



Ibn Khaldun's Economic Thought: A Role Model for Sukuk Market*

Ibn Haldun'un İktisadi Düşüncesi: Sukuk Piyasası İçin Bir Örnek Model

 Mohammad Burhan Uddin ⁽¹⁾,  Afandi Awang Hamat ⁽²⁾

^{(1), (2)} *International Islamic University, Malaysia*

⁽¹⁾ *burhan.uddin@live.iium.edu.my*, ⁽²⁾ *mohdaffandi@iium.edu.my*

Received: March 5, 2019

Accepted: May 13, 2019

Published: July 30, 2019

Abstract: The purpose of this paper is to determine the principle of Ibn Khaldun's economic thoughts in Sukuk markets. Sukuk market has surprisingly risen in recent years. However, some challenges hinder the potentiality of sukuk market. The notable problems are lack of standardization, lack of inadequate trading platforms, lack of low level of sukuk rates, lack of market structure of sukuk for retail investors and lack of global Islamic banking institutions. Apart from that, some other factors that hamper sukuk market's growth like lack of legislative framework, lack of tax law framework, lack of Shari'ah governance framework, lack of corporate sukuk issuances and diversified investor base. In order to overcome the constraints and improve the growth of sukuk market, one of the Ibn Khaldun's economic model that entails eight categories, has been proposed in this work while Ibn Khaldun proposed several economic structures in literatures other than the proposed one.

Keywords: Ibn Khaldun, Economics, Development Model and Sukuk Market Challenges

Öz: *Bu makalenin amacı Sukuk piyasaları için İbn Haldun'un iktisadi düşüncelerinin temelini tespit etmektir. Sukuk piyasaları son yıllarda hızlı bir yükseliş yaşamaktadır. Ancak bazı meydan okumalar Sukuk piyasalarının potansiyelini sınırlamaktadır. Bu problemler standartların olmayışı, uygun olmayan alım-satım altyapıları, düşük sukuk oranlarının olmayışı, küçük yatırımcı için sukuk piyasa yapısının eksikliği, global ölçekte İslami bankacılık kurumlarının olmayışı olarak sıralanabilir. Bunun yanında kanuni çerçeve ve vergi alanında çerçeve eksikliği, şariat yönetişimi alınındaki eksiklikler, kurumsal sukuk ihracı eksikliği ve yatırımcı çeşitliliğinin yeterli olmaması gibi faktörler de bu piyasaların gelişimini kısıtlamaktadır. Bu kısıtlamaları aşmak ve sukuk piyasalarının büyüme sürecini geliştirmek için İbn Haldun'un sekiz kategori içeren bir ekonomik modeli bu*

ORCID-ID: M. B. Uddin 0000-0001-9864-4370 A. A. Hamat 0000-0001-9617-8492

* This article is a review of the paper presented at the "5th International Ibn Khaldun Symposium" organized on 27-28 April 2019 in Istanbul.

makalede önerilmiştir. Önerilen modelin yanında İbn Haldun birçok farklı ekonomik yapı tavsiye etmiştir.

Anahtar Kelimeler: *İbn Haldun, Ekonomi, Kalkınma Modeli ve Sukuk Piyasasındaki Meydan Okumalar*

1. Introduction

Sukuk market is gaining popularity worldwide rapidly for three decades as a unique and demandable Islamic financial instrument. Sukuk has become the alternative solutions of conventional bonds and main attraction among banks, customers and corporations. However, Sukuk is a basic liquidity management tool for Islamic Banks, governments, investors and financial institutions.

Nevertheless, there are various challenges in the development of Sukuk market, for example, the lake of global Islamic banking institutions, lake of an active secondary Sukuk market, low level of sukuk rated and listed, lack of standardization in the documentation, lack of standardization in Shari'ah interpretation and inadequate platforms. There are many problems for weak of Sukuk Market; liquidity management–capital adequacy, global regulatory framework, risk management and taxation for Islamic Financial instruments. This kind of challenges affects sukuk market and investors' confidence.

In order to promote the Global sukuk market and get advantage from the improvement of sukuk, there must be an active sukuk market. Therefore, we proposed some Ibn Khaldun's Economic development solutions to achieve the objectives of Sukuk market, as well as Islamic finance. These are the application of Ibn Khaldun's economic development model in Sukuk Market. Among others, collective entity, rules and regulations, law enforcement institutions, People, Wealth, development, Justice and moral legitimacy.

If these models are taken into account, Sukuk market can develop faster and consequently investors, issuers, can benefit a lot from the advantages of sukuk market completely.

The aim of this paper is to illuminate Sukuk market and its challenges to intend some Ibn Khaldun's economic solutions that clear the problems of Sukuk market. This study is the first paper, which clarifies Sukuk market problems and its solutions in the light of the model of Ibn Khaldun's economic thoughts.

The paper contains of four sections. Section one is a literature review; we discuss Ibn Khaldun's economic development model and sukuk market challenges. In section two, research methodology and design of this study. Section three, discussion regarding eight solutions of Ibn Khaldun's economic development models in order to overcome the Sukuk Market problems. Section four result; we focused on how Ibn Khaldun's economic Models solve the current sukuk Market challenges.

2. Literature Review

The study of economic development model of Ibn Khaldun can be highlighted via research of several ibn khaldun's economics studies. (Mohammad, 2010) stated that historian and scientist Ibn khaldun saw the raise of and fall of civilization into various factors. According to Ibn Khaldun, Chapra stated that, Ibn Khaldun's model of economic development elements are, the sovereign or political authority, beliefs and rules of behaviour or the Shari'ah, people, wealth or stock of resources, development and justice in a circular and interdependent manner, each influencing the others and in turn being influenced by them. He advocated a holistic and productive economic concept that included socio-economic character.

Another study of Ibn khaldun is the research of (Huda, 2016) explained that, there are two approaches of the economic thought of Ibn Khaldun, first, the sociological approach, specifically description of Ibn Khaldun in observing and examining several ongoing economic activities in a society. Second, juridical approach, legal provisions used to legalize economic activity in order to run well.

While the study of (Mujahidin, 2018) revealed about Ibn Khaldun who is the Muslim thinker and father of the world economy has contributed much thought to the economic field, such as the doctrine of values, division of labor, pricing system, law of supply and demand, production, money, capital formation, population growth, macroeconomics of taxes and public spending, trade cycle, agriculture. Property right and prosperity. Ijtihad Ibn Khaldun is still eternal and part of the referral in economic growth.

In the study of (Irijanto, Shah, & Ismail, 2013) describes that, Ibn khaldun's thought in this regard can be seen below: Ibn Khaldun suggests a combined formulation and relationship variable are prerequisite to realize a state (G) Variables are Shari'ah (S) the (N), wealth (W), development (D) and Justice (J). The concepts of Ibn Khaldun very important and distinctive are his judgements on the circle of social welfare. The Ibn

Khaldun circle of societal welfare links with some variables that connected to and influence each other in a advancing or rewind civilization

(ISRA, 2018) clarify the key issues and challenges of Sukuk Market are, one, Legislative framework. It means common law and civil law and recognition of trust. Two, Tax law and framework, which include tax neutrality and tax incentives. Three, Shari'ah governance framework, it refers to standardization / harmonization and centralized Shari'ah board. Fourth, corporate Sukuk issuance. Like Sovereign benchmark yield curve for corporate issuers. Fifth, diversified investor base. For example intermediation of NBFIs, local & foreign investors from various institutions.

On the hand, (ULUSOY & Mehmet, 2018) discussed on the problem of Sukuk Market, they prescribed that, the potential of the sukuk market has not been realized yet because of the problems of sukuk market. One of these problems is lake of an active secondary market. There are a lot of reasons for the weak of secondary market of sukuk. These are a scarcity of Sukuk Supply, hold- to- maturity culture, Sharia restrictions, lake of standardization...etc.

(Ulusoy & Ela) (2017) examined the lack of standardization in sukuk market that, Sukuk market have been suffering two types of the standardization problems. One of these problems is lack of standardization in documentation, and another is lack of standardization of in Shari'ah interpretations related to sukuk structure.

(Mohd Hanefah, Noguchi, & Muda, 2013) focused on other challenges facing like tight liquidity, inter-connectivity to the global financial framework, exposure to systemic risk and financial / economic crisis. Difference of opinions between Shar'iah schools in Muslim countries due to different school of thoughts also complicates regulation and product offering.

The purpose of this paper is to discuss Ibn Khaldun's economic development model to solve the problems of sukuk market. We put eight solutions of Ibn Khaldun's economic model to resolve its challenges. If Ibn khaldun's economic model can be applied into practice, we believe that sukuk market will develop significantly and reached its advantages.

3. Design / Methodology

The study conducts the inductive approach; to collect the research material and data related to Ibn Khaldun's economic development model and sukuk market problems and challenges. In addition, the study has performed an analytical approach, to understand the basic concepts of Ibn Khaldun's economic development model to overcome the problems of sukuk market, gathering data within the scope existing challenges, quoting and harmonizing with other posts and illustration conclusion.

4. Discussion

Most prominent Muslim intellectual scientist Ibn Khaldun who has a lot of thought in several fields, such as economics, politics, culture and civilization. This paper will discuss the economic development model of Ibn Khaldun by analytical approaches, descriptive and evocative. Ibn Khaldun's discussion of the significance of intellectual about economy because the thoughts of great importance for the future the development of Sukuk market and Islamic finance. He is not only sociologists and historian, but also father of Economics sciences, because many of his economic theories that go beyond Adam Smith and Ricardo (Irijanto et al., 2013). One of the most prominent contributions of Ibn Khaldun to economics is his theory of income, expenditure, multiplier that establishes Ibn Khaldun as a precursor to Malthus, Khan and Keynes, (Mohammad, 2010). Once Ronald Reagan, the American President of a time, erroneously quoted him on less taxes and more revenue, which surprisingly is still the ideology of the Conservative in the USA (Mohammad, 2010). This paper will analyze the eight economic development model of Ibn Khaldun's to overcome Sukuk market challenges as a following.

4.1. Al-Mulk / Sovereign

According to Ibn Khaldun, every strong economy development requires some basic elements. One of them is Al-Mulk, Chapra stated that the strength of the sovereign (Al-Mulk) does not materialize except through the implementation of the Shari'ah and The Shari'ah cannot be implemented except by the sovereign (Al-Mulk). Haji Mohammad explained it as a collective entity (state) (Mohammad, 2010). He described the strength of state or society or economy (interpreting state to mean the political collective including also its laws, and institutions or the society that State has as such or a sort of national economy propelled by State and society) depends on people's support, and their support depends on their sustenance (Mohammad, 2010). While Chapra defined it Political authority, beliefs, and rules of behavior or the Shari'ah (Chapra, 2008).

One of the problems of the Sukuk market is lack of standardization in global International Islamic Banks. Therefore, it is noticeable that in all international and big sukuk issuances, conventional banks take the role of lead arrangers and book runners of sukuk while Islamic banks provide support to the issuance through distribution in their respective domestic markets. In Reuter's survey, it is indicated that two big reasons, which are the most sukuk tradability and liquidity setbacks, are lack of global international Islamic banks with the same network such as the large multinational financial institutions and lack of dedicated traders that provide tradable prices. For example, In this regard, efforts of Malaysia are laudable (Ulusoy & Ela) (2017). Malaysia has established the Shari'ah Advisory Council (SAC) to govern Islamic financial businesses and products. SAC comprises prominent Sharia scholars, jurists and market players (Ahmad et. al., n.d.). They advise central bank and the Securities Commission (SC) on issues related to sukuk and other Islamic capital market products. There are only a few international institutions, which are established in order to issue international standards related to Islamic finance and sukuk. These are such as following: Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), Islamic Financial Services Board (IFSB), International Islamic Financial Markets (IIFM), Dubai International Financial Center (DIFC), and The Islamic Development Bank (IDB) (Ulusoy & Ela) (2017).

Therefore, we have to apply Ibn Khaludn's Al-Mulk / authority or sovereign concept to overcome the absence of a large global Islamic Banks and to build strong global Standardization of Islamic financial intuitions to achieved the future Sukuk market.

4.2. Shar'iah / Rules and Regulations

Among the ideas of Ibn Khaldun's economics, development model is Shari'ah or Rules and Regulations. While Ibn Khaldun was an original thinker when preoccupied with the function of law and justice when he described their importance to the development of society, his notions of the content of justice and law was comprehensively Islamic (Douzinas & Gearey, 2005). The social function of law and justice is to ensure a stable social order, which is necessary for sedentary civilizations to grow. The content of the religious, i.e., Islamic, law is there to ensure not only a stable social order, but also to ensure the salvation of the believers and guarantee them a blissful afterlife. – These two aspects of law and justice were interrelated in Ibn Khaldun's thinking (Douzinas & Gearey, 2005).

However, the adaption of Shari'ah rules is most important tools for ensure Sukuk market stability. While there are four different schools of thought in Islam, the Islamic issues are open to interpretation (Ahmad et. al., n.d.). There are a lot of Sharia scholars who agree

and confirm the thoughts of various ideologies. Thus, the ideas of Sharia scholars from different states or organizations may differ regarding a lot of Sharia issues (Ulusoy & Ela) (2017).

Today, there are many Sukuk in the market, all claiming to be Islamic Sukuk. In this brief study, I mean to shed light on the mechanisms they use and on the extent to which these comply with the precepts of Islamic jurisprudence, and its principles, and its higher purposes. The issuers of these Sukuk have expended a great deal of effort to make them competitive with the conventional bonds prevalent in today's capital markets. By endowing these Sukuk with the same characteristics of bonds, they have attempted to facilitate their acceptance in both Islamic and conventional markets (Usmani, 2007).

For the purpose of Sharia compliancy of an Islamic product, Sharia scholars interpret the specific Islamic rules regarding this product and decide whether the product is Sharia compliant or not (Ulusoy & Ela) (2017). However, the problem is that there is lack of uniformity among scholars in terms of interpretation of Shari'ah rules. Even, it might be seen that two regulatory organizations (AAOIFI and Kuala Lumpur based IFSB) may make divergent interpretations in determining what is acceptable under the terms of Sharia law.

In sukuk, standardization has not been achieved yet, since lack of uniformity in terms of Sharia interpretation among scholars is also effective for sukuk too. Therefore, as many scholars state that there is not a global uniform standard about Sharia interpretation of sukuk yet. Each country and even institution have their own Sharia boards and so their own resolutions. Some countries (such as Malaysia) adopt flexible approach for interpreting the Sharia, while others (such as GCC) adopt conservative approach. Hence, fatwas (opinions) about sukuk can mostly be different (Ulusoy and Ela, 2017).

Sukuk is an Islamic financial instrument that complies with Sharia or Islamic law. For the purpose of Sharia compliance, sukuk structures should abide by the prohibitions of the Islamic law such as gharar and riba. Sukuk trading mechanisms must be Sharia compliant and therefore, trading of some sukuk structures is not permissible in Sharia (Ulusoy and Ela, 2018).

Therefore, in this regard Ibn Khaldun's Shari'ah law implementation will play great role to growth and ensure stability of Sukuk Market without corruption and prohibitions elements in Islamic beliefs.

4.3. Al-Rijal / People / Nation

People are the cause of economic growth only if they have an incentive to participate in the economy (Khalidun, 2012). People play a central role in development because the “rise and fall of the civilization” depends on their prosperity or “misery” (Chapra, 2006).

National economic growth is achieved if people are rewarded, by gaining wealth. Wealth is gained through productivity i.e. labour and development. In the analysis of Ibn Khaldun they are interdependent. Man delivers his labour if it can benefit him. Profits are made through labour which can be used for sustenance and saving its surplus (Mohammad, 2010). Diversification of labour and its specialization is possible in a well-regulated market, where people can exchange and fulfil their needs; “the greater the specialization the higher will be the growth of wealth” (Chapra, 2006), as industry and crafts will thrive. Ibn Khaldun’s theory of cooperation could be realised in today’s corporate and cooperative entities. He thought that one cannot satisfy all his needs on his own. He must cooperate for this purpose with others in the society to meet their needs and that of others. This will also lead to surplus wealth, which can be used for purchase of luxuries including, elegant goods, houses, cloths, use of servants, and carriages (Ibn Khaldun, 1967). Additionally, the sovereign cannot gain strength except through the people (al-rijal), (Khalidun, 2012). This will be possible if access to wealth is open to all people.

However, Standardization of Sukuk Market still facing many lacks. Since there are a lot of types of sukuk structures, standardization in sukuk documentation and structures has not been achieved yet. Hence, there can be difference between rights of issuers and investors in terms of the sukuk structure (Ulusoy and Ela, 2017). Standardization in Sharia’ah principles. On the other hand, there are big lack of expert people who are really understand the Sukuk and it’s in depth of knowledge from structures, supply, Shari’ah, legal, economics, financial, technical, practicing and marketing.

It is well known that the sukuk market suffers a lot from the shortages in the sukuk supply. The lack of standardization hinders sukuk supply growth, and hence the sukuk market development. And, lack of standardization hinders tradability of sukuk structures in secondary market. Because of the lack of standardization in sukuk structures, some of them are not tradable in all states and organizations. On the other hand, issuers would like to issue more standardized and tradable sukuk structures such as ijara sukuk. Therefore, since the diversification in sukuk structures couldn’t be achieved, the development of the sukuk market has been thin in recent years (Ulusoy and Ela, 2016).

Therefore, Ibn Khaldun's (al-Rijal) people's concept is a major role will play in the development of Sukuk market to produce the peoples who can develop and standardize sukuk market and establish its institutions in an advanced way.

4.4. Al- Adl / Justice

One of the most important pillar of Islamic economics is justice that can differentiate between Islamic economics and conventional economics in various field. "Within Ibn Khaldun's new science of civilization, his theories on law and justice make up a consistent whole, combing scientific analysis and values or a descriptive method with a normative position, both approaches rooted in his Islamic beliefs"(Gule, 2015).

Justice is key for development. Development activities include trade, agricultural, industrial, and construction. Participation in all such development activities by all groups of people according to sound understanding of Ibn Khaldun's model should be fair and just (Mohammad, 2010). If so, and as wealth is an incentive for people to participate in the development activities, wherever and whenever there are opportunities for development, people will grab them immediately after they are available (Mohammad, 2010). Equal access to such development opportunities will attract citizen and non citizens, scholars and artisans, labour and capital. All will be motivated by profit and wealth and all will be sought for their investment, advice, skill, and services(Khaldun, 2012).

From the perspective of the higher purposes of Islamic economics, such "incentives" in today's Sukuk actually defeat the purpose of an Islamic economic system in which wealth is equitably distributed among investors. Sukuk that are based on such "incentives" distribute profits to investors on the basis of prevalent interest rates, and not on the basis of actual returns from an enterprise (Usmani, 2007).

According to Ibn Khaldun, Sukuk Market development cannot be attained except through justice (al-adl). Ibn Khaldun determined that justice is the criterion (al-mizan) by which God will evaluate humankind, for which the sovereign is charged with the responsibility of actualizing (Khaldun, 2012).

4.5. Al-Imarah / Development

The main facts of Ibn Khaldun, for development, according to Karatas (2006), which may guide the State on development, are integrated. They include: (a) "the establishment of property rights and freedom of enterprise, for a country with relatively poor property rights will stay poor forever". (b) "Rule of law and the reliability of the judicial system for

the establishment of justice as the lack of justice eradicates” the human species. (c) “The security of peace and the security of trade routes”. (d) “Lower taxation and less bureaucracy in order to increase employment, production and revenues”. (e) “No government involvement in trade, production and commercial affairs and no fixation of prices by government” while prohibition of monopoly by „anyone in the market”. (f) “Stable monetary policy and independent monetary authority that does not play with the value of the money”. (g) “Promotion of larger population and a larger market for greater specialization”. (h) “A creative education system for independent thinking” and behaviour and (i) “a collective responsibility and internal feeling for the setting up of a just system to encourage good deeds and prevent vice’ (Mohammad, 2010).

The first part of Ibn Khaldun vision will call for equitable participative economic development of citizens or any urban resident (Mohammad, 2010). Public and private spending in a consumer economy provides economic opportunities, which can be taken by those who are capable of providing goods and services (Mohammad, 2010). As long less tax is imposed and government spending continues, market economy can be sustained. People not only can secure income for their and their family’s sustenance through industry and local and international trade, but also have surplus especially if they join efforts cooperatively. While continues production is implied from Ibn Khaldun’s theory, nevertheless, moderation seems to be a condition for expenditure (Khaldun, 2012).

Ibn Khaldun proposed economic growth through consumption and market economy and also welfare economy. Naturally, he saw no State monopoly over power, resources and trade which by itself creates a participative, equitable, and democratic economy. One should not expect him to think of thinking about sectoral imbalances or foreign debt. These are too advanced a thinking for his time, though less expenditure on army gives a clue on prudent public spending.

The economic advance of Ibn Khaldun comprises features of today’s Sukuk development. Sukuk Market need more development to overcome its problems. Such as sluggish of secondary Sukuk market (Ulusoy and Ela, 2018), various Shari’ah opinions on sukuk trading, lack of products, hold-to-Maturity Culture, (Ulusoy and Ela, 2018). Sukuk demand and supply is not Sufficient, On the other hand, sukuk needs special tax regulations, because issuance and investment in sukuk open a road to a lot of taxes. Although legal, tax and regulatory frameworks of some countries provide for a level playing field between sukuk and conventional bonds, some countries have not adopted sukuk-specific legal and tax regulations yet. Lack of Standardization of sukuk market in

documentation, lack of global sukuk trading platforms for active trading should be developed. Sukuk market needs an international rating agency. Because a low level of sukuk rate causes the problem in the sukuk market. The low-level sukuk listed on the global stock exchange, inadequate retail investors and lack of Global International Islamic Banks must be improved in the sukuk market. These all will be benefited through justice and justice cannot be attained except (al-Emarah) development (Khaldun, 2012).

4.6. Al-Mal / Wealth of economic empowerment

To describe the economic thought of Ibn Khaldun in the language of the Contemporary Sukuk Market, his focus was under the headings of Supply, demand, market mechanism, price determination, and Market structure, Theory of wage differential and role of government (Ali, 2006). Our discussion will be on his thoughts in demand, supply, rating, market structure for advantages in the current Sukuk Market.

Demand and supply

Ibn Khaldun described that prices of goods and services are determined by supply and demand. When a good is scarce and in demand, its price is high. The merchant will buy the goods where "they are cheap" and plentiful and "selling them at high price" where they are scarce and in demand (Khaldun, 2012). Ibn Khaldun shows that prices are determined in the market by the interplay of both supply and demand. To show how he argued for changes in supply affecting the price (Ali, 2006). Ibn Khaldun discussed the effects of demand on prices, division of labor, and growth etc. (Ali, 2006). His term for this concept is compulsion.

"People need food, and that the money they spend on it, they are forced to spend. . .; they had to spend it and had no possible excuse, which is a sort of compulsion"
"For things that are traded, other than foodstuffs and victuals, people have no compelling need. It is merely the diversification of desires that calls their attention to them. On such, they spend their money voluntarily and willingly". (Ali, 2006).

Although sukuk issuances have been increasing in recent years, it is not sufficient yet. Because of some challenges in sukuk issuance, sukuk issuers shy away from issuing sukuk (Ulusoy and Ela, 2018). First of the challenges is high issuance costs. Sukuk structures require extensive and costly legal and religious advice, a lot of different skills and resources to make it work. In order to promote the Sukuk market globally, it should be applied to Ibn Khaldun's supply and demand theory in sukuk trading.

Rating and pricing

Ibn Khaldun shows that prices are determined in the market by the interplay of both supply and demand. To show how he argued for changes in supply affecting the price, the following passage is a good example.

“When goods are few and rare, their prices go up. On the other hand, when the country is near and the road safe for traveling, there will be many to transport the goods. Thus, they will be found in large quantities, and the prices will go down” (Ali, 2006).

Elsewhere he explains why prices of foodstuffs are generally lower in populated cities compared to less populated small towns despite its large demand in populous cities. He cites the existence of large reservoirs of such necessities in cities as being the principal determinant of lower prices in cities. These reservoirs exist because there are incentives to store, as everyone knows that everyone else will demand foodstuff and population is large so people produce more and acquire more as inventory.

“The reason for this is that the different kinds of grains belong among the necessary foodstuffs. The demand for them, therefore, is very large. Nobody would neglect [to provide for] his own food or that of his establishment for a month or a year. . . . Every body who produces food for himself has a great surplus beyond his own and his family’s needs. This surplus is able to satisfy the needs of many of the inhabitants of that particular city. No doubt, then, the inhabitants of a city have more food than they need. Consequently, the price of food is low, as a rule, except when misfortunes occur due to celestial conditions that may affect [the supply of] food in certain years” (Ali, 2006).

Demand determined prices are also explained in the case of luxury goods. He describes that in the prosperous state of the economy, which comes after the civilization has grown, people with resources to waste are ready to pay exorbitant prices for diverse luxury goods. The craftsmen of those goods are few therefore supply of these goods limited. Competition among rich to acquire those rare commodities bids up their prices. He says;

“This results in a very great shortage of such things. Many will bid for them, but they will be in short supply. They will be needed for many purposes, and prosperous

people used to luxuries will pay exorbitant prices for them, because they need them more than others. Thus, as one can see, prices come to be high" IV240 (2006).

Number of rated and listed sukuk is very low although issuance of sukuk has been increasing recently. The reason of scarcity of rated and listed sukuk is that some issuers can be seen secure by investors (Ulusoy and Ela, 2018). Rating is a major need to achieve an active secondary market of sukuk. In this regard, to achieve widespread trading, sukuk will have to be rated by international rating agencies. At present, however, it is difficult to obtain ratings from major international rating agencies (McMillen, 2007:431). On the other hand, high fees of credit rating agencies usually mean that they are too expensive for issuers (ADB, 2014:42). This makes issuers shy from obtaining ratings from global credit rating agencies. (Ulusoy and Ela, 2018).

Hence, it is urgent need to increase sukuk market and its pricing systems with Ibn Khaldun's ideas to standardize the sukuk market.

Market mechanism

Ibn Khaldun shows that prices are determined in the market by the interplay of both supply and demand. To show how he argued for changes in supply affecting the price, the following passage is a good example:

"When goods are few and rare, their prices go up. On the other hand, when the country is near and the road safe for traveling, there will be many to transport the goods. Thus, they will be found in large quantities, and the prices will go down" V298 (Ali, 2006).

Ibn Khaldun did not characterize the market structure as competitive or monopolistic while discussing market prices and allocation. But his description of evolution of production structure towards division of labor and specialization, and movement of demand composition towards larger variety suggest changing market structure (Ali, 2006). In the beginning of formation of city, economies of scale in production are created and the types of goods in demand are restricted to those which are necessities so the market structure is monopolistic with small variety of goods. In the intermediate stage when the division of labor is exploited to a certain extent and demand is large but still restricted to a small variety of goods with large number of buyers and sellers, markets are competitive. In the third phase, when people have accumulated large sums of money and wealth, demand for greater variety and quality develops. This is catered by further

specialization and division of labor in production. This results in fewer professionals in production of each variety. The professionals are few because; (i) each profession requires long time and effort to master V315, and (ii) people are affluent and they prefer leisure more than income III301, IV241. (Ali, 2006). The market structure is not fixed; it changes as the Ibn Khaldun's economy evolves overtime. Thus market structure in each variety of good is monopolistic although total number of buyers and sellers in the economy as a whole are large.

However, the potential of the Sukuk market has not been realized yet because of the problems of sukuk market. One of these problems is lack of an active secondary market of sukuk. There are a lot of reasons for the weak secondary market of sukuk. These are a scarcity of sukuk supply, hold-to-maturity culture, Sharia restrictions, lack of standardization, inadequate trading platforms, low level of sukuk rated and listed, lack of primary sales to retail investors and lack of large and global Islamic banking institutions (Ulusoy and Ela, 2018). In this regard, standardization sukuk trading, market mechanism with Ibn Khaldun market structure can make sukuk market very active.

4.7. Law enforcement institution

Ibn Kahldun does not discussed directly law enforcement institution, but Chapra (2006) reinterpreted the law enforcement institution as a model of Ibn Khaldun economic development. Ibn Khaldun can be seen to seek social order in five ways: the three factors influencing the rise and fall of civilisation: the ruler, the law, and principles of justice. In addition, he seems to have recognised the role of moral values as well as informal mechanism for justice. All these five values can be considered as components of good governance recognised by a state. (Mohammad, 2010).

The three factors of Ibn Khaldun's model (i.e., government, law, and justice) can be related to the above indicators of good governance. He has recognised the three factors influencing the economic wellbeing of the society, and ultimately the rise and fall of civilisation. The three of them are the prerequisites of a functioning State for protecting human rights and economic growth (Mohammad, 2010).

However, there is big challenges in law application for sukuk market. Because lack of legislation framework. Such as common law Vs Civil law and recognition of Trust (ISRA, 20008). Still most of the country dint have Islamic financial law yet. Some countries law intuition is very weak in order to promote sukuk market. Hence, without law, justice and state cannot fulfil the sukuk market objectives' significantly. In this respect, to make

sure the right of property, and sukuk holders, can be apply Ibn khaldun's theory of law enforcement intuitions that must be develop sukuk market.

4.8. Moral legitimacy

The model derived by Chapra (2006) for economic development is morality that is very strong tool sukuk market. The role of moral value is clearly recognised by Ibn Khaldun. He has warned the State against immoral activities, which can be considered the indicators of economic decline. He has listed such activities, which include "immorality, wrongdoing, insincerity, and trickery, for the purposes of making a living, lying, gambling, cheating, fraud, theft, perjury, and usury" (Ibn Khaldun, 1967). He has further said that as civilization reaches its peak and high urbanised population emerges, immorality becomes part and parcel of the urbanised society. This will lead to their decline. Such a statement reminds the government, its servants, and the citizens to recognise a moral duty to follow the law (Mohammad, 2010).

Therefore, Shari'ah governance framework is one of the big problems in sukuk Market (ISRA, 2018). Sukuk is totally Shari'ah complaint instrument based on Islamic economics principles, objectives and its highest purpose. As Muslims accept Shari'ah as their legal system, legitimacy of law and the government enforcing it are also present. Two way system of social engineering exist: A citizen will avoid" socially harmful behaviour, ensure justice, and enhance solidarity and mutual trust among the people' (Chapra, 2006).

Usmani said it is seemed some mistaken sukuk trading, he said: "However, if we consider the matter from the perspective of the higher purposes of Islamic law or the objectives of Islamic economics, then Sukuk in which are to be found nearly all of the characteristics of conventional bonds are inimical in every way to these higher purposes and objectives. The noble objective for which riba was prohibited is the equitable distribution among partners of revenues from commercial and industrial enterprises. The mechanisms used in Sukuk today, however, strike at the foundations of these objectives and render the Sukuk exactly the same as conventional bonds in terms of their economic results. Islamic banks were not established so that they could offer the same products, and engage in the same operations, as conventional banks in the prevalent interest-based banking system" (Usmani, 2008). Hence, it is very important to follow the moral legitimacy of Ibn Khaldun in sukuk market to promote its issuance and trading effectively.

5. Result

According to Ibn Khaldun Chapra (2006) stated, (a) “the strength of the sovereign (*al-mulk*) does not materialize except through the implementation of the *Shariah*”, and (b) “the *Shariah* cannot be implemented except by the sovereign (*al-mulk*)”. Additionally, (c) “the sovereign cannot gain strength except through the people (*al-rijal*)”, (d) „the people cannot be sustained except by wealth (*al-mal*)”, (e) “wealth cannot be acquired except through development (*al-imarah*)”, and (f) „development cannot be attained except through justice (*al-adl*)”. Ibn Khaldun universalised that (g) “justice is the criterion (*al-mizan*) by which God will evaluate mankind”, for which (h) “the sovereign is charged with the responsibility of actualizing” (Chapra, 2008).

Furthermore, Ibn Khaldun tried to address all these questions in the *Muqaddimah* which literally means “introduction” and attempt to explain the different events in history through a cause and effect relationship and to derive scientifically the principles that lie behind the rise and fall of a ruling dynasty or state (*dawlah*) or civilization (*umran*) (Chapra, 2008). Even though he benefited in this venture from the contributions made by his predecessors and contemporaries in the Muslim world, the *Muqaddimah* is extremely rich in a great deal of his own original and penetrating analysis. His entire model is condensed to a substantial extent, even though not fully, in the following advice extended by him to the sovereign:

- The strength of the sovereign (*al-mulk*) does not materialize except through the implementation of the *Shariah* . . .

- The *Shariah* cannot be implemented except by the sovereign (*al-mulk*).

- The sovereign cannot gain strength except through the people (*al-rijal*).

- The people cannot be sustained except by wealth (*al-mal*).

- Wealth cannot be acquired except through development (*al-imarah*).

- Development cannot be attained except through justice (*al-adl*).

- Justice is the criterion (*al-mizan*) by which God will evaluate mankind.

- The sovereign is charged with the responsibility of actualizing justice (*Muqaddimah* (M): 39; Rosenthal’s translation (R): vol. 1, 80). The entire *Muqaddimah* is an elaboration of this advice, which consists of, in Ibn Khaldun’s own words: “eight wise principles (*kalimat hikamiyyah*) of political wisdom, each one dovetailed with the other for mutual strength, in such a circular manner that the beginning or the end is indistinguishable” (Chapra, 2008).

Therefore, these are the center elements of Ibn Khaldun economic development model, which can be effective tools for advantages of current sukuk market. We can propose that:

- 1) The lack of global International Islamic Banks and Corporate Sukuk issuances for sukuk market cannot solve except Ibn Khaldun theory of sovereign or state (Al-Mulk).
- 2) The governance framework for sukuk market cannot applicable accept Ibn Khaldun theory of Shari'ah (Islamic law).
- 3) The lack of standardization of Sukuk Market cannot developed accept Ibn Khaldun theory of People (Islamic Scholar / Leader).
- 4) The lack of global sukuk issuances, demand and supply, Inadequate-trading platform cannot achieve its highest position except through Ibn Khaldun theory of Wealth (Al-Mal) implantation in Sukuk market.
- 5) The Diversified investor base growth of sukuk market cannot run except by Ibn Khaldun theory of development (Umran).
- 6) The profit of Sukuk investment cant distributed equally except by Ibn khaldun theory of Justice (Al-Adl).
- 7) The lack of standardization of documentation for sukuk Market structure cannot resolve except through Ibn Khaldun theory of law (law enforcement institution).
- 8) The lack of Shari'ah standardization cannot solve except by Ibn Khaldun theory of moral legitimacy.

Table 1. A brief overview on Sukuk market challenge and Ibn Khaldun's solutions

Sukuk market challenge	Ibn Khaldun's solutions
Legislative framework	Rules and regulations (Shari'ah)
Tax law & framework	Wealth (Al-Mal) and Rules and regulations
Shari'ah governance framework	Law enforcement institutions and Justice (Al-Adl)
Corporate Sukuk issuances	Collective entity / State (Al-Mulk)
Diversified investor base	People (Ar-Rijal) Development (Al-Emarah)
Shar'iah Restriction	Rules and regulations (Shari'ah)
Lack of Supply and demand	Wealth (Al-Mal)
Lack of standardization in Documentations	Moral legitimacy and Development (Al-Emarah)
Inadequate trading platform	Wealth (Al-Mal)
Low level of sukuk Rated	Wealth (Al-Mal)
Inadequate retail Investor	Wealth (Al-Mal)
Lack of Global International Islamic Banks	Collective entity/State (Al-Mulk)

(ISRA, 2018). (Ulusoy and Ela, 2018), (Mohammad, 2010), (Chapra, 2006).

6. Conclusion

Sukuk is a very profitable instrument for issuers and investors. Sukuk can be used for liquidity management and fund resource for infrastructure development. On the other hand, some challenges makes its methods are very limited, sukuk is a vast transformation for Islamic institutions. However, in order to take the gains of sukuk, the sukuk market must be very dynamic. But, in reality, sukuk market is very weak and slow, so weak sukuk market obstructs the development of sukuk market completely. In this regard, sukuk market must be advanced.

Sukuk Market is weak because of the lack of sukuk supply, hold-to-maturity culture, Sharia restrictions, lack of standardization, inadequate trading platforms, low level of sukuk rated and listed, lack of primary sales of sukuk to retail investors and lack of large and global Islamic banking institutions. These sukuk difficulties hamper the progress of the market of sukuk and so, it cannot be profited from sukuk market completely.

In order to advantage from sukuk, we suggested some Ibn Khaldun economic solutions "eight wise principles (kalimat hikamiyyah). These are Collective entity (Al-Mulk), Rules and regulations (Shari'ah), People (Ar-Rijal), Wealth (Al-Mal), Development (Al-Emarah), Justice (Al-Adl), Law enforcement institutions (Law Establishments) and Moral legitimacy.

If the suggestions we mentioned can be put into practice, sukuk Market can take leads of sukuk widely. Hence, in order to advance sukuk market and Islamic finance in general, the Challenges of sukuk market must be resolved.

References

- Mohammad, Tahir Sabit (2010), "Principle of sustainable development in Ibn Khaldun's Economic thought", Malaysian Journal of Real State. Volume 5, Number 1.
- Huda, Nurul (2016), "Epistemology pemikiran economy Ubn Khaldun, Proceeding of International Conference on Islamic Epistemology, University Muhammadiyah Surakarta, pp.211-212.
- Mujahidin, Muhammad (2018), "The concept of economic thought Ibn Khaldun", online at <https://mpra.ub.uni-muenchen.de/87143/>. MPRA Paper No. 87143, posted 7 June 2018.
- Irijanto, Tubang thresna (2013), "The thoughts of economic growth theories of classical Muslim Scholars, A contribution", Trikonomika, Volume 12, No. 2, December 2013, Hal. 168-189.
- ISRA (2018), "The role of Sukuk in Islamic Capital Markets" (ICM). COMCECE Financial Cooperation Working Group 29 March.
- Ulusoy and Ela, Ahmad, Mehmet (2018), "secondary Market of Sukuk: An Overview", https://www.academia.edu/37215793/Secondary_Market_of_Sukuk_An_Overview.

- Ulusoy and Ela, Ahmad, Mehmet (2017), "Lack of Standardization in Sukuk Market" https://www.researchgate.net/publication/318787697_Lack_of_Standardization_in_Sukuk_Market.
- Hanefah, Mohd (2013), "Sukuk: Global issues and challenges", *Journal of legal, Ethics and Regulatory issues*, Volume 16, November 1, 2013.
- Chapra, M. Umar (2006), "Ibn khadun's Theory of Development: Does it help explain the Low performance of the present -day Muslim world", *the journal Socoi-economic* 37, (2008). *Philosophy of Justice* pp 119-138. https://www.researchgate.net/publication/285485602_Ibn_Khaldun_Law_and_Justice_in_the_Science_of_Civilisation.
- Usmani, Taqi (2008), "Sukuk and their contemporary application", (2008). OIC Fiqh academy 20th session.
- Ibn Khaldun (1967), "The Muqaddimah (trans. By Faraz Rosenthal). New York: Pathon Press.
- Ali, Salman Syed, (2006), "Economic thought of Ibn Khaldun", IRTI, Islamic development Bank.