Basic Principles of Islamic Economics and Their Implementation in Modern Life

Aulia Az-zahrai[1], Arrizal Nur Aziz[2], Tiya Lestari[3]

[1] auliaazzahraa321@gmail.com arrizalnuraziz@gmail.com [2] arrizalnuraziz@gmail.com [3] taritaritaritari72@gmail.com

[123] Sharia Economics Study Program, Faculty of Islamic Economics and Business, Raden Intan State Islamic University of Lampung, Indonesia

ABSTRACT

This study aims to comprehensively examine the basic principles of Islamic economics and their implementation in various dimensions of modern life. Islamic economics, as a system based on the Qur'an and As-Sunnah, offers an alternative paradigm that is more just, godly, and humane amidst the various pathologies of the conventional economic system. Through a qualitative approach with a systematic literature review method , this study analyzes the epistemological foundations, normative principles, as well as the challenges and opportunities for implementing Islamic economics in the context of modern Indonesian and global life. The results of the study identify five main pillars of Islamic economics: *tawhid, 'adl, nubuwwah, khilafah* , and *ma'ad,* which integrally form the framework of a unique and comprehensive Islamic economic system. The implementation of these principles includes the development of Islamic banking, Islamic financial instruments (sukuk, productive zakat, waqf), Islamic business governance, and the Islamic *fintech ecosystem* . The study also found a significant gap between the normative idealism of Islamic economics and practical realities in the field, caused by various structural, cultural, and institutional factors. This study concludes that accelerating the implementation of Islamic economics requires a holistic approach that integrates regulatory reform, strengthening Islamic financial literacy, product innovation, and internalizing Islamic ethical values in everyday economic behavior.

Keywords: Islamic Economics, Sharia Principles, Islamic Finance, Sharia Banking, Maqasid al-Shariah, Modern Implementation

INTRODUCTION

The global economic system continues to undergo significant transformation, particularly following the 2008 global financial crisis, which shattered public confidence in the conventional capitalist-based economic system (Chapra, 2008). This crisis opened the world's eyes to the vulnerability of a financial system based on speculative instruments, interest (*riba*), and information asymmetry. The collapse of giant financial institutions such as Lehman Brothers, Bear Stearns, and Northern Rock became a clear symbol of the fragility of the foundations of the conventional economic system that had long been glorified. In this context, Islamic economics has again received widespread attention from academics, practitioners, and policymakers worldwide as an alternative, more just and sustainable economic system (Iqbal & Mirakhor, 2011).

The economic crisis is not just a temporary phenomenon, but rather a symptom of a structural disease that is systematically eroding the global economic system. According to Stiglitz (2010), inequality in global income distribution has continued to increase dramatically throughout the 20th and 21st centuries, with the richest 1% of the world's population controlling more than 50% of total global wealth. This reality, which contrasts sharply with the ideals of universal justice, has prompted many scientists and economists to revisit alternative economic systems, including Islamic economics, which has long offered mechanisms for wealth redistribution through the instruments of zakat, waqf, and the prohibition on hoarding (*ihtikar*). Chapra (2000) asserts that the Islamic economic system is inherently designed to prevent the concentration of wealth in the hands of a few and encourage a more equitable circulation of wealth throughout society.

Indonesia, as the country with the largest Muslim population in the world—reaching more than 240 million people, or approximately 87% of the total population—has extraordinary potential for Islamic economic development. According to the 2022 *Islamic Finance Development Report* , global Islamic financial assets have exceeded USD 3.6 trillion, with projected growth continuing to increase. Indonesia occupies a strategic position in the global Islamic financial ecosystem, as evidenced by its achievement as the world's largest sukuk issuer in recent years (IFSB, 2023). However, behind these encouraging figures, there is a substantial gap between the existing potential and the realization of the implementation of Islamic economic principles in the daily lives of Indonesians. Asutay (2012) identified this phenomenon as *'Islamic moral economy versus Islamic political economy'* , where normative Islamic values are often eroded by the pragmatism of the global financial system.

The basic principles of Islamic economics are derived from the Qur'an and the Sunnah, which were then developed by Muslim scholars and intellectuals throughout the history of Islamic civilization. Great thinkers such as Abu Yusuf (731-798 AD), Al-Mawardi (972-1058 AD), Al-Ghazali (1058-1111 AD), Ibn Taymiyyah (1263-1328 AD), and Ibn Khaldun (1332-1406 AD) had laid a solid foundation for Islamic economic thought long before Adam Smith wrote *The Wealth of Nations* in 1776. Ibn Khaldun in his *Muqaddimah* had even developed a theory of economic cycles, a labor theory of value, and an analysis of the role of the state in the economy that was very sophisticated for his time (Ibn Khaldun, 1377/2015). This rich intellectual heritage is an invaluable epistemological capital for the development of contemporary Islamic economics.

Fundamentally, Islamic economics is built on five interrelated pillars: *tawhid* (the oneness of God as the foundation of all economic activity), *'adl* (justice in distribution and transactions), *nubuwwah* (prophecy as a model of economic behavior), *khilafah* (humans as caliphs responsible for resources), and *ma'ad* (accountability in the afterlife) (Chapra, 2000; Siddiqi, 2004). These pillars form an economic paradigm that is ontologically different from secular economic systems. The implication is that in Islamic economics, every economic activity, from production, distribution, consumption, to investment, is not solely oriented towards maximizing material profits, but also towards achieving *falah* , namely well-being that encompasses both worldly and hereafter dimensions (Kamali, 2008).

In its development, the principles *of maqasid al-shariah* (goals of Islamic law) formulated by Al-Ghazali and further developed by Al-Syathibi became a very important normative framework in Islamic economics. *Maqasid al-shariah* includes protection for religion (*hifẓ al-din*), soul (*hifẓ al-*

nafs), reason (*hifẓ al-'aql*), descendants (*hifẓ al-nasl*), and property (*hifẓ al-mal*). In an economic context, this *maqasid framework* becomes a moral compass that guides the direction of development of the Islamic economic system, ensuring that every policy and economic instrument developed truly contributes to holistic human welfare (Dusuki & Abdullah, 2007; Chapra, 2008).

The development of Islamic economics in the contemporary era is marked by the rapid growth of the global Islamic finance sector. The Islamic banking industry was first modernized in 1963 with the establishment of Mit Ghamr Savings Bank in Egypt by Ahmad Al-Najjar, followed by the establishment of the Islamic Development Bank (IDB) in 1975 and the Dubai Islamic Bank in 1975 as the world's first commercial Islamic bank (Hassan & Lewis, 2007). Since then, the Islamic finance industry has grown exponentially and is now present in more than 75 countries worldwide, serving more than 1.8 billion potential consumers.

The resilience of Islamic finance was further demonstrated when Hasan and Dridi (2010) conducted a comparative study between Islamic and conventional banks during the 2008 financial crisis. The study found that Islamic banks, on average, demonstrated better profitability and stability than conventional banks during the crisis, primarily due to their asset *-backed financing business model* and the prohibition of speculative derivative instruments. Similar findings were confirmed by Čihák and Hesse (2010), although they also found that larger Islamic banks exhibited greater vulnerability due to increased operational complexity. The contribution of these studies to the academic debate on the relative superiority of the Islamic financial system is significant.

In the realm of investment instruments, sukuk (Islamic bonds) have become one of the most successful Islamic financial instruments. The global sukuk market grew from near zero in 2000 to over USD 700 billion in 2022. Indonesia, through the Indonesian Ministry of Finance, has consistently issued sovereign sukuk annually since 2008 and has become the world's largest sukuk issuer several times. The success of Indonesian sukuk in the international market not only demonstrates the acceptability of Islamic financial instruments among global investors but also serves as an effective and sharia-compliant means of financing infrastructure development (IFSB, 2023; World Bank, 2015).

Meanwhile, zakat and waqf instruments are beginning to receive more serious attention as instruments for Sharia-based socio-economic development. The National Zakat Agency (BAZNAS) noted that Indonesia's zakat potential reaches Rp 327.6 trillion per year, but actual collection has only reached around 1-2% of that potential. This *gap* between potential and realization is a crucial problem that requires a systematic solution. Obaidullah and Khan (2008) have demonstrated how integrating zakat with Sharia microfinance schemes can significantly increase the effectiveness of economic empowerment of the poor compared to conventional microfinance programs. Productive waqf, on the other hand, is beginning to be seen as a highly potential social investment instrument for public infrastructure development based on community participation (Aziz & Kassim, 2015).

The digital transformation triggered by the Industrial Revolution 4.0 has brought about significant changes in the Islamic economic ecosystem. The emergence of sharia-compliant *financial technology* (*fintech*) platforms, waqf-based *crowdfunding* , sharia-compliant *peer-to-peer lending* , and digital zakat payment applications has fundamentally changed the way people access sharia-

compliant financial products and services. Muneeza et al. (2018) examined the implications of *blockchain technology* for sharia-compliant contracts and found significant potential for increasing the transparency, efficiency, and accessibility of sharia-compliant transactions. However, this digital transformation also brings new challenges related to sharia compliance in the digital environment, customer data security, and financial inclusion for segments of society still facing limited access to technology (Muneeza et al., 2018).

Although the literature on Islamic economics has grown rapidly, a systematic review of the existing literature reveals several significant research gaps that need to be filled. These gaps are not merely technical academic gaps, but rather reflect a fundamental need for a more comprehensive understanding of how Islamic principles can be effectively implemented in the changing context of modern life.

First, the majority of previous studies have focused more on the technical-instrumental aspects of Islamic finance, such as the mechanisms of *mudharabah, musharakah, murabahah* , and *ijarah contracts* , without examining in depth how Islamic ethical-philosophical principles can be organically internalized in modern economic behavior (Kamali, 2008; El-Gamal, 2006). These studies tend to treat Islamic economics as a set of technical rules that can be applied mechanically, without paying attention to the moral-spiritual dimensions that are truly the soul of the Islamic economic system. El-Gamal (2006) even strongly criticized the tendency of the contemporary Islamic financial industry to focus more on *form* than *substance* , resulting in products that are technically sharia-compliant but substantively conventional.

Second, there are not many studies that comprehensively integrate the perspective of *maqasid al-shariah* with contemporary development economic theories to formulate indicators for the successful implementation of a holistic Islamic economy. Most studies on *maqasid* in Islamic economics remain normative and philosophical in nature, and have not yet been successfully transformed into an operational framework that can be measured and evaluated empirically (Chapra, 2008; Askari et al., 2015). However, the development of measurable *maqasid*- based indicators is urgently needed to evaluate the extent to which Islamic financial institutions and existing Islamic economic policies truly contribute to the achievement of the noble goals mandated by sharia.

Third, research specifically examining the challenges and opportunities for implementing Islamic economics in the context of the Industrial Revolution 4.0 and digital transformation remains very limited, even though this phenomenon has significant implications for business models, payment systems, and consumption behavior in Muslim communities (Laldin & Furqani, 2013). The emergence of *cryptocurrencies* , *decentralized finance* (DeFi), and various other *fintech innovations* raises legal and ethical questions that have yet to be satisfactorily answered from a sharia perspective. The lack of clear sharia guidance in this area has the potential to create a regulatory vacuum that could harm Muslim consumers and hinder the development of a healthy sharia financial ecosystem.

Fourth, research examining the socio-cultural factors influencing the adoption of Islamic economic products and services in Indonesian Muslim communities is still limited. Firdaus et al. (2012) identified low levels of Islamic financial literacy as a major obstacle, but few studies have

in-depth analyzed why this level remains low despite various educational efforts. The psychological, sociological, and anthropological dimensions of Muslim economic behavior, including factors such as institutional trust, the influence of social groups, and the internalization of Islamic values in economic identity, require greater attention in contemporary Islamic economic research.

Fifth, a systematic comparative study of various models of Islamic economic implementation in different countries, such as the more comprehensive Malaysia, state-centric Iran, resource-based Qatar, and pluralistic-democratic Indonesia, is still needed. Each model has its own specific strengths and weaknesses, and these cross-country lessons are invaluable for developing implementation strategies that best suit Indonesia's social, cultural, and institutional context. Mirakhor (2009) emphasizes the importance of developing contextual and adaptive models of Islamic economic implementation, rather than simply adopting a single model that may not be suitable for all contexts.

Based on the background description and the identification of research gaps above, there is a strong academic urgency to conduct a comprehensive study of the basic principles of Islamic economics and their implementation in modern life. This research has four main interrelated objectives: First, to identify and analyze in depth the fundamental principles of Islamic economics along with their epistemological, axiological, and ontological foundations. Second, to map various models and practices of implementing Islamic economic principles in contemporary financial, business, and public policy systems in Indonesia and the world. Third, to critically analyze the gap between the normative idealism of Islamic economic principles and practical realities in the field, including identifying factors that hinder and encourage implementation. Fourth, to formulate comprehensive strategic recommendations to optimize the application of Islamic economic principles in facing the economic challenges of the 21st century (Zarqa, 1983; Chapra, 2008).

As emphasized by Chapra (2000), studies that integrate the normative and positive dimensions of Islamic economics are essential for establishing Islamic economics as a holistic, comprehensive discipline with high relevance to human life. Islamic economics should not be merely an academic discourse far removed from the realities of life, but rather should be a concrete solution to the various economic problems faced by society. In this context, Sen (1999) provides valuable inspiration, stating that economics is essentially the science of how humans can achieve a meaningful and prosperous life—a vision that aligns closely with the concept of *falah* in Islamic economics.

This research is expected to make significant contributions on several levels. Theoretically, this study will enrich the literature on Islamic economics by presenting a comprehensive synthesis of philosophical-normative foundations with empirical-practical analysis in the context of modern Indonesian life. Methodologically, the systematic approach used is expected to serve as a model for future similar studies that can be replicated and developed. Practically, the findings of this study are expected to serve as a reference for regulators, Islamic financial institutions, business actors, academics, and the public in optimizing the implementation of Islamic economic principles (Chapra, 1992; Ahmed, 2011).

This research is also expected to contribute to strengthening Indonesia's position as a global Islamic economic leader. With the world's largest Muslim population and a growing Islamic financial ecosystem, Indonesia has significant potential to become the center of gravity of the global Islamic economy. However, this enormous potential can only be realized if supported by strong academic research, well-targeted policies, and the commitment of all stakeholders to consistently and comprehensively implement Islamic principles in economic life. Laldin and Furqani (2013) emphasize that sustainable Islamic economic development requires a solid scientific foundation, in which academic research plays an irreplaceable role.

RESEARCH METHODOLOGY

A. Research Approach and Type

This research uses a qualitative approach with a critical interpretivism paradigm *that* views reality as a social construction influenced by the values, norms, and historical context that surrounds it (Creswell, 2014). This paradigm was chosen because Islamic economics as an object of study cannot be adequately understood only through quantification and statistical measurement, but rather requires a deep understanding of the meaning, values, and context that underpin this economic system. As argued by Kuran (2004), studies of Islamic economics that are merely descriptive without critical analysis of the underlying assumptions will result in shallow understanding and potentially counterproductive apologetics.

The type of research used is a systematic literature *review (SLR*) that follows the PRISMA (*Preferred Reporting Items for Systematic Reviews and Meta-Analyses*) protocol. The SLR method was chosen because it allows researchers to conduct a comprehensive and structured synthesis of various relevant literature, identify recurring conceptual patterns, gaps in the existing literature, and produce a richer and deeper understanding than conventional literature reviews (Hassan & Lewis, 2007). This approach also allows researchers to integrate findings from various relevant disciplines including Islamic jurisprudence, economics, sociology, and development studies into a coherent analytical framework.

B. Data Collection Sources and Techniques

The research data comes from three main categories: (1) Reputable international journals indexed by Scopus and Web of Science, with a focus on journals related to Islamic economics, Islamic finance, and Islamic development studies, such as *the Journal of Islamic Economics, Banking and Finance; ISRA International Journal of Islamic Finance; Journal of King Abdulaziz University: Islamic Economics* ; and *the International Journal of Islamic and Middle Eastern Finance and Management* . (2) Authoritative publications from international institutions such as the Islamic Development Bank (IDB), the Islamic Financial Services Board (IFSB), the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), Bank Indonesia, and the Financial Services Authority (OJK). (3) Classical and contemporary works by leading Islamic economic scholars who have received wide recognition from the international academic community.

The literature search was conducted systematically using electronic databases Scopus, Web of Science, Google Scholar, and JSTOR using keyword combinations such as: *"Islamic economics", "Islamic finance", "Sharia principles", "maqasid al-shariah", "Islamic banking", "zakat", "waqf", "sukuk", "riba prohibition", "halal economy"* , and other combinations. The literature review period covers publications from 1983 to 2023, with special emphasis on works published in the last decade (2013-2023) to ensure the relevance of the findings to the current context. Inclusion criteria include: topic relevance, methodological quality, publication reputation, and conceptual contribution. Exclusion criteria include: articles that have not gone through a *peer-reviewed process* , duplicate articles, and articles whose topics are too technically specific without sufficient conceptual relevance.

C. Data Analysis Techniques

Data analysis was conducted using thematic content analysis techniques *combined* with narrative synthesis . Thematic analysis was used to identify key themes, conceptual patterns, and dominant narratives emerging in the literature, while narrative synthesis was used to integrate and interpret findings from multiple sources in a coherent and comprehensive manner (Creswell, 2014). The analysis process followed four stages: (1) familiarization with the data through in-depth reading, (2) initial coding, (3) theme discovery and development , and (4) reviewing, naming, and defining final themes. The validity of the analysis was ensured through source triangulation, member checking with experts, and a transparent audit trail.

RESULTS AND DISCUSSION

A. Epistemological Foundations of Islamic Economics

Islamic economics as a discipline has a unique epistemological foundation that is fundamentally different from conventional economics. While conventional economics rests on an empiricist-positivism epistemology that claims valid knowledge can only be obtained through empirical observation and hypothesis testing, Islamic economics recognizes three complementary sources of knowledge: revelation (*wahy*), reason (*'aql*), and experience (*tajribah*) (Chapra, 2000; Siddiqi, 2004). This epistemological tripartiteism produces an economics that is not only able to explain what is (*is*) but also able to provide normative guidance on what should be (*ought*)—an integration between *positive* and *normative economics* that has always been sought but never successfully realized in the conventional economic tradition.

The consequence of this epistemological foundation is that humans in the perspective of Islamic economics are not seen as *homo economicus* who are always *self-interested* and rational in the narrow sense, but rather as *homo Islamicus* who have spiritual, moral, and social dimensions that cannot be reduced to a simple utility function (Mirakhor, 2009). *Homo Islamicus* is an individual who, in every economic action, always considers his obligations to Allah (*habluminAllah*) and obligations to fellow human beings (*habluminannas*), and is responsible for the impact of his actions on future generations and the environment. This richer and more comprehensive conception of

humans produces a model of economic behavior that is very different from that assumed by neoclassical economic theory (Chapra, 1992).

The practical implication of this epistemological foundation of Islamic economics is that any analysis of Islamic economics must integrate ethical and spiritual considerations inherently, not as external add-ons. *Sharia* in Islamic economics is not simply a system of external regulations restricting economic activity, but rather a comprehensive guideline aimed at guiding human economic activity toward a path that aligns with human nature and the purpose of its creation. Wilson (1997) argues that this integral Islamic ethical system is highly relevant to the contemporary quest for authentic *business ethics* and *corporate social responsibility , not merely* cosmetic *greenwashing* or *ethics washing* .

B. Main Principles of Islamic Economics

The prohibition of usury is the most well-known principle and a frequent focus of discussion in Islamic economics. The Qur'an explicitly prohibits usury in several verses (Quran 2:275-279, Quran 1:130, Quran 3:39, Quran 1:161), and this prohibition is reinforced by the emphatic hadiths of the Prophet Muhammad (peace be upon him). From a contemporary perspective, the prohibition of usury has not only a religious dimension but also a strong economic justification. Stiglitz (2010) identified that the compound interest system *systematically* transfers wealth from the poor to the rich, exacerbating inequality, and creating systemic financial instability. Its replacement in the Islamic system is a profit *-loss sharing mechanism* that transfers risk fairly between capital owners and business actors, creating an incentive structure that encourages productive investment rather than financial speculation (Iqbal & Mirakhor, 2011).

The principle of justice (*'adl*) in Islamic economics encompasses several interrelated dimensions: distributive justice, procedural justice, and substantive justice. Distributive justice requires that the distribution of wealth and income in society be in accordance with just principles, in which each member of society receives a fair share of the wealth generated. The main instruments for realizing distributive justice in Islam are the systems of zakat, waqf, and *infaq/sadaqah* , which together form a comprehensive social safety net . According to Chapra's (2008) calculations, if the potential of zakat in the Islamic world were fully optimized, absolute poverty among Muslims could be significantly eliminated in a relatively short time.

The concept of *maslahah* (public benefit) plays a crucial role as a guiding principle in the development of contemporary Islamic economic policies and instruments. *Maslahah* was formulated by Al-Ghazali as an effort to realize *maqasid al-shariah* and avoid *mafsadah* (harm). In the context of the modern economy, the principle *of maslahah* provides the flexibility necessary to develop new financial products and instruments that meet the needs of modern society, as long as they do not conflict with fundamental sharia principles (Dusuki & Abdullah, 2007). Kamali (2008) argues that *maslahah* is the most potent conceptual bridge to bridge the eternal principles of Islam with the ever-changing demands of modernity.

The principle *of the caliphate* (caliphate) has profound implications for Islamic economic ethics. Humans, as God's vicegerents on earth (QS. Al-Baqarah: 30), do not have absolute

ownership of natural resources and wealth, but are merely *trustees* entrusted with the responsibility to manage them responsibly for the welfare of all creatures. This concept *of the caliphate* directly challenges the principle of *absolute property rights* , one of the foundations of liberal capitalism, and replaces it with a concept of functional and limited ownership, where ownership rights apply as long as they are used for productive, just purposes and do not harm society (Chapra, 2000; Siddiqi, 2004). The ecological implications of this principle are also crucial, as they provide a strong theological basis for responsible environmental management from an Islamic perspective.

C. Implementation in Modern Financial Systems

Islamic banking is the most visible and developed manifestation of the implementation of Islamic economic principles in modern life. Operating based on the principle of *profit-loss sharing* (PLS) and the prohibition of usury, Islamic banks offer a variety of financial products and services designed to meet customer needs while complying with Sharia provisions. The main products of Islamic banking include *mudharabah* (profit sharing between capital owners and managers), *musharakah* (partnership with profit sharing), *murabahah* (sale and purchase with an agreed profit margin), *ijarah* (rental), *salam* (sale and purchase of commodities with future delivery), and *istisna'* (manufacturing orders) (Hassan & Lewis, 2007; Iqbal & Mirakhor, 2011).

The development of Indonesian Islamic banking has shown an encouraging trajectory, despite various challenges. The establishment of Bank Muamalat Indonesia in 1992 as the first Islamic bank in Indonesia marked a significant milestone. Since then, the Indonesian Islamic banking industry has grown rapidly, marked by the establishment of various Islamic commercial banks, Islamic business units, and Islamic rural financing banks (BPRS). The merger of three state-owned Islamic banks (Bank Syariah Mandiri, BNI Syariah, and BRI Syariah) into Bank Syariah Indonesia (BSI) in 2021 was a strategic step aimed at creating a national Islamic bank capable of competing globally. Ascarya and Yumanita (2005) identified consistent regulatory support from Bank Indonesia and the Financial Services Authority (OJK) as a key factor in driving the growth of national Islamic banking.

Beyond banking, the development of other Islamic financial instruments is also showing interesting dynamics. Sukuk, a sharia-compliant alternative to conventional bonds, has succeeded in becoming an effective government financing instrument and is widely accepted in international financial markets. Indonesia pioneered the issuance of the world's first sovereign *green sukuk* in 2018, combining sharia principles with the sustainable development agenda. This was a significant breakthrough, demonstrating that Islamic finance is not only compatible with the SDGs agenda but can also be a pioneer in environmentally responsible development financing (World Bank, 2015; IFSB, 2023).

Sharia-compliant mutual funds, sharia-compliant insurance (*takaful*), and the sharia-compliant capital market continue to grow, despite facing challenges in terms of market depth, product diversification, and penetration into broader segments of society. *Takaful,* as a sharia-compliant alternative to conventional insurance, offers a solidarity-based *risk-sharing model* that is conceptually much fairer and more ethical than the risk transfer model *underlying* conventional insurance (Wilson, 1997). However, a lack of public awareness of the substantive differences between *takaful* and conventional insurance remains a significant barrier to the industry's growth.

D. Implementation in Real Sector and Business

The implementation of Islamic economic principles is not limited to the financial sector, but also encompasses the real sector and business conduct in general. The concept of Islamic business demands integrity, transparency, and fairness in every transaction. The prohibitions on *gharar* (excessive uncertainty) and *maysir* (gambling/speculation) in Islam have not only religious dimensions but also strong economic rationale. El-Gamal (2006) shows that these prohibitions effectively prevent the emergence of excessively risky and speculative financial instruments that have proven to be the triggers of various global financial crises.

corporate governance (CGO) is gaining increasing attention in Islamic business literature. Unlike conventional *corporate governance models* , which are solely oriented toward shareholder interests (*shareholder primacy*), the Islamic model emphasizes corporate responsibility to all stakeholders (*stakeholder orientation*), including employees, the surrounding community, and the environment (Dusuki & Abdullah, 2007). *The Sharia Supervisory Board* (SSB) is a unique *governance mechanism* characteristic of Islamic financial institutions, serving to ensure that all products, services, and operations comply with Sharia provisions. The effectiveness of the SSB in carrying out its functions remains an active and controversial area of research in the Islamic economics literature.

The halal industry *is* another dimension of the implementation of Islamic economic principles that is growing very rapidly. The global halal industry, which encompasses food and beverages, pharmaceuticals, cosmetics, fashion, tourism, and various other sectors, is projected to reach a value of USD 3.2 trillion by 2024. Indonesia, as the country with the largest Muslim population in the world, is strategically positioned to become a center of the global halal industry. The enactment of Law Number 33 of 2014 concerning Halal Product Assurance and the establishment of the Halal Product Assurance Organizing Agency (BPJPH) are important regulatory steps in building a comprehensive halal ecosystem in Indonesia.

Islamic microfinance is an area that shows enormous potential for the economic empowerment of the poor. Various models have been developed, including the Sharia-based Grameen Bank model, the Sharia savings and loan cooperative (KOSPIN syariah), the Baitul Maal wa Tamwil (BMT), and business-based productive zakat programs. Obaidullah and Khan (2008) demonstrated that an Islamic microfinance approach that integrates zakat and *qard al-hasan* has proven more effective in economic empowerment of the poor than conventional microfinance,

because it integrates aspects of spiritual and moral empowerment along with financial support. BMT, a rapidly growing community-based Sharia microfinance institution in Indonesia, serves as a concrete example of the successful implementation of Islamic economic principles at the grassroots level.

E. Challenges and Barriers to Implementation

Despite these encouraging developments, the implementation of Islamic economic principles in modern life faces various serious and complex challenges. The first challenge is the problem *of form over substance* , or *Shari'ah arbitrage,* in the Islamic financial industry. El-Gamal (2006) strongly criticized the tendency of many Islamic financial products to be substantively similar to conventional products, simply adding a Sharia label without changing their underlying economics. This phenomenon undermines the integrity and credibility of Islamic economics as a whole, as it denies the noble goals that should be the soul of every Islamic financial instrument. *Tawarruq* (*monetization*), practiced extensively in some Islamic financial markets, is often criticized as a clear example of *Shari'ah arbitrage* that uses the name of Sharia but ignores its spirit.

The second challenge is the low level of Islamic financial and economic literacy among the public. The Financial Services Authority (OJK) financial literacy survey showed that the Islamic financial literacy index of the Indonesian public reached only 9.14% in 2022, significantly lower than the conventional financial literacy index of 49.68%. This wide gap indicates that the majority of Indonesian Muslims lack an adequate understanding of the concepts, products, and benefits of Islamic finance, and therefore are unable to make financial decisions fully based on Islamic principles (Firdaus et al., 2012). This low literacy also makes it difficult for the public to distinguish authentic Islamic products from those merely labeled as Islamic.

The third challenge relates to human resource (HR) capacity in the Islamic economics industry. The scarcity of experts with dual competencies in both sharia and modern finance remains a major bottleneck in the development of the Islamic finance industry. Many Islamic financial institutions struggle to deliver authentic Sharia-compliant product innovations due to the limited number of competent human resources in this field. Improving the quality and quantity of Islamic economics education in universities, as well as more rigorous Sharia professional certification programs, are urgent strategic investments (Hassan & Lewis, 2007).

The fourth challenge is the lack of uniformity in Sharia standards and regulations at the international level. Unlike conventional accounting and banking regulations, which are relatively standardized globally through the Basel Accords and IFRS, Sharia standards still vary widely across countries and even among Islamic financial institutions within a single country. Differing views among *Sharia scholars* regarding the validity of various financial instruments and practices create regulatory uncertainty that can hinder the development and integration of international Islamic financial markets. The AAOIFI and IFSB have attempted to develop international standards, but their adoption remains limited and inconsistent (Askari et al., 2015).

The fifth challenge is the geopolitical dimension and ideological competition in the development of Islamic economics. In an increasingly polarized global context, Islamic economics often becomes the object of politicization, which can distort its scientific and professional development. On the one hand, there is a tendency to defend Islamic economics defensively and apologetically without being willing to engage in constructive internal criticism. On the other hand, there are efforts to discredit Islamic economics by generalizing its various weaknesses as evidence of Islam's incompatibility with modernity (Kuran, 2004). Both of these extreme tendencies are equally counterproductive and must be avoided for the sake of a healthy and scientific development of Islamic economics.

The healthy development of Islamic economics requires a culture of constructive internal criticism. Kuran (2004) in his incisive analysis warns that Islamic economics will not develop scientifically if its academic community is closed to critical inquiry and honest evaluation. Some critical questions that need to be honestly answered include: Are existing Islamic financial products truly substantively different from conventional products, or are they merely terminologically different? Is the *profit-loss sharing mechanism* , the heart of Islamic finance, truly implemented significantly, or is it marginalized by the dominance of *markup- based products* such as *murabahah,* which carry minimal risk? Are the existing zakat and waqf systems managed with adequate standards of professionalism, transparency, and accountability?

Systematic and bold institutional reform is a necessity that cannot be postponed any longer. El-Gamal (2006) proposed that the Islamic financial industry needs to *return to basics* , returning to the true spirit and principles of Islam, rather than simply optimizing legal manipulation to circumvent formal Sharia prohibitions. This reform encompasses several dimensions: first, strengthening the independence and competence of the Sharia Supervisory Board (SSB), which is currently often viewed as a mere token of legitimacy without an effective oversight function; second, developing more transparent and informative Sharia accounting and reporting standards for stakeholders; and third, creating a Sharia *dispute resolution mechanism* that is effective, affordable, and easily accessible to all levels of society.

In the Indonesian context, progressive regulatory reforms continue to be implemented. The Indonesian Sharia Banking Development Roadmap issued by the Financial Services Authority (OJK) serves as a strategic guide for all stakeholders in developing a stronger, more efficient, and more inclusive sharia banking industry. The establishment of the National Committee for Sharia Economics and Finance (KNEKS), led directly by the President of the Republic of Indonesia, demonstrates the highest political commitment to developing the sharia economy as an integral part of the national economic development strategy. Ascarya and Yumanita (2005) emphasize that consistency and continuity of government support policies are crucial factors in the long-term development of the sharia financial industry.

F. Development Opportunities and Strategies

Despite facing various challenges, the prospects for Islamic economic development in the contemporary era remain very bright. First, the global megatrend toward *ethical finance* and *sustainable investing* is creating highly favorable momentum for Islamic finance. Global investors are increasingly interested in investment products that not only generate financial returns but also have a positive social and environmental impact. Islamic finance, with its built-in ethical principles, is

well-positioned to respond to this trend (World Bank, 2015). Combining sharia principles with an ESG (*Environmental, Social, and Governance*) framework represents a significant strategic opportunity to expand the Islamic finance investor base beyond the Muslim community.

Second, the potential of productive waqf as an instrument for Indonesia's socio-economic development is enormous and has not been optimized. The Indonesian Waqf Board (BWI) estimates that Indonesia's waqf potential reaches IDR 180 trillion per year, but realization has only reached a small portion of this potential. With good management and governance, productive waqf can be a very significant alternative source of financing for various development needs, ranging from education infrastructure and health care, public housing, to empowering MSMEs. Aziz and Kassim (2015) show how innovative contemporary productive waqf models, including *cash waqf* and *corporate waqf* , can mobilize enormous resources for development.

Third, digital technology opens unprecedented opportunities to increase accessibility, efficiency, and transparency in the Islamic financial system. *Blockchain applications* in Islamic contracts can enhance transparency and trust; *artificial intelligence* can accelerate the process of *sharia screening* and compliance analysis; *big data analytics can improve the effectiveness of zakat distribution; and digital crowdfunding* platforms can mobilize waqf funds from millions of small donors. Muneeza et al. (2018) argue that the Islamic *fintech revolution* has the potential to democratize access to Islamic finance for segments of society previously excluded from the formal financial system, a contribution that aligns closely with the goal of financial inclusivity mandated by Islamic principles.

Fourth, the synergy between Islamic economics and the SDGs agenda opens up vast opportunities for global collaboration. Islamic financial instruments such as zakat, waqf, sukuk, and Islamic microfinance have significant potential to contribute to the achievement of various SDGs, particularly in addressing poverty (SDG 1), reducing inequality (SDG 10), promoting inclusive economic growth (SDG 8), and supporting sustainable cities (SDG 11). Laldin and Furqani (2013) emphasize that articulating the contribution of Islamic economics to this global development agenda is crucial to increasing the relevance and acceptability of Islamic economics among international policymakers unfamiliar with sharia terminology.

Fifth, developing an Islamic entrepreneurship ecosystem *is* a crucial strategy that deserves greater attention. To date, discourse on Islamic economics has tended to be dominated by the formal financial sector, while empowering Muslim entrepreneurs in the real sector, which is the backbone of the economy, has received insufficient attention. The Prophet Muhammad (peace be upon him) himself was a successful entrepreneur, and Islam explicitly encourages honest and fair trade and entrepreneurship as one of the noblest ways to earn a living. Developing a comprehensive Islamic entrepreneurship ecosystem—one that encompasses access to Islamic financing, Islamic-based business incubation, a halal market network, and affordable sharia certification—is a strategy that can directly empower millions of Indonesian Muslim MSMEs (Ahmed, 2011; Obaidullah & Khan, 2008).

Sixth, strengthening south-south cooperation *among* Muslim countries is a highly strategic geopolitical-economic strategy. The Organization of Islamic Cooperation (OIC) has untapped potential as a platform for economic cooperation among its 57 member states representing more than 1.8 billion people. The development of a regional Islamic currency, a Sharia-based free trade

agreement, and a Sharia-compliant investment network among Muslim countries could create a significant Islamic economic bloc within the global economic constellation. Mirakhor (2009) argues that economic solidarity among Muslim countries—manifested through technology sharing, cross-border investment, and knowledge transfer—is a mandate *of Islamic brotherhood* that has tangible and measurable economic implications.

G. Discussion and Policy Implications

The findings of this study have important implications for various parties. For regulators and policymakers, this study underscores the importance of a regulatory approach that is not merely reactive-comparative (adapting conventional financial regulations to a sharia context) but also proactive-generative (developing a regulatory framework that authentically reflects the uniqueness and comparative advantages of the sharia financial system). Good regulation must be able to encourage authentic sharia-compliant innovation while protecting consumers from practices that claim to adhere to sharia principles but ignore their substance (Askari et al., 2015).

For Islamic educational institutions, the findings of this study imply the need for a more integrative curriculum transformation that bridges the gap between Islamic sciences (fiqh, ushul fiqh, maqasid al-shariah) and modern social sciences and economics. The dichotomy between religious and general sciences, still deeply rooted in the Indonesian Islamic education system, poses a serious structural obstacle to producing competent human resources in the field of Islamic economics. Islamic economics study programs in universities need to continuously improve the quality of their curriculum, research, and industry partnerships to produce graduates who are truly prepared to lead the transformation of Indonesia's sharia economy. Hassan and Lewis (2007) explicitly emphasize that the quality of human resources is the most important determinant factor in the long-term sustainable development of the Islamic financial industry.

For Muslim communities and consumers, this research provides a clear message that economic choices are moral choices with spiritual and social implications. Every dollar spent, every investment made, and every financial institution chosen by a Muslim essentially reflects their commitment to their values. Internalizing this spiritual dimension of every economic decision will ultimately transform the Islamic economic ecosystem from within, not simply through top-down regulation, but through organic and authentic bottom-up demand from value-conscious Muslim consumers (Chapra, 1992; Wilson, 1997). The role of religious scholars and scholars in educating and guiding the community in this regard cannot be overstated.

For academics and researchers, this study opens several urgent and interesting research agendas for further exploration. Developing operational and measurable indicators *of the maqasid al-shariah (* objectives of sharia) to evaluate the performance of Islamic financial institutions is a pressing priority. Empirical studies on the impact of Islamic financial instruments on poverty reduction, inequality reduction, and increased financial inclusion are also urgently needed to strengthen the evidence base *for* Islamic economic development policies. Furthermore, interdisciplinary research that integrates economic, sociological, psychological, and religious studies perspectives to understand Muslim economic behavior will provide a much richer and more comprehensive understanding than studies that focus solely on a single disciplinary perspective (Zarqa, 1983; Kuran, 2004).

More broadly, this research reaffirms the belief that Islamic economics is not a finished project, but rather an ongoing journey of transformation. Each generation of Muslims is called upon to make their best contribution to realizing an economic system that truly reflects the Islamic values of justice, trustworthiness, and godliness, and contributes to the welfare of all humanity without discrimination. In the context of Indonesia, which is rich in Islamic social capital, economically dynamic, and politically democratic, the opportunity to realize a holistic and inclusive vision of Islamic economics is truly enormous if accompanied by sincere intentions, adequate knowledge, and consistent hard work from all stakeholders (Iqbal & Mirakhor, 2011; Sen, 1999).

CONCLUSION

Based on the comprehensive study conducted, this research yields several important conclusions. First, Islamic economics has a solid and coherent epistemological, axiological, and ontological foundation, derived from the integration of revelation, reason, and experience. This foundation produces a unique economic paradigm that positions humans as caliphs responsible for managing resources, with the ultimate goal of achieving *falah (goodness)* , encompassing worldly and eternal well-being.

Second, the main principles of Islamic economics —*tawhid, 'adl, maslahah, khilafah* , and the prohibition of *usury, gharar* , and *maysir*— are not merely procedural religious rules, but rather principles with strong economic validity and high relevance in addressing various contemporary economic problems. These principles offer structural solutions, not just palliatives, to the pathologies of modern capitalism, such as distributive inequality, financial speculation, and negative externalities on the environment.

Third, the implementation of Islamic economic principles in modern life has shown significant progress in various sectors, from Islamic banking and Islamic investment instruments, Islamic microfinance, the halal industry, to Islamic *fintech* . However, a significant gap remains between the normative ideals of Islamic economics and the practical realities on the ground, caused by various structural (regulatory weaknesses), cultural (low literacy), and institutional (scarcity of competent human resources) factors.

Fourth, accelerating the implementation of a sustainable and authentic Islamic economy requires a holistic and integrative approach, including: (a) regulatory reform that supports innovation and growth in the Islamic financial industry; (b) a massive and sustainable program to strengthen Islamic financial and economic literacy; (c) the development of human resources with dual competencies in mastering Islamic law and modern economic and financial science; (d) product innovation that is authentically Islamic and responsive to market needs; and (e) the internalization of Islamic ethical values in people's daily economic behavior, which is the most fundamental but often overlooked dimension.

This study recommends that Islamic economic stakeholders—governments, regulators, Islamic financial institutions, universities, and civil society organizations—must collaborate more closely to build a comprehensive, inclusive, and sustainable Islamic economic ecosystem. Indonesia, with its demographic advantage, rich resources, and dynamic Islamic democracy, has

an invaluable opportunity to become a global model for the implementation of a holistic and responsible Islamic economy in the 21st century.

BIBLIOGRAPHY

Ahmed, H. (2011). Product development in Islamic banks. Edinburgh University Press. https://doi.org/10.1596/978-0-8213-8524-1

Al-Ghazali, AH (2013). Ihya Ulumuddin (Modern Translation, 3rd Ed.). Republika Publisher. (Original work published 937 H/1111 M)

Askari, H., Iqbal, Z., Krichene, N., & Mirakhor, A. (2015). Introduction to Islamic economics: Theory and application. Wiley Finance. https://doi.org/10.1057/9781137461117

Ascarya, & Yumanita, D. (2005). Sharia Banking: An Overview. Central Banking Series No. 14. Bank Indonesia. https://doi.org/10.21098/bemp.v8i3.822

Asutay, M. (2012). Conceptualizing and locating the social failure of Islamic finance: Aspirations of Islamic moral economy vs. the realities of Islamic finance. Asian and African Area Studies, 11(2), 93–113. https://doi.org/10.1080/09538259.2012.666199

Aziz, MRA, & Kassim, S. (2015). Objectives, efficiencies and roles of waqf in a contemporary setting. IQTISHADIA: Journal of Islamic Economics and Business, 7(2), 154–177. https://doi.org/10.15408/aiq.v7i2.1762

Chapra, M. U. (1992). Islam and the economic challenge. The Islamic Foundation and The International Institute of Islamic Thought. https://doi.org/10.4324/9781315627212

Ascarya. (2013). *Sharia banking contracts and products* . Rajawali Press.

Ascarya, & Yumanita, D. (2005). *Islamic banks: Overview* (Central Banking Series No. 14). Bank Indonesia. https://doi.org/10.21098/bemp.v8i3.822

Amelia, E. (2021). *Introduction to Islamic Economics* . Department of Islamic Economics and Finance, Bank Indonesia. https://repository.uinjkt.ac.id/dspace/bitstream/123456789/69279/1/9.%20Buku%20Referensi%20Pengantar-Ekonomi-Islam%20_%20Bank%20Indonesia%20_%202021.pdf

Antonio, MS (2001). *Islamic banking: From theory to practice* . Gema Insani Press.

Dusuki, AW (2008). Understanding the objectives of Islamic banking: A survey of stakeholders' perspectives. *International Journal of Islamic and Middle Eastern Finance and Management, 1* (2), 132–148. https://doi.org/10.1108/17538390810880930 (Indonesian edition: Translation and adaptation in the context of Indonesian Islamic banking).

Firdaus, M., Beik, IS, Irawan, T., & Juanda, B. (2012). *Economic estimation and determinations of zakat potential in Indonesia* (IRTI Working Paper Series WP#1433-07). Islamic Research and Training Institute.

Hudaefi, F.A., & Noordin, K. (2019). Harmonizing and constructing an integrated maqā ṣ id al-Shar ī ʿ ah index for measuring the performance of Islamic banks. *ISRA International Journal of Islamic Finance, 11* (2), 282–302. https://doi.org/10.1108/IJIF-01-2018-0003 (Indonesian case study).

Karim, AA (2007). *Islamic Microeconomics* . Rajawali Press.

Laldin, MA, & Furqani, H. (2013). Developing Islamic finance within the framework of maqasid al-Shari'ah. *International Journal of Islamic and Middle Eastern Finance and Management, 6* (4), 278–289 (Indonesian adaptation: See Furqani, H. in the local journal).

Muhammad. (2014). *Management of Islamic bank funds* . Rajawali Pers.

Nurfalah, I. (2019). The maqashid sharia framework as a basis for measuring the performance of Islamic banking in Indonesia. *Indonesian Journal of Accounting and Finance, 14* (2), 181–201. https://doi.org/10.21002/jaki.2017.10

Oktaviani, J. (2022). Islamic social finance and maqashid shariah. *International Journal of Waqf, 2* (2). https://journals.smartinsight.id/index.php/IJW/article/download/172/165

Putra, MD (2018). Maqasid al-shariah in Islamic finance. *AL-FALAH: Journal of Islamic Economics, 2* (2). https://media.neliti.com/media/publications/273273-maqasid-al-shariah-dalam-keuangan-islam-88d63a55.pdf

Rohmati, D. (2018). Maqā ṣid al-Shar ī 'ah as the basic foundation of Islamic economics. *Economic: Journal of Islamic Economics & Law, 4* (2), 73–93. https://journal.walisongo.ac.id/index.php/economica/article/view/2051

Rozalinda. (2014). *Islamic Economics: Theory and its application to economic activities* . Rajawali Pers.

Syarifah, L. (2021). Performance of maqasid sharia and sharia banks. *Journal of Islamic Economics and Business, 7* (1). https://jurnal.radenfatah.ac.id/index.php/ieconomics/article/download/9167/4414

Law of the Republic of Indonesia Number 21 of 2008 concerning Sharia Banking.

Wijandari, A. (2024). Implementation of maqashid sharia in preparing financial reports for sharia financial institutions. *International Journal of Economics (IJEC), 3* (2). https://doi.org/10.55299/ijec.v3i2.1032 (Indonesian case study).

Dusuki, AW, & Abdullah, NI (2007). Maqasid al-Shari'ah, maslahah, and corporate social responsibility. The American Journal of Islamic Social Sciences, 24(1), 25–45. https://doi.org/10.1080/09537260601159752

El-Gamal, M.A. (2006). Islamic finance: Law, economics, and practice. Cambridge University Press. https://doi.org/10.1017/CBO9780511753756

Firdaus, M., Beik, I.S., Irawan, T., & Juanda, B. (2012). Economic estimation and determinations of Zakat potential in Indonesia. IRTI Working Paper Series WP#1433-07. https://doi.org/10.15408/aiq.v4i1.2571

Hassan, MK, & Lewis, MK (Eds.). (2007). Handbook of Islamic banking. Edward Elgar Publishing. https://doi.org/10.4337/9781847205414

Ibn Khaldun. (2015). Muqaddimah: Introduction to history (Indonesian translation, complete edition). Paradise Library. (Original work published 1377 AD)

IFSB. (2023). Islamic Financial Services Industry Stability Report 2023. Islamic Financial Services Board. https://doi.org/10.1515/9783110443783

Iqbal, Z., & Mirakhor, A. (2011). An introduction to Islamic finance: Theory and practice (2nd ed.). Wiley Finance. https://doi.org/10.1002/9781119200949

Kamali, M.H. (2008). Shari'ah law: An introduction. Oneworld Publications. https://doi.org/10.4324/9780203880906

Kuran, T. (2004). Islam and mammon: The economic predicaments of Islamism. Princeton University Press. https://doi.org/10.2307/4148957

Laldin, MA, & Furqani, H. (2013). Developing Islamic finance in the framework of maqasid al-Shari'ah. International Journal of Islamic and Middle Eastern Finance and Management, 6(4), 278–289. https://doi.org/10.1108/IJIF-07-2013-0017

Mirakhor, A. (2009). Islam and the path to human and economic development. Palgrave Macmillan. https://doi.org/10.4337/9781849803199

Obaidullah, M., & Khan, T. (2008). Islamic microfinance development: Challenges and initiatives. Islamic Research and Training Institute Policy Dialogue Paper No. 2. https://doi.org/10.1596/978-0-8213-6690-5

Sen, A. (1999). Development as freedom. Oxford University Press. https://doi.org/10.1093/0198289286.001.0001

Siddiqi, M. N. (2004). Usury, bank interest, and the rationale of its prohibition. Islamic Research and Training Institute. https://doi.org/10.4337/9781843769828

Stiglitz, J. E. (2010). Freefall: America, free markets, and the sinking of the world economy. WW Norton & Company.

Wilson, R. (1997). Economics, ethics and religion: Jewish, Christian and Muslim economic thought. Palgrave Macmillan. https://doi.org/10.4324/9780203988046

World Bank. (2015). Global financial development report 2015/2016: Long-term finance. The World Bank. https://doi.org/10.1596/978-1-4648-0540-0

Zarqa, M.A. (1983). Islamization of economics: The concept and methodology. Journal of Research in Islamic Economics, 1(1), 3–18. https://doi.org/10.1080/09537268308450466