

The Malaysian Political Economy: Economic Transformation & the Expansion of Islamic Economics

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Abstract

This paper aims to shed light on Malaysian economic development in light of demographics and politics while focusing on economic legislation that had the largest effect on the outlook of the nation known to the world today. Then the paper discusses the beginnings of how Islamic economics was introduced to the scene and how the industry developed wider and faster than most Islamic economies in the world. This paper also explains this rapid development in the context of the nation's political-economic development. The paper is qualitative and analytical; it addresses developments up to 2017 although few discussions extend beyond that period, for many developments after 2017 were not significant enough to change the perspectives. The paper incorporates fieldwork, observations, and interviews that took place in 2017. The paper concludes that certain socio-economic policies need to be updated to suit today's generations and allow for the continuation of development at high rates. Furthermore, the expansion of Islamic economics is beneficial; however, the industry demands detail and procession more than ever, especially in sharia compliance, This matter is important because it associates to customer trust that is highly significant for continues development in the industry.

Keywords: Political Economy, Malaysian Economics, Economic Policy, Islamic Economics.

Introduction

The Malaysian experience in development is unique because the pre-condition for a successful development process in Malaysia was achieving national unity, economic justice, and redistributing economic resources. After an extended period of colonization by different occupations, historical Malaysia changed in different ways such as demographics, the role of religion in governance, and also the economic mindset changed.

Interestingly, despite having older civilizations than the Islamic civilization that started in the state of Malacca in the 13 century, Malay people are proud Muslims. They do not refer back to the older civilizations; it is as if history starts in the 13th century in Malacca¹. With the British Occupation, secularization took place more dominantly, especially in politics. Years after secularism in government and policy-making was dominant and religion was

¹ Umran, Musim, interview by Abdalrahman Migdad. 2017. *PICOM CEO* (5-7).

limited to ceremonies and special events as well as in people's individual lives. However, after the 70s and 80s, Islamic thought became more present in governance and policymaking. That presence had always been a source of power to the government that adopted more Islamic laws, especially in economics because that would likely mean more financial inclusion, thus, economic development.

From the 70s onward, many government economic policies were connected to Islamic thought, and more recently to Islamic economics. Additionally, the dominating political parties are Malay "Islamic" parties although they do not explicitly identify themselves with Islam. The observer of their charters, objectives, and vision, would quickly realize that they are established on Islamic foundations².

Changes in Malaysia after independence were strongly interrelated. Changes are reactions to previous circumstances and are driven to maximize gain. The demographic change before independence was imposed by the colonial powers to protect their interests. That change was accepted by the Malay at the end of the 50s as it was conditional to gain independence. The British colonial power continued to be present in the political middle and largely contributed to secularization. From the time of independence to the 13th of May 1969 ethnic clashes, the Malay and bumiputra (original people of the land) lived in poverty, and wealth was controlled by the Malaysians of Chinese origin. The root of the problem being economic injustice and deep poverty for the original people of the land, a critical-necessary consequence of this incident was the New Economic Policy (NEP). From the 70s up, government policy and economic policy started to favor the Malay majority on different levels. The official government justification was to achieve economic justice and focus on equity.

Islamic capital existed even before the political and economic 'Islamization process', before the 70s, and even before independence. However, that existence remained small compared to the Chinese Malaysian's capital. Real economic development was planned in the 70s and started in the 80s where some corporations and industries were established or developed. Examples are Tabung Haji, Khazanah, Bank Islam, and Bank Muamalat. Also, government projects like Feilda and Petronas were additional reasons for economic development. Those government-led developments were instrumental in narrowing the economic gap by uplifting the Malay economic livelihoods.

The Islamization of government policy benefited the economic development of Malaysia on many levels. There were acts of Islamization to government and policy that mainly started in the '80s during the time of Prime Minister Mahathir Mohammed. He introduced the Islamic council, Islamic ethics into government practice, and introduced Islam as a positive source for economic development. After that, Prime Minister Badawi introduced *Islam Hadari*³

² Ibid, (5-7)

³ Islam Hadari: the term means "Civilized Islam", the use of the term is rather problematic because it assumes that there is un-civilized Islam, but that is not the intention. The term was

(translated as modern Islam). During the same time, the Islamic Finance and Banking Sector (IFBS) developed as the local economy developed, and as Islamic foreign capital was invested in the country.

On a more practical side, government economic policy was very beneficial to the country's economic development, and the Islamization of government policy had a leading role in economic development.

"The main reason for incorporating Islam into the government and in economic development was to involve the Malay Muslims into the economic development process and make them have a share in the economy. Now, and after all that effort, they own about 25% after only owning about 4% in 1964. The connection of Islam to economic development was in large positive for several reasons.

- 1-Motivate the majority of people to be involved in the economy,
- 2-More importantly it attracted Muslim capital especially from the Gulf countries, Bank Al-Tamweel Al-Kuwaiti, Alrajihi Bank, and up to 6 million Muslim tourists each year."⁴

Methodology

This paper employs a qualitative methodology and analyses the primary and secondary data collected descriptively; it addresses developments up to 2017 although few discussions extend beyond that period, for many developments after 2017 were not significant enough to change the perspectives. The paper incorporates fieldwork, observations, and interviews that took place in 2017. To cover the topic dimensions, the paper provides an extensive description and review for the countries demographics and economic statistics. The second point discussed is the policies of development that was designed, based on some opinions, to ensure economic justice and national unity. The final point focused on the Malaysian Islamic economic sector contribution to economic security.

Literature Review

Demographic, Ethnic, and Economic Statistic

Here, the discussion focuses on several relevant variables that help to understand the demographic and ethnic situation, the political and government situation, the economic policy, and the Islamic economic sector of the country. There is a difficulty in addressing each component separately as they are all interdependent and very much interrelated. However, each of the variables is

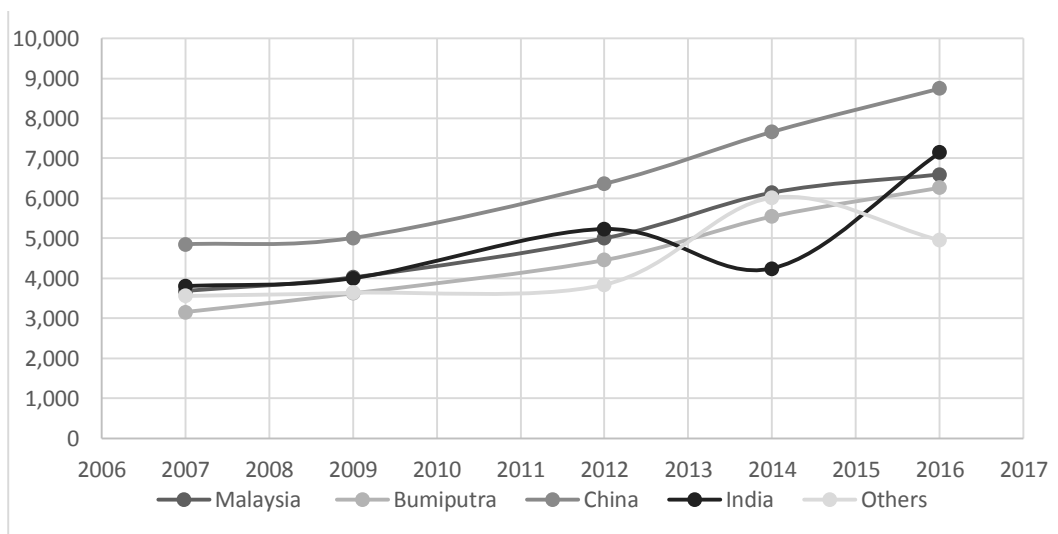
introduced by PM Ahmad Badawi who succeeded PM Mahathir Mohamed. It simply refers to the Malaysian government's intention to follow a middle ground in Islamic understanding and implementation, to be accepting of others, and open for development and partnerships. As explained in chapter 5 in more detail, despite the difference in political affiliation and views between the different Malaysian prime ministers, the intermediate Islamic view initiated by Mahathir Mohamed continued presence in the Malaysian government, today, with more focus on Islamic economic development.

⁴ Buhrawa, Saied, interview by Abdalrahman Migdad. 2017. *Head of research Unit at ISRA* (5 15).

explained separately as much as possible to draw on specific effects, then elaborate on the broader picture.

The distribution of population on the lines of ethnicity is essential for wealth and economic justice in the country, and therefore essential for all Malaysians, especially at a lower grassroots level. Before the independence of Malaysia and during the first few years after independence, the economic wealth distribution was almost entirely in the hands of the Chinese, and it was reported that the *Bumiputra* who represented about 60% of the population owned no more than 2.4% of the economic capital in the country and suffered a poverty rate of 49.3%⁵.

Figure Error! No text of specified style in document.1: Mean monthly household income (RM) by ethnic group, head of household 2006-2017



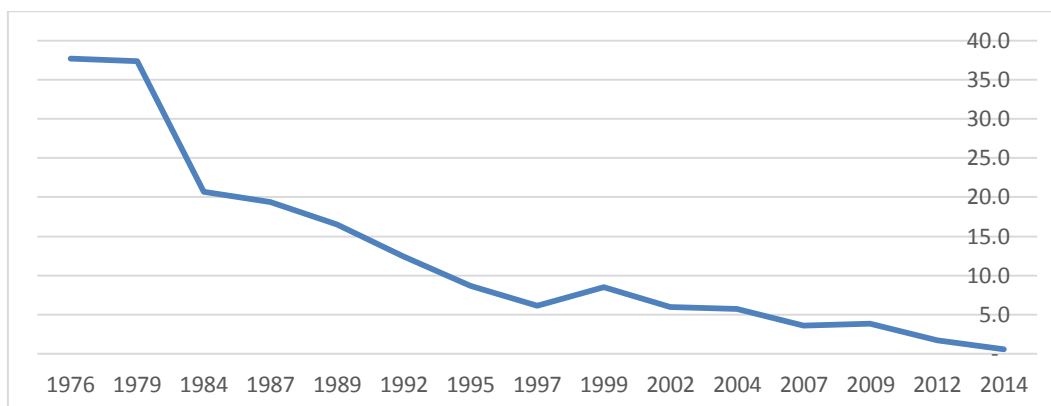
Data source⁶: Department of Statistics Malaysia, Statistik yearbook Malaysia 2016

Observing the average household income for the different Malaysian ethnic groups, the Bumiputra remains at the lower end according to the 2016 statistics. The Malaysian average household income in 2016 was 6598 RM, and the Bumiputra household income average was slightly less at 6267 RM per month. The Chinese household income is what drives the national average up as it reached 8750MR per month in 2016. This is another indicator that the Chinese economic well-being is better than the national average. The economic disparity among the Bumiputera ethnic group is generally attributed to the effects of the colonial policies that kept the group largely in the countryside for long resulting in the sharp difference between the wellbeing of the urban and the rural dwellers.

⁵ "The poverty rate declined from 49.3 percent in 1970 to 16.5 percent in 1990 and reduced further to 1.7 percent in 2012. In terms of corporate equity restructuring, 63.3 percent of the corporate equity in Malaysia was owned by foreigners in 1970, while the Bumiputra s owned 2.4 percent."Reference: EPU. 2017. *Economic development*. 7 13. <http://www.epu.gov.my/en/development-policies/new-economic-policy>.

⁶ Each time the term "data source" is used, this means the figure or chart is created by the author, and the data are sourced from the source mentioned.

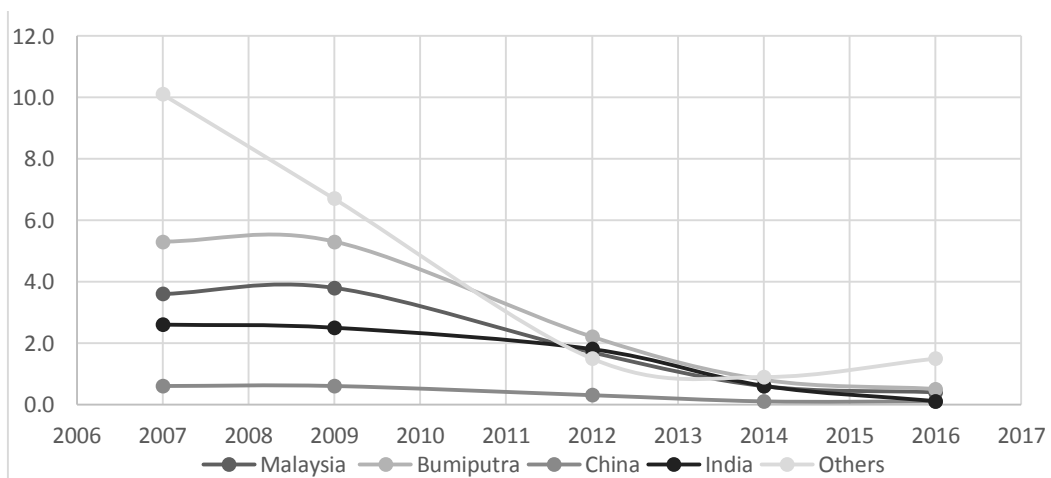
Figure 2: Poverty headcount ratio at the national poverty line (% of the population)



Data source: Department of Statistics Malaysia, Official Portal, Time series data, National Poverty line % of the population (2017)

The figure above showed the national poverty line from the year 1976 to the year 2014. The figure illustrates over 35 years of the Malaysian poverty line as a percent of the population. This illustration is an indicator of success. Figure Error! No text of specified style in document.3 shows the difference in the percentage of poverty among each ethnic group. Of the major ethnic groups, the Bumiputera remains on top of the chart for suffering the highest poverty rate. However, the poverty rate of the other minority groups in Malaysia has been increasing along with the increase in their numbers as a percentage of the total population. This represents a new phenomenon in Malaysia because the majority of those minority groups are refugees from the middle-east and other Asian countries such as Myanmar. The World Bank reports the overall national poverty line for Malaysia as of 2018 to be 5.6%.

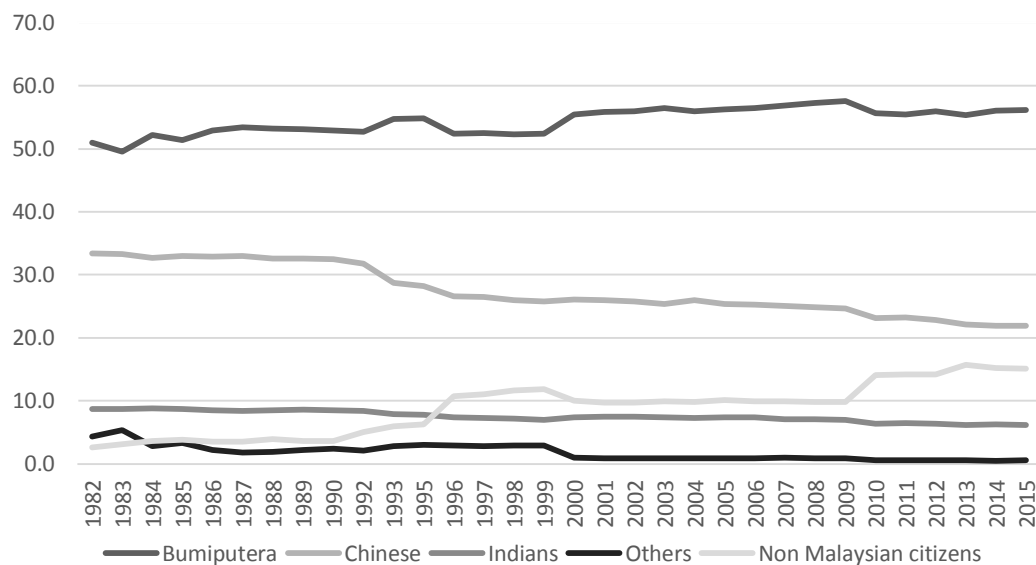
Figure Error! No text of specified style in document.3: Poverty (%) by the head of household and by ethnic group



Data source: Department of Statistics Malaysia, Statistik yearbook Malaysia 2016⁷

Figure 4 illustrates the percentage of employed persons by ethnic group in Malaysia. The outcome is interesting concerning the Chinese because we saw that their household income is the highest and is consistently increasing but their employment rate is constantly decreasing. This outcome could hold several meanings; 1) the Chinese work in family businesses and do not register all employed persons in the business, 2) their employment rate could be decreasing, but their income is increasing at a substantially higher rate. The increase in the Bumiputera employment rate could be explained by government policies with direct reference to the New Economic Policy (NEP). Another interesting trend in the figure is the increasing employment rate of non-Malaysian citizens which reached over 15% in the year 2015. The observed reason is the positive effect of skilled foreign labor on Malaysian growth.⁸

Figure 4: Percentage distribution of employed persons by ethnic group, Malaysia, 1982–2015



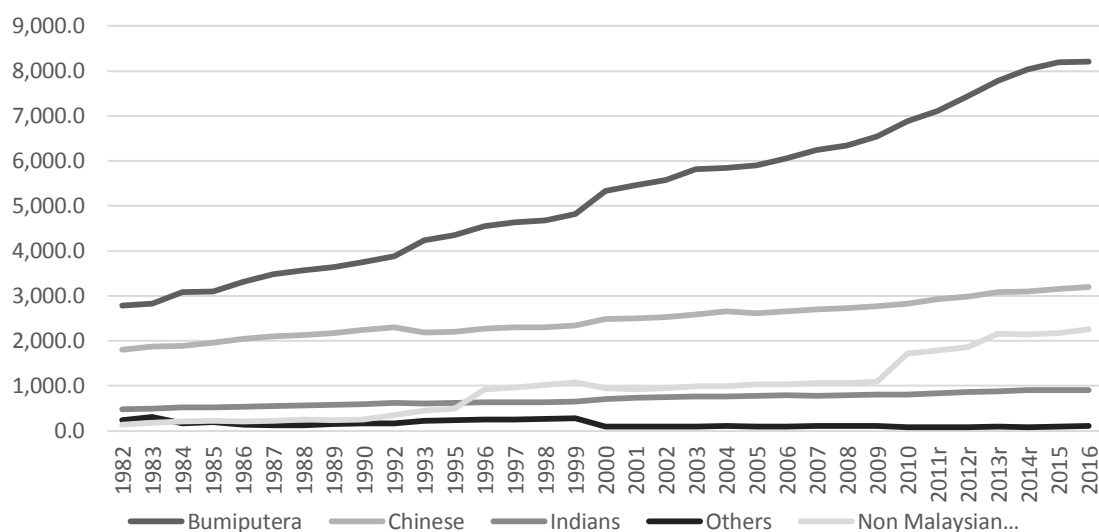
Data source: Department of Statistics Malaysia, Official Portal, Time series data (2017)

Labor force naturally increases as Figure 5 illustrates. The most significant growth of the labor force is among the Bumiputera, and their employment rate is also increasing, but at a lower rate, as shown in the figure above. In both figures, the employment distribution seems representative of the labor force of each ethnic group. That logic favors the federal government in explaining its position when it comes to its NEP as explained in the following section.

⁷ StatsMalaysia. (2016). *Statistics Yearbook*. Department of Statistics, Malaysia. 2016.pdf.

⁸ Ismail, Rahma, and Ferayuliani Yuliyusman. 2014. "Foreign Labour on Malaysian Growth." *Journal of Economic Integration*. http://e-jei.org/upload/JEI_29_4_657_675_2013600057. 2014. pdf.

Figure 5: Labor force by ethnic group, Malaysia, 1982–2016



Data source: Department of Statistics Malaysia, Official Portal, Time series data, Labor force by ethnicity (2017). *The 2011-2014 statistics were updated based on the population estimates of the respective years.

Policies of Development for Economic Justice and National Unity

There are many policies related to the country's economy, starting from the 1971 NEP, the National Development Plan (NDP) in 1991 – 2000, 2001 witnessed the creation of the Malaysian vision 2020, and all those plans were part of 5-year strategic planes that were planned for and started during the end of the '60s to end on 2020. During this time, also Islam Hadari was introduced, and with 2020 approaching a new 2050 strategic plan is being shaped. Those were economic policies and plans that were driven to make economic development while favoring the Bumiputera to reduce the economic gap between the ethnic groups. Additionally, several bodies and processes had the goal of increasingly incorporating Islamic thought into government practices. During the Mahathir Administration, the Islamic Consultative Body (ICB) was introduced in 1981, followed by Assimilation of Islamic Values (AIV) in late 1981, and those were part of Mahathir Mohamad's plan to present Islam as a positive contributor to the development of the nation on all levels including the economy of Malaysia.

“While the sources of Al-Qur'an hadith and Sunnah of the Prophet guide us, details must be deduced through the use of aql (mind)... Islam gives us flexibility... In Malaysia, our administration is not against Islam and takes into consideration the environment specific to Malaysia” Dr. Mahathir Mohamad, 27 Sept. 1985.

“There are many institutions and activities and services in the economy which do not carry Islamic labels and nomenclatures. They are no less important, from an Islamic point of view, than specific institutions with Islamic appellations... What is important in evaluating these institutions and activities is whether they serve the interests and needs of the ummah... to enhance the

quality of life and wellbeing of the ummah” Anwar Ibrahim, Minister of Finance, July 1992.

Economic Policy and Planning

Economic policies in Malaysia have been employed well over the past years to serve national development in all sectors, and uplift the nation’s global placement concerning economic development. The following section presents policies enacted since the beginning of modern Malaysia and what is being molded until the year 2050; the next long-term national plan.

The 5-Year Malaysian Plans

Planning by the Malaysian government was sophisticated and highly successful in terms of implementation. The government began planning right after independence with the first plan starting in 1957, the year of independence, and a second 5-year plan took place and ended during the year 1966. The second phase of planning started in the year 1966 to lead to the year 2020. The interesting part of the starting date was it started 3 years before the 1969 ethnic conflict which poses as a landmark for government change in policy towards more economic policy favoring the Bumiputra. This indicates that the government was on a track of change, but the people’s feelings of injustice could not wait long before exploding. The government plans continued with more intensity, and several essential policies were enacted during this time. Planning took three stages, short, medium, and long-term planning. The short terms were annual budgeting, the medium was a mid-term review and 5-year development plans, and the long-term was Outline Perspective Plans (OPP).

Table 1: 5-year Malaysian Plans

Five Year Malaysia Plans	Medium-Run Plans	Years enforced	Long-Run Plans Outline Perspective Plans (OPP).
	11 th Malaysian Plan	2016 – 2020	OPP 4
	10 th Malaysian Plan	2011 – 15	
	9 th Malaysian Plan	2006 – 10	OPP 3
	8 th Malaysian Plan	2001 – 05	
	7 th Malaysian Plan	1996 – 00	OPP 2
	6 th Malaysian Plan	1991 – 95	
	5 th Malaysian Plan	1986 – 90	OPP 1
4 th Malaysian Plan	1981 – 85		

	3 rd Malaysian Plan	1976 – 80	
	2 nd Malaysian Plan	1971 – 75	
	1 st Malaysian Plan	1966 – 70	
	2 nd Malaysian Plan	1961 – 65	Pre-independence
	1 st Malaysian Plan	1957 – 60	

Source: authors' illustration

The New Economic Policy

The most significant change happened in the '70s when the NEP was adopted in 1971 following the racial riots of 1969. NEP began with the second Malaysian plan (1971 – 1975), and each plan is scheduled to last five years. The NEP existed until the fifth Malaysian plan (1986 – 1990).

The NEP had three primary objectives, there are national unity and harmony, socio-economic restructuring, and poverty eradication.

The overriding goal was national unity. To achieve this goal, several strategies were adopted.⁹ *First*, to reduce and eradicate absolute poverty irrespective of race through raising income levels and increasing employment opportunities for all Malaysians; *second*, direct intervention by the Government through the creation of a specialized agency to ensure a more Bumiputra active participation in the economy and sustainable equity ownership; *third*, Introduction of specially designed rules and arrangements, whereby the involvement and participation of Bumiputra are assisted and facilitated over a period; *Fourth*, provision of concessional fiscal and monetary support as part of the package towards entrepreneurial development; *fifth*, Accelerated program for education and training; *sixth*, Increasing Bumiputra ownership through privatization projects; and *last*, To create balance in the workforce that reflects ethnic's composition through a more equitable economic growth.

Table Error! No text of specified style in document.2: Stages to Vision 2020

	New Economic Policy	National Development Policy	National Vision Policy	New Economic Model
LONG-TERM PLAN	1971-1990	1991-2000	2001-2010	2010-2020
	Growth with Equity and Fostering National Unity	Accelerating Poverty Eradication and Reducing Social and Economic Imbalance	Resilient and Competitive Nation	High Income Nation

⁹ EPU. 2017. *Economic development* . 7 13. Retrieved from Economic Planning Unit, Prime Minister's Department: <http://www.epu.gov.my/en/development-policies/new-economic-policy>

Mid-TERM PLAN	1971-1975 2 nd MP	1990-1995 6 th MP	2001-2005 8 th MP	2011-2015 10 th MP
	1976-1980 3 rd MP	1996-2000 7 th MP	2006-2010 9 th MP	2016-2020 11 th MP
	1981-1985 4 th MP			
	1986-1990 5 th MP			
SHORT TERM PLAN: ANNUAL BUDGETS				

Source: Dahlan, D. Z. (NA). National Development Planning Practices in Malaysiya. Retrieved 7 14,2017.

**PPP by Datuk Zolkopli Dahlan Deputy Director-General Implementation Coordination Unit of the Prime Minister's Department, titled: National Development Planning Practices in Malaysia.*

National Development Policy

The NDP succeeded the NEP. It was introduced in the 2nd OPP, 1991-2000 during the 6th MP. The NDP was a continuation of the earlier NEP because it maintained most of its main elements in an act of reaffirmation to the importance of the NEP. However, there were four main modifications made to the primary NEP:¹⁰ *Firstly*, from anti-poverty strategies toward the eradication of hardcore poverty. *Secondly*, a shift was towards employment and the rapid development of an active Bumiputra Commercial and Industrial Community (BCIC) as a more efficient strategy to increase the meaningful participation of the Bumiputra in the modern sectors of the economy, rather than the emphasis on Bumiputra ownership and control of corporate equity. *Thirdly*, greater reliance on the private sector to be involved in the restructuring objective by creating more significant opportunities for its growth. *Fourthly*, a greater focus on human resource development as a fundamental requirement for achieving the objectives of growth and distribution.

Rational of the two policies which are;

First, growth with equity is fundamental to realize the fair distribution of national wealth. Second, social and political stability can only be achieved based on balanced societal development. Third, "nurturing and molding a Malaysian society with high moral values and ethics as well as positive attitudes are fundamental towards the creation of a responsible, resilient, progressive and caring society".¹¹ Forth, preservation of nature and the environment is also essential to improve life for future generations.¹² However, while some changes

¹⁰ EPU, B5 & B6. 2004. "Malaysia: 30 Years of Poverty Reduction, Growth and Racial Harmony." *Scaling Up Poverty Reduction: A Global Learning Process and Conference* . Shanghai: Federal Government Administrative Centre, Malaysia .

¹¹ EPU, B5 & B6. 2004. "Malaysia: 30 Years of Poverty Reduction, Growth and Racial Harmony." *Scaling Up Poverty Reduction: A Global Learning Process and Conference* . Shanghai: Federal Government Administrative Centre, Malaysia .

¹² This is a general explanation from the Economic Planning Unit which is part of the Prime Minister's office in the Malaysian government. This explanation is important because there is a group of opposition to the government economic policy that focuses on

were made to some parts of the NEP, the NDP maintained the principles of national unity, poverty eradication, social restructuring, and economic growth.

"In Malaysia's case, the issue of whether the policy of equitable growth would affect economic development or growth negatively was not paramount. The goal of the NEP and NDP was not maximum economic growth, but national unity".¹³

National Vision Policy (NVP)

The plan was in the process of establishment from the year 1991, and it was introduced in 2001. This policy took place during the 6th and 7th MP. Its primary objective was to accelerate poverty eradication and reduce the social and economic imbalance. According to the Economic Planning Unit of the Prime Minister's office, the NVP was accepted by the Malaysian Business Council (MBC) and soon after by the government. Consequently, it acquired the status of public policy. Indeed, that was reflective of the people's knowledge of the NVP, where everyone in Malaysia knows about Vision 2020.¹⁴ This was interesting because the public generally does not know their government policies.

Vision 2020 aimed at accomplishing total development where its founder Dato Mahathir Mohammed describes Malaysia in 2020 as "a united nation, with a confident Malaysian society, infused by strong moral and ethical values, living in a society that is democratic, liberal and tolerant, caring, economically just and equitable, progressive and prosperous, and in full possession of an economy that is competitive, dynamic, robust and resilient".¹⁵ However, while that is the goal, Mohamad recognizes that there can be no development until the nation overcomes nine central strategic challenges. *First*, establishing a united Malaysia with a sense of common and shared destiny. *Second*, creating a psychologically liberated, secure, and developed Malaysian Society with faith and confidence in itself, justifiably proud of what it is, of what it has accomplished, robust enough to face all manner of adversity. *Third*, community-oriented Malaysian democracy. *Fourth*, establishing an entirely moral and ethical society, whose citizens are strong in religions and spiritual values and imbued with the highest of ethical standards. *Fifth*, establishing a matured, liberal and tolerant society in which Malaysians of all colors and creeds are free to practice and profess their customs, cultures, and religious belief and yet feeling that they belong to one nation. *Sixth*, establishing a scientific and progressive society, innovative and forward-looking. *Seventh*, establishing an entirely caring society will come before self, in which the welfare of the people will revolve not around the state or the

equity. But the opposition call for the implementation of total equality in government policy for all Malaysians.

¹³ EPU, B5 & B6. 2004. "Malaysia: 30 Years of Poverty Reduction, Growth and Racial Harmony." *Scaling Up Poverty Reduction: A Global Learning Process and Conference*. Shanghai: Federal Government Administrative Centre, Malaysia .

¹⁴ The vast majority of interview respondents in Malaysia, both professional and non-professional respondents had quite high awareness of the main government policies, especially Vision 2020 that seems to be publicized well.

¹⁵ Mohamad, Mahathir Bin. 1991. "Malaysian : The Way Forward (Vision2020)." *Government of Malaysiya National Printing Department 1991* 5.
<http://unpan1.un.org/intradoc/groups/public/documents/APCITY/UNPAN003223.pdf> .

individual but a strong and resilient family. *Eight*, ensuring an economically just society. *Ninth*, establishing a prosperous society, with an economy that is fully competitive, dynamic, robust, and resilient.

Those central strategic challenges are indeed essential to ensure success. However, to fast-forward on some of the leading outcomes given we live in 2017, where only less than three years remain, vision 2020 will not succeed, according to some respondents, it might be accomplished partially according to purely economic indicators with no regard to social development. The vision has failed because the founder (Mahathir Mohamad) has abolished it. Another important reason was the Asian economic crisis. Additionally, there has been a focus on physical development, not human development, and there have been increasing rates of corruption in government.¹⁶

NERP, NEM, and Islam

The National Economic Recovery Plan (NERP) was made public in August 1998 after the East Asian economic crisis affected Malaysia. The primary goal was to revisit government economic policies and try to reduce adverse effects on the Malaysian economy. Two important points about the NERP were. First, it adhered to the core principles of the NEP and committed to poverty eradication despite the economic slowdown. Second, it resorted to currency control of the ringgit to the US dollar.¹⁷

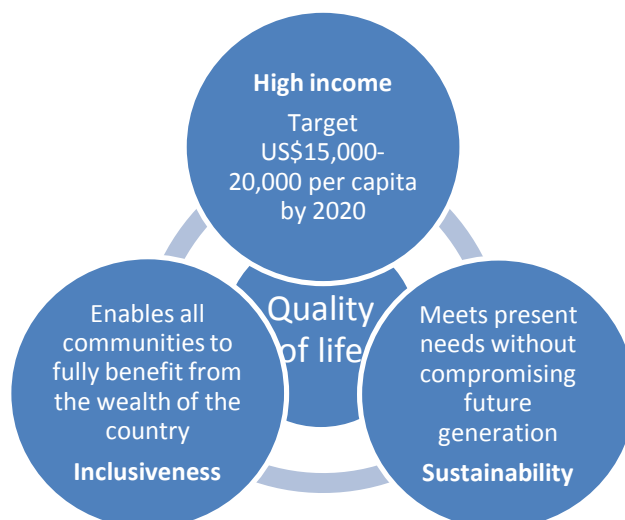
New Economic Model (NEM), while the plans of the past 30 years have offered outstanding performance, and have shifted many aspects of the Malaysian economy that range from health, education life expectancy, infrastructure, poverty reduction, and more, Malaysia is still “caught up in a middle-income trap – we are not among the top-performing global economies”.¹⁸

Figure 6: Goals of the New Economic Model

¹⁶ The majority of the interview respondents refer to the failure of Vision 2020, for several reasons that include the government’s inability to achieve the plans goals completely.

¹⁷ EPU, B5 & B6. 2004. "Malaysia: 30 Years of Poverty Reduction, Growth and Racial Harmony." *Scaling Up Poverty Reduction: A Global Learning Process and Conference* . Shanghai: Federal Government Administrative Centre, Malaysia .

¹⁸ National Economic Advisory Council. 2009. *New Economic model for Malaysia*. Putrajaya: National Economic Advisory Council, Federal Government Administrative Centre. Retrieved from <http://www.epu.gov.my/sites/default/files/nem.pdf>



Source: National Economic Advisory Council, (2009)

Islam Hadari, 2004

Abdullah Ahmad Badawi, Malaysia's prime minister 2004 announced his vision of Islam Hadari or Civilizational Islam in his speech to UMNO while holding the General Assembly on 23 September 2004. After the independence, but mainly after the 70s that succeeded the 1969 ethnic clashes and witnessed the enactment of the NEP, all the government's economic and developmental policies have taken into consideration the same variables. Those main variables being national unity, ethnic harmony, and economic justice were addressed at different stages in a manner that ensured sustainability and continuous development.

The importance and significance of Islam Hadari: In October 2003, Dr. Mahathir retired from office after 22 years in administration. He was succeeded by Abdullah Ahmad Badawi who introduced Islam Haidari. The electoral victory of the National Front *Barisan Nasional*¹⁹ that brought PM Abdullah into office was seen as an endorsement of Mahathir's choice.²⁰ Islam Hadari was characterized for its ten pillars that included faith, education, freedom, quality of life, integrity, and economic development. The timing of this vision and those words were right because it came after September 11 and the rise of Islamophobia.

Badawi's vision "could well be a paradigm of how Malaysian Muslims should see Islam in the context of a multi-racial Malaysia ... PM Abdullah seemed to want to reassure the non-Muslim community towards the increasing Islamization of Malaysia ... the PM's message to his Muslim constituents ... that Islam Hadari was neither a new religion nor denomination, but an effort to bring

¹⁹ *Barisan Nasional* is a coalition including the Malaysian Indian Congress (MIC), Malaysian Chinese Association (MCA), and the United Malaysian National Organization (UMNO) the biggest party.

²⁰ Hoffstaedter, Gerhard. 2009. *Islam hadhari: A Malaysian Islamic multiculturalism or another blank banner?* Springer Science + Business Media .

the Islamic community to the fundamentals of the Quran and Hadith, which formed the foundation of Islamic civilization".²¹

Principles which Muslim nations and communities must demonstrate, namely: Faith and piety in Allah, a just and trustworthy government, a free and independent people, mastery of knowledge, Balanced and comprehensive economic development, Good quality of life, protection of the rights of minority groups and women, cultural and moral integrity, protection of the environment and strong defenses.

Present To Future Policies

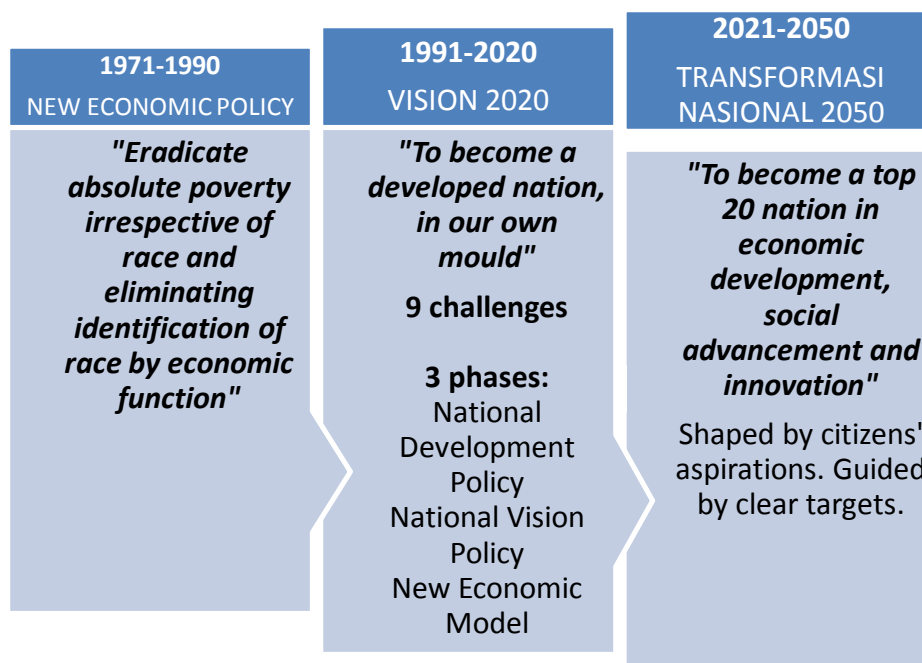
As 2020 just ended, vision 2050 is already in motion with the 12th midterm plan covering 2021-2025 and also the OPP5 covering 10 years of 2021-2030. The 2020 review saw considerable success in terms of physical-economic development; buildings, businesses, infrastructure, finance sector, travel and tourism, and more, their scoring is rather low in terms of social and human capital development; this is the younger generations discourse as it shows in the outcomes of discussions with respondents on different levels, younger grassroots level, and professional and government servants at a higher management position. In 2018, the Malaysian government conducted its midterm review of the 11th Malaysian plan which saw a slight review of its economic outlook. The projected GDP of 5-6% was reviewed downwards to 4.5-5.5% towards 2020. The review further saw the reorientation of the country's priorities to focus on good governance, increased investments in affordable housing, and upgrading the rural road network to improve economic inequality among the indigenous people mainly in the rural and urban areas. It also sought to reduce its over-reliance on Chinese investments.

The 12th vision which covers a period among 2021-2025 seeks to focus more on some thematic areas such as the use of high technology to drive economic development. Particularly, it falls in line with the broader goals of vision 2050 which is expected to position Malaysia as an important player in the global supply chain for complex and high value-added and service and further drive the economy through sectors such as advanced electrical and electronics, aerospace, creative industry, biomass, smart farming and consolidation of halal industry. In the year 2017, there have been some initiatives to incorporate public opinions on how the future should be, how vision 2050 should look like, and what it should aspire to achieve. First, "mytn50.com" is a website designed to survey people's opinions, share their aspirations, and compete for participation. Other research and academic institutions in Malaysia are already discussing their vision plans following the new national Vision 2050 such as the Academy of Sciences Malaysia.²²

Table **Error! No text of specified style in document.**3: Malaysia's key development eras

²¹ Hassan, Muhammad Haniff. 2004. *ISLAM HADHARI: Abdullah's vision for Malaysia?* Singapore: Institute of Defence and Strategic Studies, Nanyang Technological University .

²² ASM. 2017. *Malaysia 2050 Smart Communities*. Academy of Sciences Malaysia.



Source: Transformasi Nasional 2050

Islamic Thought and Parties in the Government

Islamic thought is actively present in government and its policies. The federal constitution of Malaysia, Article 3 (1), recognizes Islam as the "Religion of the Federation," but leaves room for the practice of other religions "other religions may be practiced in peace and harmony in any part of the federation." The ruling political parties are Islamic even though they may not be explicitly mentioned.²³ Therefore, government policies are primarily affected by those who enact them in the first place. One clear example is Mahathir Mohamad. Another Example is Anwar Ibrahim although he represented the opposition, his views were Islamic. Besides the Islamic political parties and Islam being the country's religion by the constitution, several programs, and councils that were introduced to the government or follow the local governments of the states are Islamic by name and practice.

For starters, Muslim Malay have held the highest political positions in the country since independence. One focal point for their success in government is the Muslim Malay majority that gives them their votes. A critical characteristic of the Malay Muslims is their strong connection to Islam; this appears clearly in their act of giving voluntary charity and zakat. The managers of Zakat Collection Centers (ZCC) confirm that 100% of Malay Muslims pay their zakat, this was part of interviews conducted with the managers of zakat collection centers in both the state of Malacca and the federal territory of Kuala Lumpur. This is only one indicator. The relevance of this to politicians is the necessity of keeping public support, which has been successful by keeping the Islamic outlook of Malaysia and satisfying the countries Majority. This is a simple picture. However, there is much more complication that will be further elaborated later.

²³ Umran, Musim, interview by Abdalrahman Migdad. 2017. *PICOM CEO* (5 7).

There are several Islamic groups in Malaysia demanding a more significant role for Islam besides the Islamic Party of Malaysia (PAS), which is led by Mahathir Mohammed. Other Islamic groups were formed in the late sixties and early seventies such as: The Persatuan Kebangsaan Pelajar-Pelajar Islam Malaysia, PKPIM (Malaysian National Association of Muslim Students), established in 1961, Angkatan Belia Islam Malaysia, established in 1971, ABIM (Muslim Youth Movement of Malaysia) and Darul Arqam though their activities are banned now.

In Malaysia, while development was primarily and still is the result of manufacturing, trade, and science, religion and faith were also used in a progressive way for attitude transformation and human capital development, especially among the Malay Muslim Majority. "Religion is another established force with the Malays. No change, no plan, and no ideology which runs counter to the religion of the Malays can succeed. Islam must be upheld and even further propagated if success is to be assured."²⁴

Discussion

Introduction of Islam to Government

Mahathir's Administration was able to introduce Islam positively to the nation by introducing Islamic government bodies and values. PM Ahmad Badawi's Vision - Islam Hadari in 2004 also stressed the central role of Islam in the country's development. Additionally, PM Najeeb who was in office until early 2018 also followed the path of keeping Islam at the forefront of politics. Each administration surely has different approaches and focuses on different parts of Islam, but Islam in speech and ceremonies is actively present. This is an intrinsic part of the social contract between the Malaysian majority and the government. For example, while Mahathir put much emphasis on Islamic values and building the individual's Islamic identity through enacting policy and establishing Islamic bodies, PM Najeeb administration is keeping Islam at the forefront by enlarging the Islamic finance and banking industry to represent 40% of the banking sector in the nation by 2019. Additionally, most government scholarships are given in the field of Islamic economics.²⁵

Policy Implementation Tools

Two primary tools were developed as government initiatives to implement national policies. The first was for the banking sector; the government established Bank Islam Malaysia Berhad in 1983. On the first of October 1999, Bank Muamalat Malaysia Berhad was established to be the second full-fledged bank after Bank Islam in Malaysia. Both banks were government tools to play a role in the economy and to be instrumental in achieving some of the economic policies. The second tool was academic. First, the International Islamic University of Malaysia (IIUM) was established in 1983 to produce human capital capable of undertaking positions in government and all-important sectors to make the government policies of development come to life. A second academic institution was the International Center for Education in Islamic Finance (INCEIF). It was established in 2005 by the country's Central Bank (Bank Negara Malaysia) to

²⁴ Muhamad, Mahater. 1970. P104. *The Malay Dilemma*.

²⁵ Buhrawa, Saied, interview by Abdallahman Migdad. 2017. *Head of research Unit at ISRA* (5 15).

develop human capital in Islamic finance to lead Malaysia to the top. Both educational institutions have been useful. Furthermore, many smaller private-training-centers also offer services in Islamic finance education and certification.

The government also developed and established what some would call complementary institutions to support Islamic economic development in the country. First, the government further developed Lembaga Urusan dan Tabung Haji (LUTH), or the Pilgrims Fund, which was first established in 1963. Other important department, bodies, and centers were first the Department of Awqaf, Zakat, & Haj (JAWAHAR) which is part of the Prime Minister's office in the government, second, the Malaysian Islamic Economic Development Foundation (Yayasan Pembangunan Ekonomi Islam Malaysia) (YPEIM), third, the establishment of the International Sharia Research Academy for Islamic Finance (ISRA) which is created and funded by Malaysia's Central Bank. While those could be called complementary they are essential and have played essential roles in contributing to the country's development.

It is no secret that the Malaysian government is widely intervening in the economy, and directing its economic growth, it is directing development at all levels. Reflecting on government policies, the idea of a government-led economy becomes clear, and for the record, this Asian way of development, despite different from the western 'free' market economy, has also proven to be successful. The Malaysian government has led economic development on the one hand through policy, government agencies, and education and research institutions. On the other hand, through actual engagement in business and investment. The government owns the Armed Forces Fund, BIMB Holdings, IHH Healthcare, Malaysian Airlines, Khazanah Nasional, Petronas, Tabung Haji, Affin Holdings, Agrobank, AmBank, Maybank, CIMB, PROTON Holdings a car manufacturer, and the list continues to airports, Medea, education, and others.

Malaysian Islamic Economic Sectors Contribution to Economic Security

According to the literature review and the fieldwork investigation, a complete Islamic economic system in Malaysia or other countries does not exist. What exists is the practice of some Islamic trade transactions in some Islamic financial institutions that execute those transactions under the umbrella of the central bank that usually runs a capitalist economy. What limits the Islamic economy is the absence of independence from capitalist financial regulations, as well as the smaller size of Islamic economic institutions in any economy,²⁶ which is the case in the Malaysian economy. The Malaysian federal government is seeking to increase the assets of Islamic banks to 40% of total banking assets in the nation by 2019.²⁷ But once again, the fact that an Islamic economy does not exist should not stop Islamic economic institutions from growing and competing in the financial market.

²⁶ Dawaba, Ashraf, and Abdalrahman Migdad. 2022. "Islamic Banks between the Jurisprudence of Leading Theorists and Application." *Islamic Economics Journal* 8 (1): 34-56.

²⁷ Buhrawa, Saied, interview by Abdalrahman Migdad. 2017. *Head of research Unit at ISRA* (5 15).

Islamic economics can be put into two main groups; the Islamic Finance and Banking Sector (IFBS) and the Islamic Voluntary Economic Sector (IVES). Both sectors are important in and for any Islamic economy. Table 4 shows the main difference between the sectors and 5 compares the size difference between Islamic banks and conventional banks. All this helps in understanding the size and the effect of economic policy. Similar to any bank, being part of the IFBS, Islamic banks are profit-driven, which makes their participation in traditional CSR below expectations. The IVES completes the shortcomings of the IFBS to achieve the goal both should have; which is human wellbeing. The more significant advantage of this sector is that it operates entirely for social purposes. But the main disadvantage is its small size compared to the IFBS.

Table 4: Comparison between the IFBS V. IVES on an international level

Comparison	IFBS	IVES
Includes?	Banks, insurances,	Zakat, Waqf, Charity, Qard-Hassan
Objective	Profit	Non-profit
Social	Marginal social participation	Mostly social development drive,
Role in poverty	Minimum	Large role
Role in Employment	Large	Small
Origin	Non-Islamic	Islamic

Source: Authors' illustration

The Islamic Finance and Banking Sector in Malaysia

The IFBS in Malaysia started developing at the early stages. The 1969 LUTH or *Pilgrim's Fund* was the first Islamic institution in Malaysia that started with the goal of helping the Malay Muslims to save for their pilgrimage trip to Mecca. This fund now represents one of the largest Islamic financial institutions in Malaysia especially when the government invested more in it. With the AIV policy, the government established Islamic institutions pioneered by *Bank Islam Malaysia Berhad* (BIMB) that was established in 1983. Another part of the IFBS was *Takaful* or Islamic insurance. A number of those *Takafuls* are Takaful operators (*Syarikat Takaful Malaysia Berhad*), Takaful National, Maybank Takaful, and Takaful Ikhlas which all developed by 1983.²⁸ From the 1990s onward, the Islamic finance industry in Malaysia grew up and became competent with economic growth in Malaysia. For example, *Bank Muamalat Malaysia* (BMM), introduced Islamic windows, now the majority of banks have Islamic windows if they were not full-fledged Islamic banks.

By the year 2017 Malaysia has 55 licensed financial institutions, 28 commercial banks, 16 Islamic banks, 2 international Islamic banks, 11 investment banks, and 2 other financial institutions. Furthermore, there are 56 licensed insurance companies and Takaful operators.²⁹

²⁸ Alfattani, Wan Sulaiman Bin Wan Yusoff. NA. "Malaysian Experience on the Development of Islamic Economics, Banking and Finance." Accessed 8 3, 2017. <http://www.kantakji.com/media/6282/op61.pdf>.

²⁹ Bank Negara Malaysia . 2011. *Financial Sector Blueprint 2011–2020*. Government , Bank Negara Malaysia. Retrieved 8 4, 2017, from <http://www.bnm.gov.my>

Table Error! No text of specified style in document.5: Bank assets in Malaysia (Million RM)

Year	Islamic Banks	Conventional Banks **	Total
2007	92,337.8	1,094,371.0	1,186,708.8
2008	181,359.6	1,120,753.7	1,302,113.2
2009	219,848.4	1,171,661.5	1,391,509.9
2010	253,516.0	1,260,007.8	1,513,523.7
2011	320,518.5	1,423,879.3	1,744,397.8
2012	367,685.9	1,514,646.4	1,882,332.3
2013	419,548.7	1,616,783.7	2,036,332.4
2014	469,024.1	1,750,347.3	2,219,371.3
2015	526,328.8	1,827,955.3	2,354,284.0
2016	572,865.1	1,870,711.5	2,443,576.6
2017*	600,414.2	1,911,232.0	2,511,646.2

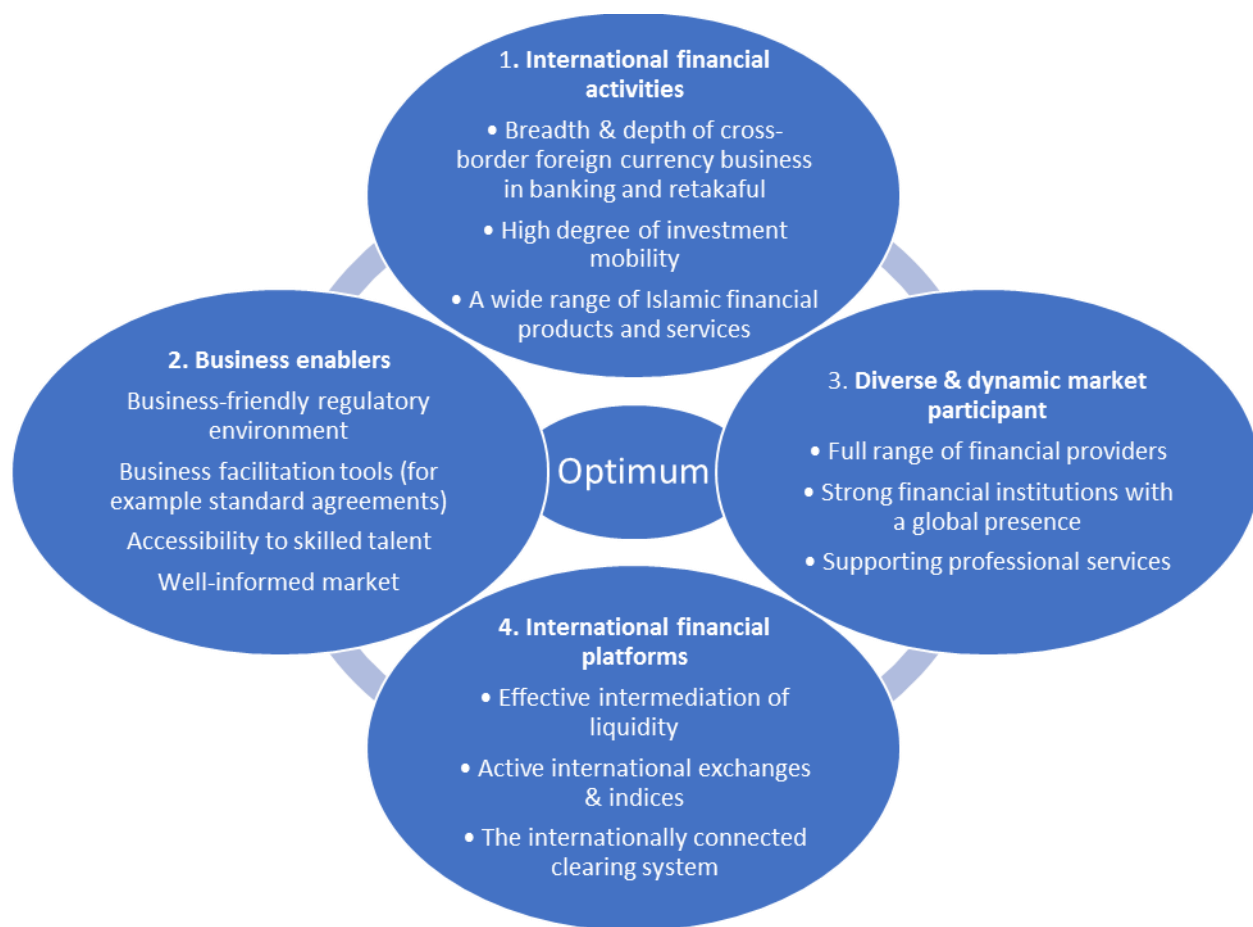
Data source: Central Bank of Malaysia (BNM, 2017, p. 1.7)

* This data is for June, the data from 2007 to 2016 is for December.

** Conventional banks include both investment banks and commercial banks

Government economic policies are driven towards maximizing profit through the expansion and development of the IFBS. Figure 7 explains the government's plan to become more international, have higher foreign currency reserves, and expand banking and re-takaful by expanding the Islamic finance products and services. Additionally, a broader financial market and stronger international presence in financial markets is another government plan for expansion. The government also seeks to introduce business enables into the Malaysian market that includes business-friendly regulations, business facilitation tools, accessibility to skilled talents, and a well-informed market. Furthermore, there is a plan to establish international financial platforms for the intermediation of liquidity and active international exchange.

Figure 7: Key spectrums of an effective international Islamic financial center



Source: Financial Sector Blueprint 2011-2020 (Bank Negara Malaysia, 2011, p. 115)

The Islamic Voluntary Economic Sector in Malaysia

From literature³⁰ fieldwork, it becomes clear that plans for the development of the IVES are not a high government priority as the focus is more on industries and financial institutions that have a role in economic development. This, in addition to the fact the IVES is managed by states. There is, however, an increasing interest in maximizing returns on zakat and waqf assets by introducing more investment alternatives to the institution of waqf and zakat in the country. However, it is crucial to address the importance of this sector as it focuses on the development of the grassroots in the community, this is where demand and purchasing power comes from. As such, both sectors are a part of one system that complements each other.

Waqf in Malaysia

The act of waqf donation was introduced to Malaysia around the fifteenth century.³¹ However, according to Othman (1986), it was believed that the

³⁰ Migdad, Abdallahman. 2018. "Human Security: An Islamic Worldview." *Journal of Human Security Studies* 7 (1): p. 18-36.

³¹ Mahamood, Siti Mashitoh. 2014. "Awqaf Properties in Malaysia." *Islamic Finance review*, p. 11.

institution of waqf was founded eight hundred years ago, as found in.³² There are a few century differences between both beliefs. However, the institution of waqf likely came to the Malay lands when the Arab Muslim traders introduced Islam around the tenth century.³³ Ever since waqf increasingly grew as a strong Malaysian culture of giving. The Malaysian law, section 25 of the Civil Law Act 1956 stated that the administration of Muslim property should work following Islamic law. There are 14 State Islamic-Religious-Councils, one for each of the 13 states and one for the Federal Territory.³⁴

Of the main reasons waqf was depreciated, suppressed, and many of its property lost and misused was the colonial era of the Europeans. "The British in Malaya had the benefit of their experience in India in suppressing the waqf of Malaysia".³⁵ However, Malaysia, similar to other countries started to care more for waqf properties. Before the development of new waqf mechanisms, waqf existed in the traditional form; public, private, or joint, and it was physical assets. However, the contemporary waqf institution in Malaysia includes new mechanisms to manage, use, and accept awqaf, such as cash waqf and the use of Sukuk (Islamic bonds) in the management of the waqf property. Additionally, Sukuk is accepted as waqf donations.

While the British Occupation had negatively affected the property of waqf, the current waqf property also faces many problems, mostly in the form of management and sound investment decision. The structure which allows each state to act independently as the sole trustee of any waqf in the state also presents particular problems for waqf management. Several common problems in waqf management have been identified.³⁶

- a. Persons in charge of waqf management are not qualified and have a shortage of personnel to manage waqf property
- b. Donated waqf land is on many occasions isolated and valueless
- c. Shortage of liquidity and inability to invest in the existing properties.
- d. Different state laws regarding waqf contribute to slow progress in reviving waqf through proper investment in the available property
- e. The objectives and the functions of the administrators are not clear
- f. Lack of concrete plans and actions to develop waqf properties

³² Yaacob, Hisham. 2013. "Waqf History and Legislation in Malaysia: a contemporary prospective." *Journal of Islamic and Human Advanced Research*, 3 ed.

³³ Yaacob, Hisham. 2013. "Waqf History and Legislation..."

³⁴ Hasan, Zulkifli. 2008. "Islamic Law of Property." <https://zulkiflihasan.files.wordpress.com/2008/06/administration-of-waqf-in-malaysia.pdf>

³⁵ Stibbard, Paul, David Russell, and Blake Bromley. 2012. "Understanding the Waqf in the World of the Trust." *Trusts & Trustees*, 9, 18, p. 785-810.

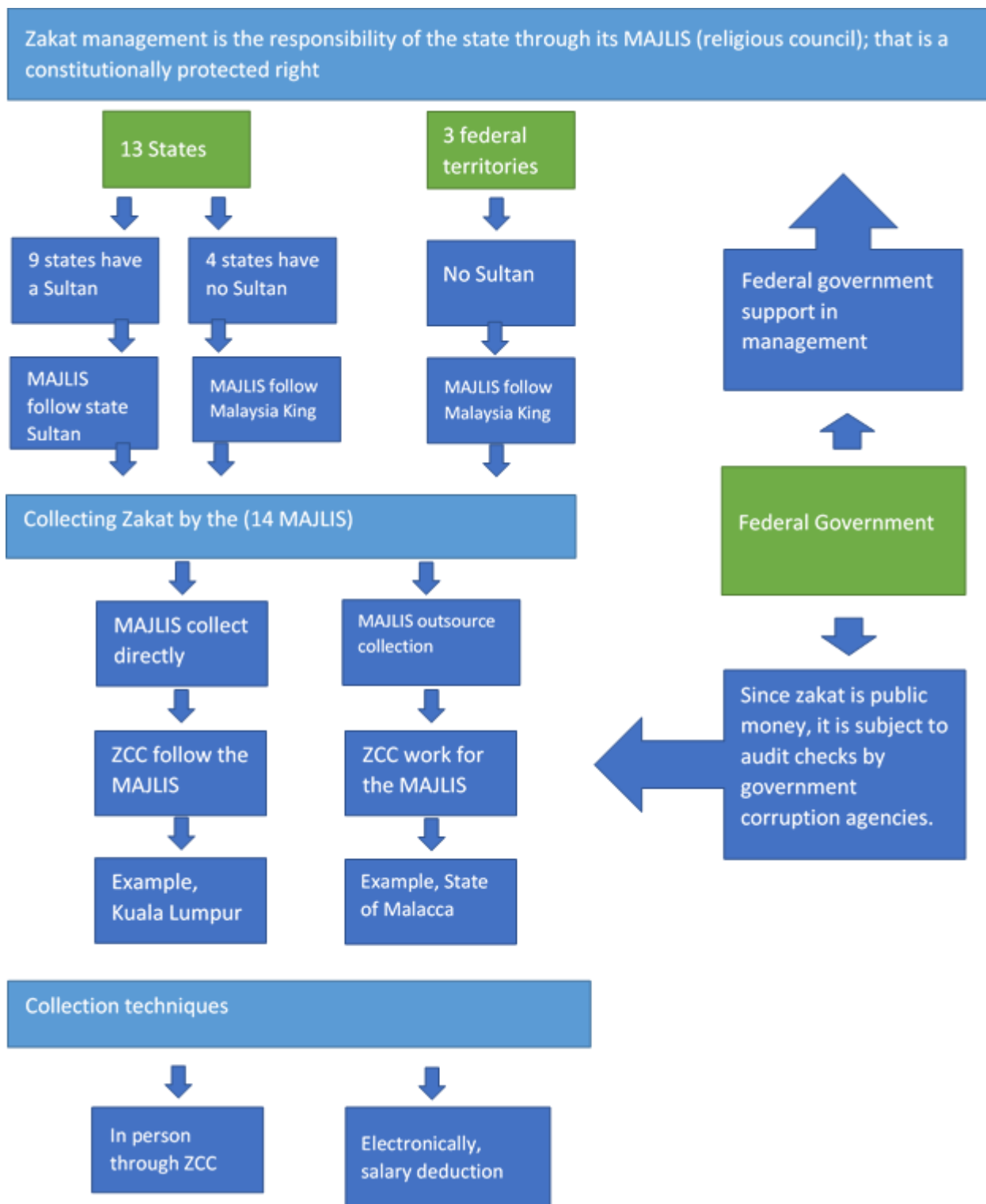
³⁶ Ibrahim, Dahlia, and Haslindar Ibrahim. 2013. "Revival of Waqf properties in Malaysia." p.17-18. Ismail, Che Zuina, Nor Jana Salim, and Nor Jawanees Ahmad Hanafiah. 2015. "Administration and Management of Waqf Land in Malaysia: Issues and Solutions." *Mediterranean Journal of Social Sciences* 6 (4). <http://www.mcser.org/journal/index.php/mjss/article/view/7122> .

Zakat in Malaysia

The Malaysian institution of zakat is characterized by some distinctive features such as being entirely social, independent, and not centralized in the hands of the federal government. Similar to waqf, zakat is run by each state's religious council which acts as the responsible body for collecting and disbursing zakat.

Figure Error! *No text of specified style in document.* illustrates how the zakat is managed and the functions of the state's religious council. This illustration also shows the relationship between the federal government, the state Sultans, and the state religious councils. One may assume that the federal government may be on top of the hierarchy, but that is not the case. The federal government can audit and make financial revisions with no prior appointment. In other words, since zakat is public money, the national government's corruption agencies have the responsibility to review the records and financial statements of any religious council at any time. As for management, the federal government could cooperate, but the state Sultan is the highest authority when it comes to the management of the religious council that oversees the operations of waqf and zakat.

Figure Error! *No text of specified style in document.*8: Zakat management and collection



Source: Author's Illustration. Also published at: Migdad, Abdalrahman M. 2019. "Managing Zakat Through Institutions: Case of Malaysia." *International Journal of Islamic Economics and Finance Studies* 28-44.

Conclusion

The development of policies in Malaysia is planned for and managed with precision and implemented with care. The implementation of the Malaysian enacted policies is somewhat tricky because of the ethnically diverse nature of the Malaysian community. Furthermore, the political party's division along ethnic lines strengthens that argument. The historical overview elaborates on the complications caused by ethnic diversity in political and social matters. Furthermore, political rivalries within the same ethnicity were also present. The Malaysian government was led by Malay political parties from independence up to this date. However, the year 1969 that witnesses the famous ethnic clashes caused by economic injustice is considered a landmark in Malaysian socio-politico-economic history. After that year, the government made foundational changes in its economic policies to achieve economic justice. The goal according to the government was economic equity. The NEP was first introduced, followed by five-year strategic plans that end in 2020. The idea of "Islam Hadari" was not new, but the term gained momentum because it explains the nation's openness approach at the same time gives considerable attention to different religious, cultural, and ethnic ambitions.

Dr. Mahathir's time in office marked the most successful period of economic development and national stability. His Islamic thoughts remain present, more in Islamic economic development, but less in political and human development at large. The constituent Malaysian governments have kept a middle ground and it was also intentional to present Malaysia in a secular outfit, which is the notion of "Islam Hadari." Overall, in Malaysia, the recognition of Islamic makes the Muslim conservatives proud, and the modern globally welcoming outlook makes the others satisfied.

Over the past few decades, development goals in Malaysia were widely achieved. Part of that was to develop Islamic economics and be a global hub; that was also widely successful. The development of economics is something no one opposes, even if it is glowingly Islamic. This is why different governments kept the development of Islamic economics while changing approaches in socio-politics. However, for Islamic economics to continue developing at decent rates in Malaysia, the industry needs to be more careful concerning sharia compliance that either attracts or alienates potential or existing customers, depositors, or investors.

In conclusion, economic equity and national unity are national goals. It could be argued that while economic equity was quite successful especially with the development of Islamic economics and the financial inclusion of the nation's majority, the ethnic identity still comes before the national identity. It could also be argued that through some amendment to the nation's economic policy, today's generation may succeed in putting the nation before all.

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