



SPECIAL SEMINAR  
HARVARD LAW SCHOOL - OCTOBER 12, 2004

## ECONOMIC DEVELOPMENT AND THE MUSLIM WORLD: A SHORT REPORT

A seminar on Economic Development and the Muslim World was held at Harvard Law School on October 12, 2004 as an activity of the Islamic Finance Project of the Islamic Legal Studies Program. The seminar featured Professor Jeffrey Sachs, Director of the Earth Institute and Quetelet Professor of Sustainable Development at Columbia University, who spoke on Long-term Perspectives on Economic Development in the Islamic World. As discussant, Dr. Ghiath Shabsigh, Deputy Director for the Middle East of the International Monetary Fund (IMF), addressed the connection between economic development and finance, and how they both ultimately impacted Islamic finance.

Sachs proposed an alternative theory to the typical cultural arguments offered by some to explain the economic lag that the once prosperous economic Islamic world faces today. He began by differentiating his theory from those of two eminent cultural theorists? Max Weber, the 19th and early 20th century sociologist, and Bernard Lewis, Cleveland Dodge Professor of Near Eastern Studies at Princeton University. Sachs proposed that although no one factor exclusively affects economic development, factors such as availability of natural resources, global trading routes, ecology, and geography had more to do with the economic development of the Islamic world than the cultural interpretations offered by such scholars as Weber and Lewis. He demonstrated how the Islamic world maintained a significantly higher population during the peak of its economic development, and capitalized on its geographic location at the center of the world's trading routes. Soon after trading routes began bypassing the Middle East by going south of the African continent in what turned out to be a cheaper trading route, the Islamic world began losing its economic advantage. Dependent on trade, the Islamic world suffered a huge setback with the gradual elimination of traditional trading routes. The Islamic world also faced a significantly more difficult time defending itself, as it lacked the advantage of Western and Eastern regions protected by mountains or bodies of water. As trading routes bypassed the Middle East and a lack of geographic protection was capitalized on by outside forces, the West gained an advantage over the once economically and socially prosperous Islamic world.

While acknowledging the importance of Sachs's lecture, Shabsigh pointed out that similar arguments have been put forward in the past to prove different results. The important question for Shabsigh, therefore, was not how geography and ecology affect economic development, but how people mobilize to face geographical and ecological difficulties. The mobilization of available resources, Shabsigh argued, is an indicator of a region's success, and although various sectors can demonstrate the use of resources, the finance industry was used as an example. Finance, Shabsigh argued, can reduce information transaction costs and mobilize savings efficiency. Islamic finance banks, however, are still a minority and have not yet had a significant impact on the international financial market, but they show strong promise to do so. Shabsigh stated that the growth of Islamic finance demonstrates an indigenous movement that is working toward a better economic future. Shabsigh argued that we should study geographical endowments and organizational and institutional roles to see if we can predict the future of economic development in the Middle East.

Professor Samuel Hayes of the Harvard Business School, in his concluding remarks, stated that Islamic banking is not in and of itself an example of economic optimization, but an expression of cultural and religious values. He further noted that both speakers had forgotten to mention one important factor that had a significant impact on the economic development on the Islamic world: the Israeli-Palestinian conflict. Hayes suggested that the strong and unwavering support for only one side in the conflict has produced friction in the development of economic trade between the Islamic world and the West and resulted in an enraged Middle East.

The seminar generated tremendous interest among the audience, as evidenced by our need to restrict questions because of time restraints. The event was attended by some 125 and took place between 1-3 pm in the Ames Courtroom, Austin Hall.