

Introduction

The Islamic Finance industry is valued at US\$3 trillion and will continue to grow in importance as Muslim majority countries grow in wealth, and Western corporations seek to sell their goods with developing economies. The economic growth of six Muslim majority countries (Egypt, Iran, Bangladesh, Indonesia, Pakistan and Turkey) has been projected to reach the level of the Group of Seven nations by 2050, with the growth of Islamic Finance to parallel this growth. The role of Islamic Finance in the global economy has led to the participation in the industry by diverse global institutions such as Goldman Sachs, HSBC, the IMF (International Monetary Fund) and the Beijing-led Asia Infrastructure Investment Bank, among others. Even former British Prime Minister David Cameron emphatically proclaimed that 'London will be the Western hub of Islamic Finance'. Furthermore, in the aftermath of the debt-fuelled 2008 global financial crisis, Islamic banks were more robust in their recovery compared to Western banks, as they did not participate in toxic financial instruments. This led to praise and admiration from leading economists to explore the potential benefits of Islamic Finance in an increasingly globalized world.

If you are like me, you probably had a few questions when you first heard of Islamic Finance. First, what is Islamic Finance? Simply, Islamic Finance is the practice of financial principles based on the Qur'an and other sources of Islam. This will be explained in detail in Part 1. Second, how come I've only heard the terms 'Islamic terrorist', 'Islamic fundamentalist'

and 'Jihadist' along with a few others, but have never heard of the concept 'Islamic Finance'? I will explain why and how this 'single narrative' about Islam is deeply problematic not just because it is offensive, but rather because it provides an incorrect understanding of the historic role of Islam in global trade and the future role of Islam in global trade.

Now let's deal with the second question. The term 'Islamic fundamentalism' implies it is by practising the fundamentals of Islam that these individuals have acted in violence rather than some other reason. Such as young men without much of an education and prospects for work who are appropriating the religion and interpreting the acts from the lingering residue of revolutionary Marxism that had existed in their countries after decolonial movements in the 1950s and 1960s. An astute mind will find that this underlying problem, of men without hope of employment and a place in society who subsequently turn violent, also exists in countries that are *not* Islamic.

The term 'terrorism' has been used to define a violent act perpetrated *only* by a Muslim. This discourse has been shaped in response to 9/11 (which has become shorthand for the events that occurred in New York on September 11, 2001) and, for others, it was developed by the Iranian Revolution of 1979. This negative interpretation of Islam then seeped into the popular consciousness that Islam has done nothing positive but solely eroded and undermined the values of the 'West' or 'Judeo-Christian values.' Even if you were an innocent bystander in these discussions, you might have formed a negative opinion about Islam. While you may not agree that all Muslims are terrorists, you might wonder: 'How come all the terrorists are Muslims?' You may perhaps also have a follow-up question: 'How come there is nothing positive that you hear about Islam or Muslims?' The response by practising Muslims, self-identifying Muslims or those sympathetic to Islam (such as the late Professor Edward Said) to 'Islamophobia' has been to deconstruct the critique of Islam

or to expose the hypocrisy of those who claim that Islam is the root of all evil.¹

The argument follows as such: one person who wants to ridicule Muslims will say: 'Islam is inherently violent.' The Muslim or Muslim sympathizer will respond to undermine the initial argument by saying: 'You know the American military has been in a state of perpetual war since the Second World War, so who is more violent?' While the second statement is true, it only furthers the divide between the two sides and forces the first person to continue to ridicule Islam. Most often, these two people will be citizens of the same country and most likely live close to one another, thereby increasing the social tension in their community and furthering the divide that may already exist. Furthermore, neither of these two people will be actively working towards making their community or society a better place, since getting into a shouting match about who is right or wrong doesn't allow either person to work towards the betterment of themselves or others.

The exchange between the two is entirely based on ethos, 'emotions', and has more to do with constructing one's 'false superiority' by creating a 'false negativity' in the other person. The German philosopher Georg Wilhelm Friedrich Hegel (1770–1831) argued in *The Phenomenology of Spirit* that, 'Self-consciousness is in and for itself, when, and by the fact that, it is in and for itself for another self-consciousness; that is, it is only as something recognized.'² For example, when an individual recognizes you solely as a Muslim, then you become a Muslim, even though you are also a Canadian, a university student, or a soccer player. The perpetrator attempts to reduce another human being's sense of self by not recognizing them for who they are, but by identifying them by negating who they are. And only by accepting the stereotype do you affirm their identity – this is the 'struggle for recognition'.

For some, this reduces them to something they are not, and they do not respond since they realize the trick that is being

played. Whenever someone has attempted to do this to me, they are never aware that my grandfather fought in the Second World War with the Fijian Regiment and spent his life working for Her Majesty's Government in Colonial Fiji. Therefore, how can my personal experience with Islam be antithetical to freedom, democracy and the 'West' when my grandfather put his life on the line and fought for it – like millions of other Muslims? The fact that this doesn't cross their mind reveals their ignorance rather than my shortcomings. As a result, it is best to simply walk away from such an exchange with one's dignity and sense of self intact. For Hegel, this act was radical because it annihilated the power of the perpetrator. The perpetrator is dependent on the 'other' to construct their identity. To deny the other person this power is to gain one's freedom. As Hegel observed, 'It is solely by risking life – freedom is obtained.'³

For others though, they embrace the exchange and become the stereotype that is projected onto them because it feels empowering to be recognized rather than being ignored. This furthers the divide between the two supposed divergent sides. However, I argue that the purpose of the exchange is less to do with constructing an 'other'; instead it is the need to construct the 'other' to uplift the person making the offensive statement in the first place. When the person makes the statement to ridicule Islam, they are in the process of constructing their own identity in what they believe is in a new and more positive light. They are no longer the struggling high school student or drop out from university; they are now the rational free-thinking atheist who is claiming they are the inheritor of the heights of Western civilization in opposition to the irrationality and failures of Islam. Ironically, they are never at the pinnacle of their society. And, because this person cannot merely differentiate themselves from others due to work ethic or meritocracy, they need to create an 'other' who they believe is less than them to feel better about their shortcomings.

Hence, engaging in an exchange with this type of person only reinforces their identity while creating a negative opportunity cost for both people. How can you be sure that there is an opportunity cost? I can highly guarantee that neither of the people in this exchange will develop the vaccine to COVID-19. How can I be so sure? People who are focused on solving complex problems that take decades to become an expert in have the mental discipline to not be distracted by something that doesn't affect their life.

About this book

This book is divided into five parts. Part 1 focuses on the origins of Islamic Finance and its roots as an Abrahamic faith. This section explores how the principles of Islamic Finance and its economic motivations work as a system rather than as a simple set of legal rules. We will explore the common ground it has with Christianity and Judaism. This will be explored through the provocative claim that the rise of Islam in the 7th century, and the subsequent system of trade between North Africa and Italian city-states, provided the impetus for Europe to crawl out of the Dark Ages by re-introducing concepts of capitalism to the Europe ruled by Charlemagne. Furthermore, we will explore the understanding of the prohibition of interest in Christianity and Judaism, then take a look at how the Protestant Reformation became the catalyst for the modern banking system in the 16th century.

Part 2 examines the long history of Islamic trade, from the 7th to the 20th centuries, what I call Pax Islamica (the Islamic peace). It is intended to answer the question: 'What has Islamic Finance contributed to civilization?' This is a fascinating look at what happened when the nascent religion spread and the new adherents applied the principles of Islamic Finance to their societies to facilitate long-distance trade from the far distances of the world through Central Asia, into Europe, Africa and into East Asia. By tracing the history of

Islamic trade, it will become evident that *economically* Islam is a *liberal* religion. As the religion spread from the Arabian peninsula to North Africa, Spain, Africa, Central Asia, the subcontinent and Southeast Asia, anyone who was Muslim and was held as the leader was able to lead their respective Islamic societies. This is a crucial point to understand the history of liberal economic thought. None of the new Islamic empire or sultanates ever had to seek guidance from a centralized authority. Whereas the doctrine of papal primacy in the Catholic Church enshrined that the Bishop of Rome, 'the Pope', has universal power over all Catholics, this was not the case with Islam. Islam was the Protestant Reformation before the Protestant Reformation. Whether it was Fatimid Egypt, Islamic Spain, Safavid Persia, the Ottomans, the Mughals or the Sultanate of Aceh, power and profits did not lead back to Mecca. Hence, the rapid spread of Islam around the world was facilitated by the comparative political and economic liberalism that Islam provided at the time.

This part will reveal that trade between the East into Europe along the Silk Road and the Maritime route was well known among those who had an interest in it. This begs the question how come so few people today understand how vital this 1300-year-old system of trade is to the world? A statement by the 16th century Portuguese traveller to Southeast Asia, Tom Pires, best sums up the importance of the system of trade when he stated: 'Whoever is lord of Malacca has his hand on the throat of Venice.' A reflection of how vital the supply chain of spices from Southeast Asia was to the riches of Venetian traders.

Before you read Part 2, I will provide a typical disclaimer that is given by financial advisors to investors: past performance is not an indicator of future outcomes. In other words, the explanation about the historical benefits of Islamic Finance to facilitating trade and development of Islamic civilizations is not arguing that Islamic civilizations will once again reach such heights by merely trying to recreate the past. As Sir Karl Popper

explains in his book *The Poverty of Historicism*, this is when the glories of the past are used to predict the future achievements of civilization, typically by romanticizing a previous 'Golden Age'.⁴

Part 3 looks at why Islamic Finance disappeared in the early 20th century and how it is re-emerging in the modern global financial system. Regarding the question of disappearance, the first thought that comes to mind is European colonization. However, from the moment the Portuguese sailor Vasco da Gama sailed around the Cape of Good Hope in 1498 to establish trading posts in Goa (India), to almost 1820, European merchant companies were not at a technological advantage compared to their Eastern counterparts. It is essential to understand that colonization did not happen in one instance at the snap of fingers. Neither was colonization an experience that benefited every single person from a European background. Instead, it was supported by the monarchs of Europe to allow merchant companies to trade in Africa, North America and the Far East. One of the significant factors was the rise of the Industrial Revolution (beginning in 1760) in England, which tipped the balance of power in favour of the British over other Western European powers, which led to an asymmetry of power that resulted in the gradual colonization of Islamic powers and almost everyone else. Another factor was the lack of initiative of these once-wealthy empires to modernize their economies and technologies to keep up with the advances made in Western Europe. It was both internal and external forces over a 200-year process that slowly eroded the last Islamic powers.

Interestingly, after the collapse of the Ottoman Empire at the end of the First World War, the Dutch became the rulers of the largest Muslim population through their colony of Indonesia. To facilitate the holy pilgrimage from Indonesia to Mecca of its Muslim subjects, the Netherlands Trading Society opened a branch in Jeddah in 1926 to organize the financing of the pilgrimage. This act would eventually lead to the Netherlands Trading Society acting as the de facto Central Bank of the

Kingdom of Saudi Arabia from 1926 to the 1960s, as it was the only bank in operation in the Kingdom. This unique arrangement ensured that the practice of Islamic Finance continued even after the collapse of the Ottoman Empire. Another interesting point that will be explored is how OPEC (the Organization of the Petroleum Exporting Countries) unintentionally forced the creation of currency risk and hedge funds when it forced the United States of America off the Gold Standard after the 1973 oil crisis – a critical moment that ushered in an era of neoliberal economic policies.

Parts 4 and 5 of this book examine the potential of Islamic Finance in the 21st century, in an age of the *re-emergence* of East Asian and South Asian economies. It is predicted that by 2050 Indonesia will be the fourth largest economy in the world by purchasing power parity while also being the country with the largest Muslim population. Yet Indonesia does not come to mind as an economic power; nor is it often mentioned as a part of the Muslim world. However, from reading Part 2, you will see how Indonesia was incredibly valuable in the spice trade that attracted the Portuguese, Dutch, French, English and Americans to the region. It was so vital to wealth creation in 19th-century Salem, Massachusetts, that the city's seal features an image of a 'Javanese' man. As we look to the future, we anticipate the effect of the rise of Indonesia as a regional power shapes how we understand the development of Islamic Finance.

Nonetheless, it is not simply a triumphant return of Eastern powers in opposition to the West; rather, the question will remain whether or not Islamic Finance can be implemented to reduce income inequality, curb the effects of climate change, and to produce societies that do not merely copy the failures and excesses of an unregulated capitalist system. This part of the 2050 vision is hard work. It will take policy experts, civil society and responsible governance to develop a society that can reflect the ethos of Islamic Finance. This burden is placed on those who reap the benefits of the boom of Islamic Finance. It is also

an opportunity to set an example for others for how the world can develop.

And one final disclaimer before we begin our journey exploring this topic: this book is not a polemic nor apologetics about the morality of Islam, nor the claim that Islamic Finance is a panacea, a totalitarian divine solution for the world. In particular, in the aftermath of the calamities of the debt-fuelled 2008 global financial crisis, it is not a discussion about the more delicate intricacies of Islamic commercial law about what is or is not *halal* (permissible) in a purely legal sense. Nor does it intend to ignite those debates. Instead, this book provides historical, political and economic context to explain Islamic Finance as a social phenomenon. The purpose of such an analysis is to understand, then, how these principles apply today to adequately address the needs of society. A strict legal adherence of law without understanding that law is meant to minimize the misery of society will eventually render law null and void of any authority.

Now let's look first at the common features between Islamic Finance and the Abrahamic faiths to understand the similarities in their understanding of the ban on interest-based lending. Then we turn to understanding how Martin Luther's nailing of his Ninety-five Theses, which ignited the Protestant Reformation and the split of the stranglehold of power with the Catholic Church, eventually led to Protestants allowing for interest-based lending, ushering in the modern era of banking.

Notes

- 1 Late Professor Edward Said was a Palestinian American born in Mandatory Palestine in 1935 who became a Professor of Literature at Columbia University, a public intellectual and a founder of the academic field of postcolonial studies. Although not a Muslim, Said understood that for many in the West, 'Islam' and 'Arab' were synonymous. As a result he wrote a number of books to counter negative stereotypes of both. In his 1981 book *Covering Islam: How the Media and Experts Determine How We See the Rest of the World*, Said deals with issues during and after the Iranian hostage crisis, and how Western media has speculated on the realities of Islamic life. Said questions the objectivity of the media, and discusses the relation between knowledge, power and Western media.
- 2 G. W. F. Hegel, *Hegel: The Phenomenology of Spirit*, Oxford: Oxford University Press, 2018, p. 76.
- 3 *Ibid.*, p. 78.
- 4 Karl Popper, *The Poverty of Historicism*, Boston: Beacon Press, 1957.