The Global Hub Process: Malaysia's Vision towards Becoming the Islamic Finance Global Hub Country

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Abstract

This study attempts to look upon a development process of global financial center and further, aims to analyze Malaysia's vision in positioning the country as Islamic finance Global Hub. As the financial movement and development take a fast change, it is vital to understand on how the evolution of trade works and transforms from the national level into the international or global level. Malaysia is well-known as a country with an advance Islamic financial system. The government has set up a plan to position the country as Islamic finance global hub. Through this study, the understanding of global hub process will ensure that the vision runs under a proper manner and eventually put the vision into a success.

Keywords: Islamic Finance Global Hub, Islamic Financial Centre, Globalization

1. *Introduction*

The idea of Islamic finance global hub could steer the development of Islamic finance in Malaysia due to the enhancement of financial service quality for local and global customers. The global hub concept has a connection with financial liberalization, which is a part of globalization. Therefore, the study on Islamic finance global hub will also include the elaboration on financial liberalization as well as the globalization thought.

Initially, the interpretation of globalization is important to understand due to its connection with financial liberalization and the global hub agenda. The International Encyclopedia of Business and Management defined globalization as "the process of increasing integration of world civilization." Other interpretations from the Oxford Dictionary of Business defined globalization as "the internalization of products and services by large firms." Historically, the term "globalization" was first used in 1985 by Theodore Levitt to describe the immense changes that have taken place over the last two to three decades in the international economy. That is, the rapid changes in economy and finance that have taken place in capital, production, consumption and investment goods, services and technology across the world. The best description of globalization appeared by the widening and deepening of international flows of trade, finance and information in a single integrated global market. 4 There are several debates on the definition of globalization. The understanding of globalization from its origin and the current definition might have a different connotation. There might have a different connotation in the understanding of globalization from its origin and the current definition. In some times, the word globalization may be understood as internationalization or multinational, which it is having a same meaning one with other, and in other time connotes different meaning. However, the exact meaning of globalization and how it's really works is still in debate among scholars. In contemporary scholars' discussion suggest that globalization mean different things to different people.5 Albrow defines as "Globalization refers to all those processes by which the peoples of the world are incorporated into a single world society, global society."6 Gibbons: "One cannot conclude that if globalization has not occurred it is not a process. It may simply be that globalization is proceeding in a very uneven fashion and that trends which can be readily discerned in financial systems to some extent in research and development, particularly in the electronics industry, ought not to be presumed to apply same degree in every sector." 7 Urry: "Globalization could be viewed as the replacing of one region, the bounded nation-state society of the 'west,' with another, that of global economy and culture. (…). Globalization could also be viewed not as involving alternative metaphors of network and fluid."8

The New Palgrave Dictionary of Economics9 elaborated on globalization debate which it is about a surprisingly large number of issues, including some that lie outside of economics. A non-exhaustive list of issues, derived from a reading of the writings of both economists and non-economists as follows:

1. Liberalization versus regulation of international trade, capital movements and migration.
2. Market imperfections that arise with (either domestic or international) goods markets, capital markets, privatization, macroeconomic crises, intellectual property rights, and so on.
3. Evaluation of the performance of the International Monetary Fund (IMF) and the World Bank, including in particular their policy prescriptions (the 'Washington Consensus,' 'shock therapy,' or 'Structural adjustment').
4. Effects of freer trade and capital movements on rich country workers ('out-sourcing') and on poor country workers ('sweatshops').
5. Extreme world inequality and poverty.
6. Capitalism ('neoliberalism') versus alternative systems.
7. Westernization/ Americanization versus local culture.
8. Unequal distribution of political power between the West (both Western government and corporations) and the Rest.
9. Effect of global economic growth on the environment.
10. Western imperialism and military intervention in the rest world.

However, both the theoretical and empirical of globalization derived from the economic argument debated by Levitt. Richard S. Tedlow and Rawi Abdelal10 studied the intention of Levitt from his word "globalization." The study found that from Levitt perspective, "globalization" is a concept appreciated beyond the increase in economic exchange across borders; it refers to a change in the character of those exchanges across borders; which transforms the societies involve into the exchange. Thus, it is important to understand the distinction between "internationalization" and "globalization" which is having a different meaning from each other. This is due to the similarity between both in size and expansion of markets where it represents the world of economic interdependence of societies living in various countries.11 Hence, the term "globalization" portrayed a situation where economic activity is running in the absence of national boundaries. The "internationalization" implies an additional transaction across borders of nation's states, which are still under control by the governments that having a decision option over the openness of global corporations operate in globalized economy, while multinational corporations expanded in a sphere of internationalized economy. Herman E Daly,12 in similar view agreed on the difference between internationalization and globalization. According to Herman, the term "internationalization" connotes the increasing of international trade, international relations, treaties, alliances, etc. International certainly, means between or among nations. The basic unit remains the nation become necessary and important. Globalization transformed many formerly national economies into one global economy based on free trade and free capital mobility by eliminating national boundaries for economic purposes. International trade (governed by comparative advantage) therefore, becomes an interregional trade (governed by absolute). What was many becomes one presently.13 David Brian Dewitt and Carolina G. Hernandez however having a contrast view from prior researchers as reflect to their point: "globalization means the internationalization of the state," they concluded that, "it is not surprising that the most common usage of the term "globalization" refers to the process of opening up the national economy and its integration into the global economy."14 Meaning that, globalization derived from internationalization which later on, expands to the wide global economy.

It is evident that globalization, may have both positive and negative effects. Perhaps, the issue may arise on the effectiveness of government's control towards negative effects via certain policies for nation's benefit and value for the globalization's agenda.15 Positive views of globalization claim that the policy may increase economic growth and prosperity, without any doubt, where it would foster country's growth when the country properly positioned to take advantage from it, through sound institutions and policies. However, the negative views of globalization claim the negative effect for everyone, no matter what policies and institutions are embraced. In addition, some insist that globalization effect to the income inequality between countries, where others view an adverse impact on income equality within countries. It also may increase global poverty. This is due to the globalization itself encompassing all.16

Hossein Askari, Zamir Iqbal and Abbas Mirakhor suggest that globalization is a new system which is an ongoing process with far journey to be "complete" but it is not monotonic and could be reviewed. The impact of globalization is multidimensional. Some portion of society will gain while others will lose, or at least there will be unequal shares between the gain and the loss.17 The successful potential benefit of globalization remain on how a country is well-organized, its competitiveness in global goods and service's markets, the flexibility of its markets and its policy and regulatory infrastructure. Therefore, all countries have to develop strong economic and social policies, the appropriate regulatory and supervisory environment, flexible markets, financial stability and the needed institutions to benefit from globalization, while guarding the economic welfare of all segments of society and preventing social and economic upheavals by increased access to education, healthcare, labor training and the like.18

2. The Concept of Financial Globalization

The globalization concept has an interconnection with economy and capitalism. These characteristics appeared in an international trade liberalization, free movement of capital and transition between the states. Similarly, the presence of foreign direct investment flows to the developing countries and the dominance of the multinational companies in country and the growth of economic blocs such as the European Union and the Southeast Asia's bloc (ASEAN).19

In financial services, globalization can be seen as a process of opening up national economies and markets. Mervyn K.Lewis20, Hossein Askari, Zamir Iqbal, Abbas Mirakhor21 and Mohamed Salim al-Rowashdah22 view that globalization portrayed a situation of ease and speed of knowledge, technology, people, ideas, goods and services and capital move and transfer from country to country, thus broadening the extent and form of cross-border transactions and growing the international character of economic activity. This trend is steered to achieve higher returns and more options to diversify risks. It is useful to succeed current international financial environment with increased uncertainties through more pronounced prompting investor's venture into new asset classes and markets that provide stability.23 While the economic and financial globalization formed by different force of factors, economic and financial globalization shared a symbiotic relationship; they go together and reinforce one another.24

There are wide literatures conducted to examine the effect of financial liberalization. Some study suggests that, by promoting cross-country risk-diversifications, financial liberalization could foster specialization, efficiency in capital allocation and growth.25

Some studies (like Grilli and Milesi-Feretti,26 Kraay,27 and Rodrick28) found that financial liberalization does not affect growth, others than the effect is positive (Levine,29Bekaert,30 and Bonfiglioli and Medicino,31), while others view it is negative (Eichengreen and Leblang, 2003). Alessandra Bonfiglioli32 in her study found the following result reflected to the financial liberalization: (1) The effect of financial liberalization on TFP (Total Factor Productivity) is positive and large in magnitude, while it is weak and non-robust on investments. (2) The impact on TFP is both on levels and growth rates, implying that financial liberalization is able to spur GDP growth in the short as well as in the long run. (3) Financial liberalization raises only the probability of minor banking crises in developed countries. (4) Banking crises harm both capital accumulation and productivity. (5) Institutional and economic development amplifies the positive effects of financial liberalization on productivity and limits the damages from banking crises. (6) Neither financial liberalization nor banking crises affect the speed of convergence in TFP growth rates. Alessandra then concludes that literatures on the effect of financial liberalization on GDP growth often finding mixed results. To better understand the effect, however, it is important to know the channels through which it operates.33

Reinhart and Kaminsky34 have another view on financial liberalization. With providing a sample from 25 countries as evidence, both researchers conclude that financial liberalization has predictive power on banking crises. In other study, Kaminsky and Schmukler35 found that the financial liberalization negative effect happened in the three-four years immediately after liberalization, and then positive growth effects tend to emerge.

According to Mervyn, one manifestation of globalization is an intensification of international trade and an increase in the scope and significance of all kinds of cross-border transaction. A second feature is an expansion of foreign production via foreign direct investment and the development by corporations of international production and distribution strategies.36

3. The Features of Financial Liberalization

The features of financial liberalization comprises certain main elements namely multinational banking, offshore financial center and international financial center. This topic will discuss in brief each of the process of financial liberalization and towards the establishment of financial center:

1. Multinational Banking
2. Offshore Financial Center.
3. International Financial Center
4. Global Financial Centre.

3.1 Multinational Banking

Multinational banking as defined by Grubel37 is "the ownership of banking facilities in one country by citizens of another." Jones38 defines as "a multinational bank owns and control branches and/or affiliates in more than one country." Buckley and Casson39 in their study stated; "in line with the economic theory of multinational enterprises, this definition highlights that multinationalization differs from internationalization inasmuch the former implies both foreign direct investment and the control of foreign units." Many contemporary studies instead used the term "foreign banking." The using of the description "multinational" in a banking sector seems more appropriate in signifying the banks which operate in the immense number of countries and wide geographic regions. Evidence by this point provided by Lewis and Davis.40 Evidence by this point provided by Lewis and Davis. However, Mervyn in his comment on Grubel's view on multinational addressed that multinational might be defined in terms of share of ownership (e.g. a company owned by a citizen of many countries), with the attention more upon corporate governance rather than the pattern of production and distribution.41

According to Grubel, the benefits of multinational banking appear in three forms: First, countries which permitted the business of retail banking by foreign banks, the multinationals causes an actual or potential competition, reducing the power, potential and wastes of the typical national banking oligopolies. Second, the multinational banks provide valuable services using its knowledge capital at very low marginal cost. A similar way to the multinational manufacturing enterprises. Third, the multinational banks spur the efficiency of capital flows, especially through the speed of capital moves and the customers' level of capabilities.42

Calzolari and Loranth stated that the advantages of multinational banks derived from operating efficiency and production complementarities consists of various factors such: superior accumulated management skills, international reputation, knowledge and experience, entrepreneurial resources as management technology, organizational and marketing know-how and commercial intelligence. All these advantages show a public good implemented within the firm, which can be best exercised in other foreign countries.

Multinational banking has also cost to be bare as highlighted by Grubel which took three basic forms: First, there will be discriminatory treatment from the government regulations toward multinational banks and other banks, which aims to eliminate certain perceived externalities. Second, a special type of externalities becomes a matter which national banking systems attempt to eliminate through compulsory minimum reserve requirements and control over the reserve base. All these reactions are caused by the cyclical fluctuations in the money supply, income, employment, prices and the balance of payments. Third, some factor of inflation crisis apparently caused by multinational banks through the increasing liquidity of the deposits' multiple expansion in the Euro-dollar market (for example). In addition, by the increase of efficient use of existing capital, they have caused the global velocity of money and created inflationary pressure in all countries.43

Bain44 stressed that the next step for the internationalization is a shift from multinationalization to global banking. The latter implies much more coordination among the bank's activities all over the world.

3.2 Offshore Financial Centers

The "offshore" system of the international banking sector eminently started in the 1960s, and 1970s and becomes a new character of banking business transacted in a location outside country in whose currency business is denominated. Thus, the "offshore" banking system often called the "Eurocurrency" market. For instance, Eurodollar transactions are conducted outside the United States, euro sterling transactions are conducted outside Britain, and so on. Much of this offshore business occurs in major financial centers like London, though some business is literally in islands offshore from the United States, such as the Bahamas or Cayman Islands.45

Hampton defines OFC as "*a center that hosts financial activities that are separated from major regulating units (states) by geography and or by legislation. This may be a physical separation as in island territory, or within a city such as London or the New York International Banking Facilities (IBFs*)."46

Rossidue-Papakyriacou47 defines OFC as "*An offshore center is a country which offers to the residents of other countries the ability to establish companies and to use its financial services for activities outside this center, offering in most of the cases some advantages such as low taxation rates. In other words the aim of the users of the offshore centers is to take advantage of the lower tax rates offered by the offshores center which is not synonymous to tax evasion as is the general perception. Certain jurisdiction establish themselves as offshore financial centers in order to attract funds, provide jobs and facilitate economic development*."

Tax havens and Offshore Finance Centers (OFCs) have an important function in the circulation of international financial capital, acting to observe the global financial centers of London, New York and Tokyo. The OFC roles can be described as a place where actual financial activities operate in the place, with the presence of many banks, as well as other financial services such as fund managers, trust companies, etc.48 International monetary fund49 had underlined four major function of OFC as follows:

1. Offshore banking, which able to manage foreign exchange operations for corporations or banks. These operations are not subject to other matters such as capital, corporate, capital gains, dividend, or interest taxes or to exchange controls;
2. International business corporations (IBCs), which enjoy tax-exempt, limited-liability companies used to operate business or raise capital via issuing shares, bonds, or other instruments;
3. Offshore insurance companies were established by its headquarters in Onshore to minimize taxes and manage risk. It is also aimed to reinsure certain risks and reduce their reserve and capital requirements;
4. Offshore regulation on asset management and protection gave an advantage to individuals and corporations to keep their assets in security, in situation where a political and domestic banking systems collapse and unstable. Offshore center also provides protection to individual who face unlimited liability at home, which may protect his assets from domestic lawsuits.

One key factor prompted the growth of offshore financial centers are the needs and demands of multinational business. Spread and rise of business which becomes more internationalized, requested for diverse international financial services. It is become a suitable place, where companies from various countries seek funding sources in different currencies, as an outlet to place temporarily idle fund's access to different types of credit facilities and for the purpose of money transfer across international barriers. Tax laws and foreign exchange restrictions become crucial factors in influencing transaction of international business. Thus, OFC benefits multinational companies to execute international financial transactions, which are free from most tax consequences and foreign exchange controls. It gives more efficient and quick service in fulfilling customer's need in depositing their money in offshore.50

According to Ian McCartney,51 According to Ian McCartney, the most important thing for countries to establish offshore centers are the consideration to the costs and benefits. Among the objective of country's decision to specialize in offshore business are to make requisite amendments to legislation, to invest in telecommunications and infrastructure, to accept the potential indirect costs - each of these are depending on an explicit assessment of the expected future net welfare gain, discounted overtime.

Currently, there are some movements for a new other type of financial center namely Global Finance Center (GFC) such the cities of London, New York and Tokyo. Therefore, there is presently appearance of regional grouping of three economic blocs namely the EU, North America and Asia Pacific.52 The objective behind the establishment of OFC and then to GFC is somewhat different in the Asia-Pacific area, where the financial activity in Tokyo is different compared with New York and London. Hong Kong and Singapore are considered as regional center than normal OFCs.53 The city of London is an example of an operational offshore financial center. On the other hand, the Bahamas and the Cayman islands emerge as the place of booking centers.54

3.3 International Financial Centers

A "financial center" is a city concerted financial and economic activities such – banking, insurance and ancillary types of financial business – where this center caters to a region outside the city itself, which may include other cities as well.

An "international financial center," such London or New York and in a lesser way Paris, Hamburg and Zurich, function as financial centers to provide financial services within the region and beyond the boundaries of the countries where its aim to embrace the whole world or substantial part of it.55 Centers are by definition cities, which become the center of businesses, which are not necessarily involved in international business. The major of International financial centers such as London, New York or Zurich, or even Singapore are domestic business based, which does not involve international, or even interregional trade. All countries, has international trade in financial services, but only a small number has international financial centers.56

According to Mihael Mainelli and Mark yeandle of Z/Yen, establisher of the Global Financial Centers Index (GFCI) for the city of London:

"Financial services is an attractive business sector for cities seeking to develop because it has been a successful, high growth sector for the past quarter century, and because it is highly mobile sector, which can be directly influenced by policy and planning."57

The network model dominated becomes famous for financial centers at the end of 20th century. This model makes financial intermediation available at multiple levels, with each level feeding into the next and eventually centering on a minor number of domestic and international financial centers. For instance, financial services firms like banks, security's firms or insurance companies may do business like selling products and services to retail and corporate customers in smaller cities. In various regional centers, financial resources become available in present prior being intermediated via a single domestic financial center. Thus, it would interact with a regional or international center, then forming a networked wheel-and-spoke relationship between local, domestic, regional and international financial centers. An important thing to assume is the relevance of this model built up from the Bretton Woods international financial design based on closed domestic financial markets, open markets for trade and fixed exchange rates.58 Observation on the feature of financial centers found that there are six main forms of financial centers, namely: global, international, regional, niche, domestic national and domestic regional. Whereby, Z/Yen in the GFCI suggests five main forms of the financial center namely: global, international, niche, national and regional. The most important thing could be concluded that the financial centers do not operate as separate entity of financial activity, but as part of a network of financial centers. The city of London and New York are originally global financial centers, which are extremely complex networks of connectivity.59 Niche financial centers can be identified as worldwide leaders in one sector; most centers become prominent in one particular niche of financial services, such as Zurich for private banking or Hamilton (Baramuda) for reinsurance. Although these niches of financial centers are not comparable to London or New York as global financial centers, but their specialist areas are as strong as the cities of London or New York.60

According to Yousef Cassis, 61 based on the historical study to date, the most significant conditions in the development of international financial centers could be summarized as follows:

- Stability of political institutions;
- Strength of the currency;
- Sufficient savings that can readily be invested abroad;
- Powerful financial intermediation;
- Firm but not intrusive state supervision;
- Light Tax Burden;
- Highly skilled workforce;
- Efficient means of communication; and
- Plentiful, reliable and widely accessible information.

The above list features can be considered as the most relevance features to those who seek guidance to develop specific financial centers.62

Basically, financial system typically comprises simple currency, simple payment, simple banking and simple insurance activities. David Reim and Charles Calomiris suggest that:

"The most primitive function of a financial system is to issue and safeguard money. The next function to evolve is a payments mechanism, typically a check-clearance system, which enables parties to transfer money among each other without taking the risk of delivering it in coin or currency. These basic functions are the domain of banks, which are invariably the first financial institutions to evolve in a developing country."

The Roles that the top ten Financial Centers play are shown:

Table 1: The Different Roles of the Top Ten Financial Centers

Centre	**Global**	**International**	**Niche**	**National**	**Regional**
London					
New York					
Hong Kong					
Singapore					
Zurich					
Frankfurt					
Geneva					
Chicago					
Tokyo					
Sydney					

Source: The Global Financial Center Index (2008).

A "developed" financial system provides for effective allocations of resources via market pricing, as well as a variety of instruments and risk management functions. According to Beim and Colomiris,[63] Financial system in a fully developed and competitive economy comprises a comprehensive financial institution of banks, specialized financial intermediaries such as finance companies and mortgage brokers, securities firms, as well as institutional investors such as insurance companies, pension funds and mutual funds. Such financial system plays important role in mobilizing private saving and investment. It creates various types of saving and investment options for individuals – some at higher risk, some at lower risk, some for the long term and some for a shorter term.

In terms of legal application in most GFCI countries, there are four leading global/international financial centers as identified by the GFCI (London, New York, Hong Kong, Singapore) where all are using common law jurisdictions. Nonetheless (and admitting that Amsterdam in its golden age was a common law – albeit Roman Dutch – system and its decline occurred in the context of a French civil law imposition), there are some financial centers, which have successfully developed with non-common law systems, including Paris, Frankfurt, Zurich, Tokyo and Shanghai.[64]

Financial regulatory structure has become important developmental and competitiveness issue over the past decade, with a frequently debate framed in this term in analyses of London (amalgamated regulatory structure) and New York (sectoral regulatory structure).[65]

3.4 The Global Financial Centers

Research on the financial center topic by the Global Financial Centers Index 3 (GFCI3), [66] brings to the finding of the difference between the Global financial Centers and International Financial Centers. The research concluded that only two centers that can claim to fulfill the role as global financial centers namely London and New York. Global financial centers could be identified as a city within having sufficient critical mass of financial services institutions to operate with intermediaries and to connect international, national and regional financial service's participants directly. For example, an asset manager in Munich, can directly trade in financial instruments with a broker in New York without having to use the usual practices via an intermediary in, for example, Frankfurt. International Financial centers interpreted as centers, where it is the place conducting huge numbers of cross-border transactions whereby involves at least two locations in different jurisdictions. For instance, in Asia, Hong Kong is an international financial center that successfully involved in a significant proportion of Asian transactions.[67]

In the past, strong domestic economics became a vital factor in developing international financial centers. Yet, this factor, found to recently seem to have no correlation with the rating of financial centers conducted in Global Financial Centre 1 (GFC1). This is evidence from an observation on the US economy which is at least five times larger than that of Britain's, but London and New York are rated similarly as financial centers.[68]

In reality, 'traffic' between the domestic economy and the global financial community is somehow critical. The key function of the domestic financial community is not based on its ability to provide service to domestic economy's needs domestically; but through its ability to service the domestic economy's needs wherever, and however, they are best serviced.

Therefore, the key measure for the financial center will include its effectiveness in providing services locally and its best service at providing choice and access to global financial services globally. Based on this measure, it is realized that a hindrance for developed financial center was the protection policy towards domestic financial players. Competition in liberalized economy may leads to clear link with the global financial markets and connectivity to global finance is crucial to national economic performance.69

The rating of global financial centers has been made by London based Global Financial Centers Index (GFCI). The rating was made by assessing the following key areas:70

1. People - Involve the good personnel availability, the labor market flexibility, business education and the development of "human capital."
2. The Business Environment – covers regulation, tax rates, levels of corruption, economic freedom and the ease of doing business. Regulation, a major component of the business environment, is cited by questionnaire respondents as a decisive factor in the competitiveness of London and New York. The online questionnaire contains a question about the most important competitive factors for financial centers.
3. Market Access – covers the levels of securitization, volume and value of trading in equities and bonds, as well as the clustering effect of having many firms involved in the financial services sector together in one center.
4. Infrastructure – Has to do mainly with the cost and availability of buildings and office space, although it also includes other infrastructure factors such as transport.
5. General Competitiveness – covers the overall competitiveness of centers in terms of more general economic factors such as price levels, economic sentiment and how centers are perceived as places to live.

The following table shows Top 10 GFCI's financial centers ratings:

Financial Centre	GFCI 3 Rank	Change in Rank Since GFCI 2	GFCI 3 Rating	Change in Rating Since GFCI 2
London	1	-	795	-11
New York	2	-	786	-1
Hong Kong	3	-	695	-2
Singapore	4	-	675	2
Zurich	5	-	665	-1
Frankfurt	6	-	642	-7
Geneva	7	-	640	-5
Chicago	8	-	637	-2
Tokyo	9	1	628	3
Sydney	10	-1	621	-15

Source: The Global Financial Center Index (2008).

Dubai is ranked at 24 in number while Bahrain at 39. Both identified in GFCI 2 as emerging, volatile centers, have continued to gain significance in GFCI 3, highlighting their role as important regional financial hubs in the Middle East and beyond. The consistently high price of oil and massive investments by national government in the creation of financial hubs have helped to raise these two centers in the Index. Whether they can continue to climb depends on many factors, not least of which is broad improvement in all five competitive aspects, in particular financial infrastructure, where both received relatively low scores.71

Kuala Lumpur is also included in GFCI assessment. However, it's yet to be rated within top 50 countries of financial centers. The following data shows financial centers with too few assessments to appear in GFCI ratings:-

Table 1

Financial Centers with Too Few Assessments In GFCI Ratings

Financial Centre	GFCI 3 Rank	Number of Assessments	Average Assessment	Standard Deviation of Assessments
Taipei	-	28	550	186
Bangkok	-	38	534	230
Kuala Lumpur	-	34	556	218
Manila	-	23	396	180
Tallinn	-	36	539	308
Jakarta	-	27	404	187
St. Petersburg	-	27	374	240

Source: The Global Financial Center Index (2008).

Although the evaluation is combining Islamic and non-Islamic financial centers, this is not a reason to simply ignoring the evaluation. Dubai and Bahrain are both Islamic countries promoting as a global hub for Islamic finance and had been evaluated within top 50 financial centers whereas Dubai ranked at 24th and Bahrain at 39th in the list. Kuala Lumpur however still not be able to compete with other global financial center which sign that some major development and innovation has to be taken in order to realize the country's vision to become as a global hub for Islamic Finance.

A series of studies for the City of London have concluded that the key factors for financial center competitiveness, in order of importance, are: [72]

1. Availability of skilled personnel.
2. Regulatory environment.
3. Access to international financial markets.
4. Availability of business infrastructure.
5. Access to customers.
6. A fair and just business environment.
7. Government responsiveness.
8. Corporate tax regime.
9. Operational Costs.
10. Access to suppliers of professionals.
11. Quality of life.
12. Cultural and Language issues.
13. Quality and availability of commercial property.
14. Personal Tax Regime.

Samuel Huntington has suggested that, beyond economic and financial significance, the increasingly world economy and politic, will organize along civilizational lines, with major civilizations forming economic and political groupings, e.g. Western Islamic, Japanese, Chinese, Indian.[73] To some aspect, the financial centers will develop in the sense of cultural commonality, as has been the case with London and New York for Europe and North America. The significant international financial centers such as Southeast Asia and the Middle East would rise with both cultural and economic aspects. This division related to time zones where financial centers often targeted, with a general focus on the Americas, Europe, the Middle East and East Asia. This is already taking place and remains an area of competition, especially in East Asia and the Middle East.[74]

4. Malaysia's Domestic Financial Reforms

The globalization movement will go ahead towards the greater liberalization of the financial system; this process will be through the reducing of barrier to entry in the domestic financial sector which could intensify competition over time. Thus, it is important for the financial institutions to be able to manage the international capital flows, particularly the short-term capital flow. Something can be learnt from the Asian crisis is the reversal of short-term capital flow which caused problematic to the management of the macroeconomic policy. Malaysia as a small open economy where the international capital flows beyond what the domestic financial market could support, such kind of flows resulted in sharp movements in interest rates, exchange rates and asset's prices.[75]

Therefore, in the 1980s and 1990s, the domestic financial market's liberalization consisted of internal liberalization through mergers and acquisitions. Restriction was imposed for both domestic and foreign firms where they are not allowed to open branches or to operate ATMs. In addition, there was a limitation for foreign participation in domestic banks whereby the shares are limited to 30 percent ownership and in other financial firms, up to 49 percent ownership. Hence, Malaysia domestic financial liberalization does not directly lead to overshooting and macro-economic instability. During the economic crises held in 1997; however, blame was thrown partly to the capital account liberalization for the macro-economic instability experienced during the period.76

In describing Malaysia's experience from the financial liberalization effects, Mustapa Mohamed77 said many countries benefits from globalization by removing remaining restrictions. Malaysia also tempted to remove remaining restrictions, especially in the capital flows. Nonetheless, the government took a stand to retain control on the private sector's capital flows and the control on the private sector itself. This situation became as a critical factor in separating Malaysia from other countries in the region. While affected by the regional crisis, Malaysia has been fortunate enough to be spared of worse consequences, due partly to Malaysia's relatively low foreign currency borrowing.78 Mustapa added, Malaysian economic strength prior to the crisis was not mainly due to globalization. While globalization could become a contributing factor, the identified factor for the successful of Malaysia was its fundamental strength. The government also plays major role in setting up the sound policies together with the capacity of the Government to administer the country well.79

5. Malaysia Islamic Finance Global Hub Vision

Malaysia is doing a continuous effort to promote the country as a regional Islamic financial center. For this purpose, Labuan has been set up as an International Offshore Financial Centre (IOFC) inclusive Islamic banking and capital markets. In a strategic plan, the aim is to expand the offshore financial service's opportunities from Asia-Pacific and other established IOFCs. Measures and initiatives are being undertaken to equip Labuan IOFC with the appropriate infrastructure, institutional capacity as well as legal aspects to position Labuan as an efficient and highly rated Islamic financial center in the region.80

The internationalization of Malaysia's Islamic finance is encapsulated in the Malaysia International Financial Centre (MIFC) initiative. This project involves several parties of community inclusively international and domestic participants offering Shariah compliant products and services; Government ministries and agencies and regulatory authorities working collaboratively in the field of Islamic finance. The Islamic finance in Malaysia has been developed since 30 years ago. Thus, Malaysia is well equipped with experience of talents and personnel in Islamic finance. This expert includes various fields of Islamic finance and inclusive the global jurisdictions. In addition, Malaysia welcomes new players to establish operations in the country.81 The internationalization of Islamic finance in Malaysia comprises four main sector of Islamic finance namely Islamic Banking, Islamic Capital Market, Islamic Fund Management and Takaful and Retakaful.

The evolution of Islamic finance in Malaysia is highlighted in the speech of the governor of Bank Negara Malaysia, Dr. Zeti Akhtar Aziz as said:82

"In the initial stage during the early years of the development of the Islamic financial system, the focus of attention was on the development of the Islamic banking system and to expand the number of players and the volume of banking activity. This expanded significantly when the dual banking system was introduced. This was subsequently extended to the specialized non-bank institutions, including the development financial institutions, where Islamic financial products and services are being offered. The other core components of the Islamic financial system comprised the Islamic money market, the Islamic capital market and the *takaful* market." The story of Malaysia's Islamic finance evolution could be categorized into three sectors namely Islamic banking, Islamic Capital Market and Takaful. The following studies show the path of Malaysian Islamic finance liberalization."

5.1 Malaysia's Islamic Banking Liberalization

In an Islamic banking sector, a global benchmark has been set in Malaysia's Islamic banking with its critical mass of players and innovative competitive products. Malaysia also has numbers of innovators and thought leaders in Islamic banking. The innovation work has been intensified over the years which include the development of the sophisticated Islamic financial instruments such as structured based to cater the demand in the market.

As a result, Malaysia enjoys a wide range of Islamic financial instruments. A major strength factor behind Malaysia's Islamic banking industry is its access to the active, deep, liquid and Islamic money market. This provides the platform for funding activities. The industry also equipped with a variety of hedging tools such as currency swaps and Islamic forward contracts. Due to these facilities, its enables financial institutions to reflect Islamic principles in both substance and form as end-to-end banking transactions can comply with Shariah. In addition, the issuance of the world's first electronic multicurrency commodity trading platform, Bursa Suq al-Sila' facilitates financing for Islamic financial institutions and liquidity management. Bursa Suq al-Sila,' which is operated by Bursa Malaysia functions to facilitate cross-border intermediation between institutions across multiple markets.83

In the section of global corporate banking, there is Shariah compliant version of product portfolio, consists of investment and underwriting services, asset and commodity finance, commercial insurance, brokerage's services and foreign exchange products merit further development. For the global investor segment, the product portfolio should include Shariah compliant tax efficient investment accounts, unit investment trusts, personal pension, retirement planning, mutual funds, closed-end funds and medium net worth wealth management service. All these products came into presence as resulted from join collaboration effort between the Ulama and the practitioners.84

The future path for Islamic investment and financial institutions is to have continuous changes and improvement. The improvement of Islamic financial infrastructure must constantly work in progressively to cater the complex and different demands from various sectors of economy and society in current globalized and liberalized world. In particular, the new and emerging opportunities for investments in this era of globalization can be tapped if Islamic Investment funds, among others, establish global consortiums to finance multi-national projects.85

In the meantime, Bank Negara Malaysia has announced to issue up to two licenses of Mega Islamic Bank as stated in the statement by Bank Negara Malaysia's Governor on 27 October 2010: "We will announce one mega Islamic bank," the governor Tan Sri Dr Zeti Akhtar Aziz said on the sidelines of the Global Islamic Finance Forum 2010.86 However, until this study conducted, there is yet Islamic Mega Bank comes into exist. Due to the large capital needed which at least US$1 billion (RM3 billion) for the establishment, the announcement has been delayed several times.87 Up to date, Malaysia already has some 17 Islamic banks; 11 are local and the rest are units of big lenders like Standard Chartered, HSBC Holdings and Kuwait Finance House.88 The following chart shows Global Islamic Banking assets in 2009:-

Top Five Malaysian Islamic Banking Institutions In 2009

Global Rank	Name	Total Asset
14	Bank Rakyat	13,081.0
18	Maybank Islamic Berhad	10,666.66
23	Bank Islam Malaysia Berhad	7,459.9
31	Cimb Islamic Bank	5,847.7
35	Public Bank Islamic Berhad	5,206.7

Sources: The Banker Top 500 Islamic Institutions, November 2009.
(From Gateway to Asia: Malaysia. International Islamic Finance Hub Publication).

5.2 Malaysia's Islamic Capital Market Liberalization

Malaysia's Islamic capital market witnessed a significant development in product innovation and financial intermediation, especially in Islamic equity sector and fixed income sector. Malaysia became the largest issuer of sukuk among global countries representing 65% of the global outstanding sukuk as at June 2010; a total value exceeding USD 89 billion.89 Malaysia is also equipped with the biggest Islamic equity market and residence to four of the top 10 largest Shariah-compliant companies around the world.90 The Securities Commission of Malaysia classified more than 85% of the stocks listed on Bursa Malaysia, the national exchange as complied with Shariah. Aside from size, Malaysia's Islamic capital market also leads in product innovation and sophistication factor. In order to fulfill market demand for diversification strategies, the expert gives the best effort in structuring innovative investable products such as the world's first Islamic real estate investment trust (I-REIT) and Asia's first Islamic exchange-traded fund (I-ETF).91

In addition, the spurring factor of government incentives and rapid liberalization of the Islamic financial industry in Malaysia, has resulted a dynamic and diverse community of foreign and domestic fund management.

Thus, the presence of these Islamic fund management companies can steer for the quickly building a Shariah-compliant investment in Malaysian multinational corporations with regional reach around Asia. In the meantime, the companies can also become the country's centralized location to seek Shariah-compliant investing opportunities within the region. Recent innovations of Malaysian Islamic fund management include pioneering Islamic funds that give exposure to India, Indonesia, Taiwan, Australia and Korea as well as the highly lucrative market in China. Malaysia's vibrant Islamic fund management industry opens many benefits for the investors. Among others, it provides opportunities of using industry's expertise and capabilities in identifying Shariah-compliant investing opportunities across Asia, to leverage on the enabling environment for Islamic finance and pro-business policies and procedures for Islamic fund management. Cross-border marketing and distribution of Islamic funds came into exist by the mutual recognition agreements signed between Malaysia, and other jurisdictions.92

The Prime Minister of Malaysia, in his speech at Invest Malaysia on 30 June 2009 announced that there will be further liberalization to various segments of the capital market. The liberalization will initiate to further enhance of the Malaysian capital market attractiveness and promote greater competition and provide a broader choice of intermediation services.93 These efforts include the liberalization of the equity holdings' requirements of capital market intermediaries, which are licensed in accordance with S58 of the Capital Markets and Services Act 2007 with respect to the following activities:94

- Dealing in securities - stock brokers who are not investment bankers,
- Dealing in securities restricted to unit trust - unit trust management companies, and
- Fund management.

Subsequently, during the Budget 2010 Announcement on 23 October 2009, the Prime Minister announced the liberalization of equity requirement of capital market intermediaries with respect to the following activities:95

- Advising on Corporate Finance, and
- Financial Planning

5.3 Malaysia's Takaful Liberalization

In the Takaful sector, Malaysia is known with its sophisticated range of products. Malaysia also hosted the global Takaful Group, which functions as a platform to enhance business networking among global takaful and re-takaful players. Collaborating with Malaysia's Takaful industry provides many advantages. This range includes the chances to learn directly from industry leaders, to leverage on the enabling environment that has been established for Islamic finance in the country. The formation of innovated takaful and re-takaful products in Malaysia favored in facing different risk profiles; obtained operation efficiencies in a Shariah-compliant manner and executed a multichannel distribution of agents (via an agency), brokers, bancatakaful and direct marketing.96

Due to the existence of many players of Islamic finance institution, Malaysia is keen in developing the country as a global hub for Islamic finance. As in 2011, Malaysia have 17 Islamic banks which 6 of the banks are foreign owned with 4 of it are international banks namely Al Rajhi Banking & Investment Corporation, Deutsche Bank, Bank Syariah Muamalat Indonesia and Unicorn International Islamic Bank Malaysia Berhad.97 The number of Takaful players are 11 with 3 companies are foreign owned and out of one company is international status.98

6. Malaysia to Become as a Global hub for Islamic Finance

As Islamic finance/banking industry is growing at rate of 12 percent - 15 percent per annum, Kuala Lumpur, Dubai, Bahrain and London are vying to become the center of the industry, which currently boasts some $1 trillion in assets. For the moment, Dubai holds the title of Islamic banking hub - but it could soon lose ground, both to traditional competitors like Bahrain, Kuala Lumpur or London or newcomers on the scene like Singapore.99

Malaysia performed well in Islamic finance industry and has built a global reputation since the sector first emerged in 1981. Today, the country is looking to become a global center of excellence by ensuring the following continues:100

- From the top to down; 'business friendly' government policies to entice regional or global financial institutions/ asset management companies to set up more of their Islamic outfits in Malaysia.
- Sustainable policies in the areas of human capital development in the Islamic asset management industry. By this, it covers both those specialized in Islamic jurisprudence as well as the industry practitioners.
- Continuous multi-lateral arrangements on transfer of knowledge and expertise to the Organization of the Islamic Conference (OIC) countries who are keen on developing their respective Islamic asset management industries.

According to the Malaysian Ministry of Finance, in the Economic Report 2011/2012, Malaysia will continue its efforts to strengthen its position as an international Islamic financial center and contribute towards the internationalization of Islamic finance. The Ministry said, this can be done by developing shariah-compliant products and services as well as tools to facilitate and support cross-border transactions.101 The ministry quoted as saying that the implementation of the Syariah Governance Framework on July 1 2011 would further strengthen the oversight role, authority, accountability, independence and competency of the Board of Directors, the Syariah Committee and the Management of Islamic financial institutions on Shariah matters.102

Malaysia still becomes the leader in the global Sukuk market with 62.7 percent of total global sukuk outstanding, as recorded at the end of the first half of 2011, while Bursa Malaysia was named as the top sukuk listing destination, with 19 sukuk listed, totaling RM88.3 billion, as recorded at the end of July 2011. To ensure a sustainable and competitive of Islamic banking operation, Bank Negara Malaysia on April 25 issued a revised guideline on Profit Equalization Reserve.103 Viewing the Islamic finance investment in Asia, the region is keeping growth with Shariah compliant investment instruments being offered in local/foreign currencies. The regulators in many countries freeing up the banks and fund management companies to offer Islamic products. Another non-Islamic country like Hong Kong, Singapore and India, also keep a hard effort embracing these alternative instruments. Thailand also looking at adopting Islamic finance in their jurisdictions. Investors from Middle Eastern are showing their interest in Shariah compliant assets. Thus, there will be a tremendous investment opportunity in Asia in the large expanding and untapped Muslim population. Malaysia has since allowed the setting up of asset management companies through foreign and local joint ventures. The combination of the best minds in Islamic finance coupled with an international appeal has been a winning formula.104

7. Conclusion

The presence of Islamic finance around the world is rapidly being accepted in most countries in Asia region and also in Europe and America region. The demand of an alternative financial system is hardly increase importantly for the best financial system which able to ensure safety, just and non-oppression system.

Malaysia is keen to promote the country as an Islamic Finance Global Hub. The process of global hub evolution started from the advance of domestic financial system and developed to become as an international hub access. This process includes the expansions of local banking institutions into the international market and the opening of domestic market for foreign financial institutions.

Given that Malaysia has positioned a clear vision towards the Islamic finance global hub, hence the country must ensure that all aspects of Islamic financial system are within an adequate preparation. This may include the advance systems of Islamic banking, Islamic Insurance and Islamic capital market. Further, all supportive aspect of Islamic finance must also confirmed in the best manner whereby these may include product development, the advance of technology, the affectivity and productivity of human talent, the sound and the flexibility of government and other Islamic finance support tools to ensure the vision become a reality.

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