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The Economic Crisis, Capitalism and Islam: The Making of a New Economic Order?

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ABSTRACT *Although Islamic economics is compatible with modern capitalism, in its support of free markets, economic globalisation and profit, it has clear fundamental rules on the ethics and morality of economic transactions—it denies interest or* riba*, the principle of 'making money from money' and forbids the transference of risk from the financier to entrepreneur. There must be shared appreciation over real assets by means of its sales or lease (*murabaha, ijara, salam, istisna *and* sukuk*) while credit default swaps are disallowed. There are also other systems of checks and balances which prevent an economic crisis of pandemic proportions to arise; contractual relationships in business, finance or trade must be based on trust and familiarity of networks of common experiences (*takaful*) which implies that debts cannot be repackaged and resold as assets globally to faceless investors while profit must be redistributed directly to the poor (*zakat*) in the Holy month of Ramadhan to build and strengthen social safety nets through institutions of charity welfare and education. Western economists generally argue that state directed financial regulation of banking and insurance backed by good corporate governance and responsibility with a progressive taxation system can prevent future economic catastrophes without looking at alternative systems of capitalism. However, systemic in the rules of libertarian economics is freedom from rules—that rules of ethics or morality are an unnecessary thing. In contrast, Islamic economics builds in moral regulation, state and person—directed as a condition of the capitalist enterprise. This paper focuses on the significant growth of Syariah-compliant finance in Malaysia, Brunei and the MENA region and suggests that moral regulation in Islamic finance lacks the connectivity with earlier systems of welfare capitalism already in place in these regions at the end of colonial rule. Syariah compliant finance could complement post-colonial forms of welfare capitalism if state regulation of assets, national, corporate, and personal in the Islamic world is instituted more widely and with greater transparency. However, oil rich Muslim nations have a growing economic divide and with an increasing*

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population of educated and unemployed youth, the mechanisms of redistribution by Islamic principles must transcend political tribalism, elitism, and libertarian economics. Hence the transformative process to a new economic order remains a challenge to those who believe in the moral rebirth of capitalism through any means.

A pesar de que la economía islámica es compatible con el capitalismo moderno en el apoyo de mercados libres, globalización económica y utilidad, tiene reglas fundamentales en la ética y moral de las transacciones económicas—niega el interés o riba, el principio de 'hacer dinero del dinero' y prohíbe las transferencias de riesgo del financista al empresario. Debe de haber una apreciación compartida sobre los activos reales mediante sus ventas o alquiler (murabaha, ijara, salam, istisna y sukuk), mientras que el derivado de crédito credit default swaps *está prohibido. También hay otros sistemas de comprobación y saldos que previenen que surja una crisis económica de proporciones pandémicas; las relaciones contractuales en negocios, finanzas o comercio deben basarse en la confianza y familiaridad de las redes de experiencias comunes (takaful) que implica que las deudas no se pueden reorganizar y revender como activos globalmente a inversionistas anónimos, mientras que la ganancia debe ser redistribuida directamente a los pobres (zakat) en el mes santo del Ramadhan, para crear y fortalecer las redes de seguridad social a través de instituciones de caridad, asistencia pública y educación. Los economistas occidentales generalmente sostienen, que la regulación financiera de la banca y los seguros dirigida por el estado, respaldado por una buena autoridad y responsabilidad corporativa con un sistema de tributación progresiva, puede prever catástrofes económicas en el futuro, sin buscar los sistemas alternos del capitalismo. Sin embargo, sistémico en las reglas de la economía libertaria, es la libertad de reglas—esas reglas de ética o moral son algo innecesario. En contraste, la economía islámica cree en la regulación moral, estado y persona—dirigida como una condición de la empresa capitalista. Este documento se enfoca en el crecimiento significativo del acatador de las finanzas Siria en Malasia, Brunei y la región de MENA y sugiere que la regulación moral en el sistema financiero del islam, carece de la conectividad con otros sistemas previos de asistencia pública ya en su sitio en esas regiones al fin del mando colonial. El financiamiento bajo las normas Syariah podría complementar formas de asistencia pública del capitalismo en la época post-colonial, si la regulación del estado sobre el patrimonio, nacional, corporativo y personal en el mundo islámico, fuese instituido más ampliamente y con mayor transparencia. Sin embargo, las naciones musulmanas ricas en petróleo tienen un crecimiento económico dividido y con una población creciente de juventud educada y desempleada, los mecanismos de la redistribución bajo los principios islámicos deben trascender el tribalismo político, el elitismo y la economía libertaria. Por lo tanto, el proceso transformativo a una nueva orden económica, sigue siendo un reto para aquellos que creen en el renacimiento moral del capitalismo a través de cualquier medio.*

尽管伊斯兰经济与现代资本主义若合符节， 这体现在它支持自由市场、 经济全球化和利润；但在经济交易方面， 伊斯兰经济有着根本性的伦理和道德规则， 它否定利息 （或 riba）、“钱生钱” 的原则，并禁止金融家向企业家转移风险。必须通过销售和出租对实际资产形成共识，存在信誉问题的交易是不允许的。同时，还存在其他制衡系统以防止出现传染性的经济危机。在商业、金融或贸易中存在的合同关系必须以信任和具有共同经历的网络熟知性为基础，这意味着债务不能重新包装成全球性资产再次出售给不要脸的投资者，而在斋月这一圣月，利润必须直接重新分配给穷人，以建立和加强通过社会福利和教育机构组成的社会安

全网络。西方经济学家通常认为，在良好的公司治理和责任以及累进税制支持之下，国家指导的对银行业和保险业的金融监管，可以防止未来的金融灾难，而无须寻找其他可供替代的资本主义体系。在自由至上主义经济学中具有系统性的是不受规则约束——即伦理或道德规则是不必要的。相比之下，伊斯兰经济学是建立在道德规制、国家和个人之上的——这是资本主义进取心的一个条件。本文关注发生在马来西亚、文莱和 MENA 地区服从 Syariah 式金融的重要发展，表明伊斯兰金融中的道德规制，与殖民统治结束时在这些地区已经存在的早期福利资本主义的体系没有联系。当在伊斯兰世界对国家、公司、个人资产的国家规制被广泛制度化和具有更大的透明性时，服从 Syariah 式金融可以补充后殖民形式的福利资本主义。然而，富含石油的穆斯林国家间存在着日益扩大的经济鸿沟，出现了日益增多的受过教育的失业年轻人口，根据伊斯兰原则进行再分配的机制，必须超越政治部落主义、精英主义和自由至上主义经济学。因此，走向新经济秩序的转变过程对那些信奉可以通过无论何种方式实现资本主义道德重生的人而言依旧是一种挑战。

Keywords: alternative economics, welfare, trust

Global Events Leading to the Rise of Shari'ah-compliant Finance[1]

Since 2000–2001, Shari'ah-compliant finance has caught the attention of European and American financial institutions as rising petrodollars shifted potential sources of finance capital to the Middle East. Oil producing countries, trading in the US currency had billions of surplus to invest in the United States and within the Middle Eastern region. Against this backdrop of monetary monopoly, Iraq became a victim of a 'unilaterist United States, employing militant imperialism that seeks to gain control over the world's energy supply and denies the self-determination of sovereign nations regarding their chosen oil-export currency' (Clark, 2005, p. 2). With the invasion of Iraq in March 2003, the United States had virtually total control over the circulation (many call it recycling) of petrodollars and Iran, embargoed and isolated, was the only oil-producing country with some autonomy from American global monetary policy in relation to its global investments of petrodollars. Clark (2005, p. 1) further argues that the 'current geopolitical tensions between the United States and Iran extend beyond the publicly stated concerns regarding Iran's nuclear intentions, and likely include a proposed Iranian "petroeuro" system for oil trade'.

11 September 2001 and fears that Arab money overseas was used to fund terrorism further led to a freeze on Arab bank accounts, personal and corporate, eventually leading to a massive withdrawal of investments in the United States (Baker, 2008, p. 12; Warde, 2007). During this period, oil prices rose to US$67 a barrel, raising oil revenues in the six Gulf Cooperation Council countries (Bahrain, United Arab Emirates, Kuwait, Oman, Qatar, and Saudi Arabia) to US$300 billion compared to $61 billion in 1998 (Warde, 2007). From 2001, Arab investors decreased investments in the United States by US$25 billion a year (up until 2005) when investments in the United States returned back to normal about a year after the occupation of Iraq in 2003 (Warde, 2007).

The global economic crises of 2008–2009 were the result of an overheated global economy riding on the confidence at Wall Street of an American global monopoly over petrodollars. American financial products and services were deemed to be sound investments globally and thousands of agents of American investment agencies were deployed around the world to sell American stocks and derivatives. Without monetary regulation local and global, political optimism and libertarian economics promoted a loosening on credit and sub-prime loans, eventually leading to defaults on housing loans from those who lost their jobs in the manufacturing and service industries which suffered from high productions costs due to the rise in oil prices. Despite the negative impact of the economic crises on the economic growth of the majority of developing countries, the chase on petrodollars is still on. For example, Merrill Lynch, which keeled under the credit crunch of 2007–2008 (now absorbed under the Bank of America Corporation), provided and continues to run a Global Wealth Management (GWM) investment service with 700 offices globally and 15,000 financial advisors with approximately US$1.2 trillion in client assets as of 17 July 2009.[2]

The introduction of Shari'ah-compliant finance over the last decade, as an alternative to regular capitalistic ventures, did not initially gain the attention of the regular global banking and insurance sector. Shari'ah-compliant finance was asset-backed and low risk—hence restrictive and conservative. Regular and unregulated monetary transactions promotes profit from money trading, interest in financing and refinancing, such as the repacking of loans into sub-prime loans, financial speculation on derivatives and futures and so on, all of which are not allowed in Shari'ah-compliant transactions (Choudhury, 2004). Shari'ah-compliant financial services remained relatively stable during the period of economic crisis in 2008–2009, mostly on account of the rise in petroleum prices and increasing interest to invest within the Asian region. In May 2008, oil prices peaked at a record US$135/barrel (from US$65 the previous year), during a period in which oil prices raised liquidity in the Middle East (Lachman, 2008) and released significant amounts of money for Shari'ah compliant products and services. Indeed petrodollars has fuelled the growth of Islamic economics not only in the Middle East but globally. The stability of the Islamic financial industry will face its greatest test if oil prices drop significantly over the next few years, a situation which appears unlikely, given the strong demand from China and revival of the global economy and financial markets, energy futures in year end 2009.[3]

Specialists in Islamic finance represented by Governors of central banks, CEOs of Islamic banks, and scholars, had as early as 2005 argued for greater regulation of financial markets but by using Islamic principles of investment. Today they similarly argue that regulation is necessary, by any means, through regular state-directed systems of control on built in mechanisms of low risk, interest free, face to face transactions based in trust as instituted in Islamic finance (Mohamad Toufic Kanafani, 2005; Zeti Akhtar Aziz, 2009). The majority believe that the global economic crises which was sparked off by the repackaging of sub-prime loans in Wall Street, leading to a global escalation of money trading through banking and other investment institutions, would have been halted if proper regulatory mechanisms equivalent to Islamic finance had been in place in the United States. Toxic assets and derivatives have seen losses mount above US$650bn (£415bn) among the conventional banks in 2008–2009. In December 2005 at the World Islamic Banking Conference in Bahrain, several Islamic scholars participated in an open forum entitled, 'The Shari'ah Open Forum: Unlocking Market Opportunities: Consolidation, Innovation and Growth'. The focus was on retail, corporate, and investment banking growth and it engaged eminent Shari'ah scholars such as Dr Mohamed Elgari, Shari'ah Advisor and Professor of Islamic Economics at King Abdulaziz University, Kingdom of Saudi Arabia; Dr Hussain Hamid Hassan, Chairman, The Fatwa and Shari'ah Supervision Board, Dubai Islamic Bank, UAE; and Shaikh Nizam Yaquby, Shari'ah Scholar, Kingdom of Bahrain, in a debate on compliance and innovation in Islamic finance. There was a general concern for regulatory changes (similar to the proposals of Barack Obama, in September 2009, exactly a year after a financial firestorm swept through Wall Street and the world, signalled by the demise of Lehman Brothers, one of the Wall Street giants)—yet these changes were proposed in December 2005. The Chief Executive Officer of the Noriba Bank, Mohamad Toufic Kanafani, speaking at the same World Islamic Banking Conference (WIBC) in December 2005, stated that from 2000 to 2004 the amount of investments in Islamic finance had increased by 35%, during this period, managed by 265 Islamic financial institutions and denotes US$400 billion in investments. This far exceeds the US$25 billion invested in the United States in regular non-Syariah compliant stocks and bonds.

On 23 February 2008, in the thick of the global economic crisis, the Nikkei Islamic Finance Symposium held at Tokyo, entitled, 'Islamic Finance: Constant Evolution and Emerging Opportunities' concluded that the Islamic financial industry remained stable despite the global credit crunch and more attention should be put on the Sharia'ah compliant *sukuk* bonds to ease the credit crunch. Toshihiko Fukui, Governor of the Bank of Japan noted at the Nikkei Islamic Finance Symposium in Tokyo that the industry has not faced the stresses of regular financial markets over the last year and in 2008. He stated:

> Islamic finance has developed phenomenally in recent years. There are no precise figures that show the market size of the Islamic finance industry but according to estimates by the IFSB and other Islamic institutes, at the end of 2005, more than 300 financial institutions in more than 65 jurisdictions manage financial assets in a Shari'ah compliant manner which total between USD 700 billion to 1 trillion. From this figure, Islamic finance represents a modest one per cent of global financial assets but its growth in recent years is notable impressive. (Toshihiko Fukui, 2008)

He added that it was targeted to grow at between 10% and 15%, although this growth estimate might be higher when it takes off in Europe.[4] In recent years, Shari'ah-compliant products have taken off in different directions, from 'Energy Bank' in Bahrain to the United Kingdom's government *sukuk* (bonds), the first Sovereign *sukuk* to come out of the G8 at the tail end of the credit crunch in September 2009. The first Islamic bank in Italy will take off in late 2009 and will be part of the London-based European Islamic Investment Bank (EIIB).[5]

Islamic finance, if properly managed, reduces the dependency on the financier in the long run and on the national level, reduces National Debt or financial dependency on profit-oriented banks and credit institutions. Asford and Shakespeare (1991) and Shakespeare and Callen (2002) argue that it discourages financial colonisation, encourages political freedom, and enables a nation to control its own destiny by encouraging wealth creation in a more egalitarian way. The extent to which it is able to increase the productive capacity of people, spread wealth more equally, and reduce dependency on external financial institutions which promote long term National Debt depends also on how nations in turn manage social transformation, linked to demographic changes, global competitiveness of industry and services and job creation. In other words, how much of this wealth generating efforts are converted to social and public capital? Does it lead to the enrichment of infrastructure and related social services which can generate efficient growth of tertiary education, technical proficiency and employment, and enable people to enjoy unprecedented increases in human development? These efforts reflect shifts in investment strategies in Europe—the pull of petrodollars rather than growing confidence in Islamic economics or interest in alternative perspectives of capitalism through the ideology of Islam. Conventional financial practices continue to dominate global transactions despite the possibility that interest free loans can release more money into the economy for public capital—in particular, infrastructural projects which can generate significant employment.

Basic Principles of Shari'ah-compliant Finance

Islamic financial transactions disallow *riba* or interest and only allow loans or bonds to be issued against real or productive assets such as land, houses, food stocks, and other material assets where appreciation is calculated at the point when the transaction is made—the entrepreneur and the financier share the appreciated value of the property or stock and the rate of repayment is based on this calculated rate of appreciation rather than on interest on the loan. In other words, Islamic finance does not allow money to be made from money but from the assets involved in the transaction. It focuses on productive capacity of labour and capital, particularly on human capacity to work hard and innovate to produce appreciated value from property or stocks. Without interest, Shari'ah-compliant financing promotes lease-to-own arrangements, layaway plans, joint purchase and sale agreements or partnerships. At the same time, Islamic banks and finance institutions cannot receive or provide funds for projects which are concerned with or involve alcohol, gambling, pornography, tobacco, weapons or pork.

In the raising of capital, Shari'ah-compliant bonds are interest free but provide a share in the assets which are being funded or produced. Hence *sukuk* is an asset-backed certificate which provides ownership or usufruct rights over the asset being financed. The institution issuing the *sukuk* provides certificates of ownership or usufruct rights such as rental incomes or the accumulation of returns from various *sukuk* (hybrid) based on *Mudaraba*, *Musharaka, Murabaha, Salam, Istisna, Ijara* or a hybrid of any one combination of these. The difference between conventional bonds (a contractual debt obligation with interest paid on specific dates of maturity) and the *sukuk* is that the latter offers a share of ownership of the assets being financed or revenues generated from the *sukuk* assets. Similarities are in their marketability, rateability, enhanceability (allowance for credit enhancements), legal and fiscal guarantees (contracts can be sealed by lawyers), and versatility (over 27 possibilities of *sukuk* structures). Banks and financial institutions work closely with Shari'ah legal counsels and advisors to fulfil the right terms and conditions of Shari'ah-compliant *sukuk* and other kinds of loans.[6]

Mudaraba loans are secured by one party or sole financier while *Musharaka* loans can be obtained from several financiers through securitised certificates of ownership of the assets. Maulana Taqi Usmani (2009, pp. 1–19) discusses differences between the Shafi'i and Hanafi School of thought with regard to liquid and non-liquid assets—whether these certificates can be traded. The Shafi'i school does not allow these certificates to be traded unless the non-liquid assets are separated while the Hanafi School allows the certificates to be traded—liquid assets can be sold at a price higher than the certificate was issued provided the surplus or profit is ploughed into the non-liquid assets. Islam does not allow loans on products or assets which have not yet been produced or manufactured but it makes an exception through *salam*, for cash sales in lieu of the production of manufactured goods or harvest of crops. The Prophet Muhammad had allowed *salam* to poor farmers who needed immediate cash before their crops had been harvested (Taqi Usmani, 2009). *Istisna* is a loan for the manufacturing of products or building where the manufacturer or builder is not necessarily the debtor and a certain amount of leeway is allowed for the debtor to gain a surplus from the transaction if he or she is able to lower the costs of manufacturing or building. The differences between *salam* and *istisna* are significant—a *salam* agreement is not based on the actual production of an asset but the delivery and handover of products. The time of delivery in *salam* is fixed but negotiable in the *istisna.* Furthermore, the price for *salam* is fixed at the time of the transaction and is usually lower than the actual value of the products when delivered but for the *istisna*, the price is fixed based on the expected returns of production which is usually higher than the current value of materials and labour before manufacturing and construction. *Istisna* loans can also be paid in instalments but *salam* loans must be paid in full. *Ijara* refers to the employment of humans for a specific purpose or objective or the leasing of assets which have utility value such as houses, equipment and machinery.[7] The latter is a secure way to obtain a loan without transferring rights of ownership.

Malaysian Competition for a Share of the Global Shari'ah Market

Malaysia, with a population of 25 million, where 51% (12.5 million) are Malay Muslims is one of the more aggressive players of Shari'ah-compliant finance.[8] Almost all major local and foreign banks have Shari'ah-compliant products and financial services and Muslims are given Shari'ah compliant savings and current accounts without asking.[9] Depositors of fixed deposit accounts are given the pre-calculated returns on their monetary savings the moment their accounts are accepted. All unit trust schemes of the biggest investment arm of the government, *Permodalan Nasional Berhad* (PNB) or 'National Investment Incorporated' are Shari'ah compliant and taxation according to Islamic principles of *zakat* are automatically deducted from dividends earned annually by shareholders.[10] Commercial banks also compete for a share of the Muslim market by issuing Shari'ah-compliant unit trusts at low risk. Muslims also pay income tax but can choose to attach their *zakat* receipts for deduction against income tax or pay double taxation if they believe the two systems are incompatible. There is also a massive campaign for Muslim citizens to pay *zakat* to the state and although this has not been enforced through Syariah law by the Islamic Religious Councils, seems to be successful, judging from the regular percentage increase in number of *zakat* payments and quantity collected every year in the month of *Ramadhan.* In Malaysia, *zakat* collection has increased seven-fold from RM61 million (US$17.9 million) in 1991 to RM473 million (US$139.1 million) in 2004.[11] The bulk of collection was made from the states of Selangor and the Federal Territory. The fixed rate of 2.5% on an individual's surplus for the payment of *zakat* only applies to cash, gold and silver, and commercial items. There are other rates for farm and mining produce, and animals.

The amount paid into *zakat*, based on consensual payment is, however, a small fraction of revenue from income tax which is non-consensual (Nor Aini Ali, 2006). There is, however, significant increase in the numbers of Muslims paying *zakat* directly to the poor, through institutional charities which are governed independently from the state or through networks of families which are linked through kinship and friendship. This has enriched social capital through Islamic based networks which can amount to thousands of dollars over just the month of *Ramadhan*. Over and above *zakat*, all Muslims pay tithe or *fitrah* to the poor,[12] during the month of *Ramadhan*, either through state collection centres or direct contributions to the poor. There is a trend within rural areas to identify destitute families and the disabled within the underserved rural areas of the State where they reside.[13]

Malaysia's strategy to reduce income disparities was based in the New Economic Policy (NEP) which targeted rural poverty from 1970 to 1990. Due to stable economic growth and the government's poverty reduction policies, per capita gross domestic product (GDP) more than doubled from US$1,750 in 1975 to about US$4,300 in 2003. The incidence of poverty has declined steadily over the years, plunging from 49.3% in 1970 to about 5% today (*Ninth Malaysia Plan*, 2006). However, an Asian Development Bank Report (2007) noted that income disparities began to widen again in the 1990s in spite of its very substantial improvement in the incidence of rural poverty. Income inequality as measured by the Gini coefficient seems to have worsened among Muslim Malays, the indigenous population which comprises 51% of the total population. Malaysia's Gini coefficient—a measurement of income inequality where 0 (zero) indicates perfect equality and 1.0 represents perfect inequality remains among the most unequal countries in East Asia with the sixth highest income disparity in the Asia-Pacific region (see Table 1). This serious inequality is attributed to the rural–urban divide, as well as regional and ethnic disparities. Poverty rates vary between different ethnic groups, and although there is evidence that these differences have narrowed over time, the majority of the poor are still

Table 1. Gini coefficients of ADB developing member countries (exp. and income dist. 2007): seven most unequal in the region

Country	GC
Nepal	4.7
China	4.7
Philippines	4.4
Turmenistan	4.3
Thailand	4.3
Malaysia	4.0
Sri Lanka	4.0

Source: Asian Development Bank (2007). Modified version of Figure 21, p. 4.

Muslim Malays who also comprise the largest of the nation's three major ethnic groups. Table 2 shows the changes in the per capita expenditure between the 1990s and 2000s for the bottom and top 20% based on purchasing power parity and it illustrates Malaysia's performance as insignificant; the top 20% gained slightly less (2.23) than the bottom 20% (2.26). Hence there was no narrowing of disparity. Viet Nam and China did comparatively better and except in the case of China, the disparities widened with significant gains in the top 20% (7.1) and much lower gains (3.4) in the bottom 20%. Malaysia's performance may be said to be better than Pakistan, Bangladesh, India, Philippines, Cambodia, Sri Lanka, and Nepal. Indonesia, another predominantly Muslim country in Asia saw almost similar gains in the bottom 20% as Malaysia, despite (or maybe because of) being a labour exporting country to Malaysia. Obviously cheap labour from Indonesia benefited the heavy service industries and the plantation sector in Malaysia while keeping wages of Malaysian workers competitively low. Local Malaysian farmers and farmers

Table 2. Changes in per capita expenditure 1990s–2000s: bottom and top 20% (1993 PPP $)

Country	Bottom 20%	Top 20%
Pakistan	−0.07	0.39
Thailand	2.35	0.38
Bangladesh	0.07	1.60
India	0.85	2.03
Indonesia	2.09	1.93
Lao PDR	1.47	3.82
Philippines	1.28	2.27
Cambodia	0.69	3.38
Sri Lanka	0.64	4.14
Viet Nam	3.37	4.59
Nepal	1.92	7.23
Malaysia	2.26	2.23
PRC	3.40	7.10

Source: Asian Development Bank (2007). Modified version of Figure 2.7, p. 9. Malaysian figures are from 1993–2004.

who migrated to urban areas in search of new employment, again mostly Malay Muslims did not gain from policies of privatisation or globalisation—the so called trickle down effects of globalisation may not have worked in foreign labour dependent countries like Malaysia (Stiglitz, 2002). It may however have benefited the lower and middle middle-income earners, graduates originating from rural areas who are now working in service, administrative, technical and professional fields in Malaysian cities (see Rugayah Hj. Mat Zin, 2006).

Malay Muslim Middle Classes in Malaysia and Shari'ah Compliant Products and Services

The thrust towards Shari'ah-compliant products and services, including taxation (*zakat*), is consistently directed towards Malaysia's growing Malay Muslim middle classes— professionals, administrators, entrepreneurs, and the business community. Middle-income Muslims differ from the high-earning 20% Muslim and non-Muslim population in that the latter (20% high earners) have business partnerships with non Malaysians or high-income earners which are solely driven by profit. In real income, wealth differentials are wide in Malaysia—while the average professional may earn pre-tax salaries of between US$25,000 and US$50,000 annually, high-income earners may earn pre-tax salaries of between US$50,000 and US$75,000, depending on their level of proficiency, experience, and stakes in companies which they serve or own. The lowest-income earners comprising the working classes earn between US$1,000 to US$25,000 annually (see Table 3; ASERA, 2009). About 10% of the population earn less than US$4,800 annually and these mostly comprise the aged in rural and urban areas, indigenous communities (the Orang Asli, Malay fishermen, single parent, single mothers and divorcees in rural areas) where more than 80% are Muslim.

Malaysia's Muslim middle classes are systematically channelled through religious institutions, theological media, and Islamic social education to do 'the right thing' in the context of a growing consciousness of welfare towards the poor and disabled, not necessarily targeted

Table 3. Estimates of annual income disparities based on income classes, Malaysia 2008–2009

Category of income classes	Income levels $	Sector concentration
Working classes	1,000 and <5,000	Rural farming, small-holdings, fishing and production workers
Working classes	5,000–<25,000	public sector admin., clerical, workers in SME's and SMI's, contract teachers
Middle classes	25,000–<50,000	Senior management SME's, SMI's professional private sector tertiary educ. specialists
Upper classes	50,000–<75,000	CEO's of GLC's, private corp. global, regional, specialists, private sector
Upper classes	75,000 and >75,000	Expatriate consultants CEO's of banking, finance, private equity

Source: Academy of Socio-Economic Research and Analysis (ASERA, 2009) based on 100 interviews of local and foreign graduates in public and private sector with 1–20 years working experience. Income of two categories of working classes based on primary research by Karim (2008) on 'Migrant Workers and Gender Empowerment'. Graduate employment study followed end of Toyota study in June 2008.

at only Muslim Malaysians but also at the poor in general. However, no one really knows where the profits of wealthier Muslims (or non-Muslims) are being channelled for profit-driven enterprises on a regional or global level are not welfare driven, in the same way as the incomes of the middle classes are. As for the working classes, the largest pool of workers in the low-income service and manufacturing sectors are Muslims and Tamils earning wages which fall on or below the poverty line of US$4,800. *Zakat* payments by the state or individuals are targeted at those Muslim heads of households earning US$1–2 per day or less than US$4,800 for the month of *Ramadhan*, non-Muslims are excluded from receiving or paying *zakat* but monetary handouts called *duit Raya* (money to commemorate the end of the fasting at *Ramadhan* and the celebration of *Eid*) are given to all children of all ethnic groups and those who are not working or unemployed.

The Muslim poor within the categories of income of US$4,800 and below obviously cannot depend on *zakat p*ayments which are only given out annually. *Zakat* payments are used up very quickly to cover outstanding loans or to buy food and other necessities to commemorate the end of *Ramadhan.* The Muslim working classes resort to other means to cover debts and an extremely popular though desperate measure is to give in to loan sharks, referred locally as 'Ah Long' (a common Chinese name, and generally used to refer to unlicensed loan sharks). Pawn-broking has mushroomed in poorer urban areas where the underemployed and unemployed reside. The economic recession has led to a proliferation of pawn-broking, especially among those who have lost their jobs or opportunities for overtime wages. Poorer Chinese and Tamil households also become victims of these loan sharks who charge interest rates as high as 5% per week or 20% monthly. Failure to keep up with payments lead to threats of bodily harm, and, in some extreme cases, attempted kidnappings or fatal attacks on family members. Licensed money-lenders, comprising mostly the Chinese, Sheikhs and Chettiars, also charge similar rates of interest and late or non-payments lead to loss of assets such as land, jewellery, motor-cycles, and bicycles, which are put up as collateral. Pawning at local Chinese pawn shops is also a common practice among the working classes. Items such as gold jewellery and watches are readily accepted by pawn shops throughout the country. The Muslim working classes use pawning as a means to obtain ready cash in times of emergency such as illness, injury or death, although the annual purchase of school uniforms, bags and shoes may necessitate pawning of valuables as well.

Over the last few years, increasing realisation of atopic poverty during an economic crisis (sudden unemployment due to layoffs or delayering) creating the new poor among the Muslim working classes and abnormally high repayment rates through unlicensed loan-sharks and licensed money-lenders have made national banking institutions which serve the poorer rural communities shift their services to the *Ar-Rahnu* market or Islamic pawn-broking market. Currently four Islamic financial institutions, *Bank Rakyat* (The People's Bank); the *Yayasan Pembangunan Ekonomi Islam Malaysia* (Islamic Foundation of Economic Development, Malaysia); *Permodalan Kelantan Bhd* (Kelantan Investment Co.); and the Agrobank offer such services to the rural and urban working classes. Of these Bank Rakyat controls 25% cent of the Muslim market and plans to control at least 50% of it, estimated at RM2 billion or US$0.6 billion (New Straits Times, 2009a). It has established an *Ar-Rahnu X'Change Franchise Network*, where it plans to provide an *Ar-Rahnu* franchise throughout the country, managed by reputable cooperatives of the working classes. Currently loan disbursements have amounted to RM1.2 billion annually (New Straits Times, 2009a). Given the acute dependency of the working classes on ready cash in times of emergency and the high rates of interest in regular pawn-broking market, there seems to be few alternatives except to expand the *Ar-Rahnu* market among Muslims and non-Muslims and charge the poor for 'safe-keeping' services, rather than interest. Despite the fact that loan disbursements of Bank Rakyat alone have amounted to RM1.2 billion (US$0.36 billion) annually and is among the services which have contributed to Bank Rakyat's amazing rise as a successful national cooperative bank, giving out higher than normal dividends to its share holders, loan sharks are virtually setting up desks outside flats and apartment buildings of the Muslim poor in towns and cities to offer cash and carry' facilities to the desperately poor. This lucrative market speaks volumes of the rise of atopic poverty among those on or below the poverty line, the inadequacy of *zakat* and disbursements of *zakat*, the high dependency on regular income earners among the middle classes for welfare driven services and products and opaque nature of the rising wealth of the Muslim and non-Muslim upper classes in Malaysia.

If welfarism through Islamic principles is a phenomenon of the educated middle classes, and not thoroughly instituted in the highest income-earners in the country, redistributive strategies of wealth and wealth sharing may not meet Islamic principles of social equality and economic justice. The Muslim middle classes are burdened with donations and charities for the Muslim poor, compensated by notions of *rezeki* (good fortune), *berkat* or *rahmat* (blessed by God). It does, however, to a fair extent help to maintain the status quo of the classes without allowing the very poor to move into desperate levels of abject poverty caused by atopic poverty during an economic crisis. The enrichment of Muslim social capital also prevents the middle classes from falling on the poverty line or below, as during the economic crises when professionals have also lost jobs during delayering and trimming of the workforce. There is an interesting kind of recycling mechanism at work whereby the middle classes pick up dividends earned from *Ar-Rahnu* and micro-credit by being stakeholders of Islamic financial institutions run through cooperative principles of ownership while the middle classes in turn, step up on welfare contributions through annual monetary contributions and *zakat.* It does not, however, seem to be able to lift the majority from poverty and to enjoy socio-economic mobility partly because other factors come into play which prevent them from enjoying the subsidised education and health benefits obtained from income tax contributions and *zakat.* Some of these contributory factors of 'old poverty' (Sen and Foster, 1997) are large family sizes, youth dependency on family pooled income due to underemployment, low academic achievement and poor infrastructure in remote rural areas. In Malaysia, there is much emphasis on tertiary education which is one of the most heavily subsidised institutions of education in developing Asia, but long-term embeddedness in schooling with poor infrastructure and family financial commitments in rural and urban areas makes it difficult for the very poor to achieve the academic levels needed to compete for places in local universities.

Islamic based financial institutions target the middle classes as prudent savers, discouraging them from indulgence in status consumption—designer goods with global branding—and promote the conversion of surplus earnings to investments in unit trust schemes fully guaranteed by the government. To increase Muslim equity in national wealth, *Permodalan Nasional Berhad* has, over the last 20 years, introduced nine retail funds directed towards the middle and lower income groups, all of which are Shari'ah compliant for Muslims. Earnings on dividends are automatically deducted for *zakat.* These unit trust schemes offer attractive dividends and bonuses for investors; usually double that offered by commercial banks as a way of encouraging investors to reinvest dividends and bonuses to build up personal capital. *Permodalan Nasional* recorded a 21% growth compared with the industry's growth (unit trusts) of an average 13% (New Straits Times, 2009b). It commands confidence among Muslims on account of its low risk (assured returns at between 5% and 7.5% annually) and government backing. However, it is doubtful if low income investors reinvest their dividends and bonuses as the middle classes do, given that they are dependent on schemes like pawning and micro-credit which reflect low cash flow. The only consolation factor is that material assets pawned by poorer Muslims are being recycled in the form of dividends and bonuses to Muslim shareholders of Bank Rakyat and other banks who engaged in the *Al-Rahnu*-distributing returns of the *Al-Rahnu* to stable income working and middle class Muslims. Since these dividends and bonuses are pre-taxed for *zakat*, there is at least another layer of redistribution through welfarism which takes place among the very poor who usually pawn material assets, especially gold to cover emergency needs.

Brunei's Welfare State and Islam

Brunei is the smallest country on the north-east coast of Borneo Island, about the size of Norfolk, with a population of only 385,000 people. It has traditionally survived on its reserves of oil and natural gas which contributes to 50% of its GDP, around 90% of its exports and 80% of its government revenue (AMB, 2009, p. 2; Clos, 2008). GDP per capita is $37,053 (AMB, 2009, p. 3). It is currently diversifying its economy by creating a sovereign wealth fund to include Islamic finance through *takaful* and other products.[14] The nation is controlled and administered by a royal family led by Sultan Haji Hassanal Bolkiah (1963–) who is also the prime minister, and although there is free education at all levels, health and medical services, and no income tax, there is significant wealth differential between royal elites and Brunei citizens. The creation of the welfare state referred to as 'welfare capitalism' (Minnis, 1997, p. 122) implies that there is little poverty and even migrant workers from rural areas are able to enjoy well-being and a good quality of life, equivalent to the average working class family in western Europe. Under these circumstances, Brunei's civil society is in an embryonic state and there is little initiative to engage in participatory democratic processes, given the benefits of living under a centralised authority which uses welfarism as a strategy of political containment. The state also uses Islam as a means of political containment, to unify its Malay Muslim population, comprising 75% of its total population.[15] There is, however, increasing emphasis on economic diversification and tertiary education and training to develop a more globally competitive work force (Minnis, 1997, p. 123).

In comparison to Malaysia, its structures of Islamic finance are not well developed but its secular welfare system is the best developed in Asia. Again, as in the case in Malaysia, Islamic finance is developed for the creation of sovereign wealth and what percentage of this wealth is generated into public capital remains unknown.[16] The Brunei Investment Authority General Reserve Fund stands at $30 billion and much of its use is controlled by the central authority (AMB, 2009, p. 4). Again, as in the case in Malaysia, the link between welfarism and Islamic finance is only clear in an academic sense in the built in mechanisms of redistribution based in *zakat*, provided in Islamic law to common people. What percentage of profits from public investments is recycled back into *zakat* remains unknown.[17]

However, a significant proportion of surplus collections of *zakat* funds is rechannelled into welfare in Brunei during the month of *Ramadhan.* The *Brunei Times* (Ubaidullah Masli, 2009, p. 1) reported that *zakat* funds and documents were handed over by the Sultan to 4,084 poor (*miskin*) and destitute families (*daif*) at the capital of Bandar Seri Begawan. This included 190 debt-ridden individuals referred to as *al-gharimin* (debtors). The amount received and proportion per month was decided by the Brunei Islamic Religious Council (MUIB), the sole authority responsible for the collection, management and redistribution of *zakat*.[18] The *zakat* are deposited into the recipients bank accounts, whereby they can only withdraw 1/12, 1/36, 1/48 or 1/60 of the total amount each month, depending on the sub-categories these families fall under. This implies that these 4,084 families are now excluded from MUIB's list of *zakat* recipients for a period ranging from one year to five years, when the financial position of these families are reviewed. The *al-gharimin* received varying amounts of the *zakat* funds based on the outstanding balance on their respective house mortgages, for those who have applied for homes from the Housing Development Department of the Ministry of Development or the Yayasan Sultan Haji Hassanal Bolkiah. As of 31 January 2009, their collective house debt came to a total of $2,325,296.38[19] or US$1,367,821. Apart from $90 million (US$ 52.9 million) allocated for *zakat*, more than $67 million (US$39.4 million) has been allocated to cover the council's other commitments, which include $35 million (US$ 20.6 million) for the construction of homes for the poor and less fortunate. Another $3.6 million (US$ 2.1 million) is also set aside to develop the productive capacity of the poor. Although the Islamic concept of *zakat* proposes that all funds collected for the year must be disposed to the poor in the month of *Ramadhan*, Brunei invested *zakat* collections between 1993 to 2008 in its national Islamic bank, the *Bank Islam Brunei Darussalam* and its Islamic Trust Fund, *Tabung Amanah Islam Brunei* (TAIB). The dividends generated from the amounts deposited in the two financial institutions over the last 15 years have totalled $98 million (US$57.6 million). The social sustainability of its civil and Islamic welfare system will depend on its diversification of sovereign wealth through the development of a sound banking and financial system equivalent to those set up in the Middle East.

Brunei's gains in petrodollars with the anticipated rise in the price of petroleum in 2010 makes it a suitable hub for Islamic finance. Malaysia's close relationship with Brunei has also stimulated the growth of Shari'ah-compliant financial products and services which can buffer against global economic crises of a magnitude similar to 2007–2009. As explained earlier, it is increasingly seen as a safe haven in the wake of recent failures in derivatives traded by regular financial institutions. The contraction of the Brunei economy during the 2009 global economic crisis[20] prompted the government of Brunei to issue $148 million (US$87.1 million) *sukuk-al ijarah* (Islamic bonds) in January 2009. Syariah compliant bonds require backing by assets and these *sukuk* were backed by the buying, selling and leasing of property, bringing its total issuance to over $1.3 billion (US$0.76 billion). Brunei's issuance is still small compared to countries like Malaysia and Bahrain which have gone into full speed in the issuance of *sukuk*.[21] It is obvious that there will be a significant increase in the practice of Shari'ah-compliant financial products and services in Brunei and that redistribution of national wealth through cash benefits will increasingly take the form of *zakat*, in a nation which does not raise public funds through income taxation. The important issue is the sustainability of the welfare state as oil and natural gas reserves become depleted over the next two decades.

Can Brunei expand its national wealth through asset creation globally and how globally competitive will be a population which has become dependent on welfare? The *Financial Times World Desk Reference* (2004) confirms that its massive overseas investments have overtaken revenues from oil and gas. There is increasing awareness in Brunei's political elites that greater emphasis should be given to human capital—the people's productive capacity to generate wealth for themselves. Indeed, Islamic models of economics promote the regeneration of wealth through actual asset creation by individuals rather than the state. Entrepreneurship of individuals is encouraged while the state remains a caretaker of the redistribution process. Hence Brunei's welfare state is sustainable if capacity building is transferred to common people to actively engage in economic production at all levels and sectors of growth.

Islamic Finance in the Middle East

Economic globalisation has increased the significance of the *sukuk* or government bonds as a means of borrowing money or investment in large-scale projects in Muslim regions in the Middle East and Muslim Asia. It has also stimulated the growth of investment banks in the Middle East and Muslim Asia whose main purpose is to loan out funds for Syariah-compliant projects at rates calculated against the appreciation value of these projects. For example, Khazanah Nasional Berhad of Malaysia has invested US$150 million (RM516 million) in the Dubai-based Islamic investment firm, Fajr Capital Ltd. Khazanah has further committed US$588 million (RM2 billion) to Fajr by bringing together shareholders from prominent Muslim markets (Baum, 2009, p. B1). Other shareholders include Masic (a member of the Al-Subeaei Group of Saudi Arabia) and sovereign investment agencies like the Brunei Investment Agency and the Abu Dhabi Investment Council. Fajr in turn expects to grow by providing Syariah-compliant products, services, and technologies which are competitive in the Muslim region. Khazanah Nasional Berhad is also establishing a joint investment fund with Qatar Investment Authority (QIA), to plough capital worth US$1 billion (RM3.44 billion) in joint investments, in Malaysia or Qatar. These large-scale investments will generate enough capital for infrastructural projects for the poor in underdeveloped areas given the savings on interest but investments in *sukuk* are not necessarily targeted to end poverty through a pan-Islamic social consciousness—increase human capital or generate employment for the poor in the Muslim world. For example, investments from Qatar in Malaysia currently have included a 70% equity in the Asian Finance Bank and a 49% share in the Pavilion Mall in Kuala Lumpur, the most upmarket shopping complex in Malaysia (Lamb, 2009), which serves wealthy Malaysians and tourists.

A World Bank Report states that the Middle East and North African region (MENA) faces an unprecedented employment challenge (World Bank/IMF Meeting, 21 September 2003, Dubai). 100 million more jobs are needed by the year 2020 to curb rising unemployment among the youth and graduates. Population growth of an average of 2% and an annual increase of six million people and rising educational attainment among graduates has led to a growth of 3% in the labour market while creating a strained labour market with unemployment averaging at 15%.[22] The Report entitled 'Unlocking the Employment Potential in the Middle East and North Africa: Toward a New Social Contract' is the fourth and last in a series of reports highlighting the development challenges facing the MENA region.[23] In 2000, MENA's labour force totalled some 104 million workers—a figure expected to reach 146 million in 2010 and 185 million by 2020. First-time job-seekers will require nearly 100 million new jobs over the next two decades. This is much more than the number of jobs created in the region during the past 50 years. Currently, half the region's young people find themselves without work, with youth unemployment ranging from 37% in Morocco to 73% in Syria. Unemployment rates are low for those with no formal education or skills although jobs in this category are taken up by migrant workers from Bangladesh, Pakistan, and Indonesia. There also continues to be limited opportunities for women to occupy middle or top ranking jobs in the public and private sector. Unemployment rates for women in the region are nearly 50% higher than for men. Oil producing countries in MENA enable thousands to be employed through welfare employment but productivity is generally low—the work culture is globally uncompetitive and there is a preference to hire foreign graduates from other countries. As in Malaysia, Brunei, and Muslim Asia, the dominant role of government as employer leads to an outmoded wage structure that distorts labour market incentives and creates significant wage differentials between public and private sectors. Hasret Benar (2007) discusses income differentials in relation to the increasing complexities of economic globalisation in the MENA region.

Part of this problem is historically contained in a post-colonial sentiment of restoring the wealth back to the people through an economics which is patriarchal, determined by the feudal leaders of post-colonial MENA nations. For the first three decades after World War II, the 'old' social contract—emphasising redistribution and equity and states over markets—spurred economic growth while keeping income inequality low. Mortality dramatically declined, life expectancy increased, school enrolment surged and literacy levels rose. However, the feudal structures of politics remained and controlled the economics of these nations, developing a political economy not very different from the previous under colonial rule. Dependency over European and American expertise and technologies created a superstructure of wealthy expatriates working closely with local political elites and leaders. Gaps widened between institutional Islamic rules of welfare and the capacity of governments to deliver welfare. Expectations rose among citizens on welfare delivery systems and safety nets. By the early 1980s the inability of the MENA social contract to sustain the economic gains of previous decades became clear, and by the late 1980s the strains had grown into a major economic crisis. The economic crisis of 2007–2008 led to declining oil prices, shrinking demand for migrant labour, reduced remittance flows, and declining productivity. Government intervention through job creation reduced debt levels and inflation but reproduced a public sector which is non-competitive.

Demographic profiles of the MENA region also threaten economic growth in the long-term. Although annual population growth in the region has slowed to 2%, the region's population is still increasing by 6 million people every year. It is safe to conclude, however, that the era of high population growth is over and that population growth rates will continue to slow down. 'As a result, the maturing of MENA's age structure has placed the region in a unique position at the dawn of the 21st century,' states Tarik Yousef (2004, p. 1), principal author of the report. 'Between 1990 and 2020, the growth of the economically-active population—those aged 15–64—will exceed that of the economically-dependent population by a much greater rate than in any other region. As East Asia's experience has shown, this differential—the so-called demographic gift—offers MENA an opportunity to accelerate economic growth.' The report states that MENA's employment challenge calls for a comprehensive approach to reform. It stresses that the priorities and sequencing of reforms will vary across countries—depending on country-specific conditions such as resource endowments, level of global competitiveness in human capital, quality and level of efficiency of bureaucracies, and socio-economic institutions.

Labour market reforms are clearly needed, adds the report. Private sector jobs are far and few between; the government continues to dominate labour markets. Although fairly effective in reducing poverty, government employment is an inefficient safety net since most of the benefits go to educated workers who are usually not poor. Governments can make public sector jobs less attractive by cutting perks while encouraging private sector job creation. But while labour markets reforms are necessary, they are not sufficient. The report, along with the three accompanying World Bank reports on trade and investment, governance and gender, argues that to boost job creation and growth the region's countries must tackle long-standing policy and institutional challenges aimed at spurring three fundamental and interrelated changes in their economies. These are as follows:

1. From public to private sector-dominated, by reducing barriers to private activity while creating regulatory frameworks to ensure that private and social interests are mutually reinforcing.

2. From closed to more open markets and with better integration into global markets with safeguards for fluctuating demands to ensure financial stability and social protection.
3. From volatile oil dominated to more stable and diversified industries, through institutional restructuring in the management of oil resources and their intermediary services.

The report argues that reforming MENA's economies hinges on the credibility of government and the capacity of state institutions to manage a complex, long-term process of change. Hence broader governance reforms are key to permitting MENA governments to credibly spell out and realise a new vision of state–society relations. To move forward, says the report, governments must link economic performance to governance quality.

The government's role in the economy needs to be redefined. It should support the private sector in creating and sustaining jobs. Although an active state role in improving social services, especially health, education, and social security, is essential to establishing the conditions that will let workers thrive and economies grow at healthy rates. MENA countries should streamline administration of social programmes to overcome dysfunctions in labour markets and to protect workers during economic transition. For these reasons, the report argues the case of a social reform agenda and calls for a new 'social contract' that can inspire and drive ahead the reform process.

'But implementation of these reforms have been uneven, hesitant, and incomplete,' says Mustapha Nabli, Chief Economist for the Middle East and North Africa region at the World Bank. 'Partly as a result, MENA's economic recovery in the 1990s was generally weak. In the past 15 years, labor productivity has remained low, unemployment rates have increased and GDP growth per capita has averaged 1% a year. The rigid, exclusionary, and inefficient aspects of the "old" social contract need to be restructured' (Nabli, 2003).

This new social contract must couple political and economic reforms, says the report. The selective, top-down approach to economic reform that sidesteps the need for political change to secure the legitimacy of reform and the credibility of government commitments is no longer adequate. To move the reform process beyond its current limits, governments will need to breathe life into national conversations about labour market reform, restructuring welfare programmes, and redefining the terms of the social contract. The report also suggests that with large middle classes in MENA societies, the revival of political life and establishment of democratic institutions, for sustainable economic growth, is possible.

Reforms will not be credible unless they take into account the social needs of workers and ensure that economic outcomes are socially acceptable among MENA's citizens', states Tarik Yousef (2004, p. 1). 'This requires a renewed political commitment to widely valued social policies—a new social contract that links reform to the principles of poverty reduction, income equality, and security that have guided MENA's political economies for almost 50 years.' It also proposes that external partners can help by boosting global markets for local products from the region and resolve conflicts that continue to mar sound economic growth and long-term prosperity.

Resolving Contradictions between Islamic Finance and Welfare

Islamic finance is part of a global capitalist order which is gaining rapidly in popularity because it is believed to be more humanistic—does not encourage profiteering through interest. The 'humanism' in its productive transactions are, however, ideologically different from regular systems of redistribution through progressive taxation such as in the United Kingdom and Europe. The latter allows for libertarian forms of capitalism to flourish, but with a powerful state sanction against wealth accumulation for a few (Roemer, 1996; Rosenberg, 2002;

Duncan, 2006). This, however, only works when state regulations establish strong measures of control in profiteering, including the issues of bonuses and dividends. If properly administered, the Islamic finance can bring on significant gains in money released into public capital and infrastructure (Choudhury, 1997, 2004). The redistributive mechanisms of surplus are instituted into welfare based institutions such as free or subsidised education, health and child care, education, and even publicly directed employment. Its principles may differ from modern welfare economics except the gains at the far end of the redistributive machinery are similarly directed towards the poor (Rawls, 1971). The policies of the New Economic Policy in Malaysia, state welfarism in Brunei, or publicly instituted employment as in MENA countries are more Islamic than regular, except they are part of the post-colonial 'reformist' policies of Muslim states which preceded the modern up-beat drive towards Syaria'ah compliant finance. Islamic finance, however, has not demonstrated a clear connectivity with redistributive justice as in the post-colonial political economy except through instituted deductions of *zakat* from dividends of shareholders. Profits from credit or financial corporations are not necessarily redistributed through *zakat*. Furthermore, for borrowers, the appreciated value of assets and services as forecasted and built into systems and rates of repayments which compensate for the lack of interest and, in reality, repayment rates may even out with the regular—rates are generally fixed in advance unlike regular interest rates which are more flexible, varying according to market conditions. However, it does allow more capital to be released into projects immediately, allowing a more extensive amount of goods and services to be produced, without the worry of serving loans. One, however, has to be assured of significant productivity even in the early stages of the loan but payments of *zakat* accruing from successful investment, from the financier or production from the borrower are fixed at a low rate of 2.5%. It is also consensual rather than forced (as in income taxation) and Muslim countries in general pursue income tax collections as the more important thrust of national revenue.

There are generally two disparate systems at work in Muslim countries—Islamic finance and post-colonial welfare instituted economics. The welfare inputs in Islamic countries which are operational today proceed whether or not there are institutions of Islamic finance in the country. In Malaysia, Brunei, and the MENA countries discussed in this paper, components of welfare economics in heavily subsidised education, health, housing, farming, and welfare for the poor, are part of a post-colonial legacy of social reform to institute economic parity across groups and classes. In these Muslim nations, the public sector has played an important role in employment for Muslim or indigenous citizens, often acting as a social safety net in times of economic crises. However, these welfare driven policies are subject to much criticism since they favour the poor, encourage low productivity, and a non-competitive public sector.

As Islamic institutions of welfare catch on with progressive social education through media and networks and become an alternative system of welfare for poorer Muslims through *zakat* and other contributions, welfare increasingly becomes a social responsibility of the Muslim middle classes. There is hardly any data on how the profits earned by larger corporations of Islamic finance actually become instituted into a system of welfare economics based in Islam. The relationship between state directed economic institutions, including government linked corporations (GLCs) and Islamic welfare remains unclear. National resources based in land, minerals, petroleum, foresting, and water are generally privatised and profits from the 'wealth of the nation' which form part of the GDP of these nations may be ploughed into infrastructural projects and services for the poor in modest degree. In democracies with feudal histories (most of the Islamic nations of today), it may even be disproportionately channelled into private investment trusts of political elites or national trusts controlled by them. In a properly instituted system of redistribution, through wages, salaries, educational, and health subsidies and so on, there should be very little wealth differential between the owners of political capital and citizens but economic disparities are significant in these Muslim countries and it has been shown how gains among the lowest 20% may be offset by higher or equivalent gains among the top 20% income earners of these nations.

The production of stable professional middle classes in these nations has led to an enrichment of social capital and welfare driven redistributive institutions through social networks but Islamic conscientisation had sometimes moved this 'spiritual gain' as an objective reality. The belief in *ibadah* or 'to do good' may outweigh the call for greater transparency in the use of national collections of *zakat* and so on.[24] Many Muslims in Malaysia pay both income tax and *zakat*, rather than ask for exemption from income tax. They also maintain Islamic voluntary organisations with personal funds, donate to mosques and charities, and make endless food contributions to orphans and the poor. There is very little data gathered on the actual amounts paid privately or anonymously and state-directed contributions, although increasing, are not reflective of actual payments contributed by the middle classes towards Islamic charitable institutions.[25] On the other hand, Muslim based banking and financial institutions are opaque in their social responsibility towards the poor, including their own clients who may be victims of atopic poverty during times of economic crises.[26] In conclusion, Islamic institutions of trusts which are state directed or privately administered by banking and credit agencies contain more humanistic principles of investment and redistribution of profits except that there is a missing component—between the principles of redistribution of surplus or profits in Islam finance and the actual mechanisms to provide welfare to the people who are not share-holders or stake-holders. In Malaysia, Brunei, and the MENA countries of the Middle East and North Africa, state agencies assume trusteeships over compulsory collections like the *zakat* but do not have any institutional mechanisms to enforce private corporations local or foreign to contribute towards the welfare of the poor.

Notes

1 This research is ongoing, following a paper written on historic transformations in Muslim business and commercial practices in Southeast Asia, resulting from Arab-Hadrami migration in Southeast Asia. The paper entitled 'Philanthropy and Trust: Hadrami Diasporas in Southeast Asia and Economic Transformation' will be published as an edited volume with Profs Engseng Ho (Duke) and Abdul Sheriff (ZIORI) as co-editors of the volume, 'Indian Ocean: Oceanic Connections and the Creation of New Societies' (Forthcoming 2011).

2 See section on global wealth management at http://www.ml.com?id=7695_8134_8299_6710

3 The economic crisis was signalled to end at the anniversary of Lehman Brother's bankruptcy in September 2009, demonstrated by President Barack Obama's strong words of warning for proper regulation in global financing.

4 The Treasury Department of the UK affirmed there is a 'powerful momentum' behind the plan, first unveiled in April 2007, to issue *sukuk*—or Shari'ah—compliant bonds (IslamOnline.net, 2008).

5 Britain is the only country in Europe that has established Islamic banks, while London has 21 conventional banks offering Islamic banking products. HSBC is a leading bank in Sharia'ah compliant products and services.

6 Legal firms often hire Shari'ah scholars who issue a decree (*fatwa*) on a particular product before it is put into circulation and marketed.

7 The employer is referred to as *musta'jir* and the employee as *'ajir.*

8 About 36% are of Chinese ethnicity and 10% Tamilians or of Indians origin. Indigenous minorities comprise less than 3% of the total population. All Malays are believed to be Muslims.

9 Muslims have to specifically ask for regular banking, current or savings accounts if they do not want Islamic based banking. The CIMB bank in Malaysia makes it mandatory for Muslims taking CIMB car loans to use the *mudaraba* scheme.

10 *Permodalan Nasional* issues unit trusts at fixed prices per unit, e.g. *Amanah Saham Bumiputra* (ASB) *Amanah Saham Didik* (ASD) or market prices, e.g. *Amanah Saham Nasional* (ASN) and invests the money in industries such as palm oil, commodities and real estate with guaranteed returns higher than those offered by commercial banks through fixed deposit, savings accounts, etc.

11 Statement made by Dato' Noorazman A. Aziz, Managing Director of Bank Islam. See http://www.bankIslam.com.my/Bank_Islam_MAIS_Offer_Online.

12 *Fitrah* payments are much smaller, usually about $2 per person per household. This tithe is compulsory and is usually paid by the head of the household for all dependants, including unmarried Muslim servants. There are central collection stations to pay *fitrah* during *Ramadhan* and these are usually based in mosques. Muslims pay according to where they regularly pray within their *khariah* (congregation or parish). An increasing number choose to pay directly to the poor within their congregation.

13 In one collection alone which the writer was involved, in the state of Penang, the collection amounted to RM45,000 or $3,200. There were about 20 of these groups collecting *zakat* and receiving similar amounts of money during *Ramadhan.* Islamic charities collect significantly higher amounts, about RM100,000 or $29,400. It is believed that contributions of this kind increases an individual's spiritual merit seven-fold.

14 In late 2008, Brunei's new Islamic Banking Order and the *Takaful* Order (concerning Islamic insurance or joint guarantees) were passed. These orders were the first attempt to align the country with international standards and attract more foreign participants to its offshore and onshore services. The new legislation also seeks to support the sustainability of micro-credit activities and small and medium enterprises (SMEs).

15 15% are Brunei born Chinese who are mostly engaged in the commercial sector.

16 Off-shore legislation was passed in 2000 and the Brunei International Finance Centre (BFIC) was established to tap off-shore investments (AMB, 2009, p. 4).

17 In the case of Malaysia, *zakat* contributions are solely collected from Muslim Malaysians but Brunei withdraws surplus from public investments for *zakat.*

18 In the article, 'HM hands *zakat* funds to some 4,084 families', it was stated that each recipient under the *fakir miskin* (poor) category will receive monthly monetary assistance to cover costs such as their basic food and drinks expenditure, daily living expenses, children's school expenses and house rental assistance. Head of the family receives $20,000, while their dependants receive $10,000 each. A special *Hari Raya zakat* (end of the month of *Ramadhan)* was also distributed a total of $3,000 for the heads of the family and $2,000 for every dependant under them (Ubaidullah Masli, 2009).

19 The remaining amount of *zakat* left over after the distribution of the $90 million, would be distributed to eligible applicants on the list (who have yet to be approved) after the first 4,084 families were approved as of 31 July 2009.

20 Contracted about 1.5% in 2009.

21 Brunei aims to issue *sukuks* at least every two weeks in 2009, with a maturity of three months, one year, two years and more.

22 The growth rate of labour, mainly from migrant workers has been unprecedented over the last 50 years.

23 The studies were prepared for the 23–24 September Annual Meetings of the IMF and the World Bank in Dubai, the first such gathering to take place in the Arab world. It brought together finance and development ministers from 184 countries—the meetings discussed the state of the global economy and addressed challenges facing the developing world. The main writer of this report was Tarik Yousef (2004).

24 In Malaysia, it is common for middle class Muslims educated in Islamic principles of *ibadah* to state that as long as their conscience is clear, they need not question the way collections are made or utilised. Privately, however, the majority of educated Muslims believe that transparency must be practised in Islamic trust funds like *zakat*.

25 Corporate social responsibility (CSR) practised mostly by foreign corporations follows the same principles of social redistribution as Islam except that it may not make a significant impact on problems which are long-term like poverty or environmental disasters. It is also a component of public relations and not built into the system of redistribution of profits to shareholders, e.g. welfare deductions in dividends. *Zakat* is automatically deducted for Syariah-compliant shares.

26 Islamic banking procedures use insurance as a buffer against risks as in mainstream banking and does not cover clients welfare as part of corporate social responsibility.

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