



Increased Economic Exchange between East and West

The War on Terrorism, being fought since September 11, 2001, seemingly brought the East – represented by Muslim countries – and the West – spearheaded by the US and consisting of European and OECD countries – eyeball to eyeball with each other; in the military sense, the United States commenced offensive operations in Afghanistan by October 2001, and in the economic sense, the security paranoia after this psychologically devastating terrorist attack has inhibited people-to-people contacts as well as exchange of economic sources, inputs, and ideas. It is true that the target of the 9/11 attacks was not only the World Trade Center towers, but also the Pentagon and the White House – aiming at the economic, military and political power centers in effect. However, the economic devastation caused by the destruction of the Twin Towers and a section of the Pentagon cannot be compared to the havoc that has been wreaked across Afghanistan, Pakistan and Iraq. At the crux of this argument lay the notion that while it was easy for the United States to both ‘rebuild’ its destroyed infrastructure and recover from this attack in an economic sense, the same cannot hold true for the three Muslims countries who have been mentioned and are economically, politically and existentially threatened by the extremist nexus of Islamic fundamentalism and terrorism. But on April 26, 2010, US President Barack Obama announced a series of exchanges between business leaders and entrepreneurs from the United States as well as the Muslim world. As part of his promise made during his highlight speech to the Muslim world in Cairo in June 2009, the US President vowed that mutual interests and mutual respect will replace the mistrust that existed between the United States and the Muslim world; while this is a hopeful sign of increased exchange between the ‘East’ and ‘West’ as defined herein, it is also important to map out how this exchange existed between 2001 and 2010, and once this mapping is complete, it is also essential to ascertain exact ways and means whereby the Muslim world and the ‘West’ may commence positive and mutually beneficial economic interaction(s). Whether positive economic relations can also lead to better political relations and greater people-to-people understanding and contacts is also a core concern to be addressed in the final course of this discussion.

Economic interaction between the Western world and the Muslim world has the following characteristics; the ‘East’ owns natural resources and unskilled (or cheap) labour, which the ‘West’ requires to complete its capitalist processes and, along with their endowments of skilled labour (experts, etc.) and technological advancement, generate and provide finished goods for



the consumption of the global population. In this discussion, since the ‘West’ can easily be articulated, the term ‘Muslim world’ or ‘Muslim countries’ will be repeatedly used to clearly elucidate what the term ‘East’ implies.

The first parameter of this discussion must attend to the apparent divergence between these two global communities. These differences, taken in a historical and economic context, yield to the debate of the Global North and Global South: that the West has always been part of the ‘Global North’, with ‘advanced’ civilizations and greater political and cultural experiences to build upon, whereas the Muslim communities fall largely in the domain of the ‘Global South’, with access to – if not abundance of – natural resources, and absence of clear endowments or clear economic, property and fundamental rights (whether in letter, or in practice). The absence of endowments and rights can be traced to the notion of divergent conceptions of the economic life of man – the West developed the concept of economic rights and protected it as it evolved, whereas the Muslim world had to acquire these concepts piecemeal and implement them without modification or alteration. The North-South discourse figures in the Islam-and-West debate particularly when it comes to the natural or economic resources of Muslim countries, and the exploitation/expropriation thereof. Muslim critics of Western modernization continuously point to rampant inequality within economies as well as between national economies. The discourse of have’s and have-not’s figures in greatly in this debate, as Muslim underdevelopment is considered a consequence of Western colonialism and disregard for localized Muslim norms. On the counter, Muslim development can only take place in the capitalist context with increased inward flows from Western economies in terms of trade, not aid, and the implementation of equitable growth strategies in Muslim countries by learning from (and not blindly following) Western experiences of modern capitalist growth. This counterargument is based on the premise that the conception and definition of development is both adjudicated and determined by the West; by prominent Western economies and by international economic arrangement(s) between Western economic powers, such as the IFIs (international financial institutions) and international lending and donor agencies.

Giving importance to trade flows, and the adoption of development strategies and growth models, is but one avenue of greater collaboration between East and West. During the Cold War, the superpowers tried to inculcate not only favorable military regimes, but also installed identical economic regimes and systems, in their allied states. The question of how much a superpower is involved in this process, and how much progress towards recreating a specific experience is an indigenous exercise, is the subject of a separate debate altogether. The point

here is that specific common goals can allow different countries with varied endowments to come together, develop innovative solutions, and create socioeconomic synergies in the process. The growth of developing countries should not be calculated or restricted; the growth and development strategies of these countries must be acutely evaluated and modified to suit local needs. The assessment of suitable strategies, and suitable modifications to these strategies, is an activity best carried out by both the developed and the developing, but on an equal footing, and not in a framework of arbitrary imposition by one over the other.

The second parameter of this discussion attends to the age-old dichotomy that is best explained by the term ‘Islam vs. the West’. Many commentators posit Islamic as a system or ideology that is opposed to the West, to its conceptions of modernity and development, and to the way of life in the West itself. After the 9/11 attacks and the subsequent War on Terror, such discourse has made more sense, acquired greater popularity and enlisted more vociferous proponents than before – on *both* sides of the divide. Increased economic exchange between Islam *and* the West reveals evidence of critical coexistence of dual systems in some Muslim economies. Islamic economics is a new and speedily growing concept of Shariah compliant economic interaction, investment, and trade of assets; it is only ‘opposed’ to speculation on futures and options, and on interest rates and values that accrue monetary benefit without value addition in the real economy, since these factors add to the toxicity of not only the ‘assets’ in question, but also the economic and financial system concerned with these ‘assets’. The system of Islamic economics posits great importance in ‘real value’, as opposed to fictitious or ‘marketed/branded’ value due to which economic articles or ‘assets’ which have an expected future value are traded in the present. Under the auspices of ‘Islamic economies’, moral and ethical considerations occupy prime importance in the systemic rationale behind economic activity – this brings the reader back to the Global Financial Crisis of 2008-09, where unethical practices and investment in ‘toxic’ assets are cited as the main reasons for the collapse of the financial system and widespread economic slowdown. The asset-based system of Islamic economics minimizes speculation and futures trading, while accounting for current profit and actual productivity as the main indicators of economic activity – as opposed to share values, returns on interest, and market dividends. In the framework of Islamic economics and Islamic banking, it must also be noted that this system has not replaced the existent linkages between a Muslim country and the international financial and capital markets; Islamic systems of running the economy have coexisted with the interest-based financial system, and offer an alternative to it rather than offering the opposite choice, i.e. as is the case with Communism and Capitalism. Hence, the Islamic Banking System and the International Financial System



coexist side-by-side in Muslim economies today; these systems are neither diametric nor polar opposites, and merely provide a consumer with more than one financial system to avail credit or financial resources from.

In the 21st century, increasing interdependence is becoming more and more visible in the globalized economy, and the linkages between local economic outcomes and international economic conditions are becoming all the more apparent. The third parameter of this discussion is the analysis – and appropriate configuration – of financial flows to developing countries, especially Muslim countries, in terms of aid, trade and political/economic necessity. The Global South, given their conditions after WWII and decolonization, were heavily dependent on foreign finance and expertise for the mere setting up of nation-state institutions and commencement of sovereign government functions. This status has continued ever since, with developing countries and Third World countries still mired in billions of dollars of debts whose interest payments are excruciatingly difficult when appropriated in yearly national budgets. The fascination of wealthy Western (state or non-state) lenders in receiving the principal amount of debt plus the interest accrued on it is no secret; using a ceteris paribus assumption for currency exchange rates, the lender ends up becoming richer while the debtor remains in debt, unable to meet even the interest payments, resulting in the pawning of their sovereign resources, and in some cases, their national institutions. The economic necessity of financially aiding Muslim countries – and especially, trading with them – must be reconsidered in the light of greater economic contact – solidifying existing linkages while exploring new ones – increased political coordination and the promotion of socioeconomic exchange of ideas and innovation. This will be an attempt – the first, if not the most effective – towards removing the perception of exploitative linkages between the advanced Global North and the poor Global South; assuring mutual interest and mutual benefit for the West as well as the Muslim world. This will also allow both of these stakeholders to move away from a paradigm of aid-and-interest to trade-and-gains-from-trade, the latter being mutually beneficial.

After discussing the basic parameters of increased economic exchanges between the Western world – led by the United States – and the Muslim world in general, it is also important to analyze the conditions of Muslim economies today. In modern times, economic policies of Iran – after the 1979 Islamic Revolution – were heavily statist with an expansive public sector, the consolidation of which has been necessitated by heavy economic sanctions and diplomatic isolation. In Sudan, however, the policies of have been the reverse; employing economic liberalism and accepting the importance market forces in the formulation, application,



implementation and outcome assessments of state and/or government policies. In Algeria, Jordan, Egypt, and Pakistan, conservative Islamist parties have supported populist economic policies, displaying sheer unwillingness to adopt personal or state-imposed austerity measures, and refusing to accept greater market dynamism with the sudden or gradual reduction of subsidies. In recent years, Turkey experienced rapid growth in its economy and became a developed country (according to the CIA and its Factbook). Indonesia, Saudi Arabia and Turkey are members of the G-20 major economies, and have an overt role to play in the global economic decisions of the future. Hence, Muslim economies are experimenting with both state-led economic policies and market-led economic policies; the experiences resulting from the outcomes of both types of policies are divergent and incomparable. Muslim countries with economically powerful states have succeeded as well as failed in their paths to development; the same can be said for Muslim countries with powerful market mechanisms. However, Muslims and Muslim economies want lesser role for government in the economy, and are moving towards economic models with little room for government intervention, a larger private sector and more privatization of state-owned resources. This begs the following question; how would this fit in with Democratic economic policies? And how *did* it fit in with Republican policies from 2001 to 2009?

But In 2008, at least US\$500 billion in assets around the world were managed in accordance with Shariah, or Islamic law, and the Islamic finance system was growing at more than 10% per year (in terms of consumer preference and credit provision). Islamic finance seeks to promote social justice by banning exploitative practices, as have been perceptually and practically explained above. In reality, however, this results in what may be considered a set of ‘prohibitions’—on paying interest, on gambling with derivatives and options, and on investing in firms that make pornography or pork. This is in line with the moral and ethical considerations that Shariah Law adjudicates for Islamic economic system(s). Hence, there is also a parallel system of economic consideration and policy frameworks that exist for the Muslim world – this means that the modern financial sector and the modern proto-Shariah economy exist side-by-side in today’s Muslim economies. Does this pose a threat to the Western capitalist system or the Global Financial system? Or is this an opportunity for selfish Western investors and stock-market brokers to move away from trading in immaterial and valueless stocks and inch towards investing in real goods that represent real productivity and resource factors of the economy at work? Is it better for the global economy that speculative trading continue on fictitious economic assets, with unequal returns enjoyed because of interest rates, or that the world



learn from the Global Financial Crisis of 2008-09 and shift to investments and ownership of real goods with real value and characterizing real productivity, and engage in profit-sharing and profit-maximizing as opposed to interest-sharing and rent-maximizing? The Shariah-compliant economic system is more of an ‘alternative’ than a ‘challenge’ to the Global Financial System.

Another form of modern finance that originated from the Muslim world is microcredit and microfinance. It began in the 1970s in Bangladesh with Grameen Bank, founded by Muhammad Yunus, who received the 2006 Nobel Peace Prize. Microfinance and microcredit allow poor families to obtain credit for consumption, expenditure and investment purposes without the requirement of necessary collateral. Risk-sharing and focus on the payment of principal amounts is key to attracting a segment of society that is totally alienated from the modern finance sector and the availability of credit due to requirements that poor people cannot meet. Barack Obama mentions Muhammad Yunus and Pakistan’s Roshaneh Zafar – founder of Kashf Foundation – during his speech to the participants of the Presidential Summit on Entrepreneurship, and highlights their remarkable exploits in the field of microfinance as a success story for budding entrepreneurs to follow. The concept of microfinance and microcredit can obviously be considered a futuristic model for rural economic growth and alleviation of cross-section poverty and deprivation, especially in South Asia. Hence, more opportunities for enhanced economic exchange between Muslim countries and Western countries may also benefit the West, since the sharing of ideas and experiences is not necessarily one-sided.

Let us also look at existing forums where dialogue, discussion and discourse between Muslim countries and Western countries is already being promoted. The World Economic Forum West-Islamic World Dialogue is an important example of highlighting stakeholders in this debate and bringing them together to discuss ways and means to promote harmony, improve knowledge, encourage understanding and gain insights into the relationship between Muslim countries and the West, or between Islam and the West. This Dialogue is formatted over a Council of 100 leaders (C-100) representing and forming a multi-stakeholder community dedicated to fostering the aforementioned dialogue, harmony and understanding. They include business, political, religious, media and opinion leaders who promote dialogue and understanding across different segments of society in the West and Muslim world. The WEF is also involved in generating reports and studies regarding the relationship between these two global communities. An important finding of the report “Islam and the West: Annual Report on the State of Dialogue”,



by the World Economic Forum, is the emergence of citizenship and integration as the second most powerful determinant of the ‘state of dialogue’, after international politics. Greater interaction with the Muslim world is actually seen as a threat by 60% of the citizens in many European countries but not in America or Israel. Indeed, it is perceptions that are the main stumbling block in this relationship, and it is perceptions that must be adequately and consistently transformed so as to attune to ground realities, or future possibilities.

At this juncture, another important question props up; what are America’s limitations as regards cultural interaction, and initiation of contact, with Muslim world? Is America only concerned with cultural comfort, or with presenting its secular credentials to the Muslim world? How does this impact the economic relations between these two communities/civilizations? Does economic exchange take a back seat to political and cultural considerations on either side (or one side)? Darrell Ezell, writing for Enduring America, points out imbalances in the United States’ public diplomacy efforts, stating that the US Government only engaged in public diplomacy symbology during the Bush era, softening and mollifying Muslim community opinion till a broader and more wholesome policy of public engagement with the Muslim world is conceived of and implemented.

Darrell Ezell also questions if America has learnt from the mistakes of the 2005 Hughes agenda or not. Karen P. Hughes was appointed Undersecretary of State for Public Diplomacy by President Bush on March 14, 2005. Hughes took over a formal mission of waging ‘a war of ideas’ against Osama bin Laden’s Al-Qaeda and other Islamic extremist organizations. In this capacity, she spoke of improving the world’s perception of the United States via creation of a ‘rapid-response public relations unit’ and a plan to ‘forward-deploy regional SWAT teams’. Through exchange programs, use of foreign language media and other initiatives, the public diplomacy campaign that Karen Hughes ran from 2005 onwards aimed to promote American values of democracy, tolerance and pluralism abroad while combating the negative images of the United States that are propagated in many parts of the world. The State Department spent US\$685 million on public diplomacy in 2004, but critics complained that it had not been increased enough since the 9/11 attacks, and that most of it had not targeted the Muslim world. At the end of her tenure in the State Department, Hughes said that one of her greatest accomplishments had been ‘transforming public diplomacy and making it a national security priority central to everything we do in government’, according to BBC News.



Huma Yusuf, in an article titled ‘Eliminating the US-Muslim world trust deficit’, discusses how most conversations that include Muslims and the United States are contextualized – if not held hostage by – the notions of security and the War on Terror. Such a situation allows the US and the West to develop their own mistrust of the Muslim world; building on the decades-old suspicion that the Muslim world has for the West, channels for positive interaction become all the more limited. However, Huma Yusuf refers to Farah Pandith, the US Special Representative to Muslim Communities as appointed by President Barack Obama, who states that Americans and Muslims can indeed ignore the overarching context of security ‘connect’ with each other, and that such engagements are being fostered at the people-to-people level and not only the political level. Such overtures can help alleviate suspicion, even the now-mutual mistrust, between Muslims and the West. Farah Pandith believes that ‘the US government can act as a convener, facilitator and intellectual partner, and help forge partnerships on the basis of common ideas and common goals.’ She also purports that according to the understanding of social media, entrepreneurship is the best way to establish a long-term partnership between Americans and Muslims, eventually transforming the United States into a superpower that respects Muslims and is keenly engrossed in removing the trust deficit between Americans and Muslims at the grassroots level. This seems like a wholesome policy aimed at understanding, evaluating and eliminating US-Muslim world trust deficit; one which provides greater force, legitimacy and indicators to Karen Hughes’ public diplomacy measures during the last Administration. While the United States is taking the initiative, and keenly engaging the Muslim world in a cultural and economic context, it is also incumbent on the Muslim world to respond to these overtures, for any chance of frank interaction between these communities, and for opportunities for confidence-building, to succeed.

In conclusion, entrepreneurial interaction between the ‘East’, or the Islamic world, and the ‘West’, or the United States and Europe, is indeed a positive sign when one objectively considers such a start to the next decade of the 21st century. Building closer economic ties, sharing benefits and losses, promoting understanding and respect, and fostering ties between and within communities is indeed the way forward not only for West-Muslim relations, but for the world at large. Satellite communities in Muslim-majority countries will be able to benefit from this increased economic, social and political interaction, as will the OECD and G-20 countries who are closely allied with the West, and who have been able to successfully replicate the growth model advocated by Keynes, and then by Harrod, Domar and Solow later on. Greater economic interdependence in the globalized international community of the 21st



century automatically necessitates more cogent and effective linkages between these diverse constituents of the global community, or global ‘village’. A resurgence, or upstart, in the economic and material relationships between these two communities – that have been defined as ‘East’ and ‘West’ – must be accompanied by changes at the national policy-making level, as well as visible transformations at the grass-roots level that can be positively perceived by the poor, destitute and deprived; for the poor exist in the East *as well as* the West. If poverty, mistrust, hunger and terror can be fought with collaboration, communication, understanding, collective dedication and mutual respect, then a wholly new era of global politics and international peace can be ushered in. Positive economic relationships can indeed pave the way for mutual understanding and respect in the socio-cultural framework of human life and global existence; a basic level of trust, however, is a necessary prerequisite to the fostering of stronger and mutually beneficial economic ties between Muslims and the West.