

# Comparative Analysis of Sharia Investment in Indonesia and Malaysia

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**Abstract:** *This study aims to determine the comparison of sharia-based investment activities in Indonesia and Malaysia. Investing becomes the basis in business such as analyzing risk, choosing to take risks, and the ability to seize opportunities. The trend of sharia-based investing has begun to penetrate all aspects of business in countries with a Muslim majority population, including Indonesia and Malaysia. This includes stock investments, mutual funds and so on. This study uses a qualitative approach with a descriptive format that provides a careful picture of the comparative analysis of Islamic investment in Indonesia and Malaysia. The object of this research is investment in Indonesia and Malaysia. Source of data used comes from secondary data in the form of books, journals and articles through documentation studies and literature studies. The results showed that the growth of sharia investment in Indonesia showed a negative trend even though the majority of the people adhered to Islam. While the application of Islamic investment in Malaysia continues to show a positive trend. This can be seen from Islamic banking assets and their quality is better than in Indonesia. When viewed from the perspective of investors, both of these countries have the same level of risk. However, a greater potential for investment exists in Malaysia, which continues to show a positive trend.*

**Keywords:** Investment, Sharia, Banking, Malaysia, Indonesia

## 1. Background

According to the OJK, the development of sharia investment in Indonesia is inseparable from the development of national sharia finance, both from the aspects of Islamic financial institutions and their supporting infrastructure, expertise and regulatory devices and supervision systems, as well as awareness and public literacy on Islamic financial services. Various synergies of sharia economic activities that are reciprocally also support each other such as the food industry, halal cosmetics and pharmaceutical products, Muslim fashion, and sharia tourism.

Indonesia as a Muslim majority country, in fact the Islamic capital market industry has developed rapidly. But the fact is, these conditions are still far from expectations and even the development of the Islamic capital market has not been worked out optimally so that market penetration is still low compared to neighboring countries.

To accommodate the needs of people in Indonesia who want to invest in capital market products that are in accordance with the basic principles of sharia, a Sharia Capital Market is also being developed. As of the end of March 2015, total sharia shares traded on the capital market had reached Rp 2,946.89 trillion, while corporate sukuk traded reached Rp 7.1 trillion.

The Islamic capital market in Indonesia has experienced significant development since 2011. This is seen from the managed funds of Islamic mutual funds which recorded an average growth of around 30%. The increase in mutual fund managed funds is also supported by the launch of new products such as the first Sharia-based exchange traded fund (ETF) in Indonesia.

Enthusiastic community towards sharia investment is quite good, with the visible participation of the general public and

academy in the Sharia Capital Market School (SPMS) which experienced a significant increase from 2,306 participants in 2011, increasing by 4,292 participants in 2012 and increasing by 3,411 participants through October 2013, "said President Director of PT Indonesia Stock Exchange (BEI), Ito Warsito, when met at a 2013 capital market journalist workshop on sharia capital markets at the Bali International Convention Center (BICC), Bali, Saturday (2/11/2013).

Indonesia has promising sharia investment prospects, moreover supported by Indonesia which has the largest Muslim majority population in the world with the prospect of economic growth and capital markets, while the capital market is also strengthened by the fatwa of the National Sharia Council - Indonesian Ulema Council (DSN-MUI ) No.80 concerning the application of sharia principles in the mechanism of equity trading in pa stock exchange regular sar.

The fatwa also emphasized that the implementation of sharia securities trading on the IDX already has a strong legal basis or law and the sustainable mechanism used in equity securities transactions in the regular market is in accordance with sharia principles.

With this fatwa, the public, capital market investors and prospective investors who can pay attention to sharia principles, are expected to no longer experience doubts and are increasingly interested in investing in the capital market.

The IDX has also developed a sharia-compliant online trading model or sharia online trading system (SOTS) to be applied by bourse members. Until now, the sharia online trading service system has been developed by 7 securities companies.

With this system, the development of sharia investment in the Indonesian capital market is expected to increase

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because investors will be more easy and comfortable in trading sharia shares.

Although sharia investment in Indonesia has experienced growth, but when compared with neighboring Malaysia, Indonesia looks so far behind in developing Islamic investment activities in the capital market. Malaysia first developed Islamic capital market activities since the early 1990s and currently continues to progress rapidly. For example, data shows that by the end of 2004 the total Net Asset Value (NAV) of Sharia Mutual Funds reached 7.7% (seven point seven percent) of the total NAV of the Mutual Fund industry in Malaysia, while Indonesia had only reached 0.51% (zero point) fifty one percent) of the total NAV of the mutual fund industry.

For Islamic bonds, in Malaysia up to the end of 2004, there was an increase of 31.69% of the total value of bonds recorded in the Malaysian capital market, while in Indonesia up to the end of December 2004 it had only reached Rp. 1,424 Trillion or 1.72% of the total value of bond issuances in Indonesia in the same year, amounting to Rp. 83,005,345 trillion.

Based on this background, we are interested in researching "Comparative Analysis of Sharia Investment in Indonesia and Malaysia"

### Research Methods

Qualitative research design format consists of three models, namely a descriptive format, a verification format, and a grounded research format. In this study used a qualitative method with descriptive design, namely research that gives a careful description of certain individuals or groups about the circumstances and symptoms that occur (Koentjaraningrat, 1993: 89). Furthermore, researchers will provide a careful picture of the comparative analysis of the application of Islamic investment in Indonesia and Malaysia.

### Research Object this study

Analyzes the comparison of the application of investment in Indonesia and Malaysia. The object of this research is Investment Activities in Indonesia and Malaysia.

### Operationalization of the Concept

operationalization of the concept of this research is investment in Indonesia and investment in Malaysia. In this study there is one variable, Investment.

### Application of Sharia Investment in Indonesia

As a country where the majority of the population is Muslim, investment through banks is often seen as a form of usury. Therefore formed Islamic banks which are now widely popular among the people of Indonesia. Unlike conventional banks, Islamic banks have a system that is based on Islamic religious law which is based on the Qur'an, Hadith and Ulema Fatwa, in this case MUI. Not only that, Islamic banks also only invest in halal businesses.

Since the Capital Market Supervisory Agency (Bapepam) officially launched the sharia capital market principles on March 14 and 15, 2003 with the signing of a memorandum

of understanding between Bapepam and the National Sharia Council - Indonesian Ulema Council (DSN-MUI), in the course of the development and growth of securities transactions sharia in the Indonesian capital market continues to increase. It must be understood that amid the widespread growth of sharia economic activities in general in Indonesia, the development of sharia investment activities in the Indonesian capital market is still considered to have not experienced significant progress, although the sharia investment activities have been started and introduced since mid-1997 through sharia mutual fund instruments and a number of DSN-MUI fatwas related to sharia investment activities in the Indonesian capital market.

Judging from the fact, although most of Indonesia's population is predominantly Muslim, the development of sharia-based capital markets can be said to be very far behind, especially when compared to Malaysia which can already be said to have become the center of sharia-based investment in the world, because it has implemented several Islamic financial instruments to capital market industry. Another reality faced by our Islamic capital market to date is the minimal number of investors investing, especially when compared to the number of investors in the banking sector.

Compared to neighboring Malaysia, for example, Indonesia looks so far behind in developing Islamic investment activities in the capital market. Malaysia first developed Islamic capital market activities since the early 1990s and currently continues to experience rapid progress. For example, data shows that by the end of 2004 the total Net Asset Value (NAV) of Sharia Mutual Funds reached 7.7% (seven point seven percent) of the total NAV of the Mutual Fund industry in Malaysia, while Indonesia had only reached 0.51% (zero point) fifty one percent) of the total NAV of the mutual fund industry.

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On the other hand, it must be recognized that there are still a number of fundamental problems that have become obstacles to the development of a sharia-based capital market in Indonesia. These constraints include not only the uneven understanding and / or knowledge of the Indonesian people about investing in sharia-based capital markets, nor has it been supported by adequate regulations on sharia investments in the Indonesian capital market and there is an assumption that to invest in sharia capital markets costs are relatively more expensive when compared to investments in other financial sectors.

Other things deemed able to influence the development of the Sharia Capital Market include: the development of types of sharia capital market instruments that are strengthened by the DSN-MUI fatwa, sharia-compliant transaction

developments on sharia capital market instruments; and institutional developments that monitor the types and transactions of Islamic capital markets (including Bapepam Syariah, Sharia Securities Rating Agency and the Islamic Market / Index Supervisory Board). The existence of the capital market in Indonesia is one of the most important factors in participating building a national economy, it has been proven that many industries and companies use this capital market institution as a medium to absorb investment and the media to strengthen their financial position. Factually, the capital market has become the financial nerve center in the modern world of the economy today, even a modern economy would not have been possible to exist without a strong capital market and global competitiveness and well organized.

The rise of the Islamic economy in Indonesia today has become an interesting and encouraging phenomenon, especially for the majority of Indonesia's population who are Muslim. The practice of conventional economic activities, especially in capital market activities that contain speculation as one of its components, seems to still be a psychological barrier for Muslims to actively participate in investment activities, especially in the capital market, even though they are labeled Sharia.

The basic difference between the conventional capital market and the Islamic capital market can be seen in the instruments and the transaction mechanism, while the difference in the value of the Islamic stock index with the conventional stock index value lies in the criteria of the issuer shares that must meet the basic principles of sharia. In general, the concept of Islamic capital market with conventional capital market is not much different, although in the concept of Islamic capital market, it is stated that the traded shares must come from companies engaged in sectors that meet Islamic criteria and are free from ribawi elements, and stock transactions are carried out by avoiding various practices speculation.

The Islamic capital market is developed in order to accommodate the needs of Muslims in Indonesia who want to invest in capital market products that are in accordance with the basic principles of sharia. With the increasing variety of investment facilities and products in Indonesia, it is hoped that the public will have alternative investments that are considered in accordance with their wishes, in addition to investments that have been known and developed in the banking sector.

As is well known that Indonesia is a country with a majority Muslim population, therefore the capital market industry sector is expected to be able to accommodate and at the same time involve the participation of Muslim citizens directly to actively participate as the main market players, of course, as local investors in the Indonesian capital market . As an effort to realize this, it is natural to provide and develop investment products in the Indonesian capital market in accordance with the basic principles of the teachings of Islam. The above becomes important considering that there are still assumptions among Muslims themselves that investing in the capital market sector on the one hand is something that is not allowed (prohibited) based

on Islamic teachings, while on the other hand that Indonesia also needs to pay attention and attract interest foreign investors to invest in the Indonesian capital market, especially investors from Middle Eastern countries that are believed to be potential investors.

In Islamic teachings, that investing activities can be categorized as economic activities which are at the same time included muamalah activities, which are activities that interrelate with people. Meanwhile, based on the principles of Jurisprudence, that the legal origin of muamalah activities is mubah (permissible), ie all activities in the pattern of human relations are permissible (permissible) unless there is a clear prohibition (haram). This means that when an muamalah activity is emerging and not yet known in Islamic teachings, the activity is considered acceptable unless there are implications from the Qur'an and the Hadith that prohibit it implicitly or explicitly.

In some classical Islamic literature there are no investment terms or capital markets, but as an economic activity, these activities can be categorized as trading activities (al Bay). Therefore, to find out whether investing in the capital market is something that is permissible or not according to Islamic teachings, we need to know things that are prohibited / forbidden by the teachings of Islam in the sale and purchase relationship.

## 2. Conclusion

The growth of Islamic bank assets and the quality of Malaysian banking assets continue to experience positive growth compared to Islamic banking in Indonesia. Islamic investment in Malaysia is more promising than making Islamic investment in Indonesia. The slowing condition of Islamic financing in Indonesia must be a concern of business players in Islamic banks to further expand the existing market share. Moreover, the majority of Indonesia's population is Muslim with the largest Muslim population in the world. This has become a very broad market share for Islamic banking in Indonesia. So that the potential for Islamic investment in Indonesia is wider than Islamic investment in Malaysia. But all of that requires support from the Indonesian government, especially in helping to increase market share for Islamic banking in Indonesia.

## 3. Suggestion

The Malaysian Government's to continue to maintain the quality of service and determination in providing Islamic investment-related regulations to be in accordance with Islamic Sharia which is the majority religion in the country. Meanwhile, the Indonesian government as a regulator should provide facilities to facilitate each stakeholder in carrying out sharia-based activities. This certainly will be in accordance with the demands of an age where global business has also begun to glance at sharia-based businesses. In addition, because the majority of Indonesian people are Muslims, education should be given regarding sharia-based businesses or investments in order to create competitive advantages with neighboring countries.

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