

**EMERALD STUDIES  
IN ISLAMIC  
ECONOMY AND  
FINANCE**



# **THE ECONOMIC POTENTIAL OF ISLAMIC COUNTRIES**

## **PART A**

**Economics, Demographics and Financial Services**

**EDITED BY**

**Professor Vusal Gasimli**

# **The Economic Potential of Islamic Countries, Part A**

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# **The Economic Potential of Islamic Countries, Part A: Economics, Demographics and Financial Services**

EDITED BY

**VUSAL GASIMLI**

*Center for Analysis of Economic Reforms and Communication  
of the Republic of Azerbaijan, Azerbaijan*



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INVESTOR IN PEOPLE

*This book is dedicated to the tireless pursuit of progress and prosperity within the Islamic countries. It is a testament to the collective efforts of individuals, organizations, and nations committed to enhancing economic development, fostering cooperation, and empowering communities across the Islamic world.*

*To the visionaries and leaders who have championed economic growth and innovation within the Islamic world, your unwavering dedication inspires us all.*

*To the researchers, economists, and policymakers whose insights and expertise have shaped the discourse on Islamic economics and finance, your contributions are invaluable.*

*To the countless individuals and communities whose resilience and ingenuity fuel the engine of progress, this book is a tribute to your strength and spirit.*

*And to my colleagues whose support and encouragement have sustained me throughout this endeavor, I offer my deepest gratitude. Your belief in the importance of this work has been a constant source of motivation and inspiration.*

*May this book serve as a beacon of knowledge and understanding, illuminating the path toward a more prosperous and equitable future for all within the Islamic world and beyond.*

*With heartfelt appreciation,  
Vusal Gasimli  
Executive Director  
Center for Analysis of Economic Reforms  
and Communication of the Republic of Azerbaijan*

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# Contents

List of Figures and Tables	<i>xi</i>
About the Editor	<i>xv</i>
About the Contributors	<i>xvii</i>
Preface	<i>xxv</i>
Foreword	<i>xxvii</i>
Acknowledgments	<i>xxix</i>

## **Introduction**

<i>Vusal Gasimli</i>	<i>1</i>
----------------------	----------

## **Section 1**

### **Economic and Trade Cooperation**

#### **Chapter 1 Economic Cooperation and Integration Among OIC Member Countries**

<i>Kenan Bağcı and Esat Bakımlı</i>	<i>7</i>
-------------------------------------	----------

#### **Chapter 2 The Structure and Functioning of the Organization of Islamic Cooperation (OIC)**

<i>Mehmet Yüce, Hüseyin Akkaya and Mehmet Fatih Aslantaş</i>	<i>25</i>
--	-----------

#### **Chapter 3 Economic Integration and Cooperation from Systems Thinking Perspective: The European Union and the Organization of Islamic Cooperation**

<i>Mohammad Omar Farooq</i>	<i>39</i>
-----------------------------	-----------

**Section 2**  
**Demography and Labor Market**

- Chapter 4 Future Demographic Dynamics: An Overview of the Islamic World's Projections**  
*Kais Hammami, Ouïam Chafik and Youssef Lazaare* 55

**Section 3**  
**Fiscal Policy and Public Debt Management**

- Chapter 5 Enhancing Economic Stability: Fiscal Choices and Their Implications on External Balance in OIC and OPEC Nations**  
*Tsegaye Assayew* 103
- Chapter 6 Fiscal Policies in Islamic Countries: An Evaluation with a Focus on the Pandemic Era**  
*Mehmet Yüce, Mehmet Fatih Aslantaş and Hüseyin Akkaya* 147

**Section 4**  
**State of Global Islamic Financial Services Industry**

- Chapter 7 Central Bank Digital Currencies and Their Prospects for the OIC Countries**  
*Ahmet Faruk Aysan and Muhammad Fazlurrahman Syarif* 177
- Chapter 8 Enhancing Financial Inclusion Through Fintech in OIC Member Economies**  
*Shabeer Khan* 191

**Section 5**  
**Energy Transition and Cooperation**

- Chapter 9 Challenges and Opportunities Associated with Energy Transition in Islamic Countries**  
*Benuka Ferdousi* 205
- Chapter 10 Renewable Energy Investments: Azerbaijan's Cooperation with the Islamic World**  
*Vusala Jafarova* 243

**Chapter 11 Egypt and Carbon Reduction: Transitioning to Renewable and Clean Energy**

*Alshaymaa Alsadek and Hager Elsayed*

261

**Chapter 12 Investments in Green Infrastructure: Challenges and Opportunities**

*Gehad Omar Elkhateeb*

269

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# List of Figures and Tables

## Figures

Fig. 1.1.	Global Proven Crude Oil and Natural Gas Reserves, 2021 (%).	10
Fig. 1.2.	Aggregate GDP of OIC Countries.	11
Fig. 1.3.	Share of OIC Countries in Global Merchandise Trade.	12
Fig. 1.4.	FDI Inflows to OIC Countries.	13
Fig. 1.5.	Share of Intra-OIC Trade in Total Trade of OIC Countries (1980–2023).	14
Fig. 1.6.	Status of OIC Countries in Regional Trade Agreements (RTAs).	15
Fig. 1.7.	Proportion of Inward FDI Stock Originating from OIC Countries, 2020 (%).	16
Fig. 1.8.	Regional Economic Integration among OIC Countries: The IsDB Integration Index.	17
Fig. 1.9.	Number of Countries Signed and Ratified the TPS-OIC.	19
Fig. 2.1.	Permanent Committees of the OIC.	26
Fig. 2.2.	Auxiliary Organs of the OIC.	26
Fig. 2.3.	Organs of the OIC.	32
Fig. 4.1.	Future Scenarios for Cooperation and Socio-economic Dynamics in the Islamic World.	84
Fig. 4.2.	Future Scenarios for Education, Employment, and Socio-Economic Development.	87
Fig. 5.1.	Twin Deficits Across OIC Members.	115
Fig. 5.2.	Real Growth, Fiscal and External Balances in Azerbaijan.	126
Fig. 5.3.	Real Growth, Fiscal and External Balances, Saudi Arabia.	127
Fig. 5.4.	Real Growth, Fiscal and External Balances in Türkiye.	128
Fig. 9.1.	Share of Renewable Energy in Net Annual Additions in Power Generating Capacity, 2010–2020.	206
Fig. 9.2.	Selected Historical Mean of Unsubsidized Levelized Cost of Electricity (LCOE) Values, 2009–2023 (\$/MWh).	206
Fig. 9.3.	Proven Oil Reserve in OIC Countries, 2022 (Billion Barrels).	208
Fig. 9.4.	Proven Natural Gas Reserve in OIC Countries, 2022 (Trillion Cubic Meter).	209
Fig. 9.5.	Per Capita Electricity Consumption in OIC (kWh).	211
Fig. 9.6.	Energy Mix of Different Geographical Regions Within the OIC, 2017.	215

## *xii* List of Figures and Tables

Fig. 9.7.	Oil and Gas Rent as % of GDP in OIC Countries, 2000–2018.	228
Fig. 9.8.	Share of Fossil Fuel in Total Merchandise Export, Top 10 Countries in the World.	229
Fig. 9.9.	Share of Public Sector (%) in Total Employment in MENA Countries in the 2000s.	230
Fig. 9.10.	Per Capita Fossil Fuel Subsidy by Country (USD).	232
Fig. 9.11.	Value of Fossil Fuel Subsidies by Fuel in the Top 25 Countries, 2022.	233
Fig. 11.1.	Indicators of the Renewable Energy Sector in Egypt for 2022/2023.	262
Fig. 11.2.	Planned Mix for 2030.	263

### **Tables**

Table 2.1.	Member Countries of the OIC.	28
Table 2.2.	Institutional Comparison.	34
Table 3.1.	Comparing and Contrasting the Key Features of the EU and the OIC.	47
Table 3.2.	Comparative Analysis of Collaboration Performance.	49
Table 4.1.	Population Size in Millions at Mid-year and Percentage Change in Population Size and Annual Population Growth Rate for 2010–2020.	60
Table 4.2.	Top Ten Most Populous Islamic World Countries in Mid-2020.	61
Table 4.3.	Percentage of Children and Elderly in Islamic World Countries for the Year 2020.	63
Table 4.4.	Crude Birth Rate and Total Fertility Rate in Islamic World Countries for the Year 2020.	66
Table 4.5.	Rate of Use of Modern and Traditional Contraceptive Methods (%) and Unmet Need for These Methods in Islamic World Countries for the Year 2019.	69
Table 4.6.	Crude Death Rate, Infant Mortality Rate, and Life Expectancy at Birth in 17 Islamic World Countries for the Year 2020.	72
Table 4.7.	Demographic and Socio-economic Indicators of Islamic Countries.	78
Table 4.8.	Countries Outside the Islamic World Organization for Education, Science, and Culture with a Muslim Population Percentage Exceeding 10% in 2021.	82
Table 4.9.	Population Size (millions) in Islamic Countries in Mid-Years 2020, 2035, and 2050.	91
Table 4.10.	Comparison of Population Size and Growth in Islamic Countries, Developed, and Developing Nations (2020–2035).	97
Table 5.1.	Cross-section Augmented ARDL (CS-ARDL).	119
Table 5.2.	Cross-Section Augmented Distributed Lag (CS-ARDL) Estimator.	123

Table 5.3.	GL-ADF Unit root Test (Optimal Lag Based on SIC).	129
Table 5.4.	Azerbaijan: ARDL Estimations.	130
Table 5.5.	Saudi Arabia: ARDL Estimations.	133
Table 5.6.	Türkiye: ARDL Estimations.	135
Table 6.1.	Ratio of Total Public Expenditure to GDP (%) in Member Countries of the OIC.	157
Table 6.2.	Current Health Expenditure in Selected OIC Countries (% of GDP).	161
Table 6.3.	General Government Final Consumption Expenditure in Selected OIC Countries (% of GDP).	165
Table 6.4.	Domestic General Government Health Expenditure in Selected OIC Countries (% of General Government Expenditure).	168
Table 6.5.	Tax revenue in Selected OIC Countries (% of GDP).	171
Table 7.1.	CBDCs Initiative in OIC Countries.	180
Table 9.1.	Energy Mix in the OIC Member States, 2021.	212
Table 9.2.	Oil and Gas Reserves and Share of Renewable Energy in Electricity Generation in the OIC, 2021.	218
Table 9.3.	Top 10 Country in CO <sub>2</sub> Emissions in the World, 2022 (Million Tons).	220
Table 9.4.	Top 10 Country in Per Capita CO <sub>2</sub> Emissions in the World, 2022 (Million Tons).	221
Table 9.5.	Renewable Energy Targets and Achievements of the OIC Countries.	223
Table 9.6.	Share of Public Sector in Total Employment of Nationals in OIC Countries, 2017.	230
 <b>Appendix</b>		
Table AI.	OIC members: Summary Statistics of the Sample (2000–2022).	142
Table AII.	IPS Unit Root Test Results.	142
Table AIII.	Hadri (2000) Maximum Likelihood (ML) Unit Root Test.	143
Table AIV.	Pesaran and Xie (2021) CD*, a Bias-corrected CD Test for Error Cross-sectional Dependence in Panel Data Models with Latent Factors.	143
Table AV.	Pesaran (2007) Second-generation Unit Root Test (CIPS).	144
Table AVI.	Karavias and Tzavalis (2014) Panel Unit Root Test with (Possible) Structural Breaks.	144
Table AVII.	Blomquist and Westerlund (2013) Test for Slope Heterogeneity.	145
Table AVIII.	Pedroni (1999, 2004) Residual-Based Cointegration Test.	145
Table AIX.	Westerlund (2007) ECM-based Cointegration Test.	146

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## About the Editor



**Prof. Dr. Vusal Gasimli** heads the Center for Analysis of Economic Reforms and Communication of Azerbaijan, the Government's Delivery Unit. As a member of the Government Commission on Business Environment, he helped position Azerbaijan as a top reformer in the Doing Business rankings. He completed executive education at Harvard Kennedy School and holds a Master's-level degree from the University of Oxford. Prof. Gasimli engages in global policy forums, including the G20's T20, and consults for the ADB, EU, WB, and JICA.

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## About the Contributors

**Hüseyin Akkaya** graduated from Istanbul University, Faculty of Economics, Department of Finance in 2013. In 2015, he completed his master's degree at Sivas Cumhuriyet University, SBE, Department of Finance and in 2023, he completed his doctorate degree at Bursa Uludağ University, SBE, Department of Financial Law. Since January 4, 2016, he has been working as a Lecturer at Tokat Gaziosmanpaşa University, Artova Vocational School of Finance, Banking and Insurance, Department Finance Program. Between October 20, 2022, and May 20, 2023, he worked as a Guest Lecturer at Kyrgyzstan University of Economics and Entrepreneurship with temporary assignment. He has studies on finance and tax law. He also has a book titled *Model Proposal for Turkey in Combating Financial Crimes* (ORCID: 0000-0002-9886-6552).

**Alshaymaa Alsadek** holds master's degree of Planning and Economic Development, from the National Institute of Planning, Egypt. And now she works as a Developmental Planning Expert in Climate Change Risk Studies Unit of IDSC, the Egyptian Cabinet. She was a former Planning, Monitoring and Evaluation (P,M&E) Senior Researcher in the Ministry of Environmental Affairs for eight years. She was also a member of the editorial board of *Climate Policies* journal, and was responsible for editing the study of "Sea Level Rise Impact on The Food Security in Egypt." She participated in writing and editing several policy papers and reports such as, "The Productivity of Albrulus Lake," "International Experiences and Lessons Learnt for State Ownership Policy Document," "Monitoring Egypt's Score in The Indicator of Climate Change Performance 2020," "The 5 Years Achievements of Egypt, Indicators, Recommendations, Messages," "Establishment of a Monitoring and Evaluation Center Specialized in Assessing the Impact of Government Policies," "The Status of the Egyptian Lakes and Fisheries," and "the Renewable Energy in Egypt – Challenges and Opportunities."

**Mehmet Fatih Aslantaş** was born in 1983. He completed his doctorate in public finance at Bursa Uludağ University. He is currently working as an Assistant Professor at Kafkas University. He researches on budget and financial planning, economic crises, local governments, public expenditures, taxation. The author has many studies in these fields. He also lectures on public finance and local governments (ORCID: 0000-0002-5987-2976).

**Tsegaye Assayew** is an economist and development practitioner with over a decade of experience in public debt management, fiscal risk analysis, financial sector development, and operations management and strategies. His work spans multilateral institutions—including the World Bank and the African Development Bank—as well as national governments and private sector actors. He has delivered hands-on technical assistance across diverse settings, from fragile states like South Sudan and small island economies in the Pacific to large emerging markets such as Bangladesh and South Africa.

Dr. Assayew holds a PhD in Economics, Applied Mathematics, and Operations Research from the University of Bergamo, and was a research scholar at Washington University in St. Louis. His research sits at the intersection of firm-level productivity and macroeconomic stability, with a focus on twin deficits, the finance–growth nexus, fiscal risks, corporate financial fragility, and development operations. He works fluently in English and Amharic, with basic proficiency in French and Italian, and brings global expertise to both research and policy engagements.

**Ahmet Faruk Aysan** is a Professor at HBKU and the Associate Dean for Research. He has been the Board Member and Monetary Policy Committee Member of the Central Bank of the Republic of Turkey and has served as a consultant at various institutions such as the World Bank, the Central Bank of the Republic of Türkiye, and Oxford Analytica. He, who has many articles published in academic journals, is a recipient of the Bogaziçi University Awards and the MEEA Ibn Khaldun Prize. He is also a Research Associate at the University College London Centre for Blockchain Technologies and Non-Resident Fellow Middle East Council on Global Affairs.

**Kenan Bağcı** is a Research Assistant Professor at Qatar University. He received his MSc degree in Economics and Finance in Germany and his PhD in Economic and Finance in Switzerland. He has published in scholarly journals and magazines and contributed to numerous books, reports, and strategic documents across various fields of socio-economic development. Having worked at Statistical, Economic and Social Research and Training Centre for Islamic Countries for more than a decade, he led and contributed to numerous research studies and projects owned by various international organizations. His main areas of interest include international trade and trade policies, regional integration, industrial development, private sector development, labor markets, and digital transformation.

**Esat Bakımlı** is an Economist, received his PhD in Economics from Muğla Sıtkı Koçman University in 2011 on top of MA and BA in Economics. Primarily engaged in socio-economic development studies, he currently works as Senior Researcher at the Statistical, Economic and Social Research and Training Centre for Islamic Countries (SESRIC), a subsidiary organ of the Organization of Islamic Cooperation. Before joining SESRIC, he worked as Statistics Expert, in the field of economic statistics, at the General Authority for Statistics, Saudi

Arabia, between 2012 and 2020. With about two decades of experience in data analysis and research, he has several articles in refereed journals in addition to some other publications including reports, book chapters, and working papers.

**Ouiam Chafik** is a Strategic Foresight Officer at the Center of Foresight and AI (CFAI) of The Islamic World Educational, Scientific and Cultural Organization (ICESCO), where she leads research and strategic initiatives focused on integrating foresight and artificial intelligence into decision-making processes. She is a PhD candidate in Public Law and International Relations, with her research centered on “Foresight-driven Decision-making in a Thriving Artificial Intelligence Global Landscape.” She has played a key role in developing the Islamic World Artificial Intelligence Charter and coordinating high-level international workshops across ICESCO’s member states. Her portfolio includes extensive work on foresight studies, scenario planning, horizon scanning, and strategic analysis, as well as authoring and co-authoring numerous publications of the CFAI. Beyond this, she has played a leading role in planning and organizing strategic foresight training programs for decision-makers, promoting future literacy and anticipatory governance within ICESCO member states. She has represented the CFAI and ICESCO at international forums, workshops, and conferences, amplifying the voice of the Islamic world in global discussions on AI, youth empowerment, and sustainable development.

**Gehad Omar Elkhateeb** is a Political Researcher of Climate Change Risk Studies Department at the Egyptian Cabinet Information and Decision Support Center (IDSC) and Former Political Researcher in Al-Ahram Center for Political & Strategic Studies. She is editorial board member of *Climate Policies* journal published by IDSC. She was editorial board member of *Strategic Perspectives* and *Future Perspectives* journals. She was a member of the team that prepared the Egyptian government’s report of political governance (2018–2019) presented to African Peer Review Mechanism. She was also a member of “Irregular Immigration Project”; Joint Research Project between Al-Ahram Center and Embassy of Denmark in Cairo. She was a member of “The Main Factors of Religious Radicalization and Violence” Joint Study between Al-Ahram Center in cooperation with Taba Foundation in UAE. She graduated from Cairo University, Faculty of Economics and Political Science. Now, she is a master’s Researcher in Political Science. She wrote many articles and methodological papers specialized in international relations and traditional and non-traditional security threats as well.

**Mohammad Omar Farooq** is a Professor, Department of Economics at United International University, Bangladesh. He earned PhD in Economics from the University of Tennessee, Knoxville, USA and was a Ciriacy-Wantrup Postdoctoral Fellow at the University of California, Berkeley. He taught at a number of US universities for almost 20 years. Then, he taught/served in Bahrain for 15 years, including serving as the Head of Centre for Islamic Finance (Bahrain Institute of Banking and Finance). His primary research interests are economic

development, financial institutions, history of economic thought, fintech, and Islamic economics/finance/banking/law/history. He has a keen interest in gender economics and genocide studies and contributed to these areas as well. His works have been published in *Journal of Economic Issues*, *International Journal of Islamic and Middle Eastern Finance and Management*, *International Journal of Social Economics*, *Review of Islamic Economy*, *Arab Law Quarterly*, *History of Economic Ideas*, *International Journal of Ethics and Systems*, *Journal of Islamic and Muslim Studies*, and more. He also serves as an editorial board member of a number of journals. Beyond his academic interests, he has been a prolific contributor to a broad range of Islamic issues through various Islamic media outlets. Inspired by Islam, he consistently writes from a self-critical, common-ground-seeking, bridge-building, and humanity-oriented perspective.

**Benuka Ferdousi** is a Senior Research Fellow at Bangladesh Institute of International and Strategic Studies. She has more than 15 years of academic and policy research experience in the fields of energy, migration, and related climate change/environment issues. She is particularly interested in renewable energy and its challenges, green energy politics and cooperation, and human security and developmental challenges posed by climate change. International migration and refugee issues are her secondary area of research, where she focuses on issues like vulnerabilities and human rights of migrants, human trafficking, migrant smuggling, feminization of migration, and governance issues. As a researcher with economics background, she has also worked on various economic and developmental issues of Bangladesh. She obtained her PhD from Economics Department of Jahangirnagar University. She obtained her MSS and BSS from Economics Department of University of Dhaka.

**Kais Hammami** is a leading expert in strategic foresight, scenario planning, and artificial intelligence (AI) governance. He made history as the first Arab to earn a PhD in Foresight, Organization, and Strategy from the Conservatoire National des Arts et Métiers (CNAM) in Paris (2003–2008), where his research received the highest honors. His second thesis explored foresight in Arab-Muslim culture, connecting the field to its cultural and philosophical dimensions. With 20 years of experience across Africa, Europe, Asia, and Latin America, he has expertise in strategic planning, strategic foresight, AI strategy and governance, change management, and more. He held the UNESCO Chair in Foresight, Anticipation, and Strategic Decision, focusing on advancing foresight knowledge in Africa and the Arab world. He has led over 250 international studies, providing strategic insights for national planning and development, including Tunisia's National Strategy by 2025 and Decentralization by 2039. He has been a member of editorial boards and scientific committees, including the Lipsor Papers at CNAM. He has taught foresight and strategic decision-making at esteemed institutions, such as the Sorbonne and Carthage University, and organized global events like the Future Forum and PISA Conference. His leadership at The Islamic World Educational, Scientific and Cultural Organization (ICESCO) led to impactful studies on the future of the Islamic World, African demographics, and future job skills.

Hammami has also facilitated training for over 6,000 participants globally, promoting foresight and strategic thinking.

**Vusala Jafarova** is the Head of Turkic World Research Center at the Center for Analysis of Economic Reforms and Communication of Azerbaijan Republic. She is IMF-certified professional on macroeconometric analysis and forecasting skilled in applied macroeconometrics, forecasting and analysis with International Monetary Fund (IMF) models, and monetary and fiscal analysis. She was appointed by Azerbaijan Government as Director's Advisor at the Board of Directors of Asian Development Bank in Manila Philippines during 2005–2008 after her service as Advisor at International Economic Coop Department at the Ministry of Economy working with International Financial Institutions on financing of infrastructure projects in Azerbaijan and drafting Country Partnership Strategies. She also worked at the International Economic Cooperation Department of the Foreign Ministry of Azerbaijan. Before that, she studied Business Administration at Manchester University and worked as Manager in energy division at Minale Tattersfield Co, in London, UK, and later as Head of Moscow office on CIS markets. She has publications on equilibrium real exchange rate, internal and external balances, trade liberalization, investment multiplier, and other model-based regression analysis. She holds MBA degree from Ateneo de-Manila University (2008), PhD in Econometrics from Economic Research Institute of Azerbaijan (2023), Energy Studies from Baku Energy School from ADA University of Azerbaijan (2023). and Executive Education on Public Finance Management from Harvard University (2009) (ORCID: 0000-0002-4711-4609).

**Shabeer Khan** is an accomplished academic currently serving as an Assistant Professor at the College of Business Administration, Al-Yamamah University, Saudi Arabia. Prior to this, he held the position of Assistant Professor and Head of International Relations at the Department of Islamic Economics and Finance, Sakarya University, Turkey, and also served as an Assistant Professor at the Department of Business Administration at Sukkur IBA University, Pakistan. He began his career as a Lecturer at Kohat University, Pakistan, and subsequently gained valuable research experience as a Research Assistant at INCEIF University, Malaysia. His impressive academic journey includes attaining a PhD in Islamic Finance from INCEIF, Malaysia, as well as a master's degree in Economics, a Postgraduate degree in Shariah (Islamic Jurisprudence), and an MS degree in Social Science from Pakistan. He is highly regarded in the field of Islamic finance and economics and contributes actively to the industry. He serves as a Shariah board member for Tayyib Advisory, UAE, and is a sought-after Shariah consultant for KalPay Financial Services, Pakistan, and Muawin, Pakistan. Additionally, he plays a pivotal role as a trainer and consultant with ifintel, Malaysia, where he imparts expertise in advanced econometric models, data analytics, and Islamic banking and finance. His dedication to research is evident through his publications in esteemed journals and his participation in national and international conferences. His research areas span Islamic banking, Islamic

capital markets, Islamic social finance, and the informal economy, showcasing his commitment to advancing knowledge and innovation in these domains.

**Youssef Lazaare** has a multidisciplinary academic background encompassing linguistics, communication and media studies, social sciences, and international relations, earned through a bachelor's degree and two master's degrees. He has consistently placed academic research at the forefront of his professional journey. During his tenure at ICESCO's Center for Foresight and Artificial Intelligence, he has played a pivotal role in contributing to the Center's research initiatives and strategic projects. His efforts have supported the advancement of foresight methodologies, the exploration of emerging global trends, and the development of forward-thinking insights.

**Hager Mahmoud Sayed** is an Economic Researcher at Information and Decision Support Center of the Egyptian Cabinet, she serves as Young Climate Negotiator as a member of National Advisory Committee on Climate change. She has a Political Economy master's degree from Cairo University. She served as a member of COP27 Youth Taskforce, and was selected as a 2023 Max Thabiso Edkins Climate Ambassador under auspices of World Bank to represent Egypt. Further, she was a co-author in prize-winning research titled "The Effect of Climate Change on International Migration Movement" at IOM Research Competition; her research had been selected to be published by the Egyptian Scientific Institute within COP'27 special edition publication.

**Muhammad Fazlurrahman Syarif** is a PhD student in Islamic Finance and Economy at Hamad Bin Khalifa University (HBKU), receiving a full Qatar Foundation scholarship. He has won and received grants from multiple start-up competitions in Qatar and, including those organized by HBKU Innovation Center, the Digital Incubation Center, the Ministry of Communication and Information Technology-Qatar, Qatar University, and Qatar Development Bank. His start-up has been incubated by the prestigious Qatar Science & Technology Park, Member of Qatar Foundation. His research interests include fintech, sentiment analysis, social media credit scoring, chatbots, crowdfunding, Central Bank Digital Currency (CBDCs), blockchain, halal economy, sukuk, and e-learning. He began his career in Islamic Banking and Finance after completing his MBA in Islamic Banking and Finance at the Bangor University and attending Durham Islamic Finance Summer School at the Durham University in the United Kingdom.

**Mehmet Yüce** was born in Ağrı in 1973 and moved to Bursa in 1987 to study in university. After graduating from Uludağ University Finance Department in 1991, he started his master's degree in Uludağ University, Institute of Social Sciences, Department of Finance in the same year and was appointed as a Research Assistant in 1994. In 2001, he was assigned to Kyrgyzstan University of Economics and Entrepreneurship, Faculty of Business of the Turkish World. He was deemed worthy of many awards by the Kyrgyz State for his services in Kyrgyzstan.

After receiving the title of Associate Professor in 2005, he returned to Turkey in 2006. He became the Head of the Financial Law Department in 2008 and became a Professor in 2010. He served as the Dean of Uludağ University Faculty of Economics and Administrative Sciences, Dean of the Faculty of Law, and Vice-Rector. He served as the Dean of the Faculty of Turkic World Economics at the Azerbaijan University of Economics. In addition to his academic duties, he has been a Project Researcher at Center for Economic and Social Research (CETA), a think tank in Türkiye and a columnist for different newspapers in Turkey and Azerbaijan (Sabah Perspective). Currently, he is the Vice President of the Türkiye Environment Agency. He has 25 books and numerous articles on tax law, finance, Islamic economics, and the Turkic world (ORCID: 0000-0001-6398-5589).

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# Preface

This book is a dedicated exploration of the diverse opportunities and challenges inherent in the economies of more than 50 Islamic nations, spanning four continents and representing a quarter of the world's population and land surface. In an era marked by globalization and interconnectedness, the economic potential of the Islamic countries is a significant force in shaping the future of global prosperity. Prepared within the framework of the declaration of Shusha as the “Cultural Capital of the Islamic World” for 2024, this book reflects the collaborative efforts initiated at the 12th Conference of Ministers of Culture of the Islamic World held in Doha. The book was prepared as envisaged in the action plan approved by the Order of the Prime Minister of Azerbaijan for realization of the Declaration.

With the invaluable support and dedication of the Organization of Islamic Cooperation, Statistical, Economic and Social Research and Training Centre for Islamic Countries, Islamic World Educational, Scientific and Cultural Organization (ICESCO), Islamic Development Bank Institute (ISDBI), and other key organizations, this project showcases the concerted efforts to highlight and harness the economic potential of the Islamic world.

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# Foreword

In the name of Allah, the Most Gracious, the Most Merciful.

It is both a privilege and an honor to present this foreword for the book *The Economic Potential of Islamic Countries, Part A: Economics, Demographics and Financial Services*. This important publication has been prepared as part of the action plan for the declaration of Shusha as the “Cultural Capital of the Islamic World 2024,” in alignment with the Presidential Decree of Azerbaijan. Shusha, with its rich historical and cultural significance, is an emblem of unity and cooperation, providing the perfect backdrop for this important initiative.

This book represents a collective effort to explore and highlight the vast economic potential within the Islamic world. Compiled with contributions from over 60 scholars from nearly 20 think tanks and research institutions, it provides a comprehensive analysis of the economic landscapes across the Organization of Islamic Cooperation member states. It aims to identify avenues for enhanced cooperation, mutual prosperity, and sustainable growth.

I would like to especially commend Prof. Dr Vusal Gasimli, the Executive Director of the Center for Analysis of Economic Reforms and Communication, for his dedicated leadership and invaluable contributions to the development of this publication. His efforts, alongside the collaboration of numerous experts and institutions, have ensured that this work will serve as a valuable resource in advancing economic cooperation across our member countries.

In today’s interconnected world, economic diplomacy plays a crucial role in fostering stronger relationships between nations. *The Economic Potential of Islamic Countries, Part A: Economics, Demographics and Financial Services* seeks to provide a strategic framework for unlocking new opportunities for trade and collaboration, which is in line with Statistical, Economic and Social Research and Training Centre for Islamic Countries’ mission to support the socio-economic development of Organization of Islamic Cooperation member states.

I express my sincere gratitude to all contributors whose research and expertise have made this publication possible.

As this book is presented on international platforms, I trust it will inspire constructive dialogue and cooperation, encouraging policymakers, business leaders, and scholars to work together for the greater economic integration of our nations. It is my hope that the insights and recommendations shared within these pages will help our countries realize their full economic potential.

May this book serve as a guiding light for deeper cooperation and a brighter, more prosperous future for the Islamic world.

H.E. Ms. Zehra Zümürüt Selçuk  
Director General  
Statistical, Economic and Social Research and  
Training Centre for Islamic Countries

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I would like to thank Vusala Jafarova, Project Coordinator for the book.

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# Introduction

*Vusal Gasimli*

*Center for Analysis of Economic Reforms and Communication, Republic of Azerbaijan*

This book presents a dedicated exploration of the diverse opportunities and challenges inherent in the economies of Islamic countries, spanning four continents and representing approximately a quarter of the world's population and land area. In an era defined by deglobalization, the economic potential of Islamic countries emerges as a significant force shaping the future of global prosperity.

The development of this book coincides with the declaration of Shusha, Azerbaijan's cultural capital, as the "Cultural Capital of the Islamic World" for 2024, which was announced at the 12th Conference of Ministers of Culture of the Islamic World held in Doha, Qatar, on September 25, 2023. The genesis of this work was further solidified through discussions with H. E. Ms. Zehra Zümrüt Selçuk, Director General of SESRIC (Statistical, Economic and Social Research and Training Centre for Islamic Countries), during which we reflected on the concept of ambidexterity – a blending of routine tasks and innovation.

This book was created in collaboration with SESRIC, Islamic World Educational, Scientific and Cultural Organization (ICESCO), the Center for Analysis of Economic Reforms and Communication, and a host of organizations. The support and dedication from these institutions, along with contributions from research institutes in Malaysia, Indonesia, Saudi Arabia, Morocco, Egypt, Pakistan, Turkey, and many other Islamic countries, were crucial in bringing this work to fruition. I am also deeply grateful to the co-authors, whose scholarly input has been indispensable in the development of this book.

Recent economic advancements in Islamic nations reveal a varied landscape of development. According to SESRIC, the average growth rate among Organization of Islamic Cooperation (OIC) countries slowed to 3.3% in 2023, down from 5.5% in 2022 – the highest level recorded since 2011. Nevertheless, it is projected to recover to 3.6% in 2024 and rise further to 4.2% in 2025. The collective gross domestic product (GDP) of OIC member countries gradually rebounded, reaching US\$ 8.9 trillion in 2023, which accounts for 8.5% of global GDP. In Purchasing Power Parity (PPP) terms, the growth in GDP per capita within OIC economies – averaging 6.7% in 2023 – slightly above the global mean, signaling

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a positive trend of economic convergence. The OIC Economic Outlook 2024 further highlights that agricultural activities account for a significant 10.1% of total value added in OIC countries, exceeding the 8.6% share observed in non-OIC developing nations, and a growing services sector are becoming increasingly important in shaping the composition of GDP, contributing an average of 48.5% to total value added. However, this share remains relatively low compared to 76.2% in developed countries and 55.4% in non-OIC developing nations, with the global average standing at 66.6%. In expenditure terms, final consumption remains dominant, with international trade continuing to play a pivotal role in the economies of these nations.

Intra-OIC trade, though growing, has not yet matched the pace of global trade. Additionally, the labor market shows modest improvements, with a slight increase in the employment-to-population ratio reaching the pre-pandemic level by 2023 (52.8%), though it still remains below the global average.

This book delves into the socio-economic potential of Islamic countries, offering valuable insights into the strengths, challenges, and opportunities across diverse nations. By examining various economic and social indicators, such as GDP growth, employment rates, education levels, and infrastructure development, it provides a comprehensive understanding of the region's economic landscape. Such knowledge is instrumental in crafting effective policies and strategies aimed at promoting sustainable economic development.

Understanding these dynamics allows policymakers, investors, and development agencies to identify key areas for intervention and investment. For example, the analysis underscores significant gaps in infrastructure development, presenting an opportunity to prioritize projects that enhance connectivity, productivity, and economic growth. The book also highlights disparities in access to education and healthcare, encouraging targeted interventions to foster human capital development and reduce socio-economic inequalities.

Furthermore, by exploring the unique challenges faced by Islamic countries – such as structural impediments and vulnerabilities to climate change – this work lays the foundation for tailored solutions that take into account the specific contexts of each nation. This personalized approach is crucial for ensuring that development efforts are effective, sustainable, and inclusive.

The book serves as an essential resource for policymakers, researchers, and practitioners dedicated to advancing sustainable economic development in the Islamic world. By offering evidence-based insights and actionable recommendations, it contributes to the formulation of policies and initiatives that promote economic growth, social progress, and environmental sustainability across Islamic countries.

In conclusion, while Islamic nations have shown resilience and progress in various economic domains, the ongoing challenges and disparities highlight the importance of continued policymaking and international collaboration. Strengthening both intra-Islamic cooperation and global partnerships is essential to bridging gaps and unlocking the full potential of these countries on the world stage. This book aims to support Islamic countries in fostering collective

action and cooperation to address the challenges of the Anthropocene and the digital revolution through policy coordination, knowledge sharing, resource mobilization, cross-border initiatives, digital inclusion, and global representation. Through these roles, Islamic countries can contribute to a more coordinated and effective response to global challenges, emphasizing the need for collaboration and collective action.

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Section 1

## **Economic and Trade Cooperation**

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## Chapter 1

# Economic Cooperation and Integration Among OIC Member Countries

*Kenan Bağcı<sup>a</sup> and Esat Bakımlı<sup>b</sup>*

<sup>a</sup>*Qatar University, Qatar*

<sup>b</sup>*SESRIIC, Turkey*

## 1. Importance of Regional Economic Integration Amidst the Fears of Geoeconomic Fragmentation

Regional economic integration aims to promote economic cooperation and integration among participating countries, ultimately leading to benefits such as increased trade, investment, and economic growth within the region. The attempts to benefit from the economic opportunities of regional integration have a long history, dating back to the late 1950s. The successful example of the European Economic Community (EEC), which later evolved into the European Union, inspired hopes of achieving comparable economic advancement through regional integration. The success of the EEC served as a model for other regions and sparked interest among developing countries seeking to replicate its achievements (Wagner, 1983). These countries recognized the potential benefits of economic integration, including enhanced trade opportunities, industrial development, and economic diversification. Subsequently, many developing countries embarked on their own regional integration initiatives, forming free trade areas, customs unions, and other forms of economic cooperation. Examples include the Association of Southeast Asian Nations, the Southern African Development Community, and the Mercado Común del Sur (Mercosur) in South America.

Regional cooperation or integration is also crucial due to the inherent regional dimensions of phenomena requiring political action, such as migration and trade flows, necessitating regional governance responses; this is reinforced by the ability of regional frameworks to solve collective action problems and prevent races to the bottom in various policy areas like taxes, investment, and environmental protection, resulting in more efficient market processes and positive dynamic

effects. Moreover, specific economic theories, such as neo-classical trade theory and optimum currency area theory, elucidate the benefits of regional policies, while the absence of a global regime or the need for increased policy autonomy and negotiation power also justify regional cooperation initiatives. Evaluations of proposals for regional integration underscore the importance of considering both the net benefits and potential costs of non-cooperation across various sectors, emphasizing the spillover effects and multiplier impacts of regional cooperation on broader societal challenges (De Lombaerde, 2023).

In particular, regional trade liberalization has shown significant positive impacts on intra-regional trade worldwide, with a meta-analysis showing an average increase over 50% (Head & Mayer, 2014). Similarly, it is found that European monetary integration has raised trade (+50%) and investment (+30%) in the Eurozone, while fixed exchange rate regimes in Africa and the Caribbean ensure price stability but have uncertain growth effects (De Lombaerde, 2023).

Over the recent period, there has been a notable slowdown and even reversal in some aspects of global economic integration, driven by a combination of factors including economic challenges, geopolitical tensions, and the COVID-19 pandemic. The aftermath of the Global Financial Crisis (GFC) left many economies grappling with slow growth and rising inequality, fuelling skepticism about the benefits of globalization. This sentiment has been further exacerbated by the uneven distribution of gains from globalization, leading to a rise in populism and protectionism in some parts of the world. Events like Brexit and the trade war between the United States and China have highlighted the tensions surrounding globalization, with countries increasingly prioritizing their own interests over global cooperation. The COVID-19 pandemic has further strained international relations, disrupting global supply chains and exacerbating economic disparities. Geopolitical conflicts, such as the war in Ukraine, have added another layer of complexity to the global landscape, deepening divisions and increasing uncertainty about the future direction of globalization.

The term “gloeconomic fragmentation,” as coined by Aiyar et al. (2023), aptly captures the phenomenon of a policy-driven reversal of global economic integration, often influenced by strategic considerations. This concept encapsulates the idea that geopolitical tensions and strategic interests are increasingly shaping economic policies, leading to a fragmentation of the global economic landscape. While fragmentation may entail strategic advantages for some countries in certain settings, it is very likely to involve significant economic costs in the aggregate. The fast-growing literature on the economic costs of global fragmentation has generated a wide range of quantitative estimates, reflecting the consideration of different channels as well as different assumed fragmentation scenarios (see, e.g., Bolhuis et al., 2023; IMF, 2022; Javorcik et al., 2022). For example, technological fragmentation can lead to losses in the order of 5% of GDP for many economies (Cerdeiro et al., 2021).

The benefits of globalization, disseminated through various channels, have historically catalyzed income convergence and poverty reduction globally, particularly benefiting low-income consumers and facilitating technological diffusion; however, the adverse consequences of gloeconomic fragmentation, such as