

Potential of Shariah Economy in Promoting Sustainable Economic Development in Indonesia

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ARTICLE HISTORY	ABSTRACT
<p>Received : July 27th, 2025 Revised : September 10th, 2025 Accepted : September 29th, 2025</p> <p>Keywords :</p> <p>Islamic Economics, Economic Development, Islamic Finance Social Welfare, Financial Inclusion</p>	<p><i>Sharia economy is increasingly gaining attention as an alternative to a just and sustainable economic system. In the context of economic development, the sharia approach is not only oriented towards growth, but also pays attention to aspects of distribution, ethics, and social welfare. This article discusses the potential of sharia economy in driving sustainable economic development in Indonesia by highlighting the role of sharia financial institutions, zakat instruments, waqf, and microfinance. The methods used are literature studies and qualitative descriptive analysis. The results of the study indicate that sharia economy has an effective mechanism in reducing poverty, empowering communities, and creating an inclusive economic system. However, to maximize its contribution, strengthening regulations, increasing public literacy, and collaboration between the government, private sector, and religious institutions are needed.</i></p>

INTRODUCTION

Economic development is the main objective of macroeconomic policies in various developing countries, including Indonesia (Fitriady et al., 2022). This objective not only focuses on Gross Domestic Product (GDP) growth, but also includes poverty reduction, improving people's welfare, and job creation (Coscieme et al., 2020). In practice, economic development often faces challenges such as income inequality, structural poverty, and environmental damage. This raises the need for alternative approaches that are fairer, more inclusive, and sustainable. One approach that is increasingly receiving attention is sharia economics.

Sharia economics is an economic system based on Islamic principles, such as justice, balance, and blessings (Yasen, 2018). Unlike conventional systems that are often solely profit-oriented, sharia economics combines worldly and afterlife interests by emphasizing moral and spiritual values. In this system, economic activities are regulated so that they do not contain elements of usury, gharar (uncertainty), and maysir (speculation). Instead, the principle of profit sharing, fair trading, and social instruments such as zakat and waqf are used. Indonesia, as the country with the largest Muslim population in the world, has great potential to develop sharia economics as the main pillar of development. The government has also shown its commitment through the establishment of the National Committee for Sharia Economics and Finance (KNEKS), as well as various policies that support the growth of this sector (Hidayat et al., 2021). However, this potential has not been fully maximized. There are still limitations in terms of public literacy, regulations, and adequate supporting infrastructure for the development of sharia economics as a whole.

According to Arifin & Chotib, (2025) The development of sharia economics in the context of sustainable development includes several important dimensions. First, there is a drive to realize social

justice through the redistribution of wealth, especially through the mechanisms of zakat, infak, sedekah, and waqf. Second, there is a financial system based on ethics that can reduce speculation and financial crises. Third, there is a drive to create businesses that do not only seek profit, but also provide benefits to the wider community and the environment.

In practice, sharia economics also supports the economic empowerment of small and medium enterprises (MSMEs) through sharia-based financing schemes that do not burden with high interest (Suraiya, 2022). This is important considering that the MSME sector is the backbone of the Indonesian economy. In addition, sharia economics also provides space for women and marginalized groups to be actively involved in economic activities without discrimination.

Despite its many potentials, the implementation of sharia economics in driving economic development still faces various structural and technical challenges. One of them is the gap between regulations and practices in the field (Muhammad, 2019). In addition, the lack of integration between the sharia financial sector and the real sector is also an obstacle in creating a significant economic impact. This shows that the development of sharia economics requires a holistic and synergistic approach between stakeholders.

This study aims to explore and analyze how Islamic economics can contribute significantly to sustainable economic development in Indonesia. Emphasis is placed on the role of Islamic financial institutions, socio-religious instruments, and community economic empowerment based on Islamic values. This study is expected to provide scientific and practical contributions in supporting Islamic economic policies as a pillar of national development. Thus, the Islamic economic approach in the context of development not only offers an ethical system but can also be a strategic solution in overcoming various social and economic problems. Therefore, an in-depth study is needed that is not only theoretical but also based on data and empirical experience in the field to ensure that the Islamic economy is truly able to encourage inclusive and sustainable economic development in Indonesia.

LITERATURE REVIEW

Development economics is a branch of economics that focuses on improving the economic welfare of people, especially in developing countries. According to Todaro & Smith, (2020), Economic development involves a multidimensional process that includes improving living standards, expanding economic choices, and reducing inequality and poverty. In this context, the role of social values and norms becomes important to create sustainable development. Therefore, Islamic economics that emphasizes moral values and social justice becomes relevant to be integrated into modern economic development theory.

Literature on Islamic economics states that this system is rooted in the principles of the Qur'an and Hadith which regulate economic interactions ethically. According to Chapra, (2001), Islamic economics not only aims for efficiency and growth, but also emphasizes social justice and wealth distribution. This means that Islamic economics is inherently in line with the principles of sustainable development that emphasize the balance between economic growth, social welfare, and environmental sustainability.

Several studies also show that Islamic financial institutions, such as Islamic banks and Islamic cooperatives, have advantages in supporting development because they are more stable and not easily affected by the global financial crisis. For example, research by Mansoor Khan & Ishaq Bhatti, (2008) shows that the Islamic banking system tends to be more resistant to shocks because it does not depend on the interest system and prioritizes real transactions. This makes the Islamic economy more adaptive to global economic fluctuations.

In addition to financial institutions, socio-economic instruments in Islam, such as zakat and waqf, are also highlighted in the literature as effective welfare distribution tools. A study by (Marcella & Alkarimi, 2024) shows that zakat can act as a fiscal instrument that can reduce poverty if managed transparently and efficiently. Likewise, productive waqf has been used in several countries, such as Turkey and Malaysia as a source of financing for the development of social infrastructure such as education and health.

The literature review also notes that the development of sharia economy requires a strong regulatory and governance framework. This is important to ensure Sharia compliance and prevent economic practices that are contrary to Islamic values. According to Hassan & Lewis, (2009), Synergy is needed between financial institutions, religious authorities, and the government in creating a healthy and productive sharia economic ecosystem.

In the perspective of development, Islamic economics provides a holistic approach that not only looks at economic indicators such as GDP or inflation, but also social indicators such as education levels, health, and equality. Therefore, some scholars propose a more comprehensive maqashid sharia-based development index model in assessing the quality of development in Muslim countries. However, the literature also acknowledges the challenges in implementing Islamic economics, including low Islamic financial literacy, limited public access to Islamic products, and the view that Islamic economics is limited to the financial sector. This shows the need for educational and innovative efforts so that Islamic economics can reach the wider community effectively.

METHODS

This study uses a descriptive qualitative approach with a literature study method (library research) to explore and analyze the potential of sharia economics in driving sustainable economic development in Indonesia. This approach was chosen because it is in accordance with the objectives of the study, which are exploratory and analytical in nature towards the concept and implementation of sharia economics. Qualitative methods allow researchers to explore a deeper understanding of socio-economic phenomena through the interpretation of written sources. The data sources used in this study come from various secondary literature, including scientific journals, academic books, official government reports, laws and regulations, and publications from relevant international and national institutions. The journals used include publications from Scopus, Google Scholar, DOAJ, and national databases such as Garuda and Sinta. The selection of sources is done purposively by considering the relevance, authority, and recency of the information.

The initial step in data collection was carried out by conducting a systematic search using keywords such as "Islamic economics", "sustainable development", "Islamic finance", and "productive zakat-waqf". The search results were then selected based on inclusion criteria, namely only covering literature in the last 10 years, in Indonesian and English, and having a conceptual or empirical contribution to the topic.

Furthermore, the data obtained were analyzed using content analysis techniques, namely by identifying the main themes that emerged from the literature, grouping them into certain categories, and compiling an integrative narrative. The focus of the analysis is on how Islamic economics, through various instruments and institutions, can play a role in economic development, as well as the challenges and opportunities faced in its implementation in Indonesia.

To ensure the validity of the data, a source triangulation technique was used, namely by comparing information from various types of sources such as regulations, journals, and practical reports. This is important to obtain a more objective and in-depth picture of the reality of Islamic

economics in Indonesia. In addition, the validation process was also carried out by consulting experts in the field of Islamic economics and development to ensure proper data interpretation.

This study does not use quantitative or statistical methods because its main focus is the analysis of concepts, narratives, and thoughts from experts, not measurement or hypothesis testing. However, quantitative data such as poverty rates, contributions from the Islamic financial sector, and the development of zakat or waqf are still used as narrative complements to make the argument stronger.

The limitation of this research lies in the scope of the region, which only focuses on the Indonesian context and does not compare directly with other countries. In addition, because it is based on literature, the results of this study do not present primary empirical data from the field. With this literature study method, it is expected to obtain a comprehensive understanding of the position and contribution of Islamic economics in sustainable development. The results of the analysis are expected to be the basis for policy recommendations and the development of more effective Islamic economic programs that are in accordance with the needs of Indonesia's national development.

RESULT AND DISCUSSION

Sharia economy is an economic system based on Islamic principles, which prioritizes justice, transparency, and balance between profit and blessing. In the context of Indonesia, the country with the largest Muslim population in the world, the potential of sharia economy is very large and can be an important instrument in driving sustainable economic development. The main principles of sharia economy, such as the prohibition of usury, speculation, and non-transparent transactions, create a fair and ethical framework for economic activities. This is very relevant in the current era of globalization, where economic inequality and moral crisis are the main challenges for development.

One of the fundamental aspects of the sharia economy is the sharia banking system based on the principle of profit sharing (*mudharabah* and *musyarakah*) and real asset-based financing (*murabahah*, *ijarah*). This system encourages direct involvement in productive activities, which ultimately has a positive impact on the growth of the real sector. In addition, this system also encourages financial inclusion because it provides financial access to people who have not been reached by conventional banks. In the long term, this sharia financial system can strengthen national economic stability and support equal distribution of welfare.

The existence of Islamic social financial instruments such as zakat, *infaq*, *sedekah*, and waqf is also a major force of Islamic economics in achieving sustainable development goals. These social funds, if managed properly, can not only reduce poverty and inequality, but can also strengthen the economic base of small and medium communities. In the perspective of sustainable development, these instruments can be used to finance poverty alleviation programs, education, health, and the development of inclusive social infrastructure.

Indonesia has demonstrated its commitment to developing the sharia economy through the establishment of the National Committee for Sharia Economics and Finance (KNEKS), as well as the existence of a national sharia economic masterplan. However, challenges remain, including low sharia financial literacy among the public, limited innovative sharia products and services, and the lack of integration between the sharia financial sector and the real sector as a whole. Therefore, more progressive and coordinated policies are needed to overcome these various obstacles.

Sustainable economic development, which encompasses economic, social, and environmental dimensions, fits well with the core values of Islamic economics. In this context, economic activities are not only assessed based on profit alone, but also on their benefits to society and the environment. Islamic business ethics emphasize the principles of social responsibility and environmental sustainability, which are the keys to sustainable development. Therefore, strengthening Islamic

economics has the potential to be an important strategy in integrating economic growth with social justice and environmental sustainability.

The halal industry sector is also an important pillar of the sharia economy and has great potential in driving national economic growth. Halal products are not limited to food and beverages, but include cosmetics, pharmaceuticals, tourism, and fashion. Indonesia, with a large Muslim population and a large domestic market, has great potential to become the center of the world's halal industry. However, the development of the halal industry still faces challenges in terms of standardization, certification, logistics, and global promotion. For this reason, synergy between the government, the business world, and educational institutions is very necessary.

Sustainable economic development also demands the wise use of natural resources. In the perspective of Islamic economics, the use of natural resources must consider the principles of *maslahah* (public interest) and *amanah* (responsibility). Excessive exploitation that damages the environment is prohibited in Islam because it contradicts the concept of *khalifah* (manager) on earth. Therefore, the Islamic economic approach can contribute to designing more environmentally friendly and socially responsible economic policies.

At the micro level, sharia economics also encourages ethical entrepreneurship and is oriented towards community empowerment. Many sharia microfinance institutions have demonstrated success in developing small and medium enterprises (SMEs) with the principles of justice and togetherness. Sharia financing that is not based on interest but rather on profit sharing allows small business actors to grow sustainably without being trapped in suffocating debt. This is in line with the inclusive development agenda which is an important pillar of the Sustainable Development Goals (SDGs).

The education sector is also an integral part of the development of the sharia economy. Sharia economic education at various levels of formal and non-formal education must be strengthened so that the community has a correct understanding of this system. In addition, character education and Islamic business ethics are also important to prepare human resources who are not only competent, but also have integrity and responsibility. Thus, strengthening the sharia economy must start from investing in comprehensive education.

In terms of regulation, policy support from the government is very important to accelerate the growth of the sharia economy. Conducive regulations can increase investor confidence, expand market access, and encourage innovation in sharia financial products. Currently, several policies such as the development of state-owned sharia banks and the establishment of halal industrial areas are positive steps, but cross-sector and regional coordination is still needed for more optimal implementation.

The export potential of Indonesian halal products is also very large, especially to countries that have high demand for halal products such as Middle Eastern countries, Southeast Asia, and Europe. However, the competitiveness of Indonesian halal products still needs to be improved in terms of quality, design, and supply chain sustainability. In this case, the sharia economy can be a means to encourage locally-based halal industrialization that is environmentally friendly and globally competitive.

Zakat, waqf, and Islamic microfinance institutions can be strengthened to create an Islamic social economic ecosystem that functions as a social safeguard and a driver of productivity. Waqf funds, for example, can be used to finance sustainable social and infrastructure projects such as hospitals, schools, and other public facilities. Innovations such as cash waqf and sukuk waqf can optimize the potential of waqf in financing development that is oriented towards shared welfare.

The comprehensive implementation of sharia economics requires a collaborative approach between the public, private and civil society sectors. The role of educational institutions, Islamic community organizations and the media is also very important in socializing the values of sharia economics and building public awareness of the importance of a just and sustainable economy. Without

the active participation of all stakeholders, the great potential of sharia economics will be difficult to realize optimally.

In the future, digitalization can be a catalyst in accelerating the growth of the sharia economy. Technological innovations such as sharia fintech, halal marketplaces, and digital payment systems based on sharia principles provide easy access and efficiency in economic transactions. However, the development of this technology must still be accompanied by regulations that guarantee sharia principles and protect consumers from potential violations of ethics and justice.

Indonesia as a country with a spirit of mutual cooperation and strong religious values, has a cultural foundation that is in line with the principles of Islamic economics. Values such as social justice, togetherness, and responsibility for the environment have become part of local wisdom that can be integrated with the Islamic economic system. This is an important social capital in building a sustainable economy based on local values and spirituality.

Although Islamic economics offers many advantages, it must be acknowledged that the implementation of this system is not free from challenges. Among them are the continued dualism of the financial system between conventional and Islamic which has not been fully integrated, as well as the limited human resources competent in Islamic finance. Therefore, the strategy for developing Islamic economics must include improving the quality of human resources through adequate training and certification.

International partnerships are also important to strengthen Indonesia's sharia economy position in the global arena. Through cooperation with member countries of the Organization of Islamic Cooperation (OIC) and international institutions such as the Islamic Development Bank (IsDB), Indonesia can expand its market, access development financing, and share best practices in sustainable sharia economic management.

The application of the principles of maqashid sharia or the goals of Islamic law which include protection of religion, soul, mind, descendants, and property, can be a normative framework in evaluating and designing national development policies. Thus, economic development is not only measured by the growth of statistical figures, but also by how much it brings benefits and welfare to humanity at large.

Sharia-based business models that are oriented towards sustainability, such as social enterprises and sharia cooperatives, need to be further developed as an alternative to capitalist corporations that sometimes cause negative environmental and social excesses. This model has proven to be more resilient and contributes to building a strong and independent local economy.

In the agriculture and creative industries sectors, sharia economy can also drive innovation and sustainability through fair and community-based financing schemes. Productive waqf-based agriculture or musharaka financing for small farmers can increase productivity and welfare without burdening farmers with high loan interest. In the context of post-pandemic economic recovery, sharia economics can be an alternative solution that encourages value-based and solidarity-based development. A fair and inclusive economic system will strengthen people's resilience in facing crises, and accelerate the process of sustainable and equitable economic recovery.

Overall, the potential of sharia economy in driving sustainable economic development in Indonesia is very large, but realizing its potential requires hard work, policy consistency, and synergy between various parties. More than just a financial system, sharia economy is a development paradigm that integrates spiritual, social, and environmental values in all aspects of economic life. Therefore, strengthening sharia economy is not just an option, but a strategic need for the future of Indonesia's development.

CONSLUSION

Sharia economy has great potential in driving sustainable economic development in Indonesia through its principles based on justice, balance, and sustainability. The sharia financial system, zakat, waqf, and the halal-based real sector can be strategic instruments to overcome poverty, increase financial inclusion, and support environmentally friendly economic growth. By implementing the principles of maqashid sharia and synergy between the government, financial institutions, and society, sharia economics is able to become an important pillar in the transformation towards a national development system that is not only oriented towards growth, but also towards long-term prosperity and sustainability.

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