

A Study on the Impact of Islamic Thought on Global Commerce and Trade

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Abstract

Islam is one of the major global religions with over a billion followers living in all parts of the globe. The rise of Islam also coincided with the rise of several medieval trade routes spanning Asia, Africa and Europe including the famed Silk Route. Islam puts great emphasis on trade, commerce and mercantile exchanges and even the prophet Muhammad (PBUH) was a merchant. The Holy Qur'an contains as many as 1400 verses referring to economic issues, much more than any other holy book. Islam lays down very clear and practical rules and regulations as to how trade and business should be conducted. Several ethical issues relating to trade are dealt with in great detail and simplicity.

Islam spread throughout Asia and Africa through trade and commerce between the people. Thus, it can be inferred that Islam has had a major impact on global trade and commerce since the medieval times. The principles and guidelines given in the Qur'an are as relevant in contemporary times as they were a thousand years back. This paper attempts to throw light on the influence of Islam on trade, commerce and finance and how the rules mentioned in the Qur'an and Hadith can play a major role in establishing a prosperous society.

Introduction

Islam is a global religion with more than 1 billion adherents. The faith spread gradually throughout a geographical area encompassing the Middle East, Africa, Asia and parts of Europe. From the seventh century onward, Islam proliferated in part as a result of trade, with Muslim merchants circulating the message of their beliefs. Exporting luxury goods such as gold and spices enriched Muslim traders, while also opening connections with foreign rulers, many of whom adopted Islam. From the beginning, Islam as a religion and also as a political system laid heavy stress upon the economic aspects of life. This emphasis reflected the leading role of economic activities, particularly mercantile ones, in the Meccan society of the prophet Muhammad's (PBUH) day. Without encouraging asceticism and while acknowledging the legitimacy of acquisition, Islam sought from the start to create a moral attitude toward the use of money by laying down restrictions which would make wealth a source of community solidarity

rather than of antagonism and division (Essid Yassine , 2009). The Islamic conception of a community was based upon an ideal and not abstracted from reality. The objective was to find an economic structure which would support such a social ideal, a commitment which still persists in the Muslim tradition.

Islam as a religion is characterized by a cosmic view of the world and human destiny in which there is no separation between spiritual and temporal realms, or between religious and secular practices. It is a religion and a polity, a revelation and a temporal community of believers bound by the same faith. This unity expresses itself in a faith in God and His word revealed to his Prophet in a holy book, the Qur'an. This revelation is completed by the Sunnah, the Prophet's utterances and way of life which formed an ongoing commentary on God's revelation. The Sunnah, combined with the Qur'an, constitutes the Shari'ah, the "pathway par excellence," a body of norms which is both legally and morally binding on Muslims. Such is the

institutional framework of the Muslim world in which daily life is permeated with a sacralization that radiates to every aspect of living.

Although not a treatise on political economy, the Qur'an might be considered the first Islamic work on economic ethics. It is also, for Muslims, the fundamental conceptual reference for any thought about a communal way of life extending to both cultural and social levels. Since Islam sprang from a mercantile society and the Prophet himself engaged in commercial exchange, production for a market and trade were pictured in the Qur'an as noble practices and merchants favorably portrayed. The commercial symbolism is even extended to God's relation with man. Mention is made of bargaining, selling, buying, reward, lending, weight, and measure. Although the Qur'an lauds the honest merchant, it does not fail to condemn the defrauder. Indeed, no action is more illicit, more reprehensive, and more vigorously condemned than one which is based on an unjust exchange. In a society which had institutions to scrupulously enforce justice in exchange, it would be natural for the market, on which the community of believers depended for daily necessities and which offered possibilities for fraud, to become a special focal point of legal concern.

Historical Impact of Islam on Trade and Commerce

In Islam, economic activity and the quest for profit have traditionally been viewed with favor, and trade has been placed on the same footing with Jihad, vigorous action in the cause of God. The Prophet (PBUH) himself is said to have heaped praise on the honest merchant by saying that he will be seated among the prophets in the shade of God's throne on the day of final judgment. The spread and rise of Islam is closely connected to the mercantile activities and travels of the Muslim traders to different parts of the world. The impact of Islam on trade and commerce in ancient times can be broadly categorized according to geography.

Early Trans-Saharan Trade

After 622 AD, when the prophet Muhammad (PBUH) led his followers from Mecca in Saudi Arabia to the Arabian Peninsula, Islam spread to northeastern Africa. A century later, Arab armies were conquering lands in the Middle East and Africa, disseminating Islam throughout the region, including Egypt. Occupation of these lands allowed traders to cross the Sahara desert, creating a trans-Saharan trade route. Muslim traders who traversed the Sahara further extended the scope of Islam into Africa.

Trade and the Spread of Islam in Africa

As Islam emerged on the African continent, transported by traders, the religion spread south of the Sahara. Muslims carried Islam along Africa's eastern coast into Sudan. Islamic traders intermarried with locals, while others converted, such as Sudanese merchants. Islam continued to spread south along Africa's Swahili coast and to the island of Madagascar. Meanwhile, gold enticed traders to western sub-Saharan Africa. Gold-rich Mali and Ghana became trading hotspots. There, merchants persuaded rulers to convert to Islam. Trade also effectively spread Islam in the Niger region. Through trade in northwest Africa, Islam became embedded in Tunisia, Algeria and Morocco.

Trade and the Spread of Islam in Asia

The rise of Islam in Asia began with the arrival of Muslim traders around the eighth century. Through conquest, Muslims came to control a vast area stretching from northern Africa to the Indian sub-continent. Taking over these lands helped to establish a network of lucrative trade routes called the Silk Road. Islam spread by way of the Silk Road to China, where Muslims intermarried with the Chinese. In Southeast Asia, Islam spread through trade between the Middle East and India. Hindu and Muslim cultures have since integrated considerably in India. As in Africa, rulers in Southeast Asia often converted to Islam, being

influenced by Muslim merchants. Today, Southeast Asia has a comparatively high number of Muslims; Indonesia, in fact, has the largest Muslim population in the world.

Trade and the Spread of Islam in Europe

Europe was Christian, to a great extent, long before the rise of Islam elsewhere. But Arab conquests in Spain, after having swept through northern Africa, threatened to change that. Perceiving Islam as a rival to Christianity, medieval Europeans launched crusades to reclaim conquered lands. After the crusades, hostility toward Islam endured for centuries in Europe and still lingers today. Antagonism does not encourage interactive commerce, so trade was limited between Christian Europeans and Muslims until the 18th and 19th centuries. During that time, trade between Europe, Egypt and the Ottoman Empire became an important cultural interchange. In the aftermath of revolution, France traded heavily and exchanged with Muslim regions in the Eastern Mediterranean. In the 20th century, Muslim populations in Europe grew. Today, there are significant populations of Muslims in Europe, particularly in the United Kingdom and France.

What is the Islamic perspective on fair trade?

Historically, trade and commerce played a crucial role in the spread of Islam. Mecca was a centre of commerce and caravans from Asia to Africa passed through on a regular basis. As a result, there are many teachings within the Qur'an and Sunnah relating to business transactions, trade and ethics. The Prophet (PBUH) promoted fairness and equity and indicated that one should not involve themselves in transactions that will cause greater harm than benefit to the community and the environment.

The Qur'an also quite clearly emphasizes the importance placed on justice and fairness when dealing in trade.

“Deal not unjustly, and you shall not be dealt with unjustly.” (*Qur'an 2:279*)

“Eat not up each other's property by unfair and dishonest means.” (*Qur'an 4:29*)

“Give full measure and full weight in justice, and wrong not people in respect of their goods.” (*Qur'an 11:85*)

“But Allah has permitted trade and has forbidden interest” (*Qur'an, 2:275*)

“Give full measure and do not be of those who cause loss [to others]. And weigh with an even [honest] balance” (*Qur'an 26:181-182*)

“And give full measure when you measure, and weigh with an even [honest] balance. That is good and the better at the end” (*Qur'an, 17:35*)

The Qur'an warns those who violate this injunction:

“Woe to those who give less [than due]. Who, when they take a measure from people [as buyers], they take in full. But if they give by measure or by weight [as sellers], they cause loss [to others by giving less than due]. Do they not think that they will be resurrected? For a momentous Day [the Day of Judgment]. The Day when mankind will stand before the Lord of the worlds?” (*Qur'an, 83: 1-6*)

The Qur'an enjoins:

“*And do not deprive people of their due*” (*Qur'an, 7:85*)

Monopolies which are designed to create an artificially higher price or to create artificial shortages are forbidden. It is this type of monopolies that the Prophet condemned, especially in respect to foodstuff.

“*He who monopolizes is sinful*”

“*Whoever monopolizes foodstuff for forty days, he*

has dissociated himself from Allah and Allah has dissociated Himself from him”

The Prophet forbade also the practice where a town dweller withhold and store foodstuff that belongs to a desert dweller, wait until the price goes up [possibly due to this artificial shortage], then he sells that foodstuff [and thus get a higher commission] for his services.

Sustainable development and social justice are two aspects of fair trade that run parallel to the teachings of Islam. Creating opportunities for marginalized producers, ensuring equitable wages and safe working environments for employees and ensuring that the environment is protected for future generations are all intertwined teachings of Islam and are supported by fair trade. In fact, Islamic principles go beyond the mission of the fair trade movement as it forbids speculation markets, hoarding goods to increase returns and interest as a tool for reinforcing poverty.

Sharia and Trade – Some Examples :

Sharia is the basic Islamic legal system derived from the religious precepts of Islam, particularly the Qur'an and Hadith. The term Sharia comes from the Arabic term shari'ah, which means a body of moral and religious law derived from religious prophecy, as opposed to human legislation. While every conscious Muslim is aware of Shari'ah requirements for weighing, measuring and counting in commerce and trade, not everyone is cognizant of surrounding issues related to conducting business and financial transactions. Islam takes a very measured and careful approach in commerce and trade to ensure that justice prevails and the probability of dispute and disagreement is minimised. Furthermore, Shari'ah requires that its adherents protect and preserve their wealth and property. Thus, it is prohibited to deal in interest in order to ensure justice prevails; it is prohibited to enter into contracts that are not clear in their terms and conditions; and it is prohibited to excessively speculate and gamble.

There are a number of things which Shari'ah requires adherence to, because doing so will be in the best interests of the weaker party to a transaction. For example, it is prohibited to exchange a fungible item, like gold, in unequal quantities. Many women buy new jewellery by trading in older pieces. For example, a woman may end up exchanging a 2.5 tolas (1 tola equals 10 gram) bangle for another bangle of a newer design that weighs only 2 tolas. This is quite a ubiquitous practice. Shari'ah guidelines in such a case are simple: if a jewellery item is weighed and sold as gold, then its exchange in unequal quantities equates to the dealing in interest. The correct way of dealing in exchange of gold or silver jewellery under the Shari'ah is as follows: the jeweller must first buy the old item from the customer for an agreed price, and issue a purchase receipt specifying the price and weight of gold, and its quality in terms of karats; the jeweller should then sell the new item, and issue another receipt specifying price, weight and quality of the gold, and charges for making and design etc. It is permissible in Shari'ah to offset prices, by one party paying only the price differential.

Similarly, many commodity traders enter into barter deals by exchanging less of a high quality commodity with more of a lower quality commodity of the same genre: for example, one tonne of a higher-grade basmati rice with more than a tonne of a lower-grade basmati rice. This is clearly prohibited in the Prophetic tradition.

This principle has great implications for the exchange of commodities, and even money. Following this principle, it is not permissible for someone who lends fresh rice at the time of harvest – as new rice is considered less valuable than old and mature rice – to contractually receive a lower amount of old rice at the end of a crop cycle. Similarly, in an inflationary environment, a lender cannot require a borrower to pay him the principal sum and an additional amount equivalent to inflation rate at the end of the loan period, because the value of money has deteriorated. Doing so is a

clear violation of the principle of prohibition of interest.

It is also a common practice to stipulate a penalty clause in loan contracts, requiring a defaulting borrower to pay an additional amount for a delay in payment. This is an unmistakable violation of Qur'anic guidelines that prohibit such penalties. In the contemporary debt-based financing system, however, such penalties are now accepted by jurists if they are intended to curb the moral hazard problem – that is, a willful default – as long as the penalty is given away in charity to a third party. Although it is permissible to trade in different currencies, it must be observed that Shari'ah allows exchange of one currency for another one only on a spot basis. Therefore, it is not permissible for someone to pay Rs100,000 today, to receive \$1,400 after one month.

In conclusion, it is important that Muslims who follow the Shari'ah comply with its requirements in social and commercial matters; in order that their lifestyle is commensurate with Islamic doctrines. Doing so will help establish commercial justice – and pave the way for a better society.

Islamic Finance

Across the world, there is widespread belief that humanity must conduct itself responsibly and sustainably—a view shared by many Muslim communities as they endeavor to express their faith-based values in business. Their initiative is commonly known as “Islamic finance,” a niche of global financial markets, even within Muslim majority nations. In many respects, Islamic finance is akin to socially responsible investing; both place principle-based limits on profit motive and have grown considerably over the last two decades—much more so than their “non-responsible” counterparts. Since the onset of the financial crisis, the Islamic finance industry, a subset of international financial and responsible markets, has continued to expand at a rate of 17 percent per annum; today, assets under

management are estimated at close to \$2 trillion.

Islamic commercial principles are rooted in the Sharia, the faith's scriptural foundations. Their objectives are to bring about welfare and prevent harm, particularly in the preservation of religion, life, intellect, property, and posterity. Islamic ethics have been interpreted to require risk-sharing, rather than risk-shifting, in business and finance. Perhaps its most noteworthy principle, one shared by other faiths, is the avoidance of “riba,” loosely translated as interest, which precludes debt sales and the toxic assets widely considered to have contributed to the recent global crisis. The Qur'an's warnings against riba are interestingly juxtaposed with giving and charity, indicating that it is diametrically opposed to the latter in ethical value and collective consequences.

Some have interpreted the Shari'ah to emphasize the consideration of consequences to engender spiritual and material well-being. Muslim communities are increasingly discussing sustainability, resilience, and intergenerational ethics as part of broader religious conversations. Various commentators have recognized Islamic finance as a means to address developmental challenges, eliminate extreme poverty, and enable prosperity in developing and emerging economies. That is because of Islamic finance's link to real economy assets and the inclusive consequences of its requirement of risk-sharing. For many of these and perhaps other reasons, empirical evidence following the financial crisis shows that Islamic finance is more resilient than its counterpart and may thus promote systemic financial stability. Augmenting the usual expertise involved in business, contemporary Islamic finance has integrated a layer of advisors responsible for assessing the ethical value of products under Islamic principles. Some advise privately, while others do so on a centralized basis. While they each interpret the Sharia, their determinations are certainly not monolithic. As responsible markets debate stakeholder theories, they would be well served by seeking to learn about Islam's “tiered,

multi-fiduciary stakeholder approach, which grants various communities—including animals, the natural environment, and labor—not only a moral claim, but also legal standing.

Conclusion

Islam is a religion which lays great emphasis on trade, commerce and mercantile exchanges. This study made an attempt to highlight the impact of Islam on global trade and commerce from ancient times to the modern day. Wilson (1997) argues that with over 1400 of 6226 verses referring to economic issues, the Qur'an appears to be more concerned about economic life than most other religious texts. Concerning trade, the Islamic religion's views differ from Christianity. Whereas for Christians, trade is a necessity that does not add value to the commodity traded, in Islam, trading is considered as important as producing. It is argued that without the exchange of goods, production would be worth much less. This trade favouring position is pronounced explicitly in several passages of the Qur'an.

Sura 4:29 warns to keep exclusive control over personal property and postulates “let there be amongst you traffic and trade by mutual goodwill”. The Qur'an condemns any attempt to deceive or cheat in economic transactions. Furthermore, Muslims should only get involved into trading when they are able to take responsibility for the quality of the traded goods. Finally, the possible gains from trade should not result in materialism. As in the Bible, materialism is considered as diverting the attention from more important spiritual concerns, the Qur'an also condemns coveting of a neighbor's good. However, it does not denounce the accumulation of wealth. Wealth is seen as a means of serving God and not as an end in itself. Wealth also comes with responsibilities, most prominently the responsibility to give to others who are less fortunate.

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