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Kitamura, Hideki

Veröffentlichungsversion / Published Version

Zeitschriftenartikel / journal article

Empfohlene Zitierung / Suggested Citation:

Kitamura, H. (2021). Policymakers' Logic on Islamic Banking: Islamic Banking as an Ethno-Political Tool in Malaysia. *Journal of Current Southeast Asian Affairs*, 40(2), 245-265. <https://doi.org/10.1177/1868103420972406>

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Policymakers' Logic on Islamic Banking: Islamic Banking as an Ethno-Political Tool in Malaysia

Journal of Current
Southeast Asian Affairs
2021, Vol. 40(2) 245–265
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DOI: 10.1177/1868103420972406
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Hideki Kitamura 

Abstract

Social scientists have long sought to understand what Islamic banking is. This study seeks to answer this question by exploring the neoliberalisation process of Islamic banking policies in Malaysia and identifying policymakers' logic behind this process. For this purpose, this study conducted interviews with actors associated with Bank Negara Malaysia (BNM), the central bank of Malaysia. The findings demonstrate that, in the neoliberal era, BNM quietly and continuously pursued the goal of preferably giving economic opportunities to Malay Muslims by establishing institutional mechanisms rather than by offering preferential treatment in a straightforward manner. The Shariah nature of Islamic banking served to conceal this goal from the public. I define Islamic banking as an ethno-political tool rather than simply as a religious economy and contend that the philosophy of Islamic banking as a moral economy conceals an agenda of protecting Malay interests.

Manuscript received 25 June 2020; accepted 11 October 2020

Keywords

Malaysia, Islamic banking, ethno-politics, policymaking, neoliberalism

Institute of Ethnic Studies, The National University of Malaysia (Universiti Kebangsaan Malaysia), Bangi, Malaysia

Corresponding Author:

Hideki Kitamura, Institute of Ethnic Studies, The National University of Malaysia (Universiti Kebangsaan Malaysia), Bangi, Selangor 43600, Malaysia.

Email: kitamura3220@gmail.com



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Introduction

Islamic Banking as a Global Economy

Islamic banking began to prevail as part of the worldwide Islamic resurgence in the middle of the twentieth century and is now globally recognisable even in the Western world.¹ It emerged not only as a new religious economy, but also as a global political movement to extricate Muslim society from Western capitalism (Siddiqi, 1981). Muslim intellectuals, including Islamic economists, severely criticised Western capitalism as being acquisitive and promoted Islamic banking as a social welfare-oriented economic system (Kuran, 2004; Maududi, 1941). Because of this historical background, Islamic banking is said to be a product of the Islamisation of banking (Aziz, 2014).

However, the substance of Islamic banking seems obscure, as Islamic banks offer products that are theoretically Shariah-compliant but nevertheless resemble those of conventional banks (Beck et al., 2010: 7). Thus, some argue that Islamic banking is losing its uniqueness and is becoming a recognisable part of the Western banking system even though early advocates viewed Islamic banking as an alternative to Western banking (e.g. El-Gamal, 2006; Siddiqi, 2006; Tripp, 2006). As Maurer (2005: 37) points out, whereas some view Islamic banking as a viable alternative to conventional banking, others regard it as impractical or “sidestepping the prohibition of *riba* through simple accounting tricks or linguistic sleights of hand.” The opacity of Islamic banking is manifested in social scientists’ focus on whether it is an alternative to global banking and whether it represents a moral economy or is just a façade (e.g. Pitluck, 2013; Poon et al., 2018; Rethel, 2011). In fact, defining Islamic banking is a major focus of previous studies. This kind of research tends to involve theoretical overviews of practices in several countries (e.g. Visser, 2009; Warde, 2000). Taking an anthropological approach, Rudnyckyj (2016: 8) seeks a transnationally valid definition of Islamic banking based on its actors’ discourse.

However, few studies have truly answered the frequently asked question of what Islamic banking is. Rudnyckyj (2019) explored the definition of Islamic finance according to actors in the field, but his ethnography indicates that Islamic finance experts have no single consensus answer to the question “what exactly *is* Islamic finance” (Rudnyckyj, 2019: 2; italics are original in the quote). I therefore seek to answer this question by focusing on policymakers rather than on all Islamic finance actors because, as discussed above, the opacity of Islamic banking has been an issue. Finding an answer to the question can provide clues to help with the conceptualisation of Islamic banking as a whole. This study aims to provide an empirically grounded answer to the focal question, but because the answer is based on policymakers’ views, it will never be identical to the views of other actors, including “ordinary” Muslims or consumers.

Among the various Islamic banking practices worldwide, much attention is directed towards Malaysia because its Islamic banking underwent a unique developmental course (e.g. Lai, 2015; Lai and Samers, 2017; Rudnyckyj, 2017). Islamic banking in Malaysia began in the early 1980s as part of an Islamisation policy through which the government sought to imbue state development with Islamic values (Ong, 1999; Peletz, 2002). This

Islamisation policy was a political measure enacted by the government to fend off criticism of its secularistic modernisation policies by an Islamist party, the Parti Islam Se-Malaysia (PAS), which received support from Malay Muslims with growing religious consciousness as part of the global Islamic resurgence (Fischer, 2016b: 39). Thus, the government strategically employed Islamic values to ensure its survival during the Islamic resurgence. Islamic banking was one aspect of this “mainstreaming” of Islam (Shamsul, 1999: 44). Through Islamic banking, the state sought not only to demonstrate its commitment to society’s Islamisation, but also to incorporate economically underrepresented Malay Muslims into the modern economy (Kitamura, forthcoming; Rudnyckyj, 2017: 278).² Overall, Islamic banking was introduced as an ethno-political tool to improve the Malay economy and to defend the state’s developmental role during the Islamic resurgence. Owing to Islamic banking’s political importance, the state has played a central role in its development, and its efforts have turned Malaysia into a regional hub in the global Islamic banking market (Lai, 2015: 178; Rethel, 2019).

Because Malaysia developed Islamic banking through strong state initiatives, many scholars have discussed the country’s practices in political terms (e.g. Shamsul, 1997). In particular, contemporary scholarship highlights Malaysia’s recent orientation towards neoliberalism. Lai and Samers (2017: 413-414) contend that the governance of Islamic banking in Malaysia in the 2000s shifted from semi-developmentalism, legitimated through ethnic politics, to “Islamic ordoliberalism” rather than to a strictly market-oriented form of neoliberalism.³ Private Islamic financial networks began to expedite the growth of Islamic banking, but these networks were shaped and maintained through state support; in other words, the government intervened to help private actors compete in the globalising market (Lai and Samers, 2017: 420). Rethel (2010: 491) also describes the Malaysian political economy in recent years as a combination of “selective neoliberal reforms” and “persistent interventionism.” Malaysia’s developmental engagement with neoliberal strategies is discussed without reference to Islamic banking (Elias and Rethel, 2016; Ong, 2006; Pepinsky, 2009). For example, Gomez (2012) contends that the Malaysian government continues to set “affirmative action policy” in “more ‘market friendly’” ways and is liberalising equity ownership with the goal of enhancing Malaysia’s presence in the global market (Gomez, 2012: 80; the single quotation marks are original in the quote).⁴

Conversely, Rudnyckyj observes a different version of nuanced neoliberalism in the governance of Islamic banking in Malaysia. Since the 2000s, a new private network beyond the state has begun to develop as an alternative to the former colonial network that strengthened during the heyday of developmentalism (Rudnyckyj, 2014: 81–82). Rudnyckyj then states that Malaysia’s Islamic banking is shifting from debt-based practices to partnership- and equity-based practices and that the recent shift represents a change in the political agenda from fostering the Malay middle class to promoting “entrepreneurialization” among Malays because the former goal was largely achieved by the 2000s (2017: 278). Rudnyckyj (2017: 272) calls this shift “Islamic neoliberalism.” To encourage entrepreneurial dispositions among Malay Muslims and “mak[e] them enterprising agents of economic growth,” the governance of Islamic banking is more

oriented towards market rule, such as risk-taking or what Rudnyckyj terms “collaborative risk” (2017: 275, 280; see also Rudnyckyj, 2019: 208-212). Similarly, Mohamad and Saravanamuttu (2015: 204, 209–211) contend that deregulation, the main thrust of neoliberalism, spurred Islamic banking to construct a global network of “Shariah technocrats” and capitalists, who have contributed to the entrenchment of Islamic banking and finance within a neoliberal market system.

Thus, the changes in the state’s involvement since the 2000s continue to be debated in the literature. Neither argument is very conflicting. The state may intervene in contested points if necessary and may simultaneously encourage Malays to act autonomously in the globalising market. Although many states undertook neoliberal reforms in line with a wave of globalisation, neoliberalism is not uniformly enforced, as manifested in the term “variegated neoliberalization” (Brenner et al., 2010).⁵ Neoliberalisation is the process through which states subjectify neoliberalism (Springer, 2012: 136). The roles and functions of states were reconfigured under the neoliberal framework (Brenner, 1997; Sassen, 1999), and the resulting emergence of global linkages and resources created new spaces in which states reorganised themselves (Bernal, 2004).⁶ Moreover, neoliberal values tend to be combined with local cultures to create new value systems (see Hefner, 2000; Hoffman, 2006; Rudnyckyj, 2009). Even apparently irreconcilable relations between neoliberalism and existing social institutions are “strategically reconfigured and integrated through political interaction, generating hybridity under the umbrella of neoliberal reform” (Schwegler, 2008: 686; see also Ong, 2007; Rose, 1999; Sharma, 2006).

Given that previous studies demonstrate variegated forms of neoliberalism and the social process through which states strategically and selectively incorporate neoliberalism, empirically observing neoliberalisation is essential.⁷ Nevertheless, few studies have empirically explored the neoliberalisation process of Islamic banking policies in Malaysia and policymakers’ logic behind the process. This logic can be rephrased as “policy core beliefs,” that is, prioritised fundamental values that actors translate into policymaking (Sabatier, 1998: 103). These beliefs may change, but they are influential during a particular period of time (see Sabatier, 1998; Sabatier and Jenkins-Smith, 1993). Exploring the social process by which neoliberal values were incorporated into Islamic banking will clarify the logic underlying the governance of Islamic banking, which decided to push neoliberalisation forward. By understanding this underlying logic, I seek to identify “one” local meaning of the global economic phenomenon of Islamic banking (cf. Watson, 2006).

In this study, I ask what Islamic banking is in the Malaysian context and seek to answer this question based on policymakers’ views by investigating the logic underlying Islamic banking policies. For this purpose, I focus on the discourse of officials of Bank Negara Malaysia (BNM), the central bank of Malaysia. Although BNM does not single-handedly represent the state, it is substantially the central actor of policymaking in Islamic banking (see Rudnyckyj, 2019: ch. 1). Mohamad (2020: 234) even contends that BNM has not only played a pivotal role in national Islamic finance but has also “acted as a leading force in laying down the rules of Islamic finance

capitalism on a global scale.” Thus, it is appropriate to focus on BNM as the central policymaker.

Discourse is an important unit of analysis for investigating BNM’s organisational logic, or policy core beliefs, regarding Islamic banking, just as political scientists have incorporated discourse analysis into the study of policymaking (see Hajer, 2002; Schmidt, 2008). Discourse is a surface manifestation of the underlying logic that powers individual utterances as a system, and, thus, it cannot be reduced to particular utterances or individuals (Fox, 1998: 418–419). In this sense, discourse is not an unproblematic description or expression of individual thought but rather constitutes a social reality (Escobar, 1997: 501). Discourse is intricately related to non-discursive domains, such as collective actions and events (Foucault, 1972: 162). Social cognition, such as logic and values, mediates this relationship (Van Dijk, 1993: 257). In other words, understanding the relation between discourse and non-discursive domains enables the exploration of logic and values, which mediate this relation. The relationship between BNM officials’ discourse and Islamic banking policies characterises BNM’s underlying logic.

Thus, I conducted interviews with current and retired BNM officials sourced via snowball sampling. Each interview was conducted as a semi-structured face-to-face interview ranging from 60 to 180 minutes. As is well known among individuals involved in Islamic banking in Malaysia, only a few BNM officers were engaged in the governance of Islamic banking until the late 1990s, when BNM established a specialised department called *Jabatan Perbankan Islam dan Takaful (JPIT)*, or the Islamic banking and Takaful (or Islamic insurance) department. Through three years of fieldwork in Malaysia between 2016 and 2019, I connected with a retired BNM staff member involved in the governance of Islamic banking for almost two decades after the inception of Islamic banking in 1983. The connection with this individual became a foothold in collecting informants who were engaged in the governance of Islamic banking. Owing to these connections, almost half of the informants were retired BNM officials. This interview research is supplemented with archival and bibliographic research to situate these informants’ discourse strongly within Malaysia’s historical context.

Through this ethnography, I contend that even after the 2000s, BNM actors continued to use Islamic banking as an ethno-political tool for creating and protecting economic opportunities for Malay Muslims and, especially, for creating Shariah-related jobs that are largely exclusive to Malays in the local context and that enable the government to demonstrate its commitment to expanding Islamic knowledge in the banking sector, in which Chinese-Malaysians have historically predominated. The creation of Shariah-related jobs, together with other institutional support, led to the employment of Shariah elites who did not belong to the traditional elite class in the banking industry. Leveraging the Shariah nature of Islamic banking, BNM has strategically and covertly pursued the goal of creating jobs for Malays in the banking industry.

I then argue that the creation of these Shariah jobs and the state’s efforts to enhance the Shariah quality of Islamic banking have, in turn, established Malaysia as one of the most advanced Islamic banking markets, allowing the state to expedite the global flow of capital and human resources between Malaysia and other Muslim societies. Finally,

BNM's logic behind Islamic banking policies remains the protection of Malay interests under a changing framework. Accordingly, I answer the question of what Islamic banking is as follows. Islamic banking is an ethno-political tool rather than simply an Islam-oriented economy, and an agenda of protecting Malay interests lies behind the philosophy of Islamic banking as a moral economy.⁸

BNM's Consistency through Neoliberal Transformation

Interventionism to Incubate Islamic Banking

Even after Malaysia's independence in 1957, its banking industry was dominated by foreign banks, and the development of local banks was an urgent task for the government (Lee, 1987: 16). In the 1970s, the government enacted the New Economic Policy (NEP), an interventionist policy that resulted in the creation of Malay communities in various business sectors, including the banking industry (Milne, 1976: 239–240). The government established and bought out many corporations on behalf of the Malay community (Sloane, 1999: 137). Through this interventionist approach, the first Islamic bank, Bank Islam Malaysia Berhad (BIMB), was established in 1983.

Although it is a common assumption that Islamic banking challenges conventional banking, from the beginning, Malaysia sought not to separate Islamic banking from conventional banking but rather to integrate Islamic banking into the primary banking system (Kitamura, 2020). Thus, the government placed BIMB under BNM's governance and imposed similar regulations to those on existing conventional banks, such as statutory reserves and liquidity requirements (Lembaga Urusan dan Tabung Haji, 1982: 30). A prominent economic figure who held various key posts in the Malaysian political economy, including posts at BNM, explains the government's stance on Islamic banking as follows:

Some people said Islamic banking is just *Mudharabah*, *Musharakah* [...] but, if we say Islamic banking cannot do anything except equity banking, how [can we] start Islamic banking? Our purpose was to remove non-Islamic elements from conventional banking, as long as [doing so] is not forbidden in al-Quran. We did a lot of things to make sure [that] whatever [was] allowable in conventional banking was allowed in Islamic banking. Even if it is similar to conventional banking, it doesn't mean [it is the] same for us because Islamic banking enables us to expand [the] possibilities of [the] Malay economy. The majority of our society is Muslim. (Personal communication, 26 September 2018)

At that time, the perception of Islamic banking was based on equity finance, that is, profit-and-loss sharing, and *Mudharabah* and *Musharakah*, which are mentioned in the quotation, are Islamic transactions for this type of finance (see Kuran, 2004; Yousef, 2004). However, the Malaysian government sought to ensure that Islamic banking performed similar functions to debt-based conventional banking so that Malay Muslims could access modern banking facilities in Islamic ways.⁹ Moreover, the state's stance on

Islamic banking partly stemmed from its ambition to bring Islamic banking into the mainstream. A retired BNM official says:

We see Islamic banking as [a] religious obligation, but it is also [a] business consideration. Bank Negara is pragmatic. If it only focuses on [the] Muslim segment, it will remain [a] niche segment. Islamic banking cannot be mainstream unless [it is] offer[ed] to everyone. We wanted to create [an Islam-based] financial system in the centre of [the] state economy. So, we had to promote Islamic banking to non-Muslim citizens. They will choose Islamic [banking] if it is more profitable than conventional [banking]. So, we must show the merit of Islamic banking to them.¹⁰ This is our philosophy. (Personal communication, 20 December 2017)

To bring Islamic banking into the mainstream, BNM sought to establish an Islamic banking system that embraced equity and debt banking facilities. As part of this plan, BNM introduced an Islamic version of the money market in 1993, when the BIMB's monopoly on Islamic banking ended and BNM planned to increase the number of players in Islamic banking (Bank Negara Malaysia, 1994). The first Islamic money market in the world was expected to expedite inter-bank transactions between BIMB and the forthcoming Islamic banking players. With the opening of the Islamic money market, BNM shifted to the next phase of the Islamic "window" scheme, which leveraged existing conventional banks' branch facilities and infrastructure, including staffing. A few other options for industry expansion, such as establishing new Islamic banks, were available, but BNM chose the window scheme as the most efficient and viable option. The prominent economic figure quoted at the beginning of this section explains the rationale for this scheme as follows:

We had the idea from the beginning to create [an] Islamic banking system, but we didn't want to rush and wanted to prove the viability of the system step by step. So, we selected the Islamic window scheme. We didn't think setting up an Islamic subsidiary of conventional banks or new full-fledged Islamic banks was viable because we were short of human resources at that time. Very few Muslims knew banking, and fewer people knew Islamic banking at that time. So, to utilise existing staff was better because they at least knew banking even if they didn't know Islamic [banking]. At that time, many government-sponsored corporations and business projects ended in bankrupt[cy], so we couldn't afford to fail any more, especially in Islam-related businesses. Islam is the pillar of our life. As a Muslim country, we can't fail at Islamic banking. That's why we took [a] step-by-step approach. (Personal communication, 26 September 2018)

In the first decade, BNM protected BIMB's monopoly on Islamic banking, and neither foreign nor local banks were allowed to provide Islamic banking services. BNM then allowed existing conventional banks to open Islamic windows in 1993. To confirm the viability of establishing an Islamic banking system, the state controlled this industry using an interventionist approach. Maintaining conventional banking in line with Islamic

banking tends to be thought of as Malays expressing “tolerance” towards other ethnic groups in their plural society (Zaher and Kabir Hassan, 2001: 172) or as being too religiously liberal (El-Din and Abdullah, 2007). However, BNM was deliberate in expanding Islamic banking by considering the socio-political impact of the worst-case scenario, in which Islamic banking ceased to function. Islamic banking was politically significant for the state because it was introduced to fend off criticism from PAS and to protect the state’s developmental role during the Islamic resurgence. It was important for the government to fulfil its commitment to the Islamisation of society, especially in the banking industry, in which Malay Muslims were underrepresented (*New Straits Times*, 1993). Accordingly, BNM adopted the Islamic window scheme, a more realistic option. By 1995, over twenty conventional commercial banks opened Islamic windows in their branches (Bank Negara Malaysia, 1995).

To mitigate the lack of human resources, BNM subsequently began to expand tertiary education and research on Islamic banking. As the establishment of BIMB was part of the Islamisation policy, various Islamic institutions, such as Islamic think-tanks, were also established in the 1980s (Saat, 2012: 140). Universiti Islam Antarabangsa (UIA), or the International Islamic University, was an Islamic institution that was established as part of the Islamisation policy and that has taken a leadership role in fostering human resources in Islamic banking. However, at that time, Islamic banking was merely part of the Islamic economics course at UIA, which basically covered economic thought in Islam. Now, by contrast, UIA has an institute that specialises in Islamic banking and finance. Research and education focusing on Islamic banking began with BIMB’s establishment of a consulting and training institution, which initially provided consulting to the Islamic windows of conventional banks. BNM bought out and redefined the institution as a comprehensive reference centre for Islamic banks and academia. BNM subsequently formulated a plan to establish the International Shariah Research Academy for Islamic Finance and the International Centre for Education in Islamic Finance (INCEIF) to promote research and education in Islamic banking and finance. In particular, INCEIF was expected to address the shortage of qualified Islamic bankers and scholars in the industry (Rudnyckyj, 2018: 550–551). An ex-BNM official explains BNM’s commitment to Islamic banking education as follows:

To educate and create expertise was [intended] not only to solve the short[age] of human resources in Islamic banking but also to extricate Muslims from economic predicaments. Of course, at that time, we already had UIA and many Muslim entrepreneurs, but we were feeling [that] it [was] not enough. We hoped [that] every Muslim ha[d] entrepreneurship and [was] business-mind[ed]. We believe [that] entrepreneurship will improve [the] Malay economy. Islam always encourages the business-mind[ed]. Education is the most effective medium for [this] goal. (Personal communication, 3 May 2019)

Islamic banking education was designed to inculcate neoliberal values, such as entrepreneurship, in Malay Muslims, which, in turn, could solve the staffing problem in Islamic banking and enhance the Malay economy.

In the late 1990s, BNM began to consider shifting Islamic banking to the global stage through a neoliberalisation policy. To advance this plan, BNM reinforced the industry's religious and administrative systems. First, BNM centralised its governance over religious issues in Islamic banking. As the number of players in the industry increased and various religious opinions on Islamic banking practices were issued, BNM established a single religious body, called the Shariah Advisory Council (SAC), as the highest authority on all religious issues in Islamic banking (Bank Negara Malaysia, 1997). Although BIMB and conventional banks' Islamic windows had their own Shariah bodies check all financial products in Islamic terms prior to introducing them to the market, those banks became obligated to obtain approval from the SAC for new products.¹¹ An ex-BNM official stresses the influence of the Islamic banking globalisation strategy on the SAC's establishment, saying:

When we had only one Islamic bank, [...] one Shariah council was enough. [However], if we opened up Islamic windows, each bank's window was] naturally based on [its] own Shariah scholars, [who] have different views. Then, we would have [a] problem of inconsistency. But, actually, it was not the only reason why we decided to set up [the] SAC. Around the late 1990s, Bank Negara was thinking to expand our industry and invite foreign Islamic banks. Now, we are not so different from foreign Islamic banks' practices, but, at that time, our practice was a little unique, so we thought [that] differences of practices would make Muslim customers unconfident in our Islamic banking. It was also for enhancing our Shariah transparency to attract foreign Muslim investors. So, it became urgent to standardise Shariah opinions. (Personal communication, 20 December 2017)

BNM had to establish the SAC to prepare for the globalisation of the industry and avoid possible religious conflicts between local and foreign banks. BNM then centralised administrative authority over Islamic banking by establishing JPIT. A BNM official says, "We were going to expand the industry globally, so it was better to have [an] Islamic specialised department to [dedicate] our efforts to domestic and foreign banks efficiently" (Personal communication, 8 August 2019). Thus, prior to the neoliberal transformation of policymaking in the 2000s, the state prepared institutional infrastructure, such as the SAC and JPIT, for its globalisation strategy.

Neoliberalisation to Utilise Global Resources for Malay Interests

In the 2000s, BNM eventually embarked upon a globalisation strategy with a stated goal of becoming a regional hub for the global Islamic banking market. As an opening gambit, the Malaysian government issued the world's first sovereign Sukuk, that is, Islamic bonds, in 2002 (Lai, 2015). It is well known among those in the Islamic banking industry that the scheme for the first sovereign Sukuk was created by HSBC. According to an ex-HSBC banker involved in the Sukuk issuance (Personal communication, 15 March 2018), HSBC approached over ten governments, including Middle Eastern states, and the Malaysian government was the first to give the bank the mandate to issue the

sovereign Sukuk, whereas the others generally did not respond well. An ex-BNM official explains the rationale for this decision as follows:

At that time, we were looking for the way to increase our presence in the global market. We developed Islamic banking well by 2000, but it was basically domestic. So, we wanted more interactions with other Muslim countries. HSBC's proposal was something unprecedented and innovative so we thought it would help us show our presence to foreign countries. (Personal communication, 3 May 2019)

Moreover, in the globalisation phase, JPIT began to play a core role in formulating Islamic banking strategies and considered that working with several Middle Eastern Islamic banks was necessary to become a regional hub. The state had controlled the number of foreign banks since enacting the NEP, but around 2000 it resumed licensing foreign conventional banks, such as the Bank of China, as part of its liberalisation policy. Thus, JPIT staff thought that it was appropriate to start liberalising Islamic banking licences as well. However, several members of the BNM management team questioned this liberalisation of Islamic banking licences. A former JPIT staff member says:

Some of our management said 'we have many foreign banks in Malaysia, why should we issue more licenses to foreign banks? Our conventional banks are strong, so we are not afraid of foreign capital, but Islamic ones [have] not yet develop[ed] fully.' But JPIT insisted that we needed foreign banks for further growth of Islamic banking, and we didn't have any foreign Islamic bank[s] in Malaysia. [The] management agreed but put several conditions as criteria [for] giving licenses to foreign banks to protect our interests. So, when [a] proposal was submitted to us [by a foreign Islamic bank], we asked [the bank] what [it could] bring to us. Of course, the important things are capital, employment, and new banking products. (Personal communication, 3 December 2018)

Thus, BNM management shared a lingering concern, stemming from the British colonial period, that foreign capital could exploit local profits.¹² In the mid-2000s, three foreign Islamic banks were established, and BNM asked those banks to employ a certain number of local workers, especially Malays. The state has imposed such conditions on both local and foreign corporations since the NEP period, when it introduced "the quota system," which gives preferences to Malays over non-Malays for various socio-economic opportunities, including education and employment opportunities (Shamsul, 2004: 129).¹³ Although the liberalisation of Islamic banking increased the number of foreign banks, the new banks were generally asked to meet this condition.

Moreover, according to an executive at a foreign bank in Malaysia (Personal communication, 25 October 2019), when the foreign bank applied for a conventional banking licence, BNM requested that it provide Islamic banking as well. It was easier for BNM to convince the bank to employ Malay Muslims in Islamic banking, because Malay Muslims are educated in Islamic economic thought, whereas on the conventional banking side, foreign banks tend to employ Chinese-Malaysians rather than Malay Muslims.

Nonetheless, as Poon et al. (2017: 1450–1451) point out, Chinese-Malaysians are very active even in Islamic banking, and Islamic banks, including local banks, tend to require their presence. Thus, because of the nature of Malaysia’s banking industry, further institutional support was required, which entailed enforcing the guidelines for Shariah governance.

To promote Malay Muslims’ employment in Islamic banking during the neoliberal shift, BNM began to enforce the guidelines for Shariah governance in Islamic banking in 2004 (Bank Negara Malaysia, 2005). Through these guidelines, BNM required Islamic banks and windows to have a minimum of three Shariah committee members and prohibited those banks from assigning scholars to their Shariah committees if those scholars were already appointed as Shariah committee members by other banks. A BNM official says:

We needed more people who can take [an] active role in Islamic banking. That’s why we established research universities for Islamic banking. But, more important is we created Shariah posts for young scholars. Before *garis panduan* [or guidelines], one scholar can sit at over 10 Shariah committees.¹⁴ Banks also want outstanding scholars because the scholars’ endorsement is powerful to persuade customers. So, at that time, a few scholars sat many banks’ committees. But, we, as Bank Negara, have to keep positions to other scholars for our society’s development. So, we declared in *garis panduan* [that] one scholar’s membership should be limited to one bank. It expedites young scholars’ engagement in Islamic banking. (Personal communication, 14 September 2018)

In other words, these changes were made not only to enhance Shariah compliance, corporate governance, and confidentiality but also to create opportunities to engage young scholars in the industry (Bank Negara Malaysia, 2005: 163–164). Thus, this reform involved a combination of neoliberal norms, such as confidentiality and corporate governance, and interventionist protections of occupational opportunities. BNM then established a “Shariah Fund” to help develop young Shariah scholars in Islamic banking and finance (Bank Negara Malaysia, 2006: 161).

In 2010, BNM renewed the Shariah guidelines, increased the minimum number of Shariah committee members from three to five, and created several required Shariah-related functions for Islamic financial institutions, such as “Shariah Review,” “Shariah Risk Management,” “Shariah Research,” and “Shariah Audit” (Bank Negara Malaysia, 2010). BNM stated that these new functions were for enhancing Shariah compliance in Islamic banking operations; however, these new functions also enabled the creation of more positions for Malay Muslims. The creation of these new posts was intended to accommodate Malay Muslims who were educated at Islamic financial institutes, such as INCEIF and UIA. Rudnyckyj (2018: 550) argues that Malaysia’s complex Shariah governance system reflects BNM’s efforts to resolve differences in Malaysian and the Middle Eastern Shariah views and to facilitate the global expansion of Islamic banking. However, I contend that the advanced Shariah system also enhanced Shariah scholars’ role and economic importance in Islamic banking operations and led to the employment of

Shariah elites who were not part of the sphere of the traditional financial elites but who were able to assimilate Shariah and financial knowledge. These elites included young Malay Muslims who were trained at Islamic educational institutes. Thus, their competitors were not Chinese-Malaysians but rather foreign Muslims, such as other alumni of these institutes.

As a result of the state's efforts, Malaysia had the largest number of Shariah scholars engaged in Islamic banking and finance in the world as of 2012 (Bassens et al., 2012: 345–346). Professional Shariah jobs are now a key feature of Malaysia's knowledge market (see Sloane-White, 2017). Moreover, BNM encourages local scholars to compete in the global Shariah knowledge market. In fact, Malaysian scholars are the predominant providers of Shariah services in the Arab financial centre of Dubai (Bassens et al., 2012: 346). For example, Mohammad Daud Bakar, whom Sloane-White (2017: 43) calls a "Sharia[h] entrepreneur," runs a Shariah consulting firm, and is said to be a Shariah millionaire. Many local and foreign Islamic banks seek his Shariah consulting services. An Islamic banker at a foreign bank says:

Daud Bakar is like a businessman. Every time I ask him possibilities [for] new products and practices, he tries to find a solution by himself rather than giv[ing a] judgment like yes or no. He does not simply give endorsements to products but also solves Shariah problems that banking products have. So, he is not simply a scholar. He is a Shariah businessman. (Personal communication, 10 October 2019)

As Islamic banking has developed globally, Shariah expertise has become important to economic prosperity and competition in global knowledge markets. In line with the global growth of Islamic banking, Malaysia has sought to strategically use global resources for local interests. Ong (2007: 6) argues that in Asia, "neoliberal thinking is directed toward the promotion of educated and self-managing citizens who can compete in global knowledge markets." Thus, Malaysia has created institutional infrastructure for developing global Shariah scholars since before the neoliberal reform in the 2000s and has connected them with global market opportunities through neoliberalisation. BNM's efforts to enhance Shariah governance of Islamic banking established Malaysia's reputation as one of the most advanced Islamic banking markets, and it expedited the flow of capital and human resources between Malaysia and other Muslim societies.

Moreover, since the late 1990s, when Malaysia began to consider a global strategy for Islamic banking, the state has promoted the role of women in various industries, including Islamic banking. Significantly, the government appointed Zeti Akhtar Aziz as the seventh and the first female governor of BNM.¹⁵ The promotion of women is practised even within Shariah scholarship, a field historically dominated by men. For example, two of the nine SAC members are female, and one of the female members says:

Not only Islamic banking, the banking industry is normally [a] male-dominated market. Most Shariah scholars are also historically male not only in Malaysia but in the world. Actually, I have yet to meet female Shariah scholars from the Middle East. Now, our

government is seeking gender equality because this is [a] global move and Malaysia is a signatory of the UN [convention] of CEDAW.¹⁶ The number of female bankers and Shariah scholars is growing because our government supports all [women] who want to compete in the banking industry. (Personal communication, 19 December 2017)

The presence of Muslim women is now a recognisable aspect of Islamic banking in Malaysia. Rudnyckyj (2019) also discusses women's powerful role in Malaysian Islamic banking relative to the Middle East, where women are nearly absent from the industry. However, Elder (2017) points out that female scholars in Islamic banking are expected to play a symbolic role through their soft and humane nature, which reflects the Islamic moral aspects of banking and finance, rather than playing an equal role to men. Enhancing the role of women in Islamic banking was one of the most convenient policies for BNM in that this policy can reflect both modern or neoliberal aspects and moral aspects of Islamic banking.¹⁷

Thus, BNM has actively adopted neoliberal norms in areas in which Malaysia's political agenda and local interests do not contradict those neoliberal norms. However, as mentioned, certain interventionist approaches remain in other areas for which BNM believed that institutional infrastructure alone could not support local interests in the neoliberalising market. I argue that BNM's logic of creating economic opportunities for Malay Muslims through Islamic banking has not changed from its inception in the 1980s to the period of neoliberalism. Pursuing the goal of becoming a regional financial centre for Islamic banking, BNM has tactfully mobilised neoliberal and Islamic norms to reconcile globalisation with protecting local interests. The management of local commercial banks has also supported the state's goal. For example, the two largest commercial banks in Malaysia (i.e. Maybank and CIMB) set "Islamic first" policies through which they seek to provide more Islamic than conventional banking services. A senior manager at one of the two banks says:

We try to propose Islamic banking to customers, although we don't force customers. We just promote to both Muslims and non-Muslims because the values of Islamic banking are benefi[cial] for all. This policy is in line with the government's agenda. We support the agenda of making Malaysia an international Islamic financial centre. Of course, as one of the largest banks [in] Malaysia, we have to commit to the agenda, and we have to set the Islamic first policy. Our policy is in line with the government initiative. (Personal communication, 4 October 2018)

Even after the shift towards neoliberalism, the inextricable relationship between the state and local commercial banks remains strong because the state has made demonstrable efforts to create a Malay community in the banking industry, in which Malays were historically underrepresented. Throughout the neoliberalisation process, Malay business elites have maintained a patriotic devotion to state and local interests.¹⁸ According to a BNM official, BNM is now shifting to a new phase. The official says:

We are now trying to create [an] Islamic banking-based society. We still need to train people to develop Islamic banking more. So, we associate Islamic banking more strongly with our society, such as education, public facilities, and [the] development of rural areas. We are not only making money. We are evolving people and making modern society through Islamic banking and finance. As a Muslim state, we are making [a] strong society through Islamic values. (Personal communication, 9 January 2018)

Thus, BNM is seeking to redefine Islamic banking as an important social infrastructure by embedding it everywhere in society rather than just in business settings. This shift reflects the state's commitment to Islamic education and instilling economic thinking in its citizens. In fact, when conducting archival research at Sasana Kijang, a BNM knowledge centre, I often observe primary school excursions to an adjoining museum in the centre that is used to educate students about money and banking. The state may be seeking to instil neoliberal values in Malay Muslims through long-term education so that they can compete in a neoliberalising market with less intervention.

Conclusion and Discussion

In this study, to answer the frequently asked question of what Islamic banking is, I sought to identify BNM's logic behind Islamic banking policies by investigating the relationship between current and retired BNM officials' discourse and the historical trajectory of these policies. BNM has long aimed to create and protect the Malay business community in the banking industry, especially since the government enacted the NEP. Seeking global resources, BNM embarked upon a neoliberalisation policy with the goal of becoming a global Islamic banking hub, which Rudnycky (2013: 832) calls the "New York of the Muslim world." Even in the neoliberal era, BNM has sought to allocate wealth produced in the global market, preferably to Malays. The findings of this study reaffirm the lingering ethno-political mechanism through which the state takes certain interventionist approaches based on the underlying logic that Malay interests should be prioritised.

BNM has established institutional infrastructure through which Malay interests are protected in the liberalising market. In particular, increasing Shariah-related positions was considered a convenient technique for creating a Malay Muslim community in the banking industry because such positions are largely exclusive to Malays in the Malaysian context. BNM strengthened the Shariah governance system and imposed strict and complicated requirements for Shariah compliance on Islamic banks in 2004 and 2010, respectively. The advancement of the Shariah system and the creation of Shariah posts led to the employment of Shariah elites who were not from the traditional elite class in the financial industry, allowing them to play a significant role in Islamic banking. Thus, unlike in the period of interventionism before the 2000s, in the neoliberal era, BNM quietly sought to accomplish the same goal without attracting public attention by establishing institutional mechanisms rather than offering preferential treatment in a straightforward and direct manner (cf. Gomez et al., 2018). Compared to

conventional banking, it was much easier for BNM to conceal the goal of creating and protecting posts for Malays in the banking industry in Islamic banking because of its Shariah nature. In other words, BNM used the Shariah nature of Islamic banking as a “frame” to conceal its true purpose from the public (cf. Campbell, 2002: 28). Whereas Rudnykyj (2019: 13) examines how Islamic finance experts engaged in “experimental projects to create new forms of capitalism,” I contend that BNM sought not to create new forms of capitalism but rather to create new platforms for Malay Muslims, especially elite Malays, to expand their potential in the financial industry. Overall, an agenda of protecting Malay interests lies behind the philosophy of Islamic banking as a moral economy.

Considering these findings, the Malaysian content of Islamic banking as a global economic phenomenon and my answer to the question of “what Islamic banking is” have both become clearer. As Rethel (2011: 95) maintains, “Sharia[h] compliance does not automatically entail the ethical and social objectives of Islamic finance.” However, I contend that in Malaysia, Islamic banking is an ethno-political tool rather than simply a religious economic phenomenon, and Shariah compliance in banking implies promoting the economic success of Malay Muslims. Thus, the local content of Islamic banking is imbued with ethno-politics, and ethnic rather than religious boundaries are observed in Islamic banking in Malaysia. As the informants in this study used the words “Malay” and “Muslim” interchangeably in the quoted text, Islam has become a strong signifier of the Malay ethnicity, especially since the 1980s. Fischer (2016a: 585–586) calls this phenomenon the “nationalization of Islam.” These informants may be referring to Chinese-Malaysian-dominated banking when they use the term “conventional banking.” Shamsul (2004: 130) describes Malaysia’s ethnic relations as “a state of stable tension.” To ease this tension, *Wawasan 2020*, or Vision 2020, an ambitious plan to attain developed country status by the year 2020, was launched by Mahathir Mohamad in the 1990s. The plan set a target of *Bangsa Malaysia*, referring to a united Malaysian nation rather than the ethnic inequality of privileged Malays. Within this neoliberal or democratic ambition for national unity, the underlying logic of protecting Malay interests remains part of BNM’s policymaking on Islamic banking and stays in BNM officials’ minds as a reference point from which they design strategies and manage the political economy.

This study’s detailed empirical data support the view that the Malaysian political economy is a combination of “selective neoliberal reforms” and “persistent interventionism” (Rethel, 2010: 491). As many studies take this perspective (e.g. Elias and Rethel, 2016; Gomez, 2012; Ong, 2006; Pepinsky, 2009), this argument is not entirely novel. However, this study reaffirms this view with empirical data on the historical trajectory of Islamic banking policies, BNM actors’ logic behind these policies, and the dynamics of the political economy in Malaysia. I hope that this study serves as an informative case that vividly demonstrates how BNM has pursued its goals through changing means.

Declaration of Conflicting Interests

The author(s) declared no potential conflicts of interest with respect to the research, authorship, and/or publication of this article.

Funding

The author(s) disclosed receipt of the following financial support for the research, authorship, and/or publication of this article: This work was supported by Suntory foundation under Grant for Groundbreaking Young researchers 2018 and by K. MATSUSHITA FOUNDATION under Research Grant 2019.

Notes

1. Islamic banking is known as “non-interest” banking because Islamic scriptures prohibit *riba*, which is normally construed as interest fees; thus, the prohibition and avoidance of interest is a rationale for the practice of Islamic banking. Islamic banking practitioners and scholars usually refer to typical banking with interest fees as “conventional banking” to distinguish it from Islamic banking.
2. Prior to the introduction of Islamic banking, there were only a handful of Malay Muslims working in the banking industry (see Kitamura, 2020).
3. Ordoliberalism does not accept the concept of self-regulating markets based on laissez-faire governance but rather assumes that state intervention is essential for enabling neoliberal institutions, such as free-market competition, and for safeguarding against possible threats from powerful private actors, such as monopolies and cartels (Davies, 2014; Ganti, 2014; Gershon, 2011; Hoffman, 2006; Yan, 2003).
4. Gomez et al. (2018) argue that Malaysia’s corporate power is being further centralised in a major but quiet transition.
5. The paradigm of neoliberalism stems from the emergence of the post-1945 global system based on the diversification of state governance (Gane, 2014: 21). Global elites and international organisations pressured states to accept neoliberal ideas, such as the liberalisation of the economy, as “an unquestioned ‘common sense’” (Springer, 2012: 137; the quotation marks are original in the quote).
6. In fact, drawing on the Foucauldian concept of governmentality (see Foucault, 1991: 102–103), many anthropologists investigate the neoliberal transformations of states’ competences and functions in the global era (e.g. Rudnyckyj, 2004; Sharma, 2006; Yan, 2003).
7. If neoliberalism exhibits diversity in practices and processes, the theoretical and conceptual values of neoliberalism may be unclear (see Barnett, 2005); however, this point of discussion lies beyond the scope of this study.
8. Regarding the question of what Islamic banking is, my answer is totally based on BNM actors’ views and cannot be generalised as an overall answer reflecting all Malaysian actors. Future research is likely to produce answers from different perspectives.
9. The BNM governor at the time, Jaffar Hussein, similarly stated that “[i]t would do no good to the Ummah, if we keep insisting [...] that every Islamic financial instrument [...] should be strictly on the basis of profit-and-loss sharing” (Bank Negara Malaysia, 1989: 290).
10. A minister in the prime minister’s department at the time, Abdullah Badawi, also highlighted the importance of making Islamic banking acceptable and understandable to non-Muslims to create an Islamic banking system (*New Straits Times*, 1982).

11. The establishment of the SAC was the first such attempt to do so worldwide because commercial banks' Shariah bodies in other regions, such as the Middle East, are typically empowered to decide whether products are acceptable in Islamic terms. Since the 2010s, however, some Middle Eastern states, such as UAE and Oman, have been adopting Malaysia's Shariah governance model (Bouyamourn, 2016).
12. Jomo (1990) and White (2004) provide detailed descriptions of the history of the dominance of foreign and Chinese–Malaysian capital in the Malaysian economy.
13. For example, corporations could obtain tax benefits and other advantages by fulfilling the Malay employment and ownership requirements (Milne, 1976: 244).
14. In most Middle Eastern states, Shariah scholars can sit on multiple Shariah boards (see Mohamad and Saravanamuttu, 2015: 203–204).
15. Nor Shamsiah Mohd Yunus, the current governor of BNM, is the second woman appointed to the post.
16. CEDAW is the acronym for the Convention on Elimination of All Forms of Discrimination Against Women, which was adopted in 1979 by the UN General Assembly. Malaysia acceded to the UN convention in 1995. URL: <https://www.ohchr.org/en/professionalinterest/pages/cedaw.aspx> (accessed 13 March 2020).
17. The government's support for women is not restricted to Islamic banking. Elias (2020) extensively discusses the Malaysian government's pursuit of its economic project of enhancing competitiveness by increasing women's engagement in the business world.
18. Fischer (2016a) also observes Malay citizens' patriotic preferences for local corporations in his ethnography of Malays' consumption of automobiles. However, Abdul Rahman et al. (2020) point out that although some Malay investors had such patriotic sentiments, the majority of those whom they interviewed had little trust in the government, especially political elites. This contrast demonstrates the complexities of the Malay ethnic group, which researchers, including me, tend to regard as a homogenous group.

ORCID ID

Hideki Kitamura  <https://orcid.org/0000-0001-6700-731X>

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Author Biography

Hideki Kitamura is a postgraduate student at the Institute of Ethnic Studies (KITA), the National University of Malaysia (UKM). He has published on Islamic finance and banking in Malaysia in peer-reviewed journals such as *Contemporary Islam* and *Business Anthropology*.
Email: kitamura3220@gmail.com