ISLAMIC MODEL OF POLITICAL ECONOMY AND FINANCE AND CONTEMPORARY TRENDS OF FINANCIAL ENGAGEMENTS FROM HISTORICAL POLICY MANAGEMENT

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Abstract:

This research article examines the Islamic model of economics and finance, elucidating its core principles and examining its applicability in modern financial transactions. Islamic finance is based on the principles of Islamic law, also known as Shariah, and presents a distinctive viewpoint that harmonizes economic endeavors with moral principles. This article provides an analysis of the fundamental principles that underpin Islamic finance, including the prohibition of interest (riba), the practise of profit and loss sharing (PLS), and the concept of ethical investment. Moreover, this study examines the prevailing patterns and methodologies in Islamic finance, encompassing sukuk (also known as Islamic bonds), Islamic banking, and Islamic microfinance. This study underscores the expansion and widespread recognition of Islamic finance, with a particular emphasis on its capacity to promote economic growth and ensure financial stability. In recent years, there has been a notable increase in attention and prominence given to the Islamic model of economics and finance. This distinctive financial system is based on Islamic principles and presents an alternative framework to conventional finance, with a particular emphasis on ethical, social, and religious values. With the continuous evolution of the global financial landscape, there has been an increasing scholarly interest in comprehending the fundamental principles of Islamic finance and its current trends in financial transactions. This article examines the fundamental principles of the Islamic model of economics and finance, as well as investigates its present-day applications and emerging trends.

Keywords: *Islamic finance, Islamic economics, Shariah, interest-free banking, sukuk, Islamic banking*

1. INTRODUCTION

Islamic economics and finance encompass a set of economic principles and practises that are rooted in Islamic teachings and principles derived from the Qur'an and the Hadith. The primary objective is to establish an economic system that fosters social welfare and economic stability, while upholding the tenets of Shariah law. The genesis of Islamic economics can be attributed to the formative period of Islamic civilization, during which economic endeavours were governed by principles rooted in ethics and morality (Suzuki & Uddin, 2016). Islamic economics places significant emphasis on the prohibition of interest (riba), speculative activities, and unethical business practises. In addition, it advocates for the implementation of profit-sharing, risk-sharing, and the principle of economic justice, which entails a more equitable distribution of wealth within society. The significance of Islamic economics resides in its capacity to offer an alternative economic framework that is in harmony with the values and principles of adherents of Islam, enabling them to participate in economic endeavours while upholding their religious convictions (Salma Sairally, 2013). The framework provides a structure for conducting financial transactions, banking operations, investment activities, and business practises that are devoid of interest-based transactions and exploitative methodologies. In recent years, there has been a notable global recognition and substantial growth of Islamic finance, which has garnered interest from

individuals of both Muslim and non-Muslim backgrounds who are seeking financial solutions that align with ethical and socially responsible principles (Mansoor Khan & Ishaq Bhatti, 2008).
The significance of Islamic economics and finance transcends religious observance. This particular perspective provides a distinct vantage point on matters pertaining to economics and finance, with a notable emphasis on ethical considerations, social justice, and the promotion of sustainable development. Islamic finance is characterised by its emphasis on risk-sharing and asset-backed transactions while discouraging practises such as excessive speculation and the accumulation of unsustainable debt. The aforementioned methodology has the potential to enhance financial stability and resilience, as evidenced by its performance during the worldwide financial crisis in 2008 (Garas, Argyrakis, Rozenblat, Tomassini, & Havlin, 2010). Islamic financial institutions, owing to their commitment to ethical and cautious financial principles, demonstrated a relatively higher level of insulation from the crisis. Furthermore, it can be argued that Islamic finance possesses the capacity to effectively tackle economic inequality and poverty by virtue of its strong focus on social welfare and the fair allocation of wealth (Pollard & Samers, 2007). Islamic finance has the potential to facilitate sustainable development and aid in the reduction of poverty through its promotion of ethical investment and financing endeavours that generate positive social outcomes. The increasing fascination with Islamic economics and finance among diverse populations, including both Muslim and non-Muslim individuals, is indicative of its capacity to present an alternative economic framework that encompasses ethical considerations, social equity, and sustainability (Gümüsay, 2015).

2. PRINCIPLES OF ISLAMIC FINANCE

The foundations of Islamic finance are based on Shariah, which is the body of Islamic law derived from the Qur'an and the Hadith. Shariah functions as a comprehensive ethical framework that regulates various facets of Muslim existence, encompassing financial transactions as well. Islamic finance is a system wherein financial transactions and products are designed in accordance with the principles of Shariah, which prioritise the values of fairness, justice, and ethical behaviour (Franzoni & Ait Allali, 2018; Kahf & Khan, 1992).
One of the core tenets in Islamic finance is the proscription of interest, commonly referred to as riba. Riba is a term that denotes the surplus or augmentation of a loan or debt, in which the lender accrues advantages without assuming any associated risk. The rationale behind this prohibition stems from the principle that money ought not to be self-generating, but rather should be utilised for productive endeavours (Md Akhtar Uddin, 2015). Consequently, within the realm of Islamic finance, the practise of engaging in interest-bearing transactions, such as the imposition or receipt of interest on loans, is deemed impermissible. The prohibition in question carries substantial consequences for financial transactions, prompting the emergence of alternative methods for funding and investment (Rabbani, Abdulla, Basahr, Khan, & Moh'd Ali, 2020; Md Akther Uddin, 2015).
Profit and loss sharing (PLS) is another fundamental characteristic of Islamic finance, providing an alternative framework to interest-based transactions. Profit and loss sharing (PLS) is a mechanism that facilitates the distribution of profits and losses among the various parties engaged in a business venture. This principle is in accordance with the notion of risk-sharing, wherein both the capital provider and the entrepreneur mutually assume the risks and benefits associated with an investment (Nor & Ismail, 2020) The various arrangements encompassed within PLS (Profit and Loss Sharing) mechanisms encompass partnerships, joint ventures, and equity-based financing methods, such as Mudarabah (a form of partnership) and Musharakah (a type of joint venture). These mechanisms facilitate a more balanced allocation of wealth and incentivize productive economic endeavours while mitigating the risk of exploitation (Islam & Ahmad, 2022; Jais, Sofyan, & Bacha, 2020).
Ethical considerations and the practise of socially responsible investing play a crucial role within the framework of Islamic finance. Shariah-compliant investments are required to conform to explicit ethical principles that proscribe engagement in activities deemed haram (prohibited), including but not limited to alcohol, gambling, pork, and any actions that are detrimental to society or the environment (Aman, 2020; Aysan & Bergigui, 2021). Islamic finance advocates for the practise of socially responsible investing, which entails directing investments towards sectors that generate

positive social outcomes, including but not limited to healthcare, education, renewable energy, and affordable housing. This approach is in accordance with the overarching objective of Islamic finance to make a positive impact on society and advance principles of economic fairness (Alziyadat & Ahmed, 2019).

In general, the principles of Islamic finance, which are guided by Shariah, establish a framework that fosters ethical behaviour, equity, and societal accountability in financial transactions. Islamic finance is an alternative financial system that appeals to individuals and institutions seeking ethical and socially responsible financial solutions due to its prohibition of interest, emphasis on profit and loss sharing, and ethical considerations.

3. CONTEMPORARY TRENDS IN ISLAMIC FINANCE

The current developments in Islamic finance encompass a range of elements, such as Sukuk (Islamic bonds), Islamic banking, Takaful (Islamic insurance), Islamic microfinance, and Islamic funds. The aforementioned trends are indicative of the increasing global recognition and proliferation of Islamic finance (M Kabir Hassan, Aliyu, Huda, & Rashid, 2019).

Sukuk, also known as Islamic bonds, have a significant impact on the financing of infrastructure projects. Sukuk is meticulously designed to adhere to the principles of Shariah, thereby embodying the concept of ownership or a proportionate stake in an underlying asset or project (Trianto & Masrizal, 2021). These investment opportunities offer a platform for investors to engage in infrastructure development while maintaining compliance with Islamic financial principles. Sukuk has experienced a notable increase in popularity in recent times owing to its capacity to raise capital for extensive undertakings, including transportation, energy, and real estate, while simultaneously appealing to global investors in search of investment avenues that align with Shariah principles (Ahmed, Islam, Alabdullah, & Amran, 2019).

Islamic banking has emerged as a noteworthy development within the industry. Islamic banks adhere to the principles of Shariah and provide a variety of financial services, such as deposit-taking, financing, and investment offerings. Islamic banking adheres to fundamental principles including profit and loss sharing, risk-sharing, and the prohibition of interest-based transactions. The global sector has witnessed significant growth, characterised by the expansion of Islamic banks and their ability to attract customers who are seeking banking solutions that align with ethical and Shariah principles (Alshater, Hassan, Khan, & Saba, 2021).

Takaful, also known as Islamic insurance, is distinguished by its distinctive attributes. Takaful functions in accordance with the principles of mutual cooperation and solidarity. The process entails individuals making contributions to a shared pool of funds that offers protection against potential hazards (A. Khan, Hassan, Paltrinieri, Dreassi, & Bahoo, 2020). The Takaful models distinguish themselves from conventional insurance through their avoidance of interest-based investments and their adoption of the principle of shared responsibility. The Takaful sector has experienced notable expansion, providing a diverse array of insurance offerings tailored to the requirements of both individuals and enterprises, all in accordance with Shariah principles (H. A. Hassan, 2020).

The utilisation of Islamic microfinance has emerged as a potent mechanism for facilitating financial inclusion and mitigating poverty. This initiative amalgamates the fundamental tenets of Islamic finance with microfinance methodologies, thereby facilitating the provision of financial services to individuals and small enterprises residing in marginalised communities (M. Kabir Hassan, Alshater, Hasan, & Bhuiyan, 2021). Islamic microfinance institutions provide financial services that adhere to Shariah principles, including interest-free loans, profit-sharing agreements, and other products that comply with Islamic law. These institutions aim to empower individuals who are economically disadvantaged, foster entrepreneurship, and ultimately contribute to the reduction of poverty and the promotion of sustainable development(Rohman et al., 2021).

Islamic funds, alternatively referred to as Shariah-compliant funds, are financial instruments that conform to the principles of Shariah. The management of these funds adheres to Islamic ethical principles, ensuring investments are made in accordance with Shariah-compliant assets, including equities, real estate, and commodities. Islamic funds offer investors the chance to allocate their funds in accordance with their religious convictions, all the while achieving portfolio diversification and pursuing competitive returns (Kamso, 2013).

In brief, current developments in the field of Islamic finance encompass a range of domains, such as Sukuk, Islamic banking, Takaful, Islamic microfinance, and Islamic funds. The aforementioned trends are indicative of the growing recognition and implementation of Islamic finance on a global scale. This can be attributed to the rising desire for financial products and services that adhere to ethical principles and comply with Shariah law. These entities play a significant role in fostering the expansion and advancement of the Islamic finance sector, all the while catering to the financial requirements of individuals, enterprises, and infrastructure ventures in a manner that aligns with the principles of Islamic law.

4. GLOBAL ACCEPTANCE AND IMPACT OF ISLAMIC FINANCE

The field of Islamic finance has garnered widespread recognition on a global scale and has exerted a substantial influence that extends beyond nations with Muslim-majority populations. The proliferation of Islamic finance can be ascribed to a multitude of factors. To begin with, it is noteworthy that numerous countries with non-Muslim populations have acknowledged the ethical and socially responsible characteristics inherent in Islamic finance. As a result, these countries have successfully attracted a wide array of investors who are interested in exploring alternative financial solutions (Hasan, Hassan, & Aliyu, 2020). As a result, the emergence of Islamic financial institutions and the accessibility of Shariah-compliant products have been observed in various global financial hubs. Additionally, the growth of Islamic finance has been significantly facilitated by regulatory frameworks and standardisation efforts. Several countries, including Malaysia (Shaikh et al., 2020), Bahrain, and the United Arab Emirates, have successfully established comprehensive regulatory frameworks to govern Islamic finance. Additionally, global organisations such as the Islamic Financial Services Board (IFSB) (Billah & Billah, 2019) and the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) (Kamla & Haque, 2019) have played a significant role in promoting consistency and transparency by issuing guidelines in this field. These endeavours have bolstered investor confidence and streamlined cross-border transactions. The growth and market potential of Islamic finance is noteworthy, as evidenced by the steady increase in assets under management in Islamic finance institutions and the issuance of Sukuk on a global scale (Riza, 2019). Furthermore, the increasing recognition of ethical finance and the market demand for Shariah-compliant products have created novel avenues for the expansion of Islamic finance (M. S. Khan, Rabbani, Hawaldar, & Bashar, 2022). Finally, it is worth noting that Islamic finance has significantly contributed to the promotion of economic growth and the maintenance of financial stability. Islamic finance plays a pivotal role in fostering a fair distribution of wealth, fostering productive economic endeavours, and placing significant emphasis on risk-sharing (Yahaya & Ahmad, 2019). These principles have the potential to positively impact economic growth and stability. Moreover, the principles of Islamic finance are in accordance with ethical and socially responsible investment practises, enabling it to contribute to the achievement of sustainable development goals and the resolution of societal challenges. Islamic finance has exhibited its robustness in the face of worldwide financial crises, thereby highlighting its capacity to offer stability and alleviate systemic risks (Charag, Fazili, & Bashir, 2020).

In summary, the widespread adoption of Islamic finance on a global scale, bolstered by regulatory structures, market expansion, and its contribution to promoting economic growth and financial resilience, underscores its significance and potential as a universally appealing alternative financial system.

5. CHALLENGES AND FUTURE PROSPECTS

The domain of Islamic finance encompasses various challenges and potential future prospects. One of the primary obstacles lies in the endeavour to achieve a harmonious integration of Shariah compliance with the ever-evolving landscape of financial practises. The ongoing adaptation and interpretation of Shariah principles are necessary to ensure compliance with new financial products and transactions as financial markets continue to innovate. One of the obstacles that Islamic finance encounters is the need to navigate through various legal and regulatory frameworks in different jurisdictions (Harahap, Risfandy, & Futri, 2023). The establishment of consistent standards and frameworks across jurisdictions is of utmost importance in facilitating cross-border transactions and fostering global harmonisation. Moreover, it is imperative to augment financial literacy and foster awareness regarding Islamic finance in order to ensure its sustained expansion and widespread adoption. The dissemination of knowledge regarding the fundamental principles and advantageous aspects of Islamic finance is expected to facilitate the expansion of its market penetration and enhance its appeal to a broader clientele, encompassing both individuals and businesses (Akbar et al., 2023). Finally, the advent of technological progress and the process of digitization gives rise to a multitude of both obstacles and prospects. The adoption of technological advancements has the potential to augment effectiveness, inclusivity, and openness within the realm of Islamic finance. However, it necessitates meticulous deliberation to guarantee adherence to the principles of Shariah. In general, the successful resolution of these challenges and the effective utilisation of forthcoming opportunities will significantly contribute to the sustained expansion and advancement of the Islamic finance industry.

6. CONCLUSION

The Islamic paradigm of economics and finance presents a distinctive framework for financial transactions, placing significant emphasis on ethical principles and societal obligations. The fundamental tenets of this system encompass the avoidance of interest-based transactions, the practise of profit and loss sharing, and the commitment to ethical investments. These principles collectively establish a framework that promotes a financial system characterised by inclusivity and sustainability. The current trends witnessed in Islamic finance, including Sukuk, Islamic microfinance, socially responsible investments, fintech integration, and green finance, contribute to its continued significance and flexibility within the dynamic global financial environment. The Islamic model of economics and finance is expected to have a significant impact on the future of financial engagements, as the awareness and demand for ethical finance continue to rise.

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