

# The Quest for Economic Progress

## An Islamic Blueprint for Pakistan

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**Hizb ut-Tahrir**  
Britain

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## Preface

Since its inception in 1947, Pakistan has fluctuated from one crisis to another. Indeed, its very existence has been a painful one, punctuated by periods of superficial progress and on the surface the emergence as a meaningful player on the international scene. Nothing exemplifies this more than the Pakistan's economic legacy. Created over 50 years ago Pakistan has failed to develop its economy on a similar trajectory to that of its contemporary peers. The result of this failure has been that tens of millions of Pakistanis today languish in unprecedented levels of poverty, poor health and illiteracy. The country is plagued by corruption and saddled with debt to both internal and external creditors at overwhelming rates of interest. Far from improving, the situation is steadily deteriorating, weakening Pakistan further and leaving it exposed to manipulative foreign entities such as the IMF and other international institutions and nations. The very real effects of this today include load shedding of electricity in major cities for over 14 hours at a time, a near default on financial obligations and harrowing cases of human tragedy ranging from suicide to selling offspring due to crushing poverty and sheer desperation.

Throughout the history of Pakistan, there have been many theories as to how to construct and sustain Pakistan's economy. From the socialist mantra of Zulfikar Ali Bhutto to the current shamble of the free market model, all have been imported from the West and blindly implemented. The stark failure of these policies has not deterred Pakistan's politicians from continuing to seek economic advice and aid from foreign governments, agencies and institutions. Though it is no secret that Pakistan is ruled by an elite who is at best incompetent and at worse criminally negligent and corrupt - with the possible exception of the Zulfikar Ali Bhutto era, every Pakistani government has consistently followed capitalist economic models and policies formulated by institutions like the IMF and World Bank. Pakistan has faithfully followed a course of steadily increasing regressive taxes on the nation whilst moving to sell off what assets it owns in order for short term gain, whether increasing foreign exchange reserves, paying off debt or simply producing a better balance sheet. The ostensible reason for such earnest privatisation has been the adoption of the classic capitalist maxim "The profit motive shall increase efficiency". Though it is widely known that many Government run agencies are woefully inefficient, if one were to be sincere in the application of this slogan than truly the first institution to be privatised should be the State of Pakistan itself (though some may argue, with some legitimacy, that this has been done).

The Pakistani economy, indeed the State itself, has been affected by multiple interest groups disunited in the direction that the state should take; this has prevented the nation from heading in a single and unified direction lacking focus as to how its economy should develop and which economic model it should be built upon. As with other aspects, political, social, judicial, ruling and administrative Pakistan has been reduced to simply imitating actions of developed nations without either understanding the ideological underpinnings or consequences of these policies implemented internationally. So we have post industrial policies and thinking being applied to a pre-industrial society. This problem has unfortunately been compounded by empowering technocrats such as Moin Qureshi and Shaukat Aziz in the vain hope that those well versed and positioned with international financial institutions would be able to steer Pakistan out of its economic quagmire. No in-depth analysis is required on the disastrous contribution these

individuals have made to Pakistan's wellbeing as the dismal results speak for themselves; enough to say that policies utterly lacking vision or ideological backbone were mimicked wholesale. The expansion of credit by the Aziz administration is a shocking example of this where unsustainable debt was used to produce a temporary economic boom, just like in the Western countries like America and the United Kingdom. Offering the masses credit so that they may purchase luxury items such as cars with ease was always going to be a recipe for disaster in a nation where the vast majority of people struggle to make ends meet. The effects of such foolhardy policies are only now being felt, though this could have been easily predicted if a systematic and robust analysis was undertaken.

On a national level, Pakistan's economy has failed to develop the necessary capability to service the needs of its rising population. Pakistan today has an underdeveloped energy sector, an inefficient agricultural sector and the country is unable to provide for both the basic and luxury needs of its people. Pakistan is burdened by \$54 billion of external debt, accrued and used by corrupt and inept administrations. The Rupee continues to devalue at an alarming rate, amazingly losing value even faster than the sub-prime afflicted US dollar. Its taxation system is complex and regressive, with the overall tax base being minuscule in relation to the size of its population. This is not surprising as several decades of abuse, mismanagement and corruption have left the people mistrusting the State with their money. Pakistan constantly has to seek bailouts as it is never far from defaulting on its financial obligations. This leaves the country in a permanent state of economic and political dependency to foreign powers, allowing them a near free hand in directing Pakistan's fiscal and monetary policies.

Once these problems are taken into account it is clear that Pakistan is in desperate need of redirection and guidance. Attempting superficial reforms of the economy such as reorganising or introducing new government bodies, modifying a few taxes, creating free trade zones or giving tax holidays to corporations will end in nothing but failure as history has already shown. Pakistan's economy needs to be fundamentally uprooted from its basis in order to provide clear direction and purpose for the various sectors. What is also clear, after careful study of both the theory and effects of both capitalism and Communism, is that a new way of thinking is required, not only to address the problems of Pakistan but also to re-establish the international economic order. The 'Global Credit Crunch' continues to brutally expose the short comings of capitalism and as such blind imitation of Western policies is simply not an option for Pakistan.

In line with this demand for a fresh and innovative way of thinking, Hizb ut-Tahrir presents this work, as a solution for Pakistan's ailing economy. This book has been produced after careful study of the problems afflicting the economy and the attempted solutions that have been tried and tested throughout its history. Hizb ut-Tahrir then presents a series of solutions based exclusively on Islamic thought of Sheikh Taqiuddin An-Nabhani, the founder of Hizb ut-Tahrir in his book *The Economic System*, to the reality of Pakistan and its economy. This book is not designed to be a reference manual of Islamic Economic theory, which is covered in the book *The Economic System of Islam*, or economic solutions for the current system in Pakistan; rather it is a blue print to establish an entirely unique economic model distinct from the failing systems in effect around the world today. Addressed are issues ranging from currency, taxation, land reform, and labour laws to proposals on how to develop the different sectors of the economy including agriculture, defence, industry and energy.

Hizb ut-Tahrir is presenting this economic blueprint as part of its political work of re-establishing the Islamic Khilafah (Caliphate) in the Muslim world. Hizb ut-Tahrir is an Islamic political party that was established in Al-Quds (Jerusalem) in 1953 by the judge and scholar Taqiuddin an-Nabhani. In the Muslim world, Hizb ut-Tahrir works at all levels of society to revive the Muslim world and bring the Muslims back to living in an Islamic society within an Islamic state, the Khilafah state

Hizb ut-Tahrir based its methodology for this work on the prophetic model of Muhammad (saw) in establishing the first Islamic state in Madinah al-Munawwarah. The Prophet Muhammad (saw) limited his struggle for the establishment of the Islamic State to intellectual and political work. He established this Islamic state without resorting to violence. He worked to mobilise public opinion in favour of Islam and endeavoured to unify the people on this basis. Despite the persecution and boycott of the Prophet Muhammad and the early Muslims, they never resorted to violence, but worked at all levels to lead the adoption of the Islamic system by the ruling classes and the general public.

The party is therefore proactive in building a consensus around the Islamic intellectual and political thoughts widely in Muslim societies so as to challenge the existing failed solutions that are the current status quo across the Muslim world. The party seeks to demonstrate that the Islamic intellectual and political thoughts provide a progressive basis for organising society and seeks to bring about a transformation in the society and state with a return to Islamic politics and economy; at the same time it politically challenges the proponents of capitalist or other ideologies.

The party presents Islam as a comprehensive way of life that is capable of managing the affairs of state and society. The party also expresses its views on political events and analyses them from an Islamic perspective.

In the West, Hizb ut-Tahrir works to cultivate a Muslim community that lives by Islam in thought and deed, adhering to the rules of Islam and preserving a strong Islamic identity.

The party also works to project a positive image of Islam to Western society while challenging Western thinkers, policymakers and academics to look beyond the perceived wisdom to see the superiority of the Islamic ideology in dealing with the peoples' affairs and a rational choice for the Muslim world. Western governments, under the banner of the War on Terror, are currently working to present Islam as an 'evil ideology'. Indeed at the heart of this campaign is the goal to malign the Islamic ideology as an alternative to Western liberal capitalism. Due to this propaganda aspect of the War on Terror, the party directly engages the capitalist thinkers and presents the Islamic economic system to discuss the fundamental flaws in capitalist thinking and to demonstrate the superiority of the Islamic economic and political thinking and solutions.

## Introduction

Pakistan faces substantial challenges in the 21<sup>st</sup> century. Internally, Pakistan suffers from the misdistribution of wealth, poverty and political strife and externally has a belligerent neighbour, continued foreign interference by the West and external debt of \$54 billion (2008). Pakistan, Singapore, Australia and Canada gained independence from Britain at the same time, however since its creation in 1947 Pakistan has been unable to cater for the basic needs of its citizens and has failed in developing basic infrastructure compared to the other nations who have industrialised and have a better standard of living. The creation of Pakistan resulted in the mass exodus of Muslims from India to the newly created nation. With the exception of a few small factories in Karachi, Pakistan's economy was predominantly agrarian. The lack of vision as well as the fallout from partition led to a recession in 1951.

In the 60 years Pakistan has existed the majority of this time has been under military rule. During the intermittent civilian rule the nation's resources and wealth were looted, with corrupt politicians benefiting immensely. The Pakistani economy has been without direction from the day it was created. The absence of thought and leadership has meant that the discussion about which way forward for Pakistan has been reduced to blind imitation of the West. In reality, the focus of the discussion should have been on what system of governance is the most appropriate for Pakistan.

Nationalism has further contributed to the weakness of Pakistan where provincial institutions act as autonomous governments with no love lost between the provinces. Today Islam is in reality the only common denominator between all in Pakistan. However vested interests and short term goals have ensured that Pakistan has remained divided.

Pakistan was used as the first line of defence in Afghanistan against Soviet expansion with the help of the US. Ever since the 1980's Pakistani politicians have remained loyal allies of the US. At a time where no other state had committed to join America in its war on terror, Pervez Musharraf surrendered Pakistan and duly complied. He claimed that as Pakistan was cooperating with the US, it would enjoy some benefits on the world stage.

For the United States, the policy decisions follow a consistent pattern. There is no doubt that the United States has used Pakistan to have a hand in South and Central Asian politics since 1971. The worst crimes of US complicity occurred not in the recent past, but during the US supported war against Bangladesh in the 1970s, and the subsequent US backed dictatorship of General Muhammad Zia-ul-Haq in the 1970s and 1980s. The United States has viewed Pakistan as its own military base in South Asia, with strategic importance throughout the region which includes the likes of China and Central Asia. Talks of democracy in Pakistan have always been a charade and will always remain so.

Musharraf - like so many US backed dictators before him assumed this support as a form of loyalty, one that was recognised by President George W. Bush who considered him as "our man in Islamabad". Instead, as any first year political science student could have told Musharraf, the United States was merely looking after its own interests, and when the United States perceived him to be a political liability they

would move to replace him. The Benazir Bhutto solution was forced upon Musharraf by America to ensure Pakistan remains on the front path of the war on terror. Senator Joe Biden, prior to becoming Vice President, as the chairman of the US Senate Foreign Relations Committee at the time described the relationship with Pakistan as *“largely transactional - and this transaction isn't working for either party”*. Biden argued, *“We [the US] must move beyond this transactional relationship - the exchange of aid for services - to the normal functional relationship we enjoy with all our other military allies and friendly nations.”*<sup>1</sup>

This transaction has cost Pakistan dearly through the interruption to trade, instability and the channelling of vital funds away from health, education and key sectors to fund the war effort. Pakistan suffered huge losses, amounting to \$34.5 billion, since 2001 for its role in the war on terror, which foreign minister Shah Mahmood Qureshi mentioned during a news briefing on the 14<sup>th</sup> November, 2008 in New York,<sup>2</sup> Pakistan has received a paltry \$10 billion from the US as compensation.

The change in Pakistan’s leadership in 2008 did nothing to halt the economic crisis with the difference on this occasion being the number of problems it faces at the same time. The Zardari government continued for months to lie about seeking IMF funding. The IMF’s managing director Dominique Strauss-Kahn on the 22<sup>nd</sup> October 2008 confirmed Pakistan had formally requested a bailout package. As IMF loans require US approval, Pakistan would need some understanding with the US with regards to the war along the Durand line. The Economic crisis suits the US fine as it is able to extract concessions from Pakistan – that include bombing inside Pakistan.

The proxy war Pakistan is conducting on behalf of the US has in fact accelerated, what may possibly be the partition of Pakistan. In the 2005 report by the US National Intelligence Council and the CIA forecast a *“Yugoslav-like fate”* for Pakistan *“in a decade, with the country riven by civil war, bloodshed and inter-provincial rivalries, as seen recently in Balochistan.”* (Energy Compass, March 2005). Civil war is not far off in Pakistan and that could lead potentially to the partition of Pakistan.<sup>3</sup> Many policy makers are alerting to the partitioning of Pakistan which will be reduced to essentially the Punjab region. The NWFP would recover a lot of hydroelectric power. Balochistan would recover a lot of gas – and become a Turkmenistan-style gas republic. And Sindh would profit from its industry and ports. US concerns about Pakistani efforts along the Durand line sound eerily similar to the case the US built for war against Iraq. Saddam Hussain was accused of possessing weapons of mass destruction and having the ability of firing them within 45 minutes. He was accused of gassing his own people and to having links with al-Qaeda. Today Pakistan although cooperating with the US is accused of not doing enough, having a secret intelligence agency that supports the Taliban and partaking in the slaughter of US troops.

During the 1990’s Pakistan's economy suffered on two accounts. The first being the lack of vision by the ruling elites to make efficient use of public financial resources to boost economic growth, contain poverty, and develop human resources. Secondly, the inability of Benazir Bhutto and Nawaz Sharif to check unbridled corruption and cronyism in their respective administrations, which has resulted in the political use of public resources, the bending of rules and regulations to benefit a selected few and the erosion of any institutional accountability.

This book will assess Pakistan's ailing economy and outlines a map for the future direction of Pakistan. It will present an outline of policies which can be implemented in Pakistan alongside the affects of such actions. Currently all those vying for leadership in Pakistan use the slogans of democracy, people power and rule of law and have never presented a viable manifesto for Pakistan. What follows is a set of blueprint policies for a new Pakistan which will alter its economy to meet the challenges of the 21<sup>st</sup> century.

1<sup>st</sup> July 2009

Hizb ut-Tahrir Britain



## **Musharraf's Economic Deception**

- Under Musharraf economic growth was driven almost entirely by 3 sectors
- Pakistan continued to rely on foreign money
- Pakistan's national debt reached the highest in its history

General Musharraf took over the reigns of power in 1999 from Nawaz Sharif with the Pakistan economy on the verge of bankruptcy. So desperate was the situation before Musharraf took over, Nawaz Sharif toured the world visiting Pakistanis with a begging bowl, requesting them to invest in Pakistan due to the sanctions imposed for carrying out nuclear tests. Incoherent, short-term policies also resulted in a minority of people benefiting immensely, who incidentally were directly linked to the Sharif family. As such Nawaz Sharif was no different to the other rulers of Pakistan, military or civilian, who secured personal interests forsaking the people in general.

The IMF and the World Bank as well as many from Pakistan praise the Musharraf era for solid macroeconomic recovery and saving the Pakistan economy from the brink of economic collapse. Many commentators link the Musharraf era with substantial macroeconomic reforms. Commentators today continue to argue that the Musharraf era brought a degree of stability to Pakistan that the country never knew under civilian rule and the wealth generated during Musharraf's reign is unprecedented, with the economy generating \$143 billion (IMF 2007), the most in Pakistan's history.

### **Reform**

Once the dust settled on Musharraf's coup he set about organising the nation by forming a small working cabinet consisting mainly of experts and technocrats in their respective fields. These individuals were selected on the basis of expertise in their respective fields, including a new team of economic managers which included expatriate Pakistanis' working in international institutions. Several committees, constituted with experts drawn from both within and outside Pakistan whose job was to make recommendations on the content, phasing and implementation timelines of the various reforms Musharraf planned to turn the economy around.

The most important working group was the Debt Reduction & Management Committee headed by the former Chief Economist of the World Bank, Dr Pervez Hassan. This committee's recommendations formed the basis of subsequent actions in this area. Another committee, under the leadership of a former Senior Vice President of the World Bank and assisted by consultants from the Lahore University of Management Sciences (LUMS), submitted a blue print for the reform of the Central Board of Revenue. Another group was commissioned to review financial sector reforms and the services of several former World Bank staff were secured for this purpose on a full time basis. An Agriculture Taxation Committee, headed by a former planning secretary, produced a consensus view on the introduction of agriculture tax by provincial governments. An Interim Poverty Strategy Paper was developed in consultation with stakeholders from both within the government as well as from civil society, laying out the broad contours of the road map for economic policies and reforms.

The strategy was, as Musharraf's economic team put it:

- To effect a sustainable reduction in debt ratios (reduce debt)
- To reduce fiscal deficit through revenue mobilisation (balance government budgets)
- To restructure key public sector institutions and stop their losses (privatisation)
- To pursue a prudent monetary policy and hold inflation down. (raise interest rates)
- To liberalise the foreign exchange regime and allow market forces to determine the level of exchange rate (remove all obstacles to currency transfer)
- To create a level playing field for all economic actors (removal of state subsidies to key industries)

Such objectives were to be met with a number of reforms or changes to the way the economy was previously run. What needs to be understood is such objectives were all geared towards gaining credibility abroad rather than dealing with domestic woes. Musharraf's team was composed of experts from the very institutions that had indebted Pakistan and insisted on policies that would reduce debt. They proposed a number of reforms to achieve the above objectives, which included:

- The privatisation of the banking and financial sector
- The removal and reductions of all tariffs which protected Pakistani industry and agriculture
- The privatisation of all public sector enterprises
- Sale of shares to the public through stock exchanges
- Removal of subsidies and administered prices on agriculture commodities
- The removal of all barriers on agriculture exports and imports
- The removal of all price controls, leaving essential prices to market forces
- Removal of domestic price controls of petroleum products and aligned with international prices domestically

### **Privatisation: Past and present**

The most important aspect of Musharraf's economic reform package was the wide scale, mass sell-off of state industry, energy, telecommunications, banking and public enterprises. Misgivings about the concentration of wealth in Pakistan (both East and West at this point in history) were voiced in official circles as early as 1959, when it was noted by Credit Inquiry Committee of the State Bank of Pakistan that 222 depositors were making use of 66% of the total credit facilities offered by Pakistan's banking system. In a study in the same period by Gustav Papanek, who today is President of the Boston Institute for Developing Economies and Professor of Economics Emeritus at Boston University (however at the time he was Harvard advisor to Pakistan) established that 24 individuals, firms and companies controlled nearly all of the country's industrial assets. Both the Awami League in East Pakistan and PPP in West Pakistan came to power promising nationalisation. The heavy concentration of wealth among non-Bengalis is considered one of the

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key factors leading to a separatist sentiment in East Pakistan, and members of the leading families admit that, in anticipation of separation, they moved all investment and headquarters to West Pakistan. Following the separation of East Pakistan, these families were dealt a heavy blow, as the assets of non-Bengalis over Rs. 1.5 million were nationalised in now separate Bangladesh.

Zulfiqar Ali Bhutto ushered in the era of nationalisation with key industrial units coming under government control. The shock of nationalisation and loss of millions in assets for the leading industrial families resulted in the absence of any large industrial projects. Business leaders had become risk-averse, avoiding the capital-intensive industries, which were easy to seize, but are also key engines of economic growth and employment. Many of the leading families left Pakistan in the 1970s, withdrawing capital permanently for investment in the West.

In 1988, Benazir Bhutto's government commissioned a privatisation plan from Rothschild and Son, which recommended Thatcher style privatisation through the stock exchange. When Benazir's government was dismissed in 1990 Nawaz Sharif continued western style privatisation identifying 115 units for privatisation. The Musharraf government continued the privatisation drive with the sale off the remaining enterprises.

The justification for the privatisation policies was that the units were performing poorly, and that their sale would generate much-valued revenue for the state. However, in practice the promised gains amounted to nothing. Although the Musharraf government championed the privatisation programme as bringing competition, competitiveness and efficiencies to their respective sectors they were sold below their market values to make them attractive. They were sold by placing them on the stock market which led to them being bought by speculative investors only interested in short term gains and the proceeds were used to reduce the mounting debt burden.

### **Foreign Direct Investment (FDI)**

The Musharraf era is praised heavily for the deregulation of the economy and allowing foreign multinationals to invest in Pakistan. Foreign direct investment (FDI) was \$2.2 billion in 2006; by the end of 2007 FDI reached \$5 billion. Pakistan assembled Suzuki's, defence equipment (submarines, tanks, and radars), engineering goods, and many other items. BMW, Toyota, and Honda also invested in manufacturing facilities in the country.

The sustainability of such a policy for domestic development was always questionable. The usefulness of foreign direct investment, whereby foreign investors bring their capital and repatriate their earnings, profits, debt servicing, royalties, technical fees and even capital, without any restrictions in reality brought no benefit to Pakistan. Under the guise of globalisation many western companies placed production facilities in the Third world making use of lax laws, cheap labour then sell the very same items for extortionate prices abroad.

Pakistan has not become an important destination for investors as India has over the last decade. India offers the promise of political stability, a legal system that can protect investors, a more highly trained workforce, and a fairly large rate of domestic savings. It also has a large domestic market, which is of interest to foreign companies. Pakistan, on the other hand, is a country with a high level of illiteracy (only 54% of people above the age of 15 can read and write), in which political instability continues to threaten the pursuit of economic policies that could be sustained. If foreign investors have been attracted to the country it is only those who either are tapping the large market for basic goods for their own consumption. When the Musharraf government claimed that it made possible large foreign direct investment into the country, it did not mention that FDI has come in the form of purchase of domestic cigarette manufacturing by America's Altria group, or by an expansion in the presence of food and beverage companies such as Pepsi Cola and McDonald's.

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Investment in consumer products and domestic services can never be the basis of long-term sustainable growth. The vulnerability of the economy to external funds was revealed by the data on investments and its sources by the finance ministry. During the Musharraf period, the rate of investment has increased by a third, from 17.2% of GDP in 2001-02 to 23% in 2006-07. However domestic savings declined from 17.8% to 16.1% of GDP in the same period. This means that the economy became even more dependent on foreign flows than was the case in the 1990's. This dependence may have meant that the continuing political support of Western governments and development institutions such as the World Bank was no longer critical or even needed for economic progress. All FDI really achieved was make Pakistan reliant on foreign companies. Hence, Pakistan's reliance on foreign funds changed during the Musharraf era from international institutions to international companies. The claim of the Musharraf cabinet that the economy was moving on a sustainable course and that it would not be derailed by political storms was another attempt by General Musharraf at the time to hide his failures and gloss over the fact that the economy was sold to foreign institutions and companies.

This is because a reliance on foreign funds can never be sustainable as foreign companies will choose the cheapest markets for production facilities which will not always be Pakistan; hence any economy which relies on foreign investment remains vulnerable to external shocks. The global credit crunch resulted in many of the world's banks halting their lending to each other and with Pakistan so reliant on external sources of finance, this placed Pakistan in a very precarious situation.

## **The Service Sector**

The services sector was the driving force behind Musharraf's so called economic success. It represented 54% of Pakistan's economy but employed only 36% of the population. Musharraf's regime failed to

develop the foundations of a modern, competitive, and productive economy and as a result it relied on the service sector, real estate, and the stock market. The real productive sectors of the economy, both industry and agriculture were completely ignored.

The privatisation programme saw most of Pakistan's assets end up on the stock market; by 2004 Pakistan's KSE 100 Index was the best-performing stock market index in the world as declared by the international magazine "Business Week."<sup>4</sup> The stock market capitalisation of listed companies in Pakistan was valued at \$10 billion in 2005 by the World Bank. Transport, storage, communications, finance, and insurance accounted for most of the services sector.

The property sector expanded twenty-threefold during the Musharraf era, particularly in metropolises like Lahore where the demand for property by expatriate and speculators inflated house prices. However, the Karachi Chamber of Commerce and Industry (KCCI) estimated in a report published in October 2006 that the overall production of housing units in Pakistan had to be increased to 500,000 units annually to address the 6 million backlog of housing in Pakistan to meet the housing shortfall in next 20 years. The report noted that the housing stock was rapidly ageing and an estimate suggested that more than 50% of stock is over 50 years old. It also estimated that 50% of the urban population lived in slums and squatter settlements. The report said that meeting the backlog in housing, besides replacement of out-lived housing units is beyond the financial resources of the government – the Musharraf government. This necessitates putting in place a framework to facilitate financing from the private sector and to mobilise government resources for a market-based housing finance system.<sup>5</sup>

Pakistan has a population of 172 million,<sup>6</sup> the 6<sup>th</sup> largest in the world and only generated \$143 billion a year under the Musharraf era; this is the equivalent of Israel which generates the same amount of wealth with a population of 7 million. Half of this wealth is being generated from the services sector, which is not the largest employer in Pakistan. Hence, only the rich have benefited from Musharraf's policies as it is them who consume, spend and sustain the service sector which ultimately caters for them. The majority of people continue to be unable to spend on real estate, purchase shares of the stock market or buy luxury goods as 72% of Pakistan live on less than \$2 a day (World Bank, 2006). The size of the services sector shows Musharraf's policies had been developed for the rich, by the rich and to sustain the rich.

## **Pakistani Debt**

General Musharraf's regime broke all records in borrowing and pushed the country into a debt trap. State Bank reports showed the government had borrowed a staggering amount of over \$15 billion in the four years to 2006, as the country's total debt and liabilities reached \$40 billion by 2007. Such debt apart from additional borrowing was also composed of rescheduled debt as the Musharraf government continued borrowing to fund basic government duties and the inability to generate sufficient wealth from the domestic economy. Such amounts of debt never existed in the history of Pakistan. By the end of 2004, the total external debt was \$33 billion. If the government had stopped borrowing as it claimed, the country's total debt would have declined to \$23 billion, based upon Pakistan's regular yearly payments by the end of June 2007.

With the absence of basic industry in Pakistan, imports became critical and continued to rise. Due to this Pakistan faced an all time high trade deficit. Pakistan borrowed over \$3 billion during 2006-2007. The figures reveal that the huge borrowing was made to pay debt and continuous current account deficits. This is because the Pakistani government had been unable to provide for the basic needs of the country, and was forced to import more and more from abroad, to the point where exports were exceeded and this resulted in a trade deficit. Average annual payment of debt servicing reached \$3.3 billion in 2007. The current account deficit for the fiscal year ending on June 30, 2007 had increased by 41% reaching \$7 billion. Instead of reducing dependency on imports by building a strong domestic industrial base and refining abundant local raw materials the Musharraf government relied on unreliable sources like foreign direct investment (FDI) and privatisation to meet the gap.

This clearly shows the Musharraf regime's lack of vision failed to develop the foundations of a productive economy. During Musharraf's tenure the Pakistan economy became reliant upon the service sector, real estate, and the stock market. The real productive sectors of the economy, both industry and agriculture, were ignored. The infrastructure in Pakistan was not upgraded and as a result the country today faces a serious energy crisis. The social sectors continued to be neglected with expenditure for education and health sectors much lower than those of previous governments.

## **Poverty**

Although Pakistan generated \$143 billion during Musharraf's tenure the people of Pakistan saw very little of this wealth and fell further into poverty. Wealth distribution represents a glaring failure on part of the Musharraf government as its policies only benefited the select few; life for most Pakistanis continued to be a daily struggle of making ends meet which got even worse under Musharraf. According to the World Bank 120 million Pakistanis lived on less than \$2 a day when Pervez Musharraf left office.

The Pakistan Economic Survey 2006-07 acknowledged the gap between the rich and the poor, in the country, widened in the period between 2001 and 2005 (when the two surveys that have provided the data were held). The ratio of the income of the richest 20% and the poorest 20% went up from 3.76 to 4.15. The Gini Coefficient, which is universally regarded as an efficient measure of income equality, changed from 0.2752 to 0.2976 (that is, for the worse). The thrust towards privatisation of facilities in the social sectors, especially education and health, made these services more costly and less affordable for the common man. People were compelled to spend more on most basic necessities and this situation worsened significantly by the introduction of General Sales Tax on food and medicine. The government's own figures confirmed that the poor were spending 14.6% more (as compared to 2001) on health. Ironically, the rich were spending 6% less – thanks to the better food, environment and living conditions they could afford. The poor are spending 50% more on transport and 11% more on food. The Musharraf regime attempted to gloss the figures over by juggling around with statistics and definitions. Such shifts in the yardsticks adopted distorted results beyond belief. For instance, a new methodology led the government to change the poverty line figure in 2001. Thus an income of Rs. 878 per month per capita was taken as the poverty line. This amount was at complete odds with the facts on the ground. Not surprisingly, the figures cited by the government for people living below the poverty line come to be widely questioned.

With poverty alleviation being the buzzword in Pakistan's economic development and a key criterion for aid givers, policymakers were desperately trying to prove the success of their strategy in terms of falling poverty levels.

Inflation also pushed many people into poverty as prices continued to rise. Add to this the increase of the General Sales Tax (GST), life for most Pakistani's life become more difficult in the last decade. The huge surge in prices was caused by a huge increase in money supply, particularly private credit, which rose by an astounding average annual rate of 25% during the Musharraf era. Such credit caused considerable damage to the economy and the country's poverty stricken citizens. The credit fuelled inflation, which officially stood at 10%. However that is the average price increase, most essential items rose much higher in price including staple foods like flour and cooking oil. During Musharraf's tenure essential kitchen items increased in the region of 200% - 300%. Opposition MP Ahsan Iqbal (PML-N information secretary, 2007) exposed the Musharraf government emphasising *"The government policies are pushing the country towards a serious crisis. The cost of borrowing could be a threat to the country's economy as,"* he said, *"The State Bank has been purchasing billions of dollars from the local market by flooding the local currency and creating inflation in the country."*<sup>7</sup>

### **Musharraf policies were always unsustainable**

The Musharraf strategy for the economy is comparable to using ointment to deal with a tooth ache; it may psychologically make one feel better but in no way deals with the underlying problem, causing the inevitable pain to resurface at a later time. Musharraf managed to win the hearts of the West as he opened the economy to them and rescheduled debt which 8 years prior was on the verge of being defaulted. Domestically, only a handful of people benefited from the wealth the economy generated, and these individuals could be considered Musharraf's support base. However, many of those who lived in Pakistan were not fooled by Musharraf's defunct policies and for them the state of emergency in November 2007 symbolised the beginning of the end of Musharraf. So desperate was Musharraf he awarded his core generals plots of land at the time ensuring they did not desert him. Pakistani economists continued to argue free markets have brought much success to Pakistan. However this has not been the case as most of Pakistan's economic policies were short term, political and not sustainable for the well-being of the nation. Hence, although the economy may have grown under Musharraf, Pakistan's economy remains dysfunctional and unable to cater for the basic needs of its own citizens.

The economy needs a complete re-focusing, not mere cosmetic surgery. As Shahid Javed Burki, former Vice President of the World Bank, who was in charge of the bank's Latin American division when Mexico was hit by a financial crisis in 1994 put it *"Pakistan is facing symptoms that preceded the Mexican financial crisis more than 10 years ago"*. He points to the nation's current account deficit, 'excessive' speculative business activity and the weak banking system as reasons to why Pakistan is heading in only one direction.<sup>8</sup>

Dr Asad Sayeed, an economist from Pakistan encapsulated Musharraf's so called economic success: *"Nearly \$70bn flowed into the Pakistani economy in the six years after 2001, on top of aid and assistance from Western governments and financial institutions - including \$10bn from the Bush administration. But growth mostly took place in the*

*services sector, especially consumer financing. No significant assets were created in the industrial and agricultural sectors. It was not sustainable growth.”<sup>9</sup>*

## **Zardari’s Economic Crisis**

The economy nose dived as Asif Ali Zardari became the president of Pakistan in September 2008. He accelerated much of Musharraf’s policies which were bankrupting the nation. Zardari has presented no roadmap for economic revival or solutions to the economic challenges faced by the country. From his actions the economy is not the top priority as the ‘War on Terror’ continues to be the focus of his government

The absence of any roadmap led to a number of short term tactical responses to avert economic collapse which will in the long term place Pakistan in further debt. Zardari like Musharraf resorted to external finance and the failed policies of the IMF. In November 2008 an initial agreement was agreed with the IMF for a \$7.6 billion loan. Whilst Pakistani rulers may have changed the policy of external finance remains the same. In the first review of the \$7.6 billion package Zardari requested a further \$4.4 billion from the IMF, continued debt seems to be the only strategy of the Zardari government.

Pakistan is struggling under its biggest budget deficit ever, \$21 billion; inflation at 24% and rising unemployment that is projected to reach 2.8 million by the end of 2009. The actions of Zardari show like previous regimes he is also bankrupt with any long term plan for Pakistan.

*“The absence of any roadmap has led to a number of short term tactical responses to avert economic collapse which will in the long term place Pakistan in further debt. Zardari like Musharraf has resorted to external finance and the failed policies of the IMF. In November 2008 an initial agreement was agreed with the IMF for a \$7.6 billion loan. Whilst Pakistani rulers may have changed the policy of external finance remains the same.”*

According to the *New York Times*, when he was asked how the government would pay for generous price supports for Punjabi wheat farmers (who played a key role in his election as president), his answer was: “Print the notes”.<sup>10</sup> The central bank complied all too readily and this helps explain why inflation is at 24%. Zardari also planned to eliminate electricity subsidies by the end of the 2008-09 tax year.

The Zardari government plans to issue Treasury bills to banks and the broader public to also raise finance which will further indebt the government. To find any takers, this debt will have to offer very high rates of return. The Zardari government will also raise money by privatising many state assets, which is a continuation of Musharraf’s privatisation programme.

A culmination of failed IMF and World Bank policies, lack of vision and independence, continued interference by the US and the abandonment of Pakistan’s national interests has led to Pakistan to reach its most dire situation in its history.



## Pakistan's Economy - Not fit for Purpose

- Pakistan has lacked independence in its policies
- Pakistan has attempted to mimic capitalism with grave consequences
- Both attempts at capitalism and Socialism have been failures

Pakistan currently has a population of 174 million (July 2009); the 6<sup>th</sup> largest in the world, with GDP of \$160 billion (2008), which is equivalent to the GDP of both Israel and Singapore who have populations of 7 and 4.6 million respectively. The population of Lahore itself is 8 million. Pakistan is impoverished and underdeveloped; 52 million of its population live in poverty (World Bank 2006), which is the equivalent of the whole of South Korea. What adds to this problem is Pakistan has been unable to generate an efficient way of distributing wealth across society causing most people in Pakistan to fall into poverty.

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Pakistan effectively has a contradictory economy, whilst most economies are characterised by an emphasis towards a particular sector of the economy – usually using this sector as a stimulus for the remaining part of the economy. However, more than half of Pakistan's economy is service based but most of Pakistan's 48 million labour force is employed in the agricultural sector. This means the minority employed in the service sector possess the vast bulk of the nation's wealth that is generated.

Pakistan's industry is dominated by low level production of cotton textile and apparel manufacturing, which account for 66% of all exports. The Balochistan province is a mineral rich area having substantial mineral, oil and gas reserves which still have not been exploited to their full capacity. The province has the world's fifth largest copper reserves and substantial chromite and iron zinc reserves. The Reko Diq mining area has over 2 million ounces of gold<sup>11</sup> and natural gas was discovered in 1952, however the necessary infrastructure and industry today has still not been fully developed. As a result Pakistan suffers from a chronic problem in meeting its energy needs. Pakistan has extensive energy resources, including sizable natural gas reserves, proven oil reserves, coal (the world's largest Coal mine in Thar)<sup>12</sup> and a large hydropower potential. The concentration on exports has led to a weakening internal architecture and the development of export orientated industries only. As a result most of Pakistan remains unemployed, a problem especially amongst the youth.

The exploitation of energy resources has been slow due to conflicting priorities and as a result the necessary investment has never materialised. Pakistan consumes 374,000 bpd (barrels per day) of oil, but it produces only 70,000 bpd. The need to import oil has contributed to Pakistan's trade deficits and current shortages of foreign exchange. The national grid remains underdeveloped with 40% of Pakistan not even receiving any electricity.<sup>13</sup> Pakistan's largest import is petroleum products in order to meet the energy needs of its people, due primarily to the underdevelopment of domestic industries.

Pakistan has a large dependence on foreign aid, external borrowing, economic aid and IMF and World Bank lending. Its 48 million work force has only 2.8 million tax payers resulting in a large dependence on international institutions and borrowing on the debt markets to ensure basic functions of the government continue. Recent statistics include the Asian Development Bank providing close to \$6 billion development assistance to Pakistan during the period from 2006-2009. The World Bank (of which Pakistan is the fifth largest borrower) unveiled a lending program of up to \$6.5 billion for Pakistan under a new four-year, 2006-2009, aid strategy showing a significant increase in funding aimed largely at beefing up the country's infrastructure. Japan will provide \$500 million annual economic aid to Pakistan. Pakistan's debt situation means it is unable to pursue an independent policy for Pakistan and lenders insist income intensive policies should be pursued at the expense of domestic development. In the fiscal year 2007-2008 Pakistan's budget was at \$19.8 billion with expenditures of \$25 billion. However, this was dwarfed by an external debt of \$41 billion composed of rescheduled debt over the last 20 years by successive governments and the continued need to borrow to fund basic government duties and the inability to generate sufficient wealth from the domestic economy.

Although Pakistan generates \$160 billion the people of Pakistan see very little of this wealth and live in severe poverty. Wealth distribution represents a glaring failure on part of the Musharraf government as its policies only benefited the select few, making life for most Pakistanis a daily struggle of making ends meet which has got worse. Depending on which measure is used the World Bank puts 17% of the population living on less than \$1 a day whilst 73% of the population lives on less than \$2 a day. The World Bank also puts 33% (the size of South Korea) of the population living under the poverty line, another measure, which is a national estimate based on population income estimates which is decided by national governments.

Pakistan is the only third world nation to have a dysfunctional economy but have an advanced military industry. Whilst Pakistan has succeeded in developing nuclear weapons and becoming self sufficient in munitions and tanks, the people of Pakistan receive little economic benefit from this progression, as such technologies have not been introduced into the consumer sector in order for the domestic economy can develop.

These are some of the problems and challenges Pakistan faces. What is also apparent is that successive governments have had little ability in solving the nation's problems. The problem is much deeper than what this debate has been reduced to, which is one of imitation of the West. Over the last 20 years under the World Bank and IMF many western liberal economic policies have been implemented in Pakistan. These include the privatisation of state enterprises, deregulation of markets, removal and elimination of subsidies. In the name of globalisation Pakistan has been opened to foreign companies, with capitalism and free markets being forced upon Pakistan. Loans and aid were conditional upon the achievement of such measures.

Although Pakistan's economy has grown so have poverty and the slums of Pakistan. The problem with imitating capitalism is that it is only concerned with generating wealth and pays little attention to the distribution of wealth. The founding forefathers of capitalism argued that leaving resource and wealth allocation to the market is the best way to allocate resources. This has proven to be false in the East and

the West for over two hundred years. The disparity in wealth allocation is a huge problem even in the industrialised world. In the UK the wealthiest 1% own 25% of the nation's wealth but the poorest, which is half of the UK population, have a share in only 5% of the UK's wealth.<sup>14</sup> The UK's richest 10% have more than 50% of the nation's wealth. The wealth disparity shows the allocation problems enshrined in free markets. This was confirmed in December 2006 which saw the culmination of a global study – from the World Institute for Development Economics Research of the United Nations. Some of its findings were staggering; by gathering research from countries all over the world the study's findings concluded that the richest 1% of the world owns 40% of the planet's wealth and that only 10% of the world's population owned 85% of the world's assets. Richard Robbins in his award winning book 'Global Problems and the Culture of capitalism' confirmed this when he said *"The emergence of capitalism represents a culture that is in many ways is the most successful that has ever been deployed in terms of accommodating large numbers of individuals in relative and absolute comfort and luxury. It has not been as successful, however, in integrating all in equal measure, and its failure here remains one of its major problems."*

The global credit crunch has shown that in the interest of economic growth Western economies saw a boom period which was funded by large amounts of debt. This drove the economy and inflated their national housing markets to astronomical levels. Once it was realised such debt was unsustainable and un-repayable the bubble burst.

What compounds this situation further is the fact that the people of Pakistan do not even believe in liberal values hence they would never be prepared to sacrifice for it. In response to this, some have attempted to present Socialism as an alternative model for Pakistan. Zulfikar Ali Bhutto first introduced left leaning policies to Pakistan when he became president in 1972; he ushered in the era of the central economy by nationalising key industrial units, banks, life insurance companies, shipping, and petroleum companies. He introduced a new labour policy increasing workers rights and the power of trade unions. He announced reforms limiting land ownership and collectivized over a million acres of land to redistribute to landless peasants. Such policies resulted in an increase in poverty due to the neglect of individuals in the interest of society and as a result socialist policies slowed down the economy.

The problem inherently with Socialism is the ideals it attempts to implement in society, which were a reaction to the inequality created by capitalism during the industrial revolution. Advocates of Socialism saw the injustice that resulted from the concept of 'freedom of ownership' and concluded that the difference in private ownership between people was the problem that required a solution. The ideal of creating equality between the people became the intellectual foundations of Socialism and all Socialist movements that emerged in the 19<sup>th</sup> century. This equality was to be achieved by the collective ownership of the means of production and the abolition in various forms of ownership of private property.

The hypothetical nature of equality led to the emergence of various schools of thought in Socialism and such failure has also led to many reform movements. In the drive to achieve collective ownership, many nations that adopted Communism (one school of thought within Socialism) attempted to collectivise land whereby quotas were set for agricultural output in return for a dividend rather than a wage. Under the USSR, Ukraine suffered from a massive famine due to collectivisation which resulted in the death of over 7

million people. Chinese attempts at creating equality led to the mass starvation and deaths of over 30 million people from 1959-1962. North Korea had a similar experience during the 1990's where under the strains of drought collective farming collapsed leading to the mass starvation of millions.

The central ownership of the means of production resulted in industry only producing for the propagation and defence of Communism. Although for nearly half a century the USSR competed with the US this was at the expense of its people who endured misery and starvation. The abolition of private property, whether in the means of production or agricultural land, contradicts the very nature of humans. In order to attain what it sees as the interest of society Socialism completely neglects the needs of individuals and this is what led to its eventual collapse in the Soviet Union.

A complete paradigm shift is needed in Pakistan where all remnants of capitalism and Socialism are removed, especially in the economy. Both ideologies have failed Pakistan and have caused considerable damage to many of the economies who embraced them. Although today the US, Britain as well as Japan and Germany represent successful capitalist economies, all however suffer from chronic problems of misdistribution of wealth, poverty, population decline and corporate influence on government. The imitation of such countries would therefore also be wrong.

The following chapters are a presentation of a selection of potential policies that could fundamentally change the situation of Pakistan's economy. What is presented is the Islamic economic system and its ability to deal with the diverse economic problems Pakistan faces. It may be considered strange by some to present Islam as an economic system or ideology as nations such as Saudi Arabia, Egypt and Indonesia seem to prove the failure of Islam. However what needs to be understood from the outset is such countries do not take Islam as the basis of their society or economic system. The Islamic system ceased to exist after the destruction of the Khilafah in 1924 and what we see today in the Muslim lands is foreign systems with a hint of some Islamic rules.

## Islam and the Economy

- The Islamic economy focuses on people and their needs, not just economic growth
- The Islamic economy promotes rapid wealth circulation
- Islam designated a fixed area of state intervention which doesn't change

This work is not meant to provide an elaborate exposition of the Islamic economic system but rather to demonstrate what is possible with the application of such a system in Pakistan. The author is aware that in popular discourse the subject of Islamic economics is reduced to a discussion about a few rules within the system, such as the prohibition of Riba (usury, interest) or Zakah as a form of taxation. It is the unfortunate effect of the global domination of the capitalist economic system that many studying Islamic economics begin with a capitalist economy and attempt to bolt on the Islamic rules and prohibitions. This typically results in a view, particularly in professional circles, that there is no clear coherent conception of an Islamic economy. The author has thus touched on a few principles from the Islamic economic system and linked them to subject areas that present day economists will recognise. A more complete work on the understanding of an Islamic economic system can be found in the work of the founder of Hizb ut-Tahrir, Sheikh Taqiuddin An-Nabhani, 'The Economic System.'

All economic systems are essentially composed of certain general principles, coupled with a set of derived rules. This system then provides the framework for addressing the diverse economic issues found within society, which can vary in terms of scope, as it can be very specific to certain individuals and groups or very general such that it affects the entire society. So the framework provides these solutions for the general and detailed issues relating to all spheres of economic activity. So in the West the freedom of ownership is the general principle from which various pieces of legislation have been derived to regulate the economic relationships between people. The privatisation of utilities, company structures, the burden of taxation and the rules for ownership were derived from the principle of freedom of ownership.

In origin every economic system attempts to address the same issues, namely how to utilise the available resources in order to satisfy the needs of the people. Hence every economic system would define the individual and the needs that require satisfaction. **How such resources are allocated is where each economic system differs.** Hence, capitalism distributes resources, goods and services by leaving allocation to the market, where prices are set according to supply and demand. Whilst Socialism allocates resources centrally according to the principal '*each according to his ability, and each according to his needs.*' All economic systems have defined descriptions of ownership and how the interplay of supply and demand create prices and these definitions allow for the derivation of rules for buying, selling, investments, employment and company structures.

Islam makes a distinction between the economic system and economic science. This is because there is a fundamental difference between the method of production of goods and services (economic science) from the manner of their distribution (economic system). The production of goods and services follow no

particular viewpoint in life. An industrial complex is neither Capitalist, Islamic or Communist, it is universal. Questions as to how processes can be made more technological, how various methods and machinery can improve productivity and how inventions can improve the process of manufacturing do not follow any specific viewpoint in life.

Many contend Islam prohibits developments such as biotechnology and nuclear fission and development in general. Islam makes a distinction in economics between the scientific aspect and the economic system. Hence the breakthrough in splitting atoms, cloning cells, manipulating and miniaturising items or the development of material that absorb light, these are all developments that make little difference whether one is a Muslim or a Christian. These are developments that require the understanding of the environment and reality. Such facts are the same whether in China or the US because they are not influenced by one's belief. On the other hand ideas such as whether industry should be privatised, the types of taxation and how to distribute wealth such issues cannot be answered by the environment as these concepts are determined by one's belief.

Islam has no problem adopting developments from other civilisations that are scientific in nature. Islam would adopt them fully and add to the body of research and develop the field further. Islamic economics is in no way a throw back to the medieval era as Islam will adopt all the 20<sup>th</sup> and 21<sup>st</sup> century technological and scientific developments.

The key distinguishing feature between all economic systems is how wealth, resources and goods are circulated around the economy. The manner of distribution of resources, how goods and services should be circulated amongst the public, whether they should go to the rich elite or multinational companies or the feudal landlords etc, is not a discussion upon the reality. The wage levels in society, the distribution of company profits and wealth distribution can never be taken from the reality as the reality does not explain this. The goods and their constituent parts do not manifest themselves with answers of who they should go to. Neither is there any evidence from looking purely at the goods and services themselves any answers on how they should be distributed.

Wealth distribution has been capitalism's biggest failure, whilst Western economies continue to achieve record growth the free market has failed to achieve this in any manner that can be considered equitable. Both the US and Britain have lop sided economies where the richest 1% earn and own more than half of the population.

Islam has laid down detailed rules and regulations which provide a basis to deal with wealth distribution. Though Islam is often equated with a few rules it actually stipulated the permitted means to acquire wealth and commodities and also stipulated the means of their disposal. This means that Islam does not start from the view point that all forms of economic transactions are permitted rather only those types of transactions are permitted that Islam has sanctioned. Hence, Islam recognises that while humans have needs and wants that require satisfaction, it also looks at the needs of society as a whole. Islam as an example will not view medical care from the perspective of costs and profits, but rather from the human perspective that human

life needs to be preserved and looked after. This would practically mean medical care would be prioritised over other spending such as space research and defence etc.

Capitalism on the other hand starts from the principle of freedom of ownership. Freedom of ownership stipulates that any form of economic transaction may become permitted as long as there is consent and consequently it is not illegal in origin. Thus, alcohol and pornography are viewed from the perspective of enshrining and protecting the right of individuals to consume and express oneself. The Islamic economic system therefore contradicts with the concept of freedom of ownership.

Through its own economic system, Islam laid down rules for the means to acquire wealth and commodities, how they can be utilised and their manner of disposal. It certainly did not make freedom of ownership the basis of the economic system or even the socialist principle of *'from each according to his ability, to each according to his needs.'*

### **Islamic Macro Economy**

The Islamic economy follows a philosophy which is distinct from that of capitalism. This distinction begins from the very basis by which the two philosophies look at the economic problem of scarcity of resources to meet all desires. While capitalism acknowledges the notion of the scarcity of resources in respect to desires it makes no attempt to qualify these desires considering the desire for food of a hungry child to be equivalent of a desire of a man for his third car. Islam on the other hand viewed the question of scarcity and categorised the desires as being basic needs and additional wants.

The Islamic macro economy or the overall direction of the Islamic economic system is to secure the satisfaction of all basic needs for every individual completely, and to enable them to satisfy their luxuries as much as possible. So from this perspective Islam looks at people individually rather than the whole of society. This means economic policies will look to cater for all rather than just leaving satisfaction to the market.

The Islamic Economic system mandated by the Shari'ah has obliged upon the Islamic State (Khilafah) the satisfaction of all of the basic needs (food, clothing, housing, health and security) completely, for every citizen, Muslim and non-Muslim. This is achieved by requiring each capable person to work, so as to achieve the basic needs for himself and his dependants.

Islam views that left to their own devices individuals will seek to acquire greater wealth and the Islamic economic system permitted the adoption of new technologies and developments in the techniques of increasing production whether they emanated from the Muslim world or from beyond it. The Islamic texts allow the general use of objects and materials that are found on or in the earth. From this an Islamic *qaida* (principle) is derived: **"All objects are allowed unless Shari'ah evidence prohibits it"**. Thus, the initial view is that in generality all objects are permitted however their use has been restricted as all actions require Shari'ah evidence.

Islam permits the study and use of medicine, engineering, mathematics, astronomy, chemistry, physics, agriculture, industry, communications including the Internet, and the science of navigation and geography. This includes what results from them such as industry, tools, machinery and factories. Also included in this are industries, whether military or not, and heavy industry like tanks, aeroplanes, rockets, satellites, nuclear technology, hydrogen, electronic technology, tractors, lorries, trains and steamships. This includes consumer industries and light weapons and the manufacture of laboratory instruments, medical instruments, agricultural tools, furniture, carpets and consumer products such as the TV, DVD, games consoles etc. hence all objects we know of past, present and future are allowed without restriction unless Shari'ah evidence exists to definitively disallow it.

### **Market Economy or Planned Economy**

A market economy is an economic system based on leaving the allocation of the nation's wealth to the market. Practically the price of goods and the division of labour are determined by price through supply and demand. This is often contrasted with a planned economy, in which a central government determines the price of goods and services using a fixed price system. Market economies are contrasted with a mixed economy where the price system is not entirely free but under some government control that is not extensive enough to constitute a planned economy.

In the Islamic economic system the Khilafah has been designated by Islamic evidences to play a direct role in the economy; Islam has also ordered the Khilafah to directly intervene in the economy in any cases of an imbalance outside its normal area of intervention. Islam made the Khilafah state responsible for the management of public property. Public property is that in which the community share the use of an asset. These Assets are viewed as belonging to the community as a whole, and those which individuals are prevented from possessing individually. Islam forbade individuals from owning public property because the overall responsibility is for the Khilafah and no citizen is entitled to assume this responsibility unless it was designated to them. Islam has designated any utility regarded as indispensable for the community, such that its absence would require people to search far and wide for it, as a public property. This means such utilities would be publicly owned and the revenue generated would be administered for the benefit of all citizens.

Anything that qualifies as being indispensable to the community is a community utility and a public property. Thus water sources, the forests, large pastures for livestock and the like are all public utilities as well as oil fields, electricity plants, motorways and coalmines. This would also include roads, rivers, seas, lakes, public canals, gulfs, straits and dams. This would also include all the uncountable and un-depleted (i.e. large deposits) of minerals whether they on the surface of the earth such as salt, coal, sapphire, ruby, gold, silver, iron, copper, lead and the like. This includes whether they are solid like crystal or fluid like oil. In contrast to capitalism such essential utilities are all generally available for private ownership whatever the effect upon wider society. Islam ordained the Khilafah to play a very specific role in the economy and forbade individuals from owning utilities that are indispensable for society. In this way the state plays a direct role in ensuring essential utilities are developed and made available to the public.



## **Wealth Circulation**

The Islamic rules for the macro economy centre on ensuring unrestricted wealth circulation occurs. The importance Islam places on this is fundamentally because every person and company as well as government income originates from another person or company. Taxes levied by the state are regarded as income for the state and an expense to individuals. The monies spent on projects by government and salaries paid would be income for the individuals and an expense to the state. The money spent by employees on goods is an expense to them and income to companies. Any thing that gets in the way of such free circulation, such as hoarding, would in fact take wealth out of circulation. This would lead to a fall in spending, which would reduce production and result in the complete halting of the economy. Islam's monetary policy and fiscal policy are fundamentally geared towards reducing barriers to wealth circulation.

## **Islam's Monetary Policy**

Monetary policy is the process through which governments regulate prices and inflation in the economy through money supply. Inflation for decades has been considered a curse and modern plague; today it is seen as a necessary evil and part and parcel of 21<sup>st</sup> century life. Inflation is the general overall increase in prices across the economy, in most countries across the world over 2000 essential items are placed in a basket and their prices are compared to different time periods in order to assess prices movements.

The fundamental problem with rising inflation is that it erodes the purchasing power one has. If prices were to rise and one's income remained static then the amount one could purchase prior to the rise would be greater than after the price rise. Hence it is possible that an economy could be growing, but rising inflation actually means society is worse off. Inflation will always remain a problem in the West due to their ability to print money at will.

In Islam when it comes to exchanging a commodity with a specific monetary unit, Islam has guided us to the monetary unit by which the exchange is to take place. It has restricted the state to a specific type of money, which is primarily gold and silver. This would mean the notes and coins circulating in the economy would all be backed by gold and silver. This will no longer make possible the free printing of currency as the state would need to increase the actual holdings of gold and silver. This would end the problem of inflation as this has always been down to the ability of governments to freely print money. The curtailment of inflation in this manner will ensure the stability of prices across the economy and any increase in prices will be short lived and down to exceptional circumstances such as an earthquake damaging crop fields.

Many economists who support the idea of fiat currencies have argued for some time that there is not a sufficient supply of gold in the world for any nation to apply the Gold Standard. They argue by using the US as an example, the total amount of gold that has ever been mined has been estimated at around 150,000 tons. Assuming a gold price of \$1,000 per ounce, the total value of all the gold ever mined would be around \$4.5 trillion. The US today has \$1.7 trillion in notes and coins in circulation but through fractional reserve banking has created \$11 trillion worldwide. Hence, the amount of gold in the world would not be sufficient to back the amount of US dollars in the world let alone any other nation. However, the problem

here is the fact that the US continues to print money or create it in its banking system freely without any restrictions. There is too much money in the world rather than not enough gold, because governments freely print money its purchasing power is always falling. Gold's 5000 years history of being a unit of account and means of exchange created a stable purchasing power and this is why it was money for most of world history. Alongside gold, silver and precious stones have also acted as money which could again be money alongside gold. The truth of the matter is there is too much paper money in the world rather than a shortage of gold.

### **Islam Forbids Interest**

The role of interest has become enshrined as a global standard in the capitalist economic system. Some have unfortunately even tried to twist Islam by stating Islam only prohibited excessive interest thus allowing it in small amounts and some have advocated that as interest (*Riba*) was gradually prohibited hence any attempt to ban interest should be gradual. Pakistan and Indonesia have on a number of occasions attempted to ban interest and moved to remove any interest in the economy however pragmatism took precedence over the rule of Allah (swt) and interest remains an integral part of Pakistan's economy.

*“Islamic finance fits into a paradigm which only an Islamic economy can provide. The current rise of Islamic finance across the world does not in any way represent Islamic economics, but one aspect of Islamic economics”*

Islam forbade and ordered the removal all types of interest from an Islamic economy. Hence, all forms of usury whatever its type, whether it is a *Riba* that was well known at the time of the Messenger of Allah (saw) or a *Riba* that is not known and therefore a new issue. Therefore, there can be no place for making *Halal* any form of *Riba*, because the prohibition has come in a general form. The general term will remain so unless there is evidence that restricts or specifies the term i.e. further evidences (*daleel*) would need to be sought. In this case there is no evidence to specify it, so *Riba* can only be considered in its general meaning.

### **Islamic Banking**

The current global banking setup allows institutions to use deposits as a basis to lend much more than they actually have in deposits. This causes a very destabilising effect on society as debt will create artificial growth and it allows spending which in reality individuals do not have. Islam has designated a very different role for banks. Islam does not permit banks to lend what they do not have and as a result fractional reserve banking will be brought to an end in an Islamic economy. Islam has forbidden interest so banks will cease to function in the way they currently do in the world. Islam permits banks to act as venture capital firms who actually partake in the risk of investments. Wealth can be pooled together then invested across society stimulating the economy and then the proceeds in the form of profits shared amongst the constituent members.

Islamic finance fits into a paradigm which only an Islamic economy can provide. The current rise of Islamic finance across the world does not in any way represent Islamic economics, but one aspect of

Islamic economics. Islam has extensive rules for the economy and banking represents a very small fraction of this.

### **Fiscal Policy**

Islam has a completely different perspective on the economy and tax as the Islamic basis is different to that of capitalism. Fundamentally taxation in Islam and under the Khilafah places emphasis of taxation on wealth rather than income. The Islamic taxation system does not tax income, but taxes wealth. This means that the average person will be left with much more disposable income and will be liable for tax on whatever wealth is left at the end of the Islamic tax year. This will have a significant effect on the economy as in such an economy one will have much more disposable income. Islamic taxation is not comprised of income tax, value added tax, nor excise duties. The effect of this on the economy is significant as calculations on average salaries in Europe have shown that between 50% - 60% of one's income can be taxed due to income based taxation systems. A wealth based tax regime means one has more disposable income at the end of a tax year which means more wealth is available for spending or investment which would stimulate the economy.

*“Islam did not define the basic economic problem as ‘unlimited wants, limited resources’. Islam viewed the resources to be ample enough to completely satisfy the basic needs of all.”*

### **Islam and the Micro economy**

Islam did not define the basic economic problem as ‘unlimited wants, limited resources’. Islam viewed the resources to be ample enough to completely satisfy the basic needs of all. Therefore, amongst a host of other detailed rules, one will find the *Shari’ah* aims to secure the satisfaction of all basic needs (food, clothing and housing) completely for every citizen of the Islamic State - this forms the basis of the Islamic economic system.

### **Ownership**

In order to facilitate the acquisition of goods and services Islam put forward rules related to the manner of possessing wealth. Islam defined the types of contracts through which possession and ownership can take place.

Thus Islam allowed the employment type of contract, detailed its rules and left the society to decide whether the employment contract required was a manufacturer, technician, trader, investor etc. Within the Employment type of contract further classification is possible such as the contract of representation which is considered a specific form of employment.

Thus in Islam the means of ownership and the contracts are detailed by the *Shari’ah* in which new contracts must be analogous to the stipulated legal contracts. Hence in Islam the contracts are clearly defined and all

parties know very clearly where they stand. We find contracts in capitalism are designed to achieve the opposite. Over the course of capitalism's evolution contracts regularly change with the goal posts never being constant. For example the concept of limited liability was introduced to protect the wealth of rich merchants in the event of the collapse of a company and the debt burden they would be liable for. In 1886 a landmark decision was made by a US court recognizing the corporation as a 'natural person' under law. The 14th amendment to the Constitution recognized a company as a person hence separating the owners and the company, in essence protecting rich capitalists.

While the notion that the means of legal possession is restricted to a handful of contracts, this may seem restrictive and there may be concerns that being limited to these may constrain economic activity, such concern is unfounded due to the ability to apply these contract types to most modern contracts. Not all forms of capitalist contracts are considered to be legal in the Islamic economic system. For instance, the derivative contract which allows one to trade in items which are not even under one's ownership conflicts with Islamic contracts. Islam also does not recognise credit default swaps and collateralised debt obligations as both are based upon future events occurring rather than actual goods or services.

## Economic Myths

- What the Western world prescribes upon the third world is completely at odds with their own development history
- Western development was a hugely organised affair with wide levels of government intervention
- Both China and Russia are centrally driven and anti-free market and have managed to surpass many liberal economies

There is currently great pressure on developing countries from international institutes such as the World Bank and the capitalist nations to adopt a set of 'good policies' and 'good institutions' in order to foster economic development. According to this agenda, 'good' policies are those prescribed by the developed world as democracy and the adoption of free trade and markets removing all barriers to trade such as tariffs and quotas. It has become an unquestionable norm that Britain was the first *laissez-faire* nation and developed considerably due to its adoption of free trade whilst France always played second fiddle due to its government involvement in the economy. However an analysis of some of the nations that have developed over the last 200 years raises a number of interesting facts and myths.

### USA

The US Constitution, adopted in 1787 symbolized the victory of the Americans over colonialism and oppression. This new found independence created a sense of direction which was incorporated into the constitution giving all the right to life, liberty and ownership. American industrialisation was facilitated by a unique confluence of geographical, social, and economic factors. The post-revolution American population remained low relative to its European counterparts and the demand for manual labour created strong incentives to mechanise labour-intensive tasks. The Eastern seaboard of the United States, with a great number of rivers and streams along the Atlantic seaboard, provided many potential sites for constructing mills and infrastructure necessary for early industrialisation. In addition, the United States' perpetually limited labour supply and vast supply of natural resources was only hampered by European nations which had been removed. This direction and commitment alongside the commitment of America's public and private wealth enabled the nation to develop a large-scale railroad system, establishing the base for the country's industrialisation. The development of railroads had the effect of opening up vast stretches of new territory for development like canals and roads, railroads received large amounts of government assistance in their early building years in the form of land grants. As transportation improved, new markets continuously opened. The steamboat made river traffic faster and cheaper. The civil war sealed the destiny of the nation and its economic system. The

*"The USA was the most ardent user of Infant Industrial Protection Strategy (IIP), which is the protection of industry through subsidies and tariffs until it reaches maturity"*

armament needs of the civil war laid the groundwork for the modern US industrial economy. War needs had enormously stimulated manufacturing, speeding an economic process based on the exploitation of iron, steam, and electric power, as well as the forward march of science and invention.

The USA was the most ardent user of Infant Industrial Protection Strategy (IIP), which is the protection of industry through subsidies and tariffs until it reaches maturity. The eminent economic historian Paul Bairoch called the US *'the mother and Bastian of modern protectionism.'*<sup>15</sup> Alexander Hamilton the first US secretary of treasury produced a report in 1791 entitled *'Reports of the secretary of the treasury on the subject of manufacturers'* where he set out the US infant industry protection argument. Hamilton argued that competition from abroad and 'forces of habit' would mean that new industries that could soon become internationally competitive would not be started in the USA unless their losses were guaranteed by government aid. This aid he said, could take the form of import duties or, in rare cases prohibition of import.<sup>16</sup> Congress passed the Liberal Tariff Act in 1789 which imposed a 5% flat rate tariff on all imports with a few exceptions. By 1812 the average tariff had risen to 12.5%. By 1820, tariffs rose to 40% which caused the agrarian south to turn against the North due to importing superior British manufactured goods and due to the failure of industry emerging in their own territories. Then with the start of the great depression the Smooth-Hawley Act was enacted which was described as *'the most visible and dramatic act of anti-trade folly'*<sup>17</sup>

It wasn't until after WW2 that the US began to liberalise trade and the reasons for this was outlined by Dr Ha-Joon Chang expert in economic history at Cambridge *'it was only after WW2 that the USA – with its industrial supremacy unchallenged - finally liberalized its trade and started championing the cause of free trade.'*<sup>18</sup> The US never had a zero tariff regime and remained using aggressive 'hidden' protectionist measures, these included VER's (Voluntary Export Restraints), quota's on textile and clothing through the Multi-Fibre Agreement (MFA), protection and subsidies for agriculture and unilateral trade sanctions through the use of anti-dumping duties.

The role of the US federal government in industrial development has been substantial even in the post war era. Every year large amounts of defence related procurements and research and development expenditure is provided by the federal government which have enormous spill over effects. In 1930 government spending as a percentage of total research and development (R&D) spending was 16% and after the war it has remained between 50-75 percent.<sup>19</sup> Industries such as IT, aerospace, and the internet, where the US today maintains an international edge, would not have been possible without defence related R&D funding by the federal government. The National Institute of Health (NIH), the federal government's research agency spends over \$27 billion annually<sup>20</sup> supporting R&D in pharmaceutical and biotechnology industries, thus maintaining the US lead in these industries. This represents 29% of all pharmaceutical R&D in the US.<sup>21</sup>

US economic development took over 150 years to reach its pinnacle, but 3 events actually made the US what it is today.

The first was independence from Britain and the creation of its constitution. The revolt against the British began with the independence movement who worked to gain independence for its colonies. The ideological underpinnings were very overt as many saw the unalienable rights of life, liberty and property as ideals which required the sacrifice of life and limb, if need be. Prior to this the US was mainly composed of native Indians who had a simple culture. When the British arrived superstition was at its height. The will of the people came to be represented in the constitution, which protected life, freedom and property. Property received special attention as under the British everything was produced for the mother country. This constitution defined for Americans their purpose in life and gave a vision to all, which made every American contribute in their respective areas of work towards US development.

The second major event, which shaped the US, was the civil war. The disparity in wealth between the industrialised north and the agrarian south was taking shape and with the election of Abraham Lincoln events reached boiling point. The armament needs of the civil war actually laid the groundwork for the modern US industrial economy. War needs stimulated manufacturing, speeding an economic process based on the exploitation of iron, steam, and electric power. The industrialised north produced steamships and river boats for the war and supplemented this by a massive shipbuilding program. This drove forward much of science and invention and enabled the union to control the river systems and to blockade the entire southern coastline.

The third major event was WW2; the massive armament needs actually pulled the US out of the great depression and turned them into a superpower. Britain was considerably weakened with the war needs of WW2 and aside from taking a \$31.4 billion loan from the US under the lend lease Act in 1949<sup>22</sup>, Britain managed to bring the US into the war with the Atlantic Charter which was issued as a joint declaration by Winston Churchill and Franklin Roosevelt, on August 14, 1941. Both nations agreed that defeating Germany had priority over defeating Japan. US entry into WW2 in December 1941 propelled them into a superpower. US industrial production increased massively to meet the needs of war, as the US produced 47% of the wars munitions by 1944.<sup>23</sup> The US made huge leaps in nuclear weapons, radar, proximity fuses, jet engines, V-2 rockets, and data processing analogue devices (primitive computers). This was alongside enormous advances in aircraft, submarine, and tank design.

Although initial US development was ideological with the adoption of liberal values enshrined in the US constitution, US development thereafter has been primarily due to armament requirements and the continued government intervention in the economy which continues to grow. The Global credit crunch crisis which was essentially an American created problem has seen unprecedented state intervention in the economy from bailouts to state handouts. The US historically has struggled with periodic crisis and collapse due to the fragility of free market capitalism and it has only due to the abandoning of free market principles that the US has been able to avert economic catastrophe.

## **Britain**

The rise of the British Empire had its origin in the 15th century during the reign of King Henry VIII of England. Colonial expansion and imperial holdings spread British influence across the globe and increased

wealth and prestige for the mother country. By the late 1890s and early 1900s, British territories scattered over every one of the world's continents and oceans, where it has been believed to be the height of the Empire. The famous saying 'the sun never sets on the British empire' was coined as it was daylight in some area of the empire, indicating the size the empire had become. With the rise of other powers in the world, Britain over time competed for the same finite resources and was weakened over the course of two world wars.

Britain is regarded as the fountain of *laissez-faire* doctrine and the only country to have practiced free trade. Britain is regarded as the only nation to have developed with little or no state intervention; however, this cannot be further from the truth - Britain was the first country to establish infant industry protection. The Tudor monarchs especially King Henry VII and Elizabeth I utilised increasing duties and temporarily banned the exporting of wool.

The 1721 reform of the mercantile law was described in 1907 "*manufacturers had to be protected at home from foreign finished products; free exportation of finished articles had to be secured; and where possible, encouragement had to be given by bounty and allowance.*"<sup>24</sup> After 1721, deliberate policies were introduced to promote manufacturing industries. This meant import duties on raw materials were lowered, duties on foreign manufacturers goods were significantly raised. Specifically, Britain banned the imports of superior goods from some of its colonies if they happened to threaten British industries. In 1699 the wool Act prohibited the exports of woollen products from the colonies, killing off the then superior Irish wool industry. A similar ban was imposed in 1700 on superior Indian cotton products, which completely destroyed India's cotton industry

and by 1872 45% of all British cotton textile exports were going to India.<sup>25</sup>

*"With the use of industrial promotion strategies, Britain in 1800 was navigating the seas in search of riches around the globe. This programme of aggressive colonisation entrenched Britain's position in the world and changed battles from being fought for territories to offshore markets. It was this colonial war machine that drove a large chunk of Britain's scientific research, innovation, new ways of organising labour and military strategy. The liberal values which are trumpeted as the source of Britain's development arrived after achieving global domination."*

The next big change came in 1846 with the repeal of the Corn Laws, which were import tariffs ostensibly designed to protect British farmers and landowners against competition from cheap foreign grain imports. But this was intended to halt the move to industrialisation on the continent by enlarging the export market for British agriculture. The British technological lead that enabled the shift to a free trade regime had been achieved behind high and long lasting tariff barriers. The overall liberalisation of the British economy was a highly controlled affair overseen by the state and not achieved through a *laissez-faire* approach. Once free trade was achieved it did not last long, as hard pressed British manufacturers were asking for protection. Free trade was thrown out of the window when it was acknowledged British eminence in manufacturing had been lost and thus tariffs on a large scale were re-introduced in 1932.



In 1750, Britain introduced a new Act banning the export of 'tools and utensils' in wool and silk industries, while strengthening the punishment for suborning skilled workers. In 1774, another Act was introduced to control machine exports in the cotton and linen industries. In 1781 the 1750 Act was revised and the wording 'tools and utensils' changed to 'any machine, engine, tool, press, paper, utensil or implement whatsoever,' reflecting the increased mechanisation of industry.

With the use of industrial promotion strategies, Britain in 1800 was navigating the seas in search of riches around the globe. This programme of aggressive colonisation entrenched Britain's position in the world and changed battles from being fought for territories to offshore markets. It was this colonial war machine that drove a large chunk of Britain's scientific research, innovation, new ways of organising labour and military strategy. The liberal values which are trumpeted as the source of Britain's development arrived after achieving global domination. For Britain to succeed and remain competitive in the international arena, they needed access to foreign markets in a highly competitive world, and for this reason Free trade was espoused supplemented with a large military. In 1800, which is considered the peak of Britain's colonial superiority only 3% of Britain's population had the right to vote. Only voters who owned sizable areas of land in a patchwork of districts created during the medieval times could elect members to the House of Commons. This system denied the vote to merchants, manufacturers, and skilled labourers who did not own land. Regions that had been prosperous hundreds of years earlier were overrepresented in Parliament while many new urban centres had no representation at all. Some parliamentary seats were virtually owned by individuals. By 1867 13% of the population could vote. Only 10 years after WW1 were men and women given equal voting rights (1928). Democracy most certainly came after development rather than being the trajectory that launched the British Empire.

## Japan

Japan's economy was converted from a military based one to a consumer industry due to losing WW2. Japan's industrial complexes and refineries were all destroyed by the US, ensuring Japan would never rise as a military power again. For these reasons Japanese development has been restricted to consumer industry, which forms the backbone of its modern development. Japanese government and industry co-operation continues today and is seen as the backbone to its post-WW2 success. Successive Japanese governments have poured money into public projects, which total \$70 billion a year. For three decades Japanese economic growth had been spectacular - a 10% average in the 1960s, a 5% average in the 1970s and a 4% average in the 1980s. The 1990s averaged only 1.7% largely because of the after effects of the Asian crisis and the rise of China. The beginning of the 21<sup>st</sup> century saw various government efforts to revive economic growth which have met with little success and were further hampered by the switching of cheaper imports from China by some of Japan's main trade partners.

Japan's economy is geared towards exporting goods. This has resulted in Japan's industrial policy centring on the production of goods for foreign consumption. This has led to Japan mastering high end technology helping Japan advance with extraordinary speed to the rank of the most technologically powerful economy in the world after the US. The absence of raw materials and mineral resources is Japan's biggest headache. Japan is the largest consumer of oil in Asia after China, consuming 5.3 million bpd (6.4% of the world oil)

of oil for its industrial and domestic market but produces only 120,000 bpd. Hence, 12.2% of Japanese imports are from oil producing nations.

Japan's tiny agricultural sector (1.7% of the economy) is highly subsidised and protected, with crop yields among the highest in the world. Japan imports 60% of its food and as a result maintains one of the world's largest fishing fleets, accounting for nearly 15% of the global catch. The only agrarian product Japan is self-sufficient in is rice, and this has been achieved with a 490% tariff.

A cornerstone of Japanese policy is the manner in which manufacturers, suppliers, and distributors work together in closely-knit groups called Keiretsu. Cross Shareholding ensure the processes of production fulfil Japanese export policy. However, they also act as a barrier for foreign companies wanting to enter Japanese markets as distributors and manufacturers are generally part of the same group. Outsourcing is non-existent in Japan. Hence to this day Japan acquires other companies rather than be taken over by one. The six major Keiretsu are the Mitsubishi, Sumitomo, Fuyo, Mitsui, Dai-Ichi Kangyo and Sanwa Groups. Japan is home to 326 of the largest companies in the world. (Forbes Global 2000, 2006)

Japan has a history of heavy government involvement in the economy and this has resulted in the national debt reaching a staggering \$9.5 trillion, 170% of GDP (2005). This is mainly comprised of government bonds and non-performing bank loans of \$600b. Japan has relied on government bond issues to make up for falling tax revenues, turning in to one of the world's most indebted countries.

The case of Japan clearly shows orthodox capitalism has not been followed but rather government intervention has steered the economy into the position it is at today. It is also fundamentally a consumer economy where exports are the driving engine for the economy. A consumer orientated economy looks at trade to generate wealth and does not have a military capability. This leaves the economy open to interference by military powers, as Japan has found with the US. Most wars are fought over resources hence having a consumer based economy never leads to political or economic independence for a nation and leaves a nation vulnerable to other nations to continually consume its goods. With the rise of China, Japan has found many western nations switching imports to China.

## **China**

The execution of China's foreign policy represents an important evolution from Beijing's narrow and reactive approach to global affairs in the past. China is abandoning its long-held victim mentality of 150 years of shame and humiliation and adopting instead a great power mentality (*daguo xintai*). The natural extension of this is the increasing role of China in global issues.

With the abandoning of the victim mentality and the adoption of a great power mentality China is increasingly seeing itself more akin to the world's major powers. This represents a shift from the 1990's and China is now openly speaking about the need to share global responsibilities and this is the lens through which China's strategists view the world.

China represents an interesting conundrum for orthodox economic experts and for all those who believe the adoption of liberal values equals economic success. China firstly undermines the belief that progress is exclusive to the western formula of free markets, democracy and liberal values and demonstrates how much of the wider world remains unconvinced of such a formula.

China has managed to achieve phenomenal economic growth and industrialisation by not adopting democracy but by remaining deeply authoritarian, where liberal values have not featured remotely in China's economic rise. China's President Hu Jintao said in 2004 *'We will never blindly copy the mode of other countries political system. History indicates that indiscriminately copying western political systems is a blind alley for China.'*<sup>26</sup> This shows there is very little likelihood that China will adopt liberal values in the near future secure in the knowledge that it has achieved success without the Western model of development.

*"China has managed to achieve phenomenal economic growth and industrialisation by not adopting democracy but by remaining deeply authoritarian, where liberal values have not featured remotely in China's economic rise."*

Economically, China has utilised and retained its centrally driven and interventionist approach similar to Japan and Germany. China has extensive levels of government involvement across all market sectors.

By being centrally driven China has been able to direct its resources in one direction which has propelled it into a regional power and the largest economy in the world after the US. China has received little assistance from the Western world mainly due to its historic communist credentials and has shown that an independent, nation first policy driven centrally can attain economic success.

Such achievements however have raised another set of challenges for China. China's economic development has made it the largest consumer of many key minerals; it is therefore required for China to develop a comprehensive policy for such nations, which at the same time is upsetting some of the worlds powers. Urbanisation has led to many to leave Chinas rural heartland in search for work in urban cities. This has lead to an increase in pollution, and the need to rapidly expand infrastructure. It has also caused a social problem of many delaying having children. China will need to address all this issues and more in a coherent and consistent way, its economic lens cannot give answers to all its challenges. Fundamentally, the absence of a coherent ideological basis will mean China's growth will bring with it a new set of challenges which it may not be able to face due to not having a basis to extract solutions

## **Economic Development**

There are a number of myths that surround economic development such as the people of Pakistan are uneducated, industrialisation takes decades and Pakistan is a third world country so it would be impossible to achieve. The Soviet Union is the best example of a nation that industrialised overcoming all such prejudices. The Communists implemented a 5 year plan starting in 1928, in order to build a heavy industrial base without waiting years for capital accumulation through the expansion of a consumer industry and without reliance on external financing. Following the adoption of the communist ideology the five year plan was a list of economic goals that was designed to strengthen the USSR's economy between 1928 and

1932, making the nation both militarily and industrially self-sufficient. The five year plan was to harness all economic activity to the systematic development of heavy industry, thereby transforming the Soviet Union from a primitive agrarian country into a leading industrial and military power. Carrying the plan out, the Stalin government poured resources into the production of coal, iron, steel, railway equipment, and machine tools. Whole new cities, such as Magnitogorsk in the Urals, were built with enthusiastic participation of young workers and intellectuals. This ambitious plan fostered a sense of mission and helped mobilize support for the regime. The USSR at the time was in a much worse situation than Pakistan is in today.

What also needs to be accepted is that all the superpowers for the last four centuries concentrated on manufacturing which ensured they became self-sufficient, not having to rely on any external nation. They all developed defence industries to be able to defend their nations and deter those who had designs on them. Hence Britain was the first to develop a naval marine industry and conquered the seas in the 18<sup>th</sup> century; Germany shifted the balance of power on the eve of WW1 by industrialising, developing the first fighter planes and building most of Eastern Europe's railways. The US achieved world power status by developing the first nuclear bomb, its contribution in WW2 was what halted almost certain German victory. The USSR's shift from agriculture to manufacturing is what made it compete with the US and today Chinese development is firmly rooted in manufacturing. The point here being without industry one cannot become self-sufficient, without industry one cannot defend itself and without industry one will always be at the mercy of foreign powers.

The shift of the industrialised world throughout the 1960's and 1970's from manufacturing to services where by they concentrated on 'hyper' finance, with the factory replaced by financial services as the largest employer, has compounded a problem which the global credit crunch crisis has exposed. The outsourcing of industry and manufacturing and the reduction of this sector's role in driving the economies of the West has meant the only measures available to get out of the credit crunch is to use interest rates and print more money in the hope people can spend their way out of a recession. The problem here is it was such policies that caused the crisis.

What one can also see is all superpowers had a vision for their people. All the people worked for the vision and sacrificed for it, enabling the mobilisation of a nation's architecture and resources for the achievement of that vision. As an example, post World War I Russia rapidly industrialised and this was achieved through the unification of the Russian masses on a vision of an equal society under Communism, and therefore needs a strong economy in order to achieve her potential. The vision of a society free from the oppression of the Tsars managed to capture the imagination of a large section of the Russian public, which motivated hundreds of thousands of them to work towards the aim of the USSR's rise to superpower status.

We also see the Messenger of Allah (saw) after establishing Islam in Madinah, developed an economic plan that would cater for the needs of the people alongside its defence. He began work straight away in securing its borders, signing treaties with neighbouring tribes, securing friendly status and securing trade routes. He also conducted expeditions to ward off plans by the Quraysh. At the death of the Messenger of Allah (saw)

in 632 the whole of the Arabian Peninsula was under Islamic authority. Within a hundred years the Persian Empire had fallen.

This shows us for any nation to prosper it needs a consistent manner of dealing with all the problems its people face such as economic development, wealth creation and distribution, social harmony, criminal justice etc. For the nation to consistently answer such problems the people need to believe the basis of the nation otherwise they will never work for its aims. The basis also needs to be able to provide solutions to the nations problems otherwise doubts would exist on its suitability as a vision. Hence, we see many of the Sahabah (ra) sacrificed much wealth in the aims of the Islamic state; a similar situation occurred when the sons of America worked for aims of the founding fathers.

All this shows that before any discussion on resources and how they will be converted into useful material can take place, the will is needed which will then give direction and this all comes from a vision. Islam offers such a vision to Muslims globally and to Pakistan. It makes the Islamic belief the central pillar for the people and makes dawah to the world its mission. It also at the same time provides solutions to the issues society will face and we see Islamic history proves this point. Hence, only the full implementation of Islam offers Pakistan any salvation.

Many Pakistani economists have been sold the idea that economic success is through economic growth or an increase in Gross Domestic Product (GDP). It was Harry Truman, in his inaugural speech in 1949 that defined development as *"Greater production is the key to prosperity and peace. And the key to greater production is a wider and more vigorous application of modern scientific and technical knowledge."* Since then the production and its increase has been the key measure of prosperity in all economies. Every year nations around the world prepare national accounts from which the growth of their economies is measured and compared to the rest of the world. Organisations such as the IMF and World Bank produce annual reports and development indicators looking at the effects of economic growth which for them is the increase in the production of goods from the previous year.

The evolution of GDP and making it the sole measure of economic prosperity goes back to the manner in which liberals understand the economy and specifically how classical economists came to view economics. Classical economists saw that with the advent of the industrial revolution the structure of societies completely changed from a basic, agrarian, self sufficient closed economy to one which no longer produced for domestic consumption but now for trade. They saw that most of what was produced was being sold rather than consumed. As urbanisation grew society's needs for different products and services also grew and they envisaged that eventually this would outstrip the world's raw materials that can produce them. The problem of scarcity was coined i.e. due to urbanisation the needs and wants of society are unlimited and would always grow. However, the natural, raw and mineral resources in the world would eventually deplete. The needs and wants came to be seen as materialistic only hence the pursuit of commodities is what brings happiness to society as they satisfy the ever-increasing needs. Therefore the production of goods would need to increase so as many needs as possible could be completely or partially fulfilled, and this came to be defined as the economic problem.

The production of goods and commodities is central to classical economists and its influence remains today as it forms the most important aspect of economic development. The study of the factors, which affect the size of the national production, takes precedence over all economic studies. Because the study of increasing the national production is one of the most important studies to solve the economic problem, that is the scarcity of the commodities and services in relation to the needs.

The fallacy of GDP is apparent from a number of angles:-

- GDP has evolved as a result of capitalism only viewing human needs from a financial perspective. There is a distinction between the science of production and the way an economy should be organised because the application of modern scientific and technical knowledge to increase production is, in reality, economic science. In origin, the problem is not with production but rather it is with ensuring wealth distribution, which is a matter for the economic system to solve. Policies to increase production are not unique to capitalism rather it is universal for all nations irrespective of their ideological viewpoint because it is a study of efficiency and innovation. Technologies, which increase agricultural production through innovations such as genetic engineering or 'science-based agriculture' are part of economic science, whereas who may own agricultural land, what someone may produce on that land, and what someone may buy and sell is what really needs to be addressed.
- GDP is used to measure a society's prosperity; however GDP only measures those items which have a financial value. Therefore, it views human needs which require satisfaction as being purely materialistic; it does not recognise the moral and spiritual needs.
- GDP ignores the environment, subsistence production and domestic work. The current system counts oil spills and wars as contributors to economic growth, while having children and housekeeping are deemed valueless. GDP ignores volunteer and unpaid work. As an example the Linux OS, an alternative to Microsoft Windows, contributed nothing to GDP but it has been estimated that it would have cost more than a \$1 billion for a commercial company to develop.
- GDP counts work which results from repairing harm. The rebuilding after a natural disaster, Oil spill, Israeli invasion and destruction of Lebanon in 2006, the Katrina disaster and the pillaging of Iraq would all produce considerable amount of economic activity and boost GDP, because rebuilding costs money which contributes towards GDP but it would have been far better if the disaster had never occurred in the first place. Similarly, GDP would rise if many people are sick and they are receiving expensive treatment.
- If a nation does not spend, but saves and invests overseas, as Japan does, its GDP will be diminished in comparison to one that spends borrowed money, like the US; thus accumulated savings and debt are not taken into account when GDP is calculated

- Probably the biggest flaw with GDP is that it does not take into consideration the distribution of wealth, it only measures the creation of wealth. China's economy grew at a rate of 9.3% in 2005. The majority of this wealth went overseas whilst 150 million people live below the poverty line. The US may generate \$14 trillion a year in wealth but GDP in no way can measure if the population is enjoying the fruits of this. National debt is \$9.1 trillion (2007) which means US citizens are funding their lifestyles by borrowed money, which GDP cannot indicate. This means that the new wealth which is being generated is only held by a select few.

This was highlighted in 2005 in a Harvard report in which it was calculated that 60% of earned income in the US was by the top two highest earning brackets. This means the majority of people in the US only received 40% of income that was generated.<sup>27</sup> Similar to the US is the UK where the wealthiest 1% own 25% of the nation's wealth but the poorest, which is half of the UK population, share in only 5% of the UK's wealth.<sup>28</sup> The UK's richest 10% have more than 50% of the nation's wealth. Thus, although GDP may be rising this does not mean the whole population is benefiting from the new wealth.

Robert Kennedy, US attorney general from 1961-1964, and a critic of the use of GDP in a speech in 1968 encapsulated GDP: *The gross national product includes air pollution and advertising for cigarettes and ambulances to clear our highways of carnage. It counts special locks for our doors and jails for the people who break them. GDP includes the destruction of the redwoods and the death of Lake Superior. It grows with the production of napalm, and missiles and nuclear warheads... it does not allow for the health of our families, the quality of their education, or the joy of their play. It is indifferent to the decency of our factories and the safety of our streets alike. It does not include the beauty of our poetry or the strength of our marriages, or the intelligence of our public debate or the integrity of our public officials. It measures everything, in short, except that which makes life worthwhile.*<sup>29</sup>

The question needs to be asked, why the emphasis on increased production of goods which is veiled by the term economic development? Third world nations have been proscribed such a medicine for over 50 years without ever developing. The nations which proscribe such a solution themselves never underwent such a process. With the Western world consuming over 75% of the world's output it is necessary the third world develops its consumer industries to contribute to the West's over consuming needs. Hence, GDP measures this very accurately but such a proscription never benefits any nation as Africa and Latin America have shown. Prescribing GDP as the purpose for a nation's economy has resulted in expenditure being cut on education, healthcare and subsidies in developing nations and all government expenditure has been forced on developing consumer industries for the West. Heavy industry is never developed so no nation has become independent and been able to build its economy for its own people. Hence an increased dependency has developed between the poorer nations and the rich and all studies have concluded poverty has got worse. Simon Kuznets, the inventor of the GDP measurement, in his very first report to the US Congress in 1934 said *'...the welfare of a nation can scarcely be inferred from a measure of national income. If the GDP is up, why is America down? Distinctions must be kept in mind between quantity and quality of growth, between costs and returns, and between the short and long run. Goals for more growth should specify more growth of what and for what.'*<sup>30</sup>





## Pakistan's Economic Potential

- Pakistan is not short of any of the necessary ingredients to be a great power
- From some perspectives Pakistan is in a much better position on the eve of development than many of the industrialised nations were
- Pakistan is strategically placed which would be its greatest asset

For many around the world Pakistan has always been in one crisis or another, it is a nation that has been unable to progress and provide a decent standard of living for its people. The nations that gained independence at the same time as Pakistan have all advanced whilst Pakistan has remained a dysfunctional nation.

Much research has been undertaken on Pakistan as to the reasons for such failure, though what is very clear is that the cause of Pakistan's problem is not its populace or a shortage of resources. Western interference has played a key role in stifling development. The continued support by the US for Asif Ali Zardari, General Musharraf and rulers before them who cared little for the national interest have all compounded Pakistan's woes. It is a crime what the rulers of Pakistan have committed; their treachery lies in the fact that whilst Pakistan could have progressed and developed they looted the nation for their own benefit. Their management of Pakistan in reality is treason for which capital punishment is the traditional sentence in the world today and has been throughout history.

*“A closer glance at Pakistan's tangible and intangible resources shows Pakistan has much raw potential to become the leading nation in the world and from some perspectives Pakistan is in a much better position than many of the industrialised nations were on the eve of their development.”*

A closer glance at Pakistan's tangible and intangible resources shows Pakistan has much raw potential to become the leading nation in the world and from some perspectives Pakistan is in a much better position than many of the industrialised nations were on the eve of their development. This can be understood by assessing Pakistan's tangible and intangible resources:

### Strategic Location

Pakistan's most prized possession is its location. Strategically placed it has a number of cards it can use in order to manoeuvre. To the North, Pakistan is only separated by a valley from Tajikistan and hence is a doorway to central Asia. This makes possible for Pakistan to be a vital trade conduit as well as an energy transportation hub.

To the West, Pakistan is landlocked by Afghanistan and Iran. Afghanistan has in recent history had cordial relations with Pakistan due to the strategic depth it offered. It is also endowed with a wealth of natural resources, including extensive deposits of natural gas, petroleum, coal, marble, gold, copper, chromite, talc,

barites, sulphur, lead, zinc, iron ore, salt, precious and semi-precious stones. In 2006, the US Geological Survey<sup>31</sup> found that undiscovered energy resources amounted to 36.5 trillion cubic feet of natural gas. Its estimates of oil were also up to 3.6 billion barrels. Natural gas liquids were also found which numbered 1.3 billion barrels. Unification with Afghanistan would make the area self-sufficient in energy. Afghanistan's Ainak Copper Mine is also the largest copper resource in the world. The Food and Agriculture Organization (FAO), has also concluded that Afghanistan was nearing self-sufficiency in grain production.<sup>32</sup> Afghanistan also has the world's largest opium production capabilities; opium has huge medicinal use, which if used correctly could make the region home to many medical breakthroughs. India today is the world's largest legal producer of opium. India produces over half the opium utilized by the world's pharmaceutical industries to produce codeine, morphine, narcotine, thebaine, papaverine and other medical products.<sup>33</sup>

The south of Pakistan is one of the world's most important strategic locations. The area carries nearly 20% of the world's trade; it also has 40% of the world's offshore oil production. Pakistan's southern border is also home to the doorway to the Straits of Hormuz where up to 40% of the world's oil passes making it probably the most important waterway in the world. The presence of Pakistan in this area i.e. Arabian Sea lines, makes it well placed to exert commercial and trade influence.

Kashmir has been blessed with water and agriculture, but its location is key as it shares borders with China and India and central Asia. With the US, China and Russia battling for influence in central Asia Kashmir will become even more important.

Pakistan shares a large border with India to its East and has had much animosity with her since Pakistan was created. However India suffers from a real conundrum, leaving Pakistan in an immensely advantageous position which renders an Indian attack almost impossible in the foreseeable future.

India with its huge population and future economic growth means its need for energy will only increase. India's current oil reserves, found in Bombay High off the coast of Maharashtra, Gujarat, and in eastern Assam meet 25% of the nations needs. Rising energy demand has created a perpetual state of energy crunch in India. India is poor in oil resources and is currently heavily dependent on coal and foreign oil imports for its energy needs. For these reasons India has made significant strides in renewable energy resources but to a large extent is relying on the Iran–Pakistan–India gas pipeline (IPI), the proposed 1,724 mile pipeline that will deliver natural gas from Iran to Pakistan and then India.

*“The south of Pakistan is one of the world's most important areas. The area carries nearly 20% of the world's trade; it also has 40% of the world's offshore oil production”*

Like Russia is using its energy resources to contain Europe Pakistan is to some extent is in the same position with this pipeline. Pakistan is strategically placed for any future development.

## **Population**

Pakistan's also has an asset which the industrialised world is fast losing and that is its sheer size, with a population of 174 million - the 6<sup>th</sup> largest in the world, Pakistan is set to overtake Brazil within a decade. Many institutes such as the World Bank have criticised Pakistan for its large population and have described it as one of its major challenges. However Western development initially was stifled by its small population. Although there is no consensus as to why the first nation in the world to industrialise was Britain its causes are generally accepted as potentially 8 factors, one of them being the growth in population. Following its union with Scotland in 1707, the British population stood at 6.5 million; a century later it had reached 15 million. More importantly, most of that growth had taken place after 1750 in one of the greatest population explosions in British history. By 1801 the population had grown to well over 16 million. This increase was critical for British prowess as it increased the potential labour force and consumers of commodities.

Pakistan's 174 million population is forecast to continue rising and currently more than 50% of the population is under the age of 15. Pakistan only has 4% of the populace above the age of 65. This is very significant as most of the Western world has an ageing population and were it not for immigration they would be in population decline. Pakistan has no such worries; in fact any development programme will see millions enter the job market.

Aside from the domestic population Pakistan has an overseas Pakistani citizen diaspora of almost 4 million, 25% of these are located in Saudi Arabia and another 25% in the United Kingdom. The remaining 2 million reside in a mixture of the Gulf, North America and France of which a large proportion of the Saudi and Gulf diaspora work in the region's oil refineries; making them very valuable for any future industrial development. The overseas population remits over \$5 billion as workers a year.

## **Mineral wealth**

Pakistan has an immense variety of minerals and natural resources. Large deposits of gypsum, limestone, chromite, iron ore, rock salt, silver, gold, precious stones, gems, marble, copper, coal, graphite, sulphur, fire clay and silica are found in abundance across Pakistan. Punjab is Pakistan's most fertile province which has the world's largest salt range housing the world's largest deposit of pure salt.

Baluchistan province is a mineral rich area having substantial mineral, oil and gas reserves which have not been exploited to their full capacity or fully explored. The province has significant quantities of copper, chromite and iron, and antimony and zinc. It also has substantial gold in the far west. Natural gas was discovered near Sui in 1952. Baluchistan has world's fifth largest reserves of copper and over 20 million ounces of untapped Gold reserves in the Chaghi area and the Reko Diq mine.

The North West Frontier Province (NWFP) accounts for at least 78% of the marble production in Pakistan. Pakistan is home to some of the world's finest and purest grades of marble, granite and slate. Much of the grade A Marble that is exported out of European countries like Italy actually have their origins in Pakistan as Pakistan previously lacked fine polishing and processing machinery.

Any developing nation needs large reserves of energy resources as industrialisation would not be possible without them. Whilst countries like Japan and Germany were forced into territorial expansion and colonialism due to their small energy resources Pakistan has no such problem.

Pakistan has no shortage of coal and gas. Pakistan has been blessed with the world's largest untapped coal reserves, whilst its operational coal reserves are the 4<sup>th</sup> largest in the world. The Thar Coal Field in Sindh is the world's largest coal field. Thar coal is one of the world's largest lignite deposits discovered spread over more than 9, 000 sq. km. It comprises around 175 billion tonnes of coal which is the equivalent of 618 billion barrels of crude oil; this would meet country's fuel requirements for centuries.

Pakistan has an estimated 25.1 trillion cubic feet (tcf) of proven gas reserves. This has led to Pakistan having the highest number of compressed natural gas (CNG)-run vehicles in the world leaving Brazil and Argentina behind in the race as largest user of natural gas vehicles.

Pakistan has been able to build five oil refineries. Although their capacity is small, under an industrialisation drive these can be expanded. The shortage of oil refineries around the world is one factor affecting oil prices. Although oil production has continued to increase and with it consumption is set to also rise, for the last 30 years very few refineries have been built across the world. The Middle East is a stone throw away from Pakistan; it also has the largest oil reserves in the world (61%) and pumps 31% of the world's oil though it only refines 8% of it.

Pakistan is not short of mineral resources and has a diverse range of minerals within its borders

## **Military**

For any nation to develop its needs a military force that can defend the nation and act as a deterrent in the event of any foreign aggressor. In Pakistan although various governments throughout its history have been dysfunctional, the one institute that works and is organised and has been deployed at a moments notice is the army.

The armed forces of Pakistan are an all-volunteer force and are the seventh-largest in the world. Pakistan has a combined military force of more than 1.5 million personnel and probably the most powerful military amongst the Muslim world. The army represents the largest force in the military; and alongside this it has a navy and air force. Such a large force has spurred the development of military equipment and Pakistan has developed extensively in the area of military technology to offset the some of the advantages India did have.

As of 2008 about 921,000 people are on active duty in the military with an additional 528,000 people in reserves. It is an all out volunteer military; the Pakistani population understands very well the role of the army hence compulsory conscription has never been necessary even though Pakistan has an enemy on the border.

Pakistan has through innovation and with limited resources made some stunning advances in its military industry:

- Pakistan's has an advanced nuclear weapons development program which was based initially on highly-enriched uranium (HEU). Pakistan has continued its pursuit of expanded nuclear-enrichment capabilities and developed Plutonium based reactors. Pakistan currently has 2 nuclear reactors (one of which is plutonium based) with a 3<sup>rd</sup> reactor being constructed which will enrich plutonium.<sup>34</sup> Pakistan has also managed to develop the advanced P-4 type centrifuge, a far more capable model than its predecessors.<sup>35</sup>
- Pakistan has developed an advanced tactical ballistic missile programme. This means that Pakistan is just a few years away from developing Intercontinental ballistic missiles (ICBM's)
- Pakistan has managed to develop a basic space programme by the creation of the 'Space and Upper Atmosphere Research Commission (SUPARCO). At present Pakistan has launched two satellites Badr-1 and Badr-B with PAKSTAT an orbital satellite currently in development.
- Pakistan has also developed an unmanned aerial vehicle (UAV) otherwise known as a drone named the 'Uqaab'. There are several companies in Pakistan that are involved in UAV production. Pakistan is working towards having its own fleet of modern unmanned aerial vehicles and the present geo-strategic situation shows the future belongs to the skies.

Alongside this Pakistan has managed to achieve virtual self sufficiency in submarine development, tanks, aircraft overhaul, bullets, arms, trainer aircraft, combat aircraft and navy ships. The Pakistan Aeronautical Complex facility the world's third largest assembly plant assembles and manufactures aircrafts.

Pakistan has managed to achieve the development of a basic industrial base all it needs is expansion, unlike much of the Muslims world they only have patchworks of factories which would need considerable development to meet the needs of being a leading state. Pakistan's success in this area has not gone unnoticed; the success in the military industry has led to the Defence Export Promotion Organisation (D.E.P.O.) which promotes Pakistani military equipment to the world through the I.D.E.A.S. Exhibition, which is held annually at the Karachi expo centre.

## **Agriculture**

The industrialised world continues to propagate the notion that the key to development is exports and exports to their markets due to their appetite for consumer goods. A closer look however reveals that although they are industrialised and look at any nation that is largely agrarian as primitive, at the same time their agricultural sectors receive protection in the form of subsidies, tariffs and many other protectionist measures. This is because being able to feed your population is critical to any development strategy. It would be meaningless to develop state of the art aircraft when the population is starving.

Pakistan has no shortage of fertile land; Pakistan' largest food crop is wheat. In 2005, Pakistan produced over 21 million metric tons of wheat, more than all of Africa (20 million) and nearly as much as all of Latin America (24 million metric tons).

Pakistan is the 12<sup>th</sup> largest agricultural producer in the world with agrarian output of \$32 billion annually.<sup>36</sup> This has resulted in Pakistan developing a large food processing industry. The Middle East, a stone throw away from south Pakistan, is a huge potential market for Pakistani agriculture as the region is largely desert land. Pakistan is watered by one of the largest irrigation systems in the world and the Tarbela Dam on the Indus River is the world's largest earth-filled dam.

According to the United Nation's Food and Agriculture Organisation Pakistan is the world's:

- Largest producer of ghee (Clarified Butter)
- 2<sup>nd</sup> largest producer of Chickpeas, Buffalo Meat and Milk
- 3<sup>rd</sup> largest producer of Okra vegetables
- 4<sup>th</sup> largest producer of Apricot, Cotton, Goat's Milk and Mangos
- 5<sup>th</sup> largest producer of Milk, Onion and Sugar Cane
- 6<sup>th</sup> largest producer of Date Palm
- 7<sup>th</sup> largest producer of Fresh tropical fruit and Sesame Seed
- 8<sup>th</sup> largest producer of Tangerines, Cauliflower and Rice
- 9<sup>th</sup> largest producer of Wheat and spinach
- 10<sup>th</sup> largest producer of Oranges, Pistachios, Tobacco and Sheep Meat
- 11<sup>th</sup> largest producer of Oilseed and Berries
- 12<sup>th</sup> largest producer of Aubergine
- 13<sup>th</sup> largest producer of Lentils
- 14<sup>th</sup> largest producer of Almonds, Melons, Eggs, Peas and Sunflower Seeds
- 15<sup>th</sup> largest producer of Pumpkins and Fresh Fruit
- 16<sup>th</sup> largest producer of Beans
- 17<sup>th</sup> largest producer of Cow Milk, Jute and Millet (cereal crop)
- 18<sup>th</sup> largest producer of Safflower Seed
- 19<sup>th</sup> largest producer of Garlic and Nuts
- 20<sup>th</sup> largest producer of Walnuts<sup>37</sup>

## **New Direction – Agricultural Led Industrialisation**

Pakistan lacks an established sector which can constantly stimulate the economy. Having such a skewed dysfunctional economy has resulted in multiple problems across the country which no amount of individual policies can solve. Pakistan's economy needs to be completely restructured on the basis of a coherent viewpoint provided by the Islamic ideology.

To achieve this Pakistan would need to refocus on the following:

1. Increase agricultural output and efficiency – Pakistan can easily achieve this due to the strengths it has in agriculture. Pakistan's agricultural output is over \$32 billion annually and it is already the largest producer of many household kitchen items. Such a policy can be immediately implemented due to the current strength of Pakistan's agricultural sector. It will instantly replace Pakistan's historical dependence on foreign loans and aid.
2. The increase in agricultural output and the focus on finished goods can be immediately exported to the Middle East which is a mere stones throw away.
3. In order to meet the needs of this new direction, Pakistan will need to transfer from a service based economy to manufacturing based economy i.e. industrialisation. This will allow Pakistan to develop the necessary technologies and mass produce them in order to meet its agricultural needs. At the same time this would make the nation self-sufficient and stimulate the remainder of the economy.
4. Expand military industry – This would act as deterrent and lead to innovation of technologies
5. The development of domestic economy through targeted state intervention
6. Expansion of markets – This can be achieved immediately thorough reunification with the wider Muslim world. Pakistan already shares a border with central Asia and Afghanistan

## Developing a Sustainable Agricultural Policy

- With the Middle East a stone throw away Pakistani agriculture can become a key product for the region
- Pakistan already is virtually self sufficient in this area

In order to pursue a policy of industrialisation it is crucial that any nation must be able to feed itself. It is crucial that a nation is not dependent on foreign powers for its agriculture, since any development policy would be meaningless without the ability of a nation to provide basic foodstuffs to its people.

Industrialisation also causes what has come to be known as the ‘Guns V Butter’ problem. This term was coined to describe the rapid industrialisation Germany went through in the early 1930’s. In supplying raw materials for heavy industry and creating jobs for millions of people the nation’s income drastically increases which lead to the demand for more foodstuffs and consumer goods. This historical fact proves the effect the creation of jobs can have on the economy – it will diversify the economy and have a knock on effect on other industries as people’s personal wealth begins to increase. For these reasons having a sustainable agricultural policy is critical to ensure everyone is fed. It is also an obligation from Islam for the Khilafah to cater for the basic needs of the people; the basic needs include food, clothing, shelter, health and security. As a result a coherent policy is needed to make sure all citizens get access to food, make certain there is a fair distribution of food and ensuring no-one is in poverty.

Pakistan is virtually self-sufficient in agriculture because its natural resources are arable land and water. About 25% of Pakistan’s total land area is under cultivation and is watered by one of the largest irrigation systems in the world. Pakistan irrigates three times as many acres than Russia. Agriculture accounts for 23% of the economy and Pakistan is the 12<sup>th</sup> largest agricultural producer in the world at \$32 billion.<sup>38</sup> Pakistan has managed to develop a large food processing industry with its largest food crop being wheat. In 2005, Pakistan produced 21,591,400 metric tons of wheat, more than all of Africa (20,304,585 metric tons) and nearly as much as all of South America (24,557,784 metric tons). Agriculture employs the bulk of Pakistan’s labour force at 44%, but more shocking is the fact that 33% of the population live in poverty – 40 million people (the size of South Korea).

The problem in Pakistan is very clearly an issue of distribution rather than production of agricultural goods as it is a world leader in this field. Pakistan’s current policy rests on land reforms which have never seen the light of day as feudal landowners have generally always funded the establishment. The elitist power system present in pre-partition Pakistan rested on land ownership and ethnicity. The vast majority of this power lay in Punjabi and, to a lesser extent, Sindhi hands. With Punjabis comprising approximately 80% of the military, elitist landowner support for the military was guaranteed. The British Empire’s cooperation with princely landowners ensured stability and it also secured handsome returns when the colonialists departed. Since then, elitist landowner power has dominated the political arena as the peasants employed to work the land provided control at a grassroots level. Land ownership in rural Pakistan today has 5% of the population controlling 66% of the land, one of the most lopsided ownership divisions in the world.<sup>39</sup>



Although there is agricultural activity in all areas of Pakistan, most crops are grown in the Indus River plain in Punjab and Sindh. 70% of the cropped area is in Punjab, followed by 20% in Sindh, less than 10% in the North-West Frontier Province and only 1% in Balochistan. The total cultivated area in Pakistan is estimated at 51 million acres, out of which 39 million acres are in Punjab. Since independence, the amount of cultivated land has continued to increase. This expansion is largely the result of improvements in the irrigation system that makes water available to additional plots. Despite this, substantial amounts of farmland have also been lost to urbanisation. The scant rainfall over most of the country makes about 80% of cropping dependent on irrigation. Fewer than 4 million hectares of land, largely in northern Punjab and the North-West Frontier Province, are totally dependent on rainfall. An additional 2 million hectares of land are under non-irrigated cropping, such as plantings on floodplains as the water recedes. The Tarbela Dam on the Indus River is the world's largest earth-filled dam. The dam, completed in the 1970s, reduced the destruction of periodic floods and in 1994 was a major hydroelectric generating source.

### **Globalisation of Agriculture**

The World Bank and IMF have forced its constituent members to implement policies in agriculture that would provide for the global market. It discouraged farmers in the third world to cultivate crops for domestic consumption and encouraged farmers to produce in order to export so it would drive economic growth. This advice coupled with corporate sponsored deregulation resulted in farmers in the third world competing directly with the might of global corporations, putting many small farmers out of business and paved the way for corporate control of the farming process from seed to market.

The World Bank since the 1970's sold the idea to the world that privatised agricultural sectors would mean more competition which would lead to global prices of agricultural goods to fall benefiting the consumer. The spin was that such policies are helpful to humanity because they will ultimately result in increased food production at a time of rising world demand. In this way Pakistan has also been forced to focus on the needs of the global market rather than its domestic population. This is why a nation that produces more wheat than the whole of Africa has 52 million people starving in poverty.

The Khilafah's agricultural policy would need to look at the following areas;

1. Guaranteeing a supply level of agricultural products
2. Improving product quality
3. The introduction of new land use and employment legislation

#### **- Guaranteeing supply level of agricultural products**

The issue of production is not a concern for Pakistan as it is a world leader in agricultural production; its main challenge is in the area of distribution.

This will be solved by a number of policies. For example, any piece of dead land cultivated by a person becomes his. Muhammad (saw) said:

**“Whoever cultivated a land that is not owned by anybody, he deserves it more.”**

Another rule of Islam is that the one who cannot financially support himself and also cannot be supported by his family then he comes under the financial care of the Khaleefah. However, rather than issue remuneration in the form of benefits to sustain people, Islam favours providing people with the means to generate their own wealth. Hence, much of this agricultural land will be given to people who cannot support themselves and who have the necessary skills so that they can help provide the State’s agricultural needs. This will allow farmers to actually receive salaries for their work; all that is required by the Khilafah initially is an efficient administration in order to facilitate this.

Other solutions could include the building of storage silos in areas of Pakistan where agriculture is relatively small like Balochistan, so that wheat, rice and other staple foodstuffs can be stored there providing easier access to the people. This will naturally benefit haulage companies primarily but it provides a more even method of distribution

The Khilafah should purchase agricultural products, thereby guaranteeing the purchase of these products. This will provide the farmers in a particular region with guaranteed revenue and allow the state to then evenly distribute these products elsewhere. The effect of this is that agricultural production in such regions can be stimulated as well as allowing for the state to take a direct hand in distribution.

The State would need to think about making available dedicated cargo aircraft for the purpose of transporting agricultural products on a daily basis between the different regions thereby reducing transportation barriers to trade. This is in order to kick start the initial correction in the distribution of agricultural goods. This allows the state to develop a plan for the long term development of infrastructure such as railways in order to transport cargo and goods.

The State could also enter into the markets as the supplier of the inputs such as seeds and pesticides and buyer of certain agricultural products in order to regulate agricultural production and to protect producers from market fluctuations and the adverse effects of natural and climate conditions.

- **Improving Product quality** - The Khilafah will need to encourage farmers, particularly those with proven expertise in farming methods, to bring this expertise to Pakistan. For example skilled Turkish farmers could be used who have proven expertise. Encouragement may come in the form of issuing of large areas of farming land as well as possible direct financial inducements.
- **Developing Irrigation Infrastructure** - Pakistan’s current infrastructure would need to be expanded and improved to meet the future needs of this sector. Transport and ports, as well as telecommunications and irrigation facilities specifically need to be improved to meet the needs of the future. Such a plan will come under the industrialisation drive; however a plan would need to be

developed to cater for the agriculture sector ensuring the inputs for this sector can be efficiently distributed across Pakistan's plains.

- To ensure the labour force in this sector is up-to-date with the latest skills, a department could be created which coordinates a consistent national strategic agenda for agricultural research and development. This could be comprised of experts from the industry, industrialists and entrepreneurs. The active involvement of researchers in collaboration with industry in developing programs of work, alongside a greater coordination of research activities across industries and investment in human capital, will ensure a skilled pool of research personnel in the future.
- The Khilafah should aim to achieve within 10 years increased mechanisation in agriculture. This should involve the use of modern technology such as computers, global positioning and resource detection satellite systems and better agronomic management technology. This in the long term means the need for labour will decrease in this sector; this should be dealt with by the creation of institutes that specifically deal with the development of diverse skills for those in agriculture. In Pakistan most of the workers are not educated so a specific programme for them would need to be started.
- The research, adoption and productivity on Genetically Modified (GM) crops should be started, in order that the Khilafah develops as a world leader in such an area.
- A plan would need to be developed to improve food processing in Pakistan in order to make it a world leader. Currently Pakistani agrarian goods face many obstacles in the West due to policies to protect domestic farmers. The Khilafah could concentrate on providing cheap agrarian products to the third world, which would open an avenue for communication and is something that can be turned into a dawah opportunity also. Pakistan should also consider further developing its existing meat packing plants, industrial rendering, slaughterhouses, food packing plants and canneries. These should be mechanised in order to make them state of the art facilities in order to achieve greater efficiencies.
- **The introduction of new employment rules** - Agriculture remains the largest employer in Pakistan, employing 44% of the labour force. Pakistan does have labour standards and legislation; in 2002 the Musharraf government adopted a new labour policy that aims eventually to consolidate more than 50 existing labour laws into just seven. Of these, a new Industrial Relations Ordinance 2002 (IRO 2002) was passed in October 2002 to replace the IRO 1969. The other six new laws; the Wages Ordinance, the Condition of Employment Ordinance, the Human Resource Development Ordinance, the Occupational Safety and Health Ordinance, the Labour Welfare and Social Safety Ordinance, and the Reformation of Labour Judiciary Ordinance were also passed, however labour standards are not enforced and most workers are abused, paid extremely low wages and remain in poverty. For these

*“The Khilafah should aim to achieve within 10 years increased mechanisation in agriculture. This should involve the use of modern technology such as computers, global positioning and resource detection satellite systems and better agronomic management technology”*

reasons a new set of labour laws are needed which find a balance between a decent standard of living and profit. For this Islam has a number of rules which would end exploitation:

1. Islam defines employment as the hiring of the benefit of a person; this would be one's skill and effort. This definition requires the employment contract to clearly define the work to be undertaken, the period of work, the wage and the effort required.
2. Islam permitted sharecropping. This is where one person hands over the responsibility for the growing of crops and produce to another person in order to irrigate them and tend to them in return for a defined portion of their fruit.

**Abdullah ibn 'Umar (ra) said "The Prophet of Allah (saw) contracted the people of Khaybar over half of what they produce of fruit crops and plants." (Muslim)**

- **The introduction of new land rules** –The introduction of the Islamic rules for lands will need implementation In order to achieve this the following policies should be pursued:

1. The problem in Pakistan is one of feudalism which is the neglect of land and not cultivating it. This results in vast amounts of land sitting idle and not contributing towards the economy. This problem will be solved by confiscating land of such individuals who neglect their land for three years.
2. Islam mandated a method for the working of land; a land owner is compelled to manage his/her land initially themselves. So the land owner is obliged to farm his/her land with their tools, seeds, animals and workers, employing them to work in exchange for a wage. Islam expressly prohibited the leasing of land where the owner has a manager who employs people to work on the land and a portion of the profits are then given to the landowner.
3. Islam mandated the Kharaj tax upon land. Kharaj is a tax levied on crops raised throughout the year. The Khaleefah stipulates when the tax is collected in the year and from the types of crops produced. The tax does take into account the burden it places on owners. Landowners are obliged to pay this tax when it is due, even if they have not used their land. If landowners are not able to use their land, they will have to sell it, or employ others to work on it, rather than pay taxes on land producing no income. This will generate employment and also bring more land onto the market for those who have the skills to work on it. If the land is not used for three years then it will be confiscated.
4. Ushr is a tax levied on the actual production from a land, which forces one to use it otherwise after three years it will be confiscated. The rate of tax is based upon how it is irrigated. Land which is irrigated with technology has a lower rate than the land which is irrigated naturally through rainfall.

## Expanding the Manufacturing Sector

- Pakistan already has the foundations of an industrial base
- Pakistan has been blessed with mineral resources which have not been fully exploited
- Through a combination of plans Pakistan can expand its industry and industrialise

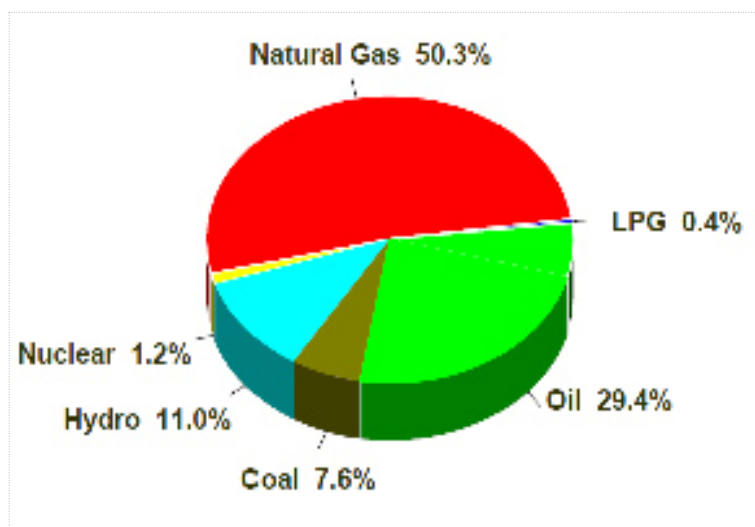
It's important to understand why the Khilafah must become a manufacturing power house and how anything else will not allow Pakistan to achieve the status of a leading nation. One of Musharraf's chief reasons for pursuing policies which have made Pakistan dependent to external powers is that he was bankrupt with any vision with what to do with Pakistan. He promoted free market policies which have benefited only the rich who are from the same ilk as Pervez Musharraf.

A manufacturing based economy will mean the Khilafah can build its own factories which will produce the goods, machines and essential technologies not relying on any external powers. Industry on its own is an important pillar of economic life in any nation and to any person in any society. In the past industry was limited to manual labour in factories. The then British Empire began using steam to drive pistons up and down and then eventually to generate rotary (motion) to move machines, which sparked the industrial revolution as mechanical factories started to gradually replace the manual ones. Production increased twenty fold and the mechanised factory became one of the pillars of economic life.

## Energy

1. Pakistan's energy development needs to be Coal led, for which Pakistan has ample reserves.
2. Pakistan nuclear development should also be used for civilian energy purposes
3. Pakistan's geography makes hydro electric power a useful renewable energy source

A rapidly industrialising nation is dependent on energy resources and Pakistan like most of the Muslim world has underdeveloped energy and electricity infrastructure to cope with the demands of heavy industries. The centralised nature of national grids in the Muslim world would leave many without electricity if power stations sustained an attack. Mukhtar Ahmed, energy adviser to the Pakistan government, mentioned in an event titled 'Fuelling the Future: Meeting Pakistan's Energy Needs in the 21st Century,' organised by the



Woodrow Wilson international centre for scholars that '40% of Pakistani households are not even connected to the electric grid. Over the next 20 years, he warned, the country's overall demand for energy will increase by 350%. During this

*period, the percentage of Pakistan's total energy needs met from indigenous sources will fall from 72 to 38 percent.*<sup>40</sup> Currently natural gas and oil supply the bulk (80%) of Pakistan's energy needs.

Pakistan's current situation has forced it to import its energy and this dependency will only increase, Pakistan currently produces only 18% of the oil it consumes, fostering a dependency on imports that places considerable strain on the country's financial position. Hydropower and coal are underutilised, even though Pakistan has ample potential supplies of both. In response to conditions laid down by the IMF and the World Bank, Pakistan continues to strive for privatisation of its state-owned companies. The "cornerstone" of the government's long-term policy involves a shift from a predominantly state-controlled industry to an arrangement where the private sector develops and manages the country's energy program.

Pakistan only has proven oil reserves of 300 million barrels as of January 2006. The majority of produced oil comes from proven reserves located in the southern half of the country, with the three largest oil-producing fields located in the Southern Indus Basin. Oil production has remained fairly flat, at 60,000 barrels per day (bpd). However due to Pakistan's modest oil production, the country is dependent on oil imports to satisfy domestic oil demand. In 2006, Pakistan consumed 372 000 (bpd) of oil and various petroleum products, of which, 80% was imported. The majority of oil imports come from the Middle East, with Saudi Arabia as the lead importer.

Pakistan has five national oil companies with the largest three operating under joint ventures. Pakistan's three largest national oil companies include:

1. Oil and Gas Development Corporation Limited (OGDCL)
2. Pakistan Petroleum Limited (PPL) and,
3. Pakistan State Oil (PSO)

International oil companies operating in Pakistan include:

1. BP (UK)
2. Eni (Italy)
3. OMV (Austria)
4. Orient Petroleum Inc (OPI, Canada)
5. Petronas (Malaysia) and,
6. Tullow (Ireland).

BP is the largest oil producer in Pakistan, with production at 30,000 bpd. The oil major operates 43 fields and more than 100 wells throughout the country. OGDCL is Pakistan's second-largest oil producer, with average production at 25,000 bpd. The Musharraf government has encouraged private (including foreign) firms to develop domestic production capacity.

Pakistan has five refineries, with total refining capacity of 270,000 bpd. The largest of the refineries is the Pak-Arab Refinery Complex (PARCO), which became operational in 2000, with 95,000 bpd of refining

capacity. In July 2004, Bosicor Pakistan Limited (BPL) began commercial operations at its Mouza Kund plant, near Karachi. The 30,000-bpd refinery is supplied with shipments of crude oil from Qatar. The plant allowed Pakistan to become a supplier of naphtha, which constitutes 20% of total output. The plant produces about 10,000 bpd of fuel oil, 6,000 bpd of diesel, and 5,500 bpd of naphtha, among other products. In June 2006, Kuwait agreed to fund a \$1.2 billion oil refinery, which would have a planned capacity of 100,000 bpd. The refinery would be located at Port Qasim in Karachi.

*“Pakistan is not short of energy resources; its problem is in the area of developing the necessary infrastructure, the refineries, pipelines and the required industry”*

Pakistan is not short of energy resources; its problem is in the area of developing the necessary infrastructure, the refineries, pipelines and the required industry. Pakistan has an estimated 25.1 trillion cubic feet (tcf) of proven gas reserves of which 19 trillion are located in Balochistan. Among foreign oil and gas contractors in Balochistan are BP, Italy's ENI, Austria's OMV, and Australia's BHP. It is worth noting that Pakistan's State oil and gas companies, including PPL which has the largest stake in the Sui oil fields of Balochistan are up for privatisation under IMF-World Bank supervision.

Although Pakistan currently only has oil reserves of 300 million barrels, most of which are located in Balochistan, its untapped reserves remain a matter of speculation ranging from 6 billion (bpd) with the higher end of the estimate according to Frederic Grare, a Balochistan expert at the Carnegie Endowment for International Peace of an estimated six trillion barrels of oil both on-shore and off-shore.<sup>41</sup>

The current policy is completely inadequate to meet the requirements of industrialisation. Today Pakistan is only able to meet the energy needs of 60% of the population, considering 40% percent of Pakistani households are not even on the electricity grid. With the absence of oil infrastructure and refinery capacity such facilities must be developed. Detailed geological mapping by both Chinese and Russian companies have proven Pakistan has the world's largest untapped coal reserves.<sup>42</sup> With such large reserves the Khilafah should contemplate continuing the development of nuclear power and coal and may even begin converting coal into liquid as most transportation and machines are developed upon liquid propulsion systems. Coal currently plays a minor role in Pakistan's energy mix. It is ironic and a great shame that Pakistan has the world's largest untapped coal reserves but it is importing 2.5 million tons of coal a year for its cement industry.

The current production of oil should be preserved for the armed forces, petrochemicals industries, and freight and flight transport. Considering that a substantial amount of transport is currently oil dependent, transport that can run on alternatives means should continue to be developed. Pakistan is the world leader in the use of compressed natural gas (CNG) for personal automobiles;<sup>43</sup> it has more automobiles using CNG than Argentina and Brazil and this should be expanded to include all automobiles. This would mean saving oil reserves for key industries. Thus power generation would rely on coal, nuclear and renewable energy of which Pakistan has ample supply.

The electricity infrastructure and electricity use can be broadly defined into three categories; industrial, service and domestic. The new Khilafah will need to balance between the use of electricity for power projection which forms part of its foreign policy (an Islamic duty) and at the same time its duty to provide just welfare for all citizens. Pakistan's electricity is primarily provided by its conventional thermal plants using oil, natural gas, and coal at 66% of Pakistan's capacity, with hydroelectricity making up 32% and nuclear 2%. The Pakistani government estimates that by 2010, Pakistan will have to increase its generating capacity by more than 50% to meet increasing demand. The electric power sector in Pakistan is operated by the Water and Power Development Authority (WAPDA), and the Karachi Electricity Supply Corporation (KESC), with additional generation contribution from Independent private Power Producers. WAPDA is responsible for supplying power to all of Pakistan, with the exception of Karachi, which is supplied by KESC. Currently, 15 foreign companies operate in Pakistan under a Build-Own-Operate (BOO) basis.

In order to meet future electricity needs the Khilafah should consider a decentralised energy infrastructure, as this would be an ideal method of construction. A decentralised infrastructure is where local power generation is the priority, through numerous small scale power-plants, as opposed to a centralised grid where the nation is dependent on power production through larger but fewer power-plants. The long term political unity with the Muslim world means expanding grid networks will be more difficult, expensive and inefficient if expanded from power stations positioned at long distances from demand. Local power generation through a decentralised grid re-enforces regional and local grids – facilitating continuation of power in one region if another was to lose power. In Pakistan unlike most Muslim lands, populations are distributed with a larger percentage resident in rural areas rather than urban areas and a decentralised energy infrastructure will help prevent the formation of 'mega-cities' and large urban conurbations seen throughout the world. Local grids will be a key element in providing power for existing areas that do not have power and without the need for power to be sent over long distances, the larger power-plants can be used to ensure a secure supply for the heavy industrial complexes and sensitive installations.

The following policies could be pursued by the Khilafah to secure Pakistan's energy needs:

- The stability of the grid should be secured by base-load generation through what will be Combined Cycle Gas Turbines (CCGT), coal, nuclear energy and hydro power.
- Nuclear energy is the most stable base-load generation available, and Pakistan currently is constructing 2 nuclear plants for power generation. It would need to build upon this.
- The use of renewable sources such as wind, solar and hydroelectric power should remain a minority source. The use of renewable energy depends on climatic and geographical conditions of the region for which it is to be used for. Wind is the most mature of all the renewable technologies, while biomass generation is the most stable. For Pakistan a decentralised network is where every building is itself a power source. Building standards can be adopted whereby all new buildings must have a certain percentage of its energy needs met through micro-generation i.e. through solar and combined heat and power units. This means there will be less reliance on the State's infrastructure.



- Currently renewable energy technology is at its infant stages because the West continues to use nuclear energy as its primary source for electricity. Pakistan is the world's largest user of Compressed Natural Gas (CNG), and the Khilafah should seek to build upon this.
- The Khilafah should begin research into renewable energy technology. Many of the world's scientists and engineers are finding the corporate world unwilling to invest in such technology and such experts could potentially carry out their research in the Khilafah. It should be remembered the current pressure being placed upon China's use of fossil fuel is a political tactic by the US to halt its economic development. The US continues to burn the majority of the world fossil fuels and it refuses to agree on any emission targets because of the effect it will have on its economy. It continues to modernise its refineries and nuclear power plants whilst criticising China when it does the same.
- In the short to medium term the Khilafah could use its large coal deposits and gas deposits as the main source for its energy.
- The Khilafah could also invest in small off-grid applications; this will provide power in rural and remote areas, which may be difficult to connect to the grid. This should be strategically located across the country with some commissioned to be built underground as back-ups.
- Pakistan currently has 225 wind water pumping systems installed in Balochistan. Over 140 micro wind turbines of 500 Watts each are operational in Sindh and Balochistan, providing electricity to 691 houses in 18 remote, off-grid villages. This could to be expanded alongside diversifying into bio-fuel and biomass due to Pakistan's huge agricultural sector.

## **Mining**

Pakistan has considerable natural and mineral resources which include oil, gas, gold, chromite, iron ore, coal, bauxite, copper, antimony, sulphur, limestone, marble, sand, rock salt and clays for ceramics. It makes sense for the Khilafah to develop internal mineral extraction industries that are capable of extracting and processing these resources so as not to be reliant on foreign expertise.

Through the 1980s, the development of mining was discouraged by the absence of venture capital and limited demand for many minerals from domestic industries. The slow development of mining was due in part to the remoteness of the areas where most minerals are found, which adds greatly to the costs of exploration, production, and transportation. Moreover, some of these areas have a poor reputation for law and order. By the early 1990s, mining was of little importance to the economy, despite the presence of extensive mineral resources. Foreign companies have been invited to bid for concessions for mineral extraction.

Currently Pakistan allows foreign companies to bid for contracts to mine in Pakistan. Due to logistical differences and profitability many projects are well behind schedule. As a result the discovery of the world's seventh largest copper reserves and large deposits of gold in the Reko Diq mining area of Balochistan has not received the attention it deserves. The Reko Diq mining area has proven reserves of two billion tons of copper and 20 million ounces of gold. The value of the deposits is over \$20 billion,<sup>44</sup> which would generate thousands of jobs and contribute billions annually to the national economy with all the supportive work. Pakistan has also been extremely slow in developing the World's fifth largest reserves of gold and copper in the Chaghi area on the Afghan border.<sup>45</sup>

Pakistan has a patchwork of mineral extracting companies of which some are jointly owned by foreign companies. In order to become self-sufficient in mineral processing a number of steps need to be undertaken. The minerals Pakistan does not have need to be imported from countries that do not have any designs on Pakistan. This is a policy currently being pursued by China. China's thirst for oil has resulted in it showering aid, loans (many which have been written off) and grants to African nations in order to procure oil, it has done this by building the necessary refineries including the surrounding infrastructure such as roads, schools, hospitals and offices without actually interfering in the running of the country which the West always does. A similar policy should be pursued by the Khilafah if needed however with a policy of reunification with the wider Muslim world this will solve the problem of accessing minerals that cannot be found in one region of the Khilafah, hence the Khilafah should primarily resort to the Muslim lands for minerals it does not have through a policy of reunification.

The state will also need to develop a policy for foreign companies but specifically western companies which exist in Pakistan. Most mineral extracting work is undertaken by Pakistani companies in joint ventures with foreign companies. The biggest problem is the fact that such companies do not transfer skills or technology to the country they work in. Their partnership is not essential for Pakistan but due to previous governments wanting to not personally invest in projects they leave the burden to foreign companies. Transferring of technology to Pakistan is already occurring and the feasibility of this should be assessed. The Agosta 90B class submarines and the Mirage fighter jet are examples where French collaboration is leading in the transfer of intellectual property, technology and technical help, resulting in them being assembled in Pakistan with the help of French engineers. A similar trend exists with China over the JF-17 Thunder fighter aircraft and naval frigates.

## **Manufacturing**

A coherent Energy and mining policy will enable Pakistan to extract the raw materials and provide the fuel for its industry; at the same time Pakistan will need to implement a combination of five year plans in order to oversee the creation and conversion of factories.

Manufacturing is the ability to produce and manufacture ones own machinery. This will ensure the Khilafah takes control of its own minerals and the industries that extract process and refine them, so as to eliminate reliance on foreign nations. This is critical as raw materials are essential for all industries to

function. The Value of processed goods is also far higher; it leads to employment, net exports and over time leads to self sufficiency

Currently Pakistan's industrial sector accounts for only 24% of the economy. Cotton textile production and apparel manufacturing's are Pakistan's largest industries, accounting for 66% of Pakistan's exports and 20% of the employed labour force. Pakistan's other major industries are cement, fertilizer, edible oil, sugar, steel, tobacco, chemicals, and food processing. During Musharraf's tenure, large-scale privatisation has led to the public sector to account for a shrinking proportion of industrial output.

At the time of Pakistan's independence, Pakistan had virtually no manufacturing industry except for one large cement factory, a textile unit and a few odd manufacturing plants. Large-scale manufacturing began in the early 1950s with the imposition of quantitative controls on imports, which at that time consisted predominantly of manufactured consumer goods. Due to its location, investment in energy production, development of port facilities and improvement of infrastructure all occurred in Karachi. As a result the fields of manufacturing, textiles, chemicals and pharmaceuticals helped convert Sindh into an industrialised region. Cement, automobiles, steel and most of Pakistan's other industrial output are today still produced in the factories of Karachi, Hyderabad and Sukkur in Sindh.

Currently Pakistan has only one mill which refines raw steel and iron. Pakistan Steel Mills (PSM) is the nation's only steel mill, which opened in 1981 after 7 years of construction. The mammoth facility is spread over an area of 30 square miles located in Sindh at Bin Qasim. It was created with the technical help of Russia's state owned, Tyazpromexport and today produces 1 million tons of steel a year. Pakistan's other heavy industries are all military industries with Pakistan Steel being the only mill. Currently this mill only meets 25% of Pakistan's steel needs, the rest is all imported.<sup>6</sup> Production of Iron-ore is also very low, being currently only one million tons a year. Such a facility producing so little will not be able to aid Pakistan's manufacturing needs so further steel and iron mills need to be constructed. This will ensure more can be produced which can then be used to manufacture cars, planes, heavy machines, railways and consumer machines.

Balochistan currently has four major industrial estates; however they only provide infrastructural facilities. The province also includes industries such as textiles, engineering, food chemicals, plastics, leather, power generation, consumer goods, fisheries, fruit processing, minerals and ship building. By most indications, Balochistan is the least industrialised province of Pakistan. It accounts for a mere 2.7% of the country's industrial assets and 2% of Pakistan's output. However Balochistan has Pakistan's substantial mineral, oil and gas reserves which have not been exploited to their full capacity. The province has significant quantities of copper, chromite and iron, and pockets of antimony, zinc and gold. For these reasons plants should be built in Balochistan and these should be built in close proximity to the minerals and via the construction of a transportation network, such as railways, be transported to relevant sub-factories.

Some technical expertise may be required for building the mills and this could be sought from overseas partners, however as Pakistan Steel mills showed, the bulk of the work can be carried out by Pakistani

technicians. Some of the mills should be built underground to ensure in a war situation production can continue.

The huge increase in production of iron and steel will lead to a rapid expansion in the labour force; which will create jobs which have never existed in Pakistan; this is because iron and steel is necessary for the creation of heavy machines, industry, mills, factories and technology. The development of mills will allow the initial stimulus for supplementary industries to be created such as an arms industry, agricultural machinery along with motor industries. Also a wide range of back up industries supplying components will be created which brings jobs and investment opportunities for industrialists and entrepreneurs.

To facilitate this, a forum specifically geared to gaining the support and cooperation of the industrialists could be set up. The main aim of an initiative like this would be to provide incentives, both economic and political, for the industrialists to develop the necessary factories and businesses geared around heavy industry. Incentives could for example include free rental of land in return for the mass production and conversion of steel, iron or chemicals to existing businessmen and entrepreneurs. Other incentives could include providing loans to those who wish to start particular businesses in those areas related to manufacturing such as developing chemical products or extracting metals.

What is currently lacking in Pakistan is any direction or planning in the economic sphere, thus industrial development will have a profound effect on Pakistan's economy by giving it a huge stimulus. Industrialists refuse to start any large scale projects due to the threat of nationalisation and seizing of property and because the economy lacks any stimulation and investment, it has become dependent on textiles.

The creation of heavy industry and its supportive industries will bring with it a massive injection of investment from the State and from industrialists. The State will oversee the creation and conversion of many factories which brings opportunities not heralded before. This will be coupled with private investment from entrepreneurs keen to capitalize on the returns that will be generated. This policy will create jobs for those previously unemployed. Some training may need financing, though this skills shortage could also be solved by expatriate Pakistani's and experts from across the Muslim world. The Muslim world is not short of a skilled workforce.

The creation of jobs will naturally increase consumption as people will possess greater amounts of income. This in turn will increase demand for goods from the general masses. Such an increase in aggregate demand will push the development of other sectors of the economy such as the manufactured goods sector, the consumer goods sector and also demand for luxuries. This demand will push people to supply these goods further creating more jobs and more wealth in the economy.

Pakistan's industry is currently composed of ten fertilizer plants, six state-owned and four private, with a total annual production capacity of 4.6 million tons. There are 21 cement plants, four state-owned and 17 private, with an annual production capacity of 19.2 million tons. Pakistan also has eight public holding companies:

1. Pakistan Steel Mills (PSM)
2. Pakistan State Cement Corporation (PACO)
3. Federal Chemical and Ceramics Corporation (FCCC)
4. Pakistan State Petroleum Refining and Petrochemical Corporation (PERAC)
5. Pakistan State Engineering Corporation (PSEC),
6. Pakistan Industrial Development Corporation (PIDC)
7. Pakistan State Fertilizer Corporation (PSFC)
8. Pakistan Automobile Corporation (PAC)

These industries need to be expanded where further factories are built, as this is necessary to meet Pakistan's future needs which will increase with this plan.

Pakistan currently has the foundations of a manufacturing base; it is from some perspectives in a better position than all the nations that have industrialised in the last 200 years. Britain on the eve of industrialisation lacked the required labour force due to its small population and the necessary resources; this was overcome by colonising the world and enslaving their populations who worked in the factories, fields and mines to achieve the aims of the empire. The US on the eve of industrialisation faced a similar population problem; American industrialisation was facilitated by a unique convergence of geographical, social, and economic factors. The post-revolution American population remained low relative to its European counterparts and the demand for manual labour created strong incentives to mechanise labour-intensive tasks. Imperial Japan managed to rapidly industrialise due to colonising eastern China which was necessary due to Japan's lack of resources and small population. The US after WW2 converted Japan's economy from a war based one to a consumer one which today remains central to Japanese development. China's lack of energy resources has led it to sign contracts in Africa, Venezuela and Iran to ensure its development continues.

Pakistan faces no such issues and has a basic manufacturing base which just needs a set of policies in order to expand its industries. This type of direction has been lacking by all of Pakistan's leaders for over 60 years. Pakistan does not lack resources or the labour force; all it lacks is a vision for which all its people can work for and so its resources can be used to achieve the aims of the state

## Building Pakistan's Defences - Expanding the Military Industry

- Military industries is the key to technological development
- Pakistan has an unnecessary reliance on the US for its defence industry
- Pakistan is self sufficient in many areas which needs to be built upon

A defence industry is critical for ones global standing as it deters any foreign aggressor who may have designs on a nation. For this reason all of the world's powers have developed defence industries in order to achieve such an aim. A nations defence capabilities also gives them global projection, the US doctrine is based around full spectrum domination. Full spectrum operations combine offensive, defensive, stability and civil support. As the Khilafah, Pakistan will be built upon Islam and it is essential the strength of Islam is projected globally, so that those who have designs on the Ummah should consider the existence of its deterrent force so powerful as to render success in an attack too doubtful to be worthwhile. Also Allah (swt) mentioned in the *Qur'an*

وَأَعِدُّوا لَهُمْ مَا اسْتَطَعْتُمْ مِنْ قُوَّةٍ وَمِنْ رِبَاطِ الْخَيْلِ تُرْهِيبُونَ بِهِ عَدُوَّ اللَّهِ وَعَدُوَّكُمْ وَآخَرِينَ مِنْ دُونِهِمْ لَا  
تَعْلَمُونَهُمْ  
اللَّهُ يَعْلَمُهُمْ وَمَا تُنْفِقُوا مِنْ شَيْءٍ فِي سَبِيلِ اللَّهِ يُوَفَّ إِلَيْكُمْ وَأَنْتُمْ لَا تُظْلَمُونَ

***“And prepare for them power, and tether your horses so you may strike fear into the heart of the enemy those who are visible to you and those that are not visible...”***[TMQ Al Anfal: 60].

All of this makes it essential for the Khilafah to field an advanced military which acts as a deterrent.

The military industry is also important because it is the heart of technological innovation. Common items such as the internet, the Teflon non-stick frying pan, plasma TV, Radio, personal computers and aeroplanes were all developed in military industries. As the Khilafah, Pakistan will represent Islam and for this it will need to project its strength through technological progress. Expanding a defence industry also creates jobs and wealth which Pakistan would not have seen before. This is because the defence industry will all be broken down into a supply chain that will turn most of the country into an assembly line for the military-industrial complex. This will bring jobs, contracts and money into every area of the Khilafah and at the same time contribute to the Khilafah's overall aim of projecting an image of strength and deterrence. Military technology is always generally ahead of other industries because military technology is at the higher end of the technology ladder due to its need to give the state a security advantage. Such technologies filter down to those industries considered the lower end of the technology ladder such as consumer industries which produce items such as fridges, air conditioners, automobiles and goods. This means a military industry can always be converted to meet consumer needs, whilst in times of war it can be quickly mobilised to meet the needs of war. The US was able to in a matter of months mobilise for WW2 due to this.

We also see that deterrence led Pakistan to develop nuclear weapons. In the event of war between Pakistan and India, the Indian numerical superiority in men and conventional arms is likely to exert pressure beyond endurance on Pakistan. In a deteriorating military situation, when an Indian conventional attack is likely to break through Pakistani defences causing a major set-back to Pakistan, then the conventional means at Pakistan's disposal will not eliminate the threat. The Pakistan government would be left with no other option except to use nuclear weapons to stabilise the situation. India's superiority in conventional arms and manpower would have to be offset by nuclear weapons. Former Indian Army Chief General Shankar Roychowdhury confirmed that Pakistan's possession of nuclear weapons prevented India from attacking the country after the terror strikes in Mumbai and the attack on Parliament.<sup>47</sup> Islam demands that the Muslims seek and maintain military superiority. As well as establishing the production of aircraft, submarines and aircraft carriers, the Khilafah will need to continue to maintain its nuclear deterrence in an era where neighbouring nations, Russia, China and India possess nuclear capability.

Whilst many in Pakistan have argued for some time that a nation largely in poverty and needing large investment should never have a government budget largely consumed by the military industries. Such proposals are built upon the fact that the military industries have not created employment and investment across the economy like many military industry complexes across the world have. Due to Pakistan's geopolitical situation it was necessary for armament, however Pakistan's military industries remain relatively small and hence could never contribute towards economic growth. With the aims of Islam Pakistan can expand its military industry and create thousands of jobs and the necessary infrastructure can be constructed benefiting the nation due to the global vision Islam mandates.

Pakistan currently has three military production facilities:

- **Heavy Industries Taxila (HIT)** is a combination of multiple industries that has grown into a large military complex since 1980. It consists of six major production units and their support facilities. HIT is a defence facility with manpower of over 6500 highly skilled personnel and engineers trained in the field of defence production. It provides facilities for overhaul, rebuild and progressive manufacture of main battle tanks, armoured recovery vehicles, armoured personnel carriers (APC's), guns and has recently developed and gone into the production of MBT-2000 Al-Khalid tank. In addition, it has the capability to rebuild, upgrade and modernise armoured vehicles of both Eastern and Western origin. Today, its main activities include the manufacture of armoured fighting vehicles, armoured personnel carriers and tank guns. This is in addition to sugar plants, cement plants, boilers, cranes, road construction machinery and brick making machinery.
- **Precision Engineering Complex (PEC)** is located in Karachi and is a division of Pakistan International Airlines. It was created in 1978 to manufacture products for Pakistan's commercial aviation industry. The parts manufactured by PEC are fitted on over two dozen A320/321 airbuses now flying with several airlines of the world. In May 2006, Boeing had placed electronics contracts manufacturing orders worth \$100 million.

- **Pakistan Aeronautical Complex (PAC)** is a facility used to service, assemble and manufacture aircraft at Kamra, Punjab. It is the world's third largest assembly plant. It is also Pakistan's largest developer of military aircraft. PAC produces almost 40 % of aircraft in the region, competing with HAL (Hindustan Aeronautics Limited). It is currently the world's fifth largest aircraft producer.

Pakistan began with virtually no military production capability, and as a result only partial steps in some of the most crucial fields have been undertaken in order to become self-sufficient, in such basic areas as aircraft overhaul, tank and helicopters. Symbolic of Pakistan's determination to move to a degree of self-sufficiency was the creation of the Ministry of Defence Production in September 1991.

The Ministry of Defence Production has been responsible for promoting and coordinating a patchwork of military production facilities that have developed since independence. The oldest of these facilities is the Pakistan Ordnance Factory at Wah Cantonment, near Rawalpindi, established in 1951, to produce small arms, ammunition, and explosives. During the period of reliance on United States supply, there was little attention given to domestic production, but after the assistance cut offs in 1965 and 1971, Pakistan with China's help set about expanding its facilities, including the modernisation of Wah. The Heavy Industries at Taxila was established in 1971 as an equipment rebuilding facility, followed in 1973 by the Pakistan Aeronautical Complex at Kamra, north of Islamabad. The air force assembled Chinese F6s and French Mirages; produced the Mushshak trainer, which was based on the Swedish SAAB Safari/Supporter; maintained radar and avionics equipment; and in the mid-1990s was in the process of developing the Karakorum jet trainer in a joint project with China.

The ministry also includes seven other specialized organizations devoted to research and development, production, and administration. Total personnel strength in 1993 was more than 50,000, including 2,600 professionals. The government estimated annual production in the early 1990s at \$500 million including \$30 million in exports. For example, Mushshak's were provided to Iran as light trainers and observation aircraft. The navy is supported mainly by a facility at the Karachi Shipyard, which has limited production capacity and in 1994 had to its credit only an 831-ton tanker and a prototype 200-ton coastal patrol vessel. In 1987, development of a submarine repair and rebuild facility at Port Qasim was begun.

In the area of defence there are a number of current policies which would require re-evaluating;

- **Currently Pakistan has an unnecessary reliance on the US for its defence industry.** This has resulted in Pakistan stifling its own defence industry in return for US aid. The Musharraf regime received \$10 billion in aid in return for services rendered in the 'War on Terror' and \$100 million to secure its nuclear warheads falling into rogue hands. It is the US that needs Pakistan as it is unable to subdue the Afghan resistance. Pakistan acts as a supply line for the US in Afghanistan as 75% of all supplies for the US forces in Afghanistan flow through Pakistan, including 40% of all fuel. USA Today quoted Pentagon press secretary Geoff Morrell in November 2007 that the supply lines are already a real area of concern for their commanders in Afghanistan due to the re-emergence of the Taliban. Apart from the Afghan war, regional tensions involving the US with Iran, Russia and Central Asia are likely to accentuate in the near term, which in turn will only increase US



dependence on Pakistan. The Pakistani regimes support for the US was based upon fear and subordination rather than any partnership or national interest. Such a relationship has cost Pakistan dearly; the cost of instability and the loss of trade have a huge monetary value.

- **The Khilafah needs to move away from the US area of influence.** There are a number of practical and political ramifications for this. The US plan for the sub-continent centres on developing a strong India to act as a counter weight to China leaving Pakistan trailing. For these reasons India has been showered with military technology, nuclear technology, aid, trade deals and possible United Nations Security Council status. There is a golden opportunity for Pakistan to move out of the US area of influence as many nations in the region are resentful of America's colonialist hegemony. Within the region, Russia and China are opposed to America's military presence in Afghanistan and have repeatedly voiced concerns. The US itself is bleeding from two wars and drowning in a sea of debt.
- **The Khilafah needs to consider expanding defence production.** Currently Pakistan has only three defence producing facilities which have allowed it to develop the foundations of a defence industry. It now needs to expand production by building further facilities and move into the area of sophisticated and high tech military equipment. The equipment that is needed for the defence of Pakistan should be given priority over other items. The creation of Research Institutes as well as further production facilities will need to be built which could be undertaken as joint ventures with overseas partners if need be. Countries such as China, Germany and France are examples of past cooperation and similar agreements which will ensure technology transfer occurs could mean that Pakistan, in a matter of years, can become self sufficient in this area.
- **The Khilafah needs to develop a plan for the development of high tech weapons systems.** Pakistan is surrounded by belligerent nations. It has India on its Eastern flank, Afghanistan on its Western flank with a sustained US force. High tech weapons will act as a deterrent to such nations. Technology could be procured from overseas partners for this. Pakistan and China are already actively involved in the joint ventures of several projects to enhance each others' military needs, including JF-17 Thunder fighter aircraft, K-8 Karakorum advance training aircraft, space technology, AWACS, Al Khalid tank and missiles as well as F-22P frigates and Chinese-made J-10 fighters. The Gwadar deep-sea port was also completed with Chinese help in 2006 and overlooks the Indian Ocean which has 40% of the world's off-shore oil. High tech weapons also have a huge impact on the economy; this is due to the development of components and technology which can then be used in consumer industries. High tech weapons also represent a huge export market which currently is worth \$1.3 trillion.
- **The Khilafah should attempt to develop Intercontinental ballistic missiles (ICBM's).** This will aid the Khilafah in areas ranging from reconnaissance to guided weapons systems. Satellites are widely used to provide support for military or security related activities. They are also increasingly used to provide direct support for military operations. During the 2004 Iraq war, 68% of munitions were satellite guided (up from 10% in the 1991 Iraq War).<sup>48</sup> Such a development would give the

Khilafah an immense edge over its enemies. Military satellites for the Khilafah will ensure it can identify targets and detect the movements of the enemy. It will help navigate guidance based weapons systems to their targets. It will aid the development of telecommunications: in military operations this enables exchange of information; however this also has huge civilian use and potential. It will also give the Khilafah early warning of any missile attack. This technology would render an attack by an adversary too risky. Such a development would create thousands of jobs in the software and hardware industry creating opportunities for entrepreneurs. It will also ensure the Khilafah can develop its own weapons' delivery systems in the future and become self-sufficient in this field. Initially the Khilafah could work with friendly nations, The Khilafah could use its relations with China to import its space technology. However, the Khilafah will need to constantly re-evaluate who its potentially co-operative international partners are, as this will be determined by the political realities of the time and what serves the interests of the Ummah best globally.

- **Expanding the Space programme** - Space research and exploration is an essential instrument for the defence of life on Earth in the modern age. Being the measure for technological progress, the key to existing in a modern society, essential for developing an economy based on knowledge and the central attraction for scientific and qualified human resources. The US has long made it clear that it wishes to expand its military capabilities and have weapons in space and therefore also be dominant in this fourth military arena. This new “ultimate high ground”<sup>49</sup> would provide further superior military capabilities. The US competed with the Soviet Union for nearly 50 years for superiority in space and it has stifled the transfer of space technology to its allies. When China used a ballistic missile to destroy one of its aging weather satellites 500 miles above the earth in January 2007, this sent shockwaves across the world as China achieved this feat all on its own. The first paragraph of the US's new national space policy clearly states *'In this new century, those who effectively utilize space will enjoy added prosperity and security and will hold a substantial advantage over those who do not.'* For this reason Pakistan has a basic space programme which can be built upon by placing further satellites in space which are of a military nature. Launch pads could be created which can be utilised by other countries to launch into space, as well as launch satellites developed indigenously and develop launch vehicles. Developing launch pads will have the effect of placing the Khilafah at the cutting edge of technological innovation as space technology is very advanced relative to other technologies. With it the Khilafah can bring together from amongst its people the best engineers, technicians, physicists and strategists. Practically this means Pakistan would need to shift some of its ballistic missile technology to the development of powerful rockets. A launch complex is a facility at which rocket launches are conducted. It has usually one or more launch pads to mount launches. This will also act as a source of income for the State as it will charge for the use of the facilities. It took the US and China 50 years to reach the threshold they are at today; this technology should be pursued to close the gap between Pakistan and the world's powers.

- **Military** – Pakistan has the following military composition

Service	Total Active Duty Personnel	Total Reserve
Army	550,000	513,000
Navy	24,000	5,000
Air Force	45,000	10,000
Paramilitary Forces	302,000	0
Coast Guard	Classified	Classified
<b>Total</b>	<b>921,000</b>	<b>528,000</b>

Pakistan has a combined military force of more than 1.5 million personnel, the seventh largest in the world and the most powerful military amongst the Muslim world. The army represents the largest force in the military; this is due to Pakistan's belligerent neighbour. Pakistan has developed extensively in the area of military technology to offset the large conventional advantage India enjoys over Pakistan. Many geopolitical analysts have questioned the need for such a large army as it consumes a large chunk of the government's annual budget. Although in the modern era of warfare new technologies shape the battlefield, Pakistan should continue with its existing army size and large reserve army and work to increase its air force and navy. This is because political unity with the Muslim world is something Islam obliges and for this Pakistan should modernise the army with the latest technology and techniques, so that its armed forces can be called upon to protect the Muslim Ummah wherever it may be. Pakistan being the Khilafah would integrate the armies of the Muslim world and with this the size of the Khilafah's military will naturally increase overtime. Moreover, the military is not just for defence, but to allow the Khilafah to become the leading nation, carrying Islam to the whole of humankind.

- **The Khilafah should seek to establish a forum that will act as an intermediary between the military industry and consumer industry.** The expansion of the defence industry will create jobs unheralded previously which will result in an increase in national production and will result in greater disposal income in the country. It will also result in the nation spending more of their wealth on luxury items leading to a boom in the consumer industry. To meet these needs and to make profits, entrepreneurs will be encouraged to set up businesses to meet such needs. This forum will consist of entrepreneurs, businesses and defence specialists who develop military technology. The aim of this forum is to bring together in an organised but informal manner specialists from both the civilian world and the military world and ensure military technology is converted for civilian use. Hence production of fridges, automobiles, TV's, microwaves etc will all reach levels unheralded in Pakistan and lead to civilian prosperity. When the realisation of the potential dividends of such policies become known to the rich, then they will move to become part of this economic revival since they would be able to generate wealth previously unheard of in Pakistan. This coupled with a concern for the welfare of the people should help generate private investment.

## Domestic Development without Foreign Dependence

- Through targeted state intervention Pakistan can easily develop its domestic economy
- Pakistan would need to remove all obstacles to wealth circulation
- The introduction of Gold as the currency will contain inflation

Any economic policy is developed to improve the situation domestically of its people so their standard of living improves. Islam laid down clear rules for the economic policy of the Khilafah which ensures the economy is not skewed like Pakistan is currently but rather each sector complements another ensuring the nation's objectives are met and securing the nation's domestic needs. Domestic development of the economy can only be achieved through a focused policy by central government

Pakistan has a number of problems domestically which act as obstacles that hinder economic development. These range from the existence of the stock market to the existence of interest in the banking system. Pakistan's domestic issues can be reduced to two fundamental issues. Firstly, the absence of economic policies that aid wealth distribution and secondly the existence of policies in Pakistan adopted from capitalism which severely hinder economic activity. Intervention by governments is necessary to ensure certain industries and sectors develop. What follows is a list of potential policies, developed with the current circumstances in mind, to alter Pakistan's domestic economy creating wealth and opportunity for all:

- **The Removal of Financial Speculation** – Since the creation of Pakistan the bulk of trading has been in the real economy. The production of goods through industry and agriculture is the most common form of trading in the nation. Since Musharraf came to power in 1999 he has expanded the role of the stock market in Pakistan which has resulted in a huge increase in speculative business activity. This recent development of the financial markets do not in any way manufacture goods or services but provide a new kind of service. Rather than work in the real world, participants effectively gamble on what is happening in the real world – by betting on how businesses are performing and by betting on their profits. Essentially, the financial markets are a parallel economy which exists alongside the real economy. The real economy consists of housing, land and property, factories, cars and goods etc. These are tangible goods which can be traded, leased and sold i.e. they are physical goods which are produced where people are employed to make them and can be converted to other items which add value at each stage.

The Khilafah will play a central role in providing the finance to kick start the economy and ensure wealth circulation takes place. The Khilafah is central to many mega projects such as infrastructure development and transport and it can bring investors together as well as enter into partnership with investors.

The existence of speculative financial markets creates a dual economy – the financial and the real economy. This historically has led to the creation of bubbles in the financial economy with the results borne by the masses in the real economy. Because there is no motivation for direct investment around the economy, newly generated wealth goes back into interest bearing investments and speculative activity and hence out of circulation around the economy. The risks associated with bad investments are then borne by the masses in the shape of rising inflation, increased house prices, as well as recessionary effects. The average person deposits their money into banks that use his deposits to finance the banks investments via fractional reserve banking, and yet they don't see the gains from that, but stand to lose their deposits if the bank collapses. The problem fundamentally is that borrowed money (debt) is being used to fund investments. This type of speculation only creates a speculative bubble rather than the strong foundations needed for the long-term aims of the Khilafah. Pakistan's stock market compared to Western nations is relatively small however under Musharraf and under pressure from the IMF within five years Pakistan will be at the mercy of speculative wealth. Indonesia today has been unable to recover from the Asian financial crisis in 1997 which was essentially built upon the model being sold to Pakistan

- **Monetary Policy** - Pakistan currently suffers from a chronic inflation problem. With prices continuing to increase this eats into the income of people as more and more money is needed to purchase essential goods. Pakistan currently has an average inflation rate of 10% (2007) however during the last six years essential kitchen items have increased by between 200%- 300%. The actions of the Musharraf government in flooding the foreign exchange market with rupees (liquidity) in order to purchase dollars to pay for imports and the actions of domestic banks in increasing credit has not actually added wealth but has fuelled inflation. Liquidity (printing more and more money) accelerates financial transactions that in most cases destroy wealth. In the real economy, wealth is created by the development of productive hard assets (such as land, property, products etc), which are then sold for a profit. Wealth is increased by increasing production (i.e. you produce more good and services and sell them for a profit). The growth in the stock market has resulted in more and more debt being borrowed to invest on the markets. The Musharraf government played its role by printing more money and the rich have used their influence to gain loans from banks

The creation of money in such a manner actually creates a destabilising effect in the economy. Assets such as property and land do not devalue as they keep the same intrinsic value at all times, but due to the effects of money creation the amount one can purchase with their money continues to fall as governments continue to print more and more money. The net effect of this is that although there is more money in the economy the purchasing power (ability of money to buy goods and services) falls and hence in real terms wealth is actually falling, because money is being devalued, compared to real hard assets such as housing or land which generally keep their value. Although the Pakistani economy grew under Musharraf, in reality growth does not mean more, because price rises due to money creation cancels this out. So in the case of Pakistan although the economy may have grown considerably during Musharraf's reign the purchasing power of money has declined in real terms

**Hence Pakistan's inflation problem is a direct result of the government continuing to print more and more money and increasing the availability of private credit.**

The State Bank of Pakistan (SBP), the central bank, controls the money supply and credit, supervises the operations of banks, administers the country's international reserves, and acts as banker to the federal and provincial governments. As the private sector is relatively small in Pakistan compared to other countries, the governments of Pakistan historically have resorted to borrowing and printing money to meet every day needs of government.

The role of banks and the issuing of currency will follow a different policy under the Khilafah. At the moment the banks practice fractional reserve banking whereby they create credit, borrow money from the financial markets and lend to depositors. This creates a big problem as very little equity can be used as collateral to borrow large sums of money which creates a bubble waiting to burst. An option to tackle this could be to withdraw the ability of banks to create money and transferring this to the central treasury - bait ul mal.

- **Banks** – The role of banks in the Khilafah will be to collect the nation's deposits and to also act as a central pool whereby money can be collected and invested in the economy, with the returns being distributed amongst the investors. The banks would only be able to invest what they have in deposits and cannot create money as this is the role of the central treasury – bait ul mal. As interest (Riba) is haram the main function of banks will become the pooling of wealth which can then be invested across the economy aiding distribution and economic growth. This is in contrast to the current global set up where banks speculate with customer deposits on the financial markets and where they borrow from the financial markets in order to lend to other banks and customers leading to a huge chain reaction of debt to drive the economy.

*“The role of banks in the Khilafah will be to collect the nation's deposits and to also act as a central pool whereby money can be collected and invested in the economy, with the returns being distributed amongst the investors”*

**Currency** – Currently Pakistan's currency, the rupee (Rs) lacks any credibility in the world's financial markets. Pakistan operates the fiat standard – this is where the value of the currency is decided solely by the market. The currency has no intrinsic value as it is not based upon anything apart from the state that enforces the rupee as a standard. Fundamentally, Pakistan faces two challenges with regards to its currency; firstly, the currency's value is decided by the perception of the market; and secondly, without a peg the Pakistani government and national banks freely print and create money which fuels inflation.

In Islam when it comes to exchanging a commodity with a specific monetary unit, Islam has guided us to the monetary unit by which the exchange is to take place. It has restricted the state to a specific type of money, which is gold and silver. The Islamic evidences have designated gold and silver as the primary measuring unit for prices and labour. This is understood from the actions of Muhammad (saw) when he collected Zakah, levied taxes and imposed fines, all were measured according to gold and

silver. Pakistan's rupee would need to be withdrawn from the economy and replaced with a currency which is pegged to both gold and silver. This would mean the notes and coins circulating in the economy would all be backed by gold and silver. This will no longer make possible the free printing of currency as the state would need to increase the actual holdings of gold and silver. This would end Pakistan's inflation problems as this has always been down to the ability of the Pakistan government to freely print money. The curtailment of inflation in this manner will ensure the stability of prices across the economy and any increase in prices will be short lived and down to exceptional circumstances such as an earthquake damaging crop fields.

In order to transfer from the current currency system to the Islamic one, the Khilafah as a matter of urgency will need to calculate the total currency in circulation. This would include outstanding debt and the credit banks have created. The aim here is to begin the process of gradually fazing out the rupee so it can be replaced by the new currency. The new currency would fundamentally need gold and silver reserves which the Khilafah can purchase from the financial markets and make use of the Reko Diq mining area which has proven reserves of 20 million ounces of gold. In order to do this practically, a committee could be set up for this purpose whose role would be to oversee the implementation of this process. It is envisaged that this process should have a finite time period in which to take place and should last no longer than five years.

The currency in the Khilafah would have an intrinsic value which is the value of gold and silver unlike the current world currencies which are valued according to the value people perceived of them. Any increase in money supply will require additional metal which ensures inflation cannot occur as the state is not free to print currency. Any increase in currency should be in line with national production. Pakistan's economy grew by 7% in 2006, however via fractional reserve banking and the purchase of dollars (funded by selling rupees) by the Musharraf government for imports, money supply increased by 25% which has fuelled inflation. The initial explosion in production due to industrialisation may require the need for printing of currency; however, as a matter of policy it must be backed by metal and should not exceed production.

**Interest** - For many it is difficult to envisage economic life outside the capitalist framework. In Western economies every economic model is based on the rate of interest, from investment decisions, consumption decisions, savings decisions to financing loans and purchasing housing. The effect of this is that spending and investment are unnaturally skewed. For example, the average person who buys a house is then stuck in the mortgage trap paying back extortionate amounts of interest for 20-30 years. This coupled with loan payments for cars and other luxuries severely erode people's disposable income. However, even after the costs of taxation, and the costs of interest payments, people are left with some disposable income. The problem is then one of investment; simply put people will not invest if the rate of return of a business venture measured against the risk of the venture is offset by the interest that can be gained from leaving the money in a bank account to accrue interest.

Simply put if the risk of the rate of return on an investment is offset by the rate of interest then one would leave their wealth in a bank account rather than actually invest it. Hence the incentive would be

to save the money rather than to use (invest) it. Although interest is money sitting in an account which banks use for their investment, this money is still not circulating in the economy as banks invest all their money in the financial markets. This means that money is held for a promised rate of return rather than going on the actual production of goods, or the building of a plant etc. Although a bank may invest some of its money in physical goods this money is in effect circulating amongst a handful of rich individuals and companies, hence the money continues to be sucked out of the economy. In most of the Muslim world only those aligned with the regime and the corrupt receive large loans from banks and this money remains circulating amongst such elite.

**In other words, interest restricts investment and hence is an impediment to the distribution of wealth.**

**Islamic Taxation aids Wealth Distribution** – Pakistan's 2006-07 fiscal year budget as only \$19 billion; such a small budget was fundamentally due to only 2.8% of the workforce paying taxes. This has resulted in the Musharraf government heeding to IMF and World Bank advice introducing indirect taxation such as the General Sales Tax (GST). Pakistan today has a mind-boggling taxation system that defies comprehension; established proportions of various taxes levied by the federal government are distributed to the provincial governments. In addition, the provinces collect, for their exclusive use, taxes on land revenue, immovable property, vehicles, professions and services, and mineral rights, as well as excise taxes. Municipalities and other local governments also levy taxes. Taxes being collected by the federal, provincial and local governments are of 70 different types to which consumers and producers are subjected. In addition there are host of specific taxes like a Research and Development Levy, Drug Manufacturing License Fee and Drug Registration Fee. There are over 100 different taxes individuals can be potentially liable for. .

Income taxes in Pakistan are progressive, rising from 7% in the lowest category to 35% in the highest, with a net wealth tax of up to 2.5%. The basic corporate tax is 43% which is higher for banks (58%) and lower for certain other public companies (33%). A value-added tax (VAT) of 15% is levied on the value of goods.

Such taxes in no way aid wealth distribution but rather tax those who earn higher amounts. The corruption present in Pakistan means very few taxes are actually collected and those that are rarely reach central government. Islamic taxation is not comprised of income tax, value added tax, nor excise duties. Islam rather puts the emphasis of taxation on wealth rather than income. This is deduced from a number of hadith where Muhammad (saw) collected taxes upon various items. The effect of this on the economy is significant. Take the average salary in Pakistan of 29,000 rupees (£275) a year. Income tax is progressive beginning at 7% with anything in excess of 900 rupees qualifying for the top rate of 35%, that's a tax bill of 9800 rupees. Add to this the GST of 15%, vehicle tax and a fuel tax at 25%, taxation is consuming between 50%-60% of the average income in Pakistan. This example does not take into account that the average salary in reality is skewed as 73% of the population earns an average of only \$2 dollars a day, the high earnings of 27% of the population pushes this average to 29,000



rupees. With an average inflation rate of 10%, essential kitchen items rising by 200-300% alongside indirect taxation, life for 73% of the population is indeed dire.

With Islamic taxation being wealth based this would result in wealth being taxed at 2.5% which is held for a year. On the average salary of 29 000 rupees this would only be 580 rupees, which means one could save an average of 9229 rupees a year under the Islamic economic system. Therefore two or three people could easily enter into a business contract to supply some of the demand in the economy for consumer or manufactured goods thereby creating more employment in the economy. Although the amount of money collected under the Khilafah in taxation may be lower than what is considered normal today in the world, the Khilafah's budget will not necessarily need to be large as with the Islamic rules of wealth distribution citizens will all benefit with the increase in national wealth. The majority of the industrial world's national government budgets are spent on social security, and this will be a small problem in the Khilafah as the rules for wealth distribution cause a multiplier effect which increases economic activity which will lead to the creation of new jobs and business opportunities.

**Developing Local markets** – The aim of all industrialisation policies is not just to ensure self – sufficiency but also to ensure the domestic population benefit from the new wealth and direction. To achieve this domestic industry needs to be developed alongside local markets. This was traditionally achieved by Britain and the US through infant industry protection (IIP). This is where key domestic industries such as agriculture, food processing and steel are subsidised ensuring profitability, obstacles are placed ahead of foreign companies ensuring local companies can consolidate skills and technology and then work independently from the state once this is achieved. The key issue here being industries in their infant stages require help and protection. The developed world has not given this opportunity to the developing world and due to this industrial development has been severely stifled there.

*“The mere existence of foreign companies in Pakistan or the fact their products are superior in reality brings little benefit to Pakistan. Their ability to use Pakistani resources, labour and expatriate profits only benefits the companies’ profits and this has stifled the development of domestic industry for Pakistan.”*

The lack of vision in Pakistan has resulted in key projects being given to foreign companies and as a result Pakistan today remains reliant on imports for key industrial projects. Foreign companies have been a problem in Pakistan as they are given a complete free hand in mining, construction and the production of resources and on many occasions given a share in the resource as payment. Also many of the Muslim rulers ensure they personally benefit financially which prevents the nation actually benefiting from the resource. The biggest problem is the fact that such companies do not transfer skills or technology to the country they work in. To solve this problem if foreign companies are invited to do work they should be made to sign agreements in order to transfer technologies to the Khilafah. With regards the transferring of technology the case of Pakistan's construction of the Agosta submarines is a good example. Pakistan and France signed a deal to develop 3 submarines. One of these was assembled in France, whilst the remaining two have been assembled in Pakistan. The two submarines built in

Pakistan have been built with the help of French engineers, hence technology transfer has occurred. It should also be borne in mind that Pakistan has sacrificed a lot for the US and has only received some aid in return, whilst Pakistan's relations with China has yielded substantial results. The mere existence of foreign companies in Pakistan or the fact their products are superior in reality brings little benefit to Pakistan. Their ability to use Pakistani resources, labour and expatriate profits only benefits the companies' profits and this has stifled the development of domestic industry for Pakistan.

The industrialisation drive will require key industries to be earmarked with plans and help to ensure they reach a level where they can fulfil the needs of industrialisation. Foreign companies and their investment will follow the Khilafah's foreign policy, which will involve the transfer of technology. With the entire economy geared towards industrialisation this will generate economic activity unprecedented in Pakistan's history. The creation of heavy industry will fulfil the needs of the military industry and large infrastructure projects, the creation and conversion of factories will lead to the development of new towns and cities which will bring with it consumer industries, construction opportunities, schools and shopping centres. This will lead to the development of transport systems linking cities which will require new roads, coaches, buses, railways and a domestic air industry. All of these industries will create jobs and contracts which will increase national production and national wealth which will be spent in the economy creating further opportunities.

Interest, speculative financial markets, income related taxes and debt fuelled investments (speculation) all take wealth out of circulation. The more wealth changes hands the more economic activity proceeds. If wealth is removed from circulation exchange becomes scarce. Hence, in the Khilafah, with the absence of such obstacles and with the Islamic economic system, all citizens take part in the wealth generation process and then benefit from the results.

## **Finance**

- Through a combination of strategies industrialisation can be funded
- Industrialists should be brought into the vision of the Khilafah and the drive to industrialise
- FDI can easily be replaced with agriculture on day one

The massive expansion of the military industry alongside the manufacturing sector will require large funding as salaries will need to be paid and projects all require money. All the nations that industrialised made use of a combination of private investment and government funding to industrialise. Germany and Japan printed money to fund industrialisation. The Khilafah will need to make use of a number of options that will be available to it.

### **Direct Investments**

Western development clearly showed the initial stimulation is always started with the pouring of money and resources into the sectors which require rapid development by central government. The Western nations gave ample protection to their infant industries through tariffs and by creating barriers to entry as their industries would never have developed. All the markets and sectors that take time to make profits should be funded by the state especially if they are key sectors for development such as ship building, space research and railway systems. These should be operated by the state.

### **Working in collaboration with industry**

This would be on projects where there is a potential commercial value to the project or government involvement is required to make the project work, such as oil exploration. Any item which requires citizens to search far a wide for it and large deposits of minerals remain public properties where the nation has collective ownership with administration by the state. In such cases the industrialists will be paid for refining, extracting or constructing however, the item remains the property of the state. In this way the aims of the state are met by the organisation of production of the items concerned and wealth circulation occurs as money transfers from the state to business.

### **Provide incentives to industry to take on projects**

This is where profitability can be easily achieved by giving contracts to industry to manufacture tanks, weapons, ships etc or by providing loans/grants/subsidies to industries that process raw materials for instance, or provide free land for construction projects such as factories or assembly plants.

The Khilafah should look at attracting those who have the ability to help in its development of the Military industry. The Muslim world already has skilled nuclear scientists and engineers as well as petroleum engineers. Due to a lack of direction when it comes to industry, such experts go abroad where they are paid

lavish sums for their skills. For example, when Egypt gave up its policy of developing nuclear weapons in 1967 many of its scientists went to Iraq and joined Saddam Hussein's weapons programme. Abdul Qadeer Khan, the father of Pakistan's nuclear programme, is currently unemployed.

In this way those who have the expertise or have influence in society will be brought into the vision which will give confidence to wider society as the movers and the shakers are partaking in the industrialisation drive.

## **Funding**

Pakistan faces two key challenges on day one with regards to kick starting the economy

1. Foreign Direct Investment (FDI), remittances and international borrowing has been the key source of government spending and will most likely dry up or drastically reduce when it pursues an independent programme of development. How can such sources be replaced?
2. How does the new government kick start the industrialisation drive with very little in the way of foreign exchange and wealth from day one?

FDI at its peak under the Musharraf regime reached \$7 billion with most of this foreign money going into telecoms. Pakistan still has a very primitive telecoms infrastructure and to some extent became reliant upon this with very little technology transfer. Remittances are from Pakistani citizens who live abroad and are most likely to remain rather than disappear. However to kick start the economy Pakistan can use its agricultural clout in order to replace FDI. Pakistan is a stone throw away from the Middle East which has very little agriculture. Pakistan has an active market that can replace the unsustainable FDI.

The huge increase in production due to the industrialisation drive means the amount of money in the economy will need to increase. In order for exchange to occur sufficient amounts of money (notes and coins) need to be circulating in the economy so exchange can take place considering bartering is no longer the way in which exchange occurs. Islam has designated Gold as the primary unit to act as the legal tender with supplementary metals or items which are accepted as a store of value with society to also be used. Pakistan's Reko Diq mine has over 20 million ounces of Gold, alongside gems such as ruby, silver, platinum and copper exist in large deposits. This is unlike Europe who colonised Latin America stealing their gold and silver wealth to fund their currency. Pakistan is in a unique position where it can print money which will be representative of its metals it has in abundance and can begin the payment of salaries and start paying for large industrial projects. Such projects themselves when they mature will become the sources of revenue for the state.

## Conclusions

After sixty years of existence Pakistan remains with many of the problems and challenges it faced on the eve of independence: providing for a large population, ensuring wealth distribution, industrialising and integrating people from different ethnic backgrounds. None of these problems have been solved and they have ballooned into multiple other issues – Pakistan has effectively stumbled along for decades with the people of Pakistan making the best of very little in the way of organisation and direction.

This has resulted in many Pakistanis viewing groups, political parties, intellectuals, industrialists and tribal leaders with scepticism, writing them off before their programme for change was even given due criticism. This is obviously natural in a nation where military dictators have traditionally ruled over the masses or ruling families and individuals with vested interests looted the nation in the name of democracy, enlightened moderation, national interest and even Islam. This has created an atmosphere where foreign thoughts receive an almost default credibility as they were developed externally, carrying no perceived agenda. With the chaos Pakistan is in, ideas such as democracy, freedom, free markets and tolerance have gained currency and with it foreign interference.

However the track record of initially Britain and currently the US has brought little if any benefit to Pakistan. Foreign interference has in fact ensured foreign interests are achieved at the expense of domestic interests. Pervez Musharraf's 'unstinting' support to the US in the war on terror has resulted in the Pakistan army acting as a US mercenary corps, killing the very people in Waziristan and Wana they were meant to be defending.

For the US, Musharraf undertook actions which the US public itself would never accept from its own rulers. The US public would never accept a US president who gives its own bases to a foreign nation. The US public would never accept the killing of Americans for a foreign nation. The US public created uproar when Dubai Ports International was awarded a contract to manage US domestic ports, forcing this perfectly legal move to be abandoned in the name of maintaining national security and interest. US interference has led to US diplomats interfering in key areas of governance in Pakistan and this has resulted in policies being developed in the interests of the US rather than Pakistan. These include the privatisation of state utilities and US interference in the political system of Pakistan.

US interference has also brought with it the very real possibility of the future fragmentation of Pakistan. Regime change with a view to ensuring continuity under military rule is no longer the main thrust of US foreign policy. The regime of Pervez Musharraf was never sustainable and as a result Washington's foreign policy course is to actively promote the political fragmentation and balkanisation of Pakistan as a nation. The elections in February 2008 took on a very different shape, in relation to previous US sponsored regimes. Washington has pushed for a compliant political leadership, with no commitment to the national interest in Pakistan. A leadership which will serve US imperial interests, while concurrently contributing under the guise of 'decentralisation' to the weakening of the central government and the fracture of Pakistan's political set-up. This political stalemate is deliberate. It is part of an evolving US foreign policy agenda, which favours disruption, disarray and chaos in the structures of the Pakistani State. Indirect rule

by the Pakistani military and intelligence apparatus is to be replaced by more direct forms of US interference, including an expanded US military presence inside Pakistan. According to a Washington Post article, “*U.S. Special Forces are expected to vastly expand their presence in Pakistan.*” (William Arkin, Washington Post, December 2007). This expanded military presence is also dictated by the Middle East-Central Asia geopolitical situation and Washington's ongoing plans to extend the Middle East war to a much broader area.

The US policy consists in fomenting social, ethnic and factional divisions and political fragmentation, including the territorial break-up of Pakistan. The current leadership of Pakistan will ensure this situation continues, hence under the guise of democracy and the removal of dictatorship, US interference will only increase.

One has to question the tendency by some in Pakistan to always look to foreign thoughts, methods and ways of organising society when such things are completely alien to the populace, not even part of its heritage and which have a track record of dividing people. A cursory glance at democracy shows instead of settling rival ethnic differences it recognises them and caters for them by protecting them and enshrining them into the national system. In Iraq, after removing Saddam Hussein and drawing a constitution for the people which recognises the differences between the Sunni, Shi’ah and Kurd’s, the US has begun the break-up of the nation. Britain which is considered the bastion of democracy is witnessing a separatist movement in Scotland which will in most likelihood become an independent nation by 2012, after 200 years of unification with England.

Pakistan may have Mohair’s, Bulochi’s, Sindhi’s and Punjabi’s who speak different languages, eat different foods and even have different customs, however these are all superficial differences. If the people of Pakistan actually looked at the common denominator between them they would realise there is only one thing which unites them all and that is the fact that all of them are Muslims. Islam represents the common denominator between the 161 million people which has a proven track record of success.

Contact between Islam and the region were initially made during the time of Umar Ibn Khattab (ra). When Islam descended upon the region in 714 at the time Hind had an abhorrent caste system which differentiated between people on ethnic lines which lead to the supremacy of princely rulers who enslaved many to work in their fields in return for basic wages. As Hindu and Buddhist kingdoms came under the fold of Islam, the Khilafah became a highly centralising force that facilitated the creation of a common legal system that gradually replaced the caste system. Letters of credit issued in Egypt or Tunisia were honoured in India and in order to create and sustain such an internationally consistent legal system, local and traditional systems of governance were uprooted.

Islam created a system where political power, law and worship became fused in a manner so as to safeguard the interests of all people. This stability led to the subcontinent to become the hub between the Far East and the Mediterranean. The Khilafah has been credited for creating the *Karkhanas* – small factories in the subcontinent. New towns were created that specialised in a particular category of

manufactured goods. Khurja and Siwan became renowned for pottery, Moradabad for brassware, Firozabad for glassware, Farrukhabad for printing and Saharanpur and Nagina for wood-carving.

It was only the weakness that overcame Muslims in understanding Islam that became the cause of their decline as under Islam the people of the region only saw progress. Today Pakistan does not lack resources or people, nor does it lack the skills or the knowledge necessary to progress. It only lacks a system which can be implemented across society that would cater for the people and distribute resources and wealth. Islam is such a system which has a proven track record. Democracy under various guises has been tried in Pakistan and failed. Zulfikar Ali Bhutto tried to infuse Pakistan with Socialism only to fail. Dictatorship has also been tried with disastrous implications. The current system which is a mixture of dictatorship and free markets is unfit for Pakistan and geared towards the elite of Pakistan.

The Muslims of Pakistan only have one salvation and that is Islam. This book outlined how Islam would change the economic standing of Pakistan and it highlighted how to use the resources Pakistan has in order to develop and become self sufficient. Islam most certainly answered such questions and can act as a basis to continually derive solutions to problems. Islam also gave the Muslim of Pakistan a vision and this vision will be the driving engine for Pakistan.

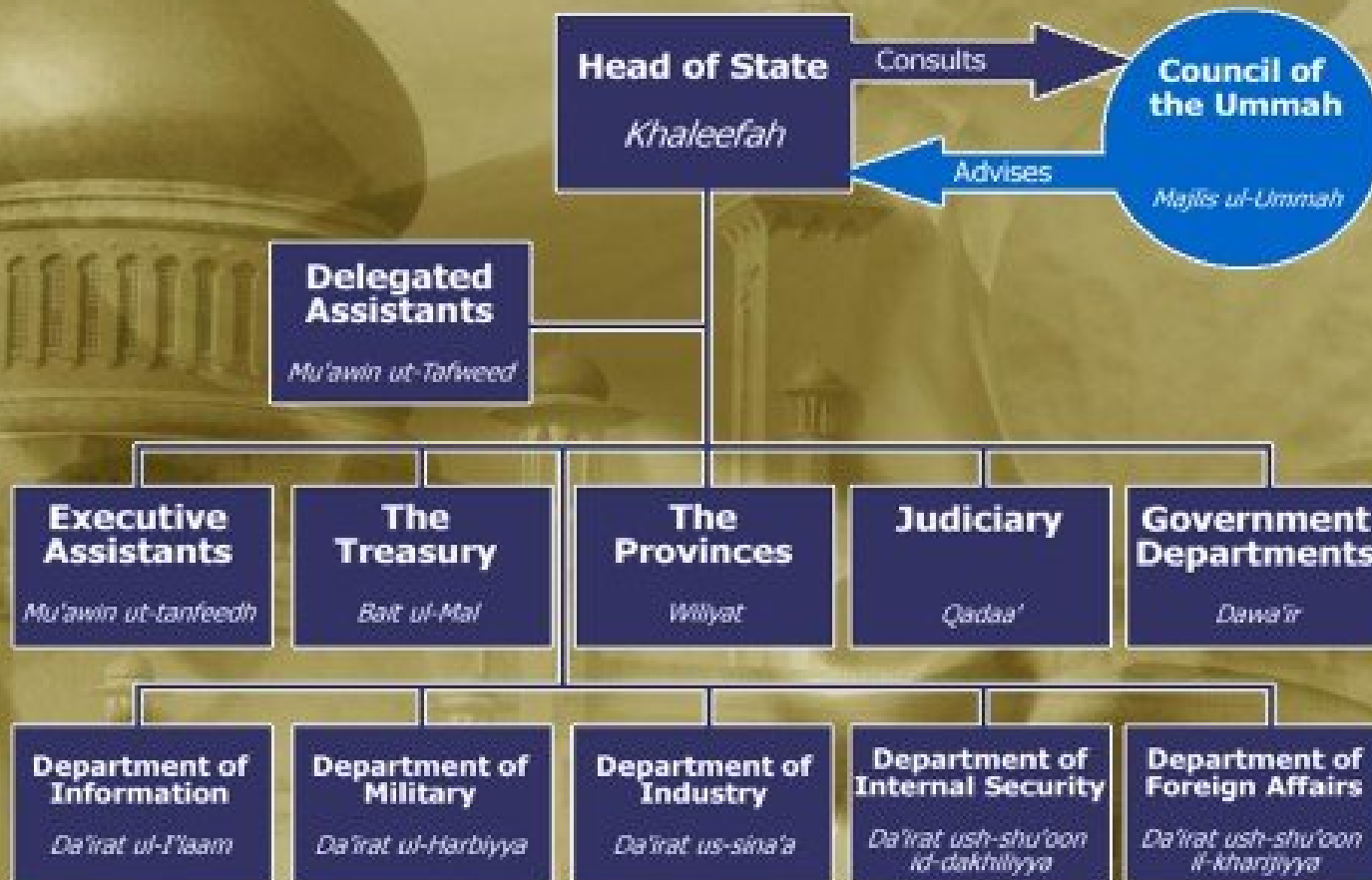
Islam did not come to the subcontinent by accident. Muslims from Iraq were sailing in the Indian Ocean from Ceylon (current day Sri Lanka) to the coast of Sindh for trade and dawah. Like the Muslims who went to Indonesia to spread Islam whilst conducting trade, they formed part of a wider foreign policy initiative which was developed in Damascus, the seat of the Khilafah. Hence Muhammad bin Qasim began the spreading of Islam in the subcontinent in 714 and by 804 the whole of the subcontinent was part of the Khilafah, which spanned from Indonesia to Spain.

For Pakistan, the implementation of Islam domestically is just the beginning. Once Islam is consolidated, the task of attaining political unity with the rest of the Muslim world would begin. To do this Pakistan must embrace not only its sole hope of survival and salvation, but also its destiny. It must become the Khilafah, as prophesised by the Messenger of Allah (saw) in his hadith:

**“The Prophethood will last among you for as long as Allah wills, then Allah would take it away. Then it will be (followed by) a Khilafah Rashidah (rightly guided) according to the ways of the Prophethood. It will remain for as long as Allah wills, then Allah would take it away. Afterwards there will be a hereditary leadership which will remain for as long as Allah wills, and then He will lift it if He wishes. Afterwards, there will be biting oppression, and it will last for as long as Allah wishes, then He will lift it if He wishes. Then there will be a Khilafah Rashidah according to the ways of the Prophethood.”** Then he kept silent. (Musnad Imam Ahmad (v/273))

# The Structure of the Islamic State

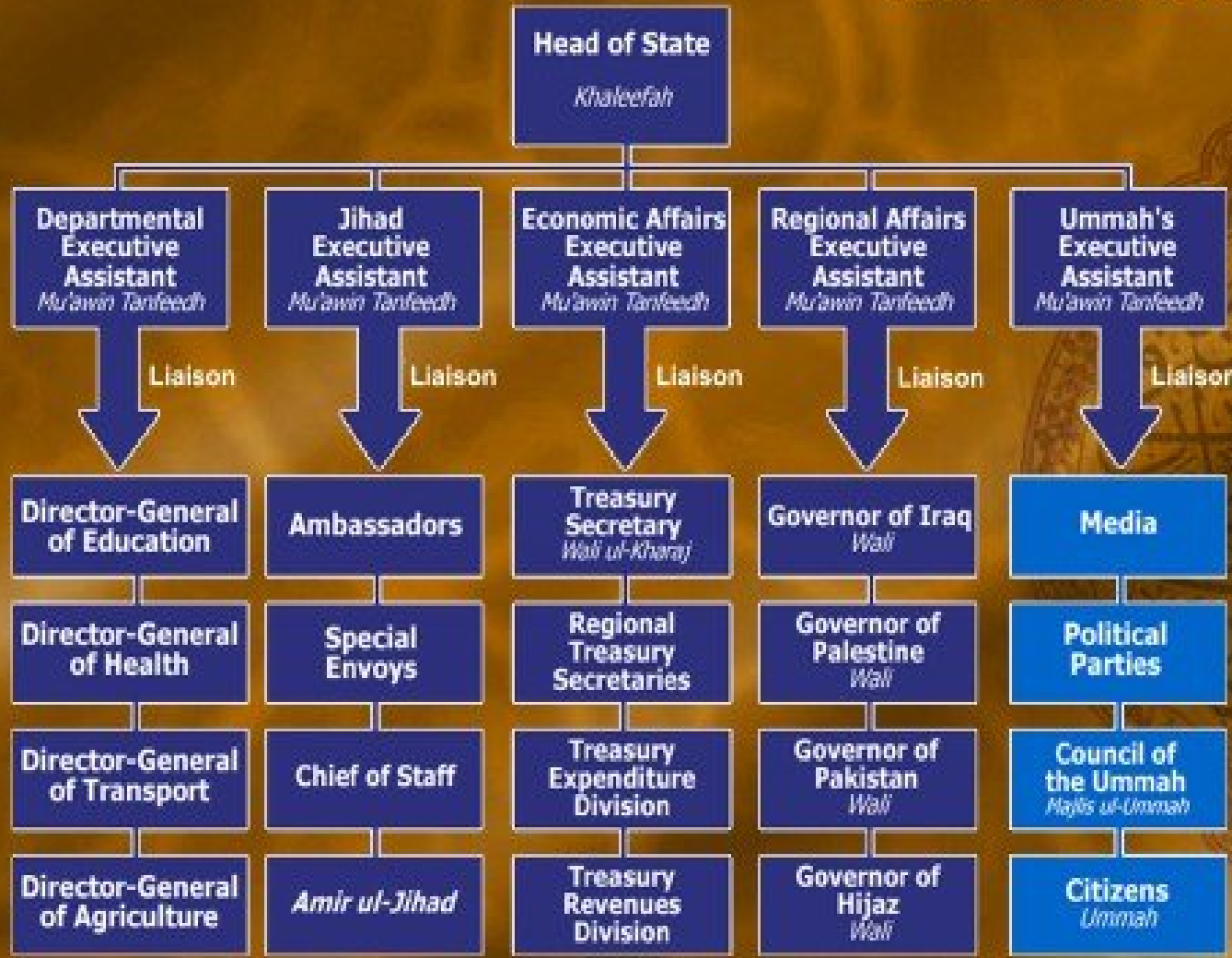
## Khilafah/Caliphate





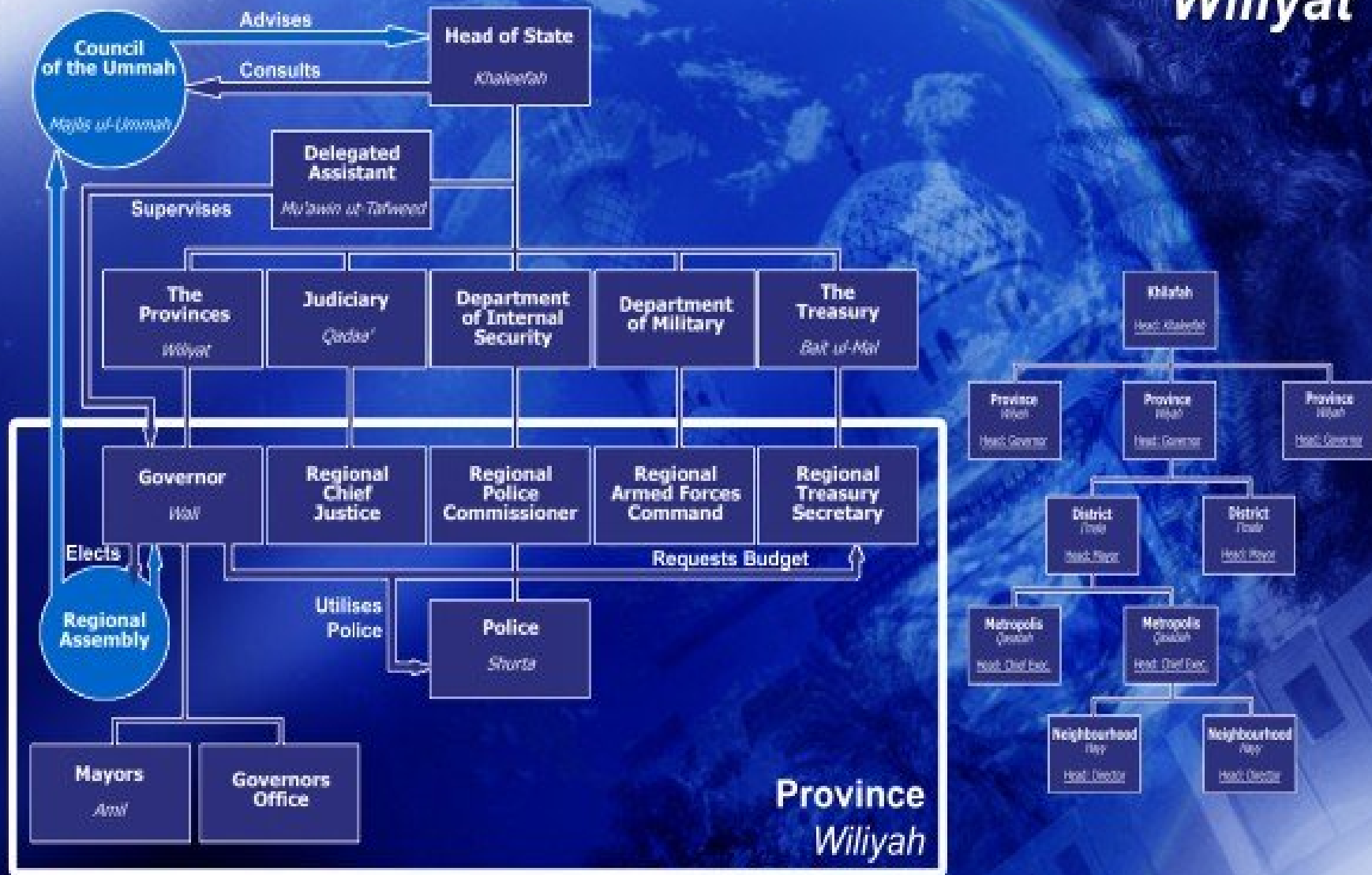
# The Executive Assistants

## Mu'awin ut-tanfeedh



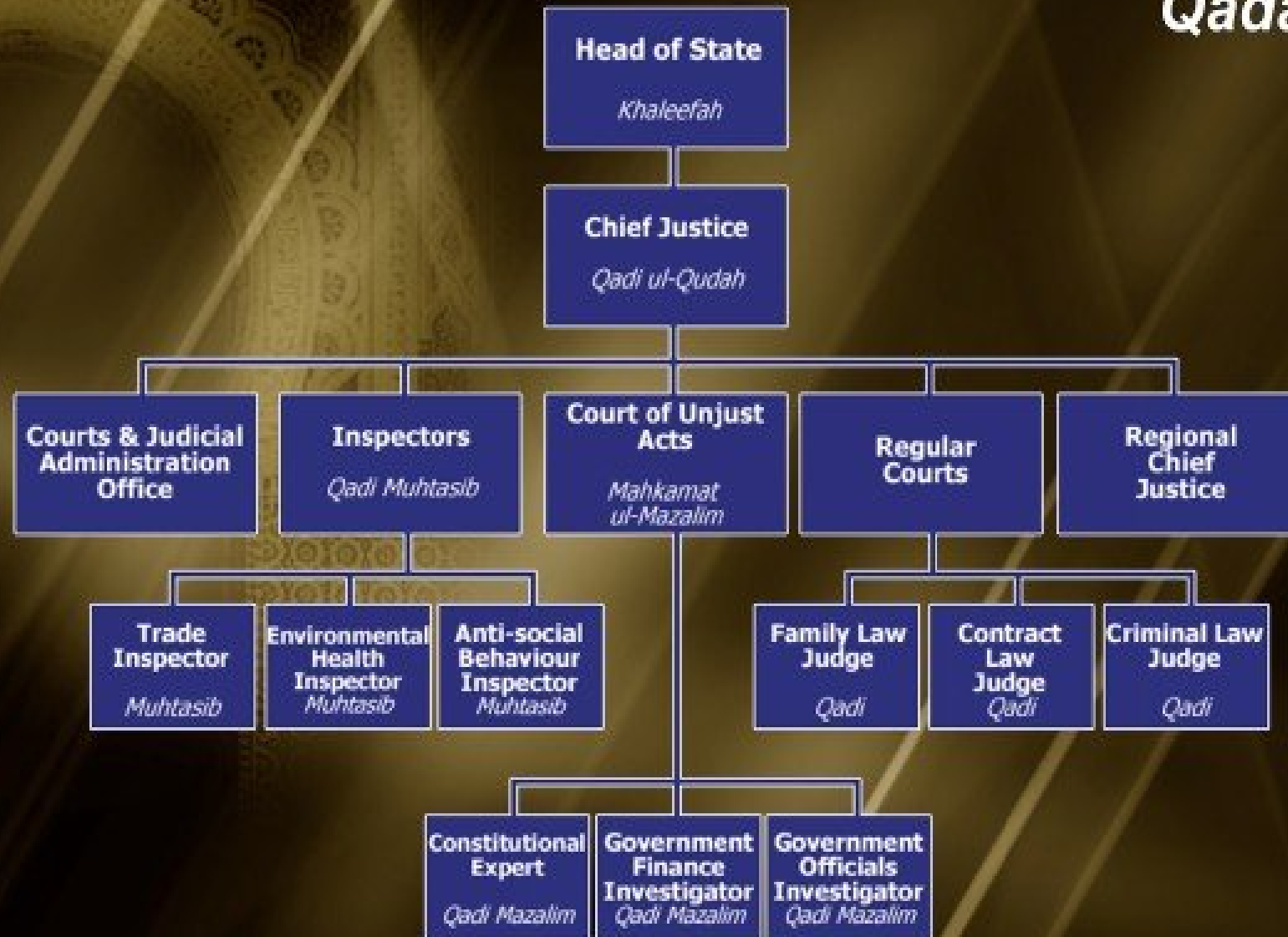
# The Provinces

## Wiliyat



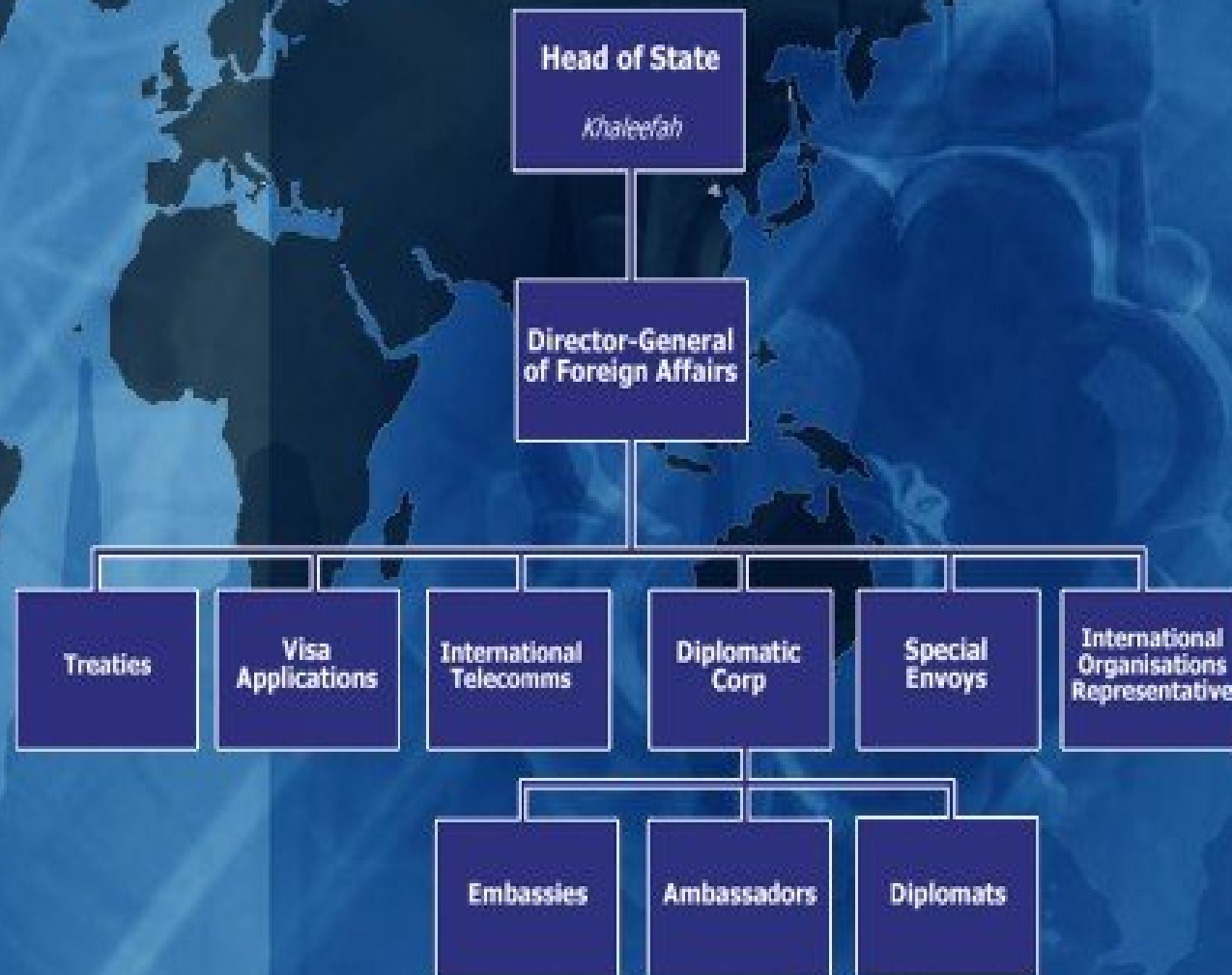
# The Judiciary

## Qadaa'



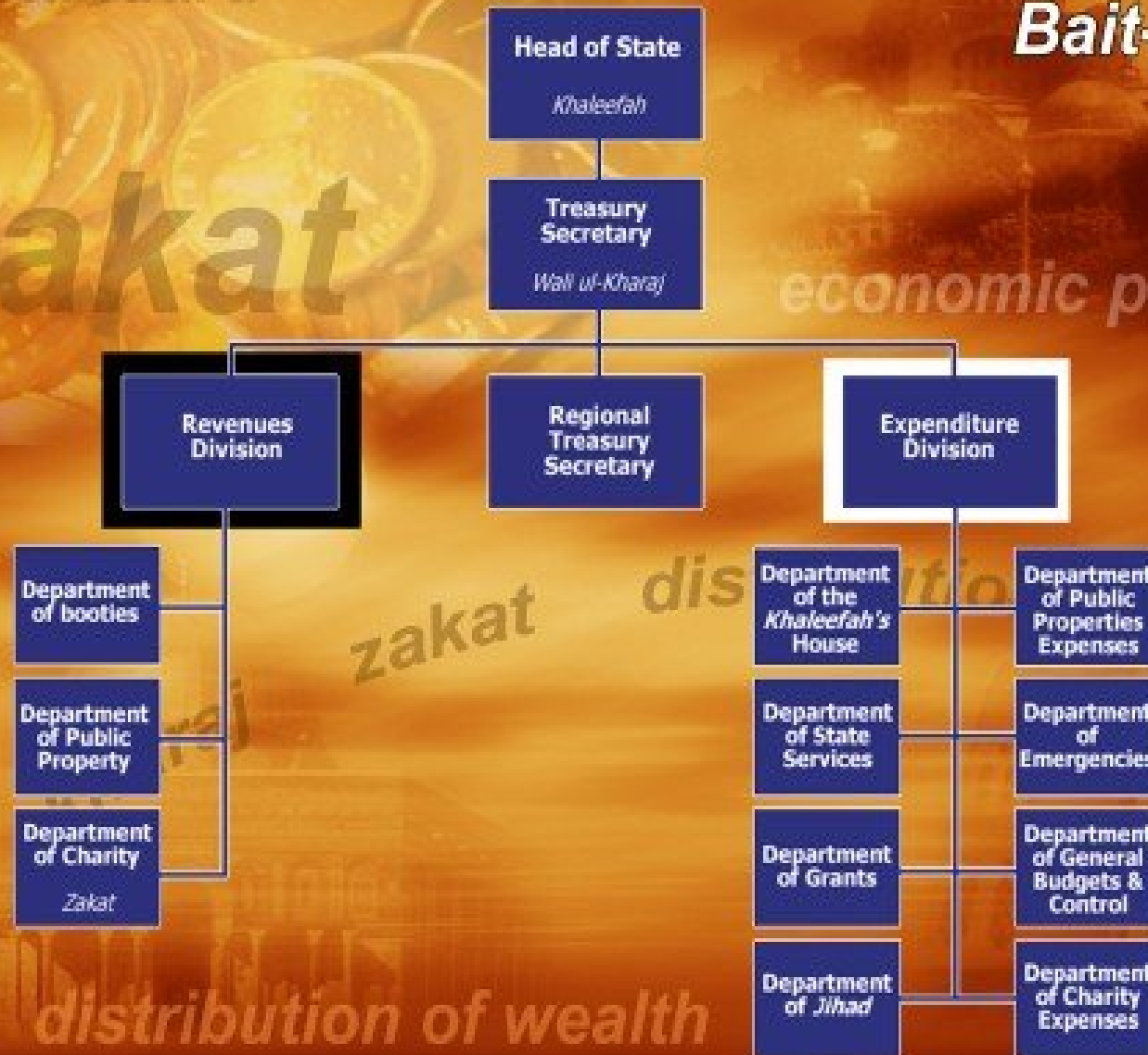
# The Department of Foreign Affairs

*Da'irat ush-shu'oon il-kharijiyya*



# The Treasury

## Bait-ul Mal



# The Treasury

## Bait-ul Mal



gold standard

economic policy

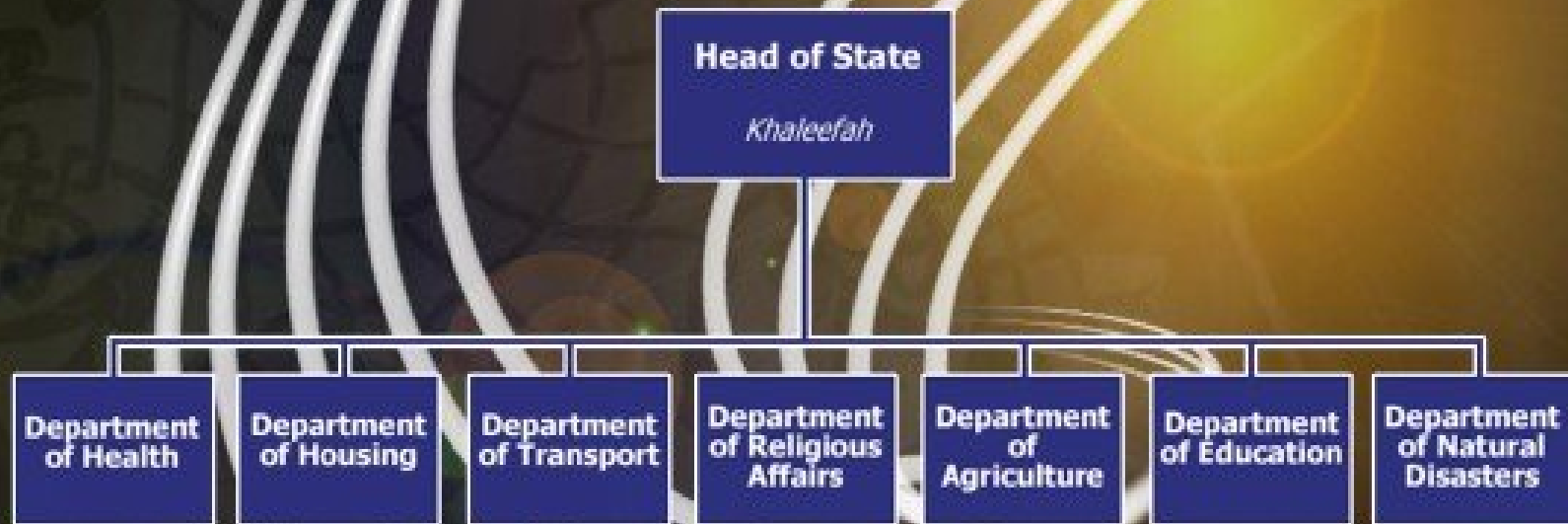
zakat

kharaj

distribution of

# The Government Departments

*Dawa'ir*



# Department of Industry

Da'irat us-sina'a

clean energy

reusable energy

science

international trading

progress

Head of State

*Khaleefah*

Director-General  
of Industry

International  
Trade

Public  
Utilities &  
Energy

E-Commerce

Manufacturing

Science &  
Innovation

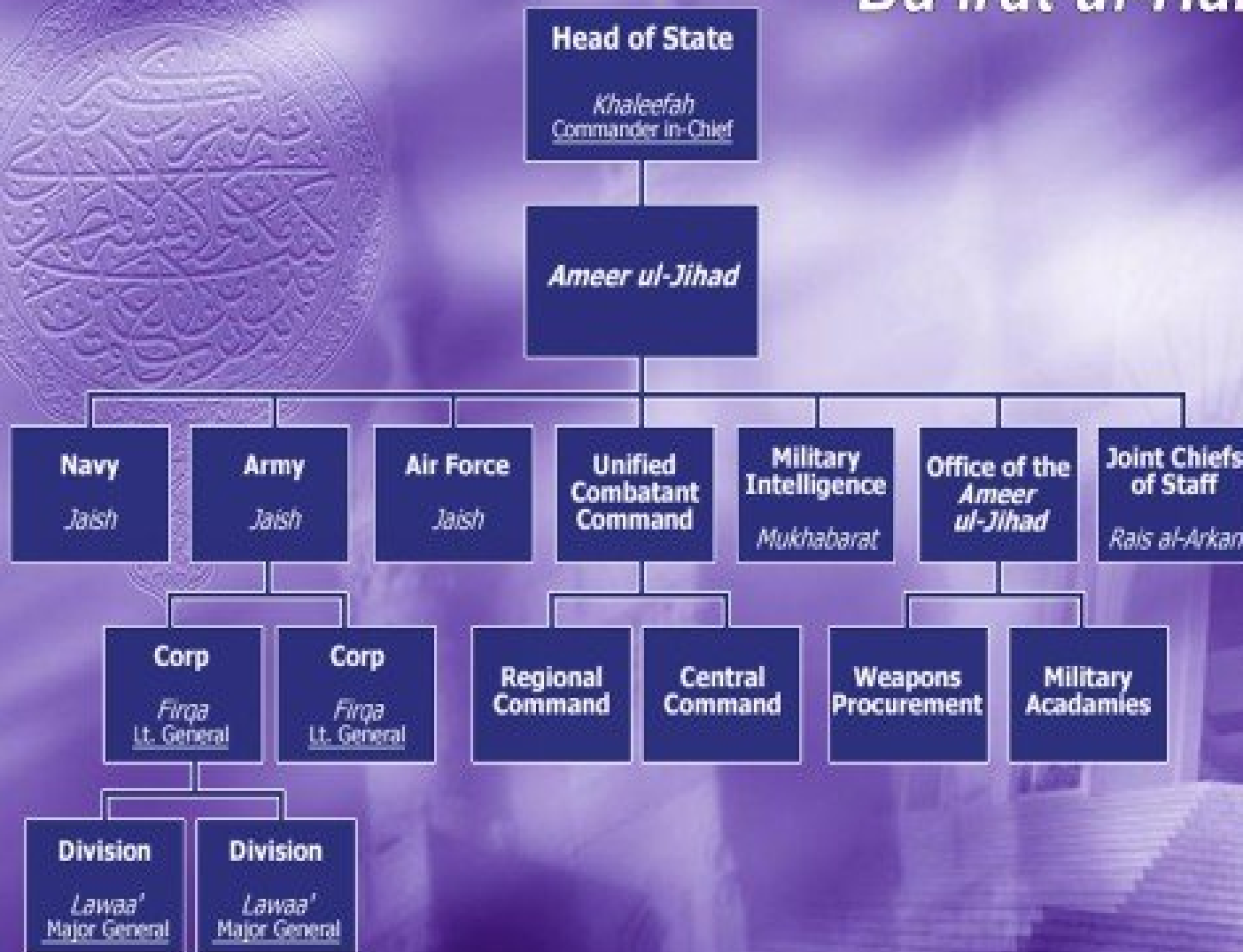
Small  
Businesses

Military  
Industries



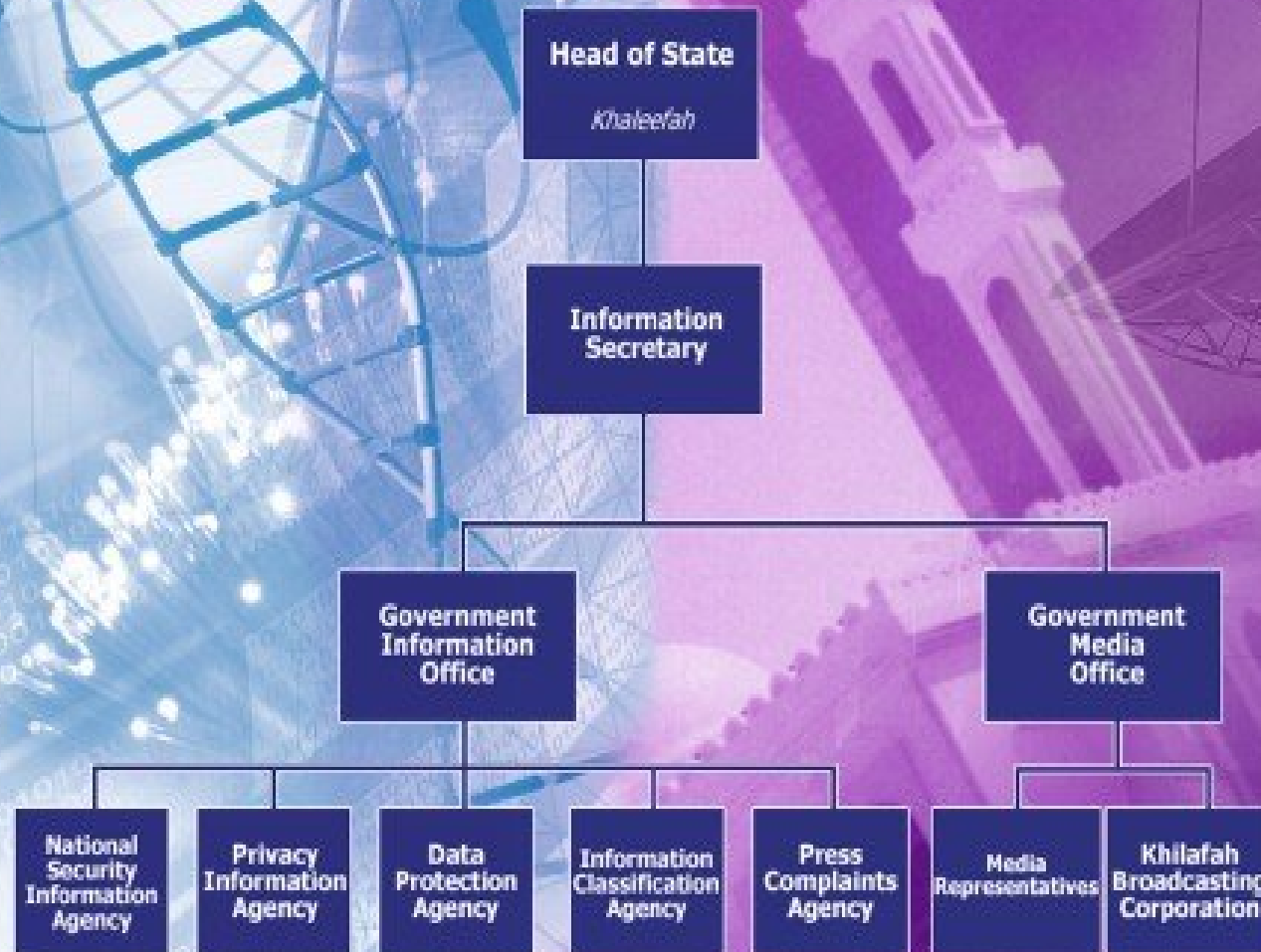
# The Department of Military

## Da'irat ul-Harbiyya



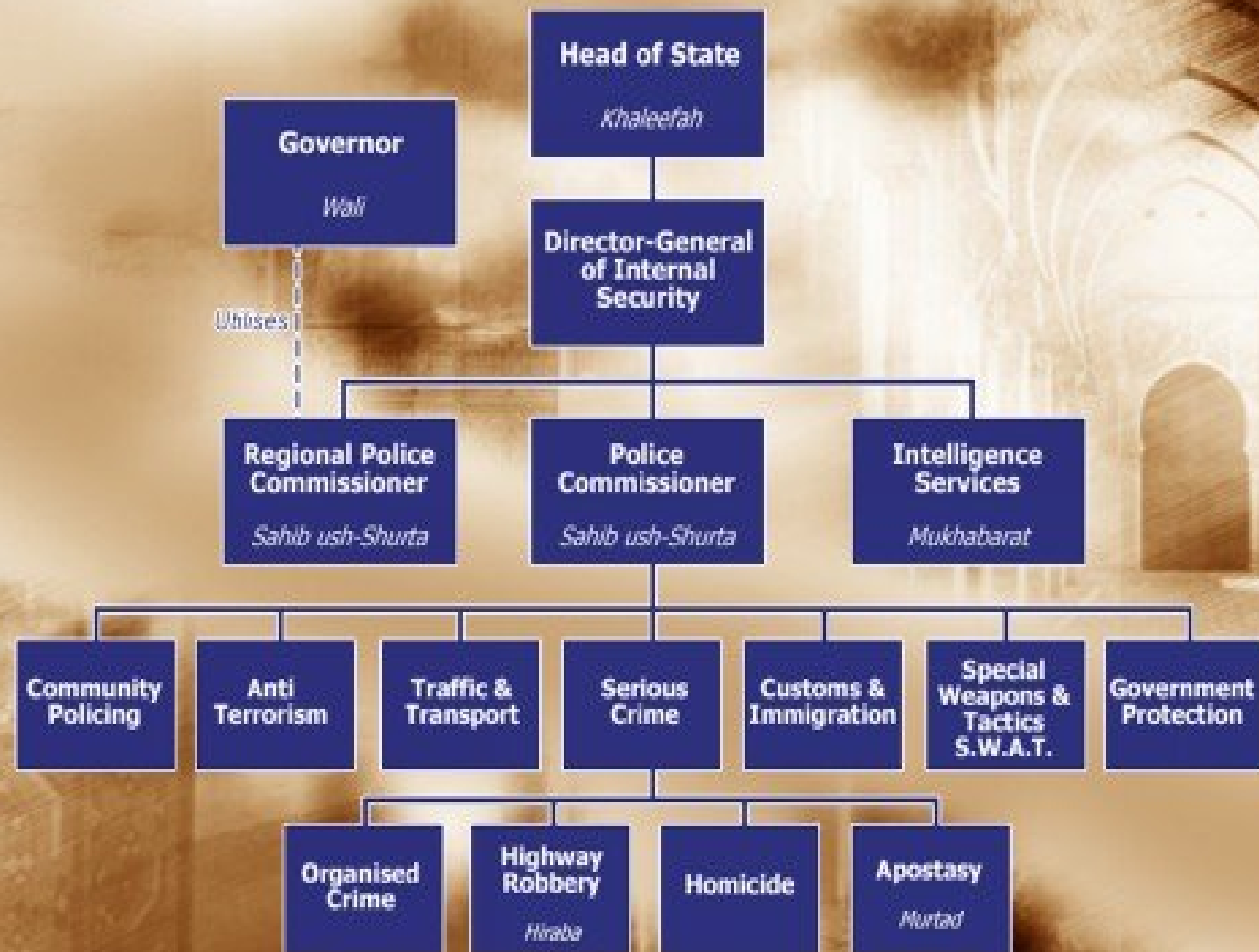
# The Department of Information

## Da'irat ul-I'laam



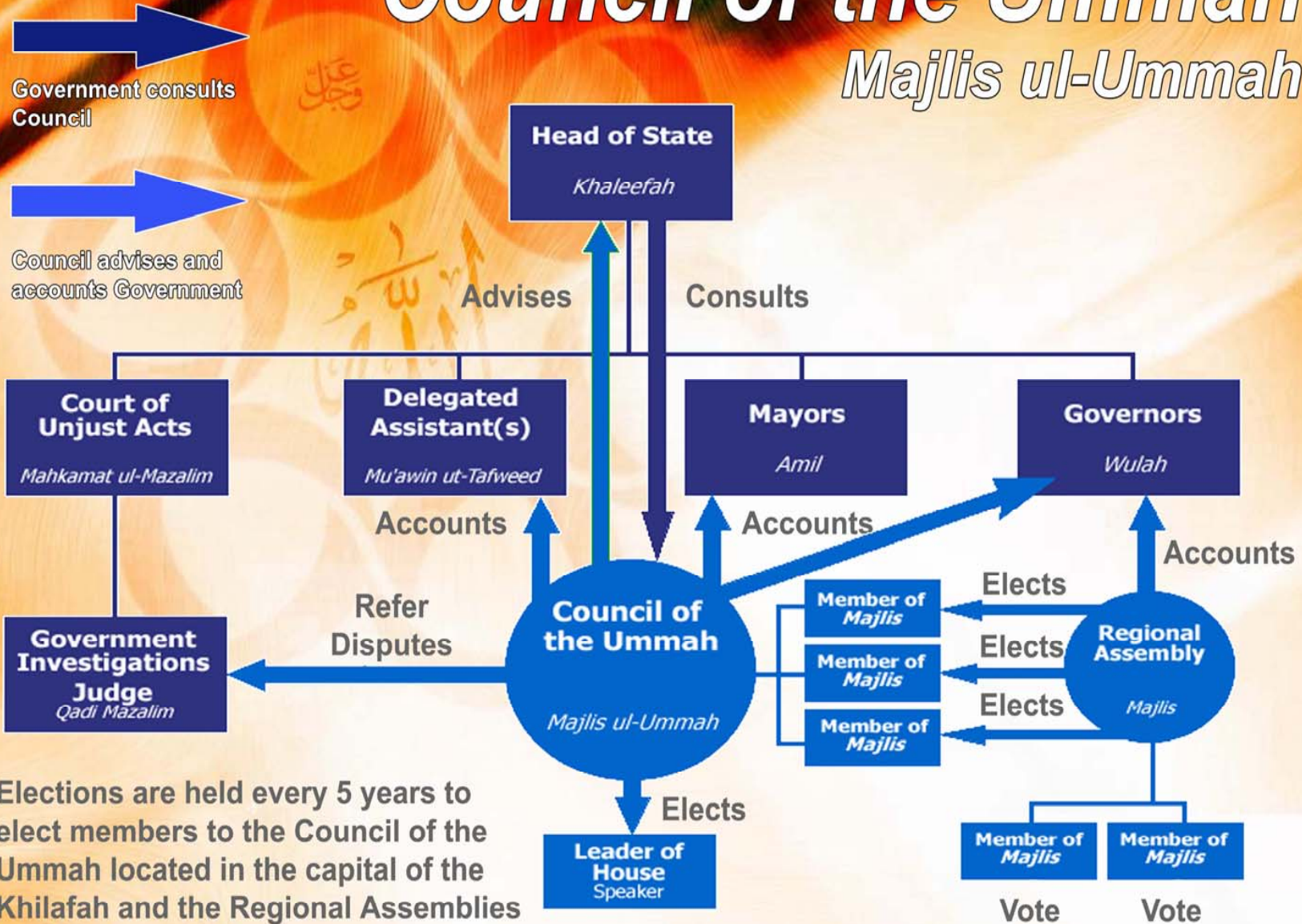
# The Department of Internal Security

*Da'irat ush-shu'oon id-dakhiliyya*



# Council of the Ummah

## Majlis ul-Ummah



Elections are held every 5 years to elect members to the Council of the Ummah located in the capital of the Khilafah and the Regional Assemblies located in each Province.

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At this point in time when Capitalist economic solutions have a virtual monopoly in the discussion of economics for both Muslims and non-Muslims, it is critical that a working alternative model is presented to the world. As the recent Credit Crunch has shaken the global Capitalist structure to its very foundations, people worldwide are questioning its practical stability and intellectual validity. As the bankruptcy of Capitalist thought is revealed, there is an urgent need to replace it with a practical alternative model that is based upon sound ideas and has a pedigree of success.

This book is a presentation of a practical alternative Islamic economic model, with Pakistan as a case study, on which to build a dynamic and innovative economy fit for the 21st Century. Addressing areas as diverse as agriculture to energy, this book is a blueprint for turning a resource rich yet poorly managed country like Pakistan from an economic dependent to a global power. This model draws upon the juristic works of Islamic scholars and applies their research in an unprecedented fashion, bringing together years of Islamic scholastic tradition with the needs of the modern world.

This book also highlights the political implication of basing an economy upon an Islamic model. It serves to highlight how political unification with the rest of the Islamic world can act as a catalyst for economic development and the establishment of a modern Islamic State with unparalleled power and influence.

