

CHAPTER I

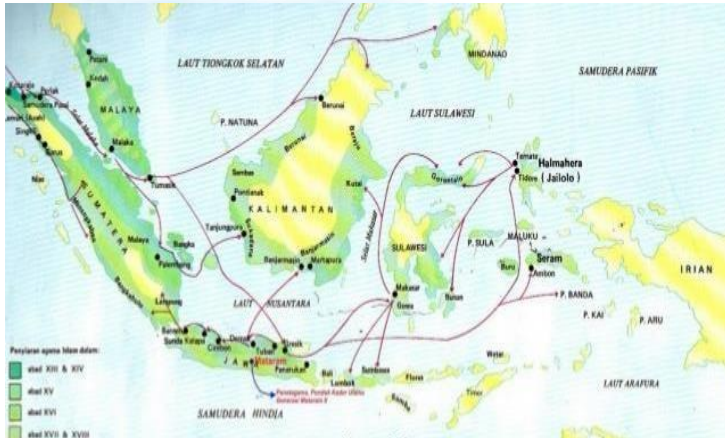
PRELIMINARY

A. Background

The growth of Islamic banking in Southeast Asia is growing very rapidly. Statistical data shows that Southeast Asia has become one of the centers of the Islamic finance industry globally. It is recorded in history that Indonesia and Malaysia as countries have become the dynamo of the Islamic banking industry's development among countries in Southeast Asia. This condition encourages other Southeast Asian countries to participate in the development of the Islamic banking industry. Based on its economic era, the first Islamic banking in Southeast Asia was Bank Islam Malaysia Berhad which was established in Malaysia in 1983 (Brian, Ketell 2011). In the beginning, those who believed and fought for the Islamic economic system in Indonesia as a relatively just economic system were considered a subject of ridicule. Because the development of Indonesia's sharia economy was very shaky before the reform era and was far behind with other Muslim countries. It seemed as if it was only discussing a very partial micro-economic, only limited to zakat-infaq-purpose (*shadaqah*) and Islamic financial institution.



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Source : slideshare.net.

In fact, Islamic banks in Indonesia have obtained a strong legitimacy basis with the provisions of deregulation of the banking sector in 1983. This is due to flexibility in determining an interest rate. However, this statement could not be implemented because the government just allowed it by issuing the October 1988 Policy Package (*pakto*) which allowed the establishment of new banks (Umam 2013). On the other hand, the development of Islamic banking in Indonesia is still relatively slow due to the lack of support from the existence of adequate sharia banking regulations. Meanwhile Indonesia, which places islam as a religion that has the same position as other religions, is certainly very influential on the acceptance of certain aspects of Islamic law in the Islamic banking industry in both countries (Majid, M. Shabri Abd. 2018).

On the other hand, Malaysia also has a very rapid development of the Islamic economy which is marked by the formation of the Hajj Saving Institution. The Institution was formed as a means of investing in public savings in Malaysia, hereinafter known as the concept of Islamic banking in Malaysia. The early 80s with the noble goal of helping Muslims by providing a better system than Hajj saving (Sjahdeini, Sutan Remy 2014). In contrast to Indonesia, which has only been

introduced to the banking system and Sharia since 1992, Malaysia has been developing a dual banking system since 1983. This started with the issuance of the Sharia Banking Law in Malaysia under the name Islamic Banking Act in 1983. Strong political support in Malaysia has encouraged the rapid development of this institution, for example with careful preparation in the birth of Islamic banks, both in regulation and management. On the other hand, the lack of political support from the government in the early days of pioneering Islamic banking in Indonesia caused the development of Islamic banking to be slow in Indonesia (Triyanta 2009).



Source : esyariah.gov.my

As technology develops, the Disruption Era is very influential and has impact on the development of Islamic banking in the two countries. In this era where the movement of the industrial world or job competition is no longer linear. The change is very fast, fundamentally by messing up the hold order pattern to create a new order, so it is called *Disruptive Innovation*. That term can be called the Era of “Disruption” which cannot be sparated from the rapid development of technology, where this technology gives color, and reforms that are enough to shake cilizations in various parts of the world. According to Christensen in Kumaraswany (2018), Disruptive Innovation is a theory of how a challenger can offer a disruptive technology or an innovation that can defeat the old concept (Christensen

2018). This Disruption Era also initiated the birth of a new business model with more initiative and disruptive strategies. The scope of change is wide ranging from the world business, banking, transportation, social society, to education. This era will demand to change or become extinct (Suwardana, Revolusi Industri 4.0 Berbasis Revolusi Mental 2017).

Competition in the Islamic banking sector in the current era of disruption is unavoidable, especially Islamic banking which is a bank financial institution that has Islamic law must compete with Islamic financial institution in other countries. the increasing number of Islamic financial institutions makes it more aggressive in providing services to the community easily and accurately. competition is getting more complex because in the era of disruption, there is a massive change in people's behavior, where people want conditions that are all practical and fast. The service factor at this time has a very important role, especially in banking institution in an effort to increase the number, loyalty and customer transactions. Services with a touch of heart from all islamic bank resources accompanied by adaption to the use of information technology are important keys for islamic banking which wants to survive and continue to grow in the era of disruption based on internet technology. In this study, reasoned that Indonesia and Malaysia are neighboring countries that have a majority Muslim population than countries that are especially in Southeast Asia. Indonesia has a population of over 270 million people, with more than 90 percent of them Muslim, while Malaysia has a population of around 30 million people with only 60000 Muslims. However, when compared to the Malaysian Islamic banking industry, Indonesia's product and capital growth in Islamic banking is rather slow. The author also argues that Islamic banking is shown to be effective for keeping economic and corporate stability by offering services that differ from those provided by conventional banks, which generate profits based on interest income. While Islamic banks earn income via fee-based income, markup, and profit sharing, this strategy has helped them to survive in the period of double disruption (digital era 4.0 and the impact of Covid-19).

Murabahah is the main concept of the contract in the type of transaction used, specifically Islamic banking in Indonesia. *Murabahah* contracts permit the presence of *dhomman* (collateral) since the basis of *murabahah* is a sale and purchase whose payment requirement is a debt that must be paid by the musytari. While in Malaysia, most people use Bay al-Inah, which is a type of sharia law bank that sells its products to consumers at an agreed amount and in payments up to a specific time limit, then purchases it back from the customer at a higher price. Despite having essentially identical country backgrounds, the application of concept contracts in the two nations differs significantly. However, it appears that the growth of Islamic banking in both nations has accelerated and shows positive future possibilities.

To realize sharia banking that carries out the financial intermediation function based on sharia principle in Indonesia, supportive regulations and qualified institutions are needed. It aims to increase the growth and development of Islamic banking in the future. In Malaysia which also implements Islamic banking, there is nothing wrong with the author doing a comparison study between the economy and Islamic banking in Indonesia and Malaysia. Seeing the many advances of Islamic banks in Malaysia, especially in terms of Islamic banking assets compared to Islamic banks in Indonesia. So the author is interested in researching and reviewing the economic development and Islamic banking in Indonesia and Malaysia in the Southeast Asian region.

The author hopes that what has been done in Malaysia can be a lesson and can be applied in Indonesia related to the progress and development of the economy and Islamic banking in the future.

B. Research Question

Based on this explanation, the main issues are: **“How does the comparison between Indonesian and Malaysian syariah banking development in Disruption Era?”**

C. Theoretical Framework

Theory can be defined as a set of concepts and principles that provide, explain and predict a phenomenon. In science, theory has a high position. Because not all experts are good in making and producing new theories. according to Jonathan H. Turner in his book where theory ideas that help explain how and why an event occurs (Turner 1997)

So based on the problem above, the author uses the **concept of Islamic economic in the political climate and the Comparative theory of political economy system** as the basis for thinking to answer the problem of comparing Indonesian and Malaysian Islamic Banking

a. The concept of Islamic economics in the political climate

In the midst of the constellation of the development of economic thought, the concept of Islamic economic emerged. It can be said that Islamic economic is an evolutionary form of neoclassical economic theory. Islamic economics exist at a time when the latest economy is slow to provide solution to contemporary economic cases. It can be said to be unable to present alternative solutions. Even for certain circles, the neoclassical economy is believed to be dead. Theoretically, Islamic economic is not solely engaged in material-oriented material, the subject is expected to be the ultimate goal for a Muslim. Material is only a relationship to create a life that is *falah* happy in this world and the hereafter (Rahman, Doktrin ekonomi Islam Jilid I 1995).

Islamic economic is an alternative to solve the dynamics of the global and national economy. The economic system has an important role and is the most valid center or reference in the Shari'a which forms a world view as well as different goals and steps. On the basis of the Islamic concepts themselves regarding what is called human happiness and a good life which

emphasizes the aspect of brotherhood, socio-economic justices and the fulfillment of the spiritual needs mankind. However the presence of this Islamic economic system raises various pros and cons in the community. One of them is with increasing prevalence of sharia-based Institutions in Indonesia, as well as dominance of the muslim community, then why is the Islamic economic system itself still difficult to develop and implement as a whole, name building Islamic bank or making certain banks Islamic. Seeing the Islamic economic cycle in this era, it can be said that it is a reflection and hope of Indonesian Muslims to receive the spirit of past Muslim entrepreneurs in the world of bussines and trade, as also the teaching of the Prophet Muhammad and the *sunnah* the he exemplified to this people. Agustianto explained that the development of Islamic economic in the form of Islamic banking and financial institution did show very rapid development. People who carry out sharia economics can already be easily supported by Islamic economic institution such as *sharia banking, Sharia Insurance, Sharia Capital Market, Tamwil, Sharia Waqf, Management Institutions as well as various forms other sharia business* (Mingka 2015). juridically, the application of sharia economic law in Indonesia has a very strong legal basis with the development of the global economy and the increasing public interest in sharia economy and banking in the face of various major problems and challenges. Unfortunately, although the development of Indonesian Islamic banking and financial institutions is fast, but law or legislation that regulates it is still far behind including laws relating to sharia business dispute resolution (trade laws).

Indonesian Syariah Banking is a form of bottom-up policy pattern in which the institution is created on the initiative of the community instead by a government plan. More than two decades of the Islamic banking industry's journey demonstrate that the bottom-up method is still struggling to increase market share growth. In this situation, Achmad Buchori Head of the Islamic Banking Department at *Otoritas Jasa Keuangan (OJK)* indicated that the demand for a top-down strategy in Indonesian Islamic banking has existed for along time (Fuji Pratiwi, Muhammad Subarkah 2016), Meanwhile Malaysia like the United Kingdom who as an Islamic finance committee that is

directly led by the Prime Minister. According to experts, Islamic finance also may grow if the government pushes it. The issue of sharia finance is complex because there are cross- institutional authorities including the OJK, BI, the Ministry of Finance, as well as the Indonesian Waqf Board and Baznas regarding the empowerment of social finance. OJK is optimistic that it can pass five percent because there is a conversion of Bank Aceh to become a sharia bank. OJK encourages the improvement of the quality of Islamic financial services so that they are appropriate and comprehensive. On the other hand, product, business scale and human resources are interrelated. The larger scale of the business, more varied the products and the more need for strong human resources.

No less important is Malaysia, which has been known for its well-established Islamic economic development by establishing a Hajj savings institution. However the hajj saving institution is only a depository institution and has various shortcomings in innovation and financial incentives (Abdullah, “Development of Islamic Banking in Malaysia” 2011). According to Abdul Manan (1980) Islamic economic is a social science that studies the economic problems of society inspired by Islamic values (M. A. Manan 1980). The first Islamic bank to established in Malaysia was *Bank Islam Malaysia Berhad (BIMB)* it was incorporated as a limited liability company under the Companies Act 1965 on 1 March 1983 under the name BIMB with registered office in Malaysia, its business operations started in July 1983 with a branch in Kuala Lumpur. *Bank Islam Malaysia Berhad (BIMB)* with the motto progressive, professional and friendly has a mission to make every effort to implement its operation as a commercial bank based on sharia principles, to provide sharia banking materials and services to all communities and society. In Malaysia by achieving tolerance and the ability to develop and be competitive over time. BIMB’S mos important operation based on Sharia principles is conducting interest-free banking and financial transactions. In other words, the practice of collecting usury in all banking and financial transactions such as in conventional banks and financial institutions is replaced by a profit-sharing system. This profit sharing system ensures social

justice in the distribution of profits and losses to depositors, investors and shareholders of the bank. The establishment of BIMB is not solely to seek profit in its business, but also to achieve social, moral and social welfare goals according to Islam.

Malaysian Islamic Banks are an example of Top-Down policy, with the institution being directly from the government and providing community services. In 1983, the Malaysian government enacted Sharia banking legislation and the Government Investment Act. This law also gives the government of power to create Government Investment Letters, which are Sharia-compliant securities. This Government Investment Act is a Sharia financial instrument meant to assist Islamic banks in meeting their customers liquidity requirements. Based on this understanding. It is clear that Islamic economics has controlled human conduct in terms of resource use and is completely utilized for the benefit of society as a whole. Therefore, the fundamental value of Sharia economics is material that may offer advantages or help to economic circulation that regulates the order of human life starting from international communities and giving safety and justice in every economic movement.

b. Comparative theory of political economy system

The economic system is a set of rules that fixes the economic conditions of countries in accordance with the country's state conditions itself. Each country hold a different economic system and has different set of ideologies, social conditions, economic conditions, and natural resource conditions. The economic system may be defined as a program of production, consumption, and distribution designed to meet society's needs. The fundamental distinction between an economic system and other economic systems is how the system's laws managed the components of production. A country's economic system is determined by the country's national agreement. Usually, this national agreement is based on the constitution that is owned. beside that, the philosophy

and ideology of the state also fulfill the economic system of a country (Farida 2011)

In the economic environment, certain systems have been able to increase people's prosperity in nations that employ both economic systems. When discussing Islamic economics, keep in mind that the basic purpose of Islamic economics is to maximize benefit. Today, there are three major schools of Islamic economics based on the core premise of *Maqashid*, such as the *Iqtishaduna* school. The major character of this school is Bâqir al-Sadr, and the basic idea of this school is that economics and Islam can never be combined where is a economics a discipline, while Islam a religion. However, Islamic ideals may penetrate the economy and build a civilization. It's only that Islam has no impact on the fundamental practice of economics. Then the Islamic Development Bank school, the main character of this school is M. Umer Chapra, M.A. Mannan, M. Nejatullah Siddiqi, and a number of other figures. The difference between this school and the previous one is that "resources are limited, while human wants are unlimited." Dealing with the resources of human desire is what causes the flow of demand and supply of goods so that prices arise. Because resources are limited, there will be a shortage of goods one day. And last is the Critical Alternative School. The main characters of this school are Timur Kuran, Jomo and Muhammad Arif. The purpose of this school is to critique Bâqir al-planned Sadr's school, which he views to be just a modified school. Baqir contemplated destroying the previous economic theory and then reconstructing it as a new one. Meanwhile, Islamic economics is regarded as an old and well-established philosophy where *Iqtishâdunâ* is a relatively young label. the *Iqtishâdunâ* school also condemned the IDB school. According to him, the IDB school is only a copy of the neoclassical school of economics by removing the usury component and substituting it with a zakat and purpose variable. Banks are known as interest, but the IDB school is known as zakat and intents. The main point of this critical school of thought is that Islam is actually an alternative, but in terms of developing Islamic economics, it is founded on the outcomes of the Qur'an and al- Hadisth which are regarded relative. therefore the critical

analytical step towards all types of contracts. The economic journey must continue where the main concept of this school is analysis and research. It may be used to test the truth in basic still of *maqashid al-syariah*, where each point of this *maqashid* is then used as an index. In this school, there are terms like prosperity index, progress index, and so on (Syamsudin 2018).

The Islamic economic system can be said to be an economic system because it can be equated with the two systems namely accepting deposits, lend money or provide financing in the form of *mudharabah*, *mushraka*, *muzara'ah* and *musaqah* and provide remittance or money transfer services. *Fiqh* terms, such as the term *qara* which means a loan or credit in to English credit and the term *suq* in its plural *suquq* which in Arabic literally means the market shifts into a medium of exchange and is transferred into English with a slight change to check etc. Currently, Indonesia has a fairly complete Islamic finance industry, starting from the Islamic banking industry, to the Islamic non-bank financial industry, and the Islamic capital market. During the last two decades, the three sectors of Islamic financial services have shown quite rapid development. At the ASEAN level, Indonesia's Islamic banking industry is only inferior to Malaysia, which occupies the second position in the world. Malaysia itself prioritizes and practices the sharia economy rather than the capitalist economy which is considered to benefit only one party. Bank Islam Malaysia Berhad and Bank Muamalat Malaysia Berhad, have now developed along with the progress and operating systems carried out by conventional banking institution. Among other things, countries that offer Islamic banking systems such as Pakistan, Iran, Sudan in the past, have now spread to Malaysia and other Islamic countries. However, the Malaysian state has its own approach in making the Islamic financial system an important banking institution at this time. The Kingdom of Malaysia itself has taken a separate step in strengthening the Islamic banking system as a new icon for the Malaysian economy (Maslan, *Memperkasakan Sistem Kewangan Islam Sebagai Ikonik Baru* 2013).

Based on explanation above, the comparison Indonesian VS Malaysian economic system is better in Malaysia due to the uncertainty of the direction in Indonesia, the nation's unpreparedness to organize indonesia's future, and the nation's independence. All economic activities in Indonesia always run into bureaucratic problems, so it is not suprising that Indonesia is in the position of 129 countries that are easy to do business (Subandi 2011). Unlike Malaysia, which is able to fulfil its daily life without any burdens. Maybe Indonesia can adopt a way of getting enough food and how to implement a sharia economic and banking system like Malaysia. In Malaysia their goals are very clear.

D. Hypothesis

The development of Islamic banking in Indonesia differs from Malaysia in several ways:

1. Political Economic Climate Conditions : (Malaysia has Islamic laws and applies economy policy that provides facilities for natives who are predominantly Muslim while Indonesia still apply the conventional system even though the population is predominantly Muslim)
2. Ease of transaction language that is understood by consumers : Indonesia is *Mudharabah Murabahah, Musyarakah*, while Malaysia *Bay al-Inah, Bay al- Dayn*
3. Differences in the economic system in banking used by Indonesia and Malaysia: Indonesia still used Conventional Bank, while Malaysia more concerned Sharia Bank

E. Research Methodology

1.1. Type of Research method

The research method is a scientific method used to obtain data for a specific purpose (Lasa 2009). The author uses a qualitative descriptive research method because this research has the aim of getting answers related to the opinions, responses, or perceptions of previous people/theorists, so the discussion must

be qualitatively or by using a sentence description technique. This method also emphasizes the observation of phenomena and the substance of the meaning of an event. According to (Sulistyo & Basuki, 2010) that descriptive research tries to find an appropriate and sufficient description of all activities, objects, processes, and human (Basuki 2010). Besides that, the author uses the library study method to examine the results of previous research. By using this method the relationship between problems, relevant studies and theories will become clearer. In addition, research will be more supported, both by existing theories and by real evidence. The data collection technique used in this library research is to find data about things or variables in the form of notes, books, papers or articles, journals and so on. (Arikunto 2010). In this thesis, the library research used by the author is based on a network (online) and various book sources.

1.2. Object and Subject of Research

The object of this research is Indonesia and Malaysia, while the subjects in this study are the Study Comparative about Development of sharia economic/Syariah Banking in a both of country.

F. Research Goals

there are of the purposes of this writing are :

1. To identify differences in the economic system between Indonesia and Malaysia in running Islamic institutions, one of which is Islamic banking.
2. To explain the meaning of language or transaction terms as a consumer understanding and the convenience of consumers in transacting.
3. This study aims to answer the theoretical formulation of the problem and look for sources from previous researchers to prove the knowledge gained during the lecture process.

G. Writing Systematic

Chapter I, explains the background of the problem, research question, theoretical framework, hypothesis, research methodology, research goals, and writing systematics.

Chapter II, The author discusses about dynamic of Indonesian shariah banking, where growth of Indonesian Islamic bank, the impact of the covid-19 pandemic on islamic banking in Indonesia, and strategy for developing Indonesian Islamic banks in the Era of Double disruption

Chapter III, the author discusses about dynamic of Malaysian shariah banking, where growth of Malaysian Islamic bank, the impact of the covid-19 pandemic on islamic banking in Malaysia, and strategy for developing Malaysian Islamic banks in the Era of Double disruption

Chapter IV, the author compares an Islamic banking status or situation between Indonesia and Malaysia which includes : political economic climate conditions , easier of transaction language understood by consumer, and different economic system used by Indonesia and Malaysia sharia banking.

Chapter V contains the explanation of the conclusions that have been discussed from the previous chapters and provides suggestions for further research.