Islamic Finance Role in Preventing Crises Resulting from the Financial Opening-up and Liberalization Policies

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Introduction

The Equity capital system is an arachnidan system, it is a fast spreading and fast collapsing system, therefore it is coming out of a crisis to fall in another. The history of this financial system reflects this fact in numbers and also in reality, as the distinguished western economy pioneers confessed that capitalism is a regular crises generating system by nature. The traces of this capitalism nature are more noticed recently according to the growing demand on the financial derivatives, forward sales and speculative fever dealings. But the truth is that the problem of these crises that occurs regularly within the system lies in its rapid transition across the world and also in the fact that any disturbance in one end of the world will rapidly transit to the other end as a lot of countries trend to follow open market, financial liberalization, share capitals' free transition and free obstacles investment policies whether in multi parties commercial frame under the International Organization of Trade regulations or in the contest of the financial globalization through the liberalization of the long and short term capitals; therefore the infection of financial crisis is an inevitability.

In light of the growing global interest in solving this crisis especially at the level of the international financial and monetary institutions; Islamic alternative emerged dramatically in light of the immune that was featured on many of Islamic financial and banking institutions at a time when the world has witnessed the collapse of many giant global financial and banking institutions.

Key words: Islamic finance, Opening-up policy, financial liberalization

Abstract

The aim of this study is to show how Islamic finance contributes in the reduction and prevention of financial crisis resulting from the opening-up policies and financial liberalization where capitalist economy is exposed from time to time to these crises and it barely come out of a crisis and entered another which led economists to describe it recently as the crisis economy. The importance of this research appeared on highlighting the role of financial liberalization policies in increasing the transmission of financial crises infection between countries especially that abidance of the terms of financial liberalization in the multilateral trading system, or in the context of financial globalization means establishing economic and monetary policies that are in consistence with the principles of capitalism by adopting liberalization of financial activity internally and externally also Highlighting the most significant financial crises and fluctuations that accompany the opening-up policies and financial liberalization and the most important repercussions. Then highlighting the importance of Islamic finance as a good alternative in the light of the success of many Islamic financial and banking institutions to survive falling like many giant financial and banking institutions. The study shows some results including that the hasty financial liberalization makes the sponsors of these policies vulnerable to the transmission of the financial crisis that is plaguing the global capitalist system. Financial liberalization policies impose adherence to international standards and the laws that govern the financial activities which supports significantly traditional financial activities that turned out as previously explained to be based on usury and the sale of debts, this is the source of the contemporary financial and banking crises. Thus the study shows that the Islamic finance industry today has a golden opportunity to make Islamic finance a substitute for both capitalist and socialist system. But in order to benefit from this opportunity the industry must adopt the products and financial instruments that represent the philosophy and principles of Islamic economics.

Research Problem: The research problem is to try to answer these questions:

- What are the financial openness and liberalization policies?
- What are the major economic fluctuations and financial crises the world has known under the tendency of most of the countries towards openness policies and financial liberalization?
- What is the suitability of the Islamic alternative in light of the search for solutions to the economic and financial crisis?

Research Importance: The importance of searching through:

- Highlighting the role of financial liberalization policies in increasing transmission of financial contagion between countries, especially that abidance by the terms of financial liberalization in the multilateral trading system, or in the context of financial globalization means establishing economic and monetary policies that consist with the principles of capitalism by trending towards liberalization of financial activity internally and even externally.
- Highlighting the most significant financial crises and fluctuations that accompany the opening-up policies and financial liberalization and its most important repercussions.

- Highlight the importance of Islamic finance as a good alternative in light of the success of many Islamic financial and banking institutions to survive the fall of many giant financial and banking institutions.

Litrature Review:

There is a range of applied studies on the relationship between financial liberalization and financial crises in general and banking crises in particular, here are the most important ones of these studies

Kaminsky and Reinhart 1966: This study included 20 countries in Asia, Europe and Latin America and the Middle East. The study sample included five industrial nations: Spain, Sweden, Denmark, Norway and Finland and 15 countries from emerging market countries during the period from 1970 to mid-1995, the study showed that 18 of the 25 crisis of the banking crisis occurred after the study countries applied of financial liberalization policies[i].

Caprio and Klingbiel 1996: they suggested that accelerating the application of financial liberalization policies results in banking crises, also the possibility of banking crises increases in the aftermath of the currency crisis and the crisis of the balance of payments[ii].

Each of Schumkler and Kaminsky (2003) gave evidence of an increased risk of eventual financial crises after financial liberalization and presented chronological financial liberalization in 28 of the developed and emerging economies since 1973. The results show that financial reforms followed in the short-term by more clear rebound and recession cycles[iii].

Ortiz and Kanner in their study (2004) highlited: other ways in which financial liberalization can lead to financial crises. Where they pointed out that in the presence of moral hazard and bad choices in the capital markets, especially with the absence of any restriction on capital flows, banks tend to lend aggressively, leading to excessive borrowing in investment. Accordingly decreasing savings and increasing current account deficit occur quickly. And if the results of the reform become less positive than expected, uncertainty about investment grow and companies face problems in the repayment of loans, resulting serious problem for the banking system[iv].

Research Methodology:

In order to achieve the goals the descriptive approach and the analytical method have been adopted. As for the sources of research it will be based on secondary sources such as books, and related articles, particularly those are published online because of the lack of study subject for published scientific research because of its novelty. The study has been divided into 3 topics which are: the policies of financial openness and liberalization (overview), financial liberalization policies and its role in contemporary fluctuations and financial crises and the role of Islamic finance in reducing the economic and financial crises associated with the policies of financial openness and liberalization.

First Topic: The Financial Policies of Financial Openness and Liberalization (overview)

Financial liberalization is one of the new financial system features and the most important feature of economic developments over the past years; it is known that financial liberalization policies are closely linked to the dominance of liberal policies as general economic policies as states tended to reduce government intervention in economic activity.

Stanford School represented by its leaders Edward and Ronald McKinnon (1973) opinions related financial development, financial liberalization and economic growth to each other and revived the views of Joseph Schumpeter(1912) where he clearly defined functions of brokerage modules by undertaking mobilizing savings, evaluation of projects, management of banking risks and control project performance, and he also connected between these activities, services, the process of technological development and innovation and the economic development[v].

It is well known theoretically that the mentioned trend emerged for the first time from modern liberal school opinions, which call for the liberalization of the financial sector based on the belief that the liberalization of interest rates in consistent with the market determinants increases savings and therefore investments[vi].

First Fequirement: Definition of Financial Liberalization:

The term financial liberalization expresses the concept of broad and interconnected to lift the restrictions and obstacles on the financial activity in general, whether locally or internationally. This term has emerged dramatically after a series of studies those criticized restraint policies in several countries at a time when financial liberalization has been considered as a successful alternative on a national and international level.

In fact, no one misunderstand the public interest that can be derived, for example from liberating the interest rate, extended credit and cut down the statutory reserve ratio and the use of indirect instruments of monetary policy and the privatization of banks and financial institutions[vii] and liberalization the capital account like applying more of the procedures that are compatible with World Trade Organization agreements regarding GATS services in order to liberalize financial services and promote directed competition and increase efficiency of the financial system[viii].

But this editorial policy measures must take into account its impact on economic variables and provide support to ensure their success factors because exaggerated liberalization for interest rate and credit can lead to a reduction in investment rates and more damaging and risky investment also liberalization of The domestic financial sector that is accompanied by liberalization in the capital account without focusing on institutional, regulatory and legal dimensions that are necessary can generate acute crises as we have seen in recently in many countries[ix].

Second Requirement: the Types of Financial Liberalization :

This financial liberalization can be divided into:

1. **Internal Financial Liberalization :**

controls deposits and / or the lending rates and credit allocation are considered as one of the common methods to rein in the underdeveloped financial systems, Forcing banks to support credit for certain sectors or to determine the amount of credit distorts the credit market and reduces efficiency,these controls do not prevent banks and other financial intermediaries to fund the most promising and productive business opportunities only but usually only reduce savings and encourage capital flight,therefore the subject of the evolution of the monetary sector and monetary policy notices the extent of governments usage to instruments of monetary policy indirectly versus direct controls on interest rates and credit allocation, and also it takes in account the efficiency of the markets for government bonds and the provision of services to the financial system liquidity[x].

At the level of the financial sector and the banking structure , the banking structure is distinguished by its dominance in developing countries, in most cases, the banking sector is characterized by a heavy concentration and control of the public sector banks, therefore strengthening the relationship between growth and financial development requires introducing more competition into the banking and financial sector to raise the efficiency and value of credit, as well as the need to work to provide advanced banking services.This also includes the development of the financial sector to create and develop the work of financial markets, which requires the presence of companies and financial institutions that are interested in a long-term investment such as insurance companies and pension funds to contribute to these markets in addition to an active secondary market for stocks, in general, what is important in this context is not expanding the financial structure itself, but rather to provide a sophisticated and diversified financial services that lead to upgrade efficiency and the development of resources[xi].

2. **Financial Liberalization under the World Trade Organization (GATS Agreement):**

liberalization of financial services trade agreement (GATS) is a part of the concept of financial liberalization because its provisions aim to open the financial services market for any state or organization want to join the World Trade Organization (WTO) by removing all the barriers and obstacles to the entry of capital and investment in the domestic financial sector, Since joining the World Trade Organization means to abide by all the agreements that are approved by the organization, Among these agreements, the financial services agreement, which provisions have been established in Geneva in 1997, where this agreement imposes bound commitment to a set of rules and conditions that affect the regulation of financial services sector on any member state.

The services component of this provision includes the activities of commercial banks with respect to deposit-recieving and granting of credit and the opening credential accounts and provide the banking sevices for the establishment of companies and moral persons. And it include also providing financial coverage for projects. Also it ncludes all bank's services that are classified as investment services.

Leberalization here comes through the following set of actions and commitments:

- Remove Credit Controls
- Remove Interest rate Controls
- Entry Barriers
- Remove Operational Restrictions for Securities Markets
- Capital Account Controls
- Privatization of Financial Institutions
- Allow the establishment of offices of foreign banks and insurance institutions that wish to activity within the country representation[xii].

It is clear from the foregoing that the Convention and the basic clauses aimed at opening and liberalization of the domestic financial sector for the foreign institutions and investors to invest inward through the removal of all restrictions to foreign capital and compliance with international standards regarding financial transactions and activities.

3. **Financial Liberalization in the Context of Financial Globalization (Liberalization of the Capital Account):**

There is confusion between financial liberalization under the World Trade Organization and the liberalization of the eqouity capital account and therefore we must differentiate between the liberalization of trade in financial services and the liberalization of capital transfers, For while the first one impact in the balance of services, the second affects the balance of payments. We can differentiate here within the context of the international economy literature, as the return of capital investment abroad is a service return,and its like work return or production's element return in tfavor of non-resident customers, there fore increasing transitions movement of capital will lead to increase the flow of services although it is a must to differentiate between the two movements, for Example transmission investments to establish a bank outside the borders of the state is a shift of capital while the financial service itself does not arise untill the bank provide various banking services, and achieving revenue from these services is added to the returns of the services balance in the Balance of Payments[xiii].

The liberalization of the financial sector in the framework of the multilateral trading system increases the foreign institutions demands to lift restrictions on the capital account in order to facilitate the activities of these institutions. In general financial Liberalization under financial globalization discusses the degree of domestic financial system's ability to funds brokerage outside the country. This affects the country's extent of the profit from the international trade. And the subject of financial openness evaluates the of overall appropriation of exchange rate Including whether it works smoothly and free of interference. And also checks if there are significant restrictions on the foreigners and residents trading of financial assets or currencies[xiv].

Restrictions on current account transactions Can restrict trade in goods and services fairly, likewise multiple and unbalanced exchange rates could impede in the trade and resources allocation.However, there may be a need to impose restrictions on capital account transactions un less there were an institutional arrangements, including regulations and prudential supervision. As the debate taking place in the context of currency crises and financial crises and the best system for leberalization, the open capital account without proper supervision and information disclosure can increase the risks of financial collapse. But in the presence of appropriate institutions open economy can benefit from the available globally funds to finance local promising investment projects and to allocate domestic savings to global investment alternatives[xv].

The Second Topic: Financial Liberalization Policies and its Role in Contemporary Fluctuations and Financial Crises

Almost Many economists agree that financial liberalization resulted in unsatisfactory results, as it failed to achieve the desired expectations, in a number of countries that liberalization of financial markets was made early and due to lack of knowledge of the negative repercussions and the failure to adopt the financial sector reforms in a healthy comprehensive program; financial liberalization has led to financial crises.

Also the liberalization of banking services trade lead to a crisis and financial crises for banks, Perhaps that is one of the most important challenges and the negative effects of financial globalization, where the banking system is suffering in many countries around the world of powerful crises which have occurred in the nineties, crises in the banking system in at least one-third Member States of the International Monetary Fund, All these crises have occurred in the context of globalization, taking into account the fact that the crisis has had a severe impact on the overall national economies in which they occurred, and even extended its negative impact on the banking system in its countries and in countries other than those where the crisis occurred. Those crises raised strongly the need to take precautions for each of these crises and the importance of developing an early warning system depends on the development of a set of indicators that warn of crisis before they occur, at the same time serious research in macroeconomic policies and applied mechanisms that prevent the occurrence of such crises is seriously needed[xvi].

First Requirement: The negative reflections of the financial liberalization under the (GATS) Convention on the banking sector.

Liberalization of banking services is not free of the downsides as well as financial and banking crises among the most important of these negative reflections are:

- Increased competition, particularly in the field of modern aspects of banking business, leading to the withdrawal of some of the banking units of market, but through strategic planning expansion of morphological integration and restructuring operations can be performed.
- The modern tools market in the banking business is been limited for a period of time to foreign banks as aresult of thier relativly experience in these activities, and the weakness of the competitiveness of the local banks in this area.
- Weak local banks' ability to open its branches abroad, which reduces the mutual benefit from liberalization of trade services.
- Weak ability of local banks of developing countries to reduce the cost of banking services, where it is linked to a large extent to the monetary policy and national economic goals.
- Damaging the strategy to use the banking system in promoting economic development in developing countries.
- Poor chances to protect the new established local banking units[xvii].
- The growing fear that foreign banks and institutions can controll the local banking market after the liberalization of banking services trade, and of the possibility of missconduct of their positions in the domestic market so foreign suppliers will be always more efficient than locals and therefore foreign suppliers will have more influence and accessbility to the market.

- Fear that foreign banks and banking institutions will serve only profitable sectors of the market and which are referred to as the best choice (Cherry-Pickong) with all the risks and lack of access banking services to certain sectors and certain regions resulting from that choice.
- The local banks are still unprepared to face the competition due to the small capital, limited operations, and humbility services compared to foreign banks, which may invade the local banking and financial market in the context of the commitment to the financial services convention.
- The presence of foreign banks in the local market will enable them to move funds accoarding to their own benifits and they can exude available foreign currency to thier original countries and re-export it to any place, or use it in the fields that have no high market risk, such as in speculative activities without financing investment activities in local economic sectors.
- It may occur under the liberalization of banking services that local banks get involved in some types of modern banking operations that are not consistent with local banking market and its needs such speculative activities.
- The possibility of what so-called banking abundance under the entry of more banks and financial institutions to the market, and that results in problems for the banking sector, as the excessive or bank exuberance means that there are many banks working to attract operations in a limited banking market.
- The liberalization of banking services trade leads to banks crises and financial crises, and this can be considred as one of the most important challenges and the negative effects of financial globalization.
- Liberalization of banking services can increase transactions in the banking and financial derivatives, which are always seen as a danger zone and has a well-known market risks[xviii].

The Second Requirement: Opening-up policies and financial liberalization reflections on capital account.

The impact of liberalization and the opening up of financial liberalization in exploring the catalytic or reverse effect on the capitalist balance , in other words :does the accessbility of foreign banks, insurance and re-insurance companies to the local markets of developing countries lead to transfer capital inside or outside? The answer to this question is dependent on a number of matters of substance on the basis of realistic experiences:

At the level of hot money capital or in other words (short-term capital), it is linked by modern literature, to the ability to move or Mobilality, so the specified transfer limitation factor for this money is not related to the liberalization of financial services, but it is related to the margins of the differences between interest and exchange rate which are speculative factors. However, the liberalization of financial services facilitate these venture capital transition across different banks andports and make transfers and transactions within the framework of a project more available, it is therefore expected for this type of investment trend to be toward the outside as variables of a developing economy will not make interest rates speculative or currencies trade in local market attractive or profitable and so the trend will be at the level of non-financial or the long-term investment because the limitations on those investments are simply determined within the classic and modern economic literature by comparing the cost and expected revenus or by comparing between the interest rate and efficiency marginal of investment, and therefore the liberalization of financial services and competition between national and foreign banks will work to move the interest rate to its real level, which will reflects the actual degree of relative abundance capital. The domestic economic policies will always have the positive and active impact in the marginal efficiency of capital to attract domestic and foreign savings through various financial institutions to direct investment, or lending to investors.

Thus, the liberalization of financial services operation has limited impact to just facilitate the transfer of capital and thus the management of transitions between the inside and outside without affecting the marginal efficiency of investment. However, there are visions that link the liberalization of financial services and the increase of the foreign capital flow toward inside as this liberation entails the construction of branches of multinational giant banks, as well as reinsurance companies, which are solvent entities and has a huge surplus of liquidity which is need to be invested and managed when present in the same investment province, where such companies interest in direct investment in developing countries, without lending (or at least participate in the joint ventures where it dominates the administration)[xix].

The Third Topic: The Role of Islamic Finance in Reducing the Economic and Financial Crises Associated with the Policies of Financial Openness and Liberalization

The global financial crisis that occurred in a row during the last four decades proved that the adopted global financial structure which is mainly based on the traditional banking system has failed. The global financial system was proven incompetence to deal with the complex structure of traditional mechanism of banking currency exchange, which led, with its excessive risky actions, to the recent real estate mortages crisis in the United States which turned into the credit crisis that has developed to form the current global financial crisis. For this reason, the current global financial crisis has turned into a "crisis of confidence" in the global financial system. In light of the concerns raised recently regarding the eligibility of the Bretton Woods system and its major institutions, such as the International Monetary Fund and the World Bank, some of the ideas focused on the urgent need to update and repair of the global financial system to the exctient where it can avoid such crises[xx].

As in previous financial crises, traditional banking practices were blamed by many ecconomists as it was the incubator environment that was the origin of the current crisis, and the serious concern of the global financial system collapse led to an ambitious search for plans to rescue banks. The current financial crisis has caused calling for reconsidring other alternative financial systems, and among these alternatives, was the Islamic financial and banking system which was the center of a serious debate especially in many developing countries.

As in previous financial crises, it threw away a lot of the blame on the votes practices and applications of traditional banking being the center which originated from the current crisis, and in the course, the huge concern apprehensive resulted from the collapse of the global financial system to search for the ambitious rescue plans for banks. The current financial crisis has led to some voices calling for a rethinking of other alternative financial systems, and among these alternatives, was Almstfad trading on the Islamic financial system and the banking system, especially in many developing countries.

Islamic finance has been essential part of the market activity for many centuries. Then only about thirty years ago it was emitted in modern institutal structure such as (banks and financial institutions), compared to three centuries that are the whole traditional bank financing age.

Islamic finance has struggled to prove itself against current prevailing interest-based financing, and has succeeded in some aspects, but it still has long way ahead in other aspects. The current crisis proves that Islamic finance is less affected of deflation, because it avoids debt trading and risks.

First Requirement: The features of Islamic finance

The financing can be based on profit or revenue sharing without the emergence of debt, it can also be based on selling with postponement payments, where the emerge of the debt is associated with the formation of real value and is not growing separately. In such systems the inverted pyramid of debt does not arise. The possibility of participation in loss earges the investment deposit holders to demand the highest standards of transparency and increase the pressure on banks to pay extra attention to risk control.

The risk integrates with ownership. And the legitimate risk will not actually exceed the value of the assets involved. Again, this seems to be an immune system against brokerages and financial derivatives bubbles, and it gives insolvent debtors allowence time without an increase on the original debt, and this has moral and economic grounds. When markets fall, decline in the value of the financial guarantees leads to the collateral falling into a deeper decline, while creditors are seeking to protect their positions. But this cause damage to the markets themselves and transform retreat into collapse. Giving insolvent debtors allowence periode will ease things for them and gives them a better chance of repayment, and preserves the value of the guarantees and prevent the collateral collapse of the markets. While giving that allowences periods to the insolvent reduce deflationary pressures on the markets, the interest-free financing reduces the escalating pressures in market expansion times, when the excessive creditting leads to a bubble. This contributes to the relative stability with little growth restriction.

In the final analysis, the Islamic finance is governed by the great concern for the human interest. Morality is also penetrating its rules and provisions to prevent the production and exchange of goods and services that are harmful to life and the environment, and prohibits contracts that do not strike a balance between the interests of both parties and those contracts that are trading risks.

The Islamic finance system is durable and sustainable, it is based on a wider accepted moral values among humans, and it has the potential for more justice and effincy than the current system. And the principles of Islamic finance are justified by logical analysis, economic wisdom and Sustainability[xxi].

The Second Requirement: The real causes of the crises from islamic point of view:

- Expansion of usurious loans as the amount of the original debt expandes with time against the calculated intrest, and individuals and states deficit ismore likely to happen in many cases, causing the crisis of payments defaults, and a slowdown in the economy for the lack of the ability of many of the middle classes and even higher classes to pay debt and proced with production[xxii].
- The financial markets current system of buying and selling stocks, bonds, and goods without the requirement of the actual recieving of them causes goods to be bought and sold several times, without moving from the original seller hands is void system that complicates the problem and does not solve it, in terms of trading increases and decreases without recieving goods and even without the existence of them, all this encourages speculation and tremors in the markets, and so gains and losses occur from a variety of fraud ways that may persist and continue before they reveal and become an economic catastrophe[xxiii].
- Dealing in financial derivatives and markets represented by the future and forwards contracts markets and financial options contracts markets, and exchanges contracts on one hand, and over crediting operations on the other. The global financial crisis has also been represented by the application of overdrafts credit cards system which lead the owners to bare high costs, making them unable to pay thier debts due to the high intrest resulting from it and often engaged by a real estate assets mortgage,

and other guarantees whic was one of the real reasons for the bankruptcy of some large financial institutions especially banks thats deal in mortgages more often[xxiv].

- The problem increased as a result of the lack of liquidity by US banks and property values decline in the United States, this led to a decline in GDP of 1.8%, or about $ 166 billions because of the real estate crisis, and in the step from the banks to promote real estate bonds Center they were insured by famous companies insurance where the bondholder is to pay the insurance premiums for protection from the bankruptcy of the bank or the owner of the house, which encouraged the acquisition of more such bonds and individuals are no any longer able to repay their debts even after the sale of their properties mortgaged so they became shackled by financial obligations, and that results in damages to the creditor banks of the payment defaults and decline in stock value in the stock market and, so several real estate and insurance companies announced bankrupt. A condition of uncertainty dominated the minds of investors causing many of them to withdraw their deposits, which reflected negatively on the banks' liquidity despite inspite of the central banks' interventions, and this reflected in the succession of deficits resulting from the economic losses and has become a psychological factor that is linked to confidence in the financial sector as a whole[xxv].

Third Requirement: Islamic finance and its role in the reduction of financial and banking crises:

Islam affirms the necessity of the consistent of financial transactions with the Islamic regulations, by blocking usury in all its forms, ambiguity[xxvi], and gambling. the Islamic banking and finance financial transactions are guided into the ultimate goal of achieving equitable justice where priority is given to the existing funding that is based on equality not on debt basis and it emerge from that achieving justice in human society is one of the main principles of Islam, the fulfillment of this financial transactions requires the sharing of profit and loss , in order not to barri all the risks and responsibility; the financial institutions need more effective risks assessment and efficient financial monitoring on the part of borrowers exploition of the financial funding. This implicitly suggests that the creditor (the bank) is acting as a proxy for debtorsand it has complete information about how they will be useing the loan without leaving any room for misinformation.

In contrast, the lending process on the traditional banking system is based on the issue of asymmetric information and moral hazard. Debtors are more familiar with their own work more than creditors know. Since debtors are in a position to hide information from the bank, they can easily use the loans for other purposes different from what is set in the agreement, thus entering a hidden risk to the bank through misleading statements about their income; which is an issue that has not been addressed seriously by the reckless banks in United States before the mortgage crisis emerged.

On the other hand, the Islamic financial system does not allow the composition of the debt through direct lending and/or credit, but it requires a composition of debt through the sale or lease of "real assets" through various sales types, the patterns of rental or financing instruments such as Murabaha, Ijara, Sulum, Istethna and bonds which are aligned with Islamic law. The goal is to help individuals and companies to buy real goods and services that are needed in the present time with the ability to postpond payment. In this context, It is worth mentioning that the system of Islamic finance has specific conditions that can help prevent excessive expansion of debt, which can be summarized as follows:

- Assets to be sold or leased should be real assets, not imaginary or theoretical.
- The seller must be the owner of the goods that are sold or leased.
- Transaction should be an actual commercial transaction with fully awareness of the actual process of delivery and receiption.
- The sale of debt is prevented, and therefore possibility of transferring the associated risk to someone else does not exist. The debtor has to bear the loan and the risk[xxvii].

After facing the risks of the global financial crisis, many banks around the world are now to establish units for Islamic finance, attracting thus an emerging industry estimated at $ 700 billion to US $ trillion in the volume of assets and it is growing annually at a rate ranging of 15%. Today investment within the islamic financial system framework is accepted in a large number of countries - Muslim and non-Muslim - such as Indonesia, Malaysia, Turkey, Japan, China, England and United States. It also continues to expand and reach many other countries as an alternative or complement to the traditional system and banking and financia system. Wilson (2009) pointed out that the Islamic financial system "offers a practical alternative for traditional financing and banking system with less exposion to regular crises[xxviii].

Fourth Requirement: Procedural steps to treat the global financial crisis from an Islamic perspective

First: Canceling interest component of the investment accounts

The most important feature of Islamic finance system is canceling interest component of the investment accounts ; as it takes off the contractual cost of investment, which represents one fifth of production costs in most cases[xxix]. Which means increasing real profits that result from the project unlike the traditional financing which achieves hat through the interest, which leads to an increase in the general level of prices causing inflation in the overall economy, and if the general level of prices increased or remained constant debtor can fullfil thier financial obligations without discomfort while If it dropped; many of the debtors are going to be unable to meet thier financial obligations, which increases the number of bankruptcies, and this leads to disable most of the vital public projects which play a leading role in the serving the community as long as the investment gains in these projects is below the prevailing interest rate. This matter becomes dangerous whenever prices rise, with declining purchasing power of money, and the ring-risk is completed due to the low standard of living resulting from that[xxx].

Islamic finance also differs from traditional finance as capital ownership continues to belong to the original owner unlike interest rate borrowers where the ownership of capital is transformed to the other party[xxxi], which means they bear the loss alone, and the yield or interest will be returned to the lender without a slightest degree of risk. And that means an increase in the number of absent owners under the existing system that is based on the interest rates as stated above.

In light of this, the resources and the savings are collected from the poor and the rich and redistributed to the rich only, meaning the flow of financial resources from the poor who are the most to the rich who are the fewest[xxxii], and this led to the creation of a state of imbalance between classes, extreme poverty on one hand and sang obscene from the other hand, there is no middle class to help in production or allocation of resources[xxxiii].

Capital owner in the capitalist system adopt the interest rate as a contractual bonus that determine the investments, in Islam there is an alternative reward of capital (return on participation) substituting the interest in the absence of the element of risk in interest and risk presence in the participation, Islam support positive incomes against parasitic ones; The work, rehabilitation, risk and participation are all supported on the positive contributing, in contrast, interest and profit on unfarmed ground (accoarding to those who said its forbidden in Islam) promote the parasitic contributing if we know that one-fifth the cost of production result of interest as previously explained[xxxiv].

This means that in an economic system that is free contractual cost on investment ; resources will be directed properly towards the optimum usages without wasting of wealth, and on the right direction of production in consistence with the needs of the community. By contrast, the increase as a result of contractual costs will be reflected on the community, class of the low level of income will be more affected by this increase or these costs, because they are largely reflected on prices of the goods they need.

Second: Islamic finance and its association with real economic activities and its dependence on profits.

Islam Always urges to run money (investment) and fights money compactness and it is obligatory to pay Zakah annually (2.5%) as donation and it promotes to increase the capital's funding instead of debt financing based on profits not on interest consedring that projects must be real not fake and not financial derivatives or mortages. So Islam urged to trade with money instead of accumulating it[xxxv].

This property of Islam appears through the participation of the share holder in making the financial decision as being a partner in profit and loss; Islamic finance accoarding to this property is accomplished by participating in funancing a project with part of the funding while the co-party (financier) is reqouired to cover the rest of the funding amount, and both partees shall agree on sharing profit based on the capital provided by each one of them and their effort as well as well, they also share loss in the same way[xxxvi].

This means that the adopted model of Islamic finance is based on the integrated relations between capital and labor to distribute risk and share profit or loss; The share holders are looking for ways to increase their wealth savings by investing them for a return, and a return in traditional system based on interest is a flat rate of interest ,which is a cost paid by the debtor who is looking for resources to use in exchange of cost, while in the Islamic system the cost would be a stake in the actual profit resulting from the use of resources[xxxvii].

Hence, the difference is clear, which leads to the disappearing of the abcent owners phenomenon; because the owner (financer) will participate in the decision-making as being a partner in the profit and loss.

The Islamic finance system through funding for professionals with skills and crafts- who are mostly from the poor class - can transfer them to projects owners, and this increases the production and income fairly[xxxviii], which means the decline in the phenomenon of absent owners through equitable distribution of income and wealth.

Third : The establishment of humanitarian values in financial transactions in accordance with Islamic methods.

One of the most important characteristic of the formulas used in this model - Islamic finance -is its contribution to the social and moral aspect; legitimate speculation, for example honors human in Islam as a kind of integration between the capital and the effort of human and it could achieve some sort of social balance, which means the absence of the two classes in society, oneconsisting of a few owners and the other is the majourty of poors[xxxix].

This speculative system provides an equality ; there is no difference between people but their ability to do the project, competence or professional in light of the wide concept of speculation from this opinion speculation here is similar to risky capital. What applies to speculative applies also to other formats; such as (Morabaha) which according to Islamic methods works to facilitate trade exchange and filling consumer needs as

part of the public interest, and so in each formula of islamic financing activities.
And the role of Islam in establishing human values can be noticed through :

- Adopting useful lending instead of harmful lending through avoiding intrest on debts origin and help the insolvent debtors accoarding to the islamic fundementals.
- avoid providing privellages to financers by cancelling the debtors tax motivations.
- Support financing in the form of partnership through regulations or institutions.
- Support the partnerships formulas through establishing monetary polices by central banks.
- Prevent the sale of debt to a third party completely, as the basis of the recent financial crisis is the selling of debts.
- Provide production funding for the poor by allocating a certain percentage of the funding for the poor, and encourage small and medium projects[xl].
- For all that the effect of Islamic finance in achieving a better level of use of resources appears in the achievement of a high rate of economic and social welfare, the logical result of the optimal use of resources is a rise in resource growth rate, and it must be accompanied with efficient usage of this growth to achieves full employment and increase the economic well-being without over consuming of resources or waste of energies through consumpting goods and services that are not necessary[xli].

For all above facts the effect of Islamic finance in achieving a better level of use of resources is clear. It leads to the achievement of a high rate of economic and social welfare, the logical result of the optimal use of resources is a rise in resource growth rate, and it must be accompanied with efficient usage of this growth to achieves full employment and increase the economic well-being without over consuming of resources or waste of energies through consumpting goods and services that are not necessary[xlii].

And it is clear that the strength of Islamic economics is based on the financial instruments that are consistent with Islamic law based on the real economy and not on the wrong theoritical practice. With no ability to trade debts ; the capital market will not be able to expand beyond the actual economy cababilities, there fore the reduction of fake financial derivatives, in its essence, which adds no value to the economy, sparing the sequence of the reaction of any failure to repay the debt, which was a main reason for the collapse of major financial institutions during the current financial crisis. As a result, the absence of all these conditions was of course one of the main reasons that contributed to the current financial crisis. That is why many experts and analysts support the application of principles of Islamic finance process[xliii].

Findings and Recommendations:

In light of the above the following conclusions can be drawn:

- That hasty financial liberalization makes the sponsors of these policies particularly vulnerable to the transmission of the financial crisis plaguing the global capitalist system.
- That financial liberalization policies imposed on countries that adhere to international standards and laws that contro financial activities which supports significantly traditional financial activity that is based on usury and debt trade is the source of the financial and banking crises contemporary.
- That financial liberalization resulted in unsatisfactory results and failed to achieve the desired expectations of raising the production efficiency of the financial and banking institutions and the development of financial activity and financial services, instead of that it was the safe passage Bridge of financial crises contagion.
- That the real cause of the current financial crisis lies in the expansion of usurious loans, and the lack of legitimate or legal restrictions on the trade operations of these loans in the framework of the so-called securitization operations.
- The Islamic financial industry now has a golden opportunity to make Islamic finance a substitute for both capitalist and socialist system. But in order to use this opportunity the industry must adopt financial products and instruments to embody the philosophy and principles of Islamic economics.

Recommendations:

- Reducing the dependency of financial systems in Islamic countries on the international financial system by creating a global Islamic Stock Exchange market that aims to collect savings and provide alternative sources of funding for the various economic agents in the Islamic countries and provide institutions with the islamic methods Supervisory and Finance Board.
- The urgent need for cooperation between legal authorities and centers of economic research in order to develop financial engineering industry and innovate modern financial instruments in line with the norms of Islamic methods.
- Supporting Production funding for the poor by allocating a certain percentage of the funding for the poor, and encouraging small and medium enterprises.

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