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THE EVOLUTION AND IMPACT OF ISLAMIC ECONOMICS IN CONTEMPORARY FINANCIAL SYSTEMS IN INDONESIA

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Abstrak;
This paper investigates the implementation of Islamic economic principles in Indonesia and reviews the development and impact of Islamic Economics in the Contemporary Financial System in Indonesia. Indonesia, as a predominantly Muslim country, has great potential to develop a sharia based economy. In the face of various crises, including economic, moral, social, and cultural crises, Indonesia's economic growth must be balanced with the application of Islamic economic principles. These principles include the implementation of the concept of Tawhîd in economic activity, the principle of Khilâfa as human responsibility on earth, justice, equality, and productivity to achieve economic prosperity. The influence of Islamic Economics in the Contemporary Financial System in Indonesia is significant, with the rapid growth of Islamic financial institutions and various Islamic financial products. Nonetheless, there are challenges related to standardization, regulation, and supervision in the Islamic finance industry. Policy implications include improving Islamic financial literacy, developing Islamic economic infrastructure, and increasing Islamic financial product innovation. By implementing these policy implications, Indonesia can strengthen its position as a global Islamic economic center and improve economic welfare for the entire society.

Keywords; Islamic Economic, Principles, Development, Impact, Muslim

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Introduction

Indonesia has experienced significant economic growth, especially in the 1990s when Indonesia was considered as one of the Asian tigers with economic growth of about 7 percent per year though in mid-1997, economic crisis hit this country and some countries of Southeast Asia and East Asia, which is influenced by various factors both external and internal ones. As a result of the crisis storm, in macro scale the economic growth in Indonesia dropped sharply to 4.9 percent in 1997 and even up to minus 17.13 percent in the third quarter of 1998. Recently, Indonesian economic growth reached 5.02 percent in 2016 and it is predicted the growth will be 5.1 percent in 2017.

This article focuses on the study of the implementation of the principles of Islamic economics in Indonesia and also discusses the development of The Evolution and Impact of Islamic Economics in Contemporary Financial Systems in Indonesia, as a country that is predominantly Muslim. In order to be free from various crisis such economics, moral, social, and cultural crisis, Indonesia's economic growth must be accompanied with the implementation of Islamic economics principles, namely the implementation of Tawhîd principles in economic activity, the implementation of Khilâfa principle as a task and role of man on earth, the applying of fairness and balance principle so that social welfare for all Indonesian people can be formed, the implementation of equitable

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principle in order to avoid economic inequality of Indonesian people, and the application of work and productivity principle to achieve economic welfare for Indonesian people.

The evolution and impact of Islamic economics in contemporary financial systems in Indonesia have been significant, with the country experiencing rapid growth and development in recent years. Islamic economics, also known as Islamic finance, is a system that is based on Islamic principles and is designed to provide financial services that are compliant with Islamic law, known as Shariah. This system has been gaining popularity globally, particularly in countries with significant Muslim populations like Indonesia.

In Indonesia, Islamic finance has been growing steadily since the 1990s, with the establishment of Islamic banks, insurance companies, and other financial institutions that operate according to Shariah principles. The growth of Islamic finance in Indonesia has been driven by several factors, including the increasing demand for Shariah-compliant financial products, the need for financial inclusion, and the government's support for the development of Islamic finance.

The impact of Islamic economics on contemporary financial systems in Indonesia has been multifaceted. One of the key benefits of Islamic finance is its ability to provide financial services that are compliant with Shariah, which has helped to increase financial inclusion and access to financial services for Muslims in Indonesia. Additionally, Islamic finance has also helped to promote economic growth and development in Indonesia by providing alternative financing options for businesses and individuals.

However, the growth of Islamic finance in Indonesia has also presented some challenges. For example, there have been concerns about the lack of standardization and regulation in the Islamic finance industry, which has led to concerns about the safety and stability of Islamic financial products. Additionally, there have been concerns about the potential for Islamic finance to be used for illicit activities, such as money laundering and terrorism financing.

In conclusion, the evolution and impact of Islamic economics in contemporary financial systems in Indonesia have been significant, with the growth of Islamic finance providing new opportunities for financial inclusion and economic development. However, there are also challenges that need to be addressed to ensure the continued growth and stability of the Islamic finance industry in Indonesia.

Based on data from the State of the Global Islamic Economy Report 2023, Indonesia is in the third (3th) position. The global Islamic economy also referred to as the Halal lifestyle market, across the halal food, pharmaceutical, cosmetics, fashion, travel, and media/ recreation sectors – has grown from a US$1,62 trillion consumer spending market, as estimated in 2012, to US$2,29 trillion in 2022 (36.726 triliun Rupiah/ 36,726 Kuadriliun Rupiah).

It has been driven by a young and fast-growing global population that extends beyond the core 2 billion Muslim consumers to include a) wider global ethical consumer market.Global Islamic finance assets were valued at US$3.96 trillion for the 2021/2022 period. This is a 17% increase from US$3.37 trillion valuation in 2020/2021. Islamic banking accounts for 70% of this value. By 2025/26, global Islamic assets are forecasted to reach US$5.94 trillion, growing at a CAGR of 9%.

The Indonesian government plans to increase public literacy in islamic finance. Because many people are illiterate on shariah compliant financial products. especially in islamic bangking. any efforts to encrease Islamic finance literacy are supported by the National Shariah Economic and Finance Committe (KNEKS) as part of the Islamic Economic Masterplan 2019-2024. In order to support national economic development and encourage the accelerated development of the Islamic financial sector, the government specifically established the KNKS on November 8, 2016 in order to increase the effectiveness, efficiency of implementing the national development plan

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in the field of Sharia finance and economy. Furthermore, since it was promulgated on February 10, 2020, the government has changed the National Sharia Finance Committee to the National Sharia Economics and Finance Committee which aims to increase the development of the sharia economic and financial ecosystem to support national economic development.

The National Committee for Sharia Economics and Finance (KNEKS) is a change from KNKS to increase the development of the sharia economic and financial ecosystem and make Indonesia the World Halal Center. The declaration of the starting point to position Indonesia as one of the main actors and hubs of the world's sharia economy was carried out along with the launch of the Indonesian Sharia Economic Master Plan in May 2019. The development of Sharia finance is related to the development of Islamic economics in Indonesia. Indonesian Islamic economics is a collection of general economic foundations deduced from the Al-Quran and Sunnah, which are founded on a foundation according to the environment. The economic system starts from God using means related to the shari'a of God. Islamic economics is formed from the implementation of Islamic rules that apply the rules and economic principles contained in the Al-Quran and Hadith. Islamic economics is different from other economic theories because it emphasizes religious values, Islamic economic actors always prioritize spiritual aspects, with the intention and hope of getting blessings from Allah SWT in every economic action they take. The growth of the Islamic economy is a crucial element in efforts to advance the economies of Muslim-majority countries and communities. This is not just a movement, but rather the result of a deep understanding of the principles of Islamic economics that have been proven to have a positive impact.

Theoretical Framework

Islamic economics is the knowledge and application of injunctions and rules of the Shariah (Islamic law) that prevent injustice in the acquisition and disposal of material resources in order to provide satisfaction to human beings and enable them to perform their obligations to Allah and the society. Islamic economics and finance consists of two elements, namely economics and finance, each of which is based on sharia principles. Islamic economics itself can be defined as an economic system based on the Islamic worldview that aims to realize the spiritual, moral, intellectual, social, and material well-being of individuals in this world and the hereafter through the allocation and distribution of scarce resources in a morally guided market system.

Meanwhile, the definition of Islamic finance is a financial system that has a paradigm with ethical principles and a legal system based on sharia principles and allows for adjustments to instruments and operations that follow the times . In addition, Islamic finance also refers to interest-free financial transactions,In Islamic economics, there are two fundamental pillars: the prohibition of usury and the importance of partnership-based businesses that share business risks and profits among partnership participants. In line with the fundamentals of Islamic economics, Islamic finance completely prohibits interest rates and applies partnership contracts and real sector-based contracts for its financial transactions using contracts such as mudharabah, musyarakah, and murabahah. In addition, in line with Islamic teachings, Islamic finance is free from elements of uncertainty (gharar), gambling (maysir), and corruption (rishwah). Likewise, the transactions or activities carried out are limited to those allowed in Islam.

Therefore, financing activities related to the sale and production of alcoholic beverages, gambling, pork, prostitution services and the like are strictly prohibited. Islamic economics covers the economic sector which consists of Islamic businesses and halal industries such as halal tourism, halal food and beverages, and so on. Islamic finance itself includes Islamic banking, sukuk (Islamic bonds), takaful (Islamic insurance), Islamic credit cards, Islamic mutual funds, Islamic stocks, and microfinance.

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The core principles of Islamic economics are based on the principles of Shariah, which are derived from the Quran and the Sunnah of the Prophet Muhammad (peace be upon him). These principles are designed to ensure that economic activities are conducted in a way that is fair, just, and equitable for all parties involved. Here are some of the core principles of Islamic economics:

The core principles of Islamic economics are based on the principles of Shariah, which are derived from the Quran and the Sunnah of the Prophet Muhammad (peace be upon him). These principles are designed to ensure that economic activities are conducted in a way that is fair, just, and equitable for all parties involved. Here are some of the core principles of Islamic economics:

1. Prohibition of Riba (Interest): Islamic economics prohibits the charging and paying of interest on loans and investments. This is based on the Quranic verse that states,

يَـٰٓأَيُّهَا ٱلَّذِينَ ءَامَنُوا۟ ٱتَّقُوا۟ ٱللَّهَ وَذَرُوا۟ مَا بَقِىَ مِنَ ٱلرِّبَوٰٓا۟ إِن كُنتُم مُّؤْمِنِينَ

"O ye who believe, fear Allah and give up what remains of your demands for usury, if ye are believers." (Quran 2:278)

Riba (interest or usury) is fundamentally prohibited both by the Qur’an and the Sunnah. On the concept of interest, there is no doubt or dispute among Muslims that it is absolutely prohibited. In a modern economy in which interest is a fundamental part, this can lead to a necessary change of objectives and perspectives when working within the framework of Islamic economics.

One of the main issues of prohibiting interest is that interest rates are used to regulate demand in modern finance. A particular interest rate is equivalent to a price for a particular investment. With no interest, credit becomes impossible to handle under traditional capitalist models. Islamic economists propose replacing interest rates with profit sharing, selling goods for their cost, or even leasing. All of these alternatives would necessarily make certain speculative practices and artificial interest rate manipulation practices obsolete. However, Islamic economists agree that this would actually be a good thing. One possible alternative consists in the creditor acting as a partner in a contract between an investor and an entrepreneur. Basically, in Islamic economics banks must be able to generate returns through investments in productive projects rather than relying solely on interest rates.

Islamic economists have argued for the adoption of a profit rate, rather than an interest rate. This can be used to evaluate the quality and return of specific investments and entrepreneurial activities. This concept also lends itself to interacting with countries that do not use an interest-free system. While many economists will argue that a bank interest rate is necessary for currency and monetary policies, Islamic economists have proposed other rates that can be used instead of interest. Countries like Pakistan or Sudan have adopted alternative rates for setting monetary policy, usually set by the government in a way that will benefit the public.

2. Zakat (Charity): Zakat is a mandatory charity that is required of all Muslims who have a certain amount of wealth. It is used to support the poor and needy, and is seen as a way to purify one's wealth and maintain social justice. Zakat is a pillar of Islam specifically related to channelling excess wealth by Muslims who have fulfilled the zakat requirements. According to the responsibility to pay zakat lies with Muslim individuals and companies. Doing business is a way of accumulating wealth and being subject to zakat. Therefore, all Muslims, including their businesses, must pay zakat.

3. Mudarabah (Partnership): Mudarabah is a form of partnership where one party provides the capital and the other party provides the labor and management. This is seen as a way to share the risks and rewards of business, and to promote economic cooperation and mutual benefit.

4. Musharakah (Joint Venture): Musharakah is a form of joint venture where two or more parties share the ownership and profits of a business. This is seen as a way to promote economic cooperation and mutual benefit, and to reduce the risks associated with business.

5. Tawhid (Oneness of Allah): Tawhid is the principle of the oneness of Allah, which is the foundation of Islamic economics. It is based on the idea that Allah is the sole creator and provider of all things, and that all wealth and resources belong to Him.

6. Adl (Justice): Adl is the principle of justice, which is based on the idea that all individuals have the right to be treated fairly and justly. This includes the right to equal opportunities, equal access to resources, and equal protection under the law.

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7. Khilafah (Caliphate): Khilafah is the principle of the caliphate, which is based on the idea that all individuals have a role to play in the management of the world and the distribution of its resources. This includes the idea that individuals have a responsibility to work and contribute to the economy, and to use their wealth and resources in a way that is fair and just.
8. Ihsan (Good Deeds): Ihsan is the principle of good deeds, which is based on the idea that all individuals have a responsibility to perform good deeds and to use their wealth and resources in a way that is beneficial to others.

These are some of the core principles of Islamic economics, which are designed to ensure that economic activities are conducted in a way that is fair, just, and equitable for all parties involved.

9.Waqf is an essential instrument of Islamic social finance. Waqf is assets that generate income for specific groups or individuals. The recurrent nature of this charity is often seen as a springboard for Islamic waqf development. In addition, charities such as zakat are described in the scientific literature as having a profound individual and commercial perspective. Although the use of zakat funds is limited to specific groups of recipients, in general, the payment of zakat and waqf for non-Muslims is a matter of debate in society.

10. The halal industry is often associated with an effort to produce a product (goods and services) that complies with the provisions of the Islamic religion (sharia). This definition has begun to emerge recently due to the world's high demand for halal products and services. Previously, it was known that the halal industry was associated with the halal economy, where the mention of the halal economy was far earlier known than the halal industry. The scope of the world's halal industry sector includes food and beverages, logistics, fashion, cosmetics and personal care, halal tourism, hospitality services and Islamic financing.

Literature Review

Islamic economics has its roots in the early Islamic period, with the concept of zakat (charity) and waqf (endowment) being fundamental to the economic system. The modern development of Islamic economics began in the mid-20th century, with the establishment of Islamic banks and financial institutions. In Indonesia, Islamic banking emerged around 1992, pioneered by Bank Muamalat Indonesia. Since then, the Islamic financial sector has grown significantly, with various types of Islamic financial institutions, such as sharia commercial banks, sharia business units, sharia people's financing banks, sharia cooperatives, sharia insurance, and sharia pawnshops, being established.

Islamic finance in Indonesia only emerged around 1992, pioneered by Bank Muamalat Indonesia. After that began to develop sharia commercial banks (BUS), Sharia business units (UUS), Sharia people`s Financing Bank (SRB), Sharia cooperatives, Sharia insurance, Sharia pawnshops, Waqf, and other Sharia financial institutions (LKS). Islamic banking is relatively more stable compared to conventional banking in the face of shock both from internal and external . This is an interesting finding that needs to be proven through various research in the future.

Currently, the Islamic financial economy is progressing well in developing countries or even in developed countries. The financial industry as well as other forms of Islamic economic institutions are growing, ranging from the Middle East, the Asian region, to Western countries such as the United Kingdom. In Indonesia, Islamic economics can be seen its development in the Islamic finance industry, especially Islamic banks which became the most widely used entities after the 1997 monetary crisis .

If considered more deeply, the development of Islamic economics at the level of practice is still not balanced with the development of Islamic Economics on the theoretical side. Whereas as a science, Islamic Economics also not only needs to be transformed into a practicalimplementative level, but must also be accompanied by developments in the academictheoretical side. Both must have a direct development. If the practical-implementative side is developing, then the academic-theoretical side should also experience development. So based on this argument, research on the development of Islamic Economic Science is very important.

In terms of the development of Islamic economics and Finance which is academictheoretical, Islam has its own paradigm. First, the hot issues and problems that are being faced are approached by looking at the economic experiences (behavior) of past Muslim countries with all their treasures. Not enough with that, the existing problems are then analyzed with contemporary economic approaches with modern analysis tools. After producing the postulates, axioms and theories of Islamic economics as a result of empirical experience, then issued in the form of institutions and state policies that are macro and integrated. When there are shortcomings and imperfections, evaluation is carried out so that in the long run the models that have been produced will be more perfect, established and relatively applicable to as many places and times.

Islamic economics is considered as an alternative economic system that is useful for fixing the problems caused by the existing economic system . The stability of the application of Islamic economics can be proven by the financial crisis, the impact on the Islamic financial sector is less than the impact of the crisis that occurred in the conventional financial sector . This is because Islamic finance basically has values that contain socially responsible and ethical investments and moves in the real economy sector. Research related to Islamic Economic and Finance has been developing for more than four decades. Therefore, the research conducted by the author aims to determine the development map of research related to Islamic Economic and Finance from 1976-2021 using bibliometric analysis. The discussions examined in bibliometric analysis in this study are related to tree fields plot, source impact, top authors' production over time, most relevant affillations, most relevant words, trend topics, thematic evolution, and most cited articles..

Methodology

- Literature Study:

Conducting a literature review related to the concept of the development and history of Islamic economics in Indonesia, the principles of Islamic economics, and the legal approach of sharia law on Islamic economics.
Collecting information about the principles of Islamic economic principles as well as in-depth learning about Islamic economic instruments.

This paper uses national and international publication data in the field of Islamic Economic and Finance.

Writing Objective

1. in-depth knowledge of the development and history of Islamic economics in Indonesia
2. learning related to the principles of Islamic economic principles that exist
3. learning about existing Islamic economic instruments
4. brief explanation of the National Shariah Economic and Finance Committee (KNEKS)

Policy Implications

1. Strengthening Islamic Financial Literacy : Policies can be focused on improving Islamic financial literacy among Indonesians. This includes educational programs and public campaigns to increase public understanding of Islamic financial products, such as Islamic banks, sukuk, and Islamic insurance.
2. Development of Islamic Economic Infrastructure : The government can take steps to strengthen Islamic economic infrastructure, including the development of Islamic capital markets, Islamic financial institutions, and regulations that support the growth of the Islamic economic sector.
3. Standardization and Regulation : Steps are needed to improve standardization and regulation in the Islamic finance industry. This includes the development of clear operational standards and regulations to ensure the safety and stability of Islamic financial products.

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4. Enhanced Supervision : The government needs to strengthen the supervision and monitoring system of Islamic financial institutions to prevent abuse and illegal activities, such as money laundering and terrorism financing.
5. Encourage Innovation : Supporting innovation in Islamic financial products can enhance the competitiveness and relevance of the Islamic finance industry in Indonesia. This involves incentivizing research and development of innovative financial products that comply with the principles of Islamic economics.
6. Inter-Institutional Collaboration : Encouraging collaboration between Islamic financial institutions, the government, and the private sector can accelerate the growth of the Islamic economy in Indonesia. This collaboration could include the exchange of knowledge, resources, and support for large-scale Islamic economic projects.

By implementing these policy implications, it is hoped that Indonesia can strengthen its position as a global center of Islamic economics and improve economic welfare for all people, in line with the principles of Islamic economics.

Conclusion

The above presentation concludes that the implementation of Islamic economic principles in Indonesia has had a significant impact on the Contemporary Financial System. Indonesia, as a country with a majority Muslim population, has great potential to develop a sharia-based economy. The rapid growth of Islamic financial institutions and various Islamic financial products demonstrates the strong interest and support of the Indonesian people and government towards Islamic Economics. However, challenges such as standardization, regulation, and supervision need to be addressed to ensure sustainable and stable growth in the Islamic finance industry. To overcome these challenges, bold and well-planned policy measures are needed, such as improving Islamic financial literacy, developing Islamic economic infrastructure, and encouraging innovation in Islamic financial products. By implementing these measures, Indonesia can strengthen its position as a global center of the Islamic economy and make a significant contribution to the overall economic well-being of the Indonesian people.

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