

28/04/2009 - On The Occasion Of The Opening Ceremony Of The International Conference On Islamic Economics And The Economies Of The OIC

Bismillahir rahmanir rahim

Assalamualaikum warahmatullahi wabarakatuh and a very good morning.

(SALUTATIONS)

Ladies and Gentlemen,

The world is facing extraordinary economic challenges. Not since 1945 have we experienced such a global economic downturn. Confidence in financial markets is damaged and major industrial nations are simultaneously in recession. The World Bank has also predicted that for the first time in more than a quarter of a century, world trade will shrink this year. It is time now for a relook at the state of affairs in the global economy, not just at what got us here but more importantly what we can do collectively to get us out of this economic mess and equally important, what are the lessons that can be learnt from this. As such, the organisation of this International Conference on Islamic Economics and the Economies of the OIC Countries is indeed timely.

2. Before proceeding further, allow me to thank the Dean of the Kulliyah of Economics and Management Sciences and his team for organising this Conference. It is fair to say that this conference is taking place at a time when the faith of the world in the dominant paradigm of economics has been shaken and some very serious questions are being raised about its fundamental tenets. As the world's leading economies which preach laissez-faire capitalism embrace wider government intervention and overarching regulations, there are many who are of the opinion that socialism is making a comeback. According to recent media reports the socialist party in the US has resurfaced and is attracting the attention of the poor and the unemployed. But socialism has been tested and proven a failure. Socialism has failed and Capitalism seems to have fallen from grace. So is it time now to think of the possibility of an "Economics Revolution" grounded in Islamic economics? Perhaps some answers will come out of your deliberations today.

Ladies and Gentlemen,

3. Although Islamic economics and Islamic banking and finance have come a long way over the last 30 years, there are still those who believe that these approaches are normative, and hence a matter of personal choice. In other words, despite the failure of Wall Street and the catastrophic impact on the global economy they do not recognise the validity and relevance of the Islamic concepts of Amanah, and Accountability in business and finance.

4. In serious intellectual discussions the normative aspect of Islamic economics has always been a major issue. The current global economic crisis categorically demonstrates that irrespective of its ideological underpinnings the normative content of Islamic economics, banking and finance contribute to the stability of the global economy and its sustained growth in the longer term. Islam demands that an economic system, and all its institutions and practitioners, should keep the concept of Amanah and Accountability at the center of their motivations, transactions, policies, practices and goal. And at all levels: whether individual, national or global.

5. We are told that it was the subprime loans crisis rooted in greed that became a contagion. This statement of the problem itself is an indicator of the unwillingness to recognise the real problem. The real problem in the dominant paradigm is its lack of commitment to public interest. The time has come when commitment to public interest should be recognised as an integral component of rational thinking and natural to decision making at all levels. The entire education system will have to be tuned to this goal, right from the beginning. The advocates of laissez faire capitalism have responded to this challenge, but only half heartedly. Their response consists of the following two measures:

i) Introduction of Business Ethics courses in Business Schools; and

ii) Emphasis on Corporate Social Responsibility.

6. This approach merely draws a line which should not be crossed. It fails to make moral principles part of one's inner thinking and consequently a natural component of rational decision making process. Thus when the economic actors get closer to that line, more often than not, they just cross it without giving it a second thought. What we now need is a change in our response such that public interest becomes the natural ingredient of rational thinking in economic decision making at all levels. Herein lies the pivotal role of Islamic economics.

Ladies and Gentlemen,

7. The advocates of the dominant paradigm would surely be opposed to this idea as their claim is that theirs is the best way. This loyalty to the dominant paradigm is always the hallmark of those who gain from the status quo. The story of the evolution of economics is replete with such instances. The beneficiaries of protectionism advocated the mercantilist paradigm, those who stood to gain from free trade advocated laissez fair. Then it was Keynesianism. With the emergence of New Right in the U.S. in the 1980s the neoclassical paradigm became dominant. As the New Right strengthened with time, the Neocons joined hands and attempted to subjugate the whole world under the generic label of the "Washington Consensus" by all possible means, including the military. Today the whole world is suffering from the global economic crisis which is the logical consequence of the political economy of Neoclassicism under the guise of the Washington Consensus.

8. One way to prevent the repeat of such disasters is by developing economic theories, models and approaches that make commitment to public interest a natural component of decision making. This is the challenge before the Islamic economists today. There is no doubt that over the last 30 years Islamic economists have made their presence felt and have produced literature that provide enriching insights into issues and policies. But given the current challenges, their job has only just begun. It is expected that they have to struggle with a host of issues at this stage. However, it would be useful to remember the pitfalls of being prisoners of the dominant paradigm. The 1997-98 Asian financial crisis showed that the countries that were intellectually prisoners of the dominant paradigm suffered a great deal. Malaysia dared to think out of the box, and won the day, though it was ridiculed at that time by the advocates of the dominant paradigm. Hence Islamic economists will be well served if they dare to think outside of the box of the dominant paradigm.

9. We should also be cognisant of the fact that at the end of the day the progress of a discipline depends upon new ideas and the ability of its practitioners to articulate them systemically. It should also be noted that resistance to creativity and originality are characteristic of dying civilisations, whereas rising civilisations cherish them because they thrive on them. New ideas and approaches are generated in a number of ways. One way is through the cross-fertilization of ideas from different disciplines. Ibnu Khaldun combined history with sociology and delivered his famous relationship between high taxes and state revenue. In the 20th century this relationship was expressed in a curve by the American economist Arthur Laffer. Today this curve is known as the Laffer Curve. The Islamic economists may also gain useful insights if they adopt this Khaldunian inter-disciplinary approach. Not every economist can do that as it requires expertise in more than one discipline. But those who are capable of it should be given encouragement and support if they choose to go down this path.

10. In the 21st century when new interdisciplinary approaches are expanding the horizons of economics - a good example of which is Neuro economics - Islamic economists should also realise their role in creating new knowledge. It would be unfortunate if Islamic economist dedicate themselves to only one discipline and refuse to benefit from inter-disciplinary creativity, innovation and explorations.

11. In the current global economic turmoil Islamic banking and finance have come under a sharp focus and are being appreciated by some quarters for their reliability, soundness and social responsibility. Even the Vatican is suggesting that Islamic Finance System has the potential to strengthen the Western Banking System. Articles published in the Vatican's official newspaper Osservato Romano have argued that Islamic Banking is safe and reliable as it is founded on ethical principles. This recognition comes at a

very crucial time and is indeed a welcome sign. It puts additional burden on our shoulders and demands that we should continue our efforts to further strengthen Islamic Banking and Finance and make it relevant to the challenges and needs of the 21st century.

Ladies and Gentlemen,

12. This conference also focuses on the economies of the OIC countries, and rightly so. The OIC members have a combined population of more than a billion and enormous resources, with a total market size which is bigger than that of India's and closer to that of China's. Yet its full potential has not been realised because of lack of integration. Hopefully the papers in this conference would focus on relevant issues in this regard. In this juncture of our history, it is very important that the institutions represented here today build smart partnerships to sustain long-term relationships. On behalf of the IIUM, I welcome research collaboration with the OIC, IDB and their subsidiary organisations. This conference must develop research groups that would work on issues that contribute solutions to the problems and challenges facing the Ummah.

13. I take this opportunity to congratulate the Kulliyah of Economics and Management Sciences, its Dean and academic and administrative staff and members of various committees for organising this conference. And indeed our heartfelt thanks are due to the IDB and other sponsors as without their generous support this conference could not have become a reality.

Thank you.

Wabillahitaufik walhidayah Wasalamualaikum  
warahmatullahi wabarakatuh.