The rise of Islamic finance: post-colonial market-building in central Asia and Russia

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The arrival of Islamic finance in central Asia and Russia is significant.[1] It indicates a new post-colonial discourse between the economy, the state and religion through its disruption of the material and symbolic status quo. In the 'West', the recent economic downturn has invigorated a search for alternative modes of capitalism, prompting a nostalgic rediscovery of Marxist critique, Keynesian regulation and Polanyi's embedded markets.[2] Look beyond the West and economies across the globe are seeking to abandon colonial legacies, developing their own distinctive identities and cultivating a multipolar international financial system. Indeed, each economy is seeking to extract an advantage with which to outperform sluggish market conditions.

Against that backdrop of economic tumult, this article seeks to explain the rise of Islamic finance across the republics of central Asia and Russia. *Prima facie*, it would seem natural that central Asia's majority moderate Muslim population would turn to Islamic finance during a global epoch of religious revival and economic erosion. Indeed, in the context of other states, such as Kuwait, this transition to Islamic finance has been viewed through the prism of a religious awakening; but it need not be that the central Asian republics are using Islamic banking as a tool for the appeasement of religious groups.[3] This article challenges the conceptualization of Islamic finance as a palliative for religious expression or discontented minorities. By conceptualizing Islam in central Asia as a localized project that is as much an expression of post-colonial development and identity as it is of faith, the advent of Islamic finance can be understood as part of a search for a unique post-Soviet identity on the part of the central Asian states, together with market diversification and economic rewards. In fact, the Kazakh procurement of Islamic finance constitutes part of a wider 'multi-vector strategy' designed to

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1 'Central Asia' denotes the former Soviet Union states of Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan.

2 'West' or 'western' are problematic terms. Used in the context of Islamic markets this becomes a particularly complex issue, given Muslim migration to the 'West'. However, the use of the term 'western finance/market' provides a useful tool of comparison with which to draw out distinguishing features of Islamic finance, despite its inevitable limitations.

3 See e.g. K. Smith, 'The Kuwait finance house and the Islamization of public life in Kuwait', in C. Henry and R. Wilson, eds, *The politics of Islamic finance* (Edinburgh: Edinburgh University Press, 2004), p. 168.

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reduce economic reliance upon any one foreign state, particularly Russia, and to improve the plurality of internationally funded development projects through a connection to a global network of Islamic states.[4] Both the transition of the central Asian economies and the development of Islamic finance itself contain elements of a self-conscious post-colonial practice.

Consider the global performance of the Islamic financial market. During the first two years of the global financial crisis, returns of Islamic banks were further above average than any others.[5] Operating under shari'a-compliant conditions, Islamic banking had grown to a market of approximately $2 trillion by 2014, and is forecast to increase in value by 19.7 per cent on average each year to 2018—from almost zero in 1970.[6] Accordingly, we should understand that Islamic finance is no longer a fringe element of the financial markets; indeed, it is fast becoming a core component. In recognition of the growing importance of Islamic finance, a number of 'conventional banks', such as HSBC, now offer shari'a-compliant products. Perhaps more tellingly, the City of London has become a European hub for Islamic finance in an attempt to gain first-mover advantage and secure a dominant position in this burgeoning market.[7] With assistance from Saudi Arabia through the Islamic Development Bank, central Asia has begun to explore Islamic banking by fostering a modest, but growing, market.[8] As yet, the ramifications of this significant regional development are far from well understood or explained.

If Islamic finance is an extension of the search for alternative sources of finance in central Asia, it is a less obvious choice in Russia. The Russian state has been challenged by the role of Islam in the Caucasus, but it has gone to considerable lengths to retain ties with Islamic countries that offer synergies with Russia's political and economic agenda.[9] The recent sanctions imposed upon Russia by the West have reduced the liquidity of its financial markets, restricting access to capital and hindering growth. As in central Asia, the interest in Islamic finance in the Caucasus has been fuelled by a need to attract new sources of funds from non-aligned states; this imperative was felt particularly strongly during the financial crisis, leading to the foundation of an Islamic finance market in Russia beginning in 2008. The current interest in this form of finance highlights the changing

[4] For discussion on the multi-vector strategy, see R. Hanks, 'Multi-vector politics and Kazakhstan's emerging role as a geo-strategic player in central Asia', *Journal of Balkan and Near Eastern Studies* 11: 3, 2009, pp. 257–67.

[5] Maher Hasan and Jemma Dridi, *The effects of the global crisis on Islamic and conventional banks: a comparative study*, IMF working paper WP/10/201, Sept. 2010, pp. 16–22, http://www.imf.org/external/pubs/ft/wp/2010/wp10201.pdf, accessed 19 Nov. 2015.

[6] 'Big interest, no interest', *The Economist*, 13 Sept. 2014, http://www.economist.com/news/finance-and-economics/21617014-market-islamic-financial-products-growing-fast-big-interest-no-interest, accessed 19 Nov. 2015.

[7] Manu Mair and Mehreen Khan, 'Britain to lead the world in Islamic finance', *Daily Telegraph*, 26 Feb. 2015, http://www.telegraph.co.uk/finance/newsbysector/banksandfinance/11435465/Britain-to-lead-the-world-in-Islamic-finance.html, accessed 19 Nov. 2015.

[8] Islamic Development Bank Group, 'Member country partnership strategy for the republic of Kazakhstan (2012–2014): strengthening competitiveness for growth & diversification', Sept. 2012, p. 27, http://www.isdb.org/irj/go/km/docs/documents/IDBDevelopments/Internet/English/IDB/CM/Publications/Parnership_Strategies/Kazakhstan.pdf, accessed 29 Nov. 2015.

[9] For more information on the development of relations between the Russian state and Islam within the Russian Federation, see Ekaterina Braginskaia, 'Domestication or representation? Russia and the institutionalisation of Islam in comparative perspective', *Europe–Asia Studies* 64: 3, 2012, pp. 597–620.

attitude of the Russian state towards Islam at a time when the Orthodox Church has grown powerful through close political association with the Kremlin. Furthermore, this interest reinforces Russian colonial identity with the Caucasus and central Asia through the ideational projection of religious tolerance.

As yet, the rise of Islamic finance in Russia and central Asia has received little attention within academic writing, but consideration of it has much to offer. If post-colonialism is composed of critique (showing the deficiencies in the dominant narrative) and performance (a post-colonial interpretation of phenomena), then it is the performance with which this article is primarily concerned.[10] The shape of post-colonialism in the countries under analysis is constituted through the performance of self-consciously 'becoming post-colonial', and Islamic finance itself becomes part of the production of the nation-state. That said, the 'post-colonial nation is a serrated—not a smooth—space', and there are of course problems in discussing it as uniform process or experience; but these issues lie beyond the scope of the present article.[11] Using post-colonialism in the way I have just sketched out illuminates the political economy of Islamic finance in central Asia throughout the article. In the first section, the 'black box' of Islamic finance is opened and the connection with religious fervour severed, in order to begin to understand why these states are increasingly interested in adopting this financial practice. By instead conceptualizing Islamic finance in the region as a post-colonial project, the article follows on from the work of Pollard and Samers in creating an understanding of a self-consciously 'other' practice and drawing attention to the localized projects that form and shape the global financial system.[12] The applicability of using post-colonialism to label the Soviet Union as a colonizer has already been rigorously debated by Adeeb Kahlid, Nathaniel Knight and Maria Torodova.[13] Laura Adams combines these understandings to suggest that we can see the Soviet Union as 'exhibiting the cultural hierarchies of an empire and the modernization tendencies of a nation-state' and therefore understand central Asia through the lens of post-colonialism.[14]

Post-colonialism allows us to view the adoption of Islamic finance first as an act of economic development, and second as a projection of regional identity politics. The second section of the article accordingly examines the material changes that Islamic finance brought to each of these countries—changes that underpin the performative aspects of Islamic finance. Islamic finance is ultimately implemented on the basis of its ability to attract investment, which is especially important in

10 Sanjay Seth, 'Introduction', in Sanjay Seth, ed., *Postcolonial theory and international relations: a critical introduction* (Abingdon: Routledge, 2013), p. 3.

11 Sankaran Krishna, 'IR and the postcolonial novel: nation and subjectivity in India', in Seth, ed., *Postcolonial theory and international relations*, p. 124.

12 Jane Pollard and Michael Samers, 'Islamic banking and finance: postcolonial political economy and the decentering of economic geography', *Transactions of the Institute of British Geographers* 32, 2007, pp. 313–14.

13 Nathaniel Knight, 'On Russian orientalism: a response to Adeeb Khalid', *Kritika* 1: 4, 2000, p. 703; Adeeb Khalid, 'Russian history and the debate over orientalism', *Kritika* 1: 4, 2000, pp. 691–2; Maria Todorova, 'Does Russian orientalism have a Russian soul? A contribution to the debate between Nathaniel Knight and Adeeb Khalid', *Kritika* 1: 4, 2000, p. 719.

14 Laura Adams, 'Modernity, postcolonialism, and theatrical form in Uzbekistan', *Slavic Review* 64: 2, Summer 2005, p. 334.

developing countries seeking to diversify their economies away from reliance upon natural resources, and forms a core element of the development strategies of these nations. In this sense there is a strong development angle to the implementation of Islamic finance.

In order to go beyond explaining the material presence of Islamic finance in central Asia and Russia, the article's third section shows how Islamic finance can be used to simulate and enhance political legitimacy, and convey identity to a broad international and domestic audience. Adopting Islamic finance projects images of the state's religious tolerance and diversity without changing the underlying structures; it suggests an 'Islamicness' that is useful to the development and post-colonial goals of the state. This becomes part of a wider project undertaken by Kazakhstan in particular as it embarks on an ambitious project of nation-branding. The profits gained from this activity reinforce the authoritarian structure of the state and bolster the rise of 'financial–industrial' groups. By examining the symbolism and performance of legitimacy in central Asia, the article echoes the work of John Heathershaw on regional virtual politics, of Anna Matveeva on legitimacy and authoritarianism, and of Sally Cummings on the politics of signification.[15] Furthermore, through its desire to understand the performance of Islamic finance it engages with the literature on the performance of post-colonialism in international relations.[16]

Finally, the article considers the regional implications for this new post-colonial project. Seen through the lens of a post-colonial project, the shifts in identity and development associated with Islamic finance have the potential to alter the surrounding geopolitical relationships. The article accordingly concludes by analysing the regional responses and challenges arising from the rise of Islamic finance, particularly with regard to China, Russia and the Middle East, to consider the interaction of these states with this developing financial market.

Islamic banking and finance

On the surface, Islamic finance can appear to function as a 'conventional' banking system. In common with its western equivalent, Islamic finance/banking exists in three different forms. First, it provides a banking system and investment opportunities for businesses, and personal financial products for individuals. Second, it operates as a capital market, serving a wider systemic function. Third, it operates through a series of projects in a development capacity, as a source of aid, loans and foreign direct investment. In the case of Islamic finance, these development projects are implemented through the Islamic Development Bank and other Islamic institutions which fund projects based upon shared Islamic principles.[17]

[15] John Heathershaw, 'Tajikistan's virtual politics of peace', *Europe–Asia Studies* 61: 7, 2009, pp. 1315–36; Anna Matveeva, 'Legitimising central Asian authoritarianism: political manipulation and symbolic power', *Europe–Asia Studies* 61: 7, 2009, p. 1118; Sally Cummings, 'Inscapes, landscapes and greyscapes: the politics of signification in central Asia', *Europe–Asia Studies* 61: 7, 2009, pp. 1083–93.

[16] Krishna, 'IR and the postcolonial novel'; Tarak Barkawi, 'War, armed forces and society in postcolonial society', in Seth, ed., *Postcolonial theory and international relations*, pp. 87–106.

[17] The Islamic Development Bank in Jeddah seeks to fund shari'a-compliant projects across the world.

However, when the historical trajectory of Islamic finance and its underpinning values are examined, the differences between Islamic finance and the 'regular' market systems become apparent.

Although interest-free finance has existed as a system of exchange for millennia, the origins of modern Islamic finance can be traced back to the high oil prices of the early 1970s. In recognition of the rising dependency-driven US demand for oil, the OPEC states embarked on a period of nationalization in a bid to secure control over pricing.[18] Accordingly, King Faisal of Saudi Arabia encouraged the creation of the first Islamic bank in 1971 in order to diminish foreign control of a wider financial system around the local oil industry.[19] Herein lay the beginnings of a post-colonial form of financial market from which the Islamic financial system has developed. The growing influence of these regional markets is underlined by the appearance of Islamic finance hubs across the globe, most notably in Bahrain ($58 billion) and the UK ($19 billion).[20] Today the value of the Islamic financial sector is estimated at $1,086 billion; it has a presence in 51 countries, whether in the form of a fully Islamicized banking system or in that of banking hubs.[21] The leading states in Islamic banking—Iran ($388 billion), Saudi Arabia ($151 billion), Malaysia ($133 billion), Kuwait ($80 billion) and the UAE ($94 billion)—all support an Islamic banking system that is driven in large part by oil assets, except Malaysia's manufacturing- and investment-driven economy.[22]

The extent to which Islamic finance occurs as a separate entity from western finance, and the extent to which it is truly Islamic in nature, are both contested issues.[23] It is clear, however, that Islamic finance has not emerged as a single unified entity and is somewhat fissiparous in nature. While individual products or institutions may be considered shari'a-compliant, when Islamic finance is viewed as a global endeavour, to what extent can it be considered a discrete system? Consider, for example, the decision by Goldman Sachs, the pinnacle of aggressive western banking, to release *sukuk,* shari'a-compliant bonds, of its own in 2012. Does this suggest the subjugation of Islamic finance to the western market, or does it represent a growing recognition of an alternative mode of capitalism? In recognition of both the adoption of Islamic characteristics by western finance and the similarity between their remits, Islamic finance can be relativized. Lena Rethel questions whether Islamic finance, in its present form, is truly distinct from western financial markets, suggesting that shari'a compliance does not automatically deliver the project's wider goals. However, what really underpins the political agenda of Islamic finance is identity: the *perception* of its being a true alternative, of being a

[18] Daniel Yergin, *The prize: the epic quest for oil, money and power* (Sydney: Simon & Schuster, 1991), pp. 563–612.

[19] The historical emergence of shari'a-compliant finance predates this period. For more information on the core precepts and foundations of Islamic finance, see Zamir Iqbal and Abbas Mirakhor, eds, 'Economic development and Islamic finance' (Washington DC: World Bank, 2013).

[20] UK Islamic Finance Secretariat, *Islamic finance* (London: UK Islamic Finance Secretariat, 2012), p. 1, file:///C:/Users/porjak/Downloads/Islamic-finance-2012-F2.pdf, accessed 29 Nov. 2015.

[21] David Oakley, 'Islamic finance', *Financial Times*, 14 Dec. 2011, p. 2, http://www.ft.com/islamic-finance-dec2011, accessed 19 Nov. 2015.

[22] UK Islamic Finance Secretariat, *Islamic finance*, p. 1.

[23] Mehmet Asutay, 'Conceptualising and locating the social failure of Islamic finance: aspirations of Islamic moral economy vs. the realities of Islamic finance', *Asian and African Studies* 11: 2, 2012, pp. 93–113.

discrete system, thus generating an epistemic community that is at least symbolically separate.[24]

Given that Islamic finance is a global undertaking, it is not surprising that modern Islamic banking exists in multiple forms, each interacting to a greater or lesser extent with the conventional system. Conceiving of Islamic finance as a 'variety of capitalism' is problematic because as a regime it does not fundamentally alter existing relations between capital and labour or between capital and state.[25] However, there is potential to conceive of 'varieties of Islamic capitalism', in which unique or clustered characteristics of different regions begin to form through institutional and cultural practice. While viewing Islamic finance through a national lens is made more problematic by these inherent transnational characteristics, change in individual states occurs as pressure to compete in international markets drives transformation of both products and regulation in order to satisfy investor demand. Therefore in central Asia it can be expected that features unique to this region will reflect the local governance structure, legal framework and cultural practices as the market expands. While it is too early to make clear assertions about the central Asian 'variety of Islamic capitalism', an active debate is under way on the true nature of Islamic finance and the correct theoretical framework within which to capture its development.

Definitions of Islamic finance vary. They can focus narrowly on a criterion of individual financial products or widen to depict a system of financial transactions conducted by Muslims. No definition will command universal consensus because it is not a monolithic structure. Instead, it exists in a multitude of forms across the world, at all levels from transactions between individuals to institutionalized, regulated global operations. Given the elusive and contestable nature of Islamic finance, it seems advisable to draw on the broad conception developed by Ibrahim Warde.[26] In a bid to separate Islamic finance from neo-liberal models, Warde suggests that 'Islamic financial institutions are those that are based, in their objectives and operations, on Islamic law (the shari'a) … conventional institutions have no such preoccupation'. Consequently, what separates Islamic finance from conventional finance is the derivation of its rules and norms from shari'a law.

There are three broad criteria that must be unequivocally addressed in order for a transaction to be considered shari'a-compliant. The first, *haram,* concerns the prohibition of investment in products considered to be specifically un-Islamic or unethical in a more general sense. The second concerns *riba*, which is often incorrectly assumed to mean 'interest', but is more closely defined as 'increase'. It focuses on the ethical implications of lending and seeks to diminish the prospect of unfair gains being extracted by lenders through an inequality in the amounts borrowed and returned. The third concerns the limitations upon financial products which are considered to involve *gharar* (risk); its aim is to diminish excessive risk and reduce uncertainty.

[24] Lena Rethel, 'Whose legitimacy? Islamic finance and the global financial order', *Review of International Political Economy* 18: 1, 2011, p. 94.
[25] Pollard and Samers, 'Islamic banking and finance', pp. 313–30.
[26] Ibrahim Warde, *Islamic finance in the global economy* (Edinburgh: Edinburgh University Press, 2010), p. 7.

Riba and *gharar* are deployed with the aspiration of creating a more embedded market. While in the western system the needs of the society are rendered subservient to the market, by contrast in Islamic finance the aim is to create a market that is obedient to the needs of wider society, and therefore an economy based upon Islamic principles of morality. Because of the emphasis on asset-backed lending practices, prominence is given to investing in the real economy, and, through the prohibition of *gharar*, in such a way as to be beneficial to both lender and borrower. This system is more commonly referred to as the profit–loss-sharing system, reflecting the mutual and reciprocal expectations of both parties regarding risk in the venture.

A political economy of Islamic finance in central Asia

Over the past decade, the dominant framing of central Asian Islamic finance by the international press has been somewhat misleading. Islamic finance has often been presented as the illegitimate 'black box' of the global financial system through narratives associated with the US administration's 'financial war on terror'. After the 9/11 attacks, President George W. Bush remarked that 'money was the lifeblood of terrorist operations' and declared America to be in pursuit of Osama bin Laden's missing $300 million.[27] This money, which has never materialized, was represented as the key to preventing future terrorist attacks and as the source of an economy of terror. In the 'financial war on terror', no clear distinction was made between legitimate profits being transferred to terrorists, and financial gains generated by terrorists themselves, thereby tainting an entire financial system with suspicion. Former US National Security Advisor Sandy Berger declared that this money was 'hidden in underground, Islamic banking facilities'.[28] Islamic charities were not exempt from such attitudes. Warde shows how the charitable alms-giving (*zakat*) obligatory in Islam was also conflated with terrorist financing, thereby removing the distinction between supporting a political cause and the acts of terror themselves.[29] *Hawala*, the informal system of money transfer, has also been conflated with Islamic finance as a whole.[30] Legal changes made it permissible to blur intent and consequence, so that a donor became responsible should the funds be diverted from the ends originally stipulated. Some of these attitudes reflect a frustration that Islamic financial systems are not necessarily susceptible to western economic sanctions.[31]

Both Islamic finance and central Asia have been subjected to media-generated blanket associations with Al-Qaeda. In the case of central Asia, the discourse of danger generated by '9/11' altered geopolitical strategy towards the region, resulting in a conflation of south Asia and central Asia by Washington.[32] This

27 George W. Bush, *The global war on terrorism: the first 100 days* (Washington DC: PN, 2001).
28 Gene J. Koprowski, 'Islamic banking is not the enemy', *Wall Street Journal*, 12 March 2002.
29 Warde, *Islamic finance*, pp. 127–50.
30 Loretta Napoleoni, *Modern jihad: tracing the dollars behind the terror networks* (London: Pluto, 2003).
31 Marieke de Goede, 'Hawala discourses and the war on terrorist finance', *Environment and Planning D: Society and Space* 21: 5, 2003, pp. 513–32.
32 John Heathershaw and Nick Megoran, 'Contesting danger: a new agenda for policy and scholarship on central Asia', *International Affairs* 87: 3, May 2011, pp. 589–612.

perception spilled over into the internal reorganization of the US State Department, with central Asian analysis being moved from the section on Europe and Eurasian affairs into an expanded section dealing with south and central Asia, reflecting a choice to represent central Asia culturally as another '-stan', rather than a set of post-Soviet republics. Meanwhile, the majority of writing that engages directly with central Asian Islamic finance originates in the international business press. Here again the focus is mostly on the reporting of specific events or financial statistics, and does little to correct these distortions.[33]

What correctives can the academic literature offer? Post-colonialism, when applied as a tool of analysis, decentres our understanding of economic geography and so helps to challenge the perception of Islamic finance as a 'black box'. In their exploration of the economic and social theories of Islamic banking, Pollard and Samers suggest several important aspects of post-colonial study that improve its conceptualization. Most importantly, they suggest that the Marxist and post-structural aspects of post-colonialism disrupt the western production of knowledge and the accompanying power imbalance. Ceasing to reproduce western hegemony over the intellectual underpinnings of the international financial system emphasizes the similar historical mistrust of usury and interest between the two systems of knowledge. It also appropriates space for those who exist outside the system—especially those who *choose* not to conform on principle, rather than simply highlighting those who are *refused*. Additionally, post-colonialism has the propensity to reduce the perception of physical distance between Islamic banking and western banking. The two systems are in fact closely entwined, existing as parts of a larger financial system, rather than one being an alternative to the other. This understanding counters the 'clash of civilizations' binary interpretation that underpins media representations of Islamic banking as a shadowy system. Finally, post-colonial critiques can also be deployed to counter the perception of Islamic finance as an 'anti-modern' system rather than as an evolving construct that simply serves a different 'geopolitical, religious and regulatory context'.[34]

Demographics and fear are the twin underpinnings of misplaced conventional arguments about how religion forms the basis of central Asian interest in Islamic finance. The financial literature deploys demographics, which stress the 'Islamicness' of central Asia and the number of Muslims in central Asia as the drivers of Islamic finance in this region.[35] The Muslim population of greater central Asia stood at approximately 84 million in 2010, constituting 90.1 per cent of the total population, figures projected to rise to approximately 120 million and 91 per cent respectively by 2020.[36] This analysis is used to demonstrate the presence of a market base to support the introduction of Islamic personal banking, but in doing so it ignores the political implications of Islamic finance in secular central Asia.

33 Heathershaw and Megoran, 'Contesting danger', p. 599.

34 Pollard and Samers, 'Islamic banking and finance', p. 325.

35 G. N. Khaki and Bilal Malik, 'Islamic banking and finance in post-Soviet central Asia with special reference to Kazakhstan', *Journal of Islamic Banking and Finance* 1: 1, Dec. 2013, p. 11.

36 The figures include central Asia, Mongolia and Afghanistan. See H. Kettani, 'Muslim population in Asia: 1950–2020', *International Journal of Environmental Science and Development* 1: 2, 2010, pp. 43–53.

It is a simplistic inference akin to 'Muslim population = Islamic banking', which ignores the complexities of a Muslim identity. It also fails to explain why some governments have been reticent to enter this market while others have embraced it. The argument from fear even appears in some academic writing, and again uses religion as the basis for market growth, suggesting that the rise of radical Islam in pockets across the region has created a radical, restless segment of the population which must be appeased by the state in order to avoid civil unrest. Indeed, Geoffrey Gresh argues that 'a majority of Central Asian and southern Caucasian republics view Islamic banking and finance as important tools with which to channel the energies of radical Islamic opposition groups' as well as stressing the 'omnipresent force' of Islam in the region.[37]

This understanding is at variance with the facts. Kazakhstan, of all the central Asian states, has experienced the lowest level of religious conflict and has the strongest Islamic financial institutions; conversely, Uzbekistan and Tajikistan have the highest levels of unrest and the smallest presence of Islamic banking.[38] These examples suggest a negative correlation between the propensity to engage in Islamic finance and civil disobedience by religious groups. Similarly, the Kazakh Islamic market structure is operational only for business banking; Islamic personal banking is some way off from being realized. The main interactions so far have been at the level of development grants and loans through the Islamic Development Bank, while one might reasonably assume that an initiative intended to pacify local groups would begin with the development of personal banking. Equally, there is little evidence to suggest that appeasement is part of the repertoire of the Nazarbayev regime: consider the instantaneous and pugilistic reaction to union-backed worker uprisings in 2012.[39]

More importantly, the simplistic use of statistics on the 'Muslim-ness' of central Asia is outdated. The Durkheimian interpretation of religion as a monolith reflecting society has been surpassed by an understanding of religion analogous to the 'varieties of capitalism' literature. This creates a vision of Islam as developing discrete local characterizations ('little Islam'), which both distinguish it from, and contribute to, Islam as an overarching institution ('big Islam')—with the nature and implications of such diversification remaining debatable. Any failure to explore the diversity within Islam compromises our understanding of what it means to self-identify with the religion in a *place*. In the light of this recognition, a historical perspective upon Islam in central Asia is necessary to draw out the nuances that affect modern attitudes towards Islam, allowing us to understand the subtle changes that have taken place over time to create the distinctive local understanding of the faith that exists today, and how this influences attitudes towards Islamic finance.[40]

37 Gregory Gresh, 'The rise of Islamic banking and finance in central Asia', *Al Nakhlah*, Fall 2007, p. 1.

38 Kathleen Collins, 'The logic of clan politics: evidence from the central Asian trajectories', *World Politics* 56: 2, 2004, pp. 24–61; Olga Oliker and Thomas Szayna, 'Sources of conflict and paths to US involvement', in Olga Oliker and Thomas Szayna, eds, *Faultlines of conflict in central Asia and the South Caucasus: implications for the US Army* (Santa Monica, CA: RAND, 2003).

39 Peter Salmon, 'Police massacre has opened a dark chapter for Kazakh workers' movement', *Debatte: Journal of Contemporary Central and Eastern Europe* 20: 1, 2012, pp. 1–5.

40 Andrew McKinnon, 'Elementary forms of the metaphorical life: tropes at work in Durkheim's theory of the

Islam in central Asia is best conceived of as having a unique and syncretic character. The Islamic faith arrived in central Asia during the eighth century, jostling for position alongside the existing faiths of Zoroastrianism and Buddhism. During its establishment, the everyday rituals of Islamic faith, in combination with elements of Sufism, which promoted the use of localized saints, helped to create the unique form of Islam that exists in central Asia today.[41] Thereafter, Islam remained the dominant religion across the region, surviving the arrival of Tsarist Russia. Unimpressed by the local population, the Russian administration sought change only among the social elites, believing that 'Enlightenment values' would diffuse downwards, and eschewed direct intervention. Importantly, nationalism remained weak among the indigenous peoples, who instead prized culture, locality and tribal affiliations as socially binding characteristics.[42]

Under Stalin and Khrushchev, Islam was relegated firmly to the domestic realm, thus challenging its intrinsically political nature. Associating atheism and secularism with modernity, Soviet intervention penetrated all aspects of society, and the removal of many religious leaders and closing of mosques ensued. The repression of Islam was at once subtle and total. Religion was not banished in its entirety but was subjugated to the private realm, reformulated as an explanatory device accompanying the 'life-cycle' rituals—births, marriages and deaths remained Islamic ceremonies—while its teaching was removed from educational syllabuses. Through this reciprocal process, in which local customs were 'Islamicized' and Islam was 'localized', the connectivity of Kazakh/Muslim identity was nevertheless solidified.[43] At this time the concepts of the nation-state and nationality began to percolate through the different ethnic groups. The very construction of 'central Asia' was based upon Lenin's paradox that 'the surest way to unity in content [is] diversity in form'.[44] This principle secured the cultural identities of the newly formed states, using religion as the cultural tie that bound the communities together. Therefore, 'folklorization' reinvented Islam as culture, devoid of religious specificities and construed as politically malleable, already pointing the way to the region's post-Soviet future.[45]

In 1991, the unexpected independence of the central Asian states cast the new leaders off in search of a fresh identity. Forging a new independent state required a development plan, a distinctive profile and a sense of legacy to build upon.

religious', *Journal of Classical Sociology* 14: 2, 2014, pp. 203–21.

41 Erica Marat, 'Nation branding in central Asia: a new campaign to present ideas about the state and the nation', *Europe–Asia Studies* 61: 7, 2009, pp. 1123–36; Zeyno Baran, Frederick Starr and Svante Cornell, *Islamic radicalism in central Asia and the Caucasus: implications for the EU* (Washington DC: Central Asia–Caucasus Institute, 2006), p. 11.

42 Daniel Brower, 'Islam and ethnicity: Russian colonial policy in Turkestan', in Daniel Brower and Edward Lazzerini, eds, *Russia's orient: imperial borderlands and peoples, 1700–1917* (Bloomington: Indiana University Press, 1997), pp. 116–19; Chris Hann and Mathijs Pelkmans, 'Realigning religion and power in central Asia: Islam, nation state and (post-)socialism', *Europe–Asia Studies* 61: 9, 2009, p. 1522.

43 Baran et al., *Islamic radicalism*, p. 12; A. Khalid, *Islam after communism: religion and politics in central Asia* (Berkeley: University of California Press, 2007), p. 22.

44 Yuri Slezkine, 'The USSR as a communal apartment, or how a socialist state promoted ethnic particularism', *Slavic Review* 52: 2, 1994, p. 420.

45 Sebastian Peyrouse, 'Christianity and nationality in Soviet and post-Soviet Asia: mutual intrusions and instrumentalizations', *Nationalities Papers* 32: 3, 2004, p. 648.

Emerging into the neo-liberal world order, the post-socialist states sought to legitimate their new identity—a classic case of the 'invention of tradition'.[46] Religion gradually became more visible in public life; but, rather than being threatened by this development, the new leaders sought to use it to their advantage. Religion accelerated nation-building by allowing the regimes to capitalize on the synthesis between religion and nationality, intertwining both with ethnic and local traditions.[47] Kazakhstan in particular uses this understanding of religion in conjunction with the legend of Baba Tükles, the progenitor of Islam in the region, to shape a historical identity.[48] The co-option of religion to the project of creating national identity through historical narrative is not without risk. If the state proves to be weak, then the value of 'national Islam' will be lost with it; conversely a moderate 'national Islam' does little to sate the desires of the newly pious.[49]

Understood in this way, Islamic finance in central Asia no longer appears anti-western. Recent American writings on the region often deploy a Christian understanding of secularism. Accordingly, public displays of religious affiliation—such as taking the Friday as the Sabbath instead of Sunday—appear radical.[50] This underlines how easily western understanding of the place of religion in other societies can become clouded with suspicion. The 'little Islam' of central Asia is effectively 'othered' into a category of 'big Islam', while the smaller nuances that separate the understanding of Kazakh/Muslim identity from the Islam of Saudi Arabia, Pakistan or even Turkey are lost. When Islamic finance is reconnected to the predominant 'little Islam' of the region, the drivers are revealed as more pragmatic and focused on a historic and nationalist agenda. Understood in this context, Islamic finance creates a path of national advancement and the extension of an identity wholly its own into the economic sphere of public life. Pacification of the religious extremes within Kazakh society may be a by-product of the adoption of Islamic finance, but this is secondary to development. Islamic finance connects primarily to the 'national brand', and we need to ask how it changes the geopolitical landscape. It is to these concerns that we now turn.

Material contributions of Islamic finance

Islamic finance first arrived in central Asia in 1992, but its application has been by no means uniform across the region. As each of these countries moved away from centrally planned economic structures, each sought a different development model, with varying levels of success. Natural resources have proved to be no guarantee of fortune. The regimes of the new republics were able to appease their populations during the immediate transition period, riding the waves of independence

[46] Eric Hobsbawm, 'Introduction: inventing traditions', in Eric Hobsbawm and Terence Ranger, eds, *The invention of tradition* (Cambridge: Cambridge University Press, 1983).

[47] Hann and Pelkmans, 'Realigning', p. 1533.

[48] Marya Omelicheva, 'Islam in Kazakhstan: a survey of contemporary trends and sources of securitization', *Central Asian Survey* 30: 2, 2011, p. 246.

[49] Hann and Pelkmans, 'Realigning', p. 1527.

[50] Marth Brill Olcott, *Central Asia's second chance* (Washington DC: Carnegie Endowment for International Peace, 2005), p. 217.

and empowerment set in motion by the release from Soviet control. However, this period of grace is now a distant memory, and awareness has grown of the condition of the local economy relative to that of the international economy. Islamic finance therefore presents an attractive form of economic diversification that is congruent with the region's personality-driven leadership styles. Western financial commentators have failed to understand the conjoined Muslim/Kazakh, Islamic/national identities that now pertain, or their implications for market development. It is important to assess closely the profile of the market here in order to appreciate its likely impact upon the regional economies, in both a material and a symbolic sense, and to analyse why certain states have found greater utility for Islamic finance than the others. Azerbaijan, Uzbekistan, Turkmenistan, Tajikistan, Kyrgyzstan, Kazakhstan and Russia are here examined in turn.

It was Azerbaijan that first saw the potential of Islamic finance as a source of development funding, in 1992 during the immediate post-Soviet transition. Nevertheless, growth in developing Islamic banking practices here has been slow, and it is only now, decades later, that the first Islamic bank (Kathur Bank) offering limited Islamic products is due to open. Kathur Bank has had to be registered as a conventional bank in order to operate within the system because of legislative complications. Currently the Azerbaijani constitution prioritizes equality of religions and the separation of Church and state; however, Islamic banking offers new sources of cheaper finance to aid economic development.[51] Accordingly, the International Bank of Azerbaijan (IBA), the country's largest lender, is preparing to launch a separate shari'a-compliant banking unit, and a new Islamic banking law was negotiated during 2015.[52]

Uzbekistan has also made only modest progress, despite joining the Islamic Development Bank in 2003 and receiving sequential rounds of funding. This is because of a lack of institutional capability which has impeded the development of a more integrated system, even though natural resources, mainly mineral deposits, make Uzbekistan a potentially lucrative proposition for foreign direct investment. Meanwhile the somewhat erratic development path of Turkmenistan under the strongman presidency of Niyazov undermined its international credibility, and accordingly the Islamic Development Bank has provided only small amounts of funding for the purposes of strengthening local infrastructure. Historically, there has been little external investment flowing into either of these states. Tajikistan has been a member of the Islamic Development Bank since 1996, was among the penultimate group of states to join, and has since become actively involved in Bank projects in energy, transport systems and health care. As a poor state with an uncertain development future, it made limited progress towards a full Islamic banking sector until 2012, when the Tajik National Bank and Zahid Ibrahim &

[51] Shanin Abbasov, 'Azerbaijan: Islamic banking knocking on the door', *Eurasianet*, 20 June 2011, http://www.eurasianet.org/node/63707, accessed 19 Nov. 2015.

[52] Bernardo Vizcaino, 'Azerbaijan's IBA plans stand-alone Islamic banking unit', Reuters, 18 Aug. 2014, http://www.reuters.com/article/2014/08/18/azerbaijan-islamicfunds-idUSL5N0QO04420140818, accessed 19 Nov. 2015.

Co., an international consulting firm, signed an agreement to begin the development of a bill that will now facilitate Islamic banking in the country.[53]

The story in Kyrgyzstan is different again. The most democratic of the post-Soviet central Asian republics, Kyrgyzstan has viewed Islamic finance favourably, realizing the economic benefits of market diversification, but progress has been limited owing to institutional failures. Following the Tulip Revolution in 2005, it was President Bakiyev who instigated the introduction of Islamic finance to the country. Kyrgyzstan had entered the post-Soviet era with little in the way of infrastructure and what has been described as a 'psychology of dependence', making it heavily dependent on outside sources for development.[54] The Islamic Development Bank has provided much-needed financial support, but given the political instability of the current system it is unlikely that the current relationship will progress beyond the funding of infrastructure and public health projects. In 2005, the EcoIslamicBank was created from the former EcoBank after Bakiyev was persuaded of the merits of the Islamic banking system using the example of Malaysian success. By 2007, an agreement had been reached between the Islamic Development Bank and the Kyrgyz government to inaugurate EcoIslamicBank as the pilot for Islamic banking in Kyrgyzstan. Despite the change in presidency to the now incumbent President Atambayev, there has been growing support for Islamic finance in the Kyrgyz government, and Islamic development is now making progress through the provision of micro-finance projects, where the profit–loss-sharing system of Islamic banking can help spread the risk of borrowing during one or another of Kyrgyzstan's frequent economic crises. This model is of direct relevance to all the central Asian states.[55]

Of all the central Asian republics, it is Kazakhstan that has most eagerly embraced Islamic finance. Following independence, Kazakhstan offered the most potential as the wealthiest of the new republics and importantly, through its natural resources, held the most attractive investment opportunities. According to the State Agency for Regulation at the Regional Financial Center of Almaty, the Kazakh leadership aims to fund 10 per cent of the Kazakh economy through Islamic finance by 2020, although it should be noted that government targets often go unmet.[56] Kazakhstan's Islamic finance industry took a step forward in 2010 when President Nazarbayev declared his intention to make Kazakhstan the regional hub for Islamic finance, announcing a 41-point plan setting targets for new Islamic banks. Concrete steps have been taken to meet these targets. Because of the many asset transfers associated with Islamic banking transactions, changes to the tax legislation were required to prevent single transactions being subject to heavy taxation; these changes were passed in April 2015. Similarly, the July 2012 *sukuk* issuance of $75 million by the Development Bank of Kazakhstan was a significant

[53] Islamic Trade Finance Corporation, 'ITFC and the Republic of Tajikistan sign a $40 million agreement for financing imports of gasoline and diesel', 24 July 2012, http://www.itfc-idb.org/content/itfc-and-republic-tajikistan-sign-40-million-agreement-financing-imports-gasoline-and-diesel, accessed 19 Nov. 2015.

[54] John Lloyd, 'IMF watches as Kyrgyzstan fights the battle of the Som', *Financial Times*, 21 May 1993.

[55] Justin Vela, 'Kyrgyzstan: Islamic banking offers alternative to the "European system"', *Eurasianet*, 14 June 2011, http://www.eurasianet.org/node/63675, accessed 19 Nov. 2015.

[56] 'Share of Islamic finance in Kazakhstan's economy to reach 10% by 2020', Interfax, 3 July 2015.

achievement, with a sovereign *sukuk* in the planning. Kazakhstan sought assistance from Dubai to open its first branch of the Al Hilal Islamic Bank (a subsidiary of Al Hilal Ab Dubai) which has so far only been extended to corporate, not personal, banking services. Prime Minister Karim Massimov signed a 'roadmap' agreement for the development of the necessary legal conditions to encourage the development of Islamic markets.[57] The industry is in its infancy, but these are encouraging signs of political will and increasing technological capability in an already well-established regional finance hub.

Following the success of the *sukuk*, the Development Bank of Kazakhstan described the Malaysian model as an 'ideal for Kazakh issuers'.[58] The 'roadmap' mentioned above identifies the need for a relationship with Malaysia, citing the latter's market model as a desirable growth strategy; this suggests that the Kazakh government is looking eastwards for strategic concepts. Following the recession of 1985–6, Malaysia set a new course for economic development and this prompted the financialization of Malaysia's capitalism through a period of privatization and other select neo-liberal economic policies. Since the Asian financial crisis of the late 1990s, this financialization has led to the rapid development of Islamic financial markets, thereby reconfiguring the Malaysian economy as an alternative investment destination. Similarities can already be seen between the Malaysian and Kazakh experiences. Both have a multi-ethnic population, a strong government and a pervasive crony culture that extends into the financial markets. Despite the privatization that Malaysia undertook following the crisis, government participation in Malaysian capitalism remained extensive, with rent-seeking persisting in the market.[59] This ability of the state to remain present in the market while moving to a capital market-based financial system has not passed unnoticed by President Nazarbayev. Similarly, in Malaysia the market was initially the development project of political and business elites, a point of clear interest to similar groups in Kazakhstan.

For Malaysia, the development of another market player appears to have created a mutually beneficial relationship rather than a potentially hostile competitor. The development of Kazakhstan represents an opportunity to expand into new markets, while more market players improve market liquidity, helping to insulate against market shocks. As a result, 62 per cent of the recent Kazakh *sukuk* was purchased by Malaysian investors, suggestive of deepening ties between the two Islamic markets. From the Kazakh perspective, the rapid expansion of, and high profits generated by, the newly industrialized market economy and financialization of Malaysia make it an attractive investment model to follow, especially given the recent economic downturn generated by the neo-liberal models that have come under scrutiny following the credit crunch in the OECD states in and after 2009. It is too soon to ascertain how closely the Kazakh government intends to follow this economic model; but, given the authoritarian nature of the state, it

57 Robin Paxton, 'Islamic finance treads fine political line in Kazakhstan', Reuters, 2012, http://www.reuters.com/article/2012/07/02/us-islamic-finance-kazakhstan-idUSBRE8610JO20120702, accessed 29 Nov. 2015.
58 Paxton, 'Islamic finance treads fine political line in Kazakhstan'.
59 Lena Rethel, 'Financialisation and the Malaysian political economy', *Globalizations* 7: 7, 2010, p. 492.

would appear reasonable to suggest that whatever form it takes will have distinctly local characteristics.[60]

Kazakhstan in particular is viewed as an attractive—albeit risky—investment opportunity. The government has made repeated proclamations of intent to continue to develop the sector, and given the strategic benefits it appears likely that there will be continued expansion of the financial sector. When viewed as part of a wider development strategy, the implementation of an Islamic financial market is suggestive of future Kazakhstan policy. Moreover, given the effort invested in removing legislative hurdles, it appears there is every intention to accelerate along this path. This is not to suggest that Islamic finance is a panacea for growth or that the Kazakh government will necessarily accomplish its desired goals. Nevertheless, it underlines the Kazakh government's perception of Islamic finance as a practical system for sustainable growth, rather than a tool for religious pacification.

Support for Islamic finance in Russia comes from an unusual source: the Russian Orthodox Church. As the country's economy seems to be heading towards another recession, brought on by international sanctions over Ukraine, Russia is actively seeking alternative sources of finance. The state development bank, Vnesheconombank, has set up trade delegations to the Middle East to develop understanding of Islamic finance, as have Moscow Industrial Bank, SME Bank and the Russian Direct Investment Fund. In the predominantly Muslim Republic of Tatarstan, the wheels have already been set in motion with Russia's only Islamic bank, AK BARS Bank, using precious metals as assets to circumvent current legislation. Indeed, it is legal challenges that are holding up the development of the industry in Russia.[61] After a failed attempt earlier this year to create the legislation necessary to support shari'a-compliant banking in Russia, the Orthodox Church has asked that the duma find a means to pass the bill.[62] Once the legislation has been changed—and, given the assent of powerful voices in Moscow, this is highly likely—Russia will be able to pursue alternative sources of income, away from sanction-bound markets. With approximately 20 million Muslims living in Russia, there is potential here for a domestic market for Islamic finance products, but it is likely that the primary interest will be in the growing international trade.

'Nation branding' and the symbolic contributions of Islamic finance

A central concern of the authoritarian regimes in central Asia is the appearance of legitimacy. In the central Asian states, the stability of the weak and strong-form authoritarian regimes is maintained through a delicate balancing act of coercion/repression and a façade of legitimacy. David Beetham posits that in order to maintain a dictatorship, the ruler must be able to demonstrate enhanced order,

[60] Paxton, 'Islamic finance treads fine political line in Kazakhstan'.

[61] Alexander Winning and Bernardo Vizcaino, 'Russia looks to lift first barrier to Islamic finance as crisis grows', Reuters, 20 March 2015, http://www.reuters.com/article/2015/03/20/islam-financing-russia-idUSL6N0WL58620150320, accessed 19 Nov. 2015.

[62] Daria Solovieva and Rinat Gaynullin, 'Russian Church becomes Islamic-finance ally as sanctions hurt', *Bloomberg*, 3 June 2015, http://www.bloomberg.com/news/articles/2015-06-03/russian-church-becomes-islamic-finance-ally-as-sanctions-hurt, accessed 19 Nov. 2015.

stability and effectiveness, ensuring that it is in the self-interest of the subordinates that the dictatorship survives. In central Asia, this encapsulates the ongoing process of legitimation that depends crucially upon the ability of regimes 'to deliver what people expect of them: security, growth and welfare'.[63] Remarkably, the legitimization framework which supports the central Asian regimes (to varying degrees and in varying combinations in different states) is an impressive combination of Islam and a Soviet-style bureaucratic machine, buttressed by the presence of elections and the commitment of political elites to national stability, lending an aura of secular democracy and constitutionality.[64]

Islamic finance can be viewed as offering a pivotal opportunity for the Kazakh President to establish his regime's legitimacy. By providing growth without radical democratic reform, Islamic finance bolsters the elite's position through increased state revenue, and this, in theory at least, can be distributed to facilitate the economic development of the country. It is important to note that this argument would apply to any economic activity that provided growth, and it is the wider political ramifications of this, rather than the output of the industry itself, that makes Islamic finance significant.

In a region where the politics of personality predominate, it is particularly important that national symbols project an image of strong rule, thus legitimating power as an 'empirical, visible fact'.[65] The simulation of elections and market freedoms, for example, regardless of whether they provide the same functions, or are enacted in the same manner, as within a liberal democracy, send clear signals to both domestic and international audiences. In his detailed application of Baudrillard's 'layers of simulation' to central Asia, John Heathershaw stresses the importance of understanding how the concept of 'virtual politics' reveals the process by which the simulation of actions occurs at both national and international level, so that the appearances generated are no longer attached to the underlying referent.[66] Because of this disconnect, Heathershaw argues that in central Asia 'we must radically accept that it is impossible to verifiably ascertain whether one public figure is more corrupt than another, what their real agenda is, or who they really represent'.[67] Using this understanding, Islamic finance in central Asia is more about creating symbols of 'Islamicness' for an audience of other states than it is about a change in the underlying 'Islamicness' of the state or populace. The movement towards Islamic finance in Kazakhstan has not been the result of 'bottom-up' pressure for access to Islamic services, but instead has been a government-led change; if it did not suit the needs of the elites, the market would not progress. Legitimacy is a key concern of these states, and it is as the articulation of symbols as a form of legitimation that they seek to use the unique properties of Islamic finance to serve a hidden agenda. The dialectic of domestic

[63] David Beetham, *The legitimation of power* (London: Macmillan, 1991), p. 51; Matveeva, 'Legitimising central Asian authoritarianism', p. 1118.
[64] Matveeva, 'Legitimising central Asian authoritarianism', p. 1101.
[65] Matveeva, 'Legitimising central Asian authoritarianism', p. 1118.
[66] Heathershaw, 'Tajikistan's virtual politics of peace', p. 1324.
[67] Heathershaw, 'Tajikistan's virtual politics of peace', p. 1325.

and international perceptions of the state acts as a revolving door of legitimacy: the domestic audience receives cues from the international audience to inform opinion about the legitimacy of the state, evaluating its own position relative to that of external experience. Similarly, the external audience receives indications as to the legitimacy of the state through its perceptions of the domestic population as either compliant or under coercion.[68]

The role of former British Prime Minister Tony Blair in the region illustrates this simulation and the difficulty of consolidating state legitimacy. Blair serves as an adviser to President Nazarbayev, drafting speeches and appearing in promotional videos for the reported sum of £8 million a year. He visited the region a fortnight after the riots in Zhanaozen of December 2011 that left 16 workers dead and provided advice to the President on how to address the events politically.[69] Tony Blair's physical presence can be seen as a symbolic gesture designed to confer the legitimacy of acceptance of the Kazakh state by a democratic political elite, thereby altering the perception of the country to one of a modern and democratizing state. In other words, he confers his legitimacy on the government, thus performing an exercise in 'nation branding'. However, this is a superficial legitimacy, because there has been no accompanying material or structural change; it is merely a political illusion.

Islamic finance has the potential to combine a symbolic and a substantive economic legitimacy. In the context of central Asia, material legitimacy is generated through economic growth satisfying the domestic audience, while international political legitimacy is generated through the practice of nation branding, perceptions of internal development, and regional geopolitical positioning. We therefore need to ask how Islamic finance will affect this internal/external, domestic/international dialectic, beginning with 'nation branding' and focusing on Kazakhstan as the regional market leader.

Islamic finance reinforces and projects 'Brand Kazakhstan' in some unexpected ways. First, it helps to assert the departure from a Soviet past defined by corruption, a weak economic structure and lack of religious tolerance. In the battle against their 'post-Soviet labels', each central Asian state has sought to shape a new narrative or 'national brand'. A 'national brand' is the communication to a domestic or international audience of an image of the nation through the channels of diplomacy and enterprise. Simon Anholt, the originator of what has become an enormous consultancy-based industry since its inception in the 1990s, emphasizes the use of 'strategy, substance and symbolic actions' to strengthen an image, but stresses that marketing is not a panacea. In previous decades propaganda could be disseminated within a captive population, but in the internet era it has become more problematic to disseminate spurious claims, making substantive truth the core of nation branding. By reconstructing a new economic identity, Kazakhstan is therefore giving credible substance to its new image. Conveniently, Islamic

[68] Matveeva, 'Legitimising central Asian authoritarianism', p. 1118.

[69] James Kilner, 'Tony Blair flies to Kazakhstan to advise president', *Telegraph* online, 20 Feb. 2011, http://www.telegraph.co.uk/news/worldnews/asia/kazakhstan/9093772/Tony-Blair-flies-to-Kazakhstan-to-advise-president.html, accessed 19 Nov. 2015.

finance reconnects Kazakhstan to its pre-Soviet identity as part of the state's post-colonial identity building; but, rather than creating the image of a 'backward-facing' society, it simultaneously projects a desire to be a dynamic market leader in the modern global economy.[70]

Second, Islamic finance helps to promote the new 'Brand Kazakhstan' as a home to all people and all religions for a western audience. As the central Asian states are born of a post-Soviet-era land division, the return to a pre-Soviet-era identity would have been both confusing and problematic because of the tangled web of ethnicities and cultures that criss-crosses the land. In the new era of independence, each state has sought to promote itself as autonomous and independent of the others, rather than building a collective identity shared among them, and in the process the individual republics have not necessarily chosen the path of maximum economic development. In a bid to make itself distinct, Kazakhstan in particular has embarked on an ambitious programme of nation branding, choosing to bill itself as the 'Heart of Eurasia' and the 'Crossroads of Civilizations', accentuating its geopolitical position. The image of a crossroads also helps to link central Asia to Europe and is suggestive of openness and a commitment to reform.[71]

In autumn 2003, President Nazarbayev presided over a Convention of World-wide and Traditional Religious Leaders and announced a construction project called the Palace of Nations. This remarkable building contained a mosque, an Orthodox church, a synagogue and a Buddhist temple, and has now been designated the Temple of Peace and Harmony. Glossing over its domestic difficulties, Kazakhstan has claimed a first-mover advantage through its early adoption of a strapline of identity projection as a 'regional hub'. While the claim to be at the crossroads of continents, cultures and religions dilutes the overall image, making it a less easily identifiable brand, it is hard to miss the overt symbolic commitment to religious diversity. The 'Palace of Nations' and the 'Crossroads of Civilizations' project an image of religious tolerance. In doing so, the regime is setting out its stall not only for the Muslim community, for whom the message is that Kazakhstan is no longer perpetrating a Soviet-style oppression of religion and is now 'Islam-friendly', but also for the West, where religious tolerance is a basic human right and a form of political currency.[72] In this simulation of tolerance and economic openness, Kazakhstan advertises itself to other wealthy Islamic states as a place to do business, to attract investment and to enhance political dialogue.

In positioning itself not only as a destination for Islamic finance, but as the central Asian hub for Islamic finance, Kazakhstan lays claim to a status above that of the other central Asian states. Often conflated with them owing to the shared '-stan' suffix, Kazakhstan seeks to escape the shadow of its less profitable neighbours and become a more visibly independent entity; in using Islamic finance, Kazakhstan is placing itself in a category with other successful states that have gone on to develop strong Islamic financial markets, such as Malaysia and Bahrain.

70 Simon Anholt, *Places: image, identity and reputation* (Basingstoke: Palgrave Macmillan, 2010), pp. 1–19.
71 Marat, 'Nation branding', p. 1130.
72 Omelicheva, 'Islam in Kazakhstan', pp. 251–2.

Positioning itself alongside these other states that engage in Islamic banking and finance generates positive media attention (at a time of financial instability) without altering the structural framework of the economy.

This combination of economic provision and symbolic contribution is especially useful to the financial–industrial groups of Kazakhstan. The rival financial–industrial groups represent the interests of the rising business elite, and it is these groups that have the most potential for causing instability through their new desire for economic and political resources.[73] Without a forum through which industry can gain a legitimate political voice with which to enter or alter the market, these groups form a dangerous and detached elite jostling for presidential influence away from the public gaze. Therefore, echoing Heathershaw, it is a struggle to conceive of the 'extent of the corruption' or the 'true agenda' of those in charge, our understanding further obfuscated through the extended practice of simulation. In this case, the development of Islamic financial markets appeases these groups through its ability to bring new investment opportunities to the region via a 'model' of stability and growth; but the practices and projections of identity conceal the illegitimacy that the state seeks to mask and upon which the elites seek to capitalize.[74]

Geopolitical balancing

These changes in the symbolic projections of identity have ramifications for regional relationships. Often presented as pawns of the Great Powers, Kazakhstan and (to varying degrees) the other central Asian republics have deliberately sought strategies that afford them autonomy. Weak regional cooperation and protectionism force these states to seek external partnerships, traditionally with Russia and increasingly with China and western countries; but over-reliance upon a single trade partner makes them vulnerable to coercive behaviour.[75] As a result, the central Asian countries have developed their own unique strategies. The Kazakh state's 'balancing' approach has been to translate the economic gains of its energy sector into political power, allowing it to become more assertive in negotiations with both Russia and the West, through the increasing patronage of China. The lack of consistency in Russia's central Asian foreign policy has further strengthened the Kazakh position. An Islamic finance network provides an alternative source of foreign direct investment and new opportunities for political alliances that are unconnected to Russian and Chinese interests. Thus it further underpins the constant search for greater autonomy and reinforces the post-colonial aspects of the Islamic finance project.[76]

[73] Collins, 'The logic of clan politics'; Erica Schatz, 'The politics of multiple identities: lineage and ethnicity in Kazakhstan', *Europe–Asia Studies* 52: 3, 2000, pp. 489–506; Pauline Jones Luong, 'Economic "decentralisation" in Kazakhstan: causes and consequences', in Pauline Jones Luong, ed., *The transformation of central Asia* (Ithaca, NY: Cornell University Press, 2004).

[74] Barbara Junisbai, 'A tale of two Kazakhstans: sources of political cleavage and conflict in the post-Soviet period', *Europe–Asia Studies* 62: 2, 2010, pp. 235–69.

[75] Annette Bohr, 'Regionalism in central Asia: new geopolitics, old regional order', *International Affairs* 80: 3, May 2004, p. 487.

[76] Joshua Kucera, 'Russia: Moscow strives to clarify vision for central Asian alliance', *Eurasianet*, 30 Sept. 2011, http://www.eurasianet.org/node/64248, accessed 19 Nov. 2015.

At first glance, the introduction of Islamic finance looks likely to exacerbate any underlying religious tensions, particularly with China. The Chinese state's objections to certain religions stem from their transnational characteristics, rather than from any objection to the practice of a belief system *per se*; it has a particular sensitivity towards Islam, which is epitomized by the struggles over the Uyghur region of Xinjiang. Unlike the Hui Muslim population of China, which espouses a strong Chinese national identity, the Uyghur population considers its primary allegiance to be to the Muslim community or *umma*, giving rise to struggles for independence. One would expect this experience to make China wary of changing its legislation to support the introduction of Islamic banking products. However, the potential financial rewards it offers make Islamic finance an appetizing economic venture. China has, for the time being, very limited exposure to Islamic finance, but this is beginning to change since the second *sukuk* launch in Hong Kong in 2015. Over $1 billion was raised from just this single bond launch, suggesting that there is a strong regional appetite for new financial products in the region, and providing another potential trading partner for Kazakhstan's expanding market.[77]

Arguably, China has already surpassed Russia as Kazakhstan's most important economic partner. Despite being the world's largest investor in renewable energy, China still has an economy based upon a fossil fuel industrial model with a diminishing domestic supply.[78] As a result, China has increasingly used oil-rich Kazakhstan as a source of fuel; unlike Russia, Kazakhstan is not subject to international sanctions, allowing China to import up to 400,000 barrels per day.[79] Kazakhstan has much to gain from this symbiotic relationship, and in 2011 signed a series of lucrative deals with Beijing concerning water rights, uranium supplies and a $5 billion energy infrastructure loan, followed by another $23.6 billion deal in 2015. Yet despite these mutually beneficial circumstances, Kazakhstan risks too great a Chinese stake in its economy, creating a potential vulnerability and reducing its autonomous decision-making capabilities, however apolitical China's 'Going Out' strategy may currently be.[80]

In the wake of Russia's recent actions in eastern Ukraine, President Nazarbayev has been wary of Moscow's proclamations. 'The Russian nation is one of the biggest, if not the biggest ethnic group in the world to be divided by borders,' stated President Putin in March 2014, shortly after the referendum on Crimea's transition to Russian territory.[81] For Putin, the breakup of the Soviet Union has been a disaster, the end of a connected civilization now conceived of as in need of

77 Enoch Yui, 'Hong Kong government sells second Islamic sukuk bond to raise US$1.1 billion', *South China Morning Post*, 28 May 2015, http://www.scmp.com/business/markets/article/1811139/hong-kong-government-sells-second-islamic-sukuk-bond-raise-us11, accessed 19 Nov. 2015.

78 Z. Ming and L. Ximei, 'Review of renewable energy investment and financing in China: status, mode, issues and countermeasures', *Renewable and Sustainable Energy Reviews*, vol. 31, March, 2014, pp. 23–37.

79 For comparison, China imports an approximate average of 1 million barrels per day from Saudi Arabia: Energy Information Administration, 'Country report: China', 2012, http://www.eia.gov/countries/country-data.cfm?fips=CH, accessed 19 Nov. 2015.

80 Leslie Hook and Isabel Gorst, 'Kazakhstan embraces Chinese investment', *Financial Times*, 22 Feb. 2011, http://www.ft.com/cms/s/0/8c25e008-3e5e-11e0-9e8f-00144feabdc0.html#axzz2DLrVPrBZ, accessed 19 Nov. 2015.

81 Vladimir Putin, 'Address by President of the Russian Federation', The Kremlin, Moscow, 18 March 2014, http://en.kremlin.ru/events/president/news/20603, accessed 29 Nov. 2015.

restoration. With Kazakhstan having preferred Chinese investment in its economy over Russian, and actively pursuing alternative trade partners, so Russian soft power will continue to diminish and the sense of regional military tension will increase.[82] Islamic finance could provide an opportunity for both China and Kazakhstan to generate income in the future, but it also has a soft-power dimension, encouraging relations with the Gulf states and across the Islamic world at a time when Kazakhstan is seeking to diversify its connections and reduce Russian dominance.

Conclusion

Islamic finance is a post-colonial project born of the desire to create a system of capital movement that complies with a set of values distinct from the so-called western tradition. The extent to which it can fulfil this ambition is as yet unclear, but it is already a significant industry that has taken important steps into central Asia, Russia and Hong Kong. To date it is Kazakhstan in particular that has had the most engagement with Islamic finance, seeking new streams of revenue, new models and flexible new identities. But it is not only Kazakhstan that will be altered by the growth of Islamic finance as a form of post-colonial capitalism; the whole central Asian region and indeed economies across the globe will feel the effects. Russia is embracing this new market in a quest to outperform its current market conditions, but there are political goals to be scored too through the embracing of religious multiplicity among its many republics. It is too early to say how these developments will affect the relationship between Kazakhstan and Russia; so far, Kazakhstan has secured its position as market leader within the region, but the large growth potential of Russia may make it a future competitor.

Across central Asia, Islamic finance seems to offer an opportunity to achieve greater market autonomy without relinquishing political control. Kazakhstan's decision to quietly develop an alternative to western, Russian and Chinese development proposals enables it to reconnect with its pre-Soviet Islamic identity, while simultaneously taking a modern approach to market diversification. Meanwhile, Malaysia is looked upon favourably as a model for development, suggesting a desire to follow its current strategy of economic liberalization coupled with political authoritarianism. Furthermore, encouraging Islamic finance indicates a recognized need to reduce rent-seeking behaviour and prevent over-reliance on the energy sector, no matter how tempting this may be to appease rising business and financial elites. As these groups gain influence, so President Nazarbayev will need to ensure that they have easy access to capital and investment projects in order to secure his presidency. Islamic finance will help to deliver this by raising Kazakhstan's international profile and projecting positive images, despite the country's record of market nepotism and corruption. Simultaneously it helps to

[82] For a detailed analysis of the changing economic relationship between Russia and Kazakhstan, see Yelena Zaboseva, 'Rethinking the economic relationship between Kazakhstan and Russia', *Europe–Asia Studies* 66: 2, 2014, pp. 311–27.

release Kazakhstan from its Soviet image, introducing the world to its 'Muslim side' yet without unleashing a legacy of religious intolerance. This, in turn, lends weight to 'Brand Kazakhstan's' pledge to be the 'Heart of Eurasia' and the 'Crossroads of Civilizations'. In doing so, Kazakhstan can expect to attract increased funding from the Islamic Development Bank, thereby diversifying its dependency beyond any single financial metropole.

In short, the position of Islamic finance in central Asia is complex and has been poorly understood. It stands in need of a conceptualization that recognizes it as resulting from a series of pragmatic decisions based upon the requirements of the ruling and business elites to make symbolic and economic gains, rather than merely seeking to pacify religious elites. While the Islamic finance project should not be viewed through the prism of legitimacy alone, this perspective does illuminate an emphasis on stability, profit and development rather than religion. Indeed, it is these qualities that will define the future prospects of President Nazarbayev as the appetite for political change grows stronger and social development provides more opportunity for opposition. The next five years will not only determine the future of Islamic finance in central Asia but will also test Nazarbayev as his mortality becomes increasingly apparent and the issues of succession more immediate. Meanwhile, Islamic finance is not a panacea for the development of Kazakhstan or for the sanctions-hit Russian economy. It is currently a successful industry, but it may face its own future challenges. Scandals have already emerged during its short existence and it is not immune from global market conditions despite outperforming conventional banks during the first two years of the recent financial crisis. Viewed in isolation, the Islamic financial market is still developing, and the volumes traded within central Asia alone are smaller still. Nevertheless, the short-term world market appetite for Islamic investments is growing, and the current political will of the central Asian states provides an attractive roadmap for market growth.