

ISLAMIC FINANCE IS READY TO DRIVE A STATE'S ECONOMIC SYSTEM?

The Muslim Debate-UK is a public debate forum of MUSLIM Institute. The Institute is a non-governmental, non-political and not for profit organisation that publicises research and advocacy on issues pertaining to Stability, Leadership and Unity within the Muslim world.



PREFACE

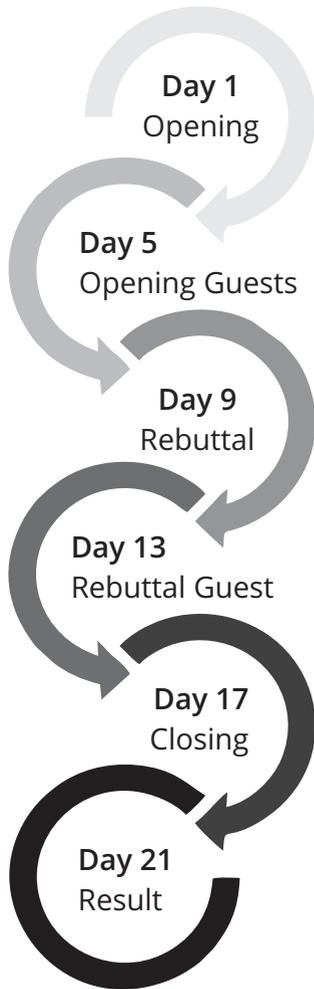
This mini book is an outcome of the one of the thoughtful debate held in 2014 organised by The Muslim Institute. Many have been requesting for a published version of my defending motion to the topic which inspired me to deliver this with all due respect to Professor Habib Ahmed and the organisers.

The Muslim Debate is a public debate forum of MUSLIM Institute. The Institute is a non-governmental, non-political and not for profit organisation that publicises research and advocacy on issues pertaining to Stability, Leadership and Unity within the Muslim world. The first debate was “Islamic Finance is ready to drive a State's economic system?”

HOW THIS DEBATE WORKS?

The Muslim Debate forum embraces the famous Oxford style debate which has been practiced over the years by heads of states, intellectuals of the highest caliber and renowned scholars throughout the world. The scheme revolved around a statement which is defended and opposed in a contest held and supervised by a moderator. Both the defense and opposition side consists of a single person each who is considered to be an expert on the issue at hand. From time to time we will also invite guests to comment on the agenda, not to take sides but to contribute from their experience on the subject matter.

The readers are welcomed to follow the stages through opening, rebuttal and closing to be able to vote for or against the motion. However, the voting system is not restricted and the readers are encouraged to vote as many times as they change their mind. As a reader you can also put forward your opinion by sending your comments to the moderator who will then single out the most captivating ones for discussion on the forum. The comments should be relevant to the motion, arguments by speakers and remarks given by featured guests.



Day 1
Opening

The debate starts with moderator's and debaters' statements and remarks

Day 5
Opening Guests

First Featured guest joins the debate to comment

Day 9
Rebuttal

Moderator and debaters provide rebuttal statements and remarks

Day 13
Rebuttal Guest

Second featured guest joins the debate

Day 17
Closing

Both debaters and moderators provide closing remarks

Day 21
Result

Moderator concludes the debate



Muath Mubarak



Asim Faheem



Dr. Gerhard Böwering

Islamic Finance

Islamic Finance is ready to drive a State's economic system?

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ENTER THIS DEBATE



Moderator
Asim Faheem
Research Associate, MUSLIM
Institute



Defending the motion

Mr. Muath Mubarak
Head of Finance - First Global
Group, Sri Lanka



Guest

Dr. Gerhard Böwering
Prof. of Religious and Islamic
Studies - Yale University, USA

Believe this mini book will enlighten on certain aspect of Global Islamic Economy. This book consists only the defending motion texts with moderator's remarks. The full debate text with guest's comments available at <http://www.themuslimdebate.com>





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Throughout the years, the Islamic Economic system has proved itself to be a more efficient system than other economic systems. Business communities conducted trade based on its principles for thousands of years across the world. It was an integrated system, economically and socially, which supported growth and development in an environment of social justice and fairness

Vice President and Prime Minister of the UAE and Ruler of Dubai His Highness
Sheikh Mohammed bin Rashid Al Maktoum

Source: <http://www.emirates247.com>



- ASIM FAHEEM

Islamic Finance has seen a massive growth in today's transforming global economic environment. One of the vital elements to this impressive change and development can be witnessed in the global financial crisis of 2008 where Islamic financial institutions have managed to not only sustain but expand over the coming years. With above; 400 Islamic financial institutions now operating in more than 75 countries both Muslim and non-Muslim countries; with assets ranging from \$1.5 to \$2 trillion Islamic finance has become an important influence on the global financial stage.

Islamic financial assets have grown from 2008 to 2012 at a Compound Annual Growth Rate (CAGR) of 19.5% per annum and according to market consensus, total Islamic banking assets are expected to reach \$6.5 trillion by 2020. Some of the main growth drivers include (1) the increasing number of industry players, particularly new jurisdictions, (2) introduction of regulatory reforms, (3) incentives and various government-sponsored initiatives to establish Islamic financial services in various markets, and also (4) an increase in the range of Shariah-compliant products and services.

By region, total Islamic financial assets are focused in the Middle East and Asia and remain heavily concentrated on Islamic banks. Aside from Iran and Sudan, which remain the top two countries in attaining the maximum Islamic Banking Market Share by Jurisdiction, other states such as Kuwait, Qatar, Saudi Arabia, Bahrain, UAE, Bangladesh and Malaysia are currently the main markets where Islamic finance has a systemic importance due to its increasing market share of Islamic financial institutions operating within respective dominions.

Pakistan, Turkey and Indonesia, amongst others, are also harboring an emerging Islamic finance market that has yet to capture a significant market share to make them systemically important to the overall financial system in each respective jurisdiction. These markets, however, are rapidly expanding and therefore should be nurtured to ensure that they become instrumental in enhancing the qualitative aspect of the Islamic financial sector, while also recognizing that their growth trajectory could make them potentially important in the coming future.

Being the first non-Muslim country to host the World Islamic Economic Forum in 2013, the United Kingdom has been providing Islamic Financial Services for over 30 years and Government policy over the last decade has a fiscal and regulatory framework that encourages the growth of Islamic Finance globally.

This can be witnessed when the UK Prime Minister David Cameron announced last year his plans to create a £200m Islamic bond or Sukuk by early 2014. But London is not the only aspiring western centre in the race, Luxembourg, Hong Kong and South Africa are now also competing with the UK to become the first non-Islamic country to issue a sovereign Sukuk to make themselves stand out in the emerging global financial market.

The growth of Islamic finance, however, has its own challenges. One of many, includes the most talked upon by Muslim critics about the nature of Islamic finance. Some feel it is merely a means to give the conventional finance a disguise of Shariah, following the letter of Islamic law rather than its true spirit. Additionally industry experts argue that Islamic finance has occasionally comprised its basic principles in its effort to grow. Furthermore, there are challenges which are associated with retail banking. Western banks have also withdrawn after probability disappointment. Most surprisingly, HSBC, which massively assisted in leading the industry's growth, decided to cut back its Shariah-complaint Amanah arm in all countries except Saudi Arabia and Malaysia two years ago.

Restricted mostly to their home markets for decades, many Islamic banks have become self-satisfied. This factor is also seen as one of the issues faced by Islamic financial sector today as Islamic banks need to dismiss this self-satisfaction and develop new ways of understanding their own capabilities in order to enter new competitive markets.

Despite these setbacks, we've seen that Islamic finance has continued to grow and expand over the years. However, the questions still remain as to if Islamic finance is mature enough to be implemented as a State's economic system? Or is it quite not ready yet to drive one? What are the other important challenges faced by Islamic finance keeping it from being a State's economic system? Can it survive as one while those challenges being present at the same time?

Thus, these are some of the unanswered questions to which we shall see what our debaters have to say and eventually find answers to.

- MUATH MUBARAK

In today's modern contemporary business world there are few things which keep our mind busy & buzzed to find out the solutions. The solutions have been given by the ultimate divine guidance starting from the individual's day to day life to drive a state's economy system. Many states are facing the common difficulties in their economies even though the size and nature is little varied. These issues include starting from poverty as starving kids, suiciding

farmers, stressed professionals to the government budget deficits. Also, non-availability of viable infrastructure, continuation of city slums, malnutrition foods for the citizens, no pure water to drink, no basic education for children, no safe electricity for the households and businesses, under-developed health sector, limited jobs, inefficient taxation, increasing wealth imbalance, influence of immoral investors, extreme individualism and ultra-consumerism are the modern business philosophy followed by the mass, inculcating unethical cultures and practices via money centric business, domination of monopolies, macro & micro economic policy implementations – these are the few important issues of the state's economic system is challenged by.

On the other hand, why people are complaining about the cost of living every day? Why we have to pay tax in an increasing trend? Have you ever wondered why the same currency is having the less purchasing power over period of time? Why the government should borrow money every time? How the government is utilizing it and repaying it? Why we have more money supply or printing money very frequently? Why every 3-5 years there is a financial crisis to the whole world or in a region?

Every decade has been marking the financial crisis and every year has been making the next financial crisis to the world to experience. In 1982s we had the debt crisis mainly due to the inability of developing countries to settle their debts, 1997s Asian financial crisis accompanied by the foreign exchange market and 2007 / 2008 – the global financial crisis experience to the world even though it started in USA.

A clear evidence of the chain reaction and bursting of credit bubbles. Many think tanks and experts have been trying their best to navigate the worst financial crisis since the Great Depression, from boom to bust to rescue to recovery and making the hard choices and politically unpalatable decisions to have some quick fix and repair a broken financial system and prevent the collapse of the Main Street economy. All the financial crisis tell us the one common story that number of developed nations have got the art of making the money at the cost of the developing nation based on their greed and unsound economic policies to drive the country.

All of these issues will be continued until the Islamic finance system is implemented fully as it is the ultimate economic system to cure the ill economies and enjoy the sustainable growth of the state.

Islamic Finance is not a new concept nor a new religious sentiment product introduced to the world in 1960s. Now, Islamic Finance has become a vital system and significant player to be ignored by the current financial system that's why even the giant traditional banks have got their Islamic units. The Islamic finance system is getting widely accepted and embraced by many economies mainly because of the richness of Islamic Finance in its moral, ethical and social aspects of the transactions. Islamic Finance is all about equity, risk-reward sharing and stake-taking with the principle of variable returns based on actual performance and productivity of the underlying projects or assets. This is the norm of applicability of Islamic Finance whether it is for an individual, corporate or government level micro / macroeconomic policies.

The main distinct from the capitalist approach is where the whole economy is geared to make money by manipulating, managing and creating economic bubbles out of thin air and ultimately leading to unjustifiable inequality in the distribution of income and wealth of the economy. This is evidenced by the recent (Jan 2014) Oxfam international's research findings where it has revealed that 50% (3.5 billion people) of the world's population's wealth has been held by 0.000001% (85 people). This is clear evidence where few have been enjoying the labour of the half of the world. But the whole Islamic economy vision is based on equity based which is a revolutionary departure from a conventional system which is a call for a new approach to the economy.

Governments require huge amount of money in creating the sustainable economy and maintain the law in order. This becomes a vital issue especially in the developing nation and hence results in budget deficit as a chronic problem for many economies. The mismatch between the government expenditure and tax & non-tax income is always bridged by the international monetary organizations financing with soft / normal / abnormal / emergency conditions. The public expenditure is too much or revenue is too little is the biggest reason for this mismatch. Islamic finance provides the beautiful solution to solve this.

Islamic finance is entrepreneur and business friendly where it nurtures the talents, new ideas, creative thinking, excellent skills and opportunities in a just, honourable and sustainable manner without exploitation, moral degeneration, social tensions and inequalities. Islamic economic system is not mere a money making system rather it has been built with the ethics and morals as an integral part of the economic transaction and arrangements. This protects the fabric of the citizens. Islamic economy will not entertain any prohibited, immoral, unethical business such as gambling, casino, night clubs, pornography, adult entertainment, alcohol, wine, drugs, indecent ads and any other product or business which will have negative influence to the society even though it gives billion dollar return but these are the most welcomed businesses in the countries under the brand of country development, boosting tourism and getting foreign income for the country's economy which is fueled by the conventional banking and finance system.

It is noteworthy that US Dollar which is the only currency carries the slogan of "In God We Trust" but when it comes to how to earn, spend & distribute dollars – the God made laws are out of the picture and human developed systems are implanted & influenced over period of time which shows the materialistic worldly life. But Islamic finance place the Islamic principle first before any other benefits or returns.

The global financial crisis was an open invitation for the world economists to admit that there were some systemic errors in the financial world which is currently blowing up every time from different nations. There are different suggestions put forwarded by many economic experts to have some quick and temporary fix where those are still testing and trying.

We all are burning to change the financial landscape of the countries which will have more surveillance and auto proof for the upcoming problems. To create a stable and sustainable economy, we will have to shun all the evil practices which has brought us to this situation today. In order to solve the financial distress in the countries - the only solution is to implement the divine economy system as it has got the guidance from our creator. There is no second thought as whether it is ready to drive a state's economy but in fact Islamic economy was dominating during the Islamic civilisation period in the world.

Since Islamic Finance has got the richness of leading the state's economy, former Pope to the many country leaders have been advising and also aspiring to implement the Islamic finance as fast as possible for their countries to cure and care considering the future generations whilst enjoying the moral, ethical and social dimensions of every.

Islamic Finance

Is Islamic Finance ready to drive a State's economic system?

REBUTTAL DAY ON

Tuesday 10 June 2014

- ASIM FAHEEM

On June 3rd, at 5th Annual World Islamic Banking Conference Asia Summit taking place in Singapore, challenges as well as bright prospects of Islamic Finance were discussed by renowned personalities in the field. Likewise, our debate is proving to highlight those challenges and potential prospects of Islamic Finance.

Mr. Muath Mubarak, by highlighting the effects of global economic crisis 2008, believes that implementing Islamic Finance as a state's economic system is the only way one country can avoid such foreseeable challenges. He stresses that Islamic Finance is not at all a new concept, rather it's a very significant element in today's financial world, one of the reason being why the non-Muslim countries are introducing it day by day. Moreover, he explains that the mismatch between government expenditure and tax/non-tax income is one of the main challenges to the current financial system which, he thinks, results in either too high public expenditure or too low revenue. Mr. Mubarak believes that Islamic Finance is the best solution to this mismatch as it "...is not mere a money making system rather it has been built with the ethics and morals as an integral part of the economic transaction and arrangements".

On the other hand, going against the motion, Prof. Habib Ahmed believes that Islamic Finance is not yet ready to be implemented as a state's economic system. To back up his view, Prof. Ahmed sheds light on two levels which contemporary Islamic Finance faces difficulty at, first being foundational and the other legal. Highlighting the challenges on foundational level, he says that "other than fulfilling the legal requirements, an Islamic financial system should also cater to the developmental and social needs of a society." Moving on towards the legal perspective, he talks about the most raised predicament of Islamic Finance, that is, the Shari'ah requirements being diluted. Moreover, Prof. Ahmed raises concerns on the direction which industry has taken. He believes, "an Islamic financial system should have diverse organizations serving various financial needs of all in the society." Ending the statement, Prof. Ahmed alarms about the trust that is on stake for Islamic Financial system in the future.

As it stands, the voting statistics remain pretty close, with only 54% of those who have voted side with Mr. Mubarak's views. However, our commentators have weighed in heavily on both sides of the argument.

Highlighting the challenges related to insurance aspect of Islamic Finance, M. Umar asks, "If Islamic finance does get to drive a state's economic system, can it be a substitute to the current insurance model that is being used by the conventional financial systems? All trade between countries require insurance in place, how will Islamic finance provide a solution to keep running the existing trade with conventional economies?"

Mr. Ismail also shares his concern over existing financial commitments when he enquires that "...if let's say Islamic Finance does get implemented as a state's economic system, what will happen to the existing financial commitments? For example, if one state has a trade deal of more than 20 years with another state, and during this time span if that country decides to opt for Islamic economic system, what will happen to the existing terms of the deal, including interest?"

Others disagree, "...every new and aspiring system, not just within the financial world but rather in every aspect of global economy, faces challenges and difficulties. Therefore, is it really necessary for Islamic finance to get fully matured first and be provided as a substitute to all other conventional financial services? Why cannot it be implemented whilst these challenges persist? Can it try to evolve itself and overcome these challenges after being applied on a larger scale? How can one know that there won't be any more challenges to 'fully matured' Islamic finance after being implemented as a state's economic system?" says Idrees Fakhri. TUESDAY , 10 JUNE 2014 Zara also supports this opinion by saying "There are countries that have been practicing Islamic finance. The maturity of this system can be seen by such examples. Had this system been not mature enough or not successful or been risky to considerable levels then by no means and those states and even its public would have allowed and accepted it." This view is also shared by Mr. Wajid Ali in his thoughtful input.

As the debate enters into rebuttal stage, we look forward to another phase of lively and insightful discussion. Let's see what our debaters have to say further about their counterpart's arguments as well as audience's comments in their rebuttal remarks.

-MUATH MUBARAK

Firstly, let's understand that the modern Islamic Finance practices existed in the world for the last three decades only, even though the origins of Islamic Finance principles and transactions can be traced from the Islamic era over 1400 years ago. Conventional financial system has been imposed to the world for the last three centuries merely for the political & money power. The existing traditional financial system (capitalist, socialist and mixed economies) has brought many calamities to the world. By knowing this economic system is an evil one, many have commented and strongly opposed when it was introduced itself. I would like to recall the statement of the third president of United States of America, Thomas Jefferson when he said "Banking establishments are more dangerous than standing armies" (Letter to Elbridge Gerry, Jan. 26, 1779).

Few more wise quotes about the current financial system:

"... if you want to continue to be the slaves of bankers and pay the cost of your own slavery, then let bankers continue to create money and control credit" Sir Josiah Stamp, president of the Bank of England and the second richest man in Britain in the 1920's, speaking at the University of Texas in 1927.

"All that we have borrowed up to 1985 or 1986 was around \$5 billion and we have paid about \$16 billion yet we are still being told that we owe about \$28 billion. That \$28 billion came about because of the injustice in the foreign creditors' interest rates. If you ask me what the worst thing in the world is, I will say it is compound interest" Obasanjo, Former President of Nigeria (Soon after the G8 Summit in Okinawa, 2002)

"Stunning 35% to 40% of everything we buy goes to interest. This interest goes to bankers, financiers, and bondholders, who take a 35% to 40% cut of our GDP. That helps explain how wealth is systematically transferred from Main Street to Wall Street. The rich get progressively richer at the expense of the poor" Professor Margrit Kennedy (Occupy Money – 2012 Edition)

According to Wikipedia & Pew Research Center, Christianity & Islam are accounted for 54% of the total population. The original scriptures of both the religions are prohibiting the interest in a very strong order:

"Do not charge your brother interest, whether on money or food or anything else that may earn interest" (Deuteronomy 23:19)

“Allah has allowed trade and prohibited Riba” (Al Quran 2:275)

If we are to follow our religions in a disciplined manner and taking the preaching to our financial matters, we cannot deal with interest in the world as per more than half of the population's religious scriptures. This demands to nullify the current financial system in the world and requires to implement an interest free financial system. Islamic finance is not entertaining the interest/usury and also all the other prohibited activities and items as per Islamic principles.

Islamic finance principles are universal and applied under all circumstances. According to the Financial Management magazine (Issue February 2014), USD 246 Billion was the total payout agreed by the US's five largest tobacco companies in 1998 to end a case brought against them by the attorney-general of 46 states under the so-called master settlement agreement.

Browns & Williamson, Liggett, Liggett & Myres, Lorillard, Philip Morris and RJ Reynolds were obliged to pay USD 246 Billion over the course of 25 years ending in 2025. Any negative influence products, items or business activities which will bring negative/bad impact to the society have been prohibited completely in Islamic Finance. TUESDAY, 10 JUNE 2014 Even though the two slaughtered chickens are looking the same, based on the slaughtering and processing method one is becoming 'Halal' and the other one is 'Haram'. In a similar way, just merely looking at the financial end result of two transactions, we cannot simply endorse saying that Islamic Finance is mimicking the conventional counterpart. Both are having major differences in all the deals and transaction.

This is easily understandable if we have the willingness to have a closer look at the transactions and deals. We shouldn't be carried away based on the end financial impact rather we have look into every aspect of the transactions.

Most of the conventional banks are having the Islamic windows and units for different purposes including keeping up the Muslim customers or getting hold of the Oil & Gold money, do the big deals, get commissions only and many more reasons. Most of the industry stakeholders have been stunned to see the HSBC cut back its Shariah-complaint Amanah arm in all countries except Saudi Arabia and Malaysia two years ago. Meanwhile we have to note that these two countries alone accounted for more than 25% of the total global Islamic banking & finance assets as per the Global Islamic Finance Forum (GIFF -2012) report.

It is noteworthy that HSBC has its own challenges as a banking group and also they have been fined USD 1.9 Billion for not preventing money laundering and many other things. So we cannot take HSBC or any other individual bank's decision as the challenge for the entire industry. Nowadays, there are more than 15 international organizations including two international standard setting organizations working on to bring the universal harmonization and standardization to have the Islamic banking & finance as the global financial system.

There is an emergency call for the Islamic Finance to stop the crimes what the other international monetary organizations and powerful governments are doing for the developing nations. In fact, this action should be taken by every individual. U2 Bono, Irish pop star did an inspiring initiative for many of us to ponder and take immediate actions at our own personal level. He collected 21 million signatures throughout 155 countries against the Third World countries debts and interest payments to be waived off by International Monetary Funds & World Bank during 2002. This signature petition was handed over to the former General Secretary of UN, Kofi Annan to make necessary actions. This was underserved in the Millennium Goals of UN. So it is not only Islamic Finance's responsibility to stop the financial crimes what's happening in the world, rather it is everyone's task to protect the communities & countries from evil financial dealings. The replacement of Islamic economy will eradicate all these nature of slavery, burden and unnecessary influences for the other economies whilst ensuring the equitable wealth for all.

There is a misconception that Islamic finance is catering only to the upper segment of the people and never taking care of the poor. This is merely a whisper and misconceptions by a group of people those who are trying to show a tunnel vision to the other people. Islamic finance is encouraging the people those who are not having the money or wealth to contribute their skills for the economic value addition. There are special programs to take care of the poor. Namely few of those are implemented with the underlying concept of Qard-Al-Hasan (Beautiful Loan), Joint venture model business (Musharaka & Mudharaba), Voluntary charities (Sadaqa), Mandatory Charities (Zakat), and many others. There are specialized Islamic banks to carry out micro finance/credit and Takaful to take care of poor with the pure sense of elevating them to the next level.

In certain region, the Islamic banks are carrying out the Islamic Micro Finance activities and in some other regions there are specialized companies/banks to do this task. It is noteworthy, the Islamic Development Bank – KSA is carrying out many Islamic micro finance activities throughout the world regardless of religion. Also, Bahrain's Family Bank was established as the first Islamic micro-finance bank in the Middle East with the prime objective to contribute to poverty alleviation and socio-economic empowerment of the communities it serves through the provision of sustainable Islamic financial services to the needy.

Sukuk was under the spot light when the global financial crisis has been hitting every country. Many started to structure the Sukuk with and without the full knowledge and exposure of it. According to the Global Sukuk report 2013 of Zawya, there was drop in the Sukuk in 2008 to USD 20 Billion from USD 39 Billion in 2007. This was due to the comment of Dr. Moulana Taqi Usmani regarding the Sukuk stating that more than 80% of the Sukuk was not according Sharia. This has been endorsed and accepted by all the stakeholders during 2007/2008 and inspired Sharia scholars and industry experts to work on the standards. Also, this was an awakening call to AAOIFI to come out with the standards in late 2008 for 14 different types of Sukuk.

The same report indicates since 2009, there is a steady growth of Sukuk. In 2012, it has reached up to USD 110 Billion and it is growing with steady annual growth rate. TUESDAY , 10 JUNE 2014 Islamic banking & finance includes many sectors including the Islamic funds and Takaful (Islamic insurance). Nowadays, every business and individuals require Takaful policies for various reasons including mitigating the business risks. Takaful has been structured under different models including Mudharaba, Wakala, Waqf and hybrid models depends on the country's regulatory frameworks and the Takaful operator's risk appetite. There are many differences between conventional insurance and Takaful. As of 2012, Takaful has been accounted only for 1% of the total asset size of USD 1.6 Trillion in 2012 according to Zawya and Bloomberg.

Every baby will be crawling, falling down, walking, running and it will get matured enough to be self-sufficient in its own time and space. In a similar way any business or financial system will have its own life cycle to evolve over period of time and ultimately to become the strongest system. With regards to Islamic finance, the maturity level is varying in different countries.

The major Muslim countries have matured enough to implement full and enjoy the benefits of Islamic economy system whilst protecting the fabric of its community and current international trades and contracts. It is noteworthy that in early 2014, the State Bank of Pakistan appointed Moulana Dr. Taqi Usmani as a Sharia Council leader to convert the entire conventional banking system to Islamic banking system whilst in late 2013, Mr. David Cameron, the PM of UK announces the aspiration to become the Islamic Finance hub to the European region. Most importantly, the ruler of Dubai, Shiekh Mohammed declared willingness to support and implement the fully fledged Islamic Economic system in Dubai.

Islamic economy not only based on Islamic Banking & Finance rather it is based on food, tourism, media, pharmaceutical and education. These current leaders are showing more and more interest to implement Islamic finance for their economy by knowingly the system will bring the benefit for the entire nation. Otherwise, the former Pope could have not announced during 2009 stating that Islamic Finance has ethical principles which bring the customers closer to the bank in a true spirit of the financial deals and also the 12 year old Canadian girl will not be calling off the deals with the conventional banks.

Those who believe and love this Islamic Finance industry are raising their concerns regarding the current issues in hand and the direction of the industry with only one aim, which is to make this industry as the global ultimate economic system with sustainability, equity and justice for the world. This should be looked at very positively. Survival and strong surveillance during the global financial crisis in 2009 itself is an endorsement to say that Islamic finance is having the unique features to drive the countries' economies with utmost richness of social, moral and ethical principles by bringing the balance in wealth distribution to have an efficient tax system. Islamic finance is the ultimate finance system which will exist in the world to run the entire world as it has been instructed by the Creator and guided by the other sources of Islam.

Islamic Finance

Is Islamic Finance ready to drive a State's economic system?

GUEST DAY ON

Friday 13 June 2014



Featured guest

Dr. Gerhard Böwering

Prof. of Religious and Islamic Studies - Yale University, USA

-DR. GERHARD BÖWERING

The MUSLIM Institute of Islamabad focuses the first instalment of its newly developed online project, "The Muslim Debate," on Islamic finance, paying much attention to the question of ribā. In fact, the discussion of this question has become quite popular among present-day ulama. In truth, however, the debate has been very much alive from an earlier phase of its existence. In the past, Fazlur Rahman established a scholarly basis for the arguments on ribā when he published his views in the journal of Islamic Studies in 1964. The legacy of his scholarly influence still reverberates in a selection of articles, collected in the more recent issue of Islamic Studies, volume 50, autumn 2011, and edited by Muhammad Khalid Masud.

Unfortunately, the scholarly analysis of ribā got somewhat lost today in the more recent approach to the topic and lucrative benefits have been offered to shari'a advisers hired by banking institutions. A prominent figure of recent reflections is Muhammad Taqi Usmani. Earlier, Khurshid Ahmad equivocated ribā with interest and propagated the view of Mawlana Mawdoodi, who stated categorically that, in Islam, "the term ribā stands for interest in all its types and forms." As a result, elite legal scholars seem to be losing ground to ideological conservatives. The Muslim Institute wishes to stem this tide of ideology by asking the question, "Is Islamic Finance Ready to Drive a State's Economic System?" and envisaging a progressive reply from scholars.

The oil boom of the 1970s brought with it an upsurge of Islamic banking institutions that offered a system of profit and loss sharing, in which no interest is paid or received by the provider or user of the funds. This type of interest-free Islamic banking offered strategies, termed muqārabā, mushāraka and murābaʿa. As a result, a dual banking system – interest-free and interest based – came into use in a number of Muslim countries. While interest-based institutions could look back at a functioning history, the interest-free financial institutions ran into severe difficulties. To overcome them, pragmatic adjustments had to be made that ultimately transform the nominally interest free Islamic banking system into a system that actually disguises an interest-based one. When all is said and done, an Islamic banking system has been labeled interest-free while being treated like an interest-based finance system.

Rather than eliminating interest from the economy, ways were found to operate under the guise of interest-free banking, named "Islamic".

A number of strategies were used to salvage a nominally interest free banking system that in all but in name resembled an interest-based system. One approach offered depositors, who did not want to entrust funds to profit and loss sharing institutions, so-called rewards enabling the bank to retain deposits without granting interest. Another determined a legitimate profit in advance for transactions that was agreed to by the consent of both parties. By defining ribā as a legal rather than economic term, yet another approach considered a mark-up or positive return permissible by reinterpreting a contract, switching it from loan to sale.

Three difficulties remain standing, however. First, in the Qur'an ribā is not equivalent with "interest". Second, the legal tradition of the shari'a differs from contemporary adjustments of its nomenclature. Third, economy and finance have their own builtin laws and rules that religious terminology cannot erase. Whichever way an Islamic nation chooses to go in economy and finance, it will not escape the fact that Islam and religion is one track and economy and finance another. Traveling simultaneously on both tracks creates tensions, requires accommodations and needs safeguards to challenge corruption.

Islamic Finance

Is Islamic Finance ready to drive a State's economic system?

CLOSING DAY ON

Wednesday 18 June 2014

- ASIM FAHEEM

As our debate draws to an end, the differences between our protagonists remains large, however the voting remains very close. Much will therefore depend on this last round of closing statements.

Before I summarize what has already been said by our debaters in the rebuttal stage, let me highlight Dr. Gerhard Böwering's very thoughtful guest contribution. He paid much attention to the question of 'ribā' in Islamic Finance, particularly, the scholarly analysis of ribā which has gotten somewhat lost today in the more recent approach to the topic and lucrative benefits have been offered to Shari'a advisers hired by banking institutions. Highlighting the challenges faced by Islamic Finance today, Dr. Böwering said, "Three difficulties remain standing, however. First, in the Qur'an ribā is not equivalent with "interest". Second, the legal tradition of the shari'a differs from contemporary adjustments of its nomenclature. Third, economy and finance have their own built-in laws and rules that religious terminology cannot erase."

Mr. Muath Mubarak in his rebuttal remarks made a couple of arguments for the motion, starting with highlighting the downsides of the conventional financial system. He did so by giving multiple quotes and examples of renowned personalities in the field. Mr. Mubarak also referred to the sayings of Bible and Quran by quoting verses from both the books about how both of them prohibit 'interest' in financial dealings. Touching upon the case of HSBC cutting its Amanah arm two years ago in all the countries except Saudi Arabia and Malaysia, he said, "Meanwhile we have to note that these two countries alone accounted for more than 25% of the total global Islamic banking & finance assets as per the Global Islamic Finance Forum (GIFF -2012) report. So we cannot take HSBC or any other individual bank's decision as the challenge for the entire industry." Ending his statement, Mr. Mubarak supported his arguments by referring to the global financial crisis, when he concluded by saying, "Survival and strong surveillance during the global financial crisis in 2009 itself is an endorsement to say that Islamic finance is having the unique features to drive the countries' economies with utmost richness of social, moral and ethical principles by bringing the balance in wealth distribution to have an efficient tax system."

Reminding us again about the motion, Prof. Habib Ahmed emphasizes that the debate is not about the ideal visions of Islamic Finance, rather it is about its practice. Moving forward with this view, he explains "There are many instances that show that Islamic financial sector is profit-oriented and has failed to contribute positively to ethical and social objectives (such as environmental, labour relations, issues). Its 'Islamic' nature is confined in narrow terms to legalistic Shari'ah compliance only." Getting back to the impressive performance of Islamic Financial sector during the global financial crisis, Prof. Ahmed believes, "...it is true that Islamic finance fared relatively better than its conventional counterpart during the crisis. However, some argue that this was because Islamic financial sector was small and was not exposed to some of the toxic assets that harmed the conventional financial institutions. They argue that had the crisis occurred 10 years after when it happened, Islamic finance would be in the same situation because the industry was busy creating the replications of the same toxic products that caused the crisis." Concluding his statement, Prof. Ahmed worries that by replicating the current financial system, Islamic Finance is moving away from its ideals. Thus, "To be able to contribute positively to the economy as envisaged in the ideal model, there is a need to re-orient the direction of the industry from its current practice."

Prof. Ahmed's view was also supported by Abu Tahir Haqeeqi, who weighed in heavily by his thoughtful comment. He believes that it is premature to say that Islamic Finance is ready to drive a State's economic system and while standing by his opinion, Mr. Haqeeqi also asks many related questions to Mr. Muath Mubarak who is defending the motion. On the other hand, agreeing with Mr. Mubarak's views, Dr. Shahzadi Pakeeza believes that Islamic Finance has been a substantial global force. Talking about the Shari'a laws derived from Quran, Dr. Pakeeza says, "Sharia law, derived from the Qur'an and Sunnah, has equal applications on financial part too. Notably, Islamic finance has a wider perspective to promote sustainability as a key element of economic life." Similar views were also shared by Irfana Barveen when she made her arguments for the motion and also Hussain Fahmy who believes all the man-made conventional system is falling apart, hence Islamic Finance will be the ultimate choice. WEDNESDAY , 18 JUNE 2014 As the debate enters its closing stage, the voting remains very close with only 2% to separate the two sides. Let's see what our debaters have to say about their counterpart's arguments as well as participants' comments as they try to persuade the audience one last time.

-MUATH MUBARAK

Let me remind ourselves as when Quran was revealed, there were only few people those who accepted it but the Quran was addressing to the entire human kind as an ultimate guidance. The concept of globalisation was first revealed by Quran by sending the messages

to all. This was portrayed by many as idealism but as we all know it has been accepted and practiced as the way of life until now. When the Islam was introduced, it was considered as one of the ideal vision but it gave practical solution to every cry of the world by bringing the peace to the minds and world. I believe and I can see the progress of Islamic finance in a similar way, creating the legacy by the ideal vision by giving the practical solutions in many corners around the globe. According to Wikipedia, Thailand's most prevalent religion is Theravada Buddhism (95%), which is an integral part of Thai identity and culture but we do have the Islamic Bank of Thailand which is backed by the government. Why a country with no majority of Muslims should start Islamic Finance?

There is a need for some pre-requisites to drive the Islamic economy in every country and it should be strongly supported by the necessary political, legal, regulatory and other mandates to make the change in citizen's life without debt traps. This will enable to accept and embrace fully the Islamic economy but some other countries are in the process of making the changes to practice in a constructive manner suiting for their country. But these are not the measurements to say whether Islamic Finance can drive the State's economy or not. It should be considered based on the richness of Islamic Finance policies and principles and the practical solution what it brings into the economy.

According to Professor Maimul Ahsan Khan in his book "Islamic Financing and Banking: from traditional views to Arab spring", he says that, it is unbelievable, 1000 year ago Afghan king was the richest person in the world. 700 years ago, a Muslim King from the greater region of Mali was the wealthiest man on the planet. 500 years ago, Muslim rulers in India, Iran and the Ottoman Empire used to view the Europeans as barbaric, uncultured and disorganized. The scenario has changed dramatically during the European colonial period.

In the early centuries of Islamic civilization, Muslim merchants and traders were dominating the international trade by their honesty, integrity and creativity in trade.

So Islam was embraced all over the world due to the Muslim Arab traders' trading system and Muslims history in many countries claims that due to the pureness of the business deals of the Muslim Arab traders were winning the hearts of the fellow countrymen up to the extent of where they requested from Muslim Arab traders to marry their local women and stay in their nation. During the Caliph period, there was no one to accept the Zakat (Mandatory charity) as all were looking for someone else to give away their Zakat. Seven years of financial crisis were managed without any big issues. The introduction of child-benefit policies and the centralized treasury system to look after the affairs of the country fellow men. As we all know, these are few of the historical evidence where the concept of Islamic business and finance have been widely practiced.

Since the inception of Islamic Finance, it has gone through many challenges as any other system to fit into the local climates of the countries whilst having the universal harmonization in practices. The industry still under the spotlight of certain important challenges but it doesn't mean that it cannot run the state's economy. There are no other better models in the world to run the economic system including the developed nations struggling to find out the sustainable solution for their economic issues and crisis.

We have been blessed to have many PhDs, pundit and experts in the subject matter of economics and finance but none could stop the calamity of the global finance crisis at least once in the past. Looking at the practices of very few institutions those who are not strictly following the beautiful teachings of Islam in their financial dealings we cannot say that the teachings of Islam are an ideal vision or utopia concept. We must take the authentic teachings and do the acid test with the market practices those who are really practicing as per Islamic principles. WEDNESDAY , 18 JUNE 2014 As I made a clear statements previously regarding the global financial crisis and the survival of itself is an endorsement for the Islamic Finance.

The point to ponder is all about during the last three decades many financial crisis has passed by and Islamic Finance wasn't affected at all whether it is small in size or not. The global financial crisis hit every business irrespective the size, nature and whether you have got toxic assets or not. The US was under the fire of global financial crisis but job cuts were happening all over the world. During the global financial crisis many Islamic banks, Sukuk and Islamic funds have given birth.

However, artificial asset creation is not a job mandate of the Islamic banks even though it is the main day today activity of the conventional economic and financial system. Islamic finance sector is not fully fledged charitable industry rather it is aiming to make profit in a justice, social, ethical and moral way of conducting business with profit and loss sharing understanding. But Islamic finance has got an integral part as charity which includes mandatory, optional and community based charity programs which Islamic Finance industry will be doing for the sake of the Creator and not to create the brand perception, awareness and to win the Corporate Social responsible (CSR) awards in this world.

The Prince of Wales inquired about how Islamic Finance can help to solve the issues of the countries those are affected vulnerably due to the environmental issues from Prime Minister Datuk Seri Najib Razak in their half-hour meeting in the capital of Sri Lanka in conjunction with the Commonwealth Heads of Government (CHOGM) Meeting 2013 (www.bernamanews.com). There is no doubt as how much Islamic Finance is protecting, preserving and encouraging to pass the treasure of natural wealth to the other generations. These environmental related matters are evidenced by the Quran Ayats & Hadith which talks about the air, lands, mountains, sea lives, and insects to planting trees.

Islamic economic system is a not an “Islamic version” of conventional economic system as it differs from fundamental principles and indeed the practices of it is an evidence for it. There is no need for Halalisation for Haram products under any circumstances. There are more serious re-directions and rethinking of the leading way to drive the state's economy more quicker than expected since it paves the way to have more resilient system with fool-proof unlike the current economic model which are cruel, unjust, unholy and not worthy in following any more.

“1% of the American at the top have already grabbed about 40% of the American wealth” said by Joseph E. Stiglitz – a famous winner of the Nobel prize in Economics & professor of economy argues in his latest book 'Freefall: America, Free markets and the sinking of world economy'. In another quote he says “Top 1% has the best houses, the best educations, the best doctors and the best life styles but there is one thing that money doesn't seem bought an understanding that their fate is bound up with the other 99% live throughout the history, this is something that the top 1% eventually do learn.

Too late". There are many other serious problems within the developed nation but they are scared to talk openly due to the market shocks and the individual benefits of the current regime, structures and systems.

Creating the credit bubbles, printing the money and trading in debt are few of the most genius financial practices of the conventional market. Especially trading in debt is a major phenomenon in the world economy today such as securitization, factoring, hedging and many other modern instruments. Furthermore, profiteering, short selling, black market, money laundering, terrorism financing, investment in prohibited business and many other business modes which are against the humanity but all of these nature of the transactions are strongly opposed and strictly prohibited in Islamic Finance. Finally, I strongly recommend and believe that Islamic Finance is ready to drive the State's economic system. The need of the hour is to implementing it whole heartedly and addressing the practical issues by taking the guidance from Islam. Because Islamic teachings are divine in spirit and has the power to transform any unjust society or state into a humane community with high standard of living for every walks of life.

As we are experiencing the extreme individualism, super ultra consumerism, indirect powerful influence in all directions, modern slavery by the developed nations and unjust treatment by the current economic models are demanding for a more just, viable, sustainable and equitable economic model to drive the states which I believe the Islamic Finance is the only solution as it is the ultimate and divine financial model from Islam.

Islamic Finance

Is Islamic Finance ready to drive a State's economic system?

RESULT DAY ON

Sunday 22 June 2014

- ASIM FAHEEM

After twenty days of lively discussion about the challenges as well as prospects of Islamic Finance, our debate has come to an end. The voting has now closed and, by a very small margin, the audience have concluded that Islamic Finance is ready to drive a State's economic system.

From the beginning, it was a very close competition between the two sides as both of our debaters managed to get ahead of each other a couple of times. However, in the end, 52% of the majority believes that despite the existing challenges to the contemporary practice of Islamic Finance, it is ready to drive a State's economic system.

Nevertheless, we can't eliminate the other 48% of the views put forward by our audience and defended by Prof. Habib Ahmed, that Islamic Finance has some significant areas of improvement before it can be implemented as a State's economic system. This was witnessed by the debater's statements as well as opinions of the audience submitted in the comments section.

I'd like to thank Mr. Mubarak and Prof. Ahmed for their precious contributions, to our guest, Dr. Gerhard Bowering for his excellent participation, and you, our respected readers, voters and commentators for participating in what has been an insightful discussion on a particularly pressing issue faced by the Muslim community.

DEFENDING THE MOTION

AGAINST THE MOTION

Mr. Muath Mubarak

Prof. Habib Ahmed,

Head of Finance & Corporate Strategy -
First Global Group, Sri Lanka

PhD Sharjah Chair in Islamic Law & Finance
Durham University, UK

The debate has finished, voting is now closed.



Voting in 20 days

