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Volume 7, 2010 - Issue 1-2: Globalization and Crisis

1,204 8

Views | CrossRef citations to date | Altmetric 1

Analysing Financial, Economic and Capitalist Crisis: Old and New Logics

# The Economic Crisis, Capitalism and Islam: The Making of a New Economic Order?

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Pages 105-125 | Published online: 27 Apr 2010

 Download citation  <https://doi.org/10.1080/14747731003593315>

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## Abstract

Although Islamic economics is compatible with modern capitalism, in its support of free markets, economic globalisation and profit, it has clear fundamental rules on the ethics and morality of economic transactions—it denies interest or riba, the principle of ‘making money from money’ and forbids the transference of risk from the financier to entrepreneur. There must be shared appreciation over real assets by means of its sales or lease (murabaha, ijara, salam, istisna and sukuk) while credit default swaps are disallowed. There are also other systems of checks and balances which prevent an economic crisis of pandemic proportions to arise; contractual relationships in business, finance or trade must be based on trust and familiarity of networks of common experiences (takaful) which implies that debts cannot be repackaged and resold as assets globally to faceless investors while profit must be redistributed directly to the poor (zakat) in the Holy month of Ramadhan to build and strengthen social safety nets through institutions of charity welfare and education. Western economists generally argue that state directed financial regulation of banking and

insurance backed by good corporate governance and responsibility with a progressive taxation system can prevent future economic catastrophes without looking at alternative systems of capitalism. However, systemic in the rules of libertarian economics is freedom from rules—that rules of ethics or morality are an unnecessary thing. In contrast, Islamic economics builds in moral regulation, state and person—directed as a condition of the capitalist enterprise. This paper focuses on the significant growth of Syariah-compliant finance in Malaysia, Brunei and the MENA region and suggests that moral regulation in Islamic finance lacks the connectivity with earlier systems of welfare capitalism already in place in these regions at the end of colonial rule. Syariah compliant finance could complement post-colonial forms of welfare capitalism if state regulation of assets, national, corporate, and personal in the Islamic world is instituted more widely and with greater transparency. However, oil rich Muslim nations have a growing economic divide and with an increasing population of educated and unemployed youth, the mechanisms of redistribution by Islamic principles must transcend political tribalism, elitism, and libertarian economics. Hence the transformative process to a new economic order remains a challenge to those who believe in the moral rebirth of capitalism through any means.

A pesar de que la economía islámica es compatible con el capitalismo moderno en el apoyo de mercados libres, globalización económica y utilidad, tiene reglas fundamentales en la ética y moral de las transacciones económicas—niega el interés o riba, el principio de 'hacer dinero del dinero' y prohíbe las transferencias de riesgo del financiero al empresario. Debe de haber una apreciación compartida sobre los activos reales mediante sus ventas o alquiler (murabaha, ijara, salam, istisna y sukuk), mientras que el derivado de crédito credit default swaps está prohibido. También hay otros sistemas de comprobación y saldos que previenen que surja una crisis económica de proporciones pandémicas; las relaciones contractuales en negocios, finanzas o comercio deben basarse en la confianza y familiaridad de las redes de experiencias comunes (takaful) que implica que las deudas no se pueden reorganizar y revender como activos globalmente a inversionistas anónimos, mientras que la ganancia debe ser redistribuida directamente a los pobres (zakat) en el mes santo del Ramadhan, para crear y fortalecer las redes de seguridad social a través de instituciones de caridad, asistencia pública y educación. Los economistas occidentales generalmente sostienen, que la regulación financiera de la banca y los seguros

dirigida por el estado, respaldado por una buena autoridad y responsabilidad corporativa con un sistema de tributación progresiva, puede prever catástrofes

económicas en el futuro, sin buscar los sistemas alternos del capitalismo. Sin embargo, sistémico en las reglas de la economía libertaria, es la libertad de reglas— esas reglas de ética o moral son algo innecesario. En contraste, la economía islámica cree en la regulación moral, estado y persona—dirigida como una condición de la empresa capitalista. Este documento se enfoca en el crecimiento significativo del acatador de las finanzas Siria en Malasia, Brunei y la región de MENA y sugiere que la regulación moral en el sistema financiero del islam, carece de la conectividad con otros sistemas previos de asistencia pública ya en su sitio en esas regiones al fin del mando colonial. El financiamiento bajo las normas Syariah podría complementar formas de asistencia pública del capitalismo en la época post-colonial, si la regulación del estado sobre el patrimonio, nacional, corporativo y personal en el mundo islámico, fuese instituido más ampliamente y con mayor transparencia. Sin embargo, las naciones musulmanas ricas en petróleo tienen un crecimiento económico dividido y con una población creciente de juventud educada y desempleada, los mecanismos de la redistribución bajo los principios islámicos deben trascender el tribalismo político, el elitismo y la economía libertaria. Por lo tanto, el proceso transformativo a una nueva orden económica, sigue siendo un reto para aquellos que creen en el renacimiento moral del capitalismo a través de cualquier medio.

尽管伊斯兰经济与现代资本主义若合符节，这体现在它支持自由市场、经济全球化和利润；但在经济交易方面，伊斯兰经济有着根本性的伦理和道德规则，它否定利息（或 *riba*）、“钱生钱”的原则，并禁止金融家向企业家转移风险。必须通过销售和出租对实际资产形成共识，存在信誉问题的交易是不允许的。同时，还存在其他制衡系统以防止出现传染性的经济危机。在商业、金融或贸易中存在的合同关系必须以信任和具有共同经历的网络熟知性为基础，这意味着债务不能重新包装成全球性资产再次出售给不要脸的投资者，而在斋月这一圣月，利润必须直接重新分配给穷人，以建立和加强通过社会福利和教育机构组成的社会安

全网络。西方经济学家通常认为，在良好的公司治理和责任以及累进税制支持之下，国家指导的对银行业和保险业的金融监管，可以防止未来的金融灾难，而无须寻找其他可供替代的资本主义体系。在自由至上主义经济学中具有系统性的是不受规则约束——即伦理或道德规则是不必要的。相比之下，伊斯兰经济学是建立在道德规制、国家和个人之上的——这是资本主义进取心的一个条件。本文关注发生在马来西亚、文莱和 MENA 地区服从 Syariah 式金融的重要发展，表明伊斯兰金融中的道德规制，与殖民统治结束时在这些地区已经存在的早期福利资本主义的体系没有联系。当在伊斯兰世界对国家、公司、个人资产的国家规制被广泛制度化和具有更大的透明性时，服从 Syariah 式金融可以补充后殖民形式的福利资本主义。然而，富含石油的穆斯林国家间存在着日益扩大的经济鸿沟，出现了日益增多的受过教育的失业年轻人口，根据伊斯兰原则进行再分配的机制，必须超越政治部落主义、精英主义和自由至上主义经济学。因此，走向新经济秩序的转变过程对那些信奉可以通过无论何种方式实现资本主义道德重生的人而言依旧是一种挑战。

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## Notes

This research is ongoing, following a paper written on historic transformations in Muslim business and commercial practices in Southeast Asia, resulting from Arab-Hadrami migration in Southeast Asia. The paper entitled 'Philanthropy and Trust: Hadrami Diasporas in Southeast Asia and Economic Transformation' will be published as an edited volume with Profs Engseng Ho (Duke) and Abdul Sheriff (ZIORI) as co-editors of the volume, 'Indian Ocean: Oceanic Connections and the Creation of New Societies' (Forthcoming 2011).

See section on global wealth management at [http://www.ml.com?id=7695\\_8134\\_8299\\_6710](http://www.ml.com?id=7695_8134_8299_6710)

The economic crisis was signalled to end at the anniversary of Lehman Brother's bankruptcy in September 2009, demonstrated by President Barack Obama's strong words of warning for proper regulation in global financing.

The Treasury Department of the UK affirmed there is a 'powerful momentum' behind the plan, first unveiled in April 2007, to issue sukuk—or Shari'ah—compliant bonds (IslamOnline.net, 2008).

Britain is the only country in Europe that has established Islamic banks, while London has 21 conventional banks offering Islamic banking products. HSBC is a leading bank in Shari'ah compliant products and services.

Legal firms often hire Shari'ah scholars who issue a decree (fatwa) on a particular product before it is put into circulation and marketed.

The employer is referred to as musta'jir and the employee as 'ajir.

About 36% are of Chinese ethnicity and 10% Tamilians or of Indians origin. Indigenous minorities comprise less than 3% of the total population. All Malays are believed to be Muslims.

Muslims have to specifically ask for regular banking, current or savings accounts if they do not want Islamic based banking. The CIMB bank in Malaysia makes it

mandatory for Muslims taking CIMB car loans to use the mudaraba scheme.

Permodalan Nasional issues unit trusts at fixed prices per unit, e.g. Amanah Saham Bumiputra (ASB) Amanah Saham Didik (ASD) or market prices, e.g. Amanah Saham Nasional (ASN) and invests the money in industries such as palm oil, commodities and real estate with guaranteed returns higher than those offered by commercial banks through fixed deposit, savings accounts, etc.

Statement made by Dato' Noorazman A. Aziz, Managing Director of Bank Islam. See [http://www.bankIslam.com.my/Bank\\_Islam\\_MAIS\\_Offer\\_Online](http://www.bankIslam.com.my/Bank_Islam_MAIS_Offer_Online).

Fitrh payments are much smaller, usually about \$2 per person per household. This tithe is compulsory and is usually paid by the head of the household for all dependants, including unmarried Muslim servants. There are central collection stations to pay fitrah during Ramadhan and these are usually based in mosques. Muslims pay according to where they regularly pray within their khariah (congregation or parish). An increasing number choose to pay directly to the poor within their congregation.

In one collection alone which the writer was involved, in the state of Penang, the collection amounted to RM45,000 or \$3,200. There were about 20 of these groups collecting zakat and receiving similar amounts of money during Ramadhan. Islamic charities collect significantly higher amounts, about RM100,000 or \$29,400. It is believed that contributions of this kind increases an individual's spiritual merit seven-fold.

In late 2008, Brunei's new Islamic Banking Order and the Takaful Order (concerning Islamic insurance or joint guarantees) were passed. These orders were the first attempt to align the country with international standards and attract more foreign participants to its offshore and onshore services. The new legislation also seeks to support the sustainability of micro-credit activities and small and medium enterprises (SMEs).

15% are Brunei born Chinese who are mostly engaged in the commercial sector.

Off-shore legislation was passed in 2000 and the Brunei International Finance Centre (BFIC) was established to tap off-shore investments (AMB, 2009, p. 4).

In the case of Malaysia, zakat contributions are solely collected from Muslim Malaysians but Brunei withdraws surplus from public investments for zakat.

In the article, 'HM hands zakat funds to some 4,084 families', it was stated that each recipient under the fakir miskin (poor) category will receive monthly monetary assistance to cover costs such as their basic food and drinks expenditure, daily living expenses, children's school expenses and house rental assistance. Head of the family receives \$20,000, while their dependants receive \$10,000 each. A special Hari Raya zakat (end of the month of Ramadhan) was also distributed a total of \$3,000 for the heads of the family and \$2,000 for every dependant under them (Ubaidullah Masli, 2009).

The remaining amount of zakat left over after the distribution of the \$90 million, would be distributed to eligible applicants on the list (who have yet to be approved) after the first 4,084 families were approved as of 31 July 2009.

Contracted about 1.5% in 2009.

Brunei aims to issue sukuks at least every two weeks in 2009, with a maturity of three months, one year, two years and more.

The growth rate of labour, mainly from migrant workers has been unprecedented over the last 50 years.

The studies were prepared for the 23-24 September Annual Meetings of the IMF and the World Bank in Dubai, the first such gathering to take place in the Arab world. It brought together finance and development ministers from 184 countries—the meetings discussed the state of the global economy and addressed challenges facing the developing world. The main writer of this report was Tarik Yousef (2004).

In Malaysia, it is common for middle class Muslims educated in Islamic principles of ibadah to state that as long as their conscience is clear, they need not question the way collections are made or utilised. Privately, however, the majority of educated Muslims believe that transparency must be practised in Islamic trust funds like zakat.

Corporate social responsibility (CSR) practised mostly by foreign corporations follows the same principles of social redistribution as Islam except that it may not make a significant impact on problems which are long-term like poverty or environmental disasters. It is also a component of public relations and not built into the system of redistribution of profits to shareholders, e.g. welfare deductions in dividends. Zakat is automatically deducted for Syariah-compliant shares.

Islamic banking procedures use insurance as a buffer against risks as in mainstream banking and does not cover clients welfare as part of corporate social responsibility.



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