

The Economic Impact of Islam on Developing Countries

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Summary. — This essay focuses on two questions: How do the current economic systems and institutions of Muslim countries differ from those of other countries at the same stage of economic development? What is the impact of Islam on the economic and social performance of these countries? Employing a cluster analysis I find that there is no special Muslim economic system; moreover, few economic institutions are uniquely Muslim. Using a regression analysis I also find that the presence of Islam has relatively little influence on most economic or social performance indicators. In the analysis of Muslim economies, religion does not appear to be a useful explanatory variable.
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Key words — Muslim countries, economic institutions, economic systems, economic performance

1. INTRODUCTION

Max Weber's analysis of the role of Protestantism on European economies during industrialization has given rise to a considerable literature on the differential economic impact of particular Christian sects, both now and in the past. The literature on the economic impact of Islam is less extensive. Moreover, most studies deal primarily with Arab countries, which have a number of special features, rather than the Muslim world as a whole; or they are theoretical or ideological and appear to conflate what current Muslim economies should be like with what they actually are.

This essay takes a much more empirical approach and asks two questions: How do the current economic systems and institutions of Muslim countries differ from those of other countries at roughly the same stage of economic development? And what is the impact of Islam on the economic and social performance of particular countries?

Section 2 reviews the countries whose populations are predominantly Muslim and provides a brief overview of Muslim economic doctrines relevant to this discussion. Section 3 is methodological and explains my empirical approach, outlines the criteria for selecting the sample, and briefly discusses cluster analysis, which is a key statistical tool used throughout this essay.

Section 4 defines economic systems in terms of the clusters of economic institutions composing them and uses such an analysis to show that no uniquely Muslim economic system can be isolated. Furthermore, a regression analysis indicates that of the 44 institutions defining the economic systems, few emerge as special to Muslim countries. Section 5 examines a series of economic and social performance indicators to show that in a few isolated cases, Islam does appear to have a significant impact, although even in these cases the relation to the doctrines of Islam seems quite indirect.

2. AN OVERVIEW: MUSLIM COUNTRIES AND ECONOMIC DOCTRINES

(a) *The Universe of Muslim countries*

Roughly one-fifth of the world's population is Muslim, and in this essay I employ the

^{*} I wish to thank Tariq al-Jamal, Timur Kuran, Joshua Landis, Kendall Landis, Eva Leeds, Zora Pryor, Faruq M. A. Siddiqui, Victoria Wilson-Schwartz, and members of the Tri-College Brownbag Seminar for their useful comments on an earlier draft. Final revision accepted: December 18, 2006.

estimated percentage of Muslims in each country as a proxy variable for the influence of Islam in that country. Such an explanatory variable raises three immediate problems of measurement: First, some religious organization may report formal membership, even though many of the individuals included in the count have stopped attending services or making contributions. Second, given the political situation, some individuals may find it worthwhile to misrepresent their religion to governmental census takers or pollsters. Third, the boundaries of most religions are difficult to define, and the researcher must often make arbitrary decisions about the inclusion or exclusion of particular sects of that religion. For my estimates of the Muslim population I rely primarily on a study by Barrett, Kurian, and Johnson (2001), which is the most complete source on religious affiliations throughout the world and which uses a similar methodology for all. In one glaring case, however, I have broadened their definition of Islam.¹ To provide some idea of the extent of Islam, Table 1 lists those countries where at least half of the population was Muslim in 2000. Given the uncertainties in estimates of the Muslim share of the population, I also include eight other countries as "possibly 50% Muslim or more" which other sources have included as predominantly Muslim.

Of the 42 countries where Muslims appear to constitute a majority of the population, only 19 are in the circum-Mediterranean area and or Near East Asia; moreover, not all of these latter countries can be considered "Arab." It is also relevant that Muslims in Arab countries represent only slightly more than one-fifth of the world's Muslim population. Studies on the impact of Islam that focus only on Arab countries may, therefore, give a misleading picture.

The data in Table 1 also suggest that most Muslim countries have relatively low levels of economic development as measured by the *per capita* GDP, an observation confirmed in a regression analysis of 132 countries by Kuran (2004, p. 123). In this study that focuses only on developing economies, however, the Muslim countries do not have significantly lower *per capita* GDPs than other countries, that is, they are not the poorest of the poor.² For my Islam variable in the empirical analysis I use the share of Muslims in the population; preliminary experiments with a dummy variable indicating a Muslim population more than 60% did not yield qualitatively different conclusions.

(b) *Economic propositions derived from Muslim doctrines*

It is generally believed that the role of Islam is paramount in the operations of Muslim economies. For instance, Baldwin (1990, p. 34) notes: "In Islam, there are no concepts of 'mosque' and 'state' as specially religious and political institutions. Religion and state are believed to be fused together; the state is conceived as the embodiment of religion and religion as the essence of the state." Stepan (2000) argues, however, that such a statement has little theoretical meaning; furthermore, in present times few current Muslim states have featured the type of theocratic government implied by this statement, other than Iran and Taliban Afghanistan.

For the most part the discussion of economic matters in the *Qur'ān* is sufficiently general that it is very difficult to derive from it many testable propositions about the economic system or the performance of Muslim economies, just as it is very difficult to derive from the New Testament similar propositions for predominantly Christian countries. Nevertheless, Muslim doctrines of possible relevance to the economy have been drawn from passages in the *Qur'ān*, various *Hadīth* and *Sunnah* (short texts concerning customs of the Muslim community, as well as sayings of Muhammad and legends about his life), the *Shari'ah* (Muslim laws and their interpretation), and the *Ijmā'* (consensus of the religious authorities).

Difficulties for Muslim policy makers arise because many of these doctrinal sources and their interpretation by the major schools of Muslim jurisprudence often do not completely agree with each other on specific issues, especially those not explicitly covered in canonical texts, or leave many issues open. In this regard Abdul-Rauf (1979, p. 14) notes: "The Muslim doctrine of economics permits degrees of individual freedom and state intervention, but leaves the determination of these degrees to the wisdom and conscience of those involved, who should take current conditions into account. This flexibility has made Muslim economies open to alternative options within its framework." One telling illustration of such uncertainties is shown in Iran after the establishment of the Muslim Republic with the far reaching debates about how the economy should be structured and what economic policies should be followed. In many cases, these issues were resolved only by fiat from the

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