

# The Futures of Islamic Banking in the Gulf Cooperation Council

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## Abstract

The purpose is to discuss the future concern of Islamic banking in the gulf *Cooperation Council (GCC)*. *The Futures Triangle method affecting social dynamics of Islamic Banking for providing employment. The factors that contributed to the establishment of Islamic banking and finance are still in existence and effective or not that effect in futures. A discussion on what the future directions of those factors are and whether they will evolve to become new factors is also included.*

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

## Introduction

The gulf cooperation council (GCC) is also known as cooperation council of Arab states of gulf (CCASG). It is a political and economic union of the Arab states bordering the Arab gulf. The six member states of the union are Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates and they are often referred to as “The GCC States.” The unified economic agreement between these countries of the Gulf Cooperation Council was signed on November 11, 1981, in Abu Dhabi. Other regions, South and South-East Asia for example, later became increasingly influential, as do the Muslim communities of non-Muslim majority countries in Europe and the Americas, which have been seeking access to Islamic financial services. The main themes this article addresses:

- 1 How these trends affecting the modern Islamic banking Industry?
- 2 The difficulties encountered through its developmental of Islamic banking industry.
- 3 the idea put forward that the current banking system is based on interest, it then needs to be replaced by an interest free system.
4. The analysis of the first two themes will be based on the Future Triangle method.

## Research Methodology

In this study, the three Different qualitative dimensions of the future that will eventually arrive at the most plausible one. The first dimension is the pull or image of the future, the second is the push of the present or drivers of change, and the third is the weight of the past or barrier to change.

## Founders' View (Pull of the Future)

The modern Islamic economy are based on a set of basic principles called for by its founders. The development of the Islamic financial system in the minds of the founders is a manifestation of the Islamic worldview represented by shari'ah (Islamic Law). The Islam based largest project is consider on the second half of the 20 century. The Islamic economic system is based on the following philosophical foundations: tawhid (monotheism), istikhlaf (man's role as God's vicegerent on earth) and mercy. In his book titled Non-usury Bank in Islam, Mohammed Baqir Alsadr (1995) addressed the problem of Islamic thinkers that encountered by early in the twentieth century, before the development of the Islamic banking experiment, arguing that we should fundamentally distinguish between two following position

- A. The position of those who want to plan for a non-usury bank within a comprehensive planning of society, i.e. after taking total command of all aspects of society. He proposes the Islamic Banking thesis as a part of a comprehensive and total Islamic philosophy for society.
  - B. The position of those who want to plan for a non-usury bank independent of other aspects of society, i.e. assuming the continued corruption and un-Islamic framework of society, continuation of other usury-based banks, and the spread of the capitalist system in the context and spirit in people's intellectual lives.
- Two option exist and no one third.

## Islamic Banking: Drivers of Change

Different factors contributed towards the adoption and growth of Islamic banking. Few additional and subordinate factors are the most important in propelling the spread of Islamic banks.

### First driver: the “Islamic renaissance”

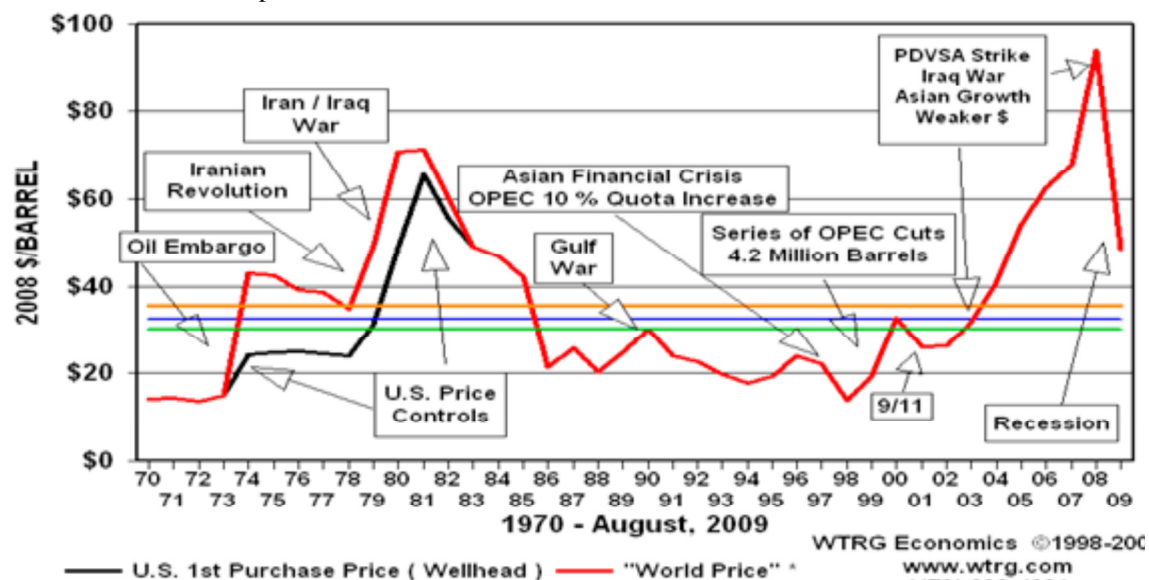
Primary driver of the resurgence of Islamic banking is to return back people to religious. Islamic movement that has the most important role in the rise of Islamic banking. Islamic banking system are not limited to a specific country but as having spread to Islamic and non-Muslim-majority countries, although the movement was strongest and most rapid in its spread in countries which were geographically or socially linked to the Gulf States (such as Egypt and the Muslim majority countries of South-East Asia. Its intellectual influence between the 60s and 80s was powerful in the Arabian Gulf region despite ongoing political stagnation.

### Second driver: demographic structure

The Gulf region experienced a long baby boom between the 1970s and the 1990s. The emerging generation of young people in the GCC will be highly educated compared to previous generations. Thus there are high expectations that abundant employment will be available; and yet surveys suggest that although young people in the Gulf are increasingly globally connected they are also concerned about preserving their national, and Islamic, identities. Young people have witnessed many conflicts that have contributed to a continuous feeling of instability and anxiety about their futures and the future of the region, most of which involved Western forces, which in turn fuelled anti-Western sentiments. There is broad dissatisfaction with social and economic conditions, varying in intensity from one country to another, even though some GCC countries’ per capita incomes are among the highest in the world. This support became a form of religious practice, which in turn contributed to the acceptance, growth of Islamic banking.

### Third driver: oil and gas revenues

One of the world’s richest Arabian Gulf regions in oil and natural gas and one of the major oil and gas producers. The total world oil reserves produced of the region are estimated up to 36.5%. Oil was discovered in the Arabian Gulf region early in the last century and its prices were stable for a very long time. The oil price did not exceed US\$4 per barrel until more than 70 years after its discovery. Majority of economy depend on oil and gas reserves; local companies continue to depend on them to a considerable extent. Unfortunately, these countries have only recently tried to diversify their economies. Even these attempts were partly based on oil-related industries, such as the petrochemical industry. Increased government budgets in the region are directly linked to the rise of oil prices.



The prices of oil and gas have increase continuously since in 1980s, they have provided high income and monetary liquidity in the region. This coincided with the Islamic renaissance. These funds was directed towards the Islamic banking.

### Fourth driver: globalization and communications revolution

The positive aspects of globalization that have been adapted Islamic scholar and thinkers, (e.g., communication, international trade, free movement of capital etc.). The negative aspect is for away from line (e.g., loss of culture, disparity, environmental degradation, monopoly, etc.). The scholars confirm that pointing out the harms globalization can cause, and supporting national’s economy, among many other things through the use of Islamic banking.

Media transparency and globalization is greatly beneficial for the spread of Islamic banking and finance

due to the variety and availability of means of exchanging data and information, which is currently in abundance. Before the stools existed, the spread of the Islamic banking idea was limited to sharing that happened through religious gatherings or direct face-face interactions.

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

The study said that the root of this system is based on Islamic banking. Scholarship on Islamic banking represents a new field, because Islamic banking itself current guise and recent creation. The founding of Islam itself, some 1400 years ago. When the pioneers of Islamic banking consulted the fiqh (Islamic jurisprudence) of previous eras in the 1950s, they found that there were limited materials regarding novel kinds of dealings and that the transactions referred to in the old fiqh were between individuals and were not directly comparable to those within the contemporary institutional framework. Several forums specializing in economics, banking and Islamic finance have been established. Conferences were used to exchange views and experiences and to deal with the problems and challenges that arose for the banking profession. The opening up of media, constant contact and exchange of views between Islamic leaders and thinkers has allowed unified Islam and its message in order to implement the Islamization of conventional banking, as well as its dissemination, marketing and adoption.

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

Many problem that can be faced in the early stage for the development of Islamic banking and finance. This problem can be addresses accordingly to the Islamic banking system. These obstacles vary in their intensity from one country to the next in the GCC.

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

Fiqh was considered to have reached a phase of sufficient maturity and there was therefore no space for any addition. The reason for was to prevent this attitude that anyone who was unqualified from issuing a fatwa (legal opinion) and thus the door of ijihad was closed. Islam tackling everyday life issues, due to periods of civilizational decline suffered by the Islamic world, there evolved a trend of feeling that religion was the epitome and the apex of what could be achieved by humanity. Although Quran teachings encourage pondering, thinking about contemplating the universe. There are several essential issues that remain pending, which are still being debated by thinkers. This quotation is taken from the introduction to Abdul Hameed Abu Suleiman's book, Crisis of the Islamic Mind;. Abu Suleiman is the former Chairman of the International Institute of Islamic Thought (IIIT), one of the major intellectual institutions which seek to Islamize and disseminate knowledge as well as to address the cultural crisis in the Islamic WORLD.

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

Major element attracting investment for the availability of environments for development purpose. The political stability for this environment that promotes society and provides a solid background for development, transparency and credibility. Limited investment opportunities have restricted the diversity of economic development significantly and have consequently affected Islamic banks In 1981 formation of the GCC, surplus economies are still managed with a tribal mentality. the current process is one of constant depletion of non-renewable natural resources, i.e. oil and gas.

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

The governments of Muslim-majority countries, in general, are based on the Western system in terms of philosophy and administration, and this includes the banking system, but Islamic banking system operate on different terms and conditions. In many other counties the requirement of Islamic banking system are not met they deal with traditional banking system. Islamic banking system work on partnership they are not allowed on freely borrowing and selling the things in market.

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

Generally the universities that reward the degree regarding Islamic banking sector these are still for marketing needs but the subject in the course are small. Employees in this sector restriction that course is purely theoretical and costly which restrict most of the participants. This circular is not suit for the trainee. There is also a kind of separation between vocational, practical training and shari'ah aspects. Islamic banking and finance still suffer from this deficiency in the academic and training field.

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

Islamic banking suffer from the initial stages due to shortage of expertise in this new field which requires knowledge and skills in several domains: accounting, shari'ah, secular law, taxation, economics, finance ...etc.in

a result the development of Islamic banking in domain of training and development are not accelerated according to requirement, the early founder was busy for daily management system and transfer your knowledge with young generation that is also reason for shortage of expertise.

### Conclusion

- ✓ GCC countries face an array of important investment decisions in order to move their economics towards a more diversified, sustainable and innovation-based model
- ✓ A reluctance to engage with pressing issues or a tendency to delay important reforms could coincide with external pressures to create a future whereby the GCC countries are trapped in past, dealing with widespread internal dissatisfaction while unable to move forward on the global stage
- ✓ Driven by the demand of pious investors, socio-political reformation and Shari'a requirements convergence will probably continue to grow faster in most GCC countries.

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