



## **Islamic Economy In Malaysia: The Key To Success In Becoming A World Center of Islamic Finance**

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### **ABSTRACT**

Malaysia's success in building a strong Islamic economic system and making it the world's Islamic financial center. Through a literature study and policy analysis approach, this article describes the key factors that support this transformation. Malaysia in making itself the world's Islamic financial center cannot be separated from the synergy between government policies alone but also all other stakeholders such as supporting institutional infrastructure, modern Islamic financial products and innovations, international partnership strategies, and also quality education and human resources. The results show that Malaysia has succeeded in integrating Islamic principles into the national financial system strategically and progressively.

**Keywords:** *Islamic Economics, Malaysia, World Islamic Financial Center.*

### **INTRODUCTION**

Islamic economics is an economic system based on Sharia principles, such as the prohibition of usury, gharar, and gambling (maisir), and encourages the equitable distribution of wealth. According to Chapra (2000), Islamic economics emphasizes a balance between material and spiritual needs, as well as social justice. Islamic economics has experienced significant development along with the increasing awareness among Muslims of the importance of an economic system that complies with Sharia (Zakaria et al., 2025). Institutional theory is also relevant in this context, as the successful implementation of Sharia economics

depends heavily on the institutions that support it. Sharia economics has become a subject of increasing interest in the developing world. Sharia economics refers not only to a financial system that complies with Islamic teachings, but also to a concept that encompasses the principles of justice, sustainability, and financial inclusion. Essentially, Islamic economics is an economic system based on Islamic principles, including the prohibition of *riba* (usury), excessive speculation, and investment in illicit industries such as alcohol and gambling. (Hakim & Nisa, 2024).

The state has the authority to establish regulatory frameworks that will support and protect economic growth and activities. In human life, the government has a responsibility to enforce regulations to ensure the welfare of its people. Financial governance is the government's responsibility and is a crucial part of economic life because it is closely related to a country's ability to achieve its goals and prosperity. A country is considered prosperous if it has a sound and well-organized economic system, resource availability, advanced technology, efficiency, culture, and human quality. (Nida'ul Haque, 2022).

Malaysia has a long history of developing regulations for the Islamic financial industry (Pramesti & Nisa, 2024). Clear and robust regulations have played a crucial role in establishing Malaysia as a global leader in the Islamic financial market. This has attracted investors and financial institutions from around the world to the industry. By creating innovative and inclusive regulations, providing incentives to businesses that adhere to sustainability principles, and strengthening the role of Islamic economics in fiscal policy and development processes, the government can encourage the growth of Islamic businesses in Malaysia (Akhyar, 2023).

Malaysia has been recognized as a pioneering country in implementing a modern Islamic economic system. This began with the presence of Islamic banking as an ethical financial institution, based on the Quran and Hadith. A major milestone in the establishment of Islamic banking was the establishment of the Muslim Pilgrims Savings Corporation in Malaysia in 1983, aimed at assisting those who wanted to save for the Hajj pilgrimage. With strong government support and a robust institutional structure, the country has emerged as a respected model for the Islamic economy globally. This article aims to analyze how Malaysia achieved this status and the keys to its success that can serve as examples for other countries.

## **METHOD**

This article uses a qualitative method with a literature-based approach to study and understand the complex aspects of the Islamic economic development

strategy in Indonesia. For this research, the primary data sources used are scientific journals related to Islamic economics in Indonesia. These journals were chosen as data sources because they provide detailed and academically validated information, encompassing the latest research ideas and findings in the field. To support the analysis of the Islamic economic development strategy in Indonesia, these data sources provide a strong theoretical foundation (Millah et al., 2025). The qualitative approach aims to analyze the Islamic economy in Malaysia as a key to its success in becoming a global Islamic financial center.

## RESULTS AND DISCUSSION

Malaysia has many ethnicities and many people belonging to various religions. The population is 58% Muslim, 8% Hindu, 24% Christian, and 10% others. However, the official state religion is Islam. Therefore, it is the responsibility of the Malaysian government to support the development of Islamic financial institutions that are in accordance with the Islamic religion practiced by the country and the majority of its population. Therefore, Malaysia has established a dual economic system and established an Islamic banking and financial system since 1983 (Darma, 2021).

Malaysia was the first country to introduce an Islamic banking system in Southeast Asia with the establishment of Bank Islam Malaysia Berhad in 1983, following the enactment of the Islamic Banking Act No. 276 of 1983. Ten years later, on March 4, 1993, Bank Negara Malaysia launched a scheme known as the "Interest-Free Banking Scheme," which allowed conventional banks to offer Islamic banking products through their Sharia-compliant business units. This policy encouraged many conventional banks to open Sharia-compliant business units, and a number of Muslim scholars were appointed as members of their Sharia-compliant committees (Sharia Supervisory Boards) (Saputra & Fasa, 2024).

Malaysian Islamic banking has emerged as a leader in the Islamic financial industry in Southeast Asia over the decades and continues to expand to meet global industry demand. Product innovation is also a key focus for Malaysian Islamic banking. History shows that Islamic transactions have been conducted in Malaya since the early 16th century, and the development of an Islamic economic system in Malaysia will involve Islamic transaction principles (Lesmita Sari et al., 2024).

The following are several key factors contributing to the success of Malaysia's Islamic economy as a global Islamic financial center:

## A. Regulatory and Government Support

The Malaysian government plays a leading role in the development of the Islamic economy. Laws and regulations such as the Islamic Financial Services Act 2013 (IFSA) and the establishment of the National Shariah Supervisory Board provide legal certainty for industry players. The Islamic Banking Act, enacted in 1983, regulates both fully Islamic banks, also known as "full-fledged" Islamic banks, and conventional banks offering Islamic banking services. With the amendments to the laws governing them, the operation of fully Islamic banks has become easier than that of Islamic windows, especially in terms of the implementation of Shariah law. Furthermore, the Islamic Banking Act of 1983 remains under the jurisdiction of civil courts as it is a civil law (Darma, 2021).

Bank Negara Malaysia (BNM) and Suruhanjaya Sekuriti Malaysia actively adopt and contribute to the development of international standards such as those of the IFSB and AAOIFI. This strengthens Malaysia's legitimacy as a global leader in Islamic regulation.

## B. Established Institutional Infrastructure

Malaysia has leading institutions supporting the Islamic finance industry, such as: Bank Negara Malaysia (BNM) as the primary regulator; INCEIF (International Centre for Education in Islamic Finance) for human resource development; I-FIKR and ISRA for Islamic economic research; and Bursa Malaysia-i as the Islamic stock exchange. According to (Frita et al., 2021), a robust legal infrastructure enables an effective adjudication forum for legal remedies arising from disputes over Islamic finance transactions. This is a crucial component in maintaining the continued growth of the Islamic financial industry, both locally and internationally.

The Malaysian government continues to make serious efforts to accelerate the growth of the Islamic banking industry. The enactment of the Central Bank Act (CBA) in 2009 demonstrates the Malaysian government's commitment to establishing the country as a global Islamic banking hub (Majid, 2014).

## C. Islamic Financial Products and Innovation

Malaysia continues to innovate in Islamic financial products, including sukuk, takaful, and Islamic fintech. Malaysia has also been the world's largest sukuk issuer since the early 2000s. Malaysia is a pioneer in the development of the global Islamic capital market. Since the 1990s, the country has been actively developing an Islamic financial ecosystem through the significant role of the Securities Commission Malaysia (SC Malaysia), which strictly regulates and develops the industry, including the issuance of a list of Islamic

securities. According to a report by SC Malaysia (2023), more than 60% of Malaysia's stock market capitalization comes from Sharia-compliant stocks (Permana et al., 2024).

Beyond the capital market, Malaysia's success in Islamic fintech is exemplary. Fintech, short for Financial Technology, is a breakthrough in the economic sector that utilizes technology to provide easier and more modern financial services. Islamic fintech offers a variety of financial products and services that align with Islamic values, such as Islamic investments, digital zakat, and Islamic financing. With 200 fintech companies operating in Malaysia in 2020, the Malaysian fintech market is growing rapidly, making it one of the fastest-growing Southeast Asian countries. Their proactive approach has created a conducive environment for fintech development and fostered competition in the financial sector. Malaysia provides an inspiring example of how a country can advance Islamic fintech and become a global leader in this field (Pramesti & Nisa, 2024).

#### D. Internationalization Strategy

Malaysia has successfully positioned itself as a global Islamic financial center through various international strategies implemented by its financial institutions. Through the Malaysia International Islamic Financial Centre (MIFC), supported by strategic government policies and private sector initiatives, Malaysia is fostering cross-regional cooperation and establishing globally recognized standards. Through the Malaysia International Islamic Financial Centre (MIFC), Malaysia is promoting Islamic finance globally, establishing partnerships with the Middle East, Africa, and ASEAN countries.

The Malaysia International Islamic Financial Centre (MIFC) was established as a means to connect the Malaysian Islamic financial market with the international community. Through fiscal incentives, flexible regulations, and active promotion, the MIFC has successfully attracted numerous global investors and institutions. The MIFC employs a number of tactics to enhance Malaysia's position in the global Islamic finance sector:

##### 1. Public-Private Sector Partnerships

The MIFC collaborates with financial institutions such as Bank Negara Malaysia and the Securities Commission Malaysia, as well as with players from the banking, takaful, and capital markets sectors. This collaboration creates a supportive environment for the overall development of Islamic finance.

## 2. Development of Facilities and Regulations

Malaysia has created a legal and regulatory system that supports the development of innovation in Islamic financial products, such as sukuk and Islamic financial technology.

## 3. International Collaboration

The MIFC is actively developing partnerships with countries in the Middle East, Africa, and ASEAN to increase access to Islamic finance and strengthen Malaysia's position as a regional hub.

## 4. Establishment of the MIFC Leadership Council (MLC)

In 2022, the MLC was established to guide the next phase of Islamic finance growth in Malaysia, with an emphasis on innovation, international relations, and thought leadership.

Through bilateral and multilateral cooperation, Malaysian financial institutions foster the exchange of financial technology, human resources, and access to the international sukuk market. This is to meet the needs of global investors seeking Sharia-compliant instruments. Malaysia now has five international Islamic banks and over 17 domestic Islamic banks operating there. These foreign Islamic banks include Asian Finance House, Kuwait Finance House, and Al-Rajhi Bank (Maulana Syarif Afwa & Sulistyowati, 2023).

## E. Education and Quality Human Resources

The success of the Islamic economic system in Malaysia is supported by professional and competent human resources in the fields of sharia and finance, thanks to higher education institutions such as INCEIF, IIUM, and USIM. One of the most important demographics in the advancement of Islamic banking is the younger generation. According to (Saputra & Fasa, 2024), the younger generation expects fast and clear service.

Consequently, Islamic banking must adapt to these changing preferences to remain relevant and attract new clients. The success of the Islamic economic system in Malaysia is supported by professional and competent human resources in the fields of sharia and finance, thanks to higher education institutions such as INCEIF, IIUM, and USIM.

### 1. INCEIF University

Founded by Bank Negara Malaysia in 2005, INCEIF (International Centre for Education in Islamic Finance) is the world's only higher education institution dedicated entirely to postgraduate programs related to Islamic finance. Its primary focus is to enhance human resources and knowledge leadership for the Islamic finance industry globally.

INCEIF offers a variety of educational programs, including the Chartered Islamic Finance Professional (CIFP), Master's, and PhD degrees in Islamic finance. The curriculum is designed with the involvement of sharia experts and industry players, ensuring that graduates possess a strong blend of theory and practice.

2. International Islamic University Malaysia (IIUM)

IIUM, the International Islamic University of Malaysia, was established in 1983 with the aim of integrating Islamic values into all academic disciplines. The university offers undergraduate and postgraduate programs in various fields, including Islamic economics and finance. IIUM's programs are designed to produce professionals who are not only technically proficient but also have a solid understanding of Sharia principles. For example, the Bachelor of Finance (Islamic Finance) program emphasizes the importance of integrating Islamic values into every subject.

3. Universiti Sains Islam Malaysia (USIM)

USIM, recognized as a university in 2007, aims to integrate Islamic studies into the broader national education system. The university emphasizes Arabic and English language skills, as well as the application of information technology in education and research. In this way, USIM plays a role in producing graduates who are ready to face the challenges of the contemporary Islamic finance industry while remaining Sharia-compliant. Overall, the existence of higher education institutions such as INCEIF, IIUM, and USIM is crucial in developing the Islamic finance ecosystem in Malaysia. Through various educational and training programs, Malaysia has successfully created human resources who are not only professionally skilled but also possess integrity and a deep understanding of Sharia, supporting the growth and sustainability of the Islamic finance industry both nationally and globally.

F. Challenges and Opportunities

Despite its numerous achievements, Malaysia still faces challenges such as: increasing Sharia financial inclusion; global competition from other countries such as Saudi Arabia and the UAE; and strengthening Islamic economic literacy among the public. However, with a strong foundation and the right strategy, Malaysia has the potential to continue being a pioneer in shaping the global Islamic economic landscape. The following are some key issues and opportunities that can be utilized as challenges in managing Sharia finance in Malaysia:

### 1. Expanding Access to Sharia Finance

Despite significant progress, public access to Sharia financial services still needs to be improved, especially among low-income communities and in remote areas. Research shows that a low level of understanding of Islamic finance can hinder public participation in the Islamic financial system.

### 2. International Competition from Other Countries

Countries such as Saudi Arabia and the United Arab Emirates (UAE) continue to increase their presence in the Islamic financial sector, with significant Islamic financial assets. For example, the UAE has Islamic financial assets reaching US\$95 billion, making it a significant competitor to Malaysia in the international market.

### 3. Improving Islamic Economic Literacy in Society

The public's level of knowledge regarding Islamic financial principles and products still needs improvement. This lack of understanding can impact personal financial choices and hinder the development of the Islamic financial sector.

The opportunities for Islamic financial management in Malaysia are as follows:

#### 1. A Robust Islamic Financial System

Malaysia is equipped with infrastructure and regulations that support the expansion of Islamic finance, including institutions such as Bank Negara Malaysia and the Securities Authority of Malaysia, which play an active role in creating Sharia-compliant financial products and services.

#### 2. Innovation in Islamic Finance

The creation of new Islamic financial products, such as sukuk and Islamic financial technology, creates opportunities for Malaysia to expand its market and attract investors from around the world. This also supports sustainable development goals and financial inclusion.

#### 3. Enhanced International Cooperation

By strengthening international cooperation and supporting Islamic financial standards worldwide, Malaysia can broaden its appeal and contribute significantly to regulating Islamic finance globally.

According to (Zakaria et al., 2025), collaboration between business actors, government, and academic institutions is crucial to creating a more inclusive and sustainable Islamic economic ecosystem. Technological innovations such as halal blockchain, artificial intelligence (AI) in Islamic data analysis, and the use of big data for Muslim market segmentation are

some strategies that can be adopted to address the challenges of the digital era. With a strategic, data-driven approach, the opportunity to strengthen the position of the Islamic economy in the global market is enormous. The role of digitalization can be a bridge for the Islamic economy to become more competitive and inclusive, provided it is accompanied by regulatory support, adequate digital literacy, and strengthening of Sharia-based innovation.

## CONCLUSION

The role of government and regulators is crucial in supporting the development of the Islamic economy in the digital era. Clear regulations and support for innovation are necessary to create a conducive environment. Malaysia's success in establishing itself as a global Islamic financial center is inseparable from the synergy between government policies alone and all other stakeholders, such as supportive institutional infrastructure, modern Islamic financial products and innovations, international partnership strategies, and quality education and human resources.

Making Malaysia's Islamic economy today is key to the success of the global Islamic financial center. Other countries, such as Indonesia, can emulate Malaysia's comprehensive approach as a model for developing a sustainable and inclusive Islamic economic system.

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