

DEVELOPMENT AND CHALLENGE SHARIA BANKS IN THE MIDDLE EAST

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Abstract

The development of Sharia Economics now shows quite encouraging developments. Although there is still no form of sharia economy itself agreed by the scholars. The key to sharia economics is of course the Sharia Bank. The strength of the non-ribbon business that became the Backbone of Bank Syariah has been recognized as a solid source in dealing with various monetary problems either micro or macro. This paper will discuss about how the economic potential of the middle east, the role of Islamic banking in the economy in it. The rapidly expanding economy of the Middle East has also provoked international banks to participate in developing the banking industry in the Middle East. Several case studies on middle east countries show how the challenges facing the banking world. From the different views of the ulama on the banking system, to the ease of transaction services that are favored and desirable to the public, even to the insurance despite the demand and bundling with banking products, and it turns out 70% of the bank's customers eventually transact insurance. It is hoped that this article can give us an idea of how Sharia economy develops in this country of origin of Islam. Then how is the middle eastern economy developed with a solid and solid Islamic banking system.

Keywords: *the middle East, Islamic Banking, Islam*

A. INTRODUCTION

The beginning of the 19th century and the beginning of the 20th century is widely known as the beginning of the revival of Islam. The roles of figures such as Jamal Al-Din Al-Afghani, Muhammad Abduh, Rashid Rida, Muhammad Iqbal, Hassan Al-Banna, Sayyid Qutub, and Abdul Mawududi. Their thinking is a driving force for Muslims in implementing Islam that teaches in all aspects including political, social, and economic.¹ As a positive impact of the thoughts of these Islamic leaders, in economics in particular, are readjusted with Islamic principles. This can be called the Islamization of conventional economics (a concept that allows usury) ². The challenge to expand Islamic principles contained in the economy continues to be faced by Islamic leaders who want to apply it in the banking world. However, the development is increasingly significant, because it turns out Islamic banking is not just an alternative, but a solution to face the world financial crisis.

Its development in other countries began in 1974. Starting from the Islamic Development Bank, then followed by the establishment of Islamic banks in the Middle East such as The Islamic Bank of Faisal in Egypt in 1977, The Islamic of Faisal in Jordan, and Islamic Investment Company Ltd. in the United Arab Emirates in 1977 and followed by other countries.³ In this paper, we will discuss how the emergence of Islamic banking in various countries, the Middle East Economy with various developments in Islamic banking, and the development of Islamic banking in several Middle Eastern countries. Here will also be discussed about how the economic potential of the Middle East, the role of Islamic banking in the economy in it. However the role of banking cannot be separated from the economic system adopted in the world, especially in the Middle East today.

The fast developing middle east economic development has also lured international banking to participate in developing banking industry in the middle east. Some case studies in several Middle Eastern countries. And how are the challenges faced by the banking world in the Middle East. From the differences in the views of ulama about the banking system, to the ease of transaction services which turned out to be very popular and preferred by the public, even though insurance is in demand and bundled with banking products, 70% the bank's customers finally make insurance transactions

B. DISCUSSION

Middle East Economic Development

The Middle East region is one of the regions that has great potential when viewed from the perspective of geopolitics and geostrategy. There are many factors that make this Middle East region a struggle for large nations such as America, Britain and France. Some of the features contained therein include this region connecting three continents: Asia, Africa, and Europe.⁴ The Middle East is a country where three major religions have been descended, namely Judaism, Christianity and Islam. This religious factor is also a feature of the Middle East. The Middle East throughout history is very well known as the birthplace of the Prophet which was then considered a holy place and encouraged every people to defend its territory. Important factors that this region is rich in oil, and also oil which is a very important factor so that industrial countries such as America, France, Britain are increasingly encouraged to control this region by all means.

In general in the Middle East region itself is divided into two groups, namely groups that are rich in oil with groups that have little / no oil. Countries that are rich in oil generally come from bay countries such as Saudi Arabia, Kuwait, and the United Arab Emirates. Evidenced by the policy of establishing diplomatic relations with Israel and supporting the US and its allies when launching the 1991 Gulf War against Iraq, these countries receive unconditional assistance every year and write off foreign debt⁷. For countries that are not oil producers, have job opportunities to join the oil industry (owned by oil countries) for the vacancies provided.

In addition, these rich countries also allow investment in oil companies for anyone who wants to cooperate⁸. Another advantage felt by the non-oil countries is getting foreign exchange from their citizens who work abroad. So seeing this it can be said there is a mutualism relationship that occurs between the two that group. Economic development in a gulf country is like sugar appeal so ants arrive. With so many foreigners, so the ratio of the number of natives with foreign workers is almost equal. Although the availability of facilities is inadequate, this does not reduce foreign workers to come to make a living in this petro dollar country. One of the mistakes of Arab countries is the policy of *infatih* (economic openness). So that many foreigners enter the real sector, so entrepreneurs must follow the rules so that local entrepreneurs enjoy the results of large state spending because it is driven by oil profits.

The condition of oil has always been volatile. Conflict between Afghanistan and the US certainly affects market participants. Pipes in the Yemeni region are quite influential because they are able to supply 155 thousand barrels per day.¹² Economic development in the gulf country is like the appeal of sugar so that the ants arrive. So many foreign workers to come including from Indonesia.

The Role of Islamic Banks

To find out how the development of Islamic banks in the world today, here are some facts why Islamic banking is growing in 2015 and will continue to apply in 2016.¹⁴ First international Islamic banking assets have exceeded USD 778 billion in 2014 and a CAGR of 17% between 2009 and 2013. Global profits of Islamic banks are expected to triple by 2019. In the six main Islamic markets (United Arab Emirates, Qatar, Saudi Arabia, Indonesia, Malaysia and Turkey), Islamic banking assets are estimated to reach US \$ 1.8 trillion in 2019. Second, the passion of the Islamic market in the Gulf region provides a strong picture for the future of Islamic finance. In the UAE sharia banking shows a growth rate twice that of conventional banking. Sharia assets in the country have crossed the USD 100 billion threshold for the first time, according to Ernst & Young's previous report.

In Saudi Arabia, Islamic banking is experiencing strong demand from the corporate and retail segments. In 2013, 54% of all banks in the country were sharia and this figure is expected to grow 70% in 2019. In Qatar, sharia banking is estimated to show a growth rate of 15-20% and 25% is in accordance with sharia principles. Meanwhile, Kuwait's sharia banking sector contributed 54% of the banking market share. Third, sukuk or Islamic bonds, have experienced a slowdown due to low oil prices and the possibility of rising interest rates. The higher the interest rate, the less investors are interested in sukuk, and regional economies such as the UAE and Saudi Arabia have weaker currencies against the US dollar. This weakening overshadowed the monetary policies of the two countries, and the increase in interest rates planned by the Federal Reserve in the United States also contributed to a slowdown in sukuk.

Sukuk is expected to recover in 2016, Abdul Kadir Hussain said that although countries such as the UAE might have lower liquidity (due to low oil prices), they still want to maintain strategic infrastructure and domestic investment. Every potential deficit will be covered by general market debt, which will come in the form of sukuk.¹⁸ The rapid development experienced by Islamic banking in various parts of the world, in various aspects, must be balanced with similar developments in terms of effective regulation and supervision. This fact proves that regulations or regulations on Islamic banking, not only encourage the development of Islamic banking institutions and their existence, but also can boost the pace of state development.

In addition, the experience of Islamic practice in France would be sufficient to confirm that legal discourse is a resource important in the integration process. ²⁰ Although the study suggests that the flexibility of legal arrangements in some jurisdictions with conventional legal systems, provides space for the practice of

Islamic banking, Islamic scholars are uncomfortable with this argument, and persist in strict Islamic ideals in financial and banking activities, which cannot be accommodated under the conventional legal system. In plain view these Islamic institutions must operate under the watchful eye of the market and religious authority, and at the same time, must also be able to comply with international practices and standards²¹. Furthermore, there are two reasons for the growth of sharia investment: sharia investment is attractive to Muslim investors and sharia funds have a clear source of funds and can only invest if there are physical assets.

Establishment of Islamic Banks in the Middle East

The idea of carrying out sharia practices in the banking world continues to emerge since the advent of several Islamic institutions.

1. **Mit Ghamr Bank**

The most successful and innovative experimental establishment of Islamic banks in modern times was carried out in Egypt in 1963, with the founding of Mit Ghamr Local Saving Bank. His success inspires Muslims throughout the world so that awareness arises that Islamic principles are in fact still applicable in modern business.

2. *Islamic Development Bank (IDB)*

At a foreign minister meeting in Karanchi, Egypt proposed the establishment of an International Islamic bank for trade and development and a federation of Islamic banks. Finally, the IDB was formed in October 1975 with 22 founding Islamic countries.²⁴ The establishment of the IDB has motivated many Islamic countries to establish Islamic financial institutions

Growth of Islamic Banking in several Middle Eastern countries

1. **Morocco**

Morocco has gained a new category of banks whose products and services must comply with Islamic sharia rules. This law is the result of careful thought by the Al-Maghrib Bank, perfected by remarks from pioneering Islamic finance countries²⁵. In the law, Islamic banks must be approved in accordance with applicable regulations and requirements that apply to conventional banks and rightly so are required to become members of professional associations.²⁶ This new category of banks can offer conventional, participatory commercial, financial and investment operations. "(ie Islam) so it does not involve the interest system. The legal structure chosen by economic operators for conducting new business is a variety of options open to them

2. Saudi Arabia

The Kingdom of Saudi Arabia is a member of the Gulf Cooperation Council which has the most dominant economic conditions among the five other member countries, namely the United Arab Emirates, Qatar, Kuwait, Bahrain and Oman.²⁸ The phenomenon of the growth of Islamic finance, particularly in the Banking sector Islam is fast moving, can not be separated from its origin, where Islamic banking began to be propagated. The Gulf Cooperation Council countries are the heartbeat of the growth of the Islamic financial industry in the world. The driving factor for the development of regional Islamic banks is the positive influence of other Islamic countries, the progress of world financial technology and the very high level of local demand, and along with the mushrooming of investors with extraordinary enthusiasm and numbers.²⁹

Saudi Arabia is actually implementing a passive approach (passive approach) in developing the Islamic financial and banking sector. In fact, when almost all GCC countries thought about the draft Islamic banking regulations, the Kingdom of Saudi Arabia actually did not make a move, and has never been issued even one document relating to finance and Islamic propagation. The system adopted is more similar to the sharia governance system in the UK, where financial resolution or fatwa is more a product of its own initiative, rather than regulatory directives or regulatory requirements³⁰. Some fatwas institutions are international and are based in the cities of Makkah and Jeddah, such as the International Islamic Fiqh Academy under the OIC in Jeddah, and the Islamic Fiqh Academy of the Muslim World League in Makkah. The establishment of the Sharia Supervisory Board in each non-Riba-based bank in Saudi Arabia is actually more of an initiative than bureaucratic³¹. During this period, various phenomena could be witnessed to soaring oil prices, as well as Saudi Arabia's authorization in politics and its strong control over the spirit of pan-Islamism that was born at the time.³² Warde called that time with *Aggiornamento I*, where Islamic doctrine in matters of banking, took place under the support of the Organization of the Islamic Conference.

Oil prices have sharply quadrupled in the period between October and December of that year. Chaudry³⁴ revealed that capital flows in the 1970s had built up revising domestic and economic institutions in each country's constituents, and building the regional economic character, especially oil-rich countries in the Middle East. The "petrodollar breakdown" in the Arab region³⁵, marked a "turning point" that led many to believe that it would give birth to a new International Economic Order and a spirit of brotherhood in the South, which further encouraged the establishment of the Islamic Development Bank (IDB) in the OIC (Organization of Islamic Conference) agreement in 1974. In that context, Islamic banking took off from a vague and utopian idea, becoming a reality³⁶ Now the development

of Islamic economics has become a modern phenomenon that has attracted the attention of many. The usury-free financial system, is no longer a local issue in Muslim countries, but also a global trend, where non-Muslim countries have taken positions and initiatives to adopt and develop it. Countries with leading financial industries such as Britain³⁷, China, France, Japan, Hong Kong and Singapore are seen competing to become centers of Islamic finance. Even the World Bank, has made Islamic finance as one of its main programs.

3. Abu Dhabi

Abu Dhabi Islamic Bank (ADIB) has entered the fintech era through partnerships with digital banks. This is a good example of how times in the banking industry have also changed for Sharia creditors. Conventional banking giants such as Deutsche Bank, Credit Suisse, UBS, Standard Chartered, Citi or HBSC have all launched digital laboratories to develop not only online services, but inherently innovative applications that reflect sharing economies such as online communities where users can help create banking products, and experimenting with blockchain technology for digital wallets.³⁹ Research finds that there are not many differences between Muslim and non-Muslim preferences regarding digital financial services and direct banking channels. However, Islamic banks still have lower customer penetration in mobile banking than conventional banks.

New digital financial services have emerged throughout the GCC, such as takaful online registration services and bill payment applications from a number of Islamic banks. Independent projects have also emerged, such as Dubai-based Eureeca, the region's first crowd investment platform that connects small and medium-sized businesses with investors for funding purposes⁴¹. At the business-to-business level, new digital financial services solutions include digital marketing through various online channels, market intelligence and online incubator analysis. This service is for halal entrepreneurs to connect start-ups with private equity and venture capital companies who are looking to invest in Shariah compliant opportunities. Online financial literacy training, for example through tutoring lessons or strategy games for Islamic banking customers.

4. Yaman

first under the name Islamic Bank of Yemen for finance and investment. In the same year, the Tadhamon International Islamic Bank was established with a capital of USD 93 million. Today, TIIB is considered as one of the largest Islamic banks in Yemen with more than 50 branches throughout the country. In 1997 other Islamic banks began to emerge such as Saba Islamic Bank (SIB), Shamil Bank of Yemen and Bahrain (SBYB). In addition, there are several conventional banks that use the Islamic banking window to provide sharia banking services solely.

The view that Yemenis are religious and cultural oriented encourages the hypothesis that the adoption of their new product or service usually depends on the Islamic aspect. For example, when a local insurance company called United Insurance introduced Sharia insurance services in 2008, around 80% of existing customers switch to this service.⁴⁴ Furthermore, Saif and Abu Rumman argue that this experience makes the insurance sector in Yemen aware of the importance of Islamic financial services in attracting Yemeni customers and investors and, therefore, leads Yemeni financial institutions to introduce Islamic financial services and to start new institutions offering Islamic financial services.

CONCLUSION

As an open economic area, the Middle East promises investment value for anyone who wants to invest their capital there. Various policies that support the development of the modern economic system continue and are being implemented in such a simple manner that makes it easy for investors to invest in Middle Eastern countries. In the midst of conditions of society that are still thick with the traditions and Islamic culture that is obedient, the bay area is now transformed into a calculated area in other parts of the world. Evidenced by the rapid development of Dubai as one of the tourist destinations besides of course the two holy cities of Muslims, Mecca and Medina.

The progress of this modern economy certainly requires the role of fiber in the banking world which is solid and it is fantastic to read the opportunities for the rise of the Middle East. Especially the rise of Islamic banks which began to reveal opportunities in several Middle Eastern countries. Some countries are in terms of banking quality promising are Saudi Arabia, Abu Dhabi, Morocco and Yemen. Some banks with conventional systems have already opened Sharia branches in these countries besides of course there are banks that do specialize in Sharia systems. The biggest challenge for these banks to grow and develop in the Middle East region is that the security of this region is still vulnerable. Acts of terrorism, Arab-Israeli feuds, and disputes between schools of thought become its own challenges to be resolved immediately.

In addition, innovations in banking products that are more modern and varied become a further challenge. Banking has become a vein in the economy, so as one of the important key holders of the economy, then ease and modernity are demands that inevitably have to be fulfilled by the banking world in today's digital world. So that people can directly access banking services easily and comfortably. This is certainly a thought of Islamic banking business people. Some Sharia banking products have developed but encountered obstacles, including Insurance which has become a new idol in Yemen, attracting 80% of customers to switch to Insurance.

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