

CONTENTS

Acknowledgements	x
A Note on Transliteration and Dates	xi
Abbreviations	xii
Introduction: Islamic Finance in the Global Economy	1
1 Islamic Finance in Theory and Practice	5
2 Islam, Economics and Finance	32
3 Riba, Gharar, and the Moral Economy of Islam in Historical and Comparative Perspective	55
4 The Evolution of Modern Islamic Finance	73
5 Islamic Finance and the Global Political Economy	90
6 Country Differences	112
7 Financial Products and Instruments	132
8 Strategic, Managerial and Cultural Issues	151
9 Economic Issues: Islamic Finance and Development	169
10 Regulatory Issues and Challenges: Global Norms and Religious Constraints	180
11 Islamic Finance and Politics: Guilt by Association	205
12 Religious Issues and Challenges: Defining Islam and Interpreting the Shariah	226
Conclusion	240
Glossary	242
Index	244

ANALYTICAL TABLE OF CONTENTS

Acknowledgements	x
A Note on Transliteration and Dates	xi
Abbreviations	xii
Introduction: Islamic Finance in the Global Economy	1
1 Islamic Finance in Theory and Practice	5
1.1 Defining Islamic Finance	5
1.2 About Statistics and Performance Assessments	6
1.3 The Literature	9
1.3.1 The Problem of Authorized Literature	9
1.3.2 The Geoeconomics of Islam	10
1.3.3 Religious, Financial and Legal Reductionism	11
1.3.4 Islamic Banking from Commitment to Implementation	11
1.4 Perceptions, Labels and Classifications	12
1.4.1 Common Perceptions of Islam and Islamic Finance	12
1.4.2 The Diversity of Islam	15
1.4.3 'Fundamentalism' and Other Labels	17
1.4.4 Traditionalism and Modernism	19
1.4.5 Oversimplification and its Consequences	21
1.5 Capturing the 'Big Picture' of Islamic Finance	22
1.5.1 An Emphasis on Context	23
1.5.2 A Historical Approach	24
1.5.3 A Comparative Approach	27
1.5.4 An Interdisciplinary Approach	28
2 Islam, Economics and Finance	32
2.1 Historical and Religious Background	32
2.2 Islamic Economics	38
2.3 Adapting to Changing Circumstances	41
2.4 Reconciling Homo Islamicus and Homo Economicus	44
2.5 Reconciling Islam and Finance	48

3	Riba, Gharar, and the Moral Economy of Islam in Historical and Comparative Perspective	55
3.1	Riba	55
3.2	Gharar	59
3.3	Contemporary Interpretations: Religious and Secular Experts	60
3.4	The Moral Economy of Islam	62
3.5	A Historical and Comparative Approach	63
4	The Evolution of Modern Islamic Finance	73
4.1	Precursors	73
4.2	The First Aggiornamento	74
4.3	The Changing Context of Islamic Finance	78
4.4	New Forms of Islamic Finance	80
4.5	The Growing Pains of Islamic Banks	84
4.6	Toward a Second Aggiornamento	85
5	Islamic Finance and the Global Political Economy	90
5.1	The Political and Economic Context of the First Aggiornamento	90
5.1.1	Pan-Islamism	90
5.1.2	The Petrodollar Windfall	92
5.1.3	Relations with the US and the West	93
5.2	Islamic Finance in the Global Economy	95
5.2.1	The Global Economy and its Ideology	96
5.2.2	The Transformation of Banking and Finance	99
5.2.3	The Rise of Islamism	103
5.2.4	The Concern with Ethics	106
5.3	Embeddedness, Convergence and Fusion	107
6	Country Differences	112
6.1	Pioneers of Full Islamicization: Pakistan, Iran and the Sudan	112
6.1.1	Pakistan	112
6.1.2	Iran	117
6.1.3	The Sudan	120
6.2	The Special Case of Malaysia	123
6.3	Offshore Islamic Centres: The Case of Bahrain	128
7	Financial Products and Instruments	132
7.1	Murabaha and Other Mark-up Schemes	133
7.2	Leasing	134
7.3	Profit-and-loss Sharing	135
7.4	Stocks, Bonds, Commodities and Foreign Currencies	138
7.5	Derivatives and New Financial Products	139
7.6	Islamic Mutual Funds	141

7.7	Development Banking	143
7.8	Zakat-related Products, Instruments and Practices	144
7.9	Micro-lending or Micro-finance	146
7.10	Insurance	147
8	Strategic, Managerial and Cultural Issues	151
8.1	Competitive Challenges	151
8.1.1	The Islamic Banking Franchise	152
8.1.2	Profitability and Social Goals	153
8.2	Management, Control, and the 'Islamic Moral Hazard'	154
8.3	Marketing Issues and Challenges	158
8.4	Problems of Liquidity	160
8.5	Cultural Issues and Challenges	161
9	Economic Issues: Islamic Finance and Development	169
9.1	Islam and Economic Liberalism	170
9.2	The Mobilization of Savings	171
9.2.1	The Special Role of Banks	171
9.2.2	Informal Finance	172
9.2.3	Assessing the Performance of Islamic Banks	174
9.3	Islamic Banks and Economic Development	174
9.4	Islamic Capital Markets	175
9.5	Macro-economic Policies	177
10	Regulatory Issues and Challenges: Global Norms and Religious Constraints	180
10.1	Financial Regulation	180
10.2	The Ideological Debates on Financial Regulation	181
10.3	The Changing Paradigm of Financial Regulation: From National Control to Global Supervision	183
10.4	The Making and Enforcement of the New Global Norms	185
10.5	Recent Developments in Global Financial Regulation	188
10.5.1	Capital Standards and Risk Management	188
10.5.2	The Core Principles of Bank Supervision	191
10.5.3	Free Trade in Services	192
10.6	Applying the New Norms in the Islamic World	193
10.7	The Supervision of Islamic Financial Institutions	196
10.7.1	Prudential Regulation	196
10.7.2	The Question of Dual Regulation	196
10.7.3	Deposit Insurance and the Lender of Last Resort Issue	198
10.8	Conclusion	200

11	Islamic Finance and Politics: Guilt by Association	205
11.1	Business, Finance and Politics	206
11.2	Domestic Politics: The Power of Islamic Business and Finance	207
11.2.1	Saudi Arabia: Islamic Finance and the Possible Delegitimation of the State	207
11.2.2	Turkey: the 'Dangerous Relationships' between 'Finance Houses' and Islamic Fundamentalists	208
11.2.3	Iran: The Historical Ties between the Bazaar and the Ulema	209
11.2.4	Egypt: The Tensions between Secularism and Islamism	210
11.2.5	The Sudan: Islamicization of Politics, Politicization of Finance	212
11.2.6	Indonesia: Co-optation and Pre-emption	213
11.3	Islamic Finance and International Politics	214
11.3.1	'The Islamic Threat' and the New World Order	214
11.3.2	Saudi Finance and Sudanese Politics	220
11.4	Guilt by Association	221
11.4.1	Rogue States, Rogue Banks and Rogue Financiers	221
11.4.2	The Impact on Islamic Finance	222
12	Religious Issues and Challenges: Defining Islam and Interpreting the Shariah	226
12.1	Interpreting the Shariah	226
12.2	Religious Diversity	230
12.3	Finance and Religion in Comparative Perspective	234
	Conclusion	240
	Glossary	242
	Index	244