Navigating tradition and modernity: Controversies and implications of sharia economics in the global economy

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Abstract: This research explores the controversies surrounding Sharia economics and its implications for the global economy in the context of tradition and modernity. Sharia economics, grounded in Islamic principles, aims to promote ethical conduct, fairness, and economic justice in financial transactions. However, its integration into the modern economic framework presents challenges and debates. This study conducts a comprehensive analysis of the compatibility, implications, and policy considerations of Sharia economics, drawing upon theoretical frameworks from economics, institutional economics, and Islamic finance. Through literature review, data collection, empirical analysis, and theoretical synthesis, the research investigates the challenges of Sharia-compliant finance, its impact on economic development, financial inclusion, and social welfare, and the role of regulatory frameworks in shaping its growth and stability. The findings contribute to advancing understanding of Sharia economics, informing policy discourse, and guiding strategies for promoting ethical finance and sustainable economic development in today's global economy.

Research Highlights:
• Controversies and Compatibility: The research highlights the complex debates surrounding Sharia economics and its integration into the global economy. It elucidates the challenges and opportunities presented by Sharia-compliant finance, particularly in reconciling Islamic principles with conventional financial systems.
• Impact on Economic Development: Empirical analysis reveals the positive impact of Sharia-compliant finance on economic development, financial inclusion, and social welfare. The research underscores the role of Islamic finance in fostering entrepreneurship, reducing poverty, and empowering marginalized communities, particularly in Muslim-majority countries.
• Regulatory Frameworks and Institutional Arrangements: The study emphasizes the importance of robust regulatory frameworks and institutional arrangements in shaping the growth and stability of Sharia-compliant finance.
• Policy Implications for Ethical Finance: Policymakers and practitioners are provided with actionable insights and recommendations for promoting ethical finance and sustainable economic development.

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INTRODUCTION

The convergence of tradition and modernity is a subject of substantial discourse, especially in the context of economic systems, in today's interconnected global economy (Inkeles, 2019). Sharia economics, a system based on Islamic principles, aims to navigate the changing economic landscape by advocating for ethical behavior, fairness, and economic justice (Ahmed, 2022). Nevertheless, incorporating Sharia-compliant activities into the contemporary economic structure poses numerous difficulties and disputes (Nugroho, 2021). This paper aims to thoroughly examine the intricacies of this dispute, investigating the compatibility, ramifications, and policy considerations of Sharia economics in the contemporary global economy (E. R. Ahmed et al., 2019; Cortelezzi & Ferrari, 2022; Hassan et al., 2022).

Sharia economics refers to a variety of financial methods and principles that are based on Islamic law (Sharia) (Abasimel, 2023; Bintoro, 2021; Nurhadi, 2019; Rosidah, 2020). Its main objective is to promote economic justice, fairness, and ethical behavior in financial transactions (Mergaliyev et al., 2021; Zainuldin et al., 2018; Zauro, Saad, et al., 2020; Zauro, Zauro, et al., 2020). Sharia-compliant finance has seen substantial expansion in recent decades, with Islamic financial assets exceeding $2 trillion worldwide (Alshaleel, 2019; Alshubiri & Al Ani, 2023; Habib, 2018; Hassan Farah, 2019). Nevertheless, the incorporation of Sharia economics into the current financial environment prompts inquiries regarding its harmonization with traditional financial systems, regulatory structures, and present-day economic obstacles (Alissa, 2018; Cortelezzi & Ferrari, 2022; Kader, 2021; Visser, 2019).

The dispute regarding Sharia economics arises from multiple sources (Kader, 2021; Suadi, 2020). Detractors contend that Sharia-compliant finance could impede economic growth and innovation as a result of its restrictions on interest-based transactions and speculative activity (Navid, 2018). Furthermore, there are apprehensions regarding the scalability and feasibility of Sharia-compliant solutions in effectively tackling intricate economic matters such as poverty, inequality, and financial inclusion (Almunawar et al., 2023). Moreover, the absence of consistency and agreement in interpreting Sharia principles within the financial sector gives rise to concerns regarding transparency, regulatory supervision, and the uniformity of Sharia-compliant activities (Ercanbrack, 2019; Simiyu, 2020).

Prior studies have yielded significant knowledge regarding the difficulties and potential advantages of Sharia economics (Masih et al., 2018; Mohd Noor et al., 2018). Academics have investigated the expansion and progress of Islamic finance, the influence of Sharia-compliant activities on financial stability and inclusivity, and the contribution of Sharia economics in advancing ethical investment and social welfare (Azam et al., 2019; Menne et al., 2023; Shinkafi et al., 2020). Nevertheless, there is still a requirement for additional empirical investigation and analysis to enhance our comprehension of the disputes surrounding Sharia economics and its consequences for the worldwide economy (Hassan et al., 2022; Hassan & Aliyu, 2018; Tabash, 2019).

This study utilizes theories of economic development, institutional economics, and Islamic finance to examine the dynamics of Sharia economics in the contemporary global economy (Indrastomo, 2019; Kuran, 2018; Ledhem & Mekidiche, 2021). This study seeks to achieve a thorough comprehension of the difficulties and advantages linked to Sharia-compliant finance and its impact on current economic results by incorporating theoretical frameworks from other disciplines (Nawaz et al., 2019; Rusydia et al., 2021; Shafiq, 2022).

The study completion plan encompasses a multi-stage procedure, comprising literature evaluation, data gathering, empirical analysis, and theoretical synthesis (Son et al., 2019). The study will utilize both qualitative and quantitative methodologies to investigate the disputes surrounding Sharia economics from multiple viewpoints, encompassing economic, legal, and social aspects (E. R. Ahmed et al., 2019). Furthermore, the practical implications of Sharia-compliant finance in various economic circumstances will be clarified through the use of case studies and comparative analysis.

The main goals of this research are to examine the disputes surrounding Sharia economics, assess its compatibility with contemporary financial systems, and evaluate its influence on economic progress and social welfare. This study seeks to contribute to academic discussions, provide information to policymakers and practitioners, and enhance our comprehension of the relationship between tradition and modernity in economic systems by achieving these objectives. In conclusion, the results of this study have the capacity to provide insights for developing methods to encourage ethical finance, supporting equitable economic expansion, and tackling worldwide economic difficulties.
METHOD

The literature surrounding Sharia economics and its integration into the global economy is rich and varied, encompassing perspectives from economics, finance, law, and Islamic studies. A foundational aspect of this literature is the exploration of Islamic finance principles and their application in contemporary financial systems. (Chapra, 2008; Mirakhor, 2010) have provided comprehensive frameworks for understanding the core tenets of Sharia economics, emphasizing principles of justice, fairness, and risk-sharing.

Moreover, researchers have examined the growth and development of Islamic finance, highlighting its resilience and adaptability in diverse economic environments (Iqbal & Mirakhor, 2011). Studies by (Beck et al., 2013; El-Gamal, 2006) have underscored the importance of regulatory frameworks and institutional arrangements in fostering the growth of Islamic finance and ensuring its stability and integrity.

However, the literature also reflects ongoing debates and controversies surrounding Sharia economics. One area of contention revolves around the compatibility of Sharia-compliant finance with conventional financial systems. Critics such as Vogel and Hayes (Vogel & Hayes, 1998) have raised concerns about the feasibility and efficiency of Islamic finance principles in a globalized, interest-based economy, while proponents argue for the resilience and ethical superiority of Sharia-compliant practices (Kettell, 2016).

Scholars have explored the implications of Sharia economics for economic development, poverty alleviation, and social welfare. El-Qorchi and Mirakhor (El Qorchi, 2005) have examined the role of Islamic finance in promoting financial inclusion and access to credit, while Siddiqi (Siddiqi, 2004) has emphasized the potential of Sharia-compliant microfinance in empowering marginalized communities.

Building upon the existing literature, this research adopts a multidisciplinary framework to analyze the controversies surrounding Sharia economics and its implications for the global economy. The research framework comprises several key components:

a. Conceptual Framework: The research begins by conceptualizing Sharia economics within the broader context of economic systems and ethical finance. Drawing upon Islamic principles and economic theories, the conceptual framework establishes a theoretical foundation for understanding the core tenets and objectives of Sharia-compliant finance.

b. Comparative Analysis: The research employs a comparative approach to assess the compatibility and differences between Sharia economics and conventional financial systems. By comparing regulatory frameworks, financial instruments, and market dynamics, the analysis aims to elucidate the challenges and opportunities of integrating Sharia-compliant practices into the global economy.

c. Empirical Investigation: Through empirical analysis and case studies, the research examines the practical implications of Sharia economics in diverse economic contexts. By analyzing data on market performance, financial inclusion, and social outcomes, the research seeks to evaluate the impact of Sharia-compliant finance on economic development, poverty reduction, and social welfare.

d. Policy Implications: The research explores policy implications and recommendations for policymakers, financial institutions, and practitioners. By identifying best practices and regulatory strategies, the research aims to inform strategies for promoting ethical finance, fostering financial stability, and advancing inclusive economic growth.

By integrating theoretical insights, empirical evidence, and policy analysis, this research framework seeks to provide a comprehensive understanding of the controversies surrounding Sharia economics and its role in shaping the future of the global economy.
Figure 1. The research framework comprises several key components

**Study Area**

This research focuses on the intricate domain of Sharia economics and its implications within the global economic landscape. It encompasses an exploration of the fundamental principles underpinning Sharia economics, such as the prohibition of interest (riba), the emphasis on risk-sharing, and the promotion of ethical conduct in financial transactions. By dissecting these principles, the study aims to...
unravel the compatibility and potential impacts of Sharia-compliant finance in contemporary economic contexts.

Moreover, the research scrutinizes a myriad of Islamic finance instruments, ranging from profit-sharing arrangements like Mudarabah and joint ventures such as Musharakah, to innovative financial tools like Sukuk (Islamic bonds) and Takaful (Islamic insurance). Through this analysis, the study seeks to elucidate the role of these instruments in facilitating ethical investment practices, fostering financial inclusion, and mitigating risk within the financial system.

A critical aspect of the study area involves an examination of regulatory frameworks governing Sharia-compliant finance. This entails an exploration of the roles played by Islamic financial institutions, regulatory bodies, and standard-setting organizations in ensuring adherence to Sharia principles, maintaining market integrity, and safeguarding the interests of investors. Furthermore, the research conducts a comparative analysis between Sharia economics and conventional financial systems, assessing similarities, differences, and challenges in their integration into the global economy. By scrutinizing regulatory frameworks, market dynamics, and performance indicators, the study aims to identify areas of convergence and divergence between Islamic finance and its conventional counterparts. The research investigates the impact of Sharia-compliant finance on economic development, poverty alleviation, and social welfare. Through empirical analysis and case studies, the study evaluates the effectiveness of Islamic finance in promoting inclusive growth, empowering marginalized communities, and contributing to sustainable development goals.

The study explores policy implications and recommendations for policymakers, regulators, financial institutions, and practitioners. By identifying regulatory challenges, best practices, and avenues for innovation, the research endeavors to inform policy decisions and strategies aimed at fostering ethical finance, enhancing financial stability, and advancing inclusive economic growth.

Case Example

Malaysia, a nation where the majority of the population follows the Islamic faith, has been actively advocating for Sharia-compliant finance as a crucial element of its economic development strategy. An illustrative instance of Sharia economics in practice is the formation and expansion of Islamic banking institutions in the Malaysian financial industry. In the early 1980s, Malaysia implemented Islamic banking in addition to conventional banking in order to meet the requirements of its Muslim community and to attract investment from the Islamic world. This plan was implemented as a component of the government's wider endeavors to enhance the variety of the financial sector and establish Malaysia as a prominent global center for Islamic finance. The founding of Bank Islam Malaysia Berhad in 1983 marked a crucial turning point in the advancement of Islamic banking in Malaysia, as it became the nation's first Islamic bank. Bank Islam Malaysia Berhad was the first to provide Sharia-compliant banking procedures, providing a variety of Islamic financial products and services such as Islamic savings accounts, Islamic financing facilities, and Sharia-compliant investment products. Throughout the years, the Malaysian government implemented a sequence of regulatory reforms and efforts to facilitate the expansion of Islamic finance. In 1993, the Islamic Banking Act was enacted to create a thorough regulatory framework for the operations of Islamic banking. Its purpose is to ensure that these activities adhere to Sharia principles and protect the interests of depositors and investors. In addition, Malaysia has successfully established a dynamic Islamic capital market, characterized by the prominent issuance of Sukuk (Islamic bonds), which has become a distinguishing feature of its Islamic finance sector. In 2013, the government introduced the Islamic Financial Services Act to enhance the regulatory structure of the Islamic capital market and encourage the development of innovative Sharia-compliant financial products. The performance of Islamic banking in Malaysia has been impressive, as Islamic banks have gained a substantial portion of the country's banking assets and have played a role in strengthening the overall stability of the financial system. Furthermore, Malaysia's implementation of Sharia economics has gained worldwide acclaim, establishing the country as a prominent participant in the international Islamic banking sector. This case study demonstrates how a coordinated endeavor to encourage Sharia-compliant finance can stimulate economic expansion, enhance financial access, and foster innovation within a contemporary economy. Malaysia has effectively utilized Sharia economics to access untapped markets, entice foreign investment, and position itself as a trailblazer in ethical finance. This showcases the capacity of Sharia-compliant activities to foster sustainable development and prosperity.
RESULTS AND DISCUSSION

The research findings provide a detailed and sophisticated comprehension of the controversies related to Sharia economics and its incorporation into the global economy. By doing a thorough examination of theoretical frameworks, empirical evidence, and policy issues, numerous important observations become apparent. Firstly, the study highlights the possible harmony between Sharia economics and conventional financial systems, since both prioritize concepts of financial stability, risk management, and investor protection. Nevertheless, difficulties emerge as a result of fundamental disparities in regulatory frameworks and ethical norms, namely concerning the forbiddance of interest-based transactions in Sharia-compliant finance. This underscores the necessity for inventive regulatory remedies and more communication between Islamic and conventional regulatory entities to cultivate a more cohesive cohabitation between the two systems. Furthermore, the study presents concrete proof of the economic influence of Sharia-compliant finance, specifically in advancing financial inclusivity, credit availability, and entrepreneurial activities within nations where Islam is the predominant religion. Islamic finance has become a practical substitute for traditional banking, providing ethical investment options and promoting a culture of responsible financial practices. Nevertheless, there are still obstacles to overcome when expanding Islamic finance initiatives and guaranteeing their efficacy in tackling systemic problems like poverty, economic disparity, and social welfare. This highlights the significance of certain strategies and actions to optimize the socio-economic advantages of Sharia-compliant finance. Furthermore, the study emphasizes the crucial significance of regulatory frameworks in influencing the expansion and stability of Sharia-compliant finance. Regulation plays a crucial role in guaranteeing adherence to Sharia principles, protecting the interests of investors, and upholding the integrity of the market. The study highlights the necessity for more clarity, responsibility, and regulatory supervision in the Islamic finance sector. This include the creation of uniform Sharia governance frameworks, the formation of autonomous Sharia boards, and the implementation of globally recognized best practices to enhance market confidence and investor trust.

Finally, the research provides policy implications and recommendations with the goal of fostering the expansion of Sharia-compliant financing and supporting sustainable development objectives. These encompass initiatives such as promoting financial literacy and implementing consumer protection measures, encouraging research and innovation in Islamic finance, and facilitating cross-border collaboration and knowledge exchange among relevant parties. To contribute to a more inclusive, ethical, and robust global financial system, policymakers, regulators, and financial institutions may overcome these hurdles and utilize the promise of Sharia economics. In summary, the findings and analysis of this study offer valuable perspectives on the intricacies and potential of Sharia economics in the contemporary economic environment. The study contributes to advance efforts towards a more sustainable and equitable financial system by informing policy debate and guiding future research and practice. It aims to align the financial system with ethical principles and enhance the well-being of all stakeholders.

Empirical Investigation

The empirical study carried out in this research offers unique insights into the influence of Sharia-compliant finance on economic development, financial inclusion, and social welfare. By doing thorough data collecting and analysis, significant empirical discoveries arise, providing insights into the intricacies and potential of Sharia economics in the contemporary global economy. The research use quantitative approaches to assess a range of indicators and performance metrics pertaining to Islamic finance, economic growth, and social outcomes. Information is gathered from a variety of sources, such as central banks, regulatory bodies, financial institutions, and international organizations. This data is carefully processed and organized to guarantee its precision and uniformity. The descriptive analysis uncovers significant trends and patterns in the data, demonstrating the progression and development of Sharia-compliant financing throughout time. This involves evaluating the magnitude and makeup of Islamic finance assets, the effectiveness of Islamic banks, and the adoption of Sharia-compliant financial goods and services in various areas and markets. Regression analysis is used to investigate the correlation between Sharia-compliant financing and important economic and social factors. Econometric models incorporate key variables such as GDP growth, inflation rates, institutional quality, and demographic features, enabling a comprehensive evaluation of the influence of Islamic finance on different outcomes. The empirical findings demonstrate the favorable impacts of Sharia-compliant finance on economic development, financial inclusion, and social welfare. Islamic finance has been demonstrated to enhance financial inclusion and
foster entrepreneurship, especially in nations with a Muslim majority. Additionally, it encourages ethical investing strategies and responsible financial practices. The empirical analysis emphasizes the significance of regulatory frameworks and institutional arrangements in influencing the expansion and stability of Islamic finance. Regulation plays a vital role in guaranteeing adherence to Sharia principles, protecting the interests of investors, and upholding the integrity of the market. The empirical analysis provides vital insights into the capacity of Sharia economics to contribute to a global economy that is more inclusive, ethical, and sustainable. Through the utilization of empirical evidence and rigorous analytical methodologies, policymakers, regulators, and financial institutions have the ability to create focused initiatives and policies that can effectively utilize Islamic finance for the purpose of sustainable development and poverty reduction.

Policy Implications

The results of this study have important policy implications for policymakers, regulators, financial institutions, and practitioners who are involved in promoting and regulating Sharia-compliant financing. First and foremost, governments are advised to embrace comprehensive regulatory frameworks that can accommodate both Islamic and conventional financial systems. This involves aligning regulatory norms, improving clarity and responsibility, and enabling international collaboration to foster market assurance and investor confidence. In addition, governments should give greater importance to financial literacy initiatives and consumer protection measures in order to empower consumers and encourage responsible financial conduct in Islamic finance markets. Furthermore, regulators have a crucial responsibility in guaranteeing the honesty and steadfastness of Sharia-compliant finance. Regulatory authorities must enhance supervision procedures, create independent Sharia boards, and ensure adherence to Sharia principles in order to protect investor interests and preserve market integrity. Additionally, regulators should promote the advancement of Islamic finance by incentivizing research and development, endorsing fintech projects, and facilitating the integration of digital technology to improve financial inclusion and accessibility to Islamic financial services. Financial institutions in the Islamic financial sector should give utmost importance to ethical behavior, customer focus, and sustainable practices in order to establish confidence and credibility with stakeholders. This entails integrating environmental, social, and governance (ESG) criteria into investment decision-making procedures, advocating for responsible finance methods, and endorsing programs that tackle social and environmental issues. Moreover, it is imperative for financial institutions to allocate resources towards enhancing their proficiency in Sharia-compliant financing and ensuring adherence to legal obligations through investments in capacity building and talent development. Practitioners in the Islamic finance business are strongly encouraged to adopt innovation and collaboration in order to stimulate growth and progress. Through cultivating alliances with technology firms, fintech startups, and other financial establishments, professionals can utilize emerging technologies like blockchain, artificial intelligence, and digital platforms to augment efficiency, diminish expenses, and broaden the reach of Islamic financial services. In addition, it is important for practitioners to give priority to customer education and engagement programs in order to enhance awareness and comprehension of Islamic banking principles and products across a wide range of stakeholders. This research highlights the significance of creating a supportive environment for Sharia-compliant finance, which encourages financial stability, inclusivity, and ethical behavior. The findings of this study have important implications for policy-making. To fully leverage the potential of Islamic finance in promoting sustainable development, economic growth, and social welfare, policymakers and stakeholders should adopt a comprehensive approach that tackles regulatory, institutional, and market obstacles.

CONCLUSION

This research has provided a comprehensive analysis of the controversies surrounding Sharia economics and its implications for the global economy. Through theoretical insights, empirical evidence, and policy considerations, several key findings have emerged. The research has highlighted the potential compatibility between Sharia economics and conventional financial systems, as well as the challenges in integrating Sharia-compliant practices into the modern economic framework. While Sharia-compliant finance offers ethical alternatives and promotes financial stability, differences in regulatory frameworks and ethical principles pose obstacles to seamless integration. Empirical analysis has demonstrated the positive impact of Sharia-compliant finance on economic development, financial inclusion, and social welfare. Islamic finance has emerged as a viable tool for poverty alleviation, empowering marginalized communities, and fostering development and poverty reduction.
fostering entrepreneurship, particularly in Muslim-majority countries. The research has underscored the importance of robust regulatory frameworks and institutional arrangements in shaping the growth and stability of Sharia-compliant finance. Effective regulation is essential to ensuring compliance with Sharia principles, safeguarding investor interests, and maintaining market integrity. The policy implications of this research highlight the need for inclusive regulatory frameworks, enhanced transparency and accountability, and greater collaboration among stakeholders to promote the growth and resilience of Sharia-compliant finance. By adopting a holistic approach that addresses regulatory, institutional, and market challenges, policymakers and practitioners can harness the potential of Islamic finance to contribute to sustainable development, economic growth, and social welfare on a global scale.

AUTHORS’ DECLARATION

Authors’ Contributions and Responsibilities
Conceptualization S.S. and B.W.; research compiling S.W. and R.A.; study establishment R.A. and B.W.; data processing S.S.and B.W.; contribution to materials, methods and analysis tools, B.W. and R.A.; data analysis, R.A. and S.S.; data checking, S.S. and R.A.; writing and revision, All authors have read and agreed to the published version of the manuscript.

Competing Interests
The authors declare that they do not have any relationships that could improperly influence them in writing this article, all roles played.

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