Islamic Finance and Banking in Malaysia In 33 Questions For Beginners

Editors: Yavuz Turkan • Dzuljastri bin Abdul Razak
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PREFACE

In the name of my Lord, al-Rahman (the Most Gracious) and al-Raheem (the most Merciful), al-Hayy, al-Qayyoom, al-Adl, al-Hakam, al-Fard (Single) and al-Quddus.

The concept of Islamic Finance and Banking has been created and named based on the religion of Islam and clearly is connected to Islam, which was revealed by Allah *swt* to the whole of humanity as the last religion and provided a structure to manage a social life.

This religion, which Allah sent to humanity and whose truths are stated in the Qur'an, was taught to us Muslims under the guidance of our Prophet Muhammad (PBUH). Every Muslim is a real witness to this. The most important and the first of these teachings is faith, as Allah *swt* has emphasized with the verse *"You are the superiors if you're believers."* (Al-i Imran/139) that believing in himself, his prophet and the truth in his book is the way to success.

Therefore, it is essential to act by the principles of Islam for success in both social and economic spheres of life. Likewise, if it is desired to succeed in the banking and finance sectors, the principles of the Islamic religion should be followed. Furthermore, Islamic finance and banking transactions should not be made to conform to material expectations but should be carried out following the truths of the religion of Islam. This principle reveals that sincerity and intention are two important motivations in Islamic finance and banking, coming before numbers and statistical data. The age we live in and witness is the time to live our lives with sincerity and thinking only of Allah's consent.

The Prophet Muhammad (PBUH) said in his hadith: *"All men will perish, except the scholars, and all scholars will perish except those who act in accordance with their knowledge, and all of them will perish except the sincere, and even the sincere are in great danger."* (See, al-'Ajluni, Kashf al-Khafa', ii, 415; al-Ghazali, Ihya 'Ulum al-Din, iii, 414; Bediuzzaman Said Nursi, the Flashes, RNK Publications, Istanbul: 2015, p. 179.) He (PBUH) emphasizes that sincerity is very important at this time, but even the sincere are in great danger.

Our wish from our Lord is that the work we have prepared will be accepted as sincere and that the Islamic Finance and Banking transactions in Malaysia will be made available to the Islamic world and the entire humanity.

It is a well-known fact that the main theme of Islamic finance and banking is implementing a system that avoids interest (riba). The holy books and many thinkers, especially Socrates and Plato, did not accept the interest as socially appropriate. Bediuzzaman Said Nursi, one of the most important scholars of the last century, expressed the following on this subject (Risale-i Nur, The Letters, The Twenty-Second Letter, p. 319):

> *'…all immorality and instability in the social life of man proceeds from two sources:*
>
> *The First: "Once my stomach is full, what do I care if others die of hunger?"*
>
> *The Second: "You work, and I'll eat."*
>
> *That which perpetuates these two is the prevalence of usury and interest on the one hand, and the abandonment of zakat on the other. The only remedy to cure these two awesome social diseases lies in implementing zakat as a universal principle and forbidding usury. Zakat is an essential support of happiness not merely for individuals and particular societies but for all of*

> *humanity. There are two men classes: the upper and common people. Only zakat will induce compassion and generosity in the upper classes toward the common people, and respect and obedience in the common people toward the upper classes. Without zakat, the upper classes will descend on the common people with cruelty and oppression, and the common people will rise against the upper classes in rancour and rebellion. There will be a constant struggle, a persistent opposition between the two classes of men.'*

As understood from these explanations, ensuring social peace and economic justice is the creation of a system that keeps interest (riba) away and implements zakat in a good way. Malaysia is one of the best countries where these truths are best practised because it is seen that the Islamic finance and banking system implemented in Malaysia brings prosperity not only to Muslims but also to individuals of other religions. In addition, Malaysia's leadership in Islamic Finance Development Reports published by ICD (Islamic Corporation for the Development of the Private Sector) for years proves its success in this field. This success is clearly seen when examined together with the economic and financial data discussed in the study. Therefore, this book aims to briefly introduce this system, which will set an example for all Islamic societies and humanity.

While the book was being prepared, important questions about the Islamic Finance and Banking system in Malaysia were determined, and short and convincing answers were tried to be given. The book covers 33 critical questions under 6 chapters, namely General Information About Malaysia, General Information About the Malaysian Economy, Islamic Banking and Methods Used in Malaysia, Islamic Finance in Malaysia, Investment Instruments in Malaysia, and Social Projects and Support in Malaysia. I would like to thank my professors Dzuljastri bin Abdul Razak and Mustafa Omar Muhamad, and our PhD students Metin ZENGIN, Fuat CELIKER, Gökmen KILIC, Wan Omar Fadhli bin Wan Mahmud Khairi, Mehmet BUKEY and Ugur COBAN who contributed to the preparation of the chapters. Moreover,

I would like to extend my thanks to the TUBITAK institution, which made the book possible with its TUBITAK 2219 Program, for bringing individuals from different countries and cultures together in the preparation of the book.

Hoping that the book will contribute to all international readers.

Dr. Yavuz TURKAN

CHAPTER 1

General Information About Malaysia

Metin ZENGIN[1]

1.1. HOW HAS MALAYSIAN HISTORY BEEN SHAPED?

Malaysia borders Thailand in the north and Singapore in the south and is divided into West and East Malaysia. West Malaysia consists of the Malay Peninsula and several small islands around it. Meanwhile, East Malaysia which is 400 miles from the mainland, includes the states of Sabah and Sarawak (Moore, 1975: 99). Malaysia was established in 1963 with the federation constitution; however, after a while, there was a change in its borders. Singapore, a part of Malaysia since its establishment, became an independent state by separating from Malaysia in 1965 (Andaya and Andaya, 1982: 1).

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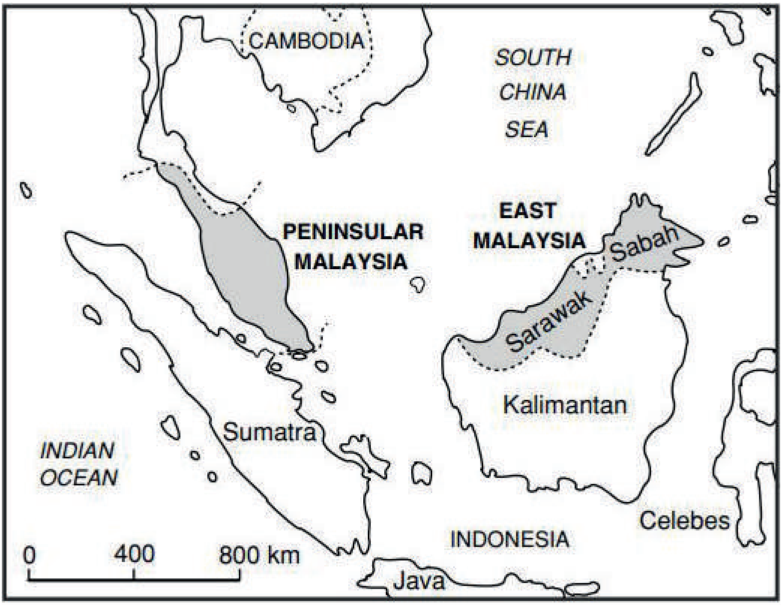

Figure 1.1.: Map of Malaysia in 1965

Source: Barbara Watson Andaya, Leonard Y. Andaya. (1982). History of Malaysia. Macmillan Publishers Limited, p. 1.

Malaysia is governed by the federal constitutional monarchy. However, what makes Malaysia different is that eight of its thirteen states are a sultanate. Although the history of these sultanates dates back to ancient times, there is no common understanding of history among them. For example, the northern sultanates of Kedah, Terengganu, and Kelantan remained under the rule of the Siamese Kingdom for centuries (13th century- 1909), while the southern sultanates of Johor, Pahang, and Perak were established after the fall of the Malacca Sultanate (1511). Thus, it is impossible to form a common history for the sultanates that still exists today. Therefore, it is necessary to look at the historical process to understand the current situation in Malaysia.

The Kingdom of Langkasuka was the first political structure established on the Malay Peninsula, which ruled a significant part of Malaysia. Langkasuka was founded in the 2nd century in the north of the Malay Peninsula, and its border stretched from Kedah to Patani. The Langkasuka Kingdom had important ports such as Kedah and Patani. It is known that Langkasuka traded with China and India from these ports. In fact, it is mentioned in the sources that ambassadors from China reached the Kingdom of Langkasuka in the 6th century AD (Teeuw ve Wyat, 1970, 2). The Langkasuka legend continued until the 7th century. In the 7th century, the Sumatra-centered Srivijaya Kingdom dominated the entire Malay Peninsula including the Kingdom of Langkasuka. The Kingdom of Srivijaya was the only state that achieved political unity in the Malay Peninsula until the Malay Federation was established in 1895. The dominance of the Srivijaya Kingdom over the Malay Peninsula continued until the middle of the 13th century.

In the middle of the 13th century, the Thai people, who descended to the South due to the Mongols' expeditions to China, established their first state, the Sukhothai Kingdom, on the territory of present-day Thailand. The Sukhothai Kingdom and the Ayutthaya Kingdom, which were established after it in 1350, took part of the Malay Peninsula under its protection (Bladgen, 1906: 110). The dominance of the Siamese-Thai kingdoms over the northern sultanates of Kedah, Kelantan and Terengganu continued until 1909.

One of the important events in the political history of the Malay Peninsula was the establishment of the Sultanate of Malacca in 1390 by Prince Parameswara. The Sultanate of Malacca, which was established in the port city of Malacca that is one of the important routes of India-China maritime trade, has become one of the important economic and political centers in the region. The reign became Islamized at the beginning of the 15th century and greatly influenced the Islamization of the Malay people. The legend of the Sultanate of Malacca, which continued until the beginning of the 16th century, constitutes an important period in Malay political history. However, the capture of Malacca by the Portuguese in 1511 and the foundation of a new state by the River of Johor started a new era for the Malay Peninsula. Therefore, the Portuguese attack on Malacca caused significant changes in the south of the peninsula. The Portuguese who settled in Malacca started to play an active role in the politics and trade of the region by making commercial agreements with Siamese and other Malay sultanates. In addition, there were frequent wars between the Portuguese and the Johor Sultanate. However, in 1629, the Portuguese cooperated with the Johor Sultanate against the attacks of the Acehnese (Basset, 1976: 127).

Figure 1.2. A Map of the Malay Peninsula

Source: Wright, Arnold. (1908) Twentieth Century Impressions of British Malaya, Londra: Lloyd's Greater Britain Publishing Company, p. 1.

In 1641 the Dutch, who took Malacca from the Portuguese with the support of the Johor, established a wide trade network around the Malay Peninsula. The Dutch not only monopolized the trade in the region but also largely prevented the Portuguese and British from being effective. The presence of the Dutch in Malacca continued until 1824. However, from the end of the 17th century, the dominance of the Dutch in the region decreased, and the British became the new power. The British leased Penang Island in 1786 and Singapore in 1819 to secure maritime trade between India and China. In addition, the British, who took over Malacca from the Dutch in 1824, established a strong dominance around the Malay Peninsula (Swettenham, 1948: 25).

After establishing sovereignty in Penang, Singapore, and Malacca, the British attempted to increase their influence over the Malay sultanates. During this period, British trade with the Malay sultanates increased exponentially every year. The British established a colonial administration in the Malay sultanates to secure this trade and prevent possible risks. The British attempted to take the Malay Peninsula under their dominance and had protection agreements with the Malay sultanates, which were in internal turmoil. The British first agreed with the Perak and Selangor sultanates, which were in political and economic problems in 1874 (Winsted, 1935: 241).

In the 1890s, the British made another attempt that changed the fate of the Malay Peninsula to a great extent. They gathered the Malay sultanates under one political roof and formed the Malay Federation. Founded in 1895, the Malay Federation significantly strengthened the British influence in the region.

The important articles of the treaty signed between the British and Perak, Selangor, Pahang and Negeri Sembilan in July 1895 are as follows;

Article 1: Pahang, Perak, Selangor and Negeri Sembilan, and chiefs under them came under the auspices of the British Government based on the agreement.

Article 2: The sultanates and chiefs mentioned above will administer their lands under the supervision of the British Government, in accordance with the law of federation.

Article 3: The Malay sultans or their chiefs do not have the right to rule any place other than their own territory.

Article 4: The sultanates mentioned above are obliged to pay the advisor appointed by the British Government for a suitable place and the amount of salary determined, and to comply with all their advice, except for religious matters concerning the Malay community (Belfiled, 1902: 2).

After the British dominated most of the Malay Peninsula, they attempted to bring the Malay sultanates, under the rule of the Siamese Kingdom in the north, to their protection. After many years of negotiations, the Bangkok Treaty was signed in 1909. According to this treaty, Kedah, Kelantan, and Terengganu, which had been under the rule of the Siamese Kingdom for centuries, joined the Malay Federation. The Sultanate of Johor was the last sultanate to join the federation and accepted British domination in 1914 (Winstedt, 1935: 248).

British domination of the Malay Federation continued until the Japanese invasion on 8 December 1941. On February 15, 1942, the Japanese defeated the British forces in a short time and took control of the entire Malay Peninsula, including Singapore. During the Japanese occupation, which lasted for three years and eight months, the sultans were forced to support the Japanese administration. The sultans lost most of their privileges under the British administration, and this situation placed the consciousness of being a nation independent of the sultans among the Malays. Malays had the idea of being united around the elements of history, language, religion, nation and culture that connect them, independently from sultans (Pian, 2009: 130). Therefore, the Japanese accepted the defeat and withdrew from the Malay Peninsula after the atomic bombings led the Malays to gather around new leaders other than sultans.

Although the British tried to re-establish dominance over the Malays after the war, the Malays' demand for independence prevailed. Established in 1946, UMNO was the first organization to take the first step towards an independent Malaysia. The Malays' demands for independence yielded results, and Malaysia gained independence in 1957. Shortly after independence, Singapore, Sabah and Sarawak, under British rule, joined Malaysia. However, in 1965 Singapore separated from Malaysia and became an independent state.

1.2. HOW WAS GOVERNMENT STRUCTURE BEFORE AND AFTER INDEPENDENCE?

The administrative structure of the sultanates, which continued its existence for centuries in the Malay Peninsula, Indonesia, and other islands in the region, has undergone some changes in history, under the influence of Hinduism, Buddhism, and Islam from the first times, and some traditions have continued their existence unchanged despite centuries. The existing classes in the administrative structure also underwent some changes during this period. For example, priests (brahmans), who held an important position in Hinduism, lost their influence and became less respected in Buddhism. With the arrival of Islam in the region, it is seen that the classes in the administrative structure have changed again, and the brahmans, which are in the ruling class and hold the religious system, have completely disappeared (Wells, 2009, 257).

If the structure of the society in the Malay sultanates in the pre-British colonial period is examined, it is seen that the society consists of four classes. These classes were the sultan's family, the head of state, and the *orang kaya*, who advised the sultan and managed the trade in the country, people, and enslaved people. These classes expand in the form of a pyramid from top to bottom and reach the lowest layer. It should be noted here that these classes existing in the Malay sultanates are very different from the class privileges discussed in the West. While class differences in the West are based on economics, the formation of classes among Malays is mostly a result of Malay culture and tradition. Privileges enjoyed by the upper classes (e.g. the privilege of being rich) are given to them by Malay traditions (*Adat Melayu*) (Crawfurd, 1820: 37). The lower classes again accept their position according to the dominant belief of the society and, there was no conflict between classes.

1.2.1. Raja or Sultan

Malay rulers used the titles raja and sultan. The word raja is originally Indian and is taken from the word maharaja, which means ruler. In the tradition of Buddhism, the term *dewaraja,* which implies the god-king of the rulers, was used. The king was seen not only as a ruler but also as a superhuman, godlike person. Again, the king was considered a bodhisattva, one who reached Nirvana. As the person who attained Nirvana, the king himself had a lofty duty to bring the people under his rule to nirvana. Therefore, the first Malay kings who converted to Islam used the title of *zill Allah fi al-'alam,* which means the shadow of Allah on earth. This perspective was very effective in the attitude of the Malay society towards the sultans (Burhanudin, 2017: 219-220).

The relationship of the Malay rulers with the people has been a topic of discussion for both pre-colonial and post-colonial western scholars. The first Western travellers and colonial officials to reach the region used the term "feudalism", comparing the relationship of the Malay sultans with their subjects in medieval Europe. While using the term feudalism, Western scholars divided society into two parts: the ruling class and the peasantry. Some see this approach of Western writers as an orientalist approach and criticize it. However, both Western writers and local scholars on Malay history and sociology agree that the ruling class dominates the people and that the people have no free space (Kheng, 1994: 246).

In the Muslim Malay state tradition, the sultan or raja received his authority to rule from the power called "*daulat*", which belonged only to him. The expression "*daulat*" here represents a kind of divine power that gives the sultan the authority to rule the state alone. Thanks to this "*daulat*" authority given to the Sultan, he could not be limited or questioned by any other person or institution (Bradley, 2010: 45).

Although some historians claim that Islam brought the belief of "respect for the just sultan and rebellion against the unjust" instead of the unquestioning obedience to the sultan in Malay culture, historical experience and sources show that the sultans continued their dominance over the people due to the sultans' desire to preserve their power (Mutalib, 1990: 12). The people, on the other hand, regarded this dependence on the sultans as a tradition, saw themselves as the king's slave (hamba or patik) and accepted this obedience as a requirement of their culture. The king-centred society structure in the Malays sometimes has been an element that prevented the disappearance of sultanates. Because the sultan, who was exposed to any attack, could leave the city with his subjects, and settle in another place. The Malays expressed this situation with the sentence "*dimana raja, disitu kerajaan*", meaning "where the sultan is, there is the state" (Mutalib, 2000: 8,12).

According to Swettenham, in 1874, people in the Malay Peninsula consisted of the ruling class and the *rakyat*, and the *rakyat*, only did what the rulers told them (Swettenham, 1948: 141-142). According to Mutalib, Sultans' application of Islamic Sharia throughout the Malay sultanates, Islamic Sharia was applied symbolically or selectively. No administrative system applied the same laws to the subjects as the sultans and rulers, who constituted the highest part of the political hierarchy. The rulers were above the law; the Quran and other Islamic principles were there to support their rule (Mutalib, 2000: 19).

The Malay sultans were powerful and had absolute power over the people before the colonial states settled in the area. Malay sultans suffered a great loss of control with British domination. Sultans, who had no political power, continued only as representatives of Malay culture and Islam (Mutalib, 2000: 42).

1.2.2. Orang Kaya-Besar or Elites

Orang besar, which means "great, honorable person" in Malay, and *orang kaya*, which means "rich person", represent the elite class that holds the administration and economy in Malay sultanates. *Orang besar* is the name given to people who have blood ties with the sultan, and Orang kaya is the name given to people who usually represent the elite in charge of the state. In addition, people from *orang besar* were given titles such as "tuan", "tengku", "nik", "wan", and people from orang kaya were given titles such as "dato", "dato seri" (Bemba, 2009: 19). The sultanates in and around the Malay Peninsula gained a high income from trade thanks to the port cities. This situation enabled the rise of the orang kaya (Reid, 1980: 248). Another reason why people working in the state administration also engaged in trade was that they did not receive a permanent salary from the state.

1.2.3. People or Merdeka

Although the Malay people were not exposed to the caste system as in India, there was still a class division between the people and the rulers. The common people and enslaved people could in no way mingle with the nobility. Classroom standards were strictly maintained. However, those commoners who were able to do great things could qualify for entry into the elite (Osman, 2000: XXXIII). The people engaged in agriculture were obliged to pay taxes from the product they obtained to the person they depended on and the sultan. In addition, local administrators had the authority to make the people do their work other than agriculture. There were works called Kera (Kerah) which the people had to do other than agriculture and daily work by the raja or local administrator. Construction works such as the construction of roads and bridges were the works of the people in cooperation, such as the repair of ships. Thus, the people generally lived in lower occupations such as agriculture, animal husbandry and fishing. Due to the inability of the local people to engage in trade, sometimes foreigners could dominate the trade of the sultanates. This group, called the *free rakyat*, was generally composed of Chinese, Arabs, and Indians (Carolina, 2001: 12).

1.2.4. Slaves or Orang Hamba

Throughout Southeast Asia, slavery continued for centuries as an important part of both trade and social life. Three factors come to the forefront of the prevalence of slavery. The first factor; The existence of kingdoms depended on their slaves, as the tradition of ruling people rather than the land represented power. The second factor; In Southeast Asia, where trade was very concentrated, slaves were a commodity rather than the cash that could be used at any time. Third, due to the lack of strong laws protecting merchants, merchants saw enslaved people as a safeguard that protected them.

In the port cities of the Malay Peninsula, where trade was intense, enslaved people were employed as porters. According to the information given by the sources, it was a good source of income for the enslavers as the prices of the enslaved people working in the port cities were quite high. Thus, the enslaved person was considered a valuable investment in many aspects (Reid, 1988: 130-131). Slavery in Malay society decreased and disappeared from the middle of the 19th century with the pressures of the British.

During the British colonial period, the Malay sultans lost their power in the administration and became the protectors of only the religion of Islam and Malay culture. This situation continued in this way until independence. With its independence, Malaysia adopted the parliamentary democracy model and handed over the administration of the country to the parliament. The sultans in the country, on the other hand, continued to remain as the head of the province and the protector of the religion of Islam in the provinces where they were located. Thus, the administration in the states where the sultans such as Kedah, Perak and Pahang are inherited. The governors of states such as Penang, Malacca, Sabah and Sarawak are appointed by the government (Brown, Siti Hawa, Wan Manan, 2004: 4).

1.3. HOW AND WHY DID ISLAMIZATION POLICIES START?

Islamization policies in Malaysia emerged after independence. However, there are two main reasons for the Malay administrators' tendency to Islamization policies. The first reason is the political and economic power struggle between Malay and Chinese-Indian immigrants whose status is not fully determined in the country. As mentioned before, the Chinese and Indians, who were brought temporarily to work in the mines, became a social and economic part of the country in the intervening period. However, sometimes there could be a struggle between the Malays and other races. For example, the conflict between the Malays and the Chinese in 1969 resulted in 177 deaths (Neo, 2011: 9-10).

Non-Muslims living as a minority in Malaysia undoubtedly constitute one of the main dynamics of the idea of political Islam in Malay society. The role of non-Muslims in Malay Muslims to create their own identity and see Islam as an indispensable part of this identity is substantial (Özay, 2013:108). On the other hand, the Chinese and Indians, who could not integrate into the Malay culture and Islam, are still educated in the schools they have established rather than the public schools. In addition, giving priority to the Malays in public leads other races to the private sector. Thus, struggle among Malay and other races has made Malays see Islam as an identity that they redefine themselves against another, rather than just a religion, from post-independence to the present day.

The second motivation that led the Malays to Islamization was the political strife among the rulers. UMNO, the country's most important and longest-standing political movement, is a party founded by liberal rulers who were educated in a western style. Opposite UMNO was PAS, founded by people who had studied at universities such as *al Azhar University* and were influenced by the thought movements in the Islamic world, especially the Muslim

Brotherhood in Egypt. The political struggle between these two parties has been the main motivation for the institutionalization of Islam in the country since its independence (Hashim and Hasan, 2018: 4).

The struggle between the two parties gained a new dimension in the 1970s. During that time, Islamic education to the public by university students and non-governmental organizations in the Malay peninsula gained momentum. ABIM (Angkatan Belia Islam Malaysia), the Malaysian Youth Movement, founded in 1971 by university students based on the ideas of the Muslim Brotherhood, has become one of the important symbols of political Islam in Malay society. The activities of ABIM among university students and its influence worried the liberal leaders, especially UMNO (Abbott, Jason P.; Sophie Gregorios Pippasb, 2000: 139).

ABIM, which spread rapidly shortly after its establishment, appealed to almost 60 per cent of university students in Malaysia in the early 1970s (Abbott, Jason P.; Sophie Gregorios-Pippasb, 2000:138). The Palestinian issue, which escalated in the 1970s, the Arab-Israeli war and the oil crisis also contributed to this process. By the 1980s, a new era started for UMNO and PAS in Malaysia. Mahathir Mohammed, who became the head of UMNO in this period, began to look for new solutions for economic development in the country; on the other hand, he was trying to break the public support of the opposition party, PAS.

Mahathir Mohammed, who was seen as a political genius, persuaded Anwar Ibrahim, who was then the leader of ABIM, to join UMNO's ranks. With Enver İbrahim joining the ranks of UMNO, political Islam started to take place among the policies of UMNO. However, UMNO would remain a secular party in general (Ufen, 2009: 321). The 1980s started a new era in terms of Islamization. In this period, especially the change made in education is important for the institutionalization of Islam in the country and its spread to the public. The difference in the secondary education curriculum, the establishment of the International

Islamic University and the increase in faculties providing Islamic education started a new era in terms of the institutionalization of Islam in Malay society.

Before the 1980s, western-style education was given in public schools in Malaysia, and religious subjects were left to classical madrasas. To eliminate this dilemma in education, the country had to make changes in education. In this context, scholars like Seyid Naqibu'l-Attas and Abdulhamid Ebu Suleyman contributed significantly to this process by pioneering the Islamization of knowledge (Ahmed, 2014: 48). Enver İbrahim's participation in UMNO accelerated the nationalization process of the Islamization policy. The reforms in education in the 1980s were followed by the reforms in the public sector in the 1990s. Among these reforms, regulations such as Islamic insurance and Islamic banking were put into practice (Osman, Mohamed Nawab Mohamed Osman; Saleena Saleem, 2016: 2).

Another issue that Malay politicians discuss is the application of sharia rules. During the colonial period and after independence, judicial proceedings were carried out by civil courts established by the British. From its inception, PAS advocated the implementation of sharia courts instead of civil courts. This demand of the PAS party was met with a reaction from some circles in Malaysia, where half of the population is non-Muslim. In 1992, Mahathir Mohammed stated that he would not block the PAS Islam party's decision to implement sharia in Kelantan and Terengganu provinces. Although these two states took this decision later, they did not implement it (Poulin, 1993: 224).

Today, Malaysia has a judicial system in which civil courts and sharia courts are conducted together, although the debates on sharia law and the implementation of modern law continue. While the Sharia courts handle matters such as family, divorce and inheritance of Muslims, Muslims can also apply to civil courts for these issues. Cases of non-Muslims are handled by civil courts (Poulin, 1993: 229-230).

1.4. WHAT IS BUMIPUTERA AND HOW DOES IT AFFECT THE MALAYSIAN ECONOMY?

To understand the economic policies of Malaysia, it is necessary to understand the *Bumiputera* policy that has been implemented since the 1970s. The Malaysian government introduced the New Economic Policy (NEP) in 1971 to support the Malays who were left behind in terms of economy during the British colonial period. This law, called the *bumiputera* policy, which means "the original owners of the land" in Malay, provided socio-economic privileges to Malays and some indigenous groups (Ibrahim, 2021). The *Bumiputera* law included articles such as providing economic support to Malay companies, granting special scholarships to Malay students, and establishing private universities for them.

Since its adoption, the Bumiputera policy has made great socio-economic gains for the Malays. It enabled the emergence of an elite class of Malay descent as an alternative to the Chinese, who had been in control of the country's trade since the colonial period. Although the Bumiputera law closed the economic gap between Malays, Chinese and Indians, it deepened the discrimination between them. However, this law, which is still in effect today, provides important privileges to citizens of Malay origin while causing Chinese and Indian citizens in the country to be perceived as second-class citizens. This situation, also described as Malay supremacy, constitutes one of the discussion issues about the importance of Malaysian domestic politics.

In the post-independence period, the Malay elites built their nation-state understanding on Malay supremacy and did not follow a policy toward integrating the Chinese and Indians, who comprise almost half of the country's population. This situation has led to the deepening of social segregation after independence. However, Mahathir Muhammed, who became the prime minister of Malaysia in 1981 and served as Malaysia's longest-serving prime minister, tried to put forward a new economic model while continuing his Bumiputera policy. The "2020 vision" introduced by Mahathir Muhammed in 1991 aimed to make Malaysia one of the developed countries by 2020. Mahathir also used the concept of United Malaysia (Bangsa Malaysia), which aims to gather Malay, Chinese and Indian people under the same roof instead of Bumiputera, which causes ethnic struggle in Malaysia (Ishak, 2002: 99). Mahathir's Bangsa Malaysia policy reduced social struggle in Malaysia, but it never ended. The federation system in Malaysia and the policies of the opposition party, the Malaysian Islamic Party (PAS), have been the biggest obstacle for *Bangsa Malaysia*. In fact, PAS claims that the strengthening of the Chinese and Indians will harm the Islamic structure of Malaysia.

Bangsa Malaysia policy continues today with the rhetoric *Keluarga Malaysia,* which means "Malaysian Family". However, Ethnic struggle continues to some extent, although not as much as in the 1980s.

1.5. HOW CAN MALAYSIAN CULTURE BE DEFINED?

To understand the culture of Malaysia, it is necessary to consider the Malays, Chinese and Indians, who are the peoples that make up Malaysia, separately. Although the dominant culture in Malaysia is the Malay culture, it is impossible to understand Malaysia without explaining the Chinese and Indian cultures.

The unwritten rules that determine the customs and traditions of the Malay world are called *Adat Melayu*. Adat also determines the relationship between the people and the rulers, together with the tawhid and moral rules of the religion of Islam (Carolina, 2001: 13). Islam greatly influences the shaping of Malay customs and traditions. Perceptions of space, marriage, family, kinship, basic economic exchanges, and basic beliefs have been shaped greatly by Islam. Thanks to this change that Islam brought about in Malay society and the new *adat* culture it introduced, “being Malay” and “being Muslim” is almost the same meaning (Kling, 2000: 61).

Malays follow the sect of Imam Shafii and are very careful about performing the basic principles of Islam, such as prayer, zakat, pilgrimage and fasting. The prayer is performed either in small mosques called surau built in small settlements or large mosques built for Friday prayers. The Malay language is another element that unites the Malays and separates them from other groups in the country. The Malay language, which the Malays define as *Bahasa Melayu*, belongs to the Austronesian language group and is the official language of Malaysia, Indonesia, and the Brunei Sultanate with different dialects.

The Chinese, who form the second ethnic group in Malaysia, have existed in the Malay Peninsula and Borneo Sultanate (Sabah, Sarawak) since the 15th century. The presence of the Chinese in Malaya has increased since the 17th century due to the political instability in China (Tarmizi, 2019: 16). However, the influx of Chinese immigrants to Malaya rose even more from the middle of the 19th century. First, the civil wars in China and the new tin mines discovered in Malaya increased the migration of Chinese to today's Malaysia. During British rule (1874-1957), as the number of Chinese immigrants in Malaysia increased, the British gave the Chinese the freedom to trade, which made the Chinese wealthy.

In 1957, when Malaysia gained independence, the proportion of the Chinese population in the country was 37 per cent, but today this rate has decreased to 22.4 per cent. One of the important reasons for the decrease in the Chinese population rate was Singapore's separation from Malaysia in 1965. Although the Chinese in Malaysia live in almost all parts of the country, they mostly live in Penang, Malacca, Perak, Selangor and Johor states (Ibrahim and Zainab, 2014: 925). The Chinese maintain their cultural presence in Malaysia as much as they are influential in trade and politics. The Chinese, who can provide education in their own language, transfer both their language and culture to the next generations with the schools they have established throughout Malaysia. Indians occupy the third place in the country after the Malay and Chinese populations. The vast majority of Indians in Malaysia were brought during British rule (1874-1957). Indians comprise 6.8 per cent of Malaysia's total population and are of the Hindu faith. In addition, a large part of the Indian population speaks the Tamil language (Ling and Ling, 2016: 46). Majority of the Indian population in Malaysia lives in the states of Selangor, Perak and Johor. The Indians, like the Chinese, make great efforts to preserve their own culture. Indians are an indispensable element of Malaysian cuisine as they contribute to the cultural richness of Malaysia. In addition, temples such as Batu Caves in Selangor are among the most visited places by tourists in the country.

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CHAPTER 2

General Information About the Malaysian Economy

***Fuat CELIKER*[2]**

Malaysia, a developing and growing Asian country, has many economic dynamics. This study, which holds a general perspective on the Malaysian economy, has revealed the pros and cons of the Malaysian economy in many respects. In the study, the Malaysian economy was discussed over five questions. These questions are; Could You Give Information About Malaysia's Macroeconomic Data?, Could You Specify Malaysia's Sources of Income?, Could You Specify the Import and Export Structure of Malaysia?, How Does Malaysia's Central Bank Operate?, and What is the Position Malaysia Holds in Global Economy? For this reason, information about Malaysia's macroeconomic data (GDP, GDP Per Capita, unemployment rate, inflation, income inequality (gini index)) is given within the scope of the first question. Within the scope of the second question, the sources that provide income to Malaysia

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are discussed. For this reason, Malaysia's sources of income in each sector (manufacturing, industry, agriculture, service) are indicated. The third question explains Malaysia's most imported and exported products. Malaysia's foreign trade volume has been tried to be presented with data. In addition, the countries Malaysia imports and exports the most are specified and explained with data. In the fourth question, information about the functioning of the Central Bank of Malaysia (Bank Negara Malaysia) is given, and how it carries out the dual banking system is explained. In the fifth and last question, Malaysia's position in the world economy is discussed, and the world ranking is described in terms of many economic indicators. In addition, information is given about which economic dynamics it is ahead in the world.

Malaysia is a country located in the Southeast Asian region. The country is located on the Malay peninsula, the northern part of Borneo Island and two small islands. Its closest neighbors are Thailand, Brunei and Indonesia. The capital of Malaysia is Kuala Lumpur. Other important and large cities are Ipoh, Klang, Petaling Jaya, Subang Jaya, Johur Bahra and Shah Alam. Consisting of 13 states in total, Malaysia is a federal state governed by a parliamentary monarchy. According to 2021 data, the population of the country is 33,114 million (International Monetary Fund (IMF), 2021). Of this population, 55% are Malay, 25% Chinese, 10% Indian, and the remaining 10% are of another active origin. The Malaysian economy is generally dominated by Malaysians of Chinese descent. While Malaysians of Chinese origin dominate the country's trade, the Malays (Bumiputra), who have the majority of the population, are predominantly involved in the state administration. Although few in number, Malaysians of Chinese and Indian origin also take office in government positions. For this reason, it is beneficial to have Chinese-born Malaysians in private sector business and Malay partners in government tenders and procurements.

Approximately 80% of the population lives in West Malaysia, and the rest in East Malaysia. The official language of the country is Malay. However, almost all of the people in the country can speak English well. The official religion of the country is Islam, and the majority of the Muslim population is of Malay origin. On the other hand, Buddhism is the religion adopted by the Chinese living in Malaysia, while the Hindu religion is adopted by non-Muslim Indians. In addition, Christianity is among the religions believed by some other segments in Malaysia. For this reason, Malaysia is a country of various ethnic groups.

Malaysia's economy, where manufacturing, industry and service sectors are developed, is the third largest economy in Southeast Asia and the 35th largest in the world. It is one of the countries with the highest annual growth rate among Southeast Asian countries. Although Malaysia is among the economies of developing countries, it has a strong economy and a structure that can meet its own domestic demand. It has a stable economic profile with low inflation and attracts foreign capital investment. Malaysia has struggled to reduce poverty in the past 50 years and has significantly reduced poverty to the point we have reached today. In addition, the most important goal is to move to the status of a developed country and be a high-income country. For this reason, it has gradually increased its per capita income over time. According to 2020 data, the per capita income of Malaysia is 10,412 dollars, and the inflation rate in 2021 is 2.5% (Worldbank, 2022). The country is industrially developed. While it used to be an economy dependent on rubber and tin sales, it later became a country that exports many important products to the world with its developing agriculture and industry sectors. It is especially rich in products such as rubber, rice, coconut, corn, tea tobacco, dates, bananas and potatoes. It is also a country in a good position regarding mineral products. Malaysia is an important country in tin production and meets 70% of the world's tin production. Other important mines are iron, bauxite, petroleum, manganese, gold and titanium. Malaysia's main export products are; tin, rubber, iron ore, bauxite, timber, cans and palm oil.

Malaysia provides steady growth every year. Although the growth in 2020 was negative with the effect of the Covid-19 pandemic, the country has recovered economically with the decrease of the impact of the epidemic. For this reason, with the effect of the pandemic, the country shrank by -5.6% in 2020, while it grew by 3.1% in 2021 (IMF, 2022). The report published by the IMF for Malaysia in 2022 shows that the growth will continue steadily. The report shows that Malaysia's 2022 growth rate is estimated at 5.7%. Unemployment rates are also lower in Malaysia when compared to developing countries. Unemployment, around 3% before the pandemic, has risen to over 4% with the effect of the pandemic. Malaysia's unemployment rate announced in 2021 is 4.5% (IMF, 2022).

Although Malaysia is a developing country, its economic indicators are promising for the future. According to the forecasts of international organizations (IMF, WORLD BANK), Malaysia is expected to move from an upper-middle-income position to a high-income country between 2024 and 2028. This success is a result of the right policies implemented in the country. Although Malaysia is a country where people from various ethnic backgrounds live, it is one of the countries that have managed to live together. The main factor behind the social, political, economic and social success in the country is the right policies applied. Today, Malaysia also has an important position in terms of finance. It has taken very important steps, especially for the development of Islamic finance. Today it is referred to as the center of Islamic Finance. The right steps taken by the Malaysian government in the field of Islamic Finance and the interest-free products it has developed have greatly contributed to the development of Islamic Finance in the country. For this reason, there is a very well-functioning interest-free interbank money market and many interest-free banks in Malaysia today. The Malaysian government is one of the countries that successfully operates the dual banking system. The Central Bank of Malaysia (Bank Negara Malaysia) carries out its monetary policy according to the dual banking system and directs the economy in this way.

This study includes the analysis of the Malaysian economy located in the Southeast Asian region. In this part of the book, five questions about Malaysia were examined, and information was given on these issues. The first question provides information about Malaysia's macroeconomic data. The second question informs about the sources that contribute to Malaysia's income. The third question presented information about Malaysia's import and export data. The fourth question defines how Bank Negara Malaysia (Malaysia Central Bank) ensures the functioning of the dual banking system. And the final, fifth question describes Malaysia's place and importance in the global economy.

2.1. COULD YOU GIVE INFORMATION ABOUT MALAYSIA'S MACROECONOMIC DATA?

Shown as one of the successful economies of the Asian region, Malaysia had almost completely the characteristics of an agricultural and mining country when it gained independence from England in 1957. Like other countries in the region, it has a weak economy, and most of its economy depends on producing products such as Rubber and Tin. In Malaysia, the share of primary products such as rubber and tin in exports was 85%, while the share of industrial products in GDP was only 8%. After gaining its independence, Malaysia followed a policy of import-substitution goods between 1957 and 1969. It enacted a law to encourage foreign investors in 1968 to encourage foreign investors and attract foreign capital to the country. Later, with the New Economy Program (NEP), which was put into practice in 1920, it switched to the Export-Based growth model. Export-led growth policy has started to be implemented not only in Malaysia but also in many countries in the Asian region. Malaysia, with the support of international institutions, enacted the law to encourage foreign investors in 1968. Thus, with this law, the manufacturing sector was accepted as the leading sector in growth, and foreign direct investments were chosen as the key factor for the development of the manufacturing sector. Although Malaysia, like other Asian countries, has adopted an export-based growth model, it has actually tried to attract more foreign investments to the country and thus to provide economic development. Therefore, they have reduced the barriers to foreign investments to the lowest level. MIDA (Malaysian Industrial Development Authority) permits foreign investments. The policies followed to attract foreign investments to the country over the years have transformed the Malaysian economy into the most open economy in the Asian region. In the World Bank's 2020 ease of doing business ranking, Malaysia rose from 15th to 12th in the previous year.

As a result of the right policies implemented after Malaysia gained its independence, it has ceased to be a country's economy based on agriculture and mining. It has transformed into an economy dominated by mostly manufacturing and service sectors. Thus, the country has seen high growth rates and an impressive average income per capita increase. There has also been a rapid decrease in poverty.

Malaysia has aimed to improve and develop the country's economy by doing more than the many things mentioned above. The right policies have created the expected economic results, and these improvements are also reflected in Malaysia's macroeconomic data. Malaysia has achieved high growth rates over time, effectively increasing the average income. Between 1960 and 2019, Malaysia's GDP growth averaged 6.3% annually, and this growth rate moved the country from low income to upper middle-income level (World Bank, 2022: 11). In addition, the World Bank estimates that Malaysia will become a high-income economy in a few years. These positive developments in economic indicators reduced poverty and the poverty rate, which was 32% in 1984, decreased to 2.7% in 2015 (World Bank, 2022: 11).

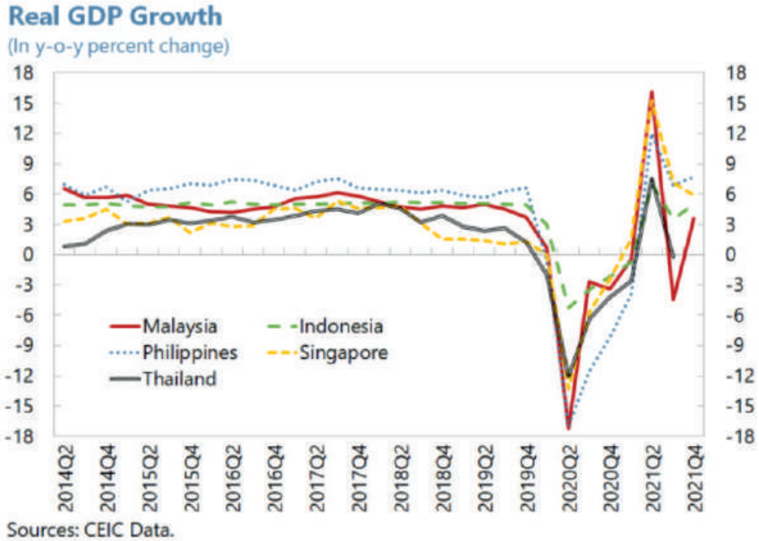


Figure 2.1.: Change in Malaysia's GDP

Source: CEIC Data

Figure 1 above shows Malaysia's GDP has increased steadily from 2014 to 2020Q2. However, with the effect of the pandemic, it was seen that there was a serious decrease in 2020Q2. As a result, it is understood from figure 2 below that the per capita income has decreased. However, in 2021, it was seen that the GDP started to rise again with the decrease of the effect of the pandemic and the positive developments in the world economy. It is also seen that Malaysia has a GDP above the average when compared to other countries in the region. Malaysia's GDP has grown at an annual average rate of 3.3% over the last 20 years (World Bank, 2021: 41). Malaysia, which was adversely affected by the Asian crisis in 1997 and the global financial crisis in 2009, has managed to double its GDP per capita in the last 15 years despite its low growth rates. The Malaysian government has announced that they aim to attain the status of a developed country in 2030 and continue their economic policies toward this vision. Although the Covid-19 pandemic seems to have prevented this goal from being achieved, the authorities emphasize that this can happen. Malaysia's per capita GDP was 11,230 dollars in 2019, and it decreased to 10,412 dollars in 2020 with the effect of the pandemic. However, the country quickly recovered from the pandemic and achieved 5% growth in the first quarter of 2022 (BNM, 2022). The World Bank expects Malaysian income to rise to $11,837 in 2022. Malaysia was selected as the world's 37th largest economy in terms of GDP in 2020. In terms of GDP per capita, it was the 69th economy (OECD, 2020).

The private sector covers the majority of investments in Malaysia. Although there has been a decrease in private investments with the Asian crisis, its effect on GDP in the last ten years is quite significant. It is observed that the contribution of public investments to GDP has been decreasing since 2012 (Worldbank, 2021:44). It is observed that the contribution of public investments to GDP decreased from 11 per cent to 7 per cent in 2018. (Worldbank, 2021:44). However, unlike public investments, private sector investments increased, and the contribution of private sector investments to GDP increased from 15% to 17%. These ratios show that Malaysia is an open economy and has foreign capital investments.

One of the most important reasons for Malaysia's increase in GDP and GDP per capita over the years is related to Malaysia's open economy. The fact that Malaysia is open to investment and has reached high export levels has brought the country to a prosperous level. The government was able to attract foreign capital to the country thanks to the right economic policies it developed. For this reason, Malaysia has become an important country among Asian countries today. Correctly implemented economic policies are also reflected in economic indicators. Figure 2 below shows Malaysia's GDP per capita relative to other Asian countries. It is seen that GDP per capita is higher than other countries in its region.

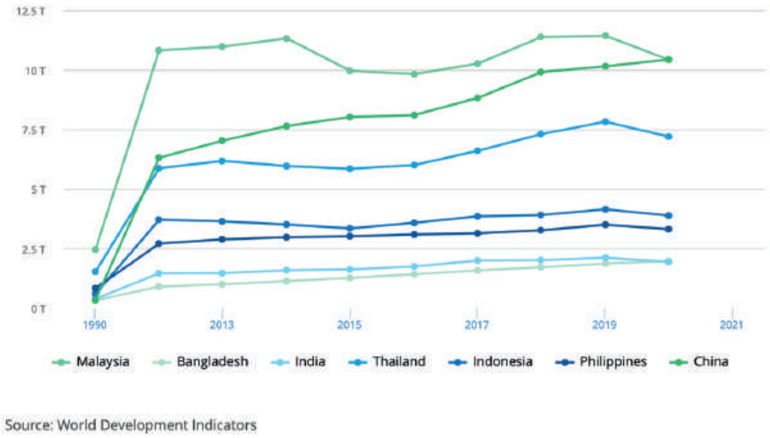


Figure 2.2.: GDP Per Capital in Malaysia

Source: World Development Indicators

In terms of the contribution of sectors to Malaysia's GDP, it is seen that the biggest contribution is provided by the production and service sectors. Likewise, although the share of these sectors in

GDP decreased in 2020 with the effect of the pandemic, it is seen that they started to rise again later on.

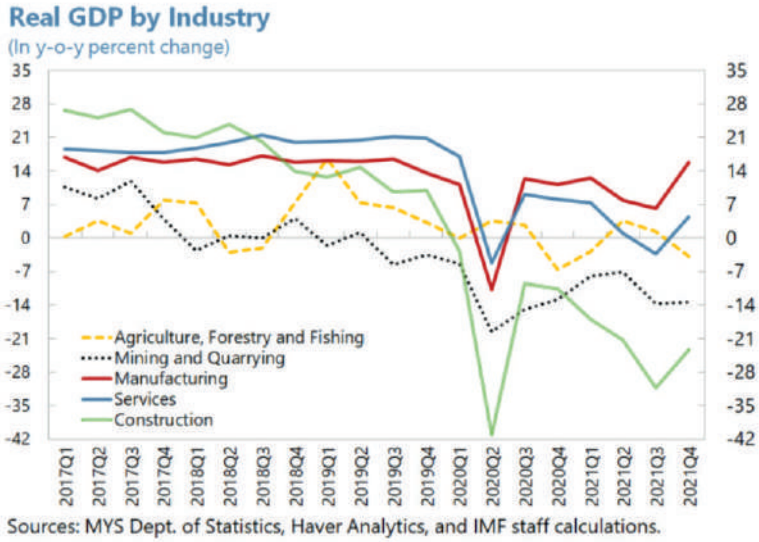


Figure 2.3.: Contribution of Sectors to Malaysia's GDP

Source: MYS Dept. Of Statistics, Haver Analytics, and IMF Staff Calculations.

Figure 4 below shows the unemployment rates of Malaysia over the years. Malaysia is an Asian country where unemployment is not very high. It is seen that the unemployment figures, which were in the single digits in the past years, decreased even more. Unemployment rates, which increased with the pandemic's effect, again reduced due to the decrease of the epidemic's effect and improved economic conditions. In 2021, the unemployment rate in Malaysia was calculated as 4.6 per cent. This rate is higher than in many other countries in the region. The unemployment rate is expected to reach 3.5 per cent in 2022 (IMF, 2021)

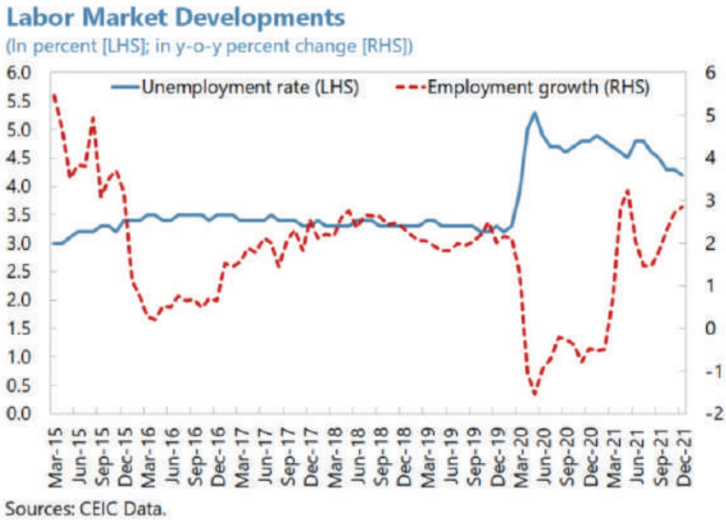


Figure 2.4.: Unemployment rates in Malaysia by year

Source: CEIC Data

Malaysia, which is among the status of developing countries, has a low unemployment rate compared to many countries in this position. However, compared to other countries in its region (Southeast Asia), it has a high unemployment rate. While Malaysia had an unemployment rate behind Indonesia, Singapore and the Philippines in the past, it has now reached an unemployment rate higher than the unemployment rates of these countries. The majority of the working population in Malaysia is employed in industry (35%) and services (56%). The remaining 9% work in the agricultural sector (World Bank, 2022).

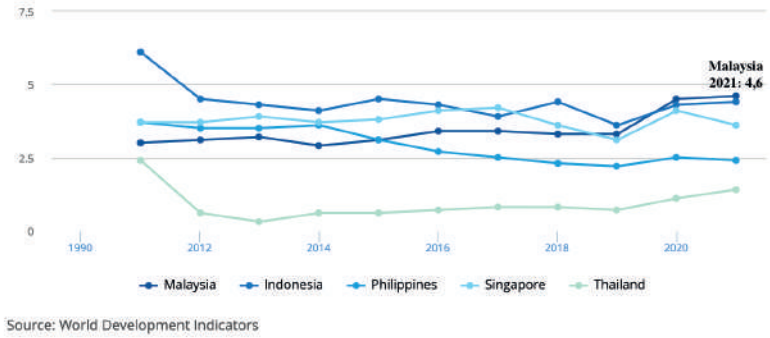
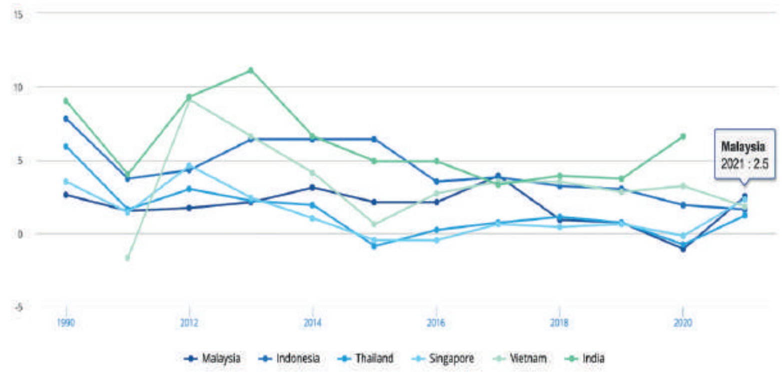


Figure 2.5.: Unemployment in Malaysia

Source: World Development Indicators

Malaysia has a high rate of development compared to many other countries in its region. The country is self-sufficient in many resources. For this reason, the country has always achieved stable growth (except during the Pandemic period), and adopted economic policies that support the welfare of the country. Inflation in Malaysia is also at low levels. The reason for this is the use of the right monetary policy tools by the Central Bank of Malaysia (Bank Negara) and the positive developments in the economy. The inflation rate in Malaysia in 2021 is 2.5 per cent. It seems to have a low inflation rate compared to many countries in the region. Low inflation rate supports the purchasing power of Malaysians and keeps them more prosperous. For Malaysia, inflation is expected to be 2.5 per cent on average in 2022, like the previous year. (BNM, 2022: 38; IMF, 2022).



Source: World Development Indicators

Figure 2.6.: Inflation Rate in Malaysia

Source: World Development Indicators

Figure 7 below shows the gini coefficients of Malaysia and the countries in its region. The gini coefficient, which measures the inequality in income distribution in a country, means that the inequality in income distribution decreases as it approaches zero, and the inequality of income increases as it gets farther away. When this coefficient is analyzed in terms of Malaysia, it is seen that important steps have been taken in the country. The gini coefficient, which has gradually approached zero over the years, shows that the efforts to reduce income inequality in the country have yielded results. In Malaysia, the gini coefficient was above 0.40 for 2020. One of the important factors in this rise is the worldwide Covid-19 epidemic (IMF, 2021: 8). The Covid-19 pandemic has disrupted the economic balance of many countries. The problems experienced in the supply chains caused the countries' production to be interrupted, which was reflected in the economic indicators. Also, many people are unemployed. The economic and social developments experienced during the epidemic affected individuals and companies. One of these effects was that people lost their income; on the other hand, some people increased their revenues more. This situation has led to an increase in income inequality during the epidemic process. These developments during the Covid-19 epidemic affected Malaysia as well as many countries in the world. However, with the decrease in the number of cases and the normalization of economic conditions, it is seen that the Gini coefficient is gradually improving. In this way, the increasing income inequality indicators worldwide have started to improve again.

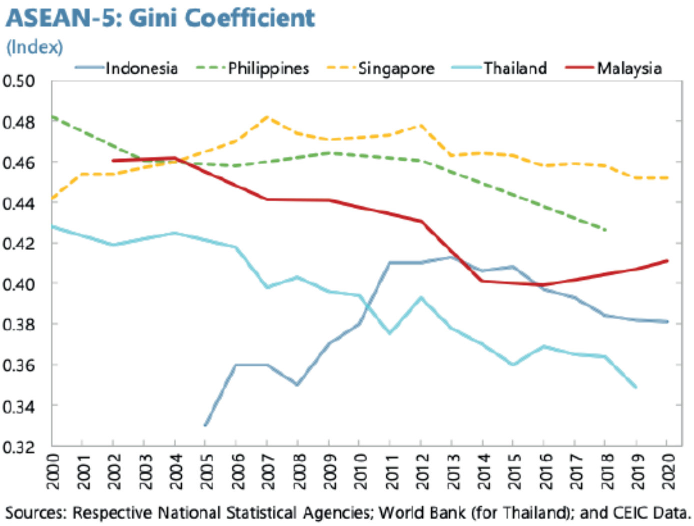


Figure 2.7.: Gini Coefficient of Malaysia and The Countries in Its Region

Source: Respective National Statistical Agencies; World Bank (for Thailand); and CEIC Data

When we look at the Southeast Asian countries, Thailand is seen as the country with the best Gini coefficient. When Malaysia is compared with the related countries, it is seen that this region is below the average gini coefficient. However, Malaysia also needs to implement policies to reduce income inequality further. These data remain high when compared to developed country data. For

Malaysia to reach the target of entering the high-income country group and to reach the position of being a developed country, it needs to provide economic balances between different social segments. In particular, the zakat system, which is implemented in the country through various state institutions, is very important in terms of reducing income injustice. Although Malaysia's economic growth increases yearly, income inequality between social groups has also increased. This growth does not appear to benefit everyone equally. Although GDP per capita increased in Malaysia between 1981 and 2017, the Gini coefficient decreased (World Bank, 2021: 36). In recent years, it has been seen that the growth rates in the country have become less inclusive. This is because the share of low-income households in total income is falling, and the absolute gap between households in the bottom group and those in the top group continues to widen. This situation causes the gini coefficient to increase gradually compared to Malaysia's peers.

After gaining independence, Malaysia has succeeded in many important areas such as economic growth, human capital and physical infrastructure. However, in terms of poverty reduction, a policy of reducing poverty based on specific ethnicities, not broad-based, has been adopted (World Bank, 2021: 36). This situation did not eliminate poverty but only reduced poverty.

To understand the financial structure of the Malaysian government, it is necessary to look at its different economic indicators. As shown in figure 8, It is seen that the majority of the country's expenses are wages (public personnel). Then the expenses for goods and services take the second place. Considering the tax revenues of the country, it is seen that the most income is obtained from the taxes collected on the incomes of individuals or institutions (IMF, 2022: 23).

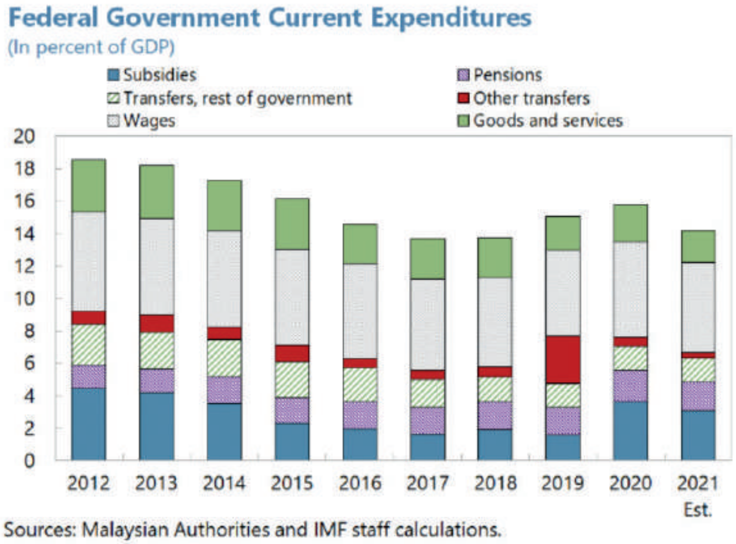


Figure 2.8.: Malaysia's Expenditure Items

Source: Malaysian Authorities and IMF Staff Calculations.

The second important source of income for the government in terms of taxes is the taxes it provides on goods and services. These revenues, in turn, consist of taxes, investment and interest revenues from international trade.

2.2. COULD YOU SPECIFY MALAYSIA'S SOURCES OF INCOME?

Positive economic developments in the past have enabled Malaysia to achieve high growth rates. High growth rates have stimulated the Malaysian economy, resulting in a significant increase in average income and, thus, a decrease in poverty. Looking at Malaysia's growth rates between 1960 and 2019, GDP increased by 6.3% annually on average. The World Bank estimates that Malaysia could transition to a high-income economy in the next few years due to sustained growth rates that increase average income. For Malaysia to be in the high-income country group, it should focus more on technological investments and have a knowledge-intensive, productivity-based growth target. However, in recent years, Malaysia's average growth rate has slowed down compared to previous years (World Bank, 2021:14). In addition, the covid-19 outbreak has affected key variables in the Malaysian economy as well as many economies. For this reason, the negativities experienced throughout the world in recent years have affected Malaysia as well as many countries. In order for Malaysia to be included in the high-income group it targets, it needs to develop new strategic goals and actions. In Malaysia, priority is given to certain groups or companies based on ethnicity in order to carry out some economic work (World Bank, 2021:31). This leads to inefficient allocation of resources without fair competition. For this reason, there is a weakness in economic productivity. Malaysia needs to take productivity-enhancing actions to generate better income and make better use of underutilized resources to generate income.

Malaysia is a country that has adopted the principle of export-based industrialization. It is also one of the countries that give importance to attracting foreign investors. It has minimized the barriers to investment in order to attract foreign investors. For these reasons, the contribution of foreign investment and capital to the country's economy is significant. Malaysia, a middle-upper-income country, has transformed its economy from a raw material producer to a multi-sectoral economy after the 1970s. It has started to play a major role in value-added production by attracting investments from high technology, knowledge-based industries and service sectors.

Malaysia, whose economic growth and development are based on mining and agricultural products, has rapidly industrialized attracting foreign capital to the country in the last 25 years, and the industrial sector's share has reached 23% in 2018. The services sector is the sector that provides the highest income in the country. Its share in GDP has reached 58%. The industrial sector is also one of the important locomotives of the country. The impact of the industrial sector on the country's income in 2018 was 23%. After 2019, while many sectors grew, the mining sector shrank. The service sector grew by 6.4%, the industry by 4.2%, the agriculture by 5.6%, the construction sector by 0.3%, while the mining sector shrank by 2.1%.

Many sectors have developed in Malaysia in recent years and have made significant contributions to both growth and employment. One of them is the manufacturing sector. The manufacturing industry in Malaysia has a diversified and high-value-added position. The manufacturing sector in Malaysia grew from RM 88 billion in 2000 to RM 294 billion in 2017. In addition, the number of people working in the manufacturing industry increased from 1.6 million to 2.2 million during these periods. This constitutes 15% of the number of people employed. Malaysia produces many products that provide superiority in the production sector and create an important source of income for the country, which are electronic product parts, rubber products, palm oil, wood products, office/accounting/computer machines, television, and radio. Apart from these, glass and other non-metallic mineral products, basic chemicals, household appliances, medical supplies and other electrical equipment are products that Malaysia produces and exports. As can be seen in Figure 9 below, the products and product groups, in which Malaysia provided production superiority, from 2007 to 2017 are listed.

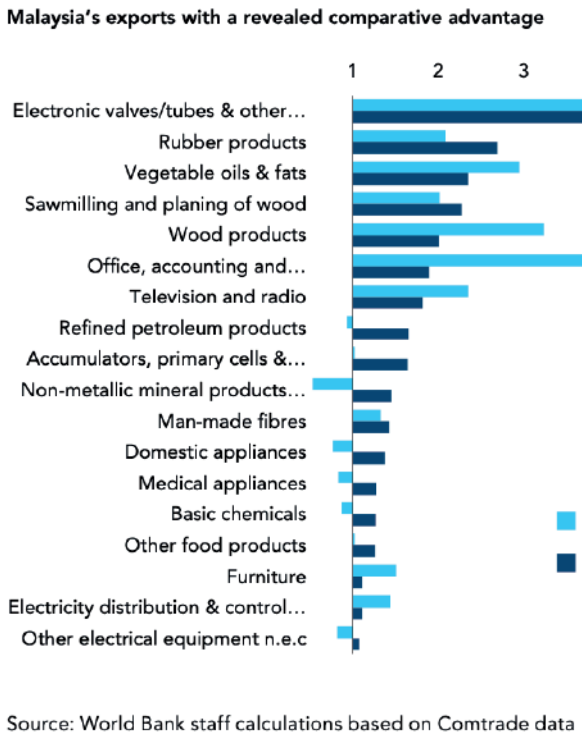


Figure 2.9.: Products for which Malaysia has a Competitive Manufacturing Advantage

Source: World Bank staff calculations based on Comtrade data

Malaysia produces in many sectors such as agriculture, industry, construction, mining and energy, maritime and exports its products to the world. The products that Malaysia produces in these sectors and that constitute the main source of income are as follows; Malaysia's agricultural products are palm, rubber, cocoa, coconut, tobacco, pepper, tropical fruits and vegetables, spices and rice. Among these products, especially rubber, cocoa and palm oil are the most important products in agricultural production. The vast majority of agricultural production is devoted to these products. Since the tropical climate prevails in the country, the diversity of agricultural products is quite low. While palm oil production is made on 6 million hectares of the lands allocated for agriculture, 1.2 million hectares are reserved for rubber production and only 0.6 million hectares are reserved for other agricultural production, including livestock (DEIK, 2021: 59). Malaysia is a very important country in world palm oil production. It is the second largest palm oil exporter in the world after Indonesia. Indonesia and Malaysia meet 90% of the world's palm oil demand. When the structure of the sectors in Malaysia's GDP is examined, it is seen that the share of the agricultural sector is gradually decreasing. For 2019, the share of agriculture in GDP, including livestock and aquaculture, was 8.2% (2020: 15). For this reason, since the production in the agricultural sector cannot meet the domestic demand, many products are imported from abroad.

Approximately 18% of the working population in Malaysia is employed in the industrial sector (DEIK, 2021: 60). In the industry sector, electrical and electronic equipment, durable consumer goods, textile, chemical and processed agricultural products are produced. Progress has also been made in the automotive industry in Malaysia. Proton and Perodua, which are domestic low-priced automobile companies, have come to a position where they can compete with other brands in the international market. As can be seen from Figure 9, electronic products have an important place in exports. However, mostly imported inputs are used for the production of these products.

The service sector in Malaysia is highly developed. As can be seen in Figure 10, the service sector provides the biggest contribution to the country's economy. The service sector supports 58% of the country's economy, including financial services (World Bank, 2021: 68). More than half of the workers in the country (about 62%) are in the service sector. The sub-sectors that create the most employment in the service sector are trade, finance and insurance. Tourism is one of the sectors that significantly contribute to the Malaysian economy. In 2019, 26 million tourists visited Malaysia. The tourism sector, which constitutes the largest share of service exports, is the country's third most important foreign exchange source (World Bank, 2022: 26). The majority of tourists visiting Malaysia come from Asian countries (especially Indonesia, Singapore and China). In recent years, especially health tourism has developed. The government has launched various tourism campaigns and allocated a significant budget to generate more tourism income.

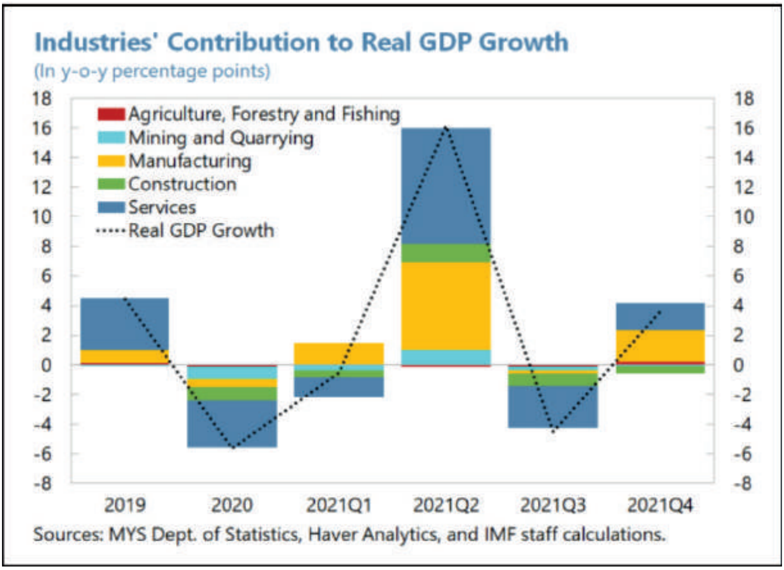


Figure 2.10.: Malaysia Trade Product

Source: MYS Dept. Of Statistics, Haver Analytics, and IMF staff calculations.

Malaysia is a country where people of various ethnic backgrounds live. For this reason, different ethnic origins can dominate some sectors and areas, except for the Malays. One of them is the construction industry. Approximately 25% of the Malaysian population consists of Chinese-born Malaysians.

These groups dominate the construction and trade sectors in the country. Malaysia's proximity to China has effectively established an important trade partnership between both countries.

Malaysia is also an important country in terms of underground resources. For this reason, oil, natural gas, iron, bauxite and tin are the most important underground resources in Malaysia. Malaysia can meet more than 80% of its oil needs (DEIK, 2021: 62). It earns a significant income by exporting the oil it produces. While oil production has remained stable in Malaysia in recent years, there has been an increase in natural gas production. Malaysia ranks 14th in the world in terms of natural gas reserves and 23rd in terms of crude oil reserves (DEIK, 2021: 63). According to the Malaysian Ministry of Economy, it has been announced that there are a total of 6.7 billion barrels of natural gas and oil reserves. They stated that this reserve could be enough for them until 2029. Oil and gas exploration and production activities in Malaysia are carried out by state-owned Petronas. Petronas is the sole authorized company for oil and natural gas extraction in the country. For this reason, companies that want to invest in the field must first sign a production-sharing agreement with Petronas. Especially in natural gas production, Petronas is the sole authority and is a monopolist in all exploration and production operations. Apart from natural gas and oil reserves, Malaysia also has coal reserves. Especially the coal reserves in Sabah and Sarawak states have not made much progress since the coal obtained is not of the desired quality.

Basic metal products in Malaysia are also an important source of income for the country's economy. This industry is influential in the development of the manufacturing and construction sectors in the country. The iron and steel sub-sectors in Malaysia are estimated to contribute 6.5% to GDP. On the other hand, Malaysia can produce many manufacturing industry products such as electrical and electronic products, aviation, automotive, packaging, machinery and medical devices. 84.5% of the investments made by foreign investors in Malaysia in 2017 were made in the electricity and electronics sector (DEIK, 2021: 78).

Among the product groups traded in Malaysia, the group that provides the most income is the machinery, electrical and electronic materials group. The share of this group in trade is 43.51%. Another group is fuelling. The share of this group in trade is 14.48%. The shares of other product groups in trade are respectively, chemical products 4.43%, plastic and rubber 7.2%, food products 2.80%, minerals 0.83%, precious stones and glass 2.06%, animal products 0.57%, textile and clothing products 1.41%, forest products. 1.99%, transfers 1.96%, vegetable products 6.06% and miscellaneous 6.42% (World Integrated Trade Solution (WITS), 2022).

Malaysia is a country with high tax revenues. As can be seen in Figure 11, the most income is obtained from the incomes obtained from companies and individuals. Another important tax income is derived from the income obtained from goods and services. Other tax revenues include international trade taxes and interest taxes and investments.

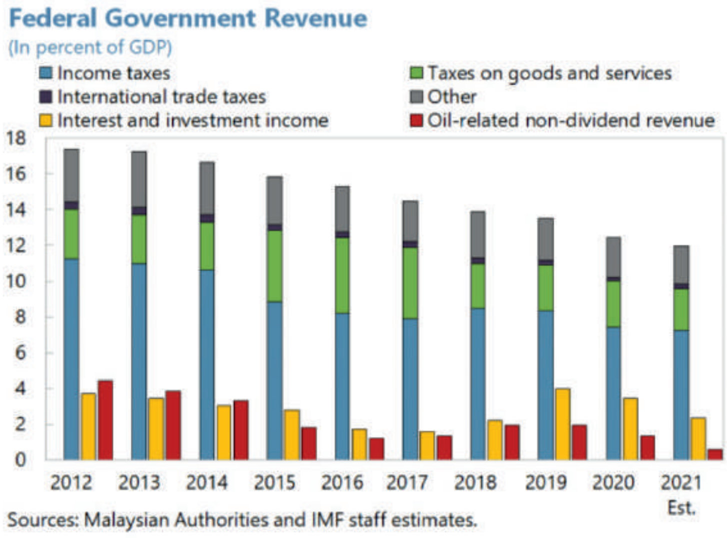


Figure 2.11.: Malaysian Government Tax Revenues

Source: Malaysian Authorities and IMF staff estimates.

Malaysia has adopted the export-led growth model. For this reason, while it provides income from within, especially the income from foreign trade contributes more. Industry, manufacturing and service sectors are the driving force of the country. In particular, exporting products such as electricity and electronics, oil and natural gas contributes significantly to the country's income. Malaysia's export-led growth model has had a positive impact over time. However, in today's conditions, Malaysia needs to develop new economic policies and find additional income-generating methods to reach the high-income country position it aims at. For this reason, it is possible to create more technology-intensive areas and export the products produced in these areas. In addition to improving economic indicators, it is necessary to create employment, increase productivity, ensure income equality and improve education as a goal.

2.3. COULD YOU SPECIFY THE IMPORT AND EXPORT STRUCTURE OF MALAYSIA?

Adopting the export-led growth model, Malaysia aims to achieve high-income country status like other Asian tigers. The rises in the oil, gas, electricity, and electronics industries were influential in Malaysia's high growth rates between 1967 and 1997. Malaysia has a highly developed market especially for electrical and electronic (E&E) products. Many leading companies - Intel, Broadcom, and Western Digital - have production facilities in Malaysia. For this reason, Malaysia is among the most open economies in the Asian region. Malaysia, whose most important export item is electronic products, imports the intermediate goods required for their production abroad. For this reason, global problems (such as pandemics and war) seriously affect this sector in Malaysia. In 2017, 85% of the investments made in the manufacturing sector in Malaysia were made in the electrical and electronics sector. Investments were mostly made by Singapore, the Netherlands, Japan and Germany. Malaysia, which is the 26th largest exporter in the world, also exports crude oil, liquefied natural gas, chemicals, machinery and equipment, palm oil and derivatives, metal, rubber, wood and wood products in addition to E&E products. These products are the driving force of the Malaysian economy. According to World Bank data, Malaysia's top 5 exporting countries are China 20.68%, Singapore 10.54, the United States (USA) 8.09% and Japan 7.49%. The most exported products are integrated circuits and digital products ($65 billion), petroleum oils ($15.9 billion), clothing and accessories ($8.25 billion), liquefied natural gas and palm oil ($10.6 billion), palm oil, machinery, optical and scientific equipment, metal, rubber, wood and wood products. Apart from these products, service exports also have an important place in Malaysia. Exports of traditional services such as travel and transportation are mostly concentrated. Apart from this, important economic developments are also experienced in other sub-sectors of the service sector. Malaysia's main trading partners in terms of service are Asia, North America and Europe. In 2018, Malaysia's service exports to the Asian region accounted for 69% of Malaysia's total service exports. In particular, 59.6% of this service exports were made to Singapore, Indonesia and Thailand. For this reason, in order for Malaysia to increase the share of service exports in total exports, especially exports should be offered to fast-growing markets such as India and China. Service exports to Europe constitute 12.3% of the total. The United Kingdom has the largest share of this rate. On the American continent, 13.6% of service exports are made to the USA. Malaysia meets 69.1% of its service imports from Asian countries, 15.3% from European countries and the remaining 11.7% from America.

Figure 2.12.: Malaysia's top 10 Service Trading Partners

Source: World Bank

Malaysia is the 26th largest Importer in the world. The country's largest import products are electrical, machinery, chemicals, petroleum, plastics, vehicles, metal, iron and steel. In addition, Malaysia, with a population of 32 million, is a net food importer and imports 70% of its total food needs. Malaysia's largest import partners are China with 15.1%, Singapore with 13.3%, Japan with 10.3%, the USA with 8.1%, Thailand with 6.0%, Indonesia with 5.1% and South Korea with 4.1.

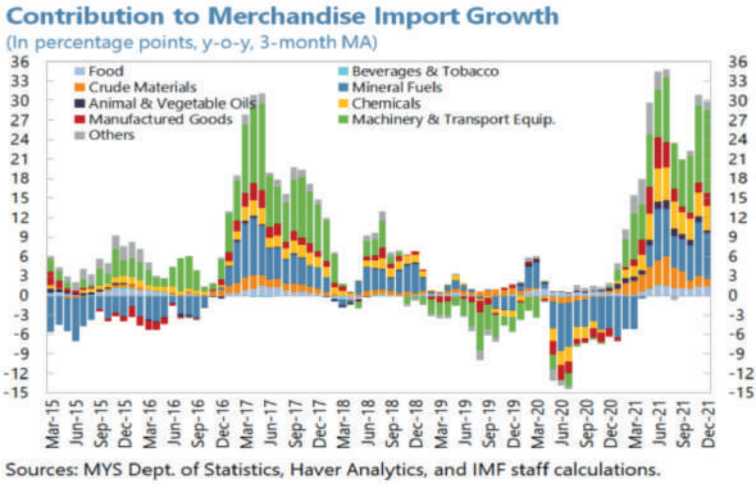


Figure 2.13.: Product Groups That Makeup Malaysia's Imports

Source: MYS Dept. Of Statistics, Haver Analytics, and IMF staff calculations.

Malaysia has been a country with a constant foreign trade surplus since 1997. For this reason, Malaysia has high foreign exchange reserves. The increased foreign exchange reserves enable the Malaysian government to take measures towards the economy more quickly and effectively. According to World Bank data, the foreign trade volume of Malaysia continued to grow in 2019 and realized 238.1 billion dollars of exports and 204.9 billion dollars of imports (World Bank). Various product groups have been effective in the increase in Malaysia's foreign trade. Foreign demand, especially for pharmaceuticals and electrical equipment, supported exports. However, the covid-19 outbreak appears to have reduced the export of these products in the third quarter of 2021. On the other hand, the share of other products that contributed to Malaysia's exports in years is shown in Figure 14 below.

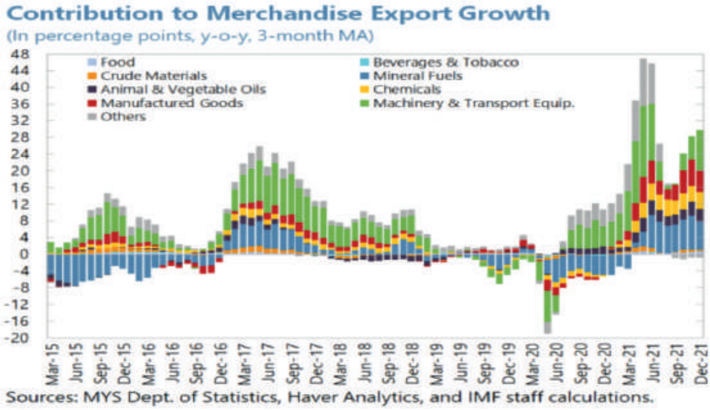


Figure 2.14.: Product groups that make up Malaysia's exports

Source: MYS Dept. Of Statistics, Haver Analytics, and IMF staff calculations.

Import regulations applied in Malaysia are more liberal compared to other Asian countries. Many products can be freely imported under the "General Free License". However, as a policy of the country, import restrictions have been imposed on some products. These products are iron, steel, cement, automotive and automotive parts, and some agricultural products. The reason for this restriction is to encourage the production of some agricultural products. Products such as rice, meat, fruit and vegetables can be listed among these products. In products such as frozen chicken, milk, sugar and eggs, import restrictions can be imposed if the sufficient demand of the country is met.

Malaysia's exports have been at a higher level than its imports for many years. For this reason, it constantly gives a current account surplus. The country can take more effective decisions economically due to both the excess foreign exchange obtained from foreign trade and the foreign exchange obtained from the tourism sector. Malaysia, whose current account balance is positive yearly, increases its exports daily. Malaysia only increased its exports by 14.4% between 2019-2020 and decreased its imports by -3.4%. Relevant increases can be seen in Figure 15 below. The majority of this increase in exports is due to the increase in exports to China. According to the World Bank data, Malaysia realized 266 billion dollars of exports and 196 billion dollars of imports in 2020. Malaysian authorities implement policies to increase exports more and encourage domestic production for the products they are dependent on. In order to meet the needs of domestic demand and support the producers, especially for some agricultural and food products, various incentives are offered and some restrictions are imposed on imports. Due to its climate, Malaysia is a foreign-dependent country, especially for food products.

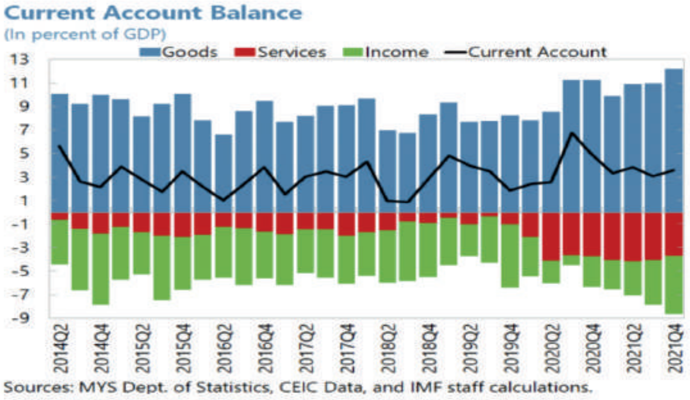


Figure 2.15: Malaysia's Current Account Deficit by Year

Source: MYS Dept. Of Statistics, Haver Analytics, and IMF staff calculations.

The authority to set and implement policy on foreign trade and direct capital in Malaysia belongs to the Malaysian Ministry of International Trade and Industry (MITI). In addition, in customs disputes, it is necessary to apply to the Customs Dispute Court, which is an independent institution. Malaysia applies an export tax of 5-30% on products such as logs, palm oil and rubber, where it holds 15% of world production and 30% of trade. On the other hand, it also imposes taxes on wild animal exports in order to protect the environment and wildlife. In addition, a 20% tax is applied on crude oil exports. The average customs duty applied by Malaysia to the members of the World Trade Organization is 5.6% (DEIK, 2021: 49). Customs classification of a product in Malaysia is made according to the "International Harmonized Classification System". Customs duties have decreased in recent years. On the other hand, customs duties are higher for products with significant local production. Higher tax rates apply to luxury consumer goods, tobacco products, alcoholic beverages, expensive food products and automobiles.

In addition, there is a tax on crude oil exports. Malaysia keeps import tax rates high, especially in the automotive industry. Although it makes some discounts in order to fulfil its commitments with ASEAN, it compensates them with sales and consumption tax. However, it is aimed to make the sector more liberal under the National Automotive Plan (NAP). In addition, the measures taken in the iron and steel industry in 2002 were reviewed again, and taxes were reduced to 25% and 10%, respectively, on flat and long steel, as of August 2009. Gradual reductions are envisaged, effective from 2010. On the other hand, Malaysia's; There are regional and bilateral Free Trade Agreements (FTA) that it has signed or negotiated on investment, certificate of origin, and trade in goods. Malaysia has already signed Free Trade Agreements with Japan and Pakistan under the Japan Economic Partnership and with S. Korea, China and India under ASEAN, and within the scope of these agreements, there is a reduction or zero tariff in the customs tariffs of some products. In addition, the institutions authorized according to product groups in matters such as standardization, testing, inspection and certification of imported products are SIRIM, SIRIM QAS, CIDB, DVS, JAKIM and NPRA (DEIK, 2021:51). Malaysia is particularly sensitive about the import of meat and dairy products. For this reason, products that do not meet the required standards and quality are not imported. In addition, Malaysia often restricts imports in order to balance its own producer and domestic market.

2.4. HOW DOES MALAYSIA'S CENTRAL BANK OPERATE?

The Central Bank of Malaysia, called Bank Negara Malaysia (BNM), is a statutory body that became operational on January 26, 1959. BNM is governed by the Bank of Malaysia law enacted in 2009. The mandate of the Central Bank of Malaysia is to ensure monetary and financial stability to ensure sustainable growth.

BNM's monetary policy stance aims to maintain price stability while supporting growth. BNM is responsible for ensuring financial stability as well as price stability. It is also within the functions of BNM to deepen and strengthen the foreign exchange markets. In addition to these, it also has duties such as developing the infrastructure of the financial system and providing access to financial services for all economic stakeholders of the society.

BNM also acted as the government's banker and financial advisor. In this context, he advises the government on macroeconomic policies and the management of public debt. BNM is also the sole authorized institution responsible for printing the country's national currency and managing the country's international reserves.

BNM has always tried to implement correct monetary policy practices in order to protect the value of the national currency, the Ringit. For this reason, Malaysia has been living with low inflation for years. In addition to price stability, the Bank has not neglected establishing a sound and progressive financial system. For this reason, a well-diversified, comprehensive and flexible financial sector has been built to meet the increasing financial needs of individual investors and businesses.

In addition to establishing the country's secure payment systems in terms of banking, BNM also developed the financial system infrastructure by establishing the necessary institutions (Securities Commission, KLSE and Credit Guarantee Institution known as Bursa Malaysia). In this context, with the establishment of these institutions, a comprehensive, robust and flexible financial structure has been built. BNM carries out the necessary arrangements to ensure the functioning of financial markets. BNM established the Financial Services Ombudsman (Ombudsman for Financial Services-OFS) to resolve disputes between banks and consumers (BNM, 2022). In this way, financial disputes between the bank and its customers are resolved more quickly.

In addition, another important aim and vision of BNM is to make Malaysia an Islamic Finance Center. Necessary legal regulations and infrastructure have been established to achieve this goal. For this reason, the Sharia Advisory Council (SAC) was established within the BNM in May 1997. This council is the highest recognized sharia authority in the field of Islamic Finance in Malaysia. SAC has the power to examine Islamic banking and Finance, Takaful and other Sharia principles and their conformity with the meaning of Islamic Law in matters that need to be supervised and regulated by Sharia. SAC is a body and adviser of the Central Bank of Malaysia on Sharia issues. SAC is responsible for examining the compatibility of Islamic banking and takaful products with Shariah principles, and aligning any problematic areas with Sharia. Apart from the Central Bank of Malaysia, SAC also examines and advises on Islamic finance-related transactions of other financial institutions within the framework of Sharia rules. The Central Bank Act further strengthened the powers of the SAC, thus making the SAC the sole authorized body for Islamic Banking, Takaful and Sharia-related matters in Islamic finance. When comparing the decision of any other sharia council in the country with the decision of the SAC, the decision of the SAC is superior to the decisions of all other sharia boards. SAC consists of 9 members, including the chairman. SAC members are generally qualified individuals consisting of religious scholars, lawyers and market practitioners. These people are typically comprised of people who have knowledge of banking, finance, economics, law and Sharia and are especially competent in Islamic economics and finance.

BNM sets interest and exchange rates, supports conventional banks, and regulates all financial institutions by controlling the Islamic banking system. It also manages interbank payment systems. In addition, it also takes initiatives for developing small and medium-sized enterprises throughout Malaysia, and prepares and implements monetary policy programs (Hossain, 2009: 39).

BNM primarily affects financial markets when it changes the policy rate. This is transmitted throughout the commodity and labor market, ultimately affecting aggregate output and prices. Current and planned output and inflation rates provide feedback to monetary policy decision-makers. BNM uses four main monetary policy transmission channels. These;

- Interest rate channel
- Exchange rate channel
- Bank credit channel
- Balance sheet channel

BNM does not conduct a monetary policy transmission through Islamic banks. The Islamic Interbank Money Market (IIMM) is used to manage the liquidity of Islamic banks. Therefore, the monetary policy transmission channels described above are only applicable to the conventional banking system. When Islamic banks had excess liquidity, they bought government investment certificates (GIC) from the Central Bank of Malaysia and sold them to the Central Bank of Malaysia when they needed liquidity. These certificates were used for Islamic banks but were insufficient in terms of their liquidity management. Therefore, there was a need for a full-fledged Islamic interbank money market in Malaysia. BNM did not have any precedent for establishing the Islamic money market. For this reason, BNM has developed a fiqh-appropriate example of the conventional money market by designing it for itself. In the newly established Islamic money market, financial products that are suitable in terms of fiqh started to be used. In the Islamic money market, BNM acts as an intermediary and helps Islamic banks manage their liquidity.

Before 1978, Malaysia used five main policy tools to control the money supply and the bank credit creation process. Conventional monetary policy tools used by BNM; include required reserves, minimum liquidity ratio, loan volume and direction, interest rate and discount transactions. The difference after 1978 is; the use of open market operations in monetary policy management and the use of interest rates as a policy indicator. The use of reserve requirements and discount transactions as policy instruments continued after 1978 as well. In addition, supporting priority sectors is also included in the monetary policy targets (Mulkiaman, 2016: 54). With the implementation of Islamic banking in the country in the following years, Islamic banks were included in this policy framework and a dual banking system started in Malaysia.

Major payments of the Islamic Banking sector in Malaysia are made through Islamic current accounts at BNM. The reason for making this distinction is the necessity of keeping funds belonging to conventional and Islamic banks separately in terms of fiqh. However, liquidity in both systems is linked to third-party payments between bank customers in both sectors.

The primary purpose of BNM's monetary operations in terms of Islamic money markets is to provide the liquidity necessary for the effective functioning of the Islamic interbank market. The monetary policy target applies only to the conventional money market, and the interest rate-based products in the conventional money market are primary funding products. BNM manages the liquidity of the Islamic interbank money market with products that are claimed to be Shariah-compliant. The most used product is qard acceptance. Through qard acceptance, BNM manages liquidity by accepting excess funds from Islamic banks. In addition to this product, the bank uses the commodity murabaha program in liquidity management. For this, transactions are made with crude palm oil-based contracts through the commodity trading platform in Bursa Suq Al-Sila, which is the Malaysian Stock Exchange.

All banks in Malaysia have reserve deposit accounts with BNM. This account is an interest-free deposit account. Banks are required to keep a balance of 4% as a liability base in this account. Profit and loss investment accounts are part of the obligations regarding calculating required reserves.

Malaysian banks are obliged to maintain sufficient excess liquidity and reserves against a sudden liquidity shock arising from their assets and liabilities. The liquidity profile of Islamic and conventional banks in Malaysia is quite similar as they operate in a dual banking system. Most deposits are accepted with the same value date, and although the deposit structure and designs are different, they target the same type of customers. Profit and loss accounts are subject to the calculation of both required reserves and liquid assets (Islamic Financial Services Board, 2008: 50-51).

The Central Bank of Malaysia aims for monetary policy tools and methods at conventional banks. While realizing its monetary policy, it acknowledges this over the policy interest rate it has determined. BNM offers many financial liquidity management tools to conventional banks. With these financial instruments, BNM can affect the money supply in the market. In other words, it can increase or decrease the amount of money in the market. It also assists in the liquidity management of conventional banks. With the start of Malaysia's dual banking system, Islamic banks have also been included in the banking system in Malaysia. In this new system, the Islamic interbank money market has been developed by BNM to help the liquidity management of Islamic banks and to affect the money supply in the market, and many products have been developed that can be used by Islamic banks. Fiqh analysis of the products was made, and they were made suitable for Islamic banking without interest. The Fiqh contracts that BNM has used interest-free banks in the Islamic money market today are as follows;

- The Mudharabah Interbank Instrument
- Wadiah Acceptance
- Commodity Murabahah Programme
- Wakalah Placement Agreement
- Ar-Rahnu Agreement

As can be seen, the Central Bank of Malaysia meets the liquidity needs of Islamic banks when they need liquidity. On the contrary, if Islamic banks have excess liquidity, these banks have the opportunity to earn income by keeping their excess liquidity in the central bank. With these products offered to Islamic banks, BNM can attract or give liquidity to the market. In this way, it can adjust the money supply through conventional and Islamic banks.

BNM has made many arrangements for the implementation and development of Islamic banking. Malaysia has a well-functioning financial system. It is especially known as the center of Islamic banking and has successfully attracted capital to the country. Islamic financial assets constitute 23% of the banking sector in Malaysia. In addition, this rate is increasing. However, the products offered by the Central Bank of Malaysia to Islamic banks have some Shariah drawbacks. There are fiqh drawbacks in many products called Islamic financial products. In particular, many processes are carried out as fitting into the sheath. This situation casts a shadow on the innovations that Malaysia has made in the field of Islamic finance. As a criticism, BNM has to adhere to Sharia rules more in this sense and is responsible for eliminating the drawbacks in its current products. If done this way, Malaysia will be seen as the true center of Islamic finance.

Bank Negara Malaysia (BNM) uses policy interest rates to influence the interest rates earned by depositors, individuals, or institutions borrowing from banks. BNM raises interest rates by withdrawing funds from the banking system during periods of high money supply and inflation in the economy, thus implementing a tight monetary policy. Thus, high-interest rates encourage market participants to save more and spend less. In addition, an increase in the interest rate will increase the cost of borrowing. With the policy of rising interest rates, consumption and investment reach a more predictable level, and the possibility of high inflation is eliminated. When the opposite situation occurs, that is, when economic conditions are weak, funds will be injected into the banking system to reduce interest rates, and expenditures and borrowings will be increased. This will result in an increase in consumption and investment. In addition, economic vitality will be ensured, and higher income, employment and economic growth will be realized. BNM uses various monetary policy tools according to the course of the economy. However, BNM supports low-interest rates due to both the support of Islamic banking in the country and the various benefits of low-interest rates to the country's economy. However, the interest rate is determined as low or high according to certain economic conditions, provided that it remains true to the science of economics. The low-interest policy is adopted by BNM as long as there are no extraordinary circumstances, as it supports economic vitality, reduces income inequality, and makes employment and growth sustainable. People's response to monetary policy changes in Malaysia remains very weak. This is because BNM has not made a very serious interest rate change for a long time. Contrary to expectations, at the July 2022 monetary policy meeting, BNM increased the overnight policy rate by 25 basis points to 2.25%. The statement defines that economic activities in Malaysia have strengthened and domestic demand will support growth. However, it was stated that inflation was suppressed upwards due to global developments. It has been noted that borrowing costs are at their highest level since 2020 and that interest rate increases will be measured and gradual at the next meetings.

2.5. WHAT IS THE POSITION MALAYSIA HOLDS IN GLOBAL ECONOMY?

Malaysia, one of the successful economies of Southeast Asia, has made significant economic breakthroughs, especially after its independence struggle in 1957. It had an economy based on agriculture and commodities. Now it is an important exporter of electrical and electronic products. It is the leader in the manufacturing and service sectors in the Asian region. Malaysia, which has a diversified economy, has achieved middle and high-income status and aims to have the label of a high-income country in 2024. In the past, Malaysia has achieved continuous growth and managed to attract attention. In order for Malaysia to sustain this growth and achieve the high income it targets; it needs to develop policies different from the economic breakthroughs it has made in the past. Because the world economy is changing rapidly, the factors that enabled Malaysia's growth in the past may not be valid today. For this reason, Malaysia needs to create more heterogeneous dynamics that will provide a driving force for growth. In the report of the World Bank, which lists the things that Malaysia needs to do to reach the status of a high-income country, the following is revealed (World Bank, 2021: 18);

- **Stimulating Long-Term Growth:** Malaysia's GDP is expected to decline or slow over the next 30 years compared to high-income countries. In order to reduce the decline in growth rates, it is necessary to increase the quality of education, employ more women and increase productivity.
- **Increasing Competitiveness:** Going forward, efforts should be made to increase innovation and productivity in the private sector. Better economic results will be achieved by eliminating economic problems, encouraging innovation and digitalization, improving the competitive environment, improving the investment climate and better integrating with other countries in the region.

- **Creating Jobs:** As Malaysia approaches high-income status, it will need more educated and talented people. For this reason, it is important to train people with the skills required by increased automation. In particular, lifelong learning and digital literacy need to be promoted. In addition, necessary reforms need to be made to attract talented people to the country.
- **Ensuring Inclusive Economic Developments:** Although Malaysia has achieved growth from the past to the present, this growth has not provided the same welfare to all segments of society. It was more beneficial to certain features. This situation caused discontent in the country. For this reason, economic growth should be used in a way that will benefit all segments. In particular, lower-level households need to be supported and poverty reduced.

Malaysia has increased its trade by 130%, especially since 2010, and has the status of the world's most open economy. The economic policies that followed made the country available for trade and investment. The positive developments experienced led to an increase in employment and income. However, the COVID-19 (coronavirus) pandemic that has emerged in recent years has affected the Malaysian economy as well as the global economy. Especially low-income households have been the group most affected by the economy. Sharing the poverty line data in 2020, Malaysia stated that 5.6% of the population lives within the poverty line (World Bank, 2022). For this reason, the government should strive to improve the welfare of the lowest 40 per cent of the population, especially to combat poverty. This sub-section remains weak, especially in the face of economic fluctuations and financial liabilities.

Income inequality in Malaysia remains high when compared to other East Asian countries. However, when the past and current data are compared, it can be said that Malaysia has experienced positive developments in terms of income inequality. In this sense, the government especially tries to provide cash support to low-income households and relieve the poor through many other practices.

According to the World Bank's Human Capital Index, Malaysia ranks 55th out of 57 countries (World Bank, 2022). Malaysia is making significant efforts to fully use its human capital and move the country to the best levels of human development. First of all, to achieve progress in this sense, Malaysia needs to improve education, health and nutrition. Especially by the social state understanding, these improvements should be made starting from the lowest households and the income should be shared equally.

Malaysia, which has the status of upper- and middle-income countries, also contributes to the development of low- and middle-income countries. It also takes important economic steps to achieve its vision of high-income country status. In this sense, Malaysia has realized the following innovations;

- With the joint work of Bank Negara Malaysia (BNM) and the World Bank Group, a new asset class was introduced to the world with the Green Sukuk, which is called Islamic green bonds by the Securities Commission.
- Various legal regulations facilitated capital inflows into the country and various exemptions were provided for doing business in the country.
- Various incentives have been provided to employers in women's employment in order to ensure women's participation in the labor force in the country.

While Malaysia has various resources and opportunities to be at the top of the world economy, it has also moved its economy to the top thanks to the government's own economic policies. Malaysia, the first in the Southeast Asian region and the fifth largest exporter of liquefied natural gas (LNG) in the world, is one of the countries that benefit from various opportunities in the energy sector.

Petroliam Nasional Berhad (Petronas) is responsible for all oil and gas exploration and production projects in Malaysia. Petronas owns most of the oil and gas resources in Malaysia. Petronas' contribution to government revenues – in the form of taxes, dividends and cash payments – accounted for approximately 35% of total government revenue in 2019 (U.S. Energy Information Administration (Eia), 2021: 1). ExxonMobil, ConocoPhillips Energy and Shell are the oil companies that perform the most oil production activities in Malaysia. In addition, when analyzed as a reserve, Malaysia ranks 14th in the world in terms of natural gas reserves and 23rd in terms of crude oil reserves.

Malaysia's economy is the third largest in Southeast Asia and the 37th largest in the world. Increases in private consumption expenditures in Malaysia, especially in the period of 2019-2022, supported the growth. The low special consumption taxes and the increase in the minimum wage in 2022 increased the purchasing power. In the same period, rubber and palm oil production, which has an important place in the agricultural sector in Malaysia, increased. In this way, a 2.7% growth is expected in palm oil and rubber production. Malaysia is one of the most important suppliers of world palm oil and rubber production. Malaysian agricultural production is palm oil, rubber, coconut, tropical fruits and vegetables, spices and rice. Malaysia meets the majority of its food needs from other countries. However, most of the world's rubber, palm oil and cocoa needs are met by Malaysia. Malaysia ranks second in world palm oil production. In addition, Malaysia is an important country in the export of electrical and electronic products. Likewise, in 2020, Malaysia became the world's largest clothing and accessories exporter.

According to 2020 World Bank data, Malaysia was the 20th economy in total exports, 25th in total imports, and 69th in terms of GDP per capita (USD) (OEC, 2022). According to the 2021 Global competitiveness report, Malaysia has become the 25th most competitive country globally. According to this data, Malaysia is seen as more competitive than countries such as France, Japan and

Israel (https://www.wikiwand.com/en/Economy_of_Malaysia). According to 2020 data, Malaysia ranked 12th in the ease of doing business index, which is an indicator that investors who want to invest in another country pay attention to.

Malaysia is seen as a wealthy country when compared to other ASEAN (Association of Southeast Asian Nations) countries. This is because it has a rapidly growing export economy. Other reasons why Malaysia has an affluent lifestyle are low taxes, reasonably priced food, cheap transport, and government-subsidized health expenditures. Malaysia is an open economy country. According to 2020 data, the export value of high-tech products is 92 billion USD. This value is the second highest among ASEAN countries. In addition, Malaysia is the second largest exporter of palm oil products globally, after Indonesia. Besides, Malaysia is also the world's largest Islamic banking and finance centre. Islamic financial services have grown significantly since the establishment of the first Islamic bank in 1983. Malaysia, where Islamic finance is concentrated, is the global leader in this sector today. Services offered by Malaysia within the scope of Islamic finance; include mutual funds, takaful (Islamic insurance), interest-free capital market activities, crowdfunding, use of financial technologies, and central bank interest-free money market instruments. Although Malaysia has 2% of the world's Muslim population, it accounts for 20% of global Islamic finance assets. The Islamic finance sector in Malaysia is considered among the best in the world in terms of the number and diversity of institutions, profitability and resilience, and level of sophistication.

In the report prepared by HSBC in 2012, it was stated that Malaysia will be the 21st largest economy in the world in 2050, with a GDP of 1.2 trillion dollars and a GDP per capita of 29,247 dollars. The report also stated that there would be a significant increase in per capita income due to electrical equipment, petroleum and liquefied natural gas products. "Malaysia has all the right ingredients to become a developed nation," said Viktor Shvets, managing director of Credit Suisse. All these indicate that Malaysia will reach higher GDP in the future, and GDP per capita will increase even more. It also indicates that it will be one of the emerging economies of the future. However, according to OECD data, another important international organization, Malaysia has an income between middle-income countries and OECD countries. OECD measures economic development using hundreds of indicators. As a result of the measurements, Malaysia is above the average for most middle-income countries. However, it performs poorly compared to the average of OECD countries. These measurements on the economic structures of the countries reveal the weak and strong aspects of the countries. Malaysia has taken important steps in terms of poverty and welfare and has made progress in this regard. However, when compared to the countries in its region (Southwest and Southeast Asia), it is seen that it is behind them in this sense (World Bank, 2021:16). In the economic measurements made by the OECD for the countries, the following topics have emerged for the Malaysian economy (World Bank, 2021:16);

- **Poverty and shared wealth**: Malaysia outperforms OECD and middle-income countries in terms of poverty and shared wealth. Malaysia has a poverty line just below the international poverty line. Also, in Malaysia, GDP per capita is increasing every year. This means that people's welfare increases due to economic indicators (such as inflation) that do not show much variability.
- **Infrastructure, Industry and Innovation:** Apart from renewable energy, Malaysia outperforms the average of middle-income countries in terms of indicators such as industry and infrastructure. Compared to OECD countries, the manufacturing sector is in a better position regarding employment and value creation. However, it lags behind the average of OECD countries regarding the number of researchers and research and development expenditures.

- **Environment:** Malaysia performs worse than the OECD average for all other environmental protection indicators except biodiversity conservation.
- **Health, Nutrition and Education:** Spending on health, nutrition and education in Malaysia is worse than the average of OECD countries (World Bank, 2021: 17). However, it is doing better than in middle-income countries. In addition, the proportion of overweight children is higher than the OECD average. Diseases such as cardiovascular, cancer, diabetes or chronic respiratory disorders are more common in Malaysia than in OECD.

Equality and Accountability: Malaysia met only two of the six indicators selected by the OECD to measure equity and accountability. The number of women working in managerial positions is worse than in OECD and middle-income countries. Malaysia does better than middle-income countries in terms of the number of prisons and detainees but performs worse than the OECD average. Malaysia is open to trade with more than 90 per cent of the countries in the world (World Bank, 2021:22). In Malaysia, especially the manufacturing sector is in a strong position and trade in goods is higher than its peers in the region. This situation is also seen in the export of electrical and electronic products, which constitute 38% of exports. Many major digital companies (Intel, Western Digital and Broadcom) have production facilities in Malaysia.

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CHAPTER 3

Islamic Banking and Methods Used In Malaysia

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3.1. COULD YOU GIVE SOME BACKGROUND INFORMATION ON THE HISTORY OF ISLAMIC BANKING IN MALAYSIA?

Malaysia is a South East Asian country located on the Malay peninsula (Bayindir, 2013: 126). Malaysia, with a population of 31.5 million, is an Asian country where the majority of them are Muslims and where more than one race lives together (Wahab, 2016: 3). Malays make up 58% of the Malaysian population, 25% are of Chinese origin, 7% are of Indian origin, and the rest are people from different ethnic backgrounds.

The official religion of the Malaysian state is Islam. Although it is stated in the constitution in this way, there are people who

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belong to many different religions other than Islam. For this reason, Malaysia is a country where people from different religions live together. While approximately 62% of the living population is Muslim, the rest belong to different religions.

The development of Islamic banking took place in the early stages due to the prevalence of Islam in Malaysia and many other reasons (Türker, 2010: 31). The development of Islamic banking in Malaysia has been influenced by internal and external factors. Mit Ghamr Local Savings Bank, which was established in Egypt in 1963 and led to the development of modern Islamic banking, followed by the establishment of the Islamic Development Bank in Saudi Arabia and the Dubai Islamic Bank in the United Arab Emirates in 1975, contributed to the development of Islamic banking in Malaysia are external factors. The strengthening of religious knowledge among Muslims through various educational institutions in Malaysia and the interest of the Muslim people in an interest-free banking system are internal factors that are effective in developing interest-free banking in Malaysia. In addition to this, the success of Tabung Haji as a respected financial institution has increased awareness of Islamic banking among Muslims (Zin et al., 2011: 481).

The history of Islamic banking and finance in Malaysia began with the establishment of the Hajilar Management and Fund Board (PMFB), which provides interest-free finance in the country. PMFB was established in August 1969 to collect and direct the savings of fund owners who want to fulfil their pilgrimage (Sukmana and Kassim, 2010: 9).

The Pilgrims Management and Fund Board, known as Tabung Haji was established to achieve the following objectives;

- Helping the Muslim community to save their savings and thus supporting Muslims who want to go on pilgrimage with these savings.
- To ensure that the savings of Muslims are used in areas that are appropriate in terms of fiqh.

- To provide various services and protect the interests of Muslims who fulfil the pilgrimage duty (Ahmad et al., 2012: 18).

Tabung Haji is an institution that still operates today. Tabung Haji, which has 8,850,000 deposits as of 2015, has collected a total of RM 18.3 billion in deposits. He paid RM 59 million of his income in 2015 as zakat to those in need. For this reason, Haji is one of the country's leading organizations in zakat payments (Habibah et al., 2016: 51-53). Haji is seen as the oldest financial institution in the modern sense. Haji was not an organization that served the general public. The reason for this was only concerned with the savings of Muslims who wanted to perform their pilgrimage. For this reason, Haji is not seen as an inclusive institution. For example, Tabung Haji would not serve non-Muslims or even people outside Malaysia. For this reason, Tabung Haji did not have an aspect covering the general society (Alhabshi, 2017: 5).

Tabung Haji has pioneered the development of Islamic finance, although it is not an institution that meets the needs of the general public. Haji has been an institution that has led the way in increasing the demands for Islamic finance in Malaysia and the government's initiatives in this field (Mansor, 2009: 113). For this reason, the government appointed a national steering committee to work in the field of Islamic banking on 30 July 1981. This committee has studied the activities of both Egypt's Faisal Islamic bank and Sudan's Faisal Islamic bank. As a result, the committee's recommendations were presented to the Prime Minister of Malaysia on July 5, 1982 (Haron, 2004: 3-4). These recommendations include;

- An Islamic bank that will carry out its activities within the framework of Islamic law should be established.
- The bank to be established should be included in the 1964 corporate act.
- A new Islamic banking law should be established. Supervision and oversight of this law should be the responsibility of the Central Bank of Malaysia.

- Established Islamic banks should establish a jurisprudence advisory board within its own body to examine the compliance of their activities with Islamic law (Haron, 2004: 4).

Developing the infrastructure of Islamic banking as a model for other countries in line with the decisions of the national management committee, the Central Bank of Malaysia (BNM) has left many Muslim countries behind in this area. In Malaysia, Islamic banks are subject to a separate law and order. A central council has been established to facilitate the compliance of Islamic banks in the country with the rules of law. The authority to license and supervise Islamic banks was given to BNM by the Islamic Banking Law enacted in 1983. Consisting of 60 parts and eight parts, the Islamic Banking Law is concise, clear and regulatory. Another important development in Islamic banking in Malaysia was the issuance of interest-free investment certificates and securities with the State Investment Law enacted in 1983. Government investment certificates, which are considered liquid assets, have been an important tool for Islamic banks in managing their liquidity.

As a result of the important steps taken to establish the foundations of Islamic banking, Bank Islam Malaysia Berhad (BIMB), accepted as the first Islamic bank in Malaysia, was established in 1983 (Çobankaya, 2014: 35). BIMB was established with a total of 580 million initial capital, of which 500 million registered capital and 80 million paid-in capital. The Malaysian government, PMFB and various religious councils also contributed to BIMB's initial capital (Sukmana and Kassim, 2010: 9).

The increased awareness of the Muslim population and Islamic values has created a great demand for Islamic banks that offer interest-free banking products. BIMB was established to meet these demands. BIMB; It promoted and marketed various interest-free products such as Karz-ı Hasen, Mudaraba, and Musharaka (Lıng et al., 2012: 2). BIMB recorded strong growth one year later, demonstrating the need for Islamic finance. Total assets, which were $170.7 million at the end of 1983, more than doubled at the end of 1984 to $369.8 million at the end of 1984. In addition, sharp increases were observed in deposits and loans. While deposits increased from 91 million dollars to 274.9 million dollars, loans increased from 40.7 million dollars to 249.8 million dollars (Haron and Ahmad, 2000: 2). This performance of BIMB has accelerated the development of Islamic finance. Approximately ten years later, the bank reached 80 branches and 1200 employees. These data revealed the applicability of Islamic finance in the country. Over time, the bank began to be listed on the Kuala Lumpur Stock Exchange, established in 1992. For this reason, BIMB has been operating in the stock market since 1992.

The developments regarding sukuk, one of the important financial instruments of Islamic banking, took place in 1990. Sukuk, valued at RM 125 million ($ 30 million), was issued in Malaysia by Shell MDS, a foreign-owned company.

Another development in terms of Islamic banking in Malaysia is the initiation of the dual banking system. In 1993, the "Islamic Banking Window Plan" was introduced so that traditional banks could offer Islamic finance and products (Türker, 2010:31). In this way, traditional banks have also had the opportunity to provide the products and services of Islamic banks. In this way, the dual banking system, in which interest and interest-free instruments can be offered, has emerged in Malaysia.

BNM's long-term goal is to enable Islamic banks to compete with traditional banks. For this reason, the Islamic Interbank Money Market (IIMM), which is very important to Islamic banks, was established by BNM in 1994 (Borham, 2013: 41-42). IIMM would help to develop Islamic interbank trade, increase Islamic interbank investment and develop the Islamic interbank check clearing system (Khiyar, 2012: 114). After the establishment of IIMM, another important development in Islamic banking was experienced in the Islamic Capital Market (ICM) field. The Islamic Capital Markets Unit was established by SC in 1995.

Another development in the field of Islamic banking and finance in Malaysia is the Sharia Advisory Board (SAC), which was established in 1997 both in the field of capital markets and within the body of BNM. This board investigates the compliance of Islamic financial instruments with Islamic law. SAC advises BNM in areas related to Islamic law. It is also responsible for ensuring that all Islamic banking and takaful products comply with Islamic law. With the establishment of SAC in Malaysia, a standard was established in terms of Islamic law in the field of Islamic banking and finance.

Bank Muamalat Malaysia Berhad (BMMB), the country's second Islamic bank after BIMB, was established in Islamic banking. With the number of Islamic banks increasing to two in the country, the marketing of products and services among Islamic banks has become widespread.

In Malaysia, which wanted to strengthen and further develop the Islamic banking system, in 1995, BIMB was included in the Research and Training Institute known as "BIRT" at that time. Over time, this institution became an Islamic banking institution and was named Malaysia Islamic Banking and Finance Institute (IBFIMM).

He pioneered the establishment of the Islamic Financial Services Board (IFSB), an important institution in the field of Islamic banking and finance, which was established in 2002. In the same year, an important development was experienced in the field of takaful, and the Malaysian Takaful Association (MTA) was established.

After the important developments in the field of Takaful, an important development has also been experienced in the field of Islamic banking. In line with its goal of expanding Islamic banking, BNM granted licenses to 3 foreign banks in 2004 under the 1983 Islamic Banking Law. Making the economy open to foreign Islamic banks to seize new growth opportunities and increase the development of the Islamic financial system is an important development (BNM, 2005: 160).

Attaching importance to human resources in the development of Islamic banking, Malaysia established the "International Center for Islamic Finance Education" (INCEIF) in 2006 and the "International Sharia Research Academy" (ISRA) in 2008.

As a result, Malaysia has developed many Islamic banking and finance products. He also pioneered the establishment of various Islamic organizations. In addition, various educational institutions have been established to contribute to the development of Islamic banking and finance. Today, Malaysia is under the leadership of many important institutions related to Islamic finance. Today, Malaysia has adopted the dual banking system in terms of Islamic banking. He pioneered establishing the Islamic interbank money market, a first in the world. All these developments in Islamic banking and finance in Malaysia have made Malaysia a leading country in the field of Islamic finance today.

3.2. WHAT ARE THE ISLAMIC BANKS IN MALAYSIA?

According to the Bank Negara Malaysia, the number of Islamic Banks in Malaysia has grown to 17 (BNM, 2022). Among these 17 banks, ten banks are from Malaysia.

Meanwhile, the remaining seven banks are foreign. Below is the list of Islamic Banks in Malaysia, 2021.

Table 3.1.: Islamic Banks in Malaysia

NO	NAME OF ISLAMIC BANKS	OWNERSHIP
1.	Affin Islamic Bank Berhad	Local
2.	Al Rajhi Banking & Investment Corporation (Malaysia) Berhad	Foreign
3.	Alliance Islamic Bank Berhad	Local
4.	AmBank Islamic Berhad	Local
5.	Bank Islam Malaysia Berhad	Local
6.	Bank Muamalat Malaysia Berhad	Local
7.	CIMB Islamic Bank Berhad	Local
8.	Hong Leong Islamic Bank Berhad	Local
9.	HSBC Amanah Malaysia Berhad	Foreign
10.	Kuwait Finance House (Malaysia) Berhad	Foreign
11.	Maybank Islamic Berhad	Local
12.	MBSB Bank Berhad	Local
13.	OCBC Al-Amin Bank Berhad	Foreign
14.	P.T Bank Muamalat Indonesia, Tbk	Foreign
15.	Public Islamic Bank Berhad	Local
16.	RHB Islamic Bank Berhad	Local
17.	Standard Chartered Saadiq Berhad	Foreign

Sources: Bank Negara Malaysia, 2022

3.2.1. Affin Islamic Bank Berhad

Affin Islamic Bank, which was established on 13 September 2005 and started its activities on 1 April 2006, is a full-fledged Islamic bank providing individual and corporate services. It offers Musharakah Mutanaqısah, Mudarabah, Istisna, Ijarah, Murabahah and other Islamic financial services. Affin Islamic Bank is a member of the Investment Account Platform (IAP) created by Bank Negara. The Bank defines its vision as Premier Local and International Islamic Financial Institution (Affin Group, 2022). The shareholding structure of the bank is as follows:

Lembaga Tabung Angkatan Tentara: 35.24%

Baustead Holdings Berhad: 20.81%

The Bank of East Asia, Limited: 23.65%

EPF: 7.08%

Others: 13.22%

3.2.2. Al Rajhi Banking & Investment Corporation (Malaysia) Berhad

Al Rajhi Bank is one of Malaysia's foreign banks offering Islamic banking services. It was founded in October 2006 and started its operations in 2007. The bank is fully owned by Saleh bin Abdul Aziz Al-Rajhi and Brothers Co., located in Saudi Arabia. The bank offers retail, corporate and investment services with 13 branches nationwide (Al Rajhi Bank, 2022).

3.2.3. Alliance Islamic Bank Berhad

As a subsidiary of Alliance Bank Malaysia Berhad (ABMB), Alliance Islamic Bank Berhad focuses on commercial, retail and SME banking with its holistic banking approach. The bank differentiates itself from Alliance i-Wish Home Flexi, which offers the first deposit-linked housing loan in Malaysia, and Alliance CashVantage Personal Financing-i, which offers 35 types of loans.

As it is a subsidiary of the bank, the capital of the bank is fully owned by ABMB (Alliance Bank, 2022).

3.2.4. AmBank Islamic Berhad

Operating as a branch of AmBank Group, AmBank Islamic Berhad, established in 1994, provides services related to Islamic banking, Islamic fund management and Islamic capital market instruments. In addition to these, the bank also includes family takaful service. AmBank Group fully owns the capital of the bank. Sharia-compliant retail, wholesale and commercial banking services are offered under the umbrella of Islamic banking. It offers instruments such as sukuk and project finance under the roof of capital market services. (AmBank Group, 2022).

3.2.5. Bank Islam Malaysia Berhad

Bank Islam Malaysia Berhad was established on 1 July 1983. According to the bank's claim, it is the first Islamic bank in the ASEAN region. Bank Islam Malaysia Berhad offers its customers individual and commercial financing services. Within the scope of individual financing services, services such as vehicle and housing financing, credit card services, and asset management services are offered. Within the scope of commercial finance, business finance, SME finance and cash management services are offered. The bank describes its vision as "The Bank that Advances Prosperity for All" and its mission as "To Provide Solutions that Deliver Value" (Bank Islam Malaysia Berhad, 2022).

3.2.6. Bank Muamalat Malaysia Berhad

Bank Muamalat, which was established in 1999. DRB-HICOM has 70% shares, and Khazanah Nasional Berhad has 30% shares. The bank is a domestic Islamic bank providing consumer, business, and transaction banking services. The bank has 67 branches across the country and has been a member of the Global Alliance for Banking on Values (GABV) since 2017. The bank offers services such as corporate banking, investment banking, SME banking and commercial banking under business banking. There is a sharia committee consisting of 5 people. The Bank describes its vision as “To be the preferred Islamic financial services provider” (Bank Muamalat Malaysia, 2022).

3.2.7. CIMB Islamic Bank Berhad

Established in 1987 and currently operating in 14 countries, CIMB Group Holdings Berhad’s major shareholders since March 2022 are Khazanah Nasional Berhad with 25.7%, Employees Provident Fund with 15.8% and Kumpulan Wang Persaraan (Diperbadankan) with 6.2%. CIMB Islamic is the Islamic banking services arm of the CIMB Group. CIMB Islamic started its activities in 2003. Providing services to 19 million customers with its 33.000 employees as of July 2022, the bank offers financial instruments such as murabaha, ijara, tawaruq and credit cards (CIMB Islamic Bank, 2022).

3.2.8. Hong Leong Islamic Bank Berhad

Hong Leong Islamic Bank Berhad, which started its operations in 2005 as a subsidiary of Hong Leong Bank, now offers Islamic banking services with five fully-fledged branches in addition to 1100 self-service banking services. Bank wholly owned by Hong Leong Bank (Hong Leong Islamic Bank, 2022). The bank offers saving accounts, credit cards, real estate and automobile financing, as well as takaful services (Hong Leong Islamic Bank, 2022).

3.2.9. HSBC Amanah Malaysia Berhad

Operating as a branch of HSBC Bank, HSBC Amanah Malaysia Berhad is one of the foreign banks serving in Malaysia. The bank offers personal and housing finance products (HSBC Amanah Malaysia, 2022).

3.2.10. Kuwait Finance House (Malaysia) Berhad

One of the seven foreign banks operating in Islamic banking in Malaysia is Kuwait Finance House Berhad. The bank started its activities as the first foreign bank to obtain a banking license in

2005 and was established as a branch of the Kuwait Finance House. Expressing its vision as the leading and preferred regional Islamic bank, the bank offers individual and corporate finance services (Kuwait Finance House Berhad, 2022). Within the scope of corporate finance, it has instruments such as working capital finance, asset finance and trade finance (Kuwait Finance House Berhad, 2022).

3.2.11. Maybank Islamic Berhad

Established in 2007 as a subsidiary of Mayban, Maybank Islamic provides its customers with property and vehicle financing as well as retail banking. The bank also offers takaful products and provides mudaraba account services for the customer (Maybank Islamic, 2022).

3.2.12. MBSB Bank Berhad

MBSB Bank Berhad, which started its activities in 2013 (MBSN Bank, 2022) as a subsidiary of Malaysia Building Society Berhad, established in 2005, provides its customers with credit card services, saving accounts and current account services under retail banking. Under commercial banking, it offers services such as contract banking, equipment banking and corporate banking (MBSN Bank, 2022).

3.2.13. OCBC Al-Amin Bank Berhad

OCBC Al-Amin Bank Berhad, a subsidiary of OCBC Group, is one of the foreign banks providing personal and commercial banking services. There are also takaful products. It offers murabahah and ijara-based financing services under the roof of business finance (OCBC Al-Amin, 2022).

3.2.14. P.T Bank Muamalat Indonesia

The bank was founded in 1991. P.T Bank Muamalat Indonesia is one of the Islamic banks operating in Malaysia. In addition to the investment account and current account services, Bank Muamalat offers its customers housing finance, working capital finance, commercial finance, pension fund, takaful and ijara products. The

Bank has determined its vision as "The Best Islamic Bank and Top 10 Bank in Indonesia with Strong Regional Presence" (P.T Banak Muamalat Indonesia, 2022).

3.2.15. Public Islamic Bank Berhad

Public Islamic Bank Berhad, one of the local Islamic banks in Malaysia, started its operations in 2008. All of its capital belongs to Public Bank. Public Bank started to offer window banking and Islamic products in 1993. With the establishment of Public Islamic Bank Berhad in 2008, Islamic banking services began to be carried out through an independent bank. Within the scope of business finance, the Bank offers products such as working capital finance, trade finance and vehicle finance. It also offers services such as credit card services, current and investment account services, housing finance and vehicle finance within the scope of retail banking services. Takaful services are also offered by the bank. Like other banks, the bank has a sharia committee (Public Islamic Bank Berhad, 2022).

3.2.16. RHB Islamic Bank Berhad

Serving as a branch of RHB Banking Group operating in the ASEAN region, RHB Islamic Bank Berhad offers products such as credit cards, personal finance, vehicle and home finance within the scope of retail banking. Within the scope of business finance, it offers services such as SME asset finance, overdraft accounts, and new entrepreneurship finance. The bank also offers takaful and wealth management services (RHB Banking, 2022).

3.2.17. Standard Chartered Saadiq Berhad

Saadiq Berhad Bank operates under Standard Chartered, which was established in 1984 and is one of the oldest banks in Malaysia. The bank offers personal and business banking services. Examples of banking services offered by the bank, such as time deposits, housing finance, and Tawaruq account services, can be given as examples (Standard Chartered Bank, 2022).

3.3. WHAT KINDS OF PERSONAL LOANS DO MALAYSIAN ISLAMIC BANKS PROVIDE?

There are various types of consumer finance products that are offered by Islamic banks in Malaysia. They are based on multiple concepts such as *Murabahah, Ijarah, Tawaruq*, *Musharakah Mutanaqisah and Al Rahn*.

3.3.1. Murabahah

Murabahah means the sale of a commodity at the cost price. The seller will purchase the commodity on behalf of the buyer at a cost price and sell it back to the buyer at a profit (cost + mark-up price). It is a cost-plus sale profit, and the seller is required to disclose his cost price as well as profit. For example, Ali would like to purchase a television in Syarikat ABC, which costs RM 2,500. He informed Bank Setia on his intention to purchase the television. Bank Setia will purchase the television on his behalf for RM 2,500 and pays Syarikat ABC. Bank Setia will then markup, e.g., 20 % of the cost price, i.e., RM 500. Then sell the television to Ali for RM 3,000 (RM 2,500 plus RM 500).

3.3.2. Ijarah

Ijarah is the sale of intangible assets (usufruct). The lessor is the financier whilst the lessee is the customer. The lessee holds the right (*haqq*) only to the extent of utilizing the property without selling it. The ownership of the asset is not transferred. An example is the use of Ijarah Thumma Al Bai (AITAB) when Mustafa wants to buy a Proton for RM 50,000. He will inform Bank Muamalat Malaysia Berhad (BMMB). BMMB will buy the car on Mustafa's behalf and lease it to him together with the bank's profit. He will pay the instalment amount (rental and profit) on a monthly basis until settlement.

3.3.3. Tawaruq

Tawaruq means to buy on credit and sell at spot value to obtain cash; meaning that the transaction is not the need of the buyer; he simply wants liquidity, which he gets by purchasing a commodity on credit and selling the same forthwith for cash. For example, Johan applies RM 10,000 from Bank Bumi for personal use. Bank Bumi will purchase a commodity from broker A and sell it to Johan. Johan will, in turn, sell commodity broker B for cash. He will then pay the financing amount of RM 10,000 plus profit to Bank Bumi.

3.3.4. Musharakah Mutanaqisah

Musharakah Mutanaqisah is a joint partnership between two partners, e.g., to buy a house for RM 200,000. The partners jointly agree to do profit sharing 90% between the bank and the customer 10%. The customer will pay RM 20,000 to the developer. The bank will finance the remaining RM 180,000 and lease the house to the customer based on rental. The customer will pay the rental amount plus purchase an additional share on monthly basis until the settlement of the full amount.

3.3.5. Al Rahn

Al Rahn is a contract of pledging security whereby a valuable asset is placed as collateral. It is binding if possession of the pledge has taken place. The customer will pledge gold based on the concept of Wadiah Yad Amanah (safe custody). The financial institution will approve the financing amount based on the value of gold and charge a fee based on Qardhul Hassan (loan without interest).

There are many types of personal loans. Although their names change according to the banks, the provisions taken as a basis are listed above. The loan types of some of these banks are listed in Table 3.2. below.

Table 3.2.: Personal Loans Practiced by Malaysian Islamic Banks

	Banks Loan Names	**Explanation**
1	**Alliance Bank CashVantage Personal Financing-i**	It allows the consumer to apply for this product to clear off the outstanding credit card debt of other banks or financial institutions.
2	**Al-Rajhi Personal Financing-i**	It is an unsecured Islamic personal loan which can be used for personal consumption and debt consolidation.
3	**KFH Murabahah Personal Financing-i**	It is an unsecured Islamic Personal Loan based on a commodity murabahah structure.
4	**HSBC Amanah Personal Financing-i**	It is unsecured personal financing that does not require collateral to back it up and can be immediately disbursed when approved.
5	**AFFIN Islamic Personal Financing-I**	It is based on the Shariah concept of Tawarruq (Commodity Murabahah).
6	**AmIslamic Bank Personal Financing-I**	It is an excellent way of financing a planned or unplanned event to tide you over, with competitive profit rates available in the market. It fully complies with Shariah requirements based on the concept of Murabahah Tawarruq (MTQ).
7	**Bank Muamalat Malaysia Personal Financing-I**	It is a financing facility designed to provide cash financing to the customers for personal consumption/ use, which does not contradict the Shariah principles. Generally, this product is based on *Tawarruq* as its underlying Shariah concept for the provision of financing. The financing structure under the *Tawarruq* arrangement involves the combination of *Wa'd Mulzim, Murabahah, Wakalah and Bai' Wadhi'ah* contracts.
8	**Bank Islam Malaysia**	It provides three types of personal loans: Personal Financing for Professional Program, Personal Financing-i Non-Package and Personal Financing-i Package.
9	**CIMB Islamic Bank Berhad**	It provides two types of personal loans: Term Financing-I Secured By Asb Certificate and Xpress Cash Financing-i.

10	**Hong Leong Islamic Bank Personal Financing-i**	It is based on the Tawarruq principle. By applying, HLISB will purchase a commodity at a price equivalent to your financing amount, and then sell the commodity with a profit to you on deferred payment. Then, you will appoint HLISB as your agent to sell the commodity to a third party to obtain cash for you.
11	**Kuwait Finance House (Malaysia) Murabahah Personal Financing-i Generic**	It is an unsecured Islamic personal financing, offered to individuals and the profit is calculated based on a flat rate basis. Murabahah and Tawarruq concepts are used for this product.
12	**Public Islamic Bank BAE AG Personal Financing-I**	It is also used Murabahah and Tawarruq concepts. Also, this product Encouraged to take Takaful coverage.
13	**RHB Islamic Bank**	It provides three types of personal loans: Personal Financing-I for the private sector, Personal Financing-I for pensioners and Personal Financing-I for the civil sector.
14	**MayBank Islamic Personal Financing-I**	It is an unsecured personal financing facility calculated on a fixed rate basis resulting in fixed instalment payment throughout "nancing tenure. The Shariah Contract applied is Murabahah (cost plus profit) via Tawarruq arrangement. It is a method of sale whereby the cost is made known with a marked-up price where you pay the price over an agreed period of time.

3.4 WHAT COMMERCIAL LOANS DO MALAYSIAN ISLAMIC BANKS PROVIDE?

There is various type of commercial finance products that are offered by Islamic banks in Malaysia. They are based on multiple concepts such as *Ijarah, Community Murabahah,* Tawarruq, *Mudharabah and Musharakah.*

3.4.1. Ijarah

Ijarah rent with an acquisition where the Islamic bank purchases the property at first and becomes the owner of the property, then the bank lease it out to the company at an agreed monthly price. A portion of each monthly payment goes towards ownership until the customer owns.

3.4.2. Commodity Murabahah

Commodity Murabahah (cost plus profit sale) arrangement is a method of sale with a mark-up price whereby the customer makes payment over an agreed period of time. The underlying asset for the sale transaction between the customer and the bank will be a specific tradable shariah-compliant commodity.

3.4.3. Tawarruq

Tawaruq consists of two sale and purchase contracts. The first involves the sale of an asset by the seller (bank) to the purchaser (customer) on a deferred basis. Subsequently, the purchaser of the first sale will sell the same asset to the third party on a cash and spot basis. For example, Johan applies RM 10,000 personal financing from Bank Bumi. Bank Bumi will sell a commodity to Johan on a deferred basis of RM 11,000. Johan will resell the same entity to a third party for cash RM 10,000. He will then pay Bank Bumi RM 11,000.

3.4.5. Mudharabah

It is a contract where one party provides the capital (customer), and the other (bank) provides the expertise. The profit derived from the business will be shared based on a pre-agreed profit-sharing ratio between the customer and the bank. The capital provider will bear the loss.

3.4.5. Musharakah

It is a partnership arrangement between two parties to finance a business project. Both partners contribute to the capital, e.g. 80: 20. Profit derived from the project is distributed based on a pre-agreed profit-sharing ratio. Losses will be shared based on the capital contribution.

There are many types of commercial loans. Although their names change according to the banks, the provisions taken as a basis are listed above. The loan types of some of these banks are listed in Table 3.3. below.

Table 3.3.: Commercial Loans Practiced by Malaysian Islamic Banks

	Banks Loan Names	Explanation
1	**Capital by Boost Credit**	Credit up to RM100,000 financing with cash in your account within 48 hours of approval.
2	**BSN Micro TemaNiaga-i Tawarruq**	Open to all Malaysian small business owners, BSN Micro TemaNiaga-i Tawarruq helps get your enterprise up and running at low-profit rates and flexible repayment tenure.
3	**Bank Rakyat Skim Pembiayaan Mikro-i MUsk**	Bank Rakyat business financing is offering flexible instalments at a flat profit rate.
4	**Bank Rakyat Skim Pembiayaan Mikro-i MEF**	Low, flat profit rate and flexible repayment tenure up to 5 years.
5	**Agrobank Term Financing-i**	No guarantor of working capital financing for micro and small entrepreneurs to carry out Shariah compliant business activities in the agriculture sector.

6	**SME Bank Business Accelerator Program**	An SME financing program for aspiring entrepreneurs to meet their working capital requirements and fixed asset purchase.
7	**RHB bank Business Financing-i**	RHB bank provides 13 types of Business loans. These business loan types are under named RHB Bank Business Financing-i.
8	**May Bank Islam Business loans**	MayBank has 22 types of business loans. These MayBank Islam Business loans are: -Cash Line-i - Project & Contract Financing - Working Capital Guarantee Scheme/-i (WCGS/-i) - Distributor Supplier Financing/-i (DSF/-i) - MaxiPlan/-i Package: Property & Business Financing - Commodity Murabahah Term Financing-i -SJPP Schemes - SME Working Capital Financing / -i -Fund - All Economic Sector / -i -CGC Scheme - BizJamin / -i & Flexi Guarantee Scheme / -i -Fund - Primary Agriculture Sector / -i -Petrol Station Dealer Financing / -i -Professional Business Loans / Financing-i -Corporate Staff Auto Scheme -SME Property & Business Financing / -i -Short Term Revolving Credit-i -SME Clean Loan / Financing -i -Penjana Tourism Guarantee Scheme-i (PTGS-i) -BizPlus/-i -SME Fixed Deposit Extra / -i -SME Micro Loan / Financing-i -Maybank SME Digital Financing -Pembiayaan Digital PKS Maybank

3.5. COULD YOU COMPARE THE DATA OF ISLAMIC AND THE OTHER BANKS IN MALAYSIA?

Islamic banking began in Malaysia in 1983 although traditional banking has existed there since ancient. It has been observed that there is an intense demand for Islamic banks, as Muslims make up a large part of the Malaysian population. Numerous foreign banks have established branches in Malaysia as a result of the growth of Islamic banking activities over the years. The effectiveness of Islamic banks in Malaysia rose with the introduction of sukuk in 1990 and the rise in sukuk issuance.

It has been observed that since interest is explicitly prohibited in the Qur'an and hadiths, the established people in Malaysia stay away from conventional banks, and the demand for banks has increased with the implementation of Islamic banks. It has been seen that the banking sector has developed and has great value with the establishment of Islamic banks and the opening of interest-free financial windows under conventional banks.

When the banking system in Malaysia is investigated, it is seen that it is divided into three types. These are Commercial Banks, Islamic Banks and Investment Banks. In the comparisons made, the values of these three banks are discussed comparatively. The total number of banks as of July 2022 is given in Table 3.4. below.

Tablo 3.4.: The Total Number of Banks in Malaysia

<table>
<tr><th></th><th>Commercial Banks</th><th>Islamic Banks</th><th>Investment Banks</th></tr>
<tr><td rowspan="3">Number of Banks</td><td>Local: 8</td><td>Local: 6</td><td>Local: 11</td></tr>
<tr><td>Foreign: 18</td><td>Foreign: 11</td><td>Foreign: 0</td></tr>
<tr><td>Total: 26</td><td>Total: 17</td><td>Total: 11</td></tr>
</table>

Source: Bank Negara, Institution Type, 05.09.2022, https://www.bnm.gov.my/regulations/fsp-directory

As of July 2022, Malaysia had a total of 26 commercial banks (8 domestic and 18 foreign), 17 Islamic banks (6 domestic and 11 foreign), and 11 local investment banks. Comparative data for these banks as of July 2022 are shown in Table 3.5. below.

Tablo 3.5.: Malaysian Banking System: Statement of Assets (July 2022 – Million RM)

			Banks Type	Commercial Banks	Islamic Banks	Investment Banks	Total
		Cash and Cash Equivalents	Domestic	15.974,6	1.982,5	827,4	18.784,5
			Foreign	8.259,9	517,5	0,0	8.777,4
	Deposits Placed and Reverse Repos	Balances in Current Account with Bank Negara Malaysia	Domestic	341,2	180,2	2,2	523,7
			Foreign	195,4	16,9	0,0	212,3
		Other Deposits Placed and Reverse Repos	Domestic	45.329,9	20,9	262,5	45.613,3
			Foreign	6.498,4	0,0	0,0	6.498,4
		Statutory Deposits with Bank Negara Malaysia	Domestic	1.416,1	862,1	217,4	2.495,7
			Foreign	546,2	18,4	0,0	564,6
Amount Due from Designated Financial Institutions	Residents	Bank Negara Malaysia	Domestic	16.625,9	46.360,0	5.070,0	68.056,0
			Foreign	60.009,0	7.986,3	0,0	67.995,3
		Commercial Banks	Domestic	15.523,2	5.433,3	2.625,5	23.582,0
			Foreign	13.052,9	102,5	0,0	13.155,4
		Islamic Banks	Domestic	25.915,8	3.200,0	1.002,5	30.118,3
			Foreign	5.406,0	0,1	0,0	5.406,0
		Investment Banks	Domestic	6.815,2	2,6	570,2	7.388,0
			Foreign	1,5	0,0	0,0	1,5
		Other Banking Institutions	Domestic	466,7	1.712,0	618,6	2.797,3
			Foreign	0,0	0,0	0,0	0,0
		Non-Residents	Domestic	68.582,5	1.261,4	85,3	69.929,1
			Foreign	10.417,4	1.040,2	0,0	11.457,6
		Investment Account Due from Designated Financial Institutions	Domestic	42.416,8	0,0	0,0	42.416,8
			Foreign	4.287,9	0,0	0,0	4.287,9
		Negotiable Instrument Deposits Held	Domestic	9.883,0	2.141,3	419,1	12.443,4
			Foreign	8.443,4	849,0	0,0	9.292,3
	Malaysian Securities	Treasury Bills	Domestic	11.970,4	5.988,4	987,2	18.946,0
			Foreign	12.679,4	361,0	0,0	13.040,3
		Government Securities [1]	Domestic	153.987,7	87.196,6	10.282,2	251.466,5
			Foreign	63.763,0	4.695,7	0,0	68.458,7
		Other Securities	Domestic	157.258,6	59.052,5	10.332,5	226.643,6
			Foreign	34.785,7	5.452,2	0,0	40.238,0
		Loans and Advances	Domestic	893.155,8	670.287,4	7.134,4	1.570.577,6
			Foreign	277.430,9	43.148,4	0,0	320.579,3
		Property, Plant and Equipment	Domestic	6.707,1	809,0	302,4	7.818,6
			Foreign	2.219,1	227,6	0,0	2.446,7
		Other Assets	Domestic	173.281,6	17.290,8	10.601,9	201.174,3
			Foreign	30.436,4	3.535,5	0,0	33.971,9
		Total Assets	Domestic	1.645.652,0	903.781,2	51.341,4	2.600.774,6
			Foreign	538.432,5	67.951,3	0,0	606.383,8
		General Total Assets		2.184.084,5	971.732,5	51.341,4	3.207.158,4

Source: Bank Negara, Banking System: Statement of Assets, 07.09.2022, https://www.bnm.gov.my/-/monthly-highlights-statistics-in-july-2022

When the table is examined, it is seen that the total Cash and Cash Equivalent of the banks is approximately 28 billion RM, of which 19 billion RM is in domestic banks, and 9 billion is in foreign banks. It is seen that around 24 billion RM is in the hands of commercial banks, while only 2.5 billion RM is in the hands of Islamic banks. This situation demonstrates that although Islamic banks have grown and developed in Malaysia recently, they still have issues with Cash and Cash Equivalent issues. When other variables are examined, it is seen that most commercial banks are in very good condition, while Islamic banks have half the value of commercial banks. This situation is thought to be due to the high number of commercial banks, their older history and higher customer density. The source of the loans obtained is presented in detail in Table 3.6. below.

Tablo 3.6.: Malaysian Banking System: Classification of Loans by Type (June 2022-Million RM)

	Commercial Banks	Islamic Banks	Investment Banks	Total
Overdraft	30.743,3	16.082,4	0,0	46.825,7
Hire purchase Total	86.168,3	97.609,3	0,0	183.777,6
Hire purchase of which: Passenger cars	78.274,8	94.215,4	0,0	172.490,1
Leasing	0,3	1.726,2	0,0	1.726,6
Block discounting	542,2	0,0	0,0	542,2
Bridging loans	4.248,3	559,6	140,3	4.948,1
Syndicated loans	24.310,0	16.121,9	108,1	40.540,0
Factoring	1.989,0	40,2	0,0	2.029,1
Personal loans	16.573,0	61.562,4	0,0	78.135,4
Housing loans	435.142,9	240.557,8	0,0	675.700,7
Others	324.907,7	227.032,5	702,6	552.642,8
of which the maturity was: Up to one year	11.138,5	7.249,1	0,0	18.387,6
of which the maturity was: More than one year	882.743,3	637.960,7	950,9	1.521.654,9
Trade bills[2]	49.673,9	18.840,7	0,0	68.514,6
Trust receipts	5.567,7	1.102,0	0,0	6.669,7
Revolving credit	61.135,8	37.047,3	402,7	98.585,8
SPI loans	5.524,6	-	299,2	5.823,8
Foreign currency loans	102.704,5	15.943,0	101,6	118.749,1
Others[3]	65.067,9	14.412,8	5.978,2	85.459,0
Total loans	1.208.775,0	748.638,1	7.433,4	1.964.846,4

1 Include loans sold to Cagamas.

2 Comprises customers liabilities for acceptances, own acceptances discounted, and other trade bills discounted.

3 Comprises SPI loans, loor stocking loans, non-SPI credit cards, staff loans and other loans.

Sub-total may not necessarily add up to the grand total due to rounding.

Source: ***Bank Negara, Banking System: Classification of Loans by Type, 08.09.2022, https://www.bnm.gov.my/-/monthly-highlights-statistics-in-july-2022***

When the credit status of the banks is examined, it is seen that a total of 2 trillion RM loans were provided, 1.2 trillion RM loans were provided through commercial banks, and 750 billion RM loans were offered through Islamic Banks. It is understood that long-term loans are very high, and more resources are generally provided for housing loans. Although the number and total value of commercial banks are twice that of Islamic banks, it is seen that Islamic banks provide more value as loans.

The total value of banks between January 2007 and August 2021, published by Bank Negara, the Central Bank of Malaysia, was analyzed comparatively. A portion of the total value of the banks for the last 15 years is given in Table 3.7. below.

Table 3.7.: Total Assets of Banks (Million RM)

	Ocak 07	Agust. 07	Agust. 10	Agust. 13	Agust. 16	Agust. 19	Agust. 21
Commercial Banks	950.959,04	976.982,17	1.136.755,66	1.528.786,63	1.766.482,40	1.965.246,09	2.071.337,03
Islamic Banks	71.182,23	84.547,23	243.534,87	400.749,66	542.859,56	791.360,86	910.533,53
Investment Banks	65.985,87	80.312,66	60.933,77	59.746,48	50.611,64	47.112,71	50.608,32
Total	1.088.127,14	1.141.842,05	1.441.224,30	1.989.282,77	2.359.953,60	2.803.719,66	3.032.478,88

Source: Bank Negara, Banking System: Statement of Assets, 07.09.2022, https://www.bnm.gov.my/-/monthly-highlights-statistics-in-july-2022

Looking at the total values of the banks, it is seen that these values, which were approximately 1 trillion RM in January 2007, reached 3 trillion RM in August 2021; that is, they tripled. These values show that the total value of commercial banks has increased from 1 trillion RM to 2 trillion RM. In contrast, the full value of Islamic banks has risen from 70 billion RM to approximately 1 trillion RM. This shows that Islamic Banks have gained great momentum in Malaysia in the last 15 years.

The data of the banks for the last 15 years have been subjected to trend analysis on a monthly basis. Trend analysis; It is an analysis that shows the percentage increase/decrease of the data covering a certain period, such as annual, monthly, or weekly, by choosing a base year, compared to the base year. One year is taken as the base year and 100 is accepted. The following years are calculated with the help of the formula shown below (Elmas, 2015, p.170).

$$\text{Trend Percent} = \left(\frac{\text{Asset Value in Related Year}}{\text{Base Year Value}} \right) * 100$$

The result of the trend analysis is shown in Figure X below.

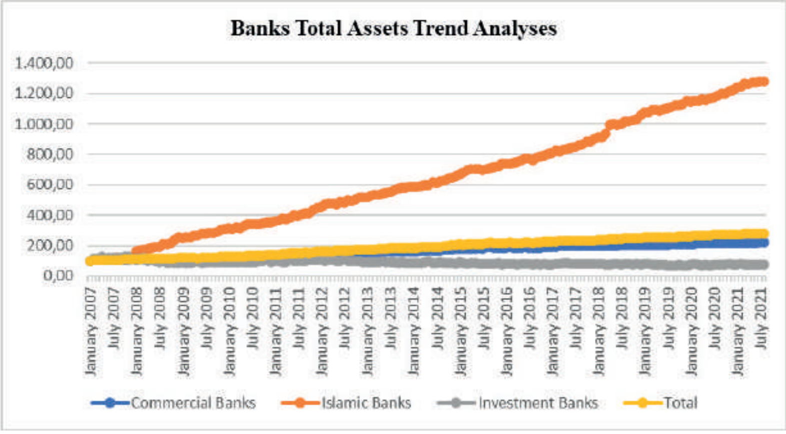

Figure 3.1.: Banks Total Assets Trend Analyses

Source: Bank Negara, Banking System: Statement of Assets, 07.09.2022, https://www.bnm.gov.my/-/monthly-highlights-statistics-in-july-2022

In the trend analysis, January 2007 was taken as the base year. Because the data published on the website of Bank Negara, from which the data was obtained, started on this date. Considering the data of the last 15 years, it is seen that the total value of banks has tripled, while the value of conventional banks has doubled, while the total value of Islamic banks has increased approximately 13 times. This shows that the importance given to Islamic Banks in Malaysia has increased, and thus the total volume of banks has increased.

3.6. COULD YOU GIVE INFORMATION ABOUT THE IMPORTANCE OF MOBILE BANKING IN TERMS OF ISLAMIC BANKING IN MALAYSIA?

The banking system has an important role in the finance sector that also fill an important gap in ensuring the flow of money in the functioning of the entire financial and real sector. Furthermore, the banking sector adapts to the ever-evolving global and technological changes and reflects these changes in all its systems. Nowadays, with the internet and mobile banking applications, bank customers can easily perform many transactions via computers and mobile devices without going to branches or ATMs.

Islamic banking is also trying to catch up with the technological trend that conventional banks have caught and to harmonize its halal products with those brought by this trend. In terms of financial inclusion, mobile banking is important to serve customers equally and have the same opportunities at the time.

When it comes to mobile banking, one of the first things that come to mind is financial inclusion. Because the mobile applications that go into the pockets of the users mean that everyone carries a branch of the bank with them anywhere and anytime. Table 1 provides an example of how easily the products of Islamic banks can enter our lives because of financial investment (Seman and Ariffin, 2017). Shown products are just a few of the financial services and products available. The concept of financial inclusion covers all the essential elements that can be implemented in the framework of Islamic banks (Islamic Financial Services Board, 2020).

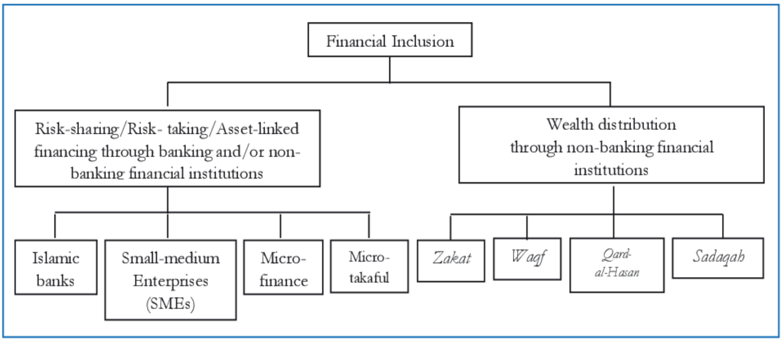

Figure 3.2.: Financial Inclusion Through Islamic Finance (Seman and Ariffin, 2017)

Source: Seman, J.A., & Ariffin, A.R. (2017). Financial Inclusion Through Islamic Finance: Measurement Framework.

For these reasons, it is important to understand mobile banking not only as extended branches of Islamic banks but also as providing services without any limit of place and time. For this reason, the users' satisfaction is considered essential for developing and implementing new mobile banking products on the market. The mobile banking transactions which are between 2016 – 2020 as Figure 1 show us the potential of Islamic mobile banking in the sector (Müller, 2021).

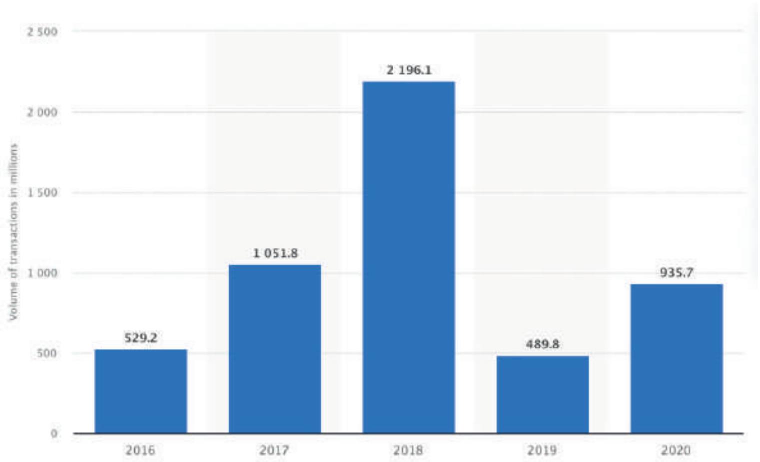

Figure 3.3.: Volume of Mobile Banking Transactions in Malaysia 2016-2020

Source: Mülleri, Joschka (2021). The volume of mobile banking transactions in Malaysia from 2016 to 2020, Access Date: 05.09.2022. https://www.statista.com/statistics/957504/ mobile-banking-transactions-volume-malaysia/

In terms of the adaptation of mobile banking, there should be lots of criteria that evaluate which variables could affect the customers' behaviours in Malaysia. One of the important variables affecting users' adoption of mobile banking services is a risk (Wa and Wang, 2005). Regarding these variables, Mohd et al., 2019, put forward predictors as Figure X:

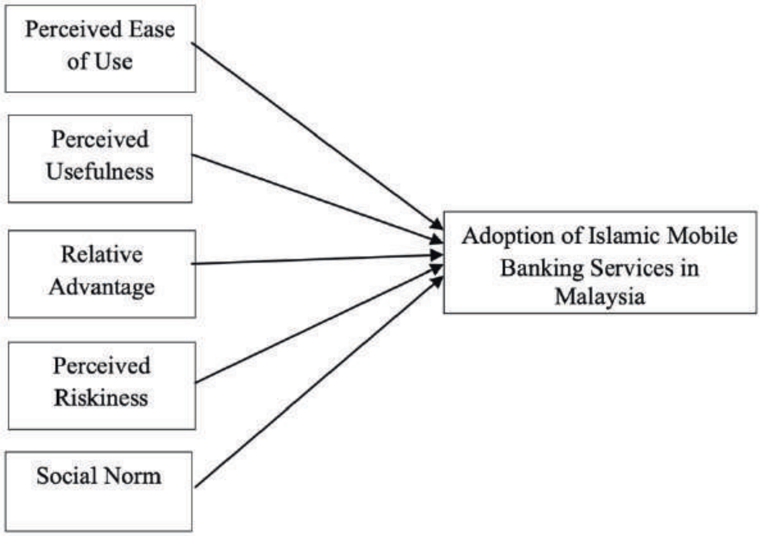

Figure 3.4.: The Potential Predictors of Adoption of Islamic Mobile Banking Services in Malaysia

Source: Mohd Thas Thaker, M.A., Allah Pitchay, A.B., Mohd Thas Thaker, H., & Amin, M.F. (2019). Factors influencing consumers' adoption of Islamic mobile banking services in Malaysia. Journal of Islamic Marketing.

Also, several past studies have shown that perceived usefulness is important and mainly focused on customers adopting mobile banking services (Venkatesh and Davis, 1996, 2000; Venkatesh and Morris, 2000). So, user experience like handling a problem on a banking platform or reaching advice for any issue would be useful for customers in terms of taking advantage of mobile baking applications.

Finally, internet usage has been increasing daily in the last decade, and mobile and online platforms have also taken their place in that area. For this reason, fintech operating in the banking sector and their own practices show that this trend is advancing exponentially in Malaysia. For Islamic banking to get its share of this trend, it should make the necessary adaptations and develop platforms that respond to users' requests and necessities.

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CHAPTER 4

Islamic Finance In Malaysia

Assist. Prof. Dr. Yavuz TURKAN[4]

Gökmen KILIC[5]

4.1. WHICH ISLAMIC FINANCIAL INSTRUMENTS HAVE BEEN APPROVED IN MALAYSIA?

Malaysia is one of the biggest economies in Southeast Asia, ranked third in 2022 (IMF, 2022). In the scope of Islamic Banking, Malaysia takes the first place among Southeast Asia countries (S&P Global Ratings, 2022). The Southeast Asia economy holds 17 % of US$290 billion of the total value of global Islamic banking assets, as shown in Figure 4.1. Hence, it is important to make clear which Islamic financial instruments are used in Malaysia to figure out the exact incomes of Malaysia Islamic Banks.

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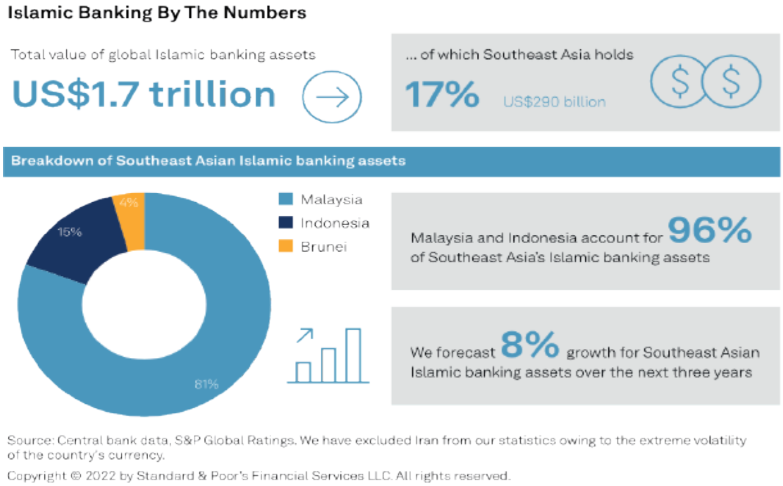

Figure 4.1.: Islamic Banking by The Numbers (S&P Global Ratings, 2022)

Source: S&P Global Ratings. (2022, May 11). S&P Global Ratings. Retrieved June 20, 2022, https://www.spglobal.com/ratings/en/research/articles/220511-growing-belief-in-southeast-asia-s-us-290-billion-islamic-banking-market-12373158

Malaysia's first Islamic bank, established in 1983 by the Malaysian Pilgrims Fund Board (Tabung Haji), is Bank Islam Malaysia Berhad (BIMB). Subsequently, the banking system and its core values have grown to a large scale, inspiring Islamic banking systems worldwide.

We can classify the Islamic financial system in Malaysia into:

- Islamic banking structure,
- Non-bank Islamic financial agents,
- Islamic financial marketplaces.

It can also be found in these three ways to be characterized the structure of Islamic banking in Malaysia:

- Full-fledged Islamic financial associations.
- Conventional financial associations with Islamic windows,

- Conventional financial associations with Islamic windows and full-fledged Islamic banking branches. (Islamic Markets, 2022)

It is necessary to understand well between Islamic banking products and their compatibility with the Sharia to make a deal with Islamic banking basic rules. Furthermore, as the Islamic finance system has come to the present day, its products and services have become widespread (Table 4.1.).

Table 4.1.: Islamic Banking Instruments in Malaysia with their View of Shariah

Name of Product	**Islamic Banking Products**	**The Concept of Shariah Used**
Deposit	current account-i savings account-i commodity Murabahah-i	Wadiah Yad Dhamanah, Mudharabah, Qard Wadiah Yad Dhamanah, Mudharabah, Qard Murabahah/Tawarrug
Investment	general investment account-i special investment account-i	Mudharabah, Qard Mudharabah
Financing	asset financing-I asset-backed financing-i benevolent loan-i block discounting-i bridging finance-i bungalow lots financing-i	Tawarruq/Murabahah, Mudharabah Musharakah, Ijarah Ijarah Qard Bai" Dayn Istisna", Bai" Bithaman Ajil Bai" Bithaman Ajil
Financing	cash line facility-i club membership financing-i Commodity Murabahah Financing-i computer financing-I contract financing-i	Bai" Inah, Bai" Bithaman Ajil, Murabahah Bai" Bithaman Ajil Murabahah, Tawarruq Bai" Bithaman Ajil Murabahah, Bai" Bithaman Ajil, Istisna

	education financing-i equipment financing-i factoring facility-i fixed asset financing-I floor stocking financing-i hire purchase agency-i home/house financing-i	Murabahah, Bai" Bithaman Ajil, Bai" Inah Bai" Bithaman Ajil Bai" Dayn Bai" Bithaman Ajil Murabahah, Bai" Bithaman Ajil Wakalah Bai" Bithaman Ajil, Istisna"
	industrial hire purchase-i land financing-i leasing-i pawn broking-i	Variable Rate Bai" Bithaman Ajil Ijarah Bai" Bithaman Ajil Ijarah Rahnu (Qard and Wadiah Yad Dhamanah)
	personal financing-i plant & machinery financing-i project financing-i	Rahnu (Qard) Bai" Bithaman Ajil, Murabahah, Bai" Inah Bai" Bithaman Ajil, Istisna, Ijarah Bai" Bithaman Ajil, Istisna, Ijarah Musharakah, Mudharabah Tawarrug / Murabahah
	property financing-i	Bai" Bithaman Ajil, Istisna Variable Rate Bai" Bithaman Ajil
	revolving credit facility-i	Bai" Bithaman Ajil, Murabahah, Hiwalah, Bai" Inah
	share financing-i shop house financing-i	Bai" Bithaman Ajil, Bai" Inah Bai" Bithaman Ajil, Istisna"
	sundry financing-i syndicated financing-i term financing-1	Variable Rate Bai" Bithaman Ajil Bai" Bithaman Ajil Istisna", Bai" Bithaman Ajil, Ijarah Bai" Bithaman Ajil, Variable Rate Bai"

	tour financing-i umrah & visitation financing-i vehicle/automobile financing-i working capital financing-i	Bithaman Ajil Bai' Bithaman Ajil Bai Bithaman Ajil Ijarah, Bai" Bithaman Ajil, Murabahah Murabahah, Bai" Bithaman Ajil, Tawarrug / Murabahah, Musharakah. Mudharabah
Trade Finance	accepted bills-i bank guarantee-i bills of exchange-i export credit refinancing-i letter of credit-i shipping guarantee-i trust receipt-i	Murabahah, Bai" Dayn Kafalah Wakalah Murabahah, Bai" Dayn Wakalah, Murabahah, Ijarah, Bai" Bithaman Ajil Kafalah Wakalah, Murabahah
Card Service	charge card-i credit card-i debit card-i home/house financing-i	Qard Bai" Inah, Bai" Bithaman Ajil Ujr Bai" Bithaman Ajil, Istisna"s

Source: Elmabrok, Ali & Kim-Soon, Ng. (2016). Characteristics of GCC Islamic Banks Investment in Malaysia. European Journal of Scientific Research. Vol 140.

Islamic banking instruments used in most Malaysian banks are similar to conventional ones; however, some clear differences can be witnessed. For example, we can consider current and savings accounts under Wadiah Yad Dhamanah (guaranteed deposit), Mudharabah (profit sharing) and Qard (interest-free loan). Account holders are guaranteed full payment of the account amount and are not entitled to any profits from Islamic banks. In addition, interest-free products and services separated from conventional banks give hope to building new products on these basic services for the future.

Table 4.2.: Meaning of Shariah Views

The Concept of Shariah	Meaning
Wadiah Yad Dhamanah	savings with guarantee
Mudharabah	profit-sharing
Musyarakah	joint venture
Murabahah	cost plus
Bai"* Bithaman Ajil	deferred payment sale
Bai" Dayn	debt trading
Ijarah Thumma al-Bai"	purchasing
Ijalah	leasing and subsequently
Oardhul Hassan	purchasing
Bai" as-Salam	benevolent loan
Bai" al-Istijrar	future delivery
Kafalah	supply contract
Rahnu	guarantee
Wakalah	collateralized borrowing
Hiwalah	nominating another person to act
Sarf	remittance
Ujr	foreign exchange
Hibah	fee
	gift

Source: Elmabrok, Ali & Kim-Soon, Ng. (2016). Characteristics of GCC Islamic Banks Investment in Malaysia. European Journal of Scientific Research. Vol 140. 448-457.

In the case of investment accounts, money in a general investment account under Mudharabah (profit-sharing) and Qard (interest-free loan) is for an Islamic bank to invest in projects without command from investors; under Mudarabah conditions, investment rights can be given to the Islamic bank by transfer of authority or instruction, according to the customer's request. (Nakagawa, 2009).

The goals of Islamic finance are to ensure a balanced relationship between participants, an element of profit, and risk sharing sustaining financial transactions. There are many conventional project finance structures. The most significant

Islamic essential instruments for project finance are shortened as follows (Clews, 2016).

• **Murabaha:** It is a type of sale in Islamic law. A sale transaction with the addition of some profit on the purchase price or cost.

In Islamic finance, the contract of sale with Murabaha is one of the contracts based on trust. In such agreements, the buyer trusts the accuracy of the seller's declaration and establishes the contract on it. Therefore, the smallest false statement that may prevent the customer's consent or the failure to disclose a matter that needs to be disclosed prevents the formation of the contract.

• **Wakala:** Wakala means to trust and leave rights to someone, and it is to leave the action that one has the authority to do to another person, to substitute that person for himself. A person to whom any delegated is given or transferred by another person on his behalf.

• **Sukuk:** Sukuk is a financial bond issued to provide financing to the state and companies, offering the investor an interest-free fixed income. It is widely used in Asian and Gulf countries and is called Islamic financing-derived bonds prepared under Islamic law principles. Sukuk certificates aim to provide an interest-free fixed income for the investor. The investor who purchases a sukuk owns or has the right to benefit from an asset within the framework of the rates committed by the company or the government's sukuk certificate. Bonds are called debt-based certificates, while Sukuk is an asset-based certificate. The sukuk issuing company must share transparently with the public where it will transfer the cash flow it will provide.

• **Ijara:** Ijara is like the financial leasing activities of the banking system in the traditional sense, and it is the transfer of ownership to the buyer at the end of the leasing period over a symbolic value instead of direct sales.

Islamic bank, which carries out interest-free banking activities, leases equipment or a building to one of its customers for a fixed amount and a specified period. Contrary to the profit-loss sharing principle, this type of contract has a predetermined and fixed return.

- **Istisna:** The contract allows the sale to be made while the goods are not yet in. Model sales transactions in housing projects are carried out with an exceptional agreement. Islamic investors appoint the borrower as their agent to procure the specific project assets to be financed Islamically.

4.2. WHERE DO MALAYSIA STAND IN THE ISLAMIC FINTECH LANDSCAPE?

The Islamic Fintech area is developing via technology, artificial intelligence, machine learning, big data and industry 4.0 at an unprecedented pace. The Islamic Fintech concept is defined as the realization of Islamic financial products, services and investments based on innovation and technology. That Fintech converted to Islam means performing the promised transactions without harming anything, displaying an ethical approach without cheating, offering a product portfolio without hidden costs, and offering Islamic financial products/services without interest component, gambling and religiously prohibited products.

Unlike global conventional Fintech companies, Islamic fintech companies are Shariah compliant and work for shareholders transparently. Hence, any financial technology company that produces applications or services under Islamic principles can be counted in Islamic Fintechs. However, it is important to understand how much this product development process is compatible with Islamic principles. In brief, both products and their development process should be shariah compliant to prove themselves on the Islamic Fintech ecosystem map.

Malaysia ranked number one on the Global Islamic Fintech (GIFT) Index as reported in 2021(Salaam Gateway, 2021). According to this report, we can briefly find out that Malaysia is the most conductive country for Islamic Fintechs. Consistent with this index, the Islamic Fintech market and ecosystem applied 32 indicators in five categories, such as talent, regulation, infrastructure and capital, in 32 separate indicators.

Figure 4.2.: Top 20 Countries by GIFT Index Scores

Source: Salaam Gateway (2021), Global Islamic Fintech Report 2021, Retrieved June 24, 2022, https://www.salaamgateway.com/specialcoverage/islamic-fintech-2021

Sighted this potential, the Malaysian government seriously supports the Islamic Fintech market with its incentives. Individual initiatives, as well as regulatory firms, facilitate these initiatives to enter the Islamic FinTech market.

The Malaysian government has recognized the Islamic Fintech economy as Key Economic Growth Activities (KEGA). It aims to position the country as an Islamic Finance Hub 2.0 in its Shared Prosperity Vision 2030 (SPV 2030) (Fintech News Malaysia, 2021).

Despite all these positive rising, only 4% of the 233 Fintech companies belong to Islamic Fintech in Malaysia, as shown in Figure 3.

Figure 4.3.: Malaysia Fintech Map 2021

Source: Fintech News Malaysia (2022). The Islamic Fintech Landscape in Malaysia, Where Do We Stand?. Retrieved June 24, 2022, from https://fintechnews.my/29873/islamic-fintech/islamic-fintech-malaysia/

Considering the current number of Islamic Banks, Islamic banking windows, Shariah monitoring rules, Islamic financial assets, Muslim population, Sukuk, Islamic finance education, as well as laws and regulations, this shows how insufficient this number of Islamic Fintechs is in Malaysia. Malaysia has more support and encouragement for fintech development, including service to the Islamic finance sector than other Muslim countries. As long as it connects with technology, it will seize this opportunity.

In an increasingly digital world, the change in consumer behaviour and the gap in traditional banks' products and customer focus will be filled with Islamic Fintech initiatives. Due to their focus on a niche area, they have high growth rates by focusing on the changing needs and expectations of consumers, thanks to their flexible structure, with their seamless customer experience, attractive designs, competitive pricing, and cost advantages, and providing services only via digital or mobile platforms.

The Malaysia Digital Economy Corporation (MDEC) has stated six dynamics as the drivers behind Malaysia's Islamic Fintech compass in Figure 4 (MDEC, 2020).

Figure 4.4.: Six Dynamics as The Drivers Behind Malaysia's Islamic FinTech Compass

Source: MDEC, 2020

Although there are many products in the fintech ecosystem, looking at which sub-categories of Islamic FinTech in Malaysia will give us evidence regarding the most used applications.

A growing subsector has since occurred in the fintech industry, namely the Islamic Fintech niche, which focuses on the use of technology to deliver Shariah-compliant financial solutions, products, services and investments (Salim and Abojeib, 2020).

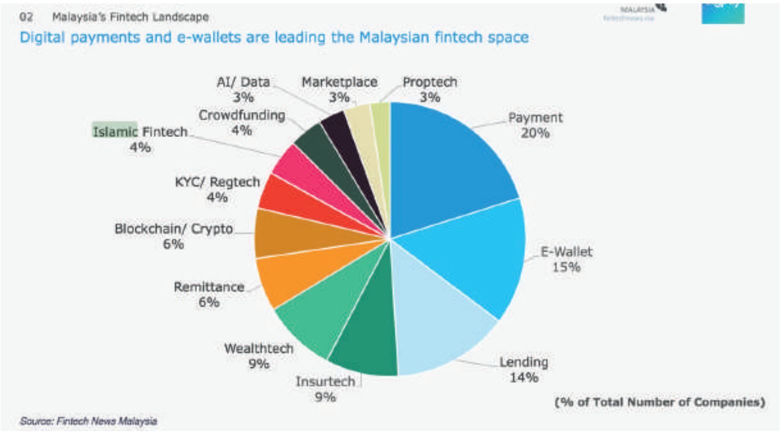

Figure 4.5.: Malaysia's Fintech Landscape

Source: Fintech News Malaysia (2022). The Islamic Fintech Landscape in Malaysia, Where Do We Stand?. Retrieved June 24, 2022, from https://fintechnews.my/29873/islamic-fintech/islamic-fintech-malaysia/

Thus, the most prominent Fintechs are payment systems and e-wallets. For this reason, the most prominent among Fintechs are payment systems and e-wallets, credit and insurance applications, and then insurance applications. This gives us hints that to keep faster growth will be achieved by focusing on which sub-sectors to increase the 4% share of Islamic Fintechs in Malaysia.

4.3. DESCRIBE THE HISTORICAL DEVELOPMENT OF SUKUK IN MALAYSIA AND ITS CONTRIBUTION TO THE ECONOMY

The concept of sukuk is derived from the single Arabic word sakk, which is defined as a document or investment certificate, and is widely used in the literature in the plural form (Zada et al., 2016:32). Investment certificates are also referred to as valuable papers showing the obligations of Muslims arising from their commercial activities in the Middle Ages (Bacha and Mirakhor, 2013: 172). There are many definitions for sukuk, which is considered an Islamic bond, the main one being made by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). More than 100 standards have been published by the organization, which was formed with the participation of approximately 45 countries in Bahrain in 1991. The 17th of these standards is the Investment Certificate (Sukuk) Standard. According to the standard, the definition of sukuk is the following: *'Investment Sukuks are certificates of equal value representing undivided shares in ownership of tangible assets, usufruct and services or (in the ownership of) the assets of particular projects or special investment activity, however, this is true after receipt of the value of the Sukuk, the closing of subscription and the employment of funds received for the purpose for which the Sukuk was issued.'* (AAOIFI, 2015, p. 460). The Malaysian Shariah Advisory Council (SAC) defines Sukuk as follows: *'Sukuk refers to certificates of equal value which evidence undivided ownership or investment in the assets using Shariah principles and concepts endorsed by the SAC.'* (Suruhanjaya Sekuriti, 2014, p. 24). There are many types of Sukuk such as ijarah, murabahah, salam, istisna'a, mudarabah, musharakah, investment agency sukuk, muzara'ah (sharecropping), musaqat (irrigation), and mugharasah (agricultural). Apart from these, sukuk types are created by contemporary circumstances and defined by the name of different colors. Green sukuk and blue sukuk come first. Green sukuk refers to the sukuk used in the investment of projects to protect many natural resources, and also which will be developed in an environmentally friendly manner, such as wind energy, biogas facilities, solar parks, low-carbon technologies, renewable infrastructure, electric vehicles, and rail systems (Alam et al., 2016; Abdul Aziz, 2017; Zain et al., 2017; PWC, 2016; Khazam, 2015). The blue sukuk, on the other hand, is more focused on financing the maritime economy (Rusydiana and Irfany, 2021, p.102).

Although financial instruments similar to sukuk were used in ancient centuries, the concept of sukuk was first examined by the Fiqh Academy held in Jeddah, Saudi Arabia in 1988 and the foundations of the sukuk market were laid (Lahham and Watkins, p. 1). Based on these statements, the first sukuk of 125 million Malaysian Ringgit was issued by Shell MDS Sdn Bhd in Malaysia in 1990. After that, in 2001, the Central Bank of Bahrain issued the first corporate sukuk of 150 million Dollars and officially introduced sukuk into world life (Lahham and Watkins, p. 2.).

A brief outlook of the historical development of the sukuk in Malaysia is as follows.

- In 1990, the first sukuk issuance of 125 million Malaysian Ringgit was made by Shell MDS Sdn Bhd, a foreign company that is stated not to belong to Muslims.
- In 2001, a 150 million Dollars sukuk issuance was made by Kumpulan Guthrie Berhad through the Malaysian Islamic exchange. This is said to be the first sukuk issued by Muslims in Malaysia.
- In 2002, the Malaysian government made the first ijarah sukuk issuance of 600 million dollars.
- In 2005, the first profit-sharing Mudarabah sukuk issuance of 80 million Ringgit was realized by PG Municipal Assets Berhad.
- In 2005, the first musharakah sukuk issuance of 2.5 million Ringgit with profit and loss sharing was realized by Musyarakah One Capital Market.

Thus, instruments that set the first examples in the issuance of sukuk entered the financial market in Malaysia. Looking at the issuance of sukuk in the world, it is seen that there has been a serious increase in recent years. Despite the Covid-19 epidemic crisis that has affected the world, it is seen that the issuance of sukuk in the first quarter of 2021 increased by 21.20% compared to the previous year and reached 42.3 billion dollars. The shares of the countries in this sukuk issuance are as follows.

2021 Q1 Sukuk Issuance Volumes (Percentage)

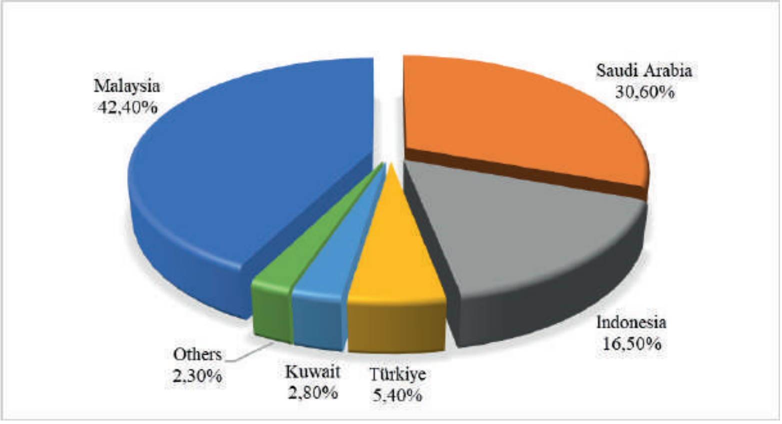

Figure 4.6.: 2021 Q1 Sukuk Issuance Volumes (Percentage)

Source: Islamic Financial Services Board (IFSB) (December 2021), Assessing the Effectiveness of Covid-19 Policy Responses in the Islamic Capital Market, IFSB Publications, p. 6.

It is understood from the graph that Malaysia has the majority (42.40%) of the world's sukuk market in the first quarter of 2021, approximately 18 billion dollars. Malaysia is followed by Saudi Arabia (30.60%, 13 billion dollars), Indonesia (16.50%, 5.7 billion dollars), Türkiye (5.40%, 2.2 billion dollars), and Kuwait (2.80%, 1.2 billion dollars). Furthermore, it is stated that approximately 250 billion dollars of sukuk issuance have been realized as of the end of 2021 (thenationalnews.com). Malaysia's sectoral sukuk issuance, which ranks first in the world, is as follows.

Table 4.3.: Total Sukuk Issuance by Malaysia on a Sectoral Basis (Billion Ringgit (RM))

Years	*Agriculture, Forestry and Fisheries*	*Construction Sector*	*Electricity, Gas and Water*	*Finance, Insurance, Real Estate and Business Services*	*Government and Other Services*	*Production*	*Mining & Quarrying*	*Transport, Storage and Communication*	*Wholesale, Retail Trade, Hotels & Restaurants*	*Sum*
2000	43	2.388	4.564	7.245	922	1.409		3.374	2.046	21.992
2001	657	1.865	10.068	12.583	914	2.005		3.160	250	31.502
2002	972	2.874	1.209	7.613	3.494	928		8.439	1.131	26.660
2003	583	2.230	1.971	21.732	1.304	6.209	80	9.429	130	43.668
2004		3.229	7.334	11.774		3.187		1.332	1.194	28.050
2005	732	4.007	5.791	14.726	1.127	3.102	100	2.709	3.362	35.656
2006	519	2.661	4.764	15.583	4.546	796		2.688	181	31.737
2007	1.060	2.989	4.216	36.715	2.000	1.209		19.355	62	67.606
2008	50	2.888	4.811	31.052	4.786	1.225		4.666	179	49.658
2009	270	1.615	3.840	40.048	6.869	999		4.928	5	58.575
2010	265	8.523	620	34.220	1.101	698		6.303	398	52.128
2011	465	3.502	20.855	33.371	5.360	1.660		3.895	452	69.561
2012	2.845	4.698	12.029	75.393	12.823	2.197		10.890	250	121.123
2013	1.279	7.629	10.927	48.389	5.581	1.378	0	8.573	109	83.865
2014	465	13.366	5.333	50.391	11.094	2.144	12	2.229	467	85.502
2015	1.265	4.181	13.660	55.606	6.359	1.515	0	2.850	204	85.639
2016	1.248	7.414	10.820	46.323	10.984	1.523	0	6.835	150	85.298
2017	151	12.169	14.362	76.340	11.408	1.180	0	5.005	1.389	122.004
2018	89	5.949	13.608	73.821	4.347	1.820	0	2.905	411	102.950
2019	2.055	4.268	7.584	101.275	7.215	2.230	0	2.566	1.732	128.924
2020	20	8.759	10.870	71.000	6.048	1.747	500	3.085	2.052	104.080
2021	2.221	7.063	19.646	71.932	6.316	1.887	0	2.480	869	112.412

Source: Suruhanjaya Sekuriti, Bonds & Sukuk Market, Access Date: 02.06.2022, https://www.sc.com.my/analytics/bonds-sukuk-market

It is understood from the table that the sukuk issuance has occurred in several sectors. The sector experiencing the highest volume of sukuk issuance is the Finance, Insurance, Real Estate and

Business Services Sector. It is seen that there has been an increase in the issuance of sukuk over the years, and the most issuance of sukuk was realized in 2019. The issuance of sukuk has increased sixfold compared to the first years. When the total sukuk issuance in Malaysia is analysed on a monthly basis, the following figure is seen.

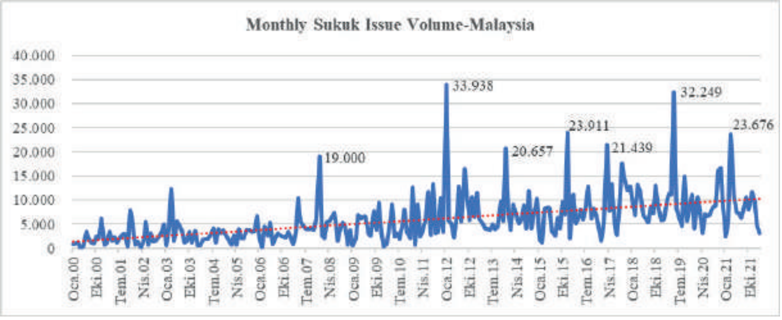

Figure 4.7.: Monthly Sukuk Issue Volume-Malaysia

Source: Suruhanjaya Sekuriti, Bonds & Sukuk Market, Access Date: 02.06.2022, https://www.sc.com.my/analytics/bonds-sukuk-market

When looked at the Malaysia's sukuk issuance volume, it is seen that it has increased continuously over the last twenty years. It is understood that it had a serious peak in some years; moreover, it had a successful course during the covid period. It is observed that the year in which the most sukuk issuance took place was January 2012.

4.4. COULD YOU PLEASE PROVIDE DETAILS ABOUT TAKAFUL INSURANCE IN MALAYSIA?

There is an emphasis on mutual aid and solidarity in the definitions in the literature for takaful insurance. It is mentioned that the participants guarantee each other assistance in return for the premiums paid through donations.

Takaful (Islamic insurance) is a concept in which a group of participants mutually guarantee each other against loss and damage. Each participant fulfils the obligation to donate a certain amount as a contribution aid (or donation) to the fund managed by a third-party organization, the takaful operator (Bank Negara Malaysia, 2013).

Malaysia's central bank, Bank Negara Malaysia (BNM), is the institution that oversees all insurance and takaful institutions in the country. Insurers and takaful businesses that want to operate in the country must receive a letter of recommendation from BNM and go to the Ministry of Finance.

The Takaful Act was enacted in 1984, while Syarikat Takaful Malaysia Bhd was established in November 1984. It is known as the first Islamic insurance company.

Takaful and conventional insurances have the same purposes, although their basis in the works and transactions are different since Takaful is based on Islamic trade rules. By this way, it differs from conventional insurance.

Table 2 shows many differences between Takaful insurance and conventional insurance as shown.

Table 4.4.: Comparison Between Takaful and Conventional Insurances

1. Similarities		
1. Both modes of insurances need payment from the insured to the insurer; in conventional it is called premium and under takaful it is called contributions in the form of donation (tabarru')		
2. The amount insured is payback to the insurer when certain events occur		
3. Both insurance policies have a significant investment or savings elements built into them		
2. Dissimilarities		
Concepts	Conventional Insurance	Takaful
Elements	• Operates under secular law • No requirement on spiritual sincerity and the concept of 'hereafter' is ignored	• Compliant with the Shariah • Elements of spiritual sincerity are essential aspect of the insurance contract, i.e. to achieve the pleasure of Allah and the concept of 'hereafter' is emphasized
Risks	• Transferred to one party • Borne by one entity (an individual or organization) – the Insured	• Sharing-risks between the group itself • The takaful participants agreed to assists those among them who incur any loss and share the reminder if any
Modus operandi	• Based solely on commercial factors	• Based on mutual cooperation • Based on mutual assistance and protection
Business operations/ activities	• Investments and other activities are not restricted as long as they comply with the relevant laws	• Free from the Shariah prohibitory elements (riba, gharar and maysir)
Payment of subscription	• Premium payment which creates an obligation against the Insurer on a sale & purchase contract	• Contributions payment in the form of donations through donation contract (tabarru')
Advisory board	•No requirement for compliance with the Shariah	• A Shariah Advisory Board ensures compliance with the Shariah (Takaful Act 1984)

Source: Puteri Nur Farah Naadia Mohd Fauzi, Khairuddin Abd Rashid, Azila Ahmad Sharkawi, Sharina Farihah Hasan, Srazali Aripin, Muhammad Ariffuddin Arifin (2016), "Takaful: A review on performance, issues and challenges in Malaysia", ***Journal of Scientific Research and Development*** **3 (4): p. 72.**

While the funds obtained in Takaful insurance are invested in Islamic products, investments can be made in all kinds of investment instruments in conventional insurance. In addition, in Takaful insurance, the fund belongs to the participants, while in conventional insurance, the fund belongs to the company.

IFSB, the AAOIFI, and IIFM have made important improvements in developing standards in governance, financial reporting, Shari'a, and capital markets. They have equally struggled to advance the wide support of regulators to impose the implementation of takaful insurance standards and leading best practices. Basically, consultants, as well as regulators, need to study together to ensure these well-written and well-presented standards find their way in a real, practical sense. Thus, the location of the new Takaful model and solutions has to address several inspirations and enablers, as addressed in Figure 6.

Figure 4.8.: Positioning of New Takaful solutions: Core Influences and Enablers

Source: Deloitte (2020), The global Takaful insurance market, Retrieved June 28, 2022, https://www2.deloitte.com/content/dam/Deloitte/xe/Documents/financialservices/me_fsi_insurance_takaful_0613.pdf

Hence, the models and new products to be developed on takaful insurance have prerequisites that must be considered in many respects.

Takaful insurance has located itself to capitalise on the new up-and-coming opportunities. Takaful companies need to superior position themselves to classify key growth drivers and capitalise on the emerging growth chances in an increasingly reasonable global takaful landscape, involving considering: strategies to transform such market potential to real growth; new business models; important issues in adaptable takaful providers; and exploring the latest innovations in the next generation of takaful products considering changing consumer expectations. Lastly, the potential of takaful is beyond question. The market share here has increased through the entry into the takaful market of major banks worldwide, but the takaful insurance sector is growing rapidly. (Anand, 2014).

4.5. WHAT IS THE STATUS OF ISLAMIC FINANCE AND BANKING EDUCATION IN MALAYSIA?

Islamic finance and banking education in Malaysia began with the establishment of the first Islamic Banks by the government in 1983. Studies have been carried out in this field since then in order to train more qualified employees. The International Islamic University was first established under the leadership of the then Prime Minister Tun Dr. Mahathir Mohamad. Thus, the foundations of Islamic Finance and Banking were laid. In 2005, INCEIF was established by Bank Negara to train talented and expert staff for the Islamic financial services industry. Carrying out its duties as a university, INCIEF offers postgraduate education to students from more than 70 countries and research opportunities for international academics (https://inceif.org/profile-vision-mission/). Subsequently, on 1 November 2007, the Malaysian Qualifications Authority (MQA) was established with the enactment of the Malaysian Qualifications Authority Act. The establishment purpose of MQA is to provide quality assurance for higher education institutions by setting standards and criteria at the national level. MQA strives to contribute in the following areas: National competitiveness, addressing globalization, the centre of higher education excellence, centre for quality assurance, regional networking, knowledge society and human capital development.

According to the study titled “MIFER Atlas 2021 and Beyond”, published in 2021 by ICIFE (International Council of Islamic Finance Educators), the International Islamic Finance Education Council, there are currently 217 associate degree, undergraduate, graduate, and doctoral programs in Malaysia related to Islamic Finance and Banking. These programs are offered by 12 public universities (PUs), 40 private higher education institutions (PrHEI) and ten public higher education institutions (PuHEI). The distribution of these programs is given below. (ICIFE, 2021, p.3.)

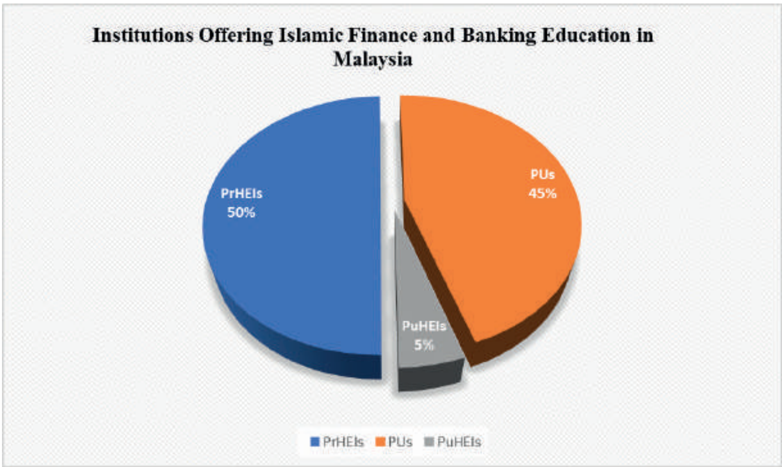

Figure 4.9.: Institutions Offering Islamic Finance and Banking Education in Malaysia

Source: ICIFE, MIFER Atlas 2021 and beyond, (Ahmad, Nor Hayati. Thoughts on Islamic Finance Education 2021 and Beyond) ICIFE Publisher, 2021, p. 24.

Private higher education institutions provide 50% (109 units) of the total education given, while 45% (97 units) are provided by public universities, and 5% (11 units) are delivered through private higher education institutions. State and private institutions give equal importance to this area. The fact that private universities value this field shows that their expectations from the field are high and the demand is intense. The top 10 universities in terms of program content are listed in the table below.

Table 4.5.: Top MIF Offering

	Public Universities (PUs)	Private Higher Education Institutions (PrHEIs)	Public Higher Education Institutions (PuHEIs)
1	IIUM	KUIM	PolySis
2	UITM	UniSHAMS	KPM Melaka
3	USIM	USAS	PolyJB
4	UUM	KUIS	PolyKuantan
5	UniSZA	IIC	PolyMlk
6	UM	KUIPSAS	PolyNilaj
7	INCEIF	MSU	PolySas
8	UKM	CyberM	PolySPrai
9	USM	Dar Hikmah	PolyTss
10	UMS	KIAS	PolyUO

Source: ICIFE, MIFER Atlas 2021 and beyond, (Ahmad, Nor Hayati. Thoughts on Islamic Finance Education 2021 and Beyond) ICIFE Publisher, 2021, p. 25.

In terms of the programs used in Islamic finance and banking education, it is seen that the most intensive activity is at the International Islamic University of Malaysia (IIUM). Islamic finance and banking activities, which started in 1983, are still continuing rapidly. The distribution of the training given by associate, undergraduate, graduate and doctoral programs is shown in the chart below.

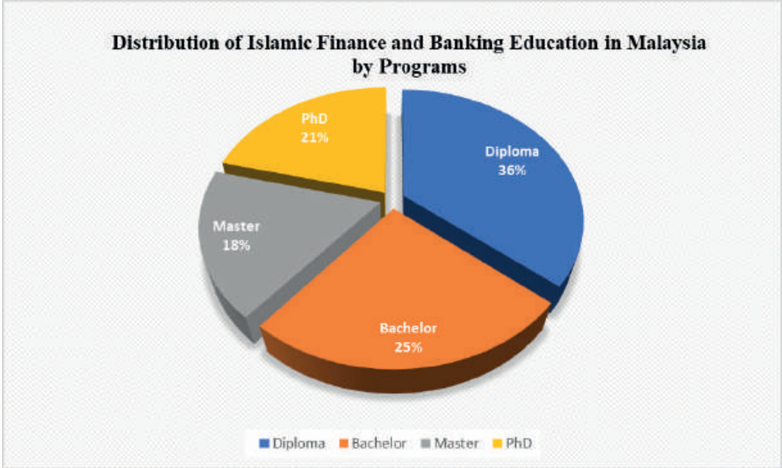

Figure 4.10.: Distribution of Islamic Finance and Banking Education in Malaysia by Programs

Source: ICIFE, MIFER Atlas 2021 and beyond, (Ahmad, Nor Hayati. Thoughts on Islamic Finance Education 2021 and Beyond) ICIFE Publisher, 2021, p. 24.

The majority of Islamic Finance and Banking education in Malaysia consists of an associate degree (36%) with 77 programs. This is followed by undergraduate (25%) with 55 programs, doctorate (21%) with 45 programs and master (18%) with 40 programs. The intensive doctorate programs contribute to the presence of experienced staff in the market.

Islamic Finance and Banking studies in Malaysia are grouped under six headings: Sharia and Law, Islamic Economics, Islamic Finance and Banking, Islamic Management and Marketing, Halal Food, and Islamic Accounting (ICIFE, 2021, p. 23).

- **Sharia and Law:** Under this heading, the provisions of Sharia based on the Qur'an, Sunnah, Ijma and qiyas are examined. The compliance of Islamic financial instruments with Sharia, the details of the contracts executed, and the fatwas issued are reviewed. The standards established by international boards are evaluated.

- **Islamic Economy:** Islamic Economics refers to the micro and macro economy based on sharia. It looks at the economy built on conventional foundations from an Islamic perspective.
- **Islamic Finance and Banking:** The training given in this field mostly focuses on what Islamic financial instruments are used, how they are applied by banks, asset management, risk management and Islamic insurance (takaful).
- **Islamic Management and Marketing:** It is based on an Islamic perspective on management, organization and marketing in the field of business.
- **Halal Management:** Trainings are given on the operations and management carried out in the halal food sector. In halal management, products, services, systems and regulations are discussed first.
- **Islamic Accounting:** Islamic accounting refers to the theory and practice of accounting and auditing based on Sharia principles. It covers Islamic accounting standards and practices, zakat accounting and social responsibility accounting.

The content of the trainings given is indicated in the graph below.

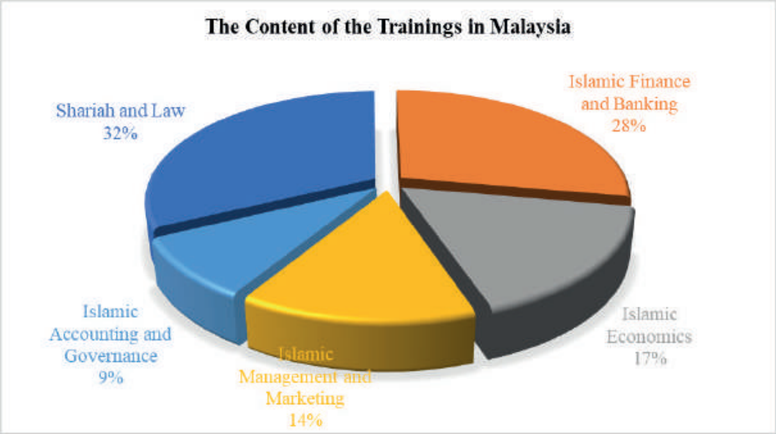

Figure 4.11.: The Content of the Trainings in Malaysia

Source: Haneef, M. A. (2018). Islamic finance education: Is there a misallocation of resources between curriculum and academic talent? Islamic Banking and Finance Review, 5, 58–67.

Looking at the above graph, approximately 32% of the contents of trainings consist of Sharia and Law, 28% Islamic Finance and Banking, 17% Islamic Economics, 14% Islamic Management and Marketing and 9% Islamic Accounting and Governance (Haneef, 2018, p. 62).

4.6. WHAT LEVEL IS THE CONTRIBUTION OF ISLAMIC FINANCE INSTRUMENTS USED IN MALAYSIA TO THE COUNTRY'S ECONOMY

Many financial instruments are discussed in Islamic finance. However, some of them are not used because the relevant authorities state that some of them are not suitable for use both nationally and internationally. Financial instruments used in Malaysia have been covered under heading 4.1. This section will specify the number of financial instruments used and their share in financial instruments. The value of the Islamic financial market in Malaysia is shown in Table 4.6.

Table 4.6.: Malaysian Islamic Finance Indicators (Billion Ringgit (RM))

Indicator	2013 Q4	2014 Q4	2015 Q4	2016 Q4	2017 Q4	2018 Q4	2019 Q4	2020 Q4	2021 Q4
Total Shari'ah-Compliant Financing (Excluding Interbank Financing)	280.476	333.646	387.351	431.593	476.038	559.266	606.729	656.682	709.404
Sukuk Holdings	62.438	74.392	69.013	72.482	86.599	109.254	128.603	146.143	165.296
Other Shari'ah-Compliant Securities	213	166	177	81	67	37	48	52	78
Interbank Financing	58.053	41.606	45.988	47.622	58.100	62.434	58.820	56.745	67.491
All Other Assets	18.368	19.214	23.800	20.996	21.913	24.588	23.887	11.661	15.127
Total Assets	419.549	469.024	526.329	572.774	642.717	755.578	818.086	871.281	957.395

Source: Islamic Financial Services Board (IFSB), Data by Country (Islamic Banking), Date Accessed: 10.06.2022, https://www.ifsb.org/psifi_03.php

When the data on Malaysian Islamic Finance Indicators are examined, it is seen that the value of the total Islamic finance market has reached approximately 1 trillion Ringgit and has increased approximately 2.5 times in the last ten years. A large part of the Malaysian Islamic Finance market, 709 billion Ringgit (74%), consists of Sharia-compliant financial instruments- the major ones are ijarah, murabahah, istisna'a, mudarabah, musharakah, Al-Bai Bithaman Ajil.

It is seen that there has been a great development in the sukuk market, reaching 165 billion Ringgit in the fourth quarter of 2021. The percentiles of the variables in the fourth quarter of 2021 are shown in Figure 4.12. below.

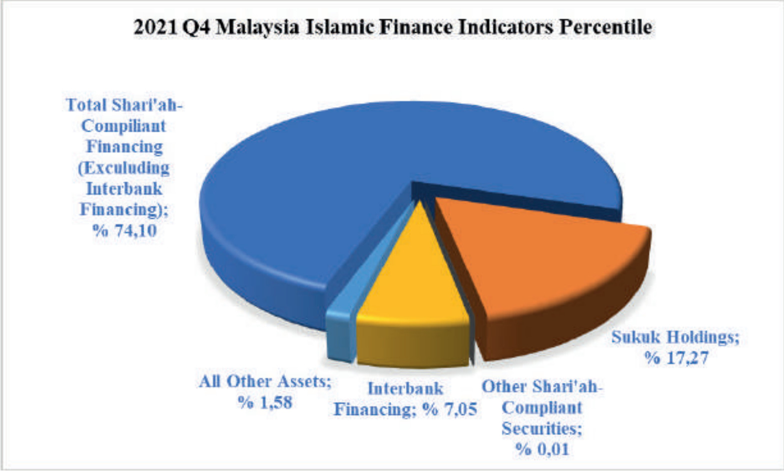

Figure 4.12.: Percentile of 2021 Q4 Malaysian Islamic Finance Indicators

Source: Islamic Financial Services Board (IFSB), Data by Country (Islamic Banking), Date Accessed: 10.06.2022, https://www.ifsb.org/psifi_03.php

As can be seen from the figure, 74% of Islamic finance activities in Malaysia are financial instruments that comply with sharia, 17% are the sukuk market, 7% are Interbank transactions, and 2% are other transactions. The distribution of sharia-compliant instruments, which constitute a large part of the Islamic finance market in Malaysia, is indicated in Table 4.7. below.

Table 4.7.: Total Shari'ah-Compliant Financing (Excluding Interbank Financing)

Total Shari'ah-Compliant Financing (Excluding Interbank Financing)									
Indicator	**2013 Q4**	**2014 Q4**	**2015 Q4**	**2016 Q4**	**2017 Q4**	**2018 Q4**	**2019 Q4**	**2020 Q4**	**2021 Q4**
Murabahah	56.924	83.999	118.028	158.551	186.796	219.427	252.507	286.378	319.402
Istisna'a	1.477	1.767	2.175	1.912	1.820	1.325	1.589	1.225	999
Ijarah/Ijarah Muntahia Bittamlik	68.863	76.914	80.882	79.048	80.674	82.399	80.398	84.049	88.370
Mudarabah	146	77	78	71	61	44	44	144	244
Musharakah	16.052	22.454	28.516	40.220	48.283	52.772	57.311	60.901	66.784
Al-Bai Bithaman Ajil	83.117	79.765	75.644	69.307	65.452	65.648	64.079	62.579	61.555
Others	53.898	68.670	82.028	82.485	92.952	137.652	150.802	161.406	172.050
Total Financing	280.476	333.646	387.351	431.593	476.038	559.266	606.729	656.682	709.404

Source: Islamic Financial Services Board (IFSB), Data by Country (Islamic Banking), Date Accessed: 10.06.2022, https://www.ifsb.org/psifi_03.php

When the Islamic financial instruments used in Malaysia are examined, the primary ones are murabahah, ijarah, musharakah, Al-Bai Bithaman Ajil, istisna'a, mudarabah and other financial instruments. It is observed that the use of Islamic financial instruments has tripled in the last nine years. The most widely used tool among the mentioned financial instruments is murabahah. The use of murabahah has reached 320 billion Ringgit from 57 billion, which means that it has increased six times in the last nine years. The share of financial instruments in the previous quarter of 2021 in the total is shown in Figure X.

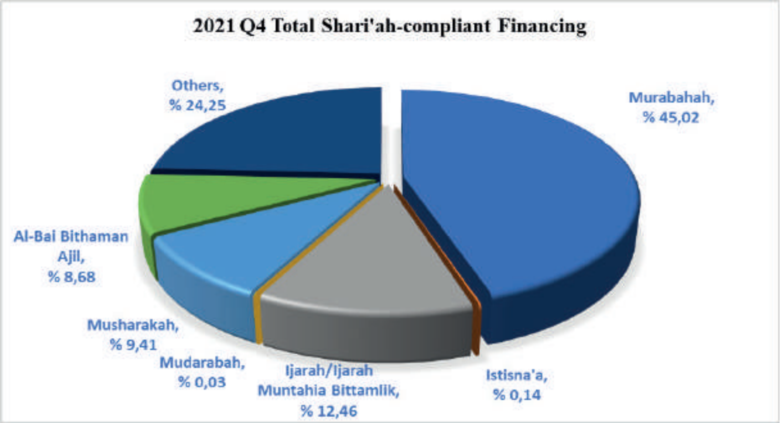

Figure 4.13.: 2021 Q4 Total Shari'ah-compliant Financing

Source: Islamic Financial Services Board (IFSB), Data by Country (Islamic Banking), Date Accessed: 10.06.2022, https://www.ifsb.org/psifi_03.php

When the rates of Islamic financial instruments used in Malaysia in the last quarter of 2021 are examined, it is seen that murabahah is in the first place as in the whole world. The utilization rate of the murabahah constitutes 45% of all Islamic financial instruments. This financial instrument is followed by ijarah with 12.46%, musharakah with 9.41% and Al-Bai Bithaman Ajil with 8.68%. To a very small extent, the istisna'a financial instrument is used.

Looking at the Islamic finance market in Malaysia in general, the market has reached 1 trillion Ringgit, of which 74% -709 billion Ringgit- consists of Islamic financial instruments. In comparison, 45% of Islamic financial instruments, 320 billion Ringgit, are murabahah. By analysing the results, it is understood that the most widely used murabahah financial instrument in Malaysia constitutes 32% of the total Islamic Finance market. It is thought that the main reason why the murabahah instrument, which is based on the shopping transaction and is clearly stated to be halal in the Qur'an, is very common is that besides being the most appropriate financial instrument for the Islamic religion, its return is high, and its risk is low.

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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.

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

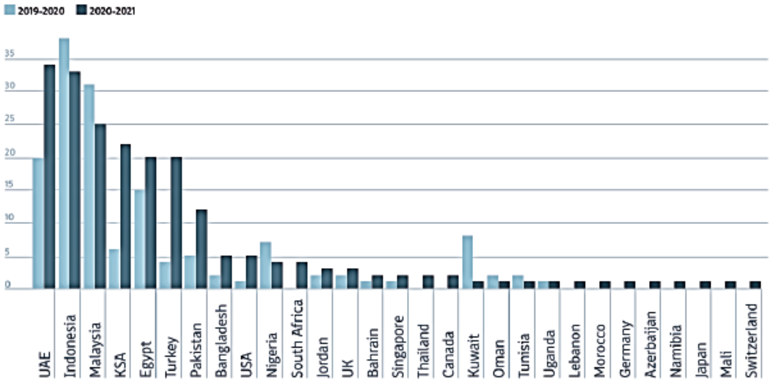

Figure 5.1.: Highest Amount of Islamic Investment Values in 2020/2021

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 Shari'ah 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).

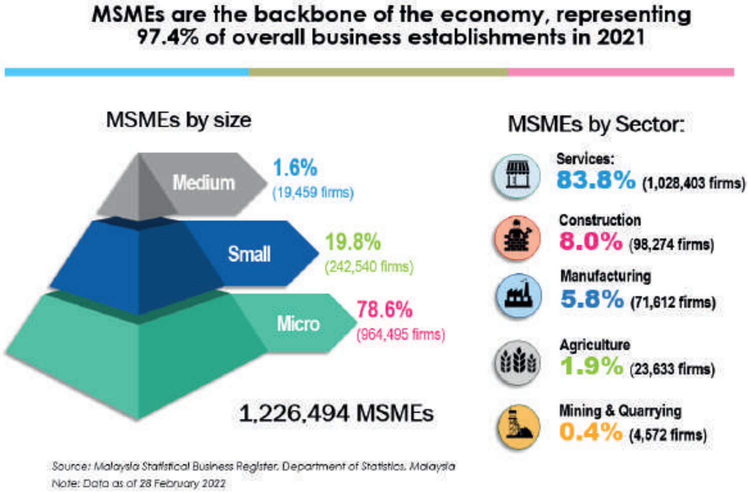

Figure 5.2.: The numbers of MSMEs business establishments and the sectors they are in.

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:

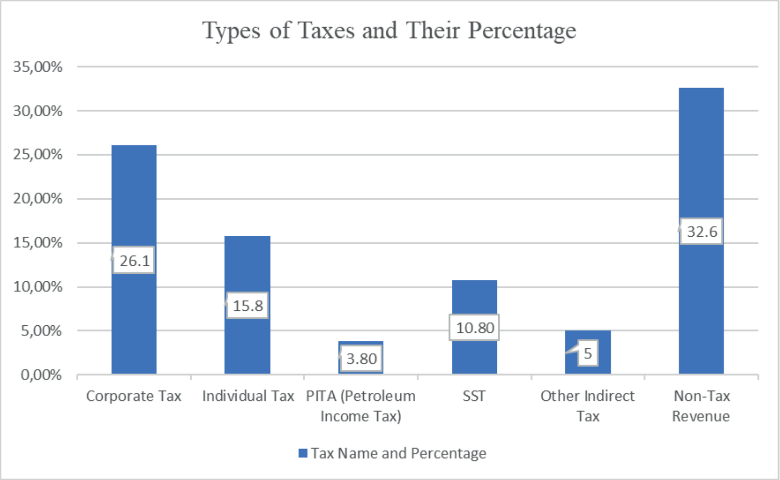

Figure 5.3.: Types of Taxes and Their Percentage in Malaysia for the year 2020

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).

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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=aGlSeWc4WnB5NmVxZTVEV3phZXF3UT09

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

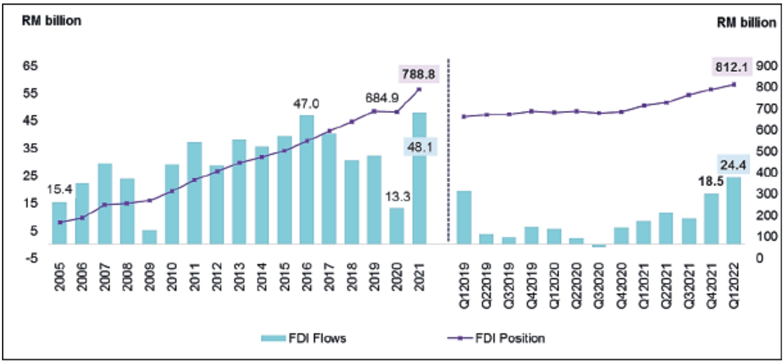

Figure 5.4.: The FDI Inflows and The Position Yearly And Quarterly.

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* (إستثمار), 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* (إستِغلاَل), 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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CHAPTER 6

Social Projects and Support In Malaysia

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6.1. WHAT ARE THE ZAKAT COLLECTION METHODS IN MALAYSIA?

Zakat, one of the most important worships at the point of establishing social peace and solidarity, became an obligatory duty after the hijrah and was applied to all Muslims by the Prophet himself. Its main purpose is to establish social peace and solidarity, bridge the gap between the rich and the poor, and eliminate income inequality. The fulfilment of these purposes depends on the complete and correct collection of zakat, its fair distribution and distribution. If those who give zakat have full confidence in those who receive zakat, zakat can eliminate the wealth gap in society and contribute to social peace and brotherhood. This can only be

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possible if the state collects zakat. It is possible to show the highest level of sensitivity in collecting and distributing zakat, and to prevent abuse, loss and fugitives by establishing a structure based on state power. In the time of the Prophet (Sav), the state was collecting zakat, going on till the time of Caliphate Uthman (r.a). Later, the practice of collecting zakat by the state was terminated and left to the individual's choice.

In today's Islamic countries, it is seen that states have taken many steps to collect zakat. While zakat is a legal obligation in some countries, others have no such sanction. In Malaysia, the collection and distribution of zakat is not a legal obligation. In Malaysia, divided into 13 states and three regions, different zakat collection methods and models are used in each state and region. States collect and distribute zakat from those who wish to give zakat voluntarily.

6.1.1. The Concept of Zakat

As a requirement of the religion of Islam, the Qur'an is interpreted as taking a certain percentage of the wealth of rich people and giving it to the people and groups specified in the Qur'an. In verse 103 of Surah At-Tawba, "Take alms from their property; with it you cleanse them, purify them, and pray for them. Surely, your prayer is tranquillity for them. It is stated that zakat is obligatory for Muslims by saying, "Allah is Hearing, Knowing". In the 60th verse of the same sura, "Charity (zakat) is only for the poor, the needy, the officials who collect zakat, those whose hearts will be warmed to Islam, enslaved people, debtors, jihadists in the way of Allah, and travellers who are stranded. Allah is All-Knowing, All-Wise, and All-Knowing", indicating where and to whom the zakat will be spent. The determination of the classes in which zakat income can be spent by Allah, especially. It has eliminated the possibility of arbitrary spending, bias and favoritism that may occur after the Prophet (Yılmaz, 2019:974). Again, in the 19th verse of the Zariyat period, it is stated that "There is a right for those who want (help) and those who are deprived (who cannot ask for help)", and it is stated that there is zakah in the property of taxpayers and that it is obligatory to pay zakat. In the 219th verse of the chapter of al-Baqara, what is to be spent with the "remaining amount of need" is ordered. In the practices of our Prophet, the amounts of nisab and zakat were arranged in detail.

When we look at the history of Islam, zakat was collected by the state until the time of Caliph Uthman (r.a.), and the revenues were kept in the state treasury called "Bayt al-mal" (Sarıçam, 2005: 189). It is seen that the goods coming to Baytulmal were collected from three sources (Kenanoğlu, 2011:55). During the four caliphs, there was no change in the issues of nisab, distribution of zakat and the determination of those who are entitled to receive zakat (Özdemir, 2013: 251). During the period of Umar (r.a.), trade goods were also included in the list of those to be given zakat. In the Uthman (r.a) period, zakat goods were divided into visible and invisible goods. After Uthman (r.a.), the state stopped collecting zakat, so zakat was made according to people's preferences. Over time, it has transformed into a form of social solidarity.

Although the collection of zakat by the state was implemented in the first period of Islam, zakat was left to the discretion of the individual in the later periods. In the historical process, the collapse of Islamic states or the inability to collect zakat by the state due to other reasons has survived to the present day as a problem. Today, although the number of Islamic countries that collect zakat by the state is very few, zakat is collected either by the state or through the institutions and organizations it has authorized. Sometimes, associations and foundations established voluntarily have undertaken this task and engaged in activities.

Zakat institutions operating around the world can be classified into three main categories.

These:

- Established as a result of the efforts of non-governmental organizations and voluntarily carrying out zakat activities,

- They are organizations established under the roof of a ministry and appointed full-time civil servants to continue the work. Establishments that voluntarily collect the zakat calculated by the taxpayer himself and distribute them to the relevant places,

- Establishments collecting and distributing zakat, which the state authority has required to be paid by law and whose organization is done by the state.

The legal infrastructure, economy, and population structure of the countries affect how the methods related to zakat are applied. On the other hand, the sensitivity of the country to Islamic principles also plays an important role in determining these methods. For this reason, the institutionalization of zakat has not developed in the same importance and degree in every country (Kahf, 2000:18). Despite the obligatory payment of zakat in some countries, the expected yield has not been achieved. In some countries, the legal infrastructure related to zakat has been created voluntarily, and great success has been achieved in zakat. Malaysia, one of these countries, has demonstrated an effective zakat management model and has successfully spread zakat all over the country.

6.1.2. Methods of Collecting Zakat in Malaysia

The collection and distribution of zakat is not a legal requirement in Malaysia. However, for those who do not give zakat, there are some prison sentences and fines at the state level for not fulfilling their religious duties (Yalçın, 2016:235). States collect and distribute zakat from those who wish to give zakat on a voluntary basis. In Malaysia, which is divided into 13 states and three regions, different zakat collection methods and models are used in each state and region. In these regions, zakat is collected in three models: the full public model, the semi-public model and the private model. Institutions collecting zakat have their own internet addresses. Each state collects and distributes zakat within itself. There is no transfer from one state to another state. Each province has established an Islamic council, which is authorized to issue zakat. This council is the only authority on zakat (Zulkifli, 2008:12).

In Malaysia, Zakat is collected by the state or authorized institutions and organizations and distributed on behalf of the state. In 1997, the Malaysian National Fatwa Council issued a fatwa stating that those with zakat sufficiency should also give zakat from their income (Yalçın, 2016:236). Based on this fatwa, zakat began to be deducted from the income of those working and receiving salaries. It has become the most common method of collecting zakat, which is the deduction of zakat from the employees' income. This method has become the largest share of zakat income. Zakat collection by deducting it from employees' income has many advantages. It is easy to follow up and collect, as the number of employees with salaries is too high. Two methods are followed in the calculation used to collect zakat on income. The first of these is 2.5 per cent of the annual income of the person with regular income is calculated as zakat, and the determined amount is divided into 12 months and collected monthly. In the other method, the expenses of the family are deducted before the annual income and the remaining income is accepted as the zakat base, and 2.5 per cent is collected as zakat in monthly instalments (Zulkifli, 2008: 7). The zakat deducted from the income of the employees brought with it the problem of double taxation. In order to overcome this problem, the state granted zakat payers exemption from income tax in the amount of zakat within the conditions determined by law.

Different methods of zakat distribution are applied in each state in Malaysia. However, there are some common practices as well.

These common applications are as follows;

- Observing eight classes[15] in the distribution of zakat,

- Providing basic food and similar needs,

- Giving according to priority,

- Separating zakat property,

15 In the 60th verse of the chapter of at-Tawba, "Charity (zakat) is only for the poor, the needy, the officials who collect zakat, those whose hearts are to be warmed to Islam, slaves, debtors, jihadists in the way of Allah, and travellers who are stranded. Eight classes are specified by saying, "Allah is All-Knowing, Wise and Wise".

- Ensuring the efficient use of zakat,

- Distribution to applicants.

According to the annual report of the Malaysian Federal Regional Religious Council in 2019, the places of zakat are given below.

Table 6.1.: Zakat Distribution

ZAKAT DISTRIBUTION	AIM	DISTRIBUTION TOTAL	BENEFICIARY
Welfare	Help meet monthly needs, festive season and emergency/certain cases	RM131.74 million	62.661
Medicine	Assisting patients in undergoing treatment and covering the cost of medicine and health equipment including hemodialysis treatment for kidney patients.	RM26.02 million	4.000
Education	Ensuring that the children of asnaf families get educational opportunities from school to higher education	RM73.9 million	56.665
Dakwah And Ummah Development	Encouraging the implementation of da'wah and welfare activities by Non-Governmental Bodies (NGOs) including mosques and suraus as well as Educational institutions	RM104.12 million	710
Protection	Guaranteeing a perfect place to live for asnaf	RM9.51 million	3.822
Economy	Encouraging asnaf to become independent through entrepreneurial activities	RM2.8 million	370

Source: MAIWP (2019), Prestası Kewangan, https://www.maiwp.gov.my/i/index.php/en/laporan-tahunan-maiwp#, p. 29.

If we look at the places where zakat is spent, the most zakat is distributed to the poor, but the poor receive a larger share. The zakat given to the poor is mostly in the form of capital to start a business, support to build a house, salaries and student scholarships (Aydın & Odabaş, 2018:166). However, from the zakat collected, salaries are paid to the agents (those responsible for collecting zakat) and expenses are made for collecting zakat. Under the name of Müellefe-i Kulub, assistance is provided to students studying in non-Muslim countries and Muslims struggling for independence (Aydın & Odabaş, 2018:166). Since there are no slaves (Rikab) today, instead, people who are imprisoned for their Islamic activities, those who borrow to meet their basic needs due to financial difficulties, those who fight non-Muslims, Islamic broadcasters and successful students are also provided with zakat. On the other hand, the group of those who stayed on the road has been broadened by the term "ibn-i sebil" in Malaysia (Haron, 2010:123-138). This aid is used for the homeless, orphans, bankrupt merchants and Muslims in exile.

6.1.3. Conclusion

Zakat is an important social factor that ensures peace and strengthens solidarity in society. The wealth accumulation in the country in the hands of certain people causes income distribution injustice. Zakat is an important financial tool that can prevent income inequality as well as abolish the interest system.

In Malaysia, Zakat is collected by the state or authorized institutions and organizations and distributed on behalf of the state. In Malaysia, different zakat collection methods and models are used in each state and region. In these regions, zakat is collected in three models: the full public model, the semi-public model and the private model. Institutions collecting zakat have their own internet addresses. Each state collects and distributes zakat within itself. There is no transfer from one state to another state. Each province has established an Islamic council, which is authorized to issue zakat.

Considering that the zakat potential of Muslim countries exceeds 10 trillion dollars, the existence of economic crises in Muslim countries and the fact that most of the people living below the hunger line live in Muslim countries raise a question mark. The economic empowerment of the Muslim countries depends on the re-activation of the zakat institution and its effective and fair management.

The rulers of Muslim countries should make an effort to design the foundations, institutions and organizations related to zakat according to Islamic principles. Because the studies carried out individually or through associations and foundations are insufficient for various reasons, these studies need to be organized and coordinated.

6.2. COULD YOU TELL ME ABOUT THE WAQF INSTITUTION IN MALAYSIA?

The religion of Islam encourages helping people in need. In Islam, waqfs (charitable foundations) play an important role in promoting social justice and reducing poverty. The institutions of waqf are among several instruments instituted by Islam to combat poverty and enhance welfare in society (Saad, Kassim, & Hamid, 2016:57). It has been widely acknowledged that waqf institutions play an important role in the socio-economic development of the Muslim Ummah in the Islamic history (Saad, Kayadibi & Hamıd, 2017:1).

Waqfs, an important charitable institution in the history of Islam, VIII. It has been extremely effective in social, economic and cultural fields in Islamic societies since the 19th century. Based on the waqf, the sense of personal and conscientious responsibility towards humanity, goodness, compassion, cooperation/solidarity etc., values and the free will of the person who has adopted these values as his principle (Günay, 2012:479). Throughout the history of Islam, waqfs have been used to reduce poverty and have played an important role in the socio-economic development of society. Waqfs, which are accepted as a religious incentive and charitable provision, were more preferred, especially for providing basic needs. They provided a wide range of public services, from education and health services to water supply and highways.

It is extremely important to examine the structure of successful waqf institutions and the best management of waqf assets and properties, as waqf institutions have historically been proven to eradicate hunger, poverty, misery and promote the equitable distribution of wealth. It is equally important to study how effectively these waqf institutions distribute the proceeds of waqf investments to the intended beneficiaries (Saad, Kayadibi & Hamıd, 2017:3). For this reason, it is vital to examine the governance mechanisms that include accountability, transparency and management discipline in the arrangements made regarding waqfs in Malaysia, which is one of the countries where the waqf is best practised.

6.2.1. Definition of Waqf

The waqf can be defined as "the prevention of a benefit-generating estate from corporal disposal but using its usufruct and benefit in charity, intended so at the time of creation and thereafter" (Sabit, 2014:3).

The term "waqf" literally means "confinement and prohibition,". It is derived from the Arabic word "al-waqf", which can be interpreted in simple English as a religious gift (Ismon & Hingun, 2020:256).

Technically, it may be defined as holding a maal (an asset) and preventing its consumption to repeatedly extract its usufruct for the benefit of an objective representing righteousness and/or philanthropy for as long as its principal is preserved either by its own nature as in land or from arrangements and conditions prescribed by the waqf founder (Saad, Kassim, & Hamıd, 2016:57).

The concept of waqf is not directly mentioned in the Qur'an. However, many expressions evoke the concept of waqf. Many verses advising spending in the way of Allah, giving charity to the poor, needy and orphans, helping each other in doing good and piety, and tending towards charitable and beneficial works have formed the basis of understanding and practice of waqf in Muslim societies. Among these, especially the verse "You cannot achieve true goodness unless you spend from the things you love in the way of Allah" (Aal-i Imran 3/92) and the declaration that mosques belong to Allah and that only people with certain qualities can build the mosques of Allah (at-Tawba 9/ 18-19; al-Cin 72/18) has been more closely associated with the waqf by some scholars (Günay, 2012:479).

Waqf is a voluntary religious act, unlike zakah. Although it is not compulsory, it is encouraged to do it religiously. The majority of the Muslim jurists have agreed that the most salient feature of waqf is its irrevocable nature (Ismon & Hingun, 2020:256). Once the waqf is made, its continuity continues. This actually stems from the idea that the waqf made is handed over to Allah. This is because the waqf cannot be taken back and transferred after it is made.

The most important feature of the waqf is eternity, which is different from ordinary charity. The difference is that the benefits that flow from it are repeatable. In Shariah, unlike zakah, a waqf is a permanent, binding dedication of a portion of one's wealth (in cash or kind) to Allah (Shafii, Iqbal & Tasademir, (2015:2).

Al Qur'an and Sunnah of the Prophet (peace be upon him) is the primary source of the sharah. In contrast, the secondary source is derived from human reasoning and interpretation (Ijtihad) by Islamic jurists that are Ijma' (consensus among the ulama) ') and Qiyas (views of individual jurists) (Yaacob, 2013:388).

In Malaysia, waqf is perceived as the norm among Muslims to build mosques and cemeteries. However, in reality, the situation is different. Waqf organizations operate in many areas of society and help poor people. Although there are many reasons for the misconception of the waqf in the community, the most important reason is the restriction of the activities of the existing waqf of the country and their use for different purposes during the colonial period.

6.2.2. Types of Waqf

In the first period of Islam, many different types of waqf are encountered. In the historical process, new waqf types have been added to these waqf types.

It is possible to divide the waqfs into two groups regarding their properties and beneficiaries. When it comes to waqfs in Islam, what comes to mind regarding ownership is waqfs. In terms of their property, waqfs are divided into two parts as authentic and non-sound. Real estate, land and other movables constitute the subject of authentic waqfs. On the other hand, non-authentic waqfs consist of the allocation of their revenues by the public authority to an area that has a right to the public on the condition that the dry ownership of the land belonging to the state remains with the state.

Regarding beneficiaries, waqfs are divided into two parts: charity and zurri (dhuriyyah-offspring). Charitable waqfs are waqfs made for charitable purposes while benefiting the poor, passengers and students. Waqfs zurri, on the other hand, are waqf in which the beneficiaries are made up of poor relatives of the donor and on the condition that the poor benefit from them and their disappearance.

On the other hand, in addition to the traditional waqf types described above, there are two different types of waqf. These are istibdal waqf and cash waqf.

Waqf istibdal refers to the replacement of existing waqf assets with other assets. In other words, it replaces inefficient or unprofitable waqf assets with other investments, making them more efficient or profitable.

Cash waqf is a special type of endowment. It differs from the ordinary real estate waqf in that its original capital, asl- al- mal or corpus, purely or partially, of cash (Nahar & Yaacob 2011:99). Cash waqfs are often created as a method of financing to develop waqf property or to support and build an educational institution (schools or universities) or orphanages.

In Malaysia, a cash waqf is also known as a share waqf (waqf al-Saham). Cash donations are pooled, and the money is used for religious purposes, such as helping the poor and needy, and as an educational aid. A few states' SIRCs (i.e., Penang, Johor, Pahang and Selangor) have such waqfs.

6.2.3. Waqf Organizations in Malaysia

It is known that waqf organizations can contribute to the country's economy and play an important role in the socio-economic development of society. Waqfs, which have been used extensively in almost all Islamic countries throughout the history of Islam, have become very neglected organizations today. In particular, due to legal gaps, administrative delays, lack of political will, and the indifferent attitude of the waqf management, the necessary attention is not shown to waqf organizations, which causes the assets and properties of these waqfs to be mismanaged.

In Malaysia, on the other hand, various legal arrangements have been made regarding waqfs, trying to increase the efficiency of waqfs and increasing their efficiency.

Malaysia is a federation of 13 states and three federal districts.

Waqfs in Malaysia are administered by the states, and each state has its own regulations.

Waqfs are under the rule and control of the state according to the Malaysian Constitution. The laws relating to waqf at the state level can therefore be divided into two categories, firstly, provisions in the state Administration of Muslim Law enactments and secondly, specific rules or enactments relating to waqf (Zubaidah, 2015:6). It is within the powers of state governments to pass laws on waqf management. Currently, five states have special rules on waqf as enacted through their respective State Legislative Assemblies. The states are Melaka, Negeri Sembilan, Selangor, Perak and Terengganu. (Ismon & Hingun, 2020:263).

According to the Malaysian Constitution, the administration of waqf properties is placed under the jurisdiction of the State Islamic Religious Council ('SIRC'). SIRC has the authority to control and manage all kinds of movable and immovable waqf assets. This authority is specifically included in the relevant state legislation. The reason for the appointment of SIRC as sole trustee of waqf properties in Malaysia is to ensure that the waqf receives sufficient funding and income to finance any charitable activities, the waqfs are best managed, and run efficiently.

SIRC has the absolute right to enter into contracts, buy, hold and hold, transform, transfer and develop all waqf properties and assets in accordance with Islamic principles.

SIRCs are authorized to manage waqf lands with the best practice standard and appropriate management system according to Islamic law.

There are some differences between states in the regulations regarding waqfs. The Waqfs Department was established within the Prime Ministry to resolve these differences and assist the State Islamic Religious Councils ('SIRC'). It is known that this office is mostly an auxiliary institution and does not have any de facto authority over waqfs. The purpose of this agency is to support SIRCs for more organized and better management of the functioning of waqfs in Malaysia. In this context, the Department of Zakah, Waqf and Hajj (JAWHAR) was established on March 27, 2004, under the prime minister's office. This established office does not have the authority to administer and manage the assets of the waqf. The task of this department is to plan and monitor waqf properties. The agency established is an active complementary institution that aims to organize and promote waqf development in Malaysia and also undertakes Government funded waqf development projects.

In 2006, the Waqf Administration Handbook was published under the name "Manuel Pengurusan Wakaf" to increase expertise in the management of waqf properties and ensure unity among practices. This book provides detailed information on some administrative matters such as management, procedural and substantive provisions regarding waqfs in Malaysia.

In 2008, a national body named "Yayasan Waqaf Malaysia" (YWM) was established by JAWHAR to coordinate and use waqf resources. The purpose of this body is to provide continuous and sustainable benefits for the beneficiaries of the waqfs. At the same time, it is to bring innovations to waqfs and to focus on the commercial aspect of waqfs.

Various corporate waqfs have been established in Malaysia in order to develop waqfs, derive more benefits from waqf assets and properties, and distribute this benefit to wider segments.

The Albukhary Waqf was established in 1996 by Syed Mokhtar Albukhary, a well-known and successful businessman (Saad, Kayadibi & Hamid, 2017:7). This waqf institution was established to provide access to higher education for students with no economic means.

The second corporate waqf establishment is Waqaf An-Nur Corporation. (WANCorp) was established on October 25, 2000. This waqf was appointed to manage its assets and shares, transferred to them as waqf assets.

A different example of waqf establishment is the IIUM Endowment Fund (IEF), which was established on 15 Mac 1999 as a division of the International Islamic University Malaysia under the Office of the Rector. It was established to provide financial support to successful students who want to study at the university and do not have the financial means. The IEF has been innovative in generating revenue by introducing the Kafalah program as one of its major cash-raising activities.

The Islamic Development Bank (IDB) also plays an active role in developing and managing the waqf sector in Muslim countries, including Malaysia and various non-Muslim countries, where Muslims live. Through APIF, one of its f waqf organisations, IDB has developed 40 waqf projects in 22 member countries and Islamic communities in non-member countries. In addition to developing waqf projects, IRTI, the research arm of IDB, focuses on capacity building by providing training to create professional waqf staff. ISFD, another waqf institution within the IKB, carries out waqf programs to eradicate poverty. One of ISFD's flagship programs is the Sustainable Villages Program (SVP). SVP is an innovative, integrated and inclusive approach to combating extreme poverty in selected communities.

Turkey Diyanet Foundation is active in Malaysia as well as on five continents. The Turkish Diyanet Foundation, which opened an office in this country, concentrated its activities mostly on the fields of science and culture. The Foundation also provides all kinds of economic and social assistance to those in need. In addition, this foundation provides religious, spiritual and cultural support to Turkish citizens living in Malaysia.

6.2.4. Conclusion

Today, in many Islamic countries, waqf institutions are not given the necessary attention, and this situation causes bad management of waqf assets and properties. It is seen that these waqfs cannot provide the desired benefit to society because the assets and properties of the waqfs, which have a huge economic potential, are not properly maintained.

Malaysia realized the importance of waqfs in economic and social life and ensured their effective management by making necessary legal arrangements. Necessary measures were taken to protect waqf assets and properties and set an example for other Islamic countries. However, it is stated that there are various deficiencies regarding waqf organizations.

As stated in article 8/1/1 of the Sharia standard No. 33 of AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions), "Maintenance, repair and renewal expenses of waqf assets should come before the distribution of waqf incomes among the beneficiaries. In this context, due importance should be given to periodic maintenance technical programs. The prerequisite of the waqf is not sought for the maintenance and repair of the waqf's assets.

As it is recognized that every state in Malaysia needs a waqf Law, it is important in current practice that registration of all waqf or other land is required to protect and manage waqf properties efficiently. The recording system of waqf land as practised in the land office in Malaysia must be improved to facilitate the national development agenda of waqf lands (Zubaidah, 2015:40).

SIRCs need to make more campaigns and publicity to popularize waqfs and increase public awareness and participation in waqfs. SIRC must maintain synergy and strategic cooperation with interested parties, including collaboration among waqf organizations. With these effective approaches and good practices, SIRC strengthens waqf management in Malaysia and contributes to the country's economy.

As a result, it is seen that waqf organizations in Malaysia focus their activities more on education as one of the ways to improve the socio-economic conditions of the society in the long run. In addition to delivering humanitarian aid to those who deserve it, waqf organizations also undertake innovative projects to sponsor. It can be said that these innovative programs undertaken by waqf organizations in Malaysia not only achieve commendable results in waqf projects but also set an example for waqf organizations in other countries in order to serve society better.

6.3. GIVE ME INFORMATION ON THE MALAYSIAN INSTITUTIONS THAT OVERSEE ISLAMIC BANKS AND FATWA BOARDS?

Malaysia is among the leading countries in the world in the field of Islamic banking. Malaysia, which is one of the most developed countries in the field of interest-free banking in the world, has a special law (Islamic Financial Services Law) regarding interest-free banking and finance. Malaysia, which has a dual banking system in the form of conventional banking and Islamic banking, is the country with the most advanced corporate governance framework for Islamic banking. Within this framework, the operation of an Islamic bank is subject to various conditions. In order for banks to operate, it is necessary to regulate the internal control systems of the banks, to carry out regular controls by expert personnel, and to obtain an independent audit report stating that an effective internal control system has been established (Erden, 2020: 118).

In the banking sector, where mostly conventional banking is active in Malaysia, Islam Malaysia Berhad (BIMB) bank was established in 1983, and a new era was started in the field of Islamic banking. A law enacted on this date authorized Bank Negara Malaysia (BNM), the central bank of Malaysia, to regulate and supervise Islamic banks. Bank Negara Malaysia (BNM) has a very important function in the country. With this law, Bank Negara Malaysia (BNM) became the sole authorized institution in the supervision of Islamic banks and also made Islamic banking widespread throughout the country by using the infrastructures of existing banks. In 1997, the Central Advisory Council (SAC) was established by Bank Negara Malaysia (BNM) as the highest authority in interest-free banking and insurance in the country. The central advisory board operating within the central bank operates as the top institution in the country regarding interest-free banking, interest-free finance and takaful, and decides whether the products in these areas are compatible with the principles of interest-free banking (Tekçam, 2017: 84). With the law, the members of the Central Advisory Council (SAC) are prohibited from taking part in the advisory boards of Islamic banks in order to give importance to confidentiality and to prevent conflicts of interest.

6.3.1. Advisory and Fatwa Boards overseeing Islamic Banks in Malaysia

The services offered by Islamic banks must comply with the banking legislation and Islamic fiqh. Standardization should be ensured in the field of Islamic banking, as well as in conventional banking. However, it is not possible to say that Islamic banks, which fulfil many services offered by conventional banks in the world, have a standard like conventional banks. There are many reasons for this. In some countries, Islamic banks are not under the guarantee of the state; they have only a trade-based operation, they are shaped according to the capital and market needs of the countries in which they operate, and the advisory boards of the banks have different perspectives on the same issue.

In Malaysia, many regulations have been made in the field of Islamic banking in order to provide standardization and develop a common method. As a result of the arrangements, various central supervisory boards were established, and the activities of Islamic banks were tried to be gathered under one roof. In this context, the first sharia board was established in 1983 by Bank Islam Malaysia Berhad. With a law enacted in 1993, Bank Negara Malaysia (BNM), the central bank of Malaysia, became the only authorized body to supervise Islamic banks. The Shariah Advisory Council (SAC), established by Bank Negara Malaysia, became operational in 1997. SAC is empowered to oversee and regulate all interest-free banking-related businesses. With this authorization, SAC has attained the status of sole authority in matters related to Islamic banking. SAC is responsible for ensuring and approving the compliance of activities and products of Islamic banks in Malaysia. Decisions made by SAC bind not only Islamic banks but also all courts, institutions and organizations.

Malaysia established the Islamic Financial Services Board (IFSB) in 2003 to ensure and consolidate the standardization in Islamic banking. The IFSB, which tries to develop a common international discourse in the fields of banking, insurance and capital markets, has the authority to set, regulate and supervise international standards. IFSB contributes to the development of the Islamic banking sector by adopting international standards while creating new standards in line with SAC principles. In this respect, it complements the IFSB, the Basel Committee on Banking Supervision, the International Securities Commission Organization and the International Association of Insurance Supervisors. In addition, the Malaysian government carries out activities to train personnel in the field of Islamic finance with the institution International Center for Education in Islamic Finance (INCEIF), established in 2006. This institution, which provides education in the form of a university and at the graduate level, is supported by Bank Negara Malaysia with 500 million Malaysian Ringgit (Ghoul, 2008: 97).

The compliance of Islamic banks' activities with Islamic jurisprudence is the responsibility of advisory boards known as the Sharia Board. The term Sharia committee or Sharia supervisory council or Sharia advisory council has been used interchangeably in Malaysia (Zulkifli, 2010:85). In Malaysia, it is a legal requirement for every Islamic bank to establish a sharia advisory board. The central advisory board within Bank Negara Malaysia (BNM) sits at the top. The advisory boards formed by Islamic banks are at a lower level, and there is a hierarchical relationship between these boards and the central advisory board. Advisory boards formed by Islamic banks play a complementary role to the main advisory board. If there is a difference between the fatwa or decision of the advisory board of any Islamic bank and the decision of the central advisory board, the decision of the central advisory board is valid and implemented (Tekçam, 2017:85). Therefore, the central advisory board is the highest body that makes the final decision on controversial issues. The decisions made by the Board are binding not only on the advisory boards of Islamic banks but also on all other institutions and organizations.

The advisory boards of Islamic banks are formed and take office under the law. Advisory boards operate under the board of directors of Islamic banks. However, although it functions as a subordinate to the board of directors, it is not directly responsible for its decisions (Dinç, 2016:83).

Islamic finance is an important engine to position Malaysia as a hub for foreign direct investment (Haniffa and Hudaib, 2010:89). Islamic banks have an important place in Islamic finance. Due to this importance, great attention is paid to the fact that Islamic banks operate by Islamic fiqh. According to Islamic fiqh, advisory boards have an active role in the legitimacy of banking activities and the development of Islamic banking products in Malaysia. Advisory boards, which are important for the promotion of Islamic banking in the country and the effectiveness of its role in the field of banking, have been associated with the board of directors of Islamic banks. The advisory boards evaluate the compliance of the service provided by an Islamic bank with Islamic law within the framework of the relevant fatwas. As it is known, a fatwa is an Islamic ruling given at one point in Islamic law based on solid evidence by a well-known scholar. However, in Islamic finance, such decisions are made by an authoritative body known as the "sharia advisory board". Fatwa plays a very important role in Islamic financial institutions as it serves as a life (Ruh) to the institutions for its sustainability (Arifin, Abdullah & Chiroma, 2014:376). Although the method followed in the fatwas is not usually expressed in writing, some advisory boards give the general framework of it as follows: If there is a provision in the Qur'an or the Sunnah regarding a newly encountered issue, it cannot be deviated from it no matter what the conditions are. If the issue in question is a disputed issue, as long as there is no other opinion, the interpretation for the benefit of the people, in general, is taken as the basis and acted upon (Kızılkaya, 2012: 144).

Islamic banks must comply with the decisions made by the advisory board. They have to provide all the information, documents and resources requested by the advisory board and give them to the board. All activities of the Islamic bank are under the supervision of the advisory board. The advisory board organizes its audit and surveillance activities in the form of an annual report and presents it to the board of directors.

The structure, members and purposes of the advisory boards are determined by law. In the law, issues such as the election of the members, their appointment, their resignation, the qualifications they must have, the structure of the advisory boards, the frequency of the meetings, and the decision-making processes are included in detail. The advisory board in Islamic banks consists of at least five members. The bank's board of directors appoints advisory board members. However, for the member to be appointed, the written approval of Bank Negara Malaysia (BNM), the central bank of Malaysia, must be obtained beforehand. Each appointed member must have sufficient knowledge, experience, and experience in Islamic jurisprudence. Board members can be re-elected at the end of the term. The resignation, dismissal or re-election of the members of the Board is made by the bank's board of directors with the approval of Bank Negara Malaysia. One of the board members can be appointed as a board member to act as a bridge with the bank's board of directors. This member presents the reports prepared on all the activities of the advisory board to the bank's board of directors. In Malaysia, some restrictions have been introduced regarding the appointment of advisory board members to avoid conflicts of interest and be cautious about information privacy and confidentiality. For example, a member serving on the advisory board of an Islamic bank cannot simultaneously serve on the advisory board of another Islamic bank.

Islamic banks have to take all banking-related matters to the advisory boards and implement the decisions made by the advisory boards. They are required to obtain the approval of the advisory board regarding all banking services they provide. In order for the members of the advisory board to fulfil their duties effectively, they must provide with all necessary resources and allow them to have unlimited access to all information, documents and records. All areas of activity of the bank should be within the scope of the audit. In small banks, interest-free banking compliance audit work can also be provided by external audit firms through outsourcing (Tekçam, 2017:86).

6.3.2. Conclusion

Today, it is known that Malaysia has a very developed Islamic financial system. Along with Islamic banking, there is the interbank money market, the interest-free government debt securities market, and the Islamic insurance market. Established in 1994, the Islamic interbank money market made it possible for banks operating under Islamic law to conduct banking transactions and trade Islamic financial instruments in accordance with Islamic principles.

Sharia advisory boards, known as "Fatwa Board or Sharia Committee" in Malaysia, are more dynamic and regulated by law than in many other countries. It has guided the development and strengthening of Islamic banks in Malaysia and also increased the country's success in economic and socio-political developments. The most important function of Sharia advisory boards is to issue fatwas to improve the continuity of the services offered by Islamic banks and to resolve existing conflicts. However, the fact that each Islamic bank does not use the fatwa issued by another Islamic bank has been seen to cause various confusion and Bank Negara Malaysia, BNM (Malaysia Central Bank), has been authorized to ensure standardization. BNM, which has the authority to oversee Islamic banks in the country, has mandated all Islamic banks to comply with the fatwas issued by their respective boards and seek their views on any matter. Similarly, it has expanded the powers of the Sharia Advisory Council (SAC) to ensure more effective Sharia compliance in Islamic banking. He gave the shariah advisory council (SAC) the responsibility to oversee all matters related to Islamic finance, including resolving disputes over sharia issues.

As a result, the Sharia advisory boards in Malaysia have been supported and developed to complement the Central advisory boards to make Islamic banking more active. It has been made mandatory for Islamic banks to adhere to the fatwas issued by the advisory boards strictly; therefore, the role of fatwa and fatwa administering bodies in Malaysia is generally seen as a pillar of the strengthening of Islamic banks. The development of the Islamic banking sector in Malaysia and the success of the sharia advisory bodies have increased due to the establishment, modification and liberalization of the legal framework in Islamic banking. This has led Islamic banks to offer services in a wider area and independently.

6.4. WHAT KIND OF SUPPORT IS PROVIDED TO SMES IN MALAYSIA?

Small and Medium-sized Enterprises (SMEs) are in a very important status for countries in terms of their contribution to the economy. Its contribution to the economy is undeniable, especially in employment and production. The situation is the same in Malaysia, and their position in the economy is critical.

Describing SMEs requires consideration of several standards. These standards can be economical as well as legal. As a matter of fact, unlike the economics literature, for example, while defining the number of employees, the definition of SME may differ in legal texts such as laws and regulations. It is difficult to make a standard definition for SMEs. Because the understanding of the duties of the institutions and organizations that define these enterprises or the economic conditions of the countries are effective (Çelik et al., 2013). SME definition made by SME Corporation Malaysia in Malaysia is made by considering annual sales revenue and several employees.

Table 6.2.: Official SME Descriptions in Malaysia

Description Source	Number of Employees	Annual Turnover Amount (RM-Malaysian Ringgit)	Business Size
SME Corporation Malaysia	< 5	< 300 Thousand RM	Micro
	5-75	300 Thousand-15 Million RM	Small/ Manufacturing Sector
	5-30	300 Thousand-15 Million RM	Small/Service Sector and Other
	75-200	15-200 Million RM	Medium/ Production Sector
	30-75	3-20 Million RM	Medium/Service Sector and Other

Support and encouragement for SMEs may differ from country to country. The economic structure of the country or its economic targets can be effective in this. There are different support programs by various institutions in Malaysia. The programs offered to SMEs by the relevant ministries and agencies in Malaysia have five main focuses. These;

> Access to Financing

> Human Capital Development

> Market Access

> Innovation and Technology Adoption

> Infrastructure

The economic significance of SMEs in Malaysia is great. In the country, the ratio of SMEs in total enterprises is 99%, their contribution to GDP is 38.2%, their contribution to employment is 48%, and their share in total exports is 13.5% (Department of Statistics Malaysia, 2020).

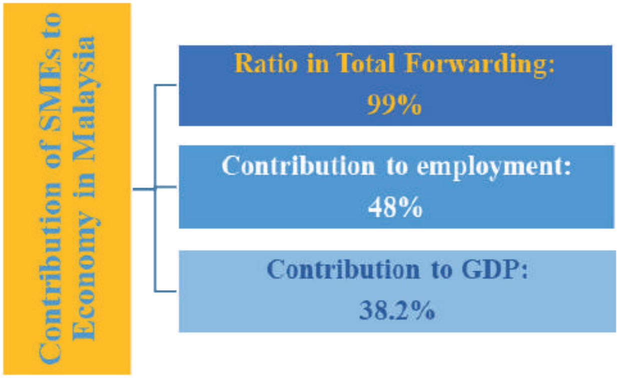

Figure 6.1.: Contribution of SMEs to the Malaysian Economy

Through the Ministry of Entrepreneurship Development and Cooperatives, the Malaysian government started the National

Entrepreneurship Policy (NEP) 2030 in July 2019. In accordance with this policy, eight main issues have been identified, and one of these issues is the capacity, capability and scale of SMEs (World Bank, 2022). For this purpose, SMEs are supported through various institutions and organizations. The main source of finance for SMEs in Malaysia is banks. In addition, the Malaysian central bank (Bank Negara), development finance institutions and other government funds also provide financing support to SMEs (Bank Negara Malaysia, 2022). There is also under the purview of the Ministry of Entrepreneurship Development and Cooperatives (MEDAC), an institution called SME Corporation Malaysia, which provides business advisory services to SMEs and coordinates development programs.

Development finance institutions are institutions established with a special to encourage strategic areas. The strategic areas these institutions focus on are agriculture, SMEs, infrastructure, maritime, exports and high technology. These institutions can be listed as follows (Bank Negara, 2022):

-Bank Pembangunan Malaysia Berhad

-Small Medium Enterprise Development Bank Malaysia Berhad (SME Bank)

-Export-Import Bank of Malaysia Berhad (EXIM Bank)

-Bank Kerjasama Rakyat Malaysia Berhad (Bank Rakyat)

-Bank Simpanan Nasional

-Bank Pertanian Malaysia Berhad (Agrobank)

There are about 270 grant programs for SMEs in Malaysia. Here it is sufficient to explain some of these programs. For detailed grant programs, Bank Negara's website provides detailed information. Information on selected grant programs from the Bank Negara website is summarized below.

-**Small Medium Enterprise Development Bank Malaysia Berhad (SME Bank**): This corporation Business Exports

Program (BEP) 2021 named implements programs. The scope of this support is access to financing, human capital development and market access.

-**SME Corporation Malaysia (SME Corp.)**: This corporation Tunas Usahawan Belia Bumiputera (TUBE) PEMERKASA named implement programs. The scope of this support is access to financing and human capital development.

-**Credit Guarantee Corporation Malaysia Berhad (CGC)**: This corporation Portfolio Guarantee/ Wholesale Guarantee, BizJamin (previously as Credit Enhancer), BizJamin Bumi (previously as Enhancer Bumi), BizMaju (previously as Enhancer Excel), BizSME, Flexi Guarantee Scheme and Franchise Financing Scheme named implements programs. The scope of this support is access to financing.

-**Federal Land Development Authority (FELDA)**: This corporation, Latihan Memperkasa Usahawan Sedia Ada, named the implementation program. The scope of this support is to develop human capital.

-**Bahagian Industri Makanan (IM)**: This corporation Program Geran Pemadanan High Impact Product (HIP), Program Geran Pemadanan Change Upgrade Product (CUP), Program pembangunan modal insan, dan Pembangunan Pusat Pemprosesan, Pembungkusan dan Pemasaran, named implement program. The scope of this support is access to financing, human capital development and infrastructure.

-**Bahagian Industri Tanaman, Ternakan dan Perikanan (ITTP)**: This corporotion Projek Pemacu Pertanian: Produk Herba Bernilai Tinggi named implements program. The scope of this support is access to financing, innovation and technology adoption.

-**Malaysian Agricultural Research and Development Institute (MARDI)**: This corporation Pemerkasaan Teknopreneur Agromakanan Yang Progresif dan Kompetetif Melalui Pemindahan

Teknologi dan Inovasi MARDI named implements program. The scope of this support is human capital development, innovation and technology adoption.

-**Lembaga Kemajuan Ikan Malaysia (LKIM)**: This corporation Pembangunan Pasar Nelayan named implements program. The scope of this support is infrastructure and market access.

To give examples of the supports offered to SMEs under the coordination of SME Corp Malaysia, these supports can be examined under the following headings (SME Corp Malaysia, 2022):

1-Brand Development: This program provides support to SMEs to realize branding.

2-SMEs Go Global Programme: This program is a program that supports the opening of sectors with high growth rates to international markets. With this program, businesses are supported by up to 200,000 Ringgits.

3-Digital Financing Initiative: This program is a pilot application aimed at solving the financial problems that have arisen, especially due to the COVID-19 pandemic. With this program, it is possible for SMEs to provide financing for up to 500,000 ringgits, 5,000 ringgits non-refundable.

4-Business Accelerator Programme (BAP 3.0): This program aims to provide advisory and financial support to SMEs to develop their business.

5-Micro Connector Programme: This program includes continuous development support involving micro-enterprises, youth, women and other groups.

6-Inclusive SME Ecosystem (I-SEE): This program aims to strengthen the bottom 40% of the income pyramid through innovation. It also aims to promote community transformation, including rural micro-enterprises, through the provision of guidance and technical support and financial assistance.

7-SME Revitalisation Financing (SMERF): The main objective of the program is to support SMEs to stimulate and realize their business goals. It includes support between 50,000 and 250,000 ringit.

8-Soft Financing Scheme for Small & Medium Enterprises (SFSME): This program aims to support SMEs in commercial property, machinery & equipment, IT hardware & software and working capital.

9-Women Netpreneur Programme: This program aims to support women in commercial areas to train in the changing world.

The programs detailed above show that the support programs offered to SMEs in Malaysia are various and cover almost all SME groups.

6.5. WHAT ARE THE SUPERVISORY BODIES IN MALAYSIA?

As in every activity, supervisory is an important issue for financial transactions as well. In the same way that the supervisory works are done by the supervisory boards established within the companies, the states also develop various audit mechanisms in the institutional sense. These control mechanisms are very important in financial transactions as well as in areas such as law, security, and education. For this reason, countries have to focus on financial control and regulation, whether it is under the control of governments or through independent decision-making institutions. The diversity of financial transactions necessitates the diversity of control mechanisms and institutions.

It should be noted here that the audit processes in terms of traditional finance and audit processes in terms of Islamic finance will differ. Because traditional finance has principles that it accepts in accordance with the metaphysics of the present (Hallaq, 2019) but may change in the future, Islamic finance depends on regulations that are not limited by time. This will change the structure of financial audit institutions. However, in terms of traditional or Islamic finance, the main purpose of such institutions is to ensure economic sustainability.

Malaysia has various institutions and agencies, although there is a lack of independence in financial or financial control (Salleh and Baatwah, 2017). As in other countries, the state established and financed regulatory and supervisory institutions in Malaysia. The financial sector in Malaysia is controlled and supervised by different regulatory bodies. Unlike other countries, Malaysia has created a separate legal regulation to make Islamic banks operational (Khan et al., 2015).

In this section, those with financial supervisory and regulatory roles in Malaysia, Institutions, funds and agencies that take on supporting roles in implementing governments' policies will be introduced. In addition, the basic duties and functions of these institutions, funds and agencies will be mentioned.

6.5.1. Bank Negara Malaysia (the Central Bank of Malaysia)

The bank has been in operation since 1959. The main task of the bank, which operates in accordance with the Central Bank of Malaysia Act published in 2009, is to promote monetary and financial stability. While the Bank aims to ensure price stability with its monetary policies, it seeks to develop the finance sector that will provide the financing that the real sector will need with its financial policies.

In addition to these general missions or objectives, the bank also has the aim of making Malaysia an Islamic Financial Center and improving the financial capacity of consumers (Bank Negara, 2022).

6.5.2. Shariah Advisory Council

Supervision of Islamic banking activities is necessary to enable the Muslim community to invest in financial instruments that comply with Islamic principles or to help them protect their savings in accordance with these principles. This inspection is important and necessary for compliance with new products and operations with the lane. Shariah Advisory Council is one of the bodies with a supervisory authority in this regard in Malaysia.

It is a council established within Bank Negara. Its main function is to regulate and supervise the compliance of Islamic financial services and instruments with Islamic law. It checks the submission of new products and services that appear in practice with the principles of Sharia. Consisting of sharia scholars, jurists and market practitioners, the council is the sole authority in Islamic banking, takaful and Islamic finance (Bank Negara, 2022).

6.5.3. Securities Commission

This commission is an institution that has the authority to audit capital market institutions and their activities. Its main task is to regulate, encourage and transform capital markets into a competitive structure. Areas of responsibility include:

-Developing the overall capital market and its market segments such as the equity market, bond and sukuk market, Islamic capital market, fund management, derivatives and other market-based platforms and services

-Facilitating innovation and digital services through the capital market

-Creating avenues for a sustainable financing ecosystem

-Ensuring proper conduct of all market participants through our supervisory, surveillance and enforcement work;

-Championing good corporate governance practices

-Facilitating greater cross-border regulatory cooperation and thought leadership.

As can be seen, the commission also has a duty to develop Islamic financial markets. It can be said that this development task is not related to the principles of Islamic law but to the technical and legal dimensions of finance.

6.5.4. Companies Commission of Malaysia

The Companies Commission of Malaysia is a legal body that handles business registration and mergers. In addition, it also ensures that business information is shared with the public (Companies Commission of Malaysia, 2022).

6.5.5. Board of Valuers, Appraisers and Estate Agents Malaysia

The main task of the board is to keep and maintain records of the Register of Valuers, Appraisers, Estate Agents and Property

Managers. The Board also performs functions such as approving applications, determining wage scales, executing disciplinary actions, and regulating the ethics of appraisers, real estate agents and property managers (The Board of Valuers, Appraisers, Estate Agents and Property Managers, 2022).

6.5.6. Labuan Financial Services Authority

The main task of the institution is the development and management of the International Business and Finance Center. In addition to this core mission, the institution is an international center for commercial and financial services to promote and develop activities; develop national targets, policies and priorities for the orderly development and management of international business and financial services; and act as the central regulator, supervisory and enforcement authority of the international business and financial services sector (LFSA, 2022).

6.5.7. The Employees Provident Fund

Established in 1951, the fund was established for the retirement of employees and operates as an agency under the Malaysian Ministry of Finance. The fund, which aims to protect the savings of employees for their retirement, also focuses on contributing to the development of the national financial infrastructure (EPF, 2022).

6.5.8. Perbadanan Insurans Deposit Malaysia (PIDM)

PIDM is an institution that undertakes to protect the deposits, takaful certificates and insurance policies of depositors in member banks in case the banks experience problems. In addition, the agency offers incentives in the management of risks that may arise in the financial system and supports the stability of the financial system (PIDM, 2022).

6.5.8. Kumpulan Wang Persaraan (KWAP)

This agency is responsible for managing pension funds contributed by the federal government, statutory bodies, local governments and agencies. The Fund invests in securities, money market instruments, and other instruments permitted by the Pension Fund Act. In addition, the fund is responsible for dealing with current and future retirees (KWAP, 2022).

6.5.9. Lembaga Pembiayaan Perumahan Sektor Awam (LPPSA)

The Public Sector Home Financing Board (LPPSA) is a body responsible for managing the public sector financing for housing construction and works under the Ministry of Finance. The basic function of the board is to collect and effectively manage the funds necessary for the housing needs of the public (LPPSA, 2022).

From the perspective of Islamic finance, it is understood that the supervisory function is mainly performed by Bank Negara. The Sharia Advisory Council, established under Bank Negara, played an important role in fulfilling this function. The regulatory and supervisory bodies in Malaysia are summarized as follows.

Figure 6.2.: Supervisory Organization Structure

6.6. COULD YOU GIVE INFORMATION ABOUT RENEWABLE ENERGY STUDIES IN MALAYSIA?

Renewable energy, also known as clean energy, is the energy that emerges as a result of the continuous renewal of natural resources. Examples of these external sources are the sun and the wind (NRDC, 2022). According to the American Department of Energy (2022), renewable energy is energy produced from naturally renewable and inexhaustible sources, as opposed to exhaustible fossil fuels such as coal and oil. According to the US Energy Information Administration (2022), renewable energy is defined as "*energy derived from sources that are naturally renewed but whose flow is limited; renewable sources are virtually inexhaustible in duration, but the amount of energy available per unit time is limited*".

In 2017 numbers, the installed energy capacity in Malaysia is 34,183 megawatts. The distribution of this capacity in terms of energy source is as follows: Oil 4%, coal 31%, natural gas 44%, hydro energy 18%, biomass 2%, solar energy and others 1%. According to the data from the same year, power generation is 160,643 GWh. Of this production, 43% was obtained from coal, 39% from natural gas, 17% from hydro energy and 1% from oil and other resources (ASEAN Energy, 2017).

  

4% **31%** **44%**

  

18% **2%** **1%**

When the fuel consumption is analyzed by sectors in 2017, the picture is as follows: transportation 35%, industry 29%, commercial 8%, residential 6% and agriculture 2% (ASEAN Energy, 2017).

%35

%29

%8

%2

%6

It is an issue where it is difficult to reach the targets set due to renewable energy costs. The situation is the same for Mazleya, which requires state support (Moey et al., 2020). Renewable energy is a concept that refers to the energy that is not registered over time but is limited per unit. The main types of renewable energy are bioenergy, solar energy, wind energy, geothermal energy, and hydroelectric power (EIA, 2022). Considering that oil reserves cannot meet long-term needs (Ahmad et al., 2011), the discovery of alternative energy resources and the development of these resources are considered essential for a sustainable world. It can be said that Malaysia has been preparing for renewable energy in the past (Ahmad et al., 2011).

The Ministry of Energy and Natural Resources of Malaysia (KeTSA) aims to increase the share of renewable energy to 31% by 2025. It also aims to decarbonize electricity generation by 2035. MyRER has a three-stage roadmap: determination of current installed energy capacity and renewable energy capacity, resolution of technology-based renewable energy targets and determination of strategic roadmap (SEDA, 2022).

MyRER has four basic technology concise vision targets to reach a low-carbon energy system. These are Solar Energy, Bioenergy, Hydro Energy, New Solutions and Resources. In line with these vision targets, four enabling initiatives were also identified. These initiatives are: Leverage the future-proofing electricity market for RE opportunities, Improve access to financing, Shape human capital & infrastructure, and Increase system flexibility (SEDA, 2022).

Malaysia has areas that offer significant opportunities for hydropower generation, which is especially important for green energy (Edge Weekly, 2021). Although Malaysia is a country with high rainfall and abundant water resources, it cannot fully utilize this potential due to technical, economic and institutional reasons (Yah et al., 2017).

The ratio of renewable energy consumption to total energy consumption worldwide is 17.64%, according to 2015 data. According to 2018 data, this rate is 5.31% in Malaysia, which is well below the world average. The ratio of renewable energy consumption to total energy consumption, which has been a decreasing trend in Malaysia since the 90s, has been showing an increasing trend since 2010 (World Bank, 2018). With the Malaysian ministry of energy and natural resources aiming to increase the share of renewable energy by 2025, it can be expected that the above rate may change.

It can be said that Malaysia still needs energy based on coal and natural gas. In addition, the situation regarding renewable energy can be summarized as follows: the development of waste separation technologies can positively affect bioenergy possibilities, and government incentives due to high capital requirements can positively affect hydro energy and battery energy storage activities. In addition, while relatively low wind conditions necessitate new technologies in this regard, high potential in solar energy necessitates focusing on this area (Abdullah et al., 2019).

Despite the goals and developments in renewable energy in Malaysia, it can be said that there are some problems. Some of them include limited information on renewable energy, insufficient awareness, limited private sector interest and insufficient government support (Alam et al., 2016). With the elimination of these problems, Malaysia will be expected to progress in renewable energy. Public awareness is also an important issue to be successful in renewable energy. Studies conducted in Malaysia show that the public has knowledge (Zakria et al., 2018). This may contribute to the successful results of studies on renewable energy.

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