muslim world and the establishment of a number of institutes or technical universities, to ensure continuous supply of skilled and technical manpower in the future.
- viii) Promotion of bilateral and multilateral trade and development of one or more customs unions within the Muslim world based on the principle of preferential tariff.
- ix) Legal and commercial agreements between the Muslim countries avoiding double taxation and other impediments to economic cooperation.
- x) Joint ventures at the level of private enterprises as well as amongst the Muslim states.
- xi) Establishment of a Muslim development fund as a sister organisation to Islamic Development Bank mobilising Zakah, Sadaqah and other aid or subsidy resources from Muslim states and peoples and utilise them for the eradication of poverty and promotion of economic well-being at the grassroots level in the poorest Muslim countries.
- xii) Greater coordination between universities, research centres and technical or educational institutes with a view to ensure greater coordination of education and research programmes within the Muslim countries and greater absorption of Muslim students and researchers within the Muslim world.

## Epilogue

Muslims the world over feel disenchanted with the whole development model of the West, which, they consider is based on an amoral growth philosophy deeply entrenched in the ethos of western culture. It follows a totally materialistic approach which is alien to the Muslim way of life and historical traditions. Unless the moral and material approaches are weld into one integrated body and the socioeconomic norms are restructured to ensure unreserved justice and fairplay, the alienation of the Muslim mind will persist.

The western model presents a deliberate attempt to transplant its values and patterns, justified as imperatives of the process of modernisation. This, in fact, poses a threat to the Muslim faith and civilisation which is characterised by altogether different motivation patterns, social institutions, relationships and modes of pecuniary reward and punishment. Resistance against this monstrous attempt, which is the spearhead of cultural imperialism will continue, because a living and dynamic civilisation never yields easily.

Admittedly, the West-inspired models to material prosperity have made strides among the Muslim communities as manifest in the divisions of Muslim societies on a number of lines — modern and traditional, liberal and conservative, urban and rural, rich and poor and so on — all as a result of the collusion between the West and the privileged westernised elite minority of the Muslim population. The impoverishment and the resultant hatred of the great majority of Muslim people, the social dualism and ever-increasing tensions and conflicts in the Muslim lands are, however, clear indications that a positive change is in the offing and a final settlement, fully reflective of the mass demand, is not far away.

Realising the fact that the western civilisation and its capitalist approaches are now being increasingly challenged right within the West and a sort of counter-culture is evident and having also seen that the 70 years of communism have come to a disastrous end, there seems to be a global demand for a new development strategy that ensures a judicious blend of spiritual and material values and a totality and integrity of social and economic systems. The future of this globe thus depends wholly on Islam. This conclusion could be a source of great pride for the Muslims, but it provides a great challenge too, and much depends on how the Muslim Ummah chooses to face the occasion which demands that it picks up its enjoined role of Allah's vicegerent on earth and as the *ummat-e-wasat* to provide mankind with a just order that results in the ultimate good of whole mankind.

For ideological as well as strategic reasons, it is imperative for the Muslim world to reduce dependence on the West and the non-Muslim countries, which control and manipulate the present world economic order in a manner detrimental to the interests of the Muslims and the Third World countries. An alternative economic bloc will have to be created to break the hegemony of the West. The cultural homogeneity, geographic contiguity and economic complementarities of the Muslim land mass provide the best opportunity for the evolution of such a bloc. Attempt at economic de-colonisation is possible only through economic integration of the Muslim world, as individual efforts are bound to result in isolation rather than creating any positive impact on the global level.

## Appendix

### Socio-Economic Profile of 30 Muslim Countries



Table 1

## BASIC INDICATORS

Country	Population (million)		Area (thousand sq.km)	GNP per capita (US\$)(1988)	Adult Illiteracy %	
	mid-1988	Projected 2000			Total (1985)	Female (1985)
Chad	5.4	7	1,284	160	75	89
Bangladesh	108.9	145	144	170	67	78
Somalia	5.9	9	638	170	88	94
Mali	8.0	11	1,240	230	83	89
Uganda	16.2	24	236	280	43	55
Nigeria	110.1	159	924	290	58	69
Niger	7.3	11	1,267	300	86	91
Pakistan	106.3	154	796	350	70	81
Yemen (S)	2.4	3	333	430	59	75
Yemen (N)	8.5	13	195	640	86	97
Indonesia	174.8	213	1,905	440	26	35
Mauritania	1.9	3	1,026	480	-	-
Sudan	23.8	33	2,506	480	-	-
Afghanistan	-	-	652	-	-	-
Egypt	50.2	66	1,001	660	56	70
Morocco	24.0	32	447	830	67	78
Tunisia	7.8	10	164	1,230	46	59
Turkey	53.8	68	779	1,280	26	38
Jordan	3.9	6	89	1,500	25	37
Syria	11.6	18	185	1,680	40	57
Malaysia	16.9	22	330	1,940	27	34
Lebanon	-	-	10	-	-	-
Algeria	23.8	33	2,382	2,360	50	63
Oman	1.4	2	212	5,000	-	-
Libya	4.2	6	1,760	5,420	-	-
Iran	48.6	70	1,648	-	49	61
Iraq	17.6	26	438	-	11	13
Saudi Arabia	14.0	-	2,150	6,200	-	-
Kuwait	2.0	3	18	13,400	30	37
UAE	1.8	2	84	15,770	-	-

Table 2

GROWTH OF PRODUCTION

Country	GDP (million US\$) (1988)	Average annual growth rate (%) 1980-88				Services, etc.
		GDP	Agric- ulture	Industry	Manu- facturing	
Chad	920	3.9	2.6	7.7	-	4.2
Bangladesh	19,320	3.7	2.1	4.9	2.4	5.2
Somalia	970	3.2	3.9	2.3	-0.1	1.2
Mali	1,940	3.2	0.3	8.1	-	5.8
Uganda	3,950	1.4	0.3	6.4	2.3	3.4
Nigeria	29,370	-1.1	1.0	-3.2	-2.9	-0.4
Niger	2,400	-1.2	2.8	-4.3	-	-8.0
Pakistan	34,050	6.5	3.3	2.8	4.6	5.5
Yemen (S)	840	-	-	-	-	-
Yemen (N)	5,910	6.5	2.9	11.5	12.8	6.2
Indonesia	83,220	5.1	3.1	5.1	13.1	6.4
Mauritania	900	1.6	1.5	4.9	-	-0.5
Sudan	11,240	2.5	2.7	3.6	5.0	2.0
Afghanistan	(1965) 600	-	-	-	-	-
Egypt	34,330	5.7	2.6	5.1	5.6	7.3
Morocco	21,990	4.2	6.6	2.8	4.2	4.2
Tunisia	8,750	3.4	2.4	2.4	6.0	4.4
Turkey	64,360	5.3	3.6	6.7	7.9	5.1
Jordan	3,900	4.2	6.0	3.6	3.4	4.4
Syria	14,950	0.5	0.5	1.4	-	0.2
Malaysia	34,680	4.6	3.7	6.1	7.3	3.6
Lebanon	(1965) 1,150	-	-	-	-	-
Algeria	51,900	3.5	5.6	3.8	6.1	2.7
Oman	8,150	12.7	9.4	15.1	37.9	12.2
Libya (1965-80)	1,500	4.2	10.7	1.2	13.7	15.5
Iran (1965-80)	(1965) 6,170	6.2	4.5	2.4	10.0	13.6
Iraq	(1965) 2,430	-	-	-	-	-
Saudi Arabia	72,620	-3.3	15.2	-6.0	7.9	2.6
Kuwait	19,970	-1.1	23.6	-2.3	1.4	-0.9
UAE	23,850	-4.5	9.3	-8.7	2.7	3.7

Table 3

MANUFACTURING, AGRICULTURE AND FOOD

Country	Value-added (mn US\$)		Per capita (1986-88)		
	Manufacturing (1987)	Agriculture (1988)	Cereals Imports 1988 (mn tons)	Daily calorie supply	Average index of food production (1979-81=100)
Chad	106	430	61	1,717	103
Bangladesh	1,313	8,882	3,010	1,927	92
Somalia	51	636	236	2,138	100
Mali	100	952	109	2,073	97
Uganda	162	2,859	28	2,344	121
Nigeria	5,196	10,105	333	2,146	103
Niger	189	866	151	2,432	83
Pakistan	5,001	8,935	602	2,315	107
Yemen (S)	-	132	459	2,298	85
Yemen (N)	578	1,387	754	2,318	118
Indonesia	12,876	20,055	1,702	2,579	117
Mauritania (1970)	10	339	219	2,322	89
Sudan	1,111	3,716	702	2,208	89
Afghanistan	-	-	236	-	-
Egypt	4,244	7,257	8,479	3,342	111
Morocco	3,389	3,770	1,643	2,915	106
Tunisia	1,265	1,187	2,116	2,994	111
Turkey	15,863	11,125	380	3,229	98
Jordan	552	377	874	2,991	111
Syria	-	5,728	1,044	3,260	93
Malaysia (1970)	500	1,198(1970)	2,387	2,730	106
Lebanon	-	136(1970)	537	-	-
Algeria	7,196	6,546	6,130	2,715	106
Oman	464	40(1970)	293	-	-
Libya (1970)	81	93(1970)	1,435	3,601	119
Iran (1970)	1,501	2,120(1970)	4,644	3,313	99
Iraq (1970)	325	579(1970)	4,442	2,932	105
Saudi Arabia	6,085	5,526	5,179	3,004	-
Kuwait	1,902	8(1970)	417	3,021	-
UAE	2,155	453	458	3,733	-

Table 4

MERCHANDISED TRADE

Country	Merchandise Trade 1988 (mn US\$)			Average Annual Growth Rate (%)			
	Exports	Imports		Exports		Imports	
		Total	Food (%)	1965-80	1980-88	1965-80	1980-88
Chad	148	366	-	-	-	-	-
Bangladesh	1,231	2,987	23	-	6.1	-	3.3
Somalia	58	354	22	3.8	-9.7	5.8	-4.1
Mali	255	513	13	11.0	7.0	6.2	3.7
Uganda	298	518	6	-3.9	2.6	-5.3	4.6
Nigeria	7,390	6,324	18	11.4	-3.6	15.2	-13.7
Niger	369	430	21	12.8	-4.9	6.6	-4.2
Pakistan	4,362	7,521	14	4.3	8.4	0.4	3.8
Yemen (S)	80	598	16	-13.7	1.9	-7.5	4.4
Yemen (N)	853	1,310	28	2.8	35.6	23.3	-10.0
Indonesia	19,677	15,732	3	9.6	2.9	14.2	-2.1
Mauritania	433	353	21	2.7	9.7	5.4	2.4
Sudan	486	1,223	7	-0.3	2.7	2.3	-7.9
Afghanistan	-	-	-	-	-	-	-
Egypt	4,499	10,771	19	2.7	6.2	6.0	1.5
Morocco	3,624	4,818	12	3.7	5.0	6.5	1.8
Tunisia	2,397	3,692	18	10.8	3.0	10.4	-1.6
Turkey	11,662	14,340	2	5.5	15.3	7.7	10.3
Jordan	875	2,751	19	13.7	6.5	9.7	0.3
Syria	1,345	2,223	17	11.4	-0.5	8.5	-8.2
Malaysia	20,848	16,584	15	4.4	9.4	2.9	0.4
Lebanon	-	-	-	-	-	-	-
Algeria	7,674	7,432	30	1.5	3.4	13.0	-5.9
Oman	3,941	1,822	15	-	-	-	-
Libya	5,640	6,386	15	3.3	-5.4	15.8	-14.8
Iran	-	9,454	-	-	-	-	-
Iraq	9,014	10,268	-	-	-	-	-
Saudi Arabia	23,138	20,465	17	8.8	-16.3	25.9	-9.3
Kuwait	7,160	5,348	17	-1.9	-2.9	11.8	-5.5
UAE	12,000	7,226	4	10.9	0.1	20.5	-7.1

Table 5

DEVELOPMENT ASSISTANCE RECEIVED AND EXTERNAL DEBT

Country	Assistance received (1988)		External Debt (1988) (mn US\$)		Debt service as % of (1988)	
	Net disbursement from all sources (mn US\$)	Percent of GNP	Total	Short term	GNP	Exports
Chad	264	28.8	346	29	0.7	2.7
Bangladesh	1,592	8.2	10,219	50	1.6	20.5
Somalia	433	42.9	2,035	116	0.4	4.9
Mali	427	22.0	2,067	65	2.5	14.2
Uganda	359	8.4	1,925	235	1.0	14.0
Nigeria	120	0.4	30,718	1,752	6.6	24.2
Niger	371	15.5	1,742	105	3.6	21.1
Pakistan	1,408	3.7	17,010	2,425	3.4	23.5
Yemen (S)	76	7.2	2,093	118	10.8	46.5
Yemen (N)	223	3.8	2,948	570	3.4	16.0
Indonesia	1,632	2.1	52,600	6,322	9.9	34.1
Mauritania	184	18.4	2,076	183	11.9	21.6
Sudan	918	7.8	11,853	2,530	0.6	9.5
Afghanistan	72	-	-	-	-	-
Egypt	1,537	4.3	49,970	6,522	3.7	13.9
Morocco	482	2.2	19,923	200	6.4	24.8
Tunisia	316	3.2	6,672	275	10.9	24.2
Turkey	307	0.4	39,592	7,704	8.9	34.1
Jordan	425	9.3	5,532	1,529	19.6	31.9
Syria	191	1.3	4,890	1,205	2.6	21.1
Malaysia	104	0.3	20,541	2,100	13.0	17.5
Lebanon	141	-	499	270	-	-
Algeria	171	0.3	24,850	1,621	12.7	77.0
Oman	1	-	2,940	452	7.4	-
Libya	6	-	-	-	-	-
Iran	82	-	-	-	-	-
Iraq	10	-	-	-	-	-
Saudi Arabia	19	0.0	-	-	-	-
Kuwait	6	0.0	-	-	-	-
UAE	-12	-0.1	-	-	-	-

Table 6

CENTRAL GOVERNMENT EXPENDITURE

Country	Percentage of Total Expenditure							
	Defence		Education		Health		Eco. services	
	1972	1988	1972	1988	1972	1988	1972	1988
Chad	24.6	-	14.8	-	4.4	-	21.8	-
Bangladesh	5.1	-	14.8	-	5.0	-	39.3	-
Somalia	23.3	-	5.5	-	7.2	-	21.6	-
Mali	-	8.4	-	9.8	-	2.6	-	18.4
Uganda	23.1	26.3	15.3	15.0	5.3	2.4	12.4	14.8
Nigeria	40.2	2.8	4.5	2.8	3.6	0.8	19.6	35.9
Niger	-	-	-	-	-	-	-	-
Pakistan	39.9	29.5	1.2	2.6	1.1	0.9	21.4	34.5
Yemen (S)	-	-	-	-	-	-	-	-
Yemen (N)	33.8	31.2	4.0	17.6	2.9	3.6	0.9	6.3
Indonesia	18.6	8.3	7.4	10.0	1.4	1.8	30.5	-
Mauritania	-	-	-	-	-	-	-	-
Sudan	24.1	-	9.3	-	5.4	-	15.8	-
Afghanistan	-	-	-	-	-	-	-	-
Egypt	-	-	-	-	-	-	-	-
Morocco	12.3	15.1	19.2	17.0	4.8	3.0	25.6	21.4
Tunisia	4.9	5.7	30.5	14.6	7.4	5.9	23.3	24.4
Turkey	15.5	10.4	18.1	12.7	3.2	2.4	42.0	22.1
Jordan	33.5	26.5	9.4	13.0	3.8	5.4	26.6	15.7
Syria	37.2	40.4	11.3	10.4	1.4	1.5	39.9	25.0
Malaysia	18.5	-	23.4	-	6.8	-	14.2	-
Lebanon	-	-	-	-	-	-	-	-
Algeria	-	-	-	-	-	-	-	-
Oman	39.3	38.2	3.7	10.7	5.4	4.8	24.4	12.9
Libya	-	-	-	-	-	-	-	-
Iran	24.1	14.2	10.4	19.6	3.6	6.0	30.6	15.7
Iraq	-	-	-	-	-	-	-	-
Saudi Arabia	-	-	-	-	-	-	-	-
Kuwait	8.4	13.9	15.0	14.2	5.5	7.7	16.6	18.1
UAE	24.4	-	16.5	-	4.3	-	18.3	-

## NOTES

Source: World Development Report, World Bank, 1990.

Note: GNP criterion is used for country classification. Latest comparable information available for 1988 is given. See explanatory notes at the end.

### Table 1

1. By mid-1988, population of the Muslim countries given in the tables (excluding Afghanistan and Lebanon) was over 841 million and is estimated to reach the figure of 1.15 billion by the year 2000. The increase will be 36.6 percent which on average means over 3 percent. The high increase in population seen along with the very high illiteracy figures warrants very special efforts in the social sector in general and human development area in particular.

2. Even by the year 2000, the overall population density would be around 46 per square kilometer offering enormous opportunities of economic expansion. This will, however, be possible if there is liberal movement between the dense and scarcely populated areas.

3. Based on GNP per capita, the 30 Muslim countries could be classified as under:

a) Poor (upto \$400)	8
b) Lower mid-level (\$400-1000)	8
c) Higher mid-level (\$1000-2000)	5
d) Rich (\$2000 and above)	9

## Table 2

4. Out of 30 countries, 17 registered an average GDP growth above 3 percent — the expected average annual population growth rate. Rich countries like Saudi Arabia, Kuwait and UAE appear to have been facing recession during the '80s as is evident from the negative GDP and industrial growth figures. They, however, did better in agriculture.

## Table 3

5. As against industry, the value-added in agriculture indicates that the Muslim world is by and large still agrarian in nature. The only notable exception is Turkey where in spite of large arable land and advanced agriculture, the industrial sector has taken a lead. Figures concerning countries like Oman, Kuwait and UAE will be misleading because moisture scarcity inhibits agriculture in these areas.

6. A substantial number of the countries appear providing better caloric intake which almost corresponds with thin GNP per capita. The major factor of better food supply, however, is the high import of cereals (and other foods) because the average index of food production hardly keeps pace with the population growth in most of these countries.

## Table 4

7. Except the oil-rich countries, the trade balance of the Muslim world in general is negative. The average annual growth rates of exports indicate that the situation has deteriorated during the '80s even for the oil-producing countries. Negative growth in imports during the same period must have eased the trade balance, but it is also indicative of the slow economic activity. The percentage of food imports means that in spite of agrarian economies, almost all the Muslim countries are heavily dependent in this respect too.



## Table 5

8. The poorer the economy, the more the dependence on foreign assistance. As a result, a great number of countries is heavily indebted. Thirteen of these Muslim countries have to pay more than 20 percent of their foreign exchange earnings to meet the debt service charges. Algeria paid more than 3/4th of its export earnings on this account. The seven highly rich oil-producing countries had no debt to pay, meaning thereby having their own surpluses, which could be channelled for the betterment of the poorer Muslim states and to enhance the cause of an Islamic economic order.

## Table 6

9. As evident from the table, data in respect of the central government expenditure is deficient. Available information, however, indicates that emphasis on defence and social sectors (education, health) has in most cases decreased.