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# Modernization between Economic Requirements and Religious Law: Islamic Banking in Malaysia

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## Introduction

The question of whether or not the taking of interest is legal or at least legitimate has been discussed in the past over and over again. All great religions took up the issue, and in most cases the outcome was the prohibition of interest (for some time at least) or its regulation (see Schrader 1997). But the emergence of trading capitalism required inventing financial instruments which could be used in economic long-distance transactions (e.g. Braudel 1982). Thus, economic necessities and religious morality had to come to an arrangement. In the West, the final outcome of the modernization process was an instrumental rationality, which sacrificed, or at least subordinated, moral concerns to economic ones. Modern Islam, however, has set codes of conduct even in the economic sphere, based on religious grounds. Islamic banking has to operate within rather narrow ethical boundaries. According to its self-understanding it provides an alternative to Western banking for Muslim countries all over the world, because it is in line with the *Shari'ah* [1], Islamic law.

I shall start with a description of Islamic banking in theory and practice to show that interpretations of which practices are *halal* [2] differ widely. Then I shall present the case of Malaysia. The second part of this article interprets Islamic banking in the light of the Islamic modernization project. I conclude that this project is simultaneously an attempt to engender a non-Western way to modernity and to re-embed the economy in culture. From

1 *Shari'ah*, (Arabic, "the way"), refers to the body of laws and rules that regulate Muslim life. These laws are an expression of God's will, according to Muslim belief, although derivation and application of the law depend on judicial interpretation of different schools. Four principal sources provide inputs to the *Shari'ah*: the *Qur'an*; the *Sunnah* (collection of actions and sayings of the prophet); consensus of the schools in their interpretations; and reasoning by analogy, derived from interpretations of *Qur'an* or the *Sunnah*.

2 Practices which are in line with the *Shari'ah*.

such a perspective Islamic banking is not only an inner struggle in the Islamic world between traditional and modernist values, but also a reaction to the Western, disembedded market model.

## (1) Islamic Banking in Theory and Practice

Islamic banking is one of the fastest-growing segments of Middle Eastern finance and also enjoys high popularity and growth in other Islamic countries. Dating back to 580 AD it experienced a certain period of practice [3], then disappeared but was kept alive by religious disputes (Nazim Ali 1993). With growing economic requirements, often during a period of colonial rule, Western-type banks were set up. Finally, in 1965 the Second Annual Conference of the College of Islamic Research took up the issue by passing recommendations that 'interest charged on the various kinds of loans constitutes unlawful usury, regardless of whether the loan is for what is called consumption or production' and that 'much and little usury is unlawful' (Homoud 1985: 4). These recommendations also included a call for joint efforts of Muslim scholars, financiers and economists to revive Islamic banking in practice.

Several Islamic countries reacted to this call. During the 1960s the Egyptian city Meit Ghamr set up the first Islamic savings bank. Although the experiment was abandoned in 1968, the idea was revived in 1971 with Nasser's Social Bank. Jordan and Dubai soon followed the Egyptian example. In 1974 23 Islamic states reached an agreement to approve participation in the Islamic Bank for Development, the aim of which was among other things to support the economic development and social progress of the peoples of the member states and Islamic societies, in accordance with the *Shari'ah*. (Homoud 1985: 5).

Nowadays Islamic banking is widespread in countries practising Islamic law, as well as in countries with larger Islamic communities. Presently, it has been estimated that 180 Islamic banks with more than 8,000 branches and $170 billion assets are operating across the world (Naser et al. 1999: 135) with increasing profits. Some countries (Sudan, Iran, Pakistan) made Islamic banks mandatory while others (e.g. Jordan, Bahrain and Malaysia) developed a parallel structure of Western and Islamic banks, so that the customers have a choice between the two. In such countries even

[3] Islamic banking developed in the Islamic trading city states of the Arabian peninsula, and the guidelines were an adaptation to pathologies such as individual hoarding and usury which impeded the development of these city states (Wohlers-Scharf 1983: 75).

international banks have set up their Islamic bank branches[4], because they are afraid of losing those Muslim customers who wish to lead a business life in accordance with religious guidelines. This means that in a number of countries there is competitive pressure from other Islamic banks, commercial banks with Islamic windows and ordinary commercial banks. Therefore their special services, which are compatible with regards to religious requirements, become a strategic factor for management, since it can be expected that they play a crucial role in the decision-making of their customers (Hegazy 1995).

The perspective of Islamic banking is not limited to the maximization of the shareholder's wealth, but also includes the improvement of the community's living standards and welfare – social aspects. Furthermore, Islamic banks are not allowed to engage in activities that are *haram*, forbidden by the *Shari'ah* and they are therefore cut off from a number of financial instruments used by Western banks. Prohibitions include the taking of interest (*riba*), speculation (*gharar*), and the financing of certain activities that are prohibited by Islam, such as the construction of, or investment in, a distillery or gambling house. The Arabic meaning of *riba* is both 'usury' and 'interest'. There is no explicit prohibition of interest in the *Qur'an* or *Sunnah*. Therefore, its meaning depends on interpretation and differs from one Islamic school to another [5], whereas Islamic banks have generally accepted the view 'that interest in all forms, nominal or real, fixed or variable, simple or compound, must be understood as *riba* and is therefore forbidden' (Saeed 1998: 99f). Instead, Muslims should provide benefits to the Islamic community (*Ummah*) by promoting economic development and social welfare. This would require investment in production and services.

Furthermore, Islam encourages consumers to purchase rather than keep money idle by saving. Money constitutes purchasing power, and it cannot be increased other than by buying and selling. The making of profit is allowed on principle, but its predetermination is prohibited. This means that profit-oriented transactions have to be subject to 'uncertain gain' (Cunningham 1990: 3–4; Zineldin 1990: 80; De Belder et al. 1993: 23). In a strict sense of the principle, even inflation cannot be taken into account in advance.

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[4] To mention some of these banks: ANZ Grindlays, Citibank, Bankers Trust New York Corp., and Chase Manhattan Bank (Barraclough 1995).

[5] Central to the question of *riba* is a verse in the *Qur'an* (LXIV: 18), which literally says: 'When you provide God an [interest-free] loan, he will double it'. This verse, strictly speaking, does not prohibit interest. Since the verse is contextually, however, very close to the *riba*-verse (also mentioning the 'doubling'), orthodox interpreters argue that the *Qur'an* prohibits a compensation higher in value or quantity (Amereller 1995: Ch. 7)

A good loan, which is called *quard-e-hassan*, is such where the lender does not charge interest or an additional amount over the money lent.[6] Some Islamic countries require a certain percentage of transactions of banks as *quard* for charity purposes. Of course, such loans are limited in number and amount. In banking practice, however, rather high service charges are added to these interest-free loans. Critics say that these constitute concealed interest, which is an offence against the *Shari'ah*. Practitioners reply that interest relates to time and service charges do not, and that the principle of fee-charges or *bai mu'azzal* is acceptable to Islam. Furthermore, from the point of view of banking the administration of small loans is expensive because of high fixed costs.

Theoretically Islamic financial instruments have to be in line with the premises set by the *Shari'ah*.[7] This means first of all that banks may offer a variety of fixed terms instruments (e.g. security accounts, investment accounts, etc.) to the public to raise funds, but instead of fixed returns in the form of interest, the customers share risks and profits of the bank. In the case of current accounts banks take the risk, but do not offer a return to their customers. Secondly, there are a number of trade-related and investment-related financial instruments: mark-up pricing; financing with buy-back agreement; financing of entrepreneur activity; discounting of trade bills; leasing; hire-purchase; term finance certificates, and the like. Many of these are also found in Western-style banking but some of them are Islamic inventions. I shall take a closer look at mark-up pricing, financing with buy-back arrangement, financing of entrepreneur activity, and rental or hire purchase financing to show how financial instruments avoid the interest prohibition.

(a) Mark-up pricing or *murabaha* is an agreement according to which the bank purchases goods for the borrower who pays a higher price to the bank at a future date. During the specified period (often three months) the bank remains the nominal owner of the goods and bears the risk. The surcharge depends on the type of commodities and credit rating of the borrower. As a premise, it should not be related to the time involved and should therefore not be increased if the loan period is extended.

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6 In its classical dimension *quard* concerned the borrowing and lending of things and was intended to prohibit speculation in price differences.

7 In the description of Islamic financial instruments I follow Amereller (1995); Cornelisse and Steffelaar (1995); De Belder et al. (1993); Haron and Shanmugam (1997); Homoud (1985); Kazarian (1993); Saeed (1998) and Wohlers-Scharf (1983).

(b) A special form of *murabaha* is the mark-up pricing under a buy-back arrangement, which is more convenient to banks.[8] While in ordinary mark-up transactions the bank deals with both seller and borrower, in this case the user himself purchases the goods from the original seller with a credit from the bank. He nominally sells them to the bank and signs a contract to buy them back with a surcharge after a specified period. In case of default of borrowers banks usually reschedule the contract, because of the limited liability of the borrowers,[9] instead of filing a suit and receiving only meagre compensation.

(c) *Mudaraba* is an agreement of co-operation between a financier and an entrepreneur, who contributes his labor and skills. The arrangement is comparable to the Roman *commenda*. Profits are shared according to a fixed ratio, while in the event of losses the financier loses part or all of his capital input. According to Muslim theorists *mudaraba* is a desirable arrangement because the financier assists somebody with little financial means, because he is motivated more by charity than by economic gains. This assumption holds, perhaps, true for small communities with face-to-face relations but of course not for modern economies where borrowers and lenders do not know each other.

(d) Rental financing (*ijara*) functions through the bank's acquiring equipment or buildings and making them available to the client with a rent contract. In hire-purchase financing (*ijara wa iktina*) the tenant pays installments into a savings account and finally achieves the rented objects. Usually the reinvested capital in this savings account works in favor of the bank.

The requirements to Islamic banking constitute a dilemma for its operation: the dilemma of adverse returns-risk between lender and borrower and the problem of moral hazards for lenders. Since banks have to take a lenient position towards borrowers and, if necessary, postpone the repayment, the consequence is that particularly risky borrowers seek such contracts, while secure borrowers are punished with the high-risk premium. Furthermore, since the contracts are based on profit sharing, borrowers aim at understating their real profits. Banks are not at all in favor of such arrangements, because of their weak legal position towards borrowers, and try to limit their numbers.

8 Sale-repurchase contracts have always been appropriate for financial institutions and agents in Islamic and non-Islamic countries to circumvent a prohibition or regulation of interest (see Schrader 1997).

9 In Pakistan, for example, they are liable only to the mark-up price plus liquidated damages of a maximum of 20 percent of this price. As the courts work very slowly, real losses would exceed this by far (Cornelisse and Steffelar 1995: 694).

(e) In *musharaka* arrangements different parties contribute capital for a certain joint project. Risks and revenues are divided according to pre-fixed ratios. In Western terminology this is equity participation. This financial instrument is more convenient to banks than the *mudaraba*. They often provide capital for a certain project and in exchange obtain stocks of the enterprise.

## Islamic Banking in Malaysia[10]

Malaysia is the first country to have an Islamic banking system which offers a wide spectrum of Islamic financial instruments. The country has a parallel structure of Western-type and Islamic banks. Bank Islam Malaysia constitutes the top provider in Islamic banking and started this service in 1983 after pressure on the government by Muslim associations.[11] The bank was incorporated as a limited company under the Companies Act of 1965. The state had to issue an Islamic Banking Act, due to the fact that the ordinary banking act referred to interest-based operations. With almost 30 percent the main shareholder of the bank was the government, followed by the State Religious Council, which held 25 percent. Nowadays the bank operates with more than 60 branches across the country. Interestingly, only 40 percent of the bank's clients are Muslims. The reason is simply that the bank is highly competitive with Western-type banks with regard to returns to customers. As a consequence the availability of Islamic financial instruments has been increasing during the past five years.

In 1993 a second bank, Bank Rakyat, converted to interest-free banking. It provides co-operative banking and serves preferably individuals and retailers. Furthermore, almost 40 conventional banks which are afraid of losing their Muslim customers, have introduced Islamic bank sub-divisions. One of them is Maybank, the largest bank in Malaysia. According to critics from Islamic banks it is unfair that conventional banks can open their Islamic windows, while Islamic banks are prohibited by the Shari'ah to open conventional ones.

The Islamic banks in Malaysia offer returns on an interest-free profit-and-risk-sharing basis, and credit facilities through a number of schemes. They receive deposits from the public in the form of current accounts, sav-

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10 Here I follow Ariff (1988), Hiebert (1995) and Barraclough (1995).

11 The attempts to institutionalise Islamic banking date back to 1969 with the Pilgrims' Management and Fund Board and the Pilgrims' Affairs Department which was set up by the government to support all Muslim pilgrimage activities.

ings accounts, investment accounts and special investment accounts. Savings accounts are run free of cost without providing interest or profit and mainly serve for safekeeping funds (*al-wadiah*). The banks get permission from the customer to work with the capital. For savings accounts the banks may reward the customer with a share of the bank profits. Investment accounts are term deposits, temporary investments in the bank enterprise. The customer shares profits and risks according to a specified ratio. The government or corporate customers hold special investment accounts.

The banks offer project and trade financing according to the *mudaraba* and *musharaka* principles, as well as mark-up financing, deferred-payment sales, hire purchase and leasing. Furthermore, the financial services include stock brokerage, the sale of government bonds and an insurance fund, all of these instruments being in accordance with Islamic principles. BIMB Securities is a stock brokerage that is 70 percent owned by Bank Islam. It avoids speculative ventures and does not deal in stocks of companies which offend against the *Shari'ah*. Among the more than 500 listings of the KL Stock Exchange (before the crisis) more than half are acceptable to Islamic banking. It is expected that this brokerage may become attractive for foreign Muslims too. On government bonds the central bank provides a share of returns instead of interest. The trustee profit-sharing insurance scheme 'Suarykat Takaful Malaysia' is organized in such a way that customers who do not make claims obtain profit shares when policies expire.[12]

Among the most popular Islamic financial instruments is pawnbrokerage. Like in other countries it serves mainly poor people.[13] A great number of Bank Rakyat branches offer pawnbrokerage according to Islamic principles. Instead of interest it takes a fixed fee per month, which is in many cases much cheaper for the customers than loans from conventional pawnshops.[14] The bank's pawnshops only accept gold and provide loans up to 50 percent of the pawns' value for a period of six months, after which a three-months extension can be obtained if required. Then the pawn is sold if it has not been redeemed.

Critics hold that Malaysian Islamic banks take up quasi-interest operations, because Malaysia's parallel banking system provides a highly competitive environment. The returns of Western banks in the form of interest, and Islamic banks in the form of non-interest are in fact almost the same.

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12 One wonders, however, if such a scheme is not contrary to the principle of solidarity, which is important for Islamic law.

13 For a general discussion of pawnbrokerage and a case study in St. Petersburg/Russia, see Schrader (1999).

14 Conventional pawnshops usually take an interest of 2 percent per month.

Some orthodox Muslim scholars would prefer a more strict Islamic banking system, other scholars would prohibit conventional banks from opening their Islamic windows, because they do so only for competitive reasons and not out of religious considerations. Contrary to this critique, progressive scholars blame the Islamic banks in Malaysia for not being innovative enough, in spite of the fact that Malaysia is perhaps the most innovative country in developing Islamic financial instruments. However, so far the Malaysian Islamic banks have failed to develop one particular market niche reflecting Islamic principles: social banking for the poor. In addition to pawnbrokerage, the financing of social projects and basic infrastructure might fit into this category. Furthermore, new instruments have to be invented for current or savings accounts to compete with conventional instruments such as overdrafts and short-term advances.

## The Wide Gap between Theory and Practice in Islamic Banking

From the Western economic point of view – and this is the perspective most scholars take – Islamic law and ethics provide a rather narrow corset to financial, as well as commercial transactions. In a number of Islamic countries the *Shari'ah* plays an important role and structures everyday life and the economy. On the other hand, Muslim scholars and bankers refer to the high growth rates of Islamic banking, which proves that it provides an alternative to Western-type banking. Indeed, this cannot be denied, but in absolute numbers as well as market shares it is still comparatively small, except in countries with a mandatory banking structure, such as Sudan, Pakistan or Iran. So far the majority of Muslim bank customers are not customers of Islamic banks, and in spite of the *Shari'ah* a number of Muslim investors seek the most lucrative investment opportunities for their capital, be they Islamic, quasi-Islamic or Western.

The largest Islamic banks are expected to grow further. For the Middle East it has been prognosticated that they will capture at least 50 percent of savings during the next decade.[15] However, a handicap is that there is not yet general acceptance of financial instruments in different Islamic countries, because the *Shari'ah* Committees differ in their strictness with the application of Islamic law. Nevertheless, according to Saeed (1998) there is a tendency in Islamic banking to be more pragmatic in the interpretation of the *Qur'an* and its attitude toward certain economic practices.

[15] Among these large banks are Kuwait Finance House and Al-Rajhi Banking and Investment Corporation (Kuwait), Jordan Islamic Bank, Faysal Islamic Bank of Bahrain, to mention a few.

> "The pragmatists have made some adjustments in the application of a number of key principles of Islamic finance, for example in profit and loss sharing, money, profit, interpretation of *riba* as interest, by modifying the idealists' conception of those principles. What were considered to be the 'pure' forms of these concepts have been adapted by pragmatic considerations. However unacceptable this may be to the idealists, it has provided the Islamic finance practitioners with much needed flexibility in designing appropriate *halal* investment products for their Muslim clientele." (Saeed 1998: 89)

In practice this means that the 'typical financial instruments' *mudaraba*, *musharaka* and *murabaha* are used differently than the *Shari'ah* says. For example, the *mudaraba* financial instrument gives a stronger position to banks by limiting their risks and fixing the duration of the contract, which is in principle open. This means that the returns are related to the time involved, and this in turn is very close to interest. Or, in *musharaka* agreements the banks control the capital, instead of handing it over to the managing partner, as prescribed by the *Shari'ah*, so that the formally balanced partnership becomes unbalanced (see Saeed 1998: 94ff.).

But in spite of these advantageous adaptations, a number of Islamic banks do not use the wide range of specifically Islamic financial instruments. Bankers argue that Muslim customers do not demand them (Naser et al. 1999).[16] This is, however, not necessarily due to their disadvantages compared to conventional financial instruments, as Gerrard and Cunningham (1997) emphasize. A number of Muslim customers with an understanding of fundamental Islamic terms lack knowledge of Islamic banking, so that a campaign might increase this demand.

As long as Islamic banks are state banks, their profits and losses will perhaps be less important than for private banks or Islamic branches of Western banks. But when the question of profitability is applied, they have to fulfill certain economic criteria. Presently the practice of a number of Islamic banks is such that they prefer financial instruments, which in their returns are comparable to interest-based financial transactions, although – as already mentioned – the term 'interest' does not appear. No wonder, the customers of Islamic banks consist of both Muslims and non-Muslims, which in turn indicates the competitiveness of Islamic with conventional banks. For example, instead of interest on savings accounts, customers obtain certain compensations in kind.[17] Recalculating this reward as a percentage of the savings and time involved, it is comparable to what would have been achieved on an ordinary savings account with interest.

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[16] In their study Naser et al. found in Jordan that the majority of Islamic bank customers used personal current accounts, while only very few used specifically Islamic instruments.

[17] For Muslims a flight to Mecca, for example, is very attractive.

Where Islamic banks have to compete with conventional banks, research is necessary to investigate both Muslim and non-Muslim customers' decisions to work with Islamic banks. To my knowledge data are so far not yet available for Malaysia. However, research on customers' satisfaction[18] was done in Jordan and Bahrain – both countries with a parallel banking system. In Jordan the decision to do business with an Islamic bank is both religiously and economically motivated: 73 % of the respondents (customers of Jordan Islamic Bank for Finance and Investment) referred to the bank's reputation, 70 % mentioned religious reasons, 65 % referred to the *Shari'ah* principles, 64 % to bank confidentiality, and 61 % saw their motive in a mixture of religious and profitability reasons.[19] The vast majority, however, operates with both Islamic and conventional banks, because the former do not offer a number of services given by the latter and according to religious requirements they are restricted in their opening hours. Nevertheless, on a whole both Muslim and non-Muslim customers are very satisfied with the services provided. To my mind there is no conflict for a Muslim to deal with an Islamic bank as long as the returns are competitive with conventional banks. However, this conflict may come up when the returns are much lower. To avoid such a conflict, bank managers find ways and invent instruments which are nominally *halal*, acceptable by the *Shari'ah* Committee, but nevertheless competitive (Naser et al. 1999).

In Bahrain scholars investigated the customer profile of two Islamic banks. The average customer is well educated and male, between 25 and 35 years old, with a not very high income from the retail sector. This young segment requires particular services such as financing the acquisition of cars, houses and other durable goods, as well as saving schemes such as student education funds, medical funds, pension funds, and the like. Furthermore, the profile shows that customers have a fairly stable relationship with Islamic banks. With regard to knowledge and use of Islamic financial instruments 88.1 % of the customers are aware of current accounts and 94.4 % of savings accounts, whereas 55.6 % and 86.7 % use these, respectively. Furthermore, 90.4 % are aware of automatic teller machines, while 75 % use them. For investment accounts the relation is 85 % to 63.8 %. Customers are much less aware of typical instruments of Islamic banking such as letter of credit and particular financing facilities. Here the relations are 28.9 % to 14.1 % and 71.5 % to 34.8 %, respectively (Metawa and Almossawi 1998: 302ff.). Asked about the criteria for choosing an Islamic bank the survey found that the religious factor is crucial, followed by the rate of return,

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[18] Customer satisfaction means the feeling or attitude of a customer toward a product or service after it has been used (Solomon 1996: 346).

[19] In this survey multiple answers were possible.

family and friend's advice, and location of the bank. However, to my mind one has to be critical of such a ranking, since a good Muslim has to behave according to particular religious standards and is therefore expected to refer to religious reasons. The economic factor ranges next.

One last point, which I did not emphasize so far, is that Islamic banks play a positive role in mobilizing savings from lower-income people who would otherwise not have access to banks (Kazarian 1993). Therefore we should not overlook the great number of ordinary customers with small savings who want to lead a life in accordance with religion, but do not so much think in terms of economic benefits. In many cases, particularly in a rural setting but also in urban neighborhoods, the financial and religious spheres are not strictly differentiated from one another, so that people can deposit their savings in offices of Islamic banks on the ground of a mosque, and the mullahs exert direct influence on economic life by advising people to take their money to an Islamic bank.

After the discussion of Islamic banking in theory and practice it is now my intention to discuss Islamic banking from the point of view of modernity and modernization. I will consider Islamic banking as a product of modernity: an alternative modernization project on own cultural roots, which attempts to re-embed economic matters into social concerns.

## (2) Western and Non-Western Modernity and the Re-embedding of Markets

Modernity constitutes the key concept of societal and economic development. It emerged as a European project during the Enlightenment. With the expansion of capitalism and particularly colonialism it spread over the world as a *universal* idea.[20] Modernization is the way from tradition to modernity, a process which required the destruction of the old social structure (Eisenstadt 1979), disenchantment of the world, secularization, and rationalization of life (Weber 1950). It engendered a functional differentiation of society into distinct sub-systems (Parsons 1952), which in turn developed different systemic rationalities (e.g. Luhmann 1984). Furthermore, modernization is a political slogan, the standardized way to an idealized

[20] "The local law of Western civilization that called itself modernity could be articulated as universal and *felt* like universal thanks to the universality of the embrace in which the West squeezed the rest of the human globe: it was the globality of their domination that allowed Europeans to project '*their* civilization, *their* history, *their* knowledge as civilization, history and knowledge *überhaupt*'." (Bauman 1995: 22–23, quoting Klemm 1993: 19)

vision of the future: society in which human action is a healthy mix of emancipation and competition, entrepreneurship and social ethics.

However, subject to modernity (and modernization) is an intrinsic tension which relates to the distinction between formal and substantive rationality (Weber 1985: 45ff.; Polanyi 1979: 209ff.), their different qualities, guidelines to action and underlying ethics (see Evers and Schrader 1994). Modernity sacrifices substantive concerns for the sake of rationalization and efficiency. Means-end-rationalizing dominates almost all spheres of life. This tension is even more felt in countries where a colonial state established itself on pre-modern polities and institutions. When it withdrew, it left a cultural, legal and bureaucratic heritage, on which the new, post-colonial states emerged (Stauth 1992: 7).

Contemporary modernization theories break with the conventional, static concepts of tradition and modernity. The latter is no longer an end that will sooner or later be achieved by all societies, but an ongoing process. It is inseparable from its antonym: tradition (Dumont 1986), involving a specific, reflected organization of the past in relation to the present (Giddens 1990; Beck et al. 1994; Eisenstadt 1998). In the same way tradition is not simply the past, it is the product of reflection on modernization: it has been invented (Hobsbawm and Ranger 1983). And finally, non-Western scholars, who deconstructed modernity as an occidental product, have challenged its universality. They search for *modernities* in accordance with their own cultures.

Expressions of this intellectual confrontation are the ongoing cultural value debates, two of which are 'the Asiatic' or 'Islamic way to modernity'. Southeast Asian and Islamic politicians or religious leaders distance themselves from the West with anti-western, and particularly anti-American, ideologies and sentiments. According to their rhetoric Western modernity is individualistic and therefore inappropriate for the more collectivistic people in Asia. Individualism, however, is destructive, leading to a dead alley, which ends in societal anomie (disorientation, increase of criminality, intergeneration conflict, etc.) and economic crisis. Maintenance and support of non-Western values on an indigenous path to modernity, however, could avoid these pathologies, because own values are superior to Western ones. In both discourses these values stand for collectivism (family or 'imagined family' of people sharing the same identity or cultural context - forming a community), order and morality, consensus and submission to higher authority of another world and its worldly representatives. Responsibilities towards kinship and community range higher than individual rights and aims (e.g. Robison 1996).

Against this cultural value debate Senghaas (1995: 25) argued that there is nothing particularly 'non-Western' about the supposed 'non-Western values', but that they are identical to the European values of yesterday, which are associated with Tönnies' ideal type of *Gemeinschaft* as opposed to *Gesellschaft*. In other words, what Asian politicians or Islamic religious leaders conceive as 'Western', are not traditionally 'Western values' but the outcomes of modernization: individualism, pluralism, majority principle, participation, and the like. Traditional European values were just as collectivist as the assumed non-Western ones, but they lost importance or changed in the course of modernization.

Addressed in these non-Western values are attributes of traditional 'community', however, they are uncoupled from tradition: they get an important symbolic function within the non-Western project of modernity. Conglomerates of people on a higher than the local level, who share an identity which is based on religious, ethnic or national grounds constitute 'imagined communities' (Anderson 1983). Their institutions instrumentalize kinship terminology[21], supposing close relationships of their members, which involve trust, brother- and sisterhood, or self-sacrifice for the common good. The moral foundation of these 'imagined communities' provides an important factor of cohesion, gives an identity of participating in a joint, indigenous modernization project, and smoothens the tension between formal and substantive rationality. Thus, 'imagined communities' function as substitute communities for an idealized image of traditional communities, which fell victim to modernization. Such substitute communities, which are based on an underlying, uniting ethics – be it religious, philosophical, nationalist or fascist – give meaning in a highly differentiated and globalized world. They have clear-cut boundaries, which mark who belongs to the 'community' and who is excluded from it (Schlee and Werner 1997). Islam particularly makes extensive use of such symbols. The *Ummah,* the community of Muslims, is perceived as trustful *per se* because of sharing the same faith and following the *Shari'ah*, which in turn needs institutions such as *Shari'ah* police or *Shari'ah* committees of Islamic banks to protect its values.

In a number of non-Western countries the immanent tension in modernity has manifested itself in the revitalization of cultural tradition (Eisenstadt 1998: 9ff.; Stauth 1998: 132ff.). During the last decades East and Southeast Asia experienced rapid economic growth, from which not only the elite, but also larger parts of the population could benefit. A middle class emerged, which opts now for democratization and political pluralism. The revitalization of Asian values has therefore rightly been interpreted as

[21] Typically used terms are 'community of brothers and sisters' or 'mother nation'.

an attempt by the old political and economic elite to secure its diminishing power and legitimate use of force (e.g. Jeung Lee 1995; Dupont 1996; Rodan 1997; Heberer 1997). The Middle East, however, is characterized by a deep chronic development crisis and no visible promising ways out of it (Senghaas 1995: 26). The backward looking class of orthodox religious leaders holds on to the absolute validity of Islamic law as opposed to secular, Western law, while politicians and national elites very often adapted the static image of the Middle East as found in Western thinking (Stauth 1995: 92–96), and Western modernization theory and development practice as a way out of this trap. Recent modernists, however, critically reflected on their intrinsic cultural values in search of an alternative to Western modernity, to overcome the tension between (the adapted) modernity and (the perceived) tradition within their own culture. They aim to abolish the monopoly of interpretation of the scripts with regard to law and morality and to re-interpret these in a rationalist, utilitarian and functional way, to reconstruct moral and religious considerations and combine them with social aspects of modern life (Stauth 1995; 1992: 8).

In analogy to this interpretation of non-Western modernity my view on Islamic banking is that it is an attempt to place a modern economy on its own cultural values. While in theory this tension is solved by offering religiously adequate financial instruments, in practice Islamic banks are linked with the world economy and its economic requirements, are confronted with religious guidelines and control mechanisms, and religious as well as economic expectations of their customers. Intrinsic to Islamic banking is an incompatibility of religious ethics and secular means-end rationality, which a number of banks solve by providing financial products that are close to commercial banks. Most Southeast Asian countries, and Malaysia in particular, have taken a radical pro-market course, so that such bank practices have been tolerated by politics.

However, beyond a pure ideology, particularly in the Islamic world the search for non-Western modernity is an expression of disapproval of what forms one of modernity's key elements: materialism and supremacy of the economy over the social, cultural and religious realm. Islamic concepts are opposed to excessive accumulation and wealth while at the same time they differ from socialism by accepting private property and ownership of the means of production (Wohlers-Scharf 1983: 74), but they prescribe social activity. Also, Islamic banking is subject to social involvement in society, although in practice the volume of social investment and services is rather low. The Malaysian discourse envisages a 'caring society' (Evers and Gerke 1997: 5), the Asian variant of Western 'social market society'.

However, in the West the intrinsic tension of modernity has not been overcome either. Neo-substantivists aim at re-embedding the economy into society, communitarians at reconstructing 'communities' with a well-balanced relation between individual rights and social responsibilities (Etzioni 1995: x–xi), and post-materialists are reestablishing reason and discourse in society to encapsulate economic or material issues within social, cultural, ecological and ethical boundaries (see e.g. Beck, Giddens and Lash 1994; Habermas 1990; Gasper 1996). Both the non-Western projects of modernity and the project of Communitarianism want to strengthen the social and value-rational compared with the economic and means-end rational sphere. Both concepts, however, differ in their rhetoric. The former is perceived as a modern, non-Western ethics on a religious and social basis, the latter as a postmodern, deontological ethics.[22]

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[22] Deontological ethics means a self-restriction to higher, binding goals and action according to these.

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