CHAPTER 5

Investment Instruments In Malaysia

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Malaysia has been a well-known country for championing the Islamic economy and finance sector for almost three decades since its first Islamic bank was established in 1983. According to the results of the State of Global Islamic Economy Report in 2022, Malaysia once again was listed at the top place in four out of six crucial Islamic sectors, including Islamic Finance, Halal Food, Muslim-Friendly Travel and lastly, Media and Recreation. Thus, Malaysia constantly becomes a pioneer and consultant many times to other countries in those related sectors. This is something that Malaysia can be proud of. Although the state of development in other achievements in Malaysia is not equivalent to many

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developed countries yet as in the Western hemisphere, Malaysia could provide relatively well in terms of information and activities that are based on the spirit of Shariah which follows the values of Islam, especially in Islamic economics and finance industry.

In 2022, DinarStandard, an international research institute supported by the state department of Dubai Economy and Tourism (DET), published its annual report on Islamic global economic ranking across 81 countries. For the 9th consecutive time, Malaysia has placed itself at the top spot for the overall ranking (State of the Global Islamic Economy, 2022). One of the reasons leading to this outstanding achievement is the heaven position for investment opportunities Malaysia offers, especially in terms of the Islamic finance industry. The report states that the total value of Islamic investment globally is USD 25.7 billion in 2021/22 with an increment of much as 118% y-o-y growth from the previous year.[8]

Out of this total Islamic investment, the majority, around 66.4%, comes from the Islamic finance-related industry. The rest of the portions, 15.5%, come from halal food, 8.0% from halal pharma, 5.0% from media, 4.9% from travel and 0.02% from others. This shows how huge the sector of the Islamic finance industry contributes to the portion of Islamic investment. This kind of increment is also assisted by the hike up in terms of the merger and acquisition (M&A) activities that record an amount to 210 M&A activities in 2020/2021 compared to 156 M&A activities in 2019/2020. The activities of M&A are deemed important, according to the report as it portrays an active investment activity among the businesses in the Islamic halal industry. Out of these M&A activities, three countries stood out the most: United Arab Emirates (UAE), Indonesia and Malaysia. Figure 5.1. below shows the highest number of Islamic investment values in hierarchical order in selected countries in 2020/2021.

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8 Such increment is high because several countries in 2019/20 were still in lock-down due to the covid-19 pandemic.

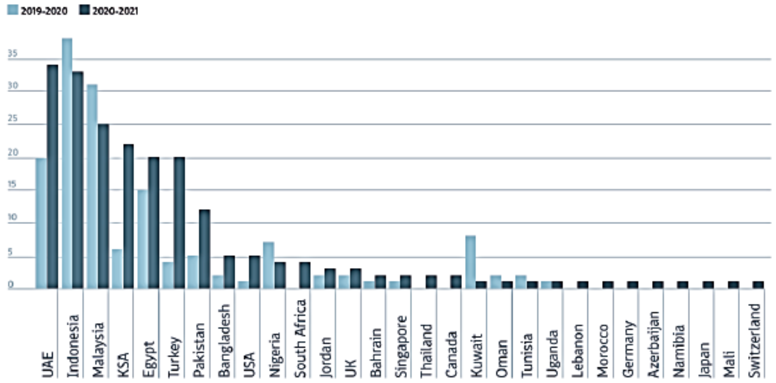

Figure 5.1.: Highest Amount of Islamic Investment Values in 2020/2021

Source: State of the Global Islamic Economy, 2022

Figure 5.1. above shows that Malaysia is the third country receiving the highest amount of Islamic investment values incorporating M&A activities, venture capital and private equity transactions in 2020/2021, after the UAE and Indonesia. In fact, according to the report, Malaysia has always been in the top 3 for many years in the past. All of these achievements are impossible without the strong support of the local investors, the regulators as well from many strategic international partners to ensure the successful growth of the Islamic economics and finance industry in Malaysia.

5.1. OVERVIEW OF MALAYSIA'S STOCK EXCHANGE

5.1.1. History

Almost every country will have its own stock exchange market. For Malaysia's case, its stock exchange is commonly known as Bursa Malaysia Berhad, a publicly listed company legally under the supervisory of the Security Commission, Ministry of Finance, Malaysia. Historically, Bursa Malaysia officially commenced its first formal security business in 1930 using the name of the Singapore Stockbrokers' Association. Later, in response to the increase in the size of the business operations, The Stock Exchange of Malaysia was established in 1964 and was further renamed The Stock Exchange of Malaysia and Singapore in the following years after the secession of Singapore from the Federation of Malaysia in 1965. The two entities were later separated in 1973 due to the cessation of currency interchangeability between Malaysia and Singapore. The Stock Exchange of Malaysia then changed its name to The Kuala Lumpur Stock Exchange (The KLSE).

In 1980, the Malaysia stock market exchange took a further leap by launching its new product, the Crude Palm Oil Futures contract (FCPO), to provide the global benchmark for crude palm oil. The futures contract is used by traders in the physical edible oil industries, biodiesel energy and commodity futures traders. Nowadays, the market has grown tremendously, and the FCPO of Malaysia has become the number one benchmark of reference in the crude palm oil futures market globally.

In 1986, KLSE made another leap by introducing its KLSE Composite Index and, later, in 1994, it shortened its name from The Kuala Lumpur Stock Exchange (The KLSE) to Kuala Lumpur Stock Exchange (KLSE). However, its first introduction to Islamic-based products began in 1997 with the announcement of its Shariah-compliant list of securities produced by the Shariah Advisory Council (SAC) of the Securities Commission of

Malaysia (SC). Such security lists are made by screening out the securities following the guidance of Shariah, which essentially addressed the issues of 3 basic elements, namely usury (*riba*), *maysir* (gambling) and *gharar* (uncertainty) and the avoidance of impermissibility items. One year later, the Kuala Lumpur Shariah Index (KLSI) is introduced due to investors' rising demand for Shariah-based securities. It is the benchmark for Shariah-complaint securities listed and traded in the Malaysia stock exchange market.

Further rebranding of the name was done again in 2004, changing its name from Kuala Lumpur Stock Exchange (KLSE) to Bursa Malaysia Berhad. The origin of the word *Bursa* is known in English as *bourse,* which denotes the stock exchange market essentially in Europe and outside of the United Kingdom (UK) ("Cambridge Dictionary," n.d.). Oxford Learners Dictionary, in addition, found the originality of the word originated from French, and it once resembled more of the stock exchange market in Paris. The term '*Berhad*' means limited liability, which reflects the company's limited liability by opening up a portion of its ownership shares to the public market. This process is called demutualisation of KLSE, based on the proposal of the Demutualisation of Kuala Lumpur Security Exchange 2003, according to the proposal written by the regulator, Security Commission (2003).

A further milestone of developments was shown in 2009 when Bursa Malaysia Berhad was able to capture the interest from Chicago Mercantile Exchange (CME) to improve the accessibility of its derivative markets internationally. In addition, CME bought a 25% equity stake in Malaysia Derivatives Berhad, and Bursa Malaysia Berhad still holds the remaining 75%. In the same year, the first-ever electronic end-to-end Shariah-based commodity platform in any Muslim country, Bursa Suq al-Sila, was launched. Such a launch was aimed to facilitate transactions of commodity-based financing and investment under the contracts of Tawarruq, Murabahah dan Musawamah to become easier. This has boosted many Islamic financial transactions in Islamic banks, Islamic investment institutions and others to comply further with the spirit of Shariah of grounding its base with the real economy, the commodity market.

In 2011, Bursa Malaysia participated in ASEAN Exchange, a collaboration among Bursa Malaysia, Hanoi Stock Exchange, Indonesia Stock Exchange, The Philippine Stock Exchange and Singapore Exchange and The Stock Exchange of Thailand. Such a launch was made further interlink the ASEAN capital market beyond the physical borders, levelling up the mobilisation of funds among the intra-ASEAN markets and intensifying the trading of equity activities among the countries in the region. Three years later, in 2014, Bursa Malaysia emerged as the first emerging market exchange to introduce the globally benchmarked Environmental, Social and Governance (ESG) Index. The index is called FTSE4GOOD Bursa Malaysia (F4GBM), which measures the performance of companies amalgamating strong ESG practices.

In short, the summary of the history of Malaysia's stock exchange market can be seen in Table 5.1. below:

Table 5.1. The Summary of the Malaysia Stock Exchange Market History

Year	Milestone/Events for Malaysia Stock Exchange Market
1930	Commenced the first formal security business in 1930 using the name of the Singapore Stockbrokers' Association
1964	The Stock Exchange of Malaysia was established
1965	Renamed to The Stock Exchange of Malaysia and Singapore due to accession of Singapore from Malaysia
1973	Separation of The Stock Exchange of Malaysia and Singapore. The Stock Exchange of Malaysia then changed its name to The Kuala Lumpur Stock Exchange (The KLSE).
1980	Crude Palm Oil Futures contract (FCPO) was introduced
1986	KLSE Composite Index was introduced
1997	Shortened the name from The Kuala Lumpur Stock Exchange (The KLSE) to Kuala Lumpur Stock Exchange (KLSE)
2004	Changed the name from Kuala Lumpur Stock Exchange (KLSE) to Bursa Malaysia Berhad through Demutualisation (KLSE) Act 2003
2009	Collaborated with Chicago Mercantile Exchange (CME) to promote its derivate market competitively at the global level. Also, the first ever electronic commodity trading platform in the Muslim countries to facilitate Islamic finance and investment transactions, Bursa Suq al-Sila, is established.
2011	Participated in ASEAN Exchange involving many exchange markets in the ASEAN region
2014	Introduced the globally benchmarked Environmental, Social and Governance (ESG) Index - FTSE4GOOD Bursa Malaysia (F4GBM), which measures the performance of companies exhibiting strong ESG practices.

Source: *bursamalaysia.com*

5.1.2 Current Development

Nowadays, Bursa Malaysia is now a different and one of the most successful market exchanges among the emerging countries and one of the best in the Muslim world, proven through the miscellaneous recognitions and awards that it has achieved. In terms of products, there are many more of them which have been traded in the platform market at Bursa Malaysia Berhad. Its diverse product range includes equities, derivatives, offshore and Islamic assets as well as Exchange Traded Funds (ETFs), Real Estate Investment Trusts (REITs), Exchange Traded Bonds and Sukuk (ETBS) and plenty more others.

As the platform itself, Bursa Malaysia offers diverse means to both the investors and investees while using the medium to facilitate them and let the users be able to enjoy the best satisfactory experience there. If one dives into the platform, different platforms are customized for each product mentioned above. As an example, for the ty stock side, which is the main business of the Bursa Malaysia Berhad, it provides three main platforms which are the Main Market for established large-cap companies, the ACE Market (Access, Certainty and Efficiency Market) for emerging companies of all sizes, or the LEAP Market (Leading Entrepreneur Accelerator Platform Market) for up-and-coming SME companies to raise their funds. Previously, it only provided two mediums: the Main Board and the Second Board.

The size of the equity traded in the Main Market has also levelled to a sizeable value in these recent decades. Based on the report by Bursa Malaysia Securities Berhad, the total market capitalisation traded on the board reached RM1.81 trillion in 2020 as compared to only RM131 billion in the previous three decades in 1990. The growth rate is 7% per year over the span of 30 years. Also, the total number of listed companies has increased over the same period from only 285 companies in 1990 to 936 companies in 2020 with an annual growth rate of 7.61%. Out of these amounts, according to the 2021 annual report of the Securities Commission (SC), there is as much as around RM1.24 trillion or 68.51% out of the total RM1.81 trillion, which belongs to the market capitalisation of Islamic securities. For the number of entire listed companies, the number of Shariah-compliant list companies is 742 or 79.21% out of those 936 companies.

Table 5.2. The Information of The Yearly Turnover Values (RM Million), Number of Listed Companies and the Total Market Capitalisation of the Market (RM Billion).

Period	Turnover (RM million)						No of the Listed Companies	Market Capitalisation (RM billion)
	Main Board	Second Board	Main Market[1]	ACE Market	Total	Daily Average		
1990	29,303.00	218.00	-	-	29,521.60	121.00	285	131.66
1991	29,249.00	848.00	-	-	30,096.50	121.00	324	161.39
1992	49,187.00	2,282.00	-	-	51,468.50	208.00	369	245.82
1993	372,634.00	14,642.00	-	-	387,275.50	1,555.00	413	619.64
1994	318,251.00	9,806.00	-	-	328,057.40	1,323.00	478	508.85
1995	157,908.00	20,877.00	-	-	178,859.10	736.00	529	565.63
1996	278,138.00	185,061.00	-	-	463,264.50	1,868.00	621	806.77
1997	299,596.00	108,958.00	-	-	408,558.40	1,647.00	708	375.80
1998	100,610.00	14,571.00	-	-	115,180.50	468.00	736	374.52
1999	171,500.60	13,748.90	-	-	185,249.50	747.00	757	552.69
2000	211,806.10	32,248.20	-	-	244,054.30	911.00	795	444.35
2001	75,466.71	9,545.30	-	-	85,012.00	349.84	812	464.98
2002	102,566.40	14,171.90	-	-	116,951.40	471.58	865	481.62
2003	141,660.80	35,514.90	-	-	183,885.80	747.50	906	640.28
2004	180,408.30	24,948.00	-	-	215,622.80	873.27	963	722.04
2005	157,445.35	12,288.44	-	-	177,321.07	716.91	1021	695.27
2006	205,180.52	16,585.19	-	-	250,641.02	1,018.87	1027	848.70
2007	483,352.56	21,924.09	-	-	540,173.08	2,345.70	987	1,106.15
2008	279,368.91	5,348.75	-	-	289,249.51	1,277.89	977	663.80
2009	277,176.28	3,787.47	114,645.01	1,704.51	280,022.53	1,220.92	960	999.45
2010	-	-	351,823.24	3,580.68	360,567.91	1,573.88	957	1,275.28
2011	-	-	402,997.61	7,243.58	416,150.86	1,566.12	941	1,284.54
2012	-	-	368,276.49	12,233.87	385,295.06	1,667.49	921	1,465.68
2013	-	-	458,514.91	12,762.73	473,078.20	2,157.19	911	1,702.15
2014	-	-	475,312.35	26,407.90	504,991.17	2,161.80	906	1,651.17
2015	-	-	443,414.93	31,449.02	489,782.19	1,996.10	903	1,695.17
2016	-	-	421,492.10	13,687.22	445,868.84	1,808.80	904	1,667.37
2017	-	-	526,836.40	28,425.35	562,337.03	2,310.63	905	1,906.84
2018	-	-	536,218.16	19,067.10	581,279.06	2,406.69	915	1,700.37
2019	-	-	429,908.03	20,630.70	470,962.42	1,929.08	929	1,711.84
2020	-	-	835,081.42	173,184.41	1,044,144.41	4,231.72	936	1,817.29

[1] *Starting on 3rd August 2009, the FTSE Second Board merged with the Main Board to become the Main Market*

Source: *Central Bank of Malaysia, taken from Bursa Malaysia Securities Berhad (BMSB).*

All of these achievements do not turn out to be for anything. Through it, many organisational bodies have noticed the significant positive changes in Bursa Malaysia and have started to award the exchange market with many recognitions either globally or locally. Up to date, Bursa Malaysia has bagged many outstanding awards since its early establishment until today, especially in terms of the development related to the trading activities in Islamic-based equities. The market has known as among the best among the Muslim countries and also in the ASEAN region. According to its website, which recorded many of the recent awards received, Bursa Malaysia has won 3 awards of the Best Stock Exchange for Islamic Listings by Islamic Finance News (2018, 2021 and 2022), three awards for the Best Islamic Exchange by Global Islamic Finance Awards (2015, 2016 and 2017) and the most Outstanding Islamic Finance Product through its Bursa Suq al-Sila trading platform (2009).

At the same time, it also has won much high transparency and corporate governance awards including Regulation Asia Awards for Excellence (2021), four Asean Corporate Governance Scorecard Awards (2015, 2017, 2018 and 2019), the best Outstanding Corporate Governance in the Asia Pacific (2011) and the Best Ranked Corporate Governance by Industry (Financials) by IR Global Rankings (2008, 2010 and 2011) and five times MSWG Malaysian Corporate Governance Index award (2008, 2009, 2010, 2011 and 2013). As one can see, most of those awards come from the recognition from international organisations, and only the last awards come from the country itself. This portrays the seriousness of Bursa Malaysia Berhad to pursue the aim of being the leader in the Islamic equity market in the global world and, at the same time, to maintain its competency and due diligence in the governance of such a market. All those values are encouraged by Islamic values, which should be followed by all other equity markets, especially those claiming to follow the Shariah-based teachings.

5.2. HOW ARE ISLAMIC FUNDS MANAGED?

5.2.1. About Islamic Fund

An investment fund, also known as a collective investment scheme (CIS), is a way of using pooled money from investors to invest in preferable investment schemes following the objective of the pooled fund that is being set up (Muhammad et al., 2015). There are different names given to investment funds based on other countries. The names include unit investment trusts, unit trusts, collective investment vehicles, collective investment schemes, mutual funds or simply, funds. Generally, Islamic investment fund also shares the same concept of the like of conventional fund. However, it follows the Shari'ah adherence. Putting the differences aside, the Islamic investment funds still follow the same concept where it is a pooled fund and aims to optimise the return by following its fund's objectives that have been set up.

Accordingly, the Accounting and Auditing Organization of Islamic Financial Institutions (AAOFII), an international body of an autonomous, non-profit corporate body which sets up the guidelines for Shariah standards in Islamic finance and accounting, defined investment funds as:

"Funds are investment vehicles, which are financially independent of the institutions that establish them. Funds take the form of equal participating shares/units, representing the shareholders"/unit holders" share of the assets, and entitlement to profits or losses… Because funds are a form of collective investment that continues throughout their term, the rights and duties of participants are defined and restricted by the common interest since they relate to third parties' rights. Hence, in cases where the fund is managed on the basis of agency, the shareholders/unit holders waive their right to management redemption or liquidation except in accordance with the limitations and conditions set out in the statutes and by-laws. (Financial Accounting Standard No. 14, Investment Funds, Appendix B).

5.2.2. History of Islamic Fund in Malaysia

Historically, Malaysia has geared towards the effort of establishing an Islamic-based fund since the 1960s through the idea of a local economist, Prof Diraja Ungku Abdul Aziz, via his well-thought proposal to set up an institution that can pool savings from the Muslims to perform the pilgrimage at Mecca which is written in 1959. Due to that, a law passed in 1963 that allowed the establishment of an institution to collect future pilgrimage participants' funds called Prospective Hajj Pilgrims Savings Corporation (Perbadanan Wang Simpanan Bakal-Bakal Haji, PWSBH). Many new refinements have levelled up the institution throughout the years until the fund management institution for Islamic pilgrimage has gained various international recognitions and sent thousands of pilgrimage participants with total collected deposits of RM70 billion from 8.6 million people. The institution is now called Lembaga Tabung Haji (Malaysian Hajj Pilgrimage Fund).

In the 1990s, when the resurgence on Islamic-based financial industries tremendously raised up many demands among the investors, especially in the Islamic securities market, the Securities Commission (SC) Malaysia rigorously helped in terms of providing many facilities, guidance and acts that ease the Muslim investors to invest in Shariah-compliant instruments. When SC produced the list of Shariah-compliant securities in the equity market in 1997, many fund management industries followed the same by promoting Islamic-based investment fund management. Thus, whenever SC produces an Islamic index for the securities market, the Islamic fund management industry will also do the same by producing more Shariah-based funds to satisfy the uprising of the demand among the locals.

According to the Islamic Capital Market book by International Shariʿah Research Academy for Islamic Finance (ISRA) by Muhammad et al. (2015), the progress of many Islamic-based investments including Islamic fund management in Malaysia is influenced largely by two factors which are the domestic demand and the support from the legal framework. In 1993, Malaysia witnessed the first establishment of two of its trust funds. Due to its face past in developing a Shariah-based framework for fund management, Malaysia has constantly become the host and leader of the world's and region's first guideline for REIT in 2005, the world's first Islamic real estate investment trusts (REITs) in 2006 and the world's first exchange-traded funds (ETF) in 2008. Nowadays, the variety of Shariah-compliance funds in Malaysia has increased significantly to provide different choices for different investors, either locally or internationally.

5.2.3. How is Islamic Fund Managed in Malaysia

In general, Malaysia follows the same requirements and guidelines which is promoted by Shariah teaching. Those guidelines are

1. To set up a Shariah Supervisory Board (SSB).

   The requirement to have a Shariah advisory board is for the management to equip itself with Shariah advisors who can oversee and evaluate the fund's activities in the process of making it Shariah-compliant. Some jurisdictions, followed by Malaysia, make this as a requirement rather than only having individual Shariah advisors. Central Bank of Malaysia (BNM) as an example in its Shariah Governance Framework (SGF), puts an obligation for any Islamic fund management institution to have at least five members in their Shariah Supervisory Board (SSB),

2. Shariah Screening

   It is an activity that identifies whether the fund's activities are involved in any non-Shariah compliant matters. If there is one, it needs to be excluded if the core businesses are based on manufacturing or trading non-permissible goods or if the major portion of the revenues is generated from prohibited activities (Hassan, 2007). The way the screening process is done will follow the decisions of the elected shariah scholars at SSB. In Malaysia, the guidelines are based on the regulations and advice of the Shariah Advisory Council (SAC) of the Securities Commission (SC).

3. Purification of Income Earned

   Purification here refers to the income received from the permissible percentage of varied activities allowed by the SSB after following the guidelines of SAC. It is to be noted that the SAC allows few tolerable rates of income received from diverse activities as one can read from its Shariah guidelines on the Securities Commission Malaysia website. Thus, the purification process is done by two methods. Firstly, it is done by deducting the percentage of tolerable mixed activities with the profits before it is distributed as dividends or returns to the investors. For example, if the permissible rate is 5%, then the same amount will be deducted from the profit of the investments. This cannot be considered as *zakah* or *sadaqah;* however, it is more like *tawbah* (Muhammad et al., 2015). Secondly, the purification process can also be done through moral actions, where the investors vote out the impermissible activities in the fund investment.

4. Payment of Zakat

5. After reaching its haul and nisab, the Islamic fund must pay its zakat amount to the respective Islamic zakat collection bodies.

6. Any Islamic fund in Malaysia must be registered with the Securities Commission (SC) Malaysia regarding regulatory requirements. The regulatory body of the government of Malaysia has issued the Guidelines on Islamic Fund Management under section 377 of the Capital Markets and Services Act 2007 (CMSA). These guidelines prepared the requirements that any Islamic fund manager needs to

adhere to. Some of the guideline touch on the main issues as follows:

1. Appointment of Shariah Advisor
2. Employees' Competency
3. Portfolio Management
4. Written Disclosure and Declaration
5. Internal Audit
6. Islamic Fund Management Business Via Islamic "Window"
7. Others.

5.3. HOW ARE THE BUSINESS ESTABLISHMENT AND TAXATION SITUATIONS IN MALAYSIA?

Issues on business establishment can be divided into different categories depending on the size of the establishment. For example, under the category of MSMEs (micro, small and medium enterprises), which is now a widely used category of business entity categorization in Malaysia, the challenges, future prospects and natures on how they work are different compared to the large company. In fact, even a micro size of business entity will have entirely different issues that they will have to face compared to the other two categories, which are small and medium enterprises.

In discussing the situation of business establishment in Malaysia in general, as one can see the similarity with many other countries like China, Indonesia, Singapore and Japan, which have more than 95% of MSMEs as part of their total business establishments, there is as much as 97.4% (2021) of business establishment in Malaysia, that contributes around 38.2% to the overall GDP. The rest of 2.6% out of the total business establishments in Malaysia is the large company category. The percentage of MSME and large business establishments out of the entire registered business entities can be seen in the table below (Table 5.3) as a comparison between Malaysia and other countries.

Table 5.3. The Selected Countries with the Percentage of MSMEs and Large Business Entities out of the Total of the Registered Business Establishments

No.	Country	Percentage of MSMEs out of the Total Registered Business Entities	Percentage of Large Business Entities out of the Total Registered Business Establishment	Year of Data Collection
1.	Malaysia	97.4%	2.6%	2021
2.	China	99.8%	0.02%	2018
3.	Indonesia	99.9%	0.01%	2018
4.	Singapore	99%	1%	2019
5.	Japan	99.7%	0.03%	2016
6.	USA	99.9%	0.01%	2019
7.	Thailand	99.79%	0.21%	2018
8.	India	95%	5%	2019
9.	UK	99.9%	0.01%	2019
10.	Germany	99.5%	0.05%	2018

Source: SME Malaysia Report, 2019/2020 and SME Corporation Malaysia's website

It can be seen from the table above that majority of those countries including Malaysia have MSMEs categories of business entities as the biggest component rather than large companies, which are a very small number. However, do note that the numbers only reflect the registered business entities and do not yet include the unregistered business entities in Malaysia, though the number is unknown.

Since MSMEs form almost a hundred per cent of the portion of the total registered business establishments, we can simply analyse the data of these registered MSMEs to gain further the overall pictures of the business situation in Malaysia. According to the official statistics given by SME Info Malaysia on its website, the MSMEs, which comprise 97.4% out of the total registered business establishments in Malaysia, have contributed around RM512.8 billion or 38.2% of the share of GDP in Malaysia in 2021, while also employ 7.25 million (48%) workers in the country. The total number of those MSMEs is 1,226,494 million business establishments in the year 2021.

In term of the sectors classification, the majority of MSMEs business entities are in the service sector (83.9% or 1,028,403 entities) followed by construction (8.0% or 98,274 entities), manufacturing (5.8% or 71,612 entities), agriculture (1.9% or 23,633 entities) and lastly mining and quarrying (0.4% or 4,572 entities).[9] The information perhaps can be summarized into an infographic picture as per below (Figure 5.2).

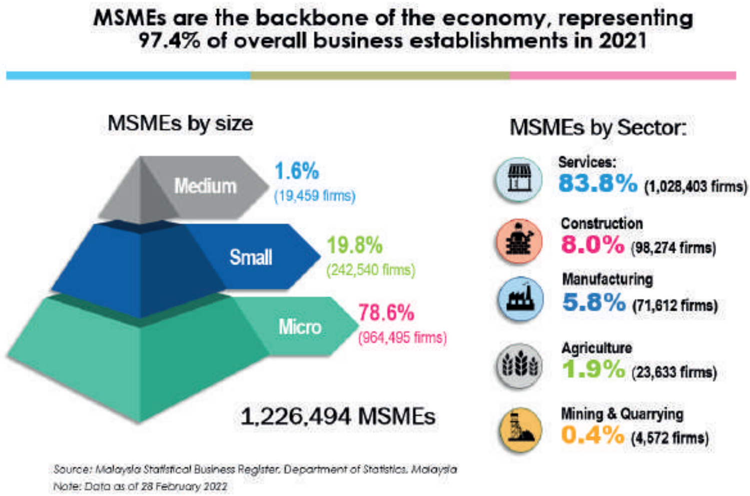

Figure 5.2.: The numbers of MSMEs business establishments and the sectors they are in.

Source: SME Info (Malaysia) website.

9 The SME Info website is https://www.smecorp.gov.my/index.php/en/policies/2020-02-11-08-01-24/sme-statistics

Concerning the taxation issues in Malaysia and business establishments, the tax imposed towards them, called a corporate tax, makes the biggest portion of the government revenue from the tax collection amount nowadays. A quick glance at the Ministry of Finance (MoF) report in 2021 may allow us to have a deeper insight into this.

Through the Inland Revenue Board of Malaysia (Lembaga Hasil Dalam Negeri, LHDN), the government collects the tax annually from the business entities from their declared or reported profits. In general, the collection of taxes by the government in 2020, the official ministry report shows that corporate tax makes as high as 26.1% out of the total collected tax, as compared to individual tax with 15.8% and indirect tax like Sales and Services Tax (SST) with 10.8%. The rest of the tax collection, also known as tax revenues, are as follows:

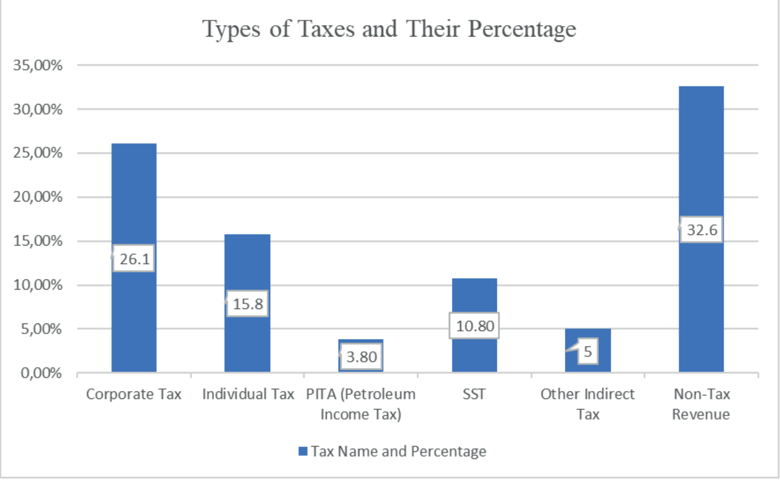

Figure 5.3.: Types of Taxes and Their Percentage in Malaysia for the year 2020

Source: The figures are exactly taken from the report by the Ministry of Finance 2021.[10]

10 The report can be accessed freely at Ministry of Finance Malaysia website: https://www.mof.gov.my/portal/arkib/hasil/h_main.html

Since corporate tax constitutes the biggest segment out of the total collection of taxes, which amounted to RM64.6 billion (Ministry of Finance, 2021), it shows how important the business entities are in Malaysia, especially the well-being of MSMEs, which is the major portion of the registered establishments. Originally, the Goods and Services Tax (GST) introduced in 2015 formed the biggest share in the percentage of tax collection before it was replaced by SST back in 2018. However, corporate tax still stood as the second largest tax collection by the government, which shows how pertinent the well-being of business entities is in Malaysia. The need for them to run healthily and encouragingly will elevate the tax revenues to be collected by the government to fund its fiscal policies.

Scrutinizing further on the structure of corporate tax towards the business entities, the rates are as follows:

Table 5.4.: The Different Corporate Tax Rates Based on Initial Paid-Up Capital and the Year of Assessments.

TYPES OF ASSESSMENT	**YEAR OF ASSESSMENT**			
	2009-2015	**2016**	**2017 - 2018**	**2019**
Paid-up capital until RM2.5 million at the beginning of basis year				
• First RM500,000 of taxable income	20%	19%	18%	17%
• The rest of taxable income	25%	24%	24%	24%
Paid-up capital of more than RM2.5 million at the beginning of the basic year	25%	24%	24%	24%

Source: Inland Revenue Board of Malaysia (Lembaga Hasil Dalam Negeri, LHDN)

As one can see, the rates of taxable corporate income are changing based on, firstly, the amount of beginning of the paid-up capital and secondly, the year of assessments. The first reason is relevant due to the progressive nature of the tax, whereby those with a higher initial of paid capital will need to pay more towards the government. In addition, the second reason is due to the fiscal policies of the government in order to influence the activities of the business entities. If the government feels the need to boost business activities in the economy, it will cut the tax rate to elevate their morale. Otherwise, if the government feels the need to reduce inflation and outputs in the economy while increasing the collection of tax revenues, it will simply hike up the tax rate.

5.4. WHAT IS THE STATUS OF FOREIGN INVESTMENTS IN MALAYSIA?

According to the Department of Statistics Malaysia (DOSM), which follows the classification standard of international investments by the International Monetary Fund (IMF), foreign investment in Malaysia can be classified into three major classes: firstly, direct investment, secondly, portfolio investment and lastly, others like financial derivatives. These classifications have different meanings and purposes in making Malaysia a competitive hub for foreign investment in Asia.

According to Investopedia, foreign investment means any capital flows from one country to another that gives extensive ownership of the foreign investor over any domestic companies or assets (Chen, 2020). Meanwhile, when one discusses on direct investment, Foreign Direct Investment (FDI) is the most notable component of it where it is the centre of the discussion when discussing under such a topic. OECD has set up a good benchmark of FDI definition as "a category of cross-border investment made by a resident in one economy (the direct investor) to establish a lasting interest in an enterprise (the direct investment enterprise) that is resident in an economy other than that of the direct investor ("OECD Benchmark Defin. Foreign Direct Invest.," 2008). Thus, it differs from a portfolio investment that only aims to gain some equity for profits and not partial ownership control over the local businesses and assets.

In Malaysia's context, for a foreign investment to be classified as an FDI, Department of Statistics Malaysia (DOSM) outlines the definition as follows:

FDI refers to investment in the form of financial instruments, namely equity capital, reinvested earnings and other capital (inter-company loans, trade credit, advances, etc.) by foreign direct investors in their direct investment enterprises in Malaysia. A direct investor is a foreign entity (individual or company) that owned, either directly or indirectly, at least 10 per cent of the equity capital (in the form of ordinary shares or voting power) of an enterprise in Malaysia. (Department of Statistics Malaysia, n.d.)[11]

This broad definition includes the old understanding that an FDI should physically invest their assets in the domestic region of another country and the new term where the foreign investor's investment must partake at least 10% of the equity capital of an enterprise in Malaysia. This also aligns with the definition given by IMF and OECD in their guidelines.[12] The opposite term for an FDI is Direct Investment Abroad (DIA), where local investors purchase at least 10% of other countries' local businesses and assets to control them partially. The net of these two values will give either a positive or negative direct investment in the country. If the value of the inward flow of investment which is the FDI is higher than the outward flow of investment, which is DIA, then the value of the investment is positive, or vice versa.

To obtain a clearer picture, DOSM constantly reports in its quarterly International Investment Position (IIP) regarding all of these accounts. Generally, Malaysia has done quite a remarkable job in attracting foreign investments to the country, either in terms of Foreign Direct Investment (FDI), Portfolio Investment and other investments. Figure 4 below shows the amount of FDI flows and the position of FDI (at the end of each year's 4th quarter) both yearly (beginning from the year 2005) and quarterly (starting from the Q1 2019).

11 The definition can be found at its official website. The link is: https://www.dosm.gov.my/v1/index.php?r=column/cone&menu_id=aGlSeWc4WnB5NmVxZT-VEV3phZXF3UT09

12 The guidelines for IMF is called Balance of Payments and International Investment Position Manual, Sixth Edition (BPM6) and for OECD, while basing it to the IMF original standard, is called OECD Benchmark Definition of Foreign Direct Investment

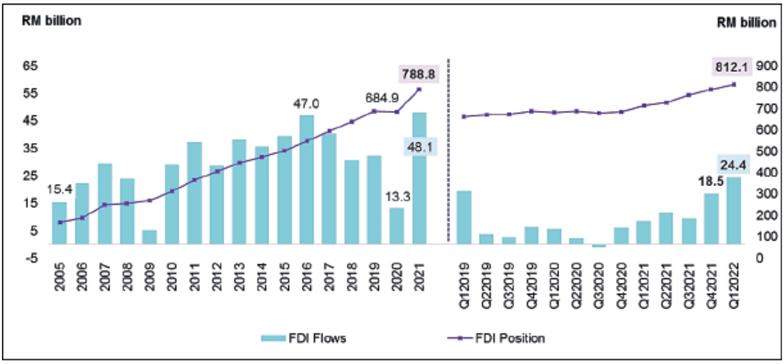

Figure 5.4.: The FDI Inflows and The Position Yearly And Quarterly.

Source: Department of Statistics Malaysia (DOSM)

The graph above is derived from the series of FDI as per below as in Table 5.5.

Table 5.5.: The Years and FDI Net Inflows from The Year 2001 Until 2021.

Year	Net Flows *(RM million)*	Investment position *(RM million)*
2001	2,105	129,093
2002	12,173	142,661
2003	9,398	156,514
2004	17,572	163,578
2005	15,396	168,057
2006	22,230	189,676
2007	29,545	250,509
2008	23,925	254,955
2009	5,121	270,517
2010	29,183	313,346
2011	37,325	365,558
2012	28,537	405,696
2013	38,175	446,377
2014	35,600	474,614
2015	39,377	501,067
2016	47,025	547,426
2017	40,419	595,497
2018	30,741	639,713
2019	32,364	687,781
2020	13,281	684,949
2021r	48,144	788,755

r: revised

Sources: Statistics of Foreign Direct Investment in Malaysia, Department of Statistics Malaysia (DOSM)

As one can see, the status of the FDI inflow in Malaysia is as much as RM48.1 billion, the highest value in almost 17 years since 2005. As compared to the year 2020, the FDI inflow is only at low at RM13.3 billion, considering the pandemic of Covid-19, which forces many countries to be in a state of restriction of movement, which is called Malaysian movement control order (MCO). The net inflow is also increasing throughout the years, from an average of RM 11 billion for the first five years from 2001 – 2005 to an average of RM 33 billion for the last five years from 2017 – 2021.

In 2021, the countries that are the top foreign investors originated from the United States of America (USA) with RM15.7 billion, followed by Singapore with RM9.0 billion and lastly United Kingdom with RM4.7 billion. In terms of region, the Asian region registered the highest FDI in Malaysia with the amount of RM22.5 billion, followed by the American region with the amount of RM18.4 billion and lastly, the European area with the amount of RM5.9 billion. The sectors that they are the majority in the manufacturing sector with RM29.5 billion (61.4% of total FDI in 2021), followed by the services sector with RM12.0 billion (24.9% of total FDI in 2021) and mining and quarrying with 5.8 billion (12.1% of total FDI).

Few prominent FDI brands that have constantly invested in Malaysia include al-Rajhi Bank, HSBC, Standard Chartered Bank, Intel, B. Braun, Panasonic, Sony and ExxonMobil.

The data for other foreign investments like portfolio investments is not available to the public due to its unpopularity. However, as per the first quarter of 2021 (Q4 2021), the amount of portfolio investment in terms of asset rise to RM578.9 billion from the previous quarter (Q3 2021) with only RM568.1 billion. Of these, 82.8% comes in the form of equity and investment fund shares, and 17.2% are in the form of debt securities. At the same time, the net liabilities of the portfolio investment account reduced to RM107.7 billion (Q4 2021) from RM117.0 billion in the previous quarter (Q1 2021).

5.5. WHAT ARE ALTERNATIVE INVESTMENT TOOLS IN MALAYSIA?

As a Muslim country that is well-known for its dominance in the global Islamic finance industry and, at the same time aiming to be a high-income nation sooner, Malaysia offers miscellaneous alternative Islamic investment tools in its vast financial market. A quick search on the website for available investment instruments in Malaysia will show us as many as 16 alternative instruments as per below:

Table 5.6.: The Types of Selected Alternative Islamic Investment Instrument in Malaysia.

No.	**Name of Investment**	**Categories**
	Islamic Term Deposit	Deposit (*Tawarruq*)
	Amanah Saham Nasional Berhad	Investment (unit trust)
	Amanah Saham Bumiputera	Deposit (equity shares)
	Tabung Haji	Deposit (*wakalah*)
	Islamic Unit Trusts	Investment (unit trust)
	Islamic Blue-Chip Stocks	Investment (equity)
	Islamic Real Estate Investment Trust	Investment (real estate investment trust)
	Islamic High *Hibah* Savings Account	Deposit (*Tawarruq*)
	Islamic Exchange Traded Funds (ETF)	Investment (tradable unit trust)
	Shariah-Based Employee Provident Fund (EPF)	Deposit (*wakalah*)
	Islamic Stocks	Investment (shares)
	Sukuk	Investment (*sukuk*)
	Islamic Equity Crowdfunding	Investment (equity crowdfunding)
	Islamic P2P Lending	Investment (*tawarruq*)
	Islamic Gold	Investment (gold)
	Islamic Private Retirement Scheme (PRS)	Investment (unit trust, term deposits, etc.)

Source: Collection from many websites in the Google search

When one looks originally from the teaching of Shariah, the term investment here refers to the non-guaranteed capital for one to be eligible to receive a return from its investment. Investment in Islam, which is termed as *Istithmār* (اِستثمار), refers to any activities which increase the wealth or revenues out of the invested fund (al-Mausu'ah al-Fiqhiyyah, 2003). The term also has similarity with the word *Istighlal* (اِستِغلاَل), which means exploitation which refers to good management of resources intending to produce profits out of it (Al-Masri, n.d.). However, it must follow the principles of the legal maxim *al-ghunm bi al-ghurm* (الغنم بالغرم), which means, "reward begets risk" (Majallah, no.87, as cited by Saiti & Abdullah, 2016) or the principle can be translated as 'with gains, there should be a risk with it'. In other words, the principle teaches that a capital is not supposed to be guaranteed if one deems for a return out of his/her investments.

However, in the practical world, the term investment refers to anything that allows the investee to gain the return out of their invested funds after a stipulated time, as long as it follows the Shari'ah adherence, regardless of the name given towards the contracts and the types of products. Such definition is commonly used in the laymen term when they are looking for any instruments to invest their surplus of funds. Thus, some deposit-type investment products under wadi'ah (safekeeping) or wakalah (agent) contracts will also allow the depositors to gain a return. However, the return is called as *hibah* (gift) or dividend and not as 'interest' due to encouragement given to the depositors to keep their funds within Islamic banks/institutions to compete with conventional competitors. Also, at the same time, this will boost the growth of those Shariah-compliant financial institutions in the future since the market is relatively small as compared to the non-Shariah compliant financial industries.

This is the same practice that happened in many Muslim majority countries like Indonesia, Nigeria and many of the gulf countries, too, as it already gains permission from the well-known Shariah advisory bodies, including the Shari'ah Advisory Council

(SAC) of Bank Negara Malaysia (BNM), Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), and Dallah Al-Baraka (DAB) (Ishak et al., 2021).

Thus, in general, there are vast options of alternative Shariah-compliant investment instruments available in Malaysia, as listed above with as many as 16 options in Table 5.7. The list is not exhausted yet due to many other Shariah-compliant investment instruments that are not there due to their unpopular demand in the market. The credit should be given to the hard work of the committed regulatory bodies of Malaysia, the researchers, and the strong requests from the local and international investors alike who have made the growth of the Islamic finance industry in Malaysia escalates to a new record constantly.

If one would like to categorize these alternative investment instruments with their potential rate of returns and riskiness, the list will become as follow in the Table 5.7 below:

Table 5.7.: Investment Instruments in Malaysia and their Categories of Risks and Return.

No.	Name of Investment	Categories of Risk and Return
	Islamic Term Deposit	Low
	Amanah Saham Nasional Berhad	Moderate
	Amanah Saham Bumiputera	Low
	Tabung Haji	Low
	Islamic Unit Trusts	Moderate - High
	Islamic Blue-Chip Stocks	High
	Islamic Real Estate Investment Trust	Moderate - High
	Islamic High *Hibah* Savings Account	Low
	Islamic Exchange Traded Funds (ETF)	Moderate - High
	Shariah-Based Employee Provident Fund	Low
	Islamic Stocks	High
	Sukuk	Low - Moderate
	Islamic Equity Crowdfunding	High
	Islamic P2P Lending	Medium - High
	Islamic Gold	Medium - High
	Islamic Private Retirement Scheme	Medium

Since any investment products follow the same principle of risk and return where they are proportionally correlated to each other, we can simply believe that those products with low risks (capital guaranteed) will lead to low returns and vice versa. The investment types that are capitally guaranteed like deposit-based instruments and the majority of the *sukuk*-based instrument, especially from the government, will lead to low risk. Thus, accordingly, the expected return will also become lower. Similarly, with any investments which are not capitally guaranteed like unit trust, P2P lending, gold and shares, they contain way higher risks and as a consequence, higher expected returns.

Examples of those products are:

1) Bank Islam Term Deposit-i (Tawarruq)

Category: Islamic Term Deposit

2) PMB Shariah Premier Fund

Category: Unit Trust

3) Petronas Gas Bhd or PETGAS

Category: Blue chip shares

4) Al-Salam REIT

Category: Islamic Real Estate Investment Trust

5) MyETF Dow Jones Islamic Market Malaysia Titans 25 or MyETF-DJIM25

Category: Islamic Exchange Traded Fund

6) Ethis Malaysia Equity Crowdfunding

Category: Islamic Equity Crowdfunding

7) microLEAP - Peer-to-Peer (P2P) Islamic Financing

Category: Islamic P2P Lending

8) Maybank Islamic Gold Account-i or MIGA-i

Category: Islamic Gold

9) CIMB Islamic PRS Plus

Category: Islamic Private Retirement Scheme Investment)

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