VOLUME 18, NUMBER 4, MARCH 2008

NBR ANALYSIS

Islamic Finance: Global Trends and Challenges

NBR THE NATIONAL BUREAU *of* ASIAN RESEARCH
Informing and Strengthening Policy in the Asia-Pacific

THE NATIONAL BUREAU *of* ASIAN RESEARCH

The *NBR Analysis* (ISSN 1052-164X), which is published five times annually by The National Bureau of Asian Research (NBR), offers timely essays on countries, events, and issues from recognized specialists. The views expressed in these essays are those of the authors, and do not necessarily reflect the views of other NBR research associates or institutions that support NBR.

The National Bureau of Asian Research is a nonprofit, nonpartisan research institution dedicated to informing and strengthening policy in the Asia-Pacific. NBR conducts advanced independent research on strategic, political, economic, globalization, health, and energy issues affecting U.S. relations with Asia. Drawing upon an extensive network of the world's leading specialists and leveraging the latest technology, NBR bridges the academic, business, and policy arenas. The institution disseminates its research through briefings, publications, conferences, Congressional testimony, and email forums, and by collaborating with leading institutions worldwide. NBR also provides exceptional internship opportunities to graduate and undergraduate students for the purpose of attracting and training the next generation of Asia specialists. NBR was started in 1989 with a major grant from the Henry M. Jackson Foundation.

To order the *NBR Analysis*, please contact NBR directly. Single issues, one-year subscriptions, and discounted two-year subscriptions are available at both individual and institutional rates.

The Henry M. Jackson Foundation contributes funding to the *NBR Analysis* series.

NBR is a tax-exempt, nonprofit corporation under I.R.C. Sec. 501(c)(3), qualified to receive tax-exempt contributions.

Printed in the United States of America.

For further information about NBR, contact:

THE NATIONAL BUREAU OF ASIAN RESEARCH
1215 FOURTH AVENUE, SUITE 1600
SEATTLE, WASHINGTON 98161-1011
206-632-7370 PHONE
206-632-7487 FAX
NBR@NBR.ORG E-MAIL
HTTP://WWW.NBR.ORG

Foreword

Islamic finance, based on Islamic law (*sharia*), mandates risk- and profit-sharing, prohibits interest payments, and emphasizes ethical investments that contribute to the greater good of society. Islamic financial products offer an appealing alternative to conventional portfolios. In 2002, not long after the tragic events of September 11, 2001, then U.S. Treasury Secretary Paul O'Neill was quoted as saying, "It took me six months to realize that Islamic finance was a legitimate way of doing business"—a statement that aptly captured non-Muslim public sentiments about the industry. Since then, Islamic finance has recorded dramatic growth, with a presence now in more than 75 Muslim and non-Muslim countries. Sharia-compliant assets worldwide are currently estimated at $1 trillion and growing at 15–20% annually. The industry's total assets and overseas portfolios are estimated to reach $4 trillion by 2010. With the integration of Islamic finance and banking into the global economy, the appeal of this financial system as a market for global capital is expanding. Diverse financial products and services, progress in developing regulatory frameworks, and enhanced international linkages are driving the industry's growth.

To raise awareness and understanding of Islamic finance among the U.S. policy community and corporate sector, The National Bureau of Asian Research (NBR) convened a conference on "Islamic Finance in Southeast Asia: Local Practice, Global Impact" in Washington, D.C., in October 2007. In attendance were representatives from the U.S. and Malaysian governments, as well as from global institutions such as American International Group, Japan Bank for International Cooperation, Bank Negara Malaysia, HSBC Amanah Takaful, Dow Jones Islamic Index, the World Bank, Islamic Financial Services Board, Securities Commission (Malaysia), Harvard Law School, and Georgetown University. The participants assembled to examine global trends and challenges in the Islamic finance industry.

This issue of the *NBR Analysis* contains adapted versions of the conference's opening and closing keynote addresses, presented respectively by Zeti Akhtar Aziz, governor of Bank Negara Malaysia, and Shamshad Akhtar, governor of the State Bank of Pakistan. As leaders and strategic thinkers in the Islamic finance industry, Governors Aziz and Akhtar provided invaluable insight into the factors shaping the industry's global trends and the challenges confronting the industry's long-term sustainability. The governors' remarks encapsulate three core themes from the conference.

Linking Asia with the Middle East. Islamic finance is a new vehicle facilitating the flow of capital both within Asia as well as from the Middle East to Asia. The strengthened economic ties between Asia and the Middle East have created an environment of activity reminiscent of the old Silk Road. Today's "new Silk Road," paved by the Islamic bond (*sukuk*) market, has emerged as a vibrant source of liquidity for Islamic capital markets.

Building a financial architecture. The sustainability of the new Silk Road will depend both on the development of a financial architecture compatible with international norms and practices and on collaboration with the international community. Investment in research and development, the leveraging of information technology, and the development of human capital will be critical factors in building that architecture. As the global demand for Islamic financial products surges, growing interest from non-Muslim countries in meeting consumer demands could drive convergence of international regulatory standards for the industry.

Managing industry challenges. A key challenge for the industry is to develop sharia-compliant products that are acceptable within a conventional regulatory framework. Islamic financial instruments and transactions are structured according to Islamic law. Debates over the interpretation of sharia in a financial context, however, reflect disparate views on various issues, such as regulatory challenges and arbitrage, the perception that Islamic finance is purely faith-based, and product innovation. Part of the dilemma can be attributed to the limited number of bona fide sharia scholars with expertise in international finance. Divergent views between regions—such as between the Middle East and Asia—coupled with different regulatory standards in country jurisdictions and institutional infrastructure necessary for maintaining prudential standards, also impede attempts toward harmonization. As increasing liquidity finds its way into Islamic capital markets, Muslim and non-Muslim countries will require a new generation of practitioners who understand how the modern Islamic legal system, Western common law, and international finance integrally function in a global economic system.

Mercy Kuo
Senior Project Director
The National Bureau of Asian Research

Enhancing Interlinkages and Opportunities: The Role of Islamic Finance

Zeti Akhtar Aziz

Zeti Akhtar Aziz has served as Governor of Bank Negara Malaysia since May 2000. She has been with the Central Bank since 1985 in a career spanning several senior positions in monetary and financial policies and reserve management. Dr. Zeti has written extensively in the areas of monetary and financial economics, Islamic finance, capital flows, macro-economic management, and financial reform and restructuring. Dr. Zeti is actively involved in the development of Islamic finance and in regional financial cooperation. Prior to her career at Bank Negara Malaysia, Dr. Zeti served from 1979 to 1984 in the SEACEN Centre, where she conducted research in the area of financial policies and reform in the Southeast Asian region.

Five years ago discussions regarding Islamic finance focused on the challenges of developing an efficient and robust Islamic financial system. Today the Islamic financial system has evolved significantly to become a dynamic and competitive form of financial intermediation in the global financial system. This transformation has been achieved in an increasingly challenging environment. This essay addresses the transformation and innovation that have taken place in these five years in both the national and international Islamic financial systems and concludes with an examination of necessary elements for sustaining the systems' growth. Most significant have been the development of the Islamic financial markets, the growth in the range of financial products and services, the increasing significance of the international dimension of Islamic finance, the development of an international Islamic financial architecture, and the enhanced international interlinkages that have been brought about by these developments.

Transformation of the Islamic Financial Landscape

As recent as five years ago, the development of Islamic finance was regarded as an infant industry striving to prove its viability and competitiveness. At that time, the growth of Islamic finance was organic and largely concentrated in countries where the Muslim population was significant. In these five years Islamic finance has recorded dramatic growth and has a presence in more than 75 countries in both Muslim and non-Muslim dominated communities. A growing number of the international financial centers, including London, Singapore, and Hong Kong, are beginning to offer Islamic financial products and services. The number of Islamic banking institutions worldwide, including conventional banks that are offering Islamic banking services, has doubled to more than three hundred. Total Islamic financial assets under the management of these institutions are now estimated to exceed $1 trillion, about fivefold their magnitude five years ago.

Islamic finance is now among the fastest growing financial segments in the international financial system, with an estimated average annual growth of between 15% and 20%. More recently there has been a growing diversity both in the range of products and services being offered and in the markets that have been developed. The *sukuk* market (i.e., the Islamic bond market denominated in international currencies) has registered remarkable growth, having doubled in size to amount to $28 billion compared to a year ago. Including sukuks denominated in domestic currencies, the size of the market is now about $82 billion. This market is expected to continue to expand significantly given the massive financing requirements for infrastructure investment and other private-sector investment by countries that have shown interest in Islamic funding.

There has also been significant innovation in Islamic financial products. This has been especially evident in sukuk products. Following the Malaysian government's issuance of the world's first global sovereign sukuk in 2002, other countries have issued several other sovereign sukuks. This development has also encouraged the issuance of international corporate sukuks by multinational and domestic corporations. One innovation is the landmark issuance in 2006 of the exchangeable sukuk by Khazanah Nasional, the Malaysian sovereign wealth management entity. In this arrangement the sukuk can be exchanged for other shares held by Khazanah Nasional. In the same year a convertible sukuk, in which the sukuk can be converted to the issuer's own shares upon initial public offering, was issued by a Middle Eastern-based corporation. A derivative market has also developed with the introduction of Islamic currency swaps and profit-rate swaps.

There has been significant growth in Islamic asset and wealth management following the development of diverse and innovative structures of Islamic investment funds, including Islamic hedge funds. There are now more than 250 mutual funds, managing an estimated $300 billion in assets, that are compliant with *sharia* (Islamic law). Other developments include the creation of benchmark indices such as the Dow Jones Islamic Market Indexes, covering more than $10 trillion market capitalization in over 40 countries; the Financial Times Stock Exchange Global Islamic Index Series; and the listing of Islamic financial instruments on international exchanges. These developments have enhanced the attractiveness of Islamic financial markets as an asset class for investment.

Another important development in Islamic finance during this period has been the strengthening of an international Islamic financial architecture. In 2002 a major structural enhancement was the establishment of the Islamic Financial Services Board (IFSB), which formulates the international regulatory and prudential standards for Islamic finance. IFSB has since issued the standards for capital adequacy, risk management, and corporate governance. Among the standards currently being formulated are market conduct and rules for financial disclosure, transparency, a sharia governance framework, and a supervisory review process. These standards will ensure best practices and the soundness and stability of the Islamic financial system. The IFSB now has 137 members, including 35 regulatory and supervisory authorities; five international inter-government organizations, including the Bank for International Settlements, the World Bank, and the International Monetary Fund (IMF); and 97 market players and professional firms from 22 jurisdictions. Worthy of note is that the membership of the IFSB includes several authorities and international institutions from non-Muslim countries. The IFSB complements the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), which was established in 1991, in setting accounting standards that both ensure that financial transactions reflect true and fair values and ensure greater accountability and responsibility among financial institutions.

Finally, these developments have been reinforced by greater liberalization to increase the international dimension of Islamic finance. Growing international participation in Islamic financial markets has prompted increased cross-border Islamic financial flows. In addition, Islamic financial institutions that had previously operated only in their own domestic jurisdictions have begun to venture abroad to tap new growth opportunities in other regions. This new international dimension of Islamic finance has further enhanced international interlinkages in this more globalized environment.

Islamic Finance: Foundations for Operating in a Challenging and Evolving Environment

Islamic finance has evolved and expanded in a fast-changing and dynamic international environment. In the context of a more challenging and competitive environment, issues of financial stability, viability, and competitiveness are paramount; this is particularly evident in recent developments experienced in the international financial system. An important element of Islamic finance is the strength and soundness derived from its sharia principles. These sharia injunctions essentially interweave financial transactions with genuine productive activities.

The soundness and viability of Islamic finance as a form of financial intermediation are premised on the fundamental requirement that Islamic financial transactions be supported by an underlying productive activity. There is always therefore a close link between financial and productive flows. A financial transaction must be accompanied by genuine trade or lease-based and business-related transactions wherein interest is eliminated and profits or rentals are the economic rewards. Alternatively, an Islamic financial institution may provide financing to a venture by becoming a joint partner based on a pre-specified profit sharing arrangement. In addition, Islamic finance also sets explicit restrictions on unethical and speculative financial activities.

The intrinsic nature of Islamic finance also encourages risk management and provides confidence through explicit disclosure and transparency of the roles and responsibilities defined in the contract. In Islamic finance strategies to minimize and manage risks involve integrating the risks into real activities. These real activities thus need to generate sufficient wealth to compensate for such risks. In contrast conventional financial instruments generally separate risk from the underlying assets. As a result, risk management and wealth creation may at times move in different or even opposite directions. Conventional financial instruments also allow for the commoditization of risk, leading to its proliferation through multiple layers of leveraging and disproportionate distribution that can result in higher systemic risks and increase the potential for instability and the inequitable concentration of wealth.

The intrinsic principle of governance also contributes toward insulating the Islamic financial system from potential risks associated with excessive leverage and speculative financial activities. The explicit and transparent nature of Islamic financial contracts and the greater disclosure of information are important in contributing to the stability of the system. The focus of Islamic investment is not only on activities free of *riba* (interest) but also includes issues related to ethical values and fair trade. Islamic investment guidelines thus share a number of similarities with socially responsible investment (SRI) principles.

New Opportunities and Linkages Offered by Islamic Finance

Islamic finance is now at the threshold of a new dimension in which the industry has an increased capability to strengthen international financial interlinkages between nations. Islamic finance has the potential to contribute toward the efficient mobilization and allocation of funds across regions. Regions with surplus savings may channel funds to regions with deficit savings and bring about a more inclusive global financial integration. Financial linkages are now gaining ground as intra-regional financial flows are increasing in significance. In this context Islamic finance has become a new vehicle contributing to increasing the financial linkages within Asia, thereby facilitating cross-border allocation of capital in the region. Islamic finance has a potential role not only in strengthening integration and linkages within Asia but also more importantly in forging linkages with other dynamic emerging regions such as the Middle East.

Several economies within Asia are now beginning to participate in these trends, thus strengthening further economic and financial linkages between these two dynamic growth regions. The enhanced inter-regional linkages between Asia and the

Middle East have created an environment of activity reminiscent of the old Silk Road and suggests the emergence of a new Silk Road for financial services providers across continents. Though this new road reflects the linkages between Asia and the Middle East, the Silk Road has always been accessible to the rest of the world. There is thus the potential for the greater participation of global investors and the international financial community.

Islamic finance essentially presents a value proposition for both investors and issuers in their respective markets, in particular in the sukuk market. For investors, Islamic financial products offer portfolio diversification and new investment opportunities in the form of new asset classes. For issuers, Islamic finance allows access to a new source of funds and liquidity in addition to providing new risk management options and mechanisms for price discovery. A number of international financial centers have recognized and are developing Islamic finance as an integral part of their financial markets in order to complete the suite of financial products and services available. This trend is envisaged to extend the new Silk Road from Asia and the Middle East to the West and other parts of the world.

The Malaysian Sukuk Market: A Case Study of Innovative Development

Among the more significant recent developments in Islamic finance has been the development of the sukuk market. Although the size of the market is modest by global standards, the sukuk market has experienced remarkable growth, increasing at an average annual rate of 40%. This growth is spurred in part by the growing funding requirements in emerging market economies, in Asia and the Middle East in particular, in which there have been increased investment activity. Significant demand for the sukuk also has been spurred by the high levels of surplus savings and reserves in Asia and the Middle East. This strong demand has been reinforced by financial flows in the international financial system that are in search of higher returns and greater diversification of risks.

It is estimated, however, that approximately 80% of the sukuks issued have been subscribed to by conventional international investors. Besides the intrinsic value of sukuks, which are largely asset-backed and convertible for shares or exchangeable with shares, such issuances are attractive because they have a wider investor base comprised of both conventional and Islamic investors. With the rising wealth of global investors seeking sharia-compliant investments, the market has become highly competitive, prompting corporations world-wide—including global multinational companies—to consider this as a financing option.

The development of the sukuk market in Malaysia has involved extensive and wide-ranging initiatives that include facilitating an efficient issuance process, enhancing the price discovery process, establishing of a benchmark yield, broadening the investor base, promoting liquidity in the secondary market, and strengthening further the legal, regulatory, and sharia frameworks. These initiatives have also been supported by the development of the wider financial infrastructure, including the settlement system and the bond information system.

In order to position Malaysia as a center for origination, distribution, and trading of sukuks, further steps have been taken to liberalize the market to allow foreign corporations, including multinational corporations and multilateral agencies, to raise funds in the Malaysian bond market. Funds raised by these entities may be used to finance investment activities in other jurisdictions. The inaugural Malaysian ringgit-denominated sukuk was issued in 2004 by the International Finance Corporation, followed by an issue by the International Bank for Reconstruction and Development (IBRD) at the World Bank in 2005. In 2006 the market was further liberalized to allow foreign currency denominated sukuks to be issued from the Malaysian market. These sukuk issues have attracted foreign investors, thereby strengthening interlinkages with other international financial markets. Profits or income received by nonresidents for investments in ringgit and non-ringgit Islamic securities issued in Malaysia are also exempted from withholding tax. In addition the Malaysian government has granted tax neutrality measures to accommodate sukuk issuance.

To enhance Malaysia's international financial linkages with other parts of the world, the domestic Islamic banking sector was further liberalized in 2004 with the issuance of new licenses to foreign Islamic financial institutions. In addition the allowed foreign shareholding in Islamic financial institutions was raised to 49% of the total equity in existing Islamic financial institutions. New licenses are also extended to entities to conduct Islamic banking business and *takaful* (sharia-compliant insurance arrangements) and *retakaful* (reinsurance, an extension of the takaful market) business in international currencies. These institutions, which may have up to 100% foreign equity ownership, are given operational flexibility to be established as a branch or subsidiary and to enjoy a tax holiday for ten years under Malaysia's Income Tax Act.

Conclusion: Sustaining the Momentum of Islamic Finance

The foundation for the sustainable global development of Islamic finance has now been put in place. Going forward, three key elements will be important in sustaining the current momentum: investment in research and development (hence promoting innovation), the development of a pool of talent, and the greater use of technology in Islamic finance.

Islamic finance as an emerging form of financial intermediation requires tremendous investment in research and development to promote innovation. Of importance is to develop a broader range of Islamic financial market instruments that include equity ownership features, Islamic asset-backed securities, and the inclusion of permissible forms of credit enhancements, as well as sharia-compliant risk mitigating instruments. The development of an Islamic derivatives market for hedging is required for activities to support the development of secondary markets. Malaysia has recently established a sharia scholar's fund to support such research and development efforts. The fund aims to promote greater engagement among the international sharia scholars and thus to provide a platform for deliberation on the sharia compatibility of newly developed Islamic financial instruments and markets.

As Islamic finance continues its robust international expansion, an adequate supply of talent and expertise is vital to support such growth. Though shortages in talent are currently being felt, the issue is being addressed on several fronts. To develop the expertise to meet the increasing manpower requirements of Islamic finance, Malaysia in 2006 established the International Centre for Education in Islamic Finance (INCEIF) to serve as a professional certification body and education institute for post-graduates in Islamic finance. Reinforcing this is the International Centre for Leadership in Finance (ICLIF) in Malaysia, which provides leadership and management programs for the financial services sector, including Islamic finance.

As Islamic finance forges ahead, successful Islamic financial institutions will be those that have the scale and capability to exploit the full potential and opportunities that arise from the advances in information technology (IT). By embracing leading edge technology, the potential for the Islamic financial industry to provide new products and services will be enhanced. New technologies also represent the potential to increase access through a wider range of delivery channels, thereby enhancing efficiency while reducing costs for consumers and businesses. IT needs to be leveraged in making strategic business decisions, in elevating institutional capacity and operational efficiency, and in strengthening risk management capabilities.

Despite the challenging and dynamic environment, Islamic finance has continued to emerge as a vibrant and resilient form of financial intermediation, one that is increasingly being embraced on a global scale as an integral part of the international financial system. In the development process Islamic finance has further expanded the opportunities for the participation of the international financial community and thus has increased the interlinkages both within and between economic regions of the world. In enhancing these new linkages and greater integration, Islamic finance will contribute toward unlocking new opportunities that bring mutual benefits, and in doing so, will enhance financial prospects overall.

Islamic Finance: Sustainability and Challenges

Shamshad Akhtar

Shamshad Akhtar is Governor of the State Bank of Pakistan. She is the fourteenth governor and first woman to hold the position since the bank's inception in 1948. Prior to this appointment, Dr. Akhtar held a number of posts within the Asian Development Bank (ADB), including Director-General of the Southeast Asia Department. Before joining the ADB, Dr. Akhtar worked as an Economist in the World Bank's Resident Mission in Pakistan. She also worked with the Planning Offices of both the Federal and Sindh Governments in Pakistan on a wide range of macro-economic issues involving analysis and structural reforms of key sectors such as industry and agriculture.

The renewed interest and hype surrounding Islamic finance are unprecedented. Since these coincide with Western financial institutions' commercial interest in attracting flows generated from oil revenues and savings, there is a degree of skepticism, both inside and outside Muslim jurisdictions, regarding the sustainability of the Islamic finance industry. There are also echoed concerns about whether the industry will survive competition from the global financial world, which is nurtured by a conventional system backed by strong legal, policy, regulatory, and institutional frameworks. This essay reflects on the growth and trends in Islamic finance—including the sector's size, dimensions, and prospects—now evolving from a regional to a global scale and making an impact on private capital flows.

Islamic finance is a reality and is on the way to being institutionalized, albeit at different levels in different countries. The Western world is now selectively and cautiously positioning itself to invest in this system. There are promising signs that Islamic finance trends are sustainable. Islamic finance is entrenched in a well-conceived Islamic economic system whose mysteries are being unfolded by renewed academic interest in the subject. Though undeniably faith driven, the Islamic finance system has great potential to meet the financial gaps and requirements of development and society at large, and, as such, demand for Islamic finance promises to be robust even beyond religious grounds.

Islamic finance must be recognized as a parallel system that will augment, and be augmented by, a deeper knowledge and experience of the conventional financial system. As such, the industry's long-term growth and sustainability depend on: (1) how Islamic finance interfaces with and benefits from complementing and supplementing the conventional system, and (2) how Islamic finance adapts and conforms to international regulations and supervision while remaining aligned with the technicalities and nuances of Islamic financial instruments and their associated risks. Properly exploiting the unique features of Islamic finance with appropriate adaptability, and without compromising principles of *sharia* (Islamic law), will be critical to the growth and promising future of the Islamic finance industry.

Touching on some of these debates, the essay begins by addressing trends in Islamic finance, then turns to lay the case for the sustainability of Islamic finance, and concludes with a discussion of some key prospects and challenges facing the industry that the Islamic financial community is now seeking to address.

Growth and Trends in Islamic Finance

Spread across 70 countries, Islamic finance has grown to an almost $1 trillion industry. Despite this growth, and given the industry's current size and composition, Islamic finance is still a niche market in the overall global financial industry. Prospects for the industry are quite bright owing to strong demand for financial services from a large segment of the world's 1.4 billion Muslims and the need to effectively channel rising international savings, including those of high-net-worth individuals.

Interest and the level of motivation in promoting this industry vary across the globe. Growth in the Gulf Cooperation Council (GCC) has been exceptional, with Bahrain emerging as a model for adopting and implementing Islamic banking regulations. The Central Bank of Bahrain has the distinction of being the first central bank to issue *sukuk* (Islamic bonds) and establish a center for Islamic finance education. Iran and Sudan have declared a 100% conversion to Islamic banking. In Southeast Asia Malaysia stands out with $34 billion in Islamic banking assets, a $1.7 billion *takaful* (sharia-compliant insurance arrangements) industry, and Islamic corporate bonds constitute 48% of its total outstanding corporate bond market.[1] Other countries in Southeast Asia have smaller Islamic financial markets. Singapore, for example, offers strong wealth-management potential. In South Asia Pakistan stands out for taking a proactive and systematic stance in developing the Islamic finance industry. In all of these countries assets of Islamic banking have grown faster than overall banking assets, and the scope and coverage of financial services have been extended to retail and consumer finance, private equity, structured products, insurance, project finance, and so on.

Distinct from developments in Islamic countries is the interest of a few global financial centers, such as London, that now provide policy and tax incentives to promote Islamic finance and thus attract funds from high-net-worth clients. The same motivation seems to have been driving global banks such as HSBC, Standard Chartered, Deutsche Bank, and Citibank to set up special hubs to structure Islamic finance products.

In reality, though current industry hype may be partially driven by the availability of surpluses generated by oil revenues, Islamic banking is emerging as an alternate financing option that coexists alongside the conventional financial industry. In addition to traditional Islamic products, the industry is now offering consumer financing for

[1] Zamani Abdul Ghani, "Mainstreaming Islamic Finance: Malaysia as International Islamic Financial Centre" (deputy governor's keynote address at the International Takaful Summit 2007, London, November 1, 2007), www.bnm.gov.my/index.php?ch=9&pg=15&ac=263.

residential purposes and structured financing vehicles for supporting infrastructure and housing, among other mechanisms. Product innovation is emerging, with several different types of hybrid sukuks and combinations of structures that integrate different forms of *musharaka* (partnerships) with other products. Despite these developments, an increasing share of equity-based credit products, such as *murabaha* (sales) and *ijara* (leasing), remain the dominant form of financing across Islamic financial institutions.

These trends are expected to persist and the industry is set to grow. Standard & Poor's Services Rating Agency estimates that the industry has the potential to grow to $4 trillion over the medium term.[2] As highlighted above, exceptional growth in Islamic finance—particularly since 2000, which coincides with growth in oil revenues—has raised questions as to whether interest in Islamic finance is a one-time phenomenon or a sustainable one with long-term prospects.

Although industry motivations and driving factors vary across the world, interest in Islamic finance is here to stay. Confidence-building factors include the large financial industry investments across main hubs in the GCC, Middle East, Southeast Asia, and South Asia—occurring within countries and in growing foreign ownership and joint ventures across borders—in the industry's infrastructure development. This development includes: (1) the issuance of holistic banking licenses and the opening of special windows or hubs dedicated to Islamic asset management, private equity, and hedge funds, accompanied by the Dow Jones Islamic Index to which all such transactions subscribe; (2) the development of sharia knowledge and understanding, and the engagement of sharia advisors and scholars who are providing the consensus, guidance, and the legitimacy necessary to uphold Islamic financial products and structures; and (3) the development of Islamic standard-setters—such as the Islamic Financial Supervisory Board, the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), and the International Islamic Financial Market (IIFM)—both by central banks and by a range of multilateral development agencies (including the Islamic Development Bank). Combined, these efforts have helped develop and initiate the implementation of Islamic prudential regulatory, accounting, and auditing frameworks as well as the inspection and supervision of financial institutions.

All these regional and global efforts are serious long-term initiatives that are irreversible, though maintaining and building momentum on these fronts constitutes a necessary step toward addressing the industry's possible challenges.

---

[2] See "Islamic Finance Outlook 2006," Standard & Poor's, 2006, http://www2.standardandpoors.com/spf/pdf/media/Islamic_Brochure_2006.pdf.

The Sustainability of Islamic Finance

Though there are challenges that need to be addressed to exploit and maximize the available opportunities, the prospects for the sustainability of Islamic finance appear promising.

First, the sustainability of Islamic finance stems from the recognition that the deep appeal of Islamic economic and financial architectures goes beyond Muslim countries. Though initially conceived to be solely anchored on a *riba*-free regime (i.e., interest-free regime), there is now appreciation that the advocacy of Islamic business and finance structures—whether on religious or social grounds—is neither a slogan nor a mere religious condemnation of riba but is rather supported by a complete and deep Islamic ideology. When studied carefully, Islamic finance has its logic and basis in a comprehensive Islamic economic system that deals with the allocation of resources, production and exchange of goods and services, and the distribution of wealth—all too familiar debates in conventional economic textbooks.

Second, confidence in the sustainability of the Islamic economic system emerges from an understanding that this system possesses a well-conceived, consistent, and integrated framework. More interestingly, the system is accompanied by a rich and elaborate set of tenets that, among others, recognize the right to property supported by stakeholders' obligations, principles, and rules of conduct; a contract system; and an institutional framework with rule-enforcement procedures that establish the foundation for Islamic business and financial architectures. It is this substantive Islamic ideological and legal framework, governed by sharia injunctions and principles, that defines the public and private economic and social affairs that eventually help frame business and financial relations. Such relationships are backed by solid principles of contracts, rights, and the obligations of parties to uphold contractual arrangements.

Third, the sustainability of this system is reinforced by business and financial relations that are guided by a logically defined emphasis on the preferred modes of transaction that advocate profit sharing, as such relying on *ex post* variability rather than *ex ante* fixity in returns, and consequently have built-in risk-sharing as a central element. The relevance of contracts, which define the rules of the game for the sale and purchase, trade, and exchange of goods and services, is at the core of Islamic transactions. Financing contracts are structured around the nature of the transaction, which could be in the form of trade financing, asset-based financing, or take different forms of partnerships. In Islamic finance preference is given to the trading of physical assets as well as to the trading of rights.

Fourth, confidence in the system's sustainability emerges from the framework of enforcement implicit in the Islamic system. The main drivers of contract enforcement and compliance in the Islamic system are ideology and faith, which are in turn influenced by Islam's emphasis on establishing an equitable, ethical, just, and fair socio-economic system. This feature shapes Islamic finance and also distinguishes the industry from conventional finance. Although it might be argued that the sustainability of interest in Islamic finance is tied solely to the response of Muslims to their religious values and beliefs, it must be recognized that attraction to this discipline is now revealing widely a better understanding of Islamic economics, finance, and mechanisms as complements to the knowledge of conventional economics and financial engineering.

Fifth, flexibility and innovation in structuring different types of financial products augur well for the sustainability of Islamic finance. What distinguishes Islamic finance is an emphasis on the trade of goods and services and the advocacy of profit- and risk-sharing in businesses supported by a variety of partnership arrangements—in sharp contrast to the loan-based financing of conventional banks. By virtue of these characteristics, Islamic finance offers prudent financing options, whether asset-backed or equity-based; in particular, the linking of assets with financing ensures both that transactions are less prone to debt crisis and that funds are used for their prescribed purpose, therefore minimizing defaults resulting from the improper use of borrowed funds. Concurrently, the industry offers promising potential for providing alternate savings and investment avenues to all segments of a population.

Sixth, market surveys confirm that the potential for retail, housing, and project finance and innovation in these markets is significant and augurs well for economic and financial services development.[3] Islamic banks have registered double-digit growth in retail markets. Penetration has occurred faster where personal banking solutions are well structured and where information technology (IT) is used to offer ATMs as well as online and telephone banking services. By and large, products are structured on murabaha principles in which funds are allocated for particular projects or to finance an asset (such as a home or automobile) and the depositor shares in the project's rather than the bank's profits. Products are also framed along ijara principles with appropriate asset-backing and legal structures.

Islamic housing finance, both for acquisition and other purposes, has evolved as a natural and promising market catering to the growing home-financing demand in Muslim countries. This market is gaining momentum following the interesting

[3] Vikram Modi, "Islamic Finance: The Way Ahead," Harvard International Review Blog, February 10, 2007, http://hir.harvard.edu/blog/?p=200.

incentives offered by some countries. For instance, the United States has facilitated Islamic lease-to-own relationships by allowing a bank to hold the title of a property. In the United Kingdom the Bank of England has abolished double-stamp duty on Islamic mortgages, ijara, and murabaha transactions, and rationalized legal service fees and risk weighing. Similarly, Australia and Canada have allowed the adoption of declining balance partnership concepts to facilitate the structuring of diminishing musharaka contracts that gradually transfer ownership from an institution to an individual owner.

In some jurisdictions momentum for tapping the retail market has been accelerated by the partial or full conversion of conventional banks to Islamic banks, such as those in Saudi Arabia. The challenges of this conversion cannot be underestimated, as the process involves converting loan books to sharia-compliant modes of product. Stand-alone Islamic banks have the challenging task of competing with conventional players, who have an edge on longevity, customer loyalty, and economies of scale. Responses to the challenges of competition include: providing a high level of customer service, offering a full product range, introducing transparency in transactions, devising unsecured personal loan products (a trend emerging with adoption of *tawarruq* products), introducing sharia-compliant credit cards, handling unfunded businesses, and improving efficiency.

Large-scale business opportunities, however, lie in exploiting project finance. The successful application and integration of Islamic instruments with conventional financing has helped in this area while facilitating closure of large and complex multisource financing deals. Project financing, backed by asset and equity and structured using a combination of ijara, *istisna* (the advance purchase of a commodity prior to its existence), sukuk, and musharaka, has offered opportunities for risk diversification, avenues for resource mobilization and revenue sharing, and service fulfillment between contractual parties. These deals have illustrated how conventional and Islamic financing can blend and coexist under common legal and regulatory arrangements.

Finally, more than conventional finance, Islamic finance emphasizes a just and equitable financial system. Among other important benefits, Islamic finance offers an inclusive option to Muslims who had excluded themselves from financial services in the absence of riba-free services.[4] Because a number of Muslim countries suffer from the low penetration of financial services, expanding and adding to the appeal of sharia-

[4] Shamshad Akhtar, "Building an Effective Islamic Financial System" (presentation, the Global Islamic Financial Forum: Financial Regulators Forum in Islamic Finance, Kuala Lumpur, March 26–29, 2007).

compliant financing mechanisms could be a powerful tool for enhancing access to development finance and empowering poor or vulnerable groups.

It is important to recognize that Islamic finance is largely confined to social development projects, and institutions are not permitted to invest in prohibited or socially undesirable investments. Emphasis on ethical issues, rigorous sharia supervision, and self-regulation ensure fair play and justice while offering a superior consumer-protection model. Furthermore, these characteristics induce higher financial discipline and establish stringent ethical standards for all stakeholders, offering a strong and unique model of governance.

Conclusion: Prospects and Challenges for the Future

In conclusion, encouraging developments and trends in Islamic finance lend confidence that this industry has taken off. There are varying motivations and driving factors for the development of this industry that range from religious fervor to the opportunities that exist in Islamic finance for broadening and deepening the process of financial intermediation. These factors augur well for financial innovation and engineering, enhanced financial services penetration in national jurisdictions, and better cross-border capital flows. Though the size of the Islamic financial industry is still quite small as a proportion of the world's total financial assets, current growth trends and infrastructure investments in the development of Islamic finance networks, and their regulatory and supervisory systems, lend confidence that this industry has promising potential. Prospects for this industry also appear comforting because of the strength of Islamic ideology, which offers a complete framework for the Islamic finance industry. An Islamic financial system sets down rules of conduct and contractual arrangements and offers a feasible financing structure that emphasizes trade and equity financing. Together, these will foster much-needed financial diversification in Islamic countries.

Islamic finance also has the potential to both blend economic and social objectives and to address the ethical aspects of effective financing. As such, Islamic finance is generally more acceptable in populations with moderate to strong inclinations toward managing their financial relationships in line with their beliefs. This can thus help in poverty alleviation through including a larger proportion of the population into the banking system, providing access to credit, and effectively mobilizing savings.

Emerging solutions and the application of structured Islamic financial innovations have helped cater to all types of markets and financing requirements, ranging from retail, project, and home financing to equity funds, products, and insurance. Industry efforts both to benchmark pricing and to apply legal and regulatory service standards on par with conventional products and standards have also helped encourage confidence in the system.

Going forward, the sustainability of Islamic finance will rest on how the international community builds on the momentum achieved thus far. Meeting this challenge will require:

- Deepening efforts to enhance the legal and regulatory framework of Islamic finance, consistent with international practices

- Continuing efforts to conform and align structures and products with sharia principles in order to motivate Muslim populations to turn to this alternative financing mechanism, while also attracting others to product and risk management, mitigation innovation, and additional options being offered

- Recognizing that Islamic finance has perpetuated and changed the dynamics of cross-border private capital flows, and that this industry has great potential to augment the process of globalization and financial integration, but that this goal requires more cooperation and vigilance on the part of home and host regulators

- Launching aggressive efforts to implement evolving Islamic financial regulatory and supervisory standards and to capture the different types of risks associated with Islamic finance while launching consumer-protection frameworks

- Promoting more financial diversification by encouraging financial innovation and Islamic capital market development

Measures such as these will both encourage and strengthen the future development of the Islamic finance industry.

NBR Analysis Series

Vol. 15, No. 1, March 2004
Reconciling Burma/Myanmar: Essays on U.S. Relations with Burma
John H. Badgley, Robert H. Taylor, David I. Steinberg, Helen James, Seng Raw, Kyaw Yin Hlaing, and *Morten B. Pedersen*

Vol. 14, No. 5, December 2003
Funding Terrorism in Southeast Asia: The Financial Network of Al Qaeda and Jemaah Islamiyah
Zachary Abuza

Vol. 14, No. 4, November 2003
Regional Power Plays in the Caucasus and Central Asia
"Rethinking India's and Pakistan's Regional Intent"
Juli A. MacDonald
"Russia's Response to U.S. Regional Influence"
Peter Rutland
"Central Asia's Strategic Revolution"
Stephen J. Blank

Vol. 14, No. 3, October 2003
Strategic Security Dilemmas in the Caucasus and Central Asia
"Military and Economic Security Perspectives"
Svante E. Cornell
"The Limits of Multilateralism"
Roy Allison

Vol. 14, No. 2, August 2003
Theater Security Cooperation in the U.S. Pacific Command: An Assessment and Projection
Sheldon W. Simon

Vol. 14, No. 1, June 2003
Perspectives on the Future of the Korean Peninsula
"Defensive Realism and Japan's Approach toward Korean Reunification"
Victor D. Cha
"Russia's Role on the Korean Peninsula and Great Power Relations in Northeast Asia"
Joseph P. Ferguson
"Sino-Korean Relations and the Future of the U.S.-ROK Alliance"
Scott Snyder

Vol. 13, No. 5, October 2002
The China-India-U.S. Triangle: Strategic Relations in the Post-Cold War Era
John W. Garver

Vol. 13, No. 4, July 2002
Managing Security Challenges in Southeast Asia
Sheldon W. Simon

Vol. 13, No. 3, June 2002
Ballistic Missiles and Missile Defense in Asia
Michael D. Swaine with *Loren H. Runyon*

Vol. 13, No. 2, April 2002
Obstacles and Opportunities to Russia's Economic Reforms
"Normalization of the Russian Economy: Obstacles and Opportunities for Reform and Sustainable Growth"
James R. Millar
"The Political Dimension of Economic Reform under Vladimir Putin: Obstacles, Pitfalls, and Opportunities"
Lilia Shevtsova

Vol. 13, No. 1, March 2002
Regional Approaches in Asia: Foreign and Domestic Policy Concerns in Russia and China
"Promoting Human Rights in China"
Robert M. Hathaway
"China's Recent Approach to Asia: Seeking Long-term Gains"
Robert Sutter
"One Asia Policy or Two? Moscow and the Russian Far East Debate Russia's Engagement in Asia"
Elizabeth Wishnick

Vol. 12, No. 5, December 2001
Japan and the Engagement of China: Challenges for U.S. Policy Coordination
Michael H. Armacost and *Kenneth B. Pyle*

Vol. 12, No. 4, August 2001
Russia and Global Security: Approaches to Nuclear Arms Control and Nonproliferation
Igor Khripunov

Vol. 12, No. 3, June 2001
The Transformation Continues: The Status of Chinese State-Owned Enterprises at the Start of the Millennium
Lisa A. Keister and *Jin Lu*

Vol. 12, No. 2, May 2001
India's Emerging Nuclear Doctrine: Exemplifying the Lessons of the Nuclear Revolution
Ashley J. Tellis

Vol. 12, No. 1, March 2001
Japan's Energy Angst and the Caspian Great Game
Kent E. Calder

Vol. 11, No. 5, December 2000
The Balance of Power and U.S. Foreign Policy Interests in the Russian Far East
Rajan Menon and *Charles E. Ziegler*

Vol. 11, No. 4, December 2000
Reforms in the Russian Far East: Implications for Russia's Security Policy and Nuclear Regionalism
"Russian Reforms: Implications for Security Policy and the Status of the Military in the Russian Far East"
Sergey Sevastyanov
"Russian Nuclear Regionalism: Emerging Local Influences over Far Eastern Facilities"
James Clay Moltz

Vol. 11, No. 3, November 2000
Asian Reactions to U.S. Missile Defense
Michael J. Green and *Toby F. Dalton*

Vol. 11, No. 2, July 2000
China's PNTR Status and Accession to the WTO
"The Taiwan Factor in the Vote on PNTR for China and Its WTO Accession"
Nancy Bernkopf Tucker
"The Impact of WTO/PNTR on Chinese Politics"
Joseph Fewsmith

Vol. 11, No. 1, May 2000
Asian Armed Forces: Internal and External Tasks and Capabilities
Sheldon W. Simon

Vol. 10, No. 5, December 1999
South Korea, China, and the Global Economy
"The Role of International Finance in Korean Economic Reconstruction and Reunification"
Gifford Combs
"China and the WTO: The Politics behind the Agreement"
Joseph Fewsmith

Vol. 10, No. 4, October 1999
The People's Republic of China at Fifty
Robert A. Scalapino

Vol. 10, No. 3, August 1999
Energy, Wealth, and Development in Central Asia and the Caucasus
"Oil and Development in Post-Soviet Azerbaijan"
David I. Hoffman
"Kazakhstan: The Long-Term Costs of Short-Term Gains"
Pauline Jones Luong
"Energy Wealth, Development, and Stability in Turkmenistan"
Nancy Lubin

Vol. 10, No. 2, April 1999
Intellectual Property Rights in China: Evolving Business and Legal Frameworks
"The Global Electronics Revolution and China's Technology Policy"
Barry Naughton
"Private Enforcement of Intellectual Property Rights in China"
Donald Clarke

Vol. 10, No. 1, March 1999
Japan and the Unification of Korea: Challenges for U.S. Policy Coordination
Michael H. Armacost and *Kenneth B. Pyle*

Vol. 9, No. 5, December 1998
The Economic Crisis and Southeast Asian Security: Changing Priorities
Sheldon W. Simon

Vol. 9, No. 4, September 1998
The East Asian Crisis: Implications for U.S. Policy
"The Political and Security Implications of the East Asian Crisis"
Robert B. Zoellick
"Japan's Immobilism"
Kenneth B. Pyle
"Russia: Crisis and Reform"
Herbert J. Ellison

Vol. 9, No. 3, May 1998
Political Legacies and Prospects for Democratic Development in Southeast Asia: Burma and Indonesia
"Democracy in Burma: The Lessons of History"
Mary P. Callahan
"Indonesia's Coming Succession: Constitutional Text, Historical Context, and Recommendations for U.S. Policy in a Time of Crisis"
Donald K. Emmerson

Vol. 9, No. 2, March 1998
China's Intentions for Russian and Central Asian Oil and Gas
Gaye Christoffersen

Vol. 9, No. 1, February 1998
Treacherous Terrain: The Political and Security Dimensions of Energy Development in the Caspian Sea Zone
Rajan Menon

Vol. 8, No. 5, December 1997
Lost Opportunities: Energy and Politics in Russia
Peter Rutland

Vol. 8, No. 4, July 1997
Promoting U.S. Interests in China: Alternatives to the Annual MFN Review
David M. Lampton, Nicholas R. Lardy, Kenneth Lieberthal, Laura D'Andrea Tyson, and *Douglas H. Paal*

Vol. 8, No. 3, June 1997
The Hong Kong Transition and U.S.-China Relations
Michel Oksenberg, Yasheng Huang, Joseph Fewsmith, and *Merle Goldman*

Vol. 8, No. 2, May 1997
Multilateralism: Is There an Asia-Pacific Way?
Amitav Acharya

Vol. 8, No. 1, February 1997
A Looming Entry Barrier: Japan's Production Networks in Asia
Kozo Yamamura and *Walter Hatch*

Vol. 7, No. 5, December 1996
Multilateralism and National Strategy in Northeast Asia
"'National Strategy' in North and South Korea"
Nicholas Eberstadt
"Multilateralism, Regional Security, and the Prospects for Track II in East Asia"
Ralph Cossa

Vol. 7, No. 4, November 1996
Advancing Intellectual Property Rights: Information Technologies and the Course of Economic Development in China
Michel Oksenberg, Pitman Potter, and *William Abnett*

Vol. 7, No. 3, October 1996
Trade, Security, and National Strategy in the Asia Pacific
"Trade and Foreign Direct Investment in China's Development Strategies"
Dwight Perkins
"Trade, Security, and the Internationalization of Grand Strategy in Southeast Asia"
Andrew MacIntyre
"U.S. Trade Policy and the Public Discourse: A Postscript"
Geza Feketekuty

Vol. 7, No. 2, September 1996
Security, Democracy, and Economic Liberalization: Competing Priorities in U.S. Asia Policy
"Security, Economic Liberalism, and Democracy: Asian Elite Perceptions of Post-Cold War Foreign Policy Values"
Sheldon W. Simon
"Realism or Evangelism? Security through Democratization as a National Strategy"
Donald K. Emmerson

Vol. 7, No. 1, June 1996
The New Russia and Asia: 1991–1995
Herbert J. Ellison and *Bruce A. Acker*

Vol. 6, No. 5, December 1995
APEC in a New International Order
Robert Gilpin

Vol. 6, No. 4, December 1995
Central Asia's Foreign Policy and Security Challenges: Implications for the United States
Rajan Menon

Vol. 6, No. 3, November 1995
America, Japan, and APEC: The Challenge of Leadership in the Asia-Pacific
"America, APEC, and the Road Not Taken: International Leadership in the Post-Cold War Interregnum in the Asia-Pacific"
Donald C. Hellmann
"Japan's Perspective on APEC: Community or Association?"
Akio Watanabe and *Tsutomu Kikuchi*
"The Context of APEC: U.S.-Japan Relations"
Kenneth B. Pyle

Vol. 6, No. 2, August 1995
Northeast Asia in an Age of Upheaval
"The Future of Northeast Asia: An American Perspective"
Harry Gelman
"Economic Dynamism and Political Fragility in Northeast Asia: Prospects for the 21st Century"
Robert A. Scalapino

Vol. 6, No. 1, April 1995
APEC at the Crossroads
Lawrence W. Clarkson, Donald K. Emmerson, Donald C. Hellmann, Joachim Kempin, L.G. McCraw, Joel W. Messing, Charles E. Morrison, William H. Neukom, Don Russell, Hadi Soesastro, Gary Tooker, Richard L. Wilson, Paul Wolfowitz, and *Ippei Yamazawa*

Vol. 5, No. 5, December 1994
Chinese Views on Asia-Pacific Regional Security Cooperation
Susan L. Shirk

Vol. 5, No. 4, December 1994
Recalculating Autonomy: Japan's Choices in the New World Order
Michael J. Green and *Richard J. Samuels*

Vol. 5, No. 3, October 1994
The Modernization of the Chinese People's Liberation Army: Prospects and Implications for Northeast Asia
Michael D. Swaine

Vol. 5, No. 2, September 1994
The Political Economy of North Korea
Chong-Sik Lee

Vol. 5, No. 1, July 1994
MFN Status, Human Rights, and U.S.-China Relations
David Bachman, Bill Clinton, Richard N. Cooper, Merle Goldman, Harry Harding, Nicholas R. Lardy, Michel Oksenberg, Dwight Perkins, and *Robert B. Zoellick*

Vol. 4, No. 5, December 1993
Whither Japan?
"Where is Japan Headed? Implications for the Alliance"
Kenneth B. Pyle
"Japan's Changing Political Economy"
T.J. Pempel

Vol. 4, No. 4, November 1993
Americans Speak to APEC: Building a New Order with Asia
ed. Richard J. Ellings
Norm Dicks, Bob Dole, Nicholas Eberstadt, Donald K. Emmerson, Jeffrey A. Frankel, Robert Gilpin, Slade Gorton, Lee H. Hamilton, Harry Harding, Donald C. Hellmann, J. Bennett Johnston, Kenneth Lieberthal, Winston Lord, Richard G. Lugar, Jim McDermott, Frank H. Murkowski, Daniel I. Okimoto, Michel Oksenberg and Ann-Marie Brege, Douglas H. Paal, Dwight H. Perkins, Kenneth B. Pyle, John D. Rockefeller IV, William V. Roth, Jr., George F. Russell, Jr., Richard J. Samuels, Robert A. Scalapino, Frank Shrontz, Sheldon W. Simon, Christopher F. Smith, Donald S. Zagoria, and *Robert B. Zoellick*

Vol. 4, No. 3, September 1993
North Korea: Reform, Muddling Through, or Collapse?
Nicholas Eberstadt

Vol. 4, No. 2, July 1993
Regional Issues in Southeast Asian Security: Scenarios and Regimes
"Regional Issues in Southeast Asian Security"
Sheldon W. Simon
"Scenarios and Regimes"
Donald K. Emmerson

Vol. 4, No. 1, June 1993
Memoranda to Policymakers
"Issues in Pacific Asia: An Economist's Views"
Jeffrey A. Frankel
"Strategic Challenges for the United States in its Dealings with China at the Beginning of the Twenty-First Century"
Douglas H. Paal

Vol. 3, No. 4, September 1992
The Collapse of the Soviet Union and the New Asian Order
Robert Legvold

Vol. 3, No. 3, July 1992
The Future of China
"China's Growing Economic Role in Asia"
Nicholas R. Lardy
"China in the Year 2000: Politics and International Security"
Kenneth Lieberthal
"The Limits to Leadership in China"
David Bachman

Vol. 3, No. 2, June 1992
Asia's Challenge to American Strategy
Richard J. Ellings and *Edward A. Olsen*

Vol. 3, No. 1, June 1992
The Regionalization of Defense in Southeast Asia
Sheldon W. Simon

Vol. 2, No. 3, July 1991
The Soviet Crisis and Foreign Policy toward East Asia
"The Crisis of Communism and the Future of Freedom"
James H. Billington
"Recent Trends in Soviet East Asian Policy"
Herbert J. Ellison

Vol. 2, No. 2, June 1991
Redefining U.S.-China Economic Relations
Nicholas R. Lardy

Vol. 2, No. 1, April 1991
The Regional Security and Economy of East Asia: Prospects for the 1990s
"East Asian Security: An American Perspective"
Donald S. Zagoria
"The Asia-Pacific Region in the Emergent World Economy"
Robert Gilpin

Vol. 1, No. 3, December 1990
China's Foreign Relations after Tiananmen: Challenges for the U.S.
"The Impact of Tiananmen on China's Foreign Policy"
Harry Harding
"Sino-Soviet Relations and U.S. Policy"
Allen S. Whiting
"American China Policy and the Security of Asia"
Robert S. Ross

Vol. 1, No. 2, November 1990
Japan and the World: Considerations for U.S. Policymakers
"The Japanese Question"
Kenneth B. Pyle
"Japan's Emerging Role in East Asia"
Edward J. Lincoln
"The Future of Japanese-American Relations: Seeking a New Balance"
Chalmers Johnson

Vol. 1, No. 1, September 1990
China in the 1990s: Prospects for Internal Change
Harry Harding