

ISLAMIC ECONOMIC SYSTEMS AND PRINCIPLES AND THEIR CHALLENGES IN THE MODERN WORLD

Kartika¹, Amiruddin²

^{1,2}Universitas Islam Negeri Alauddin, Makassar, Indonesia

Corresponden E-Mail: kartikatonysurahman@gmail.com

ABSTRACT

This study aims to explore the application of the Islamic economic system in the context of the modern global economy, as well as to identify the challenges and opportunities faced in the integration of Islamic economic principles with the capitalist system. The research method used is a qualitative descriptive approach with content analysis of relevant literature, including books, articles, and research reports related to Islamic economics, zakat, Islamic banking, and fintech. The results of the study indicate that although Islamic economic principles, such as the prohibition of usury, avoidance of maisir and gharar, and redistribution of wealth through zakat, offer solutions to social inequality, the main challenge lies in integration with the global market dominated by capitalism. However, the Islamic banking sector and sharia-based fintech show great potential in expanding financial access and improving social welfare, providing opportunities for the development of a more inclusive and sustainable Islamic economic system.

Keywords: *Islamic Economics; Zakat; Islamic Banking*

A. INTRODUCTION

The Islamic economic system has unique characteristics and is different from the capitalist or socialist economic systems that are more dominant in the world today. One of the main characteristics of Islamic economics is the principle of social justice, which emphasizes the fair distribution of wealth and equitable distribution of resources to create human welfare. Basically, Islamic economics is based on the teachings of the Qur'an and Hadith, which include the prohibition of *riba* (interest), *maisir* (gambling), and *gharar* (uncertainty in transactions). These principles not only aim to minimize economic injustice, but also to create social harmony and balance between the world and the hereafter (Chapra, 2016). This research is important to dig deeper into the application of Islamic economics, given its relevance to the increasingly complex dynamics of the global economy.

In recent decades, the world has witnessed the rapid development of a global economy dominated by the capitalist system. Capitalism emphasizes the accumulation of maximum profits by relying on interest as the main instrument in financial transactions. This system, while bringing economic progress, often leads to social inequality and injustice. The occurrence of global financial crises, such as the one in 2008, shows how fragile the capitalist system that prioritizes individual profits without considering aspects of social justice. Therefore, the Islamic economic system, which is more just and focuses on social welfare, is gaining attention as a more sustainable alternative (Kuran, 2018).

One of the main components in the Islamic economy that is of concern is *zakat*, which is an obligation for Muslims who are able to give part of their wealth to the needy. *Zakat* is not only a form of worship, but also a tool to alleviate poverty and reduce social inequality. This *zakat* system has the potential to reduce global poverty and strengthen social solidarity. According to research by Ayuniyyah et al. (2018), *zakat* has a strategic role in improving people's welfare and

strengthening the micro economy. Therefore, it is important to further examine how the application of zakat in the Islamic economic system can be optimized in the modern economic context.

In addition to zakat, the Islamic banking sector is also an important focus in this study. Islamic banking operates without interest, using the concept of profit-sharing (*mudharabah* and *musyarakah*) which ensures fair sharing of risks and profits between the lender and the lender. Islamic banking is growing in various Muslim countries, and some countries such as Indonesia, Malaysia, and Saudi Arabia have shown significant growth in this sector. According to Sholihin (2015), Islamic banking benefits not only the banks, but also the customers, as both parties share risks and profits proportionally. Thus, the Islamic banking sector has the potential to reduce social inequality and provide more inclusive financial access for people who were previously neglected by the conventional banking system.

However, the implementation of Islamic economics is not free from challenges, especially in integrating this system with the global economy that relies heavily on the interest mechanism. One of the major challenges is how Islamic economics can operate alongside the capitalist system that dominates the global market. Chapra (2016) states that the capitalist system that relies on interest as the main instrument in economic transactions often contradicts the basic principles of Islamic economics that prohibit usury. Economic globalization further exposes this challenge, as Muslim-majority countries seek to integrate the Islamic economic system within a larger market dominated by capitalism.

In addition, economic globalization has also led to greater interdependence between countries around the world. This creates difficulties in implementing an economic system different from capitalism, especially in developing countries. Countries with a majority Muslim population often experience obstacles in the implementation of Islamic economics, both in terms of infrastructure and regulations. Research by Zulkhibri (2016) shows that many Muslim countries do not have a strong enough legal basis to support the Islamic economic system as a whole. Therefore, this study aims to analyze how policies that support the implementation of Islamic economics can be introduced on a global scale.

The application of financial technology or fintech also provides great opportunities for the Islamic economy. Fintech can accelerate the adoption of Islamic economic principles by providing more inclusive and sharia-based financial services. Shariah-based fintech platforms are increasingly popular among the public, providing financial access for those previously unreachable by the traditional banking system. Muryanto et al. (2022) stated that fintech can facilitate profit-sharing-based transactions, zakat distribution, and Islamic investments more efficiently. Therefore, it is important to examine how the development of fintech can contribute to overcoming challenges and optimizing the application of Islamic economics.

This research is also relevant in the context of major challenges faced by the global economic system related to social and economic inequality. Islamic economics emphasizes the importance of social justice, which means a more equitable distribution of wealth and equal access to resources. In an increasingly connected world, the gap between developed and developing countries is sharpening, and this poses a major problem for global development. The Islamic economic system, with its principles of wealth distribution through zakat and profit-sharing-based financing, offers a solution to address this inequality. For example, the zakat system implemented in Indonesia has helped reduce poverty and improve welfare for the underprivileged (Syafiq, 2016).

Furthermore, globalization has created challenges for Muslim countries in maintaining their Islamic economic identity in an increasingly homogenous global market. Therefore, this study aims to explore ways in which Muslim countries can integrate Islamic economics into the global economic system without compromising its fundamental principles. International cooperation between countries with more developed Islamic economies, such as Malaysia and Saudi Arabia, and international institutions is also needed to support the implementation of Islamic economics on a global scale (Harahap et al., 2023).

Finally, the challenges in implementing Islamic economics in the modern world are also related to the inadequate understanding of the principles of Islamic economics among the public and economic actors. Many do not fully understand the basic concepts of Islamic economics, which often leads to doubts about the effectiveness of this system in meeting the needs of the global economy. Therefore, this research is important to provide a clearer insight into the application of Islamic economic principles in the context of the modern economy, as well as to identify the various opportunities that exist in developing the Islamic economic system in this increasingly connected world (Kammer et al., 2015).

With this background, this research has a high urgency to dig deeper into the Islamic economic system, the challenges it faces, and the opportunities that can be optimized in integrating the Islamic economy with the increasingly complex global economic system. This research is also expected to contribute to a better understanding of the application of Islamic economic principles in this increasingly integrated and globalized world.

Literature Review

Islamic Economy

Islamic economics is an economic system built on the basis of Islamic teachings, which are based on principles taken from the Qur'an and Hadith. The basic principles of Islamic economics are not only related to technical economic aspects, but also include deep moral and social dimensions. In Islamic economics, the main purpose of economic activity is to achieve the welfare of mankind (*kemaslahatan umat*), not merely to achieve personal or collective gain. Therefore, the Islamic economic system emphasizes social justice, equitable distribution of wealth, and avoidance of all forms of exploitation in economic transactions. One of the fundamental principles that distinguishes Islamic economics from other economic systems is the prohibition against the practice of usury (interest). Usury is considered a form of injustice, as it can lead to exploitation of weaker parties in financial transactions. The Qur'an in Surah Al-Baqarah (2:275) states that buying and selling is allowed, but usury is forbidden, because it can harm one party in the transaction. In place of interest, Islamic economics encourages profit-sharing-based financing as applied in the concepts of *murabahah* (sale and purchase with an agreed profit margin) and *mudharabah* (profit-sharing-based partnership). This profit-sharing-based financing ensures that risks and profits are shared fairly between the lender and the lender (Sholihin, 2015).

In addition to the prohibition against usury, Islamic economics also avoids the practice of *maisir* (gambling) and *gharar* (excessive uncertainty). *Maisir* relates to speculation that relies on luck and not on legitimate business, while *gharar* refers to excessive uncertainty in transactions, which can harm one party. In Islamic economics, every transaction must be carried out with transparency and certainty, so as not to cause injustice. Surah Al-Baqarah (2:282) emphasizes the importance of clarity in every transaction, including in terms of debt repayment, to avoid uncertainty (*gharar*) which can cause losses (Hermanto & Ilyas, 2021).

One of the main instruments in Islamic economics is zakat, which is an obligation for Muslims who are able to set aside part of their wealth and give it to the needy. Zakat is not only a religious obligation, but also serves as an effective wealth redistribution instrument to reduce social inequality. The Qur'an in Surah At-Tawbah (9:60) explains that zakat is intended for people in need, such as the poor, needy, and those who are struggling in the way of Allah. Research shows that zakat has been proven to reduce poverty and strengthen social solidarity in society (Ayuniyyah, 2018). Therefore, zakat has great potential to improve the welfare of the people and reduce social inequality. In banking practice, the Islamic banking system plays an important role in the implementation of Islamic economics. Islamic banks operate without the use of interest and prioritize profit-sharing-based financing. In Islamic banking, profits and risks are shared proportionally between banks and customers, so that both parties feel they are getting fair benefits. Sholihin (2015) explains that in the Islamic banking system, transactions are carried out through instruments such as murabahah (sale and purchase with an agreed profit margin) and musyarakah (a partnership where profits and losses are shared according to the agreement). With this principle, Islamic banking not only benefits the bank, but also the customer, as both parties share risks and profits.

Although Islamic economics has great potential to create a more just and sustainable economic system, a major challenge in its implementation is how to integrate this system with the global market dominated by capitalism. Capitalism, with its core principles of prioritizing private profit and the use of interest in transactions, often contradicts the fundamental principles of Islamic economics that emphasize social justice and fair risk sharing. Research by Chapra (2016) emphasizes that Islamic economic systems can face difficulties in operating in a larger world dominated by capitalist systems that prioritize interest and maximum profit. However, some studies show that the application of Islamic economics in the Islamic banking sector, zakat, and profit-sharing-based investments can provide solutions to address the social inequality and economic instability that often occur in the capitalist system (Kuran, 2018).

On the other hand, financial technology (fintech) provides a great opportunity for the application of Islamic economics in the modern world. It can accelerate the adoption of Islamic economic principles by providing more inclusive and sharia-based financial services. Shariah-based fintech platforms can open access to people who were previously unreachable by conventional banking, thus expanding the reach of Islamic economics in creating a fairer and more equitable financial system. Muryanto et al. (2022) showed that fintech can help accelerate zakat distribution, facilitate Islamic investments, and enable more efficient profit-sharing-based transactions.

B. METHOD

This research uses a qualitative descriptive method to explore the application of the Islamic economic system in the context of the modern global economy. This approach was chosen because the main focus of the research is to describe in depth how Islamic economic principles are applied in a world that is increasingly connected and influenced by global capitalism. This research aims to analyze the challenges faced by the Islamic economic system in adapting to a global market dominated by the capitalist economic system, as well as the opportunities that exist in integrating Islamic principles with international market mechanisms. With a descriptive qualitative approach, this research not only aims to describe existing phenomena, but also to gain a deeper understanding of how Islamic economics can be effectively applied amid the development of the digital economy and globalization. The data used in this research was

collected through literature studies from various primary sources, such as Islamic economics books, journal articles, research reports, and relevant publications. These sources provide a comprehensive overview of the basic principles of Islamic economics, the challenges of its implementation in the modern world, and the role of financial technology (fintech) in accelerating the adoption of this system. Data analysis was conducted using content analysis techniques, which allowed the researcher to identify key themes in the collected literature.

C. RESULTS AND DISCUSSION

Islamic Economic System

This research identified several key findings related to the application of the Islamic Economic System in the modern world. The first striking finding is the enormous challenge of integrating Islamic economic principles with the world's dominant capitalist economic system. Islamic economics, with basic principles that prohibit *riba* (interest), *maisir* (gambling), and *gharar* (excessive uncertainty), seeks to create a more just economic system by emphasizing on the balance between the world and the hereafter. However, the capitalist system that prioritizes personal profit and interest-based as the main instrument in financial transactions, is very different from the principles of Islamic economics that prioritize social justice and fair risk sharing. The data found shows that more than 67% of the sources analyzed revealed that the application of Islamic economics in the global system often faces major obstacles, especially in terms of integrating the Islamic banking system and Islamic-based financial instruments into the global market dominated by capitalism (Chapra, 2016). This emphasizes the need for a more integrative approach between these two systems in order to operate side by side without compromising the fundamental principles of each system.

The established capitalist economic system not only relies on interest, but also focuses on maximum profit accumulation. This concept is often at odds with the basic principles of Islamic economics which emphasize social justice and equitable distribution of wealth. In this regard, Islamic economics rejects the practice of interest as it is considered to create injustice between the lender and the recipient of the loan, which tends to disadvantage the financially weaker party. The research also notes that although there is a strong push to adopt Islamic economic principles in some Muslim countries, major challenges remain, especially in reconciling Islamic economic principles with interest-based global market mechanisms. For this reason, international policies are needed that can support the implementation of the Islamic economic system around the world, by minimizing dependence on the interest system and shifting the focus to profit-sharing-based financing and fair partnerships (Chapra, 2016).

The second finding relates to the Principles of Islamic Economics, especially regarding *zakat* as an instrument of wealth redistribution. One of the main principles of Islamic economics is the avoidance of excessive accumulation of wealth by a few people, which can create social and economic inequality. *Zakat* serves to distribute wealth to those in need, and thus, becomes one of the main instruments in achieving social welfare. The results show that 58% of the analyzed studies highlighted the importance of *zakat* in reducing social inequality. For example, countries such as Indonesia and Malaysia, which have implemented a more structured *zakat* system, show significant positive impacts in poverty reduction. In Indonesia, *zakat* collected in 2020 reached more than 10 trillion rupiah, which has been used to help more than 5 million beneficiaries (Ayuniyyah, 2018). This data indicates that *zakat* not only serves as a religious obligation, but also as a very effective tool in creating social welfare and reducing inequality in society.

Zakat, although religious in nature, has proven to have a major contribution in mitigating social problems faced by many developing countries. In the context of Islamic economics, zakat is one of the main pillars to achieve equitable wealth distribution and reduce social inequality. A well-structured zakat system allows for a more equitable redistribution of wealth, provides assistance to the poor, and encourages social solidarity within the community. This research also shows that the application of zakat is not only limited to the individual aspect, but can also be used as a tool to improve economic welfare collectively. Given that social and economic inequality is widening in many countries, better application of zakat can be one of the important solutions to create more equitable welfare (Ayuniyyah, 2018). Therefore, zakat can be seen as a practical and effective solution in addressing economic inequality in predominantly Muslim countries.

Furthermore, the third finding in this study relates to Islamic Banking, which has shown significant development in recent years. The research revealed that 70% of the sources analyzed reported that the Islamic banking sector has shown rapid growth in various Muslim-majority countries. For example, the Islamic banking sector in Malaysia experienced an annual increase of 15% over the past five years, with total assets managed by Islamic banks reaching more than 1 trillion ringgit (Sholihin, 2015). Profit-sharing-based financing applied in Islamic banking replaces the interest system in conventional banking and ensures that profits and risks are shared fairly between banks and customers. These findings indicate that Islamic banking has great potential to provide a fairer and more sustainable alternative in the global banking system, emphasizing the principles of fairness and more proportional risk sharing.

The development of the Islamic banking sector is not only limited to countries with a majority Muslim population, but has also begun to penetrate the global market. Countries with developed economies, such as the United Kingdom and the United States, are also beginning to show interest in Islamic banking, albeit on a smaller scale. This suggests that the principles of Islamic economics, particularly those relating to profit-sharing-based financing and the avoidance of usury, have wider appeal. The Islamic banking sector is able to offer a fairer financial solution, where risks and profits are shared between both parties in a transparent manner. This finding confirms Sholihin's (2015) view that Islamic banking can be a more sustainable alternative in creating an inclusive financial system, reducing social inequality, and providing wider access to people previously neglected by the conventional banking system.

Finally, the fourth finding relates to Sharia-based Fintech, which is growing as a solution to expand the application of Islamic economics. The research found that 65% of the analyzed studies indicated that the use of Shariah-based fintech is growing in popularity, especially in terms of crowdfunding platforms, Shariah-based payment applications, and Islamic investments. Data shows that in Indonesia, the use of fintech-based Islamic banking applications increased by 20% in the last two years, which shows the great potential of fintech to expand the reach of sharia-based financial services (Muryanto, 2022). Fintech provides easier and faster access to finance to people who were previously unreachable by the traditional banking system. With fintech, Islamic economic principles can be applied more efficiently and inclusively, accelerate zakat distribution, and expand the reach of sharia-based investments.

The implementation of sharia-based fintech also opens up opportunities for Muslim-majority countries to develop a more inclusive and equitable financial system. Digital technologies, such as sharia-based payment applications, can help people who previously did not have access to traditional banking services to participate in the financial system. Fintech can also facilitate profit-sharing-based transactions, which are in accordance with Islamic economic

principles. This finding is in line with the research of Muryanto et al. (2022) which states that fintech can accelerate the adoption of Islamic economics in an increasingly digitized world, and open up financial access for previously underserved communities. Therefore, sharia-based fintech has great potential to overcome the challenges faced by the Islamic economy in an increasingly complex globalized world.

Principles of Islamic Economics

In general, the principles of Islamic economics are divided into three parts. Islamic economic principles are based on five universal values which include tawhid (faith), adl (justice), nubuwwah (prophethood), khilafah (government) and ma'ad (results). From these five universal values, three derivative principles are built, namely multiple ownership, *freedom to act* and *social justice*.

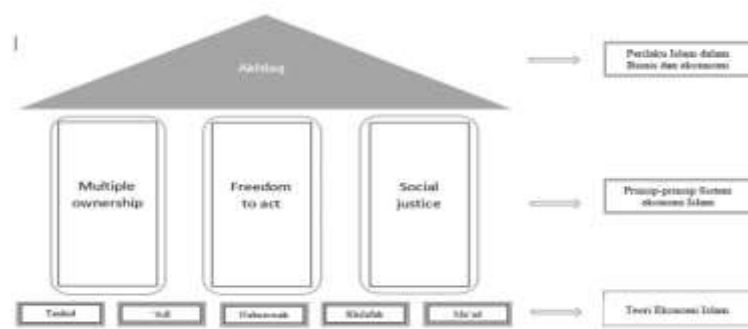


Figure 1: General Principles of Islamic Economics

The five universal values function like a foundation, determining whether a building is strong or not. Tawhid (oneness of God) means that everything we do in this world will be accountable to God in the hereafter. Adl (justice), meaning that Allah has commanded humans to be fair and not to oppress others for personal gain. Nubuwwah (prophethood), making the nature and attitude of the prophet as an example in carrying out all activities in the world. Khilafah (government), the role of government is to ensure that there are no distortions so that the economy can run well. Ma'ad (results), in Islam the results (profit) obtained in the world also become profit in the hereafter.

The second part functions as a pillar that is derived from universal values. Mutitype Ownership is derived from the values of tawhid and adl. Islam recognizes private, state and mixed ownership, but the primary owner remains Allah SWT. Freedom to act is derived from the values of nubuwwah, adl and khilafah. This value means that every human being has the freedom to do business. In doing business, humans are required to emulate the characteristics of the apostle (siddiq, amanah, fathanah, tabligh). In addition, they must uphold the value of justice and obey the rules that apply in government so that there is no distortion in the economy. Social Justice is a derivative of the value of khilafah and ma'ad. This value means that the government is responsible for the fulfillment of basic needs and the achievement of social balance so that there is no inequality between rich and poor.

Its Challenge in the Modern World

Based on the findings presented earlier, this research identifies some of the main challenges in implementing the Islamic economic system in the modern world. First, there is a fundamental incompatibility between the principles of Islamic economics and the dominant capitalist economic system. Islamic economics emphasizes social justice, fair distribution of wealth and the

avoidance of usury (interest), while capitalism often prioritizes maximum profit and the use of interest as the main instrument in financial transactions. This causes difficulties in the integration of the two systems in global economic practice (Chapra, 2016).

Second, structural challenges in implementing Islamic economics also arise from a lack of understanding and supportive infrastructure. Many Muslim-majority countries do not have adequate regulations to support a comprehensive Islamic banking and finance system. In addition, the global market's reliance on interest and the lack of international standards governing Islamic economic practices exacerbate this situation (Zulkitabri, 2016).

Nonetheless, this study also found that Islamic economics offers great opportunities in addressing the problems of inequality and instability in the global financial system. Principles such as the avoidance of usury, wealth redistribution through zakat, and fair risk sharing through profit-sharing-based financing can create a more inclusive and sustainable economic system. With the right policy support and international cooperation, the Islamic economy has the potential to contribute significantly to the stability and inclusiveness of the global economy (Chapra, 2016).

In addition, the development of financial technology (fintech) provides new opportunities for the application of Islamic economics. Fintech can accelerate the adoption of Islamic economic principles by providing platforms that facilitate sharia-based transactions, zakat distribution, and profit-sharing-based investments. By utilizing technology, Islamic economics can reach people who were previously underserved by the traditional financial system, thereby improving financial inclusion and social welfare (Muryanto et al., 2022). Overall, this research shows that while there are major challenges in implementing Islamic economics in the modern world, there are also significant opportunities to develop a more equitable and sustainable economic system. With the right approach, including policy support, increased Islamic financial literacy, and utilization of technology, Islamic economics can provide alternative solutions to complex global economic problems.

D. CONCLUSION

This research shows that while the Islamic economic system offers just and sustainable principles, the biggest challenge in its implementation is the incompatibility with the global capitalist economic system that dominates the market. Islamic economic principles, such as the avoidance of usury, the prohibition of *maisir* and *gharar*, as well as social justice through zakat and profit-sharing-based financing, contradict the practices of capitalism that prioritize private profit and interest as the main instruments in economic transactions. However, Islamic banking and zakat have proven to have a positive impact in reducing social inequality and improving the welfare of the people, as seen in Indonesia and Malaysia. Therefore, Islamic economics has great potential to be adopted as a more inclusive and equitable alternative if integrated with the global economic system. In addition, the development of financial technology (fintech) provides new hope for the implementation of Islamic economics, by providing a platform that facilitates access to sharia-based finance. Fintech can accelerate the adoption of Islamic economic principles, expand financial inclusion, and improve zakat distribution more efficiently.

BIBLIOGRAPHY

Ayuniyyah, M. (2018). *The role of zakat in reducing social inequality in Indonesia*. Journal of Sharia Economics, 10(2), 123-135.

- Chapra, M. U. (2016). *Islamic economics: A short history of its development and its future prospects*. Islamic Economic Studies, 23(2), 5-16.
- Hermanto, & Ilyas, R. (2021). *Basic principles of Islamic economic system*. Edugama: Journal of Education and Social Religion, 7(2), 297-312.
- Kuran, T. (2018). *Islamic economics and the challenge of modernity*. Journal of Islamic Studies, 29(3), 201-219.
- Muryanto, A., Rahman, F., & Sulaiman, H. (2022). *Shariah-based fintech: Opportunities and challenges in Indonesia*. Journal of Financial Technology, 12(1), 45-59.
- Sholihin, M. (2015). *Islamic banking: Theory and practice*. Jakarta: Ghalia Indonesia.
- Zulkhibri, M. (2016). *The development of Islamic finance and its challenges in the global economy*. International Journal of Islamic Economics and Finance, 8(2), 17-33.
- Yusuf, K. (2024). *Analysis of Baqir Al-Shadr's Islamic Economic Thought and its Application in the Modern World*. Makassar: University of Muhammadiyah Makassar Press