

# The Futures of Islamic Banking in the Gulf Cooperation Council (GCC)

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## Abstract

*The purpose of this paper is to discuss the discourses that concern the futures of Islamic banking in the Gulf Cooperation Council (GCC). The Futures Triangle method is employed to provide insights into existing social dynamics affecting Islamic Banking. These futures will be profoundly affected by knowing whether the factors that contributed to the establishment of Islamic banking and finance are still in existence and still effective or not. A discussion on what the future directions of those factors are and whether they will evolve to become new factors is also included.*

**Keywords:** Futures Studies, Futures Triangle, Gulf Cooperation Council (GCC), Islamic Banking and Finance

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## Introduction

Islamic banks acquired their distinctive and organized nature as financing and investment institutions only in the mid 1970s in the Arabian Gulf region when the Second Conference of the Islamic States' Ministers of Finance convened in Jeddah in 1974 and approved the foundation of the Islamic Development Bank. This was followed by the establishment of Dubai Islamic Bank in 1975.

The economic engine that has driven the development of Islamic banking during its formative years developed in the Arab Gulf. Other regions, South and South-East Asia for example, later became increasingly influential, as do the Muslim communities of non-Muslim-majority countries in Europe and the Americas, which have been seeking access to Islamic financial services.

To understand the phenomenon of Islamic banking, and to anticipate the types of changes that may result from its adoption, it is important to take stock of what has been achieved in the field of Islamic banking to date, and to look at what lies ahead. The main themes this article

addresses are:

1. Trends affecting the modern Islamic banking Industry, and how these trends interact.
2. The primary obstacles and difficulties the Islamic banking industry encountered through its developmental march this article aims to explore whether these obstacles were overcome or still have extended after-effects.
3. The idea put forward by Islamists that banking interest is an analogy of usury, and that usury is prohibited. Because the current banking system is based on interest, it then needs to be replaced by an interest free system.
4. The analysis of the first two themes will be based on the Future Triangle method.

## Research Methodology

In this study, the Futures Triangle method developed by Sohail Inayatullah will be used. This method maps three qualitatively different dimensions of the future that will eventually arrive at the most plausible one. The first dimension is the *pull or image of the future*, the second is the *push of the present or drivers of change*, and the third is the *weight of the past or barriers to change*. By mapping a research topic along these three angles, future possibilities can be better understood (Inayatullah, 2008).

The pull aspect of this triangle can be studied by understanding the view, perception, and ambition of the founders of Islamic banking. The next step is to get acquainted with the drivers and motives which directly affect Islamic banking. This forms the push aspect of the triangle. Lastly is to learn the obstacles and challenges impeding Islamic banking, which will result in the weights aspect of the triangle. Through an analysis of these three factors and their interaction, as well as an understanding of the past and the present, the question of what are the possible futures of Islamic banking in the Gulf Cooperation Council (GCC) region will be answered.

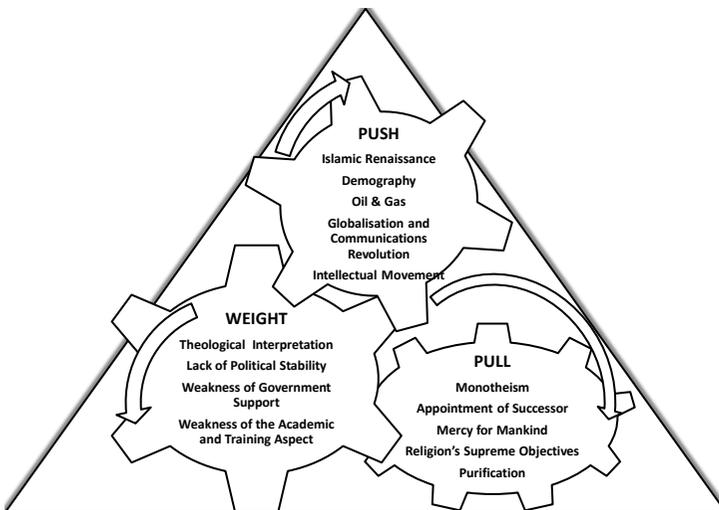


Figure 1. The Elements Forming the Triangle

### **Founders' View (Pull of the Future)**

The modern philosophy of and the role of the Islamic economy are based on a set of basic principles called for by its founders. The views of thinkers, reformers and leaders of Islamic movements, and their writings were a fundamental factor in the changes happening in the Islamic world in general, and the Arab and GCC regions in particular. It is necessary to become acquainted with the key factors and driving forces witnessed by the region since the beginning of the last century to understand the intellectual framework in which Islamic banking emerged.

The development of the Islamic financial system in the minds of the founders is a manifestation of the Islamic worldview represented by *shari'ah* (Islamic Law). Mohammad Nejatullah Siddiqi (2003) considers Islamic banking to be the largest Islam-based project of the second half of the twentieth century.

The Islamic economic system is based on the following philosophical foundations: *tawhid* (monotheism), *istikhlaf* (man's role as God's vicegerent on earth) and mercy. Because Islamic Economics is a relatively new term, its terminology and literature has not been wholly formulated, in spite of a host of theorisations by Muslim economists in the last few years as an alternative to existing economic systems, especially the capitalist system (Astuay, 2007; Lyigun, 2007; Bensaid, 2013).

In his book titled *Non-usury Bank in Islam*, Mohammed Baqir Alsadr (1995) addressed the problem encountered by Islamic thinkers early in the twentieth century, before the development of the Islamic banking experiment, arguing that we should fundamentally distinguish between two following positions:

- A. The position of those who want to plan for a non-usury bank within a comprehensive planning of society, i.e. after taking total command of all aspects of society. He proposes the Islamic Banking thesis as a part of a comprehensive and total Islamic philosophy for society.
- B. The position of those who want to plan for a non-usury bank independent of other aspects of society, i.e. assuming the continued corruption and un-Islamic framework of society, continuation of other usury-based banks, and the spread of the capitalist system in the context and spirit in people's intellectual lives.

These were the two choices, there was no third: to lie in wait outside the existing system until this un-Islamic one ceases to exist; or, the other choice, to work, to whatever extent was permissible, as part of the existing system. This contradicts the desired Islamic system in its essence and shape. The pioneers chose the second: to work within the boundaries of the existing conventional banking system, for its gradual transformation from within.

### **Islamic Banking: Drivers of Change**

Several factors have together contributed to the trend towards the adoption and growth of Islamic banking. Through induction, taking observable facts into account, and keeping track of what is new within Islamic Banking, the following factors (with a few additional but subordinate factors) are the most important in propelling the spread of Islamic banks.

#### **First driver: the "Islamic renaissance"**

The Islamic awakening and the return of people to religion is considered the

primary driver of the resurgence of Islamic banking. This factor has affected all stages of the development of Islamic banking, from its inception until now. By following the pioneers of Islamic work, thinkers, scholars and their visions, we notice their continuous emphasis on reviving religious values and on the effect of religion on people's lives.

In his book titled *Our Nation Between Two Centuries*, Al-Qaradawi, the President of the Federation of Islamic Scholars, a figure widely accepted by Muslims and prominent in the emergence and development of Islamic banking and its theorisation states: "One of the greatest accomplishments of Muslims is the emergence of the renaissance movement, which has strengthened the influence of Islam in the daily life of Muslims, renewing their confidence in the religion as a way of life" (2000, p.97). He provides details in his book concerning this revival and its causes and points out that it is due not only to economic, psychological or social reasons, but rather to a sweeping religious awakening affecting all aspects of life.

The Islamic movement, which has had the most important role in the rise of Islamic banking, can be described as not being limited to a specific country but as having spread to Islamic and non-Muslim-majority countries, although the movement was strongest and most rapid in its spread in countries which were geographically or socially linked to the Gulf States (such as Egypt and the Muslim-majority countries of South-East Asia. Its intellectual influence between the 60s and 80s was powerful in the Arabian Gulf region despite ongoing political stagnation.

### **Second driver: demographic structure**

The Gulf region experienced a long baby boom between the 1970s and the 1990s. As a result, 29% of the GCC's population was under the age of 15 in 2008. This figure has been falling gradually; it was 31.6% in 2004 and 35% in 1999 (Economic Intelligence Unit, 2009).

The emerging generation of young people in the GCC will be highly educated compared to previous generations. Thus there are high expectations that abundant employment will be available; and yet surveys suggest that although young people in the Gulf are increasingly globally connected they are also concerned about preserving their national, and Islamic, identities (Economic Intelligence Unit, 2009). These young people have witnessed many conflicts that have contributed to a continuous feeling of instability and anxiety about their futures and the future of the region, most of which involved Western forces, which in turn fuelled anti-Western sentiment. These young people grew up under the influence of Islamic groups' messages, which called vehemently for a return to the religion's teachings, for an exit from the state of frustration and futility felt by the masses. After the abatement of other, non-Islamic trends (Leftism, Communism and nationalism), the Islamic discourse continued to grow, tapping popular sentiment by recalling the glory of old that had been built and enjoyed by Islam's founders when they adhered to the tenets of their religion.

There is broad dissatisfaction with social and economic conditions, varying in intensity from one country to another, even though some GCC countries' per capita incomes are among the highest in the world. The incessant indoctrination and preaching by Islamists to the young about the necessity of adhering to and practising Islam, and the criminalization of engagement with conventional banks, which in the opinion of the Islamists is prohibited under shari'ah, and the necessity of supporting

Islamic banks, had a profound effect on the banking habits of the people, and the young in particular. This support became a form of religious practice, which in turn contributed to the legitimization, acceptance, growth of Islamic banking.

**Third driver: oil and gas revenues**

The Arabian Gulf is one of the world’s richest regions in oil and natural gas and one of the major oil and gas producers. The oil reserves of the region are estimated to be 35.6% (<http://www.wtrg.com/index.html>, 2012) of the world’s total. Oil was discovered in the Arabian Gulf region early in the last century and its prices were stable for a very long time. The oil price did not exceed US\$4 per barrel until more than 70 years after its discovery ([inflationdata.com](http://inflationdata.com), 2011).

Oil and natural gas revenues have represented the main component of Gross Domestic Product for many years; local companies continue to depend on them to a considerable extent. Unfortunately, these countries have only recently tried to diversify their economies. Even these attempts were partly based on oil-related industries, such as the petrochemical industry. Increased government budgets in the region are directly linked to the rise of oil prices (Oxford Business Group, 2010).

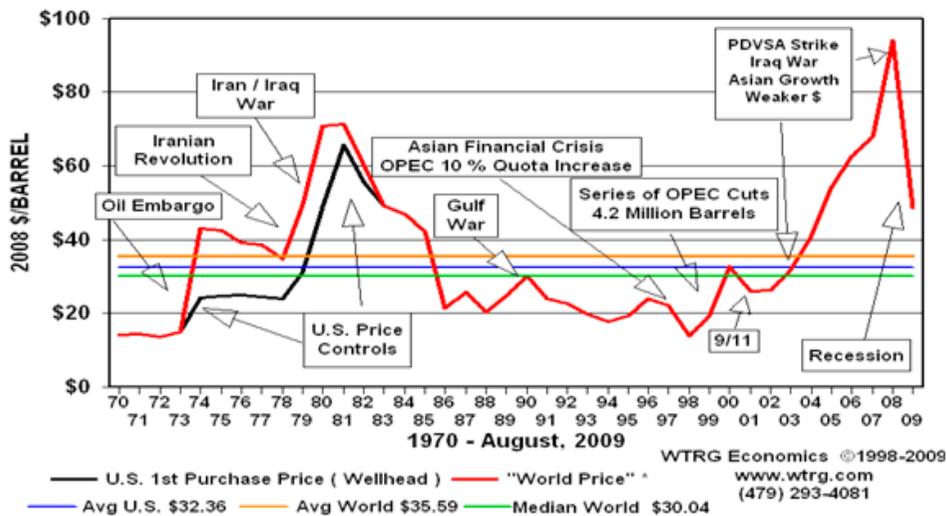


Figure 2. Crude Oil Prices in 2008 (US Dollars)

The prices of oil and gas have continued to increase since 1980s, and have provided high income and monetary liquidity in the region. This coincided with the Islamic renaissance. Naturally, a part of these funds was directed towards the Islamic banks, strengthening them considerably.

**Fourth driver: globalization and communications revolution**

The general reaction to globalisation among Islamic scholars and thinkers has been to offer a counter-rhetoric calling for adapting the positive aspects of globalisation (e.g., communication, international trade, free movement of capital, etc.), while steering clear away from the negative aspects (e.g., loss of culture, disparity, environmental degradation, monopoly, etc.). The scholars confirm that globalisation needs to be in line with core Islamic values in order to benefit from the

existing local potential to and promote positive investments. This involves pointing out the harms globalisation can cause, and supporting national's economy, among many other things through the use of Islamic banking.

Media transparency and globalization is greatly beneficial for the spread of Islamic banking and finance due to the variety and availability of means of exchanging data and information, which is currently in abundance. Before these tools existed, the spread of the Islamic banking idea was limited to sharing that happened through religious gatherings or direct face-face interactions.

### **Fifth driver: intellectual movement**

Scholarship on Islamic banking represents a new field, because Islamic banking itself is, in its current guise, a recent creation. That said, the study of Islamic banking also deals with the roots of the system, which can be traced back to the founding of Islam itself, some 1400 years ago. When the pioneers of Islamic banking consulted the *fiqh* (Islamic jurisprudence) of previous eras in the 1950s, they found that there were limited materials regarding novel kinds of dealings and that the transactions referred to in the old *fiqh* were between individuals and were not directly comparable to those within the contemporary institutional framework.

These juristic opinions did not assist them to provide a comprehensive knowledge-base for the transactions involved in modern banking. As a result, the means to find ways of developing new ideas were created through research initiatives such as conferences, seminars and cultural dialogues.

Several forums specialising in economics, banking and Islamic finance have been established. Conferences were used to exchange views and experiences and to deal with the problems and challenges that arose for the banking profession. Over the last ten years, the field of banking and finance research has evolved into an independent academic field. The opening up of media, constant contact and exchange of views between Islamic leaders and thinkers has allowed unified Islam and its message in order to implement the Islamization of conventional banking, as well as its dissemination, marketing and adoption.

## **Major Obstacles Facing Islamic Banking (Weight)**

The concepts of Islamic banking and Islamic finance are still in their early stages of development and Islamic financial institutions are, therefore, faced with various challenges that need to be identified and addressed in order for Islamic banking to remain viable. These obstacles vary in their intensity from one country to the next in the GCC.

### **First: theology-based interpretation**

For a long time intellectual paralysis prevailed in the Islamic world during which the door of *ijtihad* (analogical reasoning) remained closed; *fiqh* was considered to have reached a phase of sufficient maturity and there was therefore no space for any addition. The reason for this attitude was to prevent anyone who was unqualified from issuing a *fatwa* (legal opinion) and thus the door of *ijtihad* was closed. This period has left a considerable impact on the way Islam's intellectual heritage is dealt with. Although Quranic teachings encourage pondering, thinking about, contemplating the universe, and tackling everyday life issues, due to periods of

civilisational decline suffered by the Islamic world, there evolved a trend of feeling that religion was the epitome and the apex of what could be achieved by humanity (Khalifa, 2009; Abu Zaid, 2010; and Alturabi, 1995).

Because an exaggerated form of reverence for some historical figures which bordered on sainthood was encouraged, any criticism of or objection to their thoughts was made near impossible; “The cultural recession from which we are suffering is a crisis of thought before anything else, because the intellectual pattern of the Islamic civilisation and knowledge-based Islamism may stop at the borders of former minds” (Alalwan, 1994, p. 4).

“If the thinking approach does not change and if its premises are not rectified, the Islamic mind will remain unable to apply critical investigation and penetrative perception [...] There is a crisis of thought between those who demand the rejection of the whole heritage and history and those who demand the acceptance of heritage and history with their complexes and deviations. “It is a crisis of thought and not a crisis of doctrine” (Abu Sulaiman, 1994, p.50). This quotation is taken from the introduction to Abdulhameed Abu Sulaiman’s book, *Crisis of the Islamic Mind*; Abu Sulaiman is the former Chairman of the International Institute of Islamic Thought (IIIT), one of the major intellectual institutions which seek to Islamize and disseminate knowledge as well as to address the cultural crisis in the Islamic world. This crisis has been researched and examined by numerous thinkers and philosophers in the modern age.

Sardar (2003), for example, may be different from Abu Sulaiman in his orientation, since he argues that Muslims need to rethink the *shari’ah’s* status as a set of eternal, divine laws and, instead, should recognise it as a problem-solving methodology.

There are several essential issues that remain pending, which are still being debated by thinkers. However, although this complicates the experiment, it also enriches it and opens a wide scope for debate and, thereby, maturation. This assists creativity related to new products through getting rid of the chains of the past and providing a larger space for free critical thinking.

To be competitive, Islamic banks need to offer products suitable to their clients’ needs. Strict regulations, based on old interpretational methods, will not provide the necessary element of innovation in designing these products. Therefore, instead of religious teachings being a forceful driver of progress, they have become obstacles to development and evolution.

## **Second: lack of political stability**

The availability of an environment which supports development is a major element attracting investment. This environment is consolidated by a political will that promotes society and provides a solid background for development, transparency and credibility.

In the Gulf region, and despite the clear changes which have taken place since the 1981 formation of the GCC, surplus economies are still managed with a tribal mentality. There is a chronic inability to expand the options available to succeeding generations as well as an inability to provide sustainable living standards (Alkuwari, 1996). Indeed, the current process is one of constant depletion of non-renewable natural resources, i.e. oil and gas.

The Gulf countries suffer from deep “political recession” (Amin 2004, p.105).

Executive decisions and decisions related to wealth remain in the hands of the ruling dynasties, which, in essence, not only govern their countries but own them.

Limited investment opportunities have restricted the diversity of economic development significantly and have consequently affected Islamic banks, which have surplus liquid funds but few opportunities to direct them to productive projects due to the lack of an appropriate investment environment, infrastructure and regional security.

### **Third: weakness of government support and understanding and the legislative environment**

One of the main obstacles facing Islamic banking during its relatively short life so far has been the weakness of government backing and the lack of a proper legislative environment. The governments of Muslim-majority countries, in general, are based on the Western system in terms of philosophy and administration, and this includes the banking system. Islamic banking operates on the basis of principles different from traditional economics and finance. In many countries, the proper requirements of Islamic banking are not met and are dealt with using the same methods applied by traditional banks to the functions of lending and borrowing, legal requirements, compulsory reserves, lender of last resort issue and Basel requirements. Islamic banks generally have not been allowed to deal as freely as traders who buy, own and sell goods in markets or to enter into partnerships with customers based on profit and loss, which is the basic principle of Islamic banking.

Some governments in the GCC have been very supportive of Islamic finance, notably the government of Bahrain, which has become the major hub of Islamic banking and insurance, and Kuwait, the UAE and Qatar, which have helpful legislatures. Oman had been very negative until 2012 and Saudi Arabia, too, surprisingly reluctant (Wilson, 2009). In the early 1980s, Pakistan, Sudan and Iran were among the first to adopt a single banking system that sought to fully implement *shari'ah* principles. Other countries, including Malaysia, Kuwait, the United Arab Emirates and Bahrain adopted a more gradual approach that has led to the creation of a dual banking system.

Islamic banks imitated traditional products in order to be in harmony with the law and not to lose out in a competitive market. Specialists very often referred to the existence of confusion between the substance of products and their form (El Diwany, 2003; El Gamal, 2008; Almsri, 2009; and Alqaradawi, 2009). Knots were found in the legal aspects of products, even though they seemed to be compatible with *shari'ah*, while the reality of the products involved complications which caused customers to be dissatisfied and disgruntled. This stumbling block has strongly affected banking products and customers' understanding of them at the level of both legislators and the general public, who seek satisfactory solutions: compatible with their faith, easy to understand and, simultaneously, competitive with traditional banking products.

### **Fourth: weakness of the academic and training aspect**

Despite the emergence of a number of training institutions and universities which award certificates and hold training courses in Islamic banking, these are still far from meeting market needs; the number of centres specialising in training in Islamic banking and finance subjects was small until recently. Employees in this

sector complain that their training is mainly theoretical and that training courses are costly, which restricts the number of participants.

There is also a kind of separation between vocational, practical training and *shari'ah* aspects. The course programs contain almost no curriculum component suitable for trainees. Islamic banking and finance still suffer from a chronic deficiency in the academic and training field.

### **Fifth: small number of specialists in numerous institutions**

For several decades, Islamic banking has suffered from a shortage of experts in this new field, which requires knowledge and skills in several domains: accounting, *shari'ah*, secular law, taxation, economics, finance ...etc. (Farook & Farooq, 2013). As a result, the accelerated expansion of banking has not been accompanied by a corresponding acceleration in the domain of training and academic teaching. The early founders were too busy with daily management to train a new generation of employees qualified to bear the responsibility of the ongoing development of this new field and this led to a shortage of specialists. This problem persists to the present.

Yet another problem has arisen due to this undesired situation: after the expansion and spread of Islamic banking, specialists in the field have become like hard currency or a gold mine that everyone is searching for. There are many more banks and financial institutions than there are experts, but each institution seeks the assistance of a number of such experts in *shari'ah*, monitoring the acts of their own entities, in order to maintain their reputation and presence in the field of finance and business, and their access to expertise<sup>1</sup>.

### **Going Forward: Three fronts to which Islamic banks must respond to**

The article reviews the most important factors which have contributed to the development of Islamic banking and investment since their inception and up to our present times, by using the Futures Triangle methodology of analysing the pulls, pushes and weights effecting Islamic Banking. The question this article addresses is: What is the future of Islamic banks in the GCC region?

This future will be profoundly affected by knowing whether those factors that contributed to the establishment of the Islamic banking system are still in existence (and still having an effect) or not, what the future directions of those factors are, and whether new factors will evolve.

By observing Islamic banking and investments in the last few years, among all the effective factors in the growth and proliferation of Islamic Banks, there are three that are the most important in shaping the future:

- The *fiqhi* (jurisprudential) position regarding interest
- Economic transparency and diversification
- The existence and availability of a conducive legislative and legal environment and government support.

To discuss these factors, first a question presents itself: were the ideas and thoughts upon which Islamic banking and finance were established truly and genuinely different in essence from conventional banking systems? Or is the notion that they are different inaccurate and artificial? The importance of such a question is

that if there is no genuine difference, then Islamic banking is just a name that has no difference of substance with the conventional counterpart.

There are numerous writings done by Mohammad S'eed Al Eshmawi, Mahmoud Ennajar, and Tareq El Diwany that emphasise that the root idea of Islamic banking is the principle of profit and loss sharing, but that this practice is actually ineffectual and rarely utilised in the current Islamic banking transactions. The percentage of transactions based on "equity-based financing"<sup>2</sup> is very low, as it eventually depends on debt-based financing (Chong & Liu, 2009), with consideration of some superficial matters, like difference in terminology. Instead of defining any increase in value of capital as interest, it is referred to in Islamic banking as profit, and instead of charging the client any late fees, these are deducted and removed from the balance sheet of the bank, its profit and loss statement and sent to charitable organisations.

Even the most famous financing tool, which has met with great success of late, Islamic bonds or *sukuk*, faces questions about its authenticity and about how it differs from conventional bonds; since asset ownership is not transferred to *sukuk* bearers, this creates a discrepancy between assets-backed *sukuk* and assets-based *sukuk*. In 2007, a pronouncement by Judge Teqi Osmani, a prominent theorist in the field of banking, declared that 85% of *sukuks* circulating were not in accordance with *shari'ah* rules (araiabusiness.com, 2007), which negatively impacted the issuing of *sukuks* in later years. Since Islamic banking and finance relies heavily on the sound reputation of institutions, any shock to this reputation adversely affects its acceptance by the public and, therefore, its performance.

We should re-examine the foundation upon which Islamic finance was established and through which it tries to market itself. Without clarifying these principles, we will not be able to truly identify if there are any differences between Islamic and conventional banking procedures, and whether any differentiation between the two will remain in effect. Banks cannot be categorized under the term "Islamic" or "conventional", since naming a bank "Islamic" imputes a religion to its operation, and not simply a legal or administrative categorisation; this is problematic because Islamic banking is part of the conventional system and works within it.

Just as we cannot claim that there is Islamic physics, Christian chemistry or Jewish mathematics, for none of those terms is sound, how can we claim the existence of Islamic finance? Even a strict and religious country like Saudi Arabia does not allow the use of the term Islamic in the names of banks operating there. Competition should not be based on nomenclature, but rather on the products and services offered. Hence, the need to re-examine the label Islamic used on banks.

Coming to the *pull factor* or restrictive factors from which the idea of Islamic finance emerged, we will find that essentially the field emerged from a religious starting point; from the idea that Islam is a comprehensive system for all aspects of life, that the Muslim is the vicegerent of God on Earth, and that religious teachings are compassionate teachings. In theory, from an emotional point of view, there might not be any problem with these concepts, for they are personal beliefs in something specific. However, from a practical, realistic point of view, how can these concepts be applied? Who is to be in charge of giving absolute interpretations of religious texts? Wouldn't that create a controlling, domineering "clergy"<sup>3</sup> class, holding absolute sway over intellectual discourse and its orientation, their understanding of the texts an unquestionable dogma? From another angle, would that not mean the sealing and isolation of Muslims' experiences in financial matters from non-Muslim

people? Commercial and financial dealings are not restricted to any particular segment of humanity; the free flow of world commerce that we witness, the free movement of capital, is the strongest indicator that financial/commercial activity is not limited to a specific thought process or ideology. Just because the foundation upon which the idea of “religious banking” was established is a theological one does not give it any greater authenticity or suggest that it is better than any other. To say that Islamic banking receives both acceptance and popularity among the masses does not indicate its health, and nor does popularity reflect quality or that its growth is a consequence of real factors.

If the reason behind the prohibition of usury, and accordingly, the anti-conventional banking stance, is the risk of the exploitation of the poor, do Islamic banks actually deal with the poor more than conventional banks? The reality is that this class is marginal in its dealings with banks (Farooq, 2008), since most Islamic banks’ activities are based on extending and granting loans and credit, and since commodities are available to those who can afford them, or have suitable guarantees of future repayment, in other words, their services are, in practice, restricted to people who have high “creditworthiness”.

On the other hand, the minority claiming that the concept of “interest” is something different from “prohibited usury”, is on the increase, challenging the majority which holds that, since the prohibition on usury is the core and principle upon which Islamic banking was established, removing it would also remove the sector’s foundation, the only thing that differentiates it from conventional banking. The change in position of Muslim jurists regarding the status of interest will probably follow the medieval Christian suit; gradual erosion of the prohibition until it is removed entirely. At any rate, banking interest, at the practical level, is employed by Islamic banks, even though it might take different forms to avoid being seen as clear-cut interest, as is the case in dealing and trading in *tawarruq*.

The idea of Islamic banking grew out of a religious foundation, adopting the concept that “banking interest” is a prohibited form of usury, hence the need to establish banks that do not deal directly and plainly in “interest”, and thus the need for the distinguishing the name “Islamic banking”. With the passage of time, this difference, which was thought of as fundamental, started to shrink in importance, and ever more products and services founded on “debit-based financing” were offered (Youof, Kashoogie, & Kamal, 2009), products which almost perfectly resembled conventional banking transactions. Add to this the determination of the interest rate by the governing central banks, where no exploitation of clients could happen, compared to earlier practices where banks used to charge exorbitantly high rates of interest, and the similarities to conventional banking are obvious.

Financial transactions should be seen as a purely worldly matter; people agree to and organise them among themselves in a manner that benefits their interests. Dragging religion into financial transactions mixes the function of religion and the function of the government, especially in the presence of a saying attributed to Prophet Mohammad, “You are more knowledgeable about your worldly matters” (Al-Qushayrī, 1998, p.1286). This old-new dilemma of the relationship between religion and the state has yet a solution in the prevailing thought of Islamic thinkers. The progress and development of the economic and financial sector is connected to religious openness. Economist Timur Kuran (2003) argues that Islamic jurisprudence is one of the main reasons that Muslims are trailing economically; because of

obstacles put in the way of free trade by jurists.

The prevalent belief popularised by Islamists is that Islam provides a comprehensive social and economic system with which to solve all economic problems, and the ability to replace the existing banking system. As the famous slogan promulgated before every election by Islamist parties says: “Islam is the solution”. This statement requires plenty of pondering and plenty of evidence to support it. Contemporary writings claiming knowledge of Islamic economic wisdom and its ability to provide sound economic principles suitable to all times and places, calling it Islamic Economy, do not state or list these Islamic economic principles in a clear-cut way. Hence, they do not provide solutions when applied beyond the narrow domain of a Muslim minority. Kuran stresses that the idea of the Islamic Economy reinforces illusions about the ability of Muslims to find solutions to a great number of social ills merely by embracing Islam and resisting the devil of greed (Kuran, 2004).

In discussing the drives responsible for the growth and spread of Islamic banking institutions, we find the Islamic revival at the top, which came about due to the re-emergence of religious sentiments among the Muslim populace. Primarily it was a reaction to the injustice and oppression endured during the colonial period, which led to a negative impression of any philosophical or social system coming from the West. In such an environment, animosity towards the other flourished, and the propagators of Islamic banking were able to promote Islamic banking as being different and “on the side” of the aggrieved Muslim, in contrast to vicious capitalism.

This religious revival is not all due to freethinking or to the normal development of ideas. It was also due to a controlled, methodical process by governments, societies and groups with specific ideologies and agendas, designed to promote an orthodox Islam, meaning the return of ideas, methodologies and applications to those of former generations, which are deemed to have been “sound”, but usually with a modern twist or revision; this is the gist of what all organised Islamic societies or groups claim to offer. It is not necessarily the right, correct or final understanding of Islam, nor is it a suitable interpretation for this era. Hence we observe a strong movement among those known as modern thinkers towards freedom from the burdens of the past, entering an era of change, transformation and catching up with civilisational progress. The continuous recollection, evocation and over-glorification of the past, forgetting and ignoring its mistakes, will not do any good in affecting a real, genuine transformation of the currently abysmal conditions of the Muslim masses. The ideas and writings of thinkers like Mohammad Arkoun, Mohammad A'bid Al-Jaberi, Mohammad At-Taalbi, Mohammad Ahmed Abu Zeid, Ahmed Subhi Mansour, Ziauddin Sardar, Mohammad Shahrour, and plenty more, increasingly find acceptance among a wide segment of the educated, yet they are accused by traditionalist theologians of being heretics, and, at least, intellectually off-base.

Recently, there have emerged those who call for change, and renewal, to rise to the requirement of the universality of the Islamic message. A call to “rethink the unthinkable” in Islamic thought, as Arkoun (2009) puts it, meaning to rethink and re-examine the postulates and axioms that control and affect Muslims’ minds, to affect a renewal in the Islamic thought process; we should (or must) exercise profound constructive criticism of Islam’s heritage and traditions, for constructive criticism is bound to dispel the air of sanctity enwrapping tradition, subjecting it to scrutiny, to

rethinking, to restudy, like any other human endeavour, without any sanctification (Ra'oof, 2007).

This religious revival will not retain the traditional style, for the large margin of freedoms unleashed, especially after the revolutions of the Arab Spring, will open wider gates, to discuss and critique those postulates, and will lead to greater reconciliation with the human heritage and its achievements, including the existing, conventional financial system. There are many institutions dedicated to young people established recently, which aim to bring Islam back to humankind, to address his and her concerns and problems in a more practical way, to depart from its narrow, restrictive legal image, to move into its spacious, comprehensive human values field. This is what some institutions and organisations, like Mominoun Without Borders, are doing. The return to Islam, or what is labelled as Islamic revivalism, is not merely a return to pure ritual and ceremony; rather it places a strong emphasis on Muslims assuming a bigger role in this life.

The second important factor that will have a future effect on Islamic banking in the Gulf is the openness and diversity of the region's economies. In spite of the steep rise in oil and gas prices in recent years, the wheels of development and growth have not accelerated to the same extent. The Gulf economies remain dependent to a large extent on raw natural resources as their primary source of income; the region's governments have not managed to effectively diversify their economies. Oil and gas will eventually be depleted, regardless of their forecasted longevity, and weak development has affected and continues to affect the direction of investment by Islamic banks. In spite of having promising development plans (The Gulf, 2013), these are not sufficiently effective in real terms (The Report-Bahrain 2012). Banks remain, whether Islamic or non-Islamic, in possession of vast amounts of wealth that is not being soundly invested, affecting their profitability. In the short term, oil and gas will remain the primary source of income, but in the medium and long terms, conditions are not going to stay the same, with economic conditions worsening at the world level, and the Gulf economies being open to and tied to Western economies, especially that of the United States of America.

Ali Abdul Majeed Al-Hammadi's research paper titled *Expected Effects of Globalisation on Investments Trends in the Economies of the GCC* can be summarised by saying that the economies of the GCC members lack the components needed for an adequate investment environment. This is due to chaos in investment policies (which in turn are caused by various political, economic, legislative and "foundational" conditions, including continuous failure of political cohesion and the repeated thwarting of efforts towards integration and cooperation between its members and other Arab countries), and to a lack of marketing capability, a lack of financial institutions with highly qualified employees, and a lack of information and statistical data (Ameen, 2004).

Monetary policies in the states of the GCC are still tied, to a great extent, to developments in world oil markets (Hafiz, 2009), where oil exports and the petrochemical industries constitute the primary source of income for the region's economies (Barakat, 2009), and where the means of production in the GCC states are similar, a condition that has kept commerce between its members at low levels. There is an almost total absence of exports of consumable commodities other than oil, and this has led to debate over what is purely political and what is economic. At present, America exerts soft power (through the media) to encourage "change",

“revolution”, “democracy” rather than exerting real moral pressure against the region’s rulers. This soft approach is apparently taken in return for these rulers leaving their economies open for liberalisation, giving America free access and strategic security (Alafei, 2008). These conditions do not seem likely to undergo any meaningful change in the near future; consequently, the deficiency in economic development will continue to adversely affect the banking system’s future and will keep the region, in spite of its tremendous natural resources, among the economically under-developed regions of the world. Keeping this in mind, there is no adequate account of the enormous wealth of these countries, its sources, how this wealth is being spent (especially with what is known as “sovereign wealth funds” (gfmag.com, 2012), in respect of which the Gulf States are considered among the highest in the world).

The third influential factor in the futures of Islamic banking in the Gulf region is the availability, or lack, of an adequate legislative and governmental environment. In spite of an increase in acceptability and an open door policy for Islamic banking, customary bureaucracy, laxity in making effective decisions and floundering in governmental and administrative decisions prevent and hinder the passage of adequate and suitable laws to govern Islamic banking. Part of the difficulty in enacting legislation stems from the fact that legislatures and central banks do not see much difference between Islamic and conventional banking, which would require the enactment of laws specifically designed for that purpose. According to these stakeholders, Islamic banking transactions, in form and in substance, resemble, to a great extent, transactions conducted at conventional banks. So why make special laws, especially with the rampant spread and use of what are known as “legal stratagems” used to avoid contradictions between the form and substance of a contract. The banks have devised and concocted a compromised format to comply with existing laws. Additionally, where there are as yet no laws on banking, some central banks do not desire Islamic banks to be in competition with conventional banks.

Generally speaking, most of the Gulf states have stood against the Arab revolutions, especially the one in Egypt, where Islamists’ control of the government represents a danger to the existence of the Gulf kingdoms and sheikhdoms (www.center-cs.net, 2013), fearing the contagious disease of overthrowing rulers and the destabilisation of economic conditions in the Gulf, compared with those of the much larger state of Egypt, which, if it is managed to progress economically, might pull the rug from under the sheikhdoms. This is the reason why some of the sheikhdoms were quick to support the military coup in Egypt (www.center-cs.net, 2013), morally and financially. Any Gulf support for a trend that might lead to Islamists assuming control is given very cautiously. What is important is that this support does not affect existing regimes.

The Gulf States are generally characterized by a weak private sector with a lack of economic diversity, and which is mainly affected by government directives. Private sectors of this kind are subordinate to the government. In spite of major investment projects in the tourism, petrochemical and real estate sectors, all such investment remains limited in comparison to the diversity that is possible. The limited economic diversity of the present does not allow for investment of excess monies deposited in banks, whether Islamic or conventional. Any economic growth or development in the field of investment or government directions or policies will

have a positive effect on the banking sector.

Considering what has been discussed above about the changing effective factors in the futures of Islamic banking and finance in the Gulf region, the re-enforcement of any of the three factors mentioned will lead to Islamic banking assuming a bigger role in the future in serving the public, and to its spread; otherwise it will end up like conventional banking; its existence and function will not differ much from those of conventional banking. This eventually will lead to its integration with the existing, traditional banking system.

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## Notes

- 1 For more information about the *shari'ah* scholars network and their board memberships please have a look to the report issued in 2011 by Funds@Work: [http://www.funds-at-work.com/uploads/media/Sharia-Network\\_by\\_Funds\\_at\\_Work\\_AG.pdf.pdf](http://www.funds-at-work.com/uploads/media/Sharia-Network_by_Funds_at_Work_AG.pdf.pdf)
- 2 Equity-based financing is a result of a joint venture where the financial institution and customer act as partners; the provider of capital assumes risk of loss, limited to the capital provided, and returns are based on an agreed profit-sharing ratio.
- 3 Islam theoretically has no clergy, yet scholars perform this role in practice. Scholars are supposed to be individuals with superior capability in comprehending religious texts; although Quranic verses encourage all Muslims regardless of their background to strive for knowledge. These verses teach that understanding religion is a personal responsibility. With no earthly intermediaries between humans and their creator, you will find that the average Muslim customarily resorts to the opinions of scholars regarding religious matters.

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