

N. ALASGAROVA, Senior Researcher

MALAYSIA IN THE GLOBAL ISLAMIC ECONOMY: DEVELOPMENT PATH AND POSITION

Abstract. Malaysia is one of the countries where the Islamic economy has successfully developed as a dualistic model. From the adoption of the first Islamic banking law in 1983 to the present, Malaysia has become one of the world's leading countries in this field. In addition to the historical development of the Islamic financial system of Malaysia, the article discusses the main development characteristics of sectors such as halal industries such as halal food, tourism, fashion, pharmaceuticals, and cosmetics. In addition, the position of Malaysia in the World Islamic economy was analyzed based on international reports. As a result of the research, it can be said that the support programs and strategies implemented by the state in Malaysia, the creation of a legal framework, the application of a single standard, the promotion of cooperation between research institutes and SMEs, and the provision of financial access played an important role in the development and internationalization of halal industries. As a result, today Malaysia is one of the leading countries in the top three in the main indicators of the Islamic economy.

Keywords: Malaysia, Islamic Finance, Halal Industry, Islamic Banks, Halal Standard.

INTRODUCTION

Today, Muslims live in many countries of the world. Therefore, the interest in financing products by Sharia principles is increasing the demand for Islamic financial institutions and banks in many countries. The Malaysian experience is noteworthy because the country has successfully developed its Islamic economy and maintained a global leadership position for many years.

Malaysia is a Southeast Asian country with a population of 33,42 million people. The state structure of Malaysia is a constitutional monarchy. From an economic point of view, Malaysia is an intensively developing agro-industrial country. The processing industry is the most dynamically developing industry. In agriculture, however, the production of technical plants is preferable.

Malaysia is also one of the countries where the Islamic economy is developing rapidly. International reports and statistics show that Malaysia currently has a share of importance in the global Islamic economy. Here, Islamic finance (especially Islamic banks) functions as an alternative system to the traditional banking system. Having passed several stages of development, Islamic banks have contributed to the economic development of the country by having a positive impact on the financial system. In particular, the role of Islamic banks in the development and financing of SMEs is great and is considered more effective. Also in Malaysia, halal is widely used in food, tourism, fashion, pharmaceuticals, cosmetics, etc. as halal industries are also developing day by day. This, in turn, increases the demand for Islamic finance.

LITERATURE REVIEW

The successful development of the Islamic economy in Malaysia has attracted the attention of many researchers. Studying the Malaysian experience as an advanced practice, and identifying its main features, is advisable for many beginning countries. The research is mainly devoted to the development of Islamic finance, Islamic banking, and halal industries in Malaysia. We can name the researchers who researched this topic, M. Majid, S. H. Kassim, I. M. Gani, Z. Bahari, S. Kunhibava, I. A. Zaripov, A. S. Lagunov, etc. It is also known that Malaysia is also leading in the field of halal standardization. Z. Samori, A. H. Ishak, F. R. Azmi, H. Moses, S. Man, N. Pauzi describe the Malaysian halal standard, its advantages, and disadvantages compared to other halal standards, etc. they are one of those researchers who study.

Studies on the development and growth rate of the Islamic economy in Malaysia are also included in the studies and reports of many international organizations.

The main purpose of this research work is to investigate the position of Malaysia, which has a significant share in the global Islamic economy, and to identify its main features.

Stages of development of the Islamic financial industry in Malaysia. Malaysia developed its own approach to the Islamic financial industry's growth, leading to its current success. The current level of development of the Islamic financial system in the country has been achieved thanks to the contribution of each industry entity, including Bank Negara Malaysia (BNM) [1].

This holistic approach can be divided into several stages (**Table 1**).

With the adoption of the new law on Islamic finance in Malaysia in 2013, the previous laws on Islamic banking and takaful in 1983–1984 were abolished. The main purpose of the new law was to set the stage for Malaysia's financial system to become a thriving and progressive system. The IFI provides protection of the rights of Islamic financial services customers in the country, prevention of injustice and abuse, differentiation of commercial and Islamic banks, etc. which was the main concern of the government [1].

In addition to the new law, a two-level Sharia system of government was created in Malaysia in 2011. This system included both the Sharia Council under the Central Bank and the Sharia committees formed within each Islamic financial institution. The functioning of the Sharia Council allows the presence of qualified specialists and consultants on Sharia and Islamic finance in the country [1].

The BNM had defined a development path, taking into account the need to strengthen infrastructure to support the future development of the Islamic financial industry on a global scale (**Figure 1**).

In general, one of the main goals his government sets is to achieve the potential that allows efficient and effective allocation of financial resources to support economic development and to ensure that the Islamic financial sector plays a prominent role in the region.

The regulatory structure of Islamic finance in Malaysia. The regulation of the Islamic financial system in the country is carried out by its specific Sharia rules, as well as the rules of the traditional system, in which it exists in parallel.

It should be noted that operators of Islamic financial institutions (banks) and Takaful in Malaysia are regulated by the Islamic Financial Services Council 2013 (IFSA 2013). As mentioned earlier, "IFSA-2013" replaced the laws on Islamic banks

Table 1

Stages of development of the Islamic financial industry in Malaysia

I stage (1983–1992 years)	II stage (1993–2000 years)	III stage (2001–2010 years)	IV stage (2011 present)
<ul style="list-style-type: none"> Since the Muslim population in the country did not want to use interest-based financing, it was necessary to establish an Islamic banking system by the state. The establishment of the first Islamic bank in Malaysia in 1983 paved the way for the establishment of many Islamic financial institutions, takaful, and capital markets. At this stage, several legislative acts regulating Islamic finance and Sharia-compliant state financing were adopted. During this period, the first full-fledged Islamic bank – Berhad Bank Malaysia, and the first takaful company – Syarikat Takaful Malaysia Berhad were launched. 	<ul style="list-style-type: none"> the Islamic legislative framework was further improved, including allowing the opening of Islamic windows in commercial banks. The second phase is also characterized by the formation of the Malaysian Association of Islamic banks in 1995, the National Shari'ah Advisory Council to develop Islamic banking and financial products/ services in 1997) and the Islamic interbank money market. In 1999 "Bank Muamalat" – the second Islamic Bank of Malaysia was launched 	<ul style="list-style-type: none"> the government had developed a four-stage strategy that would support the further development of the Islamic financial system. Also in 2002, the Islamic Financial Services Board was established to support the global development of Islamic financial products, to develop standards governing the Islamic financial industry, and to study the cross-border regulatory framework and best international practices. Another important event was the creation of the International Islamic Liquidity Management Corporation, which allows more effective management of liquidity not only for Islamic financial institutions but also for Islamic financial portfolios 	<ul style="list-style-type: none"> Malaysia has already become one of the leading countries with a developed Islamic financial system, which, according to Statistics, has achieved high results in a number of areas, such as sukuk market, Islamic funds, education and research

Source: Md Nor, Mohd Zakhiri and Mohamad, Ani Munirah and Yaacob, Hakimah (2016). The development of Islamic finance in Malaysia. Islamic Banking & Finance Principles, Instruments & Operations. CLJ Publication, p. 601–617.

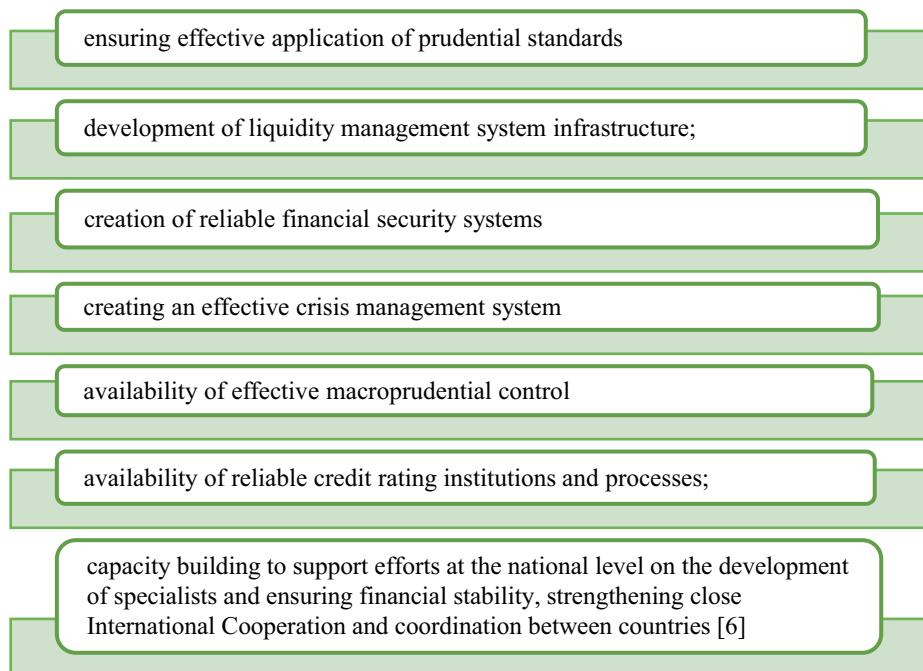


Figure 1. The development path of the Islamic finance industry

Source: Md Nor, Mohd Zakhiri and Mohamad, Ani Munirah and Yaacob, Hakimah (2016). The development of Islamic finance in Malaysia. Islamic Banking & Finance Principles, Instruments & Operations. CLJ Publication, p. 601–617.

in 1983 and Takaful in 1984. IFSA-2013 includes special provisions on the protection of consumer rights, in addition to regulating the work of Islamic banks, Islamic money and foreign exchange markets, and payment systems.

Also in Malaysia, the guiding principles for issuing licenses and securities to intermediaries in the Islamic capital market are carried out under the Malaysian Securities Commission (SC) and the law on capital markets and services [2].

Development of halal industries in Malaysia. One of Malaysia's advantages in the Islamic economy is the production of halal-certified products and the provision of services managed by the state corporation for the advanced halal industry.

The halal industry in Malaysia was established and developed in 1974 [3]. Today, according to

the "State of the Global Islamic Economy Report-2023/24", Malaysia ranks 1st in the country ranking for halal food and media and entertainment sectors.

One of the approaches applied in the country is to have a single halal standard and only halal certificates issued by JAKIM are accepted. In Malaysia, Jakim is responsible for issuing halal certificates, while Halal Development Corporation (HDC) is responsible for providing the necessary infrastructure to promote investment in the halal industry [4].

According to HDC, the main areas of halal industry in Malaysia have developed (**Figure 2**).

In Malaysia, various programs are implemented by HDC for the development of halal industries. Also, the establishment of halal industrial parks (HALMAS) by HDC is one of the measures taken

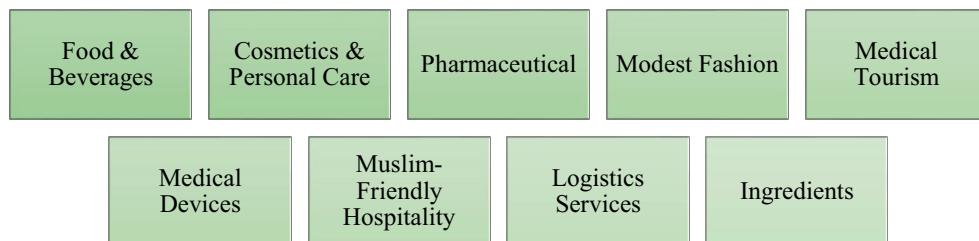


Figure 2. Malaysia's halal industry sectors

Source: HDC Berhad. Retrieved from: <https://hdcglobal.com/promoted-sectors/>.

to help the development of the halal industry in the country. According to HDC data, there are currently 295 businesses operating in 22 halal parks in Malaysia (14 of which include HALMAS, the rest are operating as industrial zones), of which 42 or 14,3 % are multinational corporations, 253 or 85,7 % are local corporations. To increase the attractiveness of Halal parks, the Malaysian government is introducing various tax incentives for the production of halal products [5].

It is known that one of the integral parts of industrial production is logistics services. For this purpose, Malaysia has also developed halal logistics services, which include processing, storage, delivery, warehousing services, air, automobile, and container transportation.

In addition to the above, the Halal Industry Master Plan 2030 (HIMP 2030) has been developed to support the comprehensive development of the Halal industry in Malaysia. HIMP-2030 focuses on key strategic directions, the main goal of which is to promote the growth, development, and internationalization of the local Halal industry [6].

According to the indicators of 2023, the volume of Malaysia's halal exports is estimated at 44,17 billion RM. A similar indicator was 59 billion RM in 2022, and 30,3 billion RM in 2021. Also, the main share (about 80 %) in exported halal industrial products is food and beverages, ingredients, as well as non-food products such as pharmaceu-

ticals and cosmetics [7]. It should be noted that the main export destination of Malaysia is China.

Malaysia's position in the global Islamic economy. According to the ICD — LSEG Islamic Finance Development Report 2024 (IFDI 2024), the volume of In 2023, Islamic financial assets were — 4,9 trillion US dollars, showing an 11 % growth rate despite global tensions and negative factors. In particular, if we look at the time interval of 2012–2022, we can see that Islamic financial assets showed a growth rate of 163 %. Also, according to the forecasts of the report, the volume of Islamic financial assets in 2028 is expected to be 7,5 trillion US dollars [8]. The dynamics of global Islamic finance are presented below (**Figure 3**):

If we look at the distribution of Islamic financial assets by sector in **Table 1**, we can see that the volume of Islamic banks, which currently have a 72 % share, has increased by 10 % over 149 years to 3,4 trillion US dollars. This growth rate continued in 2023. Thus, Islamic banking assets, which showed a 12 % increase, were valued at 3,6 trillion US dollars. According to forecasts, this indicator is expected to be 5,2 trillion US dollars by 2028. According to statistical indicators, 618 Islamic banks operate in 2023 (**Figure 4–5**) [8].

Iran, Saudi Arabia, and Malaysia are among the top three countries in the 2023 distribution of Islamic financial assets. These three countries

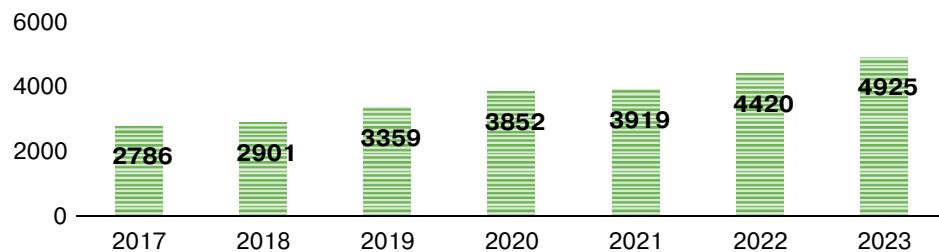


Figure 3. The volume of Islamic financial assets, USD billion

Source: ICD — LSEG Islamic Finance Development Report 2024.

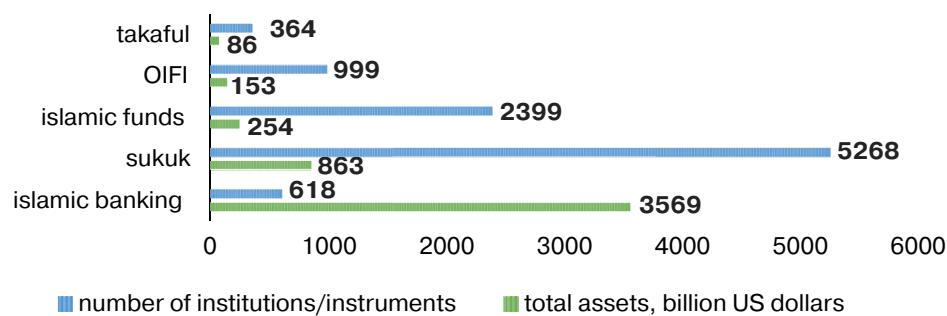


Figure 4. Distribution of Islamic financial assets by sector (2023)

Source: ICD — LSEG Islamic Finance Development Report 2024.

account for 71 % of the total Islamic financial assets (**Figure 6**):

It is known that religion in Iran and Saudi Arabia is an important factor in public administration. Iran is an Islamic State, the financial system has completely transformed into a system by the principles of Sharia. Saudi Arabia is also an Islamic State and the Holy Quran plays the role of the Constitution. However, unlike Iran, the country's banking sector consists of commercial banks and Islamic banks. In Malaysia, however, religion is not mandatory in statehood and Islamic banks function as an alternative system to the traditional banking system.

Since the object of study is Malaysia, the volume of Malaysia in the global Islamic financial market according to the indicators for 2023 is presented in the following diagrams (**Figure 7–12**):

As you can see from the charts, Malaysia ranks 3rd in the world in terms of global Islamic financial assets, Islamic banking assets, takaful, Islamic funds, Islamic Fintech, and first in terms of Sukuk and OIFI assets.

After analyzing the current state of the Islamic financial industry, let's take a look at

country indices and international ratings in this area. ICD-LSEG Islamic Finance Development Report 2024 (IFDI) annually publishes the rating of Islamic Finance Development Indicator (IFDI)

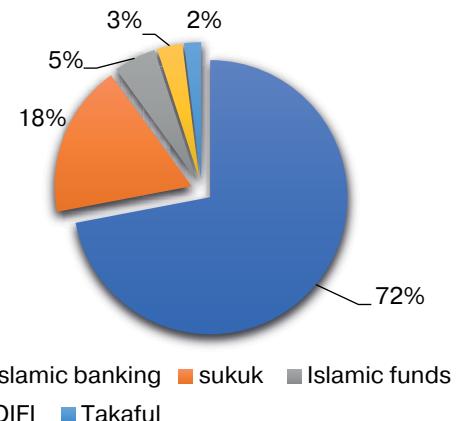


Figure 5. Share of Islamic financial assets by sector (2023)

Source: ICD — LSEG Islamic Finance Development Report 2024.

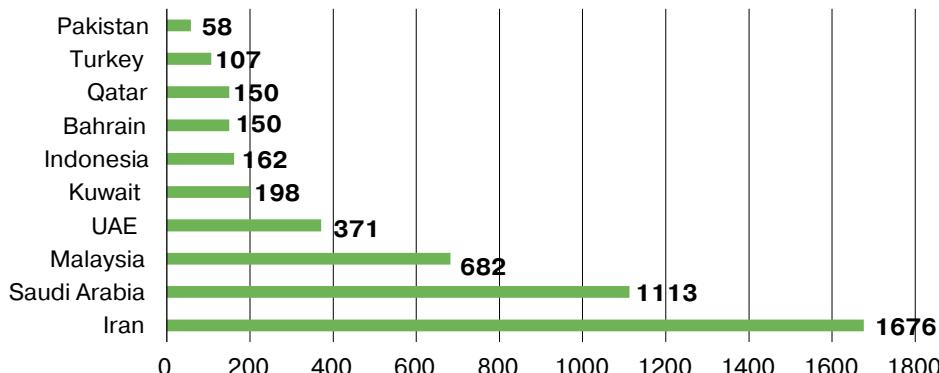


Figure 6. Leading countries by volume of Islamic financial assets in 2023, billion US

Source: ICD — LSEG Islamic Finance Development Report 2024.

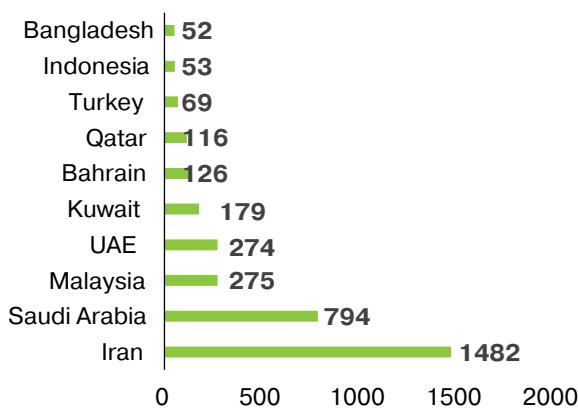


Figure 7. Leading countries in Islamic assets, billion US dollar

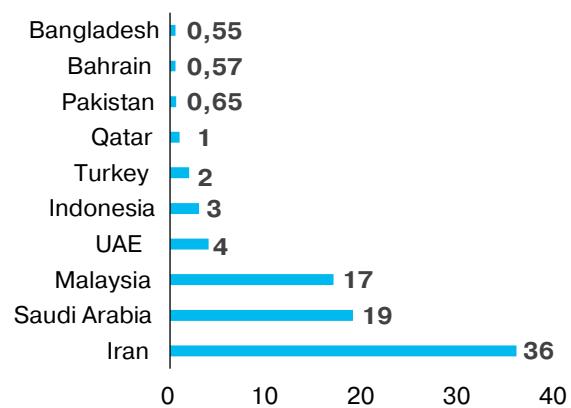


Figure 8. Leading countries in Takaful bank assets, billion US dollar

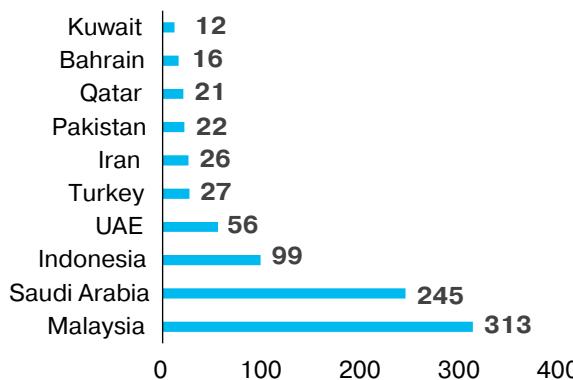


Figure 9. Leading countries by sukuk value, billion US dollar

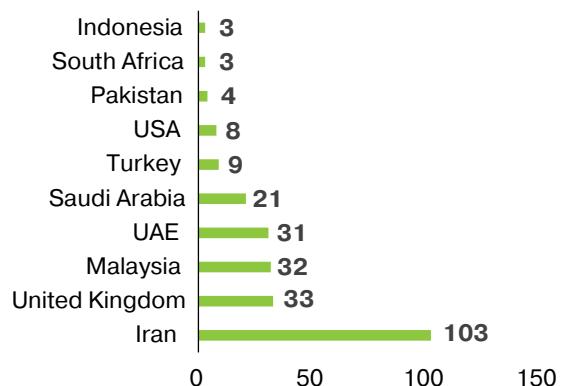


Figure 10. Leading countries on Islamic funds (AuM), billion US dollar

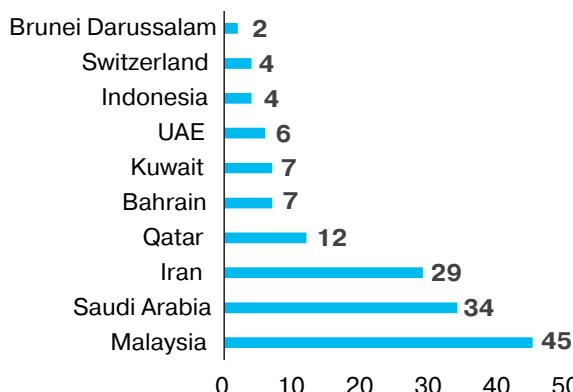


Figure 11. Leading countries in OIFIs assets, billion US dollar

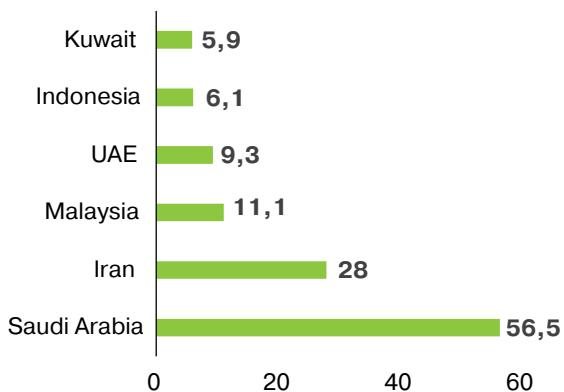


Figure 12. Leading countries in Islamic FinTech, billion US dollar

in 136 countries (**Table 2**). IFDI measures changes in indicators and their main components in different countries over time. Indicators considered in IFDI 2024 — financial performance, management, sustainability, knowledge, and awareness [8].

As can be seen from the table, Malaysia is the leader among the countries in IFDI 2024. It ranks first in 4 of 5 indicators (financial performance, governance, sustainability, and awareness) and second in knowledge. However, while Malaysia scores well on the knowledge indicator, Indonesia is further ahead in this area. Saudi Arabia is second only to Malaysia in all indicators.

The purpose of the State of the Global Islamic Economy Indicator (GIEI), which is presented in the State Global Islamic Economy Report "2023/24", published by Dinar Standard, is to determine the leading national ecosystems in the Islamic economy. GIEI — Evaluating the activities of individual areas for more social liabilities, the Islamic economy is an index that measures the overall development of sectors. This includes 52 indicators grouped into five components for each of the six sectors of

the Islamic economy (Islamic finance, Halal Food, Muslim-friendly tourism, fashion, media/recreation, and Halal pharmaceutical) (**Table 3**) [9].

As can be seen from the table, Malaysia is a leader in 4 of the 6 indicators, and this has not changed compared to last year. It is possible to see the report of previous years when Malaysia has been maintaining GIEI leadership for 10 years. The second and third places are occupied by Saudi Arabia and Indonesia. Compared to the previous year, the rise in the position of Indonesia, and Turkey's decline was observed. According to the report, South Africa fell to Top-15 this year, but Kazakhstan has left.

One of the pressing issues in the halal industry is the standardization process. Malaysia managed to be the first in this field as well. So, currently, SMIIC, Malaysia (JAKIM), Indonesia (MUI), and Singapore (MUIS) standards are considered to be the main halal standards in the world. According to statistics, in 2020, JAKIM accreditation was obtained by 85 halal certification bodies with a maximum number in 47 different countries (**Figure 13**) [10].

CONCLUSION

Malaysia is one of the countries where Islamic finance is successfully developing as a dualistic model. Looking at the global scale, it can be seen that from year to year Malaysia, while maintaining its leading position, is confidently moving forward. According to international reports, it can be said that Malaysia is among the top three in global Islamic finance. Based on country ratings, Malaysia has maintained its leadership for years.

Malaysia has achieved significant development not only in Islamic finance but also in other halal industries such as halal food, halal tourism, media and entertainment, pharmaceuticals, and cosmetics. This can also be seen in the GIEI index.

The reason for the development and growth of halal industries in the country is the support programs provided by the state, the implementation of strategies, the creation of a legal framework, the introduction of a single standard, etc. it can be shown. One of the issues that is given special attention in Malaysia is the provision of financial inclusion. Malaysia is implementing microfinance and loans for SMEs to support young entrepreneurs and low-income populations and facilitate their access to financial services. One of the steps to developing the halal industry in Malaysia is to promote cooperation and commercialization of

Table 2
The development indicator of Islamic finance in countries

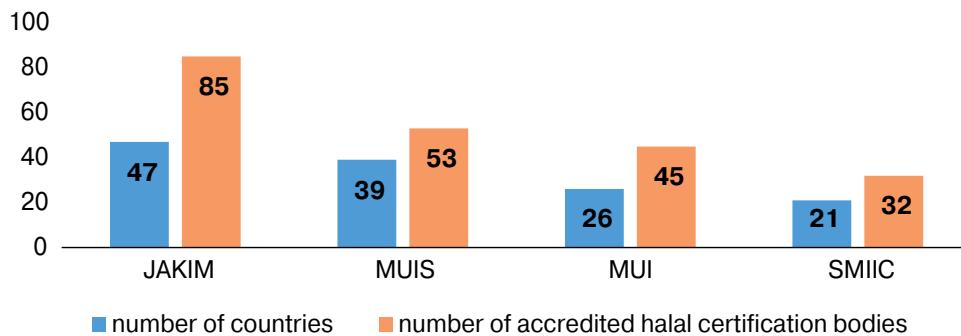
Countries	Rank	IFDI-2024
Malaysia	1	144
Saudi Arabia	2	119
UAE	3	88
Indonesia	4	85
Pakistan	5	75
Kuwait	6	70
Bahrain	7	68
Iran	8	65
Qatar	9	45
Turkey	10	45
Bangladesh	11	41
Oman	12	35
Brunei Darussalam	13	29
Jordan	14	29
Nigeria	15	28

Source: ICD-LSEG Islamic Finance Development Report 2024.

Top 15 Global Islamic Economic Indicators

Countries	GIEI	Islamic finance	Halal food	Tourism	Fashion	Media and entertainment	Pharmacy and cosmetics
Malaysia	193.2	408.7	128.0	99.4	73.6	74.4	73.9
Saudi Arabia	93.6	194.9	48.5	99.7	34.3	37.5	34.3
Indonesia	80.1	93.2	94.4	60.7	66.3	52.4	58.6
All	79.8	115.7	59.2	136.2	51.3	44.5	41.3
Bahrain	75.0	125.1	55.0	88.1	33.4	49.6	38.5
Iran	74.6	159.8	41.2	65.7	20.5	24.2	33.1
Turkey	74.0	46.1	85.1	161.8	86.2	46.0	52.6
Singapore	62.7	52.2	67.7	50.3	64.3	72.6	79.9
Kuwait	60.2	123.6	42.2	28.7	20.0	26.8	29.2
Saddle-maker	57.1	74.4	49.7	60.4	37.4	63.3	37.2
Jordanian	52.2	65.6	49.4	88.3	22.1	26.3	39.9
Oman	50.0	78.7	48.3	48.0	20.1	24.4	26.3
Pakistan	47.5	69.6	51.4	38.4	27.5	17.2	28.6
South Africa	44.7	51.1	53.8	25.3	32.4	31.9	43.2
UK	44.7	46.0	43.7	28.1	47.7	54.4	48.2

Source: State of The Global Islamic Economy Report 2023/24.

**Figure 13.** Global recognition of halal standards

Source: Halal Standards Globally: A Comparative study of unities and diversities among the most popular halal standards globally.

research results between agencies, research institutes, and SMEs.

Malaysia also strives to become the world's leading halal research and Development Center. To achieve this goal, Malaysia holds the World Halal Research (WHR) Summit, an international platform for intellectuals to exchange views on new research results, new technologies, trends, challenges, and challenges emerging in the global halal industry [11].

Thus, Malaysia has achieved significant achievements in many sectors of the Islamic economy. For this reason, it may be advisable to study the Malaysian experience in more depth and use it as best practice in the development of halal industries in our country.

REFERENCES

1. Zakhiri, M. Md Nor, Mohamad, A. M., & Yaacob, H. (2016). The Development of Islamic Finance in Malaysia. *Islamic Banking and Finance: Principles, Instruments & Operations*. P. 601–617.
2. (2020). Malaysia: Islamic Finance & Financial Inclusion. International Bank for Reconstruction and Development. *The World Bank*. P. 50–51.
3. World Halal Week 2016 (WHW 2016). *Ministry of Investment, Trade and Industry*. Retrieved from: <https://www.miti.gov.my/index.php/pages/view/3195>.
4. JAKIM halal certification & consultancy in Malaysia. *Mandreel Malaysia*. Retrieved from: <https://www.mandreel.com/malaysia/jakim-halal-certification-consultancy/>.
5. Official Website of the Malaysian Industrial Development Authority. Retrieved from: <https://www.mida.gov.my/mida-news/malaysian-halal-parks-record-rm200-mln-increase-in-direct-investment/>.
6. Halal Industry Master Plan 2030. *Ministry of Investment, Trade and Industry*. P. 6.
7. Malaysian halal export reach RM44.17 Bln. as of October 2023. *BERNAMA Malaysian National News Agency*. Retrieved from: <https://www.bernama.com/en/news.php?id=2253006#>.
8. ICD — LSEG Islamic Finance Development Report 2024: From Niche to Norm. Retrieved from: <https://www.zawya.com/en/economy/islamic-reports/islamic-finance-development-report-2024-from-niche-to-norm-pwqeoqow>.
9. State of the Global Islamic Economy Report 2023/24. Dinar Standart, P. 64–67.
10. Siddique, E. Azam, & Abdullah, Moha Asri (2021). Halal Standards Globally: A Comparative study of unities and diversities among the most popular halal standards globally. *Halalsphere*. 1 (1), 11–31.
11. Omar, S. bin Syed Agil, & Mohd, Zahrain Bin Mohd Nor (2012). Positioning the Halal Food Industry: The Case of Malaysia. *NIDA Case Research Journal*. 4 (2), 157–172.

Н. АЛАСГАРОВА, С. Н. С.

МАЛАЙЗІЯ У СВІТОВІЙ ІСЛАМСЬКІЙ ЕКОНОМІЦІ: ШЛЯХ РОЗВИТКУ ТА СТАНОВИЩЕ

Резюме. Малайзія є однією з країн, де ісламська економіка успішно розвивалася за принципом дуалістичної моделі. З моменту прийняття першого закону про ісламський банкінг у 1983 р. і донині Малайзія є однією з провідних країн світу в цій галузі. Okрім історичного розвитку ісламської фінансової системи Малайзії, у статті розглянуто головні характеристики розвитку таких секторів, як халляльна індустрія, халляльна їжа, туризм, мода, фармацевтика та косметика. На основі міжнародних звітів було проаналізовано становище Малайзії у світовій ісламській економіці. Автор дійшов висновку, що програми підтримки та стратегії, які реалізуються державою щодо створення правової бази, застосування єдиного стандарту, сприяння співпраці між науково-дослідними інститутами та малих і середніх підприємств, а також надання фінансового доступу, відіграли важливу роль у розвитку та інтернаціоналізації халляльної індустрії. У результаті цього сьогодні Малайзія входить до трійки лідерів за головними показниками ісламської економіки.

Ключові слова: Малайзія, ісламські фінанси, халляльна індустрія, ісламські банки, халляльний стандарт.

INFORMATION ABOUT THE AUTHOR

Alasgarova Nigar — Senior Researcher, Economic Scientific Research Institute of Azerbaijan Republic Ministry of Economy, 196, Hasan Bey Zardabi avenue, Baku city, Yasamal district, AZ1122; nigar.alasgerova@gmail.com; +994505785033; ORCID: 0000-0002-0506-229X

ІНФОРМАЦІЯ ПРО АВТОРА

Аласгарова Нігар — с. н. с., Науково-економічний інститут Міністерства економіки Азербайджанської Республіки, Баку, Ясамальський район, просп. Гасана бея Зардабі, 196, AZ1122, nigar.alasgerova@gmail.com; +994505785033; ORCID: 0000-0002-0506-229X



**ШАНОВНІ ПРЕДСТАВНИКИ ЗАКЛАДІВ ВИЩОЇ ОСВІТИ
ТА НАУКОВИХ УСТАНОВ, НАУКОВЦІ, ВИНАХІДНИКИ!**

В УкраїНТЕІ впроваджено послугу **“Комплексне інформаційне обслуговування”**. Це актуальнна і систематизована інформація з питань трансферу технологій, науково-технічного та інноваційного розвитку, що надсилається в онлайн-режимі і призначена для здійснення наукової та інноваційної діяльності. Видання надсилаються протягом року згідно з вказаною на сайті Інституту періодичністю. До вашої уваги інформаційний пакет **“Комплексний”** (8 видань):

- фаховий журнал “Наука, технології, інновації”;
- інформаційний бюлетень “Дослідження, технології та інновації у Європейському Союзі”;
- дайджест новин “Наука, технології, інновації”;
- дайджест трансферу технологій;
- “Збірник рефератів дисертацій, НДР та ДКР”;
- “Бюлєтень реєстрації НДР та ДКР”;
- бюлєтень “План проведення наукових, науково-технічних заходів в Україні”;
- “Закони та підзаконні акти, директивні документи у сфері вищої освіти, науки, науково-технічної інформації, науково-технологічного та інноваційного розвитку України”.

КОНТАКТИ:

телефон (044) 521-00-39,

e-mail: uintei.ua@gmail.com, uintei.info@gmail.com

Детальніше на сайті УкраїНТЕІ: www.uintei.kiev.ua