CONFLICTS, TRADE-OFFS AND ETHICAL CONSIDERATIONS

In Controlling The Spread of COVID-19
Malaysian Perspective

by Prof. Dr. Syed Hamid Aljunid
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Assalamualaikum wbt.

Alhamdulillah! Praises to Allah, for all the blessings that He has given and the recovery from the pandemic that He has smoothen. Despite of the Malaysia’s movement control order which now has entered its “Recovery” phase, we are pleased to dedicate our third quarter of IF HUB which deliberate the current and relevant theme.

This edition of IFHUB have our two senior Faculty members, Prof. Dr. Syed Hamid Aljunid and Prof. Emeritus Datuk Dr. Mohamed Ariff contributing aptly themed articles. While Prof. Dr. Syed Hamid discusses on Conflicts, Trade-offs and Ethical Considerations in controlling the spread of COVID19, Datuk Ariff writes on the Economic Impact due to COVID19.

Assoc. Prof. Dr. Aishath also contributes an interesting article on the impact of COVID19 on Islamic Finance, and the underlying opportunities that could be unearthed. Dr. Ziyaad Mahomed wrote on the microeconomic impact of COVID19, namely case study of ARAMCO and oil prices. It is our humble hope that these well-articulated articles would be beneficial for all the readers.

Last but not least my gratitude for all the players who have played a key role in making this special issue of IF HUB a reality, both directly and indirectly. We would also like to thank the readers for the feedback provided.

Feedbacks and comments are most welcome.

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CONFLICTS, TRADE-OFFS AND ETHICAL CONSIDERATIONS

In Controlling The Spread of COVID-19 Malaysian Perspective

by Prof. Dr. Syed Hamid Aljunid

Social responsibility, social justice and ethical conduct require that the trade-offs that arise during pandemics must be properly handled so that a balance can be achieved in containing the source of the pandemic. The trade-offs include the use of facilities of private health care for the public health needs, between public health and economic progress, between individual freedom and the harm principle in protecting public health. Controlling infection is necessary to prevent a large segment of the population from morbidity, but how the control is done will have implications in terms of whether the economy remains open or close during the period.

When the controls take the shape of movement control or lock down, those who are actively able and willing to voluntarily undertake productive activities as investors, employers or employees will not be allowed to exercise their freedom in those markets. Livelihoods are affected and economy cannot grow without purchasing power to sustain production.
There are also indirect costs involved such as the effect of layoffs and unemployment on the mental and other health effects which can affect productivity in the long run. The effect of the movement control may be different from every individual:

- differential impact of recession combined with lockdown on the lower income population, self-employed and non-citizens;

- the differential risk exposure between the well-off segment of the population who can afford to practice social distancing and those who have no choice but to paddle their bikes and get socially to earn their livelihoods;

- the social stigma against reporting infections versus the social need for screening, tracing and treating to prevent further spread.

Determining the right timing for interventions and the magnitude of controls without up to date data is quite a task. Slight delays can cause further spike in infections. Too much leeway for voluntary controls where defectors exceed co-operators may lead to acceleration of the rates of infections. The choice of control measures is also contingent on the pre-existing capacity of the public health system to accommodate hospitalisation and care for the infected populace. It is also dependent on the adequacy and availability of national resources for managing the pandemic.

The initial measures included encouraging civic consciousness including the use of face mask to protect others besides self-protection.

The Covid-19 virus was detected in most countries as early as December 2019 and January 2020 but was mainly imported from outside of these countries. The number of people infected multiplied to the level that governments around the world felt necessary to take measures to contain the escalation of the outbreak.

At the initial phase of the disease, when number and rate of deaths were small, the voluntary approach was adopted. This involves providing simple guidance on hygiene and wearing of masks but business as usual.
The initial measures included encouraging civic consciousness including the use of face mask to protect others besides self-protection. This civic behaviour requires mindfulness and the respect for others (especially the vulnerable members of the community) as a moral imperative. In other words, it depends on the ethical awareness of the population of their duty to minimise the risk of spreading the infection.

Rationality may not lead to socially ethical behaviour in societies where members of societies regard themselves as free agents with their rights and liberties to do as they please within the law.

On the opposite end of the spectrum of social structures where collectivism (over-socialization of members) prevails, rationality of members may also prevent morally right behaviour. For example, in religious communities where ritualistic practices involving large number of people in crowded halls are regular phenomena, it is rational to conform to group values of faith rather than to comply with scientifically supported guidelines. The dilemma faced by the authorities including the political leadership is how to justify curtailing the right and liberty of individuals if they choose not to follow the guidelines which are for the social good.

**Mandatory measures** are usually second best adopted by many countries when the data on infection and morbidity points reach to a level of potential or actual crisis. Sanctioned on movement controls and restrictions were gazetted in number of countries. Rules and guidelines were formulated by the respective governments regarding the restriction of physical meetings, interactions, closure of schools and other non-essential contacts and activities to contain further spread while measures were taken to trace and treat those infected. Rules and guidelines on hygiene and social distancing was communicated through multiple media channels including social media to alert the public on preventive measures that include wearing masks, avoiding crowded places etc. Companies and organisations were required to conform to standard operating procedures (SOP) that places responsibilities of compliance to the owners or operators of the respective organizations. There will be unanticipated social costs but whether the distribution of these costs are accepted depends on the level of socialization in respective societies.
The result is further infection and worsening of the economy due to deteriorating public health. Unethical behaviour, breaking of laws, challenging rules and prohibitions are slowly appearing in the news and social media when restriction periods get too long and the socio-economic hardships lead to loss of income and employment. The anxiety of being left without income to pay for family expenses and mortgages can be traumatic.

Those in employment fear being retrenched, those who are retrenched may have problems getting future employment. The dilemma faced by the government in managing the conflict at this stage of the pandemic will further complicate the efforts of containing further spread besides guaranteeing and treating those infected. India, Afghanistan and other third world countries with large segment of the population around or below the poverty line are faced with this ethical dilemma without clear strategies or solutions.

MANAGING CONFLICTS AND DILEMMAS OF COVID-19 IN DIFFERENT IDEOLOGICAL AND SOCIAL SYSTEMS

The conflict between macro goals and micro behaviour is put to test during this period of partial if not total lock down. This conflict is expected when rituals and norms of behaviour are restrained for the common good. The problem is that different individuals, different societies and different ideologies define the role of the state and their citizens in quite different ways. In societies where economic supports are provided by the government, the need for self-preservation is somewhat moderated.

However, in third world countries where the safety net is lacking and where the significant section of the society depends on daily income for self-preservation, self-interest ignores the health risks and the social costs can increase with widespread infection. The duty and responsibility seek livelihood for one’s family supersedes the obligation not to be exposed to the virus.
Second and third round of infections happen because people have no other choice but to seek income and create further strains on the ability of the governments to screen, trace, and treat those infected. A spate of increase in India with ten thousand cases in 11 June 2020 after the government eased down the movement restriction order is a good example of the dilemma faced by the government in managing this pandemic.1

The importance attached to reviving a weakening economy regardless of deteriorating public health crisis is a case of giving private interest and economic health precedence over public health. It is true that economic deterioration will eventually affect public health. But the justification that increasing deaths is a price worth paying than deteriorating economy is an example of utilitarian ethics carried too far. It is also void of the moral imperative that lives matter and ought to be protected as far as possible as an alienable right. It is also a violation of the four principles of justice and respect for persons. Contrast this with the Scandinavian countries that preferred socialisation of behaviour over restrictions such as lock downs. They did not have to resort to severe measures because the collectivistic mind set of the citizens predisposed them to behave responsibly and with self-restraint and autonomy. Deaths and infections were manageable and economic activities were not halted.

This pandemic has also exposed another kind of conflict that has ethical dimension peculiar to private capitalistic societies with no private organisations playing the key roles in what are normally reserved for the state. It shows how different classes or groups are expected to behave or play their role for the greatest good of the greatest number.

As mentioned earlier, the lower income group must work to earn income.

They belong to the class that are categorised as essential workers such as those working in meat processing plants as well as delivery bikers to provide food to those confined in the homes. They are exposed to higher risks of infection. They are not entitled to medical leaves and are not medically tested for Covid-19 or given medical coverage because they are contract workers rather than employees. In the United States, 24% of the workers have no paid sick leave\(^2\). Low income workers including self-employed workers cannot take leave or being absent from work without pay. Access to medical facilities including testing is extremely limited due to the absence of medical insurance which are managed privately.

About 30 million workers do not have health insurance and they do not qualify for Medicare, Medicaid or public assistance\(^4\). Unlike in other countries where public health prevention and management of the government, there are no government-run public hospitals to cater for the public at large. There are public hospitals, but the funding comes from elective procedures, grants and charity but the administration of the hospitals is more for treatment and hospitalisation than for public health testing and treatment of diseases like Covid-19. According to Prof. Robert Reich, there is no real public health system in the U.S\(^5\). There is only a private for-profit system although there are public hospitals as mentioned earlier. Regardless of the ideologies or system in place, the ethical issues faced are varied in the face of a public health crisis.

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that an uncontrolled pandemic can lead to serious and unnecessary loss of lives when options involving cure or prevention are not available (vaccines) or limited (behavioural control). But we can agree that a public health issue cannot be optimally managed by a system that is based on private profit because the nature of private health care investment, services and facilities are geared for profit and not for prevention or treatment of public diseases.

THE MALAYSIAN EXPERIENCE

The first exposure to Covid-19 happened between January 25th till 15th February. There were 22 cases, mainly from China and efforts were made to trace and quarantine the infected. However, by mid-March, the spread was accelerating and had to be contained by more stringent means. The Movement Control Order (MCO) was enforced through the Prevention and Control of Infectious Disease Act 1967. It was for the duration of about 8 weeks from 18th March till 12th May with 4 phases of about two weeks each phase. The idea was to contain the spread of the virus through personal contact. The measures adopted included control of movements and large gatherings across the country, restriction of overseas travels, restrictions of foreigners from entering the country, closure of tertiary institutions, schools, kindergartens and nurseries, closure of all government and private sector premises except those involved in providing essential services.

The swift announcement and enforcement of the MCO on the 18th of March caught the country by surprise and led to dislocations at every level of society and even between family members. Those out of state on business could not return home to their families. Those who travelled overseas could not return to the country. Those who could had to be quarantined. Compared to the US, the Malaysian approach was rather strict. The SOP of wearing masks, social distancing and cleaning of hands were promoted by the outlets and the self-oriented low socialization behaviour gave way to a proper socialisation of the individuals. Some of the rules were too harsh and impeached the freedom of movement such as the banning of any sports activities e.g. jogging and strolling in the park. This was however compensated by the open communication and clarification to the public that rules were being intended and enforced for the safety of the public. The public accepted the rulings without significant protest because of the high incidence of infection warranted reduced interaction among people for a time period until better strategies are adopted to contain the virus.

Effects of Movement Restriction Order to the B40 Community

It took about 3 months of restrictions to movements and business activities before the rules were relaxed. The pressure faced by the B40 group is usually higher than the rest of society.
Besides seeking livelihood on a daily basis, they suffer higher psychological stresses being cooped up in small and confined places for an extended period. Those who could not return to their homes when the lock down was imposed had to wait a few weeks before reuniting with their families. Those who depended on the presence of bread winners and family care givers suffered great distress in managing with such support. It was worse when the family members were overseas when the lock down started.

Before the pandemic, inequality of income and wealth had been widening with the top 20 % and the bottom 40% of societies. With the pandemic, the situation can only get worse. There will be a decline in output, a shrinking of the pie and with it the portion of the pie accruing to those in the bottom 40% group. A big percentage of the unemployed and self-employed belong to the B40 group. They have no savings due to their low wages and salaries. They have no sources of income to support them when unemployed and without financial support they will be unable to meet their basic needs. 20% of the Malaysian work force are self-employed and will be expected to be without work during the coming recession. Where social safety nets are non-existence and when families are generally nuclear families, those in the B40 group will be faced with serious survival issues without state support. Even then, such support cannot continue indefinitely without too much strain on government financial resources.

**Mitigation of Hardships Responsibly - Trust, Cooperation, Fair Enforcement**

This conflict of rights and their associated consequences of sickness and death make the ethical issues increasingly complex unless mindfulness or awareness as citizens prevail among the majority of members in society regardless of cultures and values. The first attribute of this citizenship rests on the premise that individuals know their roles as individuals and when the need to rein in and let those responsible decide how their activities and behaviour are going to be regulated. As much as they want to be free to serve their self-interest, the greater good require them not to disobey but to support the policies because it is in their interest at least in the long run. Therefore, actions taken by those in position of responsibility and the capacity to promote public good or minimise public threat are accepted and supported even at the sacrifice of private good. They know that what is good for the public are good for all, at least in the long run. This set understands that freedom has limits beyond which ethics in the form of justice will not allow.


7 In Malaysia unemployment rate in March 2020 increased to 3.9 per cent as compared to 3.3 per cent in the previous month. The unemployment rate in this quarter increased to 3.5 per cent as compared to 3.2 per cent in the fourth quarter of 2019 due to an increase in unemployment rate in March 2020. This high unemployment rate was mainly attributed to the adverse impact of the Movement Control Order (MCO) on the labour market. The number of unemployed was estimated at 546.6 thousand persons, increased 5.8 per cent as compared to the same quarter last year. The increase in the unemployment rate can be attributed to the negative impacts caused by the MCO. Refer to Department Of Statistics Malaysia, Key Statistics of Labour Force in Malaysia, (March 2020), https://www.dosm.gov.my/v1/index.php?r=column/cthemeByCat&cat=124&bul_id=Y3NFdE44azFlFhbzkyeFlaWGF2ZER6Zz09&menu_id=U3VPMlJod2YUxvZ2FaYmNkWXZteGduZz09

8 Department of Statistics Malaysia, Newsletter, (2020), No. 40.
Justice will not allow an individual to act contrary to the best interest of the community of which they are members. These types of consciousness tend to be normal in societies where individuation has not reached perverse proportion and also where there is no significant trust deficit as to the capacity and willingness of those elected to perform their responsibilities for the common good.

Another feature of successful management of the pandemic was the sense of proportionality by not exceeding the length of the lockdown beyond what was necessary to prevent harm to the public health. The conditional relaxation of movements with proper updates and justification, the coding of areas in terms of likelihood of outbreak and the encouragement, education and enforcement of practices such as social distancing, wearing of masks and cleaning of hands enabled businesses to open up and restart their activities.

During the MCO, unethical actions in the form of fake news in the social media to mislead the public did not gain traction simply because of the trust that has been gained by the combined authorities in charge of the managing the pandemic. Without rules and fair enforcement of the rules, the dispensing of social distancing and standard operating procedures would have increased. Good role modelling in terms of the use of masks and social distancing helped in voluntary use of personal protective equipment. There were exceptions to responsible behaviour especially with some who tried to travel out of state for the Eid festival despite the prohibition. Without rules and enforcements, the number would have been much higher even though such actions would cause more infections and more social harm especially to those who were more vulnerable.
Malaysia is also successful because of the well-established public health system alongside private health system that includes well managed government hospitals. These public hospitals have been able to provide specific care for those infected by the virus whether or not they can afford hospitalisations. With government funding, the financial strains can be absorbed to a higher extent compared to private based health care system. At the same time the effective monitoring and detection of cases have enabled the government to identify areas and timing for opening up the country based on detailed information and supported by scientific facts.

The government reciprocated by providing temporary supports such as income transfers, moratorium on loans and repayments, subsidies to employers to retain employees and other measures that kept the public at ease while being confined in their own homes. Special dispensation was given to those involved in essential services so that they could provide basic necessities for all levels of society including the vulnerable segments such as single mothers and those with physical and health handicaps.

Another example of reciprocity is the recognition given to health workers for their sense of duty and commitment to the public at the expense of the right to their own safety and the safety of their family members.

This was patriotism in action. The collective impulse took over from the individualistic motivations for the entire period of the pandemic.

When the society is under threat, majority of citizens cooperated in their own ways by not making things worst at the least. There were some who chose to defy the rules, but they were few in numbers and they sanctioned and shamed in the media. The enforcement was equitable and even prominent people were not given exceptions to the rule. The regular dissemination of verifiable information based on up to-date data supported by the scientific modelling of the outbreak was sufficient to convince the people that transparency was another value in practice.

It is generally agreed that the preventive aspect of managing the pandemic was effectively executed by the Malaysian authorities and the policies implemented were based on principles and priority of values that were consistently applied for the common good. This contributed to the trust accorded to the authorities and with this trust, the support and cooperation given to them in combating this infection. However, it must be acknowledged that the pandemic has exposed the inequitable impact on the different income segments of the population.

However, it must be acknowledged that the pandemic has exposed the inequitable impact on the different income segments of the population.
The low-income group are unable to exercise social distancing because they are mostly self-employed and are concentrated in jobs requiring close distancing. Those in the prison systems and other detention centres are still densely populated and are confined to enclosed spaces. The temporary shelters for foreign workers are no better and poses high risks for future spikes in cases.

Post movement controls, there will still be guidelines in terms of standard operating procedures and there will be enforcements against violation. The culture embodying social ethics and citizenship have been manifested during the ‘lock down’ period. Whether it will be sustained post Covid-19 is yet to be seen. But one thing we can be sure of is we do not have to be in a collectivist society to practice collectivist values when necessary.

**Integrating governance, engagement and social consciousness**

Finding the right balance in addressing these potential conflicts require a holistic approach that involves leadership, good governance, ethical sensitivities, and fairness in enforcements. Managing or transcending conflicts in a pandemic would require understanding of the micro and macro aspects of the pandemic, having the right data regarding those affected by policies, enforcement of policies that must be fair and perceived to be fair, clear and effective communication that incorporate health and economic policy issues and initiatives, and regular and factual reports on progress in containing the virus.

Trust is critical and those affected must be confident that they can trust the authorities in minimising the pain and disruption to their lives and livelihood.

Because it is a public health issue, the priority is to prevent those who are infected (asymptomatic or symptomatic) from knowingly or unknowingly infecting others and results in greater economic loss to society. The principle of harm in public health allows the restriction of liberty with the proper justification as long as it is reasonable. When this trade-off is not clearly understood, the policies can vary from complete abdication to over control of private freedom. Balancing the threats to the economy and the threats to health of societal members requires scientific knowledge and information about the pandemic and the ability to navigate between public and private spaces. It also requires awareness of the capacity to prevent further infection, leadership at all levels, commitment to ethics and good governance in managing the after effects of the pandemic.
INTRODUCTION

The Covid-19 outbreak hit the fan in December 2019 in Wuhan, China. There is much controversy over the genesis of this new pandemic which is haunting the humanity the world over. Contradictory, if not competing, conspiracy theories have emerged, with China and the US blaming each other. Some have described Covid-19 as a Black Swan which took the world completely unawares, while others contend it was not unforeseen, as people like Bill Gates have been talking about an impending pandemic of Biblical proportions, for nearly five years.
To be sure, there were similar pandemics in the past, e.g. cholera, plague, and Spanish Flu, but what makes Covid-19 so distinctly and dangerously different is the speed at which it has spread globally, which in any case is not surprising as the world has shrunk into a global village, intimately interconnected, thanks to modern modes of rapid transportation and ever-expanding intercontinental commercial linkages and networks, not to mention the extraordinary prowess of the Novel Coronavirus in comparison with its other coronavirus cousins.

There is much evidence that such pandemics have had huge negative impacts on the economies in some parts of the world in the past. This time around, the toll on the global economy emanating from Covid-19 could well be unimaginably out of the ordinary. Much would, however, depend not only on the speed, geographical spread, and intensity, but also, more importantly, on the societal reactions and policy responses to the coronavirus spectre. We need to take a closer look at all these before we can arrive at some sensible or meaningful assessment of the economic impact of Covid-19.

WHAT WE DO KNOW

In China, where it all apparently began, the death toll is slightly more than 4,600 out of over 84,000 confirmed cases. It is the US the hardest-hit, with nearly 1.8 million confirmed cases and more than 100,000 fatalities.

Among the badly affected European countries are the UK, Italy, Spain, and France, each recording more than 25,000 deaths.

Collectively, these four European countries have roughly 900,000 known cases, with about 126,000 fatalities. In the Middle-East, Iran has reported nearly 150,000 cases, which include over 10,000 infected medics. In the Arab Gulf states, the tally hangs around 200,000 cases. Meanwhile, the battleground is shifting to Latin America as the newest epicentre, where Brazil with nearly 500,000 infections and close to 30,000 deaths has overtaken Russia’s 400,000 cases and 4,700 fatalities, to become the second-worst, while Peru surges past 155,000 cases and 4,000 deaths. Closer to our shores, India has reported about 180,000 confirmed cases with more than 5,000 deaths. The known cases in Indonesia exceed 25,000, with more than 1,500 deaths, trailed by the Philippines, where confirmed cases exceed 17,000, with 950 fatalities. Malaysia pales in comparison, with less than 8,000 known cases and 115 deaths. Singapore’s confirmed cases are disproportionately large at nearly 35,000, albeit with low 23 fatalities. Globally, the total number of known cases in 188 countries exceeds six million, with more than 365,000 deaths. To be sure, all these numbers (as of May 3, 2020) will keep rising in the near term.
WHAT WE DO NOT KNOW

There are compelling reasons to doubt if the reported numbers do tell the true story, not so much because some countries tend to underreport their known cases and deaths, but more importantly because they are blissfully oblivious to the realities on the ground. For starters, the numbers we get to see on confirmed cases and fatalities understate the magnitude of the problem the world faces. Countries that do less testing tend to report less numbers than countries that do more testing. Many in rural South Asia maybe infected with Covid-19 without knowing and recover without any treatment, as they reportedly have better natural immunity, thanks to their tough life style, huge exposure to bacterias and viruses of sorts, and their diet which is laced with spices of sorts.

Scientists say that the coronavirus is not a living thing, which means that it cannot be killed, and that it can only self-destruct, which makes treatment extremely hazardous. At present, hospitals can only treat the symptoms and not the disease. What makes this crisis all the more complex is the fact that this virus tends to mutate rapidly. It is reported that the strains of coronavirus vary across continents, more deadly in the temperate zones than in the tropical zones, given its sensitivity to temperature. The chances are that cases and fatalities in North America and Western Europe will diminish significantly as summer approaches. However, there are also growing fears that there could be a second wave of Covid-19 lurking around the corner, come autumn and winter, later in the year. It is instructive to note that the Spanish Flu of 1918, the most severe pandemic in history, lasted two years and came in three waves, with 500 million infections and 50 million fatalities, most of which happened in the second wave. The world can never be safe from Covid-19 until a vaccine is found.

CURE WORSE THAN DISEASE?

Many countries across the globe have resorted to full or partial lockdowns in an attempt to contain the spread of Covid-19. More than one half of the world’s population or over 4.5 billion people have come under social distancing measures. However, severe restrictions have turned out to be too costly. The impact of shutdowns or lockdowns on the global economy is so huge that the IMF has warned that the world is gravitating towards the worst recession since the Depression of the 1930s. The UN World Food Programme has also warned that the pandemic could double the number of people with acute hunger.

Covid-19 has caused the supply chains to be disrupted and businesses to be derailed, with massive job and income losses. To ease the pain, nearly all countries have come up with stimulus packages of sorts, which could only do so much but not enough to compensate. There have been protests against lockdown in some parts of the world, notably Italy, Spain, Germany and the US, not to mention isolated incidents of even armed protests, staged by people who could not take it anymore. It is a mega dilemma for the jurisdictions which are in the eye of a perfect storm, whether to tighten up or loosen the restrictions, similar to a catch-22 situation. This has led to some relaxation of restrictions prematurely in some countries. Scaling down the lockdown in Germany, for instance, has led to a hike in infections and fatalities in late April.

Not all countries, however, have adopted the so-called lockdown approach. An example of countries which chose a different path is Sweden, which opted to keep the economy open in a ‘business as usual’ mode, with mere advisories on personal hygiene, in sharp contrast to other Scandinavian countries.
The results are telling: Sweden could save its economy, but only at the expense of a greater exposure to Covid-19, with close to 36,500 infections and more than 4,300 deaths, while Norway, Denmark and Finland have reported much smaller numbers, with deaths at three-digit and infections at four-digit levels. Taiwan could beat the pandemic with sheer social discipline with no need for any economic shutdown, limiting the coronavirus fallout to 442 cases and 7 deaths, followed by zero cases thereafter. What is so unique about Taiwan was that the Taiwanese took Covid-19 very seriously from day one, unlike others who are now in deep distress.

TAMING THE PANDEMIC

Some countries are still seeing their daily case numbers increase, while others in Asia and Europe have managed to bend the curve, slowing the transmission of Covid-19. The number to watch is what epidemiologist call the “effective reproduction number”, or ‘R’, which gauges how many people the average infected person infects in turn. If ‘R’ is more than 1, the outbreak is on the rise; if ‘R’ is less than 1, it is under control. If R is 1, it means that each infected person, on average, infects one other person, in which case the number of new cases will remain steady. Ideally, ‘R’ will be zero, when the pandemic is over.

France, Italy, and Spain are reporting steadily declining fatalities (record lows, albeit still at 3-digit). Italy, with about 33,000 fatalities, has been in lockdown since March 10, while Spain has seen deaths exceed 27,000, trailed by France’s 28,000 deaths. Spain has been under lockdown since March 14, whereas France has declared a state of emergency until July 24. Germany announced a relaxation of restrictions on April 20, as the reproduction rate of the virus ‘R’ fell below 1 to 0.7 which subsequently rose to 0.9, too close to the manageable level. In Hokkaido, Japan, after its 3-week lockdown was lifted, the number of infections surged, forcing the authorities to reimpose the lockdown 26 days after lifting it. Recently, in the last week of May, Spain has extended its state of emergency for the fifth time.

MEASURING THE DAMAGE

It is extremely difficult, if not impossible, to measure the depth of the decline in the economies affected by Covid-19. We will not know the extent of damage for years until after the dusts have settled. What bedevils our analysis is the fact that the story is still unfolding and rapidly evolving. Obviously, we cannot zoom into all the coronavirus-hit countries, not only due to space constraints but also data constraints. Nor can we cover all the sectors of the global economy even with broad-brush strokes.

Taiwan could beat the pandemic with sheer social discipline with no need for any economic shutdown, limiting the coronavirus fallout to 442 cases and 7 deaths, followed by zero cases thereafter.
In what follows, we can only manage to scratch the surface, in our search for answers to umpteen questions.

For starters, the International Labour Organisation (ILO) has warned of the severe impacts of Covid-19 pandemic on people in work. According to the ILO, 1.6 billion people’s livelihoods are threatened, equivalent to one-half of the global workforce. The ILO expects that the total working hours will be 10.5% lower, equivalent to 305 million full-time jobs.

The ILO estimates show that the workers’ income worldwide has dropped by 60% in 1Q20, while the impact is much larger across the continents: 81% in Africa and Americas, 70% in Europe and Central Asia, and 20% in Asia and the Pacific region. More than 400 million enterprises worldwide are at the risk of serious disruptions. For example, nearly 4.1 million Bangladesh garment factory workers face a bleak future in the near term as global brands are ditching clothing contracts worth $3.7 billion amid the coronavirus pandemic.
This is too huge a loss to the Bangladesh economy, where garments generated more than $30 billion income which translated to roughly 80% of Bangladesh’s exports or 16% of GDP, in 2019. In India, 122 million people lost their job in April alone, with Indian unemployment rate surging from 8.7% in March to 23.5% in April and 27.1% in May. In the US, 20.5 million jobs were lost in April, the highest on record, pushing up the unemployment rate to 14.7%.

The aerospace industry faces the gravest crisis in history. Covid-19 has caused a collapse in air travel. Airbus reported a €481 million loss in 1Q20 compared to €40 million profit a year ago in 1Q19. Boeing has reported a $1.5 billion loss in 1Q20, compared to $2.3 billion profit in 1Q19. Boeing plans to cut 10% of its 150,000 jobs. GE is slashing up to 13,000 jobs at its jet engine division. British Airways is set to slash up to 12,000 jobs from its 42,000-strong workforce. The airline’s parent company IAG has reported that the group revenues fell 13% to €4.6 billion in 1Q20. Lufthansa, which has reported €1.2 billion loss in 1Q20, plans to trim its fleet by 13%, with 10,000 job cuts. All indications are that 2Q20 will be much worse. In the UK, Easy Jet has laid off up to 4,000 cabin crew. Virgin Atlantic is seeking a £500 million loan from the government as bailout. Elsewhere, Qantas has put its 20,000 staff on leave, while Air Canada has done the same for its 15,200 employees. Norwegian Air has declared that it could run out of cash by mid-May. At American Airlines, about 4,800 pilots are taking short-term leave on reduced pay, and another 700 are taking early retirement. Thai Airways has filed for bankruptcy. The aviation industry is evidently in the throes of an unprecedented crisis.

Oil prices have plunged down to 20-year lows. US oil prices have fallen off the cliff by three-quarters, since early January, to just $15 a barrel. BP’s profit in 1Q20 has dived by two-thirds. Oil industry is hit by both supply and demand shocks like never before. People are not filling their cars and airlines are not refuelling their planes. Oil prices were already under pressure before the pandemic due to in-fighting among oil producers.
Early April, OPEC countries and allies agreed to cut global production by 10% which is unlikely to match the fall in demand. The UK oil and gas industry has warned of 30,000 job losses due to the pandemic and depressed oil prices. According to Fitch Ratings, more than $43 billion of high-yield bonds and leveraged loans in the energy sector are at the risk of default. Nonetheless, oil prices are expected to rebound in the second half of this year. Even so, Moody’s Investors Service believes that oil prices will average just $30 a barrel in 2020, which is too low for any US shale oil company to make a profit. In May, however, oil prices jumped on the hopes for vaccine and recovery, with Brent and crude rising to $35 and $32, respectively.

The pandemic has caused huge dents into the tourism sector across the globe, under the lockdowns, with nearly all airlines being grounded. The toll on the hospitality industry, in particular, is enormous, with many hotels reporting extremely poor occupancy rates, while many others are closing down operations indefinitely to minimise losses, as keeping them open would add more to their costs than to their revenues. Economies that are overwhelmingly dependent on tourism are knocked out totally. The pandemic has also delivered a body blow to international trade flows by disrupting the global supply chains.

Research houses and think-tanks around the globe are busy revising their GDP forecasts downward frequently. Small open economies with a small domestic sector are particularly vulnerable. Regardless, the chances are that many countries will report a double-digit contraction in 2Q20. Japan, the third largest economy, is already in recession, with two consecutive quarters of contraction in 4Q19 and 1Q20.
MANAGING THE CRISIS

The Covid-19 pandemic crisis appears to be second only to the 1918 Spanish Flu crisis on the scale of infections and fatalities. In economic terms, the current crisis is the worst the world has ever seen since the 1929-1932 Great Depression. In this 2020 pandemic crisis, the US plays the lead role not only because it is the largest economy in the world with most extensive international connections, but also because it is the hardest-hit by the coronavirus pandemic.

THE UNITED STATES

The US economy was poised to grow 2% this year, which is now derailed by Covid-19. The US economy has been growing non-stop for 23 quarters in a row, nearly six straight years of uninterrupted growth. Covid-19 ended that streak in the first quarter of this year (1Q20), even though the pandemic did not disrupt businesses until mid-March. By mid-April, about 95% of the country was in some form of lockdown. Although some states have started to remove the orders, others remain locked down, including New York and California, the twin mega engines of growth in the US economy. Consequently, consumer spending which accounts for two-thirds of the US economy, has dropped 7.6% in 1Q20.

The US Federal Reserve (Fed) has unfolded a stimulus package of nearly $3 trillion, which unquestionably is a big deal. The Fed’s slew of emergency measures includes direct payments to many families, lowering interest rates close to zero, relaxing banking rules and dramatically expanding its own lending to save the economy under its ‘Main Street Program’, which is open to companies up to 15,000 employees or up to $5 billion in revenue. This Fed initiative is also open to small companies. The loan size will range from $1 million to $25 million.
All these moves by the Fed, however, could cause problems later on, including the swelling of the Fed’s balance sheet.

Huge job losses since March have lifted the US unemployment rate from a 50-year low of 3.5% in February to 4.4% in March and 14.7% in April. White House economist Kevin Hassett has cautioned that unemployment could rise to 20% by June, which is not too far from the historic high of an estimated 25% in the 1930s. From mid-March till May 21, 38.6 million Americans have filed for unemployment benefits, which corresponds to 23.7% of the US labour force. Big businesses are experiencing body blows. Disney’s profit dived 91% in 1Q20. US household debt has risen to $14.3 trillion, which is $1.6 trillion higher than the previous peak of $12.7 trillion in 2008. In 1Q20, corporate profits shrank nearly 14% from the prior quarter, while financial corporations logged a 17% profit drop.

The US economy has contracted by an annualised rate of 5.0% in 1Q20, marking the worst quarter since the Great Depression. Growth in January and February this year, if any, has apparently been more than washed off by the severe contraction in March. The annualised 5.0% contraction in 1Q20 was shocking to the US economy which had registered a 2.1% growth in 4Q19.

The first quarterly contraction since 1Q14 is the worst drop since the 1Q09, when the economy contracted by an annualised 4.4% in the midst of the global financial crisis. According to the Fed, the US economy is likely to contract 20-30% in 2Q20.

In the worst-case scenario, the US economy may suffer an unprecedented 40% in contraction in 2Q20. Against this gloom, however, Treasury Secretary Steven Mnuchin is optimistic that the US economy will rebound this summer (3Q20). The Wall Street is also betting on a quick recovery. The S&P 500 has spiked above 3000 points since the low on March 23, a stunning rebound reflecting optimism based on the Fed’s aggressive stimulus measures. However, consumer confidence index has dropped to 85.7, its lowest level in nearly six years. Meanwhile, some states, including Texas and Georgia, have begun to slowly reopen their economies, albeit with health restrictions and social distancing in place. The US Congressional Budget Office projects a strong rebound in the second half of the year. Other estimates also point to GDP surging by 23.5% in 3Q20 and 10.5% in 4Q20.

Much will, however, depend on how people will respond to the reopening of the economy, while coronavirus is still lurking. It is unlikely that Americans will return to crowded places like theme parks and sport arenas after social distancing restrictions are relaxed.

Americans are nervous about the state of the economy, stashing cash at a rate that may not augur well for any hope of a quick recovery. American consumers are tightening their belts and hoarding cash. JCPenney, 118-year old retail giant with 85,000 employees, has filed for bankruptcy on May 15. The US government’s Bureau of Economic Analysis (BEA) has reported that the savings rate has surged from 8% in February to 13.1% in March, the highest savings rate since November 1981, despite near-zero interest rates. In addition, there is also the risk of a second wave of coronavirus infections leading to another round of lockdowns, in which case a severe harm to the economy, escalating into a deep financial crisis, cannot be ruled out. For the US, which is apparently not winning the war on Covid-19 thus far, the worst has yet to come.
**EUROPE**

The European story line is somewhat similar to that of the US, with lockdowns and economic disruptions in many countries taking a huge toll on employment, incomes, businesses, and industries. European countries in great distress include the UK, Italy, and Spain which are likely to register double-digit negative annualised GDP growth in the second and third quarters. An uptick, if any, may show up in 4Q20 for these countries on the assumption that the pandemic is reigned in, but it cannot redress the contractions in the preceding quarters, which means that these economies are likely to register a sharp decline this year with negative growth.

Even Germany, the strongest in Europe, is forecast to see its GDP shrink by 6.8% in 2020, the worst in its history.

Like many other central banks, the ECB has taken several measures to lessen the impact of the pandemic on the Euro Zone economy. Unlike others, ECB is taking a boldly unprecedented move, directing the banks not to pay dividends in the financial years 2019 and 2020 or buy back shares during the pandemic, in order that the conserved capital can be used to support households, small businesses and corporate borrowers and/or to absorb losses on existing exposures to such borrowers.
The Chinese economy shrank by 6.8% in 1Q20, its first quarterly contraction since 1992. Unemployment is on the rise in China, with roughly 80 million job losses, according to some estimates. Coronavirus was reported in mid-Dec 2019 in Wuhan (capital of Hubei province), a metropolis with over 11 million population, which went through a historic 76-day lockdown starting on January 23. Many restrictions were lifted on April 8, but the city is experiencing an uphill battle in restoring normalcy. It is not going to be easy. Consumer spending is sluggish, as many are reluctant to venture out.

It is likely that production will recover first and consumption will follow. Wuhan, a manufacturing and transportation hub for the rest of the country, may take a while before it can fully recover from the severe lockdown. The takeaway from Wuhan’s experience is that an early action could save lives, but could be costly to the economy.

Hubei province’s GDP shrank almost 40% in 1Q20 year-on-year. The fear in China is that the turnaround felt in 2Q20 can be fleeting and that a new wave of infections may be waiting in the horizon. For the first time in decades, China has no annual growth target for this year.
MALAYSIA

The pandemic situation in Malaysia fortunately pales in comparison with many other countries in the region and elsewhere. Nonetheless, the impact on the economy is by no means mild. The economy has been in some form of lockdown since March 18, with a lifting of restrictions delayed till June 9. In the first five weeks of the lockdown, 7,159 workers were retrenched. In Johore, 398 employers have applied to carry out retrenchment and wage cut exercises which involved 15,597 workers during the lockdown. Unemployment rate has surged from 3.2% in January to 3.9% in April, and it is likely to hit 5.5% by June. The hospitality industry is badly bruised, with tourism taking a knock-out blow.

Genting Malaysia has reported a net loss of RM418 million due to business disruptions. Three landmark hotels in Penang and two in Perak are closing down. Even five-star hotels in Kuala Lumpur are not taking the blows with hands down, with some scaling down their activities or temporarily ceasing operations altogether, while some others are already up for sale.

The Malaysian Institute of Economic Research (MIER) has projected a 6.9% GDP contraction, with 2.4 million job losses, 12% fall in household incomes, and 11% drop in consumer spending in 2020. To mitigate the impact, the government has put in place a RM250 billion stimulus plan unveiled on March 27.

The stimulus package, equivalent to 16.5% of GDP, consists of loans, loan payment deferments, rental waivers, among others, in addition to handouts, to cushion economic meltdown though the multiplier effect. The direct fiscal injection (RM25 billion), which represents one-tenth of the total, will be spent on wage subsidies, one-off cash payments for frontline health workers, and handouts to e-hailing drivers, among others. However, the impact of the RM250 billion stimulus package unveiled in March plus an additional RM10 billion announced on April 6 will be muted, if the package remains under-utilised. In any case, the RM35 billion fiscal injection is likely to widen this year’s budget deficit.

Fiscal injection cannot help the economy much, if the handouts translate to increased saving rather than increased spending by the recipients.

The funds for fiscal injection are to be raised through “fiscal consolidation”, i.e. cutting costs or cost savings, which is easier said than done. If not, the government may have to issue bonds/sukus, or resort to off-balance-sheet loans, to adhere to the legal limits. On the monetary front, the central bank (BNM) has reduced OPR by 50-basis points to 2% on May 5, the lowest since 2010, which translates to a 100-basis point reduction since January this year.
The economy registered a tepid 0.7% GDP growth in 1Q20, the slowest since 2009, which however translates to a 2% contraction on a seasonally adjusted basis in comparison with the preceding quarter, according to BNM. All indications are that 2Q20 will experience a steep GDP contraction, followed by lesser year-on-year contractions in the subsequent quarters. Malaysia is currently under a strong deflationary spell, with consumer price index (CPI) shrinking -2.9% in April, which does not bode well for the economy in the near term.

**CONCLUSION**

Recovery cannot come anytime soon. Stimulus packages can certainly help but cannot ensure recovery. There are other more important factors at play. First, the time needed to get the virus under control does matter, which is shrouded in uncertainty. The pandemic will not be under control until a vaccine is found, hopefully in 12-18 months. Second, much would also depend on how severe is the damage to the economies. If too severe, some businesses may not be able to jump start quickly, while some may quit and go out of business. Third, the impact will spill over from the real sector to the financial sector, as debts turn toxic. Fourth, as the crisis is global, foreign economies will weigh heavily on the recovery in small open economies like Malaysia’s.

For example, exports and tourist arrivals will revive only when consumer demand picks up in the countries of East Asia, North America, Western Europe and the Middle East. Recovery, nearly everywhere, hinges to a large extent on recovery in the US, still the most important nodal point for the global economy. According to the Fed, the US economic downturn may drag on till late 2021. The IMF had forecast a 3% contraction for the global economy this year, which is likely to be revised further downward. Last but not least, fiscal stimulus packages will add trillions to the global debt which currently stands at $253.0 trillion, safely below global real estates valued at $280.6 trillion. The growing debt burden will weigh heavily on the economic growth down the road, as it will act as sands in the wheel.

Recovery is unlikely to be U-shaped, as the problem is neither structural nor cyclical; instead, mostly it may look more like the Nike swoosh rather than a sharp V. An arguably optimistic scenario suggests that a recovery in whatever form can come at the year-end, while a more realistic scenario points to a sustainable recovery only in the second half of next year around the third or fourth quarter, depending on the arrival of the vaccine. In the past, it took 4-5 years to develop vaccines. Hopefully, it could happen much sooner, this time around. Meanwhile, the world has to learn to live with the virus, and brace itself for a rough ride.
COVID-19 is a pandemic that has overturned the world including the whole mankind. Never in the wildest dreams, one would have anticipated that a health crisis would lead to a multi-dimensional crisis where trade and transportation activities has been stopped; creating domino effect where many have become jobless overnight and is stuck at home unable to find alternatives to ease their personal situation. It is not only the individuals who were affected, but starting from small businesses to big giant corporations, COVID-19 has hit hard. As a result, there is no way individuals or private sector could survive unless and until the government saves them by providing a helping hand. The helping hand extended by the government costs a lot to them as there is no way to receive revenue during the time of unprecedented pandemic and it is being forced to find alternative source of funding to save themselves from getting into a fiscal deficit crisis.
The hurricane effect of COVID-19 is unique to each country depending on the political, social and economic situation of the country. For countries relying on oil trade and tourism to earn revenue, it is described as a dual shock and this is the situation in all GCC countries as the price of oil has fallen to their lowest levels in 17 years (Strategy&, 2020). Since it is a health crisis, the allocation of money to the health sector to purchase COVID-19 test kits, medicines required to treat patients and increase in the number of ventilators. To control the pandemic from spreading, countries have adopted lock down approach where movement of people except for essential needs are introducing resulting in companies to close down and suffer loss resulting in terminating the employees.

Even the self-employed like taxi drivers are unable to operate business resulting in loss of income. The panic created in this situation increased demand for food stuffs spiking up the prices for some goods based on demand and supply. Some individuals and corporations did not have enough savings or savings at all to last this unprecedented pandemic resulting in situations where they did not have money in hand to buy food nor pay bills or rent or loans/financing facilities or financial commitments.

The only one to bail out individuals and corporations in this lack of cash flow and liquidity crisis the government. As a result, not only the policies of the government have been shaped to satisfy the needs of its citizens; but some governments have been distributing food to the population.

For instance, in Malaysia, it is said that the country had not only been in shock due to COVID-19 alone; but the sharp reduction in the oil prices also has created shockwaves in the country (IMF, 2020)
For instance, in Afghanistan, it was reported that on 29th April 2020, the government started providing free bread to about 2.5 million needy and poor people in Kabul, and plan to extend to other cities (IMF, 2020).

COVID-19 has brought unprecedented policy responses by countries of the world by changing fiscal policies such as providing relief packages or stimulus packages by postponing or reducing taxes, monetary and macro-financial policies such as reducing minimum reserve requirements and providing moratoriums for loans/financial facilities granted by financial institutions, and exchange rate and balance of payment policies such as by providing flexibility to exercise floating exchange rates (IMF, 2020).

For instance, in Malaysia, it is said that the country had not only been in shock due to COVID-19 alone; but the sharp reduction in the oil prices also has created shockwaves in the country (IMF, 2020). A Movement Control Order (MCO) was introduced closing non-essential businesses, schools, universities banning all public gatherings since 18th March 2020. The MCO has been extended with variations and on 4th May 2020, the authorities allowed opening most businesses though 7 states out of 14 chose to delay this. As a fiscal response: on 27th February 2020, a fiscal stimulus package of RM 6 billion (0.4 percent of GDP) was approved including increased health spending; temporary tax and social security relief; cash transfers to affected sectors;
and rural infrastructure spending and additional measures such as electricity discounts and temporary pay leave for RM 0.62 billion (less than 0.1 percent of GDP) were announced on 16th March 2020; some investment spending planned for 2020 is being frontloaded; a second stimulus package of RM 25 billion (1.7 percent of GDP) was released on 27th March 2020, including additional health spending; cash transfers to low income households; wage subsidies to help employers retain workers; and infrastructure spending in East Malaysia; the government also setup a RM 50 billion fund for working capital loan guarantees for all COVID-19 affected businesses; employees will be allowed special withdrawals from their Employment Provident Fund (EPF) account for a 12-month period and businesses will be allowed to reschedule their EPF payments.; and on 6th April 2020, the authorities announced a third stimulus package of RM 10 billion (0.7 percent of GDP), including grants for micro SMEs, scaled-up wage subsidies, and a 25 percent discount on foreign workers’ fee (IMF, 2020). As a monetary and macro-financial response: on 3rd March 2020, Bank Negara Malaysia (BNM) lowered the Overnight Policy Rate (OPR) by 25 basis points to 2.50 percent, citing market disruptions, greater risk aversion and financial market volatility, and tighter financial conditions due to COVID-19; on 5th May 2020, the BNM lowered the OPR again to 2 percent, citing weakening global economic conditions and subdued inflationary pressures; BNM lowered the Statutory Reserve Requirement (SRR) Ratio by 100 basis points to 2 percent effective March 20; on 5th May 2020, the BNM announced that banking institutions can use MGS and MGII to fully meet the SRR compliance until May 2021; on 27th March 2020, BNM increased its Financing Facilities by RM4 billion to RM13.1 billion (0.9 percent of GDP); on 25th March 2020, BNM announced temporary easing of regulatory and supervisory compliance on banks to help support loan deferment and restructuring; BNM also announced relief measures for insurance policy holders and takaful participants; on 23rd March 2020, the Securities Commission Malaysia (SC) and Bursa Malaysia suspended short-selling until April 30; on 28th April 2020, the suspension was extended through 30th June 2020; SC also waived annual licensing fees for capital market licensed entities; on 16th April 2020, SC announced regulatory relief measures for public listed companies; and on 10th April 2020, the Companies Commission of Malaysia announced measures to enhance protection of distressed companies against liquidation (IMF, 2020). There is no notice published for change of exchange rate and balance of payment (IMF, 2020).

Against this backdrop, this article highlights the opportunities COVID-19 has created for Islamic finance from an optimistic perspective. Below discussed are five significant opportunities in this regard.

- **Opportunity # 1- Islamic Finance can be Compatible with Technology**

Before COVID-19, Islamic finance has been criticized for being backward as complex processes and multiple layers of documents are required to execute even a single transaction consuming time and requiring labor to eliminate errors and perfect the transactions. As a result, when compared with conventional finance transactions, Islamic finance has been considered as a slow mover and having virtual Islamic finance transactions and merging it with technology was thought to be impractical.
The reason for the existence of this view is due to the fact that money is not used as a commodity in Islamic finance and it is structures based on the sale or lease of an underlying asset or providing a shariah compliant service by charging a fee or by forming a partnership without guaranteeing profit where the profit generated shall be directly linked to a shariah compliant real economic activity. Not only this, but Fintech has also been viewed as a threat to Islamic finance industry (Raghu, 2017). At the midst of COVID-19, the opportunity to “experience” Islamic finance transactions virtually has been provided and as a result it has been practically understood that using innovation even Islamic finance has the flexibility of merging it with technology and offering virtual products and services.

- **Opportunity # 2- Islamic Social Finance is the Champion to Rise from Crisis**

With COVID-19, modes of Islamic social finance have begun to be relevant more than ever. As the result, the opportunity feels the just wealth redistributive system in Islam has received the limelight and how the system helps to rise from crisis has forced to believe in humanitarian agencies the practical strength and benefit of the system. For instance, UNDP has published an article on “Islamic finance takes on COVID-19” in their official website where Rahman (2020) has expressed that zakat could be used as an emergency short term support; the impact investing and financing of equipment, vehicles, and other sources of livelihood and trade finance via Islamic finance institutions can support recovery; and SDG-aligned sukuk and waqf can be used for long term recovery and resilience from COVID-19.

- **Opportunity # 3- Islamic Finance Really Shares Risk**

Since the institutionalization of Islamic finance, it has been always criticized for replicating conventional finance and practically it does not share risk. However, COVID-19 has provided the opportunity to truly feel this difference. For instance, the sukuk yet to mature which has been issued before COVID-19 that is structured on equity based contracts does not automatically get defaulted if the sukuk holders are not paid due to loss in the economic activity that is supposed to generate return. The sukuk in this case will be saved as the sukuk issuer and the sukuk holders are supposed to share risk in profit and loss as per the nature of the shariah compliant equity contract they enter into. However, if it was a conventional bond, no matter what, mere lapse in payment of return on the due date will legally tantamount to a default. Therefore, in this regard, COVID-19 has provided the chance to know the differences in different commercial contracts used in Islamic finance and the effect of it.
• **Opportunity # 4- Islamic Finance does not have Compound Interest Effect**

Islamic finance has been said to be an exact replica of conventional finance. “Apple to apple” comparison between Islamic finance and conventional finance is made and said that Islamic finance is different only in textbooks and in practice, it is one and the same forgetting that if one is an apple, the other is an orange which simply means that it cannot be compared side by side. As a monetary and macro-financial measure, some countries have granted moratorium for conventional loans and Islamic financing facilities granted to the economically affected customers. In this situation, the conventional financial institutions can charge interest for the extension of time granted; but Islamic finance products cannot charge anything extra than what has been stipulated as the price as the contract whether it is a fixed or floating price mechanism which is followed. This shows that Islamic finance is not just a mere change of name and it is definitely a system that delivers what it promises and it does not take advantage of one’s helpless situation to make money.

• **Opportunity # 5- Islamic Finance is a Mercy to Mankind providing Human Financing**

COVID-19 has provided with the opportunity to understand and appreciate the rational of Islamic principles applicable to Islamic finance and how fair and equitable the maqasid al shariah approach adopted in it is. Islamic commercial modes of financing operate with a view of making profit while at times in need there is always opportunity to switch to Islamic social finance mechanisms to seek appropriate help. For years, Islamic finance has been blamed for making profit without distinguishing Islamic commercial finance with Islamic social finance. Islamic financial institutions were “expected” to be social financial institutions where it was thought that it is not Islamic to charge profit and it was blamed for only catering for rich and wealthy neglecting the needs of poor and needy. With COVID-19, the distinction between Islamic commercial finance and Islamic social finance has become vivid and the equitable nature of Islamic finance as a mercy to mankind has been understood.
For instance, Qatar Islamic Bank is providing interest free loans to private companies under the National Guarantee Program funds of QAR 3 billion ($815,000) (IMF, 2020) to ease those affected to rise from COVID-19 economic situation. This initiative shows that commercial financial institutions can switch to offer social services in unprecedented situations.

It is evident from above discussion that Islamic finance is a resilient system that has untapped potential that could be deployed even at times of crisis like unprecedented COVID-19. It is anticipated that with these on-going developments in Islamic finance due to COVID-19, there will be a growth in virtual use of Islamic financial products and services; the crypto asset market will flourish; sukuk will be digitized; and different modes of Islamic social finance will be institutionalized with international humanitarian agencies and technology will be merged to enhance the collection and out-reach of recipients.

Despite the disruptions caused by COVID-19, it is reported that sukuk issuance is set to remain stable at around $180 billion this year (Moody's, 2020). Furthermore, the leadership role of Islamic Development Bank (IsDB) to assist sovereigns to fight against COVID-19 providing not only assistance, but via Islamic financing facilities is also praiseworthy. In this regard, for example, on 9th April 2020, IsDB was reported to provide $35 million to Sudan (IMF, 2020). IsDB also announced that as part of the US$ 2.3 Billion Package, IsDB Provides US$ 1.86 Billion to 27 Member Countries to Contain COVID-19 (IsDB, 2020). There is no doubt that COVID-19 has provided the opportunity to do stress-testing and so far, the result shown is very promising and it indicates that Islamic finance is here to stay with a brighter tomorrow.

References


INTRODUCTION

The year 2020 is unparalleled in historical oil prices, crashing in April to -US$38 per barrel from a low of US$18 in a matter of hours. The increasing stockpiles and inadequate storage facilities forced oil producers to pay buyers to take barrels that were not storable. Oil producers faced a perfect storm of strategic price cutting stemming from rivalry between oil giants from the Kingdom of Saudi Arabia and Russia, and a global virus that forced lockdowns to contain the pandemic. Aramco, the Kingdom’s ‘national’ oil company and the world’s largest oil producer until recently, had to manage the severe oil price shock with policy changes that caused spillover effects on the nation.
Historically, oil has been a crucial commodity in almost every industry since the 1900s. The global move towards green, sustainable and renewable resources in addressing climate change was anticipated to spell the end of the ‘black gold’ era. But oil companies have managed to be ranked as sustainable due to a broader definition that covers the adherence to environmental guidelines, governance and social impact.

There have been few substitutes to rival its versatility and cost. Going electric has not proven to be a worthy rival to oil in the short-term. According to the International Energy Agency (IEA), crude oil demand is expected to plateau by 2030, with 35% of vehicles going electric in 2040. It seems black gold has some time before it loses its lustre.

Aramco, the multinational Saudi Arabian oil company along with Shell and other oil giants have capitalized on the slow development of alternative energy sources. The increasing price of oil after the 2008 financial crisis was also supportive, reaching peaks in 2016. The rally began to slow down towards the end of 2019, resulting in lower than average profits for Aramco. The recent oil price war with Russia and the COVID-19 pandemic further weakened Aramco’s profits and capital spending.

In this brief opinion piece, we examine the apparent effects of COVID-19 on Saudi Aramco, the subsequent challenges facing the company and the nation, and potential solutions to reduce future losses.

BACKGROUND

Crude Oil Market

Crude oil is a finite, naturally occurring, unrefined fossil fuel comprising mainly of hydrocarbons. Refined oil can be produced as various petrochemicals, including gasoline and jet fuel. Drilling is the most common method of obtaining crude oil.
Technological advancements have popularized hydro-fracturing, allowing oil companies to extract from previously inaccessible shale reserves. The global economy is heavily reliant on oil with a slow change in favor of renewable energy resources. Saudi Arabia, Russia, and the United States are the largest producers of oil (U.S. Energy Information Administration, 2019).

The oil industry is comprised of three phases: upstream, midstream and downstream (Beattie, 2020). Upstream involves the exploration and production of oil, and downstream is the refinement and final sale of products. Midstream firms are the middlemen who transport oil from upstream companies to refinement facilities.

**COVID-19**

Several cases of pneumonia of unknown origin were reported in China in late December 2019. Shortly after, in early January of 2020 these cases were found to have been caused by a novel coronavirus now known officially as SARS-CoV-2 or COVID-19 (WHO, 2020). The highly infectious virus had approximately 12 million infected and caused 500,000 deaths globally, by July 2020, and has forced governments to implement lockdowns and movement restrictions to curb the infection rate.

More than three billion people have been under some form of lockdown since February 2020 causing unprecedented economic damage to the global economy as a result of low consumer demand and supply chain disruptions.

**SAUDI ARABIAN OIL INDUSTRY (ARAMCO)**

Vast oil fields were discovered in Saudi Arabia, and 53 years later the Kingdom consolidated ownership of the oil company, now known as the Saudi Arabian Oil Company - Aramco (Saudi Aramco, 2020). Aramco is the leader of OPEC, a powerful oil cartel successfully influencing the price of oil through the control of production. The firm accounts for approximately 10% of daily oil production globally (Nehme, 2019), and was valued at US$1 trillion in 2020, one of the most profitable firms in the world. Saudi Arabia relies on oil export revenues for 90% of its export income (Forbes, 2018).

During the first quarter of 2020, Saudi Arabia was engaged in an oil price war with Russia. An agreement could not be reached and thus Saudi Arabia offered discounts to buyers in Asia and increased its daily oil production from 9.8 mbpd to 12.3 mbpd during the period (Sharufa, 2020).
ANALYSIS

Demand, Supply, & Elasticities

Oil price is determined by demand and supply. Demand for oil varies with population, economic activity, and seasonal changes whilst supply is determined by current reserves, weather patterns, exploration, production costs and technology. West Texas Intermediate (WTI) and North Sea Brent are the two most recognized oil price benchmarks (Kurt, 2020).

Saudi Aramco’s largest importer of oil is China, accounting for 47% of oil imports or US$40.1 billion in 2019 (Workman, 2019). As China was the first nation to grapple with the pandemic, they experienced the first decline in consumption. With an approximate demand reduction of 3.2 mbpd, oil prices began to plunge in February (Yu, 2020). As global infection began to soar towards the end of February, global demand shrunk even further.

Travel restrictions significantly reduced the demand for oil, further impacting the oil price. Global flight frequency decreased by almost 70% by May 2020, prompting economists to predict a 2 to 3 mbpd fall in oil consumption, with short-term recovery unlikely (Sardana, 2020). Hence, future price expectations dropped to negative values. By July however, prices had recovered to above US$40 per barrel for WTI and Brent Crude as a result of an ease of travel restrictions and a reduction in production.

![Graph showing year-on-year change of weekly flight frequency of global airlines from January 6 to August 30, 2020, by country.](source)
Due to limited alternatives for energy other than fossil fuels, demand for oil has been highly inelastic (Caldara et al., 2016). Saudi Arabian oil and their OPEC members have enjoyed the lowest costs of production and most control over oil supplies (Wall Street Journal, 2016). Oil extraction costs in Saudi Arabia are among the lowest in the world (US$10 per barrel), allowing for the Kingdom to prove significantly strong in a price war.

Recently, advances and government legislature in the U.S has increased hydrofracturing production and has reduced the price elasticity of Saudi oil.

In response to declining global demand due to the pandemic in March, Aramco reduced the price of its crude oil by giving discounts to major buyers, driving the oil price down by more than 30%. Exacerbated by a disagreement within OPEC, and amidst the price war, Saudi Aramco increased production to a record 13 mbpd.

As consumers were more responsive to changes in Saudi oil prices, demand for futures contracts significantly increased. Coupled with the decrease in demand after the imposition of lockdowns, the oil surplus further reduced prices. Firms in the U.S could not accept deliveries purchased earlier in the year, hence the ‘perfect storm’.

Source: WTI Crude Oil Prices, Macrotrends, 2020
TAXATION, SURPLUS, & WELFARE

In Saudi Arabia, the lockdown had indirectly resulted in the imposition of higher levels of Value Added Tax (VAT) from July 2020; from 5% to 15% (Wolfers, 2020). It is not uncommon for countries to charge a VAT on the supply chain. However, Saudi Arabia has a tradition of limited to no taxes on income due to its enormous natural resources. In recent years, its dependence, and subsequent volatile oil prices has resulted in increasing budget deficits, with 2020 expected to expose a gap of 15% of GDP, compared to a 4.5% of GDP gap in 2019.

The new tax applies to almost all goods with limited exceptions. Consumer surpluses are likely to decrease, impacting their disposable income, prioritizing which goods they need and reducing travel. Secondly, gasoline also falls under the newly imposed tax rate. Three years ago, Aramco would have been buoyed by government subsidies which no longer exist.
CONSEQUENCES & IMPACT

The Saudi Arabian government applies a multilayered corporate taxation structure. Aramco’s current tax rate is 50% (Al Arabiya, 2020) and if company contributions to the Kingdom fell below US$100 billion, the tax rate would increase to 85%.

This poses several issues for Aramco in the coming years, in terms of profitability and their stock performance. Aramco reported a 25% first quarter fall in profit in 2020—a direct result of the freefalling oil prices during the height of the pandemic. While oil prices have stabilized and a gradual increase is expected, company outlook and revenue may not recover immediately. Capital spending is a significant component of upstream oil company resources, including exploration, research and development. Aramco announced that it is reevaluating capital spending and it is likely that resources spent on research and development would be reduced. Over the long-term, this may leave Aramco behind the curve of oil innovation and technology. Saudi Aramco’s dividend policy is also expected to change, given lower profits.

The oil giant planned for a US$75 billion dividend in the 2020 fiscal year; however, the outlook is much lower than expected.

Although the firm is still aiming for US$75 billion, it is likely this will further drain their resources already being utilized because of the pandemic.

CHALLENGES

COVID-19 pandemic, global economy

As of July 2020, there is no clear end in sight for the COVID-19 pandemic. This uncertainty continues to result in low consumer spending and volatile stock markets. Infection rates are falling and the search for a suitable vaccine is progressing; however, there is the possibility of a third wave in many countries as restrictions are eased. Governments have also organized stimulus packages to mitigate the impacts of the pandemic on local economies.

Despite the significant improvements since the beginning of the pandemic, global and local economies are not expected to recover immediately.

Consumer spending will take time to increase to levels seen before the pandemic. Saudi Arabia and its Gulf neighbors are predicted to enter a recession for the second half of 2020.

This may significantly impact already declined consumer spending. Cascading effects of the pandemic in the long run will likely pose challenges for oil price recovery, and by extension the profitability and state of Saudi Aramco.

Volatile Oil Prices

Oil price volatility is not new and is a consequence of different factors, for example, i. the slowdown in economic growth; ii. the decrease in Chinese oil demand; iii. the U.S shale oil strategy; iv. the drive towards sustainable and renewable energy sources; v. the incongruent approach of oil producing nations in refusing to reduce production; vi. political powerplay, instability and waging war on some major oil-producing nations under pretext.

Photo: www.aramco.com
These factors, amongst others, indicate that Saudi Arabia's long-term reliance on oil revenue is not sustainable and potentially harmful to a growing economy. Its strategy towards diversification is a positive move towards become a more robust and a more balanced economy.

However, if Aramco manages to sustain itself through the price war, decreased prices are expected to increase Aramco's oil market share and significantly reduce the strength of shale oil competition. Since shale oil producers have a significantly higher costs of production, the price war has shaken Wall Street and investment into shale oil production is expected to decrease (Consultancy, Rystad Energy predicts a 70% decline by 2021).

**Tourism**

Hajj & Umrah contribute 7% of Saudi Arabia's total GDP or around US$12 billion annually (Karam, 2019). It is therefore one of the largest non-oil income generators for the kingdom. Due to the pandemic, all visitation and tourism was restricted, incurring billions of dollars in losses. Furthermore, welfare among citizens may be impacted in areas heavily reliant on religious tourism. Derived demand for oil in the form of luxuries may face serious challenges until the pandemic is completely over. Demand for gasoline in travel between cities and tourist sites would also be impacted, resulting in further declines in oil prices.

**POTENTIAL APPROACHES**

**Supporting healthcare systems**

The main objective of healthcare systems and pharmaceutical companies is the management of infections and the search for a vaccine/treatment. Significant strain has been placed on healthcare systems in dealing with the pandemic globally. High initial infection rates incapacitate hospitals and dwindle supplies. PPE\(^1\) is crucial during this pandemic. To ensure the least possible casualties, Aramco can assist in healthcare support/funding and financial packages to support their 76,000 employees (Saudi Aramco, 2020). With a better healthcare system, downtime is reduced and so the company remains more profitable.

**Cutting Production**

The forced and natural course of action to equilibrate the lower demand and oversupply (surplus) would be to reduce daily production of oil. Since demand cannot be controlled, Aramco can focus on supply. As the surplus decreases due to supply exceeding demand, the oil price will slowly increase. This also allows for demand to recover with a resultant increase in oil prices, mitigating losses and balancing revenues. In a positive move in mid-May, Aramco announced that they would cut daily oil production by as much as 1 mbpd to 7.5mbpd (Jalabi, 2020).

Political instability peaking during the Arab Uprising and the ongoing conflict between Saudi Arabia and Iran has also impacted production. An alleged Iranian attack on Aramco facilities in September 2019 resulted in a capacity cut of 2 to 3 mbpd for a few days. Production cuts may be unexpected as a result of conflict as well.

Coordination is also possible between Saudi and its OPEC members. This seems to be the current trajectory. Towards the end of May 2020, OPEC announced that they would further reduce production by 10mbpd (Saefong, 2020). The challenge with these organized cuts, while positive in raising the price and equilibrating supply and demand, places OPEC members at risk of losing to U.S. Shale oil.

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\(^1\) Personal Protective Equipment
Shale oil production is increasing in the U.S., and if the difference decreases, the cartel will no longer have the control it once had on oil prices. In addition, members such as Iraq may pursue self-interest as they are facing severe budget deficits. Since production cuts are estimated to last for a month, a conservative and measured approach should rally oil prices for the second half of the year.

Diversification

Support for the National Transformation Program and the Saud Vision 2030 is expected to impact positively on Aramco over the long-term. This requires diversification into alternate vertical and horizontal industries including renewable energy resources. Aramco has made efforts to privatize through an initial private offering (IPO) in December 2019, after merging with Saudi Arabian Basic Industries Company (SABIC) earlier in the year.

Its recent support of Islamic finance by providing a fintech startup with US$25 million of funding is a further indication of diversification. However, more venture capital support is required for aspiring local entrepreneurs as well. The entrepreneurship centre established in 2011 (Wa'ed) has been encouraging and should continue its support for start-up development in the country through collaboration with fintech and entrepreneurship hives in the region.

CONCLUSION

COVID-19 has impacted the global economy and crippled rising consumer demand for goods and services. Through derived and direct demand, oil prices slumped to their lowest in history.

The outlook is dire, yet positive signs of recovery are being witnessed in the oil market in the increase in consumer spending and the easing of travel/movement restrictions. Aramco has suffered a 20% loss in profits during the first quarter of 2020 and is expected to sustain further damage from the aftermath of the height of the pandemic in the second quarter.

Aramco would benefit from proactively managing the effects of lower consumer demand by cutting supplies, providing stimulus packages, and funding healthcare services. With all the uncertainties around the pandemic and economic recovery, there are improvements already which is reassuring to the company. If they do not, the spillover effects will be sustained, and recovery will be delayed. Oil prices do not only signify the price of the commodity, but also act as an indicator for economies, and play a key role in stock market stability. High oil prices can be detrimental for an economy, negative WTI prices more so. The subsequent impact of the fall in Aramco’s profits will be felt throughout the nation, region, oil producing countries, and the world.

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The role of financial institutions as intermediaries has been crucial in promoting a more stabilising impact to virus-hit economies globally. Conventional/Islamic banks and insurance/takaful operators in Malaysia have embarked on measures to reduce the financial burden on households and business units from financing primarily through the application of payment moratoriums. Financial incentives or relief provided by these institutions cover specific needs of households, SMEs and other relevant units of the economy. Some considerations in the course of reviewing these measures include the following:

**COVID-19 OPPORTUNITY TO SHOWCASE THE ETHICAL REPUTE OF ISLAMIC BANKS?**

By Dr. Shinaj Valangattil Shamsudheen INCEIF
i. Is the assistance offered adequate for households, business units and society to overcome the pandemic and the resulting economic crisis?

ii. Could they do even better than what they have already offered? and

iii. While wage subsidies and payment moratoriums have provided a temporary reprieve for the households and business units, the question is, what happens next?

These are questions that we require further deliberation over the period of pandemic.

Along with the conventional banks, Islamic Banks (IBs) have provided relaxations on financial obligations for the benefit of various sectors with an expected benefit to the Malaysian economy. These include the mandated relaxations by Bank Negara Malaysia (BNM) on IBs and specific measures taken by individual IBs independently. The perceived lack of clarity regarding the financing rate imposed by Islamic banks with respect to the moratorium facilities have created some ambiguity and disagreements among the public. Although the Islamic banking industry in Malaysia has demonstrated remarkable growth, the industry has been trying to enhance public trust and its ethical repute after specific events1 in the industry. Additionally, Covid-19 and the subsequent economic crisis will be a big test for IBs to revamp or display their ethical stance and commitment towards individuals and business units.

Islamic banks describe themselves as being providers of ethical financial services, although the precise expression or reflection of these ethical practices are argued to be difficult to distinguish from conventional banking. Islamic banks are expected to measure up to the oft-repeated maxim: ‘What is Islamic is always ethical but what is ethical is not always Islamic’. However, critics argue that the word ‘ethical’ is used as a label, and equated with Islamic, with little to no attempt to display this in practice. These arguments are relevant in the context of the movement control order due to Covid-19 and the scope of the financial assistance or incentives provided by IBs. The key questions that may be considered in this context include i. Do IBs restrict financial assistance and other incentives within the scope that is mandated by BNM? ii. Have they exhibited generosity by providing more? These queries will be briefly addressed in the following sections.

**Maqasid Dimension**

One of the widely recognized approaches in the discussion of the relationship between ethics and Islamic finance is the reference to the ‘Objectives of Shari’ah’ (Maqasid al-Shari’ah). It comprises of those benefits/welfare/ advantages behind the revelation of Islamic Laws. It aims to attain of goodness, welfare, benefits and warding off evil, injury and loss for all creation. During the early years of modern Islamic finance, the focus of the industry was in resolving jurisprudential (fiqhi) issues to ensure Shari’ah compliance.

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1 RM15 million CBT (Criminal Breach of Trust) report on an Islamic bank; disturbing public complaints on the excessive rates charged and profiteered by Islamic banks; failure of Islamic banks to address the problem of abandoned housing; increasing public perception about the convergence of Islamic banking practice with conventional banking amongst others.
Now, the discourse has included discussions on what it terms the ‘Maqasid dimension’ of Islamic finance, which is intrinsically ethical. The main pillars of Maqasid al-Shari’ah are protection of faith or religion (din), life (nafs), lineage (nasl), intellect (aql) and property or wealth (mal). It is evident that the recent pandemic has threatened most of these pillars and placed human beings in a precarious and vulnerable economic position.

Figure 1 The Role of Islamic banks during pandemic; incorporating the aspects of Maqasid Al Shariah

Therefore, a brief review of the extent of how successful IBs have been in exhibiting their ethical reputation becomes relevant, especially for those patrons impacted during and post pandemic. These ethical obligations are expected to support individuals/households and business units.

Figure 2 Financial Incentives and Relief by Islamic Banks to Individuals/Households in Malaysia
Figure 2 and 3 exhibit some of the major BNM mandated financial incentives and relief. The suggested measures are expected to showcase the substance of the Islamic financial system and increase the ethical repute of IBs. Figure 1 portrays the details in relation to individuals and households and figure 2 shows the mandated and ethical considerations for business enterprises. The suggested measures (ethical layer) cover the core elements of the Maqasid al Shari’ah in which the ethical practice of the IBs are perceived. Based on these measures, IBs may provide both monetary and non-monetary assistance for individuals, households and business enterprises. Monetary assistance may be in the form of additional financial assistance with zero or reduced finance rates, relaxation of the current financial burden (extension of the repayment periods that are already provided but with no additional profits charged due to the rescheduling), waiver of late charges/penalties and non-repayable assistance in the form of donations and zakat for meeting short-term living costs (medical and survival costs).

Non-monetary assistance includes the relaxation of lengthy policies and procedures in dealing with financial assistance (in order to hasten the assistance process and reach those in need), educational scholarship support (only for individuals/households) and assistance for capacity building to overcome the adverse effects of the pandemic (e.g. automation and digitalization facilities). These ethical measures should be able to create the sense of a duty of care that supports the socio-economic development of communities patronizing the IB sector.

IBs in Malaysia have efficiently practiced the mandates issued by BNM in relation to Covid-19. Moreover, IBs in Malaysia also have started practicing many of the measures suggested under the category of ‘Ethical layer’ (figure 1 and figure 2).
Extension of moratorium period, restructuring and rescheduling facilities, Covid-19 test assistance funds, and additional financial assistance for the highly impacted MSMEs are some of the additional reliefs and incentives offered by IBs in Malaysia that is beyond what was mandated by the BNM. However, it is important to observe whether these efforts are consistently and efficiently executed.

Conclusion

Financial markets rely on a positive public perception and are ultimately driven by the trust of their patrons. As far as IBs are concerned, the compliance of business activities is not limited within the scope of the government and the regulatory (including Shari’ah governance) system, but it also falls under the scope of the ethical system or principles. While Shari’ah compliance remains fundamental in determining permissible business, practicing the ethical dimensions will exhibit IBs’ commitment to the spirit and substance of the Shari’ah. Relatively little has been attempted to explore its ethical dimension in compliance parameters. IBs should consider the recent case of pandemic as an avenue to enhance their ethical position and potentially drive the entire financial sector to a more mutually beneficial relationship with the society they rely on to survive.
What differentiates Islamic banking from conventional banking is not simply the absence of interest payments. The fact that Islamic finance is interest-free does not mean that capital is costless. Unlike in the conventional system where the interest rate determines the cost of borrowed capital, which is pre-determined, the returns on funds provided by Islamic banks are not pre-determined as that would depend on the final outcomes. That said, one must hasten to add that there is much more to Islamic banking than the elimination of interest (riba) which is prohibited in Islam. Real sector connectivity and risk sharing principle represent the two important hallmarks of Islamic finance.

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The real sector and the financial sector represent the twin pillars of every modern economic entity. These two sectors are so interdependent that one cannot function well without the other. The real sector of the economy is all about production and distribution of goods and services using factors of production, of which capital is an important component. The financial sector funnels financial resources into the real sector through mobilization of savings and financial intermediation. However, the demarcation between the two sectors has become increasingly blurred due to growing sophistication. Innovations have lifted the financial sector into an orbit of its own with a trajectory that may not correspond strictly with that of the real sector. That the stock market trends these days hardly mirror the happenings in the real economy reflects the weak inter-sectoral connectivity that plagues the world economy.

THE REAL ECONOMY AND FINANCIAL SECTOR NEXUS

The relationship between the real economy and the financial sector is critical to economic stability. When one is out of step with the other, stability is disturbed resulting in economic volatility of sorts. The increasing frequency of economic crises the world has witnessed in recent times is an indication of the financial sector’s proclivity to veer away from the real sector. While the above explanation of a complex phenomenon is admittedly simplistic, it does serve to underscore the importance of the connectivity between the real economy and the financial sector for economic stability and growth.

The 1997-1998 Asian financial crisis, the global financial crisis of 2007-2008 and the ongoing Eurozone debacle all have one thing in common: the widening rift between developments in the real economy and trends in the financial sector. Thus, for example, the proliferation of derivatives and the securitization of debts have rendered the financial sector highly leveraged. The recent sub-prime credit crisis in the US is an interesting case in point.
By contrast, in the Islamic paradigm, the real sector and the financial sector of the economy are inseparably linked to each other, with the latter playing a supportive role for the former, which means that the financial sector would not exist on its own. In other words, all financial transactions in the Islamic framework must relate to real sector activities.

**ECONOMIC GROWTH AND STABILITY**

As is well known, Quranic injunctions forbid *riba* and approve *tijara*. It is pertinent to note that in Islam there is no distinction between “usury” and “interest”, as the term *riba* refers to both, while the term *tijara* – literally translated as “trade” – extends far beyond retail/wholesale trade to envelope the entire supply chain. It then follows that *tijara* is all about the real sector of the economy, namely production and distribution of all intermediate and final products, and creation of jobs. In this order, there would be no such thing as “jobless growth”, as the expansion of the real economy must entail increased employment as well.

As the financial sector is intimately connected to the real sector, the question of “too much money chasing too few goods” that generates inflationary pressure would not arise. For money creation would always be accompanied by increased production, thanks to the real sector connectivity, which would serve to defuse upward pressures on prices. In addition, the Islamic virtue of moderation in consumption would also keep “demand-pull” inflation at bay.

It then follows that economic growth in the Islamic economic model would not be driven by consumption, which is the case with so many economies the world over today. To be sure, the Islamic economy is just as market driven as the secular one, but the Islamic values relating to savings, consumer behaviour, social responsibilities, etc. would ensure that there will be no excessive consumption which would give rise to such other problems as environmental degredation and rapid depletion of non-renewable natural resources.
Thanks to the nexus between the real economy and finance in the Islamic equation, the “multiplier effect” of monetary expansion would be significantly stronger, translating into greater output and employment, while economic growth would be more steady with greater price stability than what is witnessed in today’s world. There would be no such thing as “paper gains” or “paper losses” - just real gains or real losses.

THE MODES OF ISLAMIC FINANCE

As Islamic finance is firmly attached to the real economy, with derivatives playing a somewhat subdued role - primarily to minimise the real sector exposure to risks - the Islamic financial sector would be considerably less leveraged than is the case with conventional finance. In this context, it is important to underline that the various modes of Islamic finance such as *murabaha* (mark-up), *mudarabah* (profit sharing), *musharakah* (profit and loss sharing), *ijarah* (leasing) and *bai-salaam* (production sharing) are all directly connected to the real economy. It is noteworthy that all such modes of financing are free from interest but not costless, where cost would depend on supply and demand for funds based on the sharing of risks and rewards.

Essentially, Islamic finance is all about risk sharing, in sync with the Islamic concept of “balance” in all transactions, in sharp contrast to risk-shifting practices that are so prevalent in conventional finance. What makes Islamic finance so distinctly different from conventional finance is not just the absence of interest payments; equally important is its accent on morality, ethics, transparency and fairness. All these are guided and aided by the centrality of the real economy in the Islamic financial matrix.

Islamic banking is making ripples, if not waves, in many parts of the world. Its assets, deposits and financing are growing at a double-digit pace annually, attracting much international attention, especially in the aftermath of the global financial crisis of 2007-2008 which showed that Islamic banks were generally more stable than their conventional peers. This has prompted the International Monetary Fund (IMF) and the Bank for International Settlement (BIS) to take a closer look into the Islamic banking trajectory.

THE ANATOMY OF ISLAMIC BANKING

The anatomy of Islamic banking is fairly simple, premised on the Qur’an and Sunnah. For example, funds are mobilised based on the concepts of qard, *waad*, *wakalah* and *mudarabah*. In the case of *qard*, the Bank is the borrower and the Depositor is the lender, where the principal is guaranteed with no return, whereas in the case of *waad*, the Bank acts as Trustee where the principal is guaranteed and return, if any, is only discretionary. Under the *wakalah* mode, the Bank serves as Investment Agent, where neither capital nor profit is guaranteed and all profits accrue to the investor after deducting the Bank’s fixed and variable fees. Thus, *wakalah* is neither profit-sharing nor loss-sharing, as all profits and losses accrue to the investor, while the return of capital is warranted only if the Bank is found to be negligent or in default of its investment obligations. In contrast, *mudarabah* is a purely profit-sharing arrangement, with no loss-sharing, where the Bank acts as Fund Manager (*mudarib*), where losses fall entirely on the depositor-cum-investor.
On the reverse side of the coin, the Bank invests the mobilised funds in financing its clients through non-interest based instruments such as murabaha (profit margin), ijarah, (leasing), bai‘bithaman ajil (deferred sale), istisnah (working capital), and bai‘salam (product sharing). The Bank also uses the mudarabah instrument for financing as well, though not as mudarib, but as rabbul maal (owner of capital). The bank can also use the profit- and loss- sharing musharakah channel for its financing, where the Bank becomes a partner in the joint venture with its client.

To be sure, Islamic banking is not exclusive to Muslims. It is meant for all everywhere except China where it is restricted to Muslims only by decree.

In Malaysia, where Islamic banking has been operating for nearly four decades, non-Muslims account for roughly 40% of Islamic banking clientele. There are two major explanations for the growing non-Muslim interest in Islamic banking. First, the ethical content of Islamic banking appeals to all, cutting across religious boundaries. Second, Islamic banking adds variety to existing range of financial products, with more choices and greater competition, providing more space for financial diversification, innovation and sophistication.
DISCONNECT BETWEEN THEORY AND PRACTICE?

A word of caution, however, is in order. Although Islamic banking, in theory, is technically very different from conventional banking, in practice Islamic banks have come under the shadow of commercial banks in the sense that their products resemble those of their conventional counterparts. For there is an Islamic substitute for every conventional product, which amounts to ‘Islamisation’ of conventional products through the Shari’ah compliance process. In other words, Islamic banks are offering ‘differentiated’ products by simply adopting conventional risk and return profile, subject to Shari’ah constraints. So long as Islamic banks remain under the shadow of commercial banks, mimicking conventional risk and return profile, they will only offer depositors returns similar to what conventional banks provide to their depositors and price their products accordingly, resonating the conventional banks’ profit maximisation principle, which is antithetical to the overarching Shari’ah objectives.

The story might have been different, if Islamic banking was cast in the mould of cooperative banking instead of commercial banking. In fact, the Islamic banking paradigm is closer to the ideals of cooperative banking than to the principles of commercial banking, notwithstanding the presence of interest or riba. Interestingly, several scholars have drawn parallels between Islamic banks and European cooperative banks (e.g. Chapra, 1985; Siddiqi, 2006; El-Gamal, 2006). Co-operative banks are said to be good at accumulating deposits in hard times, thanks to the trust built on serving low-income households, social mandate, best practices, and prudence (Allen & Gale, 1997; Ayadi et al., 2010). Thus, cooperative banks were able to maintain their lending growth during the sovereign debt crisis in the Eurozone (Merilainen, 2016).

In short, the cooperative banking model appears to be largely in consonance with the Shari’ah objectives. Cooperative banks’ emphasis on mutuality, trust, customer wellbeing before profits, moderation, prudence, inclusiveness, accessibility, and sustainability resonate Islamic values. What’s more, under the cooperative banking model, Islamic banks’ depositors will receive higher returns like shareholders. A major difference, however, is that cooperative banks do charge interest, while Islamic banks in the cooperative mould will instead use Islamic instruments that preclude interest payments.

A GAME CHANGER?

Islamic banking potentials in Muslim-minority countries cannot be underestimated. Anecdotal evidence shows that many Muslims stay out of the banking industry for religious reasons. Thus, for example, there is a huge pent-up demand for Islamic banking in the vast Muslim community in India. The establishment of Islamic banking will mobilize substantial cash funds which are now lying idle and release them for productive investments.

The introduction of Islamic banking in Muslim-minority jurisdictions would also add considerable variety to existing banking services for the benefit of all citizens and residents, Muslims and non-Muslims. In this regard, it is important to ensure that Islamic banking will be inclusive, open to all across the board. Islamic banking can be a game changer for the economies dominated by small and medium enterprises (SMEs) which tend to be sidelined by conventional banks which charge high rates of interest and insist on collateral. Experience elsewhere has shown that Islamic banks are more SME-friendly, willing to share risks through profit sharing and leasing modes of financing which do not require collateral.
It is of relevance to note that China, which has a much smaller Muslim population base than that of India, now has two Islamic banks. However, China does not allow non-Muslims to transact with Islamic banks, which is most regrettable. There are signs that China might want to reconsider this policy of confining Islamic banking to Muslims only.

Since Islamic banks have to co-exist with conventional banks in most countries, there is a need for central banks to ensure a level playing field where Islamic banks can compete with conventional banks. Competition must be fair and just. This may require changes in the laws governing financial transactions. The central banks will have to put in place mechanisms to facilitate and nurture Islamic banking.

It would be revolutionary, if some were to opt for the cooperative banking model for Islamic banking, for the European cooperative banking model arguably provides a better fit for Islamic banking than the commercial banking model (Gulzar, 2016; Gulzar et al., 2019).

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CONFLICTS, TRADE-OFFS AND ETHICAL CONSIDERATIONS IN CONTROLLING THE SPREAD OF COVID-19

Malaysian Perspective

by Prof. Dr. Syed Hamid Aljunid