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Islamic Finance in Economic History: Marginal System or Another Universal System?

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I. INTRODUCTION

This paper aims to clarify the historical significance of Islamic finance that is practiced in the modern world. It is a well-known fact that the commercial practice of Islamic finance emerged in the 1970s as a "new" financial system different from interest-based conventional finance. Some of the bankers even called "curious" banking based on religious belief. However, when examining the distinctive feature of Islamic finance and reviewing the history of the pre-modern Islamic world and Europe, it can also be observed that Islamic finance shares its feature with financial activities in the pre-modern era. Therefore, we can propose a hypothesis that Islamic finance is neither a brand-new financial system nor a marginal one throughout economic history.

Based on these motivations and preliminary observations, this paper examines the distinctive feature of Islamic finance by comparing the schemes of both financial products between Islamic and conventional finance. Subsequently, the paper reviews the historical experience of financial activities in the pre-modern Islamic world and Europe, and clarifies the universal aspect of Islamic finance in the context of economic theory with reconsidering the proposition that conventional finance is taken to be the universal financial system. At the same time, this paper also examines the modern novelties of Islamic finance because the emergence of Islamic finance opens a new page in the history of both Islam and finance.

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II. DISTINCTIVE FEATURE OF ISLAMIC FINANCE

2.1 Distinctive Feature's' in the Existing Literature

By reviewing the existing Islamic economics literature that investigates the features that distinguish Islamic finance from conventional finance, it is clear that it can be classified into two types.

First, those who study from a theoretical viewpoint emphasize that the very essence of Islamic finance is "a sort of the sharing system." According to an earlier overview by Muhammad Nejatullah Siddiqi (Siddiqi, 1981), there appears to have been wide consensus on this statement, since the revival of Islamic economics in the middle of the twentieth century. From the viewpoint of the desirable financial system that is based on the doctrine of Islam, most studies consider that partnership-based financial instruments, such as *Mudaraba* and *Musharaka*, reflect the spirit of Islamic finance, and they therefore, encourage the use of such instruments. This is because these instruments are designed around profit and loss sharing scheme. Indeed, two pioneer works by Islamic economists in the 1940s had already mentioned the implementation of partnership-based financial instruments into Islamic finance. Anwar Iqbal Qureshi stated in his book, published in 1945, that "Islam prohibits interest but allows profits and partnership. If the banks, instead of allowing loans to the industry, become its partners, share the loss and profit with it, there is no objection against such banks in the Islamic system (Qureshi, 1945: 158-159)." Around the same time, Mahmud Ahmad also stated his preference for partnership-based systems saying "The *Shirakat*[1] banks would lend money to industry and commerce on the basis of *Shirakat*, that is, they would share the profit with their debtors rather than burden industry and commerce with a fixed rate of interest (Ahmad, 1947: 170)."

The second type of literature examines the feature of Islamic finance from the practical standpoint from its industry. This type focuses on the structures of financial products that are adopted by Islamic banks, and concludes that the financial system in accordance

[1] There "*Shirakat*" indicates the principle of *Musharaka*.

with Islamic teachings stresses the importance of the strong linkage between the financial instruments and the real assets. For example, Taqi Usmani asserts that one of the most important characteristics of Islamic finance is an "asset-backed" feature (Usmani, 2005: 18). From the bankers' side, Joseph DiVanna and Antoine Sreih also mention that banks in the Islamic financial system act as hands-on intermediaries, as they deal and trade in assets purely for the purpose of income generation or profit; they also suggest that the uniqueness of Islamic finance lies in the fact that Islamic banks convert money into assets, based on their utility (DiVanna and Sreih, 2009: 19). In fact, most financial instruments in Islamic finance—such as *Murabaha*, *Ijara*, *Salam*, and *Istista*, which are alternatives to debt-based instruments in conventional finance—require the existence of real assets in order to ensure the legitimacy and *raison d'être* for Islamic finance.

Although there is some truth in the way each type of literature describes the distinctive feature of Islamic finance, each opinion is determined by only focusing on one aspect of the financial instruments in Islamic finance. That is, the former focuses only on the partnership-based financial instruments like *Mudaraba* and *Musharakah*, while the latter focuses only on the alternatives to debt-based financing, like *Murabaha*, *Ijara*, *Salam*, and *Istista*. Therefore, it can be said that these features, described in the existing literatures, do not necessarily clarify the distinctive characteristics of Islamic finance as a whole. The following statement given by Shamshad Akhtar, who is the governor of the State Bank of Pakistan, is evidence of the limitations of the existing literatures, with regard to the distinctive features of IES (Akhtar, 2008: 21).

> What distinguishes Islamic finance is its emphasis on trading of goods and services and its advocacy for profit and risk sharing in businesses supported by a variety of partnership arrangements—this is in sharp contrast to loan based financing in conventional banks. By virtue of these characteristics, Islamic finance offers prudent financing options being asset backed or equity based; particularly linkage of assets with financing ensures that transaction is less prone to debt crisis and funds are used for their prescribed purpose minimizing defaults resulting from

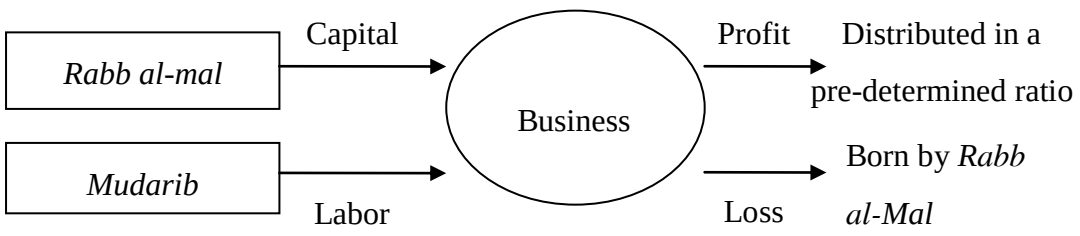
improper use of borrowed funds.

Her statement clearly shows that the two features—"haring" and "asset-backed"—are not fully integrated. By reviewing the limit of the existing literature critically, it is clear that this paper needs to clarify the comprehensive feature of Islamic finance that has the commonality between partnership-based and debt-based instruments.

2.2 Distinctive Feature of Partnership-based Instruments

Mudaraba contract is a form of a business contract in which one party offers capital and another party undertakes some business with this capital; the former is termed *Rabb al-Mal* and the latter *Mudarib*. The profit is distributed between both party in a ratio agreed beforehand while the entire loss is born by *Rabb al-Mal* unless *Mudarib* has a defect (see Figure 1).

Figure 1: Scheme of *Mudaraba* in Islamic Finance

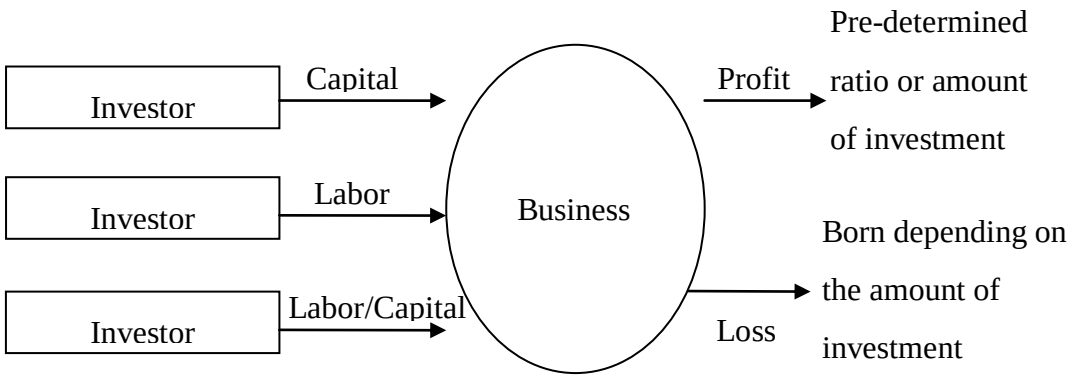


Source: Prepared by the Author.

Musharaka contract is a form of a business partnership in which multiple parties invest. In Islamic finance, *Sharika al-Inan* is used as a variation of *Musharaka*. The profit is distributed between both party in a ratio agreed beforehand according to Hanafi school and Hanbali school of Islamic law, meanwhile shared in depending on the amount of investment according to Maliki school and Shafii school. On the loss being born depending on the amount of investment, there is the consent of each school. A right to

participate in managing their business partnership is given investors, but this right is entrusted to each investor (see Figure 2).

Figure 2: Scheme of *Musharaka* in Islamic Finance



Source: Prepared by the Author.

As it has already been mentioned above, partnership-based instruments adopt a profit-sharing and a substantial loss-sharing procedure in distributing any resulting profit. The essential point of profit-loss-sharing is to "share" any result by all relevant parties. In terms of economics, any risk involved in partnership-based instruments is shared by all relevant parties, which implies that all the relevant parties are allowed to access any resulting profit in return for bearing a reasonable risk of loss. As many Islamic economist and practitioner working at the *Sharia* boards of Islamic banks emphasize, this manner of "risk-sharing" is said to be highly consistent with one of the fundamental notions of Islamic teachings (Bendjilali, 1996: 44; Kahf and T. Khan, 1992: 22). Therefore, it can be said that this structural analysis of "risk-sharing" confirms the feature of partnership-based instruments mentioned in the existing literature.

Looking at the scheme of partnership-based instruments from the aspect of the cause of their profit and loss, the potential profit or loss for all the relevant parties depends entirely on success and failure of the relevant business. In term of economics, it can be

stated that any profit or loss in partnership-based instruments are legitimized because all the relevant parties appropriately bear the market risk of the relevant business.

2.3 Distinctive Feature of Debt-based Instruments

As for debt-based instruments in Islamic finance, this paper picks up *Murabaha* which is the most popular instruments in debt-based instruments. *Murabaha* is a form of a contract wherein a seller sells a product to a buyer at a price comprising its cost and the seller's margin, approved by both parties. The settlement is generally made in lump sum payment or in installments. *Murabaha* had been used as an instrument for commodity transactions in the premodern era. The practice of Islamic finance adopts its instrument as a financial product with some innovations[2]. The general procedure of *Murabaha* provided by Islamic banks is as follows (see Figure 3): a bank's customer primarily specifies a product that he/she wishes to purchase before the contract award of *Murabaha* by using "the Purchase Order" (*Waad*) scheme. According to this order, the Islamic bank buys a product specified by its customer on his/her behalf from the market, and then, sells it to its customer at a price that comprises the product's cost and the bank's profit, which is called 'mark-up.'[3]

Since the 1970s, *Murabaha* has been the most popular financial product in the asset side of Islamic banks as an alternative financial instrument for interest-based short-term loans. With regard to the share of *Murabaha*, a majority of Islamic banks in both the Middle East and Malaysia exhibit a widespread preference for *Murabaha*. According to al-Harran's aggregate calculation, it is estimated that 80–90% of financial instruments on the asset side of Islamic banks were *Murabaha* from the 1970s through the first half of the 1990s (al-Harran, 1995: xi)[4].

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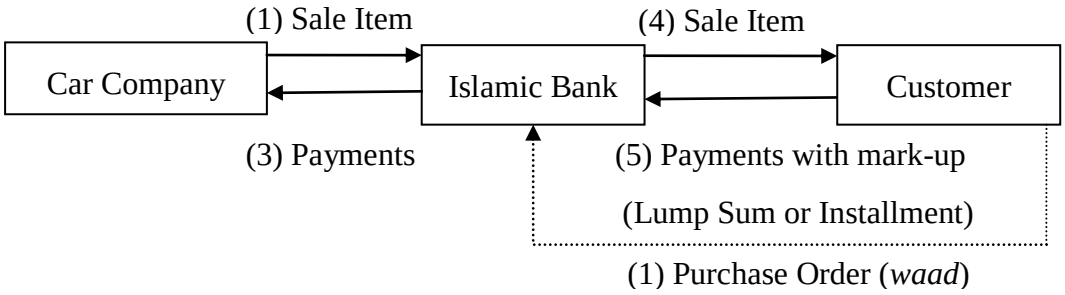
[2] It is well known that Sami Hassan Humud and his book (Humud, 1976) embarked on the innovation of *Murabaha* by his own initiatives in the 1970s (Wilson, 2004: 211).
[3] In a precise sense, *Murabaha* only indicates the final transaction between an Islamic bank and its customer.
[4] For concrete data of several Islamic banks regarding the share of *Murabaha*, see (Nagaoka, 2007).

Figure 3: Scheme of *Murabaha* in Islamic Finance



Source: Prepared by the Author.

However, *Murabaha* is a controversial product in light of Islamic jurisprudence because it is often pointed out that the nature of 'mark-up' is similar to 'bank interest,' which is prohibited in Islam and is regarded as *Riba*. Ziauddin Ahmad, who had theoretically supported the Islamization of the economic system of Pakistan in the 1980s, clearly points out the similarities between interest and mark-up (Ahmad, 1985: 19-20):

> There is genuine concern among Islamic scholars that if interest is largely substituted by devices like 'mark-up' it would represent a change just in name rather than in substance, and the new system would not be rid of the iniquitous nature of the interest-based system.

Therefore, many Islamic economists criticize the use of *Murabaha* in the practice of Islamic finance, and do not consider *Murabaha* to be the first-best solution. For example, Muhammad Nejatullah Siddiqi mentions *Bay Muajjal*, which is a contract similar to *Murabaha* (Siddiqi, 1983: 139):

> I would prefer that *Bay Muajjal* contract (nearly equal to *Murabaha*) is removed from the list of permissible methods altogether. Even if we concede its permissibility in legal form we have the overriding legal maxim that anything leading to something prohibited stands prohibited. It will be advisable to apply this

maxim to *Bay Muajjal* in order to save interest-free banking from being sabotaged from within.

In contrast, how do those who approve the use of *Murabaha* explain their legitimacy? A number of the legal resolutions (*Fatwa*, *Fatawa* in the plural) that legitimize the use of *Murabaha* have hitherto been issued by the *Sharia* supervisory board. One of the more consistent explanations among them is found in the resolution issued at the first Al-Baraka seminar in 1983. This resolution clearly resolves the disputable similarity between *Murabaha* and interest-based loans that the critics mention. This resolution starts with the following question (ABS, 1983: 8)[5]:

QUESTION: Some people cast doubts on the legitimacy of *Murabaha* because this form of contracts appears to include some elements of *Riba*.

The first and third parts of the answer to this question are as follows:

ANSWER:

(1) *Murabaha* does not involve a sale of something that seller does not possess, because the agreement of the *Murabaha* contract is conducted after actual possession.

(3) In *Riba*-based loans, a transaction is conducted in the form of exchange of similar goods. In such a transaction, the lender stipulates that the payment of interest (for example, 10 riyals) be made on the maturity date by a borrower who takes a loan of 100 riyals. In *Murabaha* with deferred payment, a transaction is conducted in the form of exchange of different goods, particularly the exchange of real goods for money. A specific feature of *Murabaha* that distinguishes it from *Riba*-based loans is that even if the mark-up amount is predetermined, the seller's profit will be influenced by the market price of the relevant real good. Therefore, any profits in *Murabaha* are expressed as a function of supply and demand in the real goods market, rather than the monetary market.

[5] The following text is translated by the author.

The first part of the resolution implies that the actual involvement and transfers of the real good in the relevant transactions is strongly required as an essential condition. Another resolution on *Murabaha* issued by Kuwait Finance House states that it is not permissible to include an unclear transfer of the title of the relevant good (KFH, n.d.: 69). This means that no skips of actual transfer procedure of the real good are required in *Murabaha*. These requirements show that *Murabaha* is legitimized because it is neither 'monetary,' nor 'nominal' transaction, but is a transaction based on the 'actual buying and selling of goods.' Thus, it can be said that the first part of the resolution confirms the feature of debt-based instruments mentioned in the existing literature.

The third part of the resolution mentions the source of the legitimacy of profit in *Murabaha*, which will clarify another feature of debt-based instruments not mentioned in the existing literature. This part of resolution states that any profits should be expressed as a function of supply and demand in the real goods market. Using clues from several studies on the legitimacy of profit in *Murabaha* (Misri, 1976; Shihata, 1987), this statement implies that the source of legitimacy of profit in *Murabaha* is considered to be 'an opportunity cost of the real goods' in the relevant market. In contrast, it can be considered that the source of prohibition of interest in conventional interest-based loans is regarded as 'an opportunity cost of the monetary good'. In terms of economics, it can be stated that any profits in debt-based instruments are legitimized because all the relevant parties appropriately bear the market risk of the relevant real good.

2.4. Islamic Finance as 'an Embedded System'

On the basis of the above overviews on partnership-based (*Mudaraba* and *Musharaka*) and debt-based (*Murabaha*) instruments, this part tries to clarify the comprehensive feature of Islamic finance that has the commonality between partnership-based and debt-based instruments.

Both implications from the above analyses show that the financial instruments in Islamic finance consist of the schemes so that all the relevant parties appropriately bear

the market risk of the relevant real good or business. And then, this is the source of legitimacy for each instrument. Considering this insight from the perspective of the economic system as a whole, it can be said that the financial system highly depends on the real domain in the Islamic economic system. Karl Polanyi, who is known as an economic anthropologist, criticized the modern economic theory, and stated that economy is not autonomous as it must be in economic theory but subordinated to political and social relations. He expressed this statement as "the human economy was always embedded into the society (Polanyi, 1977)." Paraphrasing his idea and concept, the distinctive feature of Islamic finance is described as the "Embedded" system into the real domain of the economy.

III. UNIVERSAL ASPECT AND MODERN NOVELTIES OF ISLAMIC FINANCE

3.1 Financial Activities in the Pre-modern Islamic World

Following on from the preceding analysis, this section examines the universal aspect and modern novelty of Islamic finance in the context of economic theory. Before these examinations, the first part of this section clarifies the historical dynamics of financial activities in the pre-modern Islamic world.

It is well known that the pre-modern Islamic world did not have anything like the comprehensive financial systems such as structured banking that are available in today's world. However, contrary to the opinion expressed by Raymond de Roover (De Roover, 1954), it was not as if the Islamic world operated without a financial sector at that time. The *Sarraf*, for instance, played the role of moneychangers and were a crucial cog in the money-transmitting business by virtue of their management of bills and checks. Although some of them put their own money into businesses, they were not allowed to receive deposits and use them as seed money for their investments. Instead, *Wadia*, which was known for arranging custody agreements, provided the deposit service (Imamuddin, 1997: 128-138). These facts imply that there was no credit creating

function in those days, something that is common in the modern banking system. This is one of the primary differences between the financial activities in the pre-modern Islamic world and those that are commonplace in the modern banking sector.

In addition to the role of the money brokers mentioned in the last paragraph, it is also well known that merchants in the pre-modern Islamic period used certain trade instruments that were approved by the Islamic jurisprudence; these functioned as the financing instruments of the time. For instance, Shelomo Dov Goitein reads the Genizah documents and shows that the trade merchants of Cairo during the eleventh and twelfth centuries were given to the use of the scheme of *Mudaraba* and *Musharaka* for the purposes of financial trade (Goitein, 1967: 247). Nelly Hanna also mentions that the rich merchants of Cairo in the sixteenth and seventeenth centuries used *Musharaka* and *Salam* to finance their businesses (Hanna, 1998: 54, 83). These historical facts illustrate that there was a situation in which various sectors overlapped to create a financial system. In his paper, Abraham Udovitch terms the financial situation of the pre-modern Islamic world as one of "Bankers without Banks" (Udovitch, 1979: 255).

What was the situation with regard to interest-based loans in the pre-modern Islamic world? Maxime Rodinson asserts that moneylenders lending at a usurious rate of interest was quite common in the pre-modern Islamic world; therefore, the prohibition of *Riba* became increasingly irrelevant at the time (Rodinson, 1966). Indeed, several empirical studies seem to exemplify Rodinson's proposition. For example, Haim Gerber shows proof of the existence of interest-based loans known as *Istighlal* in Bursa during the seventeenth century (Gerber, 1988: 128). Further, Toru Miura considers litigation documents related to Damascus in the nineteenth century, and explains with the help of a case study interest bearing transactions between a guardian and a ward (Miura, 1999: 322-326). Nobuaki Kondo clarifies the prevalence of *Bey-i Shart* transactions in Tehran during the nineteenth century, which were similar to interest-based loans (Kondo, 2005). Although the empirical studies conducted by the researchers cited above refer to these instruments as interest-based loans without any reservations, a detailed review shows that the schemes involving these instruments were different from transactions based on

interest-based loans. This is because these instruments were based on *Bay Ina* transactions.

Bay Ina literally implies double sales, and is basically an alternative financial arrangement for a customer who needs immediate cash. The complete procedure is outlined as follows. First, a prospective creditor buys some asset from a customer (prospective debtor) who needs immediate cash, and then, the customer immediately buys back his asset from the creditor by means of *Murabaha*. The initial trade is a spot transaction, while the subsequent trade is a deferred transaction with a higher price than that in the initial trade. Herein, the creditor provides the customer with financial liquidity and earns profit from the price gap between the initial and subsequent trades. As pointed out by the critics, it can be held that *Bay Ina* is merely a fictitious instrument engineered to sidestep interest-based loans. However, a *Bay Ina* transaction is not entirely the same as an interest-based loan because the former is conducted in the form of an exchange of real goods for money. Then, which can we classify *Bay Ina* into the interest-based or "embedded" financial system?

3.2 Universal Aspect of Islamic Finance

The prohibition of interest is not peculiar to Islam. If we were to trace back through history, a number of examples of such prohibition can be found, from Aristotle to Michael Ende. Among them, the doctrine of Christianity was the most influential on the subject of avoiding interest in medieval Europe (Visser and McIntosh, 1998: 178-179). There are many verses in the Bible that mention the prohibition of interest. For example, the Gospel of Luke talks about a steward who wastes his employer's goods in order to prevent the debtors of his employer from paying interest on their loans. Then, the Gospel continues, the lord commends the steward because he has done wisely [Luke, 16: 1-8]. In the Middle Ages, Thomas Aquinas formulated a theory on the prohibition of interest, and the canon law, based on this theory, condemned all interest bearing transactions. Therefore, it is said that medieval European merchants mainly used partnership-based instruments known as *Commenda*, which had its origins in the

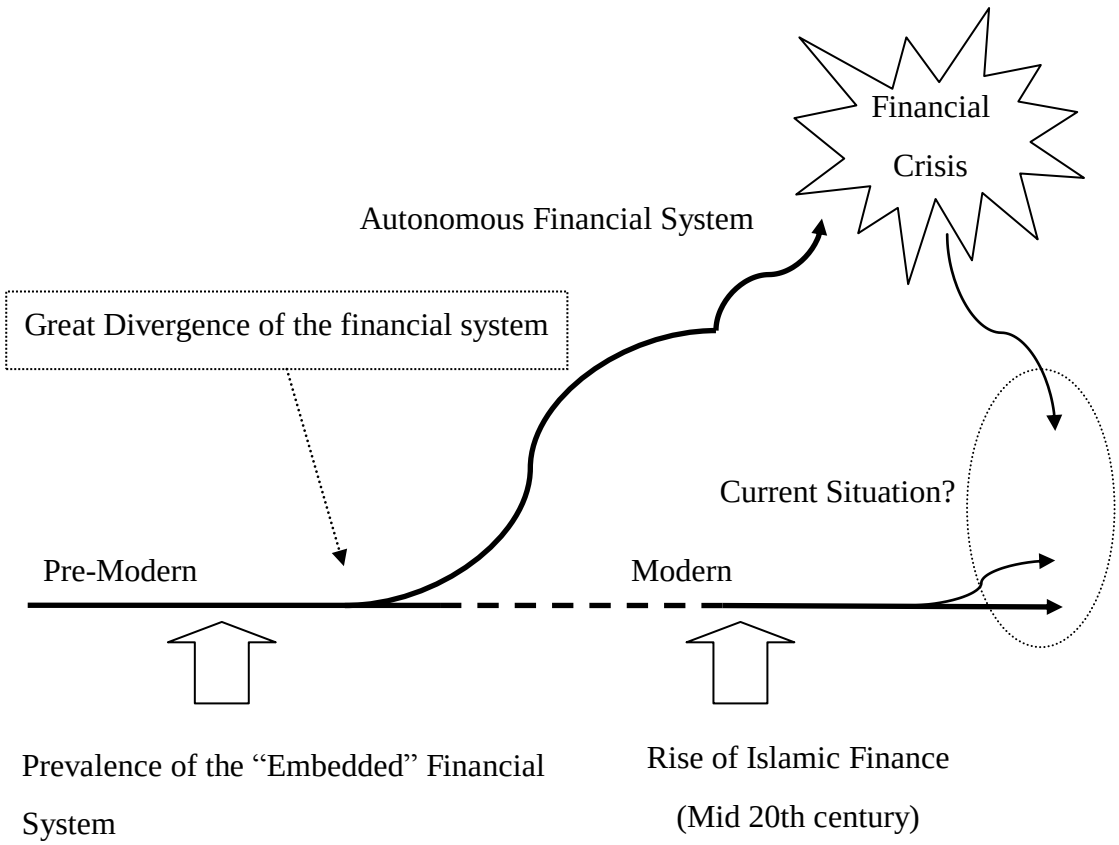
Islamic system of *Mudaraba*, to finance their businesses or were obliged to use the peripheral Jewish moneylenders with their high rates of interest (Yuasa, 2008: 171).

The spell of economic development that swept through Europe during the late medieval period, through Italy in particular, changed the situation dramatically. The Italian merchants invented financial instruments that could earn profits from money lending without deviating from the canon law. For example, the House of Medici took advantage of a system of bills of exchange in which the exchange rate varied from one region to another (Oguro, 2006: 204-213). Such innovations heralded the dawn of the interest-based financial system, which is today regarded as the way of "conventional finance." Subsequently, as is well known, the interest-based financial system was for the first time adopted widely across Europe, and has since been the keystone to the growth of modern capitalism through the modern age.

On the basis of a study of the existing mainstream literature, it is evident that nobody has ever doubted the proposition that the interest-based financial system should be accorded the status of the universal financial system. However, if we were to revert to the ancient and medieval financial activities outlined above, it would become clear that such a financial system was by no means always prevalent. Instead, the "Embedded" financial system is found to have existed in many regions in the pre-modern world, even in Europe. Therefore, if we were to discard this prejudice, we would be in a position to state that the abovementioned proposition with regard to the interest-based financial system is merely a dogmatic view, that is, the interest-based financial system has not necessarily been a universal one; rather it has been, radically speaking, a peripheral system (see Figure 4). Paraphrasing the term used by Kenneth Pomeranz (Pomeranz, 2001), who challenges the typical framework of the European economic development by using the term "the great divergence," it can be said that the rise of the interest-based financial system in Europe is not a result of the linear development of the financial system, but a result of "the great divergence" from the true universal financial system that was embedded in the real domain of the economy.

Under this new framework, and divested of our prejudice on the subject of the interest-based system, the controversial *Bay Inah*-based instruments can be classified as an instrument of the true embedded instruments. This clarification implies that the historical dynamics of the financial activities in the pre-modern Islamic world can be regarded as a universal experience in economic history, and that the distinctive feature of "embeddedness" can be shared by the financial activities in the pre-modern world and Islamic finance in the modern world. Therefore, it can be concluded that Islamic finance has had a universal aspect in economic history in terms of the "embeddedness."

Figure 4: The 'Embedded' Universal Financial System and Islamic Finance



Source: Prepared by the Author.

3.3 Modern Novelties of Islamic Finance

The emergence of Islamic finance opens a new page in the history of both Islam and finance. As has been already overviewed above, the comprehensive financial systems did not exist in the pre-modern Islamic world. Therefore, the current practice of Islamic finance is an unprecedented experiment in the history of Islam. On the other hand, structured banking without interest has never existed in the history of finance, too. Therefore, although Islamic finance stays on the genealogy of the "embedded" universal financial system, the modern novelties of Islamic finance can be observed.

Most instruments adopted by Islamic banks were not necessarily used as financial instruments. For example, *Murabaha* was originally a trade contract to assist a buyer who was not familiar with business customs in the market. *Ijara* was simply a lease contract in accordance with the unique structure of ownership in the Islamic jurisprudence. The formulation of Islamic finance as a modern banking system required the innovation of these trade contracts for using as financial instruments. In the process of such formulations, Islamic banks developed financial instruments by combining one trade contract with another. Not only does *Ijara* continue to play the role of lease, it is also transformed as a "finance lease" instrument called "*Ijara wa Iqtina*" by adding a sale contract to the end of the lease period. Another example is that of the combination of two *Mudaraba* transactions through Islamic banks called the two-tier *Mudaraba*, developed as a credit creating function, which has never existed in the pre-modern Islamic world. New interpretations by *Sharia* scholars also enable trade contracts to function as new financial instruments. *Murabaha* is renewed as a short-term loan instrument by the new approval of *Sharia* scholars, which allow adding *Waad* procedure before the original *Murabaha*. Thus, financial activities in accordance with Islam are refurbished in the modern world with a new design of the modern banking structure, which is called "Islamic finance." Therefore, one of the modern novelties of Islamic finance is the above innovation (or renovation) by combining and transforming erstwhile Islamic trade contracts.

The other novelty of Islamic finance is its coexistence with the conventional finance. Although many interactions were observed in Mediterranean trade in the pre-modern and early modern world, financial systems in both the Islamic world and Europe were separated by region. However, the current practice of Islamic finance not only provides services within the Islamic world but also expands its businesses to Europe and the international financial markets. Therefore, although Islamic finance in principle is embedded in the real domain of the economy, its practice is heavily influenced by the conventional financial system. For example, a mark-up rate of *Murabaha* is theoretically determined by the supply and demand balance of the relevant real goods. However, in reality, the mark-up rate tends to be adjusted to coincide with an interest rate of short-term loans through arbitrage. In another instance, the newly developed financial instrument in Islamic finance tends to be a recycled design of the leading products in conventional finance like financial derivatives and highly liquid instruments. Obviously, these situations are the outcome of the growing competitiveness of Islamic finance with respect to the conventional finance. From the aspect of economic history, these situations of Islamic finance implies that the embedded financial system in the modern world can come to exist with the support of an external system such as the conventional system of finance; this is the second modern novelties of Islamic finance.

IV. CONCLUDING DISCUSSION

This paper clarifies the distinctive feature of Islamic finance as the “embedded” financial system, wherein the monetary domain of the economy is embedded into the real domain. This paper reverts to the history of the pre-modern Islamic world and Europe to show that the rise of the interest-based financial system in Europe is not because of the linear development of the financial system but because of “the great divergence” from the universal financial system that was embedded in the real domain of the economy. It shows that then, Islamic finance stays on the genealogy of such a universal financial system. On the other hand, this paper clarifies two modern novelties of the system of Islamic finance. One is the innovation of Islamic trade contracts for

using as financial instruments by combination and transformation of them, which results from the formulation of Islamic finance as a modern banking system. The other is the dependence on an external system such as conventional finance, which is due to the coexistence of two financial systems in the modern world. On the basis of these implications, it can be concluded in the context of economic history that Islamic finance is one of the universal financial systems with a novel design having a modern banking structure.

The current financial crisis questions the superiority and stability of the conventional financial system and makes bankers focus on Islamic finance. As a result, a number of banks in conventional finance are now on the way out from speculative and vague financial transactions, which are "not embedded" into the real domain of the economy. Furthermore, Islamic finance maintains the pace of its growth despite the global recession that was caused by the financial crisis. Radically speaking, these current situations, which occur in both international and regional financial markets, can support this paper's conclusion, which is that the "embedded" financial system is universal. Although Islamic finance is not necessarily very robust and stable against financial crises, Islamic finance can give us an idea of an ideal financial system, which stays on the genealogy of the "embedded" universal financial system.

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