

The Role of Islamic Political Economy in the Development of Islamic Economics in the Reform Era

Syuhada

Universitas Islam Darul `Ulum (UNISDA) Lamongan

Email: Syuhada@gmail.com

Abstract. This study aims to investigate the role of Islamic political economy in the development of Islamic economics in the reform era. The reform era in Indonesia has become an important milestone in the development of Islamic economics, where Islamic economic values and principles are increasingly applied in various aspects of economic life. Islamic political economy is an important foundation in efforts to improve social justice and a more equitable distribution of wealth. In this research, a literature study approach is used to analyze various sources of literature relevant to this topic. The data obtained from the literature is interpreted to identify the role of Islamic political economy in the development of Islamic economics in the reform era. The results show that Islamic political economy has a positive impact in promoting economic inclusion, justice, and sustainable economic development. This research also emphasizes the importance of understanding the principles of Islamic economics and how its application can improve people's welfare in the context of the reform era. The results of this study are expected to provide valuable insights for policy makers, academics, and practitioners of Islamic economics in an effort to advance the Islamic values-based economy in the reform era.

Keyword: *Political Economy of Islam, Islamic Economic Development, Reformation Era*

INTRODUCTION

Indonesia, as a country with the largest Muslim population in the world, has long been known as one of the centers of Islamic economic development . The Reformation Era, which began in 1998, brought about major changes in various aspects of national life. This era was characterized by significant political, economic, and social reforms. In this context, the political role of Islamic economics has become the focus of increasing attention . Islamic economics is not just a theoretical concept, but has become a profound element in the development of the Indonesian economy. Within this framework, this study aims to explore and analyze the role played by political economy of Islam in the development of Islamic economy in the Reformation era

The Reformation era in Indonesia is characterized by significant political, economic and social changes. The desire to achieve a more just, inclusive and sustainable order has raised important questions about the role of Islam in directing the country's economic development. . Islamic economics is not just an economic paradigm, but also a system that includes social, moral, and economic aspects. The basic principles of Islamic economics include the principles of justice, sustainability, and more equitable sharing. Along with rapid political and social developments in Indonesia, Islamic economics has become increasingly relevant in the context of national economic development.

In recent decades, the country has witnessed the rapid growth of Islamic financial institutions, companies operating under Islamic economic principles, and other initiatives supporting the development of an Islam-based economy. . However, in this increasingly complex reality, the role of politics in regulating and supporting the Islamic economy in Indonesia is also of deep concern.

This research will examine the role of Islamic political economy in the development of Islamic economics in the Reformation era. The concept of Islamic political economy refers to all policies, regulations, and practices that have a significant impact on the development of an economy based on Islamic principles . This includes the interaction between the government, Islamic

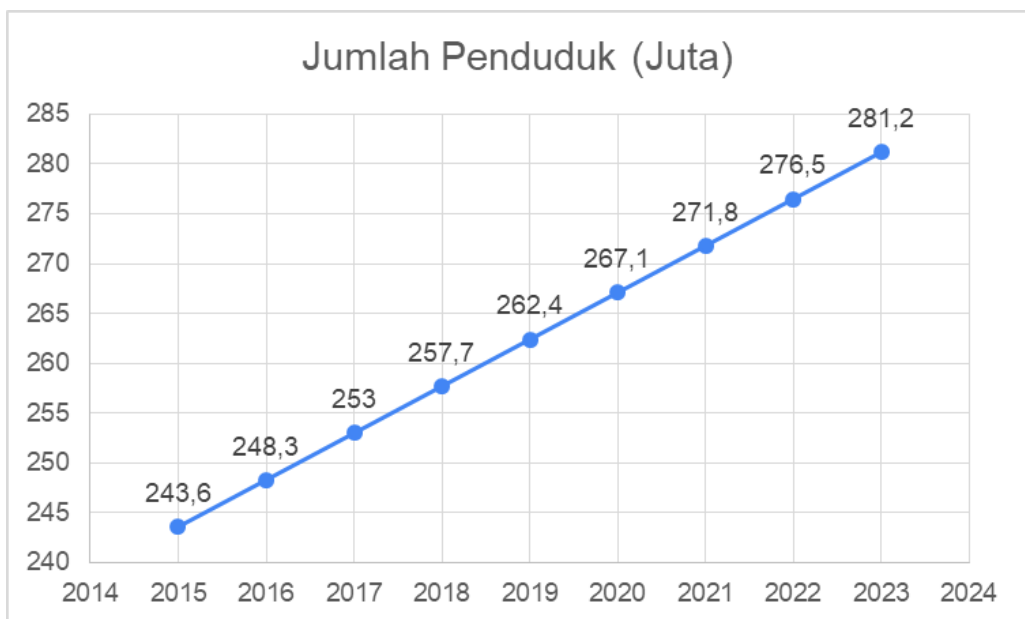
financial institutions, companies that operate based on Islamic economic principles, and the Muslim community.

RISULT AND DISCUSSION

1. Encouraging and inhibiting factors for the formation of Islamic economic policy in the reform era

The formation of Islamic economic policy in Reform Indonesia has been influenced by a number of diverse drivers and barriers. These factors reflect the complexity of creating a policy framework that supports economic development based on Islamic principles . One of the main driving factors in the formation of Islamic economic policy in the Reformation era was the realization of the economic potential of the Muslim community.

Table 1.1 Total Muslim Population in Indonesia in the last 10 years



With the largest Muslim population in the world, Indonesia has a significant market share for products and services that comply with Islamic principles. This has encouraged the government and private sector to seek opportunities in the Islamic economy industry, including Islamic banking, Islamic insurance, and the halal sector.

In addition, demands for economic justice and social inclusion are also important drivers. In the atmosphere of Reformasi, people are demanding fairer and more equitable policies. The principles of Islamic economics, which emphasize distributional justice, appeal to those who want a more inclusive economic system. However, there are also inhibiting factors that need to be considered . One of the main obstacles is the lack of deep understanding of Islamic economic principles among stakeholders, including regulators and entrepreneurs. This slows down the process of forming policies that are consistent with Islamic values. In addition, legal and regulatory uncertainty is often a barrier to the development of the Islamic economics industry.

Another inhibiting factor is the imbalance between conventional and Islamic economies . Often, conventional financial institutions dominate the market, while Islamic financial institutions still face challenges in terms of liquidity, infrastructure and human resources. This slows down the growth of the Islamic economic sector. In addition, differences of opinion in interpreting Islamic economic principles can also be a hindrance . There are various approaches and interpretations to Islamic economics, which can make it difficult to create uniform policies.

In the face of these various drivers and barriers, it is important for governments and other stakeholders to collaborate in formulating effective Islamic economic policies . This involves a deep understanding of Islamic principles, efforts to minimize barriers, and an inclusive approach to ensure that the policy serves the interests of all sections of society.

It can be concluded that the formation of Islamic economic policies in the Reformation period involved a number of push factors, such as the large potential of the Muslim market and the demand for economic justice . However, there are also inhibiting factors, including a lack of understanding, imbalances between the conventional and Islamic sectors of the economy, and differences of opinion in the interpretation of Islamic principles. To successfully develop an Islamic economy, it is important to overcome these barriers through collaboration and a deep understanding of Islamic values in an economic context.

2. Islamic Economic policies formed during the reformation period.

During the Reformation period in Indonesia, several Islamic economic policies have taken shape in response to the public demand for an economic system that is more in line with Islamic principles. One important aspect is the growth of the Islamic banking industry . In 1999, the Indonesian government officially passed an Islamic banking regulation that allowed the establishment of Islamic banks. This created a framework for the development of Islamic financial institutions in the country.

In addition, in an effort to mobilize investment in the Islamic economy, the Indonesian government also launched Sukuk or Islamic bonds in 2008. These are financial instruments that comply with Islamic principles that prohibit usury. Sukuk has become one of the significant financing tools for infrastructure and other economic development projects . However, there are also challenges faced in the development of Islamic economic policies. One of them is the uncertainty of the accompanying laws and regulations. The establishment of a clear and consistent legal framework for Islamic economics remains an issue to be addressed. At the local level, many local governments have also introduced regulations that support the Islamic economy, such as halal trading zones. These aim to support businesses that operate in accordance with Islamic principles.

In order to increase understanding and literacy regarding Islamic economics, several universities and educational institutions in Indonesia have also organized programs that focus on Islamic economics . This is an important step in supporting the development of skilled human resources in this field. Thus, the Islamic economic policy that took shape during the Reformation period in Indonesia includes various initiatives that support economic development based on Islamic principles . Although challenges remain, these measures created a strong foundation for the growth of the Islamic economic sector in the country.

3. The role of government policy on the development of Islamic banking in the reform era

In the reform era, the role of government policy is very important in developing Islamic banking in Indonesia. The government has a major role in creating a regulatory framework, supporting the growth of the Islamic banking industry, and addressing the challenges faced by the sector in . The first government policy was to create a strong legal foundation for Islamic banking. This is realized through various laws and regulations that govern the operations of Islamic banks . In addition to regulations, the government also provides fiscal and non-fiscal incentives for Islamic banks. These include certain tax exemptions and support in the development of Islamic infrastructure.

The government plays a role in supervising and overseeing Islamic banks' compliance with sharia principles. This includes supervision of sharia compliance in bank products and operations. One important aspect in the development of Islamic banking is Islamic financial education and literacy. The government is involved in educating the public about the principles of Islamic banking. Government policy also involves the promotion of Islamic banking and the creation of awareness among the public. This includes promotional campaigns and socialization programs . The government also supports research and development in the Islamic banking sector to encourage innovation and product development.

The importance of the government's role in providing accessibility to Islamic banking. The government plays a role in creating distribution channels that make it easier for people to access Islamic banking services. In the face of competition with conventional banks, the government also plays a role in ensuring that Islamic banks have a strong competitive advantage . The role of government policy includes the development of Islamic banking infrastructure, including the establishment of Islamic financial institutions and Islamic financial centers. The government supports Islamic banking in facing global challenges such as economic uncertainty and changes in international regulations.

Government policy involves efforts to enhance international cooperation in Islamic banking and promote Indonesia as a global Islamic finance center. The government also has a role in addressing

financial risks associated with Islamic banking, including currency swap risk and liquidity risk. Government policy involves increased supervision of Islamic banks to ensure the health and sustainability of the sector. One of the important things is to create transparency and accountability in the operations of Islamic banks . The government should ensure that Islamic banks conduct their operations honestly and in accordance with sharia principles. The government also needs to play a role in overcoming problems such as non-performing loans (NPLs) in the Islamic banking sector . In the reform era, the role of government policy also involves providing incentives to foreign investors who want to invest in the Islamic banking sector

Government policies should ensure that Islamic banks have sufficient access to funds and liquidity to support their growth. Fiscal policies implemented by the government also need to support Islamic banking, including the financing of Islamic infrastructure projects . The government should also ensure consumer protection in the Islamic banking sector, including addressing fraud and illegal practices. The government also has a role in regulating inheritance and family law issues in Islamic banking transactions. This includes resolving disputes that may arise. The role of government policy is vital in developing Islamic banking in the reform era . Through strong regulation, incentives, education, promotion, and support in overcoming challenges, the government acts as a catalyst in the growth of the Islamic banking sector in Indonesia.

Conclusion

In the reform era, Islamic political economy has played a major role in shaping and developing the Islamic financial sector in Indonesia. The development of Islamic banking has become one of the main focuses in the effort to expand the sharia-based economy. The Indonesian government has taken various policy initiatives to support the growth of Islamic banking, including drafting a legal framework that supports Islamic financial activities. This includes the establishment of the Islamic Banking Law and various other regulations that create a solid legal foundation for the sector. In addition, the government has also encouraged Islamic financial inclusion by facilitating public access to Islamic financial services. This includes the development of Islamic financial products that suit the needs of the community, such as sharia-based microfinance. The government also plays a role in improving Islamic economic literacy among the public, so that they can better understand and utilize Islamic financial products.

Islamic political economy also encourages Islamic entrepreneurship and investment in accordance with Islamic principles. The government plays a role in creating a business environment that supports the development of sharia-based businesses, including tax incentives and other support. Thus, the role of Islamic

political economy in the reform era has helped transform Indonesia's economic landscape by emphasizing the principles of Islamic economics, creating opportunities for inclusive and sustainable economic growth that is aligned with Islamic values...

References

- Adachi, M, "Discourses of Institutionalization of Zakat Management System in Contemporary Indonesia: Effect of the Revitalization of Islamic Economics," *International Journal of Zakat*, 2018 <<http://www.ijazbaznas.com/index.php/journal/article/view/71>>
- Ayub, M, "Islamic finance crossing the 40-years milestone-the way forward ..," *Intellectual Discourse*, 2018 <<https://search.ebscohost.com/login.aspx?direct=true&profile=ehost&scope=site&authtype=crawler&jrnl=01284878&AN=133745909&h=3M6uMWdjgLoAcbOlcslovMdnX5H4GXFncERftyx8PxSrYUh7DThHcm5NONtgHdZTBU%2BUzJudsO39uObBFfhy9g%3D%3D%3D&crl=c>>
- Behr, T, "EU foreign policy and political Islam: towards a new entente in the post-Arab spring era?" *Europe and Islam*, 2018 <<https://api.taylorfrancis.com/content/chapters/edit/download?identifierName=doi&identifierValue=10.4324/9781315617206-9&type=chapterpdf>>.
- Bossmann, A, P O Junior, and A K Tiwari, "Dynamic connectedness and spillovers between Islamic and conventional stock markets: time- and frequency-domain approach in COVID-19 era," *Heliyon* (cell.com, 2022) <[https://www.cell.com/heliyon/pdf/S2405-8440\(22\)00503-5.pdf](https://www.cell.com/heliyon/pdf/S2405-8440(22)00503-5.pdf)>.
- Erkoc, T E, "Islam and economics in the political sphere: a critical evaluation of the AKP era in Turkey," *Islam, Populism and Regime Change in Turkey*, 2020 <<https://doi.org/10.4324/9780429356636-8>>.
- Fulton, J, "China-UAE relations in the Belt and Road era," *Journal of Arabian Studies*, 2019 <<https://doi.org/10.1080/21534764.2019.1756135>>
- Gauthier, F, "From nation-state to market: The transformations of religion in the global era, as illustrated by Islam," *The Marketization of Religion*, 2020 <<https://doi.org/10.4324/9781003035596-3/nation-state-market-transformations-religion-global-era-illustrated-islam-fran%C3%A7ois-gauthier>>

- Hasan, Z, "Academic sociology: The alarming rise in predatory publishing and its consequences for Islamic economics and finance," *ISRA International Journal of Islamic Finance* (emerald.com, 2018) <<https://doi.org/10.1108/IJIF-11-2017-0044>>
- Ma'arif, S, "Reinventing Pesantren's Moderation Culture to Build a Democratic Society in the Post-Reform Republic of Indonesia," *Pertanika Journal of Social Sciences & ...* (pertanika.upm.edu.my, 2019)
<[http://www.pertanika.upm.edu.my/resources/files/Pertanika PAPERS/JSSH Vol. 27 \(3\) Sep. 2019/22 JSSH-3760-2018.pdf](http://www.pertanika.upm.edu.my/resources/files/Pertanika_PAPERS/JSSH_Vol.27_(3)_Sep.2019/22_JSSH-3760-2018.pdf)>
- Marwan, S, and M A Haneef, "Does doing good pay off? Social impact bonds and lessons for Islamic finance to serve the real economy," *Islamic Economic Studies* (emerald.com, 2019)
<<https://doi.org/10.1108/IES-05-2019-0001>>
- Mirakhor, A, Z Iqbal, and S K Sadr, *Handbook of ethics of Islamic economics and finance* (books.google.com, 2020)
<https://books.google.com/books?hl=en&lr=&id=8BTzDwAAQBAJ&oi=fnd&pg=PR5&dq=islamic+economics+in+the+reform+era&ots=ZnQ9-GelH6&sig=FGYpcuKVbgl_0NIZYBZbT7C2-RY>
- Muhajir, A, "Inclusion of Pluralism Character Education in the Islamic Modern Boarding Schools during the Pandemic Era," *Journal of Social Studies Education Research*, 2022
<<https://eric.ed.gov/?id=EJ1355830>>.
- Mutaqin, Z Z, "Culture, Islamic feminism, and the quest for legal reform in Indonesia," *Asian Journal of Women's Studies*, 2018
<<https://doi.org/10.1080/12259276.2018.1524549>>
- Rafikov, I, and E Akhmetova, "Methodology of integrated knowledge in Islamic economics and finance: collective ijtihād," *ISRA international journal of Islamic finance* (emerald.com, 2020)
<<https://doi.org/10.1108/IJIF-02-2019-0034>>.
- Rahman, R, and F S Hazis, "ICMI and its roles in the development of the middle class Muslim communities in Indonesia in the new order era," *Al-Jami'ah: Journal of Islamic Studies*, 2018
<<https://aljamiah.or.id/index.php/AJIS/article/view/56204>>
- Ramadhan, S, "Islamic law, politics and legislation: development of Islamic law reform in political legislation of Indonesia," *ADHKI: journal of islamic family law*, 2020

- <<http://jurnal.adhkiindonesia.or.id/index.php/ADHKI/article/view/35>>.
- Rosyad, A M, "The integration of Islamic education and multicultural education in Indonesia," *Al-Afkar, Journal for Islamic Studies*, 2020
<http://www.al-afkar.com/index.php/Afkar_Journal/article/view/87>.
- Saripudin, U, F Djamil, and A Rodoni, "The Zakat, Infaq, and Alms farmer economic empowerment model," *Library Philosophy and Practice* (core.ac.uk, 2020)
<<https://core.ac.uk/download/pdf/286730435.pdf>>.
- Setiawan, A, "Conceptual of Blended Learning as Islamic Education Study Program Learning Reform Action in Digital Era 4.0," ... *Journal of Islamic ...*, 2019
<<http://journal.uinsi.ac.id/index.php/syamil/article/view/1827>>
- Sihotang, M K, "Consumption Of Halal Product As Islamic Economic Culture In Indonesia," ... *Conference On Language And Literature (Ic2lc)*, 2020
<<https://books.google.com/books?hl=en&lr=&id=MmNiEAAAQBAJ&oi=fnd&pg=PA132&dq=islamic+economics+in+the+reform+era&ots=WpltAVEYmy&sig=RTed5q04ZymXL56zFNvpQgza1WQ>>.
- Syafitri, W, and F S Artika, "English as lingua franca and asean economic community (AEC): a perspective of islamic economy faculty in building strong Muslim students in iain Bukittinggi," *Islam Realitas: Journal of Islamic ...*, 2019
<http://ejournal.uinbukittinggi.ac.id/index.php/Islam_realitas/article/view/1096>
- Syam, A R, and S Arifin, "Islamic Educational Institution Policies Based on Creative Economic in the Asean Era Economic Community," ... : *Journal of Islamic Education* (e..., 2018
<<http://www.ejournal.staim-tulungagung.ac.id/index.php/edukasi/article/view/199>>
- Tolchah, M, and M A Mu'ammar, "Islamic Education in the Globalization Era," *Humanities & Social Sciences ...*, 2019
<<http://repository.uinsa.ac.id/id/eprint/1762/>>
- Ubaedillah, A, "Civic education for Muslim students in the era of democracy: Lessons learned from Indonesia," *The Review of Faith*

& International Affairs, 2018
<<https://doi.org/10.1080/15570274.2018.1469837>>