Conceptualizing Islamic banking and finance: A comparison of its development and governance in Malaysia and Singapore

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ABSTRACT
In response to the limited engagement with critical social science concerning the governance of Islamic banking and finance (IBF), this paper compares and conceptualizes the development and governance of IBF in Malaysia and Singapore. We argue that IBF governance in Malaysia and Singapore can be distinguished on the basis of ethnic politics, moral suasion, product demand, product innovation, and the character of state practices. Concerning the latter, we contend that the political economy of both countries can be characterized as broadly involving a 'neoliberal-developmentalism' (Liow, 2012), but we nuance this by positing a transition in Malaysia from a '*semi*-developmentalism' in the 1980s to what we call an 'Islamic and internationalising ordoliberalism' beginning in the 2000s. In turn, the governance of IBF in Singapore involves a combination of neoliberal developmentalism, which nonetheless also entails some form of Islamic ordoliberalism.

Key words: development, Islamic finance, international financial centre, governance, neoliberalisation, Malaysia, Singapore

1 Introduction

While the evolution and governance of Islamic banking and finance (IBF) in Malaysia has received considerable *empirical* attention, Singapore has remained outside the focus of most research on IBF, and in both cases, the development and governance of IBF has received little theoretical or conceptual treatment. In addressing this lacuna in the literature, we offer a comparison of IBF in a Muslim-majority country (Malaysia) and Muslim-minority country (Singapore) since the 1980s to analyze the ways in which the practice of IBF has unfolded across these two different state spaces, and discuss their significance for a conceptual understanding of the development and governance of IBF. While both states have legitimized the pursuit of IBF as part of an agenda to secure and build upon Kuala Lumpur and Singapore's aspirations as international financial centers (IFCs), the development and governance of IBF in these two national states have taken different turns through different mechanisms and forms of institutional governance.

To be more specific, we contend that both the Malaysian and Singaporean states exhibit features of 'neoliberal-developmentalism' (Liow 2012; Elias and Rethel, 2016). However, for Malaysia, we argue that this involved a 'semi-developmentalism' during the 1980s that gradually evolved into an Islamic and internationally-oriented 'ordoliberalism' rather than a strictly market-driven approach over the last 15 years. For Singapore, while certainly not discounting broader developmental efforts, we maintain that the government has pursued a more market-driven approach for IBF but which also increasingly involves elements of ordo-liberalism. With such broad political economic distinctions in mind, we then focus on particular rationales and practices to distinguish between the governance of IBF in the two countries, based on the presence of ethnic politics, the moral suasion employed by domestic agencies in promoting Islamic financial product innovation (such as *sukuk*); the extent of the demand for *Sharia*-compliant banking and financial products, the centrality of *Sharia* governance, the substantive fiscal support provided by the Malaysian government as compared to the more passive 'tax neutrality' approach of the Singaporean state; and the more comprehensive and activist approach taken in Malaysia to construct a fully-fledged IBF 'ecosystem' in contrast to a more selective and market-based approach in Singapore.

The rest of this paper is structured as follows. In the next section, we briefly outline the main contours of IBF and argue for a critical conceptual approach to analyzing how the international financial architecture and national political economies might intersect in the development of new financial markets—in this case, that of IBF in Malaysia and Singapore.

We then sketch out the currently limited conceptual literature on IBF in Malaysia and Singapore in Section 3. In Sections 4 and 5, we present empirical analyses of the development and governance of IBF in Malaysia and Singapore to illustrate our conceptual arguments. In the conclusion, we reiterate our main findings and reflect upon our contribution to the existing critical social scientific literature on the governance of IBF, as well as considering some avenues for further research.

2 Conceptualizing IBF in a post-neoliberal world?

IBF is a form of banking and finance which is rooted in *Sharia* law, and is considered by many of its practitioners to be a more 'socially just' system of finance than 'conventional finance'. IBF entails a number of prohibitions. Among the most pivotal is the injunction against *riba* (interest). Other, perhaps equally important prohibitions include *Gharar* (excessive risk, uncertainty), *maysir* (gambling) and 'making money from money' (currency speculation or many financial derivatives would be examples). In addition, Islamic financial institutions (IFIs) should not invest in businesses that trade in products, services, or forms of entertainment deemed *haram*. In light of the prohibition on 'making money from money', financial transactions should in principle be asset-based, such as around real estate or commodities. IBF products and services extend across the spectrum from deposit accounts to project-financing to *takaful* (insurance). While transactions that are rooted in 'equity-financing' or 'profit-sharing' (referred to as *musharaka* and *mudarabah*) are often seen as ideal by *Sharia* scholars and many Islamic bankers and financiers, a dominant form of contract continues to be *murabaha* or cost-plus financing, which, like other financial instruments such as *sukuk* (Islamic bonds), have produced debate among many observers (both Muslim and non-Muslim alike) as to the 'Islamicness' of IBF. The decision to deem a certain product or service as Islamically acceptable is the work of *Sharia* scholars of a given

Sharia Supervisory Board and this itself involves *ijtihad* or the interpretation of the *Qu'ran* and the Hadiths. Institutionally, most Islamic banks and other IFIs will have their own *Sharia* Supervisory Board (SSB) which pronounce on (but may not be the ultimate arbiter of) the 'Islamicness' or *Sharia*-compliance of particular transactions.

One way of incorporating a critical conceptual approach to the governance of IBF is to think about 'neoliberalisation' in somewhat more nuanced terms. This can be achieved initially through what Brenner *et al.* (2010) call 'variegated neoliberalisation' and more specifically 'market disciplinary rule regimes' (for our purposes here, we mean the International Financial Architecture or IFA). Their general and abstract concept of 'rule regimes' are described as entailing '…transnationally interconnected, rolling programs of market-driven reform that draw upon shared vocabularies, policy repertoires and institutional mechanisms derived from earlier rounds of market driven regulatory experimentation' (p. 209). These in turn shape how capital accumulation unfolds. In less abstract terms, the IFA has become a commonplace concept for describing a lattice of institutions, rules, regulations, standards, and practices that regulate international monetary management and payments, insurance, accountancy, and corporate governance, dominated by wealthier countries and associated with neoliberalisation. In this sense, the IFA is generally understood to include a related coterie of both state and non-state (private) institutions, such as (but not limited to) the Basel Committee on Banking Supervision, the Financial Stability Board, the International Accounting Standards Board, the International Financial Reporting Standards, the International Monetary Fund, and the World Bank. While the concept of a *global* financial architecture has considerable appeal, we maintain that this architecture should be more properly labelled an *international* financial architecture — one that conceptually privileges national governments in the formation, interpretation, modification or non-compliance of supposedly global regulation, rules, and standards. In short, the IFA is domesticated in different ways and states have differential capacities to implement adjustment policies and to support or undermine the existing IFA (e.g. Walter 2008). Moreover, the ways in which Islamic financial standards and practices have unfolded across national economies also intersects with this uneven landscape of IFA and state power in variegated ways, as we will demonstrate through the empirical cases of IBF in Malaysia and Singapore.

With respect to the relationship between the IFA and IBF, a handful of critical/non-neo-classical conceptual studies have explored the relationship between the governance of conventional finance and the governance of IBF (Fang 2014; Karim, 2010; Mohamad and Saravanamuttu, 2015; Pollard and Samers, 2007, 2013; Pitluck 2013; Rethel 2010a). While Pitluck (2013) argues that IBF is governed through a 'mimesis' of the IFA, Rethel (2010a) offers a more nuanced argument of the ways in which '…while Islamic finance challenges Western, more specifically Anglo-American dominance of the international financial system, at the same time it serves to reproduce, to legitimise and thus to further entrench the knowledge structures that underpin contemporary finance' (2010a: 76). This means that in terms of establishing and strengthening the legitimacy of IBF, the specific products as well as their governance structures must necessarily appeal to the traditional Muslim constituency as well as the realm of global finance within which IBF seeks to become established. Fang (2014), in turn, argues against Susan Strange's 'structural power' of 'conventional financial practices' and instead suggests that the actors associated with IBF do not necessarily need to acquiesce to the 'structural power' of the supposed IFA and its neoliberalising processes. Following on from the arguments above, we draw upon the idea of 'small n' neoliberalism (Ong 2006; Collier 2012) in conceptualizing the development and governance of IBF. This approach does not *begin* with neoliberalisation but imagine it as only *one dimension* of political economy. In this vein, the development and governance of IBF should not be viewed just as an alternative to conventional banking and finance; instead we hold to the view that

IBF participates in the emergence of a multipolar financial landscape by shifting the flow and concentration of capital from Euro-American financial hubs to other regions (e.g. Pollard and Samers, 2007), as well as the ways in which the IFA and national political economies might intersect in the development of new financial markets.

3 On national political economies

With or without reference to IBF, the national political economies of Malaysia and Singapore have been characterized as developmentalist or developmental (e.g. Funston, 2001; Lai, 2015), as authoritarian strong states (Slater 2012); and, in the case of Singapore, as a hybrid 'neoliberal-developmental' state (Liow 2012). Malaysia has been analyzed as 'semi-developmentalist' (Henderson, 1999; Rhodes and Higgott, 2000), as shaped by 'acquisitive corruption' and as a 'weak' state (Henderson, 1999); as 'neoliberal developmental' (Elias and Rethel, 2016), as 'post-developmental' with neoliberal strategies in which specific zones (or regions) and populations within countries are turned outwards towards an engagement with the neoliberal global financial order (Ong 2006); as formerly 'crony capitalist' changing to neoliberal after 2000 (Rethel 2010b), and as a 'competitive authoritarian' regime (Pepinsky 2009). The effect of cultural and religious practices on state power and governance, particularly in Malaysia have also been noted in terms of how states address Islamist challenges (Henderson, 1999; Nasr, 2001).

At this point, it is worth elaborating on the ideas of the 'neoliberal developmental' state and 'semi-developmentalism' in terms of their significance for conceptualizing IBF. For Liow, the 'neoliberal development state' involves 'integrating aspects of the neoliberal economic model into the developmental state, with all the latter's associated features of direct state intervention into the economy, and the resulting power interests and relations from such interventions continuing to persist' (p. 243). As such, 'neoliberal' involves at least two elements: a 'neoliberal governmentality' in a Foucauldian sense (that is 'the conduct of conduct') and a 'regulatory neoliberalism'. The latter is what concerns us here, and we see this as regulatory restructuring that comprises both market-making processes and the rise of marketised forms of governance, although with different features and temporalities for Malaysia and Singapore.

Developmentalism as a concept is often poorly defined in the literature, and its continued relevance has been debated.[1] For the purpose of this paper, we take it to mean not just strong state intervention geared towards economic growth, as Liow seems to generically define it, but that a 'state is developmental when it establishes as its principle of legitimacy its ability to promote and sustain development' (Castells 1992: 56–7, cited in Stubbs 2009, 6). In this sense, we view the Malaysian state as 'semi-developmentalist' insofar as i) it retains many elements of developmentalism (see e.g. Lai, 2015) in its direction of certain economic 'projects' – among them the growth of IBF, but ii) it has been shaped by, and also legitimated through, 'ethnic politics'. We elaborate on this in the subsequent discussion.

In Malaysia, the rise and governance of IBF specifically has received considerable *empirical* attention concerning its emergence in the 1980s and its rapid growth in the 1990s and 2000s (e.g. Ariff and Rosly, 2011; Hadiz and Khoo 2011; Haneef 2001; Karim 2010; Lai, 2015; Liow 2009; Mohamad and Saravanamuttu, 2015; Naguib and Smucker, 2010; Nasr 2001; Rudnyckyj, 2014; Tripp, 2006; Venardos 2012; Wilson 1998). This literature assumes three strands. First, much of it highlights the ambivalent 'modernisation', 'westernisation', or 'globalisation' associated with the intersection of economic development and IBF in Malaysia. Others tend to situate IBF within a wider Islamisation of economic activity in Malaysia. Among these, Nasr (2001) makes two points. He insists on the state's promotion of a 'moderate' Islamisation of the financial sector, for example, as a way to control and co-opt Islamically-inflected political parties. Furthermore, Nasr stressed the state's preoccupation with economic growth and hegemony over an ethnically fractured postcolonial society, in which paradoxically, an ascendant private sector coincided with increasing control of 'the economy' by the state. While Mohamad and Saravanamuttu (2015) certainly follow in this vein, they highlight a paradox in which IBF involves 'an alliance of capitalists and technocrats' which avoids '…the encumbrances of religion whenever it is imperative to do so even when they are dependent on religion for their legitimacy' (p. 212). They argue further that 'in despite or because of this paradox, IBF fits well within the restructuring agenda of a post-neoliberal global financial order' (*ibid*). This is accomplished through a 'decoupling of its institutional make-up from the traditional, mainstream religious structures of the state' (*ibid*). Ultimately, for Islamic bankers, financiers, and their regulators, IBF is projected not as an artifact of religion but molded into a saleable product. Thus, as Mohamad and Saravanamuttu contest, practitioners and regulators of Islamic finance oscillate between religious legitimacy (a certain moral suasion) and putatively non-Islamic practices.

From a less ideology or discourse-centred perspective, an *implicit* debate asks whether developmental or more market logics are at work in the evolution and governance of IBF in Malaysia. On one hand, Lai (2015) draws parallels between financial policies and industrial policies and emphasizes (developmental) government policies to foster the growth of IBF as part of a wider strategy of building a globally-competitive national financial sector in Malaysia. On the other hand, Mohamad and Saravanamuttu (2015) argue that Malaysia involves two 'neoliberal exceptions' that i) entail the dominance of Malaysia's central bank (Bank Negara Malaysia) over the more religiously conservative judiciary in the governance of IBF and ii) comprises what they call a 'post-secular *ijtihad*' (we discuss these points further in the empirical section). In a different terminology but echoing to some degree the 'neoliberalisation' or even 'ordoliberalisation' of governance, Rudnyckyj (2014) speaks of the 'afterlives of development' in Malaysia, in which the state is less a developmental one seeking direct investment and less ‘a direct participant’ in IBF (p. 78), than a managerial or incubator state that privileges private actors (institutions and individuals in Islamic financial networks) as agents of Islamic financial services growth beyond the state. To be more precise, the state no longer creates commercial firms (as it did in the 1970s and 1980s), nor does it endeavor to support them financially, but rather incubates them through institutional infrastructure. While neither the timing nor a conceptual understanding of the rise of the managerial or incubator state are offered by him, the form of state Rudnyckyj has in mind seems to combine both neoliberal and ‘ordoliberal’ practices; the latter involving state practices designed to ensure ‘economic freedom’ through *inter alia* the guarantee of competition and the promotion of entrepreneurialism (e.g. Bonefeld 2011). In context, this would involve the management and regulation of IBF in order to expand the domestic and international demand for IBF.

In contrast to Malaysia, there has been a distinctive paucity of both theoretical and empirical research on IBF in Singapore. Scholarly and more policy-oriented research on IBF predominantly relates to legal frameworks and governance issues arising from implementing *Sharia* laws on financial products and implications for compliance and risk management (Chia and Wang 2008; White 2009). Other studies are broad surveys of IBF markets and services in Singapore with limited engagement with critical social science theories or political economic analysis (Gerrard and Cunningham 1997; Venardos 2012). Since the early 2000s, the Singapore government has embarked on a distinctive push towards developing the city-state as a premier IFC and regional financial services hub, particularly in terms of developing deeper and more diverse capital markets and widening range of financial products and services (Lai 2013; Lai and Tan 2015). IBF in Singapore therefore sits within this context of a wider strategy for IFC growth. Given the limited critical conceptual interventions on the governance of IBF in both countries, and the lack of research on IBF in Singapore specifically, we identify two challenges: conceptualizing any commonalities or differences in state processes across national political economies, and the need to understand the intersection of market disciplinary rule regimes and the development and governance of IBF in Malaysia and Singapore. In this paper then, we draw on the three closely related concepts discussed above namely: Liow's notion of the neoliberal developmental state, 'semi-developmentalism' and an Islamically-inflected neoliberalism (or even 'ordoliberalism), in order to frame our empirical analysis.

4 MALAYSIA

4.1 From Islamisation to the development of IBF: semi-developmentalism in practice

The development of IBF in Malaysia can be *partly* traced to ethnic politics and the desire to address the poverty of the *Bumiputera* (indigenous Muslim Malays) and urban/rural income inequalities through the 1971 New Economic Policy. An embodiment of this continued endeavor is Mahathir Mohamad (henceforth Mahathir), who became the Prime Minister of Malaysia and head of the UMNO in 1981. His victory signalled the failure of PAS (*Partai Islam Se Malaysia* - an opposition party with a conservative Islamist agenda) to capture the interests of the growing Malaysian working and middle classes. Mahathir emerged as a 'moderniser' who viewed Islam as integral to an industrialising, modernising, and cosmopolitan Malaysia, despite Malaysia's constitutionally 'secular' government. However, this Islamic revival concerned not simply the application of *Sharia*, but rather the benefit and enrichment of Muslims. Such a move would stave off protest from PAS, which broadly-speaking held capitalist development to be un-Islamic, while also reassuring Chinese entrepreneurs and investors that Malaysian Islamism would not threaten their investments. His political project therefore had ethical but also practical purposes (Hadiz and Khoo 2011; Haneef 2001; Liow 2009; Nasr 2001; Tripp 2006).

While Mahathir envisioned an ‘Islamic developmental state’, he sought a ‘moderate’ Islam distinct from a more restrictive or even radical Islam associated with the Middle East and PAS. He therefore wished to orient the Malaysian economy towards the ASEAN countries rather than towards the Middle East (Naguib and Smucker 2010; Nasr 2001). This presented another challenge: while Mahathir’s project gained some of its legitimacy by equalizing the entrepreneurial rates of Chinese Malaysians and ethnic Malays, this appeared to foster greater economic and political inequalities among Malays. In so doing, Nasr (2001) and Hadiz and Khoo (2011) argue that the ruling UMNO had to ensure its control over Islamic politics as a way of mitigating the possibilities of an Islamic resistance to Mahathir’s developmental strategies. In other words, Islamisation would be a crude way of placating the disaffected. This strategy seemed to work well throughout the 1980s and 1990s, as the Malaysian economy expanded. Ultimately, Mahathir managed to thwart widespread protest against the politics of the UMNO, and carry forward his version of Islamic capitalism (Case 2009; Hadiz and Khoo 2011; Nasr 2001). While we acknowledge that Islamisation may be a product of what Nasr (2001) calls a weak state given the UMNO’s need to placate the PAS and the problems of intra-Malay inequalities, there is little doubt that during the 1980s and 1990s, Mahathir would push through the development of IBF with little protest from poorer *Bumiputera* who viewed IBF as an antidote to the political economic power of financial elites in Malaysia.

In 1981, Mahathir, together with Malaysia’s Central Bank (Bank Negara Malaysia or BNM), created a National Steering Committee to establish Islamic banking in Malaysia. Barely two years later, the UNMO passed a far-reaching Islamisation program that included the 1983 Islamic Banking Act, which did not Islamise the entire banking system but provided Muslims with an Islamic banking option. Boosted by income from oil and gas production (Mohamad and Sarvanamuttu, 2015), the government also established the first Islamic bank in Malaysia: the Bank Islam Malaysia Berhad (BIMB) in 1983 (Haneef 2001; Nasr 2001), which in turn established the *Syarikat Takaful Malaysia* in 1985, one of the first Islamic insurance companies in the world, and the first to provide *mudarabah* contracts in insurance (Rudnyckyj, 2014; Warde 2010). Both of these enterprises grew rapidly during the 1980s in the context of general market liberalisation, which entailed relaxing regulations on share issues, reducing corporate taxes, and lowering capital reserve requirements for banks in order to encourage equity purchasing and capital market expansion. These developments in IBF and the liberalisation of financial markets worked to UMNO's advantage since such policies sought to increase the wealth of the *Bumiputera*. Nonetheless, IBF figured only marginally within Malaysian banking and finance at this point (Haneef 2001; Nasr 2001; Rethel 2010b).

4.2 The governance of rapid IBF growth in Malaysia: semi-developmentalism and emerging ordoliberalism

IBF in Malaysia experienced more substantive momentum from 1993 onwards. At the same time, financial market liberalisation, a growing interest in stocks and bonds, coupled with the flexible interpretation of *Sharia* principles (what Mohamad and Sarvanamattu (2015) call 'post-secular *ijtihad*') enabled the creation of the first *sukuk* (Islamic bond) in 1990 (Rethel, 2010b). In 1992, Mahathir opened IKIM (the *Institut Kefahaman Islam Malaysia*), which began as a government think-tank for Islamic issues and evolved into a powerful organisation that published numerous documents and created policies justifying Mahathir's form of Islamic (but western-inflected) capitalism, innovative IBF, and the 'Vision 2020' policy designed to propel Malaysia to the status of 'developed country' (Nasr 2001). The opening of IKIM heralded in a period of rapid growth for IBF during the 1990s, and Malaysian scholars and bankers soon developed a reputation for financial innovation (Yakcop 2003; Warde 2010).

To reinforce this trajectory, BNM accelerated the growth of IBF by introducing a scheme in 1993 allowing conventional financial institutions to operate with two divisions – one charging interest, and the other *Sharia*-compliant (their so-called 'Islamic window'). In doing so, the establishment of these windows undermined the monopoly of BIMB (Lai, 2015), and the government viewed this 'dual system' as the most effective and rapid means of increasing the number of institutions offering IBF services at the lowest cost. Again, the move also signalled that the government 'maintained a prudent and evolutionary approach' (*ibid*, 184), to the growth of IBF by referring to the 'Interest-Free Banking Scheme' rather than by constructing a fully coherent and generalized Islamic banking and financial system, which would also risk protest from non-Malay minorities (Haneef 2001; Haq 2010; Karim 2010; Lai, 2015). Alongside the development of Islamic windows, the government took a somewhat more active move by creating Khazanah in 1993 (a sovereign wealth fund) that begun to issue *sukuk*, and whose issuances remain crucial to innovation in IBF in the 21st century (Lai, 2015). Furthermore, in 1994, the government created Islamic mutual funds, the first Islamic Interbank Money Market, Islamic debt securities, including Islamic mortgage bonds based on *mudaraba* (essentially profit and loss sharing contracts), the creation of an interest-free Islamic credit card, and promoted Kuala Lumpur as the centre for an Islamic capital market, particularly for *sukuk* in the 2000s (Haneef 2001; Warde 2010). Islamic capital markets, which could be deemed more Islamically acceptable than the prevailing debt-based instruments in the banking sector would provide liquidity for the latter. Alongside these innovations and institutional instruments, the government eliminated stamp duty on a number of Islamic contracts (but especially *Bai'-Bithaman ajil*-based mortgages) through a series of orders in 2000, 2002, and 2004 (MIA, 2012). The comparatively consistent, Central-bank-managed *Sharia* regulation, and relatively permissive innovation environment became attractive to Islamic bankers and financiers in Malaysia. The rapid expansion of IBF (with assets growing by 49% between 1995 and 1999 even through the 1997 Asian financial crisis) encouraged the BNM to establish a central dominating Islamic regulator for IBF – the National *Sharia* Advisory Council *(*NSAC) in 1997; create another Islamic bank (Bank Bumi Muamalat) set growth targets for commercial banks providing Islamic finance, and formulate the Financial Sector Master Plan in 2001, which set an agenda for increasing IBF to 20% of the banking and insurance market by 2010. This target would in fact be met – even exceeded – and the government renamed the so-called 'Interest-free banking system' to the 'Islamic Banking Scheme', signaling the intent of policy-makers to focus increasingly on developing and legitimizing IBF (Karim 2010; Lai, 2015).

4.3 Semi-developmentalism and Islamic ordoliberalism in the 21st century

'Semi-developmentalism' persisted into the 21st century insofar as developmental initiatives continued to remain contested (Pepinsky 2009; Noh, 2014). Nonetheless, the support of IBF became more assertive in the 21st century which we are characterizing as an Islamic and internationalizing ordoliberalism. By 2001, the Malaysian government demonstrated a unique path among Islamic states by mixing innovative developments in *Sharia*-compliant finance with the gradual but dualistic Islamisation of the banking and finance systems in order to promulgate a form of Islamic capitalist development that acknowledged globally competitive financial markets, and which would encourage foreign investment in a country reeling from the Asian financial crisis. At the same time, it legitimated Mahathir's version of Islamisation to many Malays at least, and encouraged Malays in both urban and rural areas to use IFIs. This had the additional benefit of drawing Malaysians in rural areas away from the PAS, thus potentially strengthening UMNO's political power in the face of significant political victories by the PAS in the 1999 general elections (Lai, 2015; Nasr 2001; Rudnyckyj, 2014).

The gradual approval of Malaysian innovation by *sharia* scholars and bankers in the Gulf states further cemented Malaysia's central role in the development of a more globally-oriented IBF (Warde, 2008), as witnessed in the first sovereign *sukuk* issued by the Malaysian government in 2002 (Warde, 2010) in which half the investors were based in the Gulf States (Lai, 2015). With international acceptance of a certain 'Malaysian model' of IBF, the government pursued a strategy of internationalizing Malaysian IFIs during the first half of the 2000s, and welcomed foreign investment, initially by setting up the International Islamic Financial Market at its Labuan International Offshore Financial Center in 2001. This had the intent of establishing Labuan as another magnet for foreign *Sharia*-compliant investments (Venardos 2012; Warde 2010). After the lobbying push by Mahathir in 2002, the Organization of the Islamic Conference (OIC) chose to locate the Islamic Financial Services Board (IFSB) in Kuala Lumpur in 2002, which marked another milestone in the positioning of Malaysia as a hub for Islamic financial services, and its internationalizing strategies.

In 2004, three related and significant events transpired. First, the government opened up IBF to foreign (especially Gulf-based) IFIs, removed a number of restrictions on their operations, and incorporated them under the Islamic banking Act of 1983 (Razak and Karim 2008; Warde 2010). Second, the BNM ended the 'Islamic windows program' and impelled conventional banks to set up fully Islamic subsidiaries as the Central Bank was worried about how the potentially *haram* activities of conventional banks would be separated from their Islamic windows. In practice however, the subsidiary 'fell back on their "parents" to settle overnight debts rather than rely on the Islamic money market' (Rudnyckyj, 2014, 79). Third, the Sharia advisory council of the Securities Commission established a parallel governance framework for the issuance of Islamic debt securities, although the NSAC would eventually become the ultimate arbiter of *Sharia*-compliance (we discuss this further below). This form of IBF infrastructure development continued under the leadership of Prime Minister Abdullah

(2003-2009), with the creation of the International Centre for Education in Islamic Finance in 2005 and the International Sharia Research Academy (ISRA) in 2008. The former provides a globally-oriented education on Islamic finance to mostly conventional bankers who do not have deep understanding of *Sharia* and Islamic contracts. The ISRA provides a pipeline between academics and practitioners of IBF in terms of practical research and aims to bridge knowledge of *fatwa* between the Middle East and Southeast Asia by translating *fatwa* from Arabic to English and back again. More specifically, it organizes two *Sharia* forums annually, which are designed to bring together participants from around the world to establish new Islamic networks in contradistinction to conventional networks and position Malaysia as a leader in the Islamic world (Rudnyckyj 2014).

However, the establishment of these institutions should not be read as simply a form of state-directed developmentalism, as such quasi-state multilateral institutions are driven by the wish to globalize IBF and are governed by 'globalizing technocrats' rather than necessarily by state leaders (see Mohamad and Saravanamuttu 2015; Rundyckyj 2014). Nevertheless, beyond educational infrastructure, the state has continued to steer IBF in at least eight ways after the 2008 global financial crisis. While Lai (2015) refers to this 'steering' as a 'strategic developmental framework', we suggest the concept of an Islamic ordoliberalism alongside purely 'market rule' and the private Islamic financial networks identified by Rudnyckyj (2014). First, the Malaysian government launched the Malaysia International Islamic Financial Centre initiative in 2006 that aimed to bring together both state actors and networks of private firms in the IBF industry (MIFC 2016). Second, within the Financial Sector Blueprint (2011-2020) developed under current Prime Minister Najib, the government has sanctioned mergers and acquisitions between Malaysian-owned IFIs to reduce competition (BNM, 2015), including Khazanah's 2016 bid for Hong Leong's Financial Group (*FMT News*, July 19, 2016). Third, it has continued to significantly alter the size of the global *sukuk* market through its decision to issue *sukuk* (or not) (*Reuters* 9 July 2015). Fourth, it increased the foreign equity partnership ceilings from 49 to 70% in 2009 for both Islamic banks and *Takaful* operations, while conventional banks were limited to 30% (BNM, 2009). Fifth, it has remained pivotal in creating operational standards (in terms of accounting, governance, market conduct, and risk management) and 'end-to-end compliance' for all IFIs and conventional banks with 'Islamic windows'. BNM has remained paramount here through the Central Bank of Malaysia Act (CBMA) of 2009 (that replaced a 1958 Act), in which the bank's *Sharia* Advisory Council cemented its power over the judiciary as the chief arbiter and regulator of IBF in Malaysia (Mohamad and Saravanamattu, 2015). Sixth, the BNM created the Law Harmonisation Committee in 2010 to bridge divides between *Sharia* and civil law. Seventh, it helped to establish the Kuala Lumpur-headquartered Islamic Liquidity Management Corporation in the same year, which has sought to "facilitate cross-border liquidity management". In order to facilitate such flows in and out of Malaysia, the government required a coherent legal framework, which culminated in the Islamic Financial Services Act of 2013 (IFSA) and the 2013 *takaful* (insurance) laws that replaced the Islamic Banking Act and *Takaful* Acts of 1983 and 1984 respectively (BNM, 2013; IFSB 2015). Notably, the 2013 acts put in place penal consequences that would ensure that Sharia scholars were responsible for the Sharia-compliance of their rulings, suggesting a balancing on the part of the Malaysian government between the imperative of innovation and international competitiveness, with the religious conviction of *sharia*-compliance. Finally, in 2013, the BNM created favourable fiscal policies to develop Halal 'pharma', a Halal 'bioeconomy', and a Halal food certification program, both domestically and for export (IRTI, 2015).

In examining the governance of IBF then, we demonstrated that the Malaysian government promoted IBF through a changing pattern of Islamic interventionism that we characterised as 'semi-developmental' in the 1980s and 1990s. However, by the early 2000s, the growth of IBF began to increasingly involve, as both Rudnyckyj (2014) and Mohamad and Saravanamuttu (2015) stress, private 'Islamic financial networks' beyond the state. Such networks were shaped however through state support, which may in turn be considered an Islamic and internationalising ordoliberalism, rather than simply 'market rule'.

5 Singapore

5.1 Promoting IBF as Complementing IFC Growth

While the development of IBF in Malaysia was positioned as a vital element of its IFC strategy, by promoting Kuala Lumpur as the centre for an Islamic capital market standards setting and regulatory governance, IBF in Singapore is seen as niche market within a broader government strategy of financial innovation in building a broad-based IFC. This explains the relatively early but rather tentative and piecemeal approach taken by the state in engaging with IBF products and related governance structures. The first Islamic financial product, the Mendaki Growth Fund, was launched in 1991 as one of the earliest *Sharia* compliant funds worldwide (Gulf-Asia *Sharia* Compliant Investments Association 2014). Two new Islamic insurance (*takaful*) schemes followed in 1995, both supported by government organisations such as Keppel Bank (a government-owned bank), and NTUC Income (a large insurance co-operative with close government ties). These *takaful* products were billed as test cases before further steps were taken to introduce other IBF products (AMPRO Holdings 1995). After these initial forays, IBF activities in Singapore remained rather obscure through the rest of the 1990s with no particularly significant development. Although the government took the initial step in bringing IBF to market, it then took a back seat to observe how the IBF market might develop organically. During this period, the interest in IBF products proved rather limited amongst both Muslim and non-Muslim financial consumers (Gerrard and Cunningham 1997) due to a general lack of awareness about IBF products and with plenty of other options available in the conventional market for financial and investment products.

This began to change in the early 2000s with growing potential for increased trade and financial ties with the Middle East. In this sense, the development of IBF was driven more by external political economic considerations, as compared to the domestic factors that were prevalent in Malaysia. With augmented investment flows between the Middle East and the growing economies of Asia, Singapore's status as an IFC was specifically highlighted in government speeches as being particularly important in intermediating and facilitating such capital flows and economic ties (Goh 2005). The mounting interest and relevance of IBF in Singapore was therefore intended to leverage on (and further extend) the economic competitiveness of Singapore as a financial hub, which stands in contrast with the issues of ethnic politics and legitimacy in Malaysia. This explains the Singaporean government's wholesale approach to IBF, as compared to the more retail-based approach in Malaysia. Since Singapore has a much smaller domestic market for IBF, unlike neighbouring Malaysia and Indonesia, the focus has been on building off the infrastructure currently in place, to offer wholesale market activities in the areas of capital markets activities and wealth management, and persuading financial institutions to add on IBF products and services to the existing suite of activities. As explained by the then deputy director of the Monetary Authority of Singapore (MAS):

> We have previously preferred to let the market find its own pace and niche. Increasingly though, we recognise that if Singapore, as a major financial centre, were to be a part in the global growth of Islamic finance, MAS has to be involved in the market's future development, and sooner rather than later (Ong 2005).

As the IBF sector took on greater strategic importance for Singapore's role as an international financial centre and regional hub, the government adopted a more proactive stance towards stimulating IBF activities. Rather than direct intervention in the IBF sector, the MAS adopted a more market-oriented approach in shaping the scope of IBF development through regulatory reviews, greater participation in international Islamic governing bodies and, later on, tax revisions for IBF products. Instead of establishing a separate regulatory framework for IBF, MAS applied a common framework as it considered an Islamic bank to encounter the same types of risks (e.g. credit risk, liquidity risk and operational risks) and similar prudential and supervisory issues as a conventional bank (Vernados, 2012). As a prudential regulator, MAS does not prescribe what constitutes *Sharia* compliance nor endorse specific *Sharia* rulings and the responsibility would lie with Islamic banks (or conventional banks offering IBF products) to take into account *Sharia* compliance and to manage this compliance risk as part of their overall risk management process (Chia and Wang 2008). Folding IBF within a common regulatory framework thus allows for greater flexibility in financial innovation and future market development, as it keeps the doors open for potential intersections between Islamic and conventional finance, in terms of financial expertise, business reorganisation, and potential investors.

The year 2005 marked the beginnings of accelerated regulatory developments in opening up greater scope for IBF activities in Singapore (*Islamic Finance News* 2009). First, the MAS remitted the additional stamp duties that Islamic financing arrangements on property were incurring, and allowed banks to offer *Murabahah* financing. Second, it joined the Kuala Lumpur-based Islamic Financial Services Board (IFSB) as a full member, after 2 years in 'observer status'. Through participation in the various working groups and task forces in areas like supervisory review, Islamic money markets, capital adequacy, liquidity management and solvency requirements for *takaful* operations, the MAS was acquiring much needed technical knowledge and building professional networks (MAS 2011). At the same time, Singapore's experience with global financial governance bodies was deemed particularly advantageous as developing IBF regulatory expertise could be nurtured 'by sharing [MAS'] own experience in other international regulatory working committees such as banking's BIS, securities' IOSCO, and insurance's IAIS' (Ong 2005). Third, a series of tax policies in 2006-2008 were implemented to boost the IBF market, such as tax clarification on *murabaha* financing and *sukuk*, which gave participants the same regulatory protection under Singapore's Bank Act as any conventional depositor. Tax concessions were also granted on qualifying *Sharia*-compliant financial activities, including lending, fund management, insurance and reinsurance. Finally, new regulations in 2009 permitting banks to conduct new IBF activities (e.g. *murabaha* interbank placements, *ijara*, and spot *murabaha*) also sent a clear signal to markets encouraging financial innovation (MAS 2011).

5.2 IBF beyond Singapore: Leveraging on IFC networks

Since the late 2000s, IBF activities have grown at a quicker pace with the issuance of numerous *sukuk* programmes *and murabaha* financing deals, with particular success in *Sharia*-compliant REITs. Singapore's role as a leading insurance centre in Asia is also evident in attracting cross-border IBF activities. In the late-2000s, for instance, the issue managers of *sukuk* by Pakistan and the Malaysian state of Sarawak held road shows in Singapore to reach out to the established pool of institutional investors. Leveraging on the critical mass of reinsurers based in Singapore is also deemed beneficial for *takaful* players seeking to collaborate with reinsurers in Singapore to provide *retakaful* capacity (Teo 2005). A significant push was represented by the launch of Singapore's first *sukuk* facility in 2009 backed by the MAS (the first such move by a conventional central bank). Under this program, MAS issues the *sukuk* according to the capital and liquidity requirements of financial institutions in Singapore which offer or plan to offer *Sharia*-compliant financial services. The *sukuk* is priced against the liquid Singapore Government Securities market, which provides a transparent price discovery mechanism and also provides a strong boost of confidence in a new financial market. The facility underscores the MAS' commitment to support the development of IBF in Singapore with the aim that greater levels of *Sharia*-compliant activities would 'attract both Muslim and non-Muslim investors who are interested in ethical investing, and therefore diversify financial institutions' sources of funding and deepen the investor base' (MAS 2011). This positions IBF in Singapore amongst a broader suite of products and services related to socially responsible investing or ethical investing, which has been a growing global trend in recent years (Global Sustainable Investment Alliance, 2014). A total of 31 *sukuk* has been issued in Singapore. In 2012, the Axiata Group priced a CNY1 billion (US$158.06 million) *sukuk Wakalah*, which at the time was the largest yuan-denominated *sukuk* issued. The listing in yuan denomination was in line with Singapore's growing status as an offshore RMB centre for trading and settlement. Even Malaysia's investment fund, Khazanah Nasional, has listed two *sukuk* issuances in Singapore worth almost US$500 million each (*Islamic Finance News* 2014). By listing in Singapore, these issuances have been able to capitalise on a wider range of expertise such as legal, accounting, and financial expertise for the creation of special purpose vehicles (see Wojcik 2013) and tap into potential investors that tend to cluster in an established IFC like Singapore. Therefore, while increasing trade with the Middle East provided initial strategic reasons for developing IBF in Singapore, the appeal of this emerging financial sector is also set against the growing interest of investors based within and outside of Singapore in various forms of ethical investments (Šoštarić 2015). The orientation for the IBF market in Singapore is distinctively outward looking, with the objective of building up IBF activities alongside existing financial market segments and the attraction of both Muslim and non-Muslim investors. The development of IBF in Singapore within existing markets and expertise is particularly evident in the form of *Sharia* compliant real estate investment trusts (REITs). Singapore has been an established centre for the listing of REITs and business trusts since 2008. As the largest REITs market in Asia outside Japan, it could capitalise on those expertise to take the lead in the listing of *Sharia* compliant REITs (Saeed 2011). Sabana REIT, founded in 2010, is Singapore's first Islamic REIT and the largest by global assets. Although Sabana has been launched for only a short time, it has already outperformed REITs listed in Malaysia.

While the Islamic REITs market seems to be an area where Singapore has some competitive advantage over Malaysia (Suhana et al. 2012), the banking sector has developed in more uneven ways. The Islamic Bank of Asia was launched in 2007 as a joint venture between DBS Bank and Middle Eastern private investors. While it enjoyed a solid start as the only Islamic bank in Singapore, with visible government backing (through DBS Bank)[2] and Middle Eastern interests, the business proved unsustainable. In September 2015, DBS Bank announced that it was no longer cost-effective to maintain the Islamic Bank of Asia as a separate entity and it would be closing over the next 2 to 3 years, with its business being folded into an IBF 'window' within DBS Bank. This development is emblematic of the market-led approach taken by the Singapore state in sending strong signals and providing some incentives to encourage IBF engagement but still largely leaving to market participants to determine the direction and extent of IBF development. Other banks in Singapore, for example Citibank, Standard Chartered and OCBC have chosen to engage with IBF by offering *Sharia* compliant products as part of their expanding suite of financial services. Malaysian banks CIMB and Maybank seem to have been particularly successful in this endeavor, backed by experience in their home market. On the other hand, HSBC closed its Islamic banking division in Singapore (along with UAE, UK, Bahrain and Bangladesh)[3] in

2013 as part of a global strategic review of its Islamic financing business to focus on customers in Malaysia and Saudi Arabia. Outside of commercial and retail banking, other IFIs such as Arcapita, Al Salam Bank-Bahrain and AEP Investment Management (AEP) seem to have more stable presence in Singapore. In this respect, the development of IBF in Singapore has been much more uneven due to the lack of direct state intervention (compared to Malaysia) and as industry players in Singapore find themselves shaped by strategic business concerns of their global networks that are embedded in conventional financial markets.

In terms of developing broader industry capacity, significant efforts have been directed at education and skills training to promote high quality research and professional education in IBF both for the Singapore market and to forge international ties (Heng 2009). The International Islamic Law and Finance Centre was established by Singapore Management University (SMU) in June 2010 to boost support for the growth and innovation of Islamic finance in the region, followed by a Master of Laws in Islamic Law & Finance in 2012. Singapore also hosted the IFSB summit in 2009 and the World Islamic Banking Conference Asia for several years; these were aimed at developing regulatory and knowledge-sharing capacities at a regional and global level in ways that seek to integrate *Sharia* compliance and interpretations with 'global rule regimes' in areas such as enabling product and documentation standardization across jurisdictions (MAS, 2011; International Finance Magazine, n.d.). Rather than explicit and aggressive pursue of IBF development and governance structures through systemic changes to domestic rule regimes and extending the power of national regulators as in the case of the NSAC in Malaysia (Mohamad and Saravanamuttu, 2015), Singapore has taken a more diffused approach by developing industry expertise and human resources through educational institutions and engagements with global organizations and knowledge networks.

While there has been significant development in IBF in Singapore particularly over the past decade, the Singapore market still has relatively few IFIs as compared to Malaysia. It also suffers from the lack of a domestic market with no Islamic pension funds and little business demands for *Sharia* compliant financial vehicles (Maierbrugger 2014). In this sense, Singapore's struggles with developing the IBF sector could be because its domestic rule regimes are not Islamically-inflected enough in order to create a critical mass of IBF expertise, institutions, products and investors. While the MAS has clearly demonstrated a commitment to IBF as a key sector for Singapore IFC development (Venardos 2012), the Singaporean government is banking on a wider neoliberal strategy that has driven its IFC development thus far. In this case, IBF fits into this overall strategy as part of creating more diverse financial sectors and deeper capital markets within a regulatory climate that welcomes financial innovation and new financial institutions (Lai and Tan, 2015). The enmeshing of global financial networks, national economic development strategies and Islamically-inflected modes of market making have unfolded in quite distinctive ways in a non-Islamic jurisdiction amidst wider political economic trends of increasing Middle Eastern and Asian trade and investment linkages (Siow, 2015).

6 CONCLUSIONS

In response to the limited engagement with critical conceptual thought on the governance of IBF, this paper aimed to compare and conceptualize the development and governance of IBF in Malaysia and Singapore since the 1980s. In particular, we focused on the ways in which this has unfolded in variegated ways, including the significance of ethnic politics, the often contentious moral suasion involved in establishing IBF products and services, the character and timing of innovation, the centralization of *Sharia* compliance, the nature of tax incentives, and the strength of regulatory and financial support. Some of these differences are summarized in Table 1.

*** Table 1 around here ***

The debate on the development and governance of IBF in Malaysia specifically (but which also has implications for Singapore) rests on either more 'developmentalist-oriented' arguments such as Lai's (2015) 'industrial policy' oriented towards finance, or on the other hand, Mohamad and Saravanamuttu's (2015) 'neoliberal exceptions' and Rudnyckyj's (2014) 'afterlives of development'. With this debate in mind, and as we worked on conceptualizing commonalities and differences in the evolution of IBF, we relied on what Liow (2012) broadly calls a 'neoliberal-developmentalist state'. However, we nuanced this by arguing that for Malaysia, this involved a transition from a '*semi*-developmentalism' in the 1980s and 1990s (that is a set of governance practices partly shaped by, and legitimated through an ethnic politics) to an Islamic and internationalizing ordoliberalism, in which the Malaysian government in particular established a complex 'Islamic infrastructure' that facilitated the growth of IBF. This included a broader ecosystem of 'private networks beyond the state', as highlighted by Rudnyckyj (2014). Nonetheless, the *Sharia*-compliance of products and services created through these networks are carefully regulated by centralized institutions such as the SACs of the BNM and the SC, and the Malaysian government has continued to steer the development and governance of IBF in the 2010s.

While Islamisation, innovation, widespread Muslim participation, and substantial state support and regulation in Malaysia drove the growth and governance of IBF, the Singaporean state has sought to enroll and capture IBF as a niche market into its wider strategy of growing the IFC capacity of Singapore. The promotion of IBF is thus framed through the logics of financial innovation and international competitiveness. Some aspects of IBF growth (e.g. *sukuk*, Islamic REITs) have benefitted from Singapore's incumbent status as an established IFC with well-developed capital markets and a deep pool of regional and global investors. However, low levels of public awareness, weak domestic demand, and insufficient talent and expertise in IBF and managing *Sharia*-compliant risk are key challenges to the kind of IBF growth seen in neighboring Muslim-majority countries like Malaysia and Indonesia. Therefore, while Singapore's prudential regulatory environment, tax policies and strong government support has encouraged financial innovation in IBF (as well as other financial markets) through a 'neoliberal developmentalist' strategy, its IBF sector might not be Islamically-inflected enough to achieve the level of product innovation and influence on global Islamic knowledge networks as seen in Malaysia. On the other hand, growth in IBF activities appears more promising in areas that intersect strongly with conventional financial markets and existing expertise, such as Islamic REITs and insurance and reinsurance for *takaful* products. It remains to be seen whether this neoliberal developmentalist approach to IBF will create a critical mass of IBF expertise, institutions, and products to have sufficient clout and impact in global IBF markets. Especially when juxtaposed against Malaysia, the case of Singapore demonstrates the value of a critical conceptual approach in analyzing the intersections of IFA and IBF that explains the variegated unfolding and impacts of IBF development.

In terms of future research on the development and governance of IBF in southeast Asia, we would highlight the value of exploring *the intersection* of first, an emergent 'Islamic international financial architecture' (IIFA) (Iqbal 2007; Rethel 2010a), that includes, but is not limited to organizations such as AAOIFI and IFSB; second, the apparently increasing weight of an Asian regional financial architecture as witnessed for example in the partnerships between the Asian Development Bank, IFIs, and Islamic regulatory institutions, and third, the IFA as discussed at the beginning of this paper. This would move the discussion away from simply 'methodologically nationalist' treatments of the growth and governance of IBF to the articulation of national political economies and different forms of supra-national governance in an ostensibly post-neoliberal world.

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Notes

[1] There has been ongoing debates about the extent to which Southeast Asian states are truly developmental in nature (Rigg, 2009) and evolving conceptions of the ‘developmental state’ and its contemporary relevance (Hayashi, 2010; Stubbs, 2009), which we are unable to engage with explicitly in this paper due to space constraints.

[2] The Singapore government is a majority shareholder of DBS Bank.

[3] https://www.hsbc.com.bd/1/2/amanah-commercial-banking-faq