



Islamic Banking and Economic Integration in Thailand: Opportunities and Challenges in a Minority-Muslim Context

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ABSTRACT

The development of Islamic banking in Thailand presents unique dynamics within a minority-Muslim context. This study aims to examine the opportunities and challenges of Islamic banking in Thailand, particularly in relation to regional economic integration and financial inclusion of Muslim communities. The research employed a qualitative descriptive method through literature review, policy analysis, and comparative study with Islamic banking practices in other ASEAN countries. The findings reveal that Islamic banking in Thailand faces constraints such as limited regulatory frameworks, low financial literacy, and a shortage of trained professionals, yet opportunities exist through ASEAN integration, digital innovation, and sustainable policy support. The implications highlight the need for stronger regulations, institutional capacity building, and regional cooperation to position Islamic banking as an inclusive instrument within the national financial system.

Keywords: *Islamic Banking, Economic Integration, Thailand, Financial Inclusion*

ABSTRAK

Perkembangan perbankan syariah di Thailand menghadirkan dinamika unik dalam konteks minoritas Muslim. Penelitian ini bertujuan untuk menganalisis peluang dan tantangan perbankan syariah di Thailand, khususnya dalam kaitannya dengan integrasi ekonomi regional dan inklusi keuangan masyarakat Muslim. Metode penelitian menggunakan pendekatan kualitatif deskriptif melalui studi literatur, analisis kebijakan, serta perbandingan dengan praktik perbankan syariah di negara ASEAN lainnya. Hasil penelitian menunjukkan bahwa perbankan syariah di Thailand menghadapi hambatan berupa keterbatasan regulasi, rendahnya literasi keuangan, dan minimnya sumber daya manusia yang terlatih, namun terdapat peluang melalui integrasi ASEAN, inovasi digital, dan dukungan kebijakan berkelanjutan. Implikasi penelitian ini menegaskan pentingnya penguatan regulasi, pengembangan kapasitas kelembagaan, dan kerja sama regional untuk menjadikan perbankan syariah sebagai instrumen inklusif dalam sistem keuangan nasional.

Kata Kunci: *Perbankan Syariah, Integrasi Ekonomi, Thailand, Inklusi Keuangan*

INTRODUCTION

Islamic banking has emerged as a significant component of the global financial system, offering an alternative to conventional banking through principles that prohibit interest and emphasize risk-sharing. The rise of Islamic finance has been evident not only in Muslim-majority countries but also in regions where Muslims form a minority population. Global reports indicate that Islamic banking assets have grown substantially, with expanding markets in Southeast Asia, Africa, and Europe, reflecting the increasing demand for Sharia-compliant financial services (World Bank, 2022).

The development of Islamic banking in Thailand is particularly important given its unique demographic composition. Muslims constitute a minority in the country, concentrated largely in the southern provinces, and their access to financial institutions that reflect their religious values is limited. Studies highlight that minority Muslim communities often face structural barriers to financial inclusion, including regulatory, institutional, and cultural challenges (Abdul-Rahman & Nor, 2020). The case of Thailand offers an opportunity to examine how Islamic banking can function in a context where it does not dominate the financial landscape.

The growth of Islamic banking in minority settings is not merely a financial phenomenon but also an instrument for socio-economic empowerment. Research suggests that access to Sharia-compliant financial products fosters trust, strengthens community cohesion, and reduces economic marginalization (El-Gamal, 2021). For Thai Muslims, integrating Islamic finance into the broader financial system may provide pathways to economic justice, entrepreneurship, and sustainable livelihoods. The issue is thus not only economic but also cultural and religious, demanding careful analysis.

Regulatory frameworks play a crucial role in shaping the viability of Islamic banking in minority contexts. In countries like the United Kingdom and Singapore, governments have introduced policies that accommodate Islamic finance within conventional systems, creating hybrid models of financial integration (Beck et al., 2013). Thailand's regulatory environment presents both opportunities and constraints, as its financial system is highly centralized and dominated by conventional banks. The readiness of regulators, policymakers, and institutions to accommodate Islamic banking will determine its sustainability in the long run.

The challenges facing Islamic banking in Thailand include limited consumer awareness, lack of trained professionals, and competition with established conventional banks. Research shows that successful Islamic banking expansion depends on literacy programs, professional training, and public trust in financial

institutions (Kammer et al., 2015). At the same time, opportunities exist through regional economic integration, as neighboring countries like Malaysia and Indonesia have developed strong Islamic finance ecosystems. Thailand may benefit from cross-border cooperation, investment flows, and knowledge sharing within the ASEAN region.

This study aims to explore the opportunities and challenges of Islamic banking in Thailand within the broader framework of economic integration, focusing on its role in promoting financial inclusion, socio-economic development, and regional cooperation. The objective of this research is to analyze how Islamic banking can contribute to the financial system in a minority-Muslim context while identifying the structural and cultural factors that influence its development.

METHOD

This study employed a qualitative descriptive approach to explore the opportunities and challenges of Islamic banking in Thailand within a minority-Muslim context. Data were collected through an extensive review of academic literature, policy documents, and reports from international financial institutions such as the World Bank and International Monetary Fund, combined with case studies of Islamic banking practices in Southeast Asia. The analysis applied a thematic framework, focusing on regulatory structures, socio-economic impacts, and regional economic integration to provide a comprehensive understanding of the dynamics at play. The qualitative design allowed for in-depth interpretation of contextual factors, highlighting cultural, institutional, and financial dimensions relevant to Islamic banking development.

RESULTS AND DISCUSSION

Regulatory Framework and Institutional Readiness

The regulatory framework is central to determining the sustainability of Islamic banking in Thailand. Financial systems in minority-Muslim contexts often lack dedicated legal instruments that explicitly recognize Sharia-compliant financial products, which can restrict the sector's growth. Thailand's financial regulations remain anchored in conventional frameworks, and Islamic banking windows operate under general banking laws rather than specialized legislation. Scholars emphasize that the absence of a clear regulatory identity creates legal uncertainty, deterring investors and reducing public trust (Beck et al., 2013). In comparison, jurisdictions like Malaysia and Bahrain have developed comprehensive Islamic finance acts that explicitly govern Sharia-compliant transactions, offering Thailand valuable policy lessons.

Institutional readiness is another dimension that influences Islamic banking development. Many financial institutions in Thailand lack specialized departments to handle Sharia-compliant contracts, limiting product innovation and adaptability. Research has shown that institutional frameworks must support training, certification, and Sharia advisory boards to ensure effective governance (Ali & Ali, 2022). Without such mechanisms, financial institutions risk reputational challenges and operational inefficiencies. In contrast, successful cases from the United Kingdom and Singapore demonstrate that supportive institutions can mainstream Islamic finance within conventional systems.

The readiness of regulators to accommodate Islamic finance is closely linked with political will and policy prioritization. Policymakers in minority-Muslim contexts may view Islamic banking as a niche rather than a national priority, affecting the allocation of resources and institutional support. Evidence from the International Monetary Fund indicates that political endorsement significantly accelerates Islamic finance growth by embedding it in national financial strategies (Kammer et al., 2015). For Thailand, a clear policy statement integrating Islamic finance into broader financial inclusion agendas could unlock regulatory innovation and attract foreign investment.

Sharia governance frameworks are critical for ensuring credibility and compliance. In countries with advanced Islamic banking sectors, Sharia supervisory boards function as independent oversight mechanisms that maintain consumer confidence. Thailand faces challenges in establishing robust Sharia governance, as Muslim scholars with expertise in both Islamic jurisprudence and finance remain limited. Research suggests that collaboration with regional institutions such as Malaysia's Sharia Advisory Council could provide interim solutions (Hassan et al., 2021). Strengthening Sharia governance would also mitigate risks of non-compliance and enhance legitimacy among Muslim communities.

Legal harmonization with international financial standards is also an important consideration. The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and the Islamic Financial Services Board (IFSB) have issued global standards, yet their implementation in minority-Muslim countries remains uneven. Thailand has not fully adopted these standards, creating inconsistencies in accounting and reporting practices. Studies indicate that aligning with international standards enhances transparency and facilitates cross-border financial integration (El-Gamal, 2021). The adoption of these frameworks would allow Thai institutions to build credibility and expand partnerships within ASEAN markets.

Institutional readiness further extends to human capital development. The availability of skilled professionals in Islamic finance is a decisive factor in expanding the sector. In Thailand, the number of professionals trained in Islamic finance is relatively small compared to neighboring countries. Universities and training centers have yet to integrate specialized programs into mainstream curricula. Comparative research shows that Malaysia's extensive training networks, including INCEIF, have been instrumental in supplying the sector with qualified experts (Dusuki, 2019). Building similar programs in Thailand could enhance institutional capacity and foster innovation.

The integration of Islamic banking into the Thai financial system also requires coordination between regulatory agencies. A lack of inter-agency collaboration often results in fragmented policies that hinder the sector's growth. International experience demonstrates that regulatory synergy across central banks, financial regulators, and ministries is essential for coherent policy design (World Bank, 2022). Establishing a coordinated regulatory task force in Thailand would provide a platform for dialogue, reduce duplication of efforts, and streamline policy enforcement.

The regulatory and institutional environment in Thailand thus presents a dual scenario of challenges and opportunities. While the absence of specialized legislation and institutional structures constrains Islamic banking, the country also possesses untapped potential to learn from regional neighbors and international best practices. The future trajectory depends on Thailand's ability to harmonize regulations, build institutional capacity, and engage in regional cooperation, positioning Islamic banking as an inclusive component of its financial system.

Socio-Economic Impacts and Community Perceptions

The socio-economic role of Islamic banking extends beyond financial intermediation, shaping community development and reducing exclusion among minority Muslim populations. In Thailand, access to Sharia-compliant products is a matter of both financial necessity and religious obligation. Studies emphasize that marginalized groups often equate financial access with dignity and participation in broader economic life (Demirgüç-Kunt et al., 2018). Islamic banking offers a pathway for Thai Muslims to align financial practices with their values while gaining tools for entrepreneurship and household resilience.

Community perceptions are fundamental to the success of Islamic banking. Surveys in minority-Muslim contexts reveal that trust in financial institutions is strongly correlated with adherence to religious norms and perceived fairness (Abdul-Rahman & Nor, 2020). In Thailand, the limited availability of Islamic

banking products has created skepticism about the authenticity and reliability of services. Efforts to enhance transparency and consumer education are therefore crucial. Comparative evidence from Indonesia demonstrates that well-structured literacy programs can significantly increase consumer acceptance of Islamic finance (Ascarya, 2021).

Socio-economic impacts are also visible in the realm of poverty alleviation. Islamic banking incorporates instruments such as zakat, waqf, and qard al-hasan that directly support social welfare. These instruments can be leveraged in Thailand to complement national poverty reduction strategies. Research indicates that integrating social finance into formal banking channels strengthens the link between financial inclusion and social justice (Hassan & Aliyu, 2018). By embedding such mechanisms, Thailand could use Islamic banking to address economic inequality in Muslim-majority regions of the south.

The entrepreneurial dimension of Islamic banking cannot be overlooked. Sharia-compliant financing structures, such as mudarabah and musharakah, encourage risk-sharing and provide opportunities for small and medium enterprises (SMEs). In minority contexts, SMEs often struggle with collateral requirements imposed by conventional banks. Islamic contracts offer more flexible arrangements that stimulate local business activity (Beck et al., 2013). For Thailand, this could translate into stronger local economies, particularly in provinces where Muslim populations dominate trade and agriculture.

Women's empowerment is another socio-economic impact linked to Islamic banking. Studies show that women in Muslim communities often face barriers to financial services due to cultural and institutional constraints. Islamic microfinance has been particularly effective in enabling women entrepreneurs to access capital while respecting religious norms (Karim et al., 2008). In Thailand, targeted microfinance programs for women could enhance participation in economic activities, contributing to household welfare and broader community development.

The role of perception management is equally critical. Negative stereotypes and limited awareness about Islamic finance among non-Muslims can hinder its broader acceptance. International experience suggests that positioning Islamic banking as an ethical alternative, rather than a purely religious institution, can attract diverse clients (Wilson, 2012). For Thailand, emphasizing universal values such as fairness, transparency, and sustainability could help integrate Islamic finance into the mainstream economy and reduce social divisions.

The COVID-19 pandemic has further highlighted the importance of resilient financial systems. Islamic banking demonstrated adaptability in supporting

vulnerable groups during crises through moratoriums and charity-based instruments (OECD, 2021). Thailand could draw on these lessons to build crisis-resilient financial mechanisms that combine ethical principles with economic pragmatism. Such initiatives would not only benefit Muslim communities but also contribute to national recovery strategies.

The socio-economic impacts of Islamic banking in Thailand thus extend across multiple dimensions, from poverty alleviation and entrepreneurship to community trust and women's empowerment. The key challenge lies in aligning financial practices with cultural and religious expectations while presenting Islamic finance as an inclusive, ethical, and development-oriented system that benefits all citizens.

Regional Economic Integration and Future Prospects

Regional integration provides both opportunities and challenges for Islamic banking in Thailand. As a member of ASEAN, Thailand is strategically positioned to engage with regional initiatives in financial cooperation and cross-border investment. Neighboring countries such as Malaysia and Indonesia have developed robust Islamic finance ecosystems, creating opportunities for Thailand to benefit from knowledge transfer, joint ventures, and capital inflows (Ismail et al., 2020). Cross-border collaboration can strengthen Thailand's capacity to expand its Islamic banking sector by leveraging regional expertise.

ASEAN's financial integration agenda emphasizes harmonization of standards and regulatory frameworks. For Islamic banking, this means creating mechanisms that facilitate cross-border operations without compromising Sharia compliance. Research suggests that regional harmonization enhances efficiency, reduces transaction costs, and fosters investor confidence (Ahmed et al., 2017). Thailand's participation in such initiatives would provide opportunities to align with regional best practices, particularly in areas of accounting, disclosure, and Sharia governance.

Trade and investment linkages further amplify the potential of Islamic banking. Thailand's growing trade relations with Muslim-majority countries in the Middle East present opportunities for financing mechanisms tailored to Islamic principles. Sukuk, or Islamic bonds, have been used successfully in Malaysia and Indonesia to finance infrastructure projects and attract global investors. Studies show that sukuk markets enhance liquidity, diversify funding sources, and support sustainable development (Cakir & Raei, 2007). For Thailand, developing a sukuk market could strengthen integration with global Islamic finance hubs.

Future prospects also depend on Thailand's ability to adapt to digital transformation. Fintech has revolutionized Islamic finance by enabling broader access to financial services through mobile banking, blockchain, and digital platforms. Research highlights that digital Islamic finance reduces barriers of geography and cost, expanding outreach to underserved communities (Mohieldin et al., 2012). Thailand's high smartphone penetration and expanding digital infrastructure provide fertile ground for introducing innovative Sharia-compliant digital services.

Regional integration also involves aligning with global sustainability agendas. Islamic finance emphasizes principles of ethical investment, which resonate with global frameworks such as the United Nations' Sustainable Development Goals (SDGs). Integrating these principles into Thailand's Islamic banking strategies could attract international investors seeking both financial and social returns (UNDP, 2020). Such alignment would enhance Thailand's position as a regional leader in sustainable finance.

The competitive environment poses challenges to future prospects. Thailand's conventional banking sector is well-established, with significant resources and consumer bases. For Islamic banking to thrive, it must differentiate itself by emphasizing value-based propositions such as transparency, risk-sharing, and community empowerment. Evidence from markets in Europe and Africa suggests that Islamic finance can succeed in minority contexts when it positions itself as a socially responsible alternative (Wilson, 2012). For Thailand, such differentiation is essential to secure market share and consumer loyalty.

Regional cooperation is also critical in addressing human capital gaps. ASEAN-wide training programs and academic partnerships could provide Thailand with access to expertise in Islamic banking and finance. Comparative experiences highlight the importance of academic networks, joint certifications, and regional centers of excellence in building human capital (Dusuki, 2019). For Thailand, engaging in such initiatives would accelerate capacity building and enhance competitiveness.

The future of Islamic banking in Thailand ultimately depends on its ability to integrate regulatory reforms, socio-economic impacts, and regional cooperation into a cohesive strategy. While challenges remain in terms of regulation, consumer awareness, and institutional readiness, the opportunities offered by ASEAN integration, digital transformation, and global sustainability agendas present a promising pathway. By leveraging these opportunities, Islamic banking in Thailand can evolve from a marginal phenomenon into a vital component of regional and global financial systems.

CONCLUSION

Islamic banking in Thailand demonstrates both challenges and opportunities in a minority-Muslim context, where regulatory limitations, institutional readiness, and community perceptions shape its trajectory. The absence of specialized legislation and limited human capital create barriers, yet the potential for socio-economic empowerment, poverty alleviation, and entrepreneurship through Sharia-compliant instruments remains significant. Regional integration within ASEAN, digital innovation, and alignment with global sustainability frameworks provide avenues for strengthening the sector and enhancing inclusivity. The findings underscore that the development of Islamic banking in Thailand depends on harmonizing regulatory frameworks, building institutional capacity, fostering community trust, and leveraging regional cooperation to position Islamic finance as both an ethical and viable component of the national and regional financial system.

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