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The Existence of the Islamic Economic System in Muslim and Western Countries in Facing Modern Economic Challenges

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Abstract
The growth of the digital economy has spurred the emergence of Sharia-compliant financing innovations, notably Sharia crowdfunding, which serves as an alternative for MSMEs facing difficulties in securing capital. This study aims to analyze the application of Fiqh Muamalah (Islamic commercial law) principles within Sharia crowdfunding systems and to evaluate its potential as a fair and transparent financing solution in the digital era. A descriptive qualitative method was employed, utilizing a literature review and secondary data. The study's novelty lies in its integrative analysis of classical Fiqh Muamalah values and modern digital financial practices an area that has received limited in-depth examination in prior research. The findings indicate that Sharia crowdfunding successfully incorporates principles of fairness, transparency, and the prohibition of riba (usury) into every transaction. The study concludes that Sharia crowdfunding can serve as a financing instrument that aligns with Islamic principles while simultaneously supporting inclusive digital economic growth.

Keywords: *Fiqh Muamalah, Sharia Crowdfunding, MSMEs, Digital Economy*
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INTRODUCTION

In recent decades, the global economic landscape has been heavily characterized by the dominance of a capitalist system rooted in free-market mechanisms. While this system has successfully driven economic growth across the globe, its trajectory has also given rise to serious structural issues such as widening income inequality, financial system instability, and the concentration of wealth within a select few groups (Indonesia, 2021). Reports from various international institutions consistently highlight the stark disparity in global wealth distribution, revealing that a small fraction of the world's population controls a vastly larger share of assets compared to the majority of the global population ((Thaha et al., 2024).

This disparity became increasingly evident when the global financial crisis struck, such as the one in 2008. That crisis was triggered by financial sector activities detached from the real economy, and its impact was felt worldwide (Hidayat & Hardianto, 2022). This event serves as clear evidence that conventional economic systems have not yet fully succeeded in ensuring long-term stability. To this day, the risk of economic instability continues to loom over a global financial system that is becoming increasingly complex and interconnected.

The Islamic economic system emerges in this context as an alternative offering with a distinct approach. It establishes justice, transparency, and a linkage to the real sector as fundamental, non-negotiable principles. Prohibitions against riba (usury), gharar (uncertainty/ambiguity), and maysir (gambling) form the foundation that fundamentally distinguishes it from conventional systems (Wahyuni, 2019). Wealth distribution mechanisms utilizing instruments such as zakat, infaq, sadaqah, and waqaf further reinforce the system's character as an economic approach that not only holds spiritual value but also possesses tangible potential for maintaining macroeconomic stability in a more sustainable manner (Latifah, 2021).

The growth of the Islamic economy on the global stage continues to show remarkable progress. According to data released by the OJK, the total assets of Indonesia's Sharia financial industry reached IDR 3,156.89 trillion in the first quarter of 2026. This achievement was driven primarily by two key sectors the Sharia capital market and Sharia banking with the latter’s assets alone exceeding IDR 1,061 trillion ((OJK), 2022). This milestone underscores the increasingly firm entrenchment of the Sharia economy within the national financial system, even though its market share relative to the overall financial industry remains in the single-digit range.

Indonesia's Sharia banking sector has also recorded encouraging growth, with total assets reaching approximately IDR 980 trillion by the end of 2024 and an annual growth rate nearing 10 percent (OJK, 2026). This achievement reflects public enthusiasm for Sharia-based financial services, a trend driven by rising Sharia financial literacy and inclusion in the country. However, low public financial literacy and limited product innovation remain significant challenges that must be addressed to further advance the development of this system.

Similar growth has been observed at the global level. Various international reports on the development of Islamic finance indicate that total global Sharia-compliant financial assets have surpassed US$3 trillion and continue to grow consistently year after year. The expansion of the sukuk, Islamic banking, and Sharia investment fund sectors has been the primary driver of this growth(Millah & Fajri, 2025). This fact underscores that the Islamic economy has expanded well beyond the borders of Muslim nations and has now become an integral part of the broader global financial system.

Interesting developments are also unfolding in Western nations, where the Islamic economic system is gaining increasing recognition. The United Kingdom stands out as a prime example, having established itself as a hub for Sharia finance in Europe through the issuance of sovereign sukuk and the continued expansion of Islamic banking services. Furthermore, numerous international financial institutions operating in London have begun incorporating Sharia-compliant investment instruments into their global portfolio diversification strategies (Fitria & Dewi, 2022). This phenomenon underscores the fact that the Islamic economy has moved well beyond the confines of religious practice and is now recognized as a competitive and relatively stable alternative financial system.

In light of these various phenomena, it is increasingly evident that the Islamic economic system is gaining strength both in Muslim-majority nations and in Western countries as it addresses contemporary economic challenges such as social inequality, financial crises, and global economic instability. This reality underscores the importance of the present study, which aims to conduct a comprehensive comparative analysis of the position and role of the Islamic economic system within these two regional contexts.

RESEARCH METHODOLOGY

This study employs a qualitative method utilizing a literature review approach to examine the existence of the Islamic economic system in both Muslim and Western nations amidst modern economic challenges. Secondary data were gathered from relevant books, scholarly journals, international agency reports, and official publications through document analysis. Data analysis utilized a descriptive-comparative approach, describing the development of the Islamic economy and comparing its implementation across various countries; the findings were then interpreted to identify the system's relevance in addressing contemporary economic issues. Data validity was ensured through source triangulation comparing various credible references to ensure that the resulting conclusions are objective and academically sound.

RESULTS AND DISCUSSION

This section answers the research questions by presenting the results of TCFD coding for each bank, grouped by jurisdiction, followed by a cross-country synthesis that links the findings to the latest literature.

1. The Islamic Economic System and Its Fundamental Principles

The Islamic economic system rests on a foundation of Sharia values derived from the Quran, Hadith, ijma' (consensus), and qiyas (analogy). This system governs human economic activity with the aim of achieving well-being that transcends mere material gain; instead, it seeks to establish justice, public welfare, and balance within society. In the Islamic economy, activities related to production, distribution, and consumption are viewed as acts of worship that must be conducted in accordance with Sharia principles; consequently, every economic activity must uphold the standards of halal (lawfulness), justice, and social responsibility (Habibi, 2022).

The development of the Islamic economy in Indonesia has shown an encouraging trend in recent years. According to the State of the Global Islamic Economy Report 2023/2024, Indonesia holds the top position in the development of the global Sharia economy. This growth is characterized by an increasing number of Sharia financial institutions, the expansion of the halal industry, and rising public awareness regarding the use of Sharia-based products and

services. Data from KNEKS indicates that the Sharia economic sector continues to make a tangible contribution to national economic growth through the development of the halal industry and Sharia finance, as well as the empowerment of MSMEs (Santoso, 2023).

The fundamental concept of Islamic economics is rooted in the belief that all resources on earth are a trust from Allah (SWT) that must be utilized responsibly. While the ownership of property is recognized in Islam, its use must not conflict with Sharia principles. Individuals are free to engage in economic activities provided they avoid prohibited elements such as *riba* (usury), gharar (uncertainty/ambiguity), maysir (gambling), fraud, and monopoly. The system seeks to strike a balance between individual and social interests to ensure a more equitable distribution of wealth.

The first principle is tawhid, which serves as the foundation for all economic activities by affirming that everything originates from Allah (SWT) and that an account must be rendered to Him. This principle fosters an awareness that economic activities must uphold moral and spiritual values, encouraging economic actors to conduct business with honesty, trustworthiness, and responsibility (Anhaf et al., 2025).

The second principle is justice, realized through the granting of proportional rights to each party, the protection of public interests, and the prohibition of exploitative practices. (Sari, 2023) explains that the concept of justice in Islamic economics serves as a crucial instrument for creating a more equitable distribution of income and reducing social inequality.

The third principle is balance, encompassing the equilibrium between individual and societal interests, material and spiritual aspects, as well as rights and obligations. This principle teaches that the pursuit of economic gain must take into account social interests and environmental sustainability, ensuring that the resulting prosperity is sustainable.

The fourth principle is responsible freedom, wherein Islam allows individuals the scope to own property, engage in transactions, and develop businesses, provided these activities do not conflict with Sharia principles or harm others. This freedom serves as a driving force for the growth of an entrepreneurial spirit within the Islamic economic ecosystem.

The fifth principle is maslahah, which signifies that every economic activity must yield tangible benefits for human life. All economic policies in Islam are directed toward achieving societal well-being and upholding the Maqasid al-Shari'ah encompassing the preservation of religion, life, intellect, lineage, and property thereby ensuring that the Islamic economy focuses not merely on growth but also on the overall quality of life.

The application of these principles is reflected in various Sharia economic instruments such as zakat, infaq, sadaqah, waqaf, profit-sharing, and the prohibition of riba (usury) which serve to foster economic equity and strengthen social solidarity. Data from BAZNAS indicates that national zakat collection continues to rise annually, serving as a significant instrument for community economic empowerment. Collectively, these principles and instruments underscore that the Islamic economic system offers an approach placing ethics, justice, and social welfare at the heart of economic activity, thereby paving the way for a more inclusive, equitable, and sustainable system.

2. Global Economic Challenges in the Modern Economic System

The modern economic system, dominated by the pillars of capitalism and free markets, currently faces a complex and structural "polycrisis." A fundamental challenge within this conventional system is the stark separation between moral-spiritual values and market

activities; this leads to a focus on purely material calculations that disregard long-term social justice (Huda et al., 2015). Consequently, wealth inequality has become a socio-economic time bomb that hinders social mobility across various nations. The modern economic system is often deemed to have failed in addressing extreme poverty, as its development orientation focuses excessively on Gross Domestic Product (GDP) growth without being balanced by equitable distribution (Beik & Arsyianti, 2016).

These challenges are exacerbated by the phenomenon of decoupling, wherein the financial sector—comprising shadow banking and derivative products—has expanded exponentially, far outstripping growth in the real sector (Ascarya, 2022). This imbalance generates high volatility, rendering the global economy highly vulnerable to recurring systemic crises (Ismal, 2013). As the wave of globalization demands seamless market integration, developing nations are compelled to adapt to global regulations that often fail to support their domestic stability (Hafidhuddin & Juwaini, 2006). Furthermore, faced with contemporary challenges such as the ecological crisis (climate change) and digital disruption, modern economic systems are required to undergo massive transformations entailing significant adaptation costs to ensure their continued existence (Ascarya, 2022).

3. The Existence of the Islamic Economic System in Muslim and Western Nations

Amidst recurring global economic crises, the Islamic economic system (Sharia) has emerged as a new paradigm offering financial stability and distributive justice (Nasution, 2007). The Islamic economy is no longer viewed merely as a marginal alternative; rather, it is now recognized as an inclusive subsystem in both Muslim-majority nations and the Western world.

In Muslim countries particularly Indonesia the existence of the Islamic economy has shifted from a merely private moral movement to formal state regulation (Amalia, 2014). This transition is marked by institutional strengthening, the regulation of Sharia banking, and efforts to integrate the commercial financial sector with social finance instruments such as zakat and waqf to address inequality (Beik & Arsyianti, 2016). Nevertheless, implementation in Muslim nations continues to face significant challenges, including low public literacy and the need to reorient bank interest toward a pure profit-and-loss sharing system amidst the dominance of conventional financial systems (Saeed, 2004).

On the other hand, the presence of the Islamic economy in Western nations (such as the UK, Europe, and North America) presents a fascinating phenomenon. In the West, the growth of Sharia-compliant instruments is driven not by religious or theological sentiment, but rather by commercial appeal, economic rationality, and prudential banking principles (Ismal, 2013). Fiqh muamalah (Islamic commercial jurisprudence) rules prohibiting speculative gambling (maysir) and uncertainty (gharar) have proven to be concrete solutions for mitigating the shocks of global financial crises (Mansoori, 2019). Asset-backed instruments such as Sharia bonds have become highly sought-after by Western investors because they offer greater investment security compared to conventional derivative products (Soemitra, 2014). The convergence of "ethical finance" values currently trending in the West with Sharia principles underscores the Islamic economy's high degree of flexibility for integration into the international financial ecosystem (Chapra, 2000). Ultimately, this presence demonstrates that the core of the Islamic economic system is the attainment of falah (holistic well-being), wherein the financial sector must move in tandem with the growth of the real sector to uphold justice and macroeconomic stability (Karim, 2017).

4. The Relevance of Islamic Economics in the Modern Economy

The structural crises currently plaguing modern economic systems such as income inequality, financial sector instability, and market failures call for an alternative paradigm that pursues not merely quantitative growth but also distributive justice. In this context, the Islamic economic system (Sharia) holds significant and tangible relevance in offering comprehensive solutions for the modern economic ecosystem (Nasution, 2007). The primary relevance of the Islamic economic system lies in the integration of commercial economic activities with ethical, moral, and spiritual value selements that have long been separated by conventional systems (Hidayah et al., n.d.).

Operationally, the economic relevance of the past in the modern era can be mapped onto several strategic aspects, as follows:

a. Alignment of the Monetary and Real Sectors

Modern conventional economic systems are frequently prone to "bubble economy" crises caused by rampant speculation in derivatives markets lacking underlying assets. The Islamic economy mitigates this disruption by prohibiting speculative transactions involving gambling (maysir) and uncertainty (gharar), while mandating that every financial instrument be grounded in real-sector activities (Mansoori, 2019). This concept has proven effective in safeguarding financial system stability against shocks from global systemic crises (Ismal, 2013).

b. Instruments for Equitable Wealth Distribution

Modern systems often fail to address extreme poverty caused by the concentration of capital within a small segment of society. Through an Islamic social finance system that integrates Zakat, Infaq, Sadaqah, and Waqf (ZISWAF), the Islamic economy offers an effective social safety net. This Sharia-based economic development model focuses on the equitable distribution of assets, thereby fostering social mobility for vulnerable groups (Beik & Arsyianti, 2016).

c. Profit-and-Loss Sharing System (Risk-Sharing) as a Substitute for Interest

The modern economy's reliance on the interest-based system (riba) imposes a rigid financial burden on business operators, particularly during times of crisis. In its place, the Islamic economy offers financing based on profit-and-loss sharing (mudharabah and musyarakah). This principle of sharing risks and profits fosters proportional fairness between capital providers and entrepreneurs, thereby promoting long-term business resilience (Saeed, 2004).

d. Synergy Between Markets and Equitable Regulation

The Islamic economic perspective does not reject the existence of free markets; however, it opposes exploitation and monopolies. Its relevance to modern macroeconomic policy is manifested in the state's role of market oversight (al-hisbah) ensuring healthy competition, fair price formation, and the protection of consumer rights without stifling individual incentives (Amalia, 2014).

CONCLUSION

The Islamic economic system grounded in the Qur'an, Hadith, ijma' (consensus), and qiyas (analogical reasoning) offers an economic approach that prioritizes well-being, justice, and the public interest as core objectives inseparable from financial growth. Principles such as tauhid (divine unity), justice, balance, responsible freedom, and maslahah (public interest) form an operational foundation that clearly distinguishes this system from conventional economics, which focuses solely on profit maximization. Sharia economic instruments including zakat, waqaf, infaq, sadaqah, and profit-sharing systems have proven capable of creating organic wealth redistribution mechanisms and strengthening social solidarity. The rapid growth of the Islamic economy in Indonesia and other nations demonstrates the system's strong relevance in addressing modern economic challenges, such as income inequality and the financial crises often triggered by the speculative practices of conventional systems. By integrating ethical values, social responsibility, and environmental sustainability into every economic activity, the Islamic economic system holds the potential to be a key contributor to building an economic order that is more inclusive, equitable, and sustainable for all segments of society

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