

A MODERN PERSPECTIVE
OF ISLAMIC ECONOMICS
AND FINANCE

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A MODERN PERSPECTIVE OF ISLAMIC ECONOMICS AND FINANCE

BY

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INVESTOR IN PEOPLE

“My Lord, increase me in knowledge”

– 20:114 –

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PREFACE

LIZARD HOLE

Contemporary works on the theory of Islamic economics and finance emerged out of a sense of urgency in order to address the significant changes in the Muslim world after the independence of nations from Southeast Asia to West Africa in the twentieth century. Educated Muslims realized that simply obtaining independence had not been provided the expected freedom or solved the protracted problems of Muslim communities. They referred to the glorious days of Islam and hastily praised the ideas of classical Muslim thinkers such as Ibni Khaldun and Ghazali. However, this approach to establish an identity based on the *asabiyyah* concept of Ibni Khaldun or the use of standardized religion as an instrument to consolidate society, as proposed by Ghazali, had an opposite effect and caused Muslim societies to crumble further. Indeed, reference to the ideas of the classical thinkers was not the solution to the Muslim world's contemporary problems but was perhaps the deep-rooted reason for the Muslim world's decline. The Messenger of Allah said, as narrated in Abu Dawud:

He is not one of us who calls for Asabiyyah, or who fights for Asabiyyah or who dies for Asabiyyah.

Once, I received an email forwarded from an educated man because he was happy to see a citation of Ibni Khaldun

by a *New York Times* columnist. It is strange to observe such veneration regardless of the clear messages in the hadith and Qur'an against asabiyyah. Asabiyyah is the concept of group unity in pursuit of success in a competitive environment where, as Charles Darwin claimed, the "survival of the fittest" is detrimental. Asabiyyah can appear in ethnic, sectarian, religious, or geographic forms. Islam as a religion is a set of principles advised by the Almighty as a means for the salvation of humanity. The divine knowledge we received through the messengers of Allah indicates a life for the unity of humanity and harmony with nature. In order to achieve this unity and harmony, Islam prescribes strict "to-do" and "not-to-do" lists, unlike asabiyyah, which tolerates any act for the well-being of the group. Unfortunately, contemporary Muslim leaders and intellectuals chose the asabiyyah concept of Ibn Khaldun over the divine message delivered by Muhammad (PBUH). The result has been the growth of Islamic groups or Islamic political movements that have ultimately become either violent or have subverted Islam. The same mental fixation was reflected in economics and finance. Contemporary economic and financial systems in the Muslim world appear to replicate those in Western countries, except that they "wear a turban." Muslims inadvisably try to grapple with the Western world through asabiyyah-based courses; moreover, while doing so, they converge on the Western world because they use the same instruments for so-called defense and the internalization of wrongdoing.

It is unsurprising to observe such trends whereby Muslims, bit-by-bit, internalize the Western world's philosophy, and economic and financial system, while defying the West. The messenger of Allah said:

"You will certainly follow the ways of those who came before you hand span by hand span, cubit

by cubit, to the extent that if they entered the hole of a lizard, you will enter it too.” We said: “O Messenger of Allah, (do you mean) the Jews and the Christians?” He said: “Who else?”

Humans, whether Muslim or non-Muslim, do not deserve to enter a lizard hole. We live in a world where all countries implement the same economic and financial system and try to blame the problems caused by this flawed system to other groups inside or outside their countries. Islam recognizes traditional world religions, yet claims to be a higher version of the latest divine religion of the Almighty. Among other issues, it provides a blueprint for a healthy economic and financial system that is greatly needed to sustain unity and harmony among humans. The Almighty creates humans and wishes us to be happy and in love, with no hatred and no envy of others. Unfortunately, no matter how spiritual a person is, this approach to life is lost in the wrong economic and financial environment. Moreover, such an environment is exactly what is present today in the world. It is the mandate of Islamic economics and finance as a discipline to explore a novel system in the context of the contemporary world. However, the bulk of intellectual work on Islamic economics and finance adopts Western theories and inserts “Islamic” in front. Can we claim that the capital asset pricing model (CAPM) makes sense? If it does not make sense, why should Islamic CAPM do so? This approach also fundamentally contradicts the philosophy of Islam. Islam does not propose any kind of theory; instead, it has to-do and not-to-do lists. From these lists, we can design a blueprint of a sustainable economic and financial system because it is the wish of the Almighty to see humans employing their intellects to solve problems. Thus, this book’s purpose is to search for a blueprint and provide the to-do and not-to-do lists in the context of contemporary world issues.

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Part I: The Ship of Fools

"MAQASID AL-SHARI'AH"

*If there are any who scorn writing,
Or any who could not read it,
They will clearly see their own nature in the images
And in these will see who he is,
Whomsoever he might be, will see what he lacks.
I call this the fool's mirror,
In which every fool can see himself;
Who each is will be made known to he
Who looks in the fool's mirror.
Whoever reflects properly will soon learn
That he should not consider himself wise,
Should not believe of himself what is not the case,
For there is no-one alive who is not deficient,
Nor who may claim at all
That he is wise and no fool.*

Sebastian Brant (1494).

The *Ship of Fools* is a series of fifteenth century Western European satirical allegories by Sebastian Brant (1494) that depicts the common foolish attributes of Western Christians at that time. Why should such a work appear at the beginning of a book on Islamic economics and finance? Unfortunately, there are many similarities in the satires of the *Ship of Fools* with the contemporary Muslim World. Why should this be so? As Muhammad (peace be upon him [PBUH]) prophesized, Muslim *Ummah* (community) will follow the people of the book hand span by hand span and cubit by cubit; thus, the Muslim world is expected to present the characteristics of the fifteenth century Christian world because Islam appeared six centuries after Christianity. Those days of Western Christianity were characterized by bigotry, comprador religious clergy, economic chaos, social inequality, and significant internal and external armed conflicts. Soon after the Reformation, ideas and sectarian wars began in Europe with the intention of saving Christianity from some Christians. Western Christianity since then has covered a lot of ground; yet, serious human misery in the form of economic upheavals and violence in the form of wars have not disappeared. The failure of the financial and economic system in the early twenty-first century showed that humanity could still not find a sustainable system. Moreover, the flawed contemporary economic and financial system is reflected in violence and unhappy people. It is surprising to observe such failure, which has occurred regardless of scientific advancement. However, it has a cause: The governance structure of human society does not allow a major change in economic and financial advancement combined with an understanding of the Almighty's message about such advancement. Socrates pointed out this problem in the fifth century BC:

To answer that question, Socrates said, I must give you an illustration:

Suppose the following to be the state of affairs on board a ship or ships. The captain is larger and stronger than any of the crew, but a bit deaf and shortsighted, and similarly limited in seamanship. The crew are all quarreling about how to navigate the ship, each thinking he ought to be at the helm; they have never learned the art of navigation and cannot say that anyone ever taught it them, or that they spend any time studying it; indeed they say it can't be taught and are ready to murder anyone who says it can. They spend all their time milling round the captain and doing all they can to get him to give them the helm. If one faction is more successful than another, their rivals may kill them and throw them overboard, lay out the honest captain with drugs or drink or in some other way, take control of the ship, help themselves to what's on board, and turn the voyage into the sort of drunken pleasure cruise you would expect. Finally, they reserve their admiration for the man who knows how to lend a hand in controlling the captain by force or fraud; they praise his seamanship and navigation and knowledge of the sea and condemn everyone else as useless. They have no idea that the true navigator must study the seasons of the year, the sky, the stars, the winds, and all the other subjects appropriate to his profession if he is to be really fit to control a ship; and they think that it's quite impossible to acquire the professional skill needed for such control (whether or not they want it exercised) and that there's no such thing as

*an art of navigation. With all this going on aboard aren't the sailors on any such ship bound to regard the true navigator as a word-spinner and a stargazer, of no use to them at all?*¹

Socrates was found guilty of corrupting the youth of Athens and was sentenced to death; however, his teachings on governance are still valid. The ship depicted by Socrates would sink in the first strong storm; indeed, this is what has happened throughout history. Whether a country is a democracy or a monarchy does not change the result as long as humans fail to learn and achieve a greater degree of understanding about good governance. Such understanding is one of the propositions of Islam as a religion. Islam does not propose or oppose a democratic or monarchical system; instead, it provides to-do and not-to-do lists. The Almighty gives an example of a recruitment process checklist for Moses (PBUH) in the Qur'an:

*One of the daughters said: Father, hire this man.
The best that one can hire is a man who is strong
and trustworthy.*

– 28:26 –

The Almighty also indicates the golden rule for leadership selection and/or appointment in Islam as:

- (1) Trustworthiness
- (2) Merit.

With regard to Moses (PBUH), his particular merit for shepherding was his strength. With regard to technical professions in the contemporary world, the particular merits would involve undertaking suitable education in the appropriate subjects and adequate training. Here, we obtain the first rule

in the table of the to-do as opposed to not-to-do lists: respectively, merit and trustworthiness as opposed to *asabiyyah* in the category of governance.

1.1. MAQASID AL-SHAR'IAH: THE PURPOSE OF DIVINE RULES

It was Ghazali, and the contemporary work of Umar Chapra on the work of Ghazali, which depicts a chart for *maqasid al-shari'ah*: the protection of the human self (*nafs*), wealth (*mal*), faith (*din*), posterity (*nasl*), and intellect (*aql*).² There is no need to follow this chart; however, because it was supposedly taken from the Qur'an, there is also no harm in using it while elaborating on the purpose of divine rules. Even so, it is important to note that this interpretation of *maqasid* seems to stipulate, to some extent, the means to achieve *maqasid* and yet can conflict with *maqasid*.

*The Day when nothing will avail, neither wealth
nor offspring, but only he that brings to Allah a
sound heart will (attain to success).*

– 26:89 –

According to the Qur'an, the ultimate purpose of *maqasid* is to have humans with “sound hearts” or *qalb-i selim* (قلب سليم). What is a sound heart? It is a heart that is directly connected to Allah; moreover, such a connection is only possible if there is no hatred, envy, and oppression of others. There should also be love but not fanaticism.

Eric Hoffer, in his book *The True Believer* published in 1951, argues that mass movements are interchangeable regardless of their stipulated goals and differing values.³ The followers of a mass movement can change their adherence to another because radical or revolutionary movements,

being nationalist, religious, and social, present similar behavioral patterns and use identical rhetorical tools and the same tactics. Social psychology proposes two facts about social movements if there is no “sound heart.”

- (1) People will move from one fanaticism to another: from communism to religious extremism or from drugs to the Islamic state.
- (2) Even if they claim they are Islamic, people will act against the strict rules of Islam in the name of Islam based on their poor judgment. Such radical or reactionary movements imitate the opportunistic nature of other wicked movements.

The people in these types of movements are on board the ship of fools for their final destination: the fools’ paradise, *Narragonia*. The Almighty does not want humans to sail to *Narragonia* but encourages us to use our intellects to solve our problems and progress. Humanity keeps repeating the same blunders, with minor changes, in the name of communism, capitalism, and religious ideologies for two reasons.

- (1) The *asabiyyah*-based understanding of human society. Islam strongly condemns *asabiyyah* and provides a code of conduct. Islam is a principle-based religion; *asabiyyah* is not. If we develop Islamic understanding based on identity and not principles, the result will be similar to another communist or capitalist experience, or wicked empire of oppressors.
- (2) An unsustainable economic and financial system. Humanity has not been able to develop a sustainable economic and financial system that is not the cause of upheavals and the reason for the collapse of states.

There is a vicious circle: revolution, the establishment of new structures, the failure of existing structures, and new revolutions or war.

The fundamental problem is the first reason. If we have a sound understanding of *asabiyyah*, or an identity-based understanding as opposed to a principle-based understanding of religion, we can extract a useful blueprint from the five classical pillars of *maqasid al-shari'ah* to address the *asabiyyah* by developing a sustainable economic and financial system.

Islam does not propose either communism or capitalism. Instead, it encourages a fair distribution of resources and the empowerment of people so that no tyranny in the form of a communist dictatorship, capitalist despotism, or any other form of autocratic establishment can flourish. For example, the protection of *nafs* translates into contemporary human rights and includes the rights of property ownership and inheritance, freedom of entrepreneurship, fair trade, and, most importantly, the certainty of the legal system to assure these rights to protect individuals (*nafs*). Disastrously, in the history of Islam, *maslaha* opened up the doors to irrevocable decomposition. For instance, the right of inheritance is clearly acknowledged in the Qur'an; yet, the rule of Allah was rescinded under the pretext of *maslaha* with the purpose of preventing alternative power centers in society to emerge with capital accumulation. Unfortunately, the confiscation of inheritance by the state started at the early stages of Islam and was implemented arbitrarily without legal certainty. The system was then institutionalized by the Ottomans in the name of *musadara*. The result was a lack of capital accumulation and investment in the Muslim world that substantially contributed to its decline.

Without going into the details of Islamic jurisprudence or attempting to defend any criticism, it should be noted that what matters in a legal system is certainty. All large states in the history of humanity, starting from Babylon to Greece, Greece to Rome, and from Rome to Muslim states and the British Empire, had one thing in common: They established legal systems that were omnipresent and had legal certainty (in other words, the same result for the same case was assured whoever was involved). The decline of such states began with the deterioration in their legal systems.

A grisly Wolf carried off a sheep from the fold into a retired nook in the forest not from hospitality, one may well suppose. The glutton tore the skin off the poor sheep, and began devouring it so greedily that the bones cracked under its teeth. But, in spite of its rapacity, it could not eat it all up; so it set aside what remained over for supper, and then, lying down close by it, cuddled itself together at its ease, after the succulent repast.

But, see, the smell of the banquet has attracted its near neighbor, a young Mouse. Between the mossy tufts and hillocks it has crept, has seized a morsel of meat, and has run off quickly to its home in a hollow tree. Perceiving the theft, our Wolf begins to howl through the forest, crying, "Police! Robbery! Stop thief! I 'in ruined! I have been robbed of everything I possessed!"

Just such an occurrence did I witness in the town. A thief stole a watch from Clement, the judge, and the judge shouted after the thief, "Police, police!"

I. A. Krylov⁴