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Why Malaysia should lead the ASEAN Islamic Finance Masterplan

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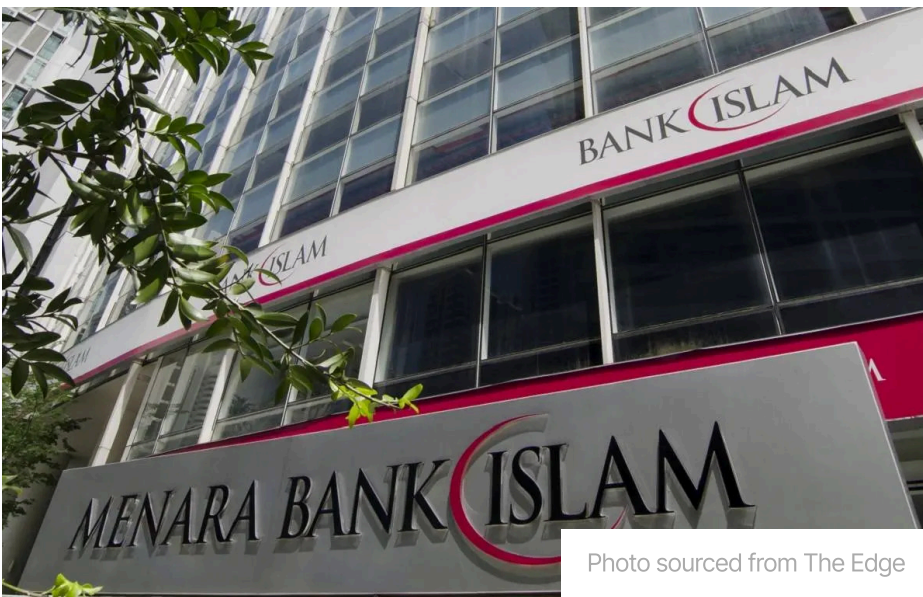


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By *Dr. Mohd Zaidi Md Zabri*



As Malaysia steps up to chair ASEAN in 2025, it has an ideal opportunity to shape the future of Islamic finance across Southeast Asia. With ASEAN's dynamic blend of cultures, economies, and religions, the region offers a fertile landscape for Islamic finance, with Indonesia being home to the largest Muslim-majority population in the world.



Notwithstanding, despite this potential, each ASEAN member currently navigates Islamic finance in isolation,

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resulting in uneven development, market fragmentation, and inconsistent standards.

A unified approach—spearheaded by a cohesive masterplan, tentatively named the “Islamic Finance Masterplan for ASEAN Collaborative Transformation” (or IMPACT)—could unlock ASEAN’s Islamic finance potential, estimated to reach nearly \$600 billion in assets by 2030 if nurtured effectively.

ASEAN already represents one of the fastest-growing regions in Islamic finance, driven by its large Muslim population and increasing demand for ethical finance products. This masterplan could make Islamic finance more accessible, resilient, and inclusive, addressing the financial needs of over 240 million Muslims in Southeast Asia and beyond.


With Malaysia’s recognized expertise and established infrastructure in Islamic finance, the country’s 2025 chairmanship presents a pivotal moment to champion this initiative. Starting with achievable, impactful strategies, Malaysia can set ASEAN on the path toward deeper regional cooperation.

Malaysia’s Role as ASEAN Chair: Leading with Vision

Malaysia has long been a leader in Islamic finance, offering a sophisticated ecosystem and a well-established regulatory framework that serve as global models.

With institutions such as the IIUM Institute of Islamic Banking and Finance and INCEIF University dedicated to advancing Islamic finance, along with influential Shariah Advisory Councils (SAC)—such as the SAC of Bank Negara Malaysia and the SAC of the Securities Commission—Malaysia has pioneered initiatives that provide innovative, inclusive financial solutions aligned with Islamic principles.

As ASEAN chair, Malaysia has the expertise to guide other member states in adopting foundational strategies that drive meaningful growth in Islamic finance across the region. This leadership opportunity aligns with ASEAN’s broader goals of financial inclusion and cross-border investment, as well as Malaysia’s commitment to promoting ethical and sustainable finance. By prioritizing achievable goals within a unified IMPACT, Malaysia can

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set the stage for more comprehensive initiatives in the future.

Key Initiatives to Jumpstart the Islamic Finance Masterplan for ASEAN Collaborative Transformation (IMPACT)

To make immediate headway, a successful IMPACT should begin with focused, actionable initiatives that can build momentum while laying a foundation for more complex developments.

First, strengthening financial literacy and public engagement is essential to address the knowledge gap that hinders growth and limits demand. Establishing a region-wide push for Islamic financial literacy and public engagement would be a powerful first step in creating awareness and encouraging adoption across ASEAN.

Under IMPACT, member states could coordinate financial literacy campaigns that demystify Islamic finance, focusing on its unique ethical values and inclusive potential. Malaysia, with its already established Islamic finance training and research institutions, can lead in developing educational content, public seminars, and online resources that simplify Islamic finance concepts.

Additionally, a shared repository of resources across ASEAN could make educational materials accessible to diverse populations, fostering widespread understanding and interest.

Second, a focus on promoting green and sustainable Islamic finance products aligns naturally with ASEAN's commitment to advancing its sustainability agenda. Given the rising global demand for ESG-compliant investments, ASEAN stands to benefit by positioning itself as a leader in green Islamic finance.

Malaysia, with its expertise in innovative Islamic financial products, can support the development of green sukuk (Islamic bonds) and other sustainable investment vehicles. A collective push to standardize green certification for Islamic finance products across ASEAN could further enhance investor confidence.

Moreover, ASEAN could explore regional green financing initiatives, such as sustainability-focused funds or pooled investments specifically aimed at addressing environmental challenges, from climate resilience projects to renewable energy investments.

Third, creating frameworks for cross-border Islamic financial instruments is another practical way to foster regional cooperation and boost ASEAN's financial integration. Collaborative cross-border sukuk issuances, for instance, could pool resources for large-scale projects benefiting multiple ASEAN nations, such as infrastructure development, connectivity projects, or social welfare programs. Such initiatives would not only deepen regional financial integration but also appeal to investors across ASEAN and the wider Islamic finance community.

A framework for cross-border sukuk could start with pilot projects, with Malaysia working closely with other ASEAN member states, especially those that already have a strong Islamic finance presence, such as Indonesia and Brunei Darussalam, to ensure compliance with respective national standards while aligning on broad, shared principles.

By focusing on cross-border sukuk as a manageable starting point, ASEAN can establish a framework that encourages collaboration, attracts capital, and showcases the region's potential in the global Islamic finance market.

Navigating the Path Ahead: Focus on Practical Steps

While the ultimate vision of a fully integrated ASEAN Islamic finance market may face challenges, these initial initiatives represent achievable milestones that can deliver immediate impact. As ASEAN chair, Malaysia has the opportunity to demonstrate the potential of Islamic finance as a force for financial inclusivity, ethical growth, and regional integration.

By focusing on financial literacy, green finance, and cross-border instruments, IMPACT can begin with attainable goals that will set a strong foundation for future advancements. ASEAN's financial future—one that is robust, ethical, and inclusive—is within reach, and Malaysia stands ready to lead the way. By rallying ASEAN around a unified vision, Malaysia can set in motion a transformative journey that benefits communities across

the region and strengthens ASEAN's role on the world stage.



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