

The Malaysian Model of Islamic Economy as A Guideline: Strategic Integration of Islamic Finance and Halal Industry in Uzbekistan

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Abstract

This article analyzes the institutional architecture of the Malaysian Islamic economic model and substantiates a strategy for its adaptation to the Republic of Uzbekistan. The study aims to conceptualize the integration of Islamic financial instruments and the real halal industry as a factor in ensuring inclusive growth. Based on an analysis of Malaysia's experience—from the Tabung Haji initiative (1963) to the implementation of IFSA in 2013—the author demonstrates that the system's success is determined by the synergy between government regulation (BNM, JAKIM) and the development of halal park infrastructure. The paper presents empirical data confirming the significant latent demand for ethical finance in Uzbekistan (81.3% of the population) and systematizes regulatory barriers, including the "regulatory dissonance" between traditional law and Sharia principles. The proposed roadmap includes implementing innovative solutions, such as "mortgage securitization through equity participation" (mortgage equity) and issuing targeted sukuk to finance high-tech industrial zones.

Keywords: Islamic finance, halal industry, Malaysian model, Uzbekistan, sukuk, Tabung Haji, JAKIM, strategic integration, institutional architecture, sovereign wealth funds.

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1. Introduction

The modern global financial architecture is facing a profound crisis of confidence caused by the negative externalities of neoliberal capitalism: rising inequality, speculative volatility, and the financial sector's disconnect from real production. In this context, Islamic economics, based on the principles of risk-sharing and financially secure transactions, is emerging not just as a

niche alternative but as a universal tool for sustainable development.

Malaysia is the de facto "gold standard" of this system, consistently ranking first in the Islamic Finance Development Index (IFDI). The strategic alignment of Malaysia's "Malaysia MADANI" concept and the "Uzbekistan 2030" program opens unique opportunities for institutional transformation. The central thesis of the

study is that Uzbekistan's long-term competitiveness depends on the ability to create a holistic halal ecosystem in which the financial sector not only accumulates capital but also catalyzes the production of high-value-added goods integrated into global supply chains.

The Genesis and Structure of the Malaysian Islamic Economic Model

Malaysia's path to leadership began not with banks, but with the solution to a specific social challenge: the establishment of the Tabung Haji (Pilgrims' Provident Fund) in 1963, which became the foundation for mobilizing Muslim capital. This laid the foundation for an evolutionary development trajectory divided into four phases:

1. Stage I (1983–1992): Formation of the regulatory framework (Islamic Banking Act 1983) and the launch of Bank Islam Malaysia Berhad.
2. Stage II (1993–2000): Liberalization through the introduction of "Islamic windows" and the establishment of the Shariah Advisory Council (SAC) in 1997.
3. Stage III (2001–2010): Globalization and standardization through the IFSB and the International Islamic Liquidity Management Corporation.
4. Stage IV (2011–present): Adoption of the IFSA 2013, which ensured strict consumer protection and the prevention of institutional risks.

The key elements of this architecture are:

1. Shariah Affairs Council (SAC): A centralized regulatory anchor that minimizes the risk of Shariah non-compliance.
2. JAKIM: Provides a unified halal standard recognized in 49 countries.
3. Halal Development Corporation (HDC): An institutional driver of infrastructure development.

It was precisely the centralized state standardization under the auspices of JAKIM that transformed a religious norm into a global brand, ensuring a high level of institutional trust for Malaysian exports.

Strategic Synergy: Integration of Finance and the Real Halal Sector

Malaysia's success is driven by the "Halal Ecosystem" concept, in which Islamic financial instruments (sukuk, mudarabah, and ijara) act as the fuel for industrial

clusters.

Infrastructure Driver: The country has 22 halal parks, 14 of which hold the prestigious HALMAS status. Importantly, 14.3% of the companies in these parks are multinational corporations, confirming the model's high investment attractiveness for global capital.

Halal Logistics: Synergy is complemented by a developed logistics sector (warehousing, specialized transport, sea and air freight), ensuring halal supply chain integrity.

Sukuk as a Development Tool: Malaysia is a leader in issuing sukuk, including innovative "green" instruments. The precedent of Tadau Energy (2017), which issued the world's first green sukuk to finance solar energy, demonstrates the potential of this instrument for infrastructure modernization.

According to the GIEI index, Malaysia ranks first globally in the Halal Food and Media & Entertainment sectors, which correlates with the volume of its Islamic assets, which ranks third globally.

The Potential of Islamic Finance in Uzbekistan

Uzbekistan is characterized by high religious homogeneity – according to Mastercard, approximately 90% of the country's population is Muslim. This creates significant potential demand for Sharia-compliant financial products. For example, a Mastercard study found that 38% of businesses and 56% of individuals do not take out loans from traditional banks solely due to religious beliefs. Moreover, 61% of businesspeople and 75% of the population expressed a willingness to use Islamic financial instruments to meet their needs. Taken together, these data indicate a significant untapped demand: many SMEs and individuals avoid traditional lending due to *riba* but are willing to transition to alternative financing models.

Furthermore, there is growing interest in Islamic financial services at the institutional level. For example, the Islamic Banking Law (approved by the Senate in early 2026) will soon be adopted, introducing a specialized license for Islamic banking activities and recognizing the "Islamic window" model for conventional banks. With the adoption of this law, the necessary legal framework is being created: for example, a newly introduced chapter of the Tax Code treats income from transactions involving Islamic products as interest, and exempts *murabaha* margins from VAT.

Furthermore, it is proposed to establish an Islamic Finance Council (Sharia Council) under the Central Bank of the Republic of Uzbekistan and within participating banks, which should ensure unified approaches and prevent regulatory confusion.

Regulatory Barriers

Despite the potential, significant regulatory and legal limitations remain.

- Tax dissonance. Under the previous Tax Code, murabaha and ijara transactions faced double taxation:

The markup was subject to VAT, and the capital itself was subject to property tax (upon transfer of ownership). The new law (2026) partially addresses this issue: the sales margin is exempt from VAT. However, the detailed regulation of the tax consequences of Islamic transactions requires further work to avoid disrupting the product structure due to taxation.

- Legislative vacuum. Previously, there were no legal definitions of key Sharia contracts: civilizational laws and the Civil Code did not provide for mudarabah (profit-sharing partnership financing) and other agreements, and banks did not have the right to act as sales agents for clients. The 2026 law partially addresses these gaps by introducing the right for NPOs and banks to provide Islamic services. In addition, the Resolution of the Central Bank of the Republic of Uzbekistan dated July 19, 2024, has already been adopted, regulating the procedure for the provision of Islamic financing to microfinance organizations: it includes forms of services (murabaha, slam, mudarba, etc.) and requirements for the creation of a "Special Council" (Sharia Council) at each microfinance organization. However, the full implementation of the new law will require subsequent adaptation of civil and tax legislation.

- Regulatory mismatch. The transition to Shariah-compliant products highlights the need to harmonize legislative norms. At the ISSF-2025 international forum, it was noted that when replacing traditional banking products with their Islamic counterparts, compliance with national legislation and global standards must be ensured. Inconsistent changes (for example, disparate amendments to two codes and seven laws) could lead to conflicting regulations and reduced efficiency.

At the same time, it is important to establish effective Sharia committees and internal control systems to ensure transparency and trust in Islamic banks. In this regard,

the law provides for the creation of Sharia councils at both the Central Bank and commercial banks, in line with the standards of the Islamic Financial Services Board (IFSB), to minimize regulatory arbitrage and ensure consistency in practice.

Ziyorat tourism as an entry point

The development of Islamic finance is inextricably linked to the halal economy and religious tourism. Uzbekistan is already demonstrating success in this area. For example, in the Global Muslim Travel Index 2023, our country ranked 13th out of 140 countries for pilgrimage tourism. At the Halal in Travel Awards 2023, the city of Khiva was named "Islamic Destination of the Year." These achievements reflect growing interest in Uzbek holy sites (Samarkand, Bukhara, Tashkent, and Khiva), but require increased support for halal infrastructure and financial services. In particular, the promotion of "ziyosat tour" packages and the development of halal hotels and restaurants are increasing demand for Shariah-compliant payments, which in turn is stimulating the implementation of Islamic banking. Given close cooperation with Malaysia, the need to develop joint routes and services is noted, facilitating direct investment and payments through halal channels.

Lack of Islamic Windows and a Shortage of Personnel

Until recently, banks had no formal mechanism for working with Islamic products. The 2026 law removes this barrier by introducing the "Islamic Window" as a legitimate model: under the new license, a bank can either fully transition to the Islamic model or combine traditional and Shariah-compliant services. Previously, this legal ambiguity hindered investment from OIC countries accustomed to working through Islamic channels. Investors from the Middle East and Malaysia expect a standard Shariah-compliant approach and certification, such as recognition of their JAKIM certificate. Uzbekistan is already collaborating with the Department of Islamic Development Malaysia (JAKIM) and the State Standard on implementing a halal certification system, but the lack of formal channels in the banking system has hindered the rapid growth of direct investment.

At the same time, the need for qualified personnel is growing. The transition to Islamic finance requires Shariah-compliant auditors, financiers, and consultants, many of whom must be trained according to international

standards. Major market players are noticing a shortage of such specialists. Steps are already being taken: for example, since 2018, Uzbekistan has been collaborating with Malaysian universities (INCEIF, Binary University, and others) to train relevant professionals. For example, in 2021, a branch of the Malaysian Binary International University opened in Urgench, training managers and IT specialists, and hundreds of Uzbek students are completing internships in Malaysia. The International Academy of Islamic Studies also operates, training specialists in the Faculty of Islamic Economics and International Relations. However, according to expert estimates, extensive training is still required before the industry can be fully supported (some surveys indicate that up to 60–70% of organizations are experiencing a shortage of qualified personnel). Otherwise, large-scale projects (such as sovereign sukuk or green financing) will be limited.

Strategic Integration Roadmap

To transform Uzbekistan into a regional Islamic finance hub, a comprehensive strategy is necessary.

1. Institutional anchor: establishing a permanent National Sharia Council (similar to the IFSB) within the Central Bank of the Republic of Uzbekistan, with the participation of scholars and practitioners. This will ensure a unified interpretation of Sharia norms and prevent regulatory arbitrage between banks. Law 2026 already provides for the creation of such a Sharia council within the Central Bank and within banks, but it is important to ensure its independence and transparency.

2. Financial innovation: the introduction of a "mortgage securitization" mechanism based on equity participation. For example, the Malaysian practice of *Musharaka Mutanaqisa* involves joint ownership of property by the bank and the borrower, with the borrower gradually buying out the bank's share in a manner that complies with Sharia principles. Securitization of such agreements can be used to raise interest-free funds for housing construction. Legislative support for such schemes (similar to the US-Malaysian experience) will solve the housing problem without violating the prohibition of *riba* and will reduce the burden on the budget.

3. Industrial synergy: issuing sovereign sukuk to finance key infrastructure projects, including within the Uzbekistan-Malaysia Industrial Zone. Following the example of Tadau Energy's Green Sukuk in Malaysia, which raised 250 million ringgit (approximately 59

million USD) in 2017 to finance the construction of a solar power plant, Uzbekistan could attract investment in microelectronics and pharmaceuticals. Malaysia, where microelectronics accounts for 25% of GDP and pharmaceuticals generate billions in export revenue, is willing to share its technologies. A sukuk for industrial park development could serve as a capital multiplier and attract funds from international Islamic investors.

4. Standardization: formalizing the mutual recognition of halal certificates between Uzstandart and JAKIM. Malaysian JAKIM certificates are recognized in 49 countries, and their recognition in Uzbekistan will provide Uzbek exporters with access to OIC markets, which are worth a combined \$2.6 trillion (estimated global halal market). Cooperation with JAKIM has already been established (since 2018), but the development of domestic halal product standards and their mutual recognition must be accelerated. This will allow Uzbek companies to seamlessly integrate into global halal supply chains.

5. Academic cluster: creating a comprehensive education and certification system in Islamic finance in Uzbekistan. The program should be expanded, following the example of INCEIF (Malaysia) and Binary University, to train Sharia auditors, Islamic bankers, and financial analysts. A branch of Binary University has already been opened in Urgench, and there are also plans to translate foreign literature on Islamic finance into Uzbek. It is important to introduce specialized training programs (bachelor's, master's, and short-term courses) at universities in Samarkand and Tashkent, including lectures by international experts. This will create an "academic cluster" that will strengthen the industry's human resources and increase confidence in Islamic products.

Implementation of these measures (enshrined in the roadmap) will eliminate existing barriers and leverage existing potential. Legislative initiatives already adopted (licensing, tax incentives, and participation in the IFSB) provide a solid foundation. Joint projects with Malaysia (scientific and industrial), support from international organizations such as the IBF and the OIC, and active private sector engagement will ensure the continued growth of Islamic finance in the country.

2. Conclusion

The Malaysian model demonstrates that Islamic economics represents not a return to tradition but a modern and sophisticated risk management system. For

Uzbekistan, this historic window of opportunity—the transition to full institutional integration—will allow the country not just to introduce new products but to create an inclusive financial architecture capable of driving economic development throughout Central Asia.

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