

# **Behind The Economic Crisis of the Muslim World**

## **A Case Study of Pakistan**

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## **A Case Study of Pakistan**

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## **ABSTRACT**

The research undertaken was to study the different factors responsible for the economic crisis in Pakistan. All the Muslim countries are blessed with a lot of natural resources which are the backbone of their economy. The Gulf countries possess oil and gas resources which have made their economy very strong. The misery is that these natural resources are captured by the British and America which do not allow them to benefit much from the resources.

As far as Pakistan's economy is concerned, the most important factor of its crisis is dishonest leadership and lack of patriotism. Another internal factor that does not allow the economy to grow is illiteracy as the only and the easiest way to development is education. Beside this, there are some external factors which have crushed the economy of Pakistan. Among them, the most dangerous are India and America. America has pushed Pakistan into war on terror causing irreparable loss of life and property. Its aid is neither delivered nor utilized properly. America is also strengthening India in the Asian region supporting it with the supply of weapons, dollars and technology. Both have also joined hands to capture the natural resources in the Baluchistan province. India in itself has been hostile to Pakistan since its beginning. The hatred kept on growing as India always created problems for Pakistan. The most dangerous act of India is its blocking the rivers flowing to Pakistan. It has built many dams and hydropower projects on these rivers in the occupied Kashmir. This has disturbed the whole canal system of Pakistan giving a severe blow to the agrarian economy. The international powers favor India which has made the situation worse for Pakistan.

In such an alarming situation, the economic crisis has gone worst because of bad governance and mismanagement within the state. Corruption has got deep roots and there is no check on it. Lawlessness and unemployment have given rise to crimes. All the politicians and the high officials are found indulged in economic crimes. The national wealth is looted and transferred to their foreign accounts. Unless these faults are overcome, there is no way to progress. If the state plays its role well and checks or minimizes at least the internal factors of economic crisis, Pakistan's economy can become strong within very short time.

## **INTRODUCTION**

The Muslim countries cover a vast area on the surface of earth. Diversity in climate and production of commodities is but natural. Nearly all types of natural vegetation and pastures are found. Fertile river valleys are extensive and famous for their agricultural products. The deserts possess the minerals and oil which is believed to be one of richest resource bestowed by Allah Almighty. Therefore, the Muslim countries are rich with all types of natural economic resources. By utilizing them properly, they can become prosperous and strong and this is what the Muslim world is struggling for today. In the 1<sup>st</sup> chapter of this thesis we have focused on the natural economic resources of the Muslim World and have given the statistical figures of Natural economic reserves. From these statistics it is proved that almost 70 to 80 percent natural oil reserves exist in the Muslim world but the West (and particularly USA) has complete control over these natural reserves. The main reason behind the Gulf war and landing of American armed forces in Saudi Arabia was to get control on oil reserves. The USA invaded Iraq and Afghanistan to gain control of oil and other natural resources of these regions.

In the 2<sup>nd</sup> chapter, we have taken of a case study of Pakistan. This chapter is divided into two sections, In the first section leading economic crisis in Pakistan have been discussed. In the first section, the most crucial internal factor behind economic crisis is corruption in which almost 95% government organizations and departments are like police, revenue, lower judiciary etc. are involved. Another important is low literacy rate and it is clear that economic progress is not possible without higher literacy rate in the contemporary world. Due to low literacy rate in Pakistan, the human resources can't any considerable play role in economic development of the country. Among our internal factors are bad governance, mismanagement and poor law and order situation in Pakistan which are a great obstacle in economic growth.

In the 2<sup>nd</sup> section of this chapter we have focused on the external factors behind the economic crisis of Pakistan. Here we have given first the historical economic background of Muslims in Indian Sub-continent to show that how British government treated Muslims economically before partition. The thesis also deals with the Indian Hydrological war against Pakistan and how India is trying to damage Pakistan politically and economically .In this section we have also focused on the IMF and its role in Pakistan economy. We have noted that ever since Pakistan has adopted the IMF and other American aid programs have been elaborated in the 2<sup>nd</sup> section for economic stability and reduction of poverty, Pakistan's GDP has decreased and poverty has increased due

to IMF's Pro- rich and anti- poor policies. We have also noted that war on terror is also a big factor in Pakistan economic crisis and Pakistan has paid a great economic cost against terrorism. In the external factors we have also studied how USA and India are interfering in Baluchistan and tribal Areas and are playing a major role to destabilize Pakistan politically and ruin it economic alls.

## **Chapter: I      Behind the Economic Crisis of the Muslim World**

### **Muslim World Scenario**

#### **The Oil and its Importance**

Importance of oil for the world today is unique in nature and exceptional and far-reaching in scope. It is the unique independent variable in the global economy, just as if not more powerful and dominant than the decisions of the Federal Reserve, the euro's exchange rate against the dollar, and conditions in the United States or stock market indexes. Oil prices and availability affect its production capacity, and the rate of growth and the level of inflation in all parts of the world. In the contemporary world, oil affects transportation, heating, manufacturing and the military department.

Why is oil accepted to this extent? For example in the United States, oil plays an important role in the operation of all of American States. The United States use 27.2% of the total energy transfer, and is based on 97 percent of transport fuel oil. Why do they prefer transportation and oil-based industries such as fuel gasoline and diesel fuel to run their cars, buses and trucks and planes and ships? The answer is that oil fulfils transportation needs while other sources of energy cannot. These requirements are portability, energy density, safety and ease of handling. Portability is the main condition. The cars, planes or ships should have the energy needed to save energy. This cannot be installed by a series of electrical tubes. Carrying coal or nuclear power in any vehicle or aircraft is extremely hard. Oil is the only kind of fuel that was available in sufficient quantities to meet this requirement. Any vehicle or aircraft is extremely hard. Energy intensity measures the energy that can be filled in a particular room or weight. We have enough space in the weight limits, cars and planes. These limits still provide an appropriate range. In the present situation, it is the only the oil that can meet the need for energy in the world to transport equipment.

Safety and ease of handling other needs are met for the transportation of oil. It may be found difficult in some of the alternatives met. Oil has become more important because it will soon become scarce - demand will exceed supply. Within the next few years, oil production will reach

its peak in all over the world and will begin to decline. At the same time, oil demand will continue to grow unless you save some fuel or implementation of alternative fuels takes place. Now we will describe about the demand for oil to the world and the highest consumer country of the United States of America.

### **World Oil Demand**

World need for crude oil (including natural gas liquids) is projected by the U.S. Energy Information Agency to increase from 77.1 MMBbl/D in 2001 to 89.7 MMBbl/D in 2010, an increase of 12.6 MMBbl/D in just 9 years. The expected oil growth rate is 1.7 percent per year, a major increase over the years 1990 to 2001 at the rate of 1.4 percent<sup>1</sup>.

## **U.S. Petroleum Requirements**

### **Overview**

The growing dependence of the US on foreign sources of the United States for its liquid fuels has significant economic implications. U.S Department of energy reports:

“For more than 50 years, the United States has been a net importer of oil. Today, it imports nearly 60 percent of its liquid hydrocarbon needs. The U.S. Department of Energy (DOE) projects that U.S. imports may double to 19.8 MMBbl/D by 2025. By then, imports will go beyond 70 percent of demand, the vast majority coming from Organization of Petroleum Exporting Countries (OPEC). As imports rise, America’s susceptibility to price shocks, disruptions, and shortages will also increase” .<sup>2</sup>

### **Domestic Requirements**

The U.S energy department report says:

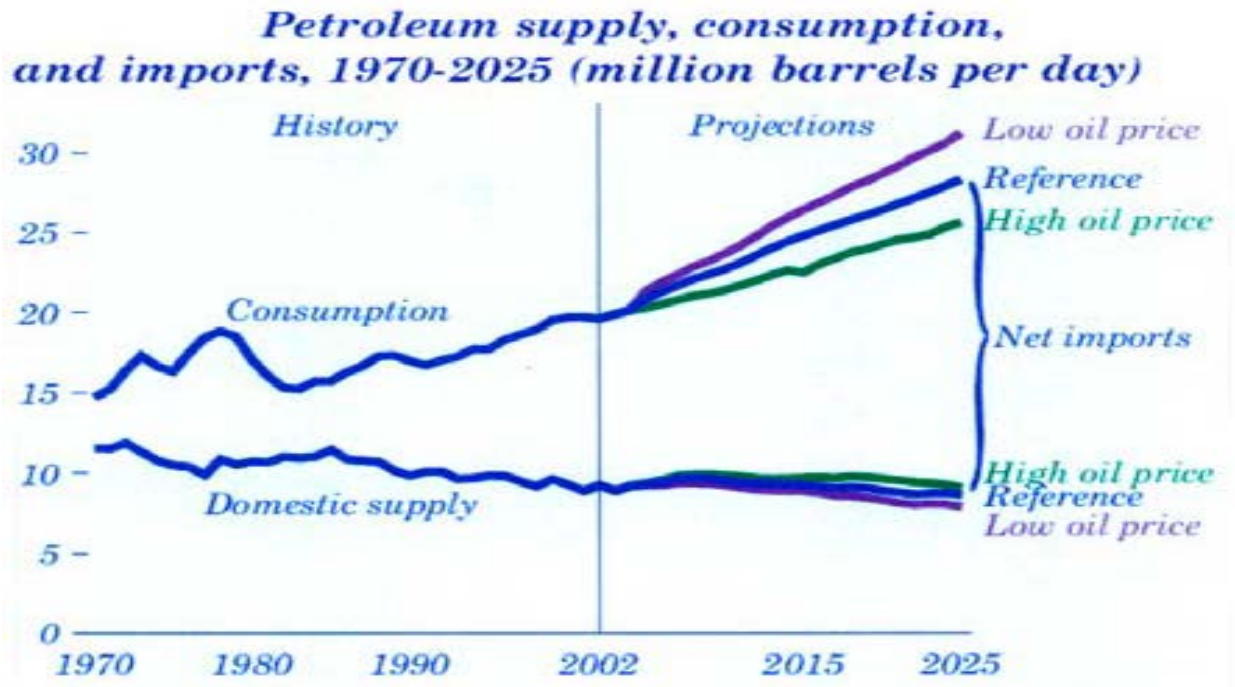
“In 2002, the United States consumed 19.8 MMBbl/D of oil and oil products, of which 10.5 MMBbl/D, or 53% was imported. Over the predictable future, demand will rise while home

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<sup>1</sup> U.S Department of Energy, Office of Naval Petroleum and Oil Shale Reserves, *Strategic Significance of America’s Oil Shale Resources*, By Harry R.Jouhnsn, Peter M.Crawford , James W. Bungler, (Washington, D.C.: Office of Deputy Assistant Secretary For Petroleum Reserves, 2004), 5.

<sup>2</sup> Ibid.

production is expected to decline . As a reference case, U.S. demand is likely to reach 29.2 MMBbl/D by the year 2025, of which nearly 19.8 MMBbl/D will be imported” .



### Military Requirements

The United States of America has a great military requirement of oil. American army can not continue its military operations around the world without oil resources. U.S department of energy states:

“The Department of Defense has a strategic prerequisite to keep safe sources of liquid fuels to activate its aircraft, naval fleets, and land vehicles at home and around the world, keen concerns over domestic security, strengthen the need for the military to make sure that secure fuels are available to guard the nation, to support U.S. forces positioned overseas, and to project force when it is deemed necessary to protect America’s strategic interests and international commitments”<sup>3</sup>.

<sup>3</sup> U.S Department of Energy, Office of Naval Petroleum and Oil Shale Reserves, *Strategic Significance of America’s Oil Shale Resources*, By Harry R.Jouhnsn, Peter M.Crawford , James W. Bungler, (Washington, D.C.: Office of Deputy Assistant Secretary For Petroleum Reserves, 2004), 4.

The report of energy departments further says:

“To sustain this strategic requirement, the military pre-positions fuel supplies in the United States and all around the world. The military purchases alternate fuels from international markets. If alternate fuels are not accessible in a timely manner, military capabilities are at least for the time being diminished. Domestic sources for military fuels must be re-checked in the situation of rising import, self-sufficiency and increasing weakness to supply interruptions”.<sup>4</sup>

Of direct importance are:

1. Supplementing decreasing domestic production
2. Maintaining fuel performance for the legacy fleet
3. Keeping fuel costs as low as possible during peacetime to facilitate training.

“The expansion of oil shale resources would help meet all of these needs at this time. The need for protected supplies and the potential for oil shale to contribute to that need were officially known in the early 1912, with the institution of the Office of Naval Petroleum and Oil Shale Reserves (NPOSR). The original objective for establishing this office was to re-assure a secure supply of petroleum for America’s naval fleet. Today, the interest is far more complex; the need is essential to the whole military complex. Appropriately, NPOSR is at present part of the Office of Strategic Petroleum Reserves in the U.S. Department of Energy”.<sup>5</sup>

In the early 1980s the NPOSR and the Department of Defense Energy Office specially made a study to investigate establishing a Defense Petroleum Reserve to give to the military a complete supply of crude oil for cleansing to jet fuel and gasoline in times when defense pre-positioned war assets might be drawn down beneath minimum strategic levels.

Physical shortages, or even the outlook of shortages, can put a serious unpleasant effect on military power. In the 1970s, when definite shortages occurred, Secretary of the Air Force, John C. Stetson, observed:

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<sup>4</sup> U.S Department of Energy, Office of Naval Petroleum and Oil Shale Reserves, *Strategic Significance of America’s Oil Shale Resources*, By Harry R.Jouhnson, Peter M.Crawford , James W. Bungler, (Washington, D.C.: Office of Deputy Assistant Secretary For Petroleum Reserves, 2004), 4.

<sup>5</sup> Ibid.

*“It is the trends [higher costs and reduced availability] that bother me and the conviction that unless we begin to lick our fundamental liquid fuels problem, and the larger energy problem, this country will inevitably grow weaker from a military standpoint.”<sup>6</sup>*

## **Muslim World’s Stance**

The Natural resources especially oil is a big economic resource in the present World. The country which has a large number of oil resources will be more developed, powerful and rich. But the question is that although Muslim World has great oil resources, yet the Muslim World is not politically strong, rich and developed. Almost all the Muslim countries are facing economic problems. The West, especially America is running its economy, politics and defense on the Muslim World resources but the Muslim World is not using its resources well. First of all we will mention the resources of the Muslim World below. Then we will explore why despite great resources, the Muslim World is in trouble.

### **The Natural Economic Resources of the Muslim World**

In this section, we will explain the oil and natural gas production and their reserves in the Muslim countries that have played significant roles in the international market. The countries that are in the Persian Gulf Region are listed first followed by Algeria, Libya, Nigeria, and Indonesia (Muslim countries that are OPEC members).

#### **Persian Gulf Region**

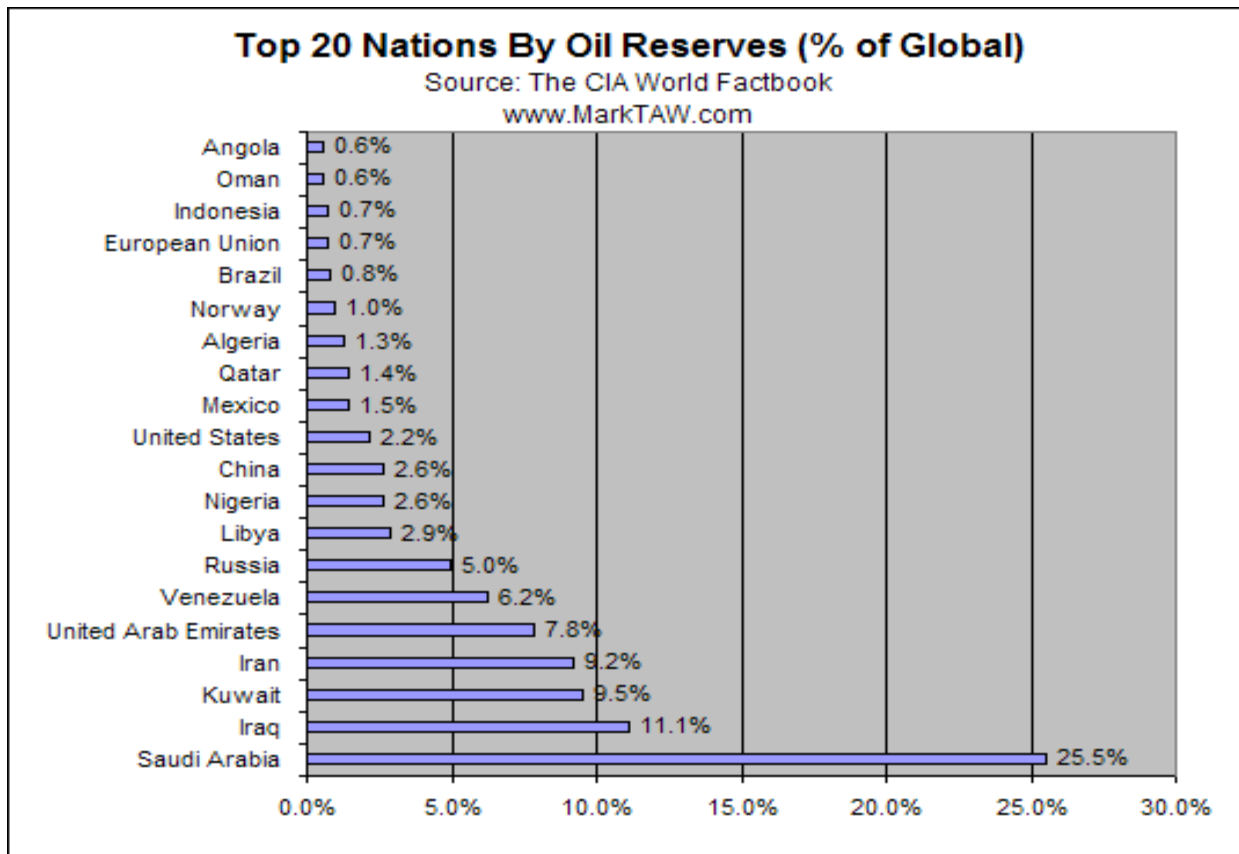
Persian Gulf region consists of eight countries ---- Saudi Arabia, Bahrain, Kuwait, Qatar, United Arab Emirates, Iran and Oman. In all these countries, the Muslims are in majority. Except Bahrain and Oman, these countries are OPEC members.

#### **Saudi Arabia**

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<sup>6</sup> U.S Department of Energy, Office of Naval Petroleum and Oil Shale Reserves, *Strategic Significance of America’s Oil Shale Resources*, By Harry R.Jouhanson, Peter M.Crawford , James W. Bungler, (Washington, D.C.: Office of Deputy Assistant Secretary For Petroleum Reserves, 2004), 4.

Saudi Arabia has the largest oil reserves in the world and the country is also the leading oil producer and exporter of the World. Its proven reserves are almost 264 billion barrels, about one-quarter (25%) of the world oil reserves. Saudi Arabia was the 12th largest consumer of total primary energy in 2008 of which 60 percent was based on petroleum. In 2003, Saudi Arabia became the World's largest oil producer with the crude oil productivity of 9.1 million barrels per day or 12.6 % of the World total. This is different from 1960 when Saudi Arabia's crude oil productivity was only 1.3 million barrel per day or 6.2% of the World manufacture against US crude oil production of 7 Million Barrel per day or 33.5% of the World total.



The above chart shows Saudi Arabia has the largest oil reserves in the World<sup>7</sup>.

After the discovery of the Al-Ghawar Field in Saudi Arabia in 1948, the World oil production began to shift into the Persian Gulf region. The Al-Ghawar Field is the biggest and the most

<sup>7</sup>“Global Oil Production and Consumption,” Mark Wiczorek, Last Modified: May 12, 2012, [http://www.marktaw.com/culture\\_and\\_media/politics/GlobalOil.html](http://www.marktaw.com/culture_and_media/politics/GlobalOil.html)

productive oil field in the World. It started producing oil in 1951 and extended hastily with 219 flowing wells by 1990. The World's biggest offshore field Safaniya is situated off the Eastern shore of Saudi Arabia near Kuwait. Safaniya was discovered in 1951, and the production was started in 1957. By 1990, it had 223 flowing wells. During the 1960s and 1970s, many other oil producing fields were discovered offshore of Saudi Arabia and the Eastern provinces.

According to the Energy Information Administration (EIA), Saudi Arabia has around 100 major oil and gas fields and more than 1500 wells. Over half of its oil reserves are located in only eight fields, including the giant 1260-square mile Al-Ghawar field (The World's largest oil field, with estimated remaining reserves of 70 billion barrels).The Al-Ghawar field has proven oil reserves more than all other countries .The crude oil had an average rate of nine million barrel per day during last twenty years The crude oil flowing from these wells is normally the more wanted light oil with refinery yields of more high-charge products such as gasoline and jet fuel and, hence, commands a high price in international market. Saudi Arabia is having the World's largest oil production; it is more than one-fourth of the world proven oil reserves. It also ranks fourth in natural gas production, with reserves estimated at 224.7 trillion cubic feet (TCF). Saudi Arabia's present natural gas assets consist of related gas reserves from its main oil fields as well as non- related gas reserves situated in deep reservoirs underlying the Al-Ghawar oil field and in northwest sections of the country. Saudi Arabia is the top oil exporter to the United States, Japan, OECD Europe and the Asian countries<sup>8</sup>.

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<sup>8</sup> "Saudi Arabia Energy Data, Statistics And Analysis," Energy Information Administration, Last Modified May 2, 2012, [http://www.eia.gov/EMEU/cabs/Saudi\\_Arabia/pdf.pdf](http://www.eia.gov/EMEU/cabs/Saudi_Arabia/pdf.pdf)