

A Comparison of Islamic Economics and the Sufficiency Economy Philosophy: Implications for Sustainable Development in Muslim Communities

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ABSTRACT

This article examines the concepts and theories of Islamic economics. In order to understand it thoroughly, we compare with conventional economics and the sufficiency economy philosophy. In Islam, an individual's utility function consists of two parts, utility in the present life and in the afterlife. His behaviour in the former determines the rewards (or punishment) in the later. Hence, his resources are allocated towards the consumption of goods and services, and for religious expenditures such as Zakat payment. In addition, the set of choices are a subset to a conventional individual as he can only consume what is Halal, including investing in interest-free channels. Ethical and moral values play a role in determining economic behaviour as individuals are connected through the concept of brotherhood. Though different in certain details, the core principles of the sufficiency economy philosophy are consistent with Islamic economics. This can help design development policies that are aligned with local values for Muslim communities, specifically, the three Southern border provinces of Thailand.

Keywords: *Islamic economics, Sufficiency economy, Sustainable development, Muslim community*

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1. Introduction

Although the world's economy has experienced a lot of growth over the past decades, it seems that the benefits of that growth have not been divided equally. While many countries have seen their GDPs rise continuously, the income inequality has, however, increased too. The history of finance and banking has seen crises and recessions, pushing those near the margin to poverty. During the past decade, reports have shown protests at the world's financial centers where people are expressing their lack of confidence on governments' economic policies and the financial sector. The issue is, are we walking towards the right direction? Have what we learnt in our economic textbooks that growth leads to development been engineered in a sustainable way? Many are now talking and seeking for an alternative economic system, one that incorporates the efficiency aspects of a capitalism system while not forgetting an important character of the socialism; a fair distribution mechanism. One alternative system that should not be overlooked and is worth considering can be found in the teachings of Islam. The system is based on the Islamic law, moral and ethics. In addition, it promotes banks and investors to invest in the real economy boosting production and creating jobs. That is, to not only be an intermediary between those with excess savings and those who are in need of funds. The system also gives importance to income inequality by emphasizing a society where those who have give a hand to those less fortunate, the poor and needy. It is done through a comprehensive social security net based on one of the pillars of Islam; *Zakat*.

This article analyzes the concepts and theories of Islamic economics. In order to understand it thoroughly, we compare with conventional economics and Thailand's sufficiency economy that incorporates the King Rama IX's philosophies and Buddhist principles. Results are used to help design economic development policies, which are aligned with local values, for Muslim communities, specifically, in the three Southern border provinces of Thailand.

2. An Overview of Islamic Economics

Islamic economics is still relatively new compared to conventional economics which has gone through a rigorous process of development for more than two hundred years. The literature on Islamic economics began in the 1950s with the aim to develop concrete economic ideas and concepts that align with the teachings of Islam. The early works concentrated on distinguishing Islamic economics with mainstream conventional economics. In short, Islamic economics encompasses the strength of capitalism and socialism. In Islam, economics cannot be segregated from religion as it preaches how one should live their life. The religion states the relationship between God, the creator, and human, human and human, and human with oneself. In other words, Islam describes how humans should behave and economics is one aspect of human behavior.

Islamic economics covers behavior regarding the consumption and production of goods and services, including the distribution of resources. Economic units such as households, firms, or the government make economic decisions that are led by faith. Islamic economics is based on the *Shariah* or Islamic law which gives importance to morals and ethics. Hence, it is the application of this law with the objective of retaining justice in the distribution of resources for the betterment of human and their society.

The core of Islamic economics lies in the established relationship between God and human, human and human, and the reason for their existence. Economics activities including consumption and production must be *Halal* or permitted by religion and not *Haram* or prohibited by religion. Moreover, distribution of goods, services, and resources must adhere to *Adl* or justice. These values, concepts, along with the teachings stated in the Quran, the religious text of Islam, provide a distinguished framework from today's mainstream conventional economics. This framework can be summarized in the figure below:

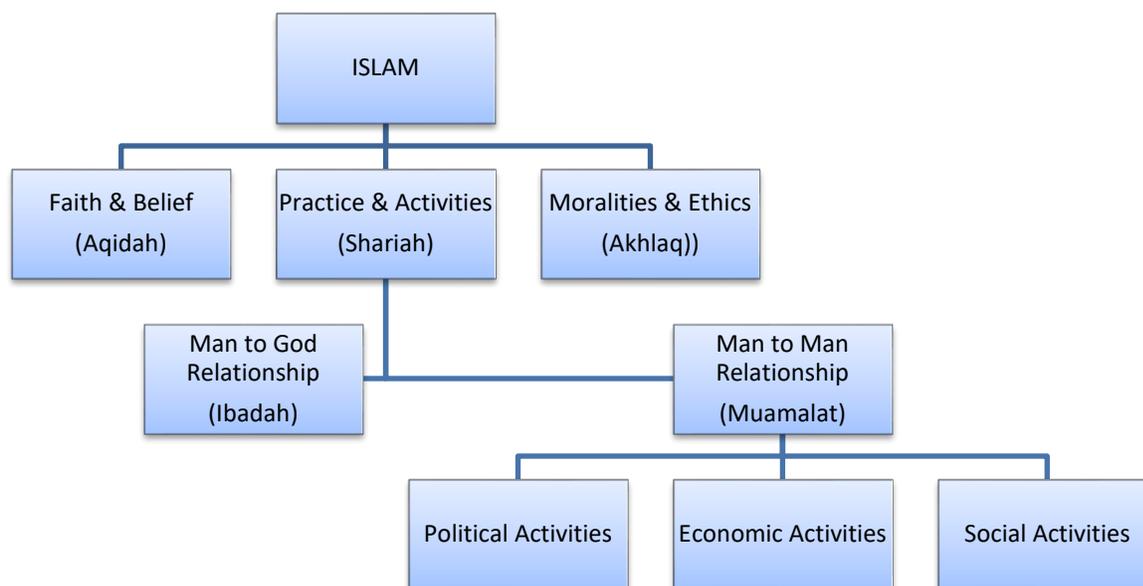


Figure 1. The Islamic worldview framework

3. Sources of Islamic Economics

The main sources of Islamic economics come from the Quran, and the transmitted records of Prophet Muhammad's actions (*Hadith*) and sayings (*Sunnah*). These sources led to a rich literature on different aspects of life including economics.

As Islam is a religion that describes the way of life, including economics, its philosophy is based on three fundamental concepts. First, God created humans and, therefore, humans should follow his teachings. Second, these teachings are revealed to the prophet and its practicality can be seen from the *Sunnah* and *Hadith*. Third, this life (*Dunya*) given to us by God is only temporary and is here in order to test us. The afterlife or hereafter (*Akhirah*) is the long lasting life. However, these two lives are interconnected in the sense that humans will be accountable for their deeds in the former and its consequences, rewards or punishment will be given in the later.

Islam views economic activities as a human's duty and responsibility towards himself, his family, his country, the world and society he lives in. Islam encourages economic activities whether it is consumption, investment, or production. But there should be a balance between the engagement in these activities and the duties as a Muslim, and it should be within the boundaries of what is *Halal*.

4. Theory of Islamic Economics

The theory of Islamic economics is based on the following terms and concepts:

Economic Well-Being and the Morality

Islam urges humans to enjoy the resources provided by God by working hard in order to improve their economic well-being. The process towards this improvement, however, must be within the morality and ethics of Islam.

Universal Brotherhood

In order to maintain social order, Islam emphasizes the concept of brotherhood where humans are considered brothers and part of the same family created by God. Hence, your behavior towards others should be the same as how you treat your parents, brothers or sisters. This concept of brotherhood is regardless of geography, race, ethnic, or skin color. The result of universal brotherhood is to create mutual cooperation and help between humans.

Justice

Justice is an important element of the Islamic faith and its implications can be categorized into two types:

a. Social Justice

As stated earlier, Islam's brotherhood considers human beings as a member of the same family created by God. There is no difference between the black and white, or rich and poor as can be observed from its funerals. That is, ethnicity, skin color, or position should not be a reason for discrimination and humans should be treated equally.

b. Economic Justice

A just society cannot be complete without economic justice. Individuals should be rewarded accordingly to the contribution, risk taken, and effort put in his work. In addition, aligned with the concept of brotherhood, individuals should not exploit one another as to protect the rights of consumers, producers, employers, and employees. The aim of upholding justice is for the betterment of everyone's welfare.

Prohibition on Taking Interest (Riba)

The most important principle of Islamic economics in the current socio-political context is the prohibition on the payment of, and the acceptance of, interest, on any monetary transaction. The ideological rationale is that interest represents a return or profit on idle money, where no work or other contribution is forthcoming. This represents unjust reward for passivity. Its practical implication in contemporary Muslim societies is that depositors in Islamic banks become partners in the banks' investment decisions, sharing in the profits and losses from those decisions in proportion to their deposits. The banks, in turn, are partners to the firms in whose projects they invest in, sharing profits and losses from those projects, in proportion to their respective capital shares.

Related to the abolition of interest are the prohibitions on speculation and wasteful consumption - both believed to be associated with capitalism. Wasteful consumer spending encourages price inflation more than an increase in production, and discourages the savings needed to fund investment for economic growth in developing societies.

Zakat

Zakat is one of the five pillars of Islam. As interpreted by contemporary Islamic economics, *Zakat* is a voluntary tax on wealth administered through mosques, which accumulate a welfare fund to pay for various charitable and social projects (such as health care, education and disaster relief). The problem of severe inequality in income distribution can be obviated by *Zakat*.

Ownership

All resources belong to God as Stated in the Quran, “*Whatever is in the heavens and whatever is on the earth belongs to Allah*” [Al-Baqarah, 2:284]. The role and responsibility of man is to look after these resources for God and hence has to use it according to the *Shariah*. He will be accountable for how it is used for consumption, production, and distribution.

Economic Freedom within Reason

Islam encourages economic freedom within the boundaries of the *Shariah*, including ethical and moral values, as explained below:

- a. Any form of monopoly and hoarding, or activities related to interest, pork, alcohol, pornography, and gambling are prohibited. Nowadays, there are conventional mutual funds that also screen out companies or business that are considered unethical, or lack social responsibility and good governance.
- b. Although economic freedom is supported, Islam permits the intervention of the state to lessen or limit one’s rights if it is for the welfare of the society or country. In conventional economics, this can be explained via the concept of negative externalities. A person’s development and success must not be done by sacrificing the public’s interest. An example is the deterioration of the environment and natural resources for the growth of certain industries.

5. The Difference between Islamic and Conventional Economics

As the Quran states how man should lead his life, Islam does not separate religion from other aspects of life including the economic behavior. It emphasizes on the balance between worldly material needs and the spiritual side or faith. The aim is for everyone’s wellbeing including all sex, age, race, ethnicity, skin color, and wealth. Islam recognizes the concept of private property, in comparison to communism, but the acquisition of that property or the maximization of utility or personal interest must be within ethical and moral values. A free market via the demand and supply mechanism is encouraged for efficiency, but must be in the boundaries of the *Shariah*. For this reason, the concept of brotherhood and socio-economic justice must be upheld. The differences between Islamic and conventional economics in details are listed below:

The Role of Ethical and Moral Values

In our first year microeconomics textbook, we all learnt that economic behavior is determined by taste and preference which is given. What is lacking is the role of ethical and moral values that once uplifted could change those behaviors. Ethical and moral values along with the demand and supply mechanism can lead to an increase in wellbeing. Before the market forces take place, the possession of resources must be screened by these values in order to lessen conspicuous, unnecessary, and wasteful consumption. Thus, price and ethical moral values complement each other in creating equilibrium in the market place, increasing efficiency in the use of resources. Furthermore, the concentration of resources in the hands of a few people or inequality will decrease, savings increase, resulting in a higher level of investment and employment.

The Hereafter

The concept of an afterlife or what is called “the hereafter” is one which is totally ignored in the textbooks of conventional economics but significantly expressed in many religions such as Islam, Christianity, and Judaism.

Humans do not continuously think about their self-interests but care for others and can sacrifice for the wellbeing of the society. This behavior is called altruism which will be considered by God and rewarded in the hereafter.

Rational Economic Man

We all accept the need for rationality in determining human behavior but the definition of rationality may be given differently (Sen, 1987). The definition of rationality in conventional economics is focused on the maximization of utility or wealth of individuals more than the welfare of the general public. This conceptual framework means that our society consists of many individuals, all acting for the best of their personal interests.

In Islam, the definition of rationality does not concentrate only in serving one's interests in this world but all his deeds will determine his rewards and/or punishment in the hereafter. Man is accountable for his actions and, consequently, rational behavior must be according to the *Shariah* and moral values so that personal interest can be aligned, and not in conflict, with public interest.

Pareto Optimum

A country that lacks socio-economic justice will find it difficult to maintain a sustainable and inclusive growth and development. Justice and public wellbeing may be hard to achieve if those who have or the wealthy do not want to sacrifice. As a result, the concept of pareto optimum may be paradoxical to the teachings of Islam where the few rich and wealthy must give to the many poor and needy for the betterment of the society. Each year Muslims are obliged to pay a wealth tax called *Zakat* to eight groups of people including those under poverty. This is in excess to the tax payment duties as a citizen of a country.

6. Islamic Banking and Finance

Although a specific banking and finance model was not stated in the Quran, Islamic banking and finance was created based on the teachings of the Quran, *Hadith*, and *Sunnah*. The first Islamic financial institution was introduced in 1963 in Egypt, in the form of a savings cooperative. The first commercial Islamic bank was, however, established in Dubai during the 1970s while the first in South East Asia opened its doors in 1983 in Malaysia, which later became one of the World's Islamic financial Centers.

The Islamic finance market is still relatively small if compared to its conventional counterpart with an estimated total asset of more than US\$2 trillion. Despite this, the projected market size in 2021 is US\$3.5 trillion with an annual growth rate of 9.5%. Besides the petrol dollars that contributed to the growth of the industry, the relatively higher birth rate of the Muslim population is an important factor. It is expected that by 2050, there will be 2.5 billion Muslims (from the current 1.6 billion) or approximately 30% of the World's population. The potential of this industry is not limited to Muslim majority countries, but also Muslim minority countries with a sizeable amount, for example, the United Kingdom, France, the Netherlands, and Belgium.

The literature in the field can be summarized into two groups. First are studies that compare Islamic banking and finance with the conventional model in different dimensions, such as, performance and efficiency. These studies include Khan (1985), Yousefi et al. (1997), Hassoune (2002), Darrat (2002), Yusof and Wilson (2005), Isa and Kaleem (2006), and Beck et al. (2013). Second are those that analyze the impact of Islamic banking and finance on the economy, especially towards economic growth. Such studies are Furqani and Mulyany (2009), Abduh and Chowdhury (2012), Abduh and Omar (2012), and Kumru and Sarntisart (2016).

The main feature that distinguishes Islamic financial institutions, including banks, from conventional ones is that they cannot pay and receive interest. In addition, these institutions are prohibited from conducting business with non-permissible industries, for example, the interest banking industry, pork, alcohol, gambling, and pornography. The transactions of Islamic financial institutions must be transparent and are advised to stay away

from uncertain or unclear contracts. Moral and ethical values play a significant part when making investment decisions. Hence, every Islamic financial institution will have a *Shariah* committee or consultant board to overlook and guarantee that the institution's operations do not go against the teachings of Islam.

The important question is if an Islamic financial institution cannot deal with interest, how then do they operate? We will here use the Islamic bank as an example as other institutions such as *Takaful* (Islamic insurance) or *Sukuk* (Islamic bond) are based on similar types of contracts. An Islamic bank is seen as a type of universal banking which breaks the wall between commercial banking and investment banking. The details of its deposit and financing products are explained in the appendix.

Besides the banking market, the Islamic capital or stock market has gained popularity for investors. Basically, Islamic stock indexes screen out companies that conduct business considered *haram*. The number of companies is not static but dynamic as the screening is done continuously.

To sum, Islamic financial institutions are prohibited from dealing with interest as the religion views that the share of return and risk between the creditor and debtor is unjust. Not only do Islamic banks act as an intermediary between those that have excess savings and those that are in need, but also share the risk involved in trade, leasing, production, and joint venture which is closer to the real economy. Furthermore, they are not allowed to enter transactions with businesses that are considered unethical or morally wrong.

7. The Theoretical Model

Religion has guided society and shaped human behavior. Its teachings have created guidelines towards daily activities including economics. In order to setup a theoretical model that explains a Muslim's economic behavior, we should first understand how conventional economic theory examines an individual's behavior. What determines an individual's decision making process? There are basically three components:

- a) Tastes or pattern of preferences
- b) Resources or time which determines what he is able to do
- c) Goods, services and activities which he will allocate his resources or time towards

A consumer's resources or time can, hence, be allocated to three things including goods and services, religious activities or spending in the way of religion, and the rest is accumulated as savings/capital. Spending in the way of religion is perceived as for the benefit in the hereafter which is believed as a long and everlasting life. This includes, for example, paying *Zakat*, investing in interest-free channels, and caring for others in the society.

Azzi and Ehrenberg (1975) were among the first to explore the field of economics of religion. They attempted to explain how religious teachings shape the decision process of an individual. Results came out that they take into account the existence of a hereafter when allocating resources and time. This also explains why people care about others in the society or even spend their resources on them. A wide range of literature has emerged afterwards examining religious behavior for example, Becker (1976), Mack and Liegland (1982), and Iannaccone (1998) which provides an excellent literature review of work done in the field of economics of religion.

In the case of Islamic economics or Muslim consumer behavior, Zarqa (1980) is among the pioneers to conduct research. He analyzed an individual's decision process between present life consumption and rewards in the hereafter assuming that the later was the ultimate target for Muslims. Muslims tried to maximize their hereafter rewards within his limited income while at the same time incorporating moderation. He concludes that the relationship between consumption in the present life and rewards in the hereafter is positive linear for income levels below the subsistence line and negative for consumptions above extravagance. Zarqa's study, however, did not come up with a model to explain Muslim consumers' decision process in allocating his resources and time. With a more detailed study, Kahf (1980) proposed a Muslim consumer utility function consisting of

- a) Quantities of goods and services consumed, and
- b) Spending for the sake of God

Consumers increase their utility by consuming goods and services that are permitted according to Islam (*Halal*) and by spending for the wellbeing of others in the society. Furthermore, he studies the relationship between the level of faith and spending for the sake of God and concludes that there is a positive relationship. In the same direction, Naqvi (1981) stated that Muslim consumers, in order to increase utility, choose to consume a set of good or services but within religious permission and his income. He also makes sure his consumption doesn't exceed extravagance and considers the utilities of others in the society. Naqvi called these two constraints:

- a) Income constraint, and
- b) Religious constraint

Besides the studies stated above, another prominent study in the field of Islamic economics and Muslim consumer behavior is the one done by Khan (1984). He explained that a Muslim's utility depends on two things:

- a) Expenditure to increase utility in the present life including both present and future consumption, and
- b) Expenditure on others in the society hoping that this will increase rewards in the afterlife

He also described that the allocation of resources between a) and b) depends on an individual's level of faith and that this faith is an important factor governing a Muslim consumer's behavior. Individuals that follow a religion which strictly states the existence of an everlasting life, the hereafter, and its rewards or punishment relating to present life actions and behavior, will tend to spend more on others in the society and will be insensitive to changes in the economic incentives to give. However, it must be noted that all of this is subject to how much an individual believes in the existence of a hereafter.

All characteristics stated above can be concluded in the equation below. A Muslim economic agent's utility function is divided into two parts; present life utility (U_p) and discounted expected utility received in the hereafter (U_h). The former depends on the time and resources allocated to worldly goods and services and for religious objectives whereas the later only depends on the time and resources allocated for religious objectives in the present life. An individual, therefore, faces the following maximization problem:

$$\begin{aligned} \text{Max}_{c_p, c_h, t_p, t_h} & U_p([c_p, t_p, A(c_h, t_h)]) + \frac{E\{U_h[A(c_h, t_h)]\}}{[(1+r)^l]} \\ \text{s. t. } & c_p + c_h = R \text{ and } t_p + t_h = T \end{aligned}$$

He maximizes his utility subject to resources (R) and time (T). Because he wants to receive utility in both the present life and the hereafter, resources are allocated between goods and services (c_p) and religious contributions (c_h) while time is allocate between wage/market activities and leisure (t_p) and religious activities (t_h). The discount rate is r and l reflects the number of years an individual expects to live before he dies. A is a function of endowed resources to the hereafter determined by an individual's religious time and contributions allocated to activities related to religion during his present life. A also reflects an individual's level of faith or the probability he believes a hereafter will exist (B). Thus the second part of the utility function can also be written as $P(B)U_h[A(C_h, t_h)]$. First-order conditions require that at the optimum:

$$\frac{\partial U_p}{\partial A} \times \frac{\partial A}{\partial c_h} + P(B) \frac{\partial U_h}{\partial c_h} = \frac{\partial U_p}{\partial c_p}$$

$$\frac{\partial U_p}{\partial A} \times \frac{\partial A}{\partial t_h} + P(B) \frac{\partial U_h}{\partial t_h} = \frac{\partial U_p}{\partial t_p}$$

This implies that the marginal utility received from distributing both resources and time to religious objectives equals the marginal utility received from distributing both resources and time to worldly objectives. If dU_p/dA is large, religion gives the individual a large utility and is important for his/her life. The individual will, thus, spend more time and resources on it. Moreover, if the belief in the existence of a hereafter is high, households will allocate resources and time towards religion too.

As for the economic impact of *Zakat*, Darwish and Zain (1984) and Metwally (1981) were the pioneers in the field. They attempted to analyze how *Zakat* causes both the payer and receiver's consumption and savings behavior to change. In order to do so, the population was divided into two groups i.e. *Zakat* payers and *Zakat* recipients. The former pays a fraction of their income to the later due to the compulsory levy of *Zakat*. In a Keynesian framework, the consumption function in an Islamic (C_I) and conventional economy (C_C) can be explained by:

$$C_c = a + b_1\beta Y + b_2(1 - \beta)Y$$

$$C_I = a + b_1[\beta Y - \alpha Y] + b_2[(1 - \beta)Y + \alpha Y]$$

Where $(1-\beta)Y$ is income of the poor, βY is income of the rich, and αY is the amount of *Zakat* paid. From the two equations:

$$C_I - C_c = b_2\alpha Y - b_1\alpha Y$$

$$C_I - C_c = (b_2 - b_1)\alpha Y$$

$$d(C_I - C_c)/dY = (b_2 - b_1)\alpha$$

Due to individuals with low income (*Zakat* recipients) have higher MPCs than those with high income (*Zakat* payers) or $b_2 > b_1$, hence $(b_2 - b_1)\alpha > 0$ as $\alpha > 0$. This causes an increase in aggregate consumption of an Islamic economy compared to a conventional economy.

To state a Muslim consumer theoretical model, one can conclude that it is like the conventional model that adds a utility function for the hereafter, adds *Zakat*, and excludes investment and savings in interest-based channels. In addition, a Muslim's set of choices will be a subset of a conventional individual as he or she can only consume goods and services that are *Halal*.

8. Sufficiency Economy Philosophy

Sufficiency economy philosophy (SEP) is a philosophy developed by King Rama the 9th of Thailand which guides the way of life for Thais at every level including families, communities, and the government. The philosophy is based and gathered from the King's royal projects around the country. It emphasizes the development of individuals and organizations that takes into account material, social, cultural, and environmental aspects. In addition, the development progress should be gradually, not extreme but moderate. After Thailand's 97 crises, the King encouraged his people to live base on the sufficiency economy. The National Economic and Social Development Board (NESDB) took this guidance and incorporated the philosophy into the country's National Economic and Social Development Plan.

The application of SEP can be done at every level, many dimensions, and in many forms. There is no exact structure. What is appropriate depends on the conditions and situation faced. The philosophy does not deny globalization but aims to prepare individuals and organizations for it in order to be stable and sustainable given the undeniable changes (Thongpakde 2007). Furthermore, the United Nations has praised it as being beneficial for not only Thailand, but every country, and has supported its members to develop sufficiently.

The history started during 1974-2001 when SEP was presented, especially after the 97 crisis when it gained attention. Research during this period was mostly on agricultural communities. The years 2002-2007 saw the promotion of the philosophy and its application towards knowledge in other fields. During 2008-2011, the creation of knowledge to support and drive the philosophy ascended under the conduction of NESDB. From 2009 to present, there have been various researches on different aspects and cases to see the implementation of the sufficiency economy philosophy. This lead to policy recommendations and development guidelines for different population groups in order to create behavior consistent with the philosophy (Bhathumnavin and Bhathumnavin 2007).

The Framework

SEP consists of three principles and two conditions. The first principle is moderation which means the avoidance of excess or extremes, not too much and not too little. In addition, this must not encroach or distress one's self and others. Reasonableness is the second principle which implies that the decision of the level of sufficiency must be made rationally and cautiously by incorporating all related aspects and possible outcomes. The third principle is self-immunity. This means to prepare one's self for impact and changes that could arise by considering the possibility of each circumstance expected to occur in the future, whether in the short or long run.

In the case of the conditions, the first is knowledge. One should have knowledge of various fields and the ability to use them interrelatively in order to make decisions and plans cautiously. Morality is the second condition including honesty, tolerance, and perseverance which must be incorporated into one's way of living.

The three principles are interrelated as reasonableness leads to sufficiency, and when one is sufficient, they will have self-immunity in the long-run. Furthermore, the two conditions must be balanced. The lack of either one could result in mistakes in decisions, resulting in the inability to achieve sufficient optimization. For example, having knowledge but not morality may cause the person to use his or her knowledge in a wrong way where the results could lead to severe damage and harm.

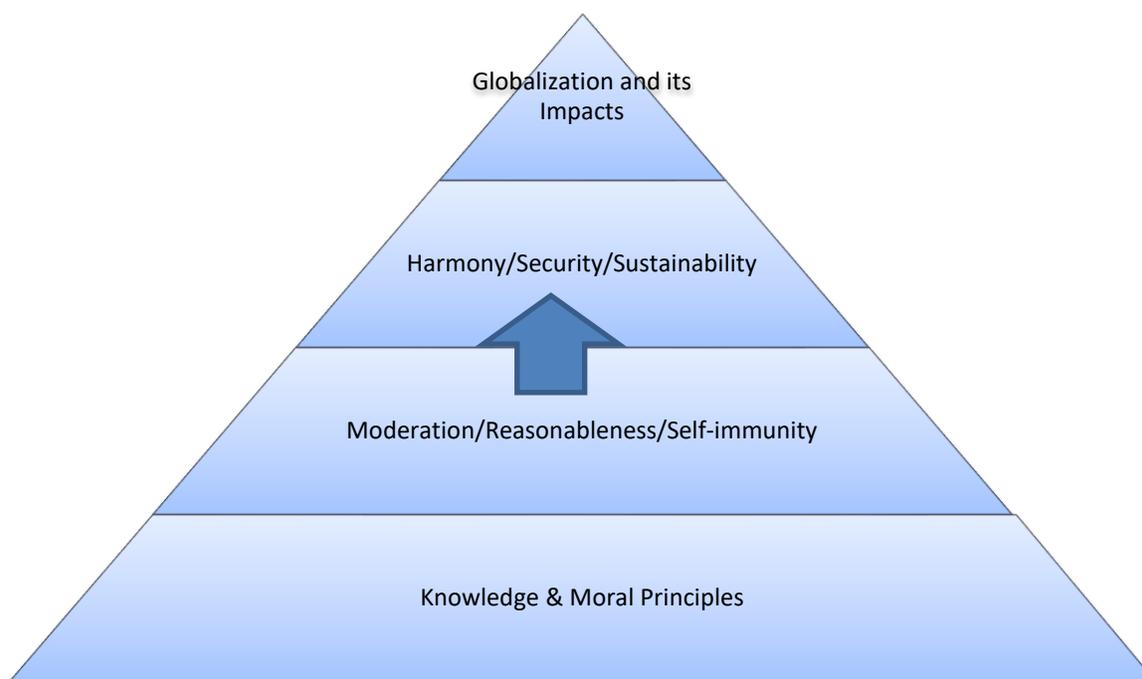


Figure 2. The sufficiency economy framework
Source: Thongpakde (2005)

The sufficiency economy philosophy has been applied in various areas such as: 1) Individuals and families (see for example Pankaew (2014), Pongwiritthon and Utama-ang (2013)), 2) Communities (see Phaniijchanont et al. (2011), Kullanant et al. (2011), Krusakayawong (2012), and Munlerk (2013)), 3) Country (see for example Puntasenti (2008) and Mongsawad (2007)), 4) Agriculture (see for example Poohongthong and Uwanno (2009)), 5) Business (see Donkwa and Limpasirisuwan (2011), Ruenrom (2013), Muangme (2016), and Khewpairee (2017)), and 6) Education and Research (see Adireksombat and Sirichote (2011), Youngsathien (2016), and Suwannasook et al. (2017)).

9. A Comparison between Islamic Economics and Sufficiency Economy Philosophy

Unlike communism, both Islamic economics and SEP do not reject economic freedom, the principles of capitalism and globalization, but rather regulate the behavior of individuals and businesses via moral values. While the source of Islamic economics is from the teachings of Islam, SEP principles are from the sayings of King Rama 9th and his majesty's development projects. While the values stressed in the former are brotherhood, justice, and equality, the later encourages moderation, reasonableness, and self-immunity. Islam does not deny the fundamental economic problem of scarcity where the world has limited resources but humans have unlimited wants. It aims to solve this problem by controlling extravagance consumption, and at the same time, emphasize on the acquirement of knowledge and skills to use those resources efficiently or discover other alternatives. As stated in the first verses of the Quran:

“Read. Read in the name of thy Lord who created; [He] created the human being from blod clot. Read in the name of thy Lord who taught by the pen: [He] taught the human being what he did not know.” (96: 1-5).

As one of the main principles is moderation, SEP also highlights the avoidance of excess or extreme consumption. Along with knowledge, people's lives can be well prepared for changes and globalization.

The application of Islamic economics can be seen in various aspects. There are certain countries that fully apply the Islamic law and have a full Islamic finance system, for example, Libya and Iran, and most countries where they are applied partially and the Islamic financial institutions run alongside conventional counterparts, for instance, those in the Middle-East, Pakistan, Malaysia, Indonesia, and Brunei. In addition, many governments have established a *Zakat* fund and there are international organizations that operate based on the teachings of Islam like the Islamic Development Bank (IDB), which acts similar to the World Bank, and other institutions like the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and the Islamic Financial Services Board (IFSB) which aim to set international standards. The application of SEP can be clearly seen in Thailand where organizations have been established at various levels to promote the philosophy, the country's National Development Plan which incorporated SEP, and businesses or communities that have applied the King Rama the 9th sayings to their operations.

In short, we can say that Islamic economics is capitalism minus *haram* economic activities plus *Zakat* while SEP is capitalism governed by moderation, reasonableness, and self-immunity. Although the two conceptual frameworks may differ in certain details, but their ultimate goal is in consonance, that is, for sustainable economic development and harmony.

10. Economic Development Policies for Muslim Communities

The three Southern border provinces of Thailand, Pattani, Narathiwat, and Yala, or so-called the Deep South, have experienced unrest for many decades. The conflict can be explained via many factors including history, illegal activities, or discrimination by government officials. One cause that catches the attention of economists is poverty, inequality, and the lack of economic growth compared to other parts of the country which if taken care of,

could play a significant role in solving the unrest (Resosudarmo et al., 2016). The majority of the population in the Deep South is Muslim where Islam has an important role in their way of living. The Thai government aims to adopt development policies that take into account the traditions, cultural, and religious values of people in the region. It also plans to apply SEP to development projects in the area. Though the principles of SEP consist of Buddhist values and some details differ from those of Islamic economics, we analyzed earlier that their core values are consistent and can be applied together. Here we propose economic development policies for Muslim communities, specifically, the three Southern border provinces:

- The promotion of values such as sufficiency to decrease extravagant consumption, brotherhood to increase cooperation among community members, moderation or what is similarly called *Wasatiyyah* in Islam, and the significance of education, both formal and religious.
- Establish cooperatives based on Islamic finance as a source of funding for SMEs and to increase financial inclusion.
- Educate, via religious principles, the dangers of *Haram* consumption such as tobacco and alcohol to decrease health problems and government burden.
- Establish *Zakat* funds in villages as an instrument to decrease hoarding, reallocate resources, and lower poverty and inequality.
- Stressing importance of environmental consideration, as humans are caretakers of God's resources, in every process of development.
- The dissemination of knowledge and the importance of all aspects stated above can be done through mosques and religious leaders as they are an important part of the community and can act as a catalyst for change.

If successfully implemented, this will help create self-sufficiency within the region, increase economic well-being, and play a crucial part in solving the unrest.

11. Conclusion

Although the world's economy has experienced a lot of growth over the past decades, it seems that the benefits of that growth have not been divided equally. While many countries have seen their GDPs rise continuously, the income inequality has, however, increased too. The history of finance and banking has seen crises and recessions, pushing those near the margin to poverty. During the past decade, reports have shown protests at the world's financial centers where people are expressing their lack of confidence on governments' economic policies and the financial sector. The issue is, are we walking towards the right direction? Have what we learnt in our economic textbooks that growth leads to development been engineered in a sustainable way? Many are now talking and seeking for an alternative economic system, one that incorporates the efficiency aspects of a capitalism system while not forgetting an important character of the socialism; a fair distribution mechanism. One alternative system that should not be overlooked and is worth considering can be found in the teachings of Islam.

This article analyses the concepts and theories of Islamic economics. In order to understand it thoroughly, we compare with conventional economics and Thailand's sufficiency economy that incorporates the King Rama IX's philosophies and Buddhist principles. In Islam, an individual's utility function consists of two parts, utility in the present life and in the afterlife. His behavior in the former determines the rewards (or punishment) in the later. Hence, his resources are allocated towards the consumption of goods and services, and for religious expenditures such as *Zakat* payment. In addition, the set of choices are a subset to a conventional individual as he can only consume what is Halal, including investing in interest-free channels. Ethical and moral values play a role in determining economic behavior as individuals are connected through the concept of brotherhood. Though different in certain details, we find that the core principles of the sufficiency economy philosophy are consistent with Islamic

economics. Results help design economic development policies to increase self-sufficiency and sustainability for the three Southern border provinces of Thailand.

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Appendix: Islamic Deposit and Financing Products

There are two types of deposits, *Wadiah* and *Mudharabah*. The former is for customers looking for safe custody and convenience. The principle amount is guaranteed and, thus, customers may withdraw their balance at any time. The bank can use the deposit for investments but only at the consent of the customer. As a result, the bank, at its absolute discretion, does not guarantee a return but may give a small return to the customer (usually after it has distributed the returns to *Mudharabah* deposit holders). The later type of deposit is a *Mudharabah* or investment account. The bank receives deposits from those looking for investment opportunities. The bank acts as the entrepreneur and the customer as the capital provider. Both parties agree on the profit distribution ratio. In the case of a loss, the customer bears the loss. In short, an Islamic bank's deposit side is similar to a mutual fund.

An Islamic bank's financing offers various types of products to serve the different needs of customers. Here we only describe those that are widely used.

- *Murabahah* or *Bai Bithaman Ajil* (BBA) (buy-sale contract): used for retail financing where the bank first determines the requirement of the customer in relation to the manner and period of repayment. The bank then purchases the asset demanded and later on sells it to the customer at the agreed price which comprises the actual cost, the profit margin, and the period of the settlement paid by installments. All must be disclosed to the customer. An important term of this product is that the selling price cannot change throughout the financing period except if it is beneficial to the customer.
- *Musharakah* (joint venture contract): used for project financing, this product is based on the principles of profit sharing. The bank along with the initiator(s) of the project will provide the financing at an agreed ratio. All parties have the right to participate in the management of the project, but have the option to waive the rights. Profit is split bases on an agreed ratio which does not need to coincide with the financing proportion. The loss, however, is borne by all parties according to proportion of shares in financing.
- *Ijarah* or *Ijarah Thumma Al Bai* (AITAB) (lease-sale contract): applied in vehicle and equipment leasing where the customer identifies the asset to be leased. The bank then purchases the asset and leases it to the customer with monthly rental for an agreed time. At the end of the lease, the customer has an option to buy the asset to obtain the ownership.
- *Istisna* (order sale contract): used for financing infrastructure projects, the customer executes a construction contract with the contractor. Customer sells uncompleted asset to the bank. The bank then resells it back at a cost plus profit margin. Customer pays by installments over agreed period.
- *Salam* (Futures): used for agriculture projects to meet the demand of farmers who need money as their working capital as well as for living expenses. The farmer agrees to supply specific goods to the bank at a future date in exchange for advance payment. The bank acts as a middle person and sells the goods to the market. The bank makes a profit from buying at a price lower than a spot sale but shares the risk in finding a market to sale the goods.