Islamic world’s development policy responses to the challenges of financial globalization

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Abstract

Purpose – This paper aims to analyze the nature, mechanisms, conventional and modern instruments, dynamics, and the future possibilities of the contemporary phenomenon of financial globalization from the point of view of identifying and addressing the corresponding real politico-economic challenges confronted by the contemporary Islamic world. In this context, the paper focuses on the institutional responses of the contemporary Islamic world to the challenges of financial globalization.

Design/methodology/approach – The approach of the paper is to develop a theoretical treatise on its subject, in the light of research work of Ali Khan who points to the imperative of an Islamic institutional response to financial globalization, by treating the institution of Islamic banking as the concrete proxy of the Islamic financial institution, and to highlight the actual and prospective responses of the Islamic financial institutions to the challenges of financial globalization.

Findings – Financial globalization is an evolving reality. Because of its atheistic, materialistic, undemocratic, non-universal and interest-based world view and character, financial globalization has been posing a serious challenge to the contemporary Islamic countries’ agenda of economically empowering and developing themselves through the integration of their economies along the universal Islamic lines exhibited in the form of one Islamic Ummah.

Research limitations/implications – Research limitations are embodied in the overwhelming problem of finding the latest comprehensive set of data in the context of the relevant Islamic economic variables.

Practical implications – The interest-based Bretton Woods institutions and the conventional-cum-new instruments as well as the interest-based mechanism of financial globalization are determined to be Islamically useless and irrelevant for the Islamic countries. Therefore, the Islamic countries are left with only the financial instruments of Islamic interest-free foreign direct investment/workers’ remittances/equities along with the several additional Islamic instruments of financial globalization which have the potential of ensuring the Islamic countries’ development according to the Islamic ideals without compromising the sovereignty and integrity of the Islamic Ummah.

Originality/value – The paper presents an objective Islamic critique of the capitalist financial globalizations as well as documenting a progressive institutional-cum-development policy response to the challenges of financial globalization from the point of view of ensuring the development and empowerment of both the Islamic Ummah and the whole of humanity in the Islamic universal frameworks.

Keywords Globalization, Financial economics, Islam

Paper type Technical paper

1. The nature and working mechanism of financial globalization

Discourses on the financial globalization date back to the eighteenth century debates on the nature and effects of the commerce and financial globalization, conceived in the writings of the Scottish Enlightenment, which laid down the foundations of the modern science of economics. Financial globalization refers to the rapid integration, in terms of developing financial relationships and financial flows, of all countries of the globe within the global financial system. The set of prerequisites for international financial integration includes orderly currency arrangements, a well defined exchange rate
policy, an effective payments-cum-banking system, and the properly functioning foreign exchange markets.

Financial globalization is one distinct constituent of the overall phenomenon of globalization which envisages the fast integration of all countries' economies through international trade, financial flows, spillover effects of technology, networks of information, and cross-cultural currents which have been transforming the whole world into a global village as a result of the continuing scientific revolution in the fields of production as well as communications and as a result of the global spread of multinational corporations which have been facilitating the already mentioned ever-growing capital mobility in the form of the swift massive financial flows across national boundaries. Practically, the financial globalization means simply the elimination of the obstacles existing in the way of international flows of capital.

Historically, the international capital markets became disintegrated at the onset of World War I. Afterwards, the international monetary system was created at Bretton Woods in 1944 which assigned the prime importance to its own agenda of restoring the multilateral payments as well as the current account convertibility while preserving restrictions on the capital movements as a key constituent of the adjustable peg system. Thus, only convertibility on current account transactions was demanded by the International Monetary Fund (IMF) articles in the sense that IMF-member countries were explicitly permitted to restrict the capital account transactions if they allowed the free use of their currencies for transactions which enter the current account[1]. At the time of end of the World War II, the private international financial flows played a limited role because the international portfolio flows were restricted by narrow nationalistic considerations manifest in the form of national controls as well as currency regulations.

The current account convertibility was realized by major European countries in 1959. In this background, the international capital markets remained disintegrated until the mid-1960s. Later, Germany permitted substantial capital account convertibility as well despite the fact that IMF articles have no such requirement of allowing the capital account convertibility.

Within the next two decades, capital controls were dismantled by the major countries[2]. Afterwards, overtime, the globalization in general and the financial globalization in particular have been accompanied by an increase in the breadth and depth of international private capital markets. In the past decade, a number of developing countries also opened up/liberalized[3] their capital accounts[4] and, thereby, extended the extent and geographic limits of their capital market integration. It is presumed that capital account liberalization-based higher volumes of capital inflows and outflows result into a higher degree of financial integration with the global economy. In this scenario, a group of quasi-permanent borrowing countries has been having some access to private international capital since 1970s when the more advanced countries' economies developed various financing alternatives depending on the borrowing in private capital markets.

Empirically, the financial globalization has been conditioned by the economic interdependence between the developing countries and the developed countries. In this background, low income developing countries have been realizing capital inflows from foreign countries' institutions and individuals in the form of grants, loans, and equity investments for an import surplus arising in the contexts of goods and services. Such capital inflows enable the developing countries to expend more than their production, import more than their exports, and invest more than their savings thereby filling the gaps which restrain their economic growth. IMF claims that a regime of more tightly
integrated capital markets has actually emerged. This claim of IMF is based on the empirical evidence of the reduced dispersion of real interest rates (International Monetary Fund, 1997, p. 115) in case of a set of countries including the USA, Germany, France, Italy, the UK, Canada, and Sweden in the period from 1960s to mid-1990s. In this background of the integration of international financial markets, certain emerging market countries have become highly dependent on private capital flows thereby radically reducing their dependence on the IMF’s financing facilities for solving their balance of payment problems. Most recently, in the context of achieving the Millennium development goals (MDGs), the developed countries have set forth their prioritized globalization-oriented agenda of trade and aid.

Since the 1960s, banks of various countries (e.g. the USA, etc.) have been becoming more and more active in foreign markets. This phenomenon of internationalization or globalization of banking industry has been culminating into the institutionalization of Euromarkets of Eurodollars and Eurobonds. In 1981, efforts of the American Federal Reserve for bringing back some of the business of the offshore Euromarkets to the American soil led to the institutionalization of International Banking Facilities (IBFs) whose transactions are still officially treated as offshore transactions which are free from domestic regulations such as reserve requirements and deposit insurance assessments. Moreover, the income of IBFs has been exempted from the state and local taxes in order to provide a fiscal environment resembling the tax havens abroad. The important lesson of the above history of financial globalization is that the financial globalization, based on progress in the open trade-cum-payments arrangements, is a product of the major roles of both the technical forces and policies.

Thus, the working mechanism of the financial globalization envisages current account convertibility, capital account convertibility, General Agreement on Trade in Services under World Trade Organization (WTO), Trade-Related Investment Measures, and Trade and Investment under WTO. This mechanism is expected to minimize the international frictions and, thereby, promote the multilateralism.

2. Instruments of financial globalization
The set of instruments of globalization includes conventional instruments as well as the new instruments. The nature, the aforementioned types, of instruments is being reviewed below:

2.1 The conventional instruments of financial globalization
The conventional instruments, based on the concept of official development assistance (ODA), include bilateral ODA, multilateral ODA, and the Millennium Declaration-cum-Monterrey Consensus.

2.1.1 Official development assistance (ODA). ODA, also called concessional foreign aid including technical cooperation as well as the development grants or loans offered at concessional terms by the official agencies but excluding military assistance, has been the prime instrument of financial globalization especially from the point of view of the developing world, which also includes the contemporary Muslim countries, for directly alleviating poverty, developing skills, augmenting infrastructure, and ensuring build-up of the production as well as trading capacities in the developing countries. Over time, ODA as a percentage of total capital flows to developing economies has sharply declined from 69 per cent in 1960-1961 to 11 per cent in 1990-1996.
It is important to note that the empirical evidence (Clements et al., 2004) points to the fact that the countries having the weakest institutions tend to experience the problem of cancellation of their increase in grant aid-based resources by the simultaneous reduction in resources in the form of government revenues and, thereby, lead themselves to their greater aid dependency.

It is also argued that borrowing actually reduces the savings gap as well as the foreign exchange gap by equal amounts[8].

2.1.2 Bilateral ODA. Bilateral ODA is in the form of bilateral aid provided directly by a country to another country (e.g. Japan’s Foreign Aid, USAID). During 1980s, OECD countries contributed four-fifths of the world bilateral aid.

2.1.3 Multilateral ODA. Multilateral ODA is in the form of aid provided by multilateral agencies involving many donor countries (e.g. foreign aid provided by International Development Association and the Commission for European Communities).

2.1.4 Millennium Declaration-cum-Monterrey Consensus. In the light of the MDGs[9] stated in the Millennium Declaration signed by countries in 2000, as well as the Monterrey Consensus[10], the developed countries have been targeting to earmark 0.7 per cent of their gross national product for ODA for 50 per cent reduction in the global poverty by 2015.

2.2 New instruments of financial globalization

New instruments of financial globalization are foreign direct investment (FDI), total external debt (TED), equity, commercial bank lending, and remittances.

2.2.1 FDI. FDI has been a major driving force of financial globalization. It is important to note that the creation of new investment opportunities is claimed to give rise to additional FDI which leads to higher investment as well as to the increased access to the internationally available technologies and the managerial know-how. Mundell (2002) highlights the existence of a key linkage between globalization and FDI in the light of the argument that the opening up of the traditional economies to the rest of the world primarily depends on the FDI and its magic package of capital, technology, and markets. In this theoretical background, the FDI has been the financial globalization’s vehicle instrument embodying the facilities of transferring the technology and other missing components[11], boosting the factor productivity, accelerating growth, creating the employment opportunities, alleviating poverty, and, thereby, realizing multidimensional sustainable development. FDI is envisaged to assume a vital role, in the globalization-oriented transformation, of complementing the inadequate domestic savings of the FDI-recipient poor developing countries and, hence, increasing their total investment without burdening them with any additional external debt at all. Despite this rosy theoretical picture of the prospective benefits of FDI, the FDI flows have been practically discouraged by the uncertainties regarding the property rights, legal frameworks, and the fiscal environments of the FDI-recipient countries. Consequently, FDI inflows in the FDI-recipient countries have been quite small.

2.2.2 TED. A country’s TED, consisting of the short-term[12] external debt and the long-term[13] external debt as well as the public/publicly guaranteed debt and the private debt, refers to the stock of debt owed to non-residents governments/businesses/institutions (e.g. the IMF credit).

2.2.3 Equity. Foreign investment in international equity placements in the form of depository receipts[14], being the fastest growing segment of the overall financing, has
been assuming greater and greater importance as a source of external finance for a number of transition economies wherein the foreign investment in equities surged. Keeping in view the problems associated with the direct investments in the stock markets of the transition economies, corporations in the transition economies have been organizing international equity placements in the form of American depository receipts or global depository receipts.

2.2.4 Commercial bank lending. Commercial banks, being at the centre of international capital markets, offer loans to corporations and governments. According to an American debt initiative, called the Brady Plan, the commercial banks have been urged to provide a broader range of alternatives for financial support including the provision of new lending to the debtor nations. However, it is important to note that private capital flows have been continuously experiencing a trend away from bank loans toward both FDI and portfolio investment.

2.2.5 Workers remittances. Remittances from a particular country’s overseas workers are also used to finance the country’s balance on goods and services deficit.

3. Implications of the financial globalization for the Islamic world and the Islamic development policy response

This section of the paper especially focuses on the implications of the financial globalization for the Islamic financial institutions while treating the institution of Islamic banking as the concrete proxy of the Islamic financial institution in the light of analysis of Khan (2000) who points to the imperative of an Islamic institutional response to the financial globalization. In the context of the Islamic financial institutions, he explores the possibilities of their role as a lender of last resort for the Islamic community and for other private financial institutions; and the scope as well as the extent of suspending the normal standards of credit-worthiness. Existence of both the time and uncertainty rules out the possibilities of having a world of complete markets as well as gives rise to the problems of missing markets, shocks, risks, and institutional responses to the shocks arising in the context of the dynamic process of financial globalization.

Keeping in view the inseparability of the Islamic financial institutions (e.g. Islamic banks, Zakat, Waqf) from other Islamic institutions (e.g. Islamic Ummah, the Islamic Universal Caliphate, Islamic law-cum-jurisprudence, Islamic judicial framework, etc.), the aforementioned points lead to the questions about the resilience and robust responses of Islamic institutions to shocks and to the feasible constructive answers to such questions originating from the Islamic financial institutions and other aforementioned Islamic institutions which are adequately conditioned by the Islamic pluralism inevitably based on the institution of Islamic Ummah over which the operations of diversification and aggregation are possible to conducted. Because the Islamic Ummah-level society is extremely large, the target financial market can be potentially large, and the risks from shocks emanating from the dynamic process of financial globalization can be pooled by the Islamic financial institutions such that there are no losers under certain conditions. Practical examples of the aforementioned Islamic financial institutions are several Islamic banks, Islamic insurance (Takful) companies and the Islamic development bank (IDB) which emerged as an Islamic Ummah-level development policy response of the Islamic countries to the challenges of financial globalization in the twentieth century.

Fifty-seven constituent countries of the organization of Islamic conference (OIC) as well as of the contemporary Muslim world, being an integral part of the emerging
global village, have not been immune to the forces and trends of the financial globalization culminating into the global capital market which has a set of main actors including commercial banks, corporations, non-bank financial institutions, central banks, and other government agencies. While the internationalism-based/international interest rates’ convergence-oriented financial globalization may be claimed by the exponents of the capitalist ideology as an engine of capitalistic growth and development of the entire global village, the interest-based financial globalization and its interest-based financial institutions are completely irrelevant for the Islamic world despite their glamorous agenda of financially integrating all countries’ economies with the global economy because from the Islamic point of view both the means and ends of the Islamic financial globalization, which is universal in scope, must be purely Islamic. Therefore the contemporary emergence and globalization of the Islamic banks and other Islamic financial institutions is practically a welcome development, as a partial progressive response to the Capitalist financial globalization, which needs to be complemented by the establishment of the missing Islamic institutional network of the autonomous Islamic universal central bank as an issuer and monetary manager of the Islamic universal (ψ) currency, the Islamic non-bank financial institutions (e.g. the Islamic treasury for providing Islamic safety nets to the vulnerable Islamic financial institutions, Islamic Universal Baitul Mal responsible for providing Islamic safety nets to the individuals and families adversely affected by the dynamics of the financial globalization as well as for providing economic relief to those effected by natural calamities all over the globe), Islamic corporations, and the Islamic government agencies.

The first and foremost implication of the capitalistic financial globalization is that, in the background of the non-democratic[18] and secular nature and role of The Bretton Woods’ system[19], it is impossible for the Islamic countries to realize their mutual financial integration along interest-free and universal Islamic lines within the twenty-first century global scenario of the most recent Hot War launched by the exponents of the capitalist ideology against the Islamic ideology. In the light of the aforementioned facts, it is naturally inevitable to constructively address the imperatives of financial globalization within inherent interest-free as well as universal Islamic economic framework which allows us to focus on the nature of financial implications of the financial globalization for the economies of the Islamic countries as well as on the corresponding actual and prospective development policy responses of the contemporary Islamic world.

Fortunately, the contemporary Islamic world has commenced its endeavors in the context of heralding an institutional-cum-development policy response to the challenges of the financial globalization. Set of the leading institutions involved in the Islamic institutional response to the financial globalization includes governments of the Islamic countries, some public and private banking[20]/investment/insurance (Takaful) institutions of certain Islamic countries, IDB, five offshore banking units (i.e. Non-Saudi Islamic banks[21] (e.g. Faisal Islamic Bank of Bahrain), which are domiciled in Bahrain and Kuwait, operating in Saudi Arabia outside the direct authority of Saudi Arabian Monetary Agency), some corporations as well as multinational companies, the OIC, and even the Islamic branches of some conventional banks (e.g. Citi Islamic Bank[22] is a branch of American Citi Bank).

Practically, the Islamic World’s institutional response to financial globalization has been accompanied by the substantial removal of restrictions on capital flows in Bahrain, Malaysia, Pakistan, and Sudan wherein global efforts are in progress for
cross-listing[23] Shari‘ah compliant products across their national markets as well as by the introduction of the following financial instruments, whose degree of Islamic admissibility deserves to be analyzed and judged by the contemporary Islamic economists and jurists:

- Sharia‘ah compliant stocks (i.e. variable income Islamic equities);
- Sukuk[24] (i.e. fixed income Islamic securities based on the Islamic concept of asset-based financing);
- Malaysian government’s al-Qardh al-Hasan certificates;
- Mudarabah certificates;
- Mushararakah term finance certificates issued by the Sitara Business Group in Pakistan;
- Central bank Mushararakah certificates in Sudan;
- Government Mushararakah certificates in Sudan;
- Government investment certificates in Sudan;
- IDB unit investment fund;
- IDB’s export financing scheme;
- IDB’s Islamic banks’ portfolio for investment and development;
- IDB-aid; and
- OIC-aid.

Inspite of the existing widespread barriers against cross-border trade in Islamic assets, the Islamic financial instruments are becoming increasingly globalized. This fact is implied by the empirical evidence that now Islamic capital market products are being offered in 20 countries (i.e. in seven Asian[25] countries, in six Middle Eastern[26] countries, in three African[27] countries, in two European[28] countries, and in two North American[29] countries).

Recently, the fast evolving Sukuk market has been a phenomenal institutional development which has been accompanied by the creation of a set of Islamic banking/finance industry-building institutions such as Liquidity Management Centre, International Islamic Financial Market, and the International Islamic Rating Agency. These institutions have been providing the services conducive to the creation and development of the Islamic capital market (Adam, 2005).

Further globalization and promotion of the already mentioned Islamic financial institutions as well as of the aforementioned Islamic instruments of financial globalization inevitably requires the establishment of the Islamic consensus-based banks (i.e. both the central and member banks)/financial institutions as well as the standardization of the Islamic instruments of financial globalization.

In addition, the following two Islamic financial instruments of financial globalization have been conceived and recommended:

1. Islamic depository receipts; and

International transfers of surplus Zakat (i.e. Zakat, Ushr, and Sadaqaat) Fund, which has the potential of culminating into a global fund, are expected to be highly effective
in providing Muslim individuals all over the world with the adequate economic safety nets against the shocks (e.g. unemployment, poverty, indebtedness, enslavement, etc.) emanating from the dynamics financial of globalization and with the economic relief in case of the globalized massive natural calamities (e.g. earthquakes, tsunamis, hurricanes, and cyclones). It is the most practical and globally effective instrument for securing the socioeconomic interests of the Muslim masses all over the globe and, therefore it needs to be immediately institutionalized.

Of course, the aforementioned mix of the Islamic institutional and development policy responses is encouraging but insufficient as compared with the needs of the Islamic Ummah and humanity as a whole. Therefore, there is an immense potential for Islamically addressing the numerous challenges emanating from the contemporary processes of financial globalization from the point of view of protecting and promoting the well-being of both the Islamic Ummah and the humanity as a whole.

4. Epilogue
Financial globalization is an evolving reality. Because of its atheistic, amoral, materialistic, inhumane, undemocratic, non-universal and interest-based world view and character, the financial globalization has been posing a serious challenge to the contemporary Islamic countries’ agenda of economically empowering and developing themselves through the integration of their economies along the universal Islamic lines exhibited in the form of one Islamic Ummah according to the politico-economic imperatives of the interest-free Islamic economy.

In the light of the Islamic imperatives, the contemporary Islamic countries have been trying to constructively address the challenges of the financial globalization. Their pioneering endeavors have been crystallized in the form of an Islamic institutional-cum-development policy response especially in the context of evolution of a globalized chain of Islamic financial institutions and their financial instruments. In this background, the interest-based Bretton Woods institutions’ interest-based mechanisms as well as conventional-cum-new instruments of financial globalization are determined Islamically useless and irrelevant for the Islamic countries. Therefore, the Islamic countries are left with only the financial instruments of Islamic interest-free FDI/workers’ remittances/equities along with the already mentioned numerous additional Islamic instruments of financial globalization which have the potential of ensuring the Islamic countries’ development according to the Islamic ideals without compromising the sovereignty and integrity of the Islamic Ummah. Of course, the contemporary Islamic world’s degree of institutional-cum-development policy response to the challenges of financial globalization is quite insufficient and it is required to be radically improved especially by executing the Islamic imperatives of instituting Islamic common market, Islamic common monetary-cum-fiscal authorities and policies, and the Islamic common currency within the framework of Islamic Ummah because the empowerment and development of the Islamic countries always lies only and only in their unity. In short, the Islamic countries can effectively face the challenge of financial globalization only by integrating themselves on the platform of the Islamic Ummah.

Notes
1. An account showing international transactions which involve the currently produced goods and services.
2. Capital controls were dismantled by both the USA and Germany in 1974-1975, by the UK in 1979, by Japan in 1980, and by other European countries at the end of 1980s.

3. Liberalization of the capital account refers to the process of easing restrictions across a country's borders.

4. Capital account refers to a country’s balance of payments covering various financial flows including primarily FDI, portfolio flows which include investment in equities as well, and bank borrowing. All these diverse flows have a common feature that they involve the acquisition of assets in one country by the residents of the foreign countries.

5. It is important to note that the first Eurobond was instituted through a British investment bank’s action of underwriting a USA dollar denominated bond issue for the Italian highway agency.

6. Grants are regarded by the recipient-countries as free resources and as a substitute for domestic revenues. Thus some economists recommend the foreign aid in the form of grants, motivated by the humanitarian goals emerging in the background of the developing problems of the loan-based massive debt accumulation, and not in the form of loans. Opponents of grants fear that grants will lead to a decline in the domestic revenues of the aid-recipient countries and, thereby, to an increase in aid dependency of the recipient countries. They advocate the provision of aid in the form of loans on the basis of the argument that loans compel the policy makers to use borrowed sums wisely as well as to try to mobilize additional tax revenues keeping in view the fact of the loan-related burden of accomplishing repayment in the future.

7. Loans having a grant component which depends on a number of factors such as the extent of the difference between the interest rate on the concessional loan and the commercial interest rates and the extent to which the loan is repayable in domestic currency, etc.

8. A machine obtained by a country through an international transfer facility signifies not only an import accomplished without the need for expending the foreign exchange but also an investment good which does not need to be offset by the domestic saving.

9. The set of eight goals aiming at the promotion of sustainable development as well as reduction of the poverty and the human deprivation.

10. In March 2002, Monterrey Consensus emerged in the follow-up meeting of the world leaders’ aforementioned summit. Monterrey Consensus is symbolic of the shared understanding of the broad development strategy and policies conducive to the achievement of MDGs.

11. For example, competent high-level managers of multinational corporations, the state-of-the-art capital goods, marketing skills, modern services, etc.

12. Short-term external debt refers to the external debt with a maturity of one year or less.

13. Long-term external debt refers to the external debt with a maturity of more than one year.

14. Depository receipts, which are listed and traded on the stock markets of advanced economies, refer to the negotiable equity-based certificates representing the underlying shares listed on the stock exchanges of the transition economies.

15. For example, the judicial institutions are indispensable for ensuring viable financial institutions.

16. For example, the deleterious effects of financial globalization, moral hazard, adverse selection, transaction costs, etc.

17. According to the argument of Khan (2000), even the Islamic financial institution does not lose any resources.
This fact and its regressive implications are implied by the following argument of Singer (1995, p. 12):

The main reason lies in the different systems of the voting and decision-making. The UN is governed by a rule of a-country-a-vote, while the Bretton Woods system is a-dollar-a-vote system. This gives the financially powerful countries firm control of the Bretton Woods institutions and this has led them to concentrate their support and resources on them, while withholding them from the UN system where since the independence of many new countries they are in a voting minority. This has set up a vicious circle for the UN system. By withholding resources, the system has become crippled and incapable of playing its assigned role in development. This is then interpreted as failure and incompetence and becomes a reason or pretext for further withholding of resources thus setting of a vicious circle.

The system consisting of IMF and the World Bank as the sponsoring institutions of financial globalization.

For example, Al-Baraka Islamic Bank, which was incorporated and licensed to operate from Bahrain as an Offshore bank on the 21 February 1984, is a leading Islamic Bank operating in Bahrain and covering Saudi Arabia, UAE, other Gulf Cooperation Council’s member countries and Pakistan. Al-Baraka, as a part of Saudi Arabian Dallah Al-Baraka group (founded in 1969) which has interests in over 300 companies across 44 countries, has been striving to be a premier regional Islamic bank. It has a large base of customers.

These banks are competing with Saudi commercial banks for deposits and are participating in the investment activity by taking advantage of Foreign Capital Investment Law. These banks are allowed to invest in projects that may not be funded by the Saudi specialized credit institutions.

This important Islamic type of institutional response of the conventional banks to financial globalization is symbolic of the continuous process of evolution of the interface between Islamic banking and conventional banking especially in Bahrain and Malaysia in several areas (e.g. current account, housing finance, use of Musharakah and Murabahah by some conventional banks for import and export financing, etc.).

While Sudan Telecom is cross-listed in Bahrain, some Malaysian and Bahraini Sukuk are cross-listed in Malaysia and Bahrain.

Adam (2005) has portrayed Sukuk as a global product having a lot of potential for causing growth of the domestic capital markets of the Muslim world. Here, it is important to note that there exist “Corporate Sukuk” issued by corporate firms as well “Sovereign Sukuk” issued by governments of the Islamic countries. There are three types of the issued Sukuk namely Ijarah Sukuk, Istisna suku, and murabaha sukuk. Eighteen Sovereign Ijarah Sukuk amounting to US$5,650 billion have been issued by Bahrain, Malaysia, Pakistan, Qatar, and Saxony-Anhalt state of Germany. So far ten Ijarah sukuk issued by the corporate and non-government sector institutions amount to US$1,601 billion. It is important to note that the IDB-Sukuk, Ample Zone Sukuk of Malaysia, and Ingrees Sukuk of Malaysia have been internationally rated. However, Sukuk are not popular among the Islamic banks and, therefore, only the IDB and one other Islamic bank have introduced Sukuk. Keeping in view the existing excess demand for Ijarah Sukuk, especially for the Sovereign Ijarah Sukuk, there exists a lot of optimism regarding the growth of primary market for Ijarah Sukuk because the rating of the Sovereign Sukuk of each Islamic country is the same as the rating of its conventional sovereign bonds despite the facts that the secondary markets for Sovereign Sukuk are not developed and that the buyers of the Sovereign Sukuk hold them till the time of their maturity.

Bangladesh, Indonesia, Iran, Malaysia, Pakistan, Singapore, and Sri Lanka.

Bahrain, Jordan, Kuwait, Qatar, Saudi Arabia, and UAE.
27. Egypt, South Africa, and Sudan.
28. Luxumburg and the UK.
29. Canada and the USA.

References


Further reading


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