

## STRATEGY FOR DEVELOPING THE ISLAMIC ECONOMY IN INDONESIA: A PERSPECTIVE ON ECONOMIC AND SOCIAL CHALLENGES

**Imam Mustofa<sup>1</sup>, Irman Hidayat<sup>2</sup>, Maftuh Royhan Alhak<sup>3</sup>, Mia Yuliana<sup>4</sup>, Evi Sopia<sup>5</sup>**

*UIN Sunan Gunung Djati Bandung<sup>1</sup>, UIN Sunan Gunung Djati Bandung<sup>2</sup>, UIN Sunan Gunung Djati Bandung<sup>3</sup>, UIN  
Sunan Gunung Djati Bandung<sup>4</sup>, UIN Sunan Gunung Djati Bandung<sup>5</sup>*

*Email: imam.5.mustofa@gmail.com<sup>1</sup>, irmanhidayat2001@gmail.com<sup>2</sup>, maftuhr1211@gmail.com<sup>3</sup>,  
miayuliana30@gmail.com<sup>4</sup>, evisopiah@uinsgd.ac.id<sup>5</sup>*

### Abstract

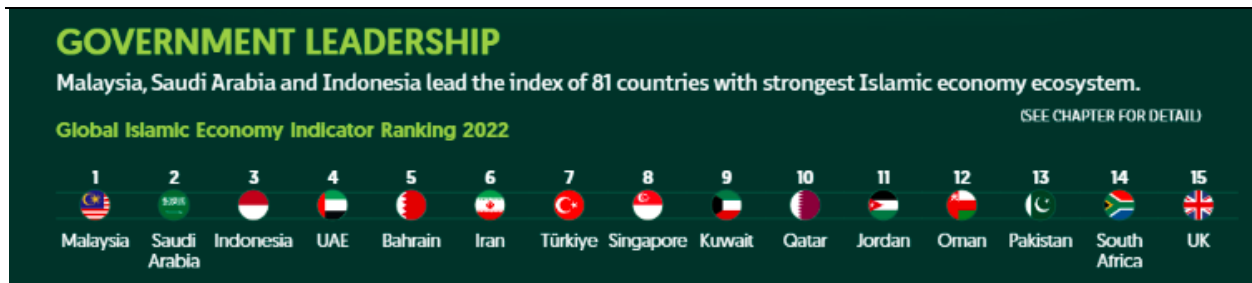
Islamic economics, grounded in Islamic principles, prioritizes justice, sustainability, and equitable wealth distribution, which differentiates it from conventional economic systems. Islamic economics encourages ethical practices by avoiding *riba* (interest), *gharar* (uncertainty), and *maisir* (gambling), as well as encouraging *zakat* (charity), *waqf* (endowment), and profit sharing. Indonesia, as the country with the largest Muslim population in the world, plays an important role in the Islamic economy and was ranked in the top three in the Global Islamic Economic Indicators (GIEI) in 2023. Although there has been significant progress in the sharia banking, halal food and tourism sectors, There are still challenges that must be faced, especially related to harmonizing various regulations and halal certification standards. This article explores the growth of the Islamic economy in Indonesia, emphasizing the challenges encountered and outlining strategies for advancement. These include enhancing financial regulations, improving the quality of halal products, and fostering collaboration across various sectors.

**Keyword:** *Islamic Economics, Islamic Finance, Halal Industry*

### A. INTRODUCTION

Islamic economics is a system rooted in Islamic teachings, focusing on sharia principles and incorporating sharia values into all aspects of economic activity. This system has characteristics that differentiate it from conventional economics, especially in its orientation. While conventional economics focuses on increasing profits, Islamic economics places greater emphasis on fairness, sustainability and fair distribution of wealth [1]. By avoiding the practices of *riba* (interest), *gharar* (uncertainty), and *maisir* (gambling), as well as encouraging the implementation of *zakat* (charity), *waqf* (endowment), and profit sharing systems, Islamic economics offers an inclusive and solution approach to facing global challenges [2].

Islamic economics began to develop since the 7th century when the Prophet Muhammad SAW lived, becoming an important basis for managing *zakat*, trade and distribution of wealth. In the 20th century, the growth of Islamic economics was bolstered by the rise of Islamic financial institutions in the Middle East and Asia.. Now, this field of study is not only related to the financial sector, but also includes the halal industry and sharia-compliant tourism.



**Picture 1. [SGIE Report 2023/2024]**

Indonesia, home to the largest Muslim population in the world, holds a pivotal role in advancing the Islamic economy. According to the 2023 Global Islamic Economic Report, Indonesia ranks among the top three countries in the Global Islamic Economic Indicators (GIEI), driven by substantial contributions from the halal sector. Key areas include Islamic banking, sukuk (Islamic bonds), and halal tourism. Between January and October 2023, trade in Indonesian halal products reached USD 53.43 billion, with exports totaling USD 42.33 billion, highlighting its significant impact on the national economy.

This article seeks to provide a comprehensive analysis of the development of Islamic economics in Indonesia, focusing on both the real and financial sectors. By addressing key challenges and proposing strategic solutions, the article aims to offer valuable insights to harness the potential of the Islamic economy in fostering inclusive and sustainable national development..

## **B. METHODOLOGY**

This study employs a qualitative approach to examine the development and challenges of Islamic economics in Indonesia. It begins with an extensive literature review on the global and domestic historical evolution of Islamic economics, utilizing academic articles, books, and authoritative reports, including the State of the Global Islamic Economy Report and government publications. The analysis is enriched by synthesizing data from secondary sources, such as case studies and reports, and primary sources, including interviews. This approach aims to provide a holistic understanding of the current state of Islamic economics in Indonesia, its challenges, and strategic pathways for future growth.

## **C. RESULT**

### **The Development of Islamic Economics in Indonesia**

Indonesia possesses significant potential in advancing its Islamic economy, with a Muslim population exceeding 207 million [3]. The State of the Global Islamic Economy 2023 report ranks Indonesia among the top three countries in the Global Islamic Economic Indicators (GIEI), alongside Malaysia and Saudi Arabia. This report identifies six key sectors driving the Islamic economy: halal food, halal tourism, media and entertainment, fashion, pharmaceuticals, cosmetics, and the financial sector.

The foundation of Islamic economics and finance in Indonesia dates back to 1991 with the establishment of Bank Muamalat, the country's first Islamic bank. This milestone was initiated by the Indonesian Ulema Council (MUI), supported by the government, Muslim entrepreneurs, and the Indonesian Muslim Scholars Association (ICMI). Bank Muamalat embodied the concept of interest-free banking proposed during the MUI National Congress.

Subsequent regulatory frameworks further strengthened this foundation. Law Number 7 of 1992 recognized the dual banking system, providing a legal basis for Islamic banking operations. This support was bolstered by Law Number 10 of 1998, which permitted conventional banks to offer services in line with Islamic principles, solidifying the government's commitment to fostering the growth of Islamic finance in Indonesia.

In the area of social finance, Law No. 41 of 2004 regarding Waqf encourages the productive management of waqf assets through the formation of the Indonesian Waqf Board (BWI) in 2007. Similarly, Law No. 19 of 2008 on State Sharia Securities (SBSN) provides sharia-compliant investment alternatives in the form of sukuk, while Law No. 21 of 2008 grants full legal authority for sharia banks to operate autonomously. Efforts to strengthen sharia economic management continue with regulations like Law No. 23 of 2011 on Zakat Management, which emphasizes the role of zakat as an instrument for equitable wealth distribution under Islamic principles. Support for halal products is also enforced under Law No. 33 of 2014 on Halal Product Assurance (JPH), which ensures the safety and certification of halal goods. On a regional level, Aceh's Qanun No. 11 of 2018 mandates all financial institutions in the region to comply with Islamic principles, reinforcing sharia finance locally. Additionally, in 2021, the government initiated the National Movement for Cash Waqf and Bank Syariah Indonesia (BSI) by merging three major Islamic banks, aiming to strengthen the role of sharia banking in fostering national prosperity [4].

Indonesia has leveraged its natural resources to position itself as a global leader in halal tourism. According to the 2023 Global Muslim Travel Index (GMTI), Indonesia ranks first among halal-friendly travel destinations worldwide, surpassing 140 other countries. This marks an improvement from the previous year when Indonesia ranked second behind Malaysia. The GMTI assessment, released in Singapore on June 1, 2023, evaluates four key categories: Access, Communication, Environment, and Services (ACES). Both Indonesia and Malaysia scored 73, followed by Saudi Arabia at 72, the UAE at 71, and Turkey at 70 [5]. Destinations like Lombok and Aceh have been acknowledged for offering halal-certified accommodations, prayer facilities, and sharia-compliant activities, catering to Muslim travelers' needs.

Indonesia also achieved third place in the 2023 State of the Global Islamic Economy (SGIE) Report, released by DinarStandard, due to its significant exports of halal goods, which contribute substantially to the national economy. This rise reflects Indonesia's commitment to developing the halal industry, especially given the country's Muslim-majority population. Halal food remains the primary focus, supported by increasing awareness among the public about halal practices in everyday life..

The Indonesian government continues to strengthen the halal ecosystem by implementing various policies and regulations. One important step is the establishment of the Halal Product Guarantee Organizing Agency (BPJPH), which is tasked with ensuring that products circulating in Indonesia meet halal standards. This initiative is expected to increase the competitiveness of Indonesian halal products in the international market and position Indonesia as a global center for the halal industry [6].

### **Main Challenges in the Development of Islamic Economics in Indonesia**

The development of Islamic economics in Indonesia frequently encounters regulatory challenges. For instance, when Bank Muamalat was established in 1992, sharia banking regulations were insufficient. Progress began with the enactment of Law No. 10 of 1998, which governs the dual banking system, and Law No. 21 of 2008, which provides a stronger legal framework for sharia banking. However, regulations on sharia capital markets in Indonesia remain incomplete, reflecting ongoing policy developments. For instance, the Financial Services Authority (OJK) only issued Regulation No. 15/POJK.04/2015 concerning the "Application of Sharia Principles in the Capital Market" in 2015, even though the Jakarta Islamic Index (JII), which includes sharia-

based stocks, has existed since 2000S. In addition, the Fatwa issued by the National Sharia Council of the Indonesian Ulema Council (DSN-MUI) No. 40/DSN-MUI/X/2003 concerning "Capital Markets and General Guidelines for the Application of Sharia Principles" was issued in early 2003. However, this fatwa is non-binding and only serves as a reference for investors and issuers [4].

Indonesia faces a number of significant challenges in developing the halal industry, both at the domestic and international levels. Differences in halal certification standards between countries create obstacles to global recognition, while differences in views among Muslim countries regarding halal norms further complicate the situation. This provides an opportunity for non-Muslim countries to dominate the production and distribution of halal goods. Domestically, low public awareness about the importance of halal products remains a big challenge, especially among small and medium enterprises (SMEs). There is an urgent need to improve education through various channels, including social media and television, to broaden understanding of halal principles. In addition, the implementation of Law Number 33 of 2014 concerning Halal Product Guarantees is progressing slowly, with implementation only starting gradually in 2019. This problem is further exacerbated by the dominance of imported products which flood the Indonesian market, both in traditional and digital markets, due to weak competitiveness of local products [6].

### **Strategy for Developing Islamic Economy in Indonesia**

The importance of harmonization between sharia politics and economics in Indonesia needs to be emphasized through regulations that support sharia finance. This aims to ensure that the sharia financial industry in this country with a majority Muslim population can develop and continue to show progress in the future. As a regulator, the Indonesian government must consistently create policies that support the growth and development of Sharia Financial Institutions, so that they can contribute significantly to national economic growth [4].

The halal industry in Indonesia encompasses several critical sectors, including food, pharmaceuticals, cosmetics, and supporting services. To harness this potential, a structured and phased approach guided by halal business principles is essential. Among these sectors, the halal food industry represents the largest segment of the global halal market.

As the world's most populous Muslim-majority nation, Indonesia bears significant responsibility for ensuring product safety and halal compliance through an integrated production process spanning upstream to downstream stages. Rigorous monitoring of raw materials, production practices, and distribution chains is crucial to establishing halal products as the preferred choice for daily consumers.

Increasing public awareness of the halal lifestyle, alongside the expansion of the local cosmetics industry, has led the government and industry stakeholders to emphasize halal certification. The regulations under the Halal Product Guarantee (BPJPH) framework have further encouraged pharmaceutical and cosmetics companies to maintain the halal standards of their products. These initiatives meet the rising market demand, fostering the growth of a robust halal ecosystem in Indonesia.

Collaboration between various institutions such as KNEKS, MUI, Bank Indonesia and the Ministry of SMEs is very important to harmonize regulations and standards that support halal business. These institutions play a role in developing guidelines, providing certification, and guiding entrepreneurs to always comply with halal standards. The development of halal industrial areas, special logistics for halal, and human resource training are the main priorities in creating an integrated halal industrial ecosystem. This infrastructure not only increases efficiency in production and distribution, but also ensures that halal products from Indonesia can compete in the global market [6].

The development of halal infrastructure and facilities is a key element in designing tourism destinations that can meet the needs of Muslim tourists. Infrastructure that complies with halal tourism principles covers various aspects, from accommodation to prayer facilities, all designed taking into account Maqashid Syariah principles as well as the expectations and needs of Muslim tourists. The process of building a strong and effective halal infrastructure is critical to creating a travel experience that is in line with Islamic values [5].

Innovation in sharia-compliant products plays a crucial role in enhancing the competitiveness of the Islamic economy. The unique value propositions of these products can serve as a strategic advantage over conventional offerings. Additionally, collaboration between the government, academics, industry players, and the community is vital for establishing a supportive ecosystem for the sharia economy. For instance, regional sharia economic forums can foster communication and cooperation among economic stakeholders at both local and national levels.

#### **D. CONCLUSION**

The growth of the sharia economy in Indonesia shows significant promise, fueled by being home to the world's largest Muslim community. Indonesia's ranking in the top three of the Global Islamic Economic Indicators (GIEI) emphasizes its progress in different areas like Islamic finance, halal food, halal tourism, pharmaceuticals, cosmetics, and other halal goods. The founding of Bank Muamalat in 1991 and the implementation of regulations supporting sharia banking, waqf, and halal product guarantees have greatly hastened advancement in this sector.

The halal sector in Indonesia is still growing, fueled mainly by halal food and tourism. Indonesia has become a top global choice for halal tourism, with its halal food sector expanding as consumers become more aware of the importance of halal products. Nonetheless, obstacles remain, especially with reactive regulations that respond to market needs instead of anticipating them, and discrepancies in halal certification standards among nations, which impede international recognition.

To address these challenges, Indonesia must adopt a multi-faceted strategy. This includes formulating proactive and effective regulations, enhancing the quality of domestically produced halal goods, and fostering collaboration among the government, industry stakeholders, and relevant institutions to build a robust sharia economy ecosystem. Key focus areas for development include strengthening the Islamic financial sector, expanding the halal industry, and raising public awareness of sharia principles in daily life.

By putting these steps into action, Indonesia is set to become a major center for the sharia economy and halal industry on a global scale. This position would not just boost national economic growth but also improve societal well-being, reinforcing Indonesia's leadership in the global Islamic economy.

The halal sector in Indonesia shows consistent growth, with a focus on halal food and tourism as key components. Indonesia has emerged as a top spot for halal tourism globally, as the halal food industry expands alongside a rising public consciousness about the significance of halal goods. Nevertheless, the primary obstacle to growing the sharia economy in Indonesia is the regulations that are frequently put in place only after market demands have been established, along with varying halal certification standards among nations that may obstruct international acknowledgment.

In order to address these obstacles, it is essential to have proper regulations and enhance the standards of halal products within the country. Collaboration among the government, relevant organizations, and industry members is also crucial to establish a supportive environment for the sharia economy. Developing the sharia

economy in Indonesia requires enhancing the sharia financial sector, expanding the halal industry, and raising awareness about the significance of sharia principles in daily life.

Indonesia has a significant chance to establish itself as a prominent hub for the sharia economy and halal industry by following these steps. This will not just benefit the national economy greatly, but also improve community welfare.

#### REFERENCES

- [1] K. A. Khoiry, M. A. S. Hafiz, and N. R. Ariansyah, "Perbandingan Antara Sistem Ekonomi Islam dan Ekonomi Konvensional : Kelebihan dan Kekurangan," *Islam. Educ.*, vol. 1, no. 3, Art. no. 3, Oct. 2023.
- [2] Management Science Institute of Business and Technology, Karachi. and M. Waqas, "REDEFINIG ECONOMIC SYSTEMS AS AN ISLAMIC ECONOMIC SYSTEM," *IBT J. Bus. Stud.*, vol. 12, no. 1, 2016, doi: 10.46745/ilma.jbs.2016.12.01.06.
- [3] "Agama di Indonesia, 2024 - Tabel Statistik - Badan Pusat Statistik Kota Samarinda." Accessed: Nov. 17, 2024. [Online]. Available: <https://samarindakota.bps.go.id/id/statistics-table/1/MzI0IzE=/agama-di-indonesia-2024.html>
- [4] K. Fikriyah and W. Y. Alam, "Perkembangan Keuangan Syariah dalam Realitas Politik di Indonesia," *J. Ilm. Ekon. Islam*, vol. 7, no. 3, Art. no. 3, Nov. 2021, doi: 10.29040/jiei.v7i3.2687.
- [5] D. A. Mustaqim, "STRATEGI PENGEMBANGAN PARIWISATA HALAL SEBAGAI PENDORONG EKONOMI BERKELANJUTAN BERBASIS MAQASHID SYARIAH," *AB-JOIEC Al-Bahjah J. Islam. Econ.*, vol. 1, no. 1, Art. no. 1, Aug. 2023, doi: 10.61553/abjoiec.v1i1.20.
- [6] H. Herianti, S. Siradjuddin, and A. Efendi, "INDUSTRI HALAL DARI PERSPEKTIF POTENSI DAN PERKEMBANGANNYA DI INDONESIA," *Indones. J. Halal*, vol. 6, no. 2, pp. 56–64, Oct. 2023, doi: 10.14710/halal.v6i2.19249.