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The Politics of Regime Mainstreaming: Knowledge Production and the Institutionalization of Islamic Finance

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Abstract: Islamic finance has been surprisingly undertheorized in the international relations literature. In this paper, I fill this gap by investigating the dynamics of mainstreaming within the Islamic finance regime in global markets. Using the norm diffusion literature, I argue that the development and diffusion of Islamic economics, and the corresponding expertise, have followed three distinct steps. First, Islamic economics initially was a critique of capitalism and world markets; second, it was "nationalized" by the political leaders of major Muslim-majority countries; and third, it became an integral part of world markets. By tracing the development of Islamic finance as part of global politics, I situate it within a theoretical framework and show the wider implications of this economic framework for global politics.

The concept of Islamic finance dates back to the 1960s. While relatively new —the first modern Islamic savings bank was established in 1963—Islamic finance has shown impressive growth over the past couple of decades. The Islamic Financial Services Board (2017) reported that the total value of Sharia-compliant assets globally increased from 1.1 trillion dollars in 2013 to 1.53 trillion in 2017. Prominent financial institutions such as Citibank and HSBC cater to the rising demand for Islamic finance, and there is an emerging entrepreneurial community advancing both expertise and the policy-relevant knowledge in the contemporary market space.

Despite its popularity, contemporary Islamic finance is still undertheorized, especially in the field of international relations. The limited work that has been done tends to be interdisciplinary scholarship that conceptualizes

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and studies specific cases and regions. To give a few examples, Rudnyckyj (2014) investigates the development stages of Islamic finance in Malaysia; Hoggarth (2016) explores post-colonial market building and the rise of Islamic finance in Central Asia and Russia; and Lai and Samers (2017) compare and conceptualize Islamic finance in Singapore and Malaysia. Even though Malaysia is a frequently referenced and empirically studied case in Islamic finance, Lai and Samers (2017, 405) draw attention to the fact that there is "little theoretical or conceptual treatment" of the topic. Indeed, conceptually and empirically, the political development trajectory of Islamic finance has not been accorded sufficient attention despite its growing size. This is surprising especially when we consider the spike in religion-related research in the international studies literature overall (as reported in Philpott 2002, 69; Hassner 2011, 38). There are elaborate investigations of the liberal economic orders and regimes, but we have yet to encounter similar analyses of what one might call an "Islamic finance regime," as I argue subsequently. This undertheorization of Islamic economic systems is arguably due to the Western secular bias in the relevant literature. Biersteker (1999) states that International Relations, as a discipline, is parochial. In her comparison of "Global Liberalism" and "Political Islam" as competing ideological frameworks, Adamson (2005, 564) notes, "very few studies have been performed on the norm promotion activities of norm entrepreneurs from outside Western liberal democracies." Although many scholars have investigated Islamic warfare *(jihad)* and violent actors in the Muslim world, or issues surrounding securitization of Islam in the Western societies,[1] and there is an emerging literature looking at Muslims in the public and political sphere from a non-security perspective,[2] there still is a significant gap when it comes to Islamic finance and economics. In this paper, I contribute towards filling this gap by reviewing the trajectory Islamic finance has followed and situating it in the International Relations literature.

In contrast to other faith traditions, the Islamic socio-economic system covers "interest, taxation, circulation of wealth, fair trading and consumption" as well as "business relationships between buyers and sellers, employers and employees and lenders and borrowers" (Rice 1999, 345). In a nutshell, Islamic finance prohibits *riba* (paying or receiving interest) and it avoids practices prohibited under Sharia, the Islamic law. In Islamic finance, investments should consider what is acceptable in Islam; one cannot invest, for example, in instruments involving alcohol or gambling.[3] All loans in the system are interest-free; instead, the lender shares in the profits or losses of the venture. Depositors can be seen as shareholders.

Excessive risk-taking, and speculation are frowned upon. These requisites and premises significantly limit the investment practices that are available to observant Muslim communities. These "principles, norms, rules and decision-making procedures around which actor expectations converge" in Islamic economics constitute a "regime" (Krasner 1982, 185), as it is defined in the International Relations literature.

In this paper, I introduce a novel framing of the Islamic finance regime through investigating its "mainstreaming" in global markets and the communities of expertise that accompanied it at different stages of its development. I first discuss the new epistemic community surrounding Islamic finance, and how it emerged as a critical response to global political and market dynamics. Drawing on the norm diffusion literature, I argue that the development and diffusion of Islamic economics—and the expertise associated with it—have followed three main steps, which exhibit distinct qualities despite chronological overlaps. First, Islamic finance emerged as a corrective idea; it constituted a fundamental criticism of market capitalism, and it was sub-national in scope rather than transnational. Second, ideas surrounding Islamic finance diffused across the Muslim world as part of "national role conceptions," which include "policymakers" own definitions of the general kinds of decisions, commitments, rules and actions suitable to their state, and of the functions, if any, their state should perform on a continuing basis in the international system or in subordinate regional systems" (Holsti 1970, 246). At this stage, governments of many Muslim-majority countries "nationalized" these Islamic financial premises—incorporating them as crucial dimensions of state identity—and leveraged the favorable economic conditions at the time to bolster their political legitimacy. Finally, premises of Islamic finance diffused globally, becoming a "mainstream" option widely available even within the conventional banking and finance institutions. This step has confounded the critical value of Islamic finance, since it now shares market space with the very conventional finance practices it once stood against. What started as a reaction to the Western capitalist markets is now widely recognized as a popular option within them.[4]

FROM CRITIQUE TO BALANCE SHEET: EPISTEMIC COMMUNITIES OF ISLAMIC FINANCE

An epistemic community is defined as "a network of professionals with recognized expertise and competence in a particular domain and an authoritative claim to policy-relevant knowledge within that domain or issue-area" (Haas 1992a, 15). Examples of issues that have been investigated through epistemic community framework include Mediterranean pollution control (Haas 1989), protection of stratospheric ozone (Haas 1992b), nuclear arms control (Adler 1992), AIDS control regimes (Youde 2005), climate change (Gough and Shackley 2012), diplomacy (Davis Cross 2006), economic reforms (King 2005) and conflict transformation (Sandal 2011). This framework of expert politics serves as a useful tool to assess the rise of experts in both Islamic law and financial markets over recent decades.

Haas (1992a) identifies four conditions that a professional group must share to qualify as an epistemic community: a set of normative and principled beliefs, causal beliefs, norms of validity (i.e., internally defined criteria for validating knowledge), and a common policy enterprise in the form of common practices associated with a set of problems to which professional competence is directed. Although Islamic finance expertise is relatively new, the argument that religion shapes economic behavior and systems is not. Different faith traditions have envisioned alternative economic systems, or spaces (Leyshon, Lee, and Williams 2003). Adam Smith linked economics, conscience, and morality in *The Theory of Moral Sentiments* as early as 1759. Weber ([1905], 1958) famously argued that Calvinist ethics influenced the development of capitalism.[5] The first Papal encyclical written after the end of the Cold War, *Centesimus Annus*, advocated a program of ethically based economic reform (McCann 1997, 66). There are studies on traditional Hindu values and their implications for a contemporary Hindu economics (Hrishikesh 2012). Faith-sensitive investments and projects are on the rise in all traditions, albeit on a less visible scale when compared to the Islamic alternatives in the world market. These initiatives do not always materialize with an accompanying expert community. They usually come about thanks to a set of religious entrepreneurs, who believe faith-based tools and concepts will serve as corrective to the existing system. These entrepreneurs usually start by introducing their alternative system to a local audience.

Experts in Islamic finance satisfy the criteria for epistemic communities. The rise of Islamic finance has occurred simultaneously with the rise of religious actors challenging secular modes of governance. Especially with the decline in states' capacities to respond to emergencies, increasing structural violence, and resentment towards Western and secular forms of imperial *episteme*, there has been a shift towards alternative forms of governance and modes of engagement. This shift led to the recognition of those who claimed to find "answers" to the needs of the people. More specifically, religious leaders often take part in what Brassett and Higgott (2003, 29) call "building the normative dimension of a global polity" through their "small, experimental approaches" to social and economic issues (Brassett and Higgott 2003, 32). Islamic finance is one such vehicle.

Islamic finance and economics have also challenged the dominant understandings and methodology of conventional economics. Machlup (1978, 55) defines methodology as the "study of the reasons behind the principles on the basis of which various types of propositions are accepted or rejected as part of the body of ordered knowledge in general or of any special discipline." The methodologies of knowledge production are already specified in the Islamic tradition. Principles like *ijma* (consensus on interpretation) and *qiyas* (analogy or application of the rulings of one case to another comparable case) require Islamic scholars to come together and discuss the policy implications of the tradition, based on *Sunnah* and the *Qu'ran*. While conventional epistemology is "developed in a secular worldview that excludes religion in the scientific realm," in Islamic methodology, "not only [is] religion linked to scientific endeavor, but it is its epistemological basis and foundation" (Furqani and Haneef 2015, 25).

I argue that the epistemic communities of Islamic finance have transformed over the years in three stages as detailed below. During the first stage (1960s–70s), knowledge production was restricted to countries and regions, and local religious leaders determined the parameters in line with their particular interpretation of how Islam governs the economic sphere. At this stage, there was a direct epistemic challenge to international organizations operating on secular principles. The second stage (1970s–80s) combined "nationalisms" with the localized knowledge of Islamic finance at a time when Muslim-majority countries—especially oil-producing ones—needed investment options in a tense political climate. During the third stage (1990s-present), a transnational epistemic community of Islamic finance emerged, and it included the once criticized representatives of secular finance organizations and institutions.

Addas (2008, 97) notes that "Islamic economics is no more than the result of applying the Islamic rules and injunctions *(fiqh)* to the prevalent secular theoretical structure of economics to separate the permissible from the non-permissible" and "to ascertain the position of the Sharia on economic acts and current business events." In the case of Islamic finance, the investment alternatives were appropriated by states that saw themselves as representatives of Islamic advancement, and Islamic investment tools became enmeshed with the individual countries' political trajectories. Due to the desire to create common guidelines for all those in the Muslim community who wanted to invest transnationally, the need for a new generation of expert community arose. The establishment of the External Advisory Group by the International Monetary Fund to assist in setting standards, and enhancing coordination with "different stakeholders in Islamic finance" is an example of the consolidation of the epistemic communities surrounding the field (IMF 2015).

Given how detailed the Islamic precepts on trade and economics are, it is surprising that the contemporary religious epistemic communities of development and finance did not emerge until much later in the Islamic finance trajectory. It is useful here to recognize not only the existence of epistemic communities surrounding a variety of religious modes of finance and economics—but also how, in every tradition, these expert communities form and diffuse across borders, and how they communicate with their secular counterparts. The rise of this expert community also necessitates the study of the competition among different scholars, the politics involved, and controversies surrounding knowledge production.

TRAJECTORIES OF ISLAMIC FINANCE

Esposito and Voll (2001, 39) averred that "the economic dimension of the Islamic resurgence" might not be in the headlines but it is a critical part of contemporary Islam. It is imperative to understand how Islamic finance developed and spread in contemporary politics to fully grasp the expert communities surrounding it, and the implications of this process for public policy and the politics of religion. I draw on the norm diffusion literature (Finnemore and Sikkink 1998, 898) to explain this trajectory. Norms are "actively built by agents having strong notions about appropriate or desirable behavior in their community" (Finnemore and Sikkink 1998, 896). Such agents are called "norm entrepreneurs" (Nadelmann 1990, 482).

Islamic economics can be regarded as a cluster of norms. There are three phases of norm diffusion (Finnemore and Sikkink 1998) that I adapt to the historical trajectory of Islamic finance, while investigating their corresponding norm entrepreneurs: Norm Emergence, Norm Cascade and Norm Internalization. The first phase of norm diffusion is *norm emergence*, whereby actors advance Islamic financial norms as a "corrective" to unfair economic practices but also as a reaction and resistance to colonization and foreign influence in the Islamic world. The second phase—the *norm cascade* phase of Islamic finance—sees this corrective politicized and nationalized as part of an effort by elites to consolidate their political interests, within the broader context of an emergent political Islam. The final phase in which Islamic finance became mainstream includes two steps. First—*translation*—where "cultural concepts and the transmitters of these concepts such as language and customs" of the norm promoter (those who demand Islamic financial tools) are translated to "the language and customs" of the receiving agent's (conventional market institutions') "system of meaning to enable cross-cultural understanding" (Zwingel 2012, 24). The second step is *internalization*, whereby Islamic finance is institutionalized and cast in the public sphere as a legitimate alternative system, a legitimacy that international organizations subsequently recognize. This phase also sees the emergence of a transnational epistemic community of Islamic finance, which engages in debates regarding the politics of development and faith-driven initiatives.

Critical Regime Emergence: Islamic Finance as Resistance

The initial Islamic finance initiatives came as a reaction to Western capitalist arrangements that had been traditionally in the control of relatively secular leaders. A critique of the existing economic order accompanied the critical political ideologies. In both economic and political realms, communities in South Asia, South East Asia, and the Middle East returned to Islam as a resource. Evans (2011, 1751) notes that Islam offered "a challenge to the central values that describe the dominant neoliberal world order, particularly those values that legitimate the global political economy." Especially in the 1960s and 1970s, political Islam emerged as an "anti-hegemonic ideology to resist the imposition of a highly iniquitous international order" (Ayoob 2007, 179). One of the first Islamic economists, Khurshid Ahmad, played a key role in setting up the field of Islamic finance as an extension of his involvement in Islamic political activism in South Asia, and because of his belief that Islamic economics was the only way "for a Muslim professional" (Esposito and Voll 2001, 47).

Islamic finance appeared in the contemporary market as a local alternative to the existing savings traditions. The norm entrepreneurs who facilitated the emergence of Islamic financial norms were committed and idealistic, yet they did not have the scholarly background to engage in sophisticated debates on what counts as Islamic and what does not. It is critical to note that there are multiple public theologies (Sandal 2012) and understandings of Islamic finance. Venardos (2006, 89), for example, argues that the Hanafi tradition has been traditionally more restrictive regarding financial transactions than the Shafi'i tradition. These differences were arguably more pronounced before Islamic finance became a global mode of transaction.

Egyptian economist Ahmad Al-Najjar, another important norm entrepreneur in the politics of Islamic finance, established the first Islamic savings bank in the rural town of Mit Ghamr in 1963 (Mayer 1985; Hegazy 2007, 585–89). It was a small-scale institution operating on principles of microfinance and acting as a corrective to the existing wide-scale financial system that did not respond to the needs of low-income clients. Upon President Gamal Abdel Nasser's orders, the bank was liquidated in 1967 because of its ties with political Islamists (Kahf 2004; Visser 2009, 94; Alharbi 2015, 14). Islamism beyond the machinery of the state was considered by Nasser as an existential threat, so anything patently Islamic and not controlled by the state was securitized. At the norm emergence stage, the new critique of the conventional economics posed varying degrees of challenge to the existing political frameworks in the Islamic world. At the same time, the religious nature and the legitimacy these frameworks derived from Islamic sources made it increasingly necessary for political leaders to take them seriously, and find ways to reclaim this tradition before rival political actors could employ these Islamic tools to undermine their rule.

Another example of this transition is the local Islamic initiatives in Southeast Asia. In 1963, the Pilgrims Administration and Fund in Malaysia (Tabung Hajji), a government-sponsored institution, collected savings for *hajj* and invested them following Sharia guidelines (Islamic Research and Training Institute 1995). Bank Rakyat of Malaysia, which converted to large-scale Islamic banking in 1993, was initially established to offer cheap credit to rural communities, who were reluctant to use the existing system because of Islam's prohibition against interest. None of these banks or local organizations initially had a Sharia board or any other grouping of religious experts, and there was no attention to commercial banking (Kahf 2004, 19). In other words, the epistemic community of Islamic economics was limited; bankers and investors approached these local institutions through their own understandings of the broad principles of permissible economic interactions.

Regime Nationalization: Islamic Finance Complementing National Identity

The Islamic economic regime did not remain at the initial reactionary stage. It was quickly coopted by the modern state in the Muslim world, facilitated by international factors like the oil embargo following the 1973 Yom Kippur War, which made significant funds available to oil producing countries; Nixon's abandonment of the Gold Standard in 1971; increasing U.S. dependency on imported energy resources; and later, the establishment of Iran as the modern world's first Islamic state in 1979. In the face of these developments, the surge in Islamic banking and finance can be seen as a part of the much larger phenomenon of Islamic reassertion (Vogel and Samuel 1998, 21). Gill (1995, 421) reminds us that although capital tends towards universality, "it cannot operate outside of or beyond the political context, and involves planning, legitimation, and the use of coercive capacities by the state." Similarly, Krasner (1981) argues that developing countries attempt to ameliorate global pressures by restructuring the environment within which decisions are made. In other words, the use of economics and capital as part of a political agenda is not unique to Islamic settings, and accordingly, Islamic economics is only a part of the bigger picture.

Islamic financial sources and institutions have been framed by political leaders as the appropriate venues for the investments of observant Muslims, even if they live in non-Islamic countries. Ayoob (2007, 633) points out that an Islamic religious vocabulary is "normally employed to serve objectives specific to discrete national settings." More specifically, Euben (2002, 27) states that in a post-colonial world, "arguments of Islamic authenticity and specificity are shaped and "enframed" by the complex dimensions of Western domination." In politics, framing is a political strategy used "to situate events and to interpret problems, to fashion a shared understanding of the world, to galvanize sentiments as a way to mobilize and guide social action, and to suggest possible resolutions to current plights" (Barnett 1999, 15). Islamic framing of economic injustices has been powerful enough to challenge rival identities. Kuran (1995, 156) states that the major stimulus of Islamic economics was the assessment of Sayyid Abu'l-A'la Mawdudi (1903–1979) that the

Muslim community was losing its identity; Islamic economics was to be promoted as part of an Islamic way of life and a means to reestablish the Islamic authority in the economic sphere. The same happened at a larger scale with the sudden availability of funds to oil-producing Muslim-majority countries in the aftermath of the 1973 Yom Kippur War.

Egypt is a critical case of an Islamic financial norm cascade. The integration of local corrective arrangements to mainstream politics happened in Egypt through nationalization. Four years after the closure of Najjar's bank, Nasser Social Bank—an Islamic bank owned by the Egyptian government—was established. Unlike Najjar's bank though, the clientele were not the poor. This Islamic bank was not the work of theologians critical of the exploitation of large-scale banks and investment practices; Dr. Abd al-Aziz Hijazi (the Minister of the Treasury and later Prime Minister) was the first head of the bank and later became a prominent figure in Islamic banking (Mayer 1985). Islamic finance quickly became a tool for those who wanted to advance in politics and business in Muslim-majority countries.

Egypt is not the only case when it comes to national cooptation of the local Islamic financial practices. Many countries with Muslim majorities felt compelled to adopt certain aspects of Islamic finance. In Pakistan, the Islamization of the banking sector became a state project, passing through the central bank, "with very little direct interaction between the ulama and the bankers" (Kahf 2004, 30). Similar to Pakistan, Sudan turned to Islamic banking in 1983. Iran's entire banking system also has followed an Islamic path since 1983. The Constitution of Iran (1979) explicitly critiques the market economy, a critique that has become a part of Islamic revolutionary discourse: "In materialist schools of thought, the economy represents an end in itself, so that it comes to be a subversive and corrupting factor in the course of man's (sic) development." According to the constitution, the fundamental consideration of economics is to fulfill "the material needs of man in the course of his overall growth and development."

Expectedly, in line with their conception of themselves as the leaders of the Islamic world, Saudi political circles actively adopted and promoted Islamic banking, particularly through private initiatives. Islamic financial institutions became widespread after the establishment of the Organization of Islamic Conference (OIC) in the aftermath of the 1967 war, which ended with the defeat of the Arab states. Especially with the 1973 oil embargo, Islamic banking and financial institutions emerged as a prominent symbol of religious and political identity. The embargo, coupled with the Arab–Israeli confrontations at the time, constituted "a major security or economic crisis," leading to norm localization in multiple settings "by calling into question 'existing rules of the game'" (Acharya 2004, 247). Saudi and Gulf institutions created the public financial sphere and supported initiatives in other Muslim-majority states, which started to "buy into and internalize norms that are articulated by the hegemon and therefore pursue policies consistent with the hegemon's notion of international order" (Ikenberry and Kupchan 1990, 283). While the extent of Saudi hegemony in the Islamic world is certainly arguable, their resources and unique position in the Islamic world meant Saudi institutions—and their Gulf counterparts—had no major problems penetrating local markets.

Even when the banks were the result of private initiatives, they were localized and integrated into the public sphere so as to legitimize the motives of the dominant political/business circles. When they were not part of the state system, Islamic finance institutions did not usually challenge the power structures and operated within the existing economic and political frameworks (Henry 1996, 125). In 1975, the first private Islamic bank (Dubai Islamic Bank) was founded by a norm-entrepreneur, Saeed Bin Ahmed Al Lootah. While considering the idea of opening the bank, Al Lootah discovered there was no "epistemic community" that could bridge Islam and economics:

> I spoke to the scholars and realized they didn't know anything about banking or economics. So I went to the bankers and economists, and they didn't know anything about religion. I realized then that I couldn't benefit from any of them, so I decided that I would start the bank with the knowledge that I myself had, and based on my experience in trading and business. (Quoted in Alim 2014, 28)

The example of Dubai Islamic Bank was followed by the Faisal Islamic Bank (the first to have a formal Sharia board) in 1976, Jordan Islamic Bank (1978), the Faisal Islamic Bank of Sudan (1978), and the Kuwait Finance House (1979). Only in what Alim (2014, 142) calls "the second stage of Islamic economics," that developed in the 1980s, did "Islamic economics [address] issues such as the theoretical framework underlying Islamic banking and finance, the stability of the Islamic system, and the effect of the interest-free system on macroeconomic concerns like saving and investment." This stage saw the rise of scholars like Dr. Abbas Mirakhor, who bridged advanced economics with Islamic precepts in an analytical language (Mirakhor later became the dean of the executive board of the International Monetary Fund in 1997).

An important factor in the nationalization of the Islamic finance concept was the availability of local actors attentive to not being seen as agents of outside forces. In Turkey, for example, politically conservative business elites brought in Islamic banking. Faisal Finance, owned by Prince Muhammad al-Faisal of Saudi Arabia, gave the mission of establishing an Islamic bank in Turkey to Tevfik Paksu and Salih Özcan. Salih Özcan was already an active member of the World Muslim League and other Islamic organizations, and he was the owner of *Hilal* (Crescent), an Islamic magazine (Koni 2012, 104). Islamic finance, in other words, was a missing link in the Islamic political establishment in Turkey, and it conveniently filled a gap when it was integrated into Turkish markets in line with the Islamic political leanings at the time.

To sum up, during the norm consolidation stage, Islamic finance was integrated into national and regional political ideologies and discourses. Political elites in the Islamic world, even those who had initially felt threatened by local economic institutions, were inspired by the emergence of Islamic finance as an alternative source of investment to Western financial systems. Support for Islamic finance quickly became both a litmus test of how genuinely Islamist a political leader was, and a means of resistance to Western domination. Even in Muslim-majority countries that had secular states, Islamist parties and actors quickly became part of this emerging network and started to engage in activities to bring at least some aspects of Islamic finance to their countries.

Regime Mainstreaming: Islamic Finance in Conventional Markets

The third phase is *norm mainstreaming*, which I define as "transformation of a norm from being critical and/or marginal to an embedded norm in the conventional system of meanings it once critiqued." *Mainstreaming*, as a concept, has mostly been used as part of "gender mainstreaming," which Walby (2005, 321) defines as "a process of revision of key concepts to grasp more adequately a world that is gendered, rather than the establishment of a separatist theory."[6] Methmann (2010) later coined "mainstreaming of climate change" based on the gender mainstreaming concept, to denote "integration of climate change into business balance sheets."

Soon after the integration of Islamic finance institutions into different national and regional markets in line with the role conceptions (Holsti 1970) of the political elites, the need to standardize and institutionalize transnational Islamic interactions and *halal* (permissible in Islamic law) services arose. The local and regional religious economic norms and premises had to be "translated" into global market norms especially since many Muslim-majority countries now were interested in participating in the global market on their own terms. Bettiza and Dionigi (2015, 17) argue that institutional translation emphasizes how "normative consensus can be reached without actors needing to change their identities as an outcome of the norm diffusion." This translation and internalization can also be partly attributed to "postsecularity", which "opens up new spaces for recognizing suppressed religious vernaculars within Western modernity as a condition of possibility to be attentive to alternative cultural programmes, including their religious idiom" (Pasha 2012, 1049). These alternative cultural programs, which aspire to operate transnationally, are still constrained by Western institutional frameworks and norms, however. This is one of the reasons why Islamic economics and finance, which started as a local critique of Western capitalism, ended up being integrated into the capitalist infrastructure.

Globalization of the Islamic finance norms was necessary for standardization as well. If there was one community of Islam *(ummah),* there had to be some consensus on transnational interactions within this community and in other public spheres in which Muslims would participate. In this vein, Jumaatun Azmi, founding director of the World Halal Forum based in Malaysia, drew attention to problems in the *halal* industry in terms of proper procedures, standards, and implementation (Howard 2014). Creating standards that guide Muslims in neoliberal market space became a critical issue for both religious actors, and the entrepreneurs who wanted to cater to Muslim markets. Policymakers in Islamic finance worked towards creating procedures and standards that would be binding for all the actors involved. This move towards standardization constitutes the *institutionalization* stage of norm diffusion in Islamic finance.

Partly because of the country's understanding of itself as the leader of the Islamic world, the Saudi elite took the first step in creating standards in Islamic finance. Prince Mohammad Al-Faisal founded the International Association of Islamic Banks, and funded the *Handbook of Islamic Finance*, "a scientific and practical encyclopedia for Islamic bankers" (Warde 2000, 73). When the Islamic Development Bank (IDB) agreement was drafted, it was not clear how a large-scale Islamic bank would function; indeed, the IDB did not have a Sharia board until 2003. The bank—which includes 56 countries and is based in Jeddah, Saudi Arabia—unsurprisingly moved towards centralization of expertise, with its defined purpose being "to foster the economic development and social progress of member countries and Muslim communities individually as well as jointly in accordance with the principles of Sharia" (Islamic Development Bank 2017). Similarly, the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) was established as "the leading international not-for-profit organization primarily responsible for development and issuance of standards for the global Islamic finance industry" (AAOIFI website) under the leadership of Dr. Datuk Rifat Ahmed Abdel-Karim (1999). In 2003, Abdel-Karim became the first general secretary of the Islamic Financial Services Board, "an international standard-setting body of regulatory and supervisory agencies that have vested interest in ensuring the soundness and stability of the Islamic financial services industry" (IFSB 2017) that was established with the facilitation of the International Monetary Fund (IMF 2002).

Islamic finance transactions started to focus on two major hubs: Bahrain in the Middle East and Malaysia in Southeast Asia (Imam and Kpordar 2010). Malaysia became the center "for thought leadership in Islamic finance" (The Economist 2013), and a significant portion of the new epistemic community of Islamic finance is now educated there. Malaysia also assumed a transnational leadership position by issuing the world's first global sovereign *sukuk* (Islamic bond) in 2002. The Islamic Financial Service Board, an international standard-setting body, was established in 2002 in Malaysia.

Education and training in Islamic finance is also a relatively new phenomenon; it requires bridging the knowledge of how contemporary markets work with the understanding of Islamic law. There are multiple institutions across the world today that set up new programs to meet the demand for this expertise. For example, the Islamic Banking and Finance Institute of Malaysia provides vocational training, offers certificates in Islamic finance, and serves as a consultant to banks and organizations wanting to become Sharia-compliant. The Centre for Education in Islamic Finance, established in 2005, is the world's leading university for the study of Islamic finance and attracts students from 80 countries (The Economist 2013). Other banking and investment groups have launched technical meetings, bringing finance and religious studies together and merging them under a new expertise. For example, Al-Baraka Group started to organize an annual seminar at which economists, theologians, lawyers, and bankers study and discuss aspects of Islamic financing and banking (Kahf 2004, 23). Many universities across the world also organize their own seminars, bringing experts together to discuss how tradition and new trends interact in Islamic finance. One such example is the Harvard University Forum on Islamic Finance, established in 1997 by Harvard Law School "to engage scholars, practitioners and regulators in productive dialogue about the then nascent field" (Eleventh Harvard University Forum on Islamic Finance 2014).

Islamic financial institutions officially became part of Western capital markets through their integration into world markets and liberal institutions. Some major international banks, including Citigroup, HSBC, and Deutsche Bank are now in the Islamic banking business. Several major international Islamic market indices like the Dow Jones Islamic Market Index and the Financial Times Stock Exchange Global Islamic Index Series were created in 1999 by excluding non-Islamic stocks but leaving the rest of the structure intact. Ibrahim Rushdi Siddiqui, another Islamic finance norm entrepreneur, led the initiative that created the Dow Jones Islamic Market Index. His team also established the world's first Islamic equity index, the first *sukuk* index, the first Islamic sustainability index, the first *halal* food index, and the first Islamic interbank benchmark rate (Borsa Istanbul 2013). Siddiqui served as the Global Head of Islamic Finance and Organization of Islamic Countries for Thomson Reuters between 2009 and 2013.

The findings are not conclusive when it comes to the primary concerns of the current clientele of the Islamic financial institutions. There are studies that show religion might not be the major motive prompting people to use an Islamic bank and customers of Islamic banks are profit-oriented, expecting these banks to be more profitable than conventional ones (Lewis and Algaoud 2001, 150). Imam and Kpordar (2010, 14), using data from 1992 to 2006, find that nonreligious consumers view traditional and Islamic banks as substitutes, and the diffusion of Islamic banks tends to increase when oil prices rise. In contrast, Dusuki and Abdullah (2006), in their survey of customers' perceptions of an Islamic hire-purchase facility in Malaysia (Al-Ijarah Thumma Al-Bai—AITAB), find that religious considerations play an important role in shaping customer preferences.

Although the educational initiatives, expert workshops, journals, and debates confirm that there is an expert community, there are significant differences among countries in Islamic finance legislation. In countries like Saudi Arabia or Egypt there are no laws specifically regulating Islamic banks, whereas the Islamic Financial Services Act that was introduced in Malaysia in 2013 has 18 parts containing 291 sections. Legalization is "a strategy through which actors pursue their interests and values" and that, in turn, shapes actors' identities; although "hard legalization" can mitigate transaction costs and contracting problems, some states waver because of its costs to sovereignty and opt for "soft laws" (Abbott and Snidal 2000, 455). This does not contradict the desire to standardize Islamic finance practices transnationally. Since some states do not want to put hard barriers on their practices, they export their expertise to the international sphere and these expert communities guide Islamic financial institutions through their advice.

As Islamic finance practices became standardized and institutionalized, their value as corrective or critique of the current system was called into question. Rethel (2011) argues that although Islamic finance challenges Anglo-American dominance of the international financial system, it also serves to reproduce and legitimize the knowledge structures of contemporary finance. In their study of financial markets, the Islamic benchmarks for those same financial markets, and the real economies of GCC countries for the period 1990–2010, Aksak and Asutay (2015, 215) find that Islamic finance "has not only become a part of conventional financial markets, but it is also a very close follower of them" since it also suffers from information asymmetry and the principal-agent problem. Similarly, Pollard and Samers (2007, 319) argue that as a form of finance, Islamic banking and finance institutions do not disrupt capitalist social relations; the movement generally "speaks big business," so in its current form it is not an "antidote to widespread poverty and inequality." Critics note that Islamic banks allocate less than 10% of their investments to distinctly Islamic profit-sharing instruments (Henry and Wilson 2004, 3). This might be why Islamic finance is a convenient avenue for expressing religious sentiments. Pepinsky (2013, 164) states that "Islamic finance is a uniquely powerful symbol of identity politics in the Muslim world precisely because it is so nearly indistinguishable from conventional finance." Islamic finance creates a global space for becoming part of the ummah with no material sacrifice. Hunt-Ahmed (2013, 549) argues that Islamic finance and banking "provides a physical and psychological space in which Muslims can construct their identities simultaneously as individual citizens of diverse societies and also as members of the global Muslim community."

At the same time, the rise of Islamic finance and the active role played by major banks in creating an Islamic framework challenged the “clash of civilizations” (Huntington 1996) argument, at least in the economic sphere. True, the image of Islamic banking suffered after 9/11 and the war on terrorism. Many official statements implied that Islamic banking networks facilitated terrorist financing. For example, Bill Clinton’s National Security Adviser Sandy Berger said it would be challenging to track down Osama bin Laden’s money because it was invested in “underground banking, Islamic banking” facilities (Koprowski 2001). However, Wilson (2004, 130) calls contemporary Islamic capitalists “cultural brokers,” acting as intermediaries between Islamic societies and wider global networks based on Western modes of capital accumulation. Ultimately, the smooth integration of Islamic finance practices into the contemporary market shows that it is possible to have discussions and arrangements between the secular and the religious on functional issues like economics. This in itself could be regarded as a “success,” but not in terms of the radical criticisms of Western capitalism that were seen in the incipient stages of Islamic economics.

CONCLUSION

Islamic finance, as a set of comprehensive rules and norms about how to invest, is a relatively recent endeavor in the history of Islam. Hence, when it first emerged in the 1960s, there was no immediate expert community to give direction to it. This paper used the epistemic communities framework as well as the norm diffusion literature to trace the development of Islamic finance and its expert community. I argued that Islamic finance has gone through three distinct phases, each with its own norm entrepreneurs, mechanisms of knowledge production, and political context. During the first phase, Islamic economics was framed as a critique of the Western capitalist market structure. In the second phase, ruling elites in some Muslim-majority states tried to nationalize Islamic finance institutions in order to present this as part of their identity and on occasion, resistance. The third and the final phase is the integration of Islamic financial arrangements into the Western capitalist markets as an option for both Muslims and non-Muslims alike.

This paper fills a gap in the literature in two major ways. The first is by examining Islamic finance through an International Relations lens. By and large, Islam remains relegated to the security realm with studies focusing predominantly on violence and war. There is more to Islamic politics, governance, and transnational relations than security, and scholars should pay more attention to those dynamics. The second contribution is to explain the creation of norms in Islamic finance and follow their diffusion into the global market system. Although it started as a faith-based reaction to Western practices that were deemed unjust, Islamic finance was quickly coopted by political elites in the Muslim-majority states to assert their influence in the public sphere. As Islamic finance institutions began to appear in almost every Muslim-majority country, the need for transnational exchanges with both the world market and other Islamic investment institutions increased. Developing communities of experts in Islamic finance became central to these transactions, as states avoided legislating Islamic finance laws but needed standardization for future transactions. These epistemic communities decided on how to integrate Islamic financial instruments into world markets, based on religious precepts.

An increasing number of workshops, graduate degrees, and journals explore how this alternative market can be both faith-driven and profitable. Although the institutionalization of Islamic finance and the rise of new epistemic communities may make us question the corrective quality of faith-driven initiatives, they do suggest that religious market instruments can be easily integrated into large financial institutions, creating options for a worldwide clientele. Future studies should explore whether such options can exist within the frameworks of other religious traditions, and what kind of opportunities they can provide. Elshurafa (2012, 339), for example, is optimistic that the combined knowledge and cooperation of religious and secular experts "can facilitate the development and standardization of Islamic financial instruments and continue the process of innovation."

Given the increasing appeal of Islamic finance instruments not only to observant Muslims, but also to investors worldwide, it is critical to devise proper frameworks to investigate the expertise surrounding this form of banking. This paper is a step towards such a research agenda that takes the changing dynamics of expertise, scholarship, training, and education on Islamic finance seriously. Studies of the evolution of Islamic finance also suggest the need for case studies in other faith-driven initiatives, ranging from health programs to environmental projects.

NOTES

1. For securitization of Islam and the Muslims in Western societies, see, for example, Fredette (2014); Cesari (2013); Mavelli (2013).

2. See, for example, Kayaoglu (2015); Kılınç and Warner (2015).
3. Due to space constraints, this paper does not investigate or review the principles of Islamic finance. Readers who are interested in the technical aspects of Islamic banking and finance can refer to Warde (2000); Ayub (2007); Kettell (2011).
4. For a detailed theorization of the situation of the religious within the post-secular world, see Wilson (2012).
5. Also see Tawney (1929).
6. The same concept has been used in multiple reports and articles regarding dynamics of gender equality policies. See, for example, Krook and True (2010); True and Mintrom (2001).

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