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Islamic Relief Trade Policy

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Item Type	Preprint
Authors	Islamic Relief
Publisher	Islamic Relief
Rights	With permission of the license/copyright holder
Download date	2026-11-06 07:54:35
Link to Item	http://hdl.handle.net/20.500.12424/186452

الإغاثة الإسلامية
Secours Islamique

Updated February 2009

Islamic Relief Trade Policy

Islamic Relief is dedicated to alleviating the poverty and suffering of the world's poorest people.

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"O you who believe! Squander not your wealth among yourselves in vanity, except it be a trade by mutual consent, and kill not one another. Lo! Allah is ever Merciful unto you." (An-Nisa/ The Women [4] 29)

Introduction

Trade has the potential to contribute to the process of sustainable development as well as to undermine it. For many countries and communities, today's uneven playing field in trade systems does the latter, and is a major contributor to maintaining poverty and deepening existing inequalities. In 2006, according to research by 'Global Financial Integrity'[1], developing countries lost an estimated $858.6 billion – $1.06 trillion in "illicit financial outflows"[2]. Due to the fact that official statistics cannot fully capture the volume of illicit financial flows from developing countries, estimates of these flows based on existing economic models are likely to understate the actual problem. Hence, normalized estimates of illicit flows from developing countries and regions are likely to be extremely conservative.

For the countries in which IR works[3], trade makes up significant amounts of the GDP (exports 15-59 % and imports 20-93%). As their trade volumes – even collectively – are almost insignificant though in global terms, they are at the mercy of (often volatile) global prices. And although some of the poorest countries enjoy preferential trade relations with markets such as the EU and the US, these terms usually only apply to raw/ primary goods, where profit margins are generally small, and not to processed goods or services, where margins are potentially much higher. Furthermore, as part of qualifying for IMF loans, a condition is often attached that loan recipient countries have to open their markets.

This means, notwithstanding international aid,[4] the countries we work in are getting poorer and the rich countries are getting richer. This is not only unsustainable especially for the poorest countries, but it is unjust and un-Islamic.

Islamic Relief is a faith-based member of today's relief and development community. To reflect both our roots and our contemporary nature, this policy looks at trade in the context of both poverty alleviation and Islamic economic values. It then stipulates what Islamic Relief will do, in terms of its programmes and projects, to utilise the opportunities that trade offers in order to circumvent the constraints of the current global trade system on poor and vulnerable groups, and to advocate for a fairer world.

Trade and poverty

Poverty reduction requires a just economic system with equitable distribution of wealth. Achieving this typically requires both a national effort and work at the grass roots level. This includes programmes that maximise the capacity and capabilities of poorer segments in society,

[1] www.gfip.org/storage/gfip/executive%20-%20final%20version%201-5-09.pdf
[2] While there is no exact definition of 'illicit financial flows', it is broadly agreed that they can be classified into three main categories – criminal (where the source of funds has criminal origins), corrupt (where the funds are linked to corruption by public officials) and commercial (where the flows are driven by profit laundering, tax reduction or other commercial motives). Of these, the commercial illicit flows are by far the largest. Source: www.definesolutions.org/SonyKapoorIllicitFinanceTaskForce1Ra.pdf
[3] Africa (Chad, Congo (D.R.), Ethiopia, Kenya, Malawi, Mali, Niger, Somalia, South Africa, Sudan); Middle-East/ Eastern Europe (Albania, Bosnia Herzegovina, Egypt, Iraq, Jordan, Kosova, Lebanon, occupied Palestine, Russian Fed, Yemen) and Asia (Afghanistan, Bangladesh, China, India, Indonesia, Pakistan, Sri Lanka)
[4] The global development aid of rich countries rarely amounts to more than 0.5% of their GDP

which is the domain in which Islamic Relief has traditionally been active. In addition, it needs a framework for engaging in trade that does not marginalise large segments of society or affect environmental sustainability (see also IR's Environment Policy).[5]

Almost half of the countries IR works in are qualified as 'least developed countries' or LDCs[6] which qualify for preferential trade access to the EU, US and Japanese markets , but with developed countries providing significant assistance, for example price supports and export assistance. Many developing countries, including Chad and Mali[7] in the case of cotton, have charged that this assistance, which is allowed under current international trade system, but which poor countries cannot afford, distorts world prices and production, and the result is a decline in exports from developing nations.[8] Also, several countries qualifying for preferential trade entry into developed markets tend to have too poor infrastructure to benefit from trade opportunities.

The structure of trade relationships determines trade's material and financial flows. Locally, small producers may sell individually or collectively, to middlemen or in the wider market place. Nationally and internationally, markets may be protected, free, or saturated with subsidised imports. Depending on the sector, there may be monopolies, oligopolies, or a place for smaller producers. Depending on how trade is organised, at these various levels and in different sectors, it may help or hamper poverty reduction.[9] For example[10], developing countries have an estimated US$619 billion disappear in illicit capital flight. US$130 billion is lost to the developing world every year through multinationals remitting profits back to their home countries, for example by using 'Special Economic Zones' in developing countries. US$250 billion vanishes through tax dodging because US$11.5 trillion of global assets are currently held in tax havens, like the UK, one of the centres of financial globalisation. The most recent figure of US$106 billion in aid to developing countries (in 2006) is dwarfed by these huge sums (see also IR's Debt Policy).

A number of countries, especially those in Southeast Asia, have managed to develop equitable internal growth strategies that effectively utilised the international trade system. Sometimes, this has resulted in a near-eradication of extreme poverty and hunger in a matter of only a few decades. Their example illustrates that sustainable and more or less equitable economic growth does contribute massively to achieving the millennium development goals. The concern is, however, that although developing countries need 'policy space' to independently develop national policies to promote development; international trade rules increasingly limit this. The

[5] For example, the increased horticultural exports from Kenya to the EU are hailed as a great success, which now accounts for over 20% of the country's export earnings, but as Kenya is an increasingly water-stressed country, thought should be given as to whether this water-intensive industry is the best for Kenya (even if it is a good deal for the EU, getting cheap cut flowers in the short term).

[6] www.un.org/special-rep/ohrlls/ldc/list.htm

As part of the 'Cotton Four' in W-Africa: Benin, Chad, Mali, Burkina Faso

[8] See: African trade ministers urge greater attention to cotton exports as financial crisis adds to challenges, UNCTAD meeting reviews trade-distortion issues, gap between commitment and delivery of aid, upcoming Doha negotiations on agriculture, 2 December 2008, UNCTAD/ PRESS/ PR/ 2008/ 047, www.unctad.org/Templates/Webflyer.asp?docID=10857&intItemID=2068&lang=1

[9] In addition, trade architecture has an impact on most of the MDGs. Extreme hunger and even mass starvation is often related to hoarding and monopolistic market manipulations. Similarly, trade architecture can contribute to the conservation or destruction of a community's natural environment; and empower or disempower women and other vulnerable groups.

[10] Most figures from Eurodad, except tax figures from Tax Justice Network, and 2006 aid figures from OECD

principal areas where trade agreements do or may restrict countries are tariffs, trade-related aspects of intellectual property rights (TRIPs)[11], and investment.

Workers in poor countries, particularly women, employed by multinational companies from rich countries (lured by 'free trade' or 'special economic zones') have few labour rights as they face insecure contracts, intense production pressure and intimidation in the workplace. This is an issue especially affecting IR countries including Bangladesh[12], India[13], Pakistan and China.

Although trade agreements between equal partners can be beneficial to both, between richer and poorer economies, they will often favour the richer economy as poor economies are not allowed to protect their growing industries. Countries that are too poor or too institutionally weak to have a policy of encouraging particular sectors through domestic subsidies or industrial policy which are unconstrained, may need to use tariff policy to limit unbridled imports competing with local production, though limits on this set by the WTO[14] may constrain precisely those policies open to it.

However, numerous 'fair trade' initiatives in recent years have shown that, for a relatively small, but increasing, number of producers in poor countries it is possible to escape from the poverty trap. 'Fair trade' is about better prices, decent working conditions, local sustainability, and fair terms of trade for farmers and workers in the developing world. It ensures, for the seller and his or her family, an existence worthy of human dignity.[15] This trading partnership seeks to empower the traditionally powerless small producer. Such empowerment and fair compensation can decisively reduce poverty, enhance sustainable development, and ensure social justice. Fair trade has been developed by many in the non-governmental sector and is able to exist as a consequence of consumers' choices. Conceivably, fair trade practices could continue to grow and be supported by international trade legislation. As the millions of small producers in the developing world are voiceless in the international trade negotiations, the role of NGOs will be increasingly important.

Trade and Islam

The importance of trade ethics

Prophet Mohammed (PBUH) and his first wife Khadijah were traders, and acutely aware of the positive and negative impact that trade could have on people's lives. Long before Mohammed had received his call to Prophethood, he had co-founded a group called the 'League of Ethical Businessmen', intended to encourage the merchants of Mecca to be honest in their dealings and to share a part of their wealth with the poor.

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[11] www.wto.org/english/tratop_e/TRIPS_e/TRIPS_e.htm

[12] Trans-national companies working in Bangladesh usually state they pay "in accordance to the law" but the government of Bangladesh did not adjust its minimum wage for 12 years until 2006, during which period the real value of wages halved. When the minimum was finally raised, it was still well below its 1994 value, in real terms. Source: Labour Behind The Label, 2008 update, www.labourbehindthelabel.org/images/pdf/letscleanupfashion2008.pdf

[13] http://www.sezindia.nic.in/

[14] World Trade Organisation; www.wto.org

[15] The increasingly popular concepts of 'ethical trade' go a step beyond fair trade concepts. 'Ethical trade' means different things to different people, but generally refers to types of business practices that promote socially and/or environmentally responsible trade, and that offer genuinely respectful and rewarding labour relations in a company's supply chain.

As a prophet, Mohammed (PBUH) continued to emphasise that a good trader is a true asset to the community, and that *"God shows mercy to a man who is kind when he sells, when he buys and when he makes a claim."*[16]. He acknowledged that trading ethically is an achievement, as there are many temptations: *"The truthful and trusty merchant is associated with the prophets, the upright, and the martyrs."*[17] Conversely, traders who fail the test will face the consequences of the misery they cause: *"Traders will be gathered on the Day of Judgement as transgressors, except those who feared Allah, were righteous, and spoke the truth."*[18]

The foundation of trade ethics

Islamic trade ethics and more general Islamic economic ethics share the same underpinning principles.

On private property:

- Private property is allowed. It enables people to be economically active. Being economically active is good as it enhances people's ability to fulfil their role as *Khalifa*, the earth's guardians. Trade, if conducted ethically, is encouraged. It is considered an empowering type of economic activity, as it encourages economic growth and links between communities.
- However, ultimately everything belongs to Allah (e.g.: "His are all things in the heavens and on earth." Al-Baqarah/ The Cow [2] 255). People have been given the right to use it, provided they respect the boundaries set by Allah. In trade, these boundaries can be related to the products traded (for example, no drugs) or to the way of trading (for example, one has to trade ethically).
- Private property is protected (e.g. Al-Baqarah/ The Cow [2] 188 and Al-Anam/ Livestock [6] 152). Taking somebody else's property is impermissible, unless a person is in true need.
- People are encouraged to turn their property into economic use ("O you who believe! Eat not up your property among yourselves in vanities: but let there be amongst you traffic and trade by mutual good-will: nor kill (or destroy) yourselves: for verily Allah has been to you Most Merciful." [4] 29). Trade is important in this context, as it allows for the specialisation and economies of scale that help to strengthen any economy. Conversely, capital that is deliberately left idle (such as unused land and houses) are symptoms of idleness and selfishness, both at odds with the importance Islam attaches to hard work and the rational utilisation of resources.
- Private property should never lead to monopoly control over vital resources. Water, for example, has to be publicly accessible.[19] Similarly, traders need to resist the temptation for hoarding and other monopolistic market manipulations[20]. The contemporary world, in which hoarding has contributed to extreme hunger and even mass starvation, illustrates how important this rule is.

[16] Hadith, narrated by Bukhari
[17] Narrated by Tirmidhi, Darimi and Daraqutni
[18] Narrated by Hadith Tirmidhi, Ibn Maja and Darimi
[19] It is worth noting that IR countries like South Africa, India and Indonesia, for example, are experiencing water privatisation efforts, sometimes related to loan conditionalities imposed by the World Bank.
[20] During the days of Prophet Muhammad PBUH, a small group of merchants used to meet agricultural producers outside the city and bought the entire crop, thereby gaining monopoly over the market. The produce was later sold at a higher price within the city. Muhammad condemned this practice since it caused injury both to the producers (who in the absence of numerous customers were forced to sell goods at a lower price) and the inhabitants of Medina.

On differences among people

- Differences in wealth are natural ("It is He Who has made you (His) agents, inheritors of the earth: He has raised you in ranks, *some above others*: that He may try you in the gifts He has given you: for your Lord is quick in punishment: yet He is indeed Oft-forgiving, Most Merciful.", Al-Anam/ Livestock [6] 165). For poor people, it is a test not to be fatalistic and not to bear a grudge against those who have been given more. For rich people, it is a test not to be selfish and wasteful. However, differences in wealth do not mean that extreme poverty is acceptable. Islam clearly defined minimum redistributive obligations, and encourages people to share their wealth with the poor over and beyond these minimum obligations, which further foster community cohesion At the end of each year, traders are obliged to calculate the total value of all their tradable goods (as well as their other wealth), and give away a minimum of 2.5 per cent of that value as part of their 'zakat'.
- Conversely, differences in information and information accessibility are impermissible. A trader has to provide all relevant information for the purchase or sale of his or her goods and/ or services to be acceptable[21].

On social justice and equity

Social justice and equity is at the very core of Islam and therefore, must be considered all economic endeavours. To ensure that social justice and equity prevail, there are a number of principles to which economically active people need to adhere.

- There is no space for exploitation ("*When people cheat in weight and measures, their provision is cut off from them*", related by Al-Muwatta). Payment for work must be punctual and fair; and employees must be allowed leave ("*Give to the worker his wages before his sweat dries*", related by Ibn Majah).
- Charging interest is not permissible as, among other reasons, it puts the borrower at risk of falling into a self-reinforcing debt trap.
- Economic activities should not spread disorder. Among other things, this means that there is no place for goods that compromise the minds and hearts of consumers, such as alcohol and gambling.
- Key sources of wealth cannot be monopolised ("*Whoever monopolises is a sinner*", related by Abu Dawud).
- Although people's resources are different, all people are able to engage in joint economic activities (some investing time, others investing money). When doing so, all partners share the risk.

Applying trade ethics

There are two reasons for the attention that traders get in the hadith "*The truthful and trusty merchant is associated with the prophets, the upright, and the martyrs."*[22] First, the positive or

[21] The Prophet PBUH said: "An honest and truthful businessman shall be in the shade of the throne of Allah." (Al-Isbihani); "whoever buys stolen goods, knowing such goods to have been stolen, becomes a party to the act of theft. Almighty Allah's mercy descends on one who is gentle at the time of buying, selling, and requesting payment." (Tirmizi); "Almighty Allah proclaims: 'I am a one third partner of a two man partnership until one of them acts dishonestly to his partner, and, in such event, I then leave them.'"; "whosoever sells a defective product without disclosing its defect to the purchaser, shall earn the permanent anger of Almighty Allah and the angels continuously curse such a person."; Our Prophet has exhorted that we should refrain from taking oaths unnecessarily for although it helps in the sale of one's products, it reduces the blessings. Finally, "Whosoever accepts returned products, Almighty Allah will wipe-out his punishment."

adverse consequences of trading behaviour are dramatic. Second, traders are at particular risk of being corrupted by the opportunities they have including informational advantages, one-time customers, market manipulation tactics, and monopoly power. Because of the likelihood of trade-related abuse, it is important to have particularly stringent trade systems.

These systems have to be vastly more complex than the systems of 1,400 years ago, but they should reflect the principles outlined above. Not surprisingly, Islam and the current non-Muslim fair trade advocacy groups argue along the same lines, and both focus on empowerment and the eradication of exploitation.[23] In particular:

- Information: neither the buyer nor the seller should have an information advantage.
- Rewards: the compensation paid for products and services should be just. Consequently, the producers and service providers – men and women alike - should be able to make a decent living from their income.
- Opportunities: fair trade should open markets and opportunities. This, in turn, enhances the seller's independence.
- Hazards: working conditions should be reasonable.
- Inter-generational justice: production should not lead to environmental degradation. (see IR's Environment Policy)

Islamic Relief policy

The previous two sections have argued that:

- Trade can both deepen and alleviate poverty and is therefore must be carefully regulated; and
- Islamic economic ethics fully endorse all commonly advocated fair trade notions; in addition, Islamic economic ethics add, to the fair trade discourse, notions related to the dangers of interest charges and of the trade of destructive goods.

Islamic Relief argues for trade justice, that is a fundamental change to the unjust rules and institutions governing international trade, so that trade can benefit all those involved. Consequently, each of the following three trade-related objectives is in line with Islamic Relief's identity, and relevant to Islamic Relief's work[24]:

First objective: from the point of view of a pro-development Islam, contributing to the shaping of a just world trade system

Islamic Relief will work towards a fairer world trade system. It will do so by adding Islamic Relief's voice to the fair trade lobby, and by complementing the world-wide lobby's arguments with the Islam-specific messages outlined above. As one of very few credible Islamic relief and development organisations, Islamic Relief is likely to have a voice that is not in proportion with its modest size. Advocacy work will cover both street advocacy (simple messages for everybody) and trade-related discourse (in-depth dialogue with policy makers in key trade-

[22] Narrated by Tirmidhi, Darimi and Daraqutni

[23] In fact, the only elements of Islamic thinking that are not commonly included in contemporary advocacy efforts are the prohibition of interest as a mechanism that reinforces poverty, and the prohibition of trading in goods that compromise the minds and hearts of consumers, such as alcohol and gambling.

[24] In addition, Islamic Relief will pay more explicit attention to the trade-related skills of people who participate in Islamic Relief's livelihood programmes, and to the marketability of the products they produce. This issue is addressed in the Islamic Relief livelihood manual and requires no further attention in this policy.

related organisations). There are two major advantages related to an Islamic Relief's advocacy role: Islamic dimensions of fair trade will otherwise not be heard; and policy makers and ordinary citizens alike are often insufficiently aware that Muslims share the mainstream objections to the current world trade systems.

Second objective: setting an example, and adhering to our legal and moral obligations vis-à-vis our donor agencies, beneficiaries and other relevant stakeholders, by implementing an internal fair trade policy

In line with its desire to act as a global role model, and obliged by the various agreements Islamic Relief has with its institutional partners, Islamic Relief will progressively implement an ethical procurement policy. This policy will start at Islamic Relief Worldwide's headquarters and subsequently be rolled out to the various country and field offices as well as partner organisations. Similarly, this policy will start with fair prices for small producers and environmental considerations (see also IR Environment Policy), but will subsequently expand to include notions related to non-environmental social costs and labour rights. As a potentially standard-setting organisation (particularly in certain niches of the Muslim NGO community constituency), the effects of such an ethical procurement policy are likely to go beyond the items procured.

Third objective: contributing to the further development of the worldwide fair trade market

Islamic Relief will support the fair trade market and will consider promoting directly fair traded products through its websites and, possibly, its retail outlets in the United Kingdom and/ or fundraising events around the world. Islamic Relief already operates shops in the UK and already supports individual and cooperative producers. In line with the mission of 'making it possible for those who wish to support others to reach people in need of their support' in a 'trade not aid' way, the organisation will consider catering for a fair trade niche market. In view of the current Islamic Relief capacity, this is a long term objective. Islamic Relief will consider its opportunities to achieve this objective once Islamic Relief has further expanded its livelihood support to include the production of items that are marketable internationally.

References

Labour Behind The Label, (2008) *Let's Clean Up Fashion: The State of Pay Behind the UK High Street* available at www.labourbehindthelabel.org/images/pdf/letscleanupfashion2008.pdf