



## JOKOWI'S ECONOMIC POLICY AND ISLAMIC ECONOMICS IN INDONESIA

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**Abstract.** *This paper aims to propose substantialisation of the doctrine of Islam in the economic field, explore the ideas of Islamic economics that developed into Islamic economic movements, Islamic banks, and then to the state response seen in national policies in contemporary Indonesia. This paper uses political perspective by looking at the development of increasing degrees of democratization, the information technology revolution, increasing economic growth including rising numbers of the middle class, and the masses of demands of the Indonesian Muslim community in terms of Islamic life, I optimistically argue that Islamic economics will continue to grow in Indonesia, and it also helped strengthen the national economy and more equitable welfare progress.*

**Keywords:** Politics, Islam, Islamic Economics

### INTRODUCTION

A new wave of economic Islamization can be seen in the establishment of Islamic Banks in the 1970s. Islamic banking and finance grew with the establishment of the Islamic Development Bank in 1973. The establishment of IDB corroborated the growth of Islamic banking and finance in various countries, such as the Dubai Islamic Bank (1975), Islamic Commercial Bank of Abu Dhabi (1977), Islamic Bank Faisal (1977) . In neighboring Malaysia, and Darul Mal al-Islami (1981). Globally, Indonesia is a Muslim majority country in the world, including late in responding to the global Islamic economic movement and projecting it in institutionalization. The first Islamic bank in Indonesia was established 10 years later on 1991 and began operations in 199.

The development of Islamic economic movements is very dependent on whether the country want to respond or not, support or bury. Some examples of bad relations between projections of ideas and the state produced mutual suspicion and mutual support. However, what will be proposed here is the political economy of Islam in Indonesia might be used as an interesting and unique example of how the relationship of Islamic economic projects born from community groups are responded moderately

and constructively by the state. As a result, this project was relatively successful and continued to move in a more promising direction.

This paper aims to solve the problems of Islamic economics with a political approach. It is emphasized that in the two schemes, the Islamic economic project and the Islamic economic movement, both of them were included in the Political Economy of Islamic variables, including the financial laws at Bank of Indonesia. The development of the Islamic Bank was read as a manifestation phenomenon of the political movement. In addition, the discussion among politicians in the parliament regarding zakat became a law was also portrayed as Islamic economic politics. The strengthening of Islamic economic politics could be confirmed through the discourse of President Joko Widodo, who plans to use Haj funds, which are saved by Muslims and in high value, to be used by the government to strengthen investment in infrastructure. This discourse revolved among politicians in parliament. Moreover, the figure of Kyai Ma'ruf Amin held by Joko Widodo as the Vice-Presidential Candidate in the 2019 election is a good sign for the political economy, because Kyai Ma'ruf is the chairman of the 2015-2020 of Indonesian Ulama' Council, the highest leader (Rais 'Am) of the Nahdlatul Ulama, and as an influential figure in the development of Islamic Economics in Indonesia as well.

## **LITERATURE REVIEW**

### **Affirmation of the Terms of Islamic Economics, Islamic Economic Movement, Islamic Economic Project, Politics of Islamic Economics**

Some terms that must be emphasized to provide a clear view in the next discussion are;

1. **Islamic economics.** This term is based on a paradigm where socio-economic justice is the main goal (Qur'an, 57:25). This goal is taken from the root of the belief that humans are God's only Caliph. They are brothers and sisters and all the resources they have are a mandate from God that is used fairly for welfare (Chapra, 1996). So in the activities of socio-economic life, humans must be based on a complete awareness that they are accountable to God in the hereafter and will be rewarded or punished on how they obtain and use these resources.
2. **Islamic Economic Project.** This term was introduced by Shofwan Albanna Choiruzad, a big concept that encompasses all ideas and movements of economic Islamization, to the establishment of Islamic Banks.

3. **Islamic Economic Movement**, this movement presupposes ideas and activities that encourage human life to implement sharia. Because the scale is relatively smaller, this term is included in the big umbrella of Islamic economic projects. Choiruzzad, he pointed out that organizations such as the Islamic Economic Community (MES) can be associated as an organization of Islamic economic movements as their vision and mission form a society to do all economic activities in accordance with Islamic rules.<sup>1</sup> The zakat, infaq and sedekah movement, carried out by community organizations, might be characterized as an Islamic economic movement. Whilst zakat management carried out by government agencies and under the auspices of the government such as BAZNAS (National Zakat Agency) can be regarded as Islamic economic politics because BAZNAS works to mainstream zakat as an instrument of development towards a just and prosperous society, *baladun thayyibatun wa rabbun ghafuur*.<sup>2</sup>

## METHODOLOGY

This study uses a qualitative approach which is carried out by observing the steps of political policy taken by the government during President Jokowi's time, especially in relation to policies related to Islamic economics.<sup>3</sup> Economic political analysis is related to the interaction of political and economic processes in society, as well as the distribution of power and wealth between different groups and individuals and the process that creates, maintains and changes this relationship over time is the object of this study

Islamic economic project schemes and Islamic economic movements in this study were included in the Political Economy of Islamic variables, including the financial laws at Bank Indonesia. The development of the Islamic Bank was read as a manifestation phenomenon of the political movement. In addition, the discussion among politicians in the parliament regarding zakat became a law was also portrayed as Islamic economic politics.

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<sup>1</sup> <http://www.ekonomisyariah.org/tentang-mes/visi-dan-misi>, diakses 25 September 2018

<sup>2</sup> <http://baznas.go.id/profil>, accessed on September 25, 2018

<sup>3</sup> Kuntjoro-Jakti, D. (1990). Pendekatan Politik Ekonomi (Political-Economy): Jembatan Di Antara Ilmu Ekonomi dan Ilmu Politik. *Jurnal Ilmu Politik*, 8, 3-31.

## **FINDINGS AND DISCUSSION**

### **Dinamics Response of Country**

The main argument put forward here is that if the relationship between the Islamic economic movement and the state goes well and moderate, the development of Islamic economics will grow more promising. On the other hand, if the state does not support and even has great suspicion of the Islamic economy, the bad relationship will not help both to boost economic growth. We can trace this argument from the empirical findings about the relationship between the state and the Islamic economic movement. In America and even globally, the wave of Islamic financial markets had experienced its lowest point, where many American and European thinkers believed that global capitalism really did not find a significant counterpoint (Huntington, 1993) Fukuyama, 2009). The lowest point occurred at the beginning of the 21st century, the enthusiasm of the Islamic community in the world had changed drastically during the plane bomb attack on September 11, 2001. This incident shocked the state of the world economy and had become the lowest point for the Islamic financial market because of the sharp increase in sentiment and suspicion of all things that are Islamic and especially terrorism, fundamentalism and radicalism which all have a negative impact on Islamic financial markets, Islamic Banks (Henry & Wilson, 2004).

In addition, challenges were also faced by Islamic finance, for example, the perceived bias towards Islamic banks found by Tarik M. Yousef in his paper "Murabaha Syndrome in Islamic Finance: Law, Institutions and Politics". He reported that Islamic banks were considered to be heavier if they were used as a reference for long-term financing. In other words, mudharabah or musharakah is far more risky and more expensive than long-term or medium-term loans from conventional banks. That is why there is a difference between equity-based financial theory and murabaha which is dominated by the practice of Islamic banks. Tarek examined murabaha syndrome in Islamic finance through the prism of systematic analysis of financial structures around the world, then, his findings indicate that Islamic banks, as niche capital providers, do not operate much differently from conventional banks (Henry & Wilson, 2004; 75). However, Tarek's findings are different from those of Clement M. Henry in his paper "Islamic Financial Performance versus Conventional Banks". Clement compares the financial performance of selected Islamic banks with conventional banks, structural adjustments and economic reforms in the countries in which they operate ((Henry &

Wilson, 2004; 11). Indeed, the country's political response to the development of Islamic economics differs from country to country. For example, several case studies briefly mention discussions about the state's response to Islamic economic projects. In his work on the Islamic Bank in Tunisia, Robert P. Parks noted that the development of the Islamic Bank of Tunisia was closely linked to the authoritarian response of the rulers of Tunisia. Thus, the regime contains the development of Islamic banking because of suspicions of the vision of Islamic banking and financial politics and the fear that Islamic banking will create an autonomous private banking sector. Other research on relations between countries and Islamic economic projects is provided by Sherin Galal Abdullah Mouawad. In this article, Mouawad discusses the Egyptian government's response to the development of Islamic financial institutions from 1963 to 2007. It concludes that the Egyptian government has controlled the growth of Islamic banking and finance through its policies and policies of manipulation of legal, economic and religious institutions. This response is due to the regime's willingness to maintain economic system stability and its suspicion of the relationship between Islamic banking and finance and the Islamic political movement in the country.

Choiruzzad conducts research on how the Indonesian state, in the development of the political context, has responded to the Islamic economic project. This mainly focuses on the response of the Central Bank of Indonesia (Bank Indonesia) as an important state institution which is the highest authority in regulating Indonesia's banking and financial system, towards a core Islamic economic project, namely Islamic banking and finance. He explained the dynamics behind these responses, including understanding key factors and key actors (and their motivation) in the policy-making process (Al & Choiruzzad, 2011).

In this study, more aspects of the Islamic economy have been recorded with a political perspective including those discussed by parliamentarians and even the president also discussed how the financial potential of Muslims such as zakat and Hajj funds then helped the state in the form of strengthening investment in infrastructure.

Economic development is a tactic to achieve the goals of a nation. Benchmarks for assessing the success of economic development can be measured through several aspects, namely economic development, population per capita income, percentage of unemployment, poverty, and balance of payments. However, the reality shows that there are achievements that have not been maximized because the state cannot fully

work alone, but it must be with cooperation and mutual cooperation with various elements of society. Socio-economic inequality, equitable distribution of development, problems with the quality of human resources and technology are internal factors that have become obstacles to economic achievements. On the other hand, global economic competition, China's trade war with America is also a part that greatly affects the situation in Indonesia.

### **Indonesian Islamic Economy Development**

The development of Islamic economic movements in Indonesia, politically can be said to move moderately even Islamic economics is inherent in the movement of national development. This argument can be compared to other Islamic movements such as political Islam, fundamentalism, revivalism, conservatism and radicalism. Communication of ideas and cooperation between Islamic economic drivers and the government is flexible and there is almost no significant upheaval, there is no heavy suspicion from the government on this movement. For example, in 1991, the establishment of Bank Muamalat Indonesia (BMI) was an indicator of the development of Islamic economics in Indonesia, the bank then began operating the following year. In the early days of its establishment, Islamic banks were still believed to be profit sharing banks, due to the absence of a law that overshadowed the establishment of Islamic banks in Indonesia, the absence of a clear legal system of Islamic banking, the slow development of Islamic banks in Indonesia until finally emerged UU no. 7 of 1992 and PP. 72 of 1992.

In detail, a political glimpse of policy in the field of Islamic economics can be mapped as follows:

First, the enactment of Law No. 19 of 2008 relating to State Sharia Securities (SBSN) ratified on May 7, 2008. The birth of this SBSN Law aims to finance the State Budget which is always in deficit, including for project financing. The existence of the SBSN Law will provide development financing more varied so that it can absorb funds from investors extensively. This law has become a legal basis for the Indonesian government to issue sukuk state in order to attract funds from investors. Sukuk is seen as a better alternative than borrowing abroad because, among other things, it contains elements of investment cooperation, risk sharing and asset involvement (real projects) which also underlie sukuk issuance. This shows the government's support to fund the

state budget with Islamic financial instruments, and it is proven that the development of global and retail sukuk is very rapid after the government's political will by ratifying the SBSN Law.

Second, the promulgation of Law No. 21 of 2008 concerning Sharia Banking, on June 17, 2008. The birth of the Sharia Banking Law marks a new era of Islamic banking that already has a clear legal umbrella. With this Sharia Banking Act, it further strengthens the Islamic banking legal foundation so that it can be equivalent to conventional banks. In addition, this legal umbrella further strengthens the existence of Islamic banking in Indonesia and can also further spur an increase in the role and contribution of Islamic banking in alleviating poverty (poverty alleviation), public welfare, and opening employment and national development.

Third, the government represented by BUMN established a Sharia Bank. The real evidence of Islamic economic politics played by the government in the Islamic banking industry sector is the establishment of Bank Syariah Mandiri (BSM), the largest core capital of which is Bank Mandiri, which is a BUMN bank note, the establishment of BRI Syariah, the largest core capital of Bank BRI, which is a BUMN bank note, BNI Syariah which has the largest core capital from BNI 45 which is a memorandum of state-owned banks, sharia pawnbrokers under the pawnshop which are SOEs, and so on.

Fourth, the promulgation of Law No. 41 of 2004 concerning Waqf. In addition, PP No. 42 of 2006 and Decree No. 4 of 2009. It all shows the political economy of Islam played by the Indonesian government in the realm of Islamic public finance has shown its support for the implementation of formal legal Islamic public finance.

Fifth, the establishment of the National Sharia Council of the Indonesian Ulama Council (DSN MUI) on February 10, 1999, was based on MUI Decree No. kep-754 / MUI / II / 1999. Sixth, the enactment of the Law on zakat, namely Law No. 38 of 1999. Seventh, the promulgation of Law No. 3 of 2006 which was the result of a revision of Law No. 7 of 1989 concerning Religious Courts which in the end were allowed to solve problems in the field of Islamic economics between Muslims. Eighth, the KHES (Compilation of Sharia Economic Law) coordinated by the Supreme Court (MA) RI which was later legalized in the form of AGUNG COURT REGULATION (PERMA) 02 of 2008 is a response to new developments in the study and practice of Islamic economics in Indonesia. The presence of KHES is part of the positive efforts of the Islamic civil law

in the national legal system, considering the practice of Islamic economics has become increasingly lively through LKS-LKS. The compilation can be used as a reference in the completion of Islamic economic cases which are increasingly increasing.

Ninth, Cash Waqf Movement. The national cash waqf movement was led by President Susilo Bambang Yudhoyono at the Jakarta State Palace on January 8, 2010, the management of which was handed over to the Indonesian Waqf Board (BWI). BWI has made rules about money waqf so that collection, use and accountability can be transparent and will be audited by an independent auditor. Through the national cash waqf movement, people now can make money in the form of waqf which is easier and more flexible to be used for the welfare of the people.

Tenth, issuance of Government Regulation No. 39 of 2008 Sharia Insurance concerning the Second Amendment to Government Regulation Number 73 of 1992 concerning the Implementation of Insurance Businesses.

### **Jokowi and Hajj Fund Management**

Since leading Indonesia from 2014, President Jokowi has continued to focus on development in terms of substantial aspects such as road infrastructure. Government negotiations with foreign and national investors continue to be carried out to get as much investment as possible into Indonesia. In the homeland, one of the important potential investment funds is saving Indonesian pilgrims. President Joko Widodo has already discussed the use of this fund for the need to strengthen national investment in infrastructure. Some Muslims objected to this discourse, but Ma'ruf Amin, who is the General Chair of the Indonesian Ulema Council (MUI), argued that the use of Hajj funds to build infrastructure by the Indonesian government is not a problem. He also said that the MUI had fought about infrastructure development using investment funds for prospective pilgrims.

According to the President, prudential elements must be attached to the management and use of the haj funds because the funds are the property of the people. The President gave an example that the funds can be invested for Sukuk, placed in Islamic Banks, etc., but must be done with caution. . The funds must provide benefits

and benefits for Muslims or prospective pilgrims who own the funds.<sup>4</sup> Hence all need to be carefully calculated and follow the existing laws and regulations.<sup>5</sup>

Minister of Religion Regulation (PMA) Number 15 of 2006 concerning Hajj Registration regulated one of them about the registration of Hajj carried out every working day throughout the year. The policy resulted in a waiting list of pilgrims or a list of prospective pilgrims who had received a portion number, but had not yet been able to depart to the holy land because of limited quota. As a result, the number of waiting lists increased to the point of touching a sizeable number. Every year there are around 500 thousand pilgrims who register, both for regular and special Hajj pilgrimages, while the Hajj quota is only available for 211 thousand people. As of the end of July 2017, waiting lists of regular pilgrims were 3,305,207 people and special pilgrimages totaling 104,941 people. The increase in the waiting list congregation is positively correlated with an increase in accumulated funds for the cost of Hajj Implementation Fees (BPIH). Thus, the government is obliged to manage the hajj funds collected from the prospective pilgrims.

Based on the available data, it can be seen that the hajj funds that have been collected up to June 30, 2017 amounted to Rp. 99.34 trillion, which consists of the benefit value of Rp. 96.29 trillion and the Abadi Abadi Fund of Rp. 3.05 trillion. Based on these details, it can be seen that the benefits of hajj funds for pilgrims are in the form of financing subsidies for hajj costs of 50%. Thus, the pilgrims will only pay Rp. 34 million of the total cost of around Rp. 68 million.

Referring to Law No. 34 of 2014 concerning Hajj Financial Management, BPKH regulates Hajj financial investments that are realized in banking products, securities, gold, direct investment, and other investments. In carrying out its duties, BPKH is guided by a strategic plan within five years. The strategic plan discussed with the House of Representatives contained a detailed description of the management of Hajj funds in the period, including policies on how much Hajj funds were invested through a number of investment instruments. The principle of implementing the strategic plan is to maximize the interests of the pilgrims, among others, in the form of improving the quality of the implementation of the Hajj pilgrimage, cost efficiency and hajj fund

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<sup>4</sup> <https://www.bbc.com/indonesia/indonesia-40767439> accessed on September 21, 2018

<sup>5</sup> <https://nasional.kompas.com/read/2018/04/26/15372391/jokowi-pastikan-dana-haji-sesuai-prinsip-transparan-dan-akuntabilitas>. Accessed on September 21, 2018.

subsidies, as well as the benefit of Muslims. "Members of the implementing agency and members of the BPKH supervisory board are responsible for the placement and / or investment of the Hajj financial as a whole, including the selection of investment instruments that are considered to provide large returns, as well as the potential risks arising from errors or omissions in management.

Hajj funds issued for development get a response from various groups, the pros and cons are present in the policies carried out in managing the Hajj funds to build infrastructure. Reports in various media about the government's plan lead to pros and cons. There are parties who consider that the plan is not appropriate, but there are also parties who agree with the plan because it is considered to provide benefits

In fact, the management of Hajj funds must meet five requirements based on fiqh rules and the constitution. In addition, these activities must also be approved by the House of Representatives. This is in accordance with Law No.34/2014. The five conditions are sharia principles, full of prudence, then must be safe or not at risk of loss, there is a value of benefits generated in accordance with the provisions of the law and also provides benefits for prospective pilgrims themselves. On the other hand, the Hajj funds should be used for infrastructure development in anticipation of a decline in the value of the currency which ultimately results in an increase in the hajj funds. Hajj funds must also be managed well through good investment with sufficient rhythms.

However, the journey regarding the pros and cons explains the purpose and benefits for every Muslim in Indonesia. They feel the development in terms of infrastructure through their contribution to the pilgrimage funds, this explains to us all that funds from people who run the pilgrimage should be used for the benefit of common. Therefore, the flow of funds given is clearly visible for the country's development.

## **CONCLUSION**

Historically, the implementation of Islamic values in *muamalah* activities has been applied by a group of Indonesian people who are members of an institution called Sarikat Dagang Islam (SDI). Islamic banks continue to progress. Nonetheless, the development of Islamic banks in Indonesia itself was increasing when several laws were stipulated concerning the existence of Islamic banks. With this law, Islamic banks in Indonesia have the power of law. In addition, such conditions also made Islamic banks

in Indonesia contributed greatly to the implementation of development in Indonesia, both micro-development and macro-development.

It can be seen from the growing scope of Islamic economics which is not only manifested in the form of Islamic banks, but also other Islamic financial institutions, one of which is Islamic insurance which also plays a major role in realizing macro development in Indonesia. These facts are indicators that the landscape of Islamic economic development in Indonesia continues to lead to significant developments and contribute greatly to development in Indonesia.

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