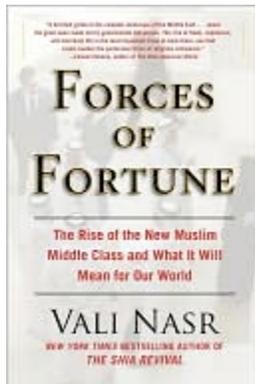




Forces of Fortune: The Rise of the New Muslim Middle Class and What it Will Mean for Our World

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Introduction

JOANNE MYERS: Good morning. I'm Joanne Myers, Director of Public Affairs Programs. On behalf of the Carnegie Council, I would like to thank you all for joining us.

Today it is my pleasure to welcome the renowned Middle East expert, Vali Nasr. Some of you may recall listening to Professor Nasr [when he spoke here a few years ago](#). At that time he discussed his widely acclaimed book, [The Shia Revival](#), in which his insightful analysis reframed the debate over the Iraq War and taught us a great deal by explaining how the Sunni-Shia rift was driving the insurgency.

Today when he discusses [Forces of Fortune: The Rise of the New Muslim Middle Class and What It Will Mean for Our World](#), I believe he will once again shine a beacon of understanding on the complex landscape that is the Middle East.

As one of the foremost scholars and original thinkers on Muslim society, Vali has a reputation for painting a picture of the Middle East that is different from the one you may read or hear about in the media. In *Forces of Fortune*, he has once again produced a work in which he encourages us to reshape our opinions and increase our understanding of the broader changes taking place within the Muslim world.

He writes that, although we must be vigilant against fundamentalism and extremism, there are other forces at work in this region. What he is referring to is a new business-minded middle class that has tied its future to commerce. These upwardly mobile individuals of entrepreneurs, investors, professionals, and avid consumers are reshaping religion, social, and political life and tipping the scale away from extremist belligerence. He reveals how this is happening in Iran and has already taken place in Turkey and Dubai, last week's news notwithstanding.

He makes a compelling argument that the way to win over the Muslim world and to counter the threat from the Islamic extremists is to engage it over business, capitalism, and trade, and not to fight it over religion. As he poignantly says, we will do ourselves a disservice if we think only in terms of extremist ideologies in determining how the Middle East interacts with the world.

To help us look inside this unfolding phenomenon, please join me in welcoming a very special guest, my friend Vali Nasr.

Thank you for joining us.

Remarks

VALI NASR: Good morning. Thank you, Joanne, for that very generous and wonderful introduction. It's very good to be back at the Council for one of these sessions.

Let me begin by saying that it's very clear that, although we are dealing with very different issues today than we did a few years ago—with a very different war, with a very different set of circumstances—the Muslim world still occupies a great deal of the United States' attention. It continues to be an important foreign policy issue, not only an immediate issue, but a much longer-run issue. We are as a nation worried about extremism, about what it means, about what its potential is. But more so, we still grapple with this larger issue of what the future of relations between the West, the United States, and the Muslim world would be.

A good deal of thinking, particularly in the public arena, has gone into the issue of extremism: Where does it come from? What do they say? What do they want? How to deal with them? The other side of this argument is, how do we get the Muslims to sort of snap out of this fetish with extremism, how to get them to think about the future differently.

These are very important issues. They are important for us to think about, to consider, et cetera. But they have also, in my opinion, completely dominated the entirety of the universe of our thinking about 1.3 billion people spread from the Pacific to the Atlantic. Dealing with these issues, traveling in the region, talking to people, it was clear to me that extremism is not the only story in the Muslim world. It is the story that most preoccupies us, but it clearly is not the only story. In fact, the long-run way in which to get past extremism actually lies in those stories that we are not paying attention to.

Let me begin by saying that when we look at the Muslim world, there are some things that strike Westerners most obviously—for instance, the religiosity in the Muslim world or their penchant for particularly harsh anti-Western political attitudes or what the West believes to be support for acts of violence, although this is not as pervasive as the media make it sound.

But one of the most important and interesting issues is the following: Large parts of the Muslim world sit outside of the global economy. Where that's the case, extremism is worse. Where the Muslim world is most integrated into the global economy, extremism is a lesser problem.

By integration into the global economy, I don't mean selling oil and buying military aircraft. That's not the kind of economic engagement I'm talking about. I'm talking about the phenomenon of globalization that we all understand, that dominated the global economy from the 1990s on, brought new parts of the world—Latin America, East Asia, Eastern Europe, India ultimately—into its fold, integrated those economies into, if you would, one single supply chain, where things that are made in one part of the world are consumed in another part of the world.

Most of the Muslim world is not part of this picture. If you went to Walmart, you are not going to find many things saying "Made in Saudi Arabia" on them. But you will find things that say "Made in Malaysia" on them or "Made in Turkey" on them.

My argument is that that's actually a very, very striking issue. There is a cross-section between the two major global trends of the past two decades. One is the rise of a single global economy because of increasing trade and integration of economies, which is a major story of our time. The other one is the rise in extremism. In the Muslim world, these two trends have a trajectory which is quite interesting. The problem in the Muslim world, in my opinion, is not too much religion; it's too little global economy.

If we look at the Muslim world, we see many parts of it. The heartland of the Middle East is dominated by

government-run closed economies. Some are wealthy; some are not. But the economic structure is fairly simple: The government dominates the majority of economic activity. The public sector is huge. The majority of the population relies on government entitlement programs, government contracts, government salaries. Entrepreneurs don't matter much, in the sense that it's not their taxes that are running the economy. So their opinion doesn't matter much.

When, for instance, we look at a country like Pakistan, taxes, in a country of 180 million people, account for only 3 percent of the GDP. Something like a percent of the population pays real taxes. If you look at a country like Turkey, which is actually integrated into the global economy much more, that percentage approximates advanced economies.

Remember recently, about a year ago, when the Turkish military was considering intervening in Turkish politics because the ruling party nominated a presidential candidate who, in their opinion, was too Islamically oriented, which is the current president, [Abdullah Gül](#). I asked a very wealthy Turkish tycoon what would happen.

He said, "Nothing. Whoever rules Turkey has to listen to us. We pay for the government."

That's the way it is here. That's the way it is in Europe. That's the way it is in many places. In the Muslim world, that's not the case.

When we say that's not the case, what are you missing in the Muslim world? It is a very, very important class. Call them entrepreneurs, call them middle class, call them a bourgeoisie. They go by different names, but in the West, it's a very familiar class. It's the class that accounts for wealth generation, for innovation, and for social transformation.

You can go all the way back to 16th-century Europe. What produced modernity in Europe was the middle class. We all think about Reformation, for instance, in Scotland and Germany. Well, Reformation in Scotland was kind of like Taliban's Kabul. It was a highly puritanical, rigid place. It was not that puritanical attitude that made Scotland into the seat of the Industrial Revolution, the place where [Adam Smith](#) and [David Hume](#) came from. It was trade, it was commerce, and it was the social classes that were connected with commerce that made that transformation.

So conclusion number one is that the big problem in the Muslim world is this missing class. This class is missing because the economies are not set up right and not integrated into the global economy. We are trying often to force open Islam to modern ideas. We forget that you have to first force open the economies to modern economics before the economic forces make that transformation.

How do we know that that is right? It's a question I grappled with a lot. There is plenty of evidence. It is happening, on a small scale, in places. Where it's happening, it is showing positive results. What we see is that when it happens, Muslims can be just as capitalist as the next guy and behave in ways that are embracing of the world, not rejecting of the world.

There are countries, from Iran to Pakistan—and I'll talk to you about that—where there is evidence of that. But there are some parts of the Muslim world where there is a lot of evidence of that. You can go to Southeast Asia, to Malaysia or Indonesia or to Turkey or Dubai in the Middle East, and there's plenty of evidence of that.

Let's consider, for instance, Indonesia. For most Americans, Indonesia appeared on the Islamic map with the Bali bombings. We had the same kinds of fears for Indonesia that we had for Pakistan or the Arab world.

There were these religious schools, equivalents of madrasas, that were training people we believed to be too conservative and violent. There was a very big organization called [Jemaah Islamiyah](#) who we believed to have ties with al-Qaeda, who was committed to violent overthrow of the Indonesian government, was

anti-Western, and carried out heinous acts of terrorism—the Bali bombings, attacks on hotels in Jakarta, et cetera.

Fast-forward to 2009. It's very clear that Indonesia has moved in a very different direction than was expected. In the last elections in the country, [President Yudhoyono](#)'s party defeated the fundamentalist party. By and large, the country as a whole voted for, if you would, much more moderate political choices.

Terrorism is still in Indonesia. Only this last summer, there was another attack on the same Marriott Hotel in Jakarta. But what's clear is that the Indonesians are not interested in supporting terrorism as a whole.

What happened in Indonesia is that Indonesia has been steadily integrating into the global economy. It's going the way of Asia rather than the way of the Middle East. Its oil income now accounts a lot less for its national income. It relies on producing things that we buy at Walmart. Therefore, it's part of the global supply chain.

Why does that work? Let me take another country, Turkey. Turkey is now one of the world's top 20 economies. When the Pittsburgh meeting happened, Turkey was one of the G-20 countries. It has produced a relatively stable democracy that at least is better than anything else we see in the Muslim world. It has a very robust economy that is integrated into the European economy. Istanbul has become a prime destination, not just for tourism, but for business. It has become a global city in the context of Caucasus, Eastern Europe, Europe. Turkey did have a secular legacy, but Turkey did not get to where it did because of being a rigid secular state. That brought Turkey so far, but it couldn't get it to where it is.

What happened was that Turkey was virtually bankrupt as a country in the 1980s. It had high inflation, high unemployment. It was a lot like Mexico or Argentina or Brazil in the same time period. So it did the same thing as those countries did. It went to the World Bank and IMF and asked for loans, and they gave it money, conditional that Turkey would change its economy to begin to integrate into the global economy. The Turks did that. There was profound change. Turkey became an export-oriented economy.

There is a little town in the middle of Turkey called Kayseri, from which the Turkish president comes. I don't know if you have been to the tourist site, Cappadocia, in Turkey. It's literally maybe 50 kilometers south of Cappadocia.

It's a very small town. I would say, in an American context, it's like South Bend, Indiana. If Istanbul stands for New York, where all the power elite and the old businessmen tied to the government are, Kayseri was nowhere.

Now if you go to Kayseri, it is a sort of industrial hub of Turkey. When Turkey reformed its economy, these small businessmen, who were not part of the elite, began to set up factories using labor, producing things that they sold abroad. For instance, about 6 to 7 percent of all denim that goes into blue jeans in the world is produced in Kayseri. One company alone produces 1 percent of all the denim jeans in the world. The city is a massive exporter of leather, of furniture, et cetera.

It's now a very wealthy city, a very wealthy small city. It's very conservative. People go to mosques. Women abide by traditional ways. But it's wealthy and it's capitalist and religious exactly the way in which Middle America is. Its moral values are very strong, but it's also very capitalist.

And there is no interest in jihad in Kayseri. It's very simple. In talking to these businessmen, if you are selling leather to Ferragamo, you know jihad is not good for business. You do care about Turkey's image. They are interested in religion as moral values, not as political action. They are interested in religion the same way that many American businessmen are—as pro-capitalist, life-embracing, moral values about a code of ethics in our daily lives, and the dos and don'ts that get you to heaven. They are not interested in agitation and social action.

It is not because we came up with a program to reform them. It's not because we preached it to them. It

came from within. It is the same dynamic that we see in other world religions, that we saw in the history of Europe. The dynamic is very clearly there.

This is not happening among people who were already secularized by [Kemalism](#) in Turkey. These people were always religious. They were always living in a very small town—except that they became part of the global economy in a way in which Arab businessmen are not part of the global economy.

This businessman I was talking to who sells directly to Ferragamo made the deal himself. It's not a government-to-government deal. He doesn't owe anything to the Turkish government. He owes as much to the Turkish government for this deal as an American businessman feels that he owes to the U.S. government for a deal. He believes that actually he is providing money for Turkey; it's not the other way around. When you go to countries like Saudi Arabia, it's very clear that the government is providing money to the businessmen. Therefore, the government doesn't owe them anything. Here it's very clear that the dynamic is very different.

So when you look at Turkey, you see that when you have businessmen and a middle class that looks like other middle classes, then it actually behaves like other middle classes.

I think this is reflected nowhere better than in Dubai. I know Dubai is not a good investment opportunity now. I'm not touting Dubai as an investment opportunity. I would just say that capitalists everywhere, including in this city, make bad decisions and everybody else pays for it. Even in that, the Muslims have proven that they are not an exception to the rule. When there is too much money, as happened in NASDAQ, as happened elsewhere, you make bad decisions and you have to pay for them.

But what fascinated me about Dubai was not whether or not it could continue to deliver double-digit rates of return on investment. What it was, was that Dubai didn't have much money, like Turkey or Indonesia. It's actually the poorest of the Persian Gulf emirates. Its oil was never too much and it has been declining. It had to earn its keep. So it came up with the idea that if it created a regulatory environment and it created the right situation, other people would come and do business in Dubai. It actually became a virtual business place.

Who did business in Dubai? There were Americans and Europeans and Indians and Chinese, et cetera. But a lot of Muslims went to Dubai. What you saw in Dubai was that when they were freed from the rigid economies of their own countries, they behaved exactly like the businessmen in Kayseri, which means that they engaged the global economy in meaningful ways.

But also equally interesting is that Dubai, for a time period, became the most desired destination for Muslims to go to, for holiday or to live in. Why did the Muslims love Dubai? It's not because it's a Taliban-like Shariah land. It's because it was a cross between Las Vegas, Rodeo Drive, and Disneyland. That's what they liked about it.

Who would go to Dubai? It was the upwardly mobile Muslim middle class. So the consumption habits of Muslim middle classes is not jihad. They don't go to Dubai to die. They go to Dubai to eat well, live well, stay in chic hotels.

I quote in my book one businessman who said, "What I love about Dubai is that you stay at five-star hotels and you pray at five-star mosques."

It's the mark of affluence. When middle classes emerge and they are affluent, they behave like middle classes everywhere else. They want quality of life. It doesn't mean they automatically secularize overnight. But it means that their consumption choices, what they demand, are in tune with their station in life.

This should be intuitive to us, because we clearly understand that part of the problem with extremism is frustration and lack of opportunity and lack of jobs. I remember a few years ago, I asked the father of

somebody who had gone to jihad in Kashmir from Pakistan why he would want his son to risk his life and go fight a jihad.

He said, "Let him go and die in a jihad. There is absolutely no future for him, no life for him."

At least if he died in a jihad, he would bring honor to his family and to his village. That's the best thing he can actually hope for. It was a rational choice he was making.

But we often don't understand the obverse of this. We say we need to create jobs for these young people and we need to clean up poverty as a form of social action. But we don't look at the other side. When there is wealth in society and when you actually do have a middle class, then societies will begin to stabilize. They will be much more likely to be open. You will even get a very different discussion about religion.

For instance, there is now ubiquity of satellite television in the Arab world. It's something like 280 channels. If you look farther afield to Turkey and Malaysia, there are even more. There is plenty of religious programming on this TV, and a lot of it is the same old material.

But what's interesting is that some of the most popular religious television programs are by a new breed of televangelists, who dress in three-piece suits or in polo shirts and don't speak from mosques, but in town halls or in chic hotels, address much more affluent audiences. The message is conservative, but it is pro-globalization and it's pro-business. It's the kind of religiosity, again, that the affluent would favor.

The phenomenon is there because there is a market for it. We know where a phenomenon is by looking at its footprints. You look at this television phenomenon and you say, who watches these? Who goes to these town halls to listen to these New Age televangelists? It's those same middle classes that also like to go vacation in Dubai. That's their vacation destination; it's their choice of religiosity.

Is it sizable? It is growing. It's not growing as fast as we would like, but it is growing. We are not doing much to help it, let's put it that way. Even though we are worried about the Muslim world, we're not quite on par with what needs to be done.

If you looked at another interesting indication in the Muslim world, we would see what the potential is. Religion of Islam, much like medieval Catholicism, does not allow you to charge interest. You have to have banking services, financial services, that are interest-free. That makes for very difficult banking. For a very long time, sort of woolly-brained clerics would come with half-baked ideas in Pakistan and Egypt about interest-free economics. And it never worked. It never worked until Citibank and Deutsche Bank and Bank Paribas, et cetera, decided to make it work. They made Islamic finance profitable.

Why would bankers do that? Bankers would only do that if there is a market. Bankers would always look for new products to sell to a niche market, where there is money. Western banks understood that there was a huge demand for Islamic finance. Why is this demand growing? This demand is growing, obviously, because there are people who have money to put there. It's not just oil money.

The point is that there is a middle class that is growing, that would like to mix capitalism with religion. In the past years, Islamic finance has been the most rapidly growing segment of global finance. It's still a drop in the bucket, but it has been growing. Even last year during the downturn in the global economy, the size of the Islamic finance market grew by 30 percent globally.

And it's not just banking; it's insurance, it's mutual funds, and it's also Islamic bonds. In other words, there are plenty of people in the Muslim world who will not buy regular bonds, because they pay interest.

If you want their money, if you want to bring their money into the system, you have to give them a product that they will buy. Plenty of companies and countries are doing that. Ford Motor Company financed the purchase of Aston Martin partly by issuance of Islamic bonds. Caribou Coffee, which is

America's second-largest specialty coffee retailer after Starbucks, was purchased by a company in the Persian Gulf with issuance of Islamic bonds. There are now governments that are issuing Islamic bonds as sort of sovereign bonds to raise money for a variety of projects.

Kuala Lumpur and Dubai have been so far the capitals of Islamic finance. The city that is most aggressively competing for Islamic finance is London, which is trying to become a hub for Islamic finance activity.

Islamic finance is one area, but again it shows the importance of this phenomenon in the Muslim world.

We want the Muslim world to follow the history of Europe, basically, which means to go through Reformation and Enlightenment and arrive at secularism, at some level. We hope that it will follow the same historical trajectory. But whether that's right or wrong, there's one big piece of this which we have factored out. This didn't happen in Europe because of an intellectual debate. Europe did not go through this process because of an intellectual debate.

In other words, a very big part of the process in the West was the rise of capitalism and what capitalism and markets did to societies. Within society, what was the engine of change?

It wasn't the poorest of the poor. It wasn't the peasants that were championing new ideas and new ways of doing things and pushing for technology and ideas. It was the middle class. And "middle class" does not just mean the middle belt of society. It means a social class that's tied to the market.

In a lot of parts of the Muslim world, the market is missing. It's not tied to the global economy. Therefore, you don't have a middle class—the right kind of middle class. Therefore, it's not a surprise that the Muslim world is not embarking on the historical process that the West would like to happen.

When you look at countries like, for instance, Iran—you look at the elections last summer. We only looked at the political end result of the process. The Iranian economy has been opening up from the 1990s to greater privatization. It gave rise to a middle class in Iran. It's not all-powerful. But if you look at who supports reform in Iran, it's the middle class. They are the ones who, because they are wealthier, want to consume better culture, have more opportunities, have access to the world. They want to do trade with the world. They want to get financing with the world. They have an interest in transformation. They have the knowledge, skills, they have literacy, et cetera.

Who resists this change are those who depend on government entitlements, who have no interest in the market, have no interest in any change in the current status quo.

Ultimately, the force for change there, too, has to do with the market.

Just in conclusion, none of this is really rocket science. It's not new. We've had many parts of the world go through this process. We have Latin America going through this process in the 1990s. We have Eastern Europe going through this process, Asia going through this process. We single-handedly helped Mexico, in a sense, to hitch its wagons to globalization and transform that area of the world.

It doesn't mean that the problems everywhere have been solved. There is plenty of poverty in Mexico, even though the country's economy is part of the global economy and it's developing a democracy. Still there is a massive drug problem in Mexico. The state has a lot of weaknesses.

India, similarly, is a great story but still has to solve a lot of poverty and social issues.

But we understand the process. When it comes to the Muslim world, in my opinion, we don't look at it in the right way. If we really were to think long-run about how you get the Muslim world from where it is to a completely different plane, you have to think about how you would open their economies to the global economy, how you would make more countries go the way of Turkey or Indonesia, and how you would

want to create a middle class across the Muslim world, from Morocco to Malaysia, who would be vested in the global economy, who would want to vacation in Dubai, whose views would be much more in tune with global views.

We shouldn't care so much that the Muslim world is secular. We should care a lot more that the Muslim world is capitalist. That matters a lot more.

Thank you.

Questions and Answers

QUESTION: You've used the word "we" over and over again in your remarks: "We aren't doing the right thing." "We have to do something different to transform the Muslim world." Most people talking these days about Iran, Afghanistan talk about the government, the United States government or the European Union governments.

Could you talk a little bit more about what you mean by "we"? Then you put a verb next to it—"should do" this, that, or the other to develop a capitalist economy. Is this the banking system of the West that you're talking about? Is there a role for governments or multilateral institutions? Maybe you could just explain this a little more.

VALI NASR: Sure. The process that we have experience with is a process in which a combination of Western governments, international financial agencies, like the IMF, and private banks deal with governments as a whole to help them reform. The basis of this reform, very generally put, is that they need to remove their tariff barriers, change their laws, become receptive to direct foreign investment, change the regulatory environment, change their currency levels—so to go from being a protected economy to a much more open economy.

In response to that, then you would begin to encourage direct foreign investment in those countries, based on what they can produce. Then you also have to open your markets to them.

That's what we did when the Mexican economy was collapsing in the 1980s, to force on Mexico a devaluation of the peso, the removal of the tariff barriers. That went hand in hand with giving close to \$40 billion in loans and other forms of immediate support to stabilize the Mexican economy, but also opening global markets—in this case, particularly the American market—to Mexican goods.

Sure, there are political costs associated with this. But there are political costs associated with not doing it as well. That's a debate one ought to have.

The same happened in Eastern Europe. How Germany there led the way, with Hungary, Slovakia, Poland, et cetera, was to infuse a huge amount of money into their industrial infrastructure, to rebuild it, rejuvenate it. Money went in to take those Soviet-era industries and retool them, build them up, in exchange for which those countries agreed to reform their laws, their economic structures, and then Western Europe opened itself to goods that came from those economies.

QUESTION: Vali, you mentioned at the beginning that this kind of thing has to come from within, that it can't be imposed from the outside. Then you also, fascinatingly, talked about the televangelists and the amount of communication in the Muslim world. Is the word getting to some of the hard nutcases? You mentioned Iran, but how about Pakistan, Yemen, Saudi Arabia? Are there individual people in those societies who are looking at the examples of Malaysia, Indonesia, Turkey that you have talked about this morning?

VALI NASR: Some are. For instance, Morocco has been looking at Turkey, very clearly. Morocco is a little bit farther along because it has some kinds of arrangements for economic integration with Europe. Jordan, similarly, has a free-trade deal with the United States. But these haven't gone forward. These are

sort of the first steps that have been taken.

Countries are most interested in doing something that are in the same spot that Mexico or Argentina or Brazil was in the 1980s. Countries that are very oil-rich or get a lot of money from the outside tend not to have an incentive for change. First of all, change is painful and it's difficult. Nobody wants to do it unless you have to. A lot of these countries—changing them is kind of like trying to restructure GM. You're not going to do it unless you really have to do it, and then there is a lot of difficulty managing it.

Let me put it this way. It does help if you have more Turkeys and Indonesias in the Muslim world. That means that we should look for cases that are not near success and help them become successful. That means that Yemen or Somalia is not a good place to start, because that's such an uphill battle. There are plenty of countries that have relatively good industrial infrastructure, large economies. They are more like where Argentina and Brazil were 15, 20 years ago. You want to create a sort of wave effect over there.

The other countries that are not good to go after are places like Saudi Arabia. Saudi Arabia is too oil-wealthy to really need a middle class. If the government doesn't really need the money that the business community would generate from trade, why exactly would it want to open up?

That actually goes to the heart of the debate in Iran. Iran began to privatize its economy when oil was \$30 a barrel in the 1990s. When oil went to \$140 a barrel, it decided that it can just have a very simple economy. The government gets the money and it funds the entitlement programs. Even if you thought about what would eventually make the decision in Iran, it will be decided by the economics of the country.

QUESTION: Thank you for being so perceptive and so encouraging. I just thought of another question. The first one is about Iran, which you know very well. You talked about present-day Iran. But there was the Iran under the shah, where the middle class became quite influential. Here you have a case study where the middle class was doing fine, but other things intervened, and now there are new possibilities.

The second question is about history. If we talk about Turkey, you have to remember the Ottoman Empire, when Turkey was the center of a vast trading network and was very wealthy. This is true throughout the area.

A country you haven't mentioned is Syria or Lebanon—very much on the trading routes, very influential centers, Aleppo, Damascus, whatever it is, that have had influence in the past. Is this strengthening the possibilities for the middle class in these countries?

VALI NASR: Let me answer your second question first. When you meet a Lebanese, you understand what a businessman ought to be. The Lebanese, as you said, have a long history of business. In fact, it's very clear that the problem is not that they don't understand business or they have woolly-brained ideas about abandoning the world. They're all about business. The problem is not them. It's not their ethics. It's not their culture or their abilities. The problem is the environment in which they operate. Lebanon had a relatively open state. It could do very well. The problem is the fractured nature of the country. In other words, you don't have a state. There is no agreement about the state. You cannot do business or build a business economy where you don't have an actual country.

It's the same problem in Iraq right now. There is a boundary, but there's no functioning political society there.

Syria is a rigid dictatorship. It's not open to the world. If you were to open up Syria, you would have to tell them to remove tariff barriers, change their laws, make Syria business-friendly, let outside investors come and build things. You would have an impact. Some of this, actually, Turkish businessmen, as they are becoming wealthier, are beginning to do. Western businessmen don't go into Syria, but Turkish businessmen have begun to expand their horizons and do this.

The wealth and history of Levant—this is the sort of the Mediterranean area—and the Ottoman Empire does matter. It makes them more receptive.

But it's true of everywhere. You have places that have more tendency of inventing the wheel; there are the right circumstances. But once the wheel is invented, you don't need to invent it again; you just need to copy it and borrow it. So the Turks may have been better positioned to do what they did. But others can merely copy that model. They don't need to do all of it again.

The country that would have been closest to Turkey is Iran. In fact, my book deals extensively with the middle class under the shah. It was the wrong kind of middle class. It was a middle class that was wealthy and secular, and it became Marxist and it became religious and it essentially destroyed its own future in that country. Why did it do that? Because it had no relationship to markets. It was a middle class that became wealthy because the country had oil. It was a lot more like the Saudi middle class.

So the lesson of Iran is that it doesn't matter if your middle class is secular. It matters that it's a real middle class. The problem with Iran was that they were all secular. But so what? They had no relationship to global markets. They had no relationship to capitalism. They turned left and they became a facilitator for the Islamic Revolution.

QUESTION: As far as trade and development and the subjects that you were discussing are concerned, what is the OIC [[Organization of the Islamic Conference](#)] position? What is their influence on doing exactly what you say?

VALI NASR: Not much on these issues. OIC works as an international organization, much like an Islamic subcategory, say, to a United Nations. It does more in terms of conflict resolution, getting consensus on issues, whether they are medical issues, health issues, or political issues. But organizations of this kind don't interfere in one another's domestic affairs. They are much better at solving international-conflict issues than dealing with domestic issues.

So not much. Actually, OIC doesn't have anything similar to, say, UNDP, the United Nations Development Programme, which then, you would say, has been charged specifically with helping with economic issues. For instance, there are no funds in the Muslim world that were created to help countries who want to undergo financial restructuring, to provide them with the kinds of things that the IMF provides to others.

At the end of the day, every Muslim country that wishes to embark on this—or we, say, at some point, force them to embark on this—would have to deal with the same international bodies, which are the World Bank and the IMF, Western banks, and then Western economies.

This may change in the future. If you begin having a Turkey that becomes a much bigger global, regional player, then it may play a much more influential role in the economies of countries where you have a lot of Turkish businesses functioning. These are typically, right now, countries like Uzbekistan, Turkmenistan, Azerbaijan, et cetera, where now a lot of Turkish multinationals are very active. But we're not there yet.

QUESTION: I think your example of Turkey is quite instructive, in the sense that it is indeed a Muslim country that is far more modern and advanced than many in the region. However, there are two tendencies in Turkey, the way I see it. You have two rising modern middle classes. One is, traditionally, the secular class that also represented the military, which was promoting secularism in the tradition of [Kemal Atatürk](#). At the same time, it was really behind the scenes, I would say, running the economy. Today we have a Muslim-rooted new middle class, which is becoming very wealthy. It's Islamic, but it's wealthy.

In the first case, the military, of course, in my view, used, to some extent, religion, Islam, as an instrumental value, not necessarily for modernization, but for Turkish nationalism. In the second case, the new rising middle class, which is Muslim-rooted, is using modernity, if you wish, also as an instrument for Turkish nationalism.

So one is tempted to apply the [Huntingtonian](#) kind of view, where a country is becoming more modern or wants to apply modernity, but not necessarily become Western in the sense of liberal democracy as such. In both cases, the military and the Islamic-rooted government, you have more resistance at the same time as you have a tendency to engage in globalized economy and become more modern. There is a resistance to what we term Islam liberal democracy.

VALI NASR: You are very correct in your assessment. I would say liberal democracy in Turkey would have to come over time. It has to come with practice. In other words, the longer the experiment continues, the more elections you have, the more the process goes through, the more likely it is that it would improve and become open and better.

Clearly, the door of Europe being closed has not been good, because it was a compass and a set of criteria that kept the Turks in line. I think Turkey may have made a turning point and at least it's on the right path. It may not get there as fast as it would have if it was joining Europe, but it may still get there.

About the two middle classes, it's absolutely true. Nowhere else do you see this other than in Turkey, that you have an old middle class, which is similar to the one that existed in Iran, that was created by Kemalism, is very secular. It was the culture of Kemalism. It was very connected to the Turkish state and to the old Turkish economy, which was these large enterprises. Then you have this new middle class that came. They didn't have a seat at the table when you had government-controlled economies. Only when the economy opened up did they get the opportunity. They are sort of your Kayseri businessmen, whereas the other ones are your Istanbul businessmen.

There is a lot more cross-fertilization. They are culturally very different. In other words, one is secular. The women would not be wearing any headscarves. They would be Westernized. They would see Turkey as very European. The other ones would be culturally much more traditional, if not Islamic, at least a sort of conservative Anatolian culture.

But what's important is that the businessmen in these communities have a set of shared interests. One is that they have shared interests around what is good for the Turkish economy. An economy that in the past five, six years brought in \$50 billion of direct foreign investment or has so many exports—whether you're secular or you're religious, you have a vested interest in that. That comes up in issues of whether or not the Turkish military should intervene. For instance, the secular businessmen also now begin to say no, because as much as they like it, the military's culture may not be favorable to the impact it might have on the economy.

The second one is that there is a consensus between them over democracy. A global economy ultimately functions best if you have a certain political openness. But democracy, by definition, brings all kinds of views out. If you're religious, you're going to vote for somebody who is more religious. Democracy cannot keep you out of the process, unless you violate a particular law.

So what we have in Turkey—they are negotiating. There is consensus and there is disagreement. But the main driver here is business, capitalism, which has sort of created this dynamism. Turkey is not done yet. We're not at the end. But the important thing is that the experiment continues.

QUESTION: I have a question about the difference between the two banking systems that you talked about. Can you explain that a little better, the banking system in the Muslim world and the banking system in the Western world?

VALI NASR: Most of the banking system in the Muslim world is secular banking here. It's just that there is now a niche market that is emerging that is catering to pious Muslims, who do not want to engage in banking practices that they believe are against their religion.

What it is that the Muslims most have a problem with is interest rates. In Islam it's forbidden to charge

interest or to give interest, because in Islam the belief is that you can only make money based on effort and skill, and interest as seen as usury. Catholicism found a way around this. The Muslims have not theologically found a way around it. But the banking system has found a way around it, which is to make banking compatible with finance.

In Islam also it says that you cannot speculate on—well, I'll explain. First of all, financial products are made like profit sharing. In other words, the bank won't give you an interest. It essentially treats you as a partner in a venture, and then you are subject to risk and reward accordingly. It's much more like putting money in a company. It's much more like venture capital than finance.

If you take out an Islamic car loan—and there are plenty now available in Chicago, in the West—and some of this may be sleight of hand at times, but the point is that there is a need to do that—they can structure all the payments into a deferred payment. At the end of the day, they end up paying the same amount for the car, except it's not interest. The price of the car is a lot higher, and you just get a deferred payment on it.

There's a lot of debate about which of these work, which don't work. Most financial institutions now have a CSO, which is a chief Shariah officer. It rhymes with "CFO." They give verdicts on things that are a bit shady.

In Islam you are not allowed to speculate on speculation. In other words, all financial activity has to be tied to something tangible, which means assets. That's why real estate figures so importantly. That's one of the problems that caused difficulty for Dubai—overinvestment in real estate.

So, yes, it has limits. Nobody is saying that Islamic finance is a great solution and we ought to do it. I look at it essentially as an indicator of a certain kind of demand, which then signals to you the presence of a particular class.

There are all kinds of innovative ways of allowing Muslims to engage in economy without paying interest rates. When you put your money in a bank, the bank also turns around and loans the money. The bank essentially doesn't loan the money. The bank invests in the business, and you are part investor with the bank in that business. You cannot invest in air. You cannot invest in a lot of the speculative financial products we do. Most often it has to be connected to some kind of tangible business. Either it's a factory or it's real estate or it's something else.

In the case of Dubai, there was so much money coming in because of the boom in the region that there were not enough tangible businesses. It was much easier to keep putting the money in real estate. So you created a real estate bubble because of the absence of the ability to lend, for instance, to interest-bearing banks in the West, et cetera.

QUESTION: Thank you for your very invaluable comments.

Based on my experience as ambassador to Kuwait, I buy your arguments as very useful tools for prediction of the future of Muslim society. Generally speaking, the financial crisis has some adverse impact in terms of dismantling or weakening the middle class. That is a general observation. It varies in terms of how it could terminate the middle class. But based on such kind of a negative impact of the financial crisis in the middle class, I wonder if that kind of general observation could be applicable to the Middle East case.

VALI NASR: That's a very good point.

QUESTIONER: That's my first question. I have one comment.

I narrow down my comment on why people go to Dubai. The expansion of Dubai was accelerated in the wake of 9/11. There are many reasons. But they tried to find other spots to visit. In the wake of 9/11,

the issues of visas were very cumbersome for the Arab countries. Even though they got some U.S. visas, they do not want to be understood as neighbors of extreme terrorists. That's why they were seeking some other place as an alternative to going to the United States.

My observation is that Dubai is kind of a byproduct of U.S. policy in the wake of 9/11. That's why the U.S. foreign policy has some great impact on that issue. That's my general comment.

VALI NASR: On your first point, you're correct. There are two things that make it much more difficult for this process to happen. One is the downturn in the global economy, for the reason that there's less money to invest and it does create certain protectionist tendencies. Also there is less demand available in the West with which to support the rise of a middle class where it doesn't exist. That's a challenge.

But one ought to think that ultimately, post the global financial downturn, when there is the opportunity—one ought to look at how the global economy can solve this problem in the Muslim world.

The other issue is that, whether there is a downturn in the global economy or upturn, in my opinion, there's no other way for the Muslim world. Really, when you look at these countries—Egypt, Yemen, Bangladesh, Pakistan, each with over 60 percent population under 25, with their economies not generating jobs, and also with no middle class that would provide for innovation, for culture, for the kinds of directions that you want—these countries are going to lag further and further behind other areas of the world that have globalized.

You look at social composition—take Korea. You say in Korea the middle class is this percentage of the economy and this percentage of the population. You look at a similar-size country in the Muslim world, and you say the middle class is absent altogether.

So unless we come around and say, "You know what? We're not going to solve extremism and fundamentalism. We just have to find a way to live with it"—that's one answer. But if we are looking for a solution, in my opinion, there is no solution outside of an economic solution. Even if the global downturn causes a challenge to us because a lot of automatic mechanisms are not there, we have to still think of ways to persevere.

Your point about Dubai is actually correct. There are others who benefited from this. For instance, [Qatar's Education City](#) also benefited because a lot of people don't want to get or cannot get student visas. The education system in Australia and New Zealand benefited enormously from the closure of the American education market to many aspirants.

Your point is well-taken. There are two things that helped Dubai. One was that not as many Muslims could go to the West, and also not as many Muslims wanted their money in the West, either because of the [Patriot Act](#) or because they were angry. Dubai was smart enough to understand that there was business opportunity in both of these.

But, still, the class that is most affected by the U.S. policy is the middle class and above. In other words, whether it's education, visas, travel, it's not the poor in Egypt or in Yemen or in the Arab countries which will be going to Geneva or London or Washington for vacation. It would have been this middle class. So the fact that this middle class then turned to Dubai, either to invest its money or to do business or to go on vacation, allows us to see its footprint and its behavior.

Yes, Dubai became the Mecca for the Muslim middle class, initially because it took advantage of the opportunity, but then it ultimately became idealized. But the interesting point is that when you see a particular market, you tend to generate your product in the direction of that market. If the Muslims coming to Dubai only wanted religion, then you would have had to create something very different for them. But it was very clear that those who came really wanted a middle-class quality of life, and that's what Dubai had to produce for them.

But you're right. Dubai was a beneficiary of that and then of a higher oil price boom as well.

Thank you very much.

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