A Tale of Two Pillars: Emergent Geographies of Islamic Finance in Bahrain and Kuala Lumpur

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Although primarily concentrated in Muslim counties, Islamic banking and finance (IBF) has become a global industry representing both a decentering of the global financial architecture and the emergence of an alternative global-urban network. While geographers have identified the "Mecca's" of IBF, there remains a need to investigate the constituent elements and processes that define Islamic finance and determine its spatial manifestation organization, as well as the factors which differentiate its global-urban landscape from conventional financial centers. This includes traditional locational factors – the presence of IBF firms and financial professionals, consumer markets, and regulators – but also more dynamic and ephemeral elements, including the significance of global shari'a scholar networks, the nature of secondary bond (sukuk) markets, and the role of governing bodies. Therefore, we examine the urban manifestation of the global IBF industry through a comparative study of leading centers in Manama, Bahrain, and Kuala Lumpur, Malaysia. By presenting results from a survey of financial firms and key-informant interviews with industry actors, it assesses both cities as separate entities to determine geographic variation between centers, while also identifying the similarities between the two, uncovering the essential elements of Islamic financial centers and the various pathways to creation and niches they occupy.

Keywords: Bahrain, Malaysia, Islamic finance, world cities, financial centers

Despite the increasingly global and footloose nature of capital, finance remains highly uneven and concentrated in global cities. Due to the importance of these centers to the global economy, geographers have meticulously cataloged the global-urban hierarchy of these 'capitals of capital' (Cassis 2010). The 2008 global financial crisis, however, triggered shifts in the geography of global finance and challenged the dominance of leading international financial centers (IFCs) (Derudder, Hoyler, and Taylor 2011). While the conventional financial system struggled with the prolonged economic recession, Islamic banking and finance (IBF) performed remarkably well, experiencing a period of unparalleled growth that approached almost two times that of conventional finance (Levitov and O'Donnell 2014). Proponents argue that the industry's prohibition on practices deemed to have facilitated the crisis – unfair contract structures, speculation, and debt-based trading – directly contributed to this success (Ahmed 2010). IBF is now a global industry with assets of $2.4 trillion in 2018 and expected to reach $3.8 trillion by the end of 2023 (Osmanovica et al. 2020). Despite increasing importance, IBF has received limited geographic interest. Although much is known about leading centers of conventional finance – Hong Kong, London, and New York (Poon 2003) – comparatively little is known about non-Western financial systems and financial centers which reside beyond the confines of traditional world city literature.

Writing for The Banker, James Gavin (2010) describes the emergence of the IBF industry as a story of two leading centers: Kuala Lumpur, Malaysia and Manama, Bahrain. He describes the rise of the Bahraini capital as a product of the Lebanese Civil War, which ended Beirut's viability as the region's leading financial hub, and the country's first-mover advantage in establishing an IBF center complete with the necessary regulatory frameworks to sustain it. Meanwhile, Kuala Lumpur has carved out a role in IBF through its issuance of Islamic bonds – known as sukuk – and its national shari'a oversight committee, which allows the country to standardize interpretations and products. Researchers have also highlighted the importance of both cities due to their connectivity to the broader IBF network, the share of the industry's assets, access to leading shari'a scholars, and international regulatory agencies (Bassens, Derudder, and Witlox 2010; Suppia and Arshad 2019; Wilson 2013).

While the literature has successfully analyzed the intercity network of Islamic finance and the industry's key nodes, it has had less success uncovering the local contexts and characteristics of leading IBF centers. As such, this paper explores the factors, conditions, and preferences that define these capital cities as global IBF leaders. We present the results of a large-scale web-based survey of 67 IBF firms as well as interviews with 26 Islamic finance practitioners employed in these cities. The findings show that the urban manifestation of religious regulatory structures and an elite cadre of religious scholars who oversee the compliance of products and practices represent cornerstones of the industry. Moreover, we show that both cities have capitalized on their unique development trajectories to carve out industry niches. In Manama, we find a regional financial center struggling for global status despite low levels of native human capital, social unrest, and growing regional competition from wealthier and more stable neighbors. In Kuala Lumpur, we find a government that has prioritized the development of human capital for the industry and scholars who embrace a more liberal version of Islam and are more willing to work with regulators and financiers to develop a wider variety of financial products.

World Cities of Islamic Finance

The geography of finance and financial center creation

Advances in technology and communication have facilitated globalization, thereby enabling more people and places to connect to and compete in the global economy (Friedman 2005). However, globalization has also created a more uneven field whereby a limited number of places compete, and those regions where economic activity, human capital, and innovation are most concentrated rise as "mountains in a flat world" (Rodriguez-Pose and Crecenzi 2008). While the forces of globalization help mitigate unevenness in the financial system, these same forces help exacerbate and perpetuate unevenness by facilitating the concentration of financial and economic activity in a limited number of urban areas (Dixon 2011).

The academic literature has identified how these IFCs act as nodes and hubs for the global economy (Clark 2005; Pan, Hall, and Zhang 2018). While globalization plays a key role in the distribution of IFCs, Kindleberger (1974) argues that an established banking tradition, a central bank capable of effectively enacting monetary and fiscal policies, and a strong domestic currency are essential prerequisites for IFC formation. Dicken (2015) contends that the creation of IFCs encompasses a set of processes and functions unique to the industry: proximity for overcoming transaction costs, a network of buyers and sellers for investment, and established and stable regulatory environments. Importantly, these urban locations offer agglomeration advantages through their proximity to the highly skilled workers spanning several industries – law, finance, accounting, etc. – necessary to function as a global financial center (Tschogl 2000; Fratianni 2009; Scott 2011). While these centripetal forces facilitate economic agglomeration, the variations in markets and regulations act as centrifugal forces that account for the wide variation and diverse landscape of financial centers (Gehrig 2000).

The shifting geography of finance and alternative financial systems

Financial landscapes are constantly shifting and rearranging (Wainwright 2012); however, the 2008 financial crisis and Brexit referendum have accelerated the pace of change and inexorably reordered the financial landscape (Cassis and Wojcik 2018). In the wake of the crisis, Asian financial centers, in particular, gained increased importance, in part due to their ability to navigate the economic downturn (Bayramoglu and Yilmaz 2017). To present a complete picture of the world city network, researchers have begun investigating postcolonial political economies residing outside the confines of traditional world city networks (Pollard and Samers 2007; Robinson 2003). This includes examining the rise of offshore centers (Warf and Vincent 2003), as well as sovereign wealth funds – such as those of the Arab Gulf countries – which could challenge the existing hegemony of the global financial order (Dixon and Monk 2014). Further altering the financial landscape is the advent of alternative systems of capitalism– such as Islamic finance, which is predicated upon the principles and practices of the Muslim faith (Pollard and Samers 2013; Hanieh 2020a). Whereas Middle Eastern cities are excluded from most financial geographies, they feature prominently as key cities in the network of Islamic finance (Ewers et al. 2018; Khokhar et al. 2019; Osmanovica et al. 2020; Hanieh 2020b).

Islamic finance has successfully convinced patrons that the industry pillars closely align with the religion's standards (Ibrahim and Mirakhor 2014). The industry's guidelines and practices are derived from the principles of shari'a and Islamic law to ensure adherence to the religious teachings. Shari'a, meaning "the way," is a set of rules and guidelines derived from the Qur'an and hadith (teachings of the Prophet), comparative arguments used to make rulings (qiyas), and unanimous agreement amongst scholars (ijma) that govern the way all Muslims should conduct themselves (Visser 2019). For the financial sector, this has several implications. First, IBF prohibits financial constructs that promote interest (riba), which Islam deems an unearned gain. Second, the industry claims a more equitable and sustainable financial model as it is based on real economic activity (Sarker et al. 2019). This includes prohibitions on speculative activities (gharar), trading in derivatives, and trading commodity futures – all of which are key aspects of conventional finance. Third, the IBF framework promotes a profit/loss sharing (PLS) model in which the bank and the consumer jointly share the profits or are liable for the losses (Abdul-Rahman and Nor 2017). Lastly, IBF forbids investment in products considered forbidden (haram) within Islam – pork, alcohol, tobacco, and certain forms of entertainment.

Governing Islamic Finance

At the heart of IBF are the individual religious scholars and the institutions that regulate firm activities and assure adherence to the principles of shari'a. The ability of a bank to establish credibility and certify compliance with the religion remains one of the key aspects of competitiveness and a significant barrier for new firms to enter the market. Uniquely, it is the shari'a scholars who help financial institutions establish this credibility through exercising ijtihad (best effort through reasoning) to produce rulings (fatwas), which ensures the products and services offered are compliant with the religion. Due to the nature of their position, the scholars must navigate the often-complex regulatory requirements of the local jurisdiction while maintaining compliance with shari'a guidelines (Nomran et al. 2018).

Islamic financial institutions hire these shari'a scholars to sit on their Shari'a Supervisory Boards (SSB). These boards are independent of the firm's corporate structure with no oversight from the board of directors and act as internal auditors of shari'a compliance, and therefore serve an important role in credentialing (Sidek et al. 2019). Since the purpose of the SSB is to establish credibility, firms seek out the most well-known scholars and a number of these scholars sit on many boards around the world. For example, the world-renowned Bahraini scholar Sheikh Nizam Mohammad Saleh Yaquby sits on at least 49 separate SSBs. Most relevant for this paper, the networks of scholars have a unique urban-geographic manifestation. For example, an analysis of the interlocking board directorates of SSBs reveals that a small group of about thirteen scholars are responsible for over half of the worldwide interlocks (Bassens, Derudder, and Witlox 2012). Due to their small numbers, these experts constitute an elite cadre who serve as gatekeepers to the industry by wielding their power and influence through fatwas (Farook and Farooq 2011).

However, there is growing concern over the lack of standardization within the industry, as variations due to ambiguity in the interpretation of shari'a compliance lead to competing fatwas (Abdel Karim 1990). These competing fatwas, understandably, undermine the credibility of the industry constructed in compliance with the religion. Therefore, as the industry grows it has developed supervisory regulatory agencies to help harmonize standards and practices, granting a degree of transparency and credibility, as well as underscoring the stability of the institutions and the system itself (Jackson-Moore 2009). Furthermore, these agencies safeguard against what El-Gamal (2007, 187) deems "rent-seeking shari'a arbitrageurs" who receive payment to approve of financial products regardless of their compliance with Islam.

A Study of Two Pillars

As classic primate cities, both Kuala Lumpur and Manama dominate their countries' political, economic, and cultural spheres. Approximately 8 million residents reside within the greater metropolitan area of the Malaysian capital – 1.7 million of which reside within the city limits – representing almost a quarter of the country's population (CIA 2020a). Meanwhile, Manama has a metropolitan population of 635,000 constituting about 42% of the microstate's total population (CIA 2020b). As one of the world's most densely populated states, the actual urban extent of Manama includes most of the country's settled land, which is concentrated in the northeast of the 300-square mile island country (Wolfinbarger, Drake, Ashcroft, and Hughes 2014).

Although both Kuala Lumpur and Manama maintain a strong IBF presence, they took different trajectories to become leading Islamic financial centers. Kuala Lumpur has been long recognized as a globally oriented and rapidly globalizing city and its early participation in IBF stemmed from the government's attempt to financially assist Muslims with performing the Hajj pilgrimage. To that end, the government created the Pilgrims Fund Board, or Lembaga Tabung Haji (LTH), in 1969 where Muslims could make monthly contributions to a general fund that earned a return from LTH investment activities. Despite the early success of this program, the government recognized it lacked an Islamic bank that could serve as an intermediary to assist and facilitate transactions on behalf of LTH according to Islamic tenets (Dinar 1996). To realize such a bank, the government passed the Islamic Banking Act in 1983 that allowed Bank Negara Malaysia (BNM), Malaysia's central bank, to supervise and regulate Islamic banks. As a result, in 1983 the country's first Islamic bank, Bank Islam Malaysia Berhad (BIMB) was created in Kuala Lumpur.

In 1994, Kuala Lumpur's Islamic finance industry created an Islamic money market covering all aspects of inter-bank trading in Islamic financial instruments, Islamic inter-bank investments, and an Islamic inter-bank check clearing system. As the first of its kind, the market endowed Malaysia with a key advantage in the development of an Islamic financial market. With the creation of the Malaysian International Islamic Financial Centre (MIFC), the government signaled the country's desire to become a global Islamic financial hub focusing on the sukuk market, Islamic fund management, banking, insurance and human capital development (MIFC 2020). Today, Kuala Lumpur has 21 fully-fledged Islamic banks, 12 Takaful companies and over 50 various professional services that support the industry. As with Shanghai, the promotion of Kuala Lumpur as a financial center results from the agglomeration of financial activities and subsequent advanced producer services, the internationalization of financial markets, and connectivity to existing international financial center networks (Wang 2019).

The emergence of a global center of Islamic finance in Manama, meanwhile, traces its roots to the rising oil prices of the 1970s (Sain, Rahman, and Khanam 2013). The region's oil windfalls provided many elites with high levels of capital, which they sought to invest through alternate channels. Building upon its history as a trade and pearling economy, the comparatively oil-deficient country implemented strategies to become an offshore banking center to attract capital from its oil-rich neighbors. During the Lebanese civil war, Manama capitalized on the vacuum created by the decline of the region's primary banking center and positioned itself as an alternative to Beirut (Wilson 2013).

The rise of Manama as a financial center is part of a broader trend among Gulf Cooperation Council (GCC) cities to diversify beyond oil-driven development (Kireyev and IMF 2020; Young 2019; Moser, Swain, and Alkhabbaz 2015). In 1979, Bahrain Islamic Bank – the country's first Islamic bank – opened in Manama, signaling its desire to compete in the Islamic finance industry. Later, in 1996, Citibank opened an Islamic finance window in Manama. Although Citibank had offered shari'a compliant banking as early as 1981 (Citi 2020), the formal establishment of an Islamic finance window represented a significant development for the commercialization of the industry. Fueled by a post-1998 oil boom, Manama along with Dubai and other Gulf cities experienced unprecedented urban development, often shaped by imperial legacies and Western aspirations (Hourani and Kanna 2014). Today, the city is considered the "undisputed Mecca" of Islamic finance and is home to many of the industry's top headquarters (Bassens, Derudder, and Witlox 2010, 41). In part, the city's success stems from its stable regulatory environment (Ewers et al. 2016) and the standardization of products offered due to the oversight of its central financial authority (Hassan and Mahlknecht 2011). Both cities, Manama and Kuala Lumpur are highly connected to the global Islamic finance industry through firm networks and prominent shari'a scholars (Bassens, Derudder, and Witlox 2012), and are positioned at the crossroads of major fiber-optic cables that connect the cities with the broader global economy through key infrastructure (Warf 2017).

We employ a mixed-methods approach consisting of a large-scale, web-based survey of the top Islamic financial firms in Manama and Kuala Lumpur and key informant interviews with leading Islamic finance personnel at the responding firms. From February through July of 2014, the survey instrument was sent to 391 individuals (Manama, n=285; Kuala Lumpur, n=106), of which 56 individuals at 33 firms in Manama and 50 individuals at 34 firms from Kuala Lumpur completed the survey.

The gross response rate was 27.1%. Interviews were conducted with a representative sample of survey respondents, including 16 in Manama and 10 in Kuala Lumpur. Following Schoenberger (1991) and Clark (1998), these interviews employed open-ended questions to establish a close dialogue with managers, executives, board members, and shari'a compliance officers to better understand the firm's learned behavior. These interviews – conducted in Arabic, Malay, and English, where appropriate – were conducted in person, via email, LinkedIn, Skype, and over the phone.

Factors of Leading Centers

This section charts the factors that position Manama and Kuala Lumpur at the apex of the Islamic financial industry. We present evidence demonstrating that the locational factors of IBF centers are similar to those of conventional finance despite operating on a different spatial logic. What sets IBF centers apart, then, is their keen attention to the industry-specific needs in regards to regulation and oversight, specifically the presence of shari'a scholars.

Competitiveness data for Islamic financial centers only appear at the national level. While this data masks the subnational variation, the centers operating in each state receive the benefits or assume the costs of operation in these locations. Table 1 displays data from the Islamic Finance Development Report (ICD-PS and Thomson Reuters 2017). The report highlights many of the leading factors for competitiveness in the global economy, including Islamic financial assets, human capital, corporate and shari'a regulation, corporate social responsibility (zakat and donations), and awareness (conferences, seminars, and news). The overall Islamic Finance Development Index created from these various indicators ranks Malaysia as first and Bahrain as second of all countries. Malaysia, in particular, ranks first or second in every category except for total assets and corporate social responsibility. Bahrain's success, meanwhile, appears to stem from its high governance and awareness ratings. The variation across the table underscores that excelling in a single category is not enough to remain competitive in the industry.

While recent city-level data on Islamic financial centers is sparse, we can compare the cities of Islamic finance to other financial centers, as displayed in Table 2. Importantly, the key Islamic financial centers are ranked far lower than traditional financial counterparts on indices of global cities and global financial centers (AT Kearney 2020). Istanbul (26th) and Dubai (27th) are the highest-ranking Islamic financial centers based on conventional metrics; however, leading industry centers like Kuala Lumpur (49th) and Bahrain (112th) are ranked far lower. The usual suspects of London, New York and Tokyo, unsurprisingly, lead both the

TABLE 1
Leading global Islamic financial centers.

Country	IFDI Index (2017)	Total IF assets	Education and research	Governance & regulation	Social Responsibility	Awareness
Malaysia	1	3	1	2	-	1
Bahrain	2	6	5	1	5	2
UAE	3	4	7	6	8	3
Oman	4	-	-	3	3	4
Pakistan	5	-	6	5	-	5
Kuwait	6	5	-	4	9	7
Saudi Arabia	7	2	9	-	1	10
Jordan	8	-	2	-	2	-
Brunei	9	-	4	-	4	8
Qatar	10	-	-	-	-	-

Source: Islamic Corporation for Development of the Private Sector [ICD-PS] and Thompson Reuters and (2017). Islamic Finance Development Report 2017. Available at: https://icd-ps.org/

global city and financial center rankings overall. The competitiveness of IBF centers improves when limited to the analysis of global financial center metrics. Dubai remains the highest-rated center (12th) and many other leading IBF centers rank competitively: Kuala Lumpur (44th), Doha (48th), Bahrain (56th), and Istanbul (79th). Still, neither of these indices reflects the sector-specific niches that these cities have carved out and the roles each city occupies in the global IBF economy (z/Yen 2020). It is important to note that not all Islamic financial centers are in the Islamic World (e.g. London). Nor are all financial centers in the Islamic world Islamic financial centers. In Beirut, for example, Islamic banks comprise only a small portion (about $1 US billion of the overall banking sector ($152 billion) (Global Finance 2015).

Interviewees largely agreed that both cities possess the greatest reputation for Islamic financial services. While there is certainly an element of selection bias in these assertions, the underlying rationale for these claims mirrors the data from the above table. For example, the Head of Internal Audit for a local Bahraini wholesale bank shared: "I believe Bahrain and Malaysia have always had the greatest reputation. I think Bahrain has had an even larger reputation than Malaysia, but since Malaysia is the larger economy it was naturally able to get onto the top slot." For this individual, both Bahrain and Malaysia sit perched atop the global Islamic financial industry. Malaysia's presence at the apex of the industry stems from its large market size and growing economy; however, this alone is not enough to become a leading IBF center (see, for example, Iran). The Head of Internal Audit also shared that he believes Bahrain's place is far less certain for the future due to the growth of the UAE as a

TABLE 2

Ranking of global financial centers (top) and Islamic financial centers (bottom)

City	Global Cities Index Rank (1)	GFCI 27 Rank (2)	GFCI 26 Rank (2)	Pop'l urban area ('000) (3)
New York	1	1	1	22,100
London	2	2	2	14,800
Tokyo	4	3	6	40,400
Shanghai	19	4	5	33,600
Singapore	6	5	4	7,900
Hong Kong	5	6	3	7,500
Beijing	9	7	7	19,800
San Francisco	22	8	12	7,850
Geneva	37	9	26	500
Los Angeles	7	10	13	17,700
Dubai	27	12	8	5,350
Kuala Lumpur	49	44	45	8,900
Doha	61	48	39	2,425
Manama/Bahrain	112	56	47	1,530
Istanbul	26	79	53	16,000
Jakarta	59	93	91	31,300

1 AT Kearney Global Cities 2019   2 Z/Yen (2020)   3 City Population (2020)

challenger to the country's regional dominance. As a much smaller economy, Bahrain cannot compete with larger neighboring markets. Despite this disadvantage, the country remains one of the preeminent IBF centers.

In addition to competitiveness, it is important to understand the emergence and sustainability of Islamic financial centers and their ability to attract and retain firms. Survey respondents were given a list of 17 possible factors that influence a firm's decision to locate Islamic financial activities in a city and were permitted to select multiple answers and assign varying weights. The results are reported in Table 3 and are ranked based on the average degree of importance assigned by the respondents.

From the table, the regulatory environment of a city is a key determinant. Three of the top four determinants concerned the existence of regulatory oversight and the availability of shari'a product certification/standardization. While local firms – particularly those in Kuala Lumpur – had a stronger presence for established shari'a laws and available product certification, all firms – both foreign and local – rated access to these features as extremely important when choosing a location. These results underscore the importance of regulatory agencies and features tailored to the Islamic financial industry.

While regulation is important across the financial sector, it is the presence of regulatory committees able to certify compliance with the religion that distinguishes Islamic financial centers apart from their conventional peers. Manama and Kuala Lumpur, in particular, are notable for their presence of influential international regulatory agencies. For example, Manama's Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) - widely respected as the world's most influential fiqh body (Wilson 2013) – seeks to harmonize Islamic financial practices. A local Financial Controller similarly noted that "AAOIFI is an apex international regulatory body which is based in Bahrain and its presence in Bahrain is helpful for the Islamic institutions based in Bahrain." The presence of a premier regulatory institution grants the city a competitive advantage, as it can legitimize its domestic market's adherence to the tenets of the religion and enables the country to exert regulatory influence abroad.

This importance of such institutions is perhaps best noted in the context of growing industry competition. One interviewee explained, "whilst [Manama] has more recently been overshadowed by the gleam and glitter of Dubai,[it] is still, in my opinion, the best regulated and controlled financial center in the region." While the city may not have the domestic market of some of its regional and global competitors, the presence of its apex regulatory agencies and shari'a oversight committees helps ensure its status as an industry leader. Meanwhile, Kuala Lumpur's Islamic Financial Services Board (IFSB) acts as the "Basel committee for the Islamic world" (Jackson-Moore 2009, 182), helping to regulate the industry, promote transparency, and publish shari'a standards concerning Islamic finance. These two agencies remain the preeminent regulatory bodies in Islamic finance and maintain strong domestic and international influence and have helped solidify these centers as leading Islamic financial nodes.

The survey also sheds light on the importance of specialized human capital equipped to undertake the unique structuring and execution of Islamic financial products. Although the availability of skilled employees in general figures into the top seven factors, it consistently ranks lower than the availability of individuals with specialized Islamic finance expertise. However, despite the overarching similarities, the cities rate these factors differently. Most prominent is Kuala Lumpur firms' ranking of government support for R&D as the second most important determinant of locating Islamic financial activities. This potentially stems from the country's efforts to develop national innovation systems around its Islamic financial center aspirations. Manama-based firms, meanwhile, emphasized the importance of access to the greater regional market as the local market is not capable of supporting a global Islamic financial center. Therefore, accessing international markets is a necessary ingredient for achieving competitiveness. In particular, Manama continues to look to the neighboring Gulf States and their substantial oil-fueled capital markets as sources of revenue for its firms.

TABLE 3
'Key determinants for locating Islamic finance activities in a city or country'

Kuala Lumpur, Malaysia	Manama, Bahrain	Total
1 Trustworthy relationships with regulatory institutions	1 Established Shari'a laws	1 Trustworthy relationships with regulatory institutions
T2 Government support for R&D	2 Available Shari'a product/ service certification	2 Established Shari'a laws
T2 Availability of skilled personnel in Islamic finance/law	3 Trustworthy relationships with regulatory institutions	3 Availability of skilled personnel in Islamic finance/law
4 Established Shari'a laws	T4 Availability of skilled person	4 Available Shari'a product/ service certification
5 Availability of skilled employees in general	T4 Access to Middle East market	T5 Credibility in Islamic finance operations
6 Access to local Islamic scholars & advisors	6 Islamic financial underwriting support	T5 Islamic financial underwriting support
7 Credibility in Islamic finance operations	7 Credibility in Islamic finance operations	T5 Availability of skilled employees in general
		T5 Access to local Islamic scholars & advisors

Source: Authors' survey

In addition to significant differences in responses by location, the surveyed firms also displayed varying responses by firm type. For example, local firms tend to value established shari'a laws, the availability of shari'a product and service certification, and telecommunications infrastructure more than their foreign counterparts. Although it is unclear why this is the case, the difference in responses may stem from the ability of foreign firms to source certification from international regulatory bodies elsewhere.

Human Capital

Like other IFCs, human capital is the key production input for the global financial sector. Figure 1 displays the differences in hiring preferences between the two capitals for both local and international hires. Despite varying labor market contexts, it is evident that these centers are looking everywhere for talent. One of Manama's strengths is the international reach of its firms, which recruit globally for a wide variety of talent. Like the other Gulf city-states with small local populations and large levels of foreign labor, Manama has utilized its ability to attract global talent to generate local economic development. Thus, these firms are much more likely to hire internationally. However, this can also be interpreted as a weakness, in that this talent is not widely available locally, and thus needs to be imported. The human capital deficit has deep implications for Manama's future as a center of Islamic finance. As one representative of a major foreign firm noted, local schooling standards are falling, thereby giving foreign firms a disincentive to hire local graduates. The Chief Operating Officer of another foreign firm echoed these sentiments:

> The main reason for Bahrain suffering in terms of development as a financial center is the lack of skilled, experienced and visionary bankers with the depth of knowledge and understanding to grow and develop the industry and products.

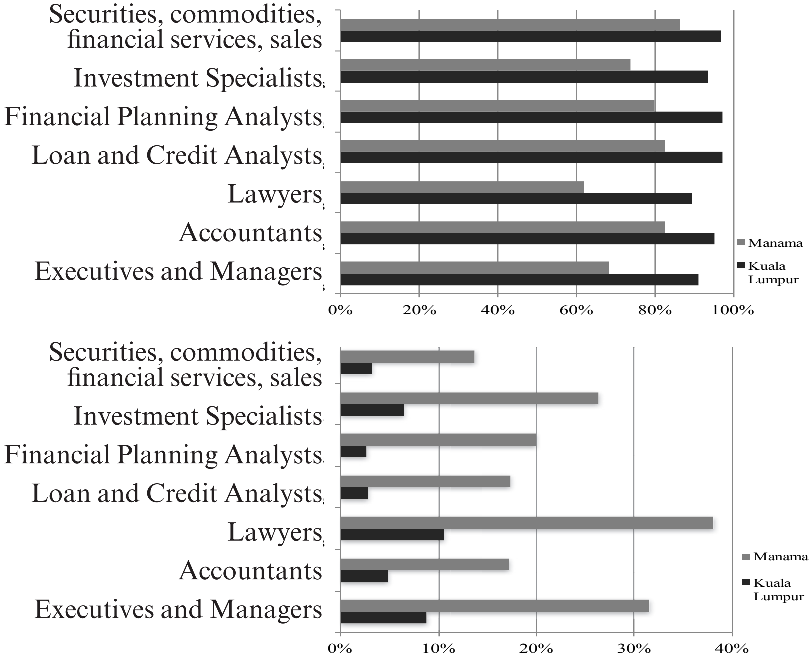
In his view, the country as a whole cannot reproduce locally the skills needed to sustain the country's financial sector. This inadequate access to human capital threatens Manama's dominance as a center of Islamic finance as it cannot account for the rising demand for shari'a-compliant assets.

Conversely, the scope of recruitment activities amongst Kuala Lumpur firms is much more locally confined. The city's large talent pool reflects Malaysia's emphasis on the local development of finance-based human capital to move beyond resource-driven growth. In particular, the Malaysian government funded the establishment of institutions of higher learning and research such as INCEIF and ISRA. These institutions are critical not only in sustaining the marketplace with the required talent pool but also advancing religious epistemic knowledge. What Kuala Lumpur firms lack in international knowledge connectivity, however, they make up in local content availability. Malaysia has a sizable local market, 30 million people, to recruit from, which is far greater than Bahrain, which only has 1.5 million. While each of these cases has its strengths and weaknesses, each represents distinct trajectories of Islamic financial center formation.

Respondents placed a premium on the importance of knowledge of Islamic finance and accounting and knowledge of shari'a as necessary for competency in Islamic finance operations. The importance of these two skills is especially evident considering respondents, on average, rated these skills as more important than the presence of skilled financial labor in general, thereby signaling the unique skill sets necessary to compete in the industry. An Islamic finance specialist in Kuala Lumpur argued that the focus on developing skilled IBF practitioners grants a location a considerable advantage:

> Islamic finance has grown in Malaysia, creating a pool of people with technical knowledge. Now, say you have Pakistan and India - these are people that are very well versed in (conventional) banking and finance. But they decide to go to the Middle East to work in the Islamic banking industry. This is opposed to Malaysians who had acquired this technical knowledge locally and then work overseas.

FIGURE 1
'Positions for which your firm almost always hires locally (top) and internationally (bottom)'



Source: Authors' survey

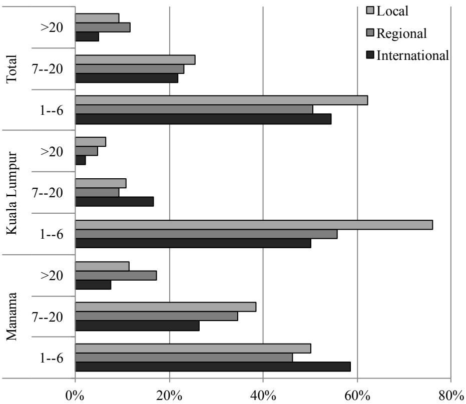
The deliberate strategy of the government to invest in Islamic finance training programs has endowed the country with a local talent pool which gives its capital city a distinct advantage. The presence of a workforce skilled in both financial matters and the particulars of Islamic finance allows the center to grow its domestic markets and export its expertise globally.

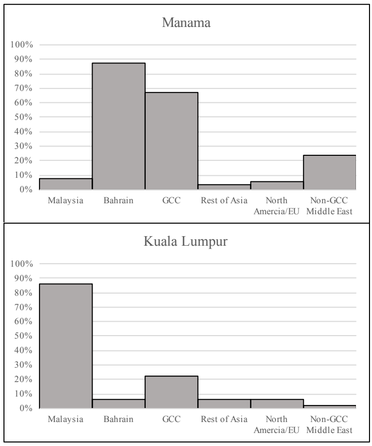
Shari'a Scholars

At the center of the Islamic finance regulatory system are shari'a scholars who serve on boards separate from the traditional corporate structure and are charged with ensuring that IBF firms issue products in compliance with the religious practices of Islam. These scholars represent a distinctly urban phenomenon as they must co-locate with the cities of IBF production. More importantly, recent research on the urban geographies of the "global shari'a elite" highlights their role in establishing transnational urban linkages between IBF centers (Bassens, Derudder, and Witlox 2012). Firms reported that the presence of these religious experts was among the most important locational features of IBF centers (see Table 3). To understand the nature and distribution of these scholars, the survey instrument collected data on scholar nationality and the number of SSBs to which the most prominent scholars belong.

From Figure 2, it is clear that firms in Kuala Lumpur and Manama display a significant amount of home-bias in their selection of scholars; however, scholars are still sourced globally. Although firms hire a disproportionate number of local scholars, these scholars are both regionally and internationally influential. Further reading of Figure 2 highlights that over 40% of scholars in both countries sit on at least one to six other local, regional, and international SSBs. On the high end, between 2 and 9% of top scholars in Kuala Lumpur and 8 to 17% of top scholars in Manama sit on over twenty SSBs. These scholars are the most highly sought after and prominent scholars and exert influence over the industry through sitting on multiple boards both locally and internationally.

FIGURE 2.
Estimated number of boards that a firm's most prominent Shari'a advisor serves (left) and nationality of scholars (right)





Source: Author's survey

On average, the most prominent scholar at a Bahraini firm sits on more boards than his Kuala Lumpurian counterpart. From this we can make some inferences about the role of geographic context and state regulation in that sitting on other regional and international boards is highly encouraged in Manama, while, until recently, this practice was discouraged and constrained in Kuala Lumpur. Despite these differences, a defining feature of Islamic financial centers may not only concern the presence of scholars able to rule on the permissibility of financial products but also scholars whose reach transcends national boundaries and who exert significant influence over the global Islamic financial industry.

Many of the interviewees expounded upon the importance of shari'a scholars in IBF and some of the underlying reasons behind the geographic distribution of scholars. One of the major differences between GCC scholars and those of Southeast Asia (SEA) is the adherence to varying schools of Islamic jurisprudence. A financial specialist at a Malaysia explained:

> …Shari'a scholars also have different schools of thought. In general, we will see the shari'a scholars in the Middle East are more stringent than scholars in SEA. In SEA, shari'a scholars are more open to innovation and ideas when it comes to product design. More flexible I would say.

Although the scholars adhere to different branches of Islamic jurisprudence, Maurer (2003, 326) argues that they are "bricoleurs, drawing from any jurisprudential source, which they deem to be appropriate for a particular problem." Therefore, while the individual scholars adhere to varying schools of Islamic jurisprudence, many of them understand the need to cooperate to develop and issue products that are compliant with the overarching themes of the religion (IIBI 2015). Despite this, the perception that SEA scholars are more liberal than their GCC counterparts has perpetuated a geographic difference between the regions' scholars (Baker 2011).

In addition to variation between the scholars, interviewees explained why some scholars are considered more influential and important than others. The Vice President of an Islamic finance window in Manama offered:

> In the current environment, scholars are assessed in terms of historic or previous products they have consulted on… you would normally see a lot of consistency by region corresponding to where the scholar is originally from. In Bahrain, you would naturally see a lot of repetition with scholars geographically from the Gulf region because the investors are comfortable with their reputation and they know them personally, and similarly you would find the same phenomenon in other regions like Malaysia.

For this individual, the prominence of an individual scholar is directly related to the projects he has consulted on and the products that he has helped develop. As a scholar gains experience and creates a reputation, he is asked to sit on more boards and more committees, thereby further embedding him in specific scholarly networks. While knowledge of shari'a and financial matters has long been a feature of successful scholars, new skills are emerging to meet the growing global market. The Chief Executive Officer of one Kuala Lumpur-based firm highlighted the importance of language as the industry attempts to become more global and breach Western markets, "the language of shari'a is Arabic, but the language of business is English. The most successful and highly sought after scholars are those who are fluent in both." As the IBF industry continues to grow and adapt to a global context, the ability to converse in the languages of finance, religion, and business could dramatically alter the geography of shari'a scholars and have far-reaching implications for future IBF centers.

Conclusion

In light of the changing nature of the financial system and the rise of Islamic finance as an alternative to the conventional financial system, this paper examined the constituent elements which differentially shape and condition the emergence of IBF centers through a comparative case study of two of the industry's leading hubs. Despite representing two of the industry's leading centers, these two cities have taken different pathways to achieve this status. Whereas Manama capitalized on its oil development experience to attract highly skilled labor to create a regional banking hub, Kuala Lumpur aggressively pursued an education and training system designed to produce the necessary human capital endogenously. Today, these two leading centers occupy varying roles within the global industry. The Bahraini capital has found a niche as the seat of the global IBF regulatory system while its Malaysian counterpart has positioned itself as the industry's premier issuer of sukuk and training.

While operating in differing local and regional contexts, this case study offers a unique insight into the locational factors, regulatory and institutional contexts, and specialized human capital endemic to Islamic financial nodes. Together, and when excluding Iran, these two markets only account for 17.1% of the global IBF assets (Ernst and Young 2016). Therefore, we have shown that the rise and success of these IBF centers is less a function of market size and stems in part from locational factors that closely mirror those of conventional finance. Most significantly, the survey results shed light on the nature of the institutions and services uniquely important to IBF centers. The additional presence of industry-specific institutions adds a further layer of regulation, helping to standardize products across the market and ensure consumers that the products comply with Islam. Both cities possess a high content of regionally and globally influential regulatory agencies. For Manama, in particular, the presence of these internationally renowned regulatory organizations is a key feature of its success as an IBF hub. In the absence of a large domestic market, the city has carved out a niche as the industry's leading regulatory center.

In addition to institutions, the survey and interviews elucidated the hiring preferences of firms in terms of both human capital and shari'a scholars. The hiring practices of firms provided the largest distinction between the two leading centers of Islamic finance. Manama has capitalized on its oil development experience to attract highly-skilled Islamic finance talent and create a regional and global industry hub; however, the production of a home-grown workforce remains essential for the country's continued success. While Kuala Lumpur also sources Islamic finance talent globally, the high presence of local talent is a function of the government's foresight to develop banking as an economic base beyond resource extraction. These divergent trajectories speak to the varying pathways through which IBF centers are created.

Lastly, the research examined the nature of shari'a scholars operating in both centers. Similar to regulatory membership, firms demonstrated a strong preference for scholars hailing from the country in which the firm was based. In general, the most prominent scholar at a Manama-based firm sits on more SSBs than the most prominent scholars in Kuala Lumpur. Although this is in part due to regulations in Kuala Lumpur, this regional variation has allowed Manama-based scholars to exert influence over a greater number of local, regional, and international boards. As the IBF industry continues to become more global and expands into Western markets, the distribution, reputation, and skills necessary to be an effective and influential scholar may change (Alexakis and Tsikouras 2009).

As the financial landscape continues to shift, it remains imperative that we take into account alternative financial systems such as IBF. The landscape of IBF is still forming and further research should examine its shifting nature in light of the rise and decline of IBF centers. Beyond competition, future research needs to explore the complementary nature of national, regional, and international IBF center formation to better understand and challenge the notion of what defines and characterizes Islamic financial centers.

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