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The Political Economy of Sharia and the Future Trajectory of Democracy in Indonesia

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EXECUTIVE SUMMARY

- Under the first Jokowi administration (2014-2019), “sharia economy” gained increased support from the state. Arguably, this will be more evident in Jokowi’s second term, as the new vice-president Amin Ma’ruf, has been an ardent advocate of the sharia economy over the last three decades.
- While the notion of sharia economy is dynamic and evolving, it has gained greater traction because the liberal and capitalistic nature of the present economic system is not acceptable to Islamists.
- The advocacy of sharia economy is partly driven by the desire for more economic and social justice for Muslims, but it also reflects the Islamists’ growing political assertiveness. Sharia economy can create social segregation and discrimination against religious minority groups in Indonesia. Halal economy is one example.
- The state’s support for sharia economy demonstrates the new tendency of Islamisation in Indonesia to extend beyond cultural Islamisation to structural Islamisation.

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INTRODUCTION

In Indonesia, there has been an increasing tendency to incorporate sharia into the legal and public sphere (shariatization) since the post-reform era (since 1998). The country's openness provides a space not only for the conventional economy, but also a religious or faith-based economy. For the last 20 years, the Indonesian government has been introducing many state laws that were influenced by sharia: such as state laws on Islamic Banking and Halal Product Assurance. A clear trajectory for the shariatization of the economy was established during the first Jokowi administration (2014-2019). Under the second Jokowi administration, such sharia-influenced laws are expected to be increasingly clearer and stronger considering that Ma'ruf Amin, a very important figure behind the sharia economy initiative, is now the Vice President of Indonesia (2019-2024). Sharia economy should gain a broader support from the state and society because it is perceived by some groups as a system that can improve the economic prospects of Indonesian Muslims. This expectation, however, is not free of a deeper political interest and support of the sharia economy by the Muslim elites, and is not necessarily just aimed at improving the economic prospects of Muslims, but is also for personal benefits instead.

The implementation of sharia economy in Indonesia is not purely related to economics, but is also very much about the politics of identity and the winning of votes. In this regard, it is intended to produce more political rather than economic benefits. For some Indonesian Muslims, sharia economy is not only instrumental in establishing social justice and welfare for inner Muslim groups, it is also a demonstration of their religious and political identity as Muslims.

To gain support from the Muslim community, the narrative of sharia economy is developed towards addressing the relative backwardness of Indonesian Muslims in the economic arena. Non-Muslims are perceived as dominating the economy at the cost of Muslims' wellbeing. The Muslims in turn, as the majority, think that they should have control over the country's economy, and sharia economy is perceived as a means for achieving this goal.

A HISTORY OF THE SHARIA ECONOMY

As a discipline of knowledge, Islamic economy was never discussed in classical Islamic sources. The classical sources of Islam referred to economics as norms, behaviours, lifestyle and institutions, but not as a science. Islamic economy was only first proposed as a discipline of knowledge in the early twentieth century. But as a practice of life, Islamic economy has been with the Muslim community since the era of Prophet Muhammad. Two important modern figures in Islamic economy studies are Mohammad Baqir Al-Sadr, who published *Our Economy* (1961),¹ and Sayyid Abul A'la Maududi, who published *Economic System of Islam* (1970). The driving force behind the birth of Islamic economy as a discipline of knowledge was the resistance to European colonisation of Muslim lands since the beginning of the eighteenth and nineteenth century. The moral imperatives behind the establishment of Islamic economic system was to get rid of capitalism and communism. The propagators of Islamic economy, such as Mawdudi, Sayyid Qutb and Muhammad Baqir al-Sadr looked at contemporary economic systems — capitalism and communism — not only as a contradiction to Islamic values, but also as systems which created economic misfortune for Muslim peoples.²

Although the formulation of Islamic economics as a discipline of knowledge among Muslim scholars started in the 1960s and 1970s, Indonesian Muslims began to be aware of its importance only after the proclamation of the Islamisation of sciences project by Raji Al-Faruqi and Naquib Al-Attas. Raji al-Faruqi founded The International Institute of Islamic Thought (IIIT) in 1981 and Naquib al-Attas established The International Institute of Islamic Thought and Civilisation (ISTAC) in 1986. Over time, the influence of IIIT seems to have been stronger than ISTAC. Dawam Rahardjo, Didin Damanhuri, Ahmad Mubarak, Hadimulyo, Iwan Triyuwono, Habib Chirzin, and Bambang Irianto are some of the Indonesian Muslim scholars who promoted the Islamisation of knowledge, who later established the Indonesian Chapter of IIIT in Indonesia in 1996.³ Some of them would later join the newly Habibie-established Islamic organisation named *Ikatan Cendekiawan Muslim Indonesia* (Indonesian Association of Muslim Intellectuals, or ICMI in short). This was founded in 1990.⁴ The issue of Islamic economy was introduced by these proponents of Islamisation of knowledge through the ICMI. As a concrete programme, ICMI initiated support for the establishment of Baytul Mal wa Tamwil (BMT, free *riba*-micro-credit). By contrast, MUI (Ulama Council of Indonesia) defines Islamic economy as *fiqh al-mu'amalah* (*the thoughts of Islamic legal jurisprudence on transaction and business*).

In 1991, ICMI and MUI eventually agreed to initiate the creation of the first Islamic Bank called Bank Mu'amalah Indonesia (BMI). Interestingly, the operational concept of BMI refers more to the paradigm of *fiqh-mu'amalah* than to the IIIT concept of Islamic economy, and is framed as acceptance of the traditional concept of *fiqh al-mu'amalah*. From this point, onwards *fiqh al-mu'amalah* started to become the dominant paradigm for Islamic economy in Indonesia. This is the reason why the term "sharia economy" in the Indonesian context is now more acceptable than "Islamic economy".

The relationship between Islam and the economy has attracted many studies. Guiso, Sapienza, and Zingales stated that Islam is negatively associated to growth and market(isation?).⁵ Similarly, Timur Kuran argued that Islam is a religion which is hostile to free markets and economic liberalism.⁶ Frederic Pryor's research portrayed compatibility between Islam and economic development,⁷ while Marcus Noland recognised Islam as positively related with economic growth or promotes it.⁸ Timur Kuran, however, sees sharia economy as a political economic phenomenon which is not separate from the Islamisation agenda. In his statement, he asserted that sharia economy is part of Islamism.⁹ From the various perspectives above, it can be concluded that the careful stance of Islam to market(isation?) is not about the market itself, but about whether the market can promote economic justice or not.

In Indonesia, "Islamic economy" refers to the total and comprehensive reconstruction of Islamic thinking on the economy, which is based on the Qur'an and Sunna. This concept was developed and offered by IIIT. The establishment of Bank Muamalat Islam (BMI) resulted from the earlier influence of the IIIT paradigm in the Islamic economy of Indonesia. The influence of the IIIT concept, however, has since faded along with the decline of ICMI.

A new paradigm, called sharia economy, arose and has since become the dominant feature of Islamic economy. MUI developed and proposed sharia economy, which meant the consequential implementation of *fiqh al-mu'amalah* for the economy. MUI's sharia economy narrative does not take any reference from the concept offered by IIIT or by global trends in the Muslim world, which acknowledged the economic difficulties faced by the

Muslim community. Instead, it subscribes to an economic narrative and thought provided by the classical *fiqh* of Islam. It can be stated here that sharia economy is the revitalization of *fiqh al-mu'amalah*, the branch of Islamic legal jurisprudence which contains rules on how Muslims should carry out business and financial transactions, civil acts and all other aspects in general.

TWO PILLARS OF SHARIA ECONOMY: JOKOWI'S SUPPORT AND *AKSI BELA ISLAM*

MUI established two important pillars for sharia economy. The first is sharia-based banking and financial businesses. This sector is orchestrated by MUI under an institution called Dewan Syariah Nasional (DSN, National Sharia Council). In the wake of the country's economic problems, the DSN was established in 1997 to fulfill the aspirations of the Muslim community. The vision of DSN is "*memasyarakatkan ekonomi syariah dan mensyariatkan ekonomi masyarakat*" (to socialize sharia economy and to shariatize society).¹⁰ The mission of DSN is to develop sharia economy and sharia-based financial business, as well as to improve the welfare of the community and nation. In order to facilitate and ensure the shariatization of the economy, the DSN issues sharia certificates and appoints *Dewan Pengawas Nasional* (DPS, Sharia Advisory Board) in all business sectors that use the sharia system.¹¹ The responsibility of the DPS is to provide fatwa for sharia banks and sharia-based finance-institutions. Besides appointing the members of the DPS, the DSN also publishes the implementation guidance of fatwa on sharia banking and sharia-based business as well as *ta'limat* (announcements).

The second pillar of sharia economy is halal economy. The halal sector is assumed by MUI and the current government of Indonesia as a sector with potential for improving the *umma* economy of Indonesia. To organize this, MUI established Lembaga Pengkajian Pangan, Obat-obatan dan Kosmetika (LPPOM, the Assessment Institute for Foods, Drugs, and Cosmetics) in the 1990s. The task of LPPOM is to enforce the lawfulness of goods produced and consumed by Indonesian Muslims through the issuance of halal certification. Since LPPOM is part of MUI, this is in fact considered partially a state effort. With this institution, MUI has been successful in establishing the basic foundation of halal economy in Indonesia. In 2014, the lawmakers of Indonesia agreed to issue State Law No. 33/2014 on Halal Product Assurance. This state law led to a tense relationship between the government and MUI, with MUI wanting the lawmakers to legitimize its role in halal issuance matters.

On 17 October 2019, this state law was fully enacted, and the authority for halal certification has since been taken away from LPPOM and transferred to Badan Penyelenggara Jaminan Produk Halal (BPJPH, State Body of Halal Product Assurance).¹² However, as the issuer of halal fatwa, the role of MUI is still very significant.

The position of Jokowi and that of *Aksi Bela Islam 212* (ABI 212, Action to Defend Islam) is similar with regards to support for sharia economy.¹³ Jokowi places more attention in comparison to his predecessors on this matter. Under his presidency, the Indonesia Masterplan of Sharia Economy 2019-2024 was launched by Badan Perencanaan Pembangunan Nasional (National Agency of National Planning and Development). Although it makes sense to observe the implementation of the Masterplan in the next five

years, this initiative still nonetheless signifies the leaning of Jokowi towards sharia economy.

On top of that, sharia economy also gains ideological boosting from the ABI 212. Although the ABI 212 movement and the Jokowi administration have different agendas, both are able to agree on shariatization of public life in Indonesia. As for the action of strengthening the political economy of sharia, the alumni of ABI 212 have established 104 minimarts.¹⁴ Interestingly, sharia economy, through halal economy, resonates with many regional governments especially because of the role of MUI in halal certification. Halal economy contributes to the growth of sharia economy at the regional level.

FROM CULTURAL TO STRUCTURAL SHARIATISATION

The two pillars underpinning the emergence of sharia economy—sharia banking and finance, and halal economy—reflect a significant change of the shariatization model in Indonesia from cultural to structural. Since the establishment of various Islamic organisations in Indonesia, in particular MUI, the shariatization of some aspects of public life has been undertaken through the model of cultural shariatization. All sharia-associated economic activities initiated by MUI for instance have been done without any direct intervention from the state. Although MUI needs policy support from the state, they still intend to implement sharia economy their own way, without any influence from the state.

However, the current intervention by the state in the development of the two pillars of sharia economy—sharia banking and finance, and halal economy—demonstrates its strong will to be involved in the shariatization project. State intervention also indicates that the position of the Indonesian state to Islam is not neutral. In many cases, although the first initiative of shariatization comes firstly from MUI as civil society organisation, and not from the state, when the state sees opportunity and benefit, it takes over the shariatization. This is evident in halal economy.

The state's support for sharia economy, however, is in-sync with the government's priority to promote national economic development. As a Muslim majority country, and with both Muslim and non-Muslim scholars declaring that Islam is compatible with economic growth, the government feels that the sharia economy must be addressed at a policy level. It needs to devise an appropriate strategy in ensuring the promotion of sharia economy does not jeopardise Indonesia's ability to sustain economic growth, secure access to international markets and retain investor confidence. In other words, state support for sharia economy is prompted by political necessity, but also constrained by current economic realities.

The structural shariatization of the economy is problematic for the future of Indonesian democracy because it can lead to the shariatization of other sectors. In a democratic system, structural shariatization should not be allowed to happen because the state is not allowed to exhibit favoritism of one dominant legal system over others. Halal economy is an obvious example of proliferating the supremacy of one legal system over other legal systems in Indonesia.

CONCLUSION

Sharia economy, particularly halal economy, is perceived by non-Muslim groups in Indonesia as an economic system that deepens social segregation. In some big cities like Jakarta and Medan, halal-based social segregation has started to appear in the public sphere. People have the tendency to avoid consuming food provided by different religious groups. The legislation process of state laws on sharia economy and halal economy also evidently tend to exclude the interest of minority groups.

Sharia economy is not only about the implementation of sharia doctrine in the economic field but also about its implementation in the legal and public sphere. Some laws on sharia economy –such as sharia banking and halal economy—indicate shariatization from the cultural and structural angle. The production of state laws in relation to this issue is an obvious sign that the state plays a key role in this shariatization. It means that the position of the state is no longer neutral. In fact, in the last twenty years, the state has accelerated the process of shariatization through a growing number of sharia-related state laws.

Importantly, sharia economy goes beyond economics and affects politics within the country as well. This is due to the fact that the implementation of sharia economy is also supported by political efforts. Therefore, it is difficult to separate one from the other.

¹ Wilson, Rodney. 2015. *Islam and Economic Policy*. Edinburgh: Edinburgh University Press; Haneef, Muhamed Aslan. 1995. *Contemporary Islamic Economic Thought: A Selected Comparative Analysis*. Selangor: Ikraq.

² Khan, Muhammad Akram. 1994. *An Introduction to Islamic Economics*. Islamabad: IIIT.

³ I obtained this information from Habib Hirzin on 5 October 2019. Habib Hirzin himself was general secretary of the Indonesian Chapter of IIIT. Now, he remains active in some activities related to the Islamisation of knowledge nationally and globally.

⁴ Hefner, Robert W. 1993. "Islam, State, and Civil Society: ICMI and the Struggle for the Indonesian Middle Class." *Indonesia*, no. 56: 1–35.

⁵ Guiso, Luigi, Paola Sapienza, and Luigi Zingales. 2003. "People's Opium? Religion and Economic Attitudes." *Journal of Monetary Economics* 50: 225–82.

⁶ Kuran, Timur. 2010. *Islam and Mammon: The Economic Predicaments of Islamism*. Princeton: Princeton University Press; Kuran, Timur. 2012. *The Long Divergence: How Islamic Law Held Back the Middle East*. Princeton: Princeton University Press.

⁷ Pryor, Frederic L. 2007. "Culture And Economic Systems." *American Journal Of Economics And Sociology* 66 (4): 817–55.

⁸ Noland, Marcus. 2005. "Religion and Economic Performance." *World Development* 33 (8): 1215–32.

⁹ Kuran, Timur. 2010. *Islam and Mammon: The Economic Predicaments of Islamism*. Princeton: Princeton University Press.

¹⁰ See an official website of DSN at <https://dsnmu.or.id>, viewed on 18 October 2019.

¹¹ Lindsey, Tim. 2012. "Monopolising Islam? The Indonesian Ulama Council and State Regulation of the 'Islamic Economy.'" *Bulletin of Indonesian Economic Studies* 48 (2): 253–74.

¹² <https://kemenag.go.id/berita/read/511813/mulai-diterapkan--ini-tahapan-pengajuan-sertifikasi-halal>, viewed on 20 October 2019.

¹³ Aksi Bela Islam is a series of Islamic mobilisation which was initially to support the charge of blasphemy against the former governor of Jakarta, Basuki Tjahaja Purnama (Ahok). This movement then continues as pressure group on the government of Indonesia. See IPAC. 2018. "After Ahok: The Islamist Agenda in Indonesia." Jakarta.

¹⁴ <https://finance.detik.com/berita-ekonomi-bisnis/d-3926459/cerita-212-mart-dari-aksi-damai-jadi-toko-ritel-dengan-104-gerai>, viewed on 20 October 2019.

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