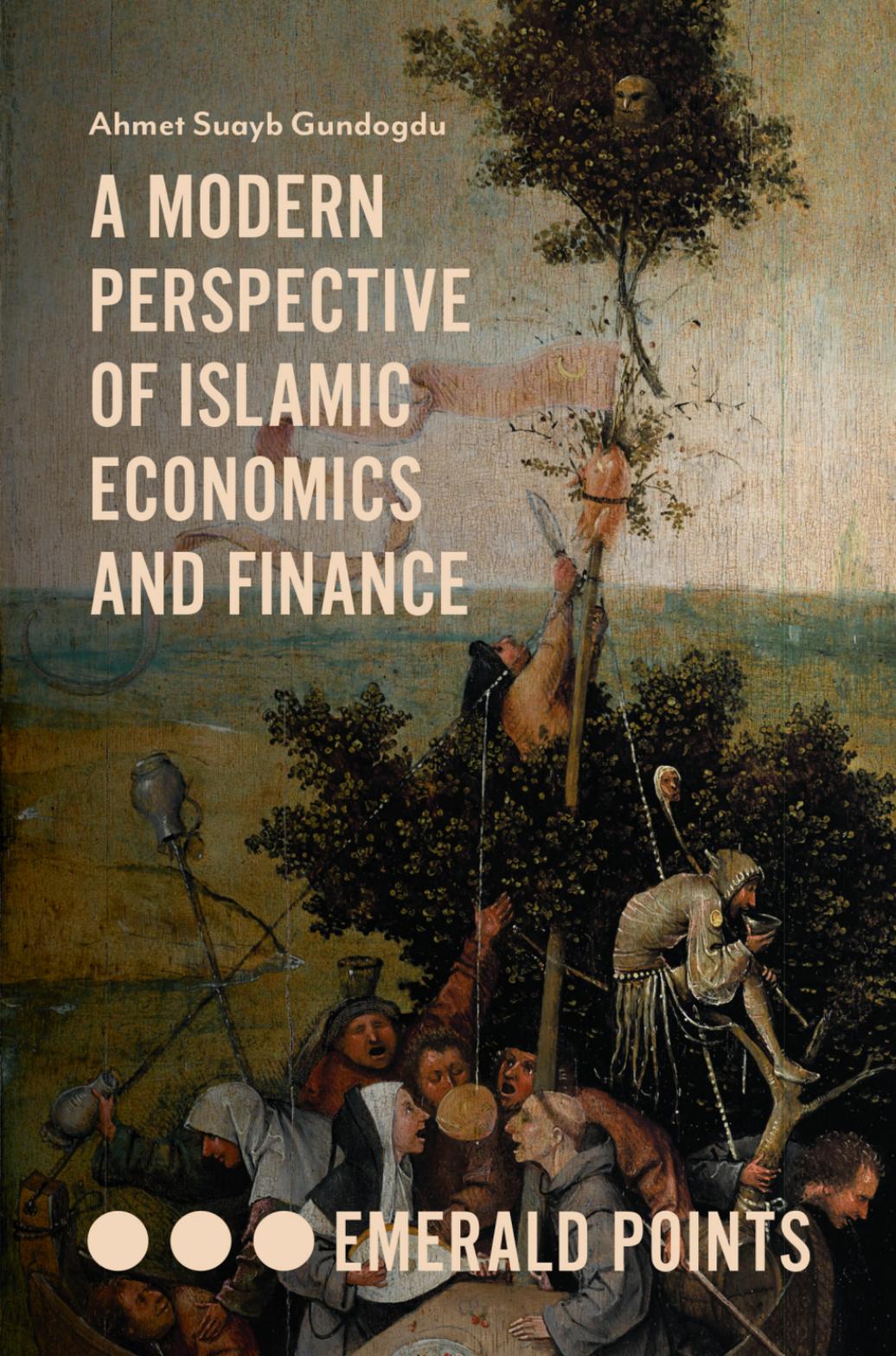


Ahmet Suayb Gundogdu

A MODERN PERSPECTIVE OF ISLAMIC ECONOMICS AND FINANCE

● ● ● EMERALD POINTS



A MODERN PERSPECTIVE
OF ISLAMIC ECONOMICS
AND FINANCE

This page intentionally left blank

A MODERN PERSPECTIVE OF ISLAMIC ECONOMICS AND FINANCE

BY

AHMET SUAYB GUNDOGDU

Istanbul Zaim University, Turkey



United Kingdom – North America – Japan – India
Malaysia – China

Emerald Publishing Limited
Howard House, Wagon Lane, Bingley BD16 1WA, UK

First edition 2019

Copyright © 2019 Emerald Publishing Limited

Reprints and permissions service

Contact: permissions@emeraldinsight.com

No part of this book may be reproduced, stored in a retrieval system, transmitted in any form or by any means electronic, mechanical, photocopying, recording or otherwise without either the prior written permission of the publisher or a licence permitting restricted copying issued in the UK by The Copyright Licensing Agency and in the USA by The Copyright Clearance Center. Any opinions expressed in the chapters are those of the authors. Whilst Emerald makes every effort to ensure the quality and accuracy of its content, Emerald makes no representation implied or otherwise, as to the chapters' suitability and application and disclaims any warranties, express or implied, to their use.

British Library Cataloguing in Publication Data

A catalogue record for this book is available from the British Library

ISBN: 978-1-78973-140-8 (Print)

ISBN: 978-1-78973-137-8 (Online)

ISBN: 978-1-78973-139-2 (Epub)



ISOQAR certified
Management System,
awarded to Emerald
for adherence to
Environmental
standard
ISO 14001:2004.

Certificate Number 1985
ISO 14001



INVESTOR IN PEOPLE

“My Lord, increase me in knowledge”

– 20:114 –

This page intentionally left blank

CONTENTS

<i>List of Figures and Tables</i>	<i>xi</i>
<i>Preface: Lizard Hole</i>	<i>xiii</i>
Part I The Ship of Fools	1
1.1 Maqasid Al-Shar'iah: The Purpose of Divine Rules	5
1.2 The Role of Islamic Finance in Maqasid	10
1.3 Moral Hazard	14
Part II The Milkmaid and Her Pail	25
2.1 The More Probable Origin of the Monetary System	26
2.2 Inflicting Pain on Youth	34
2.3 The Scruples of Islamic Money Creation	38

Part III	Caravan	55
3.1	Infant Industry	60
3.2	A Tale of Two Cities: Singapore and Hong Kong	62
3.3	Random Walk Versus Islamic Reasoning	65
Part IV	Eleven Rounds	73
4.1	Financing Working Capital	75
4.2	Regulation and Supervision	84
4.3	Liquidity Management	89
Part V	Conquistador	97
5.1	Introduction to the Untold Story of Sukuk	98
5.2	How Expandable Is Sukuk for Liquidity Management?	106
5.3	Resolution of Dissolution for Islamic Capital Markets	109

Contents	ix
Part VI The Miser	119
6.1 Poverty Alleviation	123
6.2 Complementary Currency as an Anti-venom	129
6.3 An Islamic Monetary System Based on Fair Trade	133
Part VII Except by Taqwa	139
<i>Bibliography</i>	141
<i>Appendix: To-Do List and Not-To-Do List</i>	149
<i>Index</i>	155

This page intentionally left blank

LIST OF FIGURES AND TABLES

Figures

Fig. 1.	Pillars of Islamic Finance Product Development.	18
Fig. 2.	T-bills, Money Creation, and the Public Finance Problem.	33
Fig. 3.	Commodities Map of the Roman Empire.	39
Fig. 4.	Islamic Microfinance as Practiced by Some Microfinance Institutions.	47
Fig. 5.	Islamic Working Capital Finance Contracts.	75
Fig. 6.	Transaction Flow for Islamic Export Financing.	80
Fig. 7.	Two-step Murabaha.	83
Fig. 8.	Sukuk and Oil Prices.	101
Fig. 9.	Islamic Electronic Trading Platform.	110

Fig. 10.	Licensed Warehousing and Electronic Warehouse Receipt.	126
Fig. 11.	Creating Complementary Currency in Microfinance	131
Fig. 12.	Electronic Trading Platform for Microfinance.	134

Table

Table 1.	Return on Infrastructure Sukuk.	132
----------	---------------------------------	-----

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.