

REVIEW.ARTICLE : ISLAMIC BANKS AS IMPEREALISM'S NATURAL _____

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The September 11 counter attacks on America have created something of a crisis for Islamic finance. The Bush administration had expressed misgivings about the involvement of Islamic banks in financing resistance operations in America and several unsuccessful lawsuits have been brought against leading Islamic financiers. Islamic banks have been insisting that they have played no part in financing the Islamic resistance to American dominance of the Muslim world. Islamic banks seek to present themselves as institutions, which can facilitate the subordinate integration of Muslim economies to American capitalism.

The principle aim of Henry and Wilson's book is to justify this claim of the Islamic banks. It seeks to show that the growth of "a new type of Islamic capitalism" has largely been a response to liberalization by governments in Muslim majority countries. These initiatives were usually articulated --through the Structural Adjustment Programs (redesigned as Poverty Reduction and Growth Facility Programs) of the IMF and the Sectoral Programs of the World Bank. The growth of the Islamic banks

Henry C.M and Wilson R (ed) The Politics of Islamic Finances, Karachi, Oxford University Press 2005

can legitimately be seen as a (perhaps unintentional) consequence of these programs. It is therefore not surprising that leading IMF and World Bank officials Sami'al Darvish, Abbas Mirakhor and Mohsin Khan have played pioneering roles in the Islamic finance movement.

The book under review recognizes the superficial nature of the Islamic banks rejection of interest "they appear to share a financial world view in which riba is abolished while the time value of money as understood in contemporary financial theory is respected" (P 2). Rodinson made much the same point about the legitimating of interest

by the client Ulema of the Abbasi and Saljuk courts in medieval Iraq (Rodinson 1969 Chap 7)

Islamic banks exist in Muslim countries whose governments support them as “a part of a strategy to legitimate themselves” (P 2). At the beginning of 2002 Islamic banks existed in 18 Muslim and six non Muslim countries (Switzerland, France, Netherlands, India, UK and the USA). Their share of commercial banks deposits in the Muslim countries averaged about 5 percent ranging from over 10 percent in the UAE to less than 0.1 percent in Tunisia. These figures exclude Iran where unislamic financial practices are forbidden. These figures also do not include deposits in the Islamic branches of non-Islamic banks. These are quite substantial in Egypt, Malaysia and Saudi Arabia. The share of Islamic financial institutions in bank deposits in non-Muslim countries was usually less than 0.001 percent in 2002.

On average about 60 percent of Islamic bank financing is on mark up basis Islamic banks have rechristianed markup as “murabaha”. Above 90 percent of credit extended by Islamic banks requires borrowers to pay fixed periodic charges. This is implied interest by whatever Arabic, Turkish, Swaheli or Urdu name you call it (Warde 2000 P 6) But apparently changing names is sufficient for satisfying members of the Religious Advisory Boards who guarantee the Islamicity of the products of Citibank, Abn Amro, HBSC and the 200 odd other members of the Geneva based International Association of Islamic Banks. Henry and Wilson are confident that “the (Islamic) financeries and their religious boards will (continue) to make compromises with the financial markets” (P 5) and the range of interest duplicate financial contracts offered by Islamic banks had been increasing rapidly over the last decade. Moreover “the most significant guarantee of Islamic banks’ future (is) the large Western multinational (banking sector which) has opened Islamic windows” (P5)

Henry and Wilson describe in detail the patronage networks sustaining the Islamic bank. Monzer Kahf a senior executive of the Jeddah based Islamic Development Bank attributes the rise of the Islamic banks to “an alliance between private financiers and religious scholars” (P 17). This “alliance between the rich and the wealthy and the Sharia scholars...served to depolitize the Islamic movement and opened up new avenues of co-operation between the government and (the) Islamic opposition” (P 17). The founder of the Islamic banking movement in Egypt Dr. Ahmed al Najjar was a German educationist and financial economist “at considerable distance from the Muslim Brotherhood” (P 19). The first Islamic bank of Egypt was known as the Nasser Social Bank. It was owned by the government and a major purpose of its establishment was to delegitimise the social efforts of the Ikhwan. Prince Muhammad al Faisal played a pioneering role in the development of Islamic banks in the Gulf and North Africa. The Saudi sponsored international religious network recruited many Ulema to the Islamic banking movements, all of them dissidents of the Ikhwan (such as Yusuf al Qardavi, Abd as Sattar Abu Ghaddah, and Hussain Ahmed Hassan). A leading Deobandi critic of the Jama’at’i’Islami, Taqi Usmani was recruited some years later.

According to Kahf “(t) his alliance between the Ulema and the Muslim bourgeoisie creates a new power structure” (P 25). The Ulema “created a buffer that can be used in support of the main shareholders and professional managers of Islamic banks who are usually drawn from commercial banks” (P 25).

The Sharia scholars need the support of the banks and the government “for the rising Islamic movement sidelined most of them” (P25). There are innumerable material benefits the Ulema enjoy because of the support of the bankers. One only has to visit Dar ul Ulum Korangi to ascertain this. As Monzer Kahf notes.” The alliance gives the Ulema a new source of income that by far exceeds what they were used to earning. It gives them opening to a new life-style that includes air travel, some times in private jets and stay in five star hotel suits. In addition they are frequently commissioned to undertake paid research” (P 26).

“Bestowing a new income and new associations it opens the Ulema and exposes them to experiences that were even hard to imagine in the past. The Ulema that in the 1950s, and 1960s had weather beaten dead skin hands, humble clothing, sitting in the cold teaching on the ground of mosques are now replaced with soft living Ulema who are used to luxurious garments, services of five star hotels and expensive restaurants, (this) has resulted in changes in (their) viewpoints”(P 27)

Kahf further notes, “The bankers have always been very sensitive in selecting the type of Ulema who are acceptable to both the government and the general public. The Ulema allied with the Islamic movements are avoid(ed)” (P28) The Islamic banks seek to promote “reconciliatory reformers who abandoned the banner of Syed Qutb, “Take Islam all together or leave it” (P 28)

The pro imperialist stance of the Islamic banks is emphasized by Ibrahim Warde (chp2). He notes that with the exception of the Sudan “Islamic finance (is) firmly embedded in the US centered political and economic order oriented towards preserving the status quo. In every new market they penetrate Islamic banks establish links with the local legal power structure and work within established oligopolies. (They) are keen on working with the major international financial institutions. The capitals of Islamic finance are London, Geneva and the Bahamas not Jeddah, Cairo or Karachi. (They) have a stake in the stability of international markets where they are heavily invested. They hold a large percentage of their deposits abroad. The large international banks were instruments in the very creation of the Islamic banks” (P41). In countries such as Bahrain, Qatar and Malaysia governments have used Islamic banks as a tool for policy liberalization and deregulation (P47). The Islamic finance movement has during the 1990s moved further and further away from traditional Islamic practices and in the name of urf and masliha sanctioned virtually all interest replicating contracts (P 47-49). As Warde stresses “Islamic bank(ing) has become more pragmatic and is increasingly converging with conventional banks” (P 49). It is laughable that much of the “ijtihad” justifying Islamic bank practices now takes place at the Harvard Islamic Finance Information Forum (HIFIP)

For these reasons the Islamic banks were deeply shocked by the post 9/11 suspicions against them voiced by America, Prince Muhammad al Faisal was the first and most vocal denouncer of the counter attack on America. He wrote “We all condemn in the strongest possible terms the terrorist September 11 attacks as a serious crime (Gulf News 12th September 2001). Saleh Kamal boss of Al Barakah was equally distressed. The West has recognized the geniusness of the Islamic finance movements’ commitment to American hegemony and no case brought against the Islamic banks in the wake of the September 11 counter attack has succeeded.

The similarity between Islamic and mainstream banking practices is illustrated by Tarik Yusufi’s paper (Chap 3). The domination of murabiha in the Islamic banks’ financing packages shows that they are not an alternative but rather a compliment to the standard products of commercial banks Yusufi shows (P 65-66) that murabaha contracts are “virtual replicas” of interest based debt contracts. He shows that the same systemic factors account for the dominance of interest replica and straightforward interest financing and that there is convergence between them. There is nothing peculiarly Islamic about Islamic finance or about the behavior of Islamic capitalists. Empirical studies have shown that the financial performance of Islamic banks has generally been inferior to conventional banks and Islamic banks have over the years become particularly dependent on state subsidies and a host of other forms of government support and patronage (chap 5). In chapter 6 Rodney Wilson documents the role Islamic mutual funds have played in accelerating capital flight from the Muslim world to the West. Far from contributing to national development Islamic banks and financial institutions are facilitating the rich and wealthy to transfer their funds to safe havens in Europe and America. Foreign direct investment from one Muslim country to another is miniscule in relative terms in Islamic mutual funds invest almost exclusively in America and Europe. As Wilson notes “Islamic capital flourish (es) in the liberalized environment of the West” (P 130). He sees contemporary Islamic capitalists as “cultural brokers acting as institutions facilitating the westernization of the Muslim countries Islamic funds and banks serve as conduits for money that was previously held outside the banking system and the Muslim world to be transferred to Western financial markets. Shariah advisors of Islamic banks are legitimating this transfer of funds.

Wilson estimates that Gulf “filthy rich” nationals totaling about 200,000 held over \$ 2 trillion in Europe and America in 2002 (P135). The predominant proportion of this investment is in America

The total number of Islamic funds had increased from 9 in 1993 to 105 in 2002. Most of these are owned and managed by American and European financial institutions, such as Pernal Asset Management, Keppel Insurance, Pictet, UBL, CITI, First Investment Company etc (P 141). The four largest islamic funds management companies are from America, Britain, Germany and Switzerland.

Rodney and Wilson conclude, “ (P) olitical Islam should not be conflated with Islam’s other economic and social dimensions. Even governments in the Muslim world that wage war against political Islam recognize the difference between Islam’s political

and economic practitioners” (P 287). Islamic finance is an imperialist initiative and as Henry and Wilson note “ Islamic banks remain highly vulnerable to external forces emanating from New York and Washington DC. Political Islam in the modern world is suspended between radical and moderate poles and the emergence of a distinctly Islamic form of capitalism (an) alliance between the Ulema, bankers and entrepreneurs could tip the balance and effect a deep structural transformation in the Muslim world. United States policy makers might well ponder over the implications of Kahf’s arguments, instead of supporting a bunch of middle class NGOs they might assist Islamic institutions that promote the spirit of capitalism and free enterprise” (P 296-297)

The natural affinity between the imperialists and the Islamic finance agenda is illustrated by the organic link between Islamic and mainstream financial institutions. Islamic banks can either be instruments for financial policy liberalization within the Muslim world or else a conduit for transferring money from Muslim countries to capitalist metropolises specially London, New York and Geneva. The Jordan case study (Chap 9) shows that Islamic banks make extensive use of trade financing and commodity speculation to transfer funds abroad.

The Kuwait study shows that policy liberalization has contributed to a softening up of the Islamic movement through the work of Kuwait Finance House. This has not been the case however in Egypt (Chap 12) or in Turkey (chap 10) where there is widespread criticism of the Islamic banks by the Islamic parties and the Islamic banks are now seen to be the pawns of the secular governments Sadat’s and Mubarak’s attempt to transform the Ikhwan into an Islamic equivalent of the Christian Democratic Party has manifestly failed.

Typically “Islamic banks offer cover to the governments for the further engagement with international financial institutions and the Washington consensus” (P 261) As Samir Soliman observes “Islamic financial banners wave freely in the air unfolding a harmless variety of meanings” (P 264). This is especially true in the Gulf which is the only region in the world where Islamic banks have a significant share of bank deposits and which are for all intents and purposes American colonies. The Kuwait case study shows how Islamic banking is being used to tip the scales in favor of American reformers within the government. There is widespread recognition that “it is in the Western world’s interest to encourage the integration of Islamic financial instruments into international finance. Islamic capitalism is not a threat to Western capitalism. The IMF and the World Bank encouraged the establishment of the Islamic Financial Service Board that advises the central banks on the regulation of Islamic banks and facilitates standardization” (P 293). Integration between Islamic and western capitalism is being promoted by Islamic bonds “which have exactly the same features as their conventional equivalents and yield fixed rate of return comparable to market rates of interest” (P 294). Today Islamic capitalism is being sponsored by “ a much better qualified and financially aware generation of Sharia scholars in the Gulf approving radically innovative Islamic financial products” (P 295)

This is a well-researched anthology written by insiders. It illustrates the imperialist sponsorship of the Islamic finance movement and the dangers it poses to the Islamic movements in the Muslim world. Separate chapters on Pakistan, Bangladesh, Malaysia, Indonesia and Thailand are badly missed and one hopes that OUP will add these to a future edition of this book.

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