MALAYSIA’S MACROECONOMIC POLICIES RESPONSES TO
COMMODITY CRISIS

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Abstract: The Oxford Advanced Learner’s Dictionary (1995) defined “crisis” as “a time of great difficulty or danger or when an important decision must be made”. According on the situation, there are many definitions for the term "crisis" in use. It was initially used in the field of medicine to indicate the stage of a disease at which a significant development or change had occurred that was either critical to survival or death. The word "crisis" has, nevertheless, become often used in the 20th century. Five significant crises have been identified to give huge impact on Malaysian economy namely were the "early commodity crisis" between 1956 and 1972, the "first oil crisis" between 1973 and 1974, the "second commodity/oil crisis" between 1980 and 1981, the "electronic/third commodity crisis" between 1985 and 1986, and the "financial and currency crisis" between 1997 and 1998 followed by the 2008 Financial Crisis. Commodity crisis is a crisis that extends from the initial commodity crisis of 1956-72, the first oil crisis of 1973-74, the second commodity or oil crisis of 1980-81 and the third commodity or electronics crisis of 1985-86. Recently, the price of the energy and food has been raising again which can results in the next wave of commodity crisis for the country. The prices of food as a whole had gone up as can be seen in the prices of vegetables and poultry. The global food price index tracked by the Food and Agriculture Organisation of the United Nations showed that in March 2022, it was almost 30 per cent higher year-on-year, hence, result in a really bad food price inflation experienced globally. With reference to energy price, although the world is facing an energy crisis where the demand for energy commodities exceeds supply and this is causing volatility in short-term pricing with global spot prices for natural gas reaching the highest level this year, reports by the government claimed that the impact of the energy crisis on Malaysia has not been alarming. Yet, necessary macroeconomies policies need to be identified to prevent unforeseen impact on the economic growth and society.

Keywords: Commodity Crisis, Macroeconomic Policies, Economic Growth

1.0 Introduction

Crises are part of life. Everybody has to face them, and it doesn’t make any difference what the crisis is.

—Jack Nicklaus

The Oxford Advanced Learner’s Dictionary (1995) defined “crisis” as “a time of great difficulty or danger or when an important decision must be made”. According on the situation, there are many definitions for the term "crisis" in use. It was initially used in the field of medicine to indicate the stage of a disease at which a significant development or change had
occurred that was either critical to survival or death. The word "crisis" has, nevertheless, become often used in the 20th century.

Generally, it served as an explanation for a variety of serious and peculiar events that occurred throughout a specific time period.

Since gaining independence in 1957, Malaysia has experienced several crises. Five significant crises have been identified: the "early commodity crisis" between 1956 and 1972, the "first oil crisis" between 1973 and 1974, the "second commodity/oil crisis" between 1980 and 1981, the "electronic/third commodity crisis" between 1985 and 1986, and the "financial and currency crisis" between 1997 and 1998. The Asian financial crisis considered as one of the worst economic crises up until year 2020 that Malaysia has ever faced as it results of Malaysia’s currency downfall by 45 percent.

However, the goal of this study is not to examine all of the crises that have affected our beloved Malaysia; rather, we only want to concentrate on one particular crisis, the commodities crisis. We will look at the history of this problem, the causes of it, as well as any effects it may have on society or the economy. In addition, we will talk about the conventional fiscal policy and Islamic fiscal policy employed to respond to this economic shock, as well as our recommended solutions based on both conventional and Islamic viewpoints.

The distinctive feature of each of the five significant crises demonstrates the Malaysian economy's susceptibility to outside shocks on the one hand, and the interdependence of the economy and its trade partners on the other. Therefore, Malaysia has one of the most open economies in the world.

2.0 Background

Commodity crisis is a crisis that extends from the initial commodity crisis of 1956-72, the first oil crisis of 1973-74, the second commodity or oil crisis of 1980-81 and the third commodity or electronics crisis of 1985-86. This is the crisis that Malaysia has faced since independence in 1957. The 1985-86 crisis will be remembered by many Malaysians as the period in which the country experienced its first recession since independence.

Malaysia's macroeconomic policy during the first decade following independence was a continuation of the British tradition of fiscal prudence. Government spending is generally limited to the scope of domestic revenue growth. However, the introduction of New the Economic Policy (DEB) in 1971 signalled the beginning of a new era of macroeconomic activism. In the early 1980s, NEP-driven economic activism entered a new phase. To achieve the goal of redistributing the NEP, the government launched an extensive investment campaign that included the formation of many new public companies, the expansion of the operational network of many established in the 1960s, and the implementation of several rural development schemes. As a result, Malaysia rapidly became a high deficit country over the next decade and a half, breaking with macroeconomic policy orthodoxy.

In November 1980, the Heavy Industries Corporation of Malaysia (HICOM), a public sector holding company serve as the highest government body in charge of implementing the new policy. The mission of HICOM is to establish industries such as petrochemicals, iron and steel, cement, paper and paper products, machines and tools, general engineering, transportation equipment, and building materials. It also includes several energy-related
projects, such as Petronas processing facilities and natural gas exports. Every HICOM project has foreign partners, but the government always provides the largest share of capital. As a result, the government's development spending began to increase significantly. Unfortunately, Malaysia dealt with the serious imbalances which was first reflected in a large current account deficit from abroad during 1981 until 1986.

3.0 Factor causing the commodity crisis 1985/86

The 1985/86 economic crisis was triggered by the high interest rates in the US, which is better known as the “Volcker Shock” (Esther Lee, 2020). The United States attempted to contain price increases by setting high interest rate records, which resulted in a collapse in global commodity trade. Malaysia suffers as an exporter when key commodity prices fall and demand for manufactured goods falls.

Since a large portion of the world economy is linked to the US economy via interest rates and the value of the US dollar, the US economy influences the economic position of other countries around the world via its balance of payments position, current account balance, inflation rate, unemployment rate, and so on. This slowing growth has an impact on the US budgeted deficit of US$230 billion. This situation will worsen the country's economic growth and effective demand for NSM goods.

The industrialised countries' poor economic situation has led to a reduction in demand for NSM export goods and the establishment of strict anti-entry measures in their markets. These policies will endanger the free trade system as well as the future global economic recovery. The world economy's humid average growth also has an impact on dampening demand for NSM export goods and complicating the NSM's efforts to correct the balance of payments deficit as well as the NSM's external debt servicing capabilities.

In the meantime, because of the non-uniform and fluctuating exchange rate conditions, the exchange rate is uncertain. Due to high interest rates and the strength of the AD dollar, the US receives more capital savings than the NSM. Malaysia is one of the developing countries that has difficulty exporting goods to other countries. As a result, the main causes of this commodities crisis are the lack of demand from outside the country, falling commodity prices across the board, and structural imbalances.

4.0 Impacts of Crisis 1986 on Malaysia

In this part, we will focus on the effects of the crises in several areas that occurred during the years 1985/1986 on our country, Malaysia, which slipped into recession. We will compile all of our reading and research about this issue. Based on the government’s official publications, which are Economic Report, BNM’s Annual Report, Mid-Term Review of The Fifth Malaysian Plan, the impact of recession was widespread (Samuel Bassey, 2000).

The second quarter of 1985 saw economic growth in Malaysia fall to -2.8%, signalling a recession in the country's economy. The economic collapse at this time was mostly brought on by the underwhelming export performance of goods like rubber and tin as a result of their glut on global markets, which in turn pushed down their pricing. Malaysia suffered since it is an
export-dependent country as the price of basic commodities plummeted and the demand for manufactured goods decreased. Tin and palm oil prices plummeted, causing a 30% decline in Malaysia's overall export price index. That year, its gross domestic product (GDP) shrank by 1%. Real GDP growth continued to remain weak in the following two quarters by recording negative growth in the range of 3.3% to 4%. Economic growth gradually improved after 1985, however real GDP growth still remained weak in 1986 with quarterly economic growth in the range of 0.7% - 2.1%

Three sectors namely agriculture, mining, manufacturing recorded an average value added which was not satisfactory at 3.1% in 1985 compared to 1984 at 8.4%. The contribution of all these three sectors towards GDP is less than 50% compared to 1980 which contributed 53%. Although the agricultural sector has contributed 19% to the GDP, it still experienced sluggish growth of 2.1% in 1985 compared to 2.8% in 1984. Apart from the relatively low growth rate in aggregate agricultural production, this slowdown is compounded by the slow growth rate in palm oil production which has traditionally had a relatively high growth rate. The growth rate gap between year 1984 and 1985 quite huge as in 1984, the rate is 23.1% but in 1985, the rate is 3.6% only. Other exports, such as rice, fish, coconut, black pepper, and pineapple, have little chance of increasing; the growth rate will either remain low or worsen. As a result, people are migrating from the agricultural or rural sector to the industrial or urban sector in search of more productive employment possibilities.

Furthermore, manufacturing exports have declined due to poor demand from other nations, fierce competition from countries that manufacture products, and tight protectionist measures from industrialised countries. Other than that, the mining and quarrying sector's contribution to GDP plummeted as well. The rate of growth reduced from 13.3% in 1984 to 1.7% in 1985. This was because of deterioration in exports of crude oil, natural gas, and tin. The unemployment rate rose to 5.6% in 1985 and 7.4% in 1986. In the first quarter of 1985, the ringgit lost value relative to the US dollar by about 10%. Up to the fourth quarter of 1986, depreciation was in progress. Government spending rose by 23% to 27% during the recessionary years between the first quarter of 1985 and the last quarter of 1986. The rise in government expenditure during that time period was a result of the government's expansionary fiscal policy, which was put in place to both boost the economy and guarantee that a self-sustaining economic recovery was accomplished.

Additionally, government revenue decreased from 0.98% to 11.13% between the third quarters of 1985 and 1986. The slowdown in economic activity was mirrored in the decline in government revenue, which made it more difficult for the government to raise taxes. The government's revenues from export and import charges was impacted by the slowdown in Malaysia's external sector, while income taxes, company taxes, and excise duties were all negatively impacted by the country's weak home economy. In the middle of the 1980s, particularly in 1985 and 1986, the Malaysian economy experienced a recession, which made the fiscal balance even worse. The fiscal balance was over 14.7% of GDP in deficit as of the fourth quarter of 1986. Exports climbed by 7.5% in the start of the first quarter of 1983 and progressively decreased to - 10% in the second quarter of 1986.

The deterioration of export performance as a result of poor industrialised economy demand and falling commodity prices. The majority of Malaysia's exports were still made up of raw materials, making them susceptible to changes in raw material prices. In addition to this, Malaysia's export performance was further hampered by weak domestic demand.
Manufacturers, exporters, and investors all scaled down their growth plans during the recession between 1985 and 1986, which further compounded the decline in exports. Additionally, decreased demand for imports due to reduced disposable income, high unemployment, and declining imports of capital and intermediate products all contributed to lower import growth. All of these events had a negative impact on Malaysia's balance of payments. In 1985, it dropped from -$3743 million in 1984 to -$5315 million. To make matters worse, our country's debt to other countries increased by 2.3% in 1985, totalling $21321 million in debt.

5.0 Fiscal Policy Instrument response to the shock

5.1 Conventional Fiscal Policy Instrument Responses

During the commodity shock 1985-1986, government of Malaysia applied the mix policies whereby it was contractionary fiscal policy or can be called fiscal restraint and expansionary of monetary policy (Mohd Salleh & Mat Zin, 1988). In this case, we will focus on how government implemented fiscal restraint. When the government either reduces expenditure or hikes taxes, it is implementing a contractionary fiscal policy. As a result, companies and general publics that is individuals are only enabled to spend the lower amount of money. It’s appeared to be same whether the government reduces public spending, subsidiaries, public works contracts, or the employee of government. The purchasing power of the consumer will reduce due to the decline in demand, likewise the decline in money supply. The decreased corporate profit and correspondingly require employers to downsize staff (Amadoe, 2022).

The effects of the federal government's fiscal restraints, which were put in place to change the structure of Malaysia's public finances beginning in 1982–1983, were apparent in 1985. The federal government's deficit decreased, while the non-financial public enterprises (NFPE) posted an overall surplus for the first time in the 1980s. As a result, the government continued to pursue a contractionary fiscal policy in 1985 (Mohd Salleh & Mat Zin, 1988). According to Bank Negara Malaysia (1998), the policy approach during the years 1985–1986 centred mostly on fiscal restraints. By reducing its influence on the economy, government spending was decreased.

Global commodity prices began to decline precipitously and unpredictably at the starting in the mid of 1985s and during 1986, it shows a significant drop in the prices of palm oil and crude oil. The dramatic decrease in tin and palm oil prices between 1984 and 1986 was represented in a 30% decline in Malaysia's overall export price index. Additionally, the terms of trade declined by about 20%, whereby 4.5% in 1985 and 15.5% in 1986 and remain constant by 20% for the following two years. As a result, Malaysia recorded 6.5% declining in the real national income per capita during 1985 and worsened with 11.2% fell in 1986. Furthermore, -10% decreasing for imports in 1985 considering of the government expenditure reduction (Mohd Salleh & Mat Zin, 1988). Thus, this helped the current recession situation. GNP declined in 1985 and 1986 with 2.9% and 7.9% respectively due to the cutback in government expenditure. Fiscal deficit sharply fell to 11.3% as the government total revenue substantial decline. The impact of the declining in revenue, government decided to retrench the spending down to M$3.2billion in 1987 (Sheng, 1989). Besides, Malaysia recorded gross domestic
product (GDP) with -1% in 1985 and increase a bit in 1986 with 1.2%. Due to the fiscal restraint, revenue decline causing income tax fell in respond to lower income in 1985 and it should not be forgotten that the unemployment rate rose significantly from 6.9% in 1985 to 8.8% in 1986.

5.2 Islamic Fiscal Policy Instrument Responses

Fiscal revenue is the most important element in the source of public financing expenditure in the economy through public budget. A fiscal revenue level is determined by the fiscal policy implemented by the government, but also includes economic evaluation. (Eugenia, Ramona, Mara, et.al, 2009). While an Islamic economy is one that adheres to shariah laws derived from the teachings of Quran and the sunnah of prophet Muhammad (peace be upon him). The framework of the fiscal policy must reflect the philosophical foundations of Islam among which is to give equal attention to both material and spiritual wealth. the fiscal policy was seen as one of the macroeconomic tool centers after the second world war. However, the case commodity shock that occurred during 1986 in Malaysia did not apply Islamic fiscal policy in lieu it used monetary and conventional fiscal policy.

Fiscal policy in Islamic world differ in terms of its concept, goals, instruments, and mechanism from that of convention economics. The basic tenet in the Islamic beliefs system is that the earthly life of man is nothing but a trial, and he will be accountable for everything that he does in this world before God in the hereafter. The market institution coordinates these operations in both an Islamic economic system and a conventional economic system. The government, on the other hand, is expected to control the market mechanism and defend citizens' property rights. The importance of fiscal policy is seen in legitimate adjustments in government expenditure and taxes. The Islamic economy allows private and public ownership, but in the end, Allah owns everything. When a person's property surpasses the nisab, the owner of the property is required to pay zakat. Wealth in this context must also be holy and free from riba (interest).

5.2.1 Source of Income Under Islamic Fiscal Policy

In an Islamic economy, there are several revenue streams accessible, and these sources can play a key role in fiscal policy. Throughout history, some of these public funds have been eliminated, while others have survived but with restricted usage (Eko Suprayitno, 2013).

<table>
<thead>
<tr>
<th>Table 1: Sources of Revenue in Islamic Fiscal Policy</th>
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<tbody>
<tr>
<td>Sources from Muslim Individuals</td>
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<tr>
<td>Sources from Non-Muslim Individuals</td>
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<tr>
<td>Other Sources</td>
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While Table 2 shows the sources of revenue collected during the period of Prophet Muhammad and *Khulafa al-Rasyidin*.

**Table 2: Sources of Revenue During Period of Prophet and *Khulafa al-Rasyidin***

<table>
<thead>
<tr>
<th>No.</th>
<th>Sources of Revenue</th>
<th>Explanation</th>
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<tbody>
<tr>
<td>1.</td>
<td>Zakat</td>
<td>It is an act of sharing assets between givers and those who less fortunate. (Yusoff, 2006)</td>
</tr>
<tr>
<td>2.</td>
<td>Jizyah</td>
<td>Tax paid by non-Muslims who lives in Islamic region</td>
</tr>
<tr>
<td>3.</td>
<td>Kharaj</td>
<td>Land tax that needed to pay by non-Muslims.</td>
</tr>
<tr>
<td>4.</td>
<td>Ushr</td>
<td>Al-‘ushur were taxed on products brought to Muslim nations by merchants.</td>
</tr>
<tr>
<td>5.</td>
<td>Waqf</td>
<td>Waqf is a religious endowment or voluntary.</td>
</tr>
<tr>
<td>6.</td>
<td>Khums</td>
<td>Khums means ‘a fifth’ in arabic or 20% of their acquired wealth.</td>
</tr>
</tbody>
</table>

5.2.2 Role of Zakat

*Zakah expenditures are only for the poor and for the needy and for those employed to collect [zakah] and for bringing hearts together [for Islam] and for freeing captives [or slaves] and for those in debt and for the cause of Allah and for the [stranded] traveler – an obligation [imposed] by Allah. And Allah is Knowing and Wise.*

*(Surah At-Tawbah 9:60)*

Well informed that, Zakat is the third pillar of Islam, and the rule of paying zakat is *fardhu ain* or compulsory on every Muslim who fulfills the obligatory conditions. Zakat is distributed throughout the zakat distribution centers in Malaysia. Among the examples of zakat assistance given are, in terms of monthly meals, monthly expenses, and payments or gifts given during the festival. Based on Islamic term, zakat means a certain amount of property which is obligated by Allah SWT and then handed over to the rightful person. Furthermore, the zakat property collected by the state will be kept in *Bait-ul Mal* (state treasury).

Zakat is a tax considered in the financial system and the economy, nevertheless, zakat will not be used for any people unless it is under the eight groups mentioned by Allah in the Quran which are the poor, a Muslim who has no property or income or has any property but only accommodates 50 percent of his dependents; the needy, that is, having a property or income that can only cover over 50 percent of the needs of himself and his dependents; the zakat administrator, which is the one who carries out zakat management tasks including collection and distribution. Other recipients include those who have recently converted to Islam, slaves who are chained under a power, those who fight in the way of Allah or known as *fisabilillah*, those who are in debt to meet basic needs, and last but not least are *Ibn Sabil*, a Muslim who travels but runs out of money.
5.2.3 Role of Waqf

Second Islamic fiscal instrument to help the government in response to future economic crisis is the implementation of waqf. Awqaf or waqf is an Arabic word which means the assets are donated or purchased for charitable purposes and bring benefits to the public. The concept of waqf is similar to the western concept of endowment. Unlike sadaqah, waqf items cannot be sold, leased, or given as gifts. These characteristics have been mentioned by (Mohsin, 2013) who stated that waqf is something that are irrevocably and permanence. The meaning of irrevocability is that the waqf object must be permanent, cannot be sold, or awarded while permanence means that the object being pledged must be sufficiently conditional, not destroyed or deliberately discontinued.

Waqf is a charity practice encouraged by Islam towards its capable ummah so that the pleasure given can be enjoyed by the underprivileged. The worship of waqf has been practiced by the Prophet PBUH and his companions for a long time after it was sanctioned. It is narrated that when Abu Talhah heard verse 92 of surah Aali Imran, he immediately gave up his most beloved belonging, which is the garden of Bairuha).

He said to the Prophet PBUH:

Indeed, our Lord asks us to infak from our property, so I testify to you, O Prophet PBUH, that I made this land belongs to Allah SWT.

Narrated by al-Nasaie (3602)

There are two types of waqf that can be considered in cash and non-cash waqf. Firstly, cash waqf is a type of waqf which is categorized as a movable waqf. Originally, cash waqf has been used by Ottoman Empire since the end of the 16th century (Fikry et.al, 2018). At that time, cash waqf was used to finance people involved in business and its returns would be used for public services such as hospitalization, education, roads, school, etc. Among the examples of the benefits of waqf today which has made a significant contribution and benefit to Muslims, especially Muslims in the Federal Territory, Kuala Lumpur is the waqf Ahmad Dawjee Dadabhoy. Prior to the end of his life, he gave up almost all of his properties including his land at Jalan Perak, Kuala Lumpur at 1.2 hectare.

In Malaysia, the practice of cash waqf has started to be practiced by MAIN and the private sector. MAIS for example has introduced a form of cash waqf known as the waqf share scheme. Through this concept, MAIN will act as a trustee and the participant will need to purchase the issued waqf shares and then re-enact them. The contribution from the sale of shares will be collected under a special fund and channeled to economic, educational, social and other general programs. according to the preferences of the participants. However, its use is limited to specific projects and is not developed through modern investment instruments due to lack of expertise and accumulated funds (Don, 2019).

Another type of Waqf is in the form of a non-cash or productive waqf. Some of the common examples we hear about waqf are land or building waqf. Waqf in this form was introduced for the purpose of increasing waqf properties at a time when the value of today's properties is soaring and makes it hard for a person to pledge the land owned. For example, in Malaysia, Waqf An-Nur Hospital in Pasir Gudang is the first waqf hospital to be established with the concept of health waqf to provide health services to the underprivileged with a minimum fee of RM5 for treatment and medicines operated by WANCorp, a subsidiary of
Johor Corporation Berhad. The hospital commenced operations in August 2001 on 14.88 acres of waqf land and is located next to Masjid Jamek, Pasir Gudang (Che Zuina et.al, 2019).

5.2.4 Role of Sadaqah and Crowdfunding

Voluntary sadaqah is a dynamic form of donation which is very different from zakat and waqf. Zakat is used for specific purposes and can be done during Ramadan and al-fitr while waqf is used by all people and has long-term value. The meaning of sadaqah in Islam is 'righteousness'. In Islam, it refers to a pure practice that is done without expecting anything in return. This behavior is not necessarily in the form of money alone, it can also be done by extending a helping hand or giving a smile.

The practice of sadaqah giving has become a norm in Malaysia. For instance, in the Federal Territory, the Federal Territory Islamic Religious Department (Jawi) became part of the Malaysia Musaa'dah Family Squad volunteer team joined by 14 religious’ agencies under the Prime Minister's Department (Religious Affairs) which was launched recently. The squad aims to support the poor and needy families with the distribution of food baskets, cash, and necessities regardless of religious background, race, and culture. The program further boosted various initiatives that Jawi had previously driven such as Jawi Food Bank, Gerobok Rezeki Masjid and Dapur It'am which distributed free cooking food packs daily to the target group in need (Ismail, 2021).

In contrast, crowdfunding is a platform which it is used to raise funds from the public. Through virtual crowdfunding, those who are just starting a business or have a project to run can connect with some potential investor or who has loads of money. Islamic crowdfunding can be classified as a practice to raise funds from a group of communities or organizations to generate business venture or societal needs through internet-based platform in compliance with Islamic shariah principles. There are four crowdfunding that the government can highlight which namely donation-based crowdfunding (contribution-based crowdfunding), reward-based crowdfunding (reward-based crowdfunding), lending-based crowdfunding (loan-based crowdfunding) and equity-based crowdfunding (equity-based crowdfunding).

The early history of crowdfunding was created in Malaysia when Peter Teo, who was an insurance agent, started a fundraiser to host a live broadcast of the World Cup (Norhafiza et.al, 2017). Among the examples of successful crowdfunding in Malaysia are Tengku Zafrul and his charity run. Upon Tengku Zafrul was the CEO of CIMB group Malaysia, he wanted to help 20,000 children in Malaysia who needs treatment for life-threatening illnesses. So, he has set a target of RM10,000 and he has also offered to pay some from his pocket. At the end of the crowdfunding period, he managed to raise RM200,000 more than he had previously targeted. Based on the above situation regarding sadaqah and crowdfunding, we can see that both of them can play a significant role in help our economy to sustain and able to address the newcoming economic crisis to ensure a fair and equitable distribution in society.

6.0 Recommendation from integration of Aqli and Naqli (iNAQ) Perspectives

The way the government handled the crisis also signified a substantial change from the state activism that had been practised during the previous 1.5 decades. The government backed
out of its heavy industry policy commitment after eight years. The management of HICOM enterprises was changed by appointing managers from the private sector, typically executives of foreign joint-venture partners, to take the position of the government official who previously oversaw these businesses.

Additionally, there was a renewed focus on fostering FDI in the economy. The Investment Coordination Act was amended in October 1986 to only apply to investments of approximately US$1 million or more (the previous threshold was US$400,000) or to plants employing more than 75 employees. The Investment Coordination Act was initially promulgated in 1975 in order to achieve the NEP objective of increasing Bumiputera involvement at the enterprise level. The legislation also loosened restrictions on how many expatriates might work for overseas affiliates. New ventures that offered the majority of their products for export or to businesses in FTZs that employ at least 350 full-time Malay workers could be owned entirely by foreign investors. Foreign investors now have more incentives thanks to the Promotion of Investment Act of 1986.

The Banking and Financial Regulation Act, passed in 1989, provided new prudential measures in response to the considerable deterioration in bank balance sheets, including strict limits on private borrowing. These borrowing restrictions made a substantial difference in reducing the economy's exposure to external debt, which in turn gave Malaysian authorities considerable discretion in handling the next crisis.

The new changes prepare Malaysia to gain from export-oriented companies' foreign migration of manufacturing bases, which started in the late 1980s in Japan, South Korea, Taiwan, and Hong Kong. The Plaza Accord's appreciation of the Yen against the US dollar (endaka) was the main driving force behind Japanese businesses' hunt for low-cost industrial hubs in Southeast Asia. Raising local wage levels was a major driver of businesses in the other Northeast Asian countries moving operations outside. Malaysia became a more desirable destination for businesses due to a combination of low salaries, new laws that enhanced the investment climate, and Malaysia's minimal political risk and generally better infrastructure.

From less than US$500,000 in 1986 to US$1.7 billion in 1989 and US$2.3 billion in 1990, net FDI inflows to Malaysia increased. By 1988, Malaysia's economy had moved into its second period of rapid expansion following independence. Ironically, as we shall show further down, macroeconomic excesses fuelled by the new growth frenzy were just as important in laying the groundwork for the economy's susceptibility to the Asian financial crisis.

From an Islamic standpoint, interest is equivalent to *riba* or usury. We can describe interest as a "real or potential excess or surplus without a returning equivalent" in terms of loans, currency exchanges, and other transactions involving the exchange of products and currencies as well as loans, regardless of the interest rate. Interest on debt or loans and interest on trade are the two types of interest.

This is because, in unfavourable economic situations, a borrower may suffer an injustice from a high interest rate, while lenders may suffer an injustice from a low rate, which is typically supported and promoted. The following is the main justification for interest being prohibited by Islam and the only one the Qur'an specifically states in relation to it.

“Interest is prohibited due to the fact that either the borrower or the lender would absolutely and inevitably be subjected to an injustice in any case, for its rate is fixed at the very beginning, although it is impossible to predict the outcome, profit or loss, or how much either
would be.” “If you persist in interest” says the Qur’an, “Either you will wrong, or you will be wronged.”

So, in Islamic perspective we should not use the interest also known as *riba* to make a profit. In Islamic perspective, trade can be implemented in this situation. What differentiates interest and trade, then? A mortgage transaction has two phases. The first is a transaction in which a client is given a residence as payment. Simply interest-bearing and bubble-building processes take place in the second and subsequent stages.

There are three ways to trade in commodities. The first step is the transfer of a commodity. That is the transfer of a good from someone who doesn't need it as much to someone who does. A commodity's "ownership value" rises when you purchase it from the producer and sell it to customers. The second is the movement of a resource from one location where it is widely available to another one where it is rare. The "location value of commodities" is increased when an orange is purchased in Antalya for TL 1 per kilo and sold in Istanbul for TL 1.5 since the orange is more valuable there. Third is buying products at a discount for cash and selling them to the customer on credit at a premium to someone who doesn't have the money to buy them.

For example, in this situation, when a bank buys a property immediately for $100,000 and sells it on credit to a client for $110,000, who would otherwise have to wait to buy it with his regular savings for months or years, this is known as "raising the temporal value of a commodity." The client benefits from the home right away because of this transaction. The client's extra payment of $ 10,000 covers the bank's profit and is given in exchange for the house's actual growth in time value. The client benefits from a significantly longer time value because they can utilise the home immediately in addition to for an extended period until the payment process is completed. In other words, by making that payment, you are receiving the house's current real-world value. It is not an interest as a result. It is a trading gain.

Another alternative that we can implement is zakat. One of Islam's five guiding principles is zakat. Zakat payment is a required act of worship for believers according to Allah swt (Ibadah). Zakat falls within the category of required almsgiving. Both the wealth (Zakat-ul-Maal) and the individual are subject to zakat (Zakat-ul-Fitr). If properly implemented, the zakat system will unquestionably improve the socioeconomic standing of the underprivileged and needy within the Ummah. Zakat serves a variety of purposes. The first step is to purify one's wealth. A divinely prescribed way to rid one's heart and spirit of greed and a fixation with material wealth is to pay zakat. This makes one a more obedient servant to Allah (s.w.t.), strengthening one's devotion for Him. Zakat payment is a sign of concern for the wellbeing of society's fewer wealthy citizens. However, it cannot be viewed as a pure act of charity because the needy and the impoverished have a claim to a portion of one's money (Mohamed, 1991). By directing resources to people in the community who have a much higher tendency to consume, giving alms to the needy and destitute will help the economy grow. This is consistent with the meaning of the word zakat, which is growth. At the same time, meeting the needs of the underprivileged would promote social peace between the wealthy and the less fortunate, which is crucial for the expansion and advancement of the economy. Zakat's other goals include reducing poverty and discouraging the concentration of riches.

The government will use the money from the tax or zakat collected on things or services like the construction of hospitals, schools, universities, equipment for the police and military, and salaries for public servants. The zakat collection is also distributed to the less fortunate by the government. However, if the government has to construct assets like schools or hospitals,
it is advised to seek alternative financing strategies, such as fund raising. As an illustration, a number of nations, notably Indonesia and Sudan, have issued sukuk for a range of government purposes, such as building infrastructure.

Zakat can also narrow the income and poverty gaps. For instance, according to Patmawati (2010), the study's findings revealed that Bait-ul Mal of Majlis Agama Islam Negeri Sembilan to foster community economic growth, particularly through the provision of zakat to the needy and destitute, had a successful outcome. In this situation, zakat distribution was successful in lowering the poverty rate from 78.70 to 72.61 percent. Simultaneously, the percentage of people living in extreme poverty dropped from 54.78 percent to 41.30 percent.

As conclusion, the Federal Constitution declares that the respective Heads of States (the rulers) are heads of Islam. Any suggestions for managing and implementing improvements to zakat administration in this nation must take into consideration the legal stipulation that "This journal is a member of, and subscribes to the principles of, the Committee on Publication Ethics (COPE)". Regarding the poor and needy Muslims, we think that the zakat institution may significantly supplement the government's efforts to end poverty. There are other beneficiaries permitted by the Syariah in addition to the poor and needy. Through capacity building, the effectiveness of zakat institutions would also aid in reducing the negative consequences of the economic downturn on the poor. Managing zakat is a very important responsibility. In addition to dealing with money collection and distribution, it also has to do with maintaining Islam as the religion of all humanity. Because it would improve their well-being and quality of life, give employees a feeling of purpose and meaning at work, and foster a sense of connection and community, such a spirit must be the basis for running the zakat institutions.

7.0 Conclusion

In conclusion, there are a lot of things we can learn and lessons we can use from this significant catastrophe that brought Malaysia's first recession. The causes of this catastrophe are among the information. The increase makes the economies of other nations worse because of the close correlation between interest rates in the US and those of other nations. Due to declining demand and falling commodity prices, our nation, Malaysia, is also affected and is currently experiencing a recession. Additionally, the government at the time used traditional tools of fiscal policy to combat this situation. The policy in place at the time was primarily focused on budgetary limitations, which led to a loss in the economy's impact as well as a decrease in government expenditure. Additionally, Malaysia's income tax decreased in response to lesser income due to budgetary austerity. According to our research and readings, in addition to the traditional fiscal policy tools that were in use in 1985, the government can adopt Islamic-inspired fiscal policy tools to address the issue. Zakat, Jizyah, Kharaj, Usr, Waqf, Khums, and Amwal Fadla are a few tools that can be used as revenue sources. The second option is the trading of commodities in two phases. First, there is the commodity transfer, which is the transfer of a good from someone who doesn't need it as much to someone who does. The second is the transfer of a resource from one area where it is freely accessible to another where it is scarce. The government may reach out to individuals all across the world by using crowdfunding, which is also one of the best tools available to combat this situation. The government may utilise the money it raises from all of these ideas to fund projects that will help the nation's infrastructure, welfare system, and the poverty-stricken people. As a result, if a similar crisis strikes Malaysia once more, we will have options other than the traditional tools of fiscal policy that may provide better results.
References

Al-Quran, Surah Taubah: 9:60


