What is the Scope of Islamic Economics and Finance?

Masudul Alam Choudhury[*]

[Abstract: *A contrasting study between what ought to be the scope of Islamic economics and finance in theory and practice and what they are presently is introduced. By and large, the ought-statements are framed around the episteme of embedded unity of knowledge between the entities of diverse systems that are explained to learn continuously in reference to the oneness of the divine laws in the scheme of things. The contrasting prevalent view of Islamic economics and finance is a detached one from such an epistemic reference. Hence their reasoning and application are distanced from the service of the Ummah, the conscious world nation of Islam. While taking up this critical examination, the mind-set of Islamic economics and finance organizations are examined to show that the pursuit of capitalist globalization is deep in their agenda. Thereby a narrow (Fiqhi) interpretation of the Shari'ah is followed, leaving aside the Tawhidi core. Much needs to be done along both the conceptual and applied perspectives of the Islamic worldview in economy, finance, society and the socio-scientific entirety.]*

According to Islamic Financial Services Board (IFSB), today no less than 250 Islamic banks and financial intermediaries exist around the world trying to emulate what they caption as Islamic economics and finance, a catch word that motivates millions of Muslims around the globe to participate in this financial venture. Islamic finance windows are opening up in conventional banks as well as are evidenced by the case of Malaysia, Pakistan and Singapore. IFSB points out that the assets of Islamic financial organizations increased from $150 billion in 1989 to $215 billion in 1999. Total assets wordwide in 2005 are estimated to exceed $250 billion, and are expected to grow at 15 percent a year (El Qorchi, 2005).

The Unease

The unease remains in the mind of the critical investigator on Islamization of the economic and financial sectors. Is such an Islamic financial transformation merely an attractive caption that steers the emotions of the pious Muslims or is it an experience aimed at laying out a fundamental transformation of the Muslim World into an Ummah?

This critical investigation leads to a number of fundamental worries. We note them here by our questions.

Is Islamic economics and finance just a palliative for controlling the resources mainly of pious Muslims by promising handsome rates of return on investments by entering global capital markets with ventures that are called Shari'ah compliant? If this were to be true then can the greater goal of wellbeing for the

[*] Dr. Choudhury is professor at the School of Business, Cape Breton University, Sydney, Nova Scotia, Canada. He also holds an International Chair at the Postgraduate Program in Islamic Economics and Finance, Trisakti University, Jakarta, Indonesia.

Ummah be attainable to develop a truly self-reliant and self-governed way of economic, financial, political and social thinking, and thereby bring about a socioeconomic and financial transformation that can prove to be application of the new way of thinking along lines of the Ummah?

We also ask the questions: Can a truly Islamic transformation be attained in the light of the present-day knowledge of economics, finance in concert with polity and society? Is the existing methodology and vision of Islamic economics and finance compatible with genuine Islamic thought and transformation?

Objective

The above questions are some of the critical ones that we wish to inquire in this brief paper. Subsequently, it is our objective to point out what we claim to be the Islamic worldview in the socioeconomic and financial transformation. Why do we consider an alternative epistemological paradigm under the Tawhidi worldview to be the genuinely Islamic premise of thought and application in the field of Islamic economics, finance, polity and society? This question comprehends the entire socio-scientific world-system; but we will not be so extensive in this paper.

Delineating the Normative Premise

The interaction between the boundaries of the disciplinary domains we have mentioned here genuinely qualifies as the study of Islamic issues in the light of political economy (Choudhury, 2004). The Qur'anic worldview of the paired universe as the project of learning in unity of knowledge between the entities of these diverse but interacting systems is the centerpiece of the organic nature of unity of knowledge. It is conveyed by the principle of pervasive complementarities between the diverse but learning entities that belong to the sub-systems such as economy, finance, society and polity.

Thus when we critically investigate the objective, methodology, institutional structure and practical applications we must principally invoke the Quran and the Sunnah to discover the epistemological foundations of any Islamization project, issue and problem. We will avoid any fundamental reference to Fiqhi literature. This is not to denigrate Fiqh as unimportant. Contrarily, it is because our argument rests on the continuous re-investigation of Fiqh by fresh learning on the interpretive ontology of the rules derived by discourse of issues in the Shura in the light of the fundamental epistemology of Tawhid. All historical Fiqi literature is thus treated in relative and critical sense in this kind of continuous learning, discourse and re-generation of knowledge premised on Tawhid as unity of the divine law.

How are Islamic Banking and Financial Institutions responding to Shari'ah and Globalization Today?

There are five main injunctions of the Shari'ah. Details of life and thought revolve around these injunctions for aquiring broader extensions to complex issues. The Islamic State, and in its absence the Muslim Government and Islamic institutions, are entrusted with the responsibility of (1) protecting, upholding and furthering the cause of Tawhid across present and future generations; (2) defending and safeguarding the rights, privileges and laws of the Islamic state (community); (3) guaranteeing life-fulfilling basic needs of all citizens; (4) upholding justice and fairness and establishing rights and privileges through the courts of law and safeguard of property rights by means of legal tenets; and (5) maintaining proper functioning of the treasury and mint. These points are derived from a reading of Chapra (1992).

The above last point implies the objective of national economic and financial stabilization. We note from these five goals of the Shari'ah that they are not independently constituted. Also, the principle of justice, distributive equity, efficiency by means of stabilization, and the centerpiece of Tawhid in all of these as the worldview form the nature of the Shari'ah goals. Consequently, it is incorrect to argue that either the Islamic State (community, institutions) or the Shari'ah can be properly served by the pursuit of objective criteria that rely on mutual independence and absence of learning by interaction between these main categories (Naqvi, 1994).

The question remains: How can the system stay stable by continuously regenerating learning by processes of interaction, if certain exogenous premise is not placed at the invariant pivot of all the diverse goals? This kind of cementing glue that inheres at the center of all the goals, and thereby cause interaction, convergence (integration) and further creative evolution by learning, as the dynamics of interaction and integration proceeds, is referred to here as unity of knowledge. In the Qur'an, the episteme of unity of knowledge that defines and controls, applies and extends the worldview of unity of the divine laws is called Tawhid.

Tawhid as Functional Unity of Divine Knowledge across Learning Systems

Tawhid is thereby a functional precept beyond being a theological and metaphysical one. In its functional context Tawhid explains the systemic meaning of Oneness of Allah in reference to the divine laws. This comprehension of Oneness of the divine laws is useful, for Allah remains beyond comprehension and configuration except by His knowledge that defines the Command, Ownership and Absoluteness in Creation. Instead of thinking of Allah in any manifestation of the metaphysical oneness, the Qur'an invokes in the believing beholder the study of the laws reflecting divine unity in the scheme of things (Qur'an, 6:103). Systemic unity of knowledge caused by the comprehension and application of the divine laws is the functional precept of Tawhid that we derive from the Qur'an. It bestows learning by interaction, integration and creative evolution of knowledge according to the precept of oneness, linkages, complementarities and continuity of these between the entities comprising diverse domains. All these functions are enabled through organic learning in the light of the common cementing glue in everything, which is the epistemology of Tawhid. Tawhid remains invariant in every domain, causing the entities across systems to unify by learning on Tawhid in the systemic sense of extensions.

Applying the Tawhidi Episteme of Unity of Knowledge to Economics, Finance, Society and Polity

Now if the Tawhidi epistemic worldview of unity of knowledge is applied to the Islamic political economy of economics, finance, society and polity, we note that these sub-systems are not disjointed from each other. Their entities must form an organic learning domain of unified complements with learning linkages overarching between them. In each and all of them the precept of Tawhidi unity of knowledge is to be derived from the Qur'an, which are then explicated by the Sunnah and subsequently discoursed in the Shura for gaining insight to learning processes (Ijtihad) between the entities.

One such method arising from the general unified systems comprise circular causation interrelations between the critical variables along with their extensions. According to the Qur'anic episteme on general learning systems (Qur'an, 2:261-81), the critical factors of the derived model are (1) Spending in the good things of life; (2) Charity; (3) Trade; (4) implementation of cooperative development finance institutions that promote complementarities between the above activities; and (5) consequently, the inverse circular causation result of the above activities on declining rates of interest.

Circular Causation between Finance and Resource Mobilization according to The Qur'an

The idea of circular causation interrelations is that any one of the activities generates cause and effect on the other ones, as long as complementarities exist between them. Contrarily, the regime of interest rates is negatively related to circular causation between all the variables. Interest rates impede the flow of spending, social productivity when good things of life are invoked (life-fulfilling basic needs of life). Contrarily, trade and the development financial instruments of resource mobilization, such as Mudarabah, Musharakah, Murabaha and Ba'y Muajjal liberate financial resources and mobilize money out of the trap of withholding by savings. Savings pursue the lure of interest as the liquidity payment, the price of money on idle funds, for debt-payments or over-investments as in the case of raising financial capital by means of private and government bonds to over-extend development expenditure (Ventelou, 2005).

One can now understand circular causation in multitudinous of ways. Consider Zakat funds for poverty alleviation through socially productive means. This means that development projects are established that can mobilize the poor and make them own such projects collectively by the use of Zakat funds. The returns from such projects managed and owned by Zakat receivers can be linked to other social development projects, the corporate sector, and government ventures. Each such linkage uses cooperative development financial instruments. They generate trade and entitlement formation with empowerment and human resource development of the poor. The result of such cooperative ventures is a gain in distributive equity and participation on an extended basis. One can continue on in this way to include a vast list of circular causation between entities (variables) and systems (economy, polity, society, finance).

The Goals of Islamic Economy, Finance, Society and Polity

In the end thereby, we note what truly must be the objective goal of the complementary entities and systems encompassed by the political economy of finance, polity and society in the light of the Tawhidi worldview. Is it to maximize such a comprehensive goal? That would be impossible, for maximization involves partial differential calculus both in the static and time-dynamic sense. The result would then be non-learning experience by all the entities and sub-systems, as learning comes to an end by assuming constancy of some of the variables in the event of partial differentiation to attain maximization goal.

Instead, the simulation exercise of Tawhidi learning worldview implicates complex interacting, integrative and evolutionary learning. Such a state of institutional, polity, economic, financial and social learning cannot accept constancy of any of the variables that is included in circular causation (Choudhury & Korvin, 2002). The inherent complementarities of the learning variables in circular causation between the variables are practical representations of systemic unity of knowledge. It is a phenomenon made possible only if resources and knowledge are continuously re-generated in the learning systems. It takes place when the postulate of scarcity of resources and its conjoint assumptions such as full or bounded information, economic rationality and maximization, and steady-state equilibrium conditions are negated (Etzioni, 1988). This comes about by the logical process of the learning entities across unifying systems that learn to unify by resorting to the Tawhidi worldview of organic unity of knowledge and by institutional actions toward continuously examining and reforming the systems and the issues under investigation along lines of unity of knowledge. The project of discovering and sustaining unity of knowledge in learning systems is indeed the primal project of development sustainability (Hawley, 1986).

Have existing Islamic Banks and Financial Intermediaries Emulated the Tawhidi Episteme for Realizing the Ummah?

The Conceptual Aspect

A broad survey of the literature in Islamic finance does not reveal the linkage that ought to exist between money, finance and the real economy in the light of sustainable development and social issues, such as of distributive equity and poverty alleviation. Instead, what is found to prevail in the literature invoking the Shari’ah implication on Islamic finance is safeguard of property rights. It is nowhere evident how such property rights are to be maintained in the larger scope of society and economy without organic forward and backward linkages.

For example, Islamic finance and banking outlets consider outright trading in gold coins and trade in merchandise to be Shari’ah compliant, notwithstanding the fact that these kinds of transactions may circulate only among the rich and trading merchants without carrying with them socioeconomic development effects. This kind of activity even in a seemingly Shari’ah compliant outlet is not recommended in the Qur’an (102:1-2; 104: 2-4).

Case studies with Murabaha and foreign trade financing are found to be testimony of this example. Though foreign trade financing is a low risk mode of Shari’ah compliant financial instrument, it has not been found to benefit the rise of inter-communal trade and development in Muslim countries. The OECD noted this debility with foreign trade financing. Much of the financial resources connected with foreign trade financing are found either to flow within the Arab World or are paid to other than the Muslim World (Choudhury, 1989).

In the case of Murabaha financing instrument, Islamic house financing has managed to serve wealthy regions, as in the Middle East and the West, while the developing Muslim world has remained outside this portfolio. An upfront build-up of profitability gives leverage to Islamic financing institutions. The resulting profitability is treated as an efficient indicator for such Islamic financing projects under Murabaha.

Islamic financing outlets with few exceptions, as Islami Bank Bangladesh and the Islamic banks in Sudan, have not channeled their charities into productive transformation with well planned linkages between charity and socioeconomic development. The objective of Zakat as social financing instrument along with spending in the good things of life, trade and distribution establishes interconnectedness between these instruments in the light of the Qur’anic general systems model of economy, finance, society and socio-scientific thought. This point was mentioned above.

Issues of Gold Coins as investment to be held by households in Kuwait and Malaysia have been detached from the objectives of socioeconomic development at the grassroots. Gold coins will do nothing in transforming the much needed monetary transformation of the Muslim World unless gold is introduced as the monetary numeraire in the central bank and the Bank of Settlements, Reconstruction and Development of the Muslim World (Choudhury & Hoque, 2004a).

On the academic side, the financial analysts in Islamic finance have continued using the standard asset valuation and efficiency indicators of mainstream finance without understanding the Shari'ah problems associated with these indicators and methods. For instance, the concept of time value of money, which really is a shadow price of money cash-flows and unknown risk in the future, along with the methods tied to these, such as present-value, internal rate of return and cost-benefit analysis are pursued. Efficiency indicators used do not take into account the social measures of distribution and sustainability, which then can be further disaggregated (Samad, Hasssan & Ghani, 2005).

Rethinking Islamic Measures for Economic and Financial Valuation of Assets

The concept of 'social productivity' can be developed differently in the light of the organic circular causality between financial resources and productive factors. Average product of the real sector in which financial flows as resource per unit of total productive factor used can be developed from the background of complementarities between such productive factors. Complementarities as social contracts are caused by interrelations, learning and resulting positive technological and institutional effects.

Financial efficiency indicator can be replaced by the embedded social concepts. For example, systemic learning causes an ever-declining unit cost of production in enterprises that are financed by financial flows. The result then is increased rates of return on such investments. Learning-by-doing is the result of pervasive complementarities between financial and real economic activities along Shari'ah compliant directions so as to maintain the social objectivity of such developments. Along with this pervasive effect of complementarities arise both production diversification and risk diversification in the interactive, integrative and dynamic system of embedded relations between financial flows, real economic activities and social forces. The circular causation between risk and product diversification enhances factor and resource mobilization. Development sustainability is thus attained.

Risk diversification is realized by the compound effects of production diversification, shareholding and appropriate selection of Shari'ah compliant socioeconomic activities. The embedded financial, economic and social implications in such new dimensions of understanding and configuration of 'social and economic efficiency', socioeconomic efficiency can be further deconstructed into micro-levels invoking Shari'ah legal and institutional implications and their polity-market consequences.

The emergent compendium of circular causal relations is equivalent to studying the financial, economic and social systems as learning organisms. Methods to analyze processes along these directions are not available in the prevailing approaches of mainstream finance that have invaded and have been applied to the case of Islamic finance in theory and practice.

Figure 1 in the appendix of this paper explains the embedded nature of all circularly interrelated Shari'ah relations in Islamic economics, money, finance and social forces. Such considerations must be encapsulated in the measurement of the financial indicators in the light of the real and socio-ethical effects conveyed by the flow of financial resources into real investments.

According to the Tawhidi unity of knowledge, which is the true and ineluctable foundations of any Shari'ah authenticity of worldly activities (Mua'malat), the complementarities between embedded and interrelated forces existing as processes across systems cannot be treated in segmented ways. They must be interacted and integrated along the dynamic path of process learning in reference to unity of knowledge (systemic oneness as bestowed by the divine law).

The Evidential Aspect

Practitioners of Islamic finance premise their prospects on three fronts. These are firstly, the growth of Islamic financial activities, asset values and deposits. Secondly, Islamic financial outlets eulogize and emulate western (e.g. Basle II and IMF) approaches to financial standards, corporate governance, accounting measures and transparency. Thirdly, they want to pursue market penetration through real estate, trade, equities and mutual funds linked with stock markets in the western world.

For example, First Islamic Investment Bank recommends the following (Arab Banker, Monday March 27, 2006): "As an institution, our view of asset allocation is that investors should invest up to 80% of the funds allocated towards equity and real estate investments in the OECD countries, and invest up to 20% in the emerging market economies like the Middle East."

The report continues, "North America and Europe will remain important markets for Islamic banks. Although together they account for only 11% of the world population, North America and Europe account for two-thirds of the world's GDP. The US remains an attractive market to invest in. As most of the investors in the Middle East, particularly in the GCC, are US dollar based, by investing in the US, GCC investors can avoid currency risk."

The report expresses the Islamic banking fervor in penetrating global financial capitalism today: "We need to be able to compete with the global financial institutions, and provide products and services as competitive as the conventional alternatives."

On the issues of corporate governance, transparency and accounting standards, Islamic banks are making all-out campaign in favor of Basle II and the IMF institutional aims and financial policies. Wishful expressions like the following are found to abound in the concept of Islamic financial and banking future: “It is a historic step aimed at internationalizing the Islamic banking and financial system. It will ensure that Islamic banking incorporates international best practices and standards for supervision and regulation. These must not only be consistent with Islamic principles, but also based on standards that are on a par with those observed in conventional banking” (Al-Ahram, 21-27 November 2002).

There are a number of contradictions in these statements and wishful aims of Islamic financial practices both from conceptual and practical points of view in the light of what ought to be genuinely Shari’ah compliance for the uplift of the Ummah. Take the case of the rules of capital adequacy, corporate governance and transparency under Basle II.

Critique of Islamic Banking and Financing in Reference to Basle II

Basle II is an institutional carrier of the neo-liberal ideas towards an economically ethical idea of resource management that is premised on the established belief of interest rate at the heart of the global policy and resource management agenda. The Basle II outlook and understanding of the interrelationship between scarcity, technology and global social sharing of resources, and thereby the construction of institutions as social organizations are distanced from the holism of humanly integrated sociology of precepts and their realization.

Take the central ideas of Basle II, interrelating market discipline as measured in terms of risk management with the supervisory role undertaken jointly by bank managers and overseers, including international regulatory agencies like the IMF, and public disclosures of risk management under a system of minimum capital requirements by the financial authority (Basle II, 2003, 2005). The joint realization of these goals reveal the central role of interest rate in securing funds, that is the capital adequacy for financial institutions, followed by the unequal distribution of risk and capital adequacy between small and large financial institutions. This in turn results in regulations and policing by international consensus on such policy measures and institutional discipline that leave the small enterprises and the developing economies adversely poised against the de-stabilizing effects of the combination between risk, capital adequacy and institutional supervision emanating from foreign sources.

In the interest-based credit and financial system the total risk factor depends positively on increasing short-term interest rates, which are found to be volatile in terms of their term structure. Even today, in a regime of low commercial interest rates, short-term interest rates in terms of their term structure remain buoyant and unstable for creditors.

Besides, the total risk factor is either positively or negatively related to income level depending upon the degree of risk aversion. But a risk aversion factor linked with lower risk and higher returns will also mean a negative relationship between interest rate and income level in the sense of resource mobilization into the real economy (Choudhury & Hoque, 2004b). With such movements of funds we can infer that changes in Capital Requirements will depend on the competition for financial resources between the real economy and financial savings in reference to the growth of income and the attitude of creditors towards risk aversion or risk preference.

This is the same as to say that the direction of financial resource (capital formation) into the financial sector by 'marginal substitution' of the financial economy for the real economy will determine the direction of risk level. In case there is more reliance on the financial sector, now made to substitute the real economy, then risk will increase and the capital requirements at 8 per cent capital ratio will demand a higher amount of capital to offset risk.

Islamic Corporate Governance, Transparency and Control according to the Tawhidi Worldview

Contrary to the neo-liberal pursuit of institutional controls and guidelines there are effectively powerful instruments and guidance in the truly Tawhidi framework of corporate governance that the Islamic banking and financial institutions can emulate for the prospect of the Ummah (Choudhury & Hoque, 2006). The central basis of corporate governance, transparency and control in Islamic financial institutions is the legitimacy and participatory process gained from the Shura. The basis of the Shura is participation and consultation that are engendered by the episteme unity of knowledge. Both of these embryonic features of the living Shura and its learning processes are brought out in the Qur'an (42:38, 49-53).

The nature of participatory learning and sharing dynamics by discourse and both financial and policy instruments involving evaluation of the wellbeing function of Islamic development financing necessitates unraveling of the structure of capital, risk, portfolio and returns and costs of the enterprise. In this milieu of universal participation, stakeholders and shareholders in every different rung of society can participate in the cooperative ventures. They can equally exercise participatory role and contribute decision-making inputs for the common good. This remains true independently of the amount of share capital held. The wider circular causation relations between economy, money, finance, society and polity are generated by the learning type general ethico-economic equilibrium system revolving around the critical variables. These variables are spending in the good cause, charity, trade and inverse relationship with the unsustainable nature of interest rates in this system. All of these can be further deconstructed at various micro-levels. The entire dynamics now delineate the truly Islamic processes of corporate governance, guidance, stabilization and wellbeing out of Tawhidi unity of knowledge across entities and their systems.

Contradictions of Islamic Banking and Finance from Socio-Religious Viewpoints

There are further contradictions between the announcements of the Islamic financial outlets and the theory of ethico-economic, financial and social interrelationships that remain embedded in the learning worldview of Tawhidi unity of knowledge and its practical applications. As observed earlier, the goals of merchant trade (foreign trade financing), corporate development, competition and market penetration in industrial economies, all taken up within the guise of Basle II and IMF governance and emulation of neo-liberal policies and institutionalism, means an increasing convergence of Islamic banks into the kinds of tradeoffs between economic and financial efficiency and distributive equity except by means of their not well programmed use of charities. This is the permanent nature of the economic, financial and social domains in neo-liberal socioeconomic, financial, institutional and political reasoning. The result then is a ploy and a trap that protracts the underdevelopment of the grassroots marked by poverty alleviation, lack of productive transformation, absence of learning-by-doing in self-reliant and sustainable development, and ambivalence of a projected blueprint for internalizing the use of Islamic funds in comprehensive development of the Ummah. The fear of ever-deepening subservience to the grips of the policies, economies, financial dependence and political governance of the Muslim countries by the West continues on. Stock market penetration by Islamic financial institutions in the West safeguards only personal fund management at the expense of their distributive consequences and much-needed resources for development of Muslim countries.

On the socio-religious front, the example of Denmark and other Western countries' blasphemy against the Prophet Muhammad in their Newspaper cartoons is a recent example in case. Is this merely a religious matter? Contrarily, it is a problem that is deeply embedded in economic, financial and political clouts as well. Had it not been for an economic retraction by many Middle East counties, Denmark with its 500 million dollars of financial losses would not have felt the pinch and would not have come down to seek appeasement, even though without apology.

The Muslim World continues on to be locked in economic bonds to the West, even though many hostile acts against Islam are carried out in front of the global spectators every day. The marginalization of the teeming millions of the poor, and dominance over the Muslim World by the military of the West and by the self-interested Muslim powerful keep on growing. Such is the political economy reality of Islamic economics, finance, society, ethical and socio-scientific order.

Yet Islamic academics and practitioners have failed to understand the sensitivity of the socio-religious forces that combine with financial and economic dealings across the totality that encompasses human domains. The material calculations of Islamic economics, finance, society, institutionalism and globalism would therefore remain empty indicators unless they include and apply to the entire spectrum of forces studied in Islamic political economy with Tawhidi consciousness, methodology and commitment kept in perspective.

Conclusion

In conclusion we note that the scope of Islamic economics, finance, society and the socio-scientific order rests on the principle of unity of knowledge. Such an episteme cannot be derived in its functional form either from non-Islamic knowledge sources or Fiqhi premises of the Shari'ah. Instead, there must be continuous recalling of the Qur'an and Sunnah in every issue and problem, which then is carried to the level of Ijtihadi discourse that can take place within the broad meaning of the Shura both as systemic participation and institutional consultation. Finance, economics, society and the socio-scientific schemes are then to be thought in this kind of embedded political economic and process based context of continuous learning in unity of knowledge. Thereby, the methodology, methods and worldview must be constructed independently upon the Tawhidi worldview.

Instead of this emergent worldview, what we note in the regime of so-called Islamic economics, finance and socio-scientific reasoning and practice today is a frantic drive to join the capitalist globalization process. This though is not to deny the proper place of the Ummah in the world-system. One would then construct and implement the pursuit of the Ummah as particular kind of the globalization process (Choudhury, Umar & Ghamdi, 2003). Such a transformation cannot arise from deepening subservience to the thoughts, institutionalism and governance of western genre that is on.

The scope of Islamic economics and finance as they stand today in theory and practice remains devoid of the project of the Ummah as the embedded system of unification of knowledge and experience in terms of linkages between all the reasoned and applied ways of realizing such organic relational worldview. The divine law in this respect is the engine that must be recalled continuously. Upon it is to be erected the façade of the Ummatic future. This future is not presently in sight within the prevalent mind-set of Islamic economics, finance and society today.

APPENDIX

Circular Causal Relations between Finance and Embedded Domain in the Light of Tawhidi Unity of Knowledge

Figure 1 shows how a comprehensively interactive, integrative and dynamic worldview methodology can be gained within the framework of Tawhidi unity of knowledge across systemic entities of economics, finance and society.

Figure 1: An Example of Critical Complementary Relations between Financial, Socioeconomic and Policy Variables

<u>**Equity Financing**</u>

Tawhidi Unity of Knowledge in the Shari'ah

Human resource development
Preference formation according to the Shari'ah
Social trust on an enterprise & project
Consumer satisfaction developed by participation and trust

Real Economy (System 1)	↔ Interaction & Integration	Financial Sector (System 2)
↓		↓
Spending in the real economy according to Shari'ah rules: resource Mobilization		appropriate joint venture, joint production menus avoidance of speculation
↓		
productivity product diversification sustained economic growth economic efficiency economic stability		risk-diversification ATC reduction stable returns shareholding stakeholding
Real Economy, P_1	↔	Financial Sector, P_2

↓

Project Evaluation by the Social Wellbeing
An example is the overlapping generation valuation model

↓

Evolution into New by re-invoking

↓

Continuity

References

Al-Ahram, Issue No. 613, 21-27 Nov. 2002. “A Financial Jihad”.

Arab Banker, March 27, 2006. “Islamic Finance: Rising to the challenge of phenomenal growth”, *Journal of Arab Bankers Association*.

Basle Committee on Banking Supervision, 2005.
http://www.riskglossary.com/link/basle_committee.htm

Basel Committee on Banking Supervision, 31 July 2003. *Consultative Document: Overview of the New Basel Capital Accord*.

Chapra, M.U. 1992. *Islam and the Economic Challenge*, Leicester, UK: The Islamic Foundation, pp. 6-8.

Choudhury, M.A. 1989. *Islamic Economic Co-operation*, London, Eng: Macmillan, London.

Choudhury, M.A. 2004. “Islamic political economy”, *Review of Islamic Economics*, Vol. 13, No. 1, January.

Choudhury, M.A. & Hoque, M.Z. 2006 forthcoming. “Corporate Governance in Islamic Perspective”, *International Journal of Corporate Governance*, 6:1.

Choudhury, M.A. & Hoque, M.Z. 2004a. “A Paradigm of Islamic Banking”, in *An Advanced Exposition of Islamic Economics and Finance*, Lewiston, New York: The Edwin Mellen Press, pp. 159-186.

Choudhury, M.A. & Hoque, M.Z. 2004b. “Concluding Directions: Monetary Integration by the Gold Standard”, in *An Advanced Exposition of Islamic Economics and Finance*, Lewiston, New York: The Edwin Mellen Press, pp. 249-282.

Choudhury, M.A. & G. Korvin. 2002. “Simulation versus optimization in knowledge-induced fields”, *Kybernetes: International Journal of Systems and Cynernetics*, Vol. 31, No.1, pp. 44-60.

Choudhury, M.A. Umar, Y. & Al-Ghamdi, M. 2003. *“Ummatic* Globalization Versus Neoclassical Capitalist Globalization”, *Review of Islamic Economics*, Vol. 12, No. 1, January 2003.

El Qorchi. 2005. “Islamic Finance Gears Up, *Finance & Development*, December 2005, Volume 42, No. 4

Etzioni, A. 1988. “What is rational?” in his *The Moral Dimension, Towards a New Economics*, New York, NY: The Free Press.

Hawley, A.H. 1986. Human Ecology, Chicago, III: The University of Chicago Press.

Naqvi, S.N.H. 1994. *Islam, Economics and Society*, London, Eng: Kegan Paul International.

Samad, A. Hassan, K. Ghani, A.A. 2005. “Financial performance of commercial banks: a study if Bahrain Banking”, *The Middle East Business and Economic Review*, 17:1, pp. 20-28.

Ventelou, B. trans, Nowell, P. 2005. *Millennial Keynes*, New York: M.E. Sharpe.