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EXCLUSIVE:

Islamic Economics Needs a Great Deal of Creative Thinking: Dr. Umer Chapra

Dr. M. Umer Chapra is a Senior Research Advisor at the Islamic Research and Training Institute (IRTI) of the Islamic Development Bank (IDB), Jeddah. Prior to this position, he has worked at the Saudi Arabian Monetary Agency (SAMA). He has also taught economics in various capacities at the University of Wisconsin (Platteville), University of Kentucky and Lexington etc. Dr. Chapra is well known for his seminal contributions to Islamic Economics and Finance over the past three decades. He has authored 10 books and monographs, and more than 60 papers. Many of his works have been translated into several other languages. His most outstanding contributions have been his three books: *Towards a Just Monetary System* (1985), *Islam and the Economic Challenge* (1992) and *The Future of Economics: An Islamic Perspective* (2000). He has received a number of awards for his academic excellence, including the Islamic Development Bank Award for Islamic Economics and the prestigious King Faisal International Award for Islamic Studies. In an exclusive e-mail interview to Shariq Nisar, Dr. Chapra provides valuable suggestions to the young researches in the field of Islamic economics and finance (Editor).

What is the main message of Islamic Economics to humanity?

The main message is that the humanitarian goal of achieving the well being of all members of the human family cannot be attained by concentrating primarily on the material constituents of well-being and making maximization of wealth as the main objective of Economics. It is also necessary to raise the spiritual content of well being and reduce all the symptoms of anomie, like family disintegration, conflict and tensions, crime, alcoholism, drug addiction, and mental illness, all indicating lack of inner happiness and contentment in the life of individuals. The market system as well as central planning have both failed to lead mankind to such an overall well-being. It is, therefore, necessary to lay down the contours of a new system which could help optimize human well-being. This is exactly what Islamic Economics is trying to do.

In your two landmark books, Islam and the Economic Challenge and The Future of Economics: an Islamic Perspective, you have given a micro- as well as macro-framework for the future development of Islamic Economics and Finance. How would you assess the current theoretical development in this area?

The current theoretical development of Islamic Economics is still far from what is desired. The development has not been balanced. Primary attention has been given so far to Islamic Finance. This has led to the false impression that interest-free finance is all that Islamic Economics has to offer. Since most of the governments in Muslim countries are not yet convinced that interest-free finance is workable, excessive emphasis on it has created a resistance in official circles against Islamic Economics. They find it to be of little value. This is unfortunate. We must blame ourselves for this. Islam is a complete way of life and is capable of solving the problems of not only Muslim countries, but also of mankind.

It would, therefore, be desirable to show that Islamic Economics has much more to offer than just interest-free finance. There are a number of ways in which this may be done:

1. One way of doing this would be to concentrate on the socio-economic problems that mankind is faced with, and to show how adoption of the Islamic strategy can help solve them. It is also desirable to be realistic and balanced and to show that application of the Islamic strategy is not an easy task. It requires a great deal of theoretical as well as empirical analyses.
2. Very little work of an empirical nature seems has done so far. Without this, it is not possible to know the actual condition of the Muslim world and to suggest a strategy for the future.

Contd. page 4

Program of Research Grants in Islamic Economics

Al Rajhi Banking and Investment Corporation is sponsoring a program of grants for research in Islamic Economics. The program will provide several annual grants each of SAR 12000 (twelve thousand Riyals). Of which twenty five percent will be paid upon acceptance of the research plan. The remaining 75% is to be paid upon evaluation of the research and approval of its final form. The Center may host the researcher to discuss the plan, the completed research, or both. In such situation the Center shall bear transportation and accommodation costs of those residing outside Riyadh city.

Grants shall be limited to research in Islamic Economics, including the following fields:

- 1: Islamic Jurisprudence of financial transactions.
- 2: Economics
- 3: Finance
- 4: Accounting.
- 5: Management.

The research's objective shall be to study, analyze and formalize the Islamic framework of the subject matter, how Islamic values can be promoted in economic activities, and what are its effects on Islamic societies.

For more details please contact:

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Dow Jones Wins Award at International Islamic Finance Forum

Dow Jones won the award for best contribution to Islamic finance at the recently held International Islamic Finance Forum in Dubai from February 23-25, 2003. Rushdi Siddiqui, Global Director of Dow Jones Islamic Index Group received the award.

For years Dow Jones has been credited with bringing the Islamic equity market to light with the launch of its full range of Islamic indices back in 1999. FTSE, based in the UK, quickly followed with a competing range of Islamic indices. (www.failaka.com)

CALL FOR PAPERS INTERNATIONAL SEMINAR ON ISLAMIC BANKING AND FINANCE

Brunei Darussalam, July 28 – 30, 2003

The objective of this seminar is two-fold: To provide orientation to the subject. And to analyze the issues and challenges facing Islamic banking and financial markets in the region, with particular focus on the design and use of Islamic financial instruments, regulation and as assessment for consolidation of various institutions.

DATES TO WATCH:

SUBMISSION OF ABSTRACTS: APRIL 28, 2003
SUBMISSION OF PAPERS: JUNE 16, 2003

For details contact:

Salman Syed Ali
Islamic Research and Training Institute
Islamic Development Bank
E-mail: ibfd@isdb.org, Fax: 966-2-6378929

Islamic Research and Training Institute to Offer Scholarship for Ph.D. Programs in Islamic Economics, Banking and Finance

The Islamic Research and Training Institute (IRTI) is offering scholarship to PhD students of Islamic economics, banking and finance. This scheme aims at providing financial support to encourage outstanding research in the fields of Islamic economics, banking and finance. It is open only for those students who have already secured admission to a Ph.D. program at a recognized university. Applicants for the scholarship shall be considered eligible only if they fulfill the following:

- Age not exceeding 30 years at the time of admission into a full time Ph.D. program in any university.
- Master degree in the subject concerned (economics, business, finance)
- Above average grade in their Bachelors and Master program
- Proof of admission to a Ph.D. program of the university, certified by the Head of the Department concerned.
- A proposed research plan on an accepted topic of Islamic Economics/Banking / Finance supported by a certification from the dissertation supervisor.

Benefits and Facilities:

- Full or partial payment of tuition fee for a maximum period of three years.
- A non-recurring cash grant not to exceed US \$ 1000 for fieldwork.
- A non-recurring cash grant not to exceed US \$ 1000 to cover the expenses on word/data processing connected with the study and dissertation,
- If a dissertation is found publishable by IRTI, a grant of \$2000 shall be paid against its publication as an IRTI document.
- A collection of IRTI publications, free of charge, which the scholar may need during his/her research work.

For more details and application form please log on to:

www.irti.org/scholarships

CALL FOR PAPERS

Ministry of Finance (MOF) Indonesia, Bank Indonesia (BI) and Islamic Research and Training Institute (IRTI), Islamic Development Bank (IDB) Jeddah are together organizing an International Seminar On **Islamic Banking RISK MANAGEMENT, REGULATION AND SUPERVISION** at Jakarta Indonesia during September 30 to October 2, 2003. Selected papers will be the copyright of the Seminar organizers. One author of each selected paper will be provided by IRTI an economy class return ticket from his work place to Jakarta for paper presentation and local hospitality in Jakarta for the period of the seminar.

Dates to Watch:

Submission of Abstracts: March 15, 2003 –
Submission of Papers: June 15, 2003

For more details please contact:

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Islamic Development Bank Islamic Research and Training
Institute Fax: 966 2 6378929
E-mail: ibfd@isdb.org, tkhan@isdb.org

New Books and Articles

Books:

1. Ahmad, Habib, *A Microeconomic Model of an Islamic Bank* (Research Paper No.59), Jeddah, Saudi Arabia: Islamic Research and Training Institute, Islamic Development Bank, 2002, 40pp.
2. Billah, Mohd. Masum, *Islamic Law of Trade and Finance: Some Contemporary Issues*, Kuala Lumpur, Malaysia: International Islamic University,, 2001, 287pp.
3. Sunderrajan, V. and David, Marston, *IMF Facilitates Establishment of Islamic Financial Services Board – IMF Survey*, Washington, DC: International Monetary Fund, May 2002, 157pp.

Articles:

1. Ahmad, Mehboob & Shirazi, Nasim S., 'An Islamic Model of Business Ethics', *Thoughts on Economics* (Dhaka, Bangladesh), Vol.12, Nos.1&2, January – June 2002, pp.53-68.
2. Elgari, Mohammad Ali, 'Purification of Islamic Equity Funds', In: *Proceedings of the Fourth Harvard University Forum On Islamic Finance*, Cambridge: Centre for Middle Eastern Studies, Harvard University, 2002, pp.77-80
3. Hassan, M. Kabir and Mazumbar, Imtiyaz Ahmad, 'Islamic Finance and Economics Stability – An Economic Analysis', In: *Proceedings of the Fourth Harvard University Forum On Islamic Finance*, Cambridge: Centre for Middle Eastern Studies, Harvard University, 2002, pp. 13-25.
4. Knight, W. Donal and Thompson, Henry, 'Structuring Islamic Investment Funds ; The Legal, Tax and Regulatory Aspects', In: *Proceedings of the Fourth Harvard University Forum On Islamic Finance*, Cambridge: Centre for Middle Eastern Studies, Harvard University, 2002, pp. 105-118.
5. Mirakhor, Abbas, 'Hopes for the Future of Islamic Finance', *New Horizon* (London), No.121, August 2002, pp.5-8
6. Nasir, Haroon, 'Religious Approach for Liberation from Poverty: A Christian and Islamic Perspective', *Al-Mushir* (Rawalpindi, Pakistan), Vol.43, No.4, 2001, pp.139-50.
7. Othman, Abdulqawi, and Owen, Lynn, 'The Multidimensionality of Carter Model to Measure Service Quality in Islamic Banks: A Case Study in Kuwait Finance House', *International Journal of Islamic Financial Services* (Bhubneswar, India), Vol.3, No.1, January – March 2002.
8. Rahman, Tanzilur, 'Murabaha and the Pakistan Perspective', *Hamdard Islamicus* (Karachi, Pakistan), Vol.25, No.3, July-September 2002, pp.31-55.

Research in Progress

Topic: Human Capital under Islamic Scheme of Development: A Case Study of Indian Muslims.

Researcher: Abu Shariq

Supervisor: Dr. Masood Hasan (Reader), Deptt. of Economics, Aligarh Muslim University, Aligarh.

Fundamental difference between Islamic and Conventional Economics is because of their different worldviews. The conventional worldview drives it's strength from the Greek philosophy and culture which compartmentalized the life into the material and the spiritual. The religion was considered as part and parcel of the spiritual aspect, therefore reduced to the private affairs of life only. The material aspect, on the other hand, received much emphasis in the light of reason and intelligence, brought tremendous material developments. Excessive reliance on materialism and objectivity drafted the ethics and subjectivity apart from the public affairs and academics.

The Islamic worldview, on the other hand, is based on *Kalma-e-Tawhid* "There is no deity except Allah, and Muhammad (PBUH) is the Messenger of Allah". The crux of the religion of Islam is the submission and surrender of human being to the will of Allah. The Holy *Quran* declares that human beings have been created as the vicegerent of Allah in order to run the whole universe on His behalf. Potentialities of human being by which s/he can contribute in various areas of life, therefore, emanates from this inherent and unquestioning belief in one and the only God.

Human beings for its nature tend to deviate from this original belief and responsibility which lies upon him being the vicegerent of the God. Therefore, in Islamic sense human development is the returning of human beings to their own true nature by accepting the authority of Allah and realizing its responsibilities being the vicegerent of the Almighty. Compartmentalization of knowledge as in western conventional thought, therefore, is not possible in Islam.

Due to its major emphasis on materialism the western conventional economics considers economic prosperity as the determinant of human development. But in Islam development begins by the purity of soul which in turn springs from the faith on the Almighty Allah. The economic well being in Islamic perspective is linked with the ethical and moral development of the society as a whole.

Indian Muslims are backward in all areas of life including the economic one, however, seeing the interconnectivity of these no strategy can be prepared in isolation. We, therefore, need to find out basic cause which are responsible for all the problems. In my opinion there are three major issues responsible for the backwardness of Indian Muslims; (i) Weakening of Religious Faith, (ii) Political Powerlessness and (iii) Educational Backwardness.

In the light of the *Quran* and the *Sunnah*, we can say that the starting point of the development of the human beings is to change the mindset by rectifying and rejuvenating the relationship between human beings and the Allah. Strengthening the religious faith is also necessary to activate the latent Islamic institutions like *Zakah*, *Awqaf*, and *Baitulmals* etc. Through political empowerment Muslims will be able to influence the decision of the government which is very necessary for their security and development. Educational development is directly and indirectly linked to the well being of all sections of population. For multidimensional development of the Muslim community continuous and serious effort is needed in the above-mentioned gray areas.

Abu Shariq

Cont. page 1

3. The Islamic strategy needs to be clearly spelt out. It does not consist, as indicated earlier, in just reforming the financial system. It rather consists in reforming the individual human being and all other socio-economic and political factors that influence his or her behaviour and well being. This would take us to not only religious beliefs and values, but also to social, economic, financial, political and historical factors. The problem with the Muslim world is not just the existence of an exploitative financial system, but also illegitimate governments, moral decline, landlordism, lack of education, absence of justice, and ineffective operation of incentives and deterrents. Therefore, Islamic Economics needs to adopt a more comprehensive model than what Conventional Economics is able to offer if these problems, which are all interrelated, are to be solved. We need to take inspiration from Ibn Khaldun who presented a multidisciplinary circular causation dynamic model instead of the Neoclassical model which relies primarily on economic variables.
4. While Islamic Economics talks about the ideals of Islam, it is also necessary to know the actual position in Muslim countries – how individuals, families, firms and governments actually behave. It will then be necessary to show the extent and the causes of the gap between the ideals and the reality. Once we know the extent of the gap and the causes of deviation, we will have to figure out practical remedies in the light of Islamic teachings.
5. It would also be desirable to have studies that would address the following questions:
- Have the Muslim countries been able to improve the lot of the common man since their independence from foreign domination? If not, then what are the factors responsible for this failure? What can be done to redress the situation?
 - What kinds of data are needed to evaluate the Islamization of the economies of Muslim countries. Which of these data are available and which are not, and what can be done to bridge the gap?
 - What are the causes of the low rate of saving and investment in most Muslim countries? What can be done in the light of Islamic teachings to remedy the situation? Are the suggested remedies feasible?
 - What are the different socio-economic, political and historical factors responsible for the low level of labour and entrepreneurial efficiency in Muslim countries? Is it possible to do something to offset the effect of these factors?
 - What are the causes of Muslim decline? How far were scholars like Abu Yusuf, al-Mawardi, Ibn Khaldun and others able to present a satisfactory explanation for Muslim decline.

Can the models presented by non-Muslim scholars like Gibbon, Spengler and Toynbee complete the picture?

- How did the Islamic financial system operate in the classical period? What was the role of *sarrāfs* and *jahābidh*? What is it that enabled them to operate successfully? Why did the system get displaced?
- The *fuqhā'* have so far rejected options and derivatives, all of which are not necessarily speculative in nature. They are also used for managing risks. If we reject them, then we have to find other ways of managing risks. This subject has not been addressed adequately so far.
- What are the reasons for the fiscal and balance of payments deficits and high debt-servicing burden of many Muslim countries? What are the Islamically acceptable remedies for this situation?

Only by addressing these and a number of other questions will Islamic Economics be able to gain the acceptability and the respect that it needs. If we do not do so, the discipline will become marginalized. Concentrating only on interest-free finance will not be very helpful.

Many of the most prominent faces in Islamic Economics were born in India. You in Bombay, Prof. Khurshid in Delhi, Dr. Nejatullah and Prof. Faridi in UP and many more. What prospects and opportunities do you foresee for young researchers in the field of Islamic Economics?

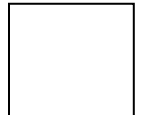
You seem to be giving the impression that Islamic Economics has been promoted primarily by scholars born in India. This is not right. There are many scholars in the Arab world as well as Iran, Turkey, Indonesia, Malaysia and Nigeria who have made valuable contributions.

Islamic Economics is gradually drawing international attention and recognition. This will raise the demand for experts in this field. This demand can be satisfied by young Islamic economists only if they are well-versed not only in Shari'ah but also in Conventional Economics to be able to address international problems in a realistic manner. However, in countries like India, the demand for scholars in Islamic Economics is bound to be limited. Students should not, therefore, study this subject with the objective of finding a lucrative job.

Any other message to the readers of Islamic Economics Bulletin.

It can be seen from the above discussion that Islamic Economics is in need of a great deal of creative thinking directed towards promoting human well being. There is little room for repeating what has already been written. It is unfortunate that a number of our writers do not read what has already been written. They seem to give the impression that they are the first ones to write on the subject. This does not add prestige to such authors. It only shows their ignorance. Some of them go to the extent of including only the writings of prominent conventional economists or classical Muslim scholars in their references. Only if they build upon what has already been contributed by modern Muslim writers, will they be able to push the frontiers of knowledge in Islamic Economics.

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