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Whose legitimacy? Islamic finance and the global financial order

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ABSTRACT

Islamic finance is a fast growing segment of international financial markets. Deriving its core principles from the Quran and the Sharia, the objective of Islamic finance is to install a more equitable financial and economic order that at the same time is transaction-friendly. Thus, Islam could be seen as a foundation for the inclusion of the ethical and moral dimensions of economics and markets. This coincides with rising demand for Islamic financial products. Indeed, recent years have witnessed increasing efforts to develop and to institutionalise Islamic capital markets and above all, to make Islamic finance acceptable (and thus investable) to the mainstream. In this article, I use the question of legitimacy to explore whether Islamic finance offers an alternative to the existing international financial order. To this end, I take a closer look at the knowledge base from which Islamic financial products are constructed and assessed as well as the emerging international regulatory framework for Islamic financial markets. I

conclude that efforts to expand the social constituency of Islamic finance to the transnational sphere of global finance are overly focused on its epistemic legitimization as normal financial activity. As a consequence, the currently emerging power, knowledge and governance structures for Islamic finance tend to emulate, and therefore largely reproduce, the existing global financial order.

KEYWORDS:

Islamic finance

financial regulation

Sharia compliance

legitimacy

global finance

Notes

1 'Specialized' Islamic banks are commercial and investment banks structured wholly according to Islamic principles and dealing only with Islamic instruments. Islamic 'windows' are special facilities offered by conventional banks to provide services to Muslims who wish to engage in Islamic banking ([Iqbal, 1997](#): 43). For example, the Birmingham-based Islamic Bank of Britain was created in 2004, and the London-based European Islamic Investment Bank in 2006. Large conventional banks like Lloyds TSB have opened Islamic windows and offer specialized products such as mortgage and consumer financing to British Muslims.

2 Other sources speak of a market size of nearly US \$1 trillion of assets (AWSJ, 2007) and operations in more than 75 countries (El Qorchi, 2005).

3 Rushdi Siddiqui, Global Director of Dow Jones Islamic Indexes, estimates that nearly US\$20 billion have been repatriated in the wake of the events of September 11th ([Hasan, 2004](#)). The large influx of funds to the Middle East led to a quadrupling of share prices on Gulf Cooperation Council countries' stock markets between 2003 and 2005 (IMF, 2006).

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