

Globalisation of Islamic Finance: Malaysia in the Forefront

Islamic finance is undergoing various progressive stages as one of the fastest growing asset classes in the world. In spite of the continuing aftershock of the global financial crisis and the Dubai debt standstill, the industry is expanding in many emerging markets and introducing new standards that should help develop products and attract investors.

The sector has expanded even as other markets have been swamped by Europe's sovereign debt crisis. The industry's ability to absorb the shocks of financial crises better than conventional institutions has attracted remarkable attention, including from non-core markets of Europe and North America.

Assets in Islamic finance rose to \$822 billion by the end of 2009, an increase of 29 per cent compared with the end of 2008. Anecdotal evidence suggests it has continued to grow this year, as more institutions gain licences to operate or offer Islamic financial businesses or instruments.

There are about 1.6 billion Muslims in the world, out of which only 14 per cent use banks. By comparison, 92 per cent of US households use banks, whereas in the UK it is 95 per cent.

Figures from the Statistical, Economic and Social Research and Training Centre for Islamic Countries (SESRIC) suggest that whilst Islamic finance represents just 1 per cent of the global financial system, the Muslim world accounts for 7.6 per cent of nominal gross domestic product. Growth among the 57 Muslim nations is also much higher than in the rest of the world.

Malaysia is very much a part of this strong and vivacious growing economy. For Malaysia, the economic recovery is expected to continue to gain further strength in 2010. In this environment, focus of the policies has shifted towards building the foundations for a transition into a high value-added, high-income economy. The recently announced **New Economic Model** is intended to further step up Malaysia's progress to realise these goals by 2020. The extensive thrust of the strategies is to provide an enabling environment that will generate an economy that is characterised by high productivity, efficiency and innovation with the private sector as the main driver of growth. Given Malaysia's proven record of economic flexibility for more than five decades, the strategy is also to effect the transition to new areas of comparative advantage to sustain its growth momentum.

Malaysia has been a pioneer in developing regulatory framework for an effective implementation of an Islamic financial system. Its growth to a leadership position in Islamic finance lends itself well to this service being one of the prominent areas of expertise. Malaysian Central Bank Governor Tan Sri Zeti Aziz stated: *"After we developed this Islamic financial system, we were able to liberalize more aggressively, due to the novelty of the system as opposed to the older conventional banking system, which already had 100 years of experience behind it."*¹

Further, Malaysia is continuously endeavoring to improve and refine the existing Islamic Financial system in the country, and never stays far from setting up an image of a responsible world leader in Islamic Financial system. The Islamic Development Bank (IDB) at Jeddah in collaboration with the Islamic Financial Services Board (IFSB), based in Kuala Lumpur has formed two taskforces – the Taskforce on Islamic Finance and Global Financial Stability and the High Level Taskforce on Liquidity Management. An important suggestion of the Task Force on Financial Stability that has been operationalised in 2010 is the establishment of an Islamic Financial Stability Forum (IFSF) to be held twice a year following IFSB Council Meetings. It forms a strategic platform for productive dialogue to promote financial stability in the Islamic financial system. It also has the potential to interface with the Financial Stability Board of the conventional banking system to serve the common aim of achieving global financial stability.

As a result, the Malaysian authorities are encouraging joint ventures with foreign partners with up to 49 percent participation. There is an increasing free flow of funds both into the country and out of the country and foreigners can raise funds in Malaysia to finance projects anywhere in the world. Malaysia has a more pragmatic approach to Islamic finance, and that has led to its leadership rankings across the spectrum of products from banking to sukuk, from takaful to wealth management.

Keeping in tune with the Malaysian Government's pace, the legal industry in Malaysia has been of imperative importance in the development of Malaysia as the top hub of Islamic finance. With a number of its law firms providing a range of specialised services in Islamic finance, its legal experts are increasingly gaining commendations across the globe for their contribution in various prestigious transactions, be it in Malaysia or anywhere else in the world. This credit comes naturally to Malaysia. With a goldmine of lawyers that are well trained in the Islamic concepts, given the local culture and milieu, the Malaysian legal industry, especially in the Islamic finance area, has the required potential and expertise to take on any prospective challenge that may emerge in future and it could prove to be the world leader in the Islamic finance from whom even the developed nations can learn a lot from Malaysia in this respect.

ⁱ <http://www.washingtontimesglobal.com/content/story/malaysia/99/malaysia-takes-leading-role-islamic-finance>