

Justifications of avoiding Riba (Part VI): Incentives for trading

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Since trading money with money is forbidden under God's law, we are therefore left with one alternative, that is, trading goods with money. It is stated in the Holy **Quran**: "...That is because they say, trade is like interest. But God has permitted trade and forbidden interest", which reflects that God in a way is asking us to take another route for making things legal. In this article, MABROOR MAHMOOD will illustrate how people benefit from the trading of goods in order to understand God's wisdom behind encouraging us to trade goods with money.

Let us first define what we mean by trading of goods with money. We call something trading when we buy some goods from one party with money and sell these to another party with money with some profit.

One can sell this good to another party who might be a retailer, thus making the trader act as a distributor or agent. The trader might also opt to open his own shop to sell the goods directly to the ultimate customers, thus acting as a retailer.

Trading can also be done through goods with goods as was practiced in ancient times, but since barter trade is very uncommon nowadays, we are excluding this aspect from our discussion.

Now what are the benefits of trading of goods?

The first benefit for an entrepreneur is that one can generate quick capital with the help of trading goods without increasing his risk exposure. Trading goods do not involve manufacturing and thus many of the business risks are already avoided and passed to others.

Thus, a trader can benefit from only carrying the goods from one place to another and make good profit. This accumulated profit can be used later on to expand his business and also to invest in other ventures.

Trading is the first step in the manufacturing of goods. Through trading, a new entrepreneur gets first-hand knowledge about a new product, its cost structure, potential for profit, demand in the marketplace and its supply situation. Once knowledge of all these aspects has been gathered and analyzed, the entrepreneurs can quickly determine how much profit he would make if he manufactures such a product. Thus, a feasibility study on a new manufacturing business can be done at the lowest cost with the help of trading.

Trading helps people to understand the dynamics of the market, eg which products are selling well, gaps in supply, which products are highly profitable – all of which are valuable information that can be gathered by a trader very easily. Thus, he can alter his business strategy over time, which is not possible for someone who is not in the trading field.

Trading helps entrepreneurs to determine new business potential. If a trader generates a good amount of capital through his business and he locates a potential manufacturer producing a valuable product, then he might opt to buy out the business of that manufacturer with the capital he generates. Such acquisitions are very common in the business field.

Not everyone has all the knowledge and expertise to stay in the business. One manufacturer might be very good in production, but he might be poor in marketing. So if the trader has good marketing skills, joint venture initiatives can be launched to take the business to a new level.

Now let us see how the aforementioned benefits of trading have been utilized by businesses all over the world so far. We have analyzed the top 20 US business houses ranked in this year's Fortune 500 list and Table 1 shows how many of them are involved in trading.

Table 1: Businesses in top 20 of 2016 Fortune 500 list involved only in trading

Company Name	Type	Fortune 500 Ranking
Walmart	Retailing	1
McKesson	Distributorship	5
CVS Health	Retailing	7
AmerisourceBergen	Distributorship	12
Costco	Wholesale Trading	15
Kroger	Retailing	17
Amazon.com	E-commerce Trading	18
Walgreens Boots Alliance	Retailing	19

Source: www.fortune.com

Now you see, out of the 20 top conglomerates in the US, eight of them are involved only in trading goods, nothing else!

I believe everybody can now understand that there are good reasons why God prefers trading over **Riba**-based transactions.

(To be continued)

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