

Does the Islamic banking industry Represents Islamic Economic System?

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The failure of the capitalism and socialist system in solving economic problem in many countries especially developing countries encouraged Muslim scholars and revivalists to prefer Islamic economy system to replace the conventional system. It was 1970s when Islamaization of economy began and started growing rapidly.

Since the economic crisis 2008 has taken place the world economy has yet to recover, confronting greater challenges ahead. The Islamic Financial industry was less effected by the crisis relatively. This situation made global think tanks to benefit from Islamic banking industry and their principles. But in the same time many misconceptions and questions are still there to be answered , discussed and solved in order to move on toward the real Islamic Economic System. This requires further and constant efforts to ensure that Islamic Industry of finance is consolidated on solid foundation with a dynamic environment of players, products and regulations.

One of the basic questions that still comes to minds is that weather the percent modes of Islamic banking are representing the real Islamic Economy system or not...?. This question is in fact, a reflection of a misconception with regard to current Islamic banking industry that prevails in that of some esteemed religious sectors and centers of issuing fatwas (Dar-ul-Ifta) as well as some other sides in Pakistan and some other countries. According to them the “recent development shows that Islamic finance is moving in another path towards capitalism by missing the Islamic economic system value(asutay,2007)”.(1)

1 Islamic Economics beyond Islamic Banking and Finance, By D.Dzikri firmansyah Hakam, page: 2, working paper series Octobar 2016.

They further say that “ Islamic Banking as an institutional aspect in Islamic economics has experienced a convergence towards conventional banking and divergence away from the principles and foundations of Islamic economics as a distinct system(Asutay,2010).”(1)

This question or misconception is in fact the question of million dollars, because it has resulted into many others misconceptions. The entire misconceptions are based deeply on this one. So it becomes necessary first to take it in considerable notice Acknowledging this challenge many answers might be given to it. But according to my humble analysis the following two points may help them to understand the ground realities that has subjected Islamic finance industry to this challenge.

1.The reason beyond the misconception that they had fallen prey of is to consider the Islamic banking industry a representative model of Islamic economy system. First we must try to answer to question weather current Islamic financial industry should be considered as an Islamic Economic System(IES) or rather a part of proposed (IES)?. If once we take in our notice the limited scope of the Islamic bank and financing in current private sectors it would make it easy to understand the ground realities that still prevent to move on toward real Islamic economic system(IES).

In fact, the consideration mentioned above is false. None of the Muslim scholars ever had claimed that.

No one can deny that the current scenario of Islamic banking is not more than a contemporary alternative modes of financing that have been designed to play their roll just as an alternative to that of conventional financing system. More deeply we can say that the Muslim scholars have not made changes in the whole structure or picture, instead, they struggled to adopt some instant Islamic compliant modes of financing on superficial grounds in the same structure that was established by Capitalism. Thus, it is natural that many characteristics of Capitalism maybe exist in the percent phenomena of Islamic banking.

Here a question may arise that why did they not establish Islamic system from the beginning point..?.

The answer is that it was under compulsory to do so due to certain reasons that called upon Muslim scholars to seek for alternative modes within the same system that was familiar to the people and they were accustomed to conduct with since 1970s and after the Industrial revolution that took place in 1859. As well as it was not easy to establish the Islamic economy system instantly in a comprehensive manner that might fulfill the needs of public as per conventional banking industry does. In addition to that, it was too difficult to proceed confidently the IES in an environment

¹ Islamic Economics beyond Islamic Banking and Finance, By D.Dzikri firmansyah Hakam, page: 2

of competition where it is essential relevantly “to innovate products offered to be very similar to its conventional counterparts but structurally Shariah compliant”.⁽¹⁾

This makes a greater challenge for Islamic banking industry to deserve its existence and survive its position, because “the more innovation take place in Islamic finance products, the more they are labelled as ‘replications’ of conventional finance products”.⁽²⁾

The revivalists of Islamic economic system has defined the (IES) with different definitions but all of them has emphasized unanimously on some rules and conditions that might be expressed by the word “Falah”(human well-being) of human being. Expressing the meaning of this term D. akram khan says :

“Islamic economy aims at the study of human Falah achieved by the organaizing the recourses of the earth on the basis of cooperations and participation”.⁽³⁾

The word “Falah” has a comprehensive bundle of meanings that may has no equilent in any other language. According to one of greatest past Muslim scholar : Imam Raghīb (May Allah bless his soul) this word has a both-worldly concept. In the contest of this worldly life it is a multi-dimensional-concept. It has its implementations for both individual (micro-level) as well as for collective (macro-level).

How ever when it has been known that “Falah” is the main subject of an Islamic economic systems it become necessary to determine the conditions of “falah” for establishing an economic system. The study in the Islamic literature about “Falah” leads us three categories of “falah” that aer the in fact the fundamentals of an Islamic economic system. Mufti Taqi Usmani has mentioned three types of conditions for constituting an Islamic economic system that are as follow :

- 1.Divine conditions.
2. Moral conditions.
3. Legal conditions.⁽⁴⁾

A proper understanding of goals and objectives of the Islamic economic system(IES) is necessary to determine the nature and position of current Islamic banking industry.

In the light of above mentioned conditions Economic well-being(Falah) to the Islamic system is based on moral, universal brotherhood and justice, equitable distribution and income, and freedom of the individual with it the context of social

¹ ISRA ISLAMIC FINANCE SPACE, ISSUE 09, DECEMBER 2017, PAGE : 21

² ISRA ISLAMIC FINANCE SPACE, ISSUE 09, DECEMBER 2017, PAGE : 20

³ D. Akram khan, An introduction to Islamic economic, page:34, published by Center of Islamic thoughts and policies.

⁴ اسلام اور جدید معیشت و تجارت (Islam and modern trade and economic)، مفتی تقی عثمانی، باب اول، ص: 17،

welfare. Islamic economy is based on the Islamic worldview which relies not only based on human reasoning but also based on revelation.

Based on the fundamental conditions of (IES) the “ Islamic financial system promotes ethical values; hence, is not value-neutral as is the case with the conventional financial system.....;ethical values such as justice, fairness, trust, honesty, integrity and a balanced society; promoting brotherhood and cooperation through partnership, equity-based and risk-sharing financial instruments; and finally, promoting good governance and transparency.”⁽¹⁾

However, In this contest it would not be considerable to examine the percent Islamic banking as an Islamic economic system that is ought to have all its characteristics. Instead, this current phenomena should be deled as a step toward the real Islamic system(IES) that is not based merely on some restricted and alternative modes of financing like Murabaha, Diminishing Musharaka, Lease and purchase contracts etc. But represents instead, a comprehensive financial market transactions, operations and services that are guided by Islamic rules and law and are referred to commands of Sharia.

2.The second point that should be taken in notice is that current Islamic banking industry is not supported in many developing countries like Pakistan by government. It is instead, working in Private sectors. While the process of developing whole Islamic economic system(IES) with all its conditions and characteristics as a moral and distinct economy system need a political process. So it is almost impossible in private sectors to enact a political process in objective to develop Islamic economics as a new system. Until the Muslim government do not pay there serious attention to implement Islamic economic system(IES) there would be a lot of challenges that would prevent to achieve the objectives and goals that (IES) is looking for.

May Allah Almighty grant Muslim leaders tawfeeq to support Islamic banking industry and to convert it from banking to Islamic economic system.Ameen.

¹ Islamic financial system, principles and operations, Page: 29, 2nd edition, published by ISRA.