New Malaysian banking system gives usury a good name

by Esmatullah Wahab

The Malaysian government on Jan. 3 adopted an Islamic financial system, with the launching of an Islamic interbank money market and check-clearing system. Adviser to the Bank of Negara (central bank) Nor Mohamed Yakcop, in making the announcement, noted that Malaysia was the only country to have a Muslim financial system that ran parallel to the conventional banking system practiced by the West. "The launch of an Islamic interbank money market and check-clearing system completes the setting up of the world's first full-fledged Islamic financial system in Malaysia," Datuk Yakcop is quoted.

The ironic net result of the monetary mechanisms involved in the shift, Malaysian sources and others make clear, is that it will give usury a good name. At a time when large numnbers of developing countries are reeling under the usurious interest policy of the western bankers, and getting browbeaten by the International Monetary Fund-World Bank duo to accept—at a great risk to their economic and political systems—various structural reform and adjustment policies dished out by the IMF, Malaysia's decision to re-name interest as "profit-sharing" will no doubt gladden the heart of the international financial institutions belonging to the deader-than-a-dodo-bird Bretton Woods system. What the Malaysian government has actually done is to convert the bankers' interest into profit-sharing.

Ostensibly, the purpose of adopting an Islamic financial system is to present a counterpoint to conventional banking as practiced by the West. In fact, however, the Islamic financial system, as adopted by the Malaysian government, is basically an endorsement of the western banking system, if not worse.

Malaysia's innovation was prompted by the issue of interest payments, or *riba*, which are forbidden by Islamic law. The Bank of Negara adviser explained how this difficult obstacle was overcome: "The Islamic interbank money market operates on the basis of *al-mudharabah* or profit-sharing, which strictly means that the provider of funds will earn a profit from his investments instead of being paid interest."

Some Malaysian bankers cited in wire service reports said the difference between this Muslim banking practice and the conventional banking system was "purely cosmetic."

Datuk Yakcop also pointed out that the profit earned from the money lent would be shared between the provider and borrower at a rate that could range from 70-30 to 80-20 or 90-10, depending on the loan period. In other words, instead of paying the lender interest, the borrower will now have to pay the lender a part of the genuine profit resulting from the investment of the borrowed money during the loan period. If the IMF and the World Bank, and other major western bankers, had adopted this Islamic financial system, the developing countries could perhaps have been bankrupted much faster.

While the Malaysian government has succeeded in finagling the complicated issue of *riba*, it is yet to be seen how it responds to the Islamic justice system which one of its provinces is planning to adopt. Thus far the Malaysian government has strongly opposed the Kelantan initiative. If this justice system is given the go-ahead by the sultan of Kelantan for implementation in his own province, which is now under control of the pro-Islamic PAS party, the Malaysian government may have to decide whether to cling to the conventional western justice system at the national level; change over to the Islamic justice system, which is practiced in only a few Islamic countries; or manipulate the situation in such a way that Malaysia can be both an Islamic nation and at the same time be perfectly at ease with the western nations.

The Pakistani parallel

The thin veil with which the Malaysian government has covered itself to evade the controversy of *riba* is not original. In Pakistan, during the martial law regime of the late Gen. Mohammed Zia ul-Haq, the *riba* issue was also forded with success. General Zia, who maintained a facade as a devout Muslim, had developed an indigenous method to satisfy both the clerics and the bankers, both of whom were his solid backers. By a stroke of his pen, not unlike the imposition of the Islamic financial system in Malaysia, General Zia had decided that bank interest rates—both deposit and lending rates—would fluctuate every week in order to suggest that the bank was really making profits and not earning interest. The all-powerful general's little charade to evade *riba* made both the clerics and the bankers happy.

However, subsequent to the general's untimely death and the return of democratic government in Pakistan, this little charade has fallen apart. The Shariat Bill (Islamic law), which two earlier governments had failed to adopt, was opposed by the clerics and the bankers alike (though for different reasons). Those who did not accept General Zia's charade, but were afraid to speak out lest Islamic justice be dealt out to them, are now openly rejecting it, making it plain that if the Islamic financial system is adopted, it should be a true one and must be free of bank interest. Bankers, on the other hand, are threatening that if banks cannot earn interest, they will not remain viable, and no foreign investment or foreign credit will reach the shores of Pakistan.