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From Vision to Practice: Comparative Dynamics of Islamic Economics in Indonesia and Malaysia

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Abstract: This paper aims to compare the development of Islamic economics in Indonesia and Malaysia, with emphasis on the banking sector as the core pillar. The study employs a descriptive-analytical method and a juridical-normative approach, analysing secondary data from official reports (OJK, Bank Negara Malaysia, IFSB), regulatory documents (Law No. 21/2008; Islamic Banking Act 1983; IFSA 2013), and peer-reviewed literature (2010–2023). Findings show that Indonesia's Islamic banking assets grew by 13% in 2021, supported by digitalisation and market-driven strategies, though financial literacy remains low (below 40%). Malaysia, by contrast, records a 30% share of Islamic banking assets nationally and dominates the global sukuk market, strengthened by comprehensive regulation and the Shariah Advisory Council. The results imply that Indonesia must enhance literacy and financial inclusion, while Malaysia should innovate further to sustain its global leadership. This study contributes comparative insights for policymakers on aligning regulatory frameworks with *maqāṣid al-sharīʿah* and strengthening cross-border collaboration.

Keywords: *Islamic banking; financial inclusion; Shariah governance.*

Abstrak: Artikel ini bertujuan untuk membandingkan perkembangan ekonomi Islam di Indonesia dan Malaysia dengan penekanan pada sektor perbankan sebagai pilar utamanya. Penelitian ini menggunakan metode deskriptif-analitis dengan pendekatan yuridis-normatif, melalui analisis data sekunder yang bersumber dari laporan resmi (OJK, Bank Negara Malaysia, IFSB), dokumen regulasi (Undang-Undang No. 21 Tahun 2008; *Islamic Banking Act* 1983; *IFSA* 2013), serta literatur ilmiah terbitan 2010–2023. Hasil penelitian menunjukkan bahwa aset perbankan syariah di Indonesia tumbuh sebesar 13% pada tahun 2021, didukung oleh digitalisasi dan strategi berbasis pasar, meskipun tingkat literasi keuangan masih rendah (di bawah 40%). Sementara itu, Malaysia mencatat pangsa aset perbankan syariah sebesar 30% secara nasional dan mendominasi pasar *sukuk* global, diperkuat oleh regulasi yang komprehensif dan keberadaan *Shariah Advisory Council*. Temuan ini mengindikasikan bahwa Indonesia perlu meningkatkan literasi dan inklusi keuangan, sedangkan Malaysia perlu terus berinovasi untuk mempertahankan kepemimpinan globalnya. Studi ini memberikan kontribusi berupa wawasan komparatif bagi pembuat kebijakan dalam menyelaraskan kerangka regulasi dengan *maqāṣid al-sharīʻah* serta memperkuat kolaborasi lintas negara.

Kata Kunci: *perbankan syariah; inklusi keuangan; tata kelola syariah.*

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Introduction

The shariah economy in Indonesia and Malaysia has shown significant development in recent years, with various initiatives and policies aimed at strengthening the sector.[1] In Indonesia, *shari'ah* economic literacy has become one of the main focuses, especially among the public, Muslim economists, Islamic economists, and employees of *shari'ah* microfinance institutions such as BMT (*Baitul Maal wat Tamwil*). Research shows that a good understanding of the principles of shariah economics can increase community participation in this financial system.[2] In addition, the existence of *shari'ah* economic law in the context of civil law has also been strengthened, which allows for more effective resolution of *shari'ah* economic disputes.[3] With principles based on Islamic law, Islamic economics offers an alternative economic system that is fair, transparent and sustainable. It relies on the prohibition of *usury*, *gharar* (uncertainty) and *maisir* (speculation), and encourages the principle of profit and loss sharing through contracts such as *mudharabah* and musyarakah.[4] As an important part of the Islamic economy, the Islamic banking industry has grown substantially, particularly in Muslim-majority countries, such as Indonesia and Malaysia. These two countries play a key role in advancing Islamic economics in the Southeast Asian region and serve as a reference for the development of Islamic economics internationally.

Indonesia, with the largest Muslim population in the world, has experienced significant growth in the Islamic economic sector. According to data from the Islamic Financial Services Board (IFSB), Islamic banking assets in Indonesia recorded the highest growth in Southeast Asia at 13% in 2021 (IFSB, 2021). This achievement is inseparable from regulatory support such as Law No. 21/2008 on Islamic Banking and various supporting policies aimed at strengthening the infrastructure and competitiveness of the Islamic banking industry. However, challenges remain, including low Islamic financial literacy among the public and intense competition with conventional banking.

Malaysia, on the other hand, has been recognised as a pioneer in the development of Islamic economics at the global level. With the support of progressive policies such as the Islamic Banking Act (IBA) 1983 and the Bank and Financial Institutions Act (BAFIA) 1989, Malaysia has successfully created a conducive ecosystem for the Islamic banking industry. The establishment of the Shariah Advisory Council (SAC) as the national shariah advisory body has provided a strong foundation to ensure shariah compliance in every banking product and service. In addition, Bank Negara Malaysia's active role in providing regulatory guidance and strategic initiatives such as the launch of the Islamic finance blueprint, has

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[1] Ruohan Wu, "Does Competition Lead Firms to Bribery? A Firm-Level Study in Southeast Asia," *Atlantic Economic Journal* 46, no. 1 (March 29, 2018): 91–100, https://doi.org/10.1007/s11293-017-9566-2; Andi Fariana, "Legal Politics as a Catalyst in Forming Sharia Economic Legal System in the Indonesia's New Order and Reform Era," *Ijtihad : Jurnal Wacana Hukum Islam Dan Kemanusiaan* 21, no. 2 (December 29, 2021): 197–212, https://doi.org/10.18326/ijtihad.v21i2.197-212.

[2] Nicholas Ferns, "'A New Hope for Asia'? Australia, the United States and the Promotion of Economic Development in Southeast Asia," *Australian Journal of Politics & History* 64, no. 1 (March 9, 2018): 33–47, https://doi.org/10.1111/ajph.12422.

[3] Maulana Ira M. Irsyad Arifin, "Eksistensi Hukum Ekonomi Syariah Dalam Hukum Perdata," *Lentera: Indonesian Journal of Multidisciplinary Islamic Studies* 3, no. 2 (February 6, 2022): 87–102, https://doi.org/10.32505/lentera.v3i2.3536.

[4] Zamir Iqbal and Abbas Mirakhor, *An Introduction to Islamic Finance: Theory and Practice*, vol. 687 (John Wiley & Sons, 2011).

made Malaysia one of the world's Islamic finance centres.[5] The philosophy of *shari'ah* economics is an important foundation for the development of *shari'ah* financial institutions in this country, with the aim of creating equitable welfare for the community.[6]

Despite significant progress, Indonesia and Malaysia face unique challenges in the development of their Islamic economies. In Indonesia, the diversity of cultures and legal systems poses a challenge in the implementation of a uniform Islamic economic law. In addition, limited public access to Islamic financial services, especially in remote areas, remains an obstacle.[7] In contrast, Malaysia, despite having a more mature infrastructure, has to compete with other Islamic finance centres such as Dubai and London. In addition, efforts to expand market penetration and increase the participation of Islamic financial institutions in broader sectors, such as Islamic fintech, remain a strategic priority.[8]

In the context of this comparison, it is important to look at the policies and approaches adopted by Indonesia and Malaysia in developing the Islamic economy. This comparative study is relevant given that both countries have similar cultural and social characteristics, but differ in terms of policy and regulatory approaches. This study aims to provide an in-depth analysis of the development, challenges and prospects of the Islamic economy in Indonesia and Malaysia, with a particular focus on the Islamic banking sector as the main pillar of the Islamic economy.

Theoretically, the approach to Islamic economic development cannot be separated from the basic principles of *fiqh muamalah*, which emphasise the values of justice, balance and benefit. In practice, the application of these principles is implemented through regulations designed to ensure sharia compliance in all aspects of a financial institution's operations. Sharia compliance is a key element that determines the success of the Islamic finance industry. Without strong compliance, the reputation of Islamic financial institutions may be jeopardised, ultimately affecting public confidence.[9]

The literature shows that the success of Islamic economics in a country depends heavily on a combination of comprehensive regulation, strict supervision, and active participation from all stakeholders, including the government, clerics, and the private sector.[10] In the Indonesian context, regulations that support the growth of the Islamic economy have developed rapidly in recent years. The enactment of Bank Indonesia Regulation No. 6/24/PBI/2004 on Islamic Banking and various amendments to other banking laws reflect the government's commitment in encouraging the growth of this

[5] Abdullah, "The Role of the Shariah Advisory Council in the Governance of Islamic Banks in Malaysia," *International Journal of Islamic and Middle Eastern Finance and Management* 7, no. 3 (2022): 271, https://doi.org/https://doi.org/10.1108/IMEFM-01-2013-0005.

[6] Haris Maiza Putra, Dede Abdurohman, and Hisam Ahyani, "Eksistensi Filsafat Ekonomi Syari'ah Sebagai Landasan Filosofis Perbankan Syari'ah Di Indonesia," *Ecobankers: Journal of Economy and Banking* 3, no. 1 (2022): 30–42.

[7] A Nasution, "Financial Inclusion in Indonesia: A Regional Assessment," *Economic and Social Research Journal* 7, no. 2 (2022): 203.

[8] Bala Shanmugam and Zaha Rina Zahari, "A Primer on Islamic Finance" (Research Foundation of CFA Institute Charlottesville, VA, 2009).

[9] Syukriah Ali, Anita Abu Hassan, and Kartini Kasim, "Macroeconomics Variables and Its Impact to Mudharabah Investment Deposits in Malaysia," *Journal Finance Management, ISSN* 51 (2012): 10866–69.

[10] Rodney Wilson, "The Development of Islamic Finance in the GCC," 2009.

sector. However, there is still room for improvement, especially in terms of regulatory harmonisation between Islamic and conventional banking institutions.[11]

Malaysia, with a more integrated approach, has shown that a strong regulatory framework can create stability and competitiveness for the Islamic finance industry. The establishment of the SAC under the supervision of Bank Negara Malaysia provides legal certainty and legitimacy for Islamic banking operations. In addition, the launch of Islamic financial instruments such as sukuk has opened up wider investment opportunities, not only for local but also international investors.[12]

However, in both Indonesia and Malaysia, the challenge of improving Islamic financial literacy and inclusion remains a major issue. Low Islamic financial literacy among the public is a barrier to the utilisation of Islamic financial products and services. On the other hand, the low level of financial inclusion, especially among rural communities, indicates the need for a more inclusive strategy to increase people's access to Islamic financial services.[13]

In the context of globalisation, Islamic economics faces the challenge of remaining relevant and competitive amidst changing market dynamics. Technological developments, especially in the form of financial technology (fintech), provide new opportunities and challenges for the Islamic financial sector. On the one hand, fintech can expand access and efficiency of Islamic financial services; however, on the other hand, regulation and supervision of Islamic fintech requires a more innovative approach to ensure Shariah compliance.[14]

Against this background, a comparative study between Indonesia and Malaysia is important to identify the advantages and disadvantages of each approach in developing the Islamic economy. The findings of this study are expected to contribute to the development of more effective policies, not only for both countries but also for other countries that are developing the Islamic economy.

In order to strengthen the competitiveness of the Islamic economy, it is important for the government and other stakeholders to continuously improve regulatory capacity, product innovation, and financial literacy. Collaboration between countries, both in the form of strategic partnerships and knowledge exchange, can also be a solution to overcome the various challenges faced.[15] Ultimately, the development of Islamic economics does not only aim to create economic benefits, but also to realise the values of social justice and sustainability that are at the core of the Islamic

[11] Asyharul Muala, "Repositioning of Islamic Economics in the Era of Globalization from the Maqasid Syari'ah Perspective," *J. Islamic L.* 1 (2020): 45; Fitrianur Syarif, "Perkembangan Hukum Ekonomi Syariah Di Indonesia," *Pleno Jure* 9, no. 2 (2019): 1–16.

[12] Rifaat Ahmed Abdel Karim and Simon Archer, *Islamic Finance: The New Regulatory Challenge* (John Wiley & Sons, 2013).

[13] David Dapice, "Economic Development in Southeast Asia," *Economies* 3, no. 3 (September 7, 2015): 147–147, https://doi.org/10.3390/economies3030147; Fajar Sukma and Zulheldi Zulheldi, "Government Policies in Economic Empowerment of Muslim Communities in the Digital Economy Era," *El-Mashlahah* 11, no. 2 (December 23, 2021): 146–63, https://doi.org/10.23971/elma.v11i2.3108.

[14] Mr Alfred Kammer et al., "Islamic Finance: Opportunities, Challenges, and Policy Options," 2015; Mujahidin Mujahidin et al., "Challenge of Waqf to the Social and Economic Welfare of Muslim Communities: A Comparative Analysis Between Countries," *Jurnal Ilmiah Mizani: Wacana Hukum, Ekonomi Dan Keagamaan* 12, no. 1 (April 22, 2025): 168, https://doi.org/10.29300/mzn.v12i1.7765.

[15] Luhur Prasetiyo and Khusniati Rofiah, "The Formulation of Islamic Bank Performance Based on Contemporary Maqasid Al-Sharia," *Justicia Islamica* 18, no. 2 (November 25, 2021): 318–34, https://doi.org/10.21154/justicia.v18i2.3163.

economic system. As such, this study seeks to provide a comprehensive insight into the direction and prospects of Islamic economics in Indonesia and Malaysia, as well as its implications for the development of Islamic economics globally.

Method

This study adopts a descriptive-analytical method and a juridical-normative approach.[16] Data were collected from official regulatory documents (Law No. 21/2008 on Islamic Banking, Bank Indonesia Regulations, Islamic Banking Act 1983, IFSA 2013), fatwas from the National Sharia Council (DSN-MUI) and the Shariah Advisory Council (SAC), as well as official reports from OJK, Bank Negara Malaysia, and the Islamic Financial Services Board (IFSB). Peer-reviewed literature was gathered from databases such as Scopus, Web of Science, and Google Scholar using keywords Islamic banking Indonesia, Malaysia Islamic finance, Shariah governance, sukuk, and *maqāṣid al-sharīʿah*, covering the period 2010–2023. Inclusion criteria consisted of regulatory documents, official reports, and peer-reviewed articles; non-scholarly sources were excluded. Data were categorised into three dimensions: (1) regulatory framework, (2) implementation strategies, and (3) market indicators. Maqāṣid alignment was coded using indicators of justice, inclusivity, and sustainability. Validity and reliability were ensured through source triangulation and cross-checking of reports.

Results and Discussion

The results are interpreted in light of theory and previous studies. Indonesia's market-driven innovation shows alignment with maqāṣid principles of inclusivity, while Malaysia's strong regulatory coherence demonstrates effectiveness in Shariah governance. However, Indonesia lags in literacy and inclusion, whereas Malaysia must address global competitiveness. Comparative strengths suggest Indonesia can benefit from Malaysia's regulatory integration, while Malaysia can learn from Indonesia's technology-driven inclusion strategies.

The Development of Sharia Economics in Indonesia

Islamic economics in Indonesia has undergone significant development in recent decades. [17] Started in 1991 with the establishment of Bank Muamalat Indonesia as the first Islamic bank, this sector has now become one of the main pillars in the national economic system. The development of Islamic economics has received support from various parties, including the government, academics, industry players, and the public. This is in line with Indonesia's status as a country with the largest Muslim population in the world, which creates great potential for sharia-based economic growth.[18]

Over time, regulations related to Islamic economics continue to be strengthened to provide a solid legal foundation. One important

[16] John W Creswell and J David Creswell, *Research Design: Qualitative, Quantitative, and Mixed Methods Approaches* (Sage publications, 2017).

[17] Nursaid Nursaid, Zain Smith, and Amrit Dhakal, "Development of Islamic Economics and Practices in Indonesia (2013-2023): Opportunities and Challenges," *Revenue Journal: Management and Entrepreneurship* 1, no. 1 (December 18, 2023), https://doi.org/10.61650/rjme.v1i1.323; Benny Hutahayan et al., "Legal Certainty in Green Bonds: The Role of Coherence, Legitimacy, Economic Benefits, and Government Authority," *Jurnal Hukum* 40, no. 2 (2024): 341–58.

[18] Erie Hariyanto and Moh Hamzah, "Bibliometric Analysis of the Development of Islamic Economic Dispute Resolution Research in Indonesia," *JURIS (Jurnal Ilmiah Syariah)* 21, no. 2 (2022): 221–33, https://doi.org/https://dx.doi.org/10.31958/juris.v21i2.6997.

milestone is Law No. 21/2008 on Islamic Banking, which provides legal certainty and encourages the expansion of Islamic banking. In addition, the National Committee for Sharia Economics and Finance (KNEKS), which was formed in 2016, has become a driving force in the development of this sector through strategic policies and programmes.[19]

In the banking sector, the market share of Islamic banks shows a positive growth trend. Data from the Financial Services Authority (OJK) notes that Islamic banking assets continue to increase every year, driven by increasing public awareness of the importance of halal and sharia-compliant financial products. Islamic banks now offer not only traditional products such as *murabahah* and *mudharabah* financing, but also innovative products that cater to modern needs, such as retail sukuk and technology-based financing.[20]

In addition to banking, the non-bank sector is also growing rapidly. Islamic insurance, the Islamic capital market, and sharia-based microfinance institutions, such as *Baitul Maal wa Tamwil* (BMT), are integral parts of the Islamic economic ecosystem in Indonesia. The Islamic capital market, for example, has attracted the attention of investors through the issuance of state sukuk, which has significantly contributed to the financing of national development. The halal industry, such as halal food, fashion and tourism, has also become a leading sector that supports the overall growth of the Islamic economy.[21]

At the global level, Indonesia is increasingly demonstrating its position as one of the major players in the Islamic economy. In the Global Islamic Economy Indicator, Indonesia is often ranked at the top for the halal food and Islamic finance categories. This shows the country's success in tapping the potential of the Islamic economy not only for the domestic market, but also for international market share.[22]

However, the development of Islamic economics in Indonesia is not free from challenges. The Islamic financial literacy gap in the community is still a major obstacle, despite the launch of various financial literacy and inclusion programmes. [23] In addition, competition with established conventional financial institutions requires banks and Islamic financial institutions to continue to innovate in order to compete effectively.[24]

The government plays a strategic role in

[19] Mukharom Mukharom et al., "Sharia Economic Legal Contribution of Economic Development in Indonesia," *Journal of Islamic Economics Perspectives* 1, no. 2 (May 3, 2020): 43–50, https://doi.org/10.35719/jiep.v1i2.21; Muhammad Ikhlas Supardin et al., "Legal Reasoning by Judges in the Decision of the Religious Court in the DKI Jakarta Area Regarding Sharia Financing," *Al-Istinbath: Jurnal Hukum Islam* 10, no. 1 (April 25, 2025): 1–29, https://doi.org/10.29240/jhi.v10i1.10917.

[20] Cik Basir et al., "Reconstruction of Sharia Economic Procedural Law in Indonesia and Comparison of Sharia Economic Cases in Malaysia and Indonesia," *Nurani: Jurnal Kajian Syari'ah Dan Masyarakat* 24, no. 1 (June 20, 2024): 17–36, https://doi.org/10.19109/nurani.v24i1.22625.

[21] Hasbi Hasan and Cecep Mustafa, "The Politics of Law of Sharia Economics in Indonesia," *Lex Publica* 9, no. 1 (2022): 30–57, https://doi.org/10.58829/lp.9.1.2022.30-57.

[22] Rina El Maza Rina El Maza et al., "Sharia Economic Law Regulation on The Development of Sharia Financial Institutions in Indonesia," *Journal of Social Work and Science Education* 3, no. 2 (April 18, 2022): 154–67, https://doi.org/10.52690/jswse.v3i2.290.

[23] Choiriyah Choiriyah, Saprida Saprida, and Emilia Sari, "Development of Sharia Banking System In Indonesia," *Mizan: Journal of Islamic Law* 5, no. 1 (June 18, 2021): 17, https://doi.org/10.32507/mizan.v5i1.923.

[24] Amrin Barata, "Understanding of Islamic Studies Through Sharia Economics Perspective in Indonesia," *Journal of Islamic Monetary Economics and Finance* 5, no. 1 (May 16, 2019): 145–68, https://doi.org/10.21098/jimf.v5i1.1053; Nur Insani et al., "Empowering Muslim Women: Bridging Islamic Law and Human Rights with Islamic Economics," *De Jure: Jurnal Hukum Dan Syar'iah* 16, no. 1 (June 25, 2024): 88–117,

encouraging the Islamic economy through proactive policies, such as tax incentives for halal businesses and sharia-based funding for development projects.[25] This support is also reflected in international cooperation programmes in the form of sharia investment and the development of sharia-based financial technology (fintech), which are increasingly in demand.

With various opportunities and challenges, the development of Islamic economics in Indonesia has bright prospects. Closer integration between the Islamic financial sector and the real sector is expected to create an economic ecosystem that is inclusive, sustainable, and able to contribute significantly to national economic growth. This requires the collaboration of all parties to ensure that the principles of maqashid sharia remain the basis for the development of this sector.[26]

The Development of Islamic Economics in Malaysia

The Islamic economy in Malaysia has grown rapidly since 1983, when the Islamic Banking Act (IBA) was enacted and Bank Islam Malaysia Berhad was established as the country's first Islamic bank. Malaysia has successfully positioned itself as one of the global leaders in the Islamic finance industry through strategic policies, strong regulations and a conducive ecosystem. The government and Bank Negara Malaysia (BNM) play an important role in ensuring the growth of the Islamic economy is sustainable.[27]

One of the key strengths of the Islamic economy in Malaysia is its progressive legal and regulatory framework. Legislation such as the Islamic Financial Services Act (IFSA) 2013 provides a clear and comprehensive legal basis for Islamic financial management. In addition, institutions such as the International Shariah Research Academy for Islamic Finance (ISRA) play a role in conducting research and developing internationally recognised shariah standards.

In the banking sector, Malaysia has an extensive network of Islamic banks, including both local and international banks. Islamic banking market share accounts for more than 30 per cent of total national banking assets. Innovative Islamic finance products, such as green sukuk and waqf-based financing, demonstrate Malaysia's ability to respond to evolving market needs. This development is supported by the adoption of financial technology (fintech) to enhance financial inclusion.

Malaysia has also been a pioneer in the issuance of sukuk, or Islamic bonds, in the global market. Sukuk issued by the Malaysian

https://doi.org/10.18860/j-fsh.v16i1.26159; Qodariah Barkah et al., "Legal Transformation of Indonesian Sharia Banks Towards Digital Banking in the Era of Industrial Revolution 4.0," *Al-'Adalah* 21, no. 2 (December 26, 2024): 347, https://doi.org/10.24042/adalah.v21i2.21254.

[25] Hendri Hermawan Adinugraha and Ali Muhtarom, "Understanding of Islamic Studies Through Sharia Economics Perspective in Indonesia," *Journal of Islamic Economics Perspectives* 3, no. 1 (February 27, 2021): 17–31, https://doi.org/10.35719/jiep.v3i1.25.

[26] Elsy Renie, "The Urgency of Fatwa in the Law of Sharia Economics in Indonesia," *JURIS (Jurnal Ilmiah Syariah)* 20, no. 2 (December 15, 2021): 201, https://doi.org/10.31958/juris.v20i2.4059.

[27] Muhammad Nanang Choiruddin et al., "Financial Literacy, FinTech, and Contemporary Innovation in Islamic Economic Law: An Analysis of MSME Performance Sustainability in Indonesia and Malaysia," *MILRev: Metro Islamic Law Review* 4, no. 2 (August 14, 2025): 976–1008, https://doi.org/10.32332/milrev.v4i2.10164; Dini Maulana Lestari, Hadri Kusuma, and Sunaryati, "To What Extent Collateral in PLS Financing Brings Maṣlaḥaḥ? An Analytical Comparison from Islamic Law Outlook with Maqāṣid Al-Sharī'ah Index," *Al-Manahij: Jurnal Kajian Hukum Islam*, May 22, 2024, 109–24, https://doi.org/10.24090/mnh.v18i1.10575.

government and private sector have attracted international investors due to their transparent and Shariah-compliant structure. Malaysia's dominance in the global sukuk market demonstrates the country's capacity to utilise Islamic financial instruments to support infrastructure development and green projects.

The halal industry in Malaysia is an integral component of the Islamic economy, with a focus on halal food, cosmetics, pharmaceuticals and halal tourism. With internationally recognised halal certification, Malaysia has become a major hub in the global supply chain of halal products. Initiatives such as the Halal Industry Master Plan 2030 are designed to establish Malaysia as a global leader in the halal industry.

The Malaysian government also actively encourages international collaboration to strengthen the Islamic economy. As a member of the Islamic Financial Services Board (IFSB) and host of various international conferences, Malaysia promotes Islamic finance standards and shares best practices with other countries. This strengthens Malaysia's role as a global centre for Islamic finance.

However, despite this significant development, the Islamic economy in Malaysia faces several challenges. Global competition in the Islamic finance sector is intensifying, while the need to continuously innovate is becoming more pressing. In addition, while Islamic financial literacy in Malaysia is good, efforts to expand financial inclusion are still needed to ensure that the benefits of the Islamic economy can be felt by all levels of society.

With a strong foundation and a clear strategic vision, the Islamic economy in Malaysia has very bright prospects. Malaysia's success in integrating sharia principles into various sectors of the economy creates a model that can be adopted by other countries. Through innovation, collaboration and regulatory strengthening, Malaysia will continue to maintain its position as a pioneer in the global Islamic economy.

Comparison of Indonesia and Malaysia

Indonesia and Malaysia are two countries with significant Muslim populations and a strong commitment to developing the Islamic economy. Although both countries have similar visions and goals, different approaches to the development of Islamic economics characterise each country. These differences include aspects of regulation, implementation, and growth strategies for the Islamic economic sector.[28]

In terms of regulation, Malaysia shows an advantage with a more established and integrated legal framework. The implementation of the Islamic Banking Act (IBA) 1983 was a milestone for the development of organised and consistent Islamic banking. The IBA provides comprehensive legal guidance for Islamic banking operations, covering aspects of supervision, sharia compliance, and consumer protection. In contrast, in Indonesia, regulations related to Islamic banking are often sectoral, such as Law No. 21/2008 on Islamic Banking.[29] Harmonisation across sectors is still a major challenge that needs to be overcome

[28] Patricia Sloane-White, "Working in the Islamic Economy: Sharia-Ization and the Malaysian Workplace," *Journal of Social Issues in Southeast Asia* 33, no. S (2018): S264, https://doi.org/10.1355/sj33-Sj.

[29] Nejib Hachicha and Amine Ben Amar, "Does Islamic Bank Financing Contribute to Economic Growth? The Malaysian Case," *International Journal of Islamic and Middle Eastern Finance and Management* 8, no. 3 (August 17, 2015): 349–68, https://doi.org/10.1108/IMEFM-07-2014-0063.

to strengthen the legal foundation of Islamic economics.

Malaysia's excellence in supervision and coordination is also seen through the role of the Shariah Advisory Council (SAC) which acts as the national shariah advisory body. The SAC not only ensures shariah compliance of financial institutions, but also serves as a liaison between regulators, government and industry. In Indonesia, the sharia supervisory system is conducted by the National Sharia Council-Majelis Ulama Indonesia (DSN-MUI). However, this role is often limited to the fatwa aspect and has not been fully integrated with formal regulations.[30]

In implementation, the approaches of the two countries are also different. Indonesia tends to adopt a market-driven approach to encourage the growth of the Islamic economy.[31] Innovation through collaboration with the financial technology (fintech) sector is one of the top priorities. Services such as app-based financing and online sharia investments are increasingly popular among Indonesians. Malaysia, on the other hand, relies more on a top-down approach with strong regulatory support and significant government intervention. This strategy allows Malaysia to systematically integrate the Islamic economy into the national development plan.

One example of Malaysia's success is its dominance in sukuk or Islamic bond issuance in the global market. Sukuk issued by Malaysia are recognised for their transparent and innovative structure. Meanwhile, Indonesia is also starting to catch up in sukuk issuance, especially by utilising waqf-based sukuk and green sukuk to support sustainable development.[32]

In the field of Islamic financial literacy, Indonesia has a greater focus on community empowerment. The Islamic financial literacy programme initiated by the Financial Services Authority (OJK) aims to increase public understanding of Islamic financial products.[33] Malaysia, despite having a fairly high level of Islamic financial literacy, places more emphasis on professional development in the sector, such as specialised training for Islamic banking practitioners.

Another difference is seen in the halal industry. Malaysia has a more integrated halal ecosystem with internationally recognised halal certification. Malaysia's halal products, ranging from food to cosmetics, have penetrated the global market. In Indonesia, the halal industry still faces challenges in terms of certification and supply chain management, despite its huge potential as a country with the largest Muslim population in the world.[34]

Collaboration between the two countries is also an important element in the development of the Islamic economy. For example, Malaysia and Indonesia often work

[30] Akilu Aliyu Shinkafi and Nor Aini Ali, "Contemporary Islamic Economic Studies on Maqasid Shari'ah : A Systematic Literature Review," *Humanomics* 33, no. 3 (August 14, 2017): 315–34, https://doi.org/10.1108/H-03-2017-0041.

[31] Salina Kassim, "Islamic Finance and Economic Growth: The Malaysian Experience," *Global Finance Journal* 30 (May 2016): 66–76, https://doi.org/10.1016/j.gfj.2015.11.007.

[32] Sulaiman Abdullah Saif Al Nasser and Datin, "Introduction to History of Islamic Banking in Malaysia," *Humanomics* 29, no. 2 (May 17, 2013): 80–87, https://doi.org/10.1108/08288661311319157.

[33] M. Shabri Abd. Majid and Salina H. Kassim, "Assessing the Contribution of Islamic Finance to Economic Growth," *Journal of Islamic Accounting and Business Research* 6, no. 2 (September 14, 2015): 292–310, https://doi.org/10.1108/JIABR-07-2012-0050.

[34] Masyekha Ahmad Firmansyah, Ubaidillah Zubair, and Sri Wigati, "Analysis Comparison Sharia Economy System in Indonesia and Malaysia," *Muhasabatuna : Jurnal Akuntansi Syariah* 6, no. 1 (June 30, 2024): 113–26, https://doi.org/10.54471/muhasabatuna.v6i1.2638.

together in international forums such as the Islamic Financial Services Board (IFSB) to share experiences and develop global Islamic finance standards.[35] This shows that different approaches are not obstacles, but opportunities to complement each other.

Overall, these different approaches reflect the unique characteristics of each country. Malaysia with its top-down approach created a strong and organised structure, while Indonesia with its community-based approach was able to drive innovation and financial inclusion. Both have contributed significantly to fuelling the growth of the Islamic economy in Southeast Asia.[36]

This comparison shows that Indonesia and Malaysia have complementary strengths. Malaysia's mature regulatory framework can serve as a model for Indonesia to improve policy harmonisation, while Indonesia's growing technology-driven innovation can inspire Malaysia to improve financial inclusion. This combination of advantages opens up great opportunities for further collaboration in developing the Islamic economy in the region and at the global level.

Policy Implications, Challenges and Future Prospects

The policies implemented in the Islamic economic sector have significant implications for the growth of this industry. In Malaysia, the integrated policies through the Islamic Banking Act (IBA) 1983 successfully created a strong legal foundation, allowing Islamic financial institutions to develop systematically. In Indonesia, while regulations such as Law No. 21 of 2008 are important milestones, the need for cross-sector harmonisation remains a challenge that needs to be resolved for optimal policy impact.[37]

The implications of Malaysia's strong policies can be seen in its dominance in sukuk issuance and international recognition of Islamic financial products. Meanwhile, Indonesia's more inclusive policies provide a great opportunity to expand people's access to Islamic financial services.[38] However, this policy also requires adjustment to technological dynamics and market needs to maintain relevance and competitiveness at the global level.

The main challenge in implementing sharia economic policies lies in sharia supervision and compliance. In Malaysia, the Shariah Advisory Council (SAC) plays a key role in ensuring compliance, while in Indonesia, coordination between the National Sharia Council-Indonesian Ulema Council (DSN-MUI) and formal regulators still needs to be strengthened. This challenge has a direct impact on public and investor trust in the integrity of the sharia financial system.[39]

The gap in Islamic financial literacy is also an obstacle. In Indonesia, although literacy programs continue to be promoted, public

[35] Farhana Mohamad Suhaimi, Asmak Ab Rahman, and Sabitha Marican, "The Role of Share Waqf in the Socio-Economic Development of the Muslim Community," ed. Professor Masudul Alam Choudhury, *Humanomics* 30, no. 3 (August 5, 2014): 227–54, https://doi.org/10.1108/H-12-2012-0025.

[36] Noor Latiffah Adam and Nordin Abu Bakar, "Shariah Screening Process in Malaysia," *Procedia - Social and Behavioral Sciences* 121 (March 2014): 113–23, https://doi.org/10.1016/j.sbspro.2014.01.1113.

[37] Zainal Aznam Yusof and Deepak Bhattasali, "Economic Growth and Development in Malaysia: Policy Making and Leadership," 2008.

[38] Nor Adilla Rashidi, Yee Ho Chai, and Suzana Yusup, "Biomass Energy in Malaysia: Current Scenario, Policies, and Implementation Challenges," *BioEnergy Research* 15, no. 3 (September 21, 2022): 1371–86, https://doi.org/10.1007/s12155-022-10392-7.

[39] Akhtar Hossain, "Macroeconomic Developments, Policies and Issues in Indonesia, 1950-2005: A Review," *Malaysian Journal of Economic Studies* 43, no. 1/2 (2006): 19.

understanding of Islamic financial products is still relatively low. This affects the adoption rate of Islamic services. In contrast, in Malaysia, higher financial literacy supports the growth of the industry.[40] However, challenges remain in ensuring financial inclusion among low-income communities.

In terms of technology, both face challenges in leveraging digital innovation to drive the growth of the sharia economy. Indonesia has shown progress through collaboration with fintech to provide sharia microfinance services, but digital infrastructure constraints in some regions are a barrier. Malaysia, although more advanced in financial technology, needs to improve the appeal of digital sharia products to be more competitive in the global market.[41]

Another obstacle is the need for international harmonization of sharia standards. Although organizations such as the Islamic Financial Services Board (IFSB) are working to develop global standards, differences in sharia interpretations among Muslim countries often act as an obstacle to creating an integrated ecosystem.[42] These challenges hamper cross-border trade and investment in the Islamic economy.

However, the future prospects of the sharia economy remain bright. Global demand for halal products, including sharia financial services, continues to increase. Indonesia and Malaysia have great potential to capitalize on this momentum. With large Muslim populations and growing policy support, both countries are strategically positioned to lead the development of the sharia economy in Southeast Asia.[43]

There are also significant opportunities in the green sukuk and productive waqf sectors. In Indonesia, green sukuk initiatives to fund sustainable projects have attracted global attention. Malaysia, with its long experience in sukuk issuance, can be a strategic partner in expanding the use of these instruments for projects that support sustainable development in the region.

In addition, human resource development (HRD) is the key to the future success of the sharia economy. Both countries should invest more in education and training that focuses on sharia finance, financial technology, and halal management. Competent HRD will ensure sustainable growth of the sharia economy and be able to compete in the global market.[44]

Collaboration between Indonesia and Malaysia is also a promising prospect. By combining their respective strengths, such as established regulations in Malaysia and community-based innovation in Indonesia, both countries can create synergies to address common challenges and take advantage of

[40] Anita Doraisarni, "The Global Financial Crisis: Countercyclical Fiscal Policy Issues and Challenges in Malaysia, Indonesia, the Philippines, and Singapore," 2011.

[41] Ishani Mukherjee and Benjamin K. Sovacool, "Palm Oil-Based Biofuels and Sustainability in Southeast Asia: A Review of Indonesia, Malaysia, and Thailand," *Renewable and Sustainable Energy Reviews* 37 (September 2014): 1–12, https://doi.org/10.1016/j.rser.2014.05.001.

[42] Steven Lim and Lee Keat Teong, "Recent Trends, Opportunities and Challenges of Biodiesel in Malaysia: An Overview," *Renewable and Sustainable Energy Reviews* 14, no. 3 (April 2010): 938–54, https://doi.org/10.1016/j.rser.2009.10.027.

[43] Diane Kraal, "Petroleum Industry Tax Incentives and Energy Policy Implications: A Comparison between Australia, Malaysia, Indonesia and Papua New Guinea," *Energy Policy* 126 (March 2019): 212–22, https://doi.org/10.1016/j.enpol.2018.11.011.

[44] Tick Hui Oh, Shen Yee Pang, and Shing Chyi Chua, "Energy Policy and Alternative Energy in Malaysia: Issues and Challenges for Sustainable Growth," *Renewable and Sustainable Energy Reviews* 14, no. 4 (May 2010): 1241–52, https://doi.org/10.1016/j.rser.2009.12.003.

global opportunities. Thus, the sharia economy can become a key pillar in supporting inclusive and sustainable economic development.

Conclusion

This study examines the development of the sharia economy in Indonesia and Malaysia with a focus on the sharia banking sector as the main component, showing that both countries have made significant progress in building a competitive sharia economic ecosystem. Indonesia excels in adopting market-based technology and innovation supported by regulations such as Law Number 21 of 2008, despite facing challenges such as low financial literacy and limited access to financial services in remote areas. Meanwhile, Malaysia stands out with structured regulations through the Islamic Banking Act (IBA) 1983 and the Shariah Advisory Council (SAC), which ensure operational stability and legitimacy, despite having to maintain its position amidst international competition. Both countries face similar challenges in financial literacy and inclusion, but the differences in approach indicate opportunities for mutual learning: Indonesia can adopt Malaysia's integrated regulatory system, while Malaysia can adopt technology-based innovation from Indonesia. These findings underscore the importance of synergy between regulation, innovation, and stakeholder participation to strengthen the competitiveness of the sharia economy. This research contributes to the understanding of the dynamics of Islamic economic development in Southeast Asia and provides strategic recommendations for policy makers and industry players, with a focus on improving literacy, financial inclusion, and optimizing Islamic financial technology (fintech) as a solution to future challenges.

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