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Islamic finance in the dialectics of globalisation: Potential variations on the "Washington consensus"

Clement M. Henry[1]

The University of Texas

The globalisation of the world economy is perceived in much of the Middle East and North Africa (MENA) as a new form of imperialism akin to the economic and political subjugation of the region well into the twentieth century. The MENA has been slow to adapt to the new global forces of economic and political change. Its countries have hesitated to engage in the sorts of "structural adjustment" advocated by the "Washington consensus," yet the region is too dependent on the global economy to afford to be left out. As in the previous period of globalisation, which lasted until 1914, the region is also too strategically significant to be left alone; indeed, with two-thirds of the world's proven oil reserves, it is still a focal point for global rivalries. In the new millennium it is likely to become more so as the United States loses its exclusive superpower status. The local perception of globalisation as a new form of imperialism cannot be dismissed as mere paranoia; instead, this paper pursues the analogy with past colonial situations. Just as a colonial dialectic sometimes brought about national emancipation, so the dialectics of globalisation may integrate countries in the region into the world economy while also emancipating them. To do so in the new context is to assimilate, negate, and through the hard work of negation to supercede the Washington consensus rooted in Anglo-American capitalism--by "Islamizing" it.

The dialectics of globalisation

The drama of globalization may be viewed as a continuation of the colonial dialectic played out by earlier generations of indigenous elites. Closer to its Socratic and Hegelian origins than to a Marxian clash of classes, dialectic here is understood to comprise sets of ideas and attitudes defining elite-mass relationships rather than material forces, though economic interests obviously play a part. In a dialectic of emancipation (modeled after Hegel's master-slave relationship) ideas may - but not

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[1] The middle part of this essay slightly revises parts of the writer's introduction to the Special Issue on Islamic Banking, Thunderbird International Business Review 41:4-5 (July-October 1999), 357-368.

[2] According to Homoud (1986), however, "Some writers, …in good faith or otherwise, wished to take advantage of the notoriety and the people's admiration of the opinions and personality of Sheikh Mohamad Abdo (God's mercy be upon him), in order to support their views on matters of interest….," but the sheikh never made such a fatwah (p. 111 and p. 280, notes 331 and 332). I thank Monzer Kahf for this reference.

necessarily - gain ever wider social audiences, achieving what Gramsci called hegemony. In colonial situations they may mobilize entire nations.

In the MENA colonial dialectic was most fully articulated in French North Africa because the colonial presence was more intrusive and protracted than elsewhere. The dialectic described three basic stances (or Hegelian "moments") toward the colonizer's political culture: imitation, rejection in the name of indigenous values, and a fuller assimilation of the colonizer's values, playing upon the contradictions of colonialism so as to undermine its authority and achieve independence. Generations of Tunisian elites evolved chronologically in the logic of three dialectical moments. Before 1914 aristocratic Young Tunisians emulated French modernity and sought liberal reforms within the system. After World War I a predominantly urban Destour (Constitution) Party rejected the French Protectorate on traditional and legalistic grounds. Then the Neo-Destour, its successor party, with roots in peasant villages, employed modern political methods to organize the entire country against French occupation. At independence, in 1956, Tunisia had the most deeply rooted nationalist party and trade union federation of any Arab country. When, as in much of the MENA, the "colonial" domination was veiled in technical and military relationships with outside powers, the colonial dialectic could not be completed for lack of a unifying target of opposition or incentive for emancipation. Even in Tunisia, however, Habib Bourguiba's successful independence movement would eventually engender resistance from social sectors and actors who felt excluded. Once in power, the third generation of nationalists became vulnerable to attack by new generations of rejectionists who could point to the internal contradictions between the incumbent elite's ostensible Western liberal values and the regime's authoritarian practices. But Tunisia's Islamist opposition, progressive by Arab standards, is a legacy of Tunisian modernization: Rashid Ghannoushi can be seen as Bourguiba's "illegitimate offspring." (Zghal 1991:205) Tunisia's special advantages deserve further scrutiny.

The critical factors for Tunisia's success were the duration of the colonial situation (1881-1956) and the capacity of political elites to forge durable linkages with mass constituencies before independence. Colonial conflict was sufficiently protracted and its education benefits sufficiently extensive to enable a modern educated provincial elite (sons of peasant freeholders) to displace the traditional urban elite of absentee landlords, merchants, and religious figures by mobilizing broad popular support beyond their particular Sahel villages. The French presence offered a convenient focus for mobilization and coalition building. The timing was critical. It took three generations of nationalist struggle for the educated sons of the Sahel villagers to acquire sufficient weight to displace and absorb the other educated children of traditional elites in the new middle classes (Henri de Montety 1940, 1973). Their Moroccan equivalents would not have time to achieve such sociological and political predominance before independence. Other new middle classes, defined as being not only educated but of predominantly provincial origins outside the old elite strata, did not achieve political hegemony before independence. In the rest of the Middle East and North Africa only Algeria, Aden, Egypt, Palestine, and Sudan experienced comparable periods of European (and Israeli) colonization. The colonial situation was too veiled in Egypt, however, and too prone in Algeria and Palestine to

settler violence for their respective new middle classes to achieve hegemony. If they were to achieve it there or elsewhere in the MENA, it would be after independence under less auspicious circumstances. In Palestine, however, the Jewish settlers, detached from Europe yet still mostly European, telescoped their nationalism into a third-moment victory over Britain within a generation.

Pervasive western influence, first exercised through the Ottoman Empire and then by the League of Nations mandate system, usually strengthened the hold of urban absentee landowner-merchants over the countryside. Turkey was the prime exception. Ottoman bureaucracy contained them, and a third-moment Anatolian elite in turn achieved domination through a successful war of national liberation in 1922. Usually the emergent new elites benefiting from western education did not have time to displace the old urban ones; in Syria, Lebanon, and Iraq, the prime "nationalists" and beneficiaries of independence were the urban landowners; in Iraq they included urbanized tribal leaders. Despite a lengthier history of Western intrusion, Egyptian nationalism was also dominated by its landowners until divisions in the Wafd presaged the end of the monarchy in 1952.

Except in Syria and Lebanon, where "national" coalitions of merchants and absentee landowners were left in charge, the colonial powers tended to establish monarchies wherever they stayed for relatively short of periods of time. In the Persian Gulf the British protected ruling families, and for Jordan and Iraq they imported the Hashemites from Mecca. They disposed of Italy's former colony by uniting Libya under a new monarchy in 1951. Except in Saudi Arabia, which did not experience traditional colonialism, monarchy was the sign of a colonial dialectic that had not run its full course. Had the French stayed a generation longer in Morocco, they would doubtless have discredited the venerable Sharifian monarchy by overuse against rising social forces rather than raising its prestige, accidentally, by exiling the sultan to Madagascar in 1953. Had they left Tunis for good during World War II, conversely, Moncef bey would have kept his throne with good chances of preventing Bourguiba from founding his republic. The British and subsequently the Americans also strengthened Pahlevi Iran without ever turning it into a formal protectorate. And elsewhere, as in Iran, monarchies had trouble coping with new middle classes nurtured by western education. Despite his White Revolution the shah was unable to mobilize support from the countryside to offset them. In Morocco, by contrast, the monarchy came to dominate both the old urban merchants and the new middle classes after independence by manipulating provincial notables to its advantage.

Israel, Tunisia, and Turkey were the only countries where a third moment elite consolidated itself with independence. Afterwards it would be more difficult for new middle classes, the normal carriers of civil society, to forge durable linkages with other social sectors, whether among peasants, workers, or students. In Iran a genuine revolution was needed to expel the monarchy, but much of the new middle classes then fell victim to the victorious coalition of merchants and religious leaders. Elsewhere they invariably achieved power by plotting within their respective military establishments. Nasser of course led the way in Egypt, followed by a series of coups and counter-coups in Iraq and Syria until their respective Baath parties consolidated power in 1968 and 1970, respectively. The officers in turn suppressed the civilian politicians and intellectuals who might have deepened their respective civil societies

by creating new associations and discursive spaces. The degree of oppression or liberality of their respective regimes was a function of the potential oppositions they faced. The extent of their economic intervention and financial repression also reflected the strength of their respective merchants and landowners and the degree to which they had coalesced as a class of local capitalists. Thus intervention was heaviest in Egypt, Iraq, Syria, and Algeria, where it is often forgotten that the more protracted colonial situation had given rise to a more concentrated Algerian as well as French settler landowning elite than in neighboring Morocco. The economic hand of the military was lighter in Libya, the Sudan and Yemen, where capitalism was less developed.

The new dialectics of globalization feed upon an unachieved colonial dialectic. Its thesis is the Washington Consensus, shared by "serious" economists irrespective of nationality and vigorously if selectively imitated by certain of the local business and political elites as well. It seems hardly coincidental that the countries, which had consolidated third moment elites at independence --Israel, Tunisia, and Turkey --, moved the most eagerly to adopt the Washington Consensus. Reform teams of technocrats, supported at least initially by their political leaderships, also made some progress implementing various structural reforms in Algeria, Egypt, Jordan, and Morocco. The Washington Consensus, however, has also engendered significant backlash in these and other countries. The "globalisers" almost inevitably provoke "moralizers," who seek solutions in cultural authenticity, affirming a religious or ethnic identity, or in at least reaffirming traditional nationalism. Since Libya's Muammar Qadhafi began speaking of a "Third Way" in the 1970s, the siren call of a distinctive, unique, culturally authentic model has gained considerable appeal, and writings on Islamic economics have proliferated in the region. Much like second-moment responses to colonial situations, however, moralism is abstract unless it can project its values into a synthetic adaptation to the global economy. Most of the "moralizers" seem unable to devise effective alternative economic policies. Moralism takes the form either of Arab nationalism and statism, exercises in collective nostalgia for the 1960s and 1970s, or of Islamic revivalism. Arab economists have unsuccessfully promoted a free trade zone as a counterweight to being integrated piecemeal into the international economy (Bolbol 1999). Mainstream Islamism, Arabism and other essentially culturalist responses to globalization seem weak on economics. The moralizers can put globalisers on the defensive, but their regimes in turn constrict the political space in which to articulate more moral yet realistic, synthetic responses to globalization. In fact the region's hesitating moves toward greater political liberalization in the 1980s were sharply reversed in most MENA countries in the 1990s. Tunisia, followed in turn by Algeria, Egypt, Saudi Arabia, Turkey, and Jordan, severely restricted the discursive, political, and even physical movements of their Islamist oppositions. There could be little overt, public debate between globalisers and their opponents inside and outside their respective governments, and efforts to incorporate mainstream Islamists into the political process ceased.

Indeed, the political conditions prevailing in most Arab states since Desert Storm resemble those of a colonial situation—with Islamists now playing the role of the erstwhile nationalists. It is an odd reversal of roles, a further unfolding of a

nationalist dialectic. In colonial situations Islam provided the implicit, underlying mobilizing structures of western-inspired nationalism (articulated in Tunisia, for instance, through the modern Quranic schools), whereas today nationalism acquires an overtly Islamist form. Incumbent rulers, however, are both Muslim and indigenous nationals. They all seek legitimacy as Muslim rulers, even in radical republics like Syria or Iraq. Most of them therefore feel obliged to tolerate limited public Muslim spaces, such as Friday prayers and shari'ah courts. The Friday rhetoric may be strictly controlled, and judiciaries are hardly independent in most of these countries. The practice of Islam, however, is no longer confined as in colonial times to issues of personal status. In many Arab and other Muslim countries Islamic financial institutions have also taken root since 1975. The new financial practices are innovative, opening a new field in which a dialectics of globalization may play. In Islamic banking, indeed, moralizing and practical economic activity go hand in hand, suggesting the possibility of a new synthesis negating the negation of the Washington Consensus. Might the new financial institutions overcome, supercede, and "Islamize" the Anglo-American capitalism that underlies the Washington Consensus?

The Islamic finance movement

The term "Islamism" denotes an ideology calling on society fully to conform to the Shari'ah, the divine law of Islam. There is little agreement in the Muslim world, however, on the specifics of an Islamic political and social order. Islamism is a work in progress, expressed in a variety of movements and social projects. One of its most dynamic manifestations is Islamic banking and finance, an area of growing interest to the international business community. By "Islamic financial movement" here is meant private sector institutions which compete with conventional banks and/or public sector banks, not the officially established "Islamic" banking sectors of Iran, Sudan, or Pakistan under dead hands of state officials. Private sector Islamic banking has its own distinctive logic but also, in good dialectical fashion, may display constructive patterns of coexistence and competition with "conventional" Western banking systems.

Legal innovators and financial engineers are attempting to demonstrate that Islam, properly understood, presents a viable alternative to conventional western financial practices for managing the modern global economy. Some of the more ambitious pioneers of Islamic finance may be looking even further: if Islam offers a viable set of contemporary financial and commercial practices, then may it not after all provide an appropriate basis for political and social order as well? Islamic finance at least brings Islam out of the colonial closet of personal status and family affairs into the public domain. It also offers an economics vocabulary and serves to introduce broad segments of Muslim populations to modern finance.

Yet many westernized Muslims as well as other Middle Easterners and international observers still tend to view Islamic "interest-free" banking as a hypocritical exercise in semantics. Through marked-up prices, commissions and other subterfuges, it is often argued, Islamic bankers get their interest but call it something else. Many westernized Muslim scholars furthermore reject the conflation of riba or usury with interest and argue instead that modest fixed rates of interest are

in accord with Islamic principles. At the beginning of the century Egypt's revered mufti, Muhammad Abduh, is alleged to have made a fatwah (ruling) to this effect,[2] as did a successor, Shaykh Muhammad Sayyid Tantawi, in 1988 (Galloux 1999:493). Abduh, however, was operating under the thumb of an informal British protectorate, and Tantawi's initiative also appears to have been politically motivated.

In fact "a near unanimity of traditionalist scholars…seems certain that modern bank-interest falls within the revealed prohibitions and entails a major sin, tolerable only in the throes of necessity." (Vogel and Hayes 1998:25) And, of greater interest to bankers, so also do substantial segments of Muslim populations. I know of at least one prominent Christian bank in Lebanon that grew out of a strong base in Sidon of Muslim depositors who refused to accept interest. More recently, some well known international banks hesitated to open Islamic finance windows, lest they lose their most lucrative conventional accounts – as they eventually did! (Vogel and Hayes 1998:7) Perhaps the "throes of necessity" are less compelling for affluent private Gulf Arabs than for poorer strata. We simply do not know what proportions of Muslims tolerate interest as a matter of "necessity" in the modern world, or how their attitudes might be changing. Substantial segments avoid banks altogether, and others may be ready to switch from conventional interest-based banking to a viable Islamic alternative. Market research in some countries indicates significant potential for interest-free banking (Kahf 1999:449). Other ostensibly progressive, formerly "socialist" countries like Algeria and Syria are remarkable for the substantial amounts of cash that remain outside their respective commercial banking systems.[3] Many other reasons may explain the popular distrust of conventional banking in these countries, but Algeria has cautiously permitted Islamic banking since 1988, even allowing new ones to be established after the outbreak of the Islamist insurrection in 1992.

Many states in the Muslim world, however, distrust and fear Islamic banking, either because of its alleged associations with Islamist oppositions or because of the vested interests of governing elites in existing conventional banking arrangements. Not only militantly secular regimes, like Syria or Iraq, but even Oman and Saudi Arabia "actively discourage" these new commercial banking institutions (Vogel and Hayes 1998:11; Kahf 1999:451, note 10). That Saudi Arabia should be so recalcitrant, periodically rejecting applications for banking licenses by Islam's two principal transnational finance groups, Al-Baraka and Dar al Mal al Islami, is especially ironical in that much of the material and moral encouragement for Islamic banking comes from Saudi Arabia. The Saudi Arabian Monetary Agency (SAMA) did license Al-Rajhi, originally a local money-changing network which unofficially redefined itself as an Islamic bank, but it has consistently rejected the requests of the two Islamic banking transnationals despite their impeccable Saudi credentials (Vogel

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[3] IMF, International Financial Statistics, regularly publishes line 14a, "currency outside Deposit Money Banks." Dividing this line by M2 (lines 34 plus 35) gives a measure of the relative size of each cash economy. The other highest scorers in the Middle East and North Africa are Iraq, Sudan, and Yemen, while the small Gulf states, Israel, and Turkey have the least outstanding cash relative to their money supplies. There is no evident relationship between the proportion of total bank deposits placed in Islamic banks and the cash which stays outside the banking system.

1997:288). Al Baraka's principal owner and original chief executive officer is Shaykh Saleh Kamel, a self-made Saudi businessman, and the Dar al Mal's leader is none other Prince Muhammad Al Faysal, son of the late King Faysal.

In fact Islamic finance is a major laboratory for innovation by Islamists, who are determined by definition to remake or modernize contemporary reality by Islamizing it. It is a peculiarly fertile field for innovation precisely because it is somewhat removed from politics and hence from the political extremism associated rightly or wrongly with Islamic "fundamentalism." Inspired by Ahmad al-Najjar's brief experience in Nasser's Egypt, the Conference of Islamic States launched the Islamic Development Bank in 1973. Then, beginning in 1975 with the Dubai Islamic Bank, scores of private sector commercial Islamic banks opened for business and competed successfully with conventional banks, first in many Arab and then in other Muslim and even non-Muslim countries. Despite their rapid growth, however, they appear today to be stagnating. Symptomatically the Dubai Islamic Bank required a rescue package in 1998, and a number of other Islamic commercial banks show signs of stumbling. One of their basic problems is that they do not have an adequate arsenal of financial instruments with which to compete with conventional banks.

As Vogel and Hayes have suggested, there are basically two possible scientific approaches to Islamic finance. One is to take the macro approach of Islamic economics and "mine the classical law corpus for fundamental Islamic principles" so as draw conclusions about interest-free economies. The other approach is to take a micro approach more in keeping with the focus of Islamic law or fiqh upon the "concrete individual actions…that have prime religious significance." (p. 30) Frank Vogel (1998) tactfully dismisses Islamic economics in favor of the second approach since "it is the classical law, with its micro, formal, transaction-based perspective, that most influences the practices of Islamic banking and finance." (p. 31) He further observes that attempts by Islamic economists to reduce fiqh to a few simple rules can turn out to be incorrect as statements about the classical law (pp. 44-45). Consequently mixing the two approaches can lead to confusion. Economists may retort that the findings of the conservative legal scholars ought to be rationalized; indeed, respectful outsiders may be vulnerable to charges of perpetuating an "Orientalist" opposition to Muslim progress. In practice most innovators steer a middle road between the reverse engineering of the economists and the lawyers bound to legal precedent. But only through the hard work of reinterpreting fiqh can financial innovations acquire shari'ah legitimacy.

There are four methods of elaborating fiqh and applying it to contemporary circumstances: 1) by ijtihad or new interpretation in light of the Quran and Sunna; 2) by choice (ikhtiyar) among the views already propounded by past scholars and adapted by a variety of possible criteria, including the general welfare, or maslaha, to the present circumstance; 3) by necessity (darura); and 4) by legal artifice (hila, pl. hiyal) or clever uses of law to gain legitimate ends (Vogel 1998:34-39). Vogel notes that conservative legal scholars prefer to avoid ijtihad wherever they can justify innovations by appeals to precedent; in practice, the method of choice covers ijtihad, notably in contemporary deliberations about options, which are financial instruments

critical to any effective future for Islamic finance. A Malaysian legal scholar, for instance, recently called for ijtihad in defense of options and explicitly adopted the method of choice and the criterion of the general welfare in his legal analysis of these instruments (Kamali 1999:523-540).

Some hiyal also deserve mention. One of the principal instruments of Islamic banking is murabaha, a perfectly legitimate means of financing a sale by charging markups to the current price at a future time. Islam, as the studies in the present volume amply demonstrate, accepts the time value of money but rejects making money from money. The bank financing a murabaha sale must actually buy the merchandise and then advance it to buyer. In practice, however, Islamic banks in Pakistan, Malaysia, and elsewhere have devised artificial murabaha, whereby the creditor immediately releases the merchandise to the buyer without ever really possessing it or even fully identifying it (Rosly 1999:465, note 7). The Fiqh Academy of the Organization of Islamic States has condemned this practice, yet many Islamic banks engage in such hiyal and perhaps lack the commercial expertise and warehousing capabilities literally to fulfill the conditions of a "real" murabaha. The major portion of outstanding credit extended by Islamic banks takes the form of murabaha but the proportion of it that is artificial is unknown. Any systematic attack on the artifice, however, could place the entire Islamic financial movement in jeopardy. Out of necessity Islamic banks are in need of new financial instruments.

As many analysts agree, the major impediments to the growth of Islamic banking are its liquidity problems, the limited set of financial instruments, cumbersome transactions, and no ready provisions for risk management (cf. Vogel and Hayes 1998:13; Iqbal and Mirakhor 1999). Liquidity is doubly problematic. Most commercial Islamic banks do not have a lender of last resort or a discount window at the central bank, nor may they readily find ways of investing excess liquidity, given the limited number of Islamically acceptable financial instruments. The banks do not find adequate outlets to place funds in intermediate and long-term investments without incurring excessive risks of equity financing. Consequently they are often unable to generate adequate returns for their depositors, many of whom expect the market rates offered by conventional banks. Some Islamic banks have been obliged to pay their depositors out of shareholders' retained earnings to keep them from shifting their deposits to other banks – clearly an untenable position for banks intent on competing with conventional commercial banks. Yet their bread and butter murabahas may become ever more saddled with cumbersome procedures if they are to retain their Islamic legitimacy.

Indeed, Islamic finance remains at a crossroads. It has acquired acceptance and respectability in many countries and in conventional as well as Islamic institutions. Yet the heavy transaction costs of financial innovations may discourage further development. Transaction costs are high for lack of qualified ulama capable of doing the hard work of ijtihad that might legitimate innovation and for lack of effective national and transnational institutions that may transmit, articulate, and eventually standardize the individual legal interpretations. Viewed in political perspective, the dilemmas of Islamic finance converge with those of political Islam.

Financial institutions remain weak and fragmented in such critical areas as accounting practices and legal supervision. Experts attempt to devise accounting standards and to codify legal rulings, but the results seem neither unambiguous nor generally accepted. Yet the challenge of devising the institutions needed to resolve the technical problems of Islamic finance is even more daunting, because it requires an improbable degree of political coordination among Muslim states. Financial Islamists have perhaps hoped by stealth to build up Islamic economies that might advance a broader political agenda. Conversely, moderate political Islamists may have hoped to lessen tensions with their respective governments by pressing for less controversial economic reform. But increasing political polarization is tending to isolate the moderates and to politicize Islamic finance. Just as more effective institutions are needed to consolidate and expand Islamic financial markets, international and local politics conspire to diminish any collective capacity to build them.

Paradoxically, however, Islamic finance may well flourish in the new millennium under the impact of financial globalization. As Monzer Kahf provocatively suggests (Kahf 1999:459), the conventional international financial system seems to be reinvigorating Islamic finance, even as Islamic banks, like other traditional commercial banks, decline in importance. The dominant Anglo-Saxon model of capitalism pushes for the same transparency and accountability that Islamic finance requires for its profit-sharing and other forms of financing to be successful. Financial institutions based in London, New York, and Washington, moreover, are taking the lead in promoting new Islamic forms of investment. There are indeed natural affinities between conventional and Islamic investment banking. The curious prospect arises of international financial markets driving the development of institutions for standardized accounting and legal rulings which have so far eluded the Islamic financial community and Muslim governments. Markets might then empower Islamic financial institutions and perhaps contribute, too, to a softening of the political polarization between Muslim governments and their political oppositions.

Conclusion

As Hegel argued in his Phenomenology, it takes hard work for the stubborn slave to rework his identity and liberate himself by bringing the master to depend on his services. Islamic finance is at a conceptual crossroads, very much in need of "the slow, hard work of ijtihad" (Vogel 1997:273). Propelled by private Arab Gulf capital, however, the banks steadily increase their market shares. The Islamic transnationals, Al Baraka and Dar al Mal al Islami, maintain presences in most MENA as well as other countries. Despite setbacks—losses, for instance, incurred by the DMI group when the Bank of Commerce and Credit International was shut down in 1991 -- these private institutions continue to grow. Incumbent regimes try to control them in various ways, limiting the opening of new branches in Egypt, for instance, while expanding the “Islamic” branch networks of government controlled banks (Galloux 1999:491-498). In the GCC states, where much of the private Arab capital is concentrated, the market shares of private Islamic banks grow, mobilizing capital that can be redeployed in the capital poor countries of the MENA. New Islamic financial

instruments are being developed, encouraged in fact by the International Finance Corporation and large multinational western banks, to finance infrastructure and oil and gas projects. Although market shares remain small, rarely exceeding 10 per cent of private sector deposits in the MENA's commercial banking systems, the Islamic finance movement has solid roots in Bahrain, Egypt, Jordan, Kuwait, Qatar, Turkey, and the UAE as well as bridgeheads in Algeria and Tunisia.

In order to compete effectively with conventional banks, the Islamic banks require greater transparency and accountability in the business environment than their conventional counterparts. They may have a more serious interest in structural adjustment - not just in the financial sector - because some of their most distinctive (if little practiced) musharaka and mudarraba operations involve greater risks than conventional lending. The various economic arguments have been discussed at length in the Islamic literature, but the politics has not.

What relations do these banks have with Islamist movements, the principal political oppositions in most Arab countries? May they mediate between incumbent establishments and oppositions, helping to moderate their respective Islamist movements and serving to integrate them into their respective political systems? Against this, polarization between regimes and oppositions, which has increased since the Gulf War, hurts Islamic finance as well as Islamist politics, discouraging the potential mediation. Still, regimes seek Islamic legitimacy and tend to offer some limited economic spaces (but can one really insulate economic from political spaces?) to Islamic finance, as well as limited cultural spaces for the functioning of the banks' religious supervisory boards. And, on the ground, there is growing demand for Islamic vehicles to mobilize deposits of those who avoid conventional banks. Some of the latter even offer Islamic finance windows but these are surely no substitute or serious legitimacy boost for a regime, since the mobilized "investment" deposits then can serve conventional riba ends, the funds somehow having to be placed rather than laying idle in the bank.

May the Islamic banks further regional integration or do they presuppose more cooperation between Arab states than seems likely in the foreseeable future? The banks obviously need greater standardization and more robust regional institutions if they are to innovate effectively and develop their regional markets. Indeed, the Islamic finance movement has found interesting allies - conventional transnationals and public institutions like the IMF as well as private ones like the IFC, which deals with Islamic financial vehicles in some of its cofinancing operations.

Possibly, too, Islamic finance could serve to legitimate some of the necessary economic reforms associated with globalization and the Washington Consensus. One tantalizing illustration is Algeria in 1989-91. Although the political and economic reform efforts failed for various reasons, the FIS program of 1989 backed currency devaluations and various other efforts to reform a stultified state command economy. Algeria's military unfortunately cracked down, pushing the Islamists into armed opposition. In the globalization dialectic both the incumbent regimes, hesitating to undertake major economic reforms, and their crude Islamist oppositions may be perceived to be Hegel's stubborn slaves -- the negative moment of the dialectic. A full working out of the dialectic in Algeria may still eventually involve Islamic financiers pushing toward the necessary synthesis in alliance with mainstream Islamist

politicians -- negating the negation of western “imperialist” pressures by Islamizing them.

In Jordan, Egypt and the Gulf states - and perhaps soon in Algeria -- alliances between Islamist politicians and Islamic financiers seem possible. Viewed as an economic movement, Islamic finance can “Islamize” the necessary adjustments to globalization. Self consciously Muslim Islamists may be less defensive in their reform mongering, indeed, than their more defensive “secular” political adversaries. In opening up small economic and cultural spaces for Islamic finance, the regimes after all may in the end be releasing resources for a more liberalizing politics.

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