



Modernization and Relevance of Islamic Economics in Improving Social and Economic Welfare

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ABSTRACT

Modernization of Islamic economy plays a significant role in improving social and economic welfare by offering a more inclusive, equitable and sustainable financial system. Key elements such as Islamic Banking, Islamic Fintech and Islamic Microfinance show a significant impact in expanding financial access and economic empowerment, while social instruments such as Waqf and Zakat play a significant role in poverty alleviation and wealth distribution. Although Sukuk and Islamic ESG contribute to economic growth, their impact on social welfare tends to be more limited. The results of this analysis show that modern Islamic economy has the potential to offer more equitable and sustainable solutions, but still faces challenges in implementation and adaptation to current global needs. Therefore, strategic steps are needed such as innovation in Islamic economic instruments, utilization of technology, improvement of education and international collaboration to optimize its impact on society.

Keywords:

Modernization of Islamic Economy, Social Welfare, Economic Welfare, Islamic Banking, Islamic Fintech, Islamic Microfinance, Waqf, Zakat, Sukuk, Islamic ESG.



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INTRODUCTION

Islamic economics, which is based on sharia principles, has long been the basis for regulating the social and economic life of Muslims.[1]. However, in the midst of the development of the era and the ever-changing global dynamics, the challenges in implementing the Islamic economic system are increasingly complex. Modernization of the Islamic economy is a relevant topic to study, because in addition to maintaining the ethical and moral values contained in Islamic teachings, modernization is also needed to answer the challenges faced by the contemporary economic world, such as social inequality, economic crisis, and development gaps.[2][3].

The relevance of Islamic economics in improving the social and economic welfare of society is increasingly receiving attention in the context of globalization and the development of digital technology. By emphasizing justice, balance, and equitable distribution of wealth, the Islamic economic system is expected to offer an alternative to the conventional economic system which often only prioritizes profit without considering the wider social impact. The application of principles such as zakat, waqf, and muamalah in the modern economy can play an important role in reducing poverty, increasing the distribution of wealth, and strengthening social solidarity between people.[4][5].

However, the modernization of the Islamic economic system also faces major challenges, especially in terms of adjusting traditional values to the development of technological innovation and the global market. This study aims to explore how the process of modernizing the Islamic economy can be carried out without sacrificing the basic principles of sharia, and how the Islamic economic system can play a role in improving the social and economic welfare of society in the modern era. Analysis of the relevance and application of Islamic economics in various countries is important to understand its potential and limitations in the context of today's global economy.[6][7].

Thus, it is important to dig deeper into the impact of Islamic economic modernization on the sustainability and equity of socio-economic welfare. This study is expected to provide insight into how the Islamic economic system can be adapted and developed to achieve these goals, while providing practical solutions to address the problems of economic injustice that occur in various parts of the world.

METHODS.

1. Modernization of Islamic Economics

Islamic economic modernization is an effort to update and adapt Islamic economic principles to contemporary economic dynamics without sacrificing the underlying sharia values. The Islamic economic system, which is based on the principles of justice, sustainability, and equitable distribution of wealth, seeks to offer an alternative to the capitalist economic system which tends to focus on the accumulation of wealth by a handful of individuals or groups. In the context of modernization, Islamic economics must be able to face new challenges that arise in the globalized world, such as socio-economic inequality, financial crises, and the increasingly profound impact of technology and digitalization.[8][9].

The modernization of Islamic economics is not only limited to the development of theories and concepts, but also includes practical implementation in the financial system, banking, and other economic sectors. One real example of this modernization is the development of Islamic banking, which is designed to provide financial services in accordance with Islamic principles, such as the prohibition of usury and speculation. Islamic banking has grown rapidly in various countries, not only in countries with a Muslim majority, but also in Western countries, where the principles of justice and transparency are valued values in the financial world. In addition, the Islamic economic system has also adapted the concept of Islamic financial technology (fintech), which provides wider financial access through digital platforms that comply with Islamic principles.[10][11].

The process of modernizing Islamic economics also involves the development of sharia instruments that can support inclusive and sustainable economic growth. Sukuk (sharia bonds) is one of the innovations introduced in the Islamic financial system, which serves as a sharia-compliant investment alternative and has been widely accepted in the global market.[12]. Similarly, the application of waqf and zakat in the modernization of Islamic

economics is increasingly seen as an effective mechanism to improve the distribution of wealth and help alleviate poverty, as well as strengthen social solidarity in society.[13][14].

However, this modernization is not without challenges, especially in terms of integrating distinctive Islamic values with global economic developments. One of the main challenges is how to maintain a balance between sharia principles that emphasize the welfare of the people, and the need for flexibility and adaptation to rapid market changes. Therefore, the modernization of Islamic economics requires close collaboration between scholars, economists, and other stakeholders to create solutions that are not only relevant to the conditions of the times, but also in line with the fundamental teachings of Islam.[2][15].

2. Research Stages

1. Identification of Research Problems

The first stage is to identify the problem or research topic. In the context of Islamic economic modernization, this involves reviewing existing literature to identify knowledge gaps or areas that require further exploration. The main objective is to determine the focus of the research, such as financial innovation, banking, or social welfare.

2. Literature review

At this stage, the researcher collects and reviews existing literature related to Islamic economics, modern economic systems, and the relationship between the two. This literature review will provide a theoretical framework for the research and a basis for the research methods used.

3. Formulating Hypotheses or Research Questions

Based on the literature review, the researcher formulates research questions or hypotheses that will guide the direction of the research. These questions focus on specific aspects of Islamic economic modernization, such as the influence of technology or Islamic financial products on the global market.

4. Research Design and Methodology

At this stage, the researcher determines the approach and methodology to be used for data collection and analysis. The methods used can be qualitative, quantitative, or a combination of both, depending on the objectives and research questions.

5. Data collection

Data collection involves taking relevant data from various sources, both primary data through surveys and interviews, and secondary data from existing reports and publications. The data collected will be used to answer the research questions.

6. Data analysis

Once the data is collected, the researcher will analyze the data to answer the research question or test the hypothesis. This may involve statistical analysis for quantitative data or thematic analysis for qualitative data.

7. Findings and Discussion

At this stage, the researcher presents the main findings of the study and discusses them in the context of Islamic economics. This discussion will compare the findings with existing literature and identify the contribution of the study to the field.

8. Conclusion and Recommendations

In the final stage, the researcher concludes the important findings of the study and provides recommendations for policy makers, financial institutions, and academics. These recommendations can be in the form of practical steps for the modernization of the Islamic economic system.

3. Analysis of Islamic Economic Modernization

Table 1 Analysis of Islamic Economic Modernization

Factor	Impact on Social Welfare	Impact on Economic Welfare	Modernization Scale (0-10)	Relevance to Social Issues	Relevance to Economic Issues
Islamic Banking	8	9	7	9	8
Sukuk (Sharia Bonds)	7	8	6	8	7
Endowment	9	7	8	10	6
Zakat and Financial Inclusion	9	7	7	10	7
Sharia Fintech (Financial Technology)	8	8	9	8	8
Islamic Microfinance	8	8	7	9	8
Natural Resource Management (Islamic ESG)	7	9	6	8	9
Application of the Principle of Justice in the Market	9	8	7	10	9
Islamic Economic Education and Training	8	8	7	9	8

The analysis table shows that the modernization of Islamic economics has a significant impact on social and economic welfare. Elements such as Islamic banking, Islamic fintech, and Islamic microfinance show a major impact in increasing financial inclusion, income equality, and community economic empowerment. In addition, instruments such as sukuk, waqf, and zakat play an important role in a more equitable distribution of wealth and poverty alleviation, although their impact on economic welfare tends to be more limited. The application of the principle of justice in the market and natural resource management with the Islamic ESG approach also shows high relevance to social and economic issues. Overall, the modernization of Islamic economics has the potential to offer a more equitable and sustainable solution, but there are still challenges in its implementation that need further attention.

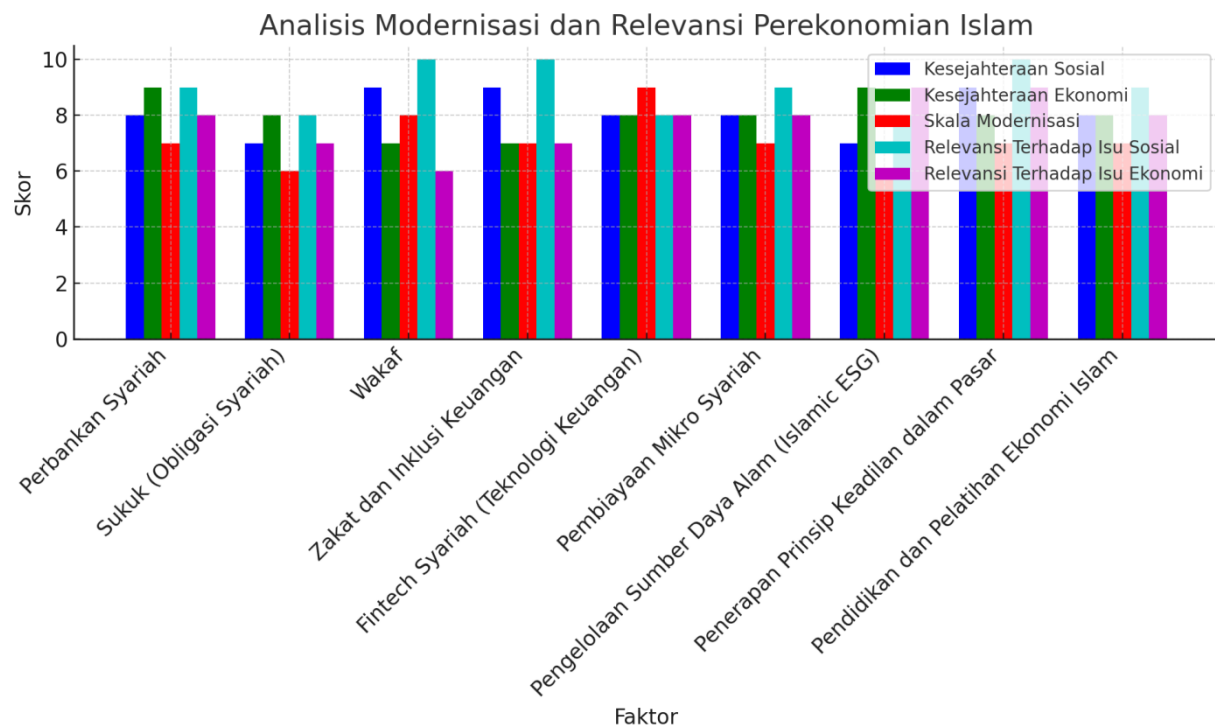


Figure 1 Analysis Chart of Modernization and Relevance of Islamic Economics

RESULTS AND DISCUSSION

The results of the analysis show that the modernization of Islamic economics has a significant impact on social and economic welfare. Elements such as Islamic Banking, Islamic Fintech, and Islamic Microfinance play a major role in increasing financial inclusion, wealth distribution, and community economic empowerment. Waqf and Zakat also show a strong influence on social welfare, although their impact on the economy is more limited. Sukuk contributes to infrastructure development and economic growth, but its impact on social welfare is slightly lower. The Principle of Justice in the Market shows high relevance to the creation of a just and sustainable economic system. The scale of modernization of these sectors varies, with Islamic Fintech showing the highest level of modernization. Overall, the modern Islamic economy has proven to be relevant in addressing social and economic challenges, but still requires efforts to continue to innovate and adapt to current global needs.

Conclusion

The modernization of Islamic economics shows great potential in improving social and economic welfare, with elements such as Islamic Banking, Islamic Fintech, and Islamic Microfinance playing a significant role in expanding financial access and economic empowerment. Social instruments such as Waqf and Zakat are effective in poverty alleviation, although their impact on the economy is more limited. Sukuk and Islamic ESG contribute to economic growth, but their social relevance is lower. To maximize the impact of Islamic economics, there is a need for further innovation in these instruments, the use of technology in the financial sector, improved education, global collaboration, and strengthening public policies that support the development of Islamic economics. These steps can accelerate the modernization of Islamic economics and increase its contribution to sustainable social and economic welfare.

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