

Global Economic Challenges and Islam

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Abstract

[The need for mutual understanding and tolerance among various people of the world has increased manifold in this age of shrinking distances and looming dangers. While many questions are raised about Islam and its compatibility with globalization, the Islamic principles uphold respect for others, tolerance and peaceful co-existence. Islam supports economic integration, the key element of globalization. Integration, however, should not be equated with imposition of values of one powerful nation, or a group of nations, on the rest of the world, weaker countries in particular. Justice demands that globalization leads to inequitable growth and prosperity at the world level, benefiting both the developing and the developed world. The present day globalization is hardly of this kind. Social and political integration are also very important for economic globalization and progress of the world.

The trend of living beyond means is a major reason behind many of the economic ills of today's world. It is giving rise to inflation and increasing indebtedness of states and individuals. Those who consume beyond means do so at the expense of others. The injection of moral dimension can remove unjust distribution of wealth and inequity. Due importance should be given to this factor for judicious economic growth. Islam, like other religions, gives rules to regulate, facilitate and guide man's economic activity. *Islamic economics* can help remove the drawbacks inherent in conventional economics. Besides Islam, the world can also benefit from the teachings of other religions. – *Editors*]

I GLOBALIZATION AND ISLAM ARE THEY COMPATIBLE?

We are living in an environment where distances are becoming shorter, means of communication are becoming faster, and weapons of mass destruction are becoming more and more powerful and devastating. In such an environment, it is extremely necessary to create an atmosphere of a

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single global village with better mutual understanding and greater peace, harmony and cooperation.

The prosperity of all nations depends on such cooperation. This is the primary objective of globalization. Absence of such a cooperative atmosphere may lead to a clash of civilizations, which would be bad for everyone, particularly for developing countries that do not possess the means of mass destruction that might serve as deterrence. Moreover, the resources they have at their disposal are meager, and they would wish to utilize them optimally for development rather than waste them on conflict.

In today's world, it is pertinent to ask where does Islam stand with respect to such globalization. Misunderstandings have been spread about Islam over the last few centuries, and particularly after 9/11. In its issue of June 30, 2003, *Time* magazine ran a cover story about American missionaries in Muslim countries. A missionary teacher at the US Center for World Missions was quoted as saying to her students, "Islam is the terrorist, Muslims are the victims." Is Islam a terrorist religion, and are Muslims the victims? The verdict of the Qur'an and the Sunnah is entirely different. In fact, according to the overwhelming majority of impartial observers of the world scene, it is Islam which is the victim and the Zionist state of Israel, along with its protector, the United States, are acting as terrorists at the moment.

Unification of Mankind and Globalization

The Message of the Qur'an: Let us look at the verdict of the Qur'an in this respect. Islam is not a new religion. It reflects continuity in the beliefs and values of all revealed religions. God sent His Messengers, *peace and blessings of God upon them all*, to all people around the world at different times. All these Messengers came with the same Message as clearly indicated by the Qur'an: "Nothing is being said to you [Muhammad] what was not said to Messengers before you" (41:43). A new Messenger came only when the Message of the previous Messenger was lost or distorted. All these Messengers came to unite people and not to divide them, particularly in the case of Islam. Why? The reason is very simple: all human beings are the *khalifahs* or vicegerents of God and, therefore, brothers to each other. They have, accordingly, to live together peacefully in this world like brothers to ensure the well-being or *falah* of all.

Given the concepts of one God and the unity of mankind in Islam, the verdict of the Qur'an is:

“ما كان الناس إلا أمة واحدة فاختلّفوا”

Mankind was created as one nation, but they became divided because of differences among them. (19-10)

The question is that if they were created as one nation, why did they become divided? The Qur'an has an answer to this question as well. It says:

وما تفرقوا إلا من بعد ما جاءهم العلم بغياً بينهم

They became divided even after knowledge had reached them because of their transgression against each other. (24-14)

This knowledge that has come to them is the worldview, which is termed *beliefs and moral values* in religious paradigms, and *institutions* in institutional economics.

One of the major purposes of all Messengers sent by God to this world was to give mankind the necessary values or rules of behaviour. These rules indicate how the people should interact with each other in this world so that there is justice, fair play, cooperation and solidarity among different nations, different groups of people, and all members of the family. However, justice, cooperation and solidarity have not necessarily prevailed. The reason, as stated by the Qur'an, is transgression against each other ("...بغياً بينهم"). And the cause of this transgression is vested interest, injustice, prejudice, exploitation, non-fulfillment of contracts and obligations, and misuse of power. These factors have prevented peaceful interaction and integration. To remedy this situation, Messengers, including Muhammad, *peace and blessings of God be upon him [pbuh]*, were sent by God to this world. About Muhammad, *pbuh*, the Qur'an says:

“وما أرسلناك إلا رحمة للعالمين”

We have sent you as a blessing for mankind. (21:107)

Blessing cannot be with injustice, exploitation, and division. It can only be with the fulfillment of everyone's needs, family integration, social solidarity, and peace and harmony. This is what is implied by blessing. Islam has come to unite people and not to divide them. The Qur'an stands for the unity of mankind. It is humanbeings themselves, who have failed to create the righteous atmosphere for this purpose.

The Message of the Sunnah: The Qur'an is only one part of Islamic teachings, the other part is the Sunnah. And the Sunnah's verdict is also very clear:

“الخلق عيال الله فأحب الخلق إلى الله من أحسن إلى عياله”

Mankind is the family of God and the most beloved of them before God is one who does good to his family.¹

This family does not consist of just Muslims. It consists of all people, irrespective of whether they are Muslims or non-Muslims, white or black, rich or poor, and male or female. There is no difference. The Prophet (*pbuh*) proclaimed on the Day of the Hajj that:

¹ *Mishkat al-Masabih*, vol. 2, p. 613, No. 4998, on the authority of al-Bayhaqi's *Shu'ab al-Iman*.

"يا أيها الناس ألا إن ربكم واحد وإن أباكم أحد ألا لا فضل لعربي على أعجمي ولا لعجمي على عربي ولا لأحمر على أسود ولا لأسود على أحمر إلا بالتقوى"
"Oh people! Listen, Your God is One and Your father is One. An Arab does not have superiority over a non-Arab, nor a non-Arab over an Arab, or a white over a black, or a black over a white, except by means of character."²

The Prophet (*pbuh*) also said:

"إرحموا من في الأرض يرحمكم من في السماء"
Have mercy on those on earth, and He Who is in the Heavens will have mercy on you.³

All human beings are, hence, members of the same family of God and equal. They should not only be treated with dignity and respect but should also be helped. It is the duty of a Muslim to do his best towards them. This is essentially the teaching of Islam with respect to unification of mankind and globalization. Killing people, destroying their property, devastating a whole country with weapons of mass destruction, as has been done by the United States recently in Iraq, cannot be in harmony with the teachings of Islam or indeed any other revealed religion.

Need for Justice, Mutual Help and Cooperation

This brings us to the crucial question of what it is that creates an atmosphere of conflict and takes people away from each other. It is, according to the Qur'an, as pointed out earlier, "بغياً بينهم" (transgression against each other). To remove this transgression, it is necessary to have justice and mutual help and cooperation as building blocks. Without justice and mutual help and cooperation, it would be impossible to have globalization. If these two are there, then there will not only be economic integration but also social and political harmony.

Teaching of Qur'an and Sunnah: According to the Qur'an, God sent His Messengers to this world with clear signs as well as the Book and the Balance so that people may establish justice (57:25). Therefore, one of the primary purposes of all Messengers of God, and not just Muhammad (*pbuh*) or Adam, Noah, Moses and Jesus (*peace and blessings of God be upon them all*), was to establish justice in this world. This is because, without justice, it would be difficult to realize unity of mankind. It would also be difficult to establish peace and harmony. Justice is, in accordance with the verdict of the Qur'an, essential for this purpose. In the verse just quoted, the word "Book" refers to the Qur'an, which provides the worldview and the rules of behaviour. The "Balance" refers to the criteria for right and wrong provided by the Qur'an and the Sunnah. It also refers to the establishment of a fair equilibrium or balance in all aspects of human life, as it exists in nature. If human beings act in accordance with these rules, there will be

² Cited by al-Qurtubi in his commentary of the Qur'anic verse 49:13, vol. 16, p. 342.

³ *Miskhāt al-Masābīh*, vol. 2, p. 608, No. 4969, on the authority of Abu Dāwūd and al-Tirmidhi.

unity and globalization. Without implementing these rules of behaviour, there will be no justice and hence no harmony or peace. The Qur'an clearly states that:

“الذين آمنوا ولم يلبسوا إيمانهم بظلم أولئك لهم الأمن وهم مهتدون”

Those who believe and do not impair their belief with injustice, for them there is peace and they are the rightly guided ones. (6:82)

So, this is the verdict of the Qur'an. If you wish to have peace and harmony in this world, there is no other way but to do justice to people. Even belief by itself is not sufficient. Belief has to be reinforced by the elimination of injustice. So, justice is one of the basic requirements of Islam, and the Prophet reinforced this further by emphasizing that injustice leads to darkness on the Day of Judgment (“الظلم ظلمات يوم القيامة”).⁴ The term “الظلمة...,” used by the Prophet, is the plural of “ظلمة...” which means darkness. In its plural sense, it implies ‘pitch darkness,’ that is darkness in which a person cannot see anything. So, there will be only darkness in the Hereafter for those who are unjust. The greater the absence of justice, the more intense the darkness.

The other requirement for globalization and integration of mankind is mutual help and cooperation in all aspects of life to enhance social solidarity. It is necessary to solve the problems of people; they should not be shelved or brushed under the carpet. It is necessary not only to remove poverty and misery and to promote mutual understanding, but also to avoid everything that works against solidarity. One such thing is the lack of ‘tolerance.’ Tolerating differences in cultures and religions is extremely important. It is absurd and unrealistic to expect that all countries will adopt the values and lifestyle of the dominant Western culture. Any effort to ridicule other cultures and religions is bound to create ill will and hurt the goal of globalization.

As far as mutual help and cooperation are concerned, the verdict of Islam is, again, very clear. The Qur'an says:

“تعاونوا على البر والتقوى ولا تعاونوا على الأثم والعدوان”

Cooperate in piety and goodness but do not cooperate in evil and transgression. (5:2)

The Prophet (*pbuh*) also emphasized the same value by saying:

“والله في عون العبد ما كان العبد في عون أخيه”

God keeps on helping a person as long as he helps other humanbeings.⁵

⁴ *Sahih Muslim* (1995), vol. 4, p. 1996, No. 6, *Kitab al-Birr wa al-Silah wa al-Adab, Bab Tahrim al-Zulm*, from Jabir ibn Abdullah.

⁵ Al-Mundhiri, vol. 3, p. 390:2, on the authority of Muslim, Abu Dawud, al-Tirmadhi, al-Nasa'i, Ibn Majah, and al-Hakim.

As far as tolerance is concerned, Muslims established a worthy example. There was a great degree of tolerance in the Muslim world during the Classical Islamic period. According to Saunders, there was tolerance in the Muslim world, the like of which "at the time was quite unknown in the rest of Europe."⁶ As a result of this tolerance, the Muslim world became the meeting place for scholars of all fields of learning and persuasions. Muslims, Christians, Jews, Zoroastrians and Sabians, all worked together in the Muslim world at that time.⁷ There was free and unhindered discussion of all intellectual issues, leading to all-round intellectual advance. This was one of the reasons for the rapid progress of Islam at that time. This tolerance was the result of Islamic teachings. According to George Sarton, "Religious faith dominated the Muslim life to an unprecedented extent."⁸

Views of Some Classical Muslim Scholars: After having seen what the Qur'an and the *Sunnah* have to say about justice, let us look at the views of some of the great Muslim scholars. Ibn Taymiyyah says that:

"Justice is an imperative on everyone towards everything and everyone. Injustice is absolutely not permissible irrespective of whether it is to a Muslim or a non-Muslim or even to an unjust person."⁹

We need to bear in mind here that when Ibn Taymiyyah says justice towards everything, it is not justice towards only human beings but also towards animals, birds, insects, and the environment. "Everything" includes all of these. So, justice has to be ensured for everything and everyone, and even to an unjust person.

Ibn Khaldun, one of our great historians and social scientists, also stated emphatically that "injustice is destructive of civilization."¹⁰ This he said six hundred years ago, while development economics, until even the fifties and sixties, was not unanimous on the role of justice in development. Some economists emphasized that justice is a luxury and it is not possible to bring about development with justice. However, experience has taught development economics that development is not possible without justice. It, therefore, took a turn in the seventies and eighties and, in general, economists now agree that justice is indispensable for development. Ibn Khaldun arrived at this conclusion six hundred year ago in the light of Islamic teachings, and said: "لا سبيل للعمارة إلا بالعدل" (There can be no development without justice.)¹¹

We can, therefore, state with confidence that the general Islamic imperative is that justice must be ensured and that the benefits of development must be shared equitably by all. Without justice, not only will development suffer but there will also be conflict and lack of cooperation.

⁶ Saunders, 1966, p. 24.

⁷ *Ibid.*

⁸ Sarton, 1927, vol. 1, p. 503.

⁹ Ibn Taymiyyah, *Majum' al-Fatāwā*, 1961, vol. 18, p. 166.

¹⁰ Ibn Khaldun, *Muqaddimah*, n.d., p. 288.

¹¹ *Ibid.*, p. 287.

Integration and globalization will also be difficult to realize. Justice requires that equals must be treated equally and unequals unequally. This is elaborated further in the following discussion on economic integration.

Economic Integration

Economic integration is absolutely necessary because it increases mutual dependence, and the greater the mutual dependence, the lesser the possibility of conflict and war. Economic dependence increases trade. This promotes development and further enhances mutual dependence. Ibn Khaldun argued that development does not depend on the stars (i.e., luck) or the existence of gold and silver mines. It depends rather on economic activity, division of labour and specialization, which in turn depend on the largeness of the market.¹²

Globalization helps expand the market. It thereby helps boost the demand for goods and services, promotes employment and a higher rate of growth, and improves the standard of living of all people. From this, the importance of expansion of trade is evident. People become accustomed to this standard of living, and resist anything—including conflict—that hurts this standard.

The rate of growth in the European countries at the moment is low. There are a number of ways of raising the rate of growth. One of these is to expand the market through globalization. If the poor countries become richer, their demand for European or American goods and services will rise. This expansion in the size of the market will help accelerate development, raise incomes, and also provide a boost to science and education. So, expanding the market can be beneficial for all, developed as well as developing countries.

The Nature and Problems of Present-Day Globalization: There is a strong rationale in Islamic economics for promoting economic integration. This is because the greater the economic integration, as mentioned earlier, the lesser the chance of conflict. And the lesser the chance of conflict, the greater is the possibility of realizing the Islamic goal of unity of mankind and globalization. However, this is not likely to be realized through economic globalization of the kind being experienced in the world today. While the existing globalization in the world emphasizes the expansion of the market through liberalization, it does not emphasize justice. Justice is, in fact, very often forgotten.

Justice requires that while the exports of industrial countries rise, those of developing countries should also rise, preferably at a higher rate, if poverty and unemployment are to be reduced in these countries. So, globalization should not stand for the expansion of trade of just the industrial countries; it should stand for the expansion of trade of developing countries as well. The exports of developing countries cannot rise until all barriers in the way of their exports are removed and their productive capacity also expands.

¹² *Ibid.*, pp. 360, 366 and 403.

Policy Perspectives

Thus, the removal of the barriers that hinder their exports must take place. This is a part of trade liberalization. However, this may not help much if the productive capacity of developing countries does not expand simultaneously to enable them to export more. And the productive capacity cannot expand without the development of human resources and physical infrastructure. These are extremely important. This implies that asking developing countries to remove all their tariffs without enabling them to improve their social and physical infrastructure and their productive capacity would lead to a flood of imported goods and the destruction, or almost destruction, of their own industries and agriculture. Globalization in developing countries can thus take place only gradually. If it is imposed by force, it will lead to a number of problems, one of which is the closure of a number of their industries. It will also hurt their agriculture, increase unemployment, create social and political instability, and lead to results that are entirely against what is intended by globalization.

In other words, developing countries may be able to make progress towards globalization only if their productive capacity expands and their exports increase. This is not happening now. They need to receive help from industrial countries to increase their productive capacity through expansion of their infrastructure and development of their human resources. An arrangement needs to be made to improve the quality of their education, technology, management, and methods of production. All these improvements are very important. They may, however, be difficult to realize without an increase in technical and financial help to developing countries. In the long run, industrial countries will also get a good return. The market for their goods and services will expand in developing countries, leading to a higher rate of growth and lower unemployment in their own countries. They will be able to improve their own economic performance. Everyone will, thus, benefit.

The globalization taking place currently is not of this nature. A number of goods have been excluded from globalization. Oil is excluded, as are petrochemicals. Textiles were excluded, and have only recently been included. Agriculture remains excluded until today. The subsidies on agriculture that exist in the industrial world, in Europe as well as America and Japan, are a hindrance to the expansion of agriculture in the developing world. As a result of these subsidies, the developing countries' agricultural goods are unable to compete in the world market. Consequently, the agricultural output of these countries suffers even though they have a comparative advantage in agriculture.

In a nutshell, the developed world is demanding removal of tariffs on goods and services in the production of which it enjoys a comparative advantage, but is unwilling to return the favor with respect to commodities in which the developing world has an advantage. The industrialization that took place in all the developed countries, and even in the earlier centuries of Islam, came about through the expansion of agriculture. Whether one looks at Japan or America, it is agriculture that expanded first. It provided the resources that helped bring about industrialization. If agriculture does not expand in the developing countries, it is going to hurt their

development and ultimately also hurt the industrial countries around the world. So, agricultural expansion is extremely important for these countries and the removal of subsidies is indispensable.

This does not, however, mean that the industrial countries must remove subsidies in one stroke. This may be suicidal for the ruling political parties. They can, however, do so gradually, with a clear understanding that this is what is needed to enable the developing countries to expand their agriculture and generate the resources that are necessary for their industrial development. Integration is a slow process and that is why the industrial countries cannot be expected to remove subsidies instantaneously. However, it has to come about, even though gradually. But this is not happening. There has been a constant struggle in the industrial world to maintain the subsidies on agriculture and to procrastinate their removal. With this attitude, there can be no globalization.

The other thing that needs to be kept in mind is the different stages of development through which the developing countries are passing at present. Some of them are far more advanced than others. Therefore, they cannot all be treated in the same way. The relatively poor developing countries need to build institutions, create strong and healthy financial systems, make structural adjustments, and develop a just and dependable legal and judicial system. All of these tasks would be difficult to achieve without good governance. Nevertheless, they are all necessary tools for the progress of developing countries. Achieving these targets will be time-consuming. It is therefore highly unrealistic to expect that the developing countries will remove their tariffs all at once. Such a step would only bring more misery — not just for these countries but for the entire world. Therefore, bringing about globalization in developing countries has to be understood as a slow process. There has to be a well-thought-out program whereby their tariffs are reduced gradually in step with the creation of necessary requisites for development.

As far as oil is concerned, this has also become a big problem. Everybody is complaining about the high price of oil. The high price of oil is not necessarily due to the oil-producing countries. The high price of oil is due to two factors. The first of these is the rise in international demand for an irreplaceable depleting resource. The second is the high rate of taxation on oil in practically all industrial countries. In some countries, taxes constitute a preponderant part of the pump price of oil while only a small proportion goes to the oil-producing countries. In addition, there are high tariffs on petrochemicals. This is because a number of petrochemical industries in Europe are outmoded; their machinery is very old. In contrast with this, the petrochemical industries in the oil-producing countries have the latest machinery and are, therefore, more efficient. If petrochemicals are also included in the World Trade Organization (WTO) framework, the European countries will be forced to change their machinery to make their industries more up-to-date.

These are some of the problems in the economic globalization of the

world. There are also some other problems. The prevailing globalization is according to *negotiations* and not according to certain well-established *principles*. The negotiating power of industrial countries like the US and other European countries is far stronger than that of developing countries. They go to the negotiating table with their lawyers, highly qualified economists, and legal advisers. When the poor countries go, they have hardly one or two persons to support them at the negotiating table. The number of experts brought by industrial countries to mind-boggling negotiating tables has been close to seven on average, while developing countries are unable to muster even half this number. Nor are these few experts of as high a standing as those from the industrial countries.¹³ So how can negotiations be expected to take place in a just and fair manner? Thus, the whole idea seems to be unjust from the very beginning. Dr. Ahmad Ali, President of the Islamic Development Bank, rightly pointed out recently: "the accession of developing countries to the WTO is if someone is passing through a dense jungle choked with overgrowth, winding paths, and giant docile beasts".¹⁴ Globalization cannot come without justice and if justice is taken into account, a number of concessions need to be made to developing countries, not the same for all developing countries but, rather, in accordance with their stage of development.

Social Integration with cultural diversity

Another thing that is needed for globalization is social integration. It is necessary for countries to have a better understanding of each other. This will lead to the development of a universal village. However, a universal village should not be taken to mean a village with a homogenous, all-embracing culture. It has to be a village with cultural diversity. This can happen only if we learn to not just tolerate other cultures but also respect them and abstain from ridiculing them. To expect that all the countries around the world will have the same Western culture is not only unhealthy and undesirable but also an impossible goal to attain. Any effort by a dominant nation to impose its culture on the rest of the world will be resented by other countries. There is no such thing as a supreme, monolithic culture that has only virtues and no weaknesses. Diversity will add only richness to the world. In other words, we should aim for social globalization with diversity and respect for each other's culture and religion. We should use wisdom for taking whatever is good in other cultures and avoid what we consider to be otherwise. This is what is meant by unity with diversity. To try to impose our own culture on all other nations is the wrong way for bringing about social globalization. There is no denying of constant reforms, tolerance and mutual respect.

As far as social integration is concerned, the Qur'anic verdict is very clear. The Qur'an says: "لا تسبوا الذين يدعون من دون الله" (Do not revile those to whom they pray besides Allah) (6:108). In other words the Qur'an forbids us from reviling the religious icons or gods of other human beings. Why? Because, as the Qur'an says: "...فيسبوا الله عدواً بغير علم..." (they will unknowingly revile God out of enmity). This is again because "كذلك زيننا لكل امة عملهم" (Thus we

¹³ World Bank (1999/2000), p. 55.

¹⁴ Islamic Development Bank (1997), p.1.

have made the actions all people attractive to them). The religion of every society is very attractive to them. They are not going to leave it. To ridicule their religion and values and culture will prompt them to ridicule our own religion and culture and thereby create a conflict situation. This is, thus, the worst way of bringing about globalization. The Qur'an also says:

ولاتجادلوا اهل الكتاب الا بالتي هي احسن الا الذين ظلموا منهم وقولوا
امنابالذي انزل الينا وانزل اليكم والهناء والهناء واحد ونحن له مسلمون

Do not argue with the people of the Book except in the best possible manner except those who have committed injustice. And tell them that we believe in that which has been revealed to us and that which has been revealed to you. Our God and your God is one and to Him we submit. (29:46)

So, if our God and their God is the same, and we have all been created by Him, then why revile each other? However, this is not happening. What is prevailing in the Western world at the moment is the continued reviling of Islam, Prophet Muhammad (*pbuh*), and the Qur'an. This is a reflection of arrogance and bigotry and not of tolerance and understanding. How can the recent incident of flushing the Qur'an in the toilet in the US be accepted by the Muslim world as a friendly gesture? And how can globalization take place in such an atmosphere?¹⁵

Social and economic globalizations are closely interrelated. It would be difficult to have economic integration without social integration. And it may not be possible to create social integration without creating more goodwill and harmony among the people. The incident that happened in the US and other numerous similar incidents in Europe are not recent phenomena that have taken place as a result of 9/11: they reflect an attitude of mind that has been prevalent for centuries. It was reflected in the Crusades, and then in the continued attacks on the Qur'an, the Prophet Mohammad (*pbuh*), and Islam. Such behaviour is not going to bring international harmony or globalization.

Political Integration

Political integration does not mean creating one nation under a Superpower's umbrella. Political integration can become a reality only under an authority that ensures justice, minimizes conflict and promotes peace and prosperity for all countries. The United Nations (UN) was expected to perform this task, but it has failed to do so. UN resolutions have continued to be violated by the ruthlessness of Israel with the help and connivance of the US. The dream of realizing a just world order has

¹⁵ Shortly after this lecture, hateful caricatures of Prophet Mohammad (*pbuh*) were published in a Danish newspaper, followed by their reproduction in several Western newspapers and magazines. Nearly as sickening was the defense of press freedom offered for this deplorable act by the Danish government. To all appearances, this implies tolerance by Western governments for the ridiculing and reviling of other religions and religious leaders by their news media. Such arrogance is precisely the sort of attitudinal obstacle to social globalization pointed out by Dr. Chapra, which, far from promoting the dream of a peaceful global village, could well pave the way for an unnecessary clash of civilizations. – *Editors*.

also been shattered by the uncalled for US attack on Iraq on the basis of false allegations. This attack had two objectives behind it. One was to ensure the continuation of Israeli intransigence in the Middle East, and the other was to have control over the oil of this region. It has to be acknowledged with regret that this was also against the interest of European countries. Any single country that controls the oil of this area may tend to have a control over the whole world. It can refuse to allow the passage of oil to China, to Japan, and even to some European countries to coerce them into accepting policies they do not like. This can create a lot of problems. Thus, to bring the Middle East oil under the control of one Superpower is a highly unwelcome objective. The United States went to Kuwait to protect Kuwait from Iraq, but then itself became the colonizer. Kuwait is now virtually an American colony. Then, the US attacked Iraq to have control over the oil of both these countries, and in hopes of bringing the oil of all other countries in the region within its sphere of influence. Iran has offered resistance and this may perhaps be the reason why it has been declared a part of the "axis of evil."

The effort of the US to gain control over Iraq has thoroughly devastated that country, killed more than a hundred thousand men, women and children, destroyed its infrastructure, industries and agriculture, and made a generally prosperous country very poor. Iraq will have to struggle at least for a couple of decades before it comes to the stage where it was in 1970. Certain European countries deserve credit for not taking the side of the United States in this unnecessary and ruthless destruction of Iraq.

Attacking a Muslim country on the plea of bringing democracy to that country is just plain nonsense. Democracy is not going to come by force. A number of steps are needed for this purpose. It is not possible to go into a discussion of these here. There is no doubt that there is a need for socioeconomic and political reform in Muslim countries. Everyone accepts this. However, such reform is not easy to bring about. It can come only gradually. The Western world can expedite the pace of reform by promoting education and socioeconomic uplift.

Political integration is undoubtedly a need of the world. It cannot, however, be brought about by the use of force. It can be brought about only if we understand each other, respect each other's religion and culture, cooperate with each other, try to increase our economic dependence upon each other, and avoid the social conflicts that are brought about by the reviling of other religions, cultures and faiths. If we proceed in this manner, then there can be no problem.

Before we proceed to the next part, we may conclude here that globalization is necessary for promoting greater prosperity around the world. However, economic globalization is not something separate from social and political globalization. It is a part of the whole globalization process. It will not come until we ensure justice, mutual understanding and cooperation by following the rules of the game — the rules that the Prophets, *peace and blessings of God be on all of them*, brought to us through moral values.

II

Meeting the Challenges Conventional and Islamic Economics

The Global Challenges

The first question: what are the global challenges that we are faced with? One of the most important of these challenges is the promotion of global harmony and integration. In Part I, we have already discussed the globalization of mankind and the need for integration of different economies around the world in a way that would help accelerate the development of all countries in an equitable manner. A second challenge lies in using efficiently and equitably the scarce resources at our disposal to eliminate poverty, fulfill the needs of all, minimize unemployment and inequalities of income and wealth, and ensure economic and financial stability. A third important challenge is to use effectively all human institutions, including the market, the family, the society, and the government in an integrated manner, to not only promote economic development and social harmony but also minimize crime, tensions and anomie.

Conventional Economics and Its Drawbacks

Conventional economics has not proved sufficient to meet these challenges, and therefore, solutions need to be found in other models, such as Islamic Economics. One may ask, if there can be Islamic Economics, can't there be Confucian Economics? The reply to this is: why not? The challenges facing mankind are too great to leave out anyone's input: the greater the contribution from different sections of mankind, the greater will be our success in meeting these challenges. The Far Eastern countries are as capable of making valuable contributions towards the solution of human problems as the Western countries.

The reason why conventional economics is by itself unable to meet the challenges is that its secularist approach gives it a number of inherent drawbacks. One of these drawbacks is its excessive emphasis on materialism, value neutrality, and the freedom of individuals to serve their self-interest and maximize their wealth and want satisfaction. If there are no moral constraints on individual freedom, and individuals are free to serve their self-interest in accordance with their unhindered tastes and preferences, then what about social interest — how will it be served? The answer given by conventional economics is that social interest will be served automatically by competition. This has, however, not proved to be effective. Even though the role of competition in the economy cannot be denied, it is by itself not sufficient to safeguard social interest. This is because perfectly competitive markets are an unrealized dream and are likely to remain so. There are a number of clandestine ways of thwarting competition and the efficient operation of market forces. It is, therefore, necessary to have some other mechanism to complement the role of competition in serving social interest.

Another drawback of conventional economics is that it concentrates

only on economic variables. It neglects the role that moral, psychological, social, political, and historical factors can play in influencing human behavior. The argument given for neglecting the role of these factors is that they are not quantifiable and require value judgments, which are anathema to economics. However, even though these variables involve value judgments and are not quantifiable, they are nevertheless crucial for the realization of socio-economic goals and cannot be ignored. Human behavior is not influenced by market forces and the price mechanism primarily; it is also influenced by a number of other factors. The result of this stance of conventional economics is that it does not recognize the role that moral values can play in the efficient and equitable allocation and distribution of resources. It argues that prices determined by the market forces of supply and demand are by themselves sufficient to allocate resources efficiently. Conventional economists do not generally discuss equity; it is assumed that, if efficiency is realized, equity will also be automatically realized. Experience has led a number of economists to emphasize the need to take into account a number of other factors, including moral, psychological, social, political and historical. Ibn Khaldun emphasized this forcefully 600 years ago. He formulated a model that incorporated all these variables into economics. Consequently, he was able to provide a better analysis in economics.¹⁶

As a result of the excessive emphasis on maximization of wealth and satisfaction of wants, one of the primary goals of economics has become the promotion of more and more consumption. This has led to living beyond means by both the public and the private sector all over the world. Consequently, there has been a phenomenal rise in debt. Even the United States, the richest country in the world, has become the most indebted. If you add the indebtedness of the public sector, which includes the federal government, the states, and the municipalities, as well as that of corporations, businesses and individuals, the total US debt comes to about 37 trillion dollars or \$128,560 per person.¹⁷ This is, of course, unsustainable and may lead to a breakdown of the financial system. It is difficult to predict when this may happen. However, at some time or the other, there is likely to be a crisis in the international financial markets as a result of this high level of indebtedness. In spite of this living beyond means and the phenomenal rise in debt, not only in the US but also in other countries, the distressing reality is that, while there are some people who are able to consume a lot, there are a large number of others who are unable even to satisfy their essential needs.

A third drawback of conventional economics is that, while it has emphasized the role of the market, the role of a number of human institutions, like the family, the society and the government, has generally been ignored. The entire emphasis of conventional economics is on the market. There is no doubt that the market is important. However, while it may be possible for the market to operate effectively on the basis of self-interest, is it possible for the other human institutions also to do the same?

¹⁶ For details of this model, see Chapra, 2000, pp.145-17.

¹⁷ Hodgson, 2004.

What about the family? Can a family operate effectively when the husband and wife both try to serve just their self-interest? A harmonious family requires both the husband and the wife to sacrifice not only for each other but also for their children. So, why is there so much emphasis on self-interest, and none on sacrifice? If the husband and wife are not willing to sacrifice for each other, the family may disintegrate and the upbringing of children may suffer. If the family disintegrates and the quality of the future generation declines, what will happen to the other institutions — the market, the society and the government? Since the human input for all of these institutions comes from the family, it is unlikely they would be able to operate effectively. With ineffective institutions, the world would be even less capable of meeting the challenges it faces. Then, why overemphasize the serving of self-interest?

Can Islamic Economics Help Remove These Drawbacks?

This takes us to the crucial question of Islam's program for safeguarding social interest. Would it prevent the serving of self-interest? Would it reject the role of the market mechanism? The answer to both these questions is No. Islam does not deny the useful role that the serving of self-interest and the market mechanism play in promoting efficiency and economic development. Communism tried to do away with these. The slogan was: "From each according to his ability to each according to his need." This slogan did not work and the system failed. So the market mechanism and the serving of self-interest have been reintroduced even in the Communist system. If both these factors are going to be retained even by Islam, it is pertinent to ask how Islam ensures the serving of social interest.

Islam, like other major religions, tries to motivate individuals to keep their self-interest within the bounds of social interest. This naturally requires sacrifice of some nature on the part of all individuals operating in the marketplace. The crucial question that this raises is why rational people would sacrifice their self-interest for the sake of others. There are a number of ways of motivating them to do so, and some of them are recognized even by conventional economics.

One of these is competition, which is an essential ingredient of the market mechanism. If a producer does not ensure good quality at a competitive price, he will suffer losses and ultimately be thrown out of the market. Every producer in a competitive framework is, therefore, under a constraint to reduce cost and to improve quality if he wishes to earn a reasonable rate of profit and to stay in business. This helps keep self-interest under check.

Another way of keeping self-interest under check is social control. If a person tries to serve only his self-interest and hurts the social interest by cheating, committing fraud, and not helping other people, he may not only be frowned upon but also face social ostracism. If a person tries to show off and resorts to conspicuous consumption, he may invite social displeasure. This proved to be very effective in early Muslim society and has also proved effective recently in Japan. There is a saying in Japan that "The nail that sticks out the most, gets hit the hardest." Anyone who tries to show off will

be looked down upon. One of the reasons for the success of Japanese society was the social norm of leading a relatively simple life. This norm does not perhaps prevail any longer. However, in the early days of Japanese development, this was extremely important. It was one of the reasons why Japan was able to save as much as 35 percent of its gross domestic product (GDP). Consequently, Japan was able to develop without depending on foreign aid. It did not even have to borrow excessively from other countries. And this is true even of the Asian tigers. The saving rate is 35 percent even in Malaysia. China has a saving rate of 42 percent. Such a country is able to promote its own development without depending on other countries. Thus, the market mechanism and social ostracism are both necessary for realizing social goals.

Good governance along with proper regulation and supervision are also extremely important. Conventional economics, in its earlier stages, emphasized *laissez faire*, which stood for zero government. The best government was considered to be zero government. Experience has proved that this concept was flawed. It does not, therefore, exist any longer. Everyone now talks of good governance, which requires a certain degree of regulation and supervision along with the provision of services that the economy needs for its better performance. It is also recognized that the government should also play a certain degree of welfare role to reduce the misery of those who are underprivileged.

In addition to these methods of keeping self-interest within the bounds of social interest, one other very important way by which Islam as well as other major religions try to ensure social interest is the injection of a moral dimension into economics. Moral values are intended to regulate human behaviour in a way that would help ensure social interest. Moral values were brought by all messengers of God. These messengers were sent by God to all people at different times.¹⁸ A new messenger came when the teachings of a previous messenger were either lost or distorted. It was the continuation of a process that started with Adam himself. According to a Prophetic tradition, one hundred and twenty four thousand Messengers have been sent by God to all parts of the world at different times in history. The Qur'an has mentioned the names of only twenty-five of them.¹⁹ And who knows, Confucius, Krishna and Gautama Buddha, whose names are not mentioned in the Qur'an, may also have been Messengers of God. An indicator of such a large number of Messengers to different people is that there is a great deal of similarity in the values of all countries around the world, including Japan, China and India as well as the Middle East and the Western world. This is because most of these values have come from the same source: God's Messengers. One of these values concerns simple living

¹⁸ The Qur'an states clearly that: "And indeed We have sent Our Messengers to every community in every period" (al-Qur'an, 16: 30). "And We sent Messengers before you: some of them We have mentioned to you while some others We have not mentioned: (al-Qur'an, 40:78). It, however, does not make any mention of the Prophets sent by God to people other than those in the Middle East obviously because the Book of God is not intended to be a chronology of events and personalities and that would have sounded queer to its immediate audience as well.

¹⁹ Cited by Mawdudi (1962) in his commentary of verse 51 of *surah* 19, vol. 3, p. 72.

and the avoiding of conspicuous consumption. To assume that just market forces and the serving of self-interest will by themselves help a society allocate and distribute resources in a way that could serve self-interest as well as social interest is highly unrealistic. There can be no escape from injecting a moral dimension into economics.

Implications of the Moral Dimension: This brings us to the question of what is meant by injecting a moral dimension into economics. Moral values put certain constraints on the way a person earns his wealth and the manner in which he spends it. He must earn it without resorting to cunning, lies, cheating, fraud, bribery, corruption and exploitation of others. While he is free to spend his wealth to fulfill the needs of his own self as well as his family, he cannot waste it or squander it on status symbols and conspicuous consumption. Moral values require that, before coming to the market, the individual should pass his wants through the moral filter. To ask himself, *Should I buy this thing or not? I have money and I can afford to buy it, but should I buy it? What will be my reply to God on the Day of Judgment when I am asked this question about how I earned my wealth and how I spent it?*²⁰ The price mechanism is by itself unable to inject such a discipline. Without the restraint of moral values, the rich can buy luxury goods and services even when the price of these is high. It is the poor who suffer because the excessive purchases of luxury goods by the rich deprives them of their need fulfillment.

Moral values thus impose certain obligations. Even conventional economics recognizes that the resources that a society has at its disposal are relatively scarce. Consequently, if some people acquire them excessively through wrong means and spend too much on luxury goods, then less resources will be available for meeting the needs of other people. Such wasteful spending will also reduce saving and, thereby, lead to a decline in investment and the opportunities available for employment. A number of people may get unemployed as a result of this and many families may suffer. This unemployment may also lead to crime and anomie. All these things are thus related to each other in a circular fashion.

Japan, where its saving rate was high, was able to pursue development without resorting to excessive borrowing. However, in Pakistan, conspicuous consumption is great and the saving rate is low. In a speech delivered at the Organization of Islamic Conference (OIC) Summit Conference in Kuala Lumpur on 15 October 2003, President Musharraf said that the bulk of Pakistan's budget goes to debt servicing while a small portion is left for other public expenditures. As a result, Pakistan is unable

²⁰ An oft-quoted *hadith* of the Prophet (*pbuh*) is: "A person will not be able to move on the Day of Judgment until he has been asked the following questions about:

1. His knowledge, how much he acted upon it;
2. His time, how he used it;
3. His wealth, how he acquired it and where he spent it; and
4. His body, how he exhausted it (cited by Abu Yusuf (d.798) (1352AH), p. 4.

to spend adequately on nation-building activities like education, health, infrastructure construction, and rural and urban development. Its universities, schools and colleges are unable to get the resources they need to improve the quality of education. Its health services are poor. And infrastructure is not able to expand with the needs of development.

Therefore, the injection of a moral dimension into economics is extremely important. This would make people pass their wants through two layers of filters. The first layer would be the moral filter. Before even going to the market, a number of claims on resources would get eliminated. The second filter, the price mechanism, would then come into action. The equilibrium that would then be established would tend to be in harmony with the humanitarian goals of society. The equilibrium that conventional economics discusses is not of this kind. It is concerned with the equality of demand and supply. The market equilibrium is considered to be Pareto optimum. Conventional economics does not ask whether this equilibrium is in harmony with social goals.

However, if we introduce a moral filter, the market equilibrium may not necessarily be acceptable. Only that equilibrium will be acceptable which is in conformity with the humanitarian goals of society. Such equilibrium can be realized only if we pass all our claims on resources through the moral filter before going to the market and being exposed to the price filter. The two filters should together be able to help in not only making demand and supply equal but also in realizing the humanitarian goals of society. The decline in demand for wasteful and conspicuous consumption goods should release resources for need fulfillment and investment. Consequently, prices of need-fulfilling goods may also be lowered because of their greater supply.

Living beyond means has also led to monetary expansion and inflationary pressures. In the early 1950s, the salary of about 350-400 rupees that a college professor used to get was sufficient to enable him to lead a comfortable life. Now it is not possible to lead such a comfortable life in even 100 times that amount. So teachers are forced to give tuitions and to earn through other part-time activities. The result is that they are unable to give enough attention to their students. Living beyond means has, therefore, raised inflationary pressures, increased the debt-servicing burden in many countries, and reduced the availability of need-fulfilling goods and services.

Islam has another way of helping the fulfillment of needs. This is its social self-help program through the institution of *zakat*. One may say here that welfare states around the world spend much more than what *zakat* probably might bring in. This is not right. We should compare *zakat* proceeds, not with the expenditure of the government in other countries, but rather with private sector contributions to charity. A team led by Lester Salamon of Johns Hopkins University found that private giving has varied in developed countries in the second half of the 1990s from around 1 percent

of GDP in the United States to less than 0.1 percent in Italy.²¹ Compared with this, *zakat* is at the rate of 2.5 percent of net worth. According to a number of studies, it may contribute as much as 1.8-4.3 percent of GDP.²² This institution is now undergoing a revival in the Muslim world and more and more Muslims have started paying *zakat*. This should help raise *zakat* revenues from their existing low levels and help considerably in improving the condition of the poor.²³ In many countries, the welfare state is now facing a crisis and is being rolled back because the financial burden that it has imposed on the state is too much for it to bear. In spite of a very high rate of taxation — more than 50 percent of GDP in some countries — the budgetary deficits have grown substantially.

To avoid this excessive pressure on the state, Islam has adopted the social self-help route. The state has to share the burden to a certain extent, but not the entire burden. Families and the society must together share a significant part of the burden. Why should the burden of any person's parents and children be borne by the taxpayers and the state? It is his duty to take care of them. He cannot use *zakat* money for this purpose. *Zakat* is meant to take care of the needs of other people who are not his direct responsibility. Thus, Islam has adopted the welfare state mechanism, but in a different way. The Islamic state must do a number of things that a welfare state does. However, the society and the family must share the burden substantially. This makes it more possible to meet the needs of the people without putting too much burden on the state.

Changes Taking Place in Conventional Economics

Changes are, however, now taking place in conventional economics. Firstly, a multidimensional approach is gradually becoming accepted. Economists have now started introducing social, institutional, political, psychological and other variables in their analyses, following a practice that Ibn Khaldun adopted about 600 years ago. Secondly, in spite of the persistence of the secular philosophy in the discipline as a whole, the injection of a moral dimension into economics is being emphasized by a number of even renowned economists. It is being increasingly realized that allocation and distribution of resources is not determined by prices alone. It is also determined by moral values, which have a considerable influence on human behavior in general and on tastes and preferences in particular. Prof. Amartya Sen, a Nobel Laureate, says in his book, *On Ethics and Economics* (1987), that "the distancing of economics from ethics has impoverished Welfare Economics and also weakened the basis of a good deal of descriptive and predictive economics."²⁴

²¹ *The Economist*, 31 July 2004, p. 46.

²² Kahf, 1989; and Ahmed, 2004, p. 69.

²³ See Kahf, 1993; and Salama, 1982. See also Ahmed, 2004, p.71.

²⁴ His conclusion is that economics "can be made more productive by paying greater and more explicit attention to ethical considerations that shaped human behaviour and judgment" (Pp.78 and 79). An extremely valuable article by Hausman and McPherson published in the *Journal of Economic Literature* on "Economics and Contemporary Moral Philosophy", concludes that "An economy that is engaged actively and self-critically with the moral aspects of its subject matter cannot help but be more interesting, more illuminating, and ultimately more useful than one that

The welfare state is also being rolled back because experience has shown that it is not possible for the government by itself to take care of all the needs of individuals in society. Any effort to do so is bound to put a heavy pressure on the government budget and lead to fiscal deficits and inflationary pressures. If the welfare state is rolled back, then who is going to take care of the needs of the poor and underprivileged? Even before the rolling back of the welfare state, there were a number of people who did not fall into the welfare net. Now there will be even more. How can a society meet the needs of such people? Islam has introduced the institution of *zakat* for this purpose. *Zakat* need not be spent only for meeting the basic needs of the poor and handicapped. It should also be used to enable them to stand on their own feet through education and the provision of seed finance for promoting self-employment.

Global Harmony and Integration

The further elaboration of the promotion of global harmony and integration, injecting a moral dimension in the society and economy around the world could make a valuable contribution. If every country tries to serve its own self-interest, what is going to happen? Probably, something like what the US did in Iraq, i.e., bombing a country to control its oil resources and to use the oil income of that country to get contracts for rebuilding what has been purposely and ruthlessly destroyed.

The emphasis now being placed on promoting the development of all countries to eliminate poverty and minimize unemployment is highly welcome. However, the saving rate around the world has gone down substantially in every country, the developed as well as developing. This is not to say that the decline in the rate of saving is the only cause of unemployment. It is, however, one of the important causes. If the rate of saving goes up, it may be possible to boost investment without generating inflationary pressures. This should help all countries around the world to raise employment, and minimize crime, tension and anomie. It is the moral dimension that can help us achieve this. If we continue with the prevailing excessive emphasis on the serving of self-interest and ignore the role of moral values in the allocation and distribution of resources, then crime, tension and anomie will tend to rise and rise continuously.

The injection of a moral dimension is also extremely important for promoting family and social harmony. Without this, as indicated earlier, even the market, the society, and the government cannot operate effectively. If the family members are not willing to sacrifice for each other, the family cannot remain integrated. One can see this happening in the Western world, significantly more than in other countries. Francis Fukuyama refers to this phenomenon as the "great disruption" in his book, *The End of Order* (1997). If families become disintegrated, then the children are unable to get the love and affection and the kind of upbringing that both the parents can together provide to their children. Statistics indicate that children from broken families are unable to complete school

tries not to be" (1993, p.723).

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and, if they do complete school, they are unable to complete college and university. Thus, if the quality of the human element goes down in any society, that society may not be able to make a significant advance in development, leave alone fulfilling its desire to attain or maintain supremacy in the fields of science and technology.

A number of factors, economic, moral, social, psychological, political, and historical, influence allocation and distribution of resources, which is the main concern of economics. It is, therefore, a mistake to take into account only the economic variables and to ignore the others. Of all these variables, the moral variables are of particular importance because of their considerable influence on human behavior in general and tastes and preferences in particular. If the well-being of all human beings is desired in spite of the relative scarcity of resources, then there is no other option available except to inject a moral dimension into economics and also to adopt a multidisciplinary analysis. The prevailing secular approach along with the emphasis primarily only on economic variables may not help us realize the goal of ensuring the well-being of all. This includes the well-being of even animals, birds and insects. These constitute an essential part of a healthy environment and taking care of them is essential for realizing human well-being.

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