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Economic Security in Developing Muslim Countries: The Case of Indonesia

Gelişmekte Olan Müslüman Ülkelerde Ekonomik Güvenlik: Endonezya Örneği

Abstract: This study examines the evolving concept of economic security in developing Muslim-majority countries through an in-depth case study of Indonesia. As the world's most populous Muslim-majority nation and a rising middle-income economy with a robust democratic framework, Indonesia offers a distinctive model for understanding how Islamic economic principles can be integrated into national development strategies. The study explores how Indonesia balances economic growth and social equity while navigating the structural challenges typical of the Muslim World and the Global South, including commodity dependence, institutional constraints, and global economic volatility. Furthermore, the study pays particular attention to the role of Islamic finance, Shariah-compliant financial innovations, and the normative influence of Islamic values in shaping inclusive and ethical development outcomes. The Indonesian case challenges conventional paradigms of economic security, which tend to focus on external vulnerabilities, by foregrounding internal dimensions such as poverty alleviation, social justice, and governance quality. Hence, through a synthesis of development economics and Islamic economic thought, the study highlights Indonesia as a critical site of theoretical and policy experimentation. It argues that Indonesia's experience not only provides practical lessons for other developing Muslim countries but also contributes to a broader reconceptualization of economic security that is grounded in ethical, institutional, and socio-political dimensions of development.

Keywords: Developing Muslim Countries, Indonesia, Economic Security, Islamic Economics

Öz: Bu çalışma, gelişmekte olan Müslüman çoğunluklu ülkelerde evrilen ekonomik güvenlik kavramını Endonezya örneği üzerinden derinlemesine incelemektedir. Dünyanın en kalabalık Müslüman çoğunluklu ülkesi ve güçlü bir demokratik çerçeveye sahip yükselen bir orta gelirli ekonomi olarak Endonezya, İslami ekonomik ilkelerin ulusal kalkınma stratejilerine nasıl entegre edilebileceğini anlamak için önemli bir model sunmaktadır. Çalışma, Endonezya'nın emtia bağımlılığı, kurumsal kısıtlamalar ve küresel ekonomik dalgalanma gibi İslam Dünyası ve Küresel Güney'e özgü yapısal zorlukların üstesinden gelirken ekonomik büyüme ve sosyal eşitlik arasında nasıl denge kurduğunu araştırmaktadır. Çalışma, ayrıca İslami finansın, Şeriat uyumlu finansal yeniliklerin ve İslami değerlerin normatif etkisinin kapsayıcı ve etik kalkınma sonuçlarını şekillendirmedeki rolüne de özellikle dikkat çekmektedir. Endonezya örneği, yoksulluğun azaltılması, sosyal adalet ve yönetişim kalitesi gibi iç boyutları ön plana çıkararak dış kırılganlıklara odaklanma eğiliminde olan geleneksel ekonomik güvenlik paradigmalarına meydan okumaktadır. Dolayısıyla kalkınma iktisadı ve İslami iktisat düşüncesinin bir sentezini yapan bu çalışma, Endonezya'yı teorik ve politika deneylerinin kritik bir alanı olarak vurgulamaktadır. Çalışma, Endonezya'nın deneyiminin sadece diğer gelişmekte olan Müslüman ülkeler için pratik dersler sunmakla kalmayıp, aynı zamanda ekonomik güvenliğin daha geniş bir şekilde yeniden kavramsallaştırılmasına katkıda bulunduğunu savunmaktadır.

Anahtar Kelimeler: Ekonomik Güvenlik, Gelişmekte Olan Müslüman Ülkeler, Endonezya, İslam Ekonomisi

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Introduction

This study examines Indonesia as a critical case within the broader category of developing Muslim countries, aiming to explore the conceptual and empirical underpinnings of economic security in this context. It interrogates the national policies, institutional frameworks, and international alignments that shape Indonesia's economic security agenda, while situating these dynamics within the broader debates on development, Islam, and globalization. Through this lens, the paper contributes to a more nuanced understanding of how developing Muslim countries navigate the interplay between economic imperatives and the normative frameworks of security in a globalized world. Moreover, the research investigates the role of Islamic economics in fostering economic security within developing Muslim countries, focusing on Indonesia as a compelling case study. As the nation with the world's largest Muslim population and a rapidly expanding Islamic economic ecosystem, Indonesia offers a unique vantage point to analyze the practical implications of integrating faith-based economic principles into national development strategies. Drawing on the core tenets of Islamic economics, the study argues that these principles offer a robust framework for building financial resilience, fostering inclusive growth, and mitigating socio-economic disparities. The study also argues that Islamic economics not only offers practical lessons for developing Muslim countries but also contributes to a broader reconceptualization of economic security based on the ethical, institutional, and socio-political dimensions of development.

Many developing Muslim countries confront a combination of structural challenges, including widespread poverty, income inequality, institutional fragility, and heightened exposure to global financial volatility (Askari et al., 2015). In parallel, these societies often express a normative commitment to aligning economic activity with Islamic moral and legal principles, such as social justice, risk-sharing, and the prohibition of interest (riba), which are not adequately reflected in mainstream economic frameworks (Iqbal & Mirakhor, 2011). This distinctive context necessitates a reassessment of economic security through frameworks that are both ethically resonant and institutionally grounded in local realities. Integrating Islamic economic principles such as zakat (almsgiving), waqf (endowments), and profit-and-loss sharing mechanisms may offer viable, context-sensitive pathways to enhance resilience, promote equitable development, and reduce dependency on external financial systems (Mirakhor & Askari, 2010). As such, the pursuit of economic security in Muslim-majority developing countries requires not only structural reform but also the incorporation of indigenous institutional assets and value systems into national and regional economic strategies.

Economic security has emerged as a critical dimension of both national and human security in the 21st century, particularly for developing states contending with the dual imperatives of sustained economic growth and political stability (Baldwin, 1997; Buzan et al., 1998). In the context of Muslim-majority nations, economic security transcends material welfare, intersecting closely with political legitimacy, social cohesion, and vulnerability to external factors (Askari et al., 2015; Iqbal & Mirakhor, 2011). This multidimensional nexus is particularly salient in the case of Indonesia, the world's largest Muslim-majority country and a member of the G20 which presents a valuable lens through which to examine how such states navigate economic security within a dynamic and often volatile global order (Booth, 2016).

Indonesia's economic development is shaped by a complex interplay of postcolonial legacies, democratic consolidation, and deepening integration into global financial and trade systems. As a resource-rich yet structurally dependent economy, Indonesia shares key characteristics with many other developing Muslim-majority nations, including reliance on commodity exports, susceptibility to external financial shocks, regional income disparities, and the ongoing challenge of harmonizing economic policymaking with Islamic ethical norms and domestic socio-political expectations (Chapra, 2016; Basri & Rahardja, 2010). These tensions are further compounded by the imperative to maintain inclusive development while navigating the pressures of globalization and international financial governance regimes (Stiglitz, 2002).

Moreover, Indonesia's engagement in multilateral forums, such as ASEAN, the G20, and the Organisation of Islamic Cooperation (OIC), as well as its participation in South-South cooperation initiatives and its 2025 accession to the BRICS+ grouping, illustrates the evolving strategic calculus adopted by Muslim-majority countries in pursuit of enhanced economic security and resilience. These initiatives reflect broader efforts to diversify economic partnerships, assert greater autonomy in development policymaking, and reinforce regional and transnational solidarity among Global South actors. Indonesia thus offers a salient case for understanding the strategies and constraints shaping economic security policies in Muslim-majority developing states amid a shifting global economic and geopolitical landscape.

Economic security, defined as the sustained access to essential resources, financial capital, and markets required to maintain acceptable standards of welfare and uphold the economic foundations of state power remains a central concern for developing countries operating within an increasingly complex and interdependent global economy (Buzan et al., 1998; Baldwin, 1997). While conventional economic paradigms, such as neoliberal market-oriented models, offer structured pathways toward growth and macroeconomic stability, their effectiveness in addressing the specific socio-economic and ethical concerns present in Muslim-majority nations remains contested (Chapra, 2016).

The comparison between Islamic and conventional economic systems has emerged as a prominent theme in recent scholarship, particularly in the context of developing economies such as Indonesia. Recent studies have examined the respective contributions of these two systems to Indonesia's economic growth and security, highlighting their differing theoretical foundations and practical outcomes (Rofik et al., 2025; Zahirah et al., 2025). Conventional economic models typically emphasize capital accumulation, labor productivity, and technological advancement as primary drivers of growth and economic security, often measured through aggregate indicators such as Gross Domestic Product (GDP) and per capita income (Jones & Liu, 2024; Taha et al., 2023). While this approach has facilitated periods of rapid economic expansion, it has also been associated with rising income inequality and persistent social exclusion.

In contrast, the Islamic economic model is founded on normative principles such as distributive justice, equity, and the prohibition of usuary. It incorporates a range of redistributive instruments, including zakat, infaq, sadaqah, and waqf, which are designed to promote social welfare, reduce poverty, and enhance financial inclusion (Hamzah, 2024). These mechanisms aim not only to correct market failures but also to embed ethical considerations into economic behavior and institutional design. This study reveal that while conventional economic models may be more effective in facilitating short-term capital accumulation and macroeconomic expansion, the Islamic economic system offers a more holistic and sustainable approach to development and economic security. By prioritizing equity, social cohesion, and ethical governance, Islamic economics may contribute more effectively to inclusive growth in contexts where socio-economic disparities and normative commitments to Islamic values are significant. This comparative perspective underscores the importance of evaluating economic performance not only in terms of quantitative growth, but also through qualitative dimensions of social justice and long-term sustainability.

By examining Indonesia's experience, this research aims to demonstrate how a value-driven economic paradigm can contribute significantly to a state's overall economic security, providing valuable insights for both policymakers in similar contexts and the broader academic discourse on development and security studies. The subsequent sections will delve into the theoretical underpinnings of Islamic economics, analyze its practical manifestations in Indonesia's financial and real sectors, assess its contributions to economic security, and discuss the implications for both Islamic economic theory and the study of international political economy.

1.Theoretical Approaches to Economic Security: Mainstream International Relations Theories vs. Islamic Perspective

Economic security has become an increasingly salient concept within the field of International Relations (IR), evolving beyond the traditional preoccupation with military power to encompass the economic underpinnings of national stability and societal well-being. This evolution acknowledges the centrality of economic stability, resource access, and institutional resilience in maintaining both state sovereignty and societal welfare. The interpretation and prioritization of economic security vary across different IR theoretical traditions, reflecting divergent assumptions about the nature of state behavior, the structure of the international system, and the influence of non-state actors. Mainstream IR theories realism, liberalism, and critical perspectives (e.g., Marxism, postcolonialism, and feminist theories) conceptualize and prioritize economic security through their core assumptions about the nature of the international system, state behavior, and the role of various actors.

For realists, economic security is intrinsically linked to national power and military capacity. Realists assert that a robust economic base is essential for underwriting military strength, financing defense strategies, and projecting state influence internationally (Waltz, 1979; Mearsheimer, 2001). In contrast to realist perspectives, liberal theories of IR conceptualize economic security as a function of international cooperation, economic interdependence, and the stabilizing role of institutions. Liberals contend that free trade and economic integration yield absolute gains for participating states, fostering collective prosperity, diminishing incentives for conflict, and generating mutual interests that underpin peace (Keohane & Nye, 1977; Russett & Oneal, 2001). Critical perspectives in IR including Marxist, postcolonial, and post-structuralist approaches offer a fundamental critique of mainstream conceptions of economic security. These theories interrogate the structural power relations, systemic inequalities, and ideological constructs that underpin the global economic order. Rather than viewing economic security as a neutral or universally attainable goal, critical theorists argue that it is often achieved by affluent states at the expense of marginalized nations, particularly those in the Global South, which remain subordinated within global markets, value chains, and financial systems (Cox, 1981; Amin, 1976).

Comparing the Islamic economic perspective on economic security with Realism, Liberalism, and Critical Theories reveals a distinct approach rooted in divine guidance, ethical principles, and a holistic view of human well-being. The Islamic economic perspective offers a conception of economic security, grounded in divine revelation, ethical imperatives, and the pursuit of human well-being. Islamic economics is not merely a financial system. It rather constitutes a comprehensive moral and socio-economic framework derived from the Qur'an and the Sunnah (traditions) of the Prophet Muhammad. Central to this worldview are the principles of Tawḥīd (the Oneness of God) and Khilafah (human stewardship), which establish that all wealth ultimately belongs to God and that human beings are entrusted to manage it with integrity and accountability (Chapra, 1992; Siddiqi, 2004). Core ethical values such as Adl (justice) and Iḥsan (benevolence) underpin Islamic economic teachings, which categorically prohibit exploitative practices, including usury (riba), monopolization, and unjust enrichment. These prohibitions aim to ensure fairness in economic transactions and prevent the concentration of wealth in the hands of a few (Iqbal & Mirakhor, 2011). The concepts of Ukhuwwah (brotherhood) and Taawun (mutual cooperation) further stress collective responsibility and social solidarity, reinforcing the idea that economic security is a shared societal objective rather than an individual pursuit (Nasr, 2007).

Redistributive instruments such as Zakat (obligatory almsgiving) and Sadaqah (voluntary charity) are institutionalized mechanisms intended to alleviate poverty and promote social justice. These tools are designed to ensure a minimum standard of living and to reduce economic disparities, thereby contributing to the stability and cohesion of society (Obaidullah, 2008). Additionally, Islamic economic thought discourages excessive speculation (gharar) and emphasizes the real-economy linkage of financial activities. By mandating that financial transactions be backed by tangible assets or productive activity, Islamic finance seeks to foster economic resilience and avoid systemic instability (El-Gamal, 2006). Thus, the Islamic approach to economic security integrates ethical considerations, social justice, and spiritual accountability, offering a model that contrasts sharply with materialist and market-centric paradigms prevalent in conventional economic theories.

When examined alongside major IR theories, the Islamic economic perspective reveals foundational divergences in its assumptions, ethical underpinnings, and policy orientations. While it acknowledges the role of economic strength in ensuring national stability, a point shared with realist thought, it fundamentally rejects Realism's power-centric, zero-sum paradigm. Realism views the international system as anarchic, emphasizing state survival, military capability, and relative gains (Mearsheimer, 2001; Waltz, 1979). In contrast, Islamic political and economic philosophy envisions a divinely ordained order wherein justice (adl), cooperation (taawun), and moral accountability are paramount. Economic policy, from this viewpoint, must align with spiritual and ethical imperatives even at the expense of short-term strategic or competitive advantage (Chapra, 1992; Siddiqi, 2004).

Although the Islamic perspective shares certain surface-level affinities with Liberalism such as a preference for cooperation, trade, and institutional engagement the two diverge sharply in normative orientation and institutional design. Liberal theory emphasizes economic interdependence, institutionalism, and the efficiency of free markets, often justifying welfare provision as a corrective mechanism rather than a foundational principle (Keohane & Nye, 1977; Russett & Oneal, 2001). By contrast, Islamic economics embeds redistribution and social welfare directly into the system through obligatory instruments like zakat and normative constraints on wealth accumulation and business ethics (Iqbal & Mirakhor, 2011; Obaidullah, 2008). Furthermore, while Liberalism generally regards institutions as neutral frameworks that facilitate cooperation and reduce transaction costs (Ikenberry, 2001), the Islamic tradition posits that institutions are only legitimate insofar as they uphold divine law (shariah) and deliver morally just outcomes. This approach imposes strict ethical boundaries on market activities, prohibiting practices such as riba, gharar, and monopolistic behavior regardless of their economic utility or efficiency (El-Gamal, 2006).

In essence, while the Islamic perspective occasionally aligns with Realism and Liberalism in terms of recognizing the importance of economic capacity and cooperation, it reinterprets these elements through a moral-theological lens that prioritizes equity, stewardship, and divine accountability over power politics or market efficiency. This normative orientation marks a significant departure from both secular paradigms and highlights the unique contribution of Islamic thought to the discourse on economic security in IR.

In alignment with critical theories, the Islamic economic perspective critiques systemic exploitation, structural inequality, and injustice embedded in global economic systems. Like Marxist and postcolonial approaches, it recognizes the asymmetries of power and wealth that characterize the international political economy. However, while critical theories are predominantly secular, diagnostic, and rooted in paradigms of resistance and social struggle (Cox, 1981; Gill, 1995), the Islamic perspective is fundamentally prescriptive. It advances a theologically grounded and ethically normative framework that articulates both a critique of prevailing systems and a constructive model for a just and inclusive economic order (Chapra, 1992; Iqbal & Mirakhor, 2011). The Islamic vision of economic security is centered on the concept of the Ummah the global Muslim community but its ethical imperatives extend universally, advocating for human dignity, distributive justice, and collective responsibility irrespective of religious or cultural background (Nasr, 2007; Siddiqi, 2004). This universality is rooted in the Quranic conception of humanity as a single family and in the moral imperative to uphold maslaha (public interest) and karamah (dignity) for all people (Kamali, 2008).

2.Economic Security in the Developing Muslim Countries

The relevance of theoretical frameworks such as Realism, Liberalism, Critical Theories, and the Islamic economic perspective to the economic security of developing Muslim countries is both analytical and prescriptive. These states often contend with significant vulnerabilities within the global economic system, including structural dependence on primary commodity exports, limited influence in international financial institutions, and persistent socio-economic inequalities (Amin, 1976; Helleiner, 2014). These challenges necessitate a multifaceted understanding of economic security that goes beyond conventional policy prescriptions.

From a realist standpoint, economic insecurity in developing Muslim-majority countries is largely attributed to their strategic dependencies and constrained capacities. For resource-constrained states, the lack of diversified industrial bases, technological self-sufficiency, and access to strategic resources can translate into heightened exposure to external pressures, such as economic sanctions, supply chain disruptions, and geopolitical coercion. In this view, bolstering indigenous industrial capabilities, securing critical infrastructure, and minimizing dependency on external powers are vital to achieving economic resilience. Such an interpretation, however, may be difficult to operationalize in developing contexts where fiscal, institutional, and technological limitations hinder self-sufficiency. Many Muslim-majority states remain embedded in global economic hierarchies, reliant on foreign direct investment, aid, or remittance inflows, which undermines the realist ideal of economic autonomy (Narlikar, 2020). This disconnect underscores the limitations of a purely realist framework for addressing the nuanced economic insecurities of the Global South, particularly in the Islamic world.

Liberal theories offer more cooperative and institutional pathways to economic security, emphasizing integration into global markets and participation in international organizations such as the WTO and the IMF (Keohane & Nye, 1977; Russett & Oneal, 2001). These institutions are seen as mechanisms for promoting economic interdependence, reducing uncertainty, and facilitating growth through the liberalization of trade and finance. However, the application of liberal prescriptions in Muslim-majority developing countries reveals significant tensions between theoretical ideals and empirical outcomes. Because, many of these countries engage with global institutions under asymmetric conditions that constrain domestic policy autonomy and pose normative challenges, particularly in relation to Islamic economic ethics. The interest-based lending frameworks of institutions like the IMF conflict with the prohibition of riba (usury or interest) in Islamic finance, which deems such transactions unjust and exploitative (Chapra, 1992; El-Gamal, 2006). Additionally, liberal economic reforms often implemented as part of structural adjustment programs tend to prioritize deregulation, privatization, and fiscal austerity. While intended to enhance market efficiency, these measures can exacerbate inequality, weaken state capacity, and undermine local development strategies (Stiglitz, 2002).

In practice, liberal economic integration has frequently resulted in debt dependency, externally imposed conditionalities, and a reliance on foreign aid in several Muslim-majority states. These outcomes often fail to produce long-term stability or sustainable development, particularly when reforms neglect local socio-economic contexts and cultural frameworks (Narlikar, 2020). As such, the liberal paradigm, while normatively attractive in its emphasis on cooperation and rules-based governance, may be ill-suited or at least insufficient in addressing the complex economic security concerns of Muslim-majority developing countries.

Critical theories, particularly those grounded in Marxist and postcolonial traditions, offer a powerful analytical lens through which to understand the structural roots of economic insecurity in developing Muslim-majority countries. These approaches critique the global capitalist system as inherently exploitative, emphasizing how mechanisms of unequal exchange and systemic marginalization sustain the dominance of the Global North over the Global South (Wallerstein, 2004; Galtung, 1971). From a critical perspective, economic insecurity is not merely the result of domestic policy failures or lack of integration, but rather a consequence of historical and ongoing power asymmetries embedded in international economic relations. Hence, for many Muslim-majority developing states, such analyses resonate strongly. The economic trajectories of these countries are often shaped by the enduring legacies of colonialism, which disrupted indigenous economic systems and reoriented them toward the extractive needs of imperial powers (Rodney, 1972; Amin, 1976). This colonial legacy continues to manifest itself in structural dependence on primary commodity exports, vulnerability to external price shocks, and conditions of constrained fiscal sovereignty, exacerbated by neoliberal globalization and its emphasis on market liberalization, deregulation and austerity (Harvey, 2005).

Critical theorists argue that these dynamics prioritize capital accumulation and corporate profitability over human welfare, thereby reproducing global hierarchies of wealth and power (Cox, 1981; Gill, 1995). In this view, international financial institutions and trade regimes are not neutral facilitators of development, but instruments that legitimize and institutionalize inequality. For Muslim-majority countries struggling with poverty, debt, and socio-economic exclusion, critical theory thus provides not only a compelling diagnosis of their marginal position in the global order but also a normative framework that calls for systemic transformation aimed at emancipation and justice.

In contrast to conventional paradigms, the Islamic economic perspective offers a distinctive, holistic, and ethically grounded framework for conceptualizing and addressing economic security. Rooted in foundational principles such as Tawhid, Khilafah, Adl, and Ihsan, this perspective transcends materialist notions of security and redefines it in terms of social justice, moral accountability, equitable distribution, and sustainable resource management (Chapra, 1992; Asutay, 2007). Economic security, in this context, is not merely the absence of financial threats or external vulnerabilities, but the presence of a just and ethical order that safeguards the welfare of all members of society. Therefore, the Islamic economic model prescribes a set of institutional and moral mechanisms to achieve this goal. Obligatory instruments like zakat and voluntary initiatives such as sadaqah serve to redistribute wealth and ensure that the basic needs of the poor and marginalized are met (Kahf, 2022). The prohibition of riba, grounded in Quranic injunctions, aims to prevent exploitative financial practices and foster economic transactions based on risk-sharing and real asset productivity (El-Gamal, 2006; Siddiqi, 2006). Additionally, Islamic finance discourages excessive speculation and promotes ethical investment, thereby linking financial activities to tangible economic outcomes and societal benefit (Iqbal & Mirakhor, 2011).

This framework holds particular relevance for Muslim-majority developing countries, many of which are characterized by persistent poverty, inequality, debt dependency, and limited access to conventional financial services. By embedding redistribution, welfare provision, and ethical constraints into the economic system itself rather than treating them as afterthoughts or discretionary acts of charity, Islamic economics offers a structurally integrated model of inclusive development and financial stability (Asutay & Turkistani, 2015). Furthermore, its emphasis on ethical interdependence and communal solidarity supports the potential for enhanced South-South cooperation among Muslim countries, particularly through the development of Islamic financial institutions attuned to local cultural and religious values (Wilson, 2009).

The Islamic economic paradigm not only critiques the limitations of neoliberal and power-centric models, but also articulates a prescriptive alternative that aligns economic governance with spiritual and ethical imperatives, offering a coherent and contextually grounded strategy for advancing economic security in the Muslim world. Additionally, the Islamic economic framework contributes meaningfully to the discourse on sustainable development by emphasizing moderation in consumption, environmental stewardship, and the prioritization of long-term societal welfare over short-term profit maximization. These principles are especially pertinent for climate-vulnerable and resource-scarce developing countries, where environmental degradation and socio-economic fragility are closely linked. Unlike models that commodify natural resources without ethical constraints, Islamic economics promotes a balanced approach that integrates ecological responsibility with socio-economic justice (Dusuki & Abdullah, 2007).

Equally important is the enhanced moral legitimacy Islamic economics confers on economic policy. In many Muslim-majority societies, neoliberal policy prescriptions are often viewed with skepticism, perceived as externally imposed and culturally alien. By aligning economic governance with Sharia principles, policymakers may foster greater public trust, civic engagement, and social solidarity factors that are vital for economic resilience and political stability (Asutay & Turkistani, 2015). In this context, Islamic economics is not merely a theoretical critique but a normative and institutional alternative capable of addressing the multidimensional challenges faced by developing Muslim nations. Hence, the Islamic economic perspective offers a comprehensive and ethically grounded alternative to mainstream IR theories. It shares with Realism the emphasis on economic autonomy and national strength, with Liberalism a belief in cooperation and institutional frameworks, and with Critical Theory a commitment to justice and structural transformation. Yet it transcends these paradigms by rooting economic security in divine guidance, moral obligation, and a holistic vision of human well-being. For developing Muslim countries, Islamic economics provides not only a critique of prevailing injustices but also a pragmatic, faith-informed blueprint for constructing a just, equitable, and resilient economic order.

Islamic economic principles such as justice, equity, social solidarity, the prohibition of interest and the emphasis on wealth circulation when effectively applied, offer pathways to enhance economic security by promoting a more equitable distribution of wealth and reducing income inequalities (Chapra, 2008; Mirakhor & Askari, 2010). Promoting risk-sharing and asset-based finance, as advocated in Islamic finance, can contribute to greater financial stability compared to conventional interest-based systems, which are more susceptible to speculative bubbles and systemic risk (Khan & Bhatti, 2008; Iqbal & Llewellyn, 2002). For many developing Muslim-majority countries, economic security is not merely a theoretical notion; it constitutes a critical foundation for achieving national stability, prosperity, and sovereignty. These countries must grapple with overlapping challenges including commodity dependence, geopolitical uncertainty, demographic pressures, and governance deficits. Leveraging the ethical and redistributive dimensions of Islamic economics offers one potential framework for inclusive and sustainable development.

In this context, Indonesia represents a compelling case study. As the world's largest Muslim-majority nation, with a rapidly developing economy and strategic geopolitical location, Indonesia provides valuable insights into how Islamic economic principles can be aligned with national development goals. Its initiatives in Islamic finance, social welfare reforms, and economic diplomacy provide lessons relevant to other developing Muslim countries seeking models of economic security rooted in both ethics and pragmatism (Bappenas, 2019).

3.Economic Security in Indonesia: The Role of Islamic Economics in Focus

Indonesia's geographical positioning straddling key maritime corridors that link the Indian and Pacific Oceans, most notably the Strait of Malacca imbues it with significant geoeconomic and geostrategic importance (Till, 2009). Indonesia, classified as an upper-middle-income country by the World Bank, stands as the largest economy in Southeast Asia. With a population exceeding 280 million, Indonesia is the fourth most populous country in the world and hosts the largest Muslim population globally, with approximately 87 percent of its citizens identifying as Muslim (BPS, 2023). This demographic profile places Indonesia at the intersection of a major global religious identity and complex developmental challenges, including poverty reduction, job creation, and social inclusion. Indonesia thus serves as a compelling case study for examining how Islamic economic principles such as social justice, equitable wealth distribution, prohibition of interest, and community welfare can influence national strategies aimed at economic security and inclusive development within a democratic and pluralistic framework (Chapra, 2008; Mirakhor & Askari, 2010). These principles have growing relevance in policy discourse, particularly in initiatives related to Islamic finance, zakat, and waqf management aimed at addressing poverty and social inequality (Shirazi, 2014).

Indonesia's geographical and cultural composition adds complexity to its economic development agenda. As an archipelagic nation consisting of over 17,000 islands and inhabited by more than 1,300 recognized ethnic groups and hundreds of local languages, Indonesia is characterized by profound internal diversity (BPS, 2023). In this fragmented context, achieving economic security requires more than national macroeconomic stability it demands the equitable distribution of resources, services, and opportunities across highly varied regions. Persistent regional disparities in infrastructure, income, human development, and access to public services have long posed governance challenges, contributing to social tensions and uneven economic outcomes (Booth, 2016; Hill, 2008). Consequently, promoting inclusive and regionally balanced development has been a central focus of Indonesian economic policy, especially through decentralization reforms initiated in the early 2000s (Fitrani et al., 2005). These efforts offer valuable lessons for managing economic security in pluralistic and geographically dispersed societies.

Within this governance framework, Islamic social and economic principles such as justice, redistribution through zakat, the prohibition of exploitative practices, and the emphasis on communal welfare have gained renewed attention as tools to promote ethical, inclusive, and sustainable development (Chapra, 2008; Iqbal & Mirakhor, 2011). These principles have been institutionalized through growing state support for zakat collection, waqf development, and sharia-compliant financial services (Shirazi, 2014; BAZNAS, 2021). As Indonesia continues to evolve as a democratic and economically dynamic nation, the intersection of Islamic values with modern development strategies remains an influential factor in shaping its approach to broad-based and resilient economic security. This interplay reflects not only normative commitments, but also a pragmatic response to socio-economic complexity in a highly diverse and decentralized setting (Feener, 2013; Bush, 2009).

Indonesia offers a distinctive context for the institutionalization of Islamic economics as a strategic framework for enhancing national economic security. In the Indonesian setting, Islamic economics is not merely a theological or cultural articulation of faith-based values, but rather a multidimensional policy approach that seeks to integrate ethical finance, social welfare mechanisms, and inclusive development objectives in pursuit of economic resilience, poverty alleviation, and distributive justice (Ascarya & Yumanita, 2008). The foundations of Islamic economics in Indonesia have evolved through a dynamic interplay between bottom-up religious mobilization and top-down policy initiatives. Since the early 1990s, the formalization of Islamic financial institutions has marked a significant milestone in this process, beginning with the establishment of Indonesia's first Islamic bank, Bank Muamalat Indonesia, in 1991, and subsequently expanding to include a broader legal and institutional infrastructure encompassing Islamic banking, zakat, waqf, and Islamic capital markets

These developments reflect a hybrid model of economic governance that incorporates both Shariah principles and national development priorities. Key regulatory bodies such as Bank Indonesia (BI), the Financial Services Authority (Otoritas Jasa Keuangan, OJK), the National Zakat Board (Badan Amil Zakat Nasional, BAZNAS), and the Indonesian Waqf Board (Badan Wakaf Indonesia, BWI) have played central roles in institutionalizing Islamic economic instruments and ensuring their alignment with broader macroeconomic objectives (Hassan & Lewis, 2007; OJK, 2023). Through these mechanisms, Islamic economics in Indonesia has increasingly functioned as a complementary model for achieving national economic security, defined not only by financial stability and growth, but also by social cohesion, ethical governance, and equitable development.

The incorporation of Islamic finance into Indonesia's national development strategy, particularly under President Joko Widodo's administration, represents a strategic effort to align Islamic economic instruments with broader national development objectives. The launch of the Islamic Economic Masterplan 2019-2024 underscores the Jakarta's commitment to mainstreaming Islamic finance as a complementary pillar of economic policy, aiming to foster inclusive growth, enhance financial stability, and promote social equity (National Commission on Sharia Economy and Finance (KNEKS), 2019). Islamic finance, based on the principles of risk-sharing and the prohibition of interest and speculative transactions, emphasizes asset-backed and real-sector investments through instruments such as mudarabah (profit-sharing) and musharakah (joint venture partnerships). These principles contribute to a more stable financial architecture by discouraging excessive leverage and speculative bubbles, thereby aligning with macroprudential goals (Chapra, 2008; Iqbal & Mirakhor, 2011). Although Islamic banking accounts for less than 10% of total banking assets in Indonesia, the sector has demonstrated consistent growth and is increasingly recognized as a means to extend financial inclusion, particularly in underserved and rural regions (OJK, 2023).

Beyond the financial sector, Islamic social finance instruments particularly zakat and waqf play a critical role in addressing structural issues of poverty and inequality. Indonesia has institutionalized zakat collection through the BAZNAS and has expanded the scope of waqf-based initiatives to support social infrastructure in education, healthcare, and microfinance. These mechanisms serve as alternative and sustainable sources of social financing, contributing to economic security by providing safety nets, reducing disparities, and fostering community-level resilience. Importantly, the ethical foundations of Islamic economics anchored in justice, public interest, and the prohibition of exploitative behavior offer a normative counterweight to entrenched issues such as corruption, rent-seeking, and structural inequality in Indonesia’s political economy (Siddiqi, 2006). When implemented effectively, Islamic economic principles have the potential to enhance transparency, accountability, and institutional trust, thereby reinforcing long-term economic and political stability. In this way, Islamic economics in Indonesia functions not only as a set of financial practices, but also as a moral framework with implications for governance reform and inclusive national development.

Islamic economics closely aligns with Indonesia’s broader economic security objectives across several key dimensions. First, in terms of financing diversification, Islamic finance provides alternative capital sources that can reduce dependence on external debt and mitigate exposure to global financial volatility. Instruments such as sukuk (Islamic bonds) have been increasingly utilized to finance infrastructure, SMEs, and green projects, contributing to long-term financial sustainability (Errico & Sundararajan, 2002; OJK, 2023). The issuance of sovereign green sukuk by the Indonesian government exemplifies how Sharia-compliant tools can support climate-resilient development while adhering to Islamic ethical principles (Ministry of Finance, 2022). Second, Islamic economics promotes inclusive growth. Sharia-compliant microfinance institutions and cooperative models, such as Baitul Maal wat Tamwil (BMT), foster economic participation among underserved, rural, and low-income populations. These institutions not only provide access to finance but also embed ethical lending practices that avoid exploitative interest rates and encourage social solidarity (Obaidullah & Khan, 2008).

Third, Islamic economic frameworks contribute to social cohesion by integrating cultural and religious values into development policy. In regions where Islamic identity is deeply rooted, aligning economic policies with Sharia principles enhances the legitimacy and acceptance of state-led initiatives, thereby reinforcing national unity and reducing policy resistance. Finally, from a geoeconomic perspective, the global rise in demand for Islamic finance particularly from Gulf Cooperation Council (GCC) and Organisation of Islamic Cooperation (OIC) countries offers Indonesia strategic leverage. Its leadership in the halal economy and Islamic finance sector strengthens its soft power and enhances its strategic autonomy within the Global South and broader Muslim world (Iqbal & Mirakhor, 2011; IRTI, 2020). As such, Islamic economics not only supports domestic resilience but also advances Indonesia's international economic diplomacy.

Between 1990 and 2024, Islamic economy instruments have played an increasingly strategic role in shaping Indonesia's growth trajectory and structural transformation. The country's gradual but consistent institutional development from the 1991 launch of its first Islamic bank to the establishment of the KNEKS reflects a policy commitment to integrating Islamic finance within the national development framework. Islamic financial tools have diversified the state's financing base. In this regard, sovereign and green sukuk instruments have attracted international capital for infrastructure and climate projects, while innovations such as Cash Waqf Linked Sukuk (CWLS) and digitized zakat platforms have mobilized domestic philanthropic resources toward poverty alleviation and social protection. These instruments not only provide the government with longer-term and more affordable financing, but also embed social equity goals into fiscal policy.

The Islamic economy has contributed to structural transformation through four key channels. These are financial deepening, via the expansion of Islamic banking and the sukuk market, which improves access to credit and mobilizes long-term savings, capital-market leverage, with sukuk proceeds funding strategic infrastructure and green initiatives, social finance, which enhances labor productivity through targeted poverty-reduction and inclusion programs, and real-sector development, where halal economy policies have fostered cluster-based integration of manufacturing, tourism, and services into global value chains. These cumulative effects have supported Indonesia's ability to sustain real GDP growth near 5% while advancing its long-term objectives of economic resilience, inclusion, and sustainability underscoring the potential of Islamic economy instruments as catalysts for both macroeconomic stability and structural transformation.

Table 1: Impact of Islamic-Economy Instruments on Indonesia's Growth & Structural Transformation (1990-2024)

Period / Policy Instrument	Key Features	Economic Impact & Indicators	Contribution to Structural Transformation

1991-1992 Bank Muamalat & Profit-and-Loss-Sharing Legalization	Launch of first full-fledged Islamic bank; legalized murābaḥa, muḍāraba, mushāraka under revised Banking Law	Islamic assets < 1% in 1990s but laid base for later growth in retail/MSME finance	Initiated financial inclusion and foundational infrastructure for Islamic finance
2002-2008 Corporate & Sovereign Sukuk	First corporate sukuk (PT Indosat, 2002); SBSN Law No. 19/2008 enabled sovereign sukuk issuance	Post-2008 acceleration in issuance; diversified state funding for roads, energy, housing	Provided long-term, Sharia-compliant financing; deepened domestic capital markets
2011-Present Zakat Law No. 23/2011 & BAZNAS Reform	Centralized zakat authority (BAZNAS); institutional KPIs, audits, impact metrics	Poverty fell from ~12% (2011) to ~9% (2023); BAZNAS Z-Welfare Index shows household improvements	Strengthened social protection; complemented fiscal tools for inclusive growth
2016-Present KNKS → KNEKS & Islamic Economy Masterplan	Presidential Reg. 91/2016 launched KNKS (later KNEKS); coordinated halal, finance, tourism, R&D	Islamic finance assets reached IDR 1.36 tn (~8.7% of sector) by 2019; coherent roadmap accelerated integration	Enhanced sectoral clustering and national policy integration for Sharia economy
2018-Present World's First Sovereign Green Sukuk	US$1.25 bn five-year sukuk aligned with global ESG standards	Green sukuk issuance > US$12.6 bn by 2024; funded renewables, flood management, transport	Positioned Indonesia in Islamic ESG leadership; channeled global funds into low-carbon infrastructure
2019-2024 Halal Economy Masterplan & Halal Product Assurance Law	Cluster strategies for halal food, fashion, tourism; BPJPH mandated halal certification	Halal food processing = 20% of GDP (2024); projected US$5 bn added annually from halal sector	Enabled export diversification and industrial upgrading through halal value chains
2020-Present Cash-Waqf Linked Sukuk (CWLS)	Pools Cash Waqf into sovereign sukuk; returns finance public services and microenterprises	CWLS improved welfare and financial inclusion in pilot communities (impact studies, BAZNAS/KNEKS)	Innovative fusion of social endowments and capital markets; targeted poverty reduction
2024-Present Islamic Banking Maturity Phase	Sharia-bank assets IDR 980.3 tn (7.7% share); 9.9% annual financing growth	Stable ~5% GDP growth in 2024 amid global uncertainty; strong MSME credit	Deepened Islamic banking as competitive channel; diversified national financial system

Source: The table was created by the author.

As Table I illustrates, Indonesia's experience with Islamic economic instruments presents a model of institutional continuity and policy layering that enhances long-term economic security. Since the inception of Islamic banking in 1991, a series of policy reforms including sukuk legislation, zakat governance frameworks, and the Halal Industry Masterplan have cumulatively built a coherent Islamic economy architecture (KNEKS, 2024). This layered development signals enduring state commitment and reduces regulatory uncertainty for investors. The establishment of

KNEKS has further institutionalized this trajectory by coordinating cross-sectoral strategies (KNEKS, 2024).

Islamic financial tools have diversified Indonesia's funding landscape. Sovereign and green sukuk have attracted international capital for infrastructure and climate-related projects, while CWLS and integrated zakat systems have mobilized domestic philanthropic funds for poverty alleviation. These innovations enable the government to access affordable, long-term financing, reinforcing fiscal sustainability. Simultaneously, these instruments support Indonesia's broader structural transformation agenda. Financial deepening through the expansion of Islamic banking assets and sukuk markets has improved access to credit and mobilized long-term domestic savings (OJK, 2023).

In the social domain, zakat and CWLS programs have contributed to poverty reduction and improved financial inclusion, thereby boosting labor productivity (BPS, 2023). Meanwhile, halal economy policies through targeted cluster development in food, fashion, tourism, and pharmaceuticals have linked real sectors to global halal value chains, advancing export diversification and industrial upgrading. Together, these Islamic economy instruments have enabled Indonesia to sustain an average real GDP growth rate of approximately 5%, while advancing social inclusion, financial resilience, and sustainability objectives. This case underscores the strategic potential of a comprehensive Islamic economy framework to align ethical finance with national development priorities.

However, despite its potential, the integration of Islamic economics into Indonesia's economic security framework faces multiple constraints. Low penetration and institutional fragmentation remain key issues. Islamic finance, although growing, constitutes a relatively small portion of the national financial system, with market share hovering around 10% as of 2023 (OJK, 2023). Moreover, institutional coordination among zakat management bodies, waqf institutions, and state-run welfare programs is often fragmented, resulting in inefficiencies and overlap. Furthermore regulatory and legal limitations further complicate the integration process. The legal infrastructure governing waqf and zakat is marked by ambiguities and overlapping jurisdictions, which hinders both innovation and scalability. For instance, land and asset registration for waqf properties remains bureaucratically burdensome, limiting the productive mobilization of these resources.

Perception challenges also pose barriers. Islamic economics is sometimes perceived as a sectoral or religious concern rather than a universal economic framework, reducing its mainstream appeal among policymakers and the general public. This perception limits the strategic positioning of Islamic economics within broader national development agendas. Finally, human capital and public awareness gaps persist. There is a critical shortage of qualified Shariah-compliant financial experts, policymakers familiar with Islamic economic principles, and public literacy on the potential of Islamic finance as a tool for inclusive growth and resilience. Addressing this gap is essential for long-term sustainability and institutionalization.

Overall, Islamic economics offers a compelling yet underutilized framework for enhancing Indonesia's economic security. By embedding principles of ethical finance, social justice, and inclusive development, it serves as a valuable complement to conventional economic strategies, particularly in addressing entrenched issues such as poverty, inequality, and regional disparities (Chapra, 2008). The integrative potential of Islamic economic instruments such as zakat, waqf, and profit-and-loss sharing models aligns with Indonesia's broader development goals and efforts toward economic democratization. Nonetheless, the effective deployment of Islamic economics continues to face institutional, legal, and capacity-related challenges. Fragmented governance structures, regulatory ambiguities surrounding waqf and zakat, and a shortage of qualified human capital impede systemic adoption.

However, targeted investment in Islamic economic infrastructure, including the digitization of zakat and waqf platforms, legal harmonization, and enhanced cross-sectoral coordination, holds promise for significantly strengthening Indonesia's economic resilience and sovereignty (OJK, 2023; IRTI, 2020). As Indonesia positions itself as a normative and economic leader within the Global South and the Muslim world, its evolving model anchored in Islamic ethical values while remaining committed to democratic governance and inclusive development has the potential to serve as a replicable blueprint. For other Muslim-majority and pluralistic societies navigating global uncertainty, Indonesia's experience illustrates how Islamic economics can support both economic security and moral legitimacy in national policy frameworks.

Conclusion

Arguing that Islamic economics not only offers practical lessons to developing Muslim countries but also contributes to a broader reconceptualization of economic security based on the ethical, institutional, and socio-political dimensions of development, this study examined the conceptual and empirical foundations of economic security in the case of Indonesia, which is considered a critical case in the category of developing Muslim countries. Indonesia stands as a pivotal case study in understanding the role of Islamic economics in shaping economic security within developing Muslim countries. As the world's most populous Muslim-majority nation with a strategically important geopolitical position and considerable economic ambition, Indonesia offers a unique blend of opportunities and challenges. Its efforts to integrate Islamic economic principles especially through its dynamic Islamic finance sector into a broader national development strategy provide important lessons for both policymakers and scholars. Indonesia's experience demonstrates that Islamic economics, when supported by democratic institutions, civil society, and a commitment to transparency, can play a meaningful role in advancing economic security. The country's experience characterized by efforts to balance economic growth, social equity, and environmental sustainability amidst complex geopolitical dynamics offers valuable insights for similarly positioned states. In particular, the country's ability to leverage its unique cultural and religious identity while pursuing national development provides an instructive framework for broader comparative analysis.

Indonesia's development trajectory is especially instructive in demonstrating how a Muslim-majority nation confronts the challenges of contemporary economic governance. The presence of a relatively robust democratic system, active civil society, and a free press distinguishes Indonesia from many of its peers in the Muslim world. These institutional features offer a critical lens through which to assess the impact of transparency, accountability, and governance quality on the formulation and implementation of economic security policies. The growing salience of Islamic economics within Indonesia also holds significant implications for both IR theory and Islamic economic thought. The Indonesian case challenges the dominant paradigms of IR, which have traditionally centered on material power and state-centric analyses rooted in Western intellectual traditions. By foregrounding normative values, non-state actors, and ethical considerations in international economic interactions, Islamic economic practices offer an alternative source of soft power. If Islamic economic principles can demonstrably promote financial stability, inclusive growth, and ethical commerce, countries like Indonesia that champion such principles may accrue normative influence, thus broadening the analytical scope of IR beyond the traditional approaches' emphasis on material capabilities.

Moreover, Islamic economics reconfigures conventional understandings of economic security. Rather than focusing solely on external vulnerabilities, trade balances, or access to strategic resources, Islamic economics incorporates internal dimensions such as social justice, poverty alleviation, and sustainable development as fundamental to national economic well-being. This expanded conceptual framework presents an opportunity to enrich existing theoretical approaches in IR and development studies. In conclusion, Indonesia's Islamic economic experience should not merely be regarded as a national case study but as a dynamic and evolving laboratory for the advancement of both IR and Islamic economic theory. It compels IR scholars to consider alternative, non-Western paradigms of economic engagement, while simultaneously challenging Islamic economists to refine their theoretical models to meet the complex demands of the modern global economy.

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