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CHALLENGES FACING THE ISLAMIC ECONOMIC SYSTEM IN INDONESIA

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Abstract

This study examines the main challenges in implementing the Islamic economic system in Indonesia, particularly in addressing the complexities of a diverse society and the dominance of the conventional economic system. Several identified obstacles include limited public understanding of Islamic economic concepts, regulations that do not yet fully support Islamic principles, a shortage of qualified professionals in the Islamic economic sector, and insufficient innovation in Sharia-compliant financial products. Furthermore, competition with the conventional financial sector and negative public perceptions of Sharia-based products have also hindered the development of the Islamic economy in Indonesia. This study employs a literature review approach and descriptive-analytical analysis to identify applicable strategies, including strengthening Islamic economic education and literacy, adjusting policies to better support Sharia principles, enhancing cooperation between educational institutions and Islamic financial institutions, and promoting innovation in the halal industry and Islamic financial technology sectors. The findings provide a comprehensive understanding of the complexity of the existing challenges and propose strategic solutions to strengthen the Islamic economy as an essential component of inclusive, equitable, and Islamic value-based national economic development.

Key words: *Islamic Economics, Challenges, Indonesian Economic System.*

Introduction

The Islamic economic system is an economic model founded on Sharia principles derived from the Qur'an and the Sunnah. This system emphasizes justice, balance, transparency, and social responsibility in every aspect of economic transactions. Islamic economics is regarded as an alternative response to the limitations of conventional economic systems. Its implementation has considerable potential to become a major pillar in developing an inclusive and equitable economy. However, despite the relatively rapid growth of Islamic economics, its implementation in Indonesia continues to face several serious challenges. The main obstacles include a shortage of competent professionals in this field and the dominance of the conventional financial system, which is more established and aggressive in reaching the public. Furthermore, the misconception that Islamic financial institutions are intended exclusively for Muslims has hindered the development of this system within Indonesia's pluralistic society. The relatively low quality of services and limited product innovation have also prevented Islamic financial institutions from competing effectively. The Islamic economic system in Indonesia plays an important role in addressing various national economic issues, particularly because the majority of the Indonesian population is Muslim. Based on the Qur'an and the Sunnah, this system emphasizes the principles of brotherhood, economic justice, and the fulfillment of human spiritual needs. Islamic economics has developed rapidly and has become an increasingly attractive alternative for society, especially following the 1998 economic crisis, which led to growing dissatisfaction with the conventional economic system. However, the implementation of the Islamic economic system in Indonesia continues to face several challenges. These include the public perception that Islamic banks are not significantly different from conventional banks, the assumption that Islamic economics is intended exclusively for Muslims, and the limited number of qualified human resources with an adequate understanding of Sharia economics. Moreover, the number of Islamic financial institutions remains relatively small compared with conventional institutions. Limited product standardization and insufficient public understanding of Sharia economic principles and terminology also remain major challenges. These issues demonstrate the need for collaborative efforts among the government, educational institutions, and industry stakeholders to enable the Islamic economic system to play an optimal role in promoting economic justice and improving the welfare of Indonesian society. The Islamic economic system is a mechanism derived from the

Qur'an and the Sunnah and guided by Islamic norms and teachings. In Indonesia, the Islamic economic system has developed rapidly and has become an alternative approach to national economic development. Despite this progress, however, the implementation of Islamic economics continues to face various complex challenges. The main challenges include a shortage of qualified human resources in the Islamic economic sector, limited public understanding and awareness, and the inadequate delivery of services to the wider community. Furthermore, the misconception that Islamic economics is intended exclusively for Muslims, along with the continued dominance of conventional financial institutions, also presents significant obstacles to the development of Islamic economics in Indonesia. Therefore, collaborative efforts involving various stakeholders—including the government, educational institutions, and industry practitioners—are necessary to improve the quality of human resources, expand Islamic economic literacy, and enhance the quality of services and innovation in Sharia-compliant financial products. These efforts will enable the Islamic economic system to make a greater contribution to promoting economic justice and improving the welfare of Indonesian society.

Previous research by Guntoro and Ahmad (2022) stated that the main challenges facing Islamic economics in Muslim-majority countries, including Indonesia, are related to human resources, public literacy, and the inadequate quality of public services. Meanwhile, Azmi (2020) emphasized the importance of collaboration among educational institutions, the government, and Islamic financial institutions in overcoming the stagnation of Islamic economic growth. These findings indicate that although the development of Islamic economics is moving in the right direction, the implemented strategies still need to be strengthened in terms of policy, education, and industry practices relevant to the needs of modern society. Based on these conditions, this study is important because it provides a comprehensive overview of the challenges facing the Islamic economic system in Indonesia. It aims not only to identify the major obstacles hindering the system's optimal implementation but also to propose practical and strategic solutions. By integrating theoretical and practical approaches, this study is expected to offer meaningful contributions and strengthen the position of Islamic economics as an alternative economic system capable of addressing contemporary social and economic challenges.

Methods

This approach aims to explore, analyze, and synthesize various conceptual perspectives on the challenges facing the Islamic economic system in Indonesia. The primary data were obtained from relevant sources, including books, scholarly journals, and articles that directly address Islamic economic issues, particularly in Indonesia and other Muslim-majority countries. The data were analyzed qualitatively and presented in the form of a descriptive narrative. This study examines relevant perspectives from experts and practitioners to gain a comprehensive understanding of the dynamics and issues surrounding Islamic economics. As the study is conceptual and exploratory in nature, it does not involve laboratory experiments or field surveys.

Results and Discussion

The findings concerning the challenges facing the Islamic economic system in Indonesia indicate that, despite its significant development, the system continues to encounter various fundamental obstacles. One of the primary challenges is the low level of public literacy and understanding of Islamic economic principles. A considerable proportion of the population does not fully understand the concepts, products, and benefits of Islamic economics; consequently, participation in Sharia-compliant financial products remains limited. This situation is further exacerbated by the dominance of the conventional economic system, which is more established and widely accessible. Another significant challenge is the limited availability of qualified human resources with expertise in Islamic economics. Indonesia’s Islamic financial industry continues to face a shortage of professionals with an in-depth understanding of Sharia economic principles and practices. Limited formal and non-formal education and training in Islamic economics have resulted in a workforce that is not yet fully capable of meeting the industry’s needs. Furthermore, research and development capacity in Islamic economics remains limited, which has slowed innovation in Sharia-compliant products and services. From a regulatory perspective, although the government has introduced various supporting policies, regulatory harmonization and implementation remain challenging. Many regulations have not been optimally implemented and are often poorly coordinated across institutions, creating uncertainty for industry stakeholders and investors. This regulatory uncertainty has also contributed to the slow growth of Islamic banking assets and the limited contribution of Islamic finance to Indonesia’s halal industry. Furthermore, Indonesia's contribution to halal production remains suboptimal, despite being one of the largest consumers in the global halal market. This indicates that the considerable potential of the Islamic economy has not been fully utilized in the financial sector, the halal industry, or the integration of Sharia-based financial technology. The halal industry, Islamic fintech sector, and zakat and waqf management institutions still require stronger managerial capabilities and greater innovation to compete effectively at the global level. To address these challenges, several solutions have been proposed, including strengthening collaboration between educational institutions and Islamic banking institutions, increasing the practical role of Islamic economics in society, providing training and disseminating information to employees and the public, encouraging innovative strategies that focus on the real sector, and improving the quality and competence of public services. Through policy reform, educational development, and innovation in Sharia-compliant financial products, Islamic economics in Indonesia has the potential to become a major pillar in building an inclusive and sustainable economy.

Conclusion

Indonesia's economic system normatively refers to Article 33 of the 1945 Constitution, which emphasizes the principles of cooperation, social justice, and equitable distribution. In practice, this system is envisioned as a people-centered economy that prioritizes the economic interests of the population and operates in the spirit of economic democracy. Historically, however, Indonesia's economic system has undergone several shifts in orientation—from a socialist approach during the Old Order to a more capitalist orientation under the New Order, followed by the Reform era's renewed emphasis on a people-centered economy. Although Pancasila is doctrinally upheld as the foundation of economic governance, actual practices have often deviated from its values of morality and social justice, resulting in socioeconomic inequality and contributing to the 1997 financial crisis. From an Islamic perspective, the economic system cannot be separated from social, religious, and moral systems. Islamic economics rejects a capitalist system that focuses solely on profit and instead emphasizes justice, blessings, and the equitable distribution of wealth. Islam regards economic activity as a form of worship motivated primarily by the pursuit of public welfare (*maslahah*), the fulfillment of needs, and religious obligations. Inequality resulting from interest-based practices (*riba*), capitalist domination of markets, and the lack of intervention in favor of disadvantaged communities demonstrates why the Islamic economic system can serve as a viable alternative. However, the primary challenge lies not only in the system itself but also in the commitment and determination required for its consistent implementation. The current challenges facing Indonesia's economic system revolve around the weak implementation of the fundamental values of Pancasila and Islamic economics. Economic inequality, structural poverty, and social injustice remain major issues. A people-centered economy, as a manifestation of Pancasila and Islamic economic principles, should provide a solution to these problems by empowering the informal sector and micro, small, and medium-sized enterprises (MSMEs). Unfortunately, in practice, the people-centered economy often remains merely a slogan without meaningful implementation. The failure lies not in the economic system itself but in the lack of moral commitment and exemplary conduct in its implementation. Unless economic actors and policymakers implement the economic system on the foundations of morality, spirituality, and justice, various economic concepts—whether based on Pancasila, Islam, or a people-centered approach—will continue to fail in achieving equitable prosperity for all members of society.

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