



A Reflection of Divine-based Islamic Economics (D-BIE)

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Abstract

The troubling issue leading to undertaking this research is the increasing frequency of economic crises with widespread and severe effects. Despite introducing and implementing several measures, the problem continues. Among the steps, Divine-based Islamic economics is promising but challenging. The main challenge is that the current economic system has yet to command the trust and confidence of political masters, policymakers, and people. Previous studies have presented convincing theoretical arguments supporting introducing and implementing a Divine-based Islamic economic system. However, the current Islamic economic model is not scientifically valid; no empirical evidence shows that it is superior to the existing secular economic systems. However, acceptability could have been better. This study argues that constructing a user-friendly prototype conceptual model is critical for gaining and enhancing trust and confidence in the system.

Keywords: Divine-Based Islamic economics (D-BIE), Trust, Confidence

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1. Introduction

Before and during the colonisation, Islam was used to unite all Sudanese tribes and groups. This situation continued (particularly under the leadership of Mahdi, Muhammad Ahmad's times – 1844 to 1885), and Mahdi's army defeated the foreign rules (British-Egyptian). In the Mahdi's times, the Shari'ah laws were the sole laws to run the state and the economic system. Shari'ah was relegated only to individual personal affairs during the British colonial period. The ordinary laws were introduced in all other civil and criminal matters (Fluehr-Lobban, 1990; Holt & Bossler, 2014).

Islam has been a dominant religion in thirteen states of the Northern part of Nigeria. All these states were administrated according to Divine rulings. A similar situation has also existed in Asia and Southeast Asia; for example, India under the last few Mughal rulers or *Negeri Majapahit*, and a few nearby states, including Malacca in the Malay Peninsula, was run according to Islamic rulings (Sunarso, 2018). Some Central, Eastern, and South-Eastern European countries occupied by the Ottoman Empire were also ruled according to Divine rules (Grosjean, 2011). However, the operation of this economic doctrine, beginning from the 17th century, began to crumble gradually and became almost non-existent and irrelevant to the life of humankind for about five centuries, roughly from the 16th to the 20th century (some historians say for nearly seven hundred years).

However, Divine-based Islamic economics (D-BIE) re-emerged in the early 20th century, specifically when some colonised countries in many parts of the world had gained independence. They began to question their colonial master about the failure to improve indigenous people's living standards and create economic growth and welfare (Hussain et al., 2009; Stark, 2004; Sunarso, 2018). Meanwhile, some political leaders and intellectuals of the newly independent states began to put forward their Divine-based economic system plans. Still, only Iran has successfully introduced the D-BIE system. Many scholars embarked on extensive studies and debates on adopting the system for their country. In the Middle East, particularly Egypt, Iran, Sudan, Iraq,

and Libya, pressures on their governments or the colonial master (for the countries still under colonial control) to adopt a Divine-based economic system began to emerge. For example, the pressure that came from the Muslim Brotherhood (Ikhwan Muslimin) to adopt fundamentalists' views of the Islamic economic system, as opposed to the liberal policy adopted by Jamal Abdul al-Naseer for Egypt (Görmüs, 2016; Vannetzel, 2017). This pressure led German-trained economist Ahmad al-Najjar to initiate a cooperative bank in Mit Ghamr. The bank works on the participation (*Musharakah*) principle. The bank's name was Mit Ghamr Saving Bank of Egypt; due to political reasons, the bank was closed in 1967 (Orhan, 2018).

Pressure to run the country's politics and economics was also happening in Iran (Glassman, 2014; Gohardani and Tizro, 2019). Similar experiences have also occurred in some countries in Southeast Asia, mainly in the Indian continent, beginning from the late 16th century to the early 17th century. As mentioned by Fadzlr Rahman in his article (Rahman, 1973), during this time, the opening of the sea road between Hijaz and India occurred, and many Indian scholars began to visit Makkah and Madinah, some for study. Quoting what he said in the article:

"As a result of this orientation, the characteristic orthodox Arabo-Islamic science of Hadith was introduced and propagated in India, its monumental champion in the seventeenth century being Shaikh Abd al-Haqq of Delhi, called *Muhaddith*, or traditionist par excellence."

(Rahman, 1973, pp. 194 to 200)

The influence of traditional scholars in understanding and conceptualization of D-BIE is far-reaching. The influence results were reflected in the variations of the conceptualization of D-BIE as disclosed by scholars and writers from the Indian continent, such as the postage-stamped-based banking model and produce-sharing method of agriculture production (*Al-muzara'ah*), to avoid *riba*. Islamization of economics under Zia-ul-Haq's (1978 -1988) leadership was very aggressive during his lifetime but faded away after his demise (Kennedy, 1990).

2. Developing Divine-based Islamic Economics (D-BIE)

The publicity on developing D-BIE in Southeast Asian countries such as Malaya (later Malaysia), Indonesia, Brunei, Thailand, and Singapore after independence until the early eighties was not very aggressive. Development of the D-BIE system began to appear in the region only in 1983. The first Islamic bank in Malaysia, Bank Islam Malaysia Berhad, was established in the third quarter of 1983. Bank Mu'amalat in Indonesia in November 1991, followed by Tabung Amanah Islam Brunei (TAIB) in 1992 and Islamic Bank of Thailand in 2002. Singapore allowed the existing financial institutions to offer Shari'ah-compliant services (Ginting et al., 2019).

However, the re-emergence of D-BIE focused only on finance and banking, which is a tiny, insignificant part of the whole D-BIE and happened in a very haphazardly¹. Scholar from the Indian continent (Hassan, 2018), who occasionally wrote on D-BIE, believed that it could not be treated as a valid model for a practical application because it had no proper conceptual framework. Its theories cannot be objectively and empirically tested (Khan, 2014). As a result, research outcomes relating to the D-BIE from a secular perspective needed to be more vital to convince and satisfy decision-makers to put the D-BIE into practice, as Muhammad Akam Khan and Zubair Hassan mentioned in the earlier-mentioned papers. Furthermore, the negative news about Iran's economic transformation into the D-BIE system and failure to implement the system in Pakistan, Sudan, Afghanistan, and a few other jurisdictions in many other parts of the world makes the D-BIE system look very ugly and unacceptable. Some non-Muslim scholars such as Visser (2019) said that the D-BIE system does not differ fundamentally from mixed-economy non-Islamic:

¹ Lack of proper planning and conducive regulatory and institutional frameworks.

"There is little reason for non-Muslims to accord Islamic ethics special status. Further, it is found that essential drivers of the attempts to Islamize the economy are frustration about the sorrowful state of the Islamic world, at least since the early nineteenth century, and a wish to regain something of its former glory. In other words, identity politics is at play. There may include an element of subjectivity in this conclusion, as it depends on interpretations that are hard to prove or disprove conclusively. Still, statements by leading Muslim advocates of Islam economists give it weight. The conclusion may help interpret developments in the Muslim world, which is an indispensable step in finding a way to deal with them."

(Visser, 2019)

D-BIE had disappeared from the radar from the 15th century to the beginning of the 20th century. Then, it re-emerged and advanced in some areas or components of macro and microeconomics. The most remarkable place of advancement was Islamic finance. The re-entry, however, could have had smoother sailing; the development of D-BIE encountered many shortcomings, challenges, and humiliation by certain groups of people. The work of Visser, Hans, Oliver Roy, and some Muslim scholars also has reflected the fact (El-Gamal, 2001; Kuran, 1995; Visser, 2019). To comprehend the magnitude of the issue, the researcher quoted what Oliver Ray said in his book:

"The "Islamic threat," with radical Muslims everywhere on the rise and the march, remaking societies and altering the landscape of contemporary politics."

(Roy, 1994)

The D-BIE system has lost its credibility, even among Muslims, due to its poor performance and failure to demonstrate and deliver what it is supposed to offer, as stated in Al-Qur'an and Al-Sunnah Al-Athar. It is branded poorly, is described as terrorist economics, as primitive and irrelevant to today's modern world, which is the age of technology and modernity. El-Gamal (2001), Kuran (1995), Visser (2019), Roy (1994) and many other scholars have highlighted the issues in recent works. As a result, the ability of the D-BIE system to deal with the present economic conditions became doubtful, and it was stormed with questions which were not entirely unreasonable. Therefore, the purpose of the research on hand is to re-introduce the D-BIE system not only as a theoretical economic doctrine but also as an alternative practical economic solution that reduces the frequency and magnitude of economic crises.

This study explains key motivational factors that drive the researcher to commit to the proposed research. It begins with a brief run-through of the motivation theories, followed by external and internal triggers that motivate the researcher to undertake the study. Al-Qur'an and the Hadith announced the most sought for ending the life of humankind, that is, the accomplishment of the pleasure of Allah SWT as the motivation for committing good deeds such as promoting the application of the D-BIE system (Al-Baqarah, Verse: 3, 9, and 72)². It has been discussed and debated since classical times until today. Among people actively involved in developing secular theories and applying motivation, among others, were Taylor, Maslow, and Herzberg; they dealt with scientific management, the hierarchy of needs, and the two-factor theory of motivation, respectively. From the Divine perspective, discussions on motivation to perform good deeds began with Prophet Adam (AS). They cascaded through all other Prophets after him. Finally, they reached the times of the last Prophet, Muhammad (ﷺ), his companions, companions of the companions, and the early learned scholars or *Salaful-al-Saleh* as commonly known (Bhatti et al., 2016; Pakdel, 2013)

Plenty of literature materials on the subject are found in various databases. The research motivation has gone through many stages, beginning from ancient Greeks times – believing in the hierarchical order of things in society, such as the ones discussed by Maslow in the theory of hierarchy of needs, incentive theory of motivation, and many others (Herzberg, 2023; Pakdel, 2013)³. The inspiration from the Divine perspective began with the faith and belief in the existence of good reward (*Jannah*) if one does good deeds and Hellfire if humankind did a bad thing or did not obey the commands of Allah SWT (Al-Nisa', verses: 4, 55-56; Al-

² "Allah has promised the believing men and believing women gardens beneath which rivers flow, wherein they abide eternally, and pleasant dwellings in gardens of perpetual residence; but approval from Allah is greater. It is that which is the great attainment." (At-Tawba: 72).

³ Herzberg's motivation-hygiene theory and dual-factor theory

Baqarah, verses: 24, 101, and 11; Sahih al-Bukhari, 6122; Muslim, 2847;). Classical scholars operationalised the commands of Allah SWT through analysis of the hierarchy of humankind's needs in the theory of the Grand Shariah's Objectives (Al-Baqarah, verse: 185).

The researcher only reviews literature materials that deal directly with the political economics aspect of human life and focuses on discussions of the result - the act of motivation rather than theory and explanation about the motivational factors. The researcher is incredibly motivated to undertake the proposed research firstly by the need to create and boost the trust and confidence in the ability of the D-BIE system to deal with economic matters, i.e., to demonstrate the operational viability and practicality of the system. The motivation for creating and boosting trust and confidence is rooted in the unprecedented increase in the frequency of economic crises and their devastating effects on the welfare of humankind, particularly during the early part of the twenty-first century. Economic crises were devastating; millions lost employment, and asset values deteriorated badly (Shiller, 2014).

As a student of economics and the religion of Islam, the researcher believes that it is his responsibility to properly conceptualise the religious rulings and the economic decisions and put them into practice so the benefits accrued can be enjoyed by society. Therefore, the second motivation for undertaking this research is to learn - to acquire knowledge about D-BIE.

The third factor that motivates the researcher to undertake this research is the presence of numerous scams and unfair treatment in secular-based economics (S-BE). Unfair treatments that have been practised in the current S-BE system - using institutions such as the United Nations and the International Monetary Fund (IMF)'s hidden agenda, the elusive Basel Committee, and many advanced countries could control the resources and the markets for their products. The other vehicles are economic development aids such as IMF rescue packages and Washington Convention. Economic growth vehicles usually come from multi-national banks and low-interest loans from advanced countries, such as World Bank providing loans raised through syndication, club deals, capital market participation, and equity participation in the development project in underdeveloped countries.

The fourth factor that motivates the researcher to undertake this research is to discover the real agenda behind the current financial order that places the world population at its mercy, creates so many fictitious assets on the global financial statement, and exposes the world economy to a challenging inflationary situation. The fifth factor that motivates the researcher to undertake the study is to gain some ideas about how the full-fledged D-BIE system works in reality under both present and future economic environments.

3. Discussion for Further Research on D-BIE

Sajjad Kabir described the meaning of the term "research problem" as a description of an area of concern or conditions to be improved, the difficulty that needs to eliminate, or a troubling question that exists in the scholarly literature in theory or practice that needs for meaningful understanding and deliberate investigation (Kabir, 2016). Furthermore, it sets up parameters for formulating the research methodology and scoping the literature review. It is also a basis for the formulation of research objectives and research questions. In this study, the troubling issue is that the people have lost trust and confidence in the D-BIE system's ability to deal with economic matters.

The issue of losing trust and confidence in the ability of the D-BIE system to deal with economic matters is rooted deeply in several factors. Some Muslim economists and leaders of Muslim-dominated nations proposed introducing the D-BIE system, such as Shari'ah permissible instruments like Sukuk and other structured financial instruments (Smolo and Mirakhor, 2010). Moreover, a few have come forward with impressive theoretical arguments supporting introducing the D-BIE system to overcome the increasing frequency of economic crises. Still, the acceptability of the system could be much better. The question is whether being thrown back reflects the lack of trust and confidence in the D-BIE system. The currently available models are not scientifically valid according to secular-based measures (yardsticks). No empirical evidence shows that the D-BIE system is working. Furthermore, many other negative features are associated with the current practice of the D-BIE system.

The promoters of the D-BIE can fall back on the performances of the three countries that pioneered the introduction of the D-BIE system. They were Pakistan, Sudan, and Iran to gain the public's trust and confidence in the D-BIE system's ability to deal with economic matters. Unfortunately, the performance of these jurisdictions in the D-BIE system, except for Iran, was disappointing (Shah et al., 2023). Despite 30 years of

sanctions imposed by America and its alliances, Iran survives with encouraging results. Iran has turned the sanctions to its benefit and made the jurisdictions involved in imposing the sanctions look immature, and the sanctions appear to be a not-well-thought-through strategy. However, little is known about Iran's economic transformation process due to inaccuracy and manipulation of the information reported publicly, so actual data cannot be obtained (Glassman, 2014). It is also tricky to capitalise on the success story of Iran to gain the public and policymakers' trust and confidence in the D-BIE system's ability to deal with economic matters.

Having gone through the progress of the re-emergence of D-BIE, the system has lost its credibility because the public needs help understanding and conceptualising the comprehensive model of the D-BIE system theoretically and operationally. Therefore, to make the model respectable and gain the trust and confidence of political masters, other decision-makers, and the public, everybody needs to construct and understand a decent model D-BIE system.

There are five areas in which the problem of lack of trust and confidence in the D-BIE system's ability to deal with economic issues is rooted (Addas, 2008). The first area is the need for more comprehensiveness of the Shari'ah framework employed in developing the theories and conceptual and operational model of D-BIE. The second area is that the S-BE is defective and prone to economic crises (Moseley, 1991). The third area relates to the deficiency and weakness of the present model of D-BIE. The standard models need to be more comprehensive to cover all D-BIE elements, and most jurisdictions, such as the financial sector, practice a partial D-BIE. Some components of the D-BIE model are built on weak contracts such as *al-inah* (sale contract with immediate re-purchase), *tawaruq* (two sale and purchase contracts; buy on deferred payment and sell spot), and other product innovations. The model also has failed to exhibit the embedded mechanism that reduces the frequency and magnitude of economic problems⁴. The fourth area is that the commonly covered research methodology needs to include Divine consideration. As such, the research methodology is based on wild assumptions. The fifth area is ignorance and the need for comprehensive understanding in applying the Divine rulings and integrating environmental factors with the economic functions and activities in the D-BIE system's operation. These five main issues are the critical research focus areas of the ongoing study: the policies, procedures, and processes to respond to the five research questions.

Thus, the rationale (purpose) of the study is to gain and boost the stakeholders' trust and confidence in the D-BIE system's ability and viability to deal with domestic and global economic issues. Gaining and increasing trust and confidence in the D-BIE's capability is achievable among others, by constructing the prototype conceptual model of the D-BIE system. With the model readily available, the researcher believes that it will substantially enhance the confidence of the stakeholders, particularly the political masters and the government of a particular jurisdiction, in the ability of the D-BIE system to deal with the economic issues and agree to move ahead with the introduction and operation of the system.

The study is achievable through fulfilling the following two conditions below respectively: -

- a. The reconstruction of the two types of D-BIE models (prototype and operational models)) requires comprehensive knowledge and information about D-BIE and S-BE.
- b. It needs to have the operational model of D-BIE which can only derive from the prototype conceptual model of D-BIE, by incorporating environmental factors such as political, socioeconomics, international relations, technological advancement, etc., into the conceptual model. It is the model for specific jurisdictions. Because of time and space constraints, this study covers only the prototype conceptual model of D-BIE.

4. Conclusion

The D-BIE's conceptual or theoretical model provides high-level theories explaining various economic variables working according to multiple levels of humankind and Divine tenets without tying it to any jurisdiction. It is a prototype descriptive model that provides a broad and high-level understanding of conceptual and operational models of D-BIE. It aims to show the models and explain the mechanism and relationships among the various variables or components of the economic model and the market players. A complete treatment of this model will counter in the discussion to answer the fifth research question. The whole

⁴ Production of non-permissible goods and fictitious assets will cease, automatically disappearing from the national income accounts and reducing GDP. The history of economic crises showed that the excessive creation of fictitious assets in the financial sector always caused troubles.

rationale of this study lies in the S-BEs and the D-BIE's being defective and prone to economic crises and theoretical and operational deficiencies, respectively.

Working with the acceptable model and standard baseline frameworks in developing and restructuring the economic system is a common practice today, particularly after creating the Bretton Woods system in 1944 (Lamoreaux and Shapiro, 2019), such as Standard Procedures to reconstruct the economy of war-torn countries and the Washington Consensus or reviving the economics and financial system in the aftermath of a significant crisis (Marangos, 2021). Therefore, the subjects of standard baseline frameworks will counter the discussions and debates on the issues.

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