

# RESOURCE RICH MUSLIM COUNTRIES AND ISLAMIC INSTITUTIONAL REFORMS



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The Organization of the Islamic Cooperation (OIC) countries have high economic potential in various fields, including productive land, mining, energy, agriculture, human resources and financial means. Collectively, the member countries of the OIC contribute over 9% of the world's total GDP<sup>1</sup> with 22.8% of the world's population. Saudi Arabia and the United Arab Emirates alone, contribute about 17% of world oil production<sup>2</sup>. It could be expected that the wealth of natural resources would position the oil-producing OIC countries at the forefront of economic performance and growth. Yet, their economic performance often falls behind other countries. Income disparity in the OIC countries has remained constant over the last 30 years.

<sup>1</sup> CIA- The World Factbook

<sup>2</sup> International Energy Agency

The subpar economic growth performance of the OIC countries may be a manifestation of the “resource curse”. The resource curse hypothesis indicates a situation where countries are unable to attain satisfactory economic growth despite being endowed with natural wealth. The reasons for the curse continue to be debated and vary from country to country. We believe that the institutional framework and government policies of OIC countries are not able to transform their wealth (capital) underground into productive capital and achieve satisfactory economic growth and reduce poverty.

In principle, OIC countries should be the exemplars of operationalizing fair distribution of wealth through institutional and governance framework defined by the principles of Islam. The OIC countries should be better positioned to implement the framework according to the principle teachings of the Qur’an. But are the OIC countries respecting and adhering to this complete framework? If not, how far are they from achieving the ideal structure as envisioned by the Qur’an? This discussion leads naturally to the primary motivation for this research. Are oil-producing OIC countries managing their depletable resources within the Islamic framework outlined in the Qur’an? And what do they need to do to be at the forefront of achieving sustainable economic growth and alleviating poverty as required in the Islamic conception of social justice?

Our research selected 10 oil-rich OIC countries - Algeria, Bahrain, Cameroon, Cote D’Ivoire, Egypt, Indonesia, Malaysia, Nigeria, Oman and Saudi Arabia. We firstly established that resource curse is present in the countries under study. The detrimental effects of a resource curse cannot be ignored and further analysis was conducted to determine its cause. Our findings indicate that the association between oil rent and growth operates to a significant extent through the channel of institutional quality. If institutions are effective and of high quality, then oil rents, namely an abundance of natural resources, support economic growth. But if institutional quality is low, we can expect the abundance of natural resources to impair economic growth. When we explored the oil rent and institutions relation further we found that oil resources had a detrimental effect on the quality of institutions; this should be expected as those in power have the incentive to impede institutional improvement so that they can continue to benefit from resource rents.



We took a more in-depth look at two countries in our study, namely Saudi Arabia and Malaysia, we found that the corrosion in quality of institutions have resulted in misallocation of resources and imbalanced socio-economic conditions. In the case of Saudi Arabia, the central impediment to progress and establishing effective institutions is the mindset of the autocratic rulers. The Al-Sauds believe that the country is theirs as their ancestor took it over with the sword. Thus, they have been reluctant to secede power and control of the national treasury to the people. In the case of Malaysia, a Muslim country that most observers would have earlier selected as one of less than a handful of successful resource-rich OIC countries, is today under serious strain. Ethnic discrimination and corruption have increased.



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Operating within weak institutional scaffolding results in unbalanced order and unjust societies, which invariably becomes more glaring when enormous oil revenues flow into government coffers but are either absconded or wasted. The impact of injustice and underdevelopment invariably has the severest impact on minorities,

the poor and more generally on the weakest groups of society. OIC countries have a collective responsibility to stop this transgression from progressing further by taking immediate remedial actions. The Islamic institutional framework offers the most complete, immutable and just solution for countries that profess Islam. The members of these Muslim communities need to look no further than the divine teachings of the Qur'an and the Sunnah of the Prophet (saw) for sustainable solutions to ameliorate the resource curse problem while they still enjoy abundant revenues from the sale of oil and gas and have many options looking ahead.

**\*\*Notes:**

Dr Liza Mydin is co-author of the book **Resource Rich Muslim Countries and Islamic Institutional Reforms** New York, NY: Peter Lang (In Press).