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CHALLENGES AND OPPORTUNITIES FOR DEVELOPING SHARIAH ECONOMY IN THE ERA OF DIGITALIZATION IN THE MODERN ERA

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Abstract

The development of digital technology has brought about major transformations in various sectors, including the sharia economy. In the era of digitalization, the sharia economy faces challenges as well as opportunities in creating a fair, inclusive, and sustainable financial system. This study aims to examine the main challenges faced in the development of a digital sharia economy, such as low digital literacy, suboptimal regulations, and tight competition with conventional finance. On the other hand, technological innovations such as sharia fintech, crowdfunding, and blockchain present great opportunities to increase the efficiency and reach of sharia financial services. This study uses a literature study method by analyzing various relevant literature. The results of the study show that collaborative strategies between countries, public education, strengthening digital infrastructure, and policy support are the keys to accelerating the growth of the sharia economy in the digital era. With the right approach, the sharia economy has great potential to make a positive contribution to social and economic welfare globally.

Key words: *Islamic economy, digitalization, Islamic fintech, digital literacy, economic development*

Introduction

Sharia economy is a system built on Islamic values, such as social justice, the principle of cooperation, and the prohibition of usury practices. In recent years, this system has experienced encouraging developments, along with the increasing awareness of Muslims of the importance of carrying out transactions in accordance with sharia law, as well as the support of government policies. On the other hand, advances in digital technology have brought about major transformations in the patterns and mechanisms of the global financial system and economy. Digitalization has not only changed the way people conduct transactions, but also created new opportunities to create sharia financial products and services that are more efficient and equitable for all levels of society. Amidst the ever-growing global dynamics, sharia economics is increasingly attracting the attention of various groups. This system is not only related to finances that are in accordance with Islamic law, but also reflects values such as justice, sustainability, and equitable access to finance. Fundamentally, sharia economics is an economic order based on Islamic teachings. The values upheld include the prohibition of interest (riba), the prohibition of injustice in transactions, the avoidance of excessive speculative practices, and the rejection of investment in prohibited sectors such as alcohol and gambling. More than just a financial system, sharia economics aims to create a more balanced distribution of wealth, expand access to financial services, and contribute to poverty reduction. Sharia economy also encourages financial inclusion by opening wide access for all levels of society to use financial services that are in accordance with Islamic principles. This form of service includes instruments such as zakat (obligation to give), infak (voluntary donations), and waqf (donations for the public interest). By providing access to these instruments, sharia economy has great potential to help reduce poverty rates and strengthen the economic conditions of disadvantaged groups in society. As part of the dynamics of the global economy that continues to grow, sharia economy makes a real contribution to the potential for growth in various sectors. Fields such as financial services, halal tourism, halal food and beverages, and sharia fashion are increasingly attracting the attention of investors and industry players. Support for the development of these sectors encourages economic diversification, which can ultimately become a driving force for global economic growth.

Several studies have shown that countries that significantly develop the Islamic financial sector tend to show better economic growth, have lower unemployment rates, and show narrower economic disparities. For example, research by Beck, Demirgüç-Kunt, and Merrouche (2013) revealed that countries with a dominant Islamic financial sector are more resilient to the impact of the global economic crisis. Islamic economics is not only important for the Muslim community, but also has a positive impact on the international community in general. By prioritizing the values of justice, sustainability, and social inclusion, Islamic economics supports the achievement of sustainable development goals (SDGs). Therefore, commitment and support from the government, financial sector, and stakeholders need to be continuously strengthened to encourage the growth of the Islamic economy in the future. In this increasingly advanced digital era, technological transformation has penetrated various aspects of life, including the world of finance. The development of Islamic economics, which is based on the principles of fair and sustainable Islam, is also not immune from the impact of this digital revolution. One of the most noticeable impacts of the digital era is the increase in accessibility of information. The internet and social media make it easier for people to learn the principles of Islamic economics and understand the available Islamic financial products. More accessible information helps in increasing public awareness and understanding of Islamic economics.

The development of digital technology has created new opportunities to drive innovation in the Islamic financial sector. However, the development of the Islamic economy in the digital era faces various challenges that are not simple. One of the main obstacles is the low level of digital literacy among the community who are the main targets of Islamic economic services. Many small and medium enterprises (SMEs) and individuals are still not familiar with or are not ready to use digital technology optimally, which ultimately hinders the process of integrating Islamic financial services with digital platforms. This lack of literacy has an impact on the limited effectiveness and scope of technology-based services such as Islamic fintech, which should be able to provide more equitable and inclusive financial access solutions. In addition, regulatory and compliance aspects are also major challenges. In many countries, the applicable regulatory and legal systems do not fully support the growth of the digital-based Islamic economy. Existing policies are often inadequate or too slow in responding to the development of digital technology in the Islamic financial sector, causing regulatory uncertainty and increasing risks for industry players.

Maintaining compliance with sharia principles in the digital era adds a level of complexity, because all products and transactions must continue to comply with Islamic law, amidst the rapid pace of technological development. In addition, the sharia economy also faces stiff competition from the conventional financial sector, which has already utilized digital technology and dominated a wider market. Conventional financial services often have a stronger reputation and have gained public trust, so the sharia economy is required to work harder to build trust and expand its user base. On the other hand, the digital infrastructure that supports the growth of the sharia economy is still in its early stages. There is still a need to develop various platforms, applications, and systems that are specifically designed to support sharia-compliant transactions. Without a solid digital foundation, the growth of the technology-based sharia economy could be hampered and it would be difficult to compete with other financial systems. However, digital technology also brings great opportunities for the sharia economy to penetrate the global market. Through the use of digital platforms, sharia financial institutions can reach consumers in various parts of the world and expand financial inclusion, not only for the Muslim community but also for non-Muslim users who are interested in financial products based on ethics and Islamic principles.

Although the digital era offers various opportunities for the development of the sharia economy, there are also a number of challenges that must be faced. Issues such as personal data protection, compliance with sharia principles in the application of technology, and potential financial risks due to digital innovation are important aspects that need serious attention from all parties involved in the sharia economic ecosystem. Digital transformation has had a significant impact on the growth of the sharia-based economy. By adopting various technological breakthroughs, this sector has the opportunity to grow more rapidly, reach more people, and operate more sustainably. However, it is important for stakeholders not to ignore the various challenges that arise along with this progress. The right strategies and policies are needed so that the development of the digital-based sharia economy remains within the corridor of the values of justice, transparency, and sustainability that are the core of the Islamic economic system.

Methods

This study will use the library research method as its approach. This method is carried out by collecting secondary data from various relevant literature sources, such as scientific books, journal articles, research reports, and other official documents. Researchers trace, assess, and review literature related to the topic of Islamic economics, the development of digital technology, and the relationship between the two. The main emphasis in this study is directed at sources that discuss current issues, challenges, and opportunities in the development of Islamic economics in the digital era, including relevant policy studies and case studies. The initial stage in this process is the search and collection of literature. After that, researchers conduct content analysis to explore key themes that emerge, especially related to the obstacles and potentials in the integration of Islamic economics and digitalization. This analysis also includes a comparison process and synthesis of various references in order to produce a complete understanding of the current conditions and the direction of its development in the future. It is hoped that the results of this study will be able to provide in-depth insights and offer practical recommendations for stakeholders in strengthening Islamic economics in the digital era.

Results and Discussion

Sharia economics is not only a financial system based on Islamic values, but also an economic framework that prioritizes moral and ethical principles in every transaction activity. The value of justice is the main foundation in this system, where every transaction must be carried out fairly and mutually beneficially without any element of oppression or loss to one party. In other words, economic practices in the sharia system require honesty, integrity, and avoiding actions that exploit the ignorance or weaknesses of others. The results of Abdullah's research, D. (2020) show that the aspect of justice in economic interactions is an important element in building public trust in the sharia economic system. Meanwhile, a study conducted by Fatimah, N. and Hasyim, R. (2019) emphasized that the aspect of sustainability plays an important role in supporting the growth of the sharia economy in a sustainable manner. In this case, sharia economics also pays great attention to the aspect of sustainability, both from a social and environmental perspective. Every economic activity must not cause environmental damage or have a negative impact on the wider community. Therefore, the principle of responsibility in the utilization of resources, equal distribution of wealth, and efforts for sustainable economic development are inseparable parts of the sharia economic system.

Usury, or interest, is one of the things that is strictly prohibited in the sharia economic system. This prohibition is rooted in Islamic teachings that consider the practice of usury as an act that harms parties in a weak position and creates inequality in economic relations. As an alternative, sharia economics prioritizes a financial mechanism based on the principle of fair distribution of profits and risks among all parties involved in a transaction. In the view of Mulyono, A. and Rahman, F. (2018), the prohibition of usury is the main foundation in the formation of sharia financial institutions. These institutions are present as a solution that offers access to financial services for the community while maintaining compliance with sharia values. The main values in Islamic economics, such as justice, the principle of sustainability, and the prohibition of usury, are a solid foundation in realizing a just, inclusive, and sustainable economic system. By studying and implementing these principles, Islamic economics has a great opportunity to provide a positive impact on improving people's welfare, both at the national level such as Indonesia and at the global level.

The development of the sharia economy in the digital era is faced with a number of complex challenges. One of the main obstacles is the low level of digital literacy among the people who are the main targets of the sharia economy. Many MSMEs and individuals have not fully mastered or utilized digital technology optimally, thus disrupting the process of integrating sharia financial services into digital platforms. This ignorance has an impact on the limited effectiveness and reach of sharia fintech services, even though these services should be able to expand financial access more inclusively. In addition, regulatory issues and aspects of compliance with sharia are also important challenges. In many countries, the legal and regulatory systems are not yet ready to accommodate the growth of the digital sharia economy. Existing policies often lag behind the pace of financial technology innovation, creating legal uncertainty and risks for industry players. In addition, ensuring that all digital transactions and products remain in accordance with sharia provisions adds to its own complexity, especially since the development of digital technology is very fast and dynamic. Another challenge comes from competition with conventional financial services that have already utilized digital technology and dominate most of the market. Conventional services are generally better known and widely trusted by the public, so the sharia economy must work harder to build a reputation and attract user interest. In addition, the digital infrastructure that supports the development of the sharia economy is still in its early stages and requires further development, including the provision of platforms, applications, and systems that are specifically designed to support sharia-based transactions. Without a solid digital ecosystem, the growth of the technology-based sharia economy will find it difficult to achieve optimal competitiveness.

In the midst of the rapid progress of the digital era, technology has become a key element in creating new opportunities as well as answering challenges in the development of the sharia economy. Digital innovations such as sharia financial applications, crowdfunding systems (crowdfunding) sharia-based, to the utilization of blockchain technology has brought significant changes in the sharia economic ecosystem by offering more effective, inclusive, and long-term-oriented solutions. Through digital-based sharia financial services, the public and business actors can now access various financial products that are in accordance with Islamic values more easily. On the other hand, sharia crowdfunding provides an opportunity for the public to participate in funding projects that have positive social and economic impacts. Blockchain technology also plays a major role in ensuring transparency and increasing transaction security, thereby encouraging public trust in a fair and integrity-based economic system. By optimizing the potential of this digital technology, the sharia economy has a great opportunity to continue to grow and make a real contribution to improving the welfare of society at large. 1) Collective financing or crowdfunding has developed into one of the important mechanisms in supporting business development and funding various projects. In the sharia economic system, crowdfunding based on Islamic principles offers a funding solution that is not only free from usury, but also emphasizes fairness in the distribution of results. In line with this, Ardiansyah, A. and Yunita, D. (2017) in their journal entitled "Social Welfare Financing Through Sharia Crowdfunding" stated that this financing model has great potential in collecting public funds to support projects that have positive social and economic impacts. 2) The sharia-based financial platform is a form of strategic innovation in expanding the reach of financial services that are in line with Islamic values. Through the use of this platform, both individuals and business actors can access various sharia financial products, such as savings, financing, and investments, which are in accordance with sharia provisions. Firdaus, M. and Zuhrohtun, A. (2020) in a journal entitled "The Influence of Sharia Fintech on MSME Financing", stated that the existence of a sharia financial platform provides significant opportunities for MSME actors to obtain access to financing without having to abandon sharia principles. 3) Advances in financial technology, such as blockchain and artificial intelligence (AI), have also made a major contribution to supporting the growth of the sharia economy. Blockchain technology, for example, plays a role in strengthening transparency and increasing accountability in various sharia financial activities. Meanwhile, artificial intelligence can be used to conduct more accurate risk analysis and help make more appropriate decisions in the sharia financial system. In the journal entitled "Utilization of Blockchain Technology in the Development of Sharia Economics", Mustafa, A. and Fadhillah, N. (2019) explain that blockchain has enormous potential in increasing efficiency and ensuring transaction security in the sharia financial system. In closing, the use of digital technology opens up very broad opportunities for the growth of the sharia economy in a more equitable, inclusive, and sustainable manner. Through the use of innovations such as sharia crowdfunding, sharia-based financial platforms, and other financial technologies, access to the sharia economy becomes increasingly accessible to the public, so that it can provide a broader positive impact on social and economic welfare. Therefore, ongoing support from the government, financial institutions, and all stakeholders is needed to encourage the progress of the digital-based sharia economy. This can be realized through the formulation of appropriate policies, increased investment, and strategic and sustainable cross-sector cooperation.

In Overcoming various challenges while taking advantage of opportunities in developing the sharia economy in the digital era, a comprehensive strategic approach is needed to ensure sustainable and equitable growth. One step that can be taken is to strengthen cooperation between countries, where countries that implement the sharia economic system can share experiences, technology, and innovation to strengthen the foundation of the sharia economy globally. In addition, efforts to increase public education are very important to foster public understanding of the basic values of the sharia economy and its contribution to equitable economic development. Strengthening digital infrastructure, such as the development of sharia financial applications and sharia-based financial service platforms, is also an important factor in expanding the reach of services, increasing efficiency, and ensuring transparency in the sharia financial ecosystem. By implementing these strategies in an integrated manner, the sharia economy has great potential to grow sustainably and provide real benefits for the welfare of the wider community.

The implementation of strategic steps such as collaboration between countries, increasing public education, and building adequate digital infrastructure can encourage the acceleration and strengthening of the sharia economy in the digital era. Through synergy between the government, financial institutions, and various related parties, the potential in the sharia economic sector can be maximized to realize sustainable and inclusive economic growt. The government has a strategic role in developing the digital sharia economy through: Making regulations that are accommodating to digital sharia innovation, Support for sharia fintech startups through incubation and funding., Improving digital and sharia literacy through education and training and International cooperation in developing Islamic digital financial standards.

Amidst the rapid advancement of the digital era, the sharia economy is increasingly becoming a major concern for various countries and financial institutions that are trying to build a fair, sustainable and accessible financial system for all levels of society. Many countries and institutions have succeeded in integrating digital technology to accelerate the growth of the sharia economy, although on the other hand, a number of challenges still need to be faced. Malaysia, for example, has long been known as one of the successful examples in the development of the sharia economy. Socialization and educational campaigns on the basic principles of Islamic economics and its benefits are one of the important strategies in addressing the low level of public understanding of Islamic financial products in the digital era. Through this approach, the public is expected to gain a better understanding of Islamic economics, especially in the current digital context. Malaysia is an example of a country that has succeeded in building a progressive Islamic economic ecosystem, supported by the active role of the government and financial institutions. One of the strategic steps that has been successfully implemented is the establishment of the Malaysia International Islamic Financial Center (MIFC), which aims to strengthen Malaysia's position as a global Islamic financial center. However, despite having recorded various positive achievements, Malaysia still faces a number of challenges. One of the main problems is the still low level of awareness and understanding of Islamic financial products, especially among non-Muslims. On the other hand, the increasingly tight global competition also poses a challenge for Malaysia to maintain its competitiveness and relevance in the digital Islamic economic landscape.

In an effort to address these challenges, Malaysia has implemented a number of strategies, including conducting intensive education campaigns, building adequate digital infrastructure, and establishing international cooperation with countries that are also developing sharia economics. Through a structured educational approach, Malaysian society has begun to understand the value and benefits of the sharia economic system, thus encouraging increased interest in the use of sharia-based financial services. On the other hand, strengthening digital infrastructure has increased efficiency and expanded the reach of services in the Malaysian sharia financial system, making it more accessible to various levels of society. Based on the Malaysian case study, it can be concluded that although the development of the sharia economy in the digital era is not free from obstacles, the right strategy and consistent support from various parties have made it possible to achieve significant progress in optimizing the potential of the sharia economy. .

Conclusion

The advancement of digital technology has had a major impact on the growth of the sharia economy, opening up new opportunities to increase accessibility and inclusion in sharia-based financial services. The presence of sharia fintech, sharia crowdfunding platforms, and blockchain technology have provided more transparent and efficient financial solutions. These innovations enable the public and business actors to obtain financial services that are in line with sharia principles, which ultimately supports the realization of equitable and sustainable economic development. However, to optimize the potential of this digital transformation, targeted policies and strategies are needed. The government, financial institutions, and stakeholders need to work closely together in building a solid digital infrastructure, as well as implementing educational programs to increase public literacy in sharia finance. With these steps, the sharia economy is better prepared to face various challenges while being able to take advantage of the opportunities of the digital era to promote social and economic welfare as a whole.

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