

Developing Economy Without Foreign Direct Investment (FDI)

News:

Najib's 6 day visit to China recently resulted in the signing of 14 economic cooperation MOUs worth RM143.64 billion. Several parties were grateful for the news thinking that this foreign direct investment (FDI) from China will provide various economic benefits for Malaysians. But there are also those who are not happy with this news and claimed that Dato 'Seri Najib was trying to sell Malaysia to China. For this reason, the government repeatedly defended its acts by saying that FDI from China is more beneficial to Malaysia than it is detrimental. On the same note, a Singaporean/China company, CNMC was recently awarded the concession to mine gold in the state of Kelantan – another form of FDI where a foreign company is allowed to extract and own the extracted gold, which is in essence a public property. FDIs like these are often justified due to lack of investment funds and technological capability.

Comment:

Foreign Direct Investment, or FDI is viewed as a key economic element in today's era of globalization. FDI is defined as an investment involving a long-term relationship and reflecting a lasting interest and control by a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor. Malaysia is a developing Muslim country and has been getting much foreign direct investment from Singapore, Japan, US, UK and China. This is justified by perceived domestic capital shortages that require Malaysia to rely heavily on funding from FDI to boost economic activities. FDI is considered as a panacea to the problem of economic backwardness. Due to fierce competition, Malaysia has policies favouring foreign capitalist investors, for example, the so called Liberal Equity Policy which came into effect in June 2003, where 100% foreign-owned equity in all of their investment is allowed. Consequently the government does not have control over foreign ownership of companies and the investors are given a relatively free hand in the exploitation of natural and labour resources in Malaysia.

In the short run, FDI may give a good impression to many, however, in the long run, reliance on FDI to boost economic activities and foster development will prove detrimental. For starters, FDI in mining results in foreign companies dominating the ownership of important minerals such as gold, petroleum, natural gas, bauxite and so on whereas these minerals are public properties. Heavy reliance on FDI also results in economic woes and this was exemplified in huge capital outflows in 2009 by multinational companies to save their parent companies affected by the subprime crisis. If FDI is justified as a means for technology transfer, this is also questionable. Malaysia has received FDIs from electronic firms for the past 3 decades; in fact, the main exports of manufactured goods for Malaysia are electronic products. Nevertheless, Malaysia still depends heavily on foreign companies in the electronics technology until today! FDIs also result in over reliance to foreign assistance in various, sometimes critical technologies.

Henceforth, although the list of FDI disadvantages may still go on, it is obvious that FDI should never be the means by which a Muslim state develops itself. Imam Ahmad narrated that Rasulullah (saw) promised that the ‘...Khilafah on the way of Prophethood...’ will be established. All nationalistic Muslim states will, inshaAllah be united under the Khilafah, Hence, realistically, any economic development plan of any Muslim state must be based on this promise.

Muslim states today justify that their crave for FDI is due to the lack of capital. Under the unity of the Khilafah, Allah (swt) rewards Muslims with natural and human resources large enough to generate our own industry independently. One important factor for any country that wishes to develop its industry is a sufficient source of energy. Data in 2010 showed that the Muslim world has 70% of the world oil reserve and almost 50% of all world crude oil production. The Islamic world also has about 61% of the world's natural gas reserves and total coal reserves. In addition, the Islamic world also has reserves of gold, iron and other minerals that are so large and able to accommodate all its industrial needs. Furthermore, the Muslim world also has a huge workforce, covering 18% of the total workforce in the world. With both the raw materials and human capital in its hands, the Khilafah would undoubtedly be able to develop independently without foreign direct investments.

With this independence, the Khilafah will be able to dominate the industrial production line from raw materials down through to the downstream products. It allows the Khilafah to develop high technology without depending on foreign states. In the process of developing its own technology, the Khilafah will develop effective educational programs to build expertise in the various aspect of technology by developing a high quality educational system and by sending Muslims to study in foreign countries to master these technologies. As a leading state responsible for the task of carrying the Prophet's message of Islam to the world through da'wah and jihad, the direction of industry in the Khilafah must be geared towards these aspirations. The development of heavy industry to build weapons and equipment to set up an effective military will be the main priority. Allah says:

﴿وَأَعِدُّوا لَهُمْ مَا اسْتَطَعْتُمْ مِّن قُوَّةٍ وَمِنْ رِبَاطِ الْخَيْلِ تُرْهَبُونَ بِهِ عَدُوَّ اللَّهِ وَعَدُوَّكُمْ وَأَخْرِينَ مِّن دُونِهِمْ لَا تَعْلَمُونَهُمُ اللَّهُ يَعْلَمُهُمْ وَمَا تُنْفِقُوا مِن شَيْءٍ فِي سَبِيلِ اللَّهِ يُوَفَّ إِلَيْكُمْ وَأَنْتُمْ لَا تُظْلَمُونَ﴾

“And prepare against them whatever you are able of power and of steeds of war by which you may terrify the enemy of Allah and your enemy...” [Al-Anfal: 60]

Today, the implementation of the capitalist economic system has placed Muslims in the valley of humiliation. Muslim leaders practically ‘beg’ for FDI in order to develop their national economies which ultimately make these Muslim countries kneel to the will of the Kuffar. The fact is that Allah swt. has endowed upon Muslims all the wealth in this world and place the Ummah in an honourable position. Muslims are in reality more than capable to independently develop their own economy without the slightest help from the Kuffar. However, this can only be achieved if Muslims unite under the umbrella of the Khilafah. It is only under this umbrella that the honour of the Muslim Ummah will be regained!

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