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Population, urbanisation and the dialectics of globalisation

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Introduction

In the nineteenth and early twentieth centuries European colonialism created the infrastructure for a new and more global system of economic production and exchange. In the aftermath of the Second World War, colonial capitalism gave way to less directly coercive linkages of market and state, but events have otherwise preserved a general pattern of Western economic dominance.

This chapter examines the impact of the phases of economic globalisation and Western dominance since the late nineteenth century on urbanisation, industrialisation and inequality in the Muslim world. It also examines how mainstream Islam is responding to the challenges of globalisation. Special attention is given to the colonial legacies of population, urban growth and class inequalities; the implications of globalisation and international economic restructuration during the 1980s and 1990s; contrasts between oil-producing and non-oil Muslim economies and alleged affinities between the rentier state and political authoritarianism; the new alliance between Islamic financiers, the ʿ*ulamāʾ* and global capitalism; and the impact of today's 'demographic bulge' on future trends in population and politics.

Colonial legacies

The development of the telegraph, coupled with the opening of the Suez Canal in 1869, ushered in the first phase of economic globalisation, 1870–1914. Movements of peoples, goods, capital and information accelerated across the globe, and the governments of the principal owners of the capital and technology in turn extended their empires for the sake of increased efficiency and to defend themselves from one another. By the turn of the century virtually all of Africa, the Middle East and large parts of Asia were under European rule, and Britain and France would complete the task of disassembling the Arab parts of the Ottoman Empire in 1920. Maps of the world until the mid-twentieth century were coloured red for Britain, blue for France, etc., obscuring the fact that the new territories they represented had once, with few exceptions, been in the *dār al-Islām*, land under Muslim rule.[1] The exceptions were parts of tropical and southern Africa, the southern peripheries of China and the Indian subcontinent, Guyana, most of the Philippines and many other little islands. After the Spanish-American War the United States mopped up remnants of Muslim resistance in the Philippines, although the French and the Italians would be pacifying parts of North Africa much closer to home well into the 1930s. Broadly, however, the first phase of economic globalisation coincided with the final collapse of Islam as a political and economic force.

The only Muslim territories to escape Western imperialism were parts of inner Asia brought under Soviet or Chinese control, buffer states such as Afghanistan and Iran, where Russian and British spheres of influence remained informal, parts of the Arabian Peninsula and the Republic of Turkey, frog-marching zealously through 'secular' reforms in the 1920s to be as Western as possible. Within the Muslim world the Ottoman Mediterranean had most vividly experienced the forces of economic globalisation leading to political collapse. Debt crises had led in 1881 and 1882, respectively, to the French and British occupations of Tunisia and Egypt, to a multinational takeover of Ottoman finances in 1881 and to the dividing up of Morocco in 1912 between the French and Spaniards. Elsewhere in Africa and Asia, European conquests extended the territories under colonial occupation but, with a few exceptions such as Iran and the 'jihad states' of West Africa, Muslim states were no longer available for mortgage to international investors. In the Indian subcontinent and Indonesia, which contain roughly half of the world's Muslim population, the British had already destroyed the Mughal Empire, and the Dutch never experienced more than local oppositions.

Globalisation served to rationalise new empires, with important consequences for the various Muslim local leaders and social intermediaries. The direct effects, however, also ran contrary to the globalisation of the Muslim world. With a few temporary exceptions, the first phase of globalisation further boxed Muslims into the various European empires, thereby disconnecting them from their own earlier 'worldwide system of Muslim societies'.[2]

1 Conversely Shāh ʿAbd al-ʿAzīz (1746–1824), a Muslim reformist, issued a *fatwā* (legal ruling) in 1803 declaring India to be *dār al-ḥarb* (literally 'land of war' in contrast to Islam's 'land of peace'), according to Ira Lapidus, *A history of Islamic societies* (Cambridge, 1988), p. 720.

2 Ibid., p. 551.

Although most colonial authorities permitted the annual pilgrimage to Mecca, new barriers curtailed much of the trade and money transfers that had characterised an earlier less intensive globalisation without the telegraph.

Western 'colonialism', a term used here to denote political rule by a Western metropole over other populations, with or without colonists, took many forms, depending on the nationality of the coloniser but also upon the timing of the colonial conquest. The new French rulers of Tunisia, for instance, 'looked to Algerian models 'more often as examples of what *not* to do'[3] and thus did not commit the same mistakes of razing a ruling elite and ruling by military force. Occupying Morocco in 1912, yet a generation after Tunisia, Marshall Lyautey perfected techniques of indirect rule that preserved local elites while pacifying the country and forging new administrations to serve projects of colonisation. Indeed, distinctive differences of colonial policy even by the same coloniser in adjacent geographic areas had major implications for post-colonial rule.

The most important colonial legacy was the social composition of the nationalist movement that arose in opposition to colonial rule. These movements varied considered across the Muslim world in the degree to which they mobilised their respective populations and in the composition of the new elites that orchestrated the mobilisation. If many of the latter were 'Creole', the products of Western education, they were also in varying degrees rooted in whatever remained of their pre-colonial social structures. The critical social intermediaries survived to a greater or lesser extent, depending on the nature of colonial rule, the degree, for instance, to which traditional elites were retrained and used by the new colonial administration. In Indonesia, for instance, the Dutch transformed a historic ruling class of *priyayi* into subordinate functionaries spreading a uniform language and sense of nationality across a multitude of islands. British rule, by contrast, seriously weakened the Muslim landowners of the Mughal era.

The colonial dialectic everywhere pitted new social strata against older ones that the metropolitan power had to some degree co-opted and discredited. The new nations created in opposition to colonial rule tended to become more inclusive, the longer the conflict endured between rulers and colonial subjects. As important as the longevity of colonial rule and opposition to it, however, was the degree of colonial repression. The more carefully repression was calibrated, the greater the chances for the nationalists to keep organising and extending their new civil societies, as in British India or French Tunisia. In

3 Kenneth J. Perkins, *A history of modern Tunisia* (Cambridge, 2004), p. 40.

Tunisia a new French-educated stratum with rural roots could incorporate older classes in a relatively extensive new nation. There was time, between the colonial occupation of 1881 and independence in 1956, for three generations of nationalists, from Young Tunisians in 1908, the Destour in 1920, to the Neo-Destour of 1934, to extend and deepen their dominion. But in neighbouring Algeria the repression was too severe and traditional intermediaries too thoroughly discredited by their collaboration with colonial rule for a similar dialectic to unfold. In much of the Near East, by contrast, there was too little time for constructive confrontations with the colonial power. Iraq, Lebanon and Syria, for instance, were only brought under Western rule in 1920, much later than Tunisia, yet obtained their independence earlier, before nationalism had developed intermediaries connecting the urban elites to rural bases. Iraq gained formal independence in 1932, followed by Syria and Lebanon in 1946. Consequently the new national communities achieving independence, especially in Iraq, were little more than networks of Ottoman notables and tribal leaders who had become large landowners. The military officers, recruited from peripheral strata and hence serving as intermediaries of sorts with rural populations,[4] would, except in Lebanon, replace civilian rulers after independence – a pattern replicated in much of the Muslim world.

Indonesia, Pakistan and Nigeria, the most populous of the new Muslim nations, also succumbed to military rule shortly after independence because their respective nationalist movements did not develop more effective political intermediaries. Secular Muslim leaders in British India had broken with the Congress Party and achieved independence for Pakistan before they could build up a comparable party linking urban elites to the countryside. So also in Indonesia, the Japanese occupation cut short any potential colonial dialectic with the Dutch rulers. Nigeria developed regional parties before independence but they did not have time to link up with the more populous, Muslim hinterland to the north. Military rule came by default as a substitute for civil intermediaries, not as some inherently Islamic form of government. In Malaysia parties emerged first in response to a largely non-Malay Communist insurgency and then in defence of Malay identity while delicately balancing other ethnic economic interests in a dominant one-party system.

The other exceptions to military rule were countries that had not been colonised, or that had otherwise preserved a monarchical form of government

4 Hanna Batatu, *The old social classes and the revolutionary movements of Iraq: A study of Iraq's old landed and commercial classes and of its Communists, Ba'thists, and Free Officers* (Princeton, 1978), and Hanna Batatu, *Syria's peasantry, the descendants of its lesser rural notables, and their politics* (Princeton, 1999).

and strong religious institutions. The Moroccan ʿAlawī dynasty (1631–) survived by accident, because the French resident general, Marshal Alphonse Pierre Juin, had exiled the shy monarch to Madagascar in 1953 for not signing away Morocco's sovereignty. Having unintentionally sanctified him, France was obliged, to prevent further bloodshed, to return Mohammed V to his throne in late 1955 and almost immediately grant Morocco its independence. Iran eventually lost its monarchy but still survived without military rule because it harboured a relatively autonomous religious establishment and rich varieties of intermediaries. Afghanistan, Saudi Arabia and Turkey also managed for different reasons to avoid subservience to an organised military force. In Saudi Arabia contending royal factions enjoyed the support of alternative military establishments, the National Guard and the conventional armed forces. Turkish military intervention was never intended to undermine the legitimacy of a civil constitutional order, although the military did reshape it on four different occasions after 1950.

Population and urban growth

Another important legacy of colonial rule was the rise of new cities, eventually to be mega cities, like Cairo, Dacca, Jakarta, Karachi, Lagos and Lahore (including satellite cities), with over 10 million inhabitants. On balance the new public health and other services accompanying Western domination led to the largest increases of Muslim populations in their history, although as late as the 1920s at least one colonial power, Italy, was massacring them, and there is no way of knowing how many hundreds of thousands or millions of Muslims were killed in earlier times resisting Western invasions. In 1800, about the time Napoleon invaded Egypt (1798) to begin the Western conquest of the southern Mediterranean, Roger Owen estimates the populations of Anatolia and the Arab provinces of the Ottoman Empire to have been in the range of 11 to 12 million, with an additional 750,000 for Istanbul. By the end of the nineteenth century they had grown to 32 to 33 million, and Istanbul was counted to be 1 million in the 1906 census.[5] Populations swelled even in Greater Syria where large numbers, especially Christians, emigrated from the harsh conditions afflicting the region in late Ottoman times. The total population of the Ottoman successor states of Egypt, Iraq, Israel, Jordan, Syria and Turkey reached almost 70 million in 1960 and 200 million in 2004. In this core of the Muslim world the population has increased almost twenty-fold in

5 Roger Owen, *The Middle East in the world economy 1800–1914* (London, 1981), pp. 24, 189, 287.

the past two centuries, for the most part in the twentieth century, when the rates of increase also seemed to be accelerating. Populations doubled during the first sixty years of the twentieth century and then tripled in the most recent half-century. The total Muslim population reached 1.48 billion in 2003.[6]

A closer examination of the data reveals that in the Mediterranean, at least, the population explosion affected colonial and independent countries alike but may have given the more intensely colonised countries like Egypt a head start over Iran and Turkey. Even latecomers, however, already experienced urban development with the opening up of trade and commerce in the nineteenth century. Casablanca was little more than a fishing village in 1834 with a population of 800, but it had already expanded to 12,000 by 1913, the year after France established a protectorate over Morocco. It then expanded by 1920 to 110,000 people,[7] with Muslims in the minority, as Casablanca became Morocco's principal port. Its population in 2000 was 3,357,000.

The era of Western dominance clearly set off a population explosion, especially in the new cities, that persisted after their countries, shaped by their colonial masters, achieved formal independence following the Second World War. Table 3.1 presents the populations in 1960 and in 2003 of fifty-six countries that are full members of the Organisation of the Islamic Conference. The Muslims constituting 11 per cent of India's population were added because they constitute the fifth largest Muslim population after Indonesia, Pakistan, Nigeria and Bangladesh. In many of these countries, including Malaysia and Pakistan, the population tripled over those forty-three years, as the column of the table indicates by the ratio between the two years. The average ratio was 2.7, indicating an average annual rate of growth of about 2.4 per cent.

The masses in the cities, more available for political activity, grew much faster. In 1960 the urban populations of these countries, without India, totalled slightly fewer than 100 million. The cities expanded more than six-fold to a population of 598 million by 2003. The final column of Table 3.1 presents the ratio for each country of the urban population in 2003 to that of 1960. Many of the outliers are oil states that brought in expatriate labour to manage their riches in a sort of reverse colonialism. Dubai, building a huge palm-shaped

6 As calculated by Muslim Population Worldwide: www.islamicpopulation.com/index.html (retrieved 27 July 2005), from conventional sources such as the CIA Factbook. See Table 3.1 for similar results that did not include at least 40 million Muslims living in Europe and the Americas. Other sources, taking into account possible underestimates of Muslim populations in China, India and elsewhere, indicate that the real total may be as high as 1.7 billion.

7 Susan Slyomovics, *The performance of human rights in Morocco* (Philadelphia, 2005), p. 106, citing Janet L. Abu-Lughod, *Rabat: Urban apartheid in Morocco* (Princeton, 1980), pp. 152–4.

Table 3.1 *Populations and urbanisation of predominantly Muslim member states of the Organisation of the Islamic Conference*

Member country	Date of entry	Population 1960	Population 2003	Ratio of 2003/1960 Total pop.	Ratio of 2003/1960 Urban pop.
Afghanistan, Islamic State of	1969	10,016,000			
Indonesia, Republic of	1969	93,996,000	214,674,160	2.3	6.9
Pakistan, Islamic Republic of	1969	45,851,000	148,438,764	3.2	5.0
Bangladesh, People's Republic of	1974	51,600,000	138,066,374	2.7	13.9
Nigeria, Federal Republic of	1986	40,821,000	136,460,972	3.3	10.8
Turkey, Republic of	1969	27,509,000	70,712,000	2.6	5.8
Egypt, Arab Republic of	1969	25,922,000	67,559,040	2.6	2.9
Iran, Islamic Republic of	1969	21,554,000	66,392,020	3.1	6.0
Sudan, Republic of the	1969	11,422,000	33,545,725	2.9	11.1
Algeria, People's Democratic Republic of	1969	10,800,000	31,832,612	2.9	5.7
Morocco, Kingdom of	1969	11,626,000	30,112,645	2.6	5.1
Uzbekistan, Republic of	1995	8,598,000	25,590,000	3.0	3.2
Malaysia	1969	8,140,000	24,774,253	3.0	6.8
Iraq, Republic of	1976	6,847,000	24,699,543	3.6	5.7
Saudi Arabia, Kingdom of	1969	4,075,000	22,528,304	5.5	16.3
Yemen, Republic of	1969	5,247,000	19,173,159	3.7	10.3
Mozambique, Republic of	1994	7,461,000	18,791,419	2.5	23.8
Syrian Arab Republic	1972	4,561,000	17,384,492	3.8	5.4
Côte d'Ivoire, Republic of	2001	3,779,000	16,835,416	4.5	10.4
Cameroon, Republic of	1975	5,296,000	16,087,472	3.0	11.2
Kazakhstan, Republic of	1995	9,975,000	14,878,100	1.5	1.9
Burkina Faso	1975	4,630,000	12,109,229	2.6	9.8
Niger, Republic of	1969	3,182,000	11,762,251	3.7	14.1
Mali, Republic of	1969	4,350,000	11,651,502	2.7	7.8
Senegal, Republic of	1969	3,187,000	10,239,848	3.2	5.0
Tunisia, Republic of	1969	4,221,000	9,895,201	2.3	4.4
Somalia, Democratic Republic of	1969	2,820,000	9,625,918	3.4	5.7
Chad, Republic of	1969	3,064,000	8,581,741	2.8	10.3
Azerbaijan, Republic of	1991	3,891,000	8,233,000	2.1	2.3
Guinea, Republic of	1969	3,136,000	7,908,904	2.5	7.4
Benin, Republic of	1982	2,237,000	6,720,250	3.0	14.4
Tajikistan, Republic of	1992	2,079,000	6,304,700	3.0	2.5
Jamahiriya, Socialist People's Libyan Arab	1969	1,349,000	5,559,289	4.1	16.0
Sierra Leone, Republic of	1972	2,241,000	5,336,568	2.4	8.4

Table 3.1 (*cont.*)

Member country	Date of entry	Population 1960	Population 2003	Ratio of 2003/1960 Total pop.	Ratio of 2003/1960 Urban pop.
Jordan, Hashemite Kingdom of	1969	844,000	5,307,895	6.3	9.8
Kyrgyzistan, Republic of	1992	2,173,000	5,052,000	2.3	2.3
Turkmenistan, Republic of	1992	1,594,000	4,863,500	3.1	3.0
Togo, Republic of	1997	1,524,000	4,861,493	3.2	11.4
Lebanon, Republic of	1969	1,968,420	4,497,668	2.3	5.2
United Arab Emirates, The State of	1970	90,000	4,041,000	44.9	98.8
Palestine, The State of	1969		3,366,702		
Albania, Republic of	1992	1,611,000	3,169,064	2.0	2.8
Mauritania, Islamic Republic of	1969	1,001,000	2,847,869	2.8	30.2
Oman, The Sultanate of	1970	558,000	2,598,832	4.7	103.2
Kuwait, The State of	1969	278,000	2,396,417	8.6	11.5
Guinea-Bissau, Republic of	1974	557,000	1,489,209	2.7	6.7
Gambia, Republic of	1974	352,000	1,420,895	4.0	10.6
Gabon, Republic of	1974	486,000	1,344,433	2.8	13.3
Guyana, Co-operative Republic of	1998	569,000	768,888	1.4	1.8
Bahrain, Kingdom of	1970	149,000	711,662	4.8	5.4
Djibouti, Republic of	1978	83,000	705,480	8.5	14.6
Qatar, The State of	1970	45,000	623,703	13.9	17.8
Comoros, Union of the	1976		600,142		
Suriname, Republic of the	1996	290,000	438,104	1.5	2.4
Brunei Dar-us-Salam, Sultanate of	1984	82,000	356,447	4.3	7.4
Maldives, Republic of	1976	99,000	293,080	3.0	7.6
Total of OIC states		469,840,340	1,304,223,359	2.8	6.2
India		434,849,000	1,064,398,612	2.4	
Muslims in India		47,833,390	117,083,847	2.4	
Total of predominantly Muslim populations		517,671,770	1,421,305,203	2.7	

Note: four of the fifty-seven member states were omitted from the table because their populations were not predominantly Muslim.
Sources: the Organisation of the Islamic Conference; World Bank, *World development indicators 2005*.

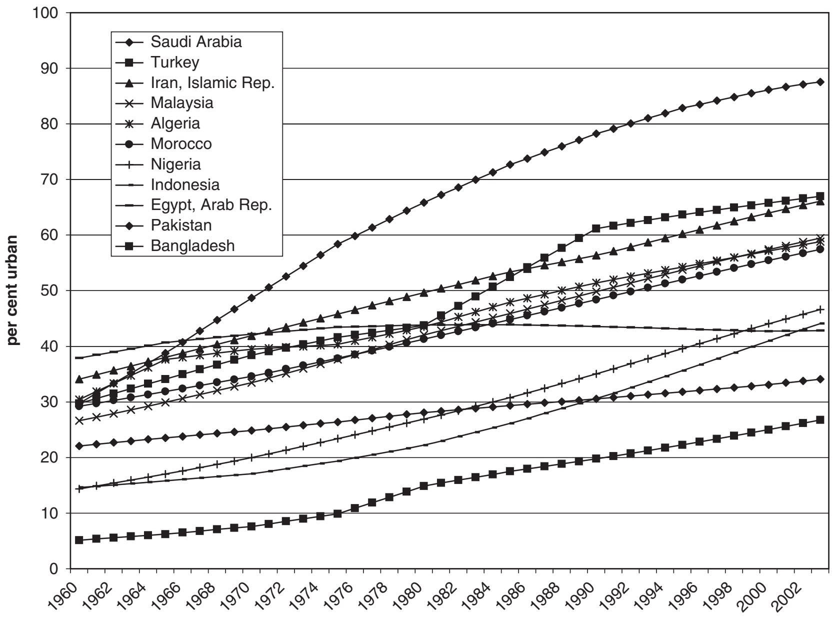

Figure 3.1 Urbanisation, 1960–2003
Source: World Bank, *World development indicators 2005*.

island in the Persian Gulf, aspired to be a global city attracting the world's wealthiest to buy extra homes, drive Bentleys and trade international securities.[8] Other cities like Mauritania's Nouakchott, however, reflect human misery caused by an ecological disaster. The French created the capital city out of sand near a fishing village in 1957. At independence in 1960 it had a population of about 3,000 but grew as a refugee centre from prolonged drought to about 600,000 in 1987 (out of a total Mauritanian population of 1.9 million at the time).

The cities of the largest ten predominantly Muslim states grew annually from 1960 to 2003 at more sedate rates, averaging 4.4 per cent, which was still 2 per cent higher their overall population increases. Figure 3.1 presents their trajectories of increasing urbanisation since 1960, to which is added that of the most significant outlier, Saudi Arabia. The Saudi oil rents clearly amplified urbanisation as the tribes swarmed into new cities built and serviced by expatriate labour. Only in Egypt was urbanisation apparently levelling off, in the sense that its cities simply reflected the general annual population

8 Yasser Elsheshtawy, 'Redrawing boundaries: Dubai, an emerging global city', in Yasser Elsheshtawy (ed.), *Planning Middle East cities: An urban kaleidoscope in a globalizing world* (London, 2004), pp. 169–99.

increases – which also levelled off after 2000 to an annual 1.8 per cent. By 1960 Cairo had already surpassed the 2 million population limit set by its urban planners, and the metropolitan area of this mega city exceeded 10 million by 1999, although the lines were ever more blurred between the 'urban' parts of the city, neighbourhoods that were ruralised and others still that were transplanted to make way for urban development.[9]

In Figure 3.1 Pakistan has the only other urban population that shows some signs of levelling off (albeit with a general average increase that remains relatively high at 2.4 per cent), while Turkey and Iran are converging as among the most urbanised Muslim countries, next to Saudi Arabia, with roughly two-thirds of their people living in what their countries define as cities.[10] These countries together with Indonesia, however, were recording the lowest general population increases, an annual 1.3 to 1.6 per cent in the first decade of the twenty-first century. With the dawn of the new millennium there was some hope that populations would stabilise and the growth of mega cities be somehow brought under control, a prospect to which this chapter will return, discussing the demographic bulge that meanwhile augurs increasing unemployment and instability.

Inequality and uneven development

Daniel Lerner reflected many of the mid-century hopes for modernisation in his *Passing of traditional society*, published in 1958. Urbanisation was supposed to be the first broad step a society could take in a modernisation process, so that cities could then educate people and offer skills to free them from stagnant and overcrowded 'traditional' agriculture to work in new industries. Literacy would also expose them to the media and new forms of association that would lead, in turn, to political participation and the practice of democracy. But he noted that the timing in Egypt was already messed up: the new media – radio for illiterate as well as literate populations – was serving more as a means of social and political control than an agent of liberation, and industrialisation was not keeping up with the waves of migration from the countryside.[11]

9 Farha Ghannam, *Remaking the modern space: Space, relocation, and the politics of identity in a global Cairo* (Berkeley, 2002), and Janet L. Abu-Lughod, *Cairo: 1001 years of the city victorious* (Princeton, 1971).

10 *The world development indicators* give their definition of the urban population as 'the midyear population of areas defined as urban in each country and reported to the United Nations'.

11 Daniel Lerner, *The passing of traditional tociety* (New York and London, 1958), pp. 410–11.

The newly independent regimes did by and large pursue education enthusiastically, as modernisation theory prescribed and as Islam, of course, also encourages. Their colonial legacies varied considerably, however, and affected cultural development. Turkey, which had escaped formal colonisation, had placed the largest proportion of children living in a predominantly Muslim country in school by 1960. Gross primary school enrolments reached 75 per cent of the school-age population (including 58 per cent of the girls). On the other hand Indonesia, after achieving independence in 1950, was also enrolling 71 per cent of its children (including 58 per cent of the girls). Table 3.2 shows that the major Muslim countries, with the exceptions of Pakistan and Saudi Arabia, were achieving universal primary education by 2000 and, with Egypt in the lead, were making steady progress in secondary school and university enrolments. Literacy among the youth, too, steadily increased, but there were interesting variations (see Figure 3.2). The Indonesians and Malaysians led the way, followed by the Turks. The Iranians, Tunisians and Saudis were catching up in almost lock step, as also, from much lower literacy rates, were Algerians and Nigerians. But progress in the Arab world was mixed. In Egypt, where the gross enrolment in universities reached 38 per cent in 1998, only 73 per cent of the youths aged fifteen to twenty-four were literate in 1996, the last year data are available. It could not be assumed that all of the university students were functionally literate.

Egypt amplified a problem that other third world countries faced. Governments had to open the floodgates to schooling at all levels, but they did not have the resources to maintain the quality of education. Declining standards are also diffused to neighbouring countries within the Arab world. Egypt, for example, exports many indifferently qualified teachers and university professors to the Gulf countries that, as Table 3.2 shows for Saudi Arabia, rapidly increased their enrolments in response to popular demand.

The deterioration in educational quality in turn deepens social inequality. When education was scarcer but of better quality, there were greater opportunities for mobility because the children who were admitted could then advance into prestigious jobs with colonial civil services and the like. Although the system primarily benefited relatively privileged families, it offered some openings to the less privileged. In the early phases of urbanisation of the late nineteenth and early twentieth centuries, growing numbers of children from rural backgrounds were getting schooling, and they would form the backbone of nationalist parties and deepen the connections between the capital and the smaller towns and villages. But as the schools expanded beyond the staffing needs of their respective economies, the diplomas became ever less valuable,

Table 3.2 *School enrolments (gross, as percentage of school-age groups)*

Country	Education Level	1960	1970	1980	1990	2000
Algeria	Primary		76	95	101	107
	Secondary		11	33	61	78 [2001]
	Sec. female		6	26	54	80 [2001]
	University		6	6	12	17
Bangladesh	Primary	47	54	62	80	99
	Secondary			15	20	46
	Sec. female	8		9	14	47
	University	1	3	3	4	7
Egypt	Primary	66	72	52	91	97
	Secondary	16	35	52	71	85
	Sec. female	5	23	39	62	82
	University	5	18	18	17	38 [1998]
Indonesia	Primary	71	80	98	114	110
	Secondary	6	16	28	45	57
	Sec. female		11	23	41	56
	University	1	4	4	9	15
Iran	Primary	65	72	101	109	93
	Secondary	12	27	44	57	77
	Sec. female		18		49	75
	University				10	21
Malaysia	Primary		87	93	94	97
	Secondary		34	48	56	69
	Sec. female		28	46	58	73
	University		4	4	7	27
Morocco	Primary	42	52	76	65	101
	Secondary	5	13	24	36	41
	Sec. female		7	20	30	36
	University	1	6	6	11	10
Nigeria	Primary	36	37	98	92	98
	Secondary	4	4	20	25	
	Sec. female		3	14	22	
	University		2	3	3	8 [2002]
Pakistan	Primary	30	40	57	37	73
	Secondary	11	13	15	[illegible]	24
	Sec. female		5	8	16	19
	University				3	3 [2002]
Saudi Arabia	Primary	12	42	64	73	68
	Secondary	2	12	51	44	69
	Sec. female		5	23	39	65
	University		7	7	10	22

Table 3.2 (*cont.*)

Country	Education Level	1960	1970	1980	1990	2000
Tunisia	Primary	66	100	103	114	113
	Secondary	12	23	27	44	78
	Sec. female		13	20	39	80
	University	1	5	5	9	22
Turkey	Primary	75	110	101	99	92
	Secondary	14	27	37	48	73
	Sec. female		15	24	37	62
	University	3	6	6	13	24

Note: Some percentages may be higher than 100 because gross enrolments include all ages.
Sources: World Bank, *World development indicators 2005*; World Development Reports 1993 and 1997; L. Carl Brown, *Religion and state: The Muslim approach to politics* (New York, 2000), pp. 127–9.

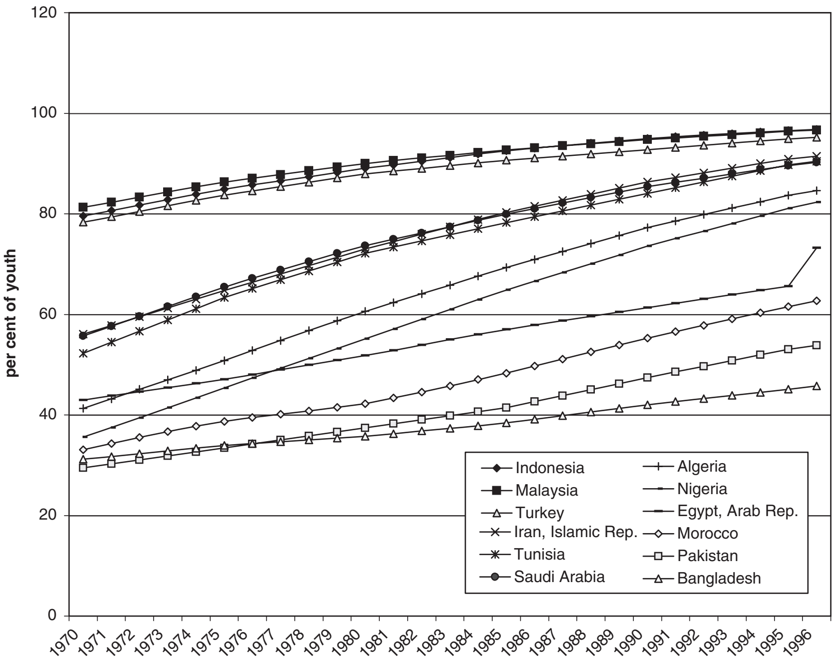

Figure 3.2 Literacy of youth (ages fifteen to twenty-four), 1970–96
Note: Some percentages may be higher than 100 because gross enrollments include all ages.
Source: World Bank, *World development indicators 2005*.

higher ones all the more necessary and pressures all the greater to expand secondary and university education beyond any functional need for their products.

Diploma inflation and the deterioration of scholastic standards deepened social inequalities because the principal beneficiaries of the system were no longer a new middle class but rather were families that could afford private schools, preferably in the former metropole or the United States, or at least pay the public schoolmasters for special tutoring. Social inequalities ironically increased even in the post-colonial systems that tried to practise socialism. After initial expansions of opportunity creating the new middle class of secondary and university graduates, the educational systems invariably outran the capacities of their respective economies to absorb the graduates. Algeria's drive for 'industrialising industries', for instance, bogged down in the 1980s, and in more conservative Morocco the employment prospects of a smaller educated elite were just as dismal.

The countries, with few exceptions, were not industrialising rapidly enough to absorb their burgeoning, ever more educated and expectant urban populations. Their manufacturing bases, to be sure, steadily increased with the new late twentieth-century surge of world trade and financial transfers that accompanied their formal independence. But the increases, as indicated by the value added in manufacturing, only barely kept up with urban population increases, notwithstanding even greater increases in educational enrolments. Figure 3.3 tracks this evolution in constant (year 2000) dollars of value added in manufacturing per urban inhabitant from 1970 to 2003 for the largest predominantly Muslim countries with available data. With the spectacular exception of Malaysia, they displayed relatively little progress. Saudi manufacturing, developed largely by expatriates, remained flat, in the sense that expansion barely kept up with its sky rocketing urbanisation. Egypt and Tunisia displayed the most progress and, together with Turkey, managed to surpass $500 per urban inhabitant by the end of the twentieth century. Of the other, poorer countries, only Indonesia showed significant progress, until the 1998 crisis flattened its per capita growth, while others, notably Algeria, regressed.

As long as the dominant Western powers were still challenged by the Soviet Union and supported more aid as well as trade for these contested 'grey' areas, their governments could try to keep up with urbanisation by supporting corresponding increases in education, administration and even public sector industry. Muslim countries in particular gained new leases on life by the dramatic changes in the international oil industry conditioned by the laws of supply and demand but sparked also by resentment against United States

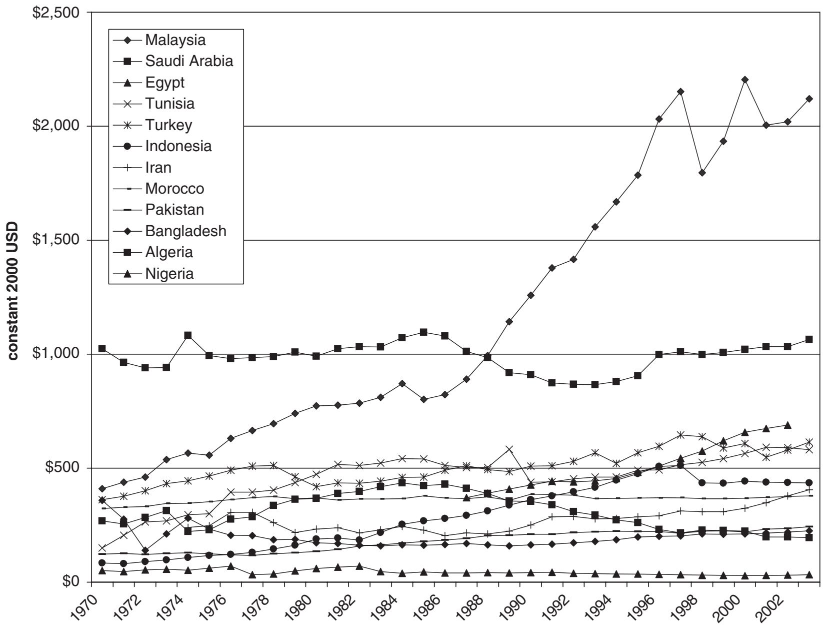

Figure 3.3 Per capita urban manufacturing value added, 1970–2003
Source: World Bank, *World development indicators 2005*.

support for Israel in the October 1973 war. The petroleum rich, predominantly Muslim countries generously assisted third world countries stricken by higher oil prices, especially Arab and Muslim ones. The international financial community, awash with petro-dollars, further contributed by lending profusely to the rest of the third world, notably to Latin America. But few of these countries survived the international debt crisis, triggered by a Mexican default caused by declining oil prices in 1982, without undergoing major pressures for economic reform. The debt crisis painfully engaged Muslim and other third world countries, most of them non-aligned and protesting since the Bandung Conference of 1955 against dependence and exploitation, into the second major wave of globalisation.

Structural adjustment

The countries of what could be called a Mediterranean Debt Crescent, stretching from Morocco eastward through Tunisia and Egypt up to Turkey, had been sufficiently independent for their new national cultures to harbour memories of how the first wave of globalisation had struck. The new experiences at the hand

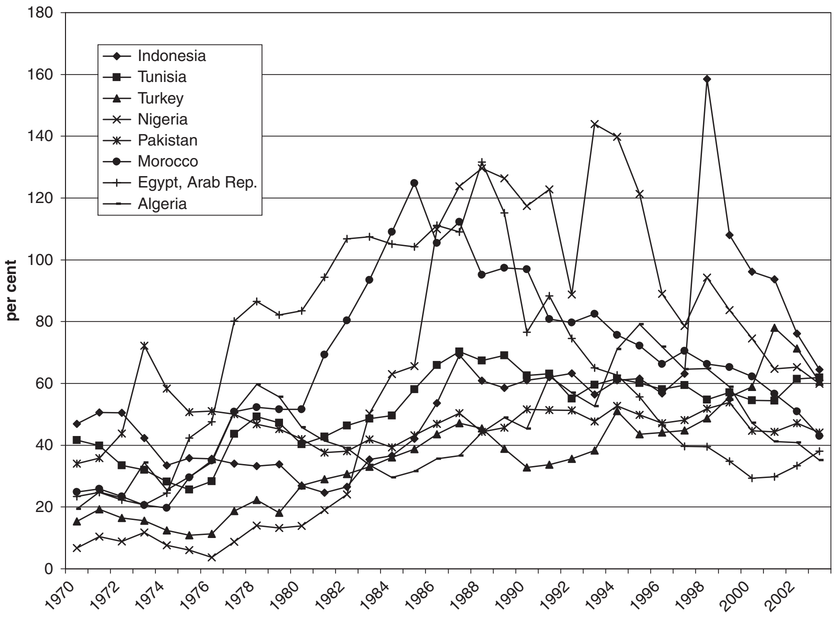

Figure 3.4 Total external debt (as percentage of GDP), 1970–2003
Source: World Bank, *World development indicators 2005*.

of international financial institutions resembled those of the nineteenth century, albeit without the gunboats that had supported reforms and collections on behalf of the nineteenth-century bondholders. The second wave of globalisation increased pressure for economic reform across the third world as the Cold War (1946–89) faded away. Some of the Muslim allies of the United States were especially hard hit: the strategic rents of Morocco, Egypt, Turkey and Pakistan had propped up their frail economies.

Governments became so seriously indebted by the early 1980s that they were obliged to go the International Monetary Fund (IMF), if they wished their international creditors to provide new funds to pay off their mounting debt service obligations. Figure 3.4 tracks the total international debt, as a percentage of GDP, of each major Muslim debtor country, with Pakistan peaking early and then Egypt, Morocco and finally Nigeria leading the way in the mid-1980s. Many countries became so heavily indebted that they could not keep rolling over their loans without offering the international financial community some evidence that they might eventually repay them. The function of the IMF was to signal such credit worthiness by establishing stabilisation programmes to reduce their foreign exchange and budget deficits. The IMF monitored these programmes through standby and other agreements providing the debtor countries with credit in return for meeting certain conditions, such as tightening domestic credit and devaluing their currencies. Once an economy was stabilised, the IMF and the World Bank proposed various structural adjustment programmes prescribing neo-liberal policies, such as reducing import duties, liberalising the banking system and privatising parts of public sector industry, as conditions for receiving more loans.

One way of comparatively assessing pressures for adjustment on these states is to examine their use of IMF credit. Although these credits were usually small, relative to the credits received from international banks, they functioned as a sort of debt power multiplier until the mid-1990s, when the IMF was summoned to bail out Indonesia, Turkey and others with ten or more billions of dollars. Until then, it seems reasonable to assume that a country was carrying out neo-liberal reforms roughly in proportion to the volume of its outstanding high-powered credits. Figure 3.5 charts the use of IMF credit[12] by the debtor countries featured in Figure 3.4.

Although the biggest debtors were not always the biggest beneficiaries of the IMF's largesse, Pakistan qualified on both counts in the 1970s and remained an important client of the IMF into the mid-1980s. Morocco also qualified on both counts. Figure 3.4 shows how its external debt rose from a manageable 52 per cent of GDP in 1980 to over 120 per cent by 1985. By this time it had been compelled to embark on major reforms, cutting administrative expenditures by freezing recruitment into the civil service. Figure 3.5 shows that by 1985 its use of IMF credit amounted to almost 10 per cent of GDP. It started structural adjustment relatively early because its finances were spinning out of control. The other big debtors in this period, however, got far less funding from the IMF and warded off the pressures. Nigeria signed several standby arrangements with the IMF but never received funding; as oil prices recovered in the late 1980s, Nigeria

12 The official World Bank definition is that 'Use of IMF credit denotes repurchase obligations to the IMF for all uses of IMF resources (excluding those resulting from drawings on the reserve tranche). These obligations, shown for the end of the year specified, comprise purchases outstanding under the credit tranches, including enlarged access resources, and all special facilities (the buffer stock, compensatory financing, extended fund, and oil facilities), trust fund loans, and operations under the structural adjustment and enhanced structural adjustment facilities.'

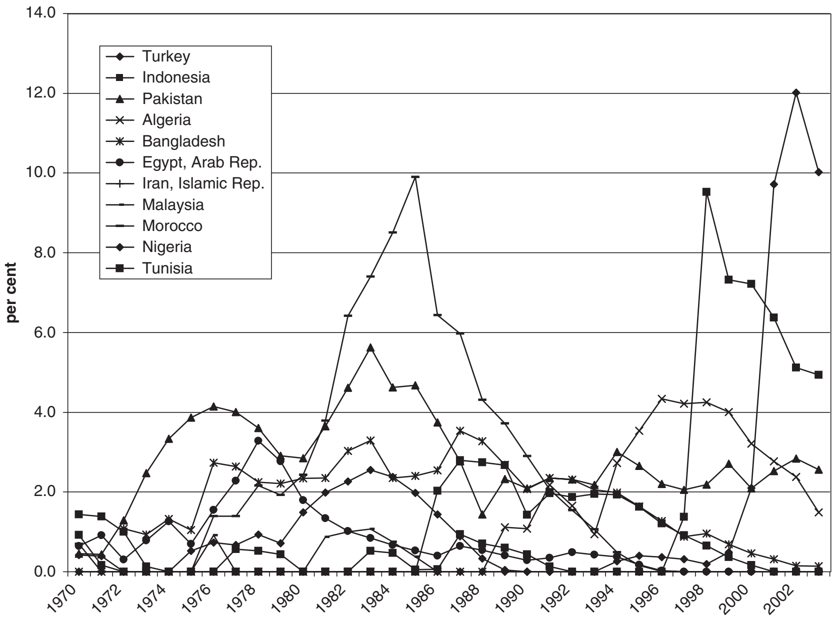

Figure 3.5 Use of IMF credit (as percentage of GDP), 1970–2003
Source: World Bank, *World development indicators 2005*.

could get away without reforms. Egypt had less oil but still enjoyed the favour of the United States for having made peace with Israel. One IMF director viewed the standby negotiated in 1987 to be so lenient that he took retirement a few months ahead of schedule. The other poor and chronically indebted states were Bangladesh and Pakistan. Reeling from oil price increases in 1974 and 1979, they were almost continually engaged in negotiations about their reform obligations in an unending series of loan agreements with the IMF.

Turkey and Tunisia also had their brief periods in the early and late 1980s, respectively, when they 'caught up' with Bangladesh, borrowing over 2 per cent of GDP from the IMF. Each engaged in extensive reforms and lived up reasonably well to their commitments. With much less pressure from international financial institutions, Indonesia and Malaysia also carried out major reforms. Despite accumulating debt approaching 80 per cent of GDP in 1987, Malaysia worked its way out of the crisis by expanding its manufacturing and export capabilities. Oil revenues cushioned Indonesia, but General Suharto (pres. 1967–98) also fielded an able team of technocrats.

Algeria, given to extremes, underwent one of the most radical experiences of adjustment. It had indebted its economy for the sake of very ambitious industrialisation projects in the 1970s, supported by modest oil and gas revenues that in turn, as with Mexico, offered opportunities for high leverage from the international banking community. Figure 3.4 shows that international debt had already reached the dangerous level of 60 per cent of GDP by 1978, when President Boumediene died and was replaced by a more conservative military officer. High oil and gas revenues cushioned an expansion of consumption at the expense of investment in industry, but with the collapse of oil prices in 1986–7, Algeria faced a severe crisis. Debt reached 79 per cent of GDP in 1995, while a civil war pitted Islamists against a discredited regime. Algeria finally agreed to an Extended Fund Facility with the IMF and dismantled many ailing state enterprises in the late 1990s, at a cost of at least 400,000 jobs. The political costs could not have been borne without the distractions of a horrendous civil war (1992–8) that took the lives of over 100,000 Algerians.

Elsewhere structural adjustment was not quite as costly, but neo-liberal reforms reinforced tendencies toward inequality that the more populist, egalitarian regimes had unintentionally generated by favouring higher education over functional literacy and producing ever more university graduates who were unemployable unless their families had influence.

James Galbraith has developed a measure of inequality, using Theil's T Statistic, that analyses wage differentials within manufacturing sectors, as captured by United Nations Industrial Development Organization (UNIDO) statistics.[13] It is not about entire societies although such wage differentials arguably reflect those of other sectors of the economy as well. Unlike household surveys, which aim to measure income distribution across an entire society, they only reflect inequalities within particular sectors tracked by UNIDO, but their advantage is that they annually capture trends within these sectors, whereas household surveys are infrequent. Chronological comparisons within countries are more interesting and perhaps more reliable, too, than cross-national comparisons provided by household surveys, often conducted in different ways and for different years.

Figures 3.6 through 3.8 examine the patterns of inequality in the manufacturing sector for the principal Muslim Asian, Middle Eastern and African countries respectively. Evidently successful structural adjusters do not have to suffer greater inequality as a consequence. Malaysia, the Muslim poster child for

13 James Galbraith and Maureen Berner (eds.), *Inequality and industrial ihange: A global view* (Cambridge and New York, 2001), pp. 19–24.

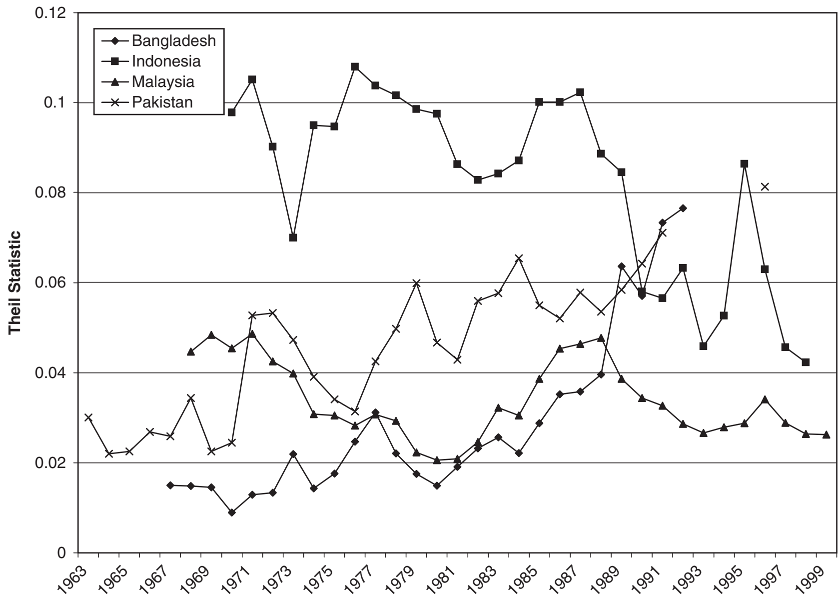

Figure 3.6 Wage inequality in Asia, 1963–99
Source: James Galbraith, University of Texas Inequality Project: http://utip.gov.utexas.edu/.

industrialisation (Figure 3.3), shows greater equality in the distribution of industrial wages in 1999 than in 1968. There was perhaps a rough period in the late 1980s when inequalities accentuated at the beginning of Malaysia's industrial surge, but wage levels evidently evened out. So also in Indonesia, where manufacturing kept up pretty well with urbanisation, there was considerably less inequality in the late 1990s than in the early 1970s. Pakistan and Bangladesh, by contrast, reflected the gloomy expectations, shared by many critics of globalisation, of growing inequality consequent to neo-liberal reform: in these poor 'fourth world' settings, the poor were getting even poorer.

In the Middle East Turkey and Egypt also illustrate the conventional wisdom that increasing inequality accompanies structural adjustment. It took a strong military hold over Turkey's political life (1980–3) to get Prime Minister Turgut Özal's reform programme implemented. During this period Turkey made a historic transition from import substitution industrialisation – essentially subsidising inefficient Turkish monopolies – to export-oriented growth. Wages took a nosedive during this period and were levelled from the bottom, but then, with the fruits of economic reform, inequality became even more pronounced than at the time of the second oil shock of 1979. So also

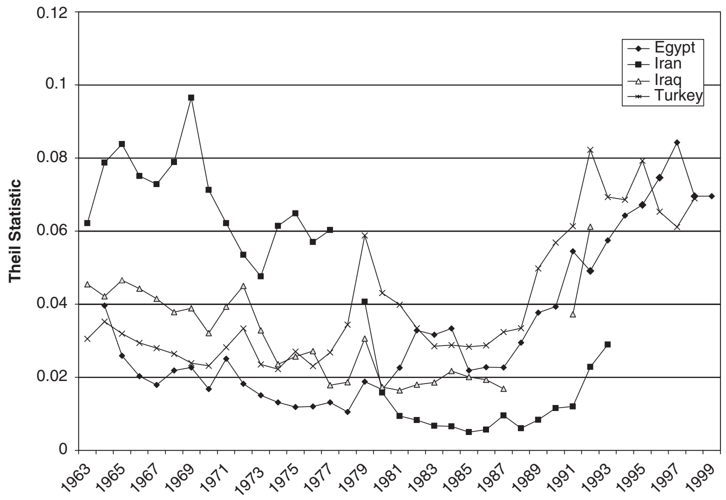

Figure 3.7 Wage inequality in the Middle East, 1963–99
Source: James Galbraith, University of Texas Inequality Project: http://utip.gov.utexas.edu/.

in Egypt, President Anwar Sadat's *infitāḥ* (opening up) of the Egyptian economy initially gave the public sector a new lease on life, but more painful structural adjustment, accompanied by real privatisation of substantial parts of the public sector to get debt relief after 1990, generated sharp increases in wage disparities, as well as the more visible and corrupt 'fat cats' and Dreamland economics of the late Mubarak (pres. 1981–) period.[14] Figure 3.7 shows that Saddam's Iraq was also adjusting and creating greater wage disparities after the end of the Iran–Iraq War.[15] The Iranian Revolution, by contrast, brought greater equality in the industrial sector, an equality that did not, however, appear to be sustainable, given the inability of the divided government to engage in any significant economic reform. Viewed as a whole, the Middle East and North Africa, including its oil producers, averaged higher scores of inequality in the 1990s than South Asia, Latin America or even sub-Saharan Africa.[16]

14 Timothy Mitchell, *Rule of experts: Egypt, techno-politics, modernity* (Berkeley, 2002), pp. 272–87.
15 As noted by Kiren Chaudhry, 'Economic liberalization in oil-exporting countries: Iraq and Saudi Arabia', in Iliya Harik and Denis J. Sullivan (eds.), *Privatization and liberalization in the Middle East* (Bloomington, 1992), pp. 152–8.
16 World Bank, *Unlocking the employment potential in the Middle East and North Africa: Toward a new social contract*, MENA Development Report (Washington, DC, 2004), p. 122.

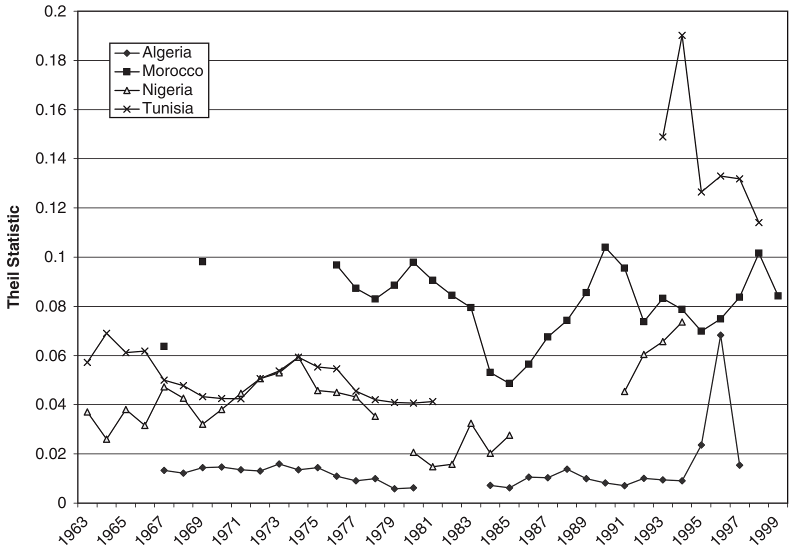

Figure 3.8 Wage inequality in Africa, 1963–99
Source: James Galbraith, University of Texas Inequality Project: http://utip.gov.utexas.edu/.

The African cases present further evidence of an association between economic adjustment and rising inequality. Tunisia, the most assiduous structural reformer in the region, illustrates a pattern of rising inequality similar to that of Egypt and Turkey. It experienced serious labour unrest in 1979 and was obliged by 1986 to embark on a major structural adjustment programme. Although there are gaps in the available Tunisian data presented in Figure 3.8, wage inequality reached the highest level, as measured by Theil's T Statistic, of any Muslim country in our sample in 1994, before descending to levels in 1999 that still remained higher than the others. The other African cases show less clear-cut patterns, and their manufacturing sectors, relative to urbanisation (Figure 3.3), were also smaller. Algeria's revolutionary propagation of public sector industry kept wages relatively equal until the collapse of 1994, but subsequent data are fragmentary. Morocco displays a cyclical pattern with relatively high levels of wage inequality, reflecting the preservation of its colonial economy by the monarchy's business elite. Morocco cut its budget deficits in the 1980s and 1990s but did not need to undergo the structural transformation of post-socialist Algeria or Tunisia because wealthy individuals, not the state, had acquired the French settler enterprises. Despite a much smaller manufacturing base, relative to the size of its cities, Nigerian wage scales apparently reflected growing inequality in the 1990s without undergoing much structural adjustment.

Political reform

By 1997, the year the World Bank published its World Development Report entitled *The state in a changing world*, the international financial community had come to realise that neo-liberal economic reforms required strong, active states to regulate local markets and integrate them with international ones. Markets were not self-regulating, and spatial metaphors between the public and private sectors were misleading. States could not simply 'shrink' as market forces took over, as some neo-liberal fundamentalists urged.[17] The World Bank now recognised that states, while getting out of most businesses, had to remain in the very important business of regulating them, requiring stronger, more flexible, responsive and adaptable administrations. States with limited administrative capacities were now increasingly challenged not only to carry out market-friendly economic policies but also to develop their 'governance' capabilities. In effect the new national sovereignties were now threatened not only with international market forces but also with political reform. In this sense globalisation had finally come full circle from the nineteenth to the twenty-first century.

This time, as in the late nineteenth century, some Muslim intellectuals, particularly in the Arab world, joined international calls for good governance. Arab social scientists, writing the first Arab Human Development Report in 2002 on behalf of the United Nations Development Programme, urged reform to make up the region's 'freedom deficit' and in effect equated good governance with constitutional democracy. The Muslim governments, like those that survived the nineteenth-century onslaught, continued their defensive modernisation while playing, against criticisms of lamentable human rights records, on the popular identification of globalisation with imperialism, a defensive tactic reinforced by the Bush administration's initiative of 'regime change' in Iraq (2003–).

The Freedom House data used by the writers of the Arab Human Development Report point to a 'freedom deficit' not only in the Arab world but in the much larger Muslim regions as well. While a 'third wave'[18] of

17 Joseph E. Stiglitz, *Globalization and its discontents* (New York, 2002).
18 Samuel P. Huntington, *The third wave: Democratization in the late twentieth century* (Norman, OK, and London, c. 1991).

democratic transitions spread full 'freedom' to almost half the countries of the world, only ten of the forty-six majority Muslim countries tracked by Freedom House qualified as electoral democracies in 2004; and only two, Mali and Senegal, with populations of respectively 11.7 and 10.2 million, were rated fully 'free'. Some 188,960,000 Muslims (of a total of almost 1.5 billion) lived in 'free' countries, but mostly as minorities in India, the EU, the Americas – and, according to Freedom House, Israel.[19] Muslim countries became principal targets for governance reform if not outright regime change.

Hossain Mahdavy already recognised part of the problem in the late 1960s, at about the time Islamist politics were surfacing in response to the crushing Arab defeat at the hands of Israel in the Six-Day War of June 1967 and also, more generally, to the 'convulsions of modern times'.[20] At a conference held at the School of Oriental and African Studies, London, in July 1967 Mahdavy, introducing the modern period, took issue with any suggestions of 'an Islamic theory of underdevelopment' and presented his alternative, a seminal article about economic development in 'rentier states'. Easy oil rents, by circumventing 'direct exploitation of the people' by taxes and industrial discipline, could facilitate

> socio-political stagnation and inertia … A government that can expand its services without resorting to heavy taxation acquires an independence from the people seldom found in other countries … [with] the power of the government to bribe pressure groups or to coerce dissidents … the temptations for a government bureaucracy to turn into a rentier class with its own sources of income are considerable.[21]

Hazem Beblawi, Giacomo Luciani and others easily converted Mahdavy's explanation of the Middle East's lacklustre economic development into explanations for enduring authoritarianism in the region. In 2005 Algeria, Iran, Iraq, Nigeria, Saudi Arabia, Sudan and Yemen, seven of the sixteen most populous members of the Organisation of the Islamic Conference (excluding Uganda, a member since the days of Idi Amin despite its small minority Muslims) qualified as rentier states by receiving well over half of their revenues from oil and gas exports. Egypt, with Suez Canal tolls as well as significant oil revenues and substantial foreign assistance, could also qualify as

19 Freedom House, *Freedom in the world* 2005, assorted charts, pp. 6–7, www.freedomhouse.org/research/freeworld/2005/charts2005.pdf (retrieved 24 July 2005).

20 L. Carl Brown, *Religion and state: The Muslim approach to politics* (New York, 2000), pp. 123–33.

21 Hossein Mahdavy, 'Introductory remarks', and 'The patterns and problems of economic development in rentier states: The case of Iran', in M. A. Cook (ed.), *Studies in the economic history of the Middle East* (London, 1970), pp. 263, 437, 466–7.

a rentier state, as might Indonesia, with oil revenues constituting one quarter of its exports, and Morocco, too, with its rents from phosphates. Of the remaining six, Bangladesh and Pakistan were very poor, Afghanistan poor and war torn [illegible] Uzbekistan had been part of the Soviet Union. Malaysia and Turkey were the dynamic exceptions that possibly proved the rule. Might it be not so much Islam as oil and other natural resources that predestined some of these countries to economic stagnation and political authoritarianism? Some argued, for instance, that the future of democracy in Iraq depended in part upon removing control of the oil revenues from the government and distributing them directly to the people.

The proposition that substantial oil revenues hinder democracy is not, of course, born out in countries like Norway, or the state of Texas for that matter, where the oil came on stream long after democratic institutions had been consolidated. In the newer countries of the Muslim world, however, easily earned revenues disconnected from the rest of the economy may have discouraged the development of government institutions. Saudi Arabia is a perfect illustration because it also eliminates other possible culprits like imperialism that Mahdavy wished to minimise as explanations of political or economic underdevelopment. Kiren Chaudhry argues that the new revenues in fact undercut nascent extractive capabilities of the young Saudi administration, a point that Robert Vitalis questions.[22] Other cases of Muslim authoritarianism may have too many other competing explanations. Surely colonialism was a significant force in Algeria that prevented the emergence of any civil society during the formative period before independence. Possibly Algeria and Saudi Arabia respectively exemplify too much and too little colonialism for civil society to develop and democratic practices to take root, but then Tunisia, with a more constructive dose of colonialism, also turned authoritarian after independence.

Algeria and Tunisia, neighbouring one-party regimes, displayed more significant economic variations than political ones, although the former was clearly a rentier state and the latter was not. They carried out similar economic policies of industrialisation and import substitution in the 1960s, but Tunisia changed course in 1969 to policies more attuned to international markets whereas Algeria, fuelled by substantial oil and gas revenues, stayed the course until 1979 and then went on a consumer spending spree, compounding subsequent problems of adjustment. Even with respect to economic policies,

22 Kiren Aziz Chaudhry, *The price of wealth* (Ithaca, 1997), reviewed by Robert Vitalis, *IJMES*, 31 (1999), pp. 659–61.

however, oil may have relatively less impact than differences in their respective colonial legacies. Algeria was literally born rent seeking, as the assets of 90 per cent of the settler population, who deserted Algeria at independence in 1962, were immediately up for redistribution, years before the oil revenues came on stream. The French had prepared many earnest Tunisian administrators but few Algerians to staff the complex colonial bureaucracies. Oil revenues, exploding in 1973–4, amplified Algeria's policy of building 'industrialising industries', and the absence of such revenues helps to explain why Tunisia prudently halted a similar policy (advocated by the same French development economist) earlier. But their respective administrative capacities are better explained by differences in their colonial legacies. The Tunisians had a stronger state that, for example, could flexibly mobilise resources into manufacturing for European markets. As Figure 3.3 shows, Algeria enjoyed a brief head start in the early 1970s but then could never catch up with Tunisia or, after 1987, with its own burgeoning urban populations.

Michael L. Ross applied an alternative to carefully selected case studies for evaluating whether oil rents really do 'hinder democracy'.[23] His multivariate cross-country analysis published in the prestigious *World Politics* apparently ended the debate with strong econometric evidence in favour of the rentier state theory. Muslim culture was not entirely excused, however, for it still contributed significantly to most of Ross's models explaining the absence of democracy. There was, however, one tantalising exception. When dummy variables for the country's location in the Middle East and North Africa (MENA, defined by the World Bank to include Israel, Iran, Malta and the Arab world, minus Mauritania) or in sub-Saharan Africa were added to the model, the Muslim variable was no longer statistically significant.[24] Perhaps, then, the MENA and to a lesser extent sub-Saharan Africa are just bad neighbourhoods for democracy, whereas almost a majority of the world's Muslims live elsewhere, in the Indian subcontinent and South-East Asia.

The debate over the rentier state continues, however. Michael Herb presented data about sources of state expenditure that better reflected the theoretical concern about taxation than Ross's aggregate measure. Herb developed new and more convincing models, all the better validated because he could also replicate some of Ross's findings.[25] In his replications the Muslim variable also loses significance to regional location, but in his own models both

23 Michael L. Ross, 'Does oil hinder democracy', *World Politics*, 53 (April 2001), pp. 325–61.
24 Ibid., p. 345.
25 Michael Herb, 'No representation without taxation? Rents, development, and democracy', *Comparative Politics*, 37, 3 (April 2005), pp. 297–316.

region and the percentage of Muslims in a state remain statistically significant. The effects of the latter are very modest, however, once oil, income and neighbourhood are taken into account.

Political Islam, bubbling to the surface of many post-colonial states as Mahdavy was presenting his historical paper about rentier states in 1967, had quite variable impacts upon their democratic prospects. 'Islamism' defies definition, other than the aspiration to 'Islamise' modern society, which takes many meanings. Some Islamists, including Osama bin Laden,[26] take pride in Samuel Huntington's 'clash of civilisations' and accordingly reject Western democracy. In some of the supposedly 'secular' Muslim states, such as Algeria and Tunisia, however, more moderate Islamists, most of whom favour Western-style democracy, engender authoritarian backlashes because the incumbent nationalist elites, whose deeper ideational structures had been Islamist, opposed to the secularism of their communist competitors, felt not only insecure but angered by the ignorance of upstart post-colonial generations. Where, as in Indonesia, the nationalists had already massacred the secular communists in 1965–6, Islamism took gentler forms than in Algeria, where the authorities stole their electoral victories in 1992. Analysing the varieties of political Islam in their distinctive national contexts is beyond the scope of this chapter, focusing on the dialectics of globalisation, but one common thread emerged with the MENA's petro-dollar surpluses in 1974. Distinct and sometimes in opposition to political Islam, an economic movement of Islamic finance emerged with aspirations to reshape economic globalisation in a new image of the *dār al-Islām*.

Islamic finance

Perhaps the 'assertion of Islamic economics … that interest is patently un-Islamic … sanctifies opposition to global economic integration'.[27] On the other hand, Islamic banks compete with conventional banks in the international banking system and thereby help to integrate parts of the Muslim public into the global order. As Timur Kuran observes in chapter 19 of this volume, 'the very fact that these banks have maintained profitability for so long and attracted vast deposits proves that they have been filling a need', namely for

26 Max Rodenbeck, 'The truth about Jihad', *New York Review of Books*, 52, 13 (11 August 2005), p. 52.
27 Timur Kuran, *Islam and mammon: The economic predicaments of Islamism* (Princeton, 2004), p. ix.

Muslims, perhaps the majority of them,[28] who perceive the interest paid on conventional bank deposits to be *ribā*, which Islam forbids.

Islamic economics may have originated in the 1940s, as our colleague suggests, as part of the effort to justify an Islamic nation on the Indian subcontinent, but their prime institutional embodiment, the Islamic banks, originally took root in other contexts, after a short-lived effort in rural Pakistan in the late 1950s. The newly independent government of Malaysia sponsored a Pilgrims Saving Corporation in 1963 that served as a precedent for creating the country's first Islamic bank in 1983. In Egypt, also in 1963, Dr Aḥmad al-Najjār, who had studied in Germany, established a system of rural privately owned co-operatives based on the German *Sparkassen*. Although other Egyptians involved in these banks may have been associated with the Muslim Brotherhood, in part explaining the collapse of the experiment in 1967, Najjar does not seem to have been affiliated with any form of political Islam.

Only in the loosest sense could Islamic banking be related to the theories of Mawlānā Sayyid Abū'l Aʿlā' Mawdūdī (1903–79), the Pakistani Islamist who had advocated 'Islamising' economics along with other aspects of social life. The bankers were also attempting to liberate Islamic jurisprudence from the colonial closet of family law, albeit only in this very narrow, yet strategic domain of banking.

Their enduring financial experiments, moreover, marked an alliance of their private sector owners – princes, merchants and financiers – not with Islamist politicians but rather, at least in most countries except the Sudan, with the mainstream religious *ʿulamāʾ* whom the Muslim Brothers and other more radical political Islamists usually opposed. Although the first of the banks to be established, the Dubai Islamic Bank in 1974, did not have a religious advisory board until 1999, those that followed proved their Islamic credentials by selecting recognised *ʿulamāʾ* to be members of their *sharīʿa* (uncodified body of Islamic law) boards. As Moncer Kahf explains, Prince Muḥammad Al-Fayṣal initiated the practice in Egypt in 1976. He forged an alliance with a former *muftī* of Egypt in order to gain President Anwar Sadat's favour and a special law to establish the Faisal Islamic Bank of Egypt. Ṣaliḥ Kāmil, a Saudi businessman, took the prince's lead. He and the prince established competing (and co-operating) transnational networks of Islamic banks, the Al Baraka Group and Dār Al-Māl Al-Islāmī, respectively. As they developed their networks across the Muslim world, they sought out the *ʿulamāʾ* because 'unlike other Muslim intellectuals, the *sharīʿa*

28 Frank Vogel and Samuel L. Hayes, III, *Islamic law and finance: Religion, risk, and return* (The Hague, London and Boston, 1998), p. 25.

scholars have close contacts with businessmen with small and medium-sized firms and middle-income earners from whom the clientele of Islamic banks is to be derived'.[29]

As these private sector groups were forming, the Islamic Development Bank (IDB) also, almost by accident, developed into an 'Islamic' bank. Founded as a consortium bank owned by the members of the Conference of Islamic States, it was to be a regional development bank like those of Africa, Asia or Latin America. But an unlikely founding committee of Algeria, Saudi Arabia and Somalia, none of whom would tolerate Islamic banks at home until the late 1980s, determined that the new bank should operate not just for Muslim states but, with some encouragement from Dr al-Najjar, by the rules of the *sharīʿa*. Like the Dubai Islamic Bank it consulted scholars on an *ad hoc* basis to gain some understanding of what these rules might be, and it worked closely with the Faisal and Baraka groups. The IDB finally acquired a board of *sharīʿa* scholars in 2003.[30]

Joined in 1979 by the Kuwait Finance House, which was 49 per cent owned by government ministries, the nucleus of Saudi-owned transnationals rapidly invested with other partners in much of the Muslim world, albeit not in Saudi Arabia (or Morocco, for that matter), where any new institution claiming an 'Islamic' distinction might reflect adversely upon the ruler's legitimacy. In its core areas of strength, however, the movement faced hard times in the mid-1980s. The Kuwait Finance House, like the conventional banks, had to be rescued by the government in 1984, in the wake of the Sūq al-Manākh crisis. In Egypt, so-called 'Islamic' fund management companies devised pyramid schemes that collapsed with the devaluation of the Egyptian pound in 1987–8. Although the Faisal Islamic Bank was not associated with these schemes, it lost a quarter of its total assets with the collapse of the rogue Bank of Credit and Commerce International (BCCI) in 1991.

Evidently Islamic banks could attract funds as long as they distributed profits to their 'investor'-depositors that were competitive with interest rates offered by conventional banks. But Islamic banks did not have a sufficient array of investment instruments in these early years to generate the necessary revenues to fund their depositors, unless they engaged in risky commodity trading or parked their funds with other institutions such as the BCCI. Their principal instruments were the *murābaḥa*, a contract whereby the bank

29 Monzer Kahf, 'The rise of a new power alliance', in Clement M. Henry and Rodney Wilson (eds.), *The politics of Islamic finance* (Edinburgh, 2004), pp. 22–3.
30 Ibid., pp. 21–2.

purchases a good for the client and sells it to him on a deferred payment basis at cost plus profit, and *ījāra*, or leasing, also for fixed returns. Some Islamic economists considered other instruments, such as *mushāraka* and *muḍāraba*, which were forms of equity financing akin to investment banking, to be more distinctively Islamic, but they were too risky to comprise more than 2 or 3 per cent of most Islamic banking portfolios. Profits stagnated by the late 1980s, and the market shares of these banks peaked at about 10 per cent in their strongholds, Egypt, Jordan and the microstates of Bahrain and Kuwait. Only in Sudan, where they supported Ḥasan Turābī's rise to power (1989–99), did they win a greater share of the deposits and total assets of a commercial banking system, all of which had been theoretically Islamised by decree in 1983.

Meanwhile, state-sponsored Islamic banking in Pakistan and Iran produced only cosmetic changes in the respective commercial banking systems until 2000, when Iran permitted privately owned Islamic banks to compete with the public sector. Pakistan, obliged by law to reorganise its 'Islamic' system, permitted its first privately owned Islamic bank in 2002: the Al-Meezan Bank rapidly gained market share, and other banks opened Islamic windows.[31] So also in Indonesia, General Suharto supported the founders of the Bank Muamalat Indonesia (BMI) in his bid to stay in power against restive military officers. He sought their support in the legislative and presidential elections of 1992 and 1993.[32] BMI and Bank Syariah Mega Indonesia, reinforced by new Islamic windows of conventional banks, were aiming for 2 per cent of the market in 2005, and there were plans to establish Jakarta as a leading Islamic finance centre, competing with Kuala Lumpur, Malaysia and Bahrain.[33] In Turkey five 'special finance houses', defined by a law passed in 1983 that Turgut Özal's staff had negotiated with Ṣaliḥ Kāmil were fully integrated into the country's commercial banking system in 1999, survived the financial crisis of 2001 and grew more rapidly than their conventional competitors to gain over 4 per cent of the market by 2005.[34]

31 International Monetary Fund, 'Pakistan – Financial sector assessment program – Technical note – Condition of the banking system' (11 May 2005): www.imf.org/external/pubs/ft/scr/2005/cr05157.pdf.

32 Robert Hefner, 'Islamizing capitalism: On the founding of Indonesia's first Islamic Bank', in Arskul Salim and Azyumardi Azra (eds.), *Shari'a and politics in modern Indonesia* (Singapore, 2003), p. 155.

33 Shanthy Nambiar, *Bloomberg News* (2 Mar 2005) (www.wwrn.org/parse.php?idd=9518&c=82).

34 Ji-Hyang Jang, 'Taming political Islamists by Islamic capital: The passions and the interests in Turkish Islamic society', Ph.D. thesis, University of Texas at Austin (2005), pp. 158–65.

With the new surge in oil prices and revenues (1999–) Islamic banking consolidated its presence in global markets.[35] Efforts since 1990 to standardise Islamic financial instruments were bearing fruit. With encouragement from the IMF an Islamic Financial Services Board was established in Kuala Lumpur, headed by the former director of the Accounting and Auditing Organisation for Islamic Financial Institutions, which remained in Bahrain. The Bahrain Monetary Fund took the initiative in 2000 to launch Islamic finance's first bond issue, and it was rapidly followed by Malaysia, the Islamic Development Bank, Qatar, Kuwait, Dubai and the German state of Saxony-Anhalt. Project finance also assumed Islamic as well as conventional components, and Islamic investors were acquiring an ever larger menu of choices, sponsored by Citigroup and Hong Kong Shanghai (HSBC) as well as Islamic banks. Teams of London and New York lawyers worked closely with *sharīʿa* scholars to devise new packages.[36] The driving force consisted of Muslim investors, principally located in Saudi Arabia and neighbouring microstates, who were steadily Islamising their portfolios, diversifying away from the standard accounts of conventional banks to their new 'Islamic' windows, admitted in Saudi Arabia in the mid-1990s after being instituted in Egypt a decade earlier. Despite initial concern that Islamic finance might fall victim to measures against Islamic terrorism in the wake of the 11 September 2001 attacks, the threat of sanctions may have driven some Arab-owned funds from North America and Europe into some of the newer 'Islamic' investment vehicles.

The original alliance of '*ulamā*', princes and merchants has opened up to include lawyers and international banks intent on reducing the transaction costs of being '*sharīʿa-* compliant' to meet the needs of global markets. Some critics argue that Islamic finance is compromising its ethics by mimicking international financial practices too closely. Others, in the tradition of the late Ahmad al-Najjar, argue that Islamic banks have lost their developmental impetus to service small Muslim businesses, for indeed (like conventional banks in most developing countries) they cater principally to wealthy individuals who place their funds outside the region.[37]

35 Kristin Smith, 'Islamic banking and the politics of international financial harmonization, in S. Nazim Ali (ed.), *Islamic finance current legal and regulatory issues* (Cambridge, MA, 2005), pp. 167–87.

36 For an illustration see Michael J. T. McMillen, 'Structuring a securitized *Shari'a*-compliant real estate acquisition financing: A South Korean case study', in Ali (ed.), *Islamic finance*, pp. 77–104.

37 See the critical essays, for instance, by Mahmoud A. Al-Gamal and Walid Hegazy, in Ali (ed.), *Islamic finance*, pp. 117–32 and 133–49. See also Rodney Wilson, 'Capital flight through Islamic managed funds', in Henry and Wilson (eds.), *The politics of Islamic finance*, pp. 129–52.

As Islamic finance is integrated into the global financial system, however, more Muslims acquire a stake in the system and greater familiarity with the logic of savings and investments, expressed in a shared vocabulary across the Muslim world and reaching into Europe and North America. As the enterprise grows, it may also spread the realisation that the distinctively Islamic modes of finance that involve a sharing of business risks between principal and agent presuppose a transparent business environment, good corporate governance and government accountability.[38] These banks may serve as economic educators, but they cannot generate private capital accumulation within their respective countries if investment climates remain precarious and investors dependent on political cronies for protection.

The 'demographic bulge'

Muslim countries, like other developing ones, face a population explosion and the spectre of deepening unemployment, especially among the youth. In much of the Muslim world fertility began to decline in the 1970s and 1980s, as more women became educated, joined the work force and married later. Figure 3.9 shows that only some of the poorest African states, such as Mali and Niger, experienced little decline in fertility. In others the decline is sharp. The average number of births per women dropped by 2003 from between 5.5 and 7 in the 1960s to little more than 2 in Indonesia, Iran, Tunisia, Turkey and Uzbekistan, not much more than France's 1.9 births per woman. By the turn of the century women constituted 30 to 40 per cent of work forces of most Muslim countries, except Saudi Arabia. Even so, their populations of youth under the age of twenty-five were still projected to be substantially above the wealthier, industrialised countries for the coming quarter of a century. And in most Muslim countries, the youth would still comprise at least 40 per cent of their respective populations in 2030, although the demographic bulge would gradually move up the age ladder under the cumulative impact of lower fertility rates. As Figure 3.10 shows, however, Muslim populations were much younger than those of the UK or the US and the youth bulges of Afghanistan, Yemen and the sub-Saharan African countries were not expected to change much.

Muslim youth, however, are no longer just a subservient age category. As Graham Fuller observes, 'Youth in the developing world is increasingly exposed to a variety of Western ideas about what youth means, even as

38 Tarik M. Youssef, 'The *murabaha* syndrome in Islamic finance: Laws, institutions, and politics', in Henry and Wilson (eds.), *The politics of Islamic finance*, pp. 63–80.

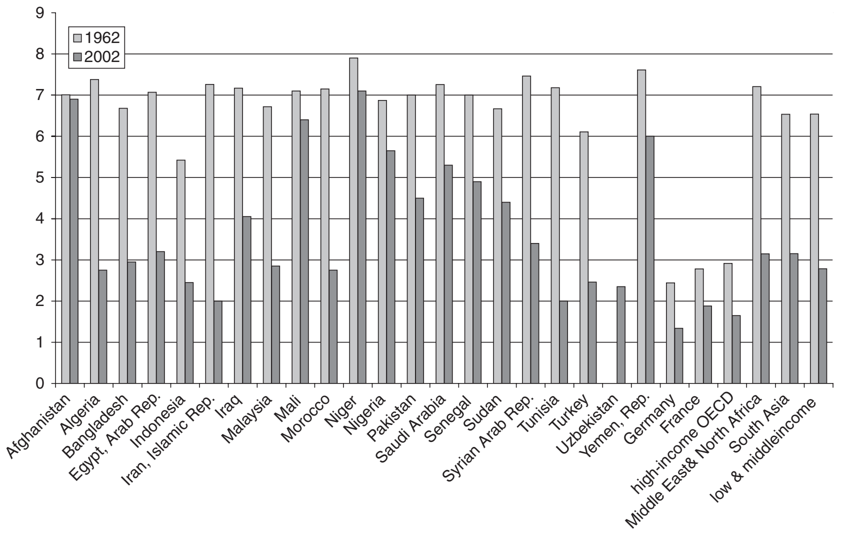

Figure 3.9 Fertility rates, 1962–2002
Note: Afghanistan data are for 1992.
Source: World Bank, *World development indicators 2005*.

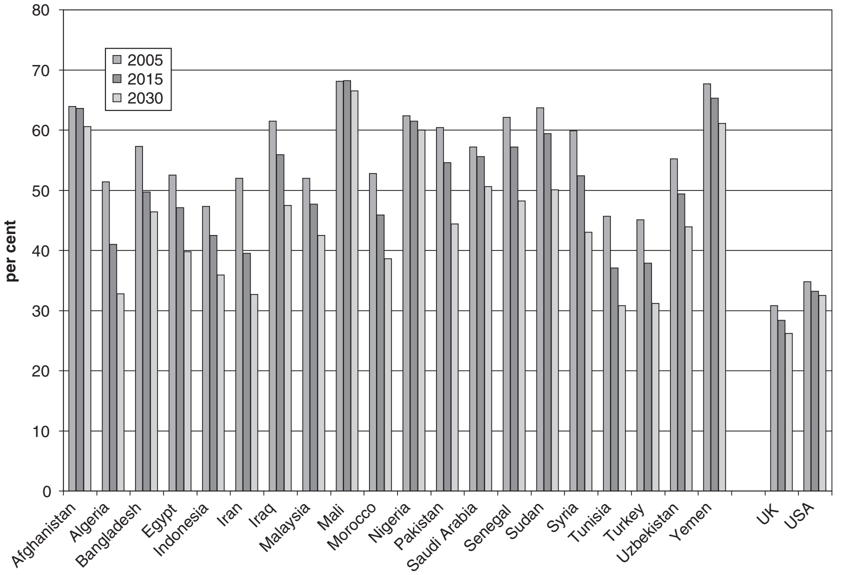

Figure 3.10 Youth under twenty-five (percentage of total population), 2005–30
Source: US Census Bureau, International Data Base.

their societies undergo constant, dramatic and even destabilizing change.'[39] They are increasingly educated and conversant with a global youth culture that nourishes high expectations. Universities in Algeria, Egypt, Iran and Saudi Arabia had gross enrolments of over 20 per cent of the relevant age groups – including relatively more young women than men in Iran. Their burgeoning universities, however, were suffering serious declines of quality, reflected those of the overextended secondary school systems, and offering skills that were poorly matched with the needs of their respective economies. A majority of Saudi graduates, for instance, came from theology or education faculties. Unemployment tended to be greatest among the university-educated youth, which were also fertile recruiting grounds for radical Islamist movements. As Fuller points out, 'it is quite evident that terrorism, and especially suicide operations, are a phenomenon closely associated with youth',[40] notably with the college educated bombers of 11 September 2001.

The demographic bulge could be viewed as a time bomb that threatened every Muslim political economy. The MENA, with unemployment rates already averaging a record 15 per cent, seemed especially vulnerable, with Bangladesh and Pakistan not far behind. The World Bank estimated in 2004 that the MENA had to double its work force to 200 million by 2020 if the region were to cut back unemployment and meet the needs of new job seekers.[41] Within the MENA, however, there were significant variations in the expected pools of new entrants to the labour market. Figure 3.11 presents Iran's age pyramid of 2000, together with projections for 2025 and 2050, for illustrative purposes. As in Tunisia and Turkey, Iranian women, encouraged by the government since 1989, have taken control of their reproductive potential. Consequently, as for these other countries, the fifteen- to nineteen-year-old cohort of 2000 (in yellow) is the largest of the five-year segments, at least until age catches up with it 2050. These countries are relatively fortunate because they have already received the biggest instalments of their 'demographic gift' of higher ratios of working age to young and retired people. Their demographic bulge works up the pyramid over time, the potentially volatile and rebellious as well as underemployed youth of 2000 moving to staid middle age and retirement by 2050. By then more workers are retiring than are entering the work force.

39 Graham B. Fuller, *The youth factor: The new demographics of the Middle East and the implications for U.S. policy*, Brookings Institution, Analysis Paper # 3 (June 2003), p. 8.
40 Ibid., p. 19.
41 World Bank, *Unlocking the employment potential*, 1.

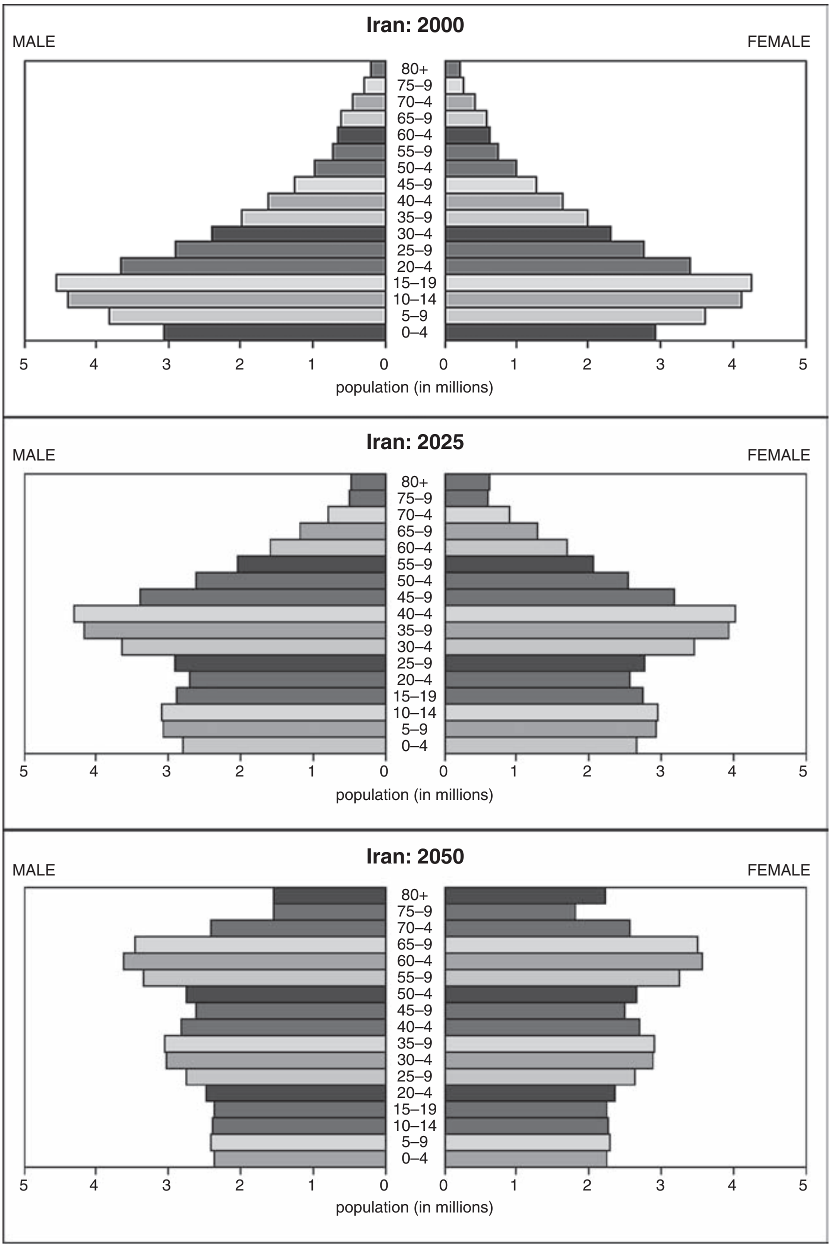

Figure 3.11 Population pyramid summary for Iran
Source: US Census Bureau, International Data Base.

Figure 3.12 presents Iraq's age pyramids, which represent delayed demographic development in Syria and Saudi Arabia as well. In these countries the base of the pyramid continues to grow, and no end to the demographic bulge is in sight until 2050. No end comes even then for Yemen, Nigeria and a number of other sub-Saharan African countries, only steadily expanding bases of their respective pyramids. Present unemployment is compounded indefinitely into the future without major political and economic changes. Of course major change is underway in Iraq, and Saudi Arabia also has great potential for development. But much of the Muslim world, with far fewer resources, faces similar bulges in their expectant ranks of labour. Algeria, Indonesia and Morocco project slightly less disturbing demographic profiles than Iraq or Syria, having started earlier to control their galloping demography, but unemployment at the turn of the century was already highest in Algeria with some 27 per cent, followed by Morocco.

For some countries oil rents, rising over the first decade of the twenty-first century, were a safety valve. The Saudi government, however, hired no more than one fifth of those graduating from college in 2002.[42] Other safety valves, such as migration to Europe or to petroleum-rich neighbours, were less helpful than in previous decades. Nor could technical neo-liberal reforms fix the problem, as the World Bank admits: 'Not even the most ambitious agenda for reforming the labour markets will be sufficient to achieve the employment growth required in MENA over the next few decades to reduce unemployment and absorb new entrants into labour markets.' While championing neo-liberal reforms, the World Bank concluded that the underlying problem, in the MENA at least, was poor governance, which might inspire more radical changes: 'poor economic performance diminishes the bargaining power of autocrats and increases the strength of the opposition'.[43]

The international financial community was coming to view good governance as a precondition for the rapid economic development that would be required to meet the challenge of the youth bulge. The international climate was changing, in short, in ways that made political reform less avoidable than in the 1990s, even without more armed interventions possibly being advocated by American neo-conservatives. Autocrats had tended in the 1990s to roll back timid political reforms with the argument that economic development had to precede political liberalisation, but sustained

42 John Waterbury, 'Hate your policies, love your institutions', *Foreign Affairs*, 82, 1 (January–February 2003), 62, cited and confirmed by Fuller, *The youth factor*, 16.

43 World Bank, *Unlocking the employment potential*, pp. 172, 216.

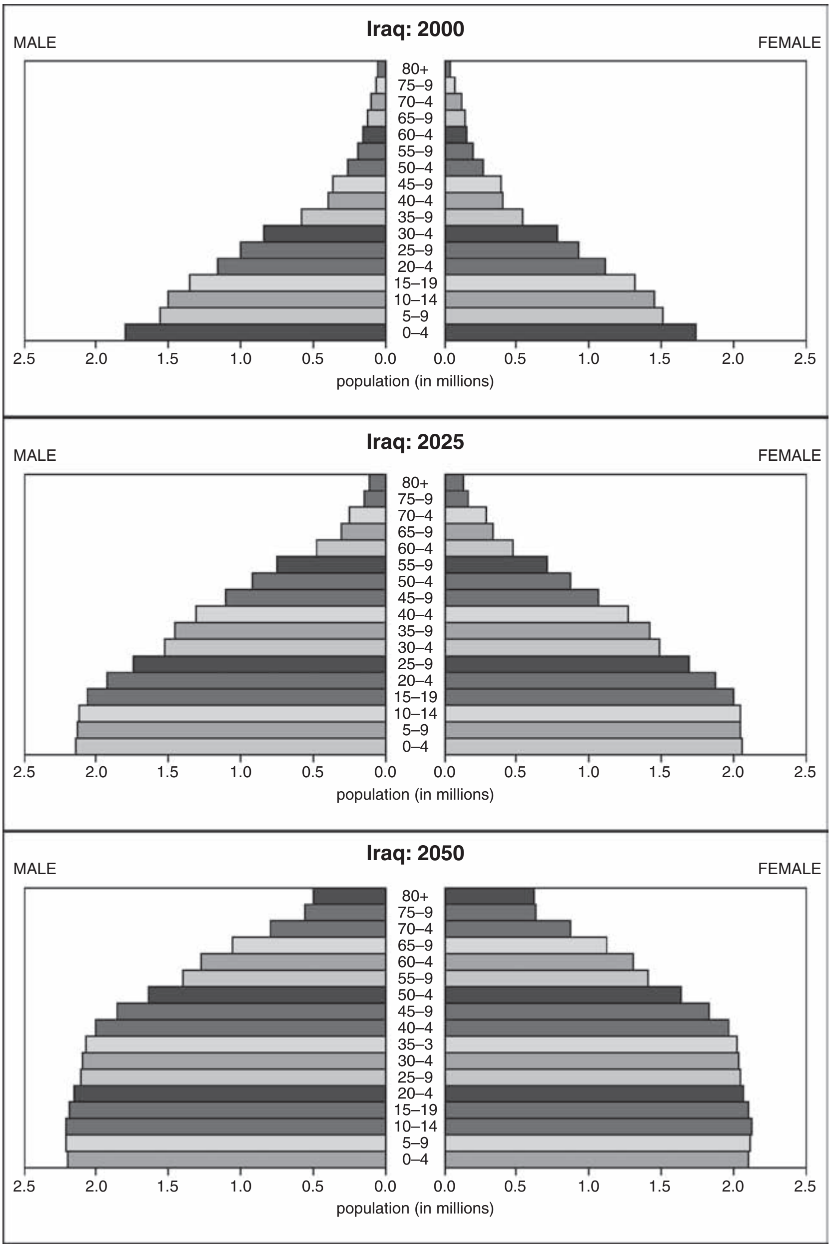

Figure 3.12 Population pyramid summary for Iraq
Source: US Census Bureau, International Data Base.

development required better investment climates, for Islamic and other investors alike, that in turn depended upon more transparent and accountable government. The third Arab Human Development Report, published in 2005, described the modern Arab state as a 'black hole which converts its surrounding social environment into a setting in which nothing moves and from which nothing escapes'.[44]

As long as the price of oil remained relatively high, the political economies most in need of reform in the MENA are unlikely to undergo much reform. The oil revenues of the Gulf Co-operation Council countries financed real estate booms in Cairo and Beirut as well as (diminishing) inflows of workers from other Muslim countries. But opposition movements from Morocco to Bangladesh were growing qualitatively more radical while deepening their youthful constituencies.[45] Opposition movements in Egypt and Iran, the most populous of the MENA states, were insisting on political reform from within their respective systems, but for how long might they remain moderate, loyal oppositions?

44 United Nations Development Programme, *Arab human development report 2004: Toward freedom in the Arab world* (New York, 2005), p. 15.

45 Ali Riaz, *God willing: The politics of Islamism in Bangladesh* (New York, 2004), and Lahcen Brouksy, *La mémoire du temps: Maroc, pays de l'inachevé* (Paris, 2004).