

AN ISLAMIC PERSPECTIVES, THE CURRENT STATE OF INDONESIA IN THE GLOBALIZATION ERA

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Abstract: Countries must be able to compete due to the high global intensity of trade and agreements. As a first step in dealing with this, many countries employ economic concepts that are tailored to their specific circumstances. The goal of this research is to look at the role of Islamic economics in dealing with the onslaught of economic globalization, such as China's Belt Road Initiative (BRI), and multi-sectoral institutions like the IMF and the World Bank. The literature research approach used in this paper is qualitative using literature review method. The results of this study found that the Indonesian government was in the midst of a powerful wave that required strong captains and ships. In other words, the existence of BRI, IMF and World Bank will be a threat if they are not controlled properly. As a result, the government has to divert this funding to productive areas such as agriculture. Furthermore, given China's concentration on Islamic banking, Indonesia may be able to persuade China to involve the Indonesian people in developing its products. Furthermore, the Indonesian government must be able to read every step taken by BRI, IMF, and World Bank so as not to be trapped in debt investment.

Keywords: *Islamic economic, belt road initiative, IMF, worldbank*

Introduction

Indonesia cannot be divorced from multi-dimensional difficulties in the midst of the current global economic slowdown. The Indonesian economy, on the other hand, is expected to continue strong, according to the government. Indonesia's economic growth could reach 5.1 percent in 2019, then rise to 5.2 percent in 2020, according to the National Economic Committee (KEN), Bank Indonesia, IMF, and World Bank. This forecast is backed up by public consumption, which is likely to rise as long as inflation remains low and the labor market remains solid.

According to the World Bank's June 2019 edition of the Indonesian economy quarterly report, coordinated and prudent macroeconomic policies have led to robust economic development in Indonesia despite global uncertainty and a series of remarkable non-natural disasters.

The real sector, which is Indonesia's dilemma in the face of a never-ending influx of Chinese-made goods, is of special concern. It is not impossible that the Indonesian economy may deteriorate if this is not taken into account. This issue is a source of worry for Islamic economics. In comparison to traditional economics, which often ignores the community's welfare, Islamic economics is said to be more likely to solve economic problems. To boost the country's economic production, commercial activities that generate money must be channeled to productive sectors, according to Islamic economics.

Looking at Indonesia's current economic challenges through the lens of the world economy and Islamic economics, which will be discussed in

this paper. The author will attempt to assess the benefits and risks of China's, the IMF's, and the World Bank's belt-tightening policies for the Indonesian economy. Given the scarcity of knowledge on the subject.

Literature

Belt Road Initiative

President Xi Jin Ping announced this policy in 2013, referring to it as the "new silk road"¹. Beijing has lent billions of dollars to numerous countries as part of this initiative, which spans railroads, roads, and ports all around the world ². President Xi Jin Ping denied that this initiative was an open and inclusive program for countries that wanted it five years later, despite the fact that many other countries said it was a debt trap ³.

Malaysian Prime Minister Mahatir Muhammad announced in August that Chinese-funded projects, including a \$20 billion rail line, will be halted ⁴. Concerns about Pakistan's ability to repay loans for the China-Pakistan Economic Corridor project have prompted the country's new prime minister, Imran Khan, to pledge to be more transparent ⁵ . Meanwhile, exiled Maldivian leader Muhammad Nasid described China's

¹ Huang, Y. (2016). Understanding China's Belt & Road Initiative: Motivation, framework and assessment. *China Economic Review*, 40. <https://doi.org/10.1016/j.chieco.2016.07.007>

² Johnston, L. A. (2019). The Belt and Road Initiative: What is in it for China? *Asia and the Pacific Policy Studies*, 6(1). <https://doi.org/10.1002/app5.265>

³ Gopalan, S. T. (2021). China's Belt and Road Initiative. *Revista Brasileira de Políticas Públicas e Internacionais - RPPI*, 6(1). <https://doi.org/10.22478/ufpb.2525-5584.2021v6n1.46184>

⁴ Acharya, A. (1999). Containment, Engagement, or Counter-Dominance? Malaysia's Response to the Rise of Chinese Power. In *Engaging China: The Management of a Rising Power*

⁵ Shaikh, R., & Chen, C. K. (2021). China's Debt Trap in Pakistan? A Case Study of the CPEC Project. *South Asia Research*, 41(3). <https://doi.org/10.1177/02627280211040650>

efforts in the Indian Ocean archipelago as "land grabbing and colonization," claiming that China was responsible for 80 percent of the countries' debt⁶. Large loans to China have had a negative impact on Sri Lanka. Because it was unable to repay loans for the US\$1.4 billion project, the government had to grant Beijing a 99-year license to operate the important port last year.

Kunming-Thailand, Kunming-Vietnam-Cambodia, and the China-India-Bangladesh-Myanmar corridor are all part of the China overland commerce corridor. In terms of the sea route, the Chinese government plans to link the Malacca Strait, the Bay of Bengal, the Arabian Sea, the Suez Canal, and the Mediterranean Sea via Fujian. Djibouti, Kenya, Madagascar, Mozambique, and Tanzania are among the East African countries that will be connected by the maritime route. According to Chinese experts, the program has a trade worth of up to eight billion dollars^{7,8,9}.

China's reliance on the entry of energy supplies (oil and gas) across the Malacca Strait explains why it creates trade routes and spends extensively in the program. Because imported commodities entering China will be more expensive, the Chinese government is hesitant to rely

⁶ Haderiansyah, H., Habibah, M., Setiawan, A., & Hayat, M. A. (2020). Policy of China's Debt-Trap Diplomacy: The Influence Of Media In Forming Community Political Opinions. *DIA Jurnal Ilmiah Administrasi Publik*, 18(2). <https://doi.org/10.30996/dia.v18i2.4410>

⁷ Gopalan, S. T. (2021). China's Belt and Road Initiative. *Revista Brasileira de Políticas Públicas e Internacionais - RPPI*, 6(1). <https://doi.org/10.22478/ufpb.2525-5584.2021v6n1.46184>

⁸ Huang, Y. (2016). Understanding China's Belt & Road Initiative: Motivation, framework and assessment. *China Economic Review*, 40. <https://doi.org/10.1016/j.chieco.2016.07.007>

⁹ Johnston, L. A. (2019). The Belt and Road Initiative: What is in it for China? *Asia and the Pacific Policy Studies*, 6(1). <https://doi.org/10.1002/app5.265>

too heavily on the Southeast Asian region. Furthermore, if China's energy supply is cut off in the Malacca Strait, it will face new challenges. As a result, the Chinese government decided to create a land trade route through Central and South Asia, similar to what their forefathers had done on the Silk Road^{10,11,12}.

At the very least, the construction of a land trade route has certain advantages for China. The first is to cut high transport costs, make energy supplies in Central Asia and the Middle East more accessible, and urge Chinese state-owned firms to not remain stationary. China plans to invest about \$300 billion to complete the project¹³. Because this sum is so huge, the Chinese government gives priority to countries that are regarded strategic, such as Indonesia, Pakistan, India, and a number of Central Asian countries.

The Belt and Road Initiative, or China's land commerce route, can be regarded from a variety of perspectives. Trade routes that are part of the Belt and Road Initiative will traverse across Eurasia's countries. "Anyone who can dominate the vital area (Eurasia), then he will govern the world," McKinder explains¹⁴. Of course, this isn't just a legend. Eurasia is a region rich in energy in terms of geographical features. Natural gas

¹⁰ Chan, S. (2017). The belt and road initiative: Implications for China and East Asian economies. *Copenhagen Journal of Asian Studies*, 35(2). <https://doi.org/10.22439/cjas.v35i2.5446>

¹¹ Gong, X. (2019). The Belt & Road Initiative and China's influence in Southeast Asia. *Pacific Review*, 32(4). <https://doi.org/10.1080/09512748.2018.1513950>

¹² Iqbal, B. A., Rahman, M. N., & Sami, S. (2019). Impact of Belt and Road Initiative on Asian Economies. *Global Journal of Emerging Market Economies*, 11(3). <https://doi.org/10.1177/0974910119887059>

¹³ *Ibid.*

¹⁴ *Ibid.*

reserves of up to 60% are estimated to be stored in the Eurasian region, including the Caspian Sea, Central Asia, and Siberia, according to experts.

Aside from the economic advantages, the heartland is a forbidding landscape. According to McKinder, the Eurasia region had a geographical advantage because it could not be reached by maritime powers. It should also be noted that China's energy requirements include coal (70 percent), hydroelectric (6 percent), natural gas (4 percent), nuclear (1 percent), and renewable energy (0.3 percent)¹⁵.

Furthermore, Price Waterhouse Cooper (PwC) published a paper claiming that China's Land Road Initiative is more than merely constructing trading posts. The program also helps to fund the construction of gas pipeline transportation routes from Central Asian countries to China, which will eventually be connected to meet China's energy needs. Another aspect of the Land Road Initiative that should be highlighted is China's economic benefits. At the very least, there are multiple benefits, including increased investment into China, easier access to markets, more accessible trade routes due to improved infrastructure (Eastern and Western Europe), and advantages for China in raising financing. At least two questions about China's Belt Road Initiative may be answered using the McKinder theory.

Aspects of commerce and energy transportation routes can be investigated. The entire trade profit from the Silk Road was 21 trillion dollars, according to figures gathered from the European Bank for Reconstruction and Development (EBRD) (European Bank for Reconstruction and Development, n.d.). The Land Silk Road is located

¹⁵ Rey, P. J., & Ritzer, G. (2010). Conceptualizing globalization in terms of flows. *Current Perspectives in Social Theory*, 27. [https://doi.org/10.1108/S0278-1204\(2010\)0000027011](https://doi.org/10.1108/S0278-1204(2010)0000027011)

within the World Island segment. Maritime powers or countries from outside the area are unable to enter the zone. Natural fortifications make it easier for governments that can take use of geographical advantages to attain political goals.

International Monetary Fund

The IMF works to stabilize the global economy by addressing issues such as exchange rates, balance of payments, and international capital flows, as well as monitoring its members' macroeconomic policies¹⁶. As the global economy evolved, the IMF's role evolved as well. At its inception, the IMF was in charge of the Bretton Woods exchange system. Currently, the IMF is more likely to monitor countries' balance of payments in order to ensure the currency's exchange rate's long-term viability. The IMF also lends money to governments, particularly those in developing countries whose economies are in trouble. The IMF's funds are reliant on quotas from member countries, which can impose lending restrictions.

World Bank

The World Bank (IBRD) was established in 1945 in Bretton Woods and began operations in 1946. All countries are welcome to join. The World Bank is a multilateral development bank that provides financial assistance to nations as well as advising and analytical services. According to Ritzer (2010), the World Bank's mission includes assisting member countries in developing productive facilities and resources, providing funds to stimulate economic productivity, encouraging international investment, and assisting member countries in improving productivity, living standards, and labor conditions.

¹⁶ *Ibid.*

The World Bank now offers help in a variety of areas of governance, including the public sector, corruption, and some aspects of humanity and broader policy. In the World Bank, every member has a vote, but that vote is based solely on the size and importance of the country's economy in the global economy.

Since 1980, the World Bank's operations have gotten more contentious since it looks to be dominated by wealthy countries and big NGOs. The World Bank, on the other hand, appears to favor rich countries over poor countries. Furthermore, as a result of the expansion, the World Bank appears to have lost its purpose and is infringing on the activities of other institutions. As a result, the World Bank is weakened¹⁷. The Bretton Woods System uses a fixed exchange rate between member countries, according to the method. Fixed exchange rate management is the conversion of a foreign exchange rate into an exchange rate with a fixed and stable size so that the selling and buying values have the same characteristic. All countries must standardize their currencies against the US dollar (USD), while the dollar must standardize its exchange rate against gold, specifically dollars per ounce of gold, under the fixed exchange system.

The world's governments then decided to use the US dollar as the standard for their domestic currency exchange rates, recognizing the US's economic dominance at the time. When the dollar is utilized as a gold benchmark, the dollar earns prestige for three reasons.

First, the United States is a country that has not been economically harmed by a large-scale war, as seen by the Marshall Plan program for the

¹⁷ Rey, P. J., & Ritzer, G. (2010). Conceptualizing globalization in terms of flows. *Current Perspectives in Social Theory*, 27. [https://doi.org/10.1108/S0278-1204\(2010\)0000027011](https://doi.org/10.1108/S0278-1204(2010)0000027011)

reconstruction of Europe. As part of the process of developing a multilateral settlement system, the Marshall Plan eventually opened the door for liquidity funds in the form of dollars entering Europe^{18,19}. Second, because the United States has a big gold reserve, it is willing to be used as a benchmark for converting its currency to gold. Third, the US wants to promote liberal ideals around the world by assisting allied countries in fast recovering in order to win assistance in blocking the development of communist ideology under the Soviet Union at the time.

The acknowledgement of the dollar's credibility as an international currency allows the US to reinforce its position as a hegemon not only in monetary terms, but also in terms of sustaining the financial system's stability. The United States does not need to change its state budget because each country's currency is equal to the dollar. The provision of seigniorage rights to the United States, which allows it to overcome its balance of payments deficit with dollars, benefits the US both economically and politically, while also imposing a significant obligation to preserve market trust through the development of currency stability.

This paper's geopolitical theory is based on classical theory.

Methods

A deductive qualitative research method with a literature study approach was used in this study. The research is descriptive in nature. This study is the product of a review of numerous literatures, some of

¹⁸ Edison, M. J., & Kole, L. S. (1995). European monetary arrangements: Implications for the dollar, exchange rate variability and credibility. *European Financial Management*, 1(1). <https://doi.org/10.1111/j.1468-036X.1995.tb00007.x>

¹⁹ Feldstein, M. (1997). The Political Economy of the European Economic and Monetary Union: Political Sources of an Economic Liability. *Journal of Economic Perspectives*, 11(4). <https://doi.org/10.1257/jep.11.4.23>

which have quotations included in this paper. Qualitative research methods, according to Sugiyono (2016), are research methods based on post-positivism philosophy that are used to investigate the condition of natural things²⁰. This research takes the form of a literature study or literature review, with data gathered from a survey of scientific publications, books, and other relevant sources, as well as research topics and theories²¹. As a result, this study will present a description, summary, and conclusion of the Belt Road Initiative, IMF, and World Bank programs' opportunities and threats.

Results and Discussion

Islam and the Global Economy

Globalization is not a new concept in Islam. The Prophet S.A.W. and his companions frequently traded in Egypt, Syria, Iraq, Greece, Turkey, and Spain during his lifetime. There are many passages in the Qur'an that are pertinent to the topic of globalization, including:

O mankind, indeed We created you from a male and a female and made you into nations and tribes so that you may know one another. Verily, the most honorable of you in the sight of Allah is the one who is most pious among you. Verily, Allah is All-Knowing, All-Knowing. (Q.S. Al-Hujurat (49):13).

And seek in what Allah has bestowed upon you (happiness) in the hereafter, and do not forget your share of worldly

²⁰ Sugiyono. (2016). Memahami Penelitian Kualitatif. Bandung: Alfabeta.

²¹ Setyabudi, T. (2016). Literature Study. *Journal of English and Education*, 1(2). <https://doi.org/10.20885/jee.vol1.iss2.art9>

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(pleasures) and do good (to others) as Allah has done good to you, and do not do mischief in (face) earth. Verily, Allah does not like those who do mischief (Q.S. Al-Qasas (28):77)

And We have not sent you, but to all mankind as bearers of glad tidings and as warners, but most people do not know (Q.S. As-Saba '(34):28).

Glory be to Allah who has sent down Al Furqaan (Al Quran) to His servant, so that he may be a warner to all the worlds, (Q.S. Al-Furqan (25): 1).

Islam has taught how to interpret and deal with globalization, as evidenced by the verses above. This is evidenced by the emergence of nations and tribes among humans with the primary objective of getting to know one another. Then, Islam teaches that people should seek enjoyment in the world, demonstrating that humans have a global role to play, rather than destroying the world in which they live. Finally, Islam is a universal religion that encompasses all of humanity as well as all of nature.

The following are some of the Prophet's hadiths that are pertinent to globalization:

"Except by piety, an Arab has no benefit over a non-Arab (ajam), and a non-Arab has no advantage over an Arab, and a red-skinned person has no advantage over a black-skinned one, and a black-over-red one." (Ahmad, HR)

Because there is no advantage of one ethnic group over another in Islam, the aforementioned hadith means that globalization in Islam does not acknowledge discrimination. As a result, when dealing worldwide, particularly in international commerce transactions, Islam advises against discrimination.

Because the Islamic economic system is a self-contained economic system, Islam promotes life as a whole and assists a person's life as an integral element of community life ²². The Islamic economic system is fundamentally distinct from both the capitalist and socialist economic systems.

Like any other economic system, the purpose of the Islamic economic system is to achieve efficiency and equity in resource allocation and distribution ²³. According to Islam, there are three major concepts that govern the Islamic economic system: Tawhid, this idea depicts Allah SWT as the universe's solitary master and proprietor; Khilafah, which signifies that human are the caliphs or representatives of Allah on this earth by being given a set of spiritual and mental potential as well as a complete set of material resources with which to live in order to carry out his life's mission; 'Adalah, is an essential component of sharia's goals (maqasid al-Syariah). The consequences of the principle of Khilafah and 'Adalah are demanding that all resources that are a mandate from Allah be used to reflect the Shari'ah's objectives, such as fulfilling needs, respecting the predictable source of income, equitable distribution of income and welfare (equitable distribution of income and wealth), and stability and growth, among others (growth and stability). The four characteristics / characteristics of the Islamic system include unity, balance, freedom, and responsibility (responsibility).

²² Iqbal, B. A., Rahman, M. N., & Sami, S. (2019). Impact of Belt and Road Initiative on Asian Economies. *Global Journal of Emerging Market Economies*, 11(3). <https://doi.org/10.1177/0974910119887059>

²³ Ayyubi, M. S. al, & Saputra, P. M. A. (2021). Indonesian government's primary balance and debt. *Jurnal Ekonomi Dan Bisnis*, 24(1), 133–152. <https://doi.org/10.24914/jeb.v24i1.3770>

Fair Economic Globalization

Economic globalization requires the use of proper methods. Economic globalization will only generate numerous issues if it is not approached correctly, especially in underdeveloped countries. In human interactions, the approach must be founded on fairness and equality. The major objective and mission of prophethood is to invite people to worship Allah while also eradicating polytheism and upholding justice in society while also eradicating injustice (Q.S. Al-Hadid: 25).

Allah is stated to be Most Just in the Qur'an, and he defends justice because justice is a positive characteristic he possesses (Q.S. Ali Imran:14). The passage plainly states that Allah is the Doer of Justice or that He mandates justice. This assertion lies at the heart of how divine faiths establish a human-God relationship. Then, in accordance with Islamic teachings, God's mandate to establish justice based on the monotheistic quality of the principle of God's oneness (tawhid). In humans, justice enforcement is an expression of deeds that are closest to piety or divine realization (Q.S. Al Maidah: 8).

A strong human brotherhood can be fostered by the concept of justice, which requires the equality of human degrees depending on the character of piety. Human brotherhood, displaying mutual love for humans, feelings of love for goodness, specifically taqwa to Allah, following his commandments and avoiding prohibitions, and aiding humanity's overall evolution. This is where the value of justice in the context of economic globalization comes into play, when economic activities are carried out fairly among people of all ethnicities, religions, and socioeconomic levels. Differences among human beings are inherent, according to the Qur'an, but they also provide numerous benefits.

Thus, it can be concluded that there are several variables that must be developed to realize a fair economic globalization. Building a Strong Foundation of Faith (Aqidah) is one example. An activity must be based on a strong foundation of belief. In this conception, human existence is united in obedience to Allah, which will have implications for economic activity that is non-discriminatory. All human beings are equal, must be respected and given their rights.

Indonesia's Macroeconomic Condition

The macroeconomic fundamentals of Indonesia are currently favorable. This is evidenced by Indonesia's favorable investment climate, which has increased foreign demand to invest in the country. Furthermore, the Indonesian economy is showing signs of improvement, with growth and rising national income.

Indonesia is able to produce macroeconomic improvement, which is particularly significant in today's economic growth, attributable to its annual national income. The high domestic demand, which is the main underpinning for economic performance, is one of the causes for this economic growth. Furthermore, the Indonesian economy is supported by exports and imports, as well as investment.

The influence of the European debt crisis is optimistically responded by the Indonesian government. The government believes that the impact of the European debt crisis will not reach Indonesia. Therefore, the government has set a growth target of 6.7% or bigger than 2011 which was 6.5%. The government is optimistic that this target can be achieved, especially after the debt rating agency, Fitch Ratings Ltd., upgraded Indonesia's long-term debt rating from BB+ to BBB- with a stable outlook on December 15. Fitch projects Indonesia's average economic growth to

reach 6% until 2013. The rating agency based in New York and London also predicts that the government debt ratio will shrink from 26 percent in 2010 to 25 percent by the end of 2011.

Data from the Central Statistics Agency (BPS) shows that the Indonesian economy in the first quarter of 2012 is indeed encouraging. BPS recorded economic growth reached 6.3%. Most of this growth was supported by exports of goods and services of 8.55%. Another largest contribution from the number of foreign tourist arrivals in May 2012 reached 650.9 thousand people, an increase of 8.45% compared to arrivals in the previous month (April 2012).

In addition, the open unemployment rate (TPT) in February 2012 was 6.32 percent. In the last year (February 2011 – February 2012), the number of Indonesian working population increased by 1.5 million people.

Indonesia's Microeconomic Condition

In terms of microeconomics, Indonesia still has some issues. Infrastructure development issues, such as toll roads and ports, which serve as entry points for foreign exchange. In this situation, an economic analyst, Fauzi Ichsan, believes that one of the economic issues that must be addressed is Indonesia's uneven development of power plants. This is due to the fact that electricity is the engine of the economy.

Another minor concern is land acquisition, which has long been a source of contention between developers and citizens. One of Indonesia's economic concerns is the lack of openness in the application of tax retribution. Local governments, not ministers in government, are the only ones who can tackle the problem of land acquisition and tax payback. All

of these issues must be addressed right away. Investors, particularly international investors, will only invest if the economic situation is clear.

Furthermore, the impact of globalization is a circumstance that makes it necessary for third-world countries, particularly Indonesia, because its strength cannot be matched by a closed regulatory structure; globalization may both develop and impoverish a country.

Logical Framework of Globalization is how the world has no boundaries, so that globalization is claimed as a formula for advancing poor countries, developing and becoming developed countries.²⁴ Globalization has created growth for countries in Asia as shown by the number of people who are prosperous because of export industrialization, but many also think that with globalization people are exploited by the process. Therefore, globalization for developing countries in this case Indonesia is a gloomy portrait due to the ferocity of globalization.

The reality that is happening in Indonesia is an example of a third world country that has not been able to stem the free market and this is a necessity and at any time will be ready to destroy it. Even in terms of agriculture, our country has not been able to stem products from outside that have more competitive value.

Unemployment and poverty are traditional problems that have always been associated with the Indonesian state and have been its trademark. Impoverishment is a notion that is quite similar to the concept of poverty. The poverty process is a systematic reproduction and creation of access and basic rights that is systematically replicated and manufactured by a number of global mechanisms such as environmental devastation,

²⁴ Habib, M. A. F., Nisa, K. K., Fatkhullah, M., Al Ursah, C. R., & Budita, A. K. (2022). *Sosiologi Ekonomi: Kajian Teoretis dan Contoh Penerapan*. Tulungagung: Akademia Pustaka

resource destruction, inflation, unemployment, and foreign debt politics. This is referred to as economic, ecological, social, political, and cultural disempowerment, and it primarily affects minorities and marginalized groups.

Problems that exist in Poverty Alleviation Efforts Through the Microeconomic Empowerment Process. The ADB's definition of micro-enterprises are non-agricultural enterprises that employ less than 10 people, including business owners and family members. Meanwhile, USAID defines micro-enterprises as business activities that employ a maximum of 10 employees, including unpaid family members. Sometimes it only involves 1 person, namely the owner who is also an employee.

The role of empowerment must be realized if the government and the private sector can create programs that provide access to capital for micro-enterprises, because many of the obstacles faced by these business actors are capital problems. For example, it is often difficult for micro-enterprises to get capital, due to complicated procedures, there must be guarantees, and many financial institutions do not provide capital for micro-enterprises. So that micro-enterprises often divert capital loans to informal financial institutions, so that what happens is exploitation by informal institutions in this case moneylenders. The exploitation occurs with high interest, but the exploitation can be enjoyed or accepted by micro-enterprises. This is a phenomenon that must be immediately answered by the government by making policies that are actually implemented.

Data shows that financing from non-bank financial institutions was 82,962 SMEs or an increase of 10.93 percent, banking was 385,383 SMEs or an increase of 6.55 percent and other sources of capital were 661,629

SMEs, an increase of 3.43 percent. Meanwhile, sources of capital originating from business capital decreased from the previous year to 50.18 percent, from 16,002 SMEs to 7,972 SMEs (BPS 2001). In conclusion, the data shows that most of the micro-enterprise capital comes from informal financial institutions.

The Influence of Global Economy and Islamic Economy on Economic Conditions in Indonesia

The current condition of the Indonesian economy is still overshadowed by uncertainty due to the impact of the global economic crisis, especially those originating from debt problems and the budget deficit of countries in the European Union²⁵. However, in the midst of the global economic slowdown, economic policy analysts and observers are optimistic that economic growth will remain good and will be at the level of 6.7% in 2012 as predicted by the government.

Economic globalization has also entered Indonesia which has positive and negative effects. The positive impact of globalization for Indonesia is to encourage Indonesia to produce goods of good quality so that it can increase the competitiveness of domestic production in the international market, encourage entrepreneurs to increase efficiency and eliminate high costs, increase job opportunities (with many foreign companies entering to Indonesia) increase the country's foreign exchange, make it easier for people to obtain the imported goods they need which cannot be produced in Indonesia and can also increase tourism activities which are useful as a means of promoting Indonesian products.

²⁵ Ayyubi, M. S. al, & Saputra, P. M. A. (2021). Indonesian government's primary balance and debt. *Jurnal Ekonomi Dan Bisnis*, 24(1), 133–152. <https://doi.org/10.24914/jeb.v24i1.3770>

Meanwhile, the negative impact of economic globalization for Indonesia is that economic globalization has resulted in a larger social gap between the rich and the poor (the rich are getting richer and the poor are poorer) as in Jakarta, there are many tall (luxury) buildings there but below the building has a house made of cardboard (where the poor live) this causes social inequality. The globalization of the economy has also resulted in an increase in imported goods entering the domestic market on a large scale which has resulted in Indonesia becoming an object of international markets such as motorcycle production which is controlled by Japan, Indonesia is only a market, while the profits obtained by Japan from Indonesia will be brought by Japan to enrich the Japanese nation. This also happened in the case of PT. Freeport in Papua, where Indonesia's gold was dredged out by America, most of the profits they brought to America while the profits for Indonesia were only small and even Indonesia could be said to only get poverty (such as forest destruction), Indonesian workers who work there at minimal wages with such hard work.

Nevertheless, underlying all of this, the emergence of Indonesia's Islamic economy offers new hope. Although the Islamic economy has not had a significant impact on the Indonesian economy as a whole, it has had an impact on the country's most important sectors, such as banking and microfinance organizations.

In Indonesia, the development of the Islamic economy is mostly concentrated on the banking sector²⁶. Every year, the rate of expansion of Islamic banking in Indonesia has accelerated dramatically. BUS (Islamic

²⁶ Marimin, A., & Romdhoni, A. H. (2017). Perkembangan Bank Syariah di Indonesia. *Jurnal Ilmiah Ekonomi Islam*, 1(02). <https://doi.org/10.29040/jiei.v1i02.30>

Commercial Banks) has grown to 11 banks with 1,499 offices, according to data given by Bank Indonesia (BI) in May 2012. There are 447 Sharia Business Units (UUS) offices^{27,28}.

This expansion demonstrates BI's commitment to providing appropriate space for Islamic banking. This expansion will necessitate a significant increase in internal Human Resources (HR). Indonesia's macro potential in the development of the Islamic economy through the banking sector is still enormous. Educational institutions have a vital role in generating qualified human resources who understand the mechanics of the economy and banking in order to meet these issues.

In Indonesia, Islamic economics is expected to play a role not only at the micro level, but also at the macro level²⁹. Islamic economics believes it is critical to expand into the macro domain in order to have a greater impact through government policies. Micro and macro-Islamic economic theories still have a lot of room to contribute to developing Islamic Economics' intellectual assets.

The percentage of research on Islamic banking is still higher than research on micro and macro-Islamic economic theory³⁰. With the birth of this theory in the long term, it is hoped that it can substitute or

²⁷ Shandy Utama, A. (2020). Perkembangan Perbankan Syariah di Indonesia. *UNES Law Review*, 2(3). <https://doi.org/10.31933/unesrev.v2i3.121>

²⁸ Widodo, R., Adhidharma, G., & M. Arna Ramadhan. (2022). Prediksi Pertumbuhan Perbankan Syariah di Indonesia Tahun 2022. *Jurnal Tabarru': Islamic Banking and Finance*, 5(1). [https://doi.org/10.25299/jtb.2022.vol5\(1\).8192](https://doi.org/10.25299/jtb.2022.vol5(1).8192)

²⁹ Santoso, I., Canon, S., & Pakaya, Abd. (2019). *The Role of Islamic Financial Institutions in Supporting Economic Growth in the Digital Era: Case Study in Indonesia*. <https://doi.org/10.4108/eai.10-9-2019.2289380>

³⁰ Hassan, M. K., & Aliyu, S. (2018). A contemporary survey of islamic banking literature. *Journal of Financial Stability*, 34. <https://doi.org/10.1016/j.jfs.2017.11.006>

complement conventional economic theory that has developed so far. Some of the weaknesses found in conventional economic theory can be a space for Islamic economics to fix. we know that Islamic economics is not only the realm of banking but includes universal aspects.

Islamic economics observer and central administrator of the Association of Islamic Economists (IAEI) Rama & Kassim (2013) who completed his studies in Malaysia recommends Islamic banking practitioners to create market segmentation with a focus on certain branding in controlling the market, for example Mandiri Sharia Bank (BSI) focuses on working on the retail consumer market, BRI Syariah focuses on MSME, Muamalat Bank and BNI Syariah in corporate financing³¹.

This circumstance will significantly aid in the development of actual economic growth and the expansion of Islamic banking assets. According to Ali Rama, Islamic banking players should look into infrastructure megaprojects by improving and developing industrial services products and services, such as collaborating with the government through the Master Plan for the Acceleration and Expansion of Indonesian Economic Development (MP3EI), which oversees six national economic corridors.

The rapid development of Islamic banking, which is outpacing the development of conventional banking in terms of assets, does not rule out the prospect that Islamic banks may overtake conventional banks as the primary participants in national banking, as happened in Malaysia. On the other hand, there is concern and hope that the benefits of Islamic economics will be felt more by small communities, such as micro-small

³¹ Rama, A., & Kassim, S. H. (2013). Analyzing Determinants of Assets and Liabilities in Islamic Banks: Evidence from Indonesia. *Review of Islamic Economics, Finance, and Banking*, 1(1).

business actors and the poor, because the benefits are still limited by certain circles, and do not rule out the possibility that they will be felt by Islamic bank capital owners who are based outside of the Islamic banking system (shareholders). As a result, all parties must pay attention, including the government through its regulations, academics, and practitioners, to get down and think about how to reach those who have not yet experienced the benefits of Islamic banking.

Islamic economics is the solution to a series of economic crises and poverty caused by capitalism, despite all of its flaws as a new economic system, which means that some people are still unable to accept Islamic economics widely³². As a result, studies and research are required to develop the Islamic economy through Islamic banking and other Islamic financial institutions, so that they can be used by the community as a whole, as they were in the first era of Islamic economic revival. Islamic economics is no longer only an option; it is gradually but steadily becoming the nation's economic system of choice in the future.

Conclusions

Indonesia is likely to face a challenge as the global economy continues to deteriorate. These anticipatory steps include expanding the export market, preventing layoffs and increasing people's purchasing power. As a result, the impact of the global financial crisis on the home economy is minimal because the domestic economy is dominated by genuine industry or small and medium companies (SMEs), which account for up to 60% of the domestic economy. The anxiety experienced by the

³² Ghazali, M., Handayani, R., & Bakri, W. (2021). Sharia Islamic Economics in the Middle of Civilization Transition. *Journal of Sharia Economics*, 3(1). <https://doi.org/10.35896/jse.v3i1.169>

conventional banking sector is the interest system and its derivatives of capitalism through fiat money (paper money) which breeds money through a monetary system that is very fragile against crises and harms the real sector economy, while Islamic banking has moved away from the system so that it can survive the crisis.

On the other hand, there is concern and hope that the Islamic economy's benefits will be felt more by small communities, such as micro-small business owners and the poor. As a result, all parties must pay attention, including the government through its regulations, academics, and practitioners, to sit down and think about how to reach people who have not yet experienced the benefits of Islamic banking.

From a series of economic crises and poverty caused by capitalism, Islamic economics is the solution, even though with all its weaknesses as an economic system that is still new so that some people still cannot accept Islamic economics widely.

Therefore, studies are needed to develop the Islamic economy through Islamic banking and other Islamic financial institutions so that they can be applied as a whole by the community as it was applied in the first era of Islamic economic revival. Islamic economics is not just an alternative but is the main choice of the nation's economic system in the future. Thus, this Islamic economic development model is the most appropriate solution to get out of the Belt Road Initiative and the International Monetary Foundation

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