



4<sup>th</sup>

# International Conference on Islamic Business 2016

Quaid-e-Azam Auditorium,  
IIUI Faisal Masjid Campus,  
Islamabad, Pakistan

20 - 22  
February, 2016



Islamic Economics, Finance, Entrepreneurial Development & Public Policy for the Ummah's Socio-economic Wellbeing

Under the above theme, the speakers / paper presenters will discuss the vision of Islamic economics, business and finance, public policy for entrepreneurial development and to enhance social inclusion and good governance, meaning how to develop Islamic countries' economies giving fair opportunity to all segments of the society and provide them not only suitable jobs / employment but also dignity and respect in the society and falah in this world and the Hereafter. As it is possible only through application of the principles of the Shariah, in letter and spirit, in all socio-economic disciplines and business and finance affairs, Shariah compliance of all institutions, products and activities would also be covered in the Theme of the ICIB-2016 event.

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بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

# Ummah's Wellbeing and Globalization: Islamic Perspectives

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Fourth International Conference on Islamic Business (ICIB), 21-22 February 2016 Islamabad.

# 1. Introduction

- In the 1950s, socialism and Keynesian Economics played a central role in global economic policies. The ruling economic philosophy was that the government needs to play an effective role in regulation of markets to ensure smooth and sustainable development process. However, the economic crises in the 1970s have weakened the philosophy of excessive role of state in the economy.
- This led to the resurgence of Neoclassical Economics which believes that government should play minimum role in the markets. Now it has been realized that it would be difficult to attain all-round development if only economic variables are emphasized.
- The Islamic perspectives of globalization not only account these two versions but go beyond the limited horizons of the Neoclassical and the Global Economy.
- The Qur'an clearly states that people were created as one nation (*Ummah*) but became divided because of their differences (al-Qur'an, 10:19). In Islam mankind is a unity and Islamic teachings promote brotherhood.
- Islamic teaching and thoughts place justice and fairness at center in human interactions.
- The international organizations constitute the principles of justice based upon negotiations and which are biased towards self-interest.






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# Outlines

- Theory
- Research Questions
- Model
- Data Description and Sources
- Results
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# Theory

- In Islam mankind is a unity and Islamic teachings promote brotherhood. The distinctions created by race, color, nationality are artificial and have no place in a religion. There are number of factors such as conflict of interest, prejudices, misuse of power which divide mankind, however, the ultimate objective of Islam is to reunite all of them (al-Qur'an, 11:119).
- Neoclassical Economic  Keynesian Economics  New classical Economics
-  Post Keynesian Economics  Heterodox Economics
-  Islamic Economics
- Globalization has failed to deliver on its promises of benefits for all. Today, more than 1.25 billion people are living below poverty line. The marginalization of the poor is evidenced at all levels- global, regional, national and local. The poor of Africa have been acutely marginalized and developing countries at lower level of economic development have been loser in the globalizing world.

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# Theory- Continued

- Islam underscores justice based on Divinely revealed moral criteria while justice in the New Global Economy depends on negotiations based on self-interest.
- Muslim scholars-Abu Yusuf ; Al-Mawardi; Ibn Taymiyyah; Ibn Khaldun- write in favor of cooperation and mutual dependence (*asabiyyah*). The thoughts of these Muslim scholars have their parallels at global levels as mutual dependence and cooperation enhance the process of trade and development. The sustained rise in wellbeing of all is a central point in Islamic teachings.
- The centre of Ibn Khaldun’s analysis is the human being (Rosenthal, 1967, p. 19). The wellbeing or misery of the people plays a key role in rise or fall of the civilizations. The wellbeing is not just determined with economic variables but it also depends on moral, social, political, psychological and demographic factors.
- Quran emphasizes on the wellbeing in many places. Quran teaches that “God does not change the condition of a people until they change their own inner-selves” (13:11) and that “Corruption has appeared everywhere because of what *people* have done” (30:41).

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# Research Questions

This study explores how globalization has impacted the wellbeing of Muslim world to answer the following questions:

- (1) What are the Islamic insights of real well being?
- (2) How does globalization affect quality of life, life longevity, and infant mortality in the Muslim world?
- (3) Do all dimensions of globalization equally matter for human wellbeing?
- (4) Do all regions of the Muslim world benefit from globalization? What are the Islamic insights to mitigate the negative socio-economic consequences of globalization?

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# Model

In order to evaluate the impact of world integration on human wellbeing we estimate following models.

$$\text{Wellbeing}_{it} = \beta_1 + \beta_2 \text{GDP}_{it-1} + \beta_3 \text{GLO}_{it} + \beta_4 X_{it} + A_{it} + \varepsilon_{it} \quad (1)$$

(  $i = 1, \dots, N$  ;  $t = 1, \dots, T$  )

Where 'i' indicates country and 't' indicates time.

$$\text{Wellbeing}_{it} = \beta_1 + \beta_2 \text{GDP}_{it-1} + \beta_3 \text{GLO}_{it} + \beta_4 \text{EGLO}_{it-1} + \beta_5 \text{SGLO}_{it-1} + \beta_6 \text{PGLO}_{it-1} + \beta_7 \beta_4 X_{it} + A_{it} + \varepsilon_{it} \quad (1.1)$$

$$H_{it} = \beta_1 + \beta_2 \text{GDP}_{it-1} + \beta_3 \text{AGEDP}_{it} + \beta_4 \text{PHY}_{it} + \beta_5 \text{GLO}_{it-1} + \beta_6 X_{it} + \varepsilon_{it} \quad (2)$$

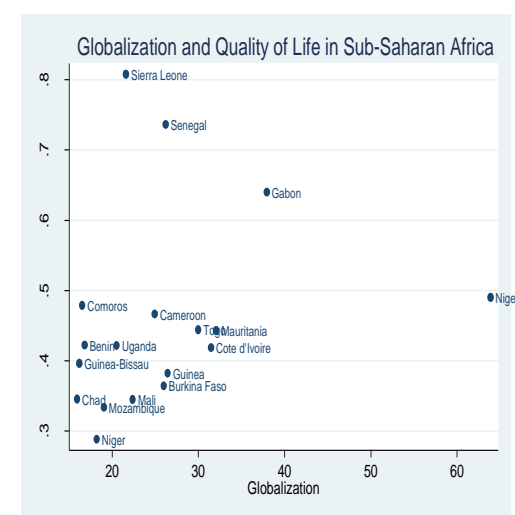
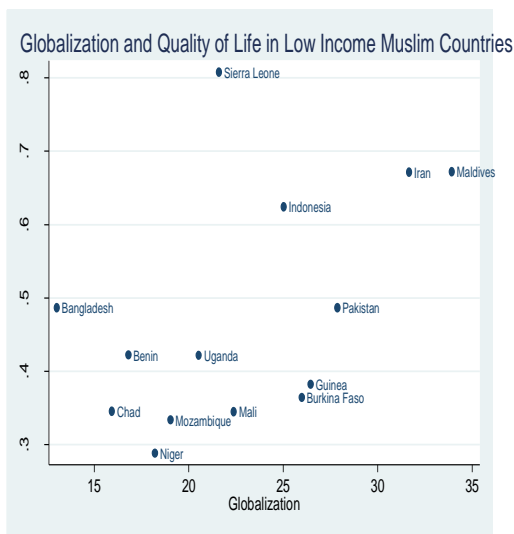
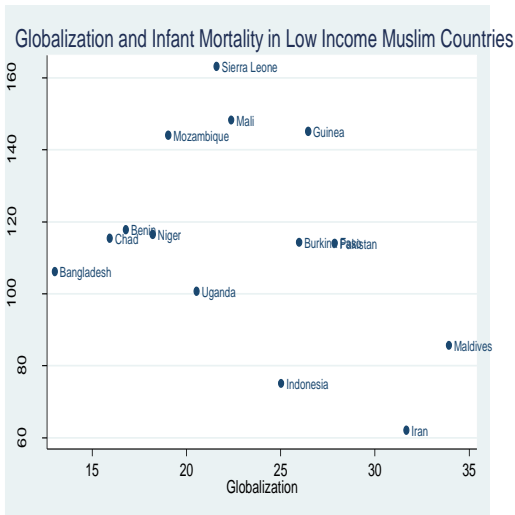
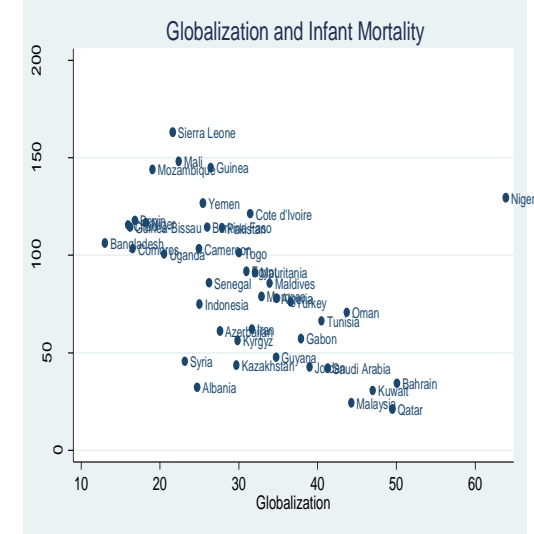
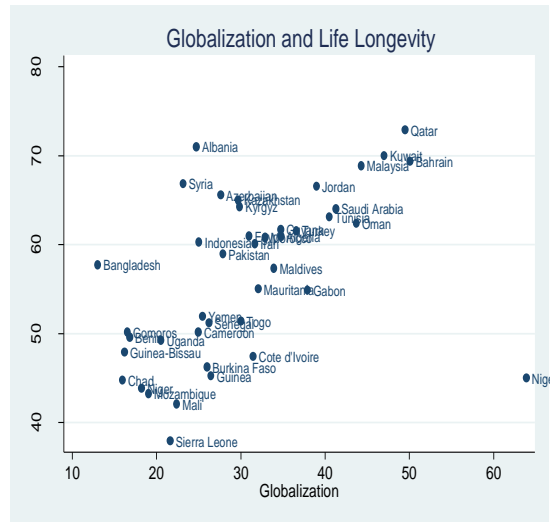
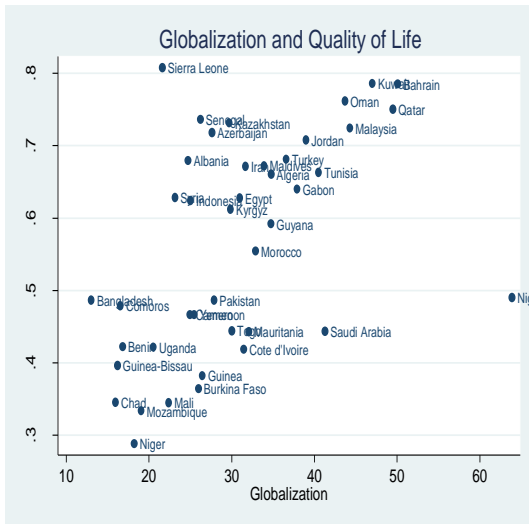
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# Data

Variables	Description	Source
Life expectancy	Life expectancy at birth, total (years).	WDI (2014)
Infant mortality	Infant mortality rate refers to numbers of new born dying before attaining the age of one year. Infant mortality rate per 1000 live birth.	WDI (2014)
Quality of life	Human development index is used to measure QOL that is a composite measure including life expectancy, education and income.	HDRS (2014)
Globalization	KOF Dreher's index is used for measuring globalization. It assigns value from 1-100.	KOF index of globalization
GDP per capita	Natural log of GDP per capita at constant 2005 dollars.	Penn World Table
Age dependency	Ratio of dependents (percentage of working age population).	WDI(2014)
Physician availability	Physician per 1000 people	WDI(2014)
Population growth	Population growth rate (% annual)	WDI(2014)
Education	Secondary school enrollment (% gross)	WDI(2014)
Urbanization	Urban share of population(% of total population)	WD(2014)

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# Data: Scatter Plot for Real Wellbeing and Globalization



# Data: Diagnostic Tests

TEST	PURPOSE	RESULT	DECISION
Ramsey RESET or LINK	To check correct specification of model	Prob- Value $> \alpha$	Model is specified correctly
Variance inflation factor	To check Multicollinearity	Mean value of test is fairly small	No Multicollinearity
Jarque-Berra test	Normality of residuals	Prob- Value $> \alpha$	Residuals are distributed normally
White's general test or Breusch-Pagan's test	To check Heteroscedasticity	Prob- Value $> \alpha$	Error terms are homoscedastic.
Sargen test	To check instrument validity- applied after GMM	Prob-Value $> \alpha$	Instruments used are exogenous
Arellano-Bond test of second order autocorrelation (AR2)	To check autocorrelation-applied after GMM	Prob-Value $> \alpha$	No autocorrelation

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# Table 1: Impact of Globalization on Wellbeing (Quality of Life)

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
GDP per Capita	0.0506** (0.0201)	0.0673*** (0.0154)	0.0524*** (0.0125)	0.0359** (0.0157)	0.0530*** (0.0128)	0.0644*** (0.0217)	0.0664*** (0.0164)	0.0597*** (0.0137)	0.0451*** (0.0170)
Age	-0.000493 (0.00097)	-0.00123* (0.00065)	-0.000893 (0.00064)	-0.000282 (0.00090)	-0.0013** (0.00064)	-0.000735 (0.00098)	-0.0015** (0.00066)	-0.00116* (0.00064)	-0.000210 (0.00092)
Globalization	0.209*** (0.0478)	0.221*** (0.0366)	0.193*** (0.0349)	0.188*** (0.0422)					
Physicians	0.00746 (0.0135)					0.00602 (0.0139)			
Urbanization		-0.00174* (0.00090)					-0.00123 (0.00094)		
Population			-0.00525 (0.00504)					-0.00703 (0.00515)	
Education				0.00185** (0.00078)					0.0022*** (0.00079)
<b>Economics</b>					0.0954***	0.101**	0.0913***	0.0991***	0.108***
<b>Globalization</b>					(0.0312)	(0.0469)	(0.0313)	(0.0312)	(0.0364)
<b>Social</b>					0.0196	-0.000931	0.0310	0.0134	-0.00967
<b>Globalization</b>					(0.0291)	(0.0440)	(0.0304)	(0.0294)	(0.0361)
<b>Political</b>					0.0478**	0.0767**	0.0549**	0.0457**	0.0539*
<b>Globalization</b>					(0.0220)	(0.0313)	(0.0226)	(0.0220)	(0.0281)
East Asia & Pacific	-0.00492 (0.0524)	-0.00811 (0.0377)	0.00472 (0.0374)	0.0120 (0.0432)	0.00792 (0.0389)	-0.000955 (0.0552)	0.00370 (0.0390)	0.00623 (0.0389)	0.0115 (0.0442)
Europe & Central Asia	0.0153 (0.0427)	0.0225 (0.0307)	0.0291 (0.0307)	-0.000414 (0.0365)	0.0345 (0.0314)	0.0217 (0.0443)	0.0283 (0.0317)	0.0267 (0.0318)	-0.00409 (0.0379)
Latin America	-0.0457 (0.0722)	-0.0652 (0.0515)	-0.0351 (0.0485)	-0.0752 (0.0746)	-0.0250 (0.0510)	-0.0326 (0.0775)	-0.0460 (0.0534)	-0.0368 (0.0516)	-0.0847 (0.0788)
South Asia	-0.000487 (0.0494)	0.00299 (0.0342)	0.0199 (0.0339)	0.0352 (0.0444)	0.0321 (0.0350)	0.0162 (0.0514)	0.0247 (0.0354)	0.0362 (0.0350)	0.0525 (0.0450)
Sub-Saharan Africa	-0.0330 (0.0418)	-0.0183 (0.0259)	-0.0165 (0.0269)	0.0266 (0.0373)	-0.0170 (0.0272)	-0.0243 (0.0451)	-0.00871 (0.0278)	-0.00851 (0.0278)	0.0286 (0.0385)
Others	0.0107 (0.0421)	0.0503* (0.0289)	0.0394 (0.0284)	0.00964 (0.0340)	0.0381 (0.0288)	0.0232 (0.0445)	0.0539* (0.0312)	0.0465 (0.0294)	0.0102 (0.0357)
Constant	-0.595** (0.261)	-0.643*** (0.190)	-0.514*** (0.177)	-0.518** (0.224)	-0.397** (0.183)	-0.590** (0.278)	-0.486** (0.195)	-0.429** (0.184)	-0.498** (0.238)
Observations	121	227	227	177	227	121	227	227	177
R-squared	0.653	0.639	0.634	0.617	0.625	0.646	0.628	0.628	0.614

# Table 2: Globalization and Wellbeing (Life Longevity)

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)
GDP per Capita	1.465*** (0.321)	0.628 (0.421)	1.726*** (0.337)	0.826** (0.326)	0.336 (0.424)	1.036*** (0.342)	0.573* (0.329)
Age Dependency	-0.0986*** (0.0181)	-0.0830*** (0.0186)	-0.0883*** (0.0187)	-0.0250 (0.0196)	-0.104*** (0.0179)	-0.103*** (0.0178)	-0.0384** (0.0188)
Physicians	0.404 (0.297)	0.408 (0.295)	0.501* (0.299)	-1.273*** (0.321)	0.480 (0.292)	0.604** (0.294)	-0.843*** (0.313)
<b>Globalization</b>	<b>4.478***</b> <b>(0.841)</b>	<b>3.515***</b> <b>(0.893)</b>	<b>4.379***</b> <b>(0.839)</b>	<b>3.898***</b> <b>(0.890)</b>			
Urbanization		0.0803*** (0.0264)			0.0424 (0.0259)		
Population			-0.346** (0.151)			-0.319** (0.143)	
Education				0.162*** (0.0155)			0.148*** (0.0150)
<b>Economics</b>					<b>-3.072***</b>	<b>-3.211***</b>	<b>-3.379***</b>
<b>Globalization</b>					<b>(0.760)</b>	<b>(0.755)</b>	<b>(0.805)</b>
<b>Social</b>					<b>5.956***</b>	<b>6.194***</b>	<b>4.916***</b>
<b>Globalization</b>					<b>(0.719)</b>	<b>(0.692)</b>	<b>(0.738)</b>
<b>Political</b>					<b>1.137**</b>	<b>1.433***</b>	<b>2.357***</b>
<b>Globalization</b>					<b>(0.518)</b>	<b>(0.490)</b>	<b>(0.518)</b>
East Asia & Pacific	1.256 (0.961)	2.079** (0.991)	1.408 (0.959)	1.554* (0.890)	3.476*** (0.961)	3.332*** (0.945)	3.356*** (0.884)
Europe & Central Asia	-0.0912 (0.787)	0.338 (0.793)	-0.510 (0.803)	-0.217 (0.764)	0.503 (0.758)	-0.0574 (0.765)	0.132 (0.730)
Latin America	-2.916* (1.552)	-1.299 (1.629)	-3.466** (1.564)	-7.621*** (2.292)	-0.808 (1.576)	-1.938 (1.536)	-5.484** (2.213)
South Asia	1.045 (0.930)	1.728* (0.950)	1.321 (0.934)	2.514** (0.978)	2.137** (0.906)	2.116** (0.895)	2.915*** (0.937)
Sub-Saharan Africa	-9.357*** (0.740)	-9.372*** (0.734)	-8.966*** (0.754)	-7.270*** (0.780)	-7.563*** (0.753)	-7.049*** (0.761)	-5.648*** (0.780)
Others	2.837*** (0.785)	2.135*** (0.812)	3.204*** (0.796)	2.111*** (0.778)	3.294*** (0.812)	4.113*** (0.772)	3.251*** (0.765)
Constant	43.42*** (4.467)	48.69*** (4.760)	41.54*** (4.524)	37.93*** (4.384)	53.29*** (4.730)	48.59*** (4.516)	41.48*** (4.408)
Observations	517	517	516	397	517	516	397
R-squared	0.815	0.818	0.817	0.859	0.837	0.837	0.875

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# Table 3: Impact of Globalization on Wellbeing (Infant Mortality)

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)
GDP per Capita	-0.195*** (0.0259)	-0.204*** (0.0343)	-0.213*** (0.0272)	-0.135*** (0.0270)	-0.159*** (0.0337)	-0.137*** (0.0273)	-0.0929*** (0.0276)
Age Dependency	0.0127*** (0.00146)	0.0128*** (0.00152)	0.0119*** (0.00150)	0.00612*** (0.00163)	0.0152*** (0.00143)	0.0138*** (0.00142)	0.00764*** (0.00158)
Physicians	-0.0760*** (0.0240)	-0.0759*** (0.0240)	-0.0833*** (0.0242)	0.0539** (0.0266)	-0.0690*** (0.0233)	-0.0736*** (0.0235)	0.0331 (0.0262)
<b>Globalization</b>	<b>-0.406*** (0.0685)</b>	<b>-0.416*** (0.0730)</b>	<b>-0.400*** (0.0684)</b>	<b>-0.348*** (0.0742)</b>			
East Asia & Pacific	-0.459*** (0.0773)	-0.450*** (0.0804)	-0.470*** (0.0773)	-0.562*** (0.0737)	-0.567*** (0.0764)	-0.600*** (0.0753)	-0.662*** (0.0739)
Europe & Central Asia	0.241*** (0.0638)	0.245*** (0.0649)	0.272*** (0.0654)	0.166*** (0.0633)	0.233*** (0.0606)	0.244*** (0.0616)	0.162*** (0.0611)
Latin America	-0.0280 (0.125)	-0.0106 (0.132)	0.0122 (0.126)	0.309 (0.190)	-0.0132 (0.125)	-0.0381 (0.122)	0.232 (0.185)
South Asia	0.0981 (0.0748)	0.105 (0.0771)	0.0784 (0.0752)	-0.0513 (0.0810)	0.0706 (0.0721)	0.0301 (0.0714)	-0.0608 (0.0784)
Sub-Saharan Africa	0.149** (0.0596)	0.149** (0.0597)	0.121** (0.0609)	-0.0937 (0.0647)	0.00346 (0.0599)	-0.00671 (0.0607)	-0.178*** (0.0653)
Others	-0.340*** (0.0631)	-0.347*** (0.0659)	-0.366*** (0.0641)	-0.338*** (0.0644)	-0.429*** (0.0645)	-0.411*** (0.0615)	-0.388*** (0.0639)
Urbanization		0.000868 (0.00215)			0.00363* (0.00206)		
Population			0.0252** (0.0122)			0.0210* (0.0114)	
Education				-0.0136*** (0.00128)			-0.0121*** (0.00125)
<b>Economics</b>					<b>0.218***</b>	<b>0.208***</b>	<b>0.186***</b>
<b>Globalization</b>					<b>(0.0608)</b>	<b>(0.0605)</b>	<b>(0.0674)</b>
<b>Social</b>					<b>-0.583***</b>	<b>-0.551***</b>	<b>-0.443***</b>
<b>Globalization</b>					<b>(0.0573)</b>	<b>(0.0553)</b>	<b>(0.0617)</b>
<b>Political</b>					<b>-0.0577</b>	<b>-0.0377</b>	<b>-0.0925**</b>
<b>Globalization</b>					<b>(0.0416)</b>	<b>(0.0396)</b>	<b>(0.0435)</b>
<b>Constant</b>	<b>6.042*** (0.361)</b>	<b>6.098*** (0.387)</b>	<b>6.178*** (0.366)</b>	<b>6.518*** (0.365)</b>	<b>5.334*** (0.377)</b>	<b>5.244*** (0.363)</b>	<b>5.923*** (0.371)</b>
Observations	513	513	512	396	513	512	396
R-squared	0.807	0.807	0.808	0.849	0.834	0.833	0.863

# Academic Contribution

- To the best of my knowledge this is the first study which attempts to build the empirical relationship between real wellbeing of *Ummah* in relation to globalizing world.

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# Conclusion

- ❑ Our empirical findings reveal that overall globalization improves quality of life and health outcomes of *Ummah*. Nevertheless, different forms of globalization influence *Ummah* wellbeing differently.
- ❑ The results show that social globalization does not improve quality of life while other forms of globalization do improve it. Similarly, the results show that socio-political dimensions of globalization impact health outcomes favorably while economic globalization impact adversely.
- ❑ The results also reveal that there is great disparity among different regions of the Muslim world in terms of quality of life and health outcomes. In particular, Sub Saharan African (SSA) countries of the Muslim world are lagging far behind in terms of wellbeing.

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# Policy Implications

This analysis purposes following policy implications:

- ❑ It is necessary for the Muslim countries to embrace globalization to enhance human wellbeing. However, it is not necessary that all dimensions of globalization contribute favorably. Therefore, adopt merely those dimensions of globalization which are favorable for an economy.
- ❑ Our findings suggest that some regions of the Muslim world such as Sub-Saharan Africa are not benefitting from globalization. Thus, it is necessary that such countries should adopt globalization with some protected measures and policies.
- ❑ Muslim economies at lower level of economic development need protection in the short run.

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*Thank You!*