THE OIC AND GLOBAL ISLAMIC ECONOMICS & FINANCE
November 2013

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Background: World Islamic Economic Forum (WIEF) Meeting in London, October 2013.

The 9th Annual Convention of the World Islamic Economic Forum (WIEF) was held in London from 29-31 October 2013, and was attended by more than 2,700 delegates from 128 countries around the world. The London conference was significant for several reasons.

- This was the first WIEF convocation outside of a Muslim-majority country. The forum was attended by Heads of State from countries such as Afghanistan, Brunei, Jordan, Kazakhstan, Malaysia, Morocco, Pakistan, and Turkey (all countries belonging to the 57 member-states of the OIC, or Organization of Islamic Cooperation), as well as from non-OIC countries such as Great Britain and Bermuda.

- The WIEF meeting in London signaled an uptick in the gradual mainstreaming of sharia-compliant financial practices and products in the global economy; British Prime Minister David Cameron, who keynoted the WIEF conference, announced his goal to position "London, alongside Dubai, as one of the great capitals of Islamic finance anywhere in the world,"[1] and unveiled plans to issue British sovereign Islamic bonds (*sukuk*).[2] Britain's Chancellor of the Exchequer followed up his Prime Minister's announcement at the WIEF event only days later, by detailing that Britain will make a 200mn sterling pound sovereign bond offering structured to circumvent the Sharia ban on interest and that the London Stock Exchange will create an Islamic market index.

- The WIEF's London Conference was a high-profile echo chamber for a broader series of OIC-related initiatives during the same period, all of which point to the organization's strategy for integrating sharia concepts and principles, into the political and economic decisionmaking structures of the international system.

A Thumbnail Sketch of WIEF's Origins & Function as an OIC Economic & Financial Platform

- The activities, reach, and influence of the WIEF have demonstrated remarkable growth in a short period of time, given that the WIEF was launched only a decade ago in October 2003 as the OIC Business Forum. Formalized the next year with headquarters in Kuala Lumpur, Malaysia, the WIEF is one of the Affiliate Institutions of the OIC and works closely with other OIC bodies: e.g. Standing Committees, including the Permanent Finance Committee and the

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Standing Committee on Economic and Commercial Cooperation (COMCEC); Specialized Institutions, including the Islamic Development Bank; and, other Affiliate Institutions, such as the Islamic Chamber of Commerce and Industry (ICCI) and the International Association of Islamic Banks (IAIB). The WIEF is a critical capacity-builder for the OIC's strategic goal of maximizing the participation of OIC member-states in "global political, economic and social decisionmaking processes and of "strengthening economic integration of the international Islamic community by establishing an Islamic Common Market.[3]

- The WIEF draws on the deep conceptual roots in the idea of "Islamic Economics," which is the theoretical and ideological framework for sharia-compliant and sharia-compatible finance (SCF). SCF practices and products conform to Islamic law (sharia). Therefore, SCF institutions are similar to conventional financial intermediaries, insofar as they are profit-maximizers and offer traditional banking services, but are completely different in their use of underlying operational logic and objectives, which are rooted in sharia.

- Islamic Economics as an academic discipline with applied goals originated in the early-mid-20th century, primarily as a response by political and intellectual elites to Western imperialism in the Muslim countries and, eventually, as a mechanism for reconciling nationalism in Muslim colonial territories with the transnational idea of the Muslim umma—a fit with the OIC Charter's dual emphasis on unifying the global umma and respecting non-interference in the domestic affairs of the organization's member-states. In short, Islamic Economics is an ideological framework for economic development according to Sharia law, and has been widely understood as a Muslim identity-building project that would allow "the Muslim world" to accomplish modernization without Westernization. Primary architects of Islamic Economics included Indian Muslim leader Mawlana Mawdudi, the eventual founder of Pakistan's Islamist political party, Jamaat-e-Islami, as well as Muhammed Abduh and Rashid Rida, Arab intellectual progenitors of the Muslim Brotherhood.

- Most experts agree that Islamic Economics had been largely inconsequential as a political and financial project for the better part of the 20th century[4] due to disagreements over how to understand sharia prohibitions on *riba* (defined varyingly as interest and usury), and therefore, over how to deploy wealth for economic development. Because the applied practices and products of Islamic Economics had little resonance amongst Muslim political and financial elites Islamic finance was ephemeral in global investment, business, and commercial markets.

Tipping Points in Growing Islamic Economics and Sharia Finance

- The oil boom of the 1970s bolstered the development of Islamic commercial practices in the countries of the Arabian Gulf; the establishment of the Gulf Cooperation Council (GCC) in 1981 energized the growth of commercial Islamic banks.

- The formation of the OIC in 1969 as a pan-Islamic, transnational organization made stakeholders of member-states with the economic assets, Islamist *bona fides*, and geostrategic influence necessary to build out Islamic Economics.

- The evolution of increasingly sophisticated theoretical models, products, and practices designed to highlight the investment advantages of sharia-compliant and sharia-compatible tools has flourished under OIC oversight during the last decade.

The Growing Sharia Footprint in Global Finance and Economics

The recent WIEF Conference in London highlights the striking growth of Islamic development and finance over the last decade, concomitant with the well-calibrated, multi-pronged agenda of outgoing OIC Secretary General Ekmeleddin Ihsanoglu, the Turkish ex-diplomat and academic whose two, five-year terms included action plans for revitalizing the OIC's moribund programs on SCF. The World Bank estimates the total value of sharia-compliant and sharia-compatible tools has experienced 15-20% annual growth from 1990 to the present, with the current value of the global Islamic finance industry estimated at $1.3 trillion.[5] Ernst and Young projects that the global Islamic financial sector will be worth $2 trillion in 2014, and reports that the world's top 20 Islamic banks have far outpaced their conventional institutional competitors, and have enjoyed a 16% annual growth rate over the last three years.[6]

The growing sharia footprint in global finance and economics comes from a spectrum of organizations within and beyond the OIC. Below are just of few, representative examples and developments, all of which point to the geographic diversification of SCF, beyond traditional centers in Muslim-majority countries in the Middle East and Asia and into European, African and North American financial markets.

- The UK Government Islamic Finance Task Force was established in March 2013, followed by the announcement in November 2013 of the establishment of the Global Islamic Finance and Investment Group (CIFIG). Membership in these two bodies includes financial regulators and chief executives from OIC countries, as well as senior cabinet members in the British government.

- The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) was established in Algeria in 1990 and registered in Bahrain the next year. The organization directs the standardization and harmonization of financial operations and reporting in Islamic finance markets according to sharia principles, in order to enhance the global growth and OIC member-state growth of the Islamic finance industry.

- The World Bank Group and OIC member-states are enhancing their cooperation on Islamic finance and investment as a linchpin for the twin outcomes of wealth generation and sustainable development. At the October 2013 inauguration of the Global Center for Islamic Finance in Turkey, the World Bank Group President characterized the new Center, designed to make Turkey a knowledge hub for research, services, and products on Islamic Economics, as "a symbol of the Bank Group's shared objectives of developing Islamic finance and maximizing its contribution to poverty alleviation and shared prosperity in client countries."[7]

- Dubai announced in November 2013 that it will establish an Islamic Corporate Governance Centre to support the Emirate's aims to dominate Islamic investment and economic development on a global scale. Dubai's move reflects the intensification of competition from OIC member-states eager to establish preeminence in SCF, and the buy-in of Western countries eager to position themselves and to shape the Islamic finance industry—signaled by Britain's announcement of the UK Islamic sovereign bond offering—is generating strong competition among the cities of London, Dubai, and Kuala Lumpur.

- The OIC continues to facilitate traditional commercial and business arrangements amongst the organization's member-states, as part of the vision for realizing a global economy in which sharia principles play a central role. Therefore, the OIC is committed to enhancing the economic ties and political cooperation within regional arrangements such as the GCC (Gulf Cooperation Council, which includes Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates) and the D8 (Developing 8, comprised of Bangladesh, Egypt, Indonesia, Iran, Malaysia, Nigeria, Pakistan, and Turkey).

Geopolitics, Security & Human Rights Concerns Associated with SCF

The WIEF London Conference helps to elucidate the OIC leadership's view that there are intrinsic linkages between globalization of SCF, on the one hand, and "advancing the OIC's status and transforming the OIC into a leading international organization…towards the goal of championing the causes of the Ummah,"[8] on the other hand. When Saudi Arabia's former Minister of Information moves into the helm of the OIC in January 2014, it is likely that SCF will assume even greater importance in branding "the Muslim world" as a high-return trade and investment hub and, therefore, in using SCF to reinforce the civilizational goals articulated in the OIC Charter.

Despite the undeniable upsides to SCF as a complement to conventional banking activities, an alternative method to capital formation, and an untapped source of economic development, there are legitimate geopolitical concerns, tied to security and human rights/religious freedom issues, all of which call for a cautious approach in assessing SCF.

- The primary drivers of the SCF industry are core OIC member-states, most of which have poor human rights records and are on most human rights organizations' lists of the worst religious freedom violators in the world. The OIC's human rights manifesto, the Cairo Declaration of Human Rights in Islam (CDHR), explicitly subordinates OIC support for international human rights law and standards, including religious freedom, to sharia.[9]

- Therefore, the effects of SCF cannot be taken for granted when it comes to the conventionally positive relationship between economic growth and equity, on the one hand, and respect for democratic rights, freedoms, and rule of law, on the other.

- Critics of SCF suggest that the still-rudimentary regulatory frameworks for SCF creates new opportunities for Islamic finance to support political extremism and terrorism, as well as to circumvent country-specific and international sanctions on countries with a record of supporting terrorist activities.

- US policymakers have indicated a recognition of the potential geopolitical threats, security risks, and human rights problems, associated with SCF, but the capacity to prevent, assess, and respond to such concerns is a work in progress. For example, the Global Counterterrorism Initiative/Forum and the State Department's Office of Threat Finance Countermeasures (EB/TFS/TFC) has been tasked with policymaking aimed at "minimizing financing for groups posing a threat to domestic, international and regional security,"[10]and the Department of Justice and Congressional oversight committees continue to ratchet up their focus on development of robust legal and regulatory frameworks that can capture the security considerations associated with SCF.[11]

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[1] http://www.economist.com/blogs/schumpeter/2013/11/islamic-finance

[2] http://lexicon.ft.com/Term?term=sukuk-%28Islamic-bonds%29

[3] OIC Charter. Chapter 1, Articles 5 and 9.

[4] For a useful summary of the origins and development of Islamic Economics and Islamic finance, see Nagaoka Shinsuke, "Critical Overview of the History of Islamic Economics: Formation, Transformation, and New Horizons," in *Journal of Asian and African Area Studies*, 11: 2 (2012).

[5] Zamir Iqbal and Abbas Mirakhor, *Economic Development and Islamic Finance. Directions in Development*. (Washington, DC: World Bank Publications, 2013).

[6] http://uk.reuters.com/article/2013/11/12/us-islamic-finance-competition-analysis-idUKBRE9AB0LZ20131112

[7] http://www.worldbank.org/en/news/press-release/2013/10/30/turkey-and-world-bank-group-reinforce-cooperation-on-improving-islamic-finance-and-the-country-investment-climate

[8] This paraphrases Ihsanoglu's recent address to the 40th Session of the Islamic Council of Foreign Ministers ((CFM), the key OIC strategic body, at the organization's headquarters in Jeddah, Saudi Arabia. http://www.oic-oci.org/oicv2/topic/?t_id=8590&ref=3454&lan=en&x_key=40th%20CFM%20Preparatory%20Meeting%20Commences

[9] Article 24 of the CDHRI states that "All the rights and freedoms stipulated in this Declaration are subject to the Islamic Sharia." http://www.oic-oci.org/english/article/human.htm

[10] http://www.state.gov/e/eb/tfs/tfc/index.htm For more on the Global Counterterrorism Forum (GCTF) and its economic and financial work, see http://www.state.gov/j/ct/rls/other/gctf/index.htm.

[11] https://www.fas.org/sgp/crs/misc/RS22931.pdf