

Islamic finance and the afterlives of development in Malaysia

Daromir Rudnyckyj

2014

Faculty of Social Science

Faculty Publications

This is a postprint version of the article.

© 2014 by the American Anthropological Association.

The final publication is available at:

Rudnyckyj, D. (2014). Islamic Finance and the afterlives of development in Malaysia. *PoLAR Political and Legal Anthropology Review*, 37(1), 69–88.
<https://doi.org/10.1111/plar.12051>

Downloaded from UVicSpace Research & Learning Repository

dspace.library.uvic.ca



**University
of Victoria**

Libraries

Islamic Finance and the Afterlife of Development in Malaysia

Daromir Rudnyckij, University of Victoria

Introduction

After landing at Kuala Lumpur's ultramodern international airport in 2010 recent arrivals were greeted with a huge banner across the highway leading toward the center of the city pronouncing Malaysia as "Your Gateway to Islamic Finance." Today Islamic finance has become a key aspect of the state's development strategy, as Malaysian officials seek to emphasize the provision of technical services given increasing competition in industrial production from other sites in Asia. This entails creating an integrated Islamic alternative to the conventional financial system that is centered in the financial capitals of North America, Europe, and East Asia. These ambitions to make the country's capital Kuala Lumpur the "New York of the Muslim world" are the outcome of 30 years of state efforts to promote Islamic finance as an economic and political strategy. During the last decade, corresponding with the spectacular oil boom in the Persian Gulf and efforts to tap into the vast flows of new capital created by Middle Eastern petroleum, Malaysia has sought to scale-up its national Islamic banking infrastructure and become a central node in an emerging transnational Islamic financial system. This has involved creating some of the key infrastructure for Islamic finance globally. The state has also made Malaysia the main site for the issuance of *sukuk* (or Islamic bonds), which regularly rival the size of conventional bonds, with the capital raised in these deals often totaling in the hundreds of millions of dollars. Other efforts include a \$200 million initiative to address what has been termed a "knowledge gap" in Islamic finance and train professionals from around the world to administer Islamic financial commercial and regulatory institutions. Thus, the state has

created a university dedicated to educating Islamic finance professionals from around the world and an institute for applied research in Islam.

This article argues that Malaysia's efforts to cultivate Islamic finance represent what we have termed the "afterlife of development." Efforts to create an Islamic financial system entail the creation of alternative networks to those constituted through colonialism and postcolonial development. Furthermore, they involve the state taking a managerial role in an effort to incubate a new service economy in which private individuals and institutions are the primary agents of economic growth. Furthermore, the creation of an Islamic financial network requires new kinds of expertise on the part of the country's citizens as banking involves an ethical component and citizens must decide for themselves whether to participate in the Islamic system. Finally, Islamic finance represents the convergence of two domains that classic developmentalism had long presumed separate: religious and economic practice. In showing how Malaysia's efforts to become a global leader in Islamic financial services, I will first highlight some of the key aspects of Islamic finance. I will then describe how Islamic finance fits in with the state's broader development history. Finally, I will document how Malaysia's Islamic finance ambitions represent one instantiation of the afterlife of development.

In its most simple terms Islamic finance refers to the management of money and the provision of capital in a manner that complies with Islamic prescriptions on economic action {Rosly, 2005 #1344@20}. However, there is a lack of consensus as to exactly what counts as compliance and exactly what qualifies as economic action that conforms to Islamic prescriptions {Warde, 2010 #1348@2}. Substantial disagreements exist over what constitute acceptable practices and instruments. In this section I draw on quotations and writings from proponents of Islamic finance to demonstrate how actors define Islamic finance.

Islamic finance experts most often refer to the Qur’anic prohibition against the payment of interest or what is called *riba* in Arabic as the central difference between Islamic and conventional finance (Qur’an 2:275). Islamic scholars trained in the traditional disciplines of *shariah* (Islamic law) and *fiqh* (Islamic jurisprudence) explain the prohibition on interest by arguing that Islam endorses economic action grounded in “real,” rather than speculative, exchanges {Abdul Ghafar, 2010 #1343}. Thus, the morality of economic activity is dependent on whether it involves the production or exchange of actual assets or services. In addition to the prohibition on interest and the insistence that financial activity be based in the real economy, Islamic scholars and Islamic economists have endorsed other practices as constitutive of Islamic finance as well. These include promoting investments that “share risk” rather than transfer it, avoiding uncertainty, and facilitating ethical investments that enhance social well-being {Warde, 2010 #1348@145-149}. Another feature of Islamic finance often invoked by Islamic finance experts is that contracts avoid uncertainty (*gharar*). A final key characteristic of Islamic finance is facilitating ethical investments that enhance social well-being and avoid objects that are not commensurate with expressions of Islamic piety. The ethical dimension of Islamic finance has led some observers to compare it to corporate social responsibility movements and specifically socially responsible investing {Pitluck, 2008 #1594}. These include efforts to direct investment away from objects explicitly prohibited in the Qur’an, such as pork, alcohol, and gambling. More restrictive versions of the ethical nature of Islamic economic action discourages investment not only in activities explicitly prohibited in Islam, such as eating meat or drinking alcohol, but also to any sectors that are contrary to Islamic morality such as weapons, entertainment that might depict illegitimate sexuality, or financial activities that might involve the payment or collection of interest {Maurer, 2005 #865@105-108}.

Development and Islam in Malaysia

Malaysia's plans to become a global hub for Islamic finance are part of recent state strategy to sustain the nation's impressive record of economic growth. In part the efforts to foster an Islamic finance sector are a product of the way in which religion and ethnicity have been integrated into what Aihwa Ong has labeled "postdevelopmentalism" in Malaysia {Ong, 2006 #782@77}. Indeed, Malaysia's current efforts to become a leader in the Islamic world are tied to its colonial and postcolonial history and speak to the role that Islam has played in what Christine Chin has called Malaysia's "modernity project" {Chin, 1998 #12}.

Dating to the New Economic Policy (NEP) of the 1970s, the Malaysian state has taken a special interest in the economic standing of its Muslim citizens, who comprise roughly 60% of the population. The NEP sought to improve the standing of so-called *bumiputra*, or indigenous Malaysians, and a key criterion for classification as a *bumiputra* was ascription to Islam {Ong, 1999 #61@284n83}. As Johan Fischer has noted, the NEP was designed to create an "urban, educated, entrepreneurial and shareholding Malay middle class" {Fischer, 2008 #1577@33}, referred to by the state as "New Malays" (*Melayu Baru*) {Ong, 2006 #782@35}. The creation of these New Malays was brought about the introduction of affirmative action-style policies which provided ethnic Malays with privileged access to government largesse, such as civil service positions, business licenses, government contracts, and access to secondary education {Crouch, 1996 #1596}.

Malaysia's initial development success stemmed from its position as a global center for high-tech assembly and offshore industrialization in the 1970s and 1980s. As Aihwa Ong has described, with the active encouragement of the developmentalist state, Japanese, American, and

European firms set up shop in extensive industrial zones and hired a vast number of new workers to provide the labor for export-oriented growth and Islam was deployed by corporations and the state as a means of disciplining especially the young, female laboring population involved in high-tech assembly {Ong, 1987 #60}. Subsequently, in the 1990s the state embarked on a series of ambitious development projects, such as the Multimedia Super Corridor (MSC), which was conceived as a hub for the development of information and multimedia technology. The MSC included sites like Cyberjaya, which was intended to become the Silicon Valley of Southeast Asia {Bunnell, 2004 #912}.

As the state has sought to develop industrial and service sectors that require more highly educated and skilled workers Islam has played a pivotal role in state development strategy and its efforts to create new Malays who are attractive to transnational corporations. Islam is a central criterion for identification as a Malay and most Malaysians of Indian and Chinese descent are not Muslim. Furthermore, As Ong has described, “government policies seek to bring Islam in line with capitalism” by promoting a form of Islam that is fully compatible with the state’s development objectives. Thus, the New Malay is represented as “self-disciplined, able, and wealth accumulating, but in a way that is cast within the precepts of Islam rather than of capitalism.” Thus, Islam is used to denote ethnic Malays and the state has promoted a style of Islamic practice that is fully commensurable with capitalism and the state’s project of modernization.

The state has sought not just to interpret Islam as conducive to economic growth, but also to forge stronger relations with majority Muslim countries in the Middle East, South Asia, and Central Asia. As part of his program to emphasize “Asian values” Mahathir Mohamad, the Prime Minister during the period Malaysia achieved perhaps its most stunning economic growth,

sought to increase the country's standing in the Muslim world. Thus, during Mahathir's tenure (1981-2003) Malaysia assumed an increasingly prominent role in the Organization of Islamic Conference, as well as a range of affiliated institutions and initiatives such as the Islamic Development Bank, the International Islamic University and the Islamic Solidarity Fund {Milne, 1999 #1586@135}.

Recently, rising income levels and the emergence of other, lower-wage sites for high-tech assembly in East and Southeast Asia (most notably China, Vietnam, and Indonesia) have called the export-oriented development paradigm into question and precipitated a turn away from export-oriented production and instead toward the provision of services. Indeed as income and education levels in Malaysia have increased, the state has sought to develop sectors to which its "knowledge-based society" can add value {Evers, 2003 #1605}. Given the stiff competition in this sector, Malaysia hopes to isolate a particular niche in providing services labeled Islamic, including making the country a global halal food certification center. The state's most aggressive endeavor in developing a service oriented sector has been to make the country a global center of Islamic financial services. Thus, the state has sought to construct the infrastructure necessary for Islamic finance to function both domestically and transnationally, promoting research and innovation in Islamic financial instruments, and creating some of the premier global institutions for higher education in Islamic finance. Thus, the state is promoting Islamic banking to further its development ambitions given the changing class composition of the country which will require new development initiatives to promote ongoing economic growth.

Islamic finance as a development strategy

In Malaysia, as in most of the rest of the world, Islamic finance is a decidedly postcolonial phenomenon. Even statements by the buttoned-down executives of Islamic banks reflect the political history of these techniques to facilitate the provision of capital. For example, Badlisyah Abdulghani, the CEO of CIMB Islamic (Malaysia's largest Islamic bank), stated "Islamic finance is an old industry given a fresh start after 500 years of lying dormant due to western colonization of Islamic countries" {Poh, 2009 #1337@25}. Here I detail how Islamic finance in Malaysia has grown from a specific initiative to resolve a particular problem to a key development strategy of the postcolonial state. I begin with an account of how planners sought to facilitate savings for the hajj that enabled the productive power of capital and security of large-scale institutions without resorting to interest-based lending. I then detail the expansion of the domestic Islamic financial infrastructure in the 1980s and 1990s and conclude with some of the efforts that strategists today have embarked on to make Malaysia a global "hub" for the provision of Islamic financial services.

Islam, Banking, and Secular Developmentalism

At Malaysia's independence in 1957 the country's extent political, legal, and financial institutions had all been inherited from the British. The absence of any alternative to conventional interest-based finance was especially troubling to those saving to undertake the hajj pilgrimage to Mecca. Prospective pilgrims had several choices: either deposit their savings in a conventional bank, entrust them to a local confidant, or conceal them at home. These all had self-evident drawbacks, but conventional banking presented potential pilgrims with a particularly paradoxical puzzle. Depositing savings in such a bank would entail the collection of interest and

consequentially one would be committing a grievous sin while ironically preparing to participate in one of Islam's most holy rituals.

In an effort to redress this predicament, the economist Ungku Aziz, father of current Governor of Malaysia's Central Bank Zeti Akhtar Aziz, wrote an "Economic Improvement Plan for Prospective Pilgrims" which outlined the first hajj savings scheme compliant with shariah prescriptions on economic action. The plan led to the pioneering establishment in 1963 of the Muslim Pilgrims Savings Corporation {Çizakça, 2011 #1591@207-213}. In contrast to a conventional savings bank, this new institution enabled Muslims to guarantee that their savings were "free from elements of usury" {Laldin, 2008 #1369@4}. The Savings Corporation was the precursor to Tabung Haji, established in 1969, which today is the central institution responsible for management of hajj savings. Today, Tabung Haji is a massive corporation with an impressive hourglass-shaped office tower that forms a prominent landmark on Kuala Lumpur's skyline. By year-end 2009, Tabung Haji had more than 5 million depositors, 345 locations branch offices across Malaysia, and held deposits of \$9 billion {Ishak, 2011 #1599}. Cizakca reports that one out of every three Malaysian Muslims has a savings plan with Tabung Haji {Çizakça, 2011 #1591@213}.

Following the establishment of Tabung Haji Islamic finance in Malaysia entered into something of a dormant period. Although experiments with Islamic banking accelerated in the Middle East {Warde, 2010 #1348@71-77}, in Malaysia the establishment of a shariah compliant hajj savings scheme resolved the ethical problem presented by conventional interest-based banking for most political leaders in Malaysia. One explanation for this is that the guiding rationality for modernization represented religion as something external to economic

development, which was by and large represented as a secular project {Bornstein, 2005 #931}{Rudnyckyj, 2010 #1490}.

By the 1980s the presumption that development was a secular project underwent a thoroughgoing reexamination in Malaysia. In part this was an effect of the 1979 revolution in Iran which brought Islamists to power in a modern state for the first time. This event coincided with, and some have argued spawned, a wider resurgence of Islam around the world {Esposito, 1998 #1600@309-310}. In Malaysia, the growing popularity of the Islamist opposition political party Partai Al-Islam Se-Malaysia (PAS) pushed the ruling UMNO (United Malays National Organization) party to embrace Islam, particularly the critiques leveled by PAS that UMNO has catered to Chinese Indian and foreign business interests {Ong, 1990 #153}{Peletz, 2002 #155@10-11}. Perhaps most significantly Mahathir Mohamad, who became Prime Minister in 1981, initiated a measured rejection of some of the underlying features of modernization and the presumption that the manner in which economic development had unfolded in the west was a universal model for developing countries to follow. Thus, Mahathir invoked Japan as an alternative model of development, embracing so-called “Asian values” and suggesting that Malaysia did not need to abandon its cultural inheritance in pursuing economic growth {Ong, 1999 #61@197}. As noted above, these factors led to a reinterpretation of Islam that was not opposed to modernity and capitalist development, but was instead conducive to economic growth.

Pursuant to Mahathir’s rejection of “western capitalist blueprints” for modernity {Ong, 1999 #61@73}, a major preoccupation of the state’s developmentalism was the creation of a viable financial system grounded in Islamic prescriptions for economic action. Indeed, the Islamic revolution initiated strong interest in Islamic finance across the Muslim world, as in

addition to Malaysia, Sudan, Iran, and Pakistan sought to develop Islamic banking systems in the early 1980s {Warde, 2010 #1348@114-125}. However, unlike those three countries which sought the wholesale transformation of their banking systems over to full Islamic systems Malaysia “initiated Islamic banking in parallel with conventional banking on a trial basis” {Venardos, 2006 #1602@146}. In 1981 the state formed the National Steering Committee on Islamic Banks consisting of 20 experts who were tasked with outlining the development of an Islamic Banking sector {Abdalla Khayar, 2005 #1603@204}. The Committee’s recommendations laid the basis for the Islamic Banking Act of 1983 (IBA) and the establishment that same year of the nation’s first Islamic bank, Bank Islam Malaysia Berhad (BIMB) (Laldin 2008:9-10).

The National Steering Committee had realized that economic action in accordance with Islamic prescriptions would require an integrated, comprehensive financial system consisting not only of banking institutions, but also of an Islamic money market, Islamic capital markets, and an Islamic insurance system. Thus, following the establishment of the country’s first Islamic bank the state embarked on the creation of an Islamic insurance system “based on the concept of *takaful*, which means taking care of each other” {Iqbal, 2005 #1604@57}. Thus, in 1984 the parliament passed the Takaful Act which facilitate the establishment a year later of Syarikat Takaful Malaysia, the first *takaful* operator to provide *mudarabah* contracts for Shariah compliant insurance on the principal “that nobody should make a profitable business out of the sufferings that naturally befall humanity” (Iqbal and Molyneux 2005:57). Analogous to mutual insurance, *takaful* generally operates as savings accounts on the premise that policy holders agree to insure each other against damage or loss using a company to act on their behalf as trustee of the premium contributions of each participant. The premiums, which are invested in Shariah

compliant investments, form the fund from which both claims and any surplus are paid out to policy holders based on pre-arranged profit sharing ratios (Iqbal and Molyneux 2005:57). A portion of the premiums, known as *tabarru'*, is an obligatory donation representing the mutual assistance premise upon which Takaful is based.

Making Islamic Finance National

Islamic finance expanded apace with Malaysia's rapid economic development through the 1980s and early 90s. Within its first ten years of operation, Bank Islam grew to approximately 80 branches across the country and by 1992 was listed on the main board of the Kuala Lumpur Stock Exchange (Iqbal and Molyneux 2005:45). After the establishment of the Islamic banking and insurance sectors, the Central Bank's next phase involved establishing an Islamic securities market in conjunction with Malaysia's Securities Commission. Thus, in 1990 an Islamic Debt Securities market to facilitate the creation and exchange of Islamic bonds (*sukuk*) was created, in 1995 an Islamic equity market was established, and an Islamic Interbank Money Market was established in 1994, facilitating the provision of short-term capital between Islamic banks to enable them to balance their books on a daily basis (Venardos 2006:153).

To further facilitate the growth of Islamic finance, the Malaysian government sought to build a network of Islamic banking institutions, rather than rely on a single state-supported Islamic bank. The "dual banking system" that Malaysia established "allowed Islamic banking and conventional banking to co-exist side by side" (Venardos 2006:146). To encourage conventional banks to participate in the Islamic system, in 1993 the central bank introduced the

Interest-free Banking Scheme (Iqbal and Molyneux 2005:46).¹ This program offered tax breaks for conventional banks that opened up Islamic “windows” to offer Islamic financial products, such as home mortgages or savings accounts. Thus, conventional banks could use their existing institutions and infrastructure to expand into Islamic banking on a gradual basis and offer conventional and Islamic financing options under the same umbrella. According to some observers the Islamic window scheme offered the most cost-effective and efficient way to “disseminate Islamic banking on a nation-wide basis, with as many players as possible so as to be able to reach all Malaysians” (Iqbal and Molyneux 2005:146), thus giving Malaysia a competitive advantage in the growth of its Islamic financial sector. Further, by increasing the number of firms in the sector, the state sought to spur innovation of instruments and products.

The ongoing expansion of the industry the increase in the number of institutions offering Islamic banking products the need for consistency in *shariah* interpretations became a matter of pressing concern as “*shariah* boards of different banks could issue different rulings on similar practices which may raise doubts in the minds of clients” (Iqbal and Molyneux 2005:109). Despite the Asian Financial Crisis of 1997-98, Islamic banking in Malaysia had continued to expand rapidly, with assets increasing by 76.5% in 1997 according to the Central Bank’s annual report (Abdalla Khiyar 2005:233). The expansion of the industry raised further concerns regarding the possibility of multiple or conflicting *shariah* interpretations. Thus, in 1997, Malaysia’s Central Bank formed the National Shariah Advisory Council (NSAC) as the sole authority advising the Bank on Shariah issues in Malaysia (Venardos 2006:147). The Council was comprised of prominent *shariah* scholars, jurists, and finance professionals. The Council gave the Central Bank a certain amount of power in the enactment of guidelines for banking

¹ This was changed to the Islamic Banking Scheme (Skim Perbankan Islam) in 1998.

institutions offering Islamic financial products, but its legal status as the final authority over Islamic banking was not established until over a decade later.

Malaysia and the Globalization of Islamic Finance

Concordant with its development strategy that increasingly embraced services and with the global growth of Islamic finance in the new millennium, the Malaysian state established a coordinated effort to aggressively scale up Malaysia's domestic Islamic finance infrastructure to become a global hub for Islamic financial services. These plans were designed to overcome obstacles to the transnational integration of Islamic finance and ensure that Malaysia was a critical node in the emerging transnational Islamic finance architecture. An explicit goal of these alternatives was to provide an alternative to the conventional financial system, which by the end of the first decade of the 2000s was facing its most severe challenge since the 1930s and at times seemed to teeter on the brink of collapse. In order to become a global hub, the Malaysian state sought to make a number of key interventions in Islamic finance through regulatory reform and clarity, shariah harmonization, the reduction of ambiguity in Islamic financial services, enhanced research of shariah matters, development of innovative instruments, and the creation of new institutions.

Several regulatory reforms were initiated to reduce ambiguity in the Islamic finance. Notably, the existence of Islamic "windows" within conventional banks had raised questions over how institutions organized along such lines could guarantee the separation of their conventional operations from their Islamic banking business. To clarify the distinctiveness of the emerging Islamic economy, in 2004 the Central Bank terminated the Islamic windows program and required conventional banks with Islamic operations to establish fully-fledged

subsidiaries. Thus, the Bank required that Islamic banking operations be distinguished within conventional banks by a clearly demarcated “firewall.” This entailed the segregation of Islamic from conventional funds, with each segment of the banks business containing its own individual handling and clearing accounts (Venardos 2006:147-148). Participants in my research reported that, for the most part, the firewall is enforced. However, some stated that occasionally Islamic subsidiaries would fall back on their “parents” to settle overnight debts, rather than the Islamic money market, which is still embryonic.

Another effort to reduce uncertainty came in seeking to ensure against conflicting interpretations of Islamic law. Thus, the Central Bank of Malaysia Act, passed in 2009, contained key provisions regarding the states of the NSAC. These provisions sought to more effectively administer shariah compliance by granting the NSAC the status of the sole authoritative body on shariah matters pertaining to Islamic banking, *takaful* and Islamic finance. The Act granted the power of the NSAC to prevail over any other ruling passed by a shariah body in Malaysia. In addition, the Act stipulated that any courts or arbitrators are required to refer to NSAC rulings in any dispute pertaining to Islamic financial business. Finally, the mandated that any rulings of the NSAC be binding and supersede the rulings of any other shariah body in the country. This essentially gave the NSAC supreme authority in the arbitration of matters connected to Islamic finance.

Another step the state has taken to make Kuala Lumpur a global node for Islamic finance has been to locate key institutions in Malaysia. After a successful lobbying initiative by then-Prime Minister Mahathir Mohamad, the Organization of the Islamic Conference (OIC) awarded Kuala Lumpur the headquarters of the Islamic Financial Services Board (IFSB), an international standard-setting organization that develops global standards and guiding principles for Islamic

finance. The state has also sought to cement its position as a key Islamic finance center through the production of Islamic financial knowledge. Thus, the Central Bank has spent \$200 million to create key research and educational institutions intended to address what has been termed a “knowledge gap” in Islamic finance. This has been primarily used on two key bodies: the International Centre for Education in Islamic Finance and the International Shariah Research Academy, most often referred to by Islamic finance practitioners by their acronyms “INCEIF” and “ISRA.”

Islamic finance experts had long bemoaned the deficiency of potential employees with training in Islamic finance and the lack of educational programs to train such professionals. Typically most employees in the industry have been conventional bankers who are recruited into Islamic financial institutions. This has precipitated critics who allege that such hiring practices threaten the integrity of Islamic banking because such transplants do not recognize the differences between the two types of banking. For example, the former Deputy Governor of the Central Bank, Dato’ Muhammad Razif, who was responsible for the Bank’s Islamic finance portfolio stated, “If you critically review, even in Malaysia, [Islamic finance] has been based on imitation rather than innovation...our starting point is compliance, it’s not shariah-based. The bankers right now are converts; conventional bankers transformed into Islamic bankers. Of course [their] mind sets are conventional....My suggestion [is] that banks would employ shariah scholars as bankers” {ISRA Bulletin, 2009 #1357}. Thus, the Central Bank founded INCEIF in 2006 and designated it the “global university” for education in Islamic finance. The university offers graduate degrees in fields related to Islamic finance and occupies an opulent new campus close to the national university, the University of Malaya. Students at INCEIF come from around the world and while I was studying there in 2010 I met students from across Asia, Africa,

Europe, North America, and Australia. The goal of the university is to cultivate the human resources necessary to create a critical mass of professionals, skilled in both *shariah* and finance, to staff Islamic financial institutions around the world. Another effect of this initiative would be to extend the influence of what experts call the “Malaysian model” of Islamic finance. Many faculty members were recruited from the International Islamic University outside Kuala Lumpur and come from across the Muslim world.

Another obstacle to the growth of Islamic finance and the global integration of institutions around the world has been a lack of basic research in the field. Thus, ISRA was founded by the Central Bank of Malaysia in 2008 to promote applied research on shariah questions in Islamic finance and bridge the gap between scholarly critics and more applied bankers and businesspeople. In addition to creating new knowledge it is also a repository of knowledge for shariah decisions (*fatwa*) on Islamic finance and examines debates over shariah in the Islamic financial industry both in Malaysia and abroad. A major function that ISRA is engaged in is translating Arabic documents into English and vice-versa to reduce language barriers to the circulation of knowledge in fields pertaining to Islamic finance.

Finally, the state has sought to promote integration of banking institutions and spur growth and innovation by opening its borders to competition from Islamic financial institutions based in the Persian Gulf region. These include Kuwait Finance House, the Saudi-based Al-Rajhi (which bills itself as the world’s largest Islamic bank), and Asian Finance Bank which is mostly owned by Qatari investors (Warde 2010:130). The aggressiveness of these institutions is evident in the bold advertisements that they have posted on prominent thoroughfares and high traffic areas such as Kuala Lumpur’s ultramodern train station, KL Sentral. Branches of these banks can be found in major cities across the country.

Islamic Finance and the Afterlife of Development

Efforts by the Malaysian state to make the capital, Kuala Lumpur, the “New York of the Muslim World,” are representative of what Anke Schwittay and I have referred to as the afterlife of development. There are four ways in which the afterlife of development is manifest in Malaysia’s efforts to globalize Islamic finance. First, state plans to build up an Islamic financial system seek to create alternative networks, rather than mapping on to earlier networks largely constituted through colonialism and the heyday of developmentalism. Second, the efforts entail the state engaging in a managerial role, by providing the infrastructure for growth of the industry, but not taking a direct role in supporting Islamic financial firms. Third, the Islamic financial system requires new kinds of expertise on the part of the country’s citizens. The choice of a financial services firm entails a new problem of decision-making. For Muslim citizens banking is not just an economic calculation, but an ethical one and citizens must decide for themselves whether to participate in the Islamic system or not. Finally, Islamic finance represents the assemblage of two domains of action that modernity had long presumed separate: religious and economic practice. Thus, Islamic finance seeks to reconcile religious restrictions on economic action, by providing a whole range of sophisticated financial services to those who seek to participate in contemporary capitalism, but to do so in accordance with Muslim faith.

Efforts to build up an Islamic financial system reveal how the Malaysian state is seeking to create new networks rather than mapping on to the flows of resources, capital, and expertise that undergirded the heyday of developmentalism and in many respects drew upon the structure of earlier colonial networks {Gupta, 1998 #34}{Escobar, 1995 #21}. Thus, proponents of Islamic finance envision a new set of networks in which Europe and North America will play a

subordinate role to critical nodes located in the Middle East, and South, Southeast and East Asia. Thus, the Islamic financial network will be centered on cities like Kuala Lumpur, Dubai, Manama instead of New York, London, and Tokyo. Key to this remapping is the role that religion plays in enabling the formation of these networks. Previous global networks were premised on the “culture of financial circulation” {LiPuma, 2004 #1584}, paradigmatic of what Sharon Traweek has famously referred to as a “culture of no culture” {Traweek, 1988 #1544}, and guided by an economic rationality that presents itself as outside of history yet emerged only as the contingent outcome of a series of historical developments, that mainly took place in the West {Marx, 1977 #51; Weber, 1990 #164; Foucault, 2008 #953}. The efforts to make Malaysia a key node in the network of an Islamic alternative to the conventional financial infrastructure continues efforts to make the country as a leader in the Islamic world {Mutalib, 2008 #1585@32}.

Given Malaysia’s shared Islamic tradition with much of the Middle East and its proximity to the world’s fastest growing economies in Southeast and East Asia, including China, Indonesia, and Vietnam, the country is well positioned to become the a key broker for flows of Islamic capital between these two regions. High energy prices and the resulting vast amount of surplus capital in the oil and gas producing countries of the Middle East has led to the emergence of massive sovereign wealth funds in countries like the United Arab Emirates, Saudi Arabia, Kuwait, Qatar, and Libya. By developing the world’s most sophisticated Islamic financial system, Malaysia seeks to become the investment manager for Islamic investment in the fast growing economies of Asia and beyond. Indeed, the economic crisis that continues unabated in the United States and Europe and the massive losses that many investors suffered led many to question the reliability of conventional finance. Thus, Malaysia is ideally positioned, both

geographically and culturally, between the two most dynamic centers of global growth today and Islamic finance offers a key development strategy in the part of the world that many predict will be the fastest growing over the next several decades.

Another dimension of the afterlife of development that we have identified is the state taking less direct intervention into facilitating growth and instead embracing more of a managerial role. In its efforts to facilitate the emergence of viable transnational Islamic finance the Malaysian state is creating the infrastructure necessary for the development of Islamic finance, but not involved in starting up commercial firms. Thus, as described above it has developed a regulatory environment conducive to the smooth functioning of Islamic financial activities. Furthermore, it has offered incentives to conventional banks to establish Islamic operations, but has not established state banks. Furthermore, the state has encouraged private institutions to set up some of the key infrastructure for Islamic banking. Thus, it encouraged the private Bursa Malaysia, Malaysia's stock exchange, to create the Bursa Suq Al-Sila', to establish a mechanism for banks to lend to each other on a short-term basis.

The state's restrained approach in promoting Islamic finance is evident in its insistence that the Islamic sector compete with the conventional sector. Indeed, the Malaysian state assumed that Islamic banks should prove their competitiveness when it initially established the national Islamic banking system in the early 1980s {El-Din, 2007 #1492}. Whereas countries like Iran, Sudan, and Pakistan attempted the wholesale transformation of their national banking systems from conventional interest-based to Islamic at one time, Malaysia adopted a more measured "dual banking system" model (described above), in which the newly established Islamic system would operate alongside the conventional banking system that the country inherited from the British. The presumption that the Islamic system is in competition with the

conventional system persists among many proponents. For example, as Dato' Razif, the former Deputy Governor for Islamic Finance in the Central Bank, proclaimed, "Efforts, time and resources must be pooled among the Islamic finance community to...compete...with the larger conventional finance market" {Razif Abdul Kadir, 2010 #1493@emphasis added}.

Furthermore, the Central Bank has sought to spur growth and innovation by opening its borders to competition from Islamic financial institutions based outside Malaysia. The governor of the country's Central Bank, Zeti Akhtar Aziz, expressed optimism that "the new entrants...will have the opportunity to bridge [Southeast Asia and the Middle East]...as well as tap new markets in Malaysia and in the region, and promote healthy *competition* thereby contributing to elevate the industry to new levels of dynamism" {Aziz, 2005 #1494}. The pressure for Islamic finance to compete with conventional finance was evident in versions of a story that was repeated to me in different settings no fewer than three times during my fieldwork. The central theme of these accounts illustrates how the market reason inherent in conventional capitalism structures the finanscape² in which Islamic finance must compete. The story involved an Islamic finance professional arranging an investment fund for a client in the Middle East. Usually the client was from Saudi Arabia, but I also heard variations of the story in which the client was from the United Arab Emirates as well. According to the story the client expressed interest in investing some capital and phoned an Islamic financier to find out the scale of returns that he would make on an investment with their firm. The financier reported that his firm could sell him an Islamic bond (*sukuk*) that would pay a six percent return on his investment, the client responded that he could make eight percent on a bond offering comparable security in the

² I use Appadurai's notion of finanscape here to describe the sphere of financial action that cannot be isolated within the discrete space of sovereign nation-states {Appadurai, 1990 #96}.

conventional market. Since the financier was unable to guarantee as lucrative a return, the Muslim investor decided to eschew the Islamic system and invested his capital in the conventional market instead. Significantly in none of the various renditions of this story that I heard did the banker emphasize that using the Islamic instrument would better enable the investor to get to heaven according to the revealed word of Allah nor was there an emphasis on creating a stronger umma by enacting measures intended to create a more just and equitable world. Forcing the Islamic sector to compete with the conventional sector is a prime example of how the state seeks to indirectly promote the growth of this industry, rather than investing state resources as it might have done in an earlier developmental paradigm.

A third aspect of the afterlife of development is that individual citizens are called on to deploy expertise in their own lives. The creation of a viable Islamic financial system makes financial services not just necessary to obtain shelter, transportation and the other necessities of life. Instead, financial participation requires one to make a moral choice. Muslim citizens not only must shop around for financing, but decide to what extent their piety requires the extension of religious practice into domains that secularism presumes are separate from religion.

Furthermore, during my research on Islamic banks, a common refrain I heard from banking executives was that Islamic banking would require additional expertise on the part of consumers of banking products. For example, the former executive of a major Malaysian Islamic bank told me that Islamic finance requires a great deal more “financial literacy on the part of the average consumer” than conventional banking. He said that Islamic finance would require consumers to better understand what they were investing in, how their investments were structured, and what the risks were. Hamza, another Islamic finance executive at a financial services firm told me that instruments like deposit insurance “create economic problems”

because it discourages customers from “doing their due diligence.” Because deposit insurance guarantees deposits, customers do not “read the financial statements” of banks and “don't ensure that the bank is acting responsibly with their money.” Consumers simply depend on the government to insure the credibility of the banks. Hamza argued that an Islamic financial system demands that consumers spend more time exercising “due diligence” and monitoring the activities in which their banks are engaged. He continued:

At a conventional bank you just put your money in and you get a guaranteed return. With deposit insurance you don't need to worry about the possibility of a bank's failure. But interest and deposit insurance don't exist in the Islamic system—you may profit off the investment the bank makes with your deposit, but they might lose money as well. So consumers are going to have to go into with their eyes open. They are going to have to read the financial statements and do a lot more research on where their money goes and what it is doing than they did before.

The decentralization of expertise characteristic of the afterlife of development is evident in these injunctions to knowing subjects. Indeed, effective participation in Islamic finance will require levels of financial literacy unnecessary in the older system of conventional finance, which the Islamic system seeks to replace.

Finally, we argued that another aspect of the afterlife of development was the hybridization of knowledge. Islamic finance is designed to enable Muslims to participate in a modern economy by simultaneously observing the moral prescriptions regarding economic action put forward in the Qur'an and the hadiths. Malaysia's efforts to develop Islamic finance reveal how experts are seeking to create a form of capitalism that does not violate Islamic

injunctions regarding money. This has produced new figures of expertise such as the shariah scholars who now exercise a measure of authority about how major banks execute contracts that can total in the hundreds of millions of dollars. Recall Dato' Razif's appeal quoted above enjoining shariah scholars to become Islamic bankers. His appeal illustrates that converting conventional bankers into Islamic financiers will not achieve the desired configuration of Islamic finance. Instead shariah scholars must be converted into bankers. The reflection on shariah-compliant Islamic finance and efforts to formulate a shariah-based system instead requires that future Islamic finance practitioners create new forms that do not begin with conventional instruments, but rather create new financial forms from the ground up.

Joshua Barker and Johan Lindquist have recently enjoined anthropologists to focus on "figures of modernity": social types who, in their words "comment upon a particular historical moment in the complex articulation of large-scale processes" (Barker and Lindquist 2009:37). I would suggest that it might be useful to think about such figures not only in national terms, but also in terms of expertise. The figure of development was the technocrat armed with a suitcase of rational plans, scientific principles, and new genetic strains that might bring progress, well-being and ultimately modernity to a world "underdeveloped." In contrast, if Dato' Razif's plea is followed, one figure of the afterlife of development is the shariah scholar who seeks to read the Qur'an and the Sunnah in new light and in so doing reconcile a path toward well-being that is faithful simultaneously to religious prescriptions and economic demands.

