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## Exclusive:

### Islamic Economics, A Misnomer Borrowed From The West: Prof. M. A. Choudhury

Masudul Alam Choudhury is a Professor of Finance and Economics. After obtaining PhD in Political Economy from the University of Toronto, Prof Choudhury has over three decades of teaching & research experience along with over two dozen research publications to his credit. At present he teaches at the Sultan Qaboos University, Oman. Prior to this he has taught at University College of Cape Breton, Sydney, Nova Scotia, Canada & King Fahd University of Petroleum and Minerals, Saudi Arabia. (Editor)

#### *What is the message of Islamic economics to humanity?*

To configure, explain and apply the principle of Oneness of Allah (*Tawhid*) as the functional medium for a just, fair, stable and progressive socio-economic order. Such a socio-economic order remains embedded in a nexus of causally interlinked systems of life and thought for the common wellbeing of mankind. In this sense the Islamic economic and financial systems (likewise all other socio-scientific systems) are not separately standing. They are all sub-systems of the holistic class of *Tawhidi* (oneness of Allah = unity of knowledge) systems governed by the *same unique law and methodology* but with diverse but interlinked problems extending across systems. This is a *process-oriented* world order of life and thought. The derivation, study and application of the *Tawhidi* knowledge formation in this nexus of causally unified systems is the essence of Islamic economics, finance and thereby socio-scientific order -- of all scholarship. The *Tawhidi* methodology yields -- not initially formed by -- but subsequently and causally evolved by precepts such as avoidance interest rates, co-operation and the underlying instruments. Islamic economics, Islamic finance, Islamic science are misnomers borrowed from the West. Instead, these are embedded disciplines within the organic holism of the *Tawhidi* worldview of unity of knowledge functionally applied to systems. I have tried with difficulty the terminology of Islamic political economy (1990-1994 publications) and recently by the terminology of the Islamic world-system (1995-present publications) having its specific configuration in the devotional meaning of scholarship to self (micro) and the world.

#### *How would you assess the past half century developments in Islamic economics and finance? What are the major dilemmas that Islamic economics is presently faced with?*

Very sorry development. For the epistemology of *Tawhid* was never functionally and structurally considered as the groundwork of a new and overarching paradigm of human existence and experience. Consequently, there is no methodology underlying Islamic economics, Islamic finance, Islamic science etc. These disciplines are fashionable pursuits within the received theories of the western epistemological genre. Consequently, the profound and earth-shaking ever-resilient epistemology of the *Tawhidi* worldview was never discovered. Besides, where Islamic overtones were made to specific issues, it was much of the *Fiqhi* orientation, not of the *Qur'anic* exegesis of reality. Much of the *Qur'anic* essence is missing in the building of Islamic economics. Thus Islamic economics did not evolve beyond its own narrow world of certain personalities, regions of the world and certain self-fashioned institutions in this regard. The coming of Islamic Development Bank and Islamic banking was merely an entity not an organism, for the understanding, establishment and furtherance of a distinctively new institutional order fired by its own episteme that is the *Tawhidi* worldview in action, remains absent. There is no discourse beyond 'Islamic mainstream scholarship'.

Contd. page 4

### **The Potential of Muslim Funds in India: A Survey Report**

Since independence, several Muslim Funds and Welfare Cooperative Societies have been established in India with their major aims to relieve the poor Muslims from the clutches of moneylenders and the interest based commercial banks, through the interest-free financing system.

In this regard, several religious organizations took major initiatives in establishing these financial institutions, which seems to have been quite successful in persuading the Muslim depositors and borrowers to use their services. Another achievement of these institutions is their remarkable success in inducing saving habits among the lower and middle classes of the poor besides providing them interest-free loans for various productive and non-productive needs. Through their valuable services Muslim Funds have not only saved millions of rupees of the community from going into the hands of moneylenders, but also contributed a lot towards the development of the community by establishing hospitals, schools and spending on other socio economic needs of the community.

In a recently concluded study of seven leading representative Muslim Funds of northern India which in particular focused on the need for collateral, their composition, safety and costs involved, modus operandi, socio-economic impacts and its legal status in the context of India. It was found that the backbone if their strength lie in the value of the collateral. It is noted that despite non-recognition of *Al-Rahn* under the Indian law these Funds have done impressive works by providing interest free loans to the people. It was, however, felt that Muslim Funds have not yet exploited the opportunities provided to them under India's current liberalized financial market. This study, conducted jointly by Javed A. Khan and Shariq Nisar, points out towards the great potential of the expansion of these funds in the area of equity and venture finance. A weakness towards which a mention was also made in the study was their strict compliance to the *Shariah* in their business dealings as well as following the rules and regulations prescribed by the government of India.

### **International Association For Islamic Economics Elects New Office Bearers**

The International Association for Islamic Economics elected its new President and Secretary General at the Fifth International Conference on Islamic Economics and Finance, which was held under the patronage of Prime Minister of Bahrain Shaikh Khalifa bin Salman Al Khalifa during October 7-9, 2003. Dr Mabid Ali Al-Jarhi, Former Director of the Islamic Training & Research Center of the Jeddah-based Islamic Development Bank has been named as the new President of IAIE and Dr Mohammed Obaidullah, an Indian scholar has been named as the new Secretary General. Dr Obaidullah, Founder Director IBF.net, in addition to his new responsibilities also coordinates the activities of his online academy hosted at Netversity.Org for training and professional certification in the area of Islamic banking, insurance and investments.

### **IMF Executive Director from Iran and Director of the IMF Institute Share International Prize in Islamic Economics**

The Islamic Research and Training Institute of the Islamic Development Bank has awarded this year's IDB Prize in Islamic Economics to Dr. Abbas Mirakhor and Dr. Mohsin Khan in recognition of their outstanding contribution in this area.

Dr. Abbas Mirakhor hails from the Islamic Republic of Iran, and is presently Executive Director of the International Monetary Fund while Dr. Mohsin Khan from the Islamic Republic of Pakistan is presently Director, IMF Institute.

The prize carries a 30,000 Islamic dinars (over 40,000 US \$) together with a Certificate of Merit and a medal. The laureates received the prize during the 28th Annual Meeting of the IDB Board of Governors.

The President, IDB in his address outlined the purpose of the award to honor, reward and encourage the outstanding and innovative efforts in Islamic economics and banking. He said that during the last 16 years since the prize started, 23 scholars, economists, and bankers and institutions the world over have won this coveted prize which is awarded on alternate years in Islamic banking and Islamic economics.

The head of the Selection Committee Dr. Abdullah Al Hajeri, a former minister of trade in Kuwait, in declaration stated that Dr. Abbas Mirakhor and Dr. Mohsin Khan have made pioneering efforts to promote Islamic economics, banking and finance in their respective fields. Dr. Abbas Mirakhor has contributed significantly to Islamic economics by making a favorable climate for Islamic economics within the international financial institutions and encouraging many young economists working in these institutions to devote their attention to issues in Islamic economics. On the other hand Dr. Mohsin Khan promoted the use of scientific approaches in Islamic economics, through his research papers and analyses which exhibit meticulous scientific care. He specially praised the macro economic model developed by Dr Khan which showed that pure profit sharing model is much more stable than the present interest based models.

### **Growing Need for Islamic Banking in India**

An Indian scholar on Islamic finance stressed on the growing need for interest-free banking in the country. M H Zawahirullah, a Ph D candidate in Islamic finance expressed his views during a visit to Doha at the invitation of the Indo-Qatar Islamic Council (IQIC), a local organisation of Tamil Muslims. He said, "There is indeed a need for Islamic banks in the country as it has a huge Muslim population". Agreeing that in the absence of relevant laws it was hard to set up Islamic banks back at home as there would be no regulatory mechanism in place and depositors and investors could be exposed to risks. He stressed the need for lobbying with Muslim members of parliament (MPs) to help bring Islamic banking under the purview of the RBI. He said there had been cases where people actually set up Islamic financial services and investors were duped in the end due to a lack of regulatory monitoring.

Mr. Zawahirullah who heads a social front called the Tamil Nadu Muslim Munnetra Kazhgam (TNMMK) said his organisation was planning to take up the issue of Islamic banking with Muslim MPs and the authorities concerned.

*Source: The Peninsula*

## New Books and Articles

## Books:

1. *Islami Bank – 18 Years of Progress*, Dhaka, Bangladesh: Islami Bank Bangladesh Limited, 2001, 56pp.
2. JARHI, M.ALI and HUSSAIN, K., *Operational Efficiency in Islamic Banking: The Sudanese Experience*, Jeddah, Saudi Arabia: Islamic Research and Training Institute, Islamic Development Bank, 2000.
3. PAMUK, Sevket, *A Monetary History of the Ottoman Empire*, Cambridge: Cambridge University Press, 2000.
4. *Relationships Between Rate of Return and Volume Investment of Some Commercial Banks in Bangladesh* (IBTRA Monograph No.2), Dhaka, Bangladesh: Islami Bank Training and Research Academy, n.d. 22pp.
5. ROSLY, S. Azhar, *Reading in Islamic Financial Markets – Banking & Finance Investments, Takaful, Financial Planning*, Bhd, Malaysia: Smeer Service Centre sdr, 2002, 563pp.
6. *Shariah Implementation in Islami Bank Bangladesh Ltd. Problems and Prospects*, Dhaka, Bangladesh: Islami Bank Training and Research Academy, n.d, 23pp.
7. THANI, N. Norzrul, ABDULLAH, M.R.M. and HASSAN, M. Hizaini, *Law and Practices of Islamic Banking and Finance*, Thompson (Seel and Maxwell Asia), 2003, 600pp.

## Articles:

1. BALOGLU, Z., 'A New National Approach in a Land of Age-old Waif Tradition', In: Z. Balglu (ed.), *The Foundations of Turkey*, Istanbul, Turkey: Third Sector Foundation of Turkey, 1996.
2. DEGUILHEM, Randi, 'On the Nature of Waif – Pious Foundations in Contemporary Syria: A Break in the Tradition', *Awqaf* (Kuwait), Vol.4, May 2003, pp.5-43.
3. DOUMANI, Beshara, 'Endowing Family: Waif Property Devolution, and Gender in greater Syria – 1800 to 1860', *Comparative Studies in Society and History*, Vol.40, No.1, January 1998, pp.3-41.
4. HAIDER, Najaf, 'The Quantity Theory and Mughal Monetary History', *The Medieval History Journal*, Vol.2, No.2, 1999.
5. HAIDER, Najaf, 'The Monetary Basis of Credit and Banking Instruments in the Mughal Empire', in: BAGCHI, A. Kumar (ed.), *Money and Credit in Indian History*, New Delhi, India: Tulika Books, 2002, pp. 58-83.
6. PAMUK, S., 'Money in the Ottoman Empire-1326-1914', in: Suraiya Farooqhi, Brude McGowan, Donal Quataer and Sevket Pamuk, *An Economic and Social History of the Ottoman Empire*, Vol.II, 1600-1914, Cambridge: Cambridge University Press, 1994.
7. PRAKASH, Om, 'The System of Credit in Mughal India', in: BAGCHI, A. Kumar (ed.), *Money and Credit in Indian History*, New Delhi, India: Tulika Books, 2002, pp.40-57.

## Ph.D. Abstract

## Recent Developments in Banking Organizations with Special Reference to Islamic Banking and Finance

By: Shariq Nisar

Supervisor: Dr. Abdul Azim Islahi

Department of Economics, Aligarh Muslim University, Aligarh, India, 2002, pp.260

During the last two decades more than 120 countries of the world have faced some or the other form of banking crises. Many a times these crises were of such large scales that it virtually threatened the international payment system. The governments and monetary authorities, to avert these crises, had to intervene but only at the enormous public costs to the national GDP ranging up to 40-45 %.

Several studies have been conducted by IMF, World Bank, Bank for International Settlements (BIS) and national institutions apart from various reports and studies by the ailing governments. Many theories have also been postulated about the causes and their solutions; however, the situation remained where it had been. The frequency of these crises has been on increasing trend in spite of several measures taken at the national and international levels.

Major theories put forth about the causes of these crises discovered inefficiency, underdeveloped economy and unregulated capital market as the main causes of the crises. These findings, however, faltered when some of the most efficient, developed and highly regulated capital market countries like US, Japan, Switzerland and Malaysia faced severe banking crises during the recent past. Sometimes countries faced with the crisis were so diversified in their economic strength that it was almost impossible to find a common cause leave alone their solutions.

Islamic economists, in their diagnosis, attributed major reason of these crises to collateral based fixed pay mechanism (i.e. interest). They tried to prove that it is the 'interest', which is at the root of all economic crises leads to uneven business cycle resulting in boom and recession. Further to them it is the interest that using the tool of debt and speculation delinks the financial economy from the real one. It also leads to widening the gap between rich and poor bringing social unrest and hatred in the society. Islamic economists though initially based their arguments on religious, moral and ethical considerations. A major support to them, however, came in the form of some recent financial theories suggesting that the value of a firm is independent of its capital structure. Besides, an earlier incident that gave unprecedented boost to their concept was the fall of Philip curve that had hypothesized a stable trade off between inflation and unemployment.

Islamic economists point out that all the theories of interest, time preference; liquidity; and abstinence; have failed to justify the existence of interest as price for capital when the other factors of production are not assured of their fixed positive return.

The present work tries to examine and analyze the above-mentioned issues. The basic problem, which has been identified, is to find out the causes of the growing and recurring financial crises and also to analyze the steps taken to avert these crises. One important aspect in this regard is the emergence of Islamic financial institutions during the last couple of decades. In this study greater emphasis has been given to this aspects of developments not only because this is a new concept but also because of the tremendous attention it has received not only among Muslims but also among the secular, western and other non-Muslim experts.

*Contd. from page 1....*

***You have been advocating for a common currency for the Muslim countries. What impact it would have on the future of Islamic economics?***

The Islamic Dinar as a gold backed 100 percent reserve requirement money and monetary system is the answer to all of humanities deeply uncertain and unfair interest-based financial and economic order. That is because the conception of money in Islam is not like the fractional reserve aggregate in a monetary relationship between the central, bank, the commercial bank and the economy. In the 100 percent reserve requirement monetary system financing is a development medium with causal and circular systemic interrelations with the real economy. Money in Islam is micro-money entity that directs financial resources to the real economy and thus becomes unified by circular causation with the real economic and social world as further delineated by the Shari'ah. Thus the interest-rate conception is logically replaced -- need not be merely institutionally enforced -- by those instruments that carry the rate-of-return values of real economic activity into the financial valuation of assets. Money is simply an artifact to do this and its stable function of valuation depends upon its choice of numeraire. Such a numeraire has proven to be the long-run stable evolution of the gold standard, despite bumps on its ride caused by political deceptions of the West both against itself and the Islamic world (e.g. Ottoman). This nature of money in Islam because of its endogenous circular mobilization in respect to the Shari'ah guided real economic system will bring the real interrelationship between social and economic needs at the micro-levels, and thereby evolve into the economy-wide aggregate. Within this broad outlook the trade and development aspects of a fair, socially meaningful, vibrant and sustainable self-reliant economy will evolve. Please see for details my book, *Money in Islam*, Routledge, 1997) and several papers and chapters of books and journals. My edited book *Inshah-Allah* will be published in 2004 by the title, *Money and Real Economy*. Presently are my published works, *Political Economy of Structural Change* (London & New York: Wisdom House Academic Publications), *A Dynamic Analysis of Trade and Development in the Muslim World: Selected Case Studies* (Bangladesh Institute of Islamic Thought). All such and other works are centred on the Tawhidi epistemological worldview at the conceptual and applied levels.

***Why Islamic economics, which claims itself to be fair, ethical, just and stable, has not been able to effectively replace the unfair, unethical, unjust and unstable western financial system even in its own country?***

I have pointed out the central role of Tawhid in the universal reconstruction of socio-scientific epistemology and its high level of functional and structural application to world and thought. The absence of this is the *problematique* of 'Islamic everything' and thereby of the world of knowledge. The reader may refer to my most recent book in this regard entitled, *The Islamic World-System, a Study in Polity-Market Interaction* (London & New York: Routledge Curzon, 2004, advanced copy out)

***Any suggestion to young researchers entering the field of Islamic economics and finance?***

The epistemological foundation and crowning legacy of a future 'Islamic economics and finance' (?) is most definitely premised on the Tawhidi Worldview of Unity of Knowledge. The young researchers ought to understand this premise as Ibadah for comprehending the abiding epistemology of the Islamic world-system, only particularized to problems of economics, finance, society, science, but not so in segmented fashion. Rather the study of all such systems of knowledge are uniquely combined within the global and immutable methodology of the Tawhidi worldview. Thus is the terminology, Unity of Knowledge in world-system. Only 'problems' not 'methodology' of such diverse systems in the Tawhidi nexus are specific to them but are interacted with the other ones. The Tawhidi worldview understood in its most dynamic and organic form of unity of systems knowledge as *processes of learning* a la the Shura (participation) of the Tasbih (knowing the Ayath Allah=Signs of Allah in world-systems ('alameen)) is the first level of sustainable scholarship as Ibadah and world-empowerment. Upon this formalization will be erected the details of the Islamic world-order (Ummah) in different fields -- economic, finance, society, science etc. The nature of Islamic institutions and instruments and the development of the needs of such an order will thereby emanate. There are many a lifetime of contemplative scholarship and applications in this kind of the Tawhidi pursuit as Tasbih of world-systems ('alameen). You may refer to my recent work and earlier ones. See my *Explaining the Qur'an, a Socio-Scientific Inquiry* (Lewiston, New York: The Edwin Mellen Press, 2002); *Reforming the Muslim World* (London & New York: Kegan Paul International, 1998) etc. "learning systems", forthcoming, *International Journal of Systems and Cybernetics*, 2004 (33:10).

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