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Economic Secularization and its Impact on the Islamic Economic System

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Abstract

The main objective of this study is to deepen the understanding of how Islamic values can be integrated into the modern economic system, thereby creating a more inclusive, just, and welfare-oriented economic model. This study uses library research to access and analyze various sources of information relevant to an integrative literature analysis. The results of the study confirm that economic secularization. However, it has dominated the global system with a paradigm of materialism and individualism, simultaneously opening opportunities for Islamic economics to offer transformational solutions that are more ethical, inclusive, and sustainable. By reconstructing the Sharia-based paradigm, integrating the values of justice and solidarity into modern economic practices, and strengthening Islamic economic institutions through innovation and professionalism, this system can go beyond simply being an alternative to capitalism and socialism. Islamic economics has excellent potential to create a global economic order oriented towards human welfare and make it relevant in the modern era and as a universal solution that addresses the world's pressing needs.

Keywords: *Economic Secularization, Economic System, Islamic Economy, Capitalism, Socialism*

Abstrak :

Tujuan utama dari kajian ini untuk memperdalam pemahaman tentang bagaimana nilai-nilai Islam dapat diintegrasikan ke dalam sistem ekonomi modern, sehingga menciptakan model ekonomi yang lebih inklusif, adil, dan berorientasi pada kesejahteraan bersama. Kajian ini menggunakan *library research* untuk mengakses dan menganalisis beragam sumber informasi yang relevan dengan analisis literatur secara integratif. Hasil kajiannya menegaskan bahwa sekularisasi ekonomi, meskipun telah mendominasi sistem global dengan paradigma materialisme dan individualisme, sekaligus membuka peluang bagi ekonomi Islam untuk menawarkan solusi transformasional yang lebih etis, inklusif, dan berkelanjutan. Dengan merekonstruksi paradigma berbasis syariah, mengintegrasikan nilai-nilai keadilan dan solidaritas ke dalam praktik ekonomi modern, serta memperkuat lembaga-lembaga ekonomi Islam melalui inovasi dan profesionalisme, sistem ini dapat melampaui sekadar menjadi alternatif bagi kapitalisme dan sosialisme. Ekonomi Islam memiliki potensi besar untuk menciptakan tatanan ekonomi global yang berorientasi pada kesejahteraan manusia dan menjadikannya tidak hanya relevan di era modern, tetapi juga sebagai solusi universal yang menjawab kebutuhan mendesak dunia.

Kata Kunci: *Sekularisasi Ekonomi, Sistem Ekonomi, Ekonomi Islam, Kapitalisme, Sosialisme*

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INTRODUCTION

Economic secularization is a multidimensional phenomenon that emerges from a long process of paradigm shifts in viewing the relationship between religious values and economic activity. This phenomenon not only separates religion from economic regulation but also creates a social, cultural, and political landscape that places religion on the periphery of economic life. In the modern era, economic secularization has become one of the main challenges for implementing an Islamic economic system that places moral values and justice as fundamental principles.¹ This phenomenon reflects a contradiction between the materialism paradigm, the basis of economic secularization, and spiritualism, which is the foundation of the Islamic economic system.

Economic secularization can be traced back to the Enlightenment era in Europe, where the separation of church and state became the starting point for the emergence of the concept of modernization, which emphasizes rationality and efficiency as the main pillars. On the one hand, this modernization brought positive impacts by encouraging economic growth, innovation, and technological advancement. However, this process also neglects the spiritual and ethical dimensions previously integral to economic activity. When economics is separated from religion, a new paradigm emerges that places profit accumulation as the primary goal. Principles such as justice, balance, and collective welfare are displaced by individualism and capitalism, which tend to be exploitative.

In a global context, economic secularization creates structures that often support economic inequality and social injustice.² Financial systems based on secular capitalism tend to prioritize the interests of specific individuals or groups, often at the expense of the interests of society at large. Wealth accumulation becomes the leading indicator of success without considering how it was acquired or its social impact. This is where economic secularization shows its paradoxical face. At the same time, it offers material prosperity to a small section of the population, but it fails to create equitable welfare for the entire society. In this context, the Islamic economic system offers an alternative by balancing material and spiritual needs as its primary foundation.

The Islamic economic system, rooted in the values of the Quran and Hadith, integrates the principles of justice, solidarity, and sustainability in every

¹ Haithem Kader, "Human Well-Being, Morality and the Economy: An Islamic Perspective," *Islamic Economic Studies* 28, no. 2 (2021): 102–23, <https://doi.org/10.1108/ies-07-2020-0026>.

² Erin K Wilson, "The Socio-Political Dynamics of Secularism and Epistemological Injustice in Global Justice Theory and Practice," *European Societies* 19, no. 5 (2017): 529–50, <https://doi.org/10.1080/14616696.2017.1334948>.

aspect.³ Islamic economics rejects exploitation and injustice through usury, *gharar* (uncertainty), or economic practices that harm others.⁴ However, secularizing the economy often creates structural barriers to implementing this system. One of the main impacts of economic secularization is the marginalization of Islamic values in financial decision-making. When the economy becomes completely separated from religion, values such as zakat, waqf, and qard al-hasan are considered obsolete concepts irrelevant in the modern context.

Another impact of economic secularization on the Islamic economic system can be seen in the context of globalization. In the era of globalization, economic secularization is further reinforced by a free market system that often pays no attention to the social or moral impacts of economic activity. This system encourages the homogenization of profit-centered economic values, making integrating more complex and holistic Islamic principles difficult. For example, the concept of distributive justice in Islamic economics is often at odds with the logic of the free market, which tends to reinforce monopoly and unequal distribution of wealth. As a result, the application of the Islamic economic system is often limited to the micro level, such as the management of Islamic financial institutions, without being able to influence the macroeconomic structure.

The challenges faced by the Islamic economic system due to economic secularization are both external and internal. In many Muslim countries, the implementation of the Islamic economic system is often hampered by a lack of in-depth understanding of the Islamic principles themselves.⁵ Many Islamic financial institutions, for example, focus only on the formal legal aspects without paying attention to the underlying ethical objectives. This creates an irony as the system that is supposed to serve as a more just and ethical alternative is instead trapped within the paradigm of secular capitalism. Thus, economic secularization threatens the existence of the Islamic financial system from the outside and has the potential to change its essence from within.⁶

³ Nur Insani et al., "Empowering Muslim Women: Bridging Islamic Law and Human Rights with Islamic Economics," *De Jure: Jurnal Hukum Dan Syar'iah* 16, no. 1 (2024): 88–117, <https://doi.org/10.18860/j-fsh.v16i1.26159>.

⁴ Suud Sarim Karimullah and Rozi Rozi, "Rethinking Halal: Exploring the Complexity of Halal Certification and Its Socio-Economic Implications," *Al-Bayan: Jurnal Hukum Dan Ekonomi Islam* 3, no. 2 (2023): 102–21, <https://stainwsamawa.ac.id/jurnal/index.php/al-bayan/article/view/170>.

⁵ Suud Sarim Karimullah, "Influence of Progressive Islamic Da'wah on Economic Empowerment within the Muslim Community," *Journal of Da'wah* 2, no. 2 (2023): 150–74, <https://doi.org/10.32939/jd.v2i2.3017>.

⁶ Suud Sarim Karimullah et al., "The Concept of Nāfaqah in Islamic Law and Women's Right to Financial Support," *El-Izdiwaj: Indonesian Journal of Civil and Islamic Family Law* 5, no. 2 (2024): 222–42, <https://doi.org/10.24042/el-izdiwaj.v5i2.23534>; Suud Sarim Karimullah et al., "The Role of the Family in Instilling Islamic-Based Business Ethics in Children," *HAKAM: Jurnal Kajian Hukum*

In facing the challenges of economic secularization, a more strategic and integrative approach is needed to strengthen the Islamic financial system. One step that can be taken is to develop critical thinking that can highlight the fundamental weaknesses of the secular paradigm. This can be done through in-depth academic studies on economic secularization's social, cultural, and environmental impacts and by offering solutions rooted in Islamic values. Building the institutional capacity to implement the Islamic financial system consistently and sustainably is also essential. In this regard, the role of education is vital.

Education on Islamic economics should cover technical and legal aspects and instill a deep understanding of the underlying ethical and moral values.⁷ In addition, it is essential to create an ecosystem that supports the broader application of the Islamic economic system. This includes developing public policies that align with Islamic principles, such as wealth redistribution through zakat and fair taxation, and eliminating economic practices that harm society. These policies should be supported by a strong legal framework and transparent institutions to create trust among the public. On the other hand, the Islamic economic system also needs to adapt to the times without compromising its basic principles.

The use of technology, for example, can be an effective tool to expand the reach of this system, whether through digital-based Islamic financial management or online zakat and waqf platforms. However, efforts to strengthen the Islamic economic system must also be accompanied by the realization that change cannot be made instantly. The process requires close collaboration between scholars, academics, practitioners, and the government to create synergies to overcome existing barriers. In addition, it is essential to involve the public in every stage of this process to be an active part of the transformation towards a more just and sustainable economic system. In this context, communication is key to bridge the gap between theory and practice and to ensure that Islamic values can be translated into concrete policies and actions.

In an increasingly complex and interconnected world, it is essential to continue studying and developing the Islamic economic system to address economic secularization challenges. Although the path to be taken is not easy, this effort will bring significant benefits to society, both in material and spiritual

Islam Dan Hukum Ekonomi Islam 7, no. 2 (December 28, 2023): 270–87, <https://doi.org/10.33650/jhi.v7i2.6972>.

⁷ Suud Sarim Karimullah, "Family First or Business First? Balancing Family and Business Interests in an Islamic Economic Perspective," *Al-Hijrah: Journal of Islamic Economics And Banking* 2, no. 2 (2024): 216–28, <https://doi.org/10.55062/al-hijrah.v2i2.669>.

aspects. Thus, economic secularization should be seen as a threat and an opportunity to reflect on the Islamic financial system's fundamental values and strengthen its relevance in the modern world.

Various previous studies have discussed the phenomenon of economic secularization and its impact on the Islamic economic system, albeit with diverse approaches and focus. Some studies highlight how the secular paradigm in modern economics negates integrating spiritual values in economic decision-making.⁸ These studies explain that economic secularization has led to an economic system based on the separation of economics and ethics, leading to social injustice and moral degradation. Another relevant study is Asutay's on the dynamics of Islamic finance in a secularized global economic system.⁹ Asutay found that while Islamic financial institutions continue to grow, their success is often limited to legalistic and technical aspects without substantially affecting the macroeconomic structure of the secular capitalist paradigm. This finding indicates an urgent need to broaden the scope of the application of Islamic economics to address the challenges of economic secularization more profoundly.

Another study by Abdullah contributes to understanding how Islamic values such as distributive justice, elimination of usury, and strengthening social solidarity can be an alternative to secular economic systems.¹⁰ Abdullah highlights that the Islamic economic system serves not only as a reaction to capitalism but also as a paradigm that offers a comprehensive solution to create a balance between individual and societal interests. This study is relevant to understanding the role of the Islamic economic system in dealing with the negative impacts of economic secularization. Through the synthesis of these studies, it is seen that economic secularization has created significant challenges for implementing the Islamic economic system. However, these studies also show the great potential of the Islamic economic system to offer more humane, ethical, and sustainable solutions. However, gaps still need to be filled, especially

⁸ Asad Zaman, "Islamic Alternatives to the Secular Morality Embedded in Modern Economics," *Journal of King Abdulaziz University: Islamic Economics*, Forthcoming 12 (2021), <https://ssrn.com/abstract=3786667>; Necati Aydin, "Secular vs. Sacred Paradigms in Science, Technology, and Economics: Crises of the Enlightenment and Search for an Alternative Paradigm," *Revelation and Science* 3, no. 01 (2013), <https://doi.org/10.31436/revival.v3i01.83>; Seda Ünsar, "On Multiple Epistemologies of Secularism: Toward a Political Economy Critique," *Revisiting Secularism in Theory and Practice: Genealogy and Cases*, 2020, 43–66, https://doi.org/10.1007/978-3-030-37456-3_3.

⁹ Mehmet Asutay, "Conceptualising and Locating the Social Failure of Islamic Finance: Aspirations of Islamic Moral Economy vs the Realities of Islamic Finance," *Asian and African Area Studies* 11, no. 2 (2012): 93–113, <https://doi.org/10.14956/asafas.11.93>.

¹⁰ Amalina Abdullah and Junaina Muhammad, "Ethical Values in Islamic Financial Planning," *Jurnal Pengurusan* 38 (2013): 133–40, <https://doi.org/10.17576/pengurusan-2013-38-13>.

in understanding how the Islamic economic system can be adapted and implemented in an increasingly complex global context dominated by economic secularization.

Based on these previous studies, this study aims to answer fundamental questions about the impact of economic secularization on the Islamic financial system and to explore possible strategies to overcome these challenges. The main objective of this study is to deepen the understanding of how Islamic values can be integrated into the modern economic system, thereby creating a more inclusive, just, and welfare-oriented economic model. The essence of this study lies in the attempt to reconnect the spiritual and moral aspects of financial management, which the secular paradigm has marginalized. Thus, this study contributes to the development of Islamic economics and the discourse on economic harmony and environmental sustainability.

RESEARCH METHOD

This study uses library research as the primary data collection and analysis method. Library research allows us to access and analyze various relevant sources of information, including academic journals, books, research reports, scientific articles, and other documents that discuss the phenomenon of economic secularization and its impact on the Islamic financial system. This method was chosen because it provides space for an in-depth and systematic theoretical review of previously developed concepts and paradigms and offers opportunities to synthesize multiple existing views. This method focuses on integrative literature analysis. This means that the study does not only rely on one particular theory or conceptual framework but seeks to integrate various relevant theories and perspectives to gain a more comprehensive understanding.

This literature analysis also includes a critical review of modern Islamic finance practices, which adopted the secular capitalism system without paying attention to the substance of Islamic values. For example, the concept of *riba* in Islamic economics will be examined in terms of its legality and from a philosophical perspective that emphasizes its impact on distributive justice and social welfare. In addition, concepts such as *maqashid al-sharia* (the objectives of sharia) and distributive justice in Islamic economics will be integrated with critiques of the excesses of modern capitalism to demonstrate the potential of the Islamic economic system as an alternative.¹¹

¹¹ Suud Sarim Karimullah, "Exploration of Maqasid Al-Shariah Concepts in the Development of Islamic Economic Policies," *Mu'amalah: Jurnal Hukum Ekonomi Syariah* 2, no. 2 (2023): 153–72, <https://doi.org/10.32332/muamalah.v2i2.7747>; Suud Sarim Karimullah and Lilyan Eka Mahesti, "Tinjauan Maqashid Al-Syariah Terhadap Perilaku Berutang Masyarakat Desa Sukawangi Pada

This integrative approach is essential because economic secularization is complex and multidimensional. By combining various theories, this study can provide a more thorough analysis of how economic secularization works, how it impacts Islamic values in the economy, and how the Islamic financial system can respond to these challenges. For example, the historical approach to understanding the emergence of economic secularization will be combined with the normative approach in Islamic economics to offer a perspective that is not only descriptive but also solutive.

HASIL DAN PEMBAHASAN

Manifestations of Secularization in the Modern Economic System

Economic secularization has become a striking phenomenon in the modern economic system, forming a new paradigm that separates religious values from economic practices. This separation reflects changes in social structure and represents an ideological shift that places economic efficiency and growth as the primary goal, often at the expense of moral and spiritual values. The principles underlying this secularization affected the modern economic system by eliminating the role of religion as an ethical guide in economic decision-making. As a result, the modern economic system has become agnostic to moral values, emphasizing materialistic logic that prioritizes efficiency, productivity, and profit.

Historically, economic secularization is rooted in the paradigm shift in the Enlightenment era, when the separation between church and state became the new norm in European social and political life.¹² These principles then seeped into economics, creating a system focused on rationality and individual freedom without regard for the spiritual and social dimensions. The separation of religion from economics strengthens modern economic systems, both capitalist and socialist, which tend to ignore ethical dimensions in the pursuit of material gain. In capitalism, for example, capital accumulation and the creation of a free market are top priorities without regard to whether the distribution of wealth is fair or how it impacts the wider community. This system places efficiency and productivity above moral considerations, creating a dynamic where the exploitation of resources and labor is often seen as usual for economic growth.

Masa Pandemi Covid-19," *Tahkim* 4, no. 1 (2021): 79–98, <https://doi.org/10.29313/tahkim.v4i1.7274>.

¹² Suud Sarim Karimullah, "Analysis of the Influence of Political Power on the Implementation of the Islamic Economic System," *Jurnal Ekonomi Syariah, Akuntansi Dan Perbankan (JESKaPe)* 8, no. 2 (2024): 179–209, <https://doi.org/10.52490/jeskape.v8i2.4714>.

Socialist economic systems, while offering a different narrative, also exhibit similar effects of secularization. In many cases, the socialist state replaces the role of religion as the center of moral and social authority but remains focused on the materialistic aspects of economic well-being. The spiritual dimension, which should be integral to creating social justice, is neglected in favor of material collectivism. This creates a dilemma as the expected social justice is distorted by centralized economic control, which often ignores the ethical values of individuals and communities.

The dominance of the materialism paradigm is another manifestation of economic secularization that affects individual behavior and the overall financial structure.¹³ In the modern monetary system, materialism has become the primary foundation, encouraging individuals to prioritize wealth accumulation and consumption as indicators of success. These materialistic values are reinforced by a market system that promotes consumerism as a lifestyle. This consumerism, in turn, creates a cycle that reinforces material excesses without considering social and environmental impacts. Individuals are encouraged to consume more goods and services, not only to fulfill basic needs but also to fulfill desires often created by advertisements and media. This paradigm creates an imbalance as most of the world's resources are consumed by a small percentage of the population while others live in poverty and scarcity.

The impact of this materialism is seen not only in economic inequality but also in worsening environmental degradation. Consumerism driven by secular values creates enormous pressure on natural resources, with little or no regard for sustainability. In this context, the modern economic system fails to fulfill the basic principle of ecological justice, which should be part of the moral considerations in financial management. This reliance on materialistic values also affects social relations, creating a fragmented society as communal solidarity is replaced by often unhealthy individual competition.

Individualism and free competition are other manifestations of secularization that further reinforce the separation between moral values and economic practices. In the modern economic system, individualism is the foundation that encourages individuals to pursue personal interests over collective interests. While this principle is often praised as a driver of innovation and creativity, excessive individualism often creates significant social inequality. The free competition that characterizes secular capitalism usually ignores the needs of the less well-off, creating a widening gap between the rich and the poor.

¹³ Hafas Furqani, "Worldview and the Construction of Economics Secular and Islamic Tradition," *Tsaqafah: Jurnal Peradaban Islam* 14, no. 1 (2018): 1-24, <https://doi.org/10.21111/tsaqafah.v14i1.2294>.

Free competition also reinforces the logic of survival of the fittest in the economy, as only those with considerable resources and market power can survive and thrive.¹⁴ Meanwhile, vulnerable groups such as laborers, small farmers, and indigenous peoples are often excluded in this process. This modern economic system based on secular principles does not provide enough space for communal solidarity, which should be paramount in creating a more inclusive and just economy. This system's inability to balance individual and common interests shows the fundamental weakness of the secular paradigm in economics.

The secularization of the economy also affects the way individuals view the meaning of life and well-being. In a system based on materialistic values, well-being is often measured in purely material terms, such as income, assets, or consumption. The spiritual and emotional dimensions of well-being, which are equally important, tend to be ignored. This creates a situation where individuals feel alienated despite having material prosperity. This alienation is personal and collective, as society loses a sense of community and shared purpose that transcends material interests.

To understand more comprehensively the impact of economic secularization on the modern economic system, it is essential to view this phenomenon in the context of globalization. Globalization has accelerated the secularization process by spreading secular economic values around the world.¹⁵ Through free market mechanisms, globalization encourages the homogenization of economic values centered on profit and efficiency, while local, spiritual, and cultural values are often pushed aside. In this context, economic secularization is not only a regional phenomenon but also a global one, with impacts felt by people in different parts of the world. However, economic secularization is not a completely irreversible process.

Awareness about the negative impacts of this secular paradigm is increasing, especially amid various crises facing the world today, such as economic inequality, climate change, and moral crisis. In the face of these challenges, there is a need to develop an alternative. The financial system should be able to integrate ethical and spiritual values into the economic structure, thus creating a balance between material and non-material needs. Therefore, the manifestation of secularization in the modern financial system is a theoretical and practical challenge affecting billions of people's daily lives. The separation of

¹⁴ Emma Frances Bloomfield, "The Rhetoric of Energy Darwinism: Neoliberal Piety and Market Autonomy in Economic Discourse," *Rhetoric Society Quarterly* 49, no. 4 (2019): 320–41, <https://doi.org/10.1080/02773945.2019.1634831>.

¹⁵ Zikri Rahmani et al., "Implementation of Sharia Economic Principles in the Globalization Era," *ASY SYAR'ITYAH: JURNAL ILMU SYARI'AH DAN PERBANKAN ISLAM* 8, no. 2 (2023): 185–200, <https://doi.org/10.32923/asy.v8i2.3516>.

religion from economics, the dominance of the materialist paradigm, and individualism competition are ke elements of this phenomenon that must be revisited.

The Impact of Economic Secularization on the Islamic Economic System

Economic secularization has had a broad and profound impact on various aspects of life, including the existence and implementation of the Islamic economic system. One of the main impacts of economic secularization is the marginalization of Islamic values in economic practice. Modern economic systems based on secular principles, such as capitalism and socialism, tend to ignore the spiritual and moral dimensions at the core of the Islamic economic system. This can be seen from how the conventional economic system dominates the global order, replacing Islamic principles emphasizing justice, balance, and sustainability with the profit-oriented logic of materialism. The prohibition of usury, the obligation of zakat, and morality-based business ethics, the main pillars of Islamic economics, are often marginalized in an economic dynamic focused on capital accumulation and market efficiency.¹⁶

The marginalization of Islamic values in modern economic practices can be traced to a historical process involving colonialism and globalization. During the colonial era, many Muslim countries experienced economic restructuring imposed by the colonizers, replacing local economic systems based on Islamic values with secular economic systems that benefited the colonizers. As a result, many traditional Islamic institutions, such as Islamic markets and waqf institutions, regressed or even disappeared altogether. In the era of globalization, this marginalization is further exacerbated by the pressure from the global free market system that standardizes economic practices based on the logic of capitalism. This system, which emphasizes the principles of free competition and efficiency, often leaves no room for implementing Islamic values, such as the equitable distribution of wealth through zakat or prohibiting economic practices that contain uncertainty (*gharar*).¹⁷

In addition to the marginalization of Islamic values, economic secularization also creates significant challenges in the implementation of a

¹⁶ Mu'adil Faizin et al., "Development of Zakat Distribution in the Disturbance Era," *Jurnal Ilmiah Mizani: Wacana Hukum, Ekonomi Dan Keagamaan* 10, no. 2 (2024): 186–97, <https://doi.org/10.29300/mzn.v10i2.2997>; Akmal Bashori, Arif Sugitanata, and Suud Sarim Karimullah, "Dekonstruksi Pemaknaan Mualaf Sebagai Penerima Zakat Di Indonesia," *DIKTUM: Jurnal Syariah Dan Hukum* 22, no. 1 (2024): 11–23, <https://doi.org/10.35905/diktum.v22i1.5027>.

¹⁷ Mahlil Bunaiya, Aufa Islami, and Suud Sarim Karimullah, "Optimization of Productive Ziswaf by Ziswaf-Based Minimarkets (Case Study of Alif Point Mart Minimarket in Padang City)," *Imara: JURNAL RISET EKONOMI ISLAM* 6, no. 1 (2022): 13–25, <https://doi.org/10.31958/imara.v6i1.5661>.

comprehensive Islamic economic system. Muslim countries face various political, economic, and social obstacles in their efforts to implement a Sharia-based economic system.¹⁸ One of the main challenges is the dominance of the global financial system based on the principle of interest, which directly contradicts the prohibition of *riba* in Islam.¹⁹ This dominance creates a deep dependence on international financial institutions, such as the World Bank and IMF, which often require economic reforms that are not in line with Islamic values as a precondition for financial assistance. In this context, Muslim countries are usually caught in a dilemma between meeting global economic demands and maintaining the integrity of Sharia in their economic systems.²⁰

Another challenge arising from economic secularization is the lack of political and institutional support for implementing an Islamic economic system. Many Muslim countries, despite the majority of their population being Muslim, adopt secular economic systems as the basis of their economic policies.²¹ This is often due to internal and external pressures that regard the Islamic economic system as archaic and irrelevant to modern economic dynamics. In addition, the lack of in-depth understanding of Islamic economic principles among policymakers and the wider public is also a significant obstacle to its implementation. In many cases, Islamic economics is often perceived as limited to managing Islamic financial institutions without considering the broader application of Islamic values in the national economic system.²²

Secularization of the economy not only impacts the macro level but also creates a profound dilemma for Muslims at the individual and community levels. In a secular economic system that contradicts religious values, Muslims often face challenges in maintaining the integrity of their faith. For example, the prohibition of usury, one of the key principles in Islamic economics, is usually difficult to avoid in a modern economic system dominated by interest-based banking practices. For individual Muslims, engagement in this secular economic system

¹⁸ Azhari Yahya et al., "Legal Study of Building Sharia-Based Investment in Aceh: The Challenges After the Enactment of the Qanun of Sharia Financial Institution," *Samarah: Jurnal Hukum Keluarga Dan Hukum Islam* 7, no. 2 (2023): 959–77, <https://doi.org/10.22373/sjhk.v7i2.17653>.

¹⁹ Suud Sarim Karimullah, "Konsep Gharār Dan Pengaruhnya Terhadap Keadilan Ekonomi," *ESA* 7, no. 1 (2025): 10–25, <https://doi.org/10.58293/esa.v7i1.125>.

²⁰ Suud Sarim Karimullah, "Keadilan Ekonomi Islam Sebagai Solusi Alternatif Bagi Krisis Ekonomi Global," *HEI EMA: Jurnal Riset Hukum, Ekonomi Islam, Ekonomi, Manajemen Dan Akuntansi* 4, no. 1 (2025): 133–52, <https://doi.org/10.61393/heiema.v4i1.273>.

²¹ Timur Kuran, "Islam and Economic Performance: Historical and Contemporary Links," *Journal of Economic Literature* 56, no. 4 (2018): 1292–1359, <https://doi.org/10.1257/jel.20171243>.

²² Rosdalina Bukido, Muhammad Azhar Muslih, and Suud Sarim Karimullah, "Family Economic Empowerment Strategies in Gangga II Village: A Maqashid Shariah Perspective," *Al-Mujtahid: Journal of Islamic Family Law* 5, no. 1 (2025): 1–12, <https://doi.org/10.30984/ajifl.v5i1.3438>.

usually creates an internal conflict between the need for financial survival and commitment to religious teachings.

This dilemma is also felt by Muslim communities, who often have to adapt to an economic system that does not support their values. In many cases, Muslim communities develop strategies to maintain the integrity of their faith while still participating in the secular economic system.²³ One frequent strategy is establishing Islamic financial institutions that offer an alternative for Muslims to access financial services without involving usury. Although still limited in scope and scale, these institutions demonstrate how Muslim communities attempt to create a space within the secular economic system that allows them to remain consistent with religious values.

The existence of these Islamic financial institutions also faces various challenges.²⁴ In many cases, these institutions must operate within a legal and regulatory framework based on secular principles, which often limits their ability to implement Islamic values fully. In addition, Islamic financial institutions usually focus solely on the technical aspects of Islamic economics, such as avoiding usury, without paying sufficient attention to broader principles of ethics and justice. As a result, while these institutions offer alternatives, they often cannot address the root causes of economic secularization.

On the other hand, Muslims have also sought to harness technology and innovation to meet the challenges of economic secularization. For example, using digital platforms for zakat and waqf management has opened up new opportunities to improve efficiency and transparency in wealth distribution, thus supporting the principles of distributive justice in Islamic economics. These innovations show that while economic secularization creates significant challenges, it also encourages Muslims to seek creative solutions that allow them to remain consistent with religious values in a modern context. However, these solutions can only be effective if they are underpinned by a deep understanding of Islamic economic principles and a commitment to applying them holistically.

In many cases, the biggest challenge faced by Muslims is the lack of awareness and understanding of Islamic values in economics. Education becomes one of the key elements in addressing this issue by providing a broader knowledge of Islamic economics to the younger generation and the general public. By raising awareness about the importance of Islamic values in

²³ Tariq Modood, "Moderate Secularism, Religion as Identity and Respect for Religion," *The Political Quarterly* 81, no. 1 (2010): 4–14, <https://doi.org/10.1111/j.1467-923X.2010.02075.x>.

²⁴ Haerunnisa Haerunnisa, Arif Sugitanata, and Suud Sarim Karimullah, "Analisis Strukturalisme Terhadap Peran Katalisator Instrumen Keuangan Syariah Dalam Mendorong Pembangunan Berkelanjutan Dan Tanggung Jawab Sosial," *Al-'Aqdu: Journal of Islamic Economics Law* 3, no. 2 (2023): 124–34, <https://doi.org/10.30984/ajiel.v3i2.2853>.

economics, Muslims can be better prepared to face the challenges posed by economic secularization.

The impact of economic secularization on the Islamic economic system reflects a greater struggle to balance between material and spiritual needs in human life. Economic secularization has marginalized Islamic values, created significant challenges in the implementation of the Islamic economic system, and placed Muslims in a profound dilemma. However, these challenges also open up opportunities for reflection and innovation, enabling Muslims to develop more creative and relevant strategies in modern economic dynamics. With a holistic and justice-oriented approach, Islamic economics has the potential to address the challenges presented by economic secularization and offer more humane and sustainable solutions for the global community.

Finding Solutions and Alternatives for the Islamic Economic System

The Islamic economic system, with its fundamental principles based on the values of justice, sustainability, and collective welfare, faces significant challenges in the face of the dominance of the secular economic system. However, these challenges also provide opportunities to develop solutions that address the weaknesses of the conventional financial system and offer alternative models that are more humane and inclusive. One of the main steps in this effort is reconstructing the Islamic economic paradigm to make it relevant to contemporary challenges. This reconstruction requires a deep understanding of Islamic values and innovation to adapt these principles in a dynamic global context.

The reconstruction of the Islamic economic paradigm must begin with a holistic understanding of the values that underpin it, such as the prohibition of usury, distributive justice, and social responsibility. However, this approach must go beyond the mere technical application of sharia rules towards developing a system that is truly oriented towards social justice and sustainability. In this context, creating an Islamic economic model that rejects usury and offers an alternative financial system based on risk sharing, productive investment, and financial inclusion is essential. This system should be designed to support sectors of the real economy, such as agriculture, manufacturing, and technology, that contribute directly to the well-being of society.

The reconstructed Islamic economic model should also consider global issues, such as climate change, economic inequality, and digital transformation. For example, the Islamic economy can support the green economy through sustainable investments aligned with Sharia principles. In addition, the integration of digital technology into the Islamic economic system can open up new opportunities to improve accessibility and efficiency, such as the

development of a transparent and accountable blockchain-based zakat and waqf platform. In this context, Islamic economics is not only an alternative to capitalism and socialism but also a pioneer in creating a more adaptive and innovative economic system.

Integrating Islamic values into the modern economic system is another crucial step in finding solutions for the Islamic financial system.²⁵ Values such as justice, social care, and business ethics must be applied in various sectors of the economy to create significant change. In the banking sector, for example, Sharia principles can be used to develop financial products free from usury and oriented towards society's welfare. Islamic banking should be able to offer economical solutions that are competitive, inclusive, and in line with the needs of modern society. The same applies to the investment sector, as principles such as the prohibition of speculation and investment in environmentally damaging industries should be the main guidelines.

Strategies to integrate Islamic values into the economic system should also include efforts to build awareness and understanding of the importance of such principles. Islamic financial education and literacy campaigns should be strengthened to ensure the wider public understands the benefits of applying Islamic values in the economy.²⁶ In addition, cooperation with non-Muslim institutions committed to social justice and sustainability can help expand the application of Islamic economic principles globally. In this context, Islamic values are not only positioned as norms specific to Muslims but also as universal solutions relevant to all humanity.

Strengthening Islamic economic institutions is another key element in the search for solutions and alternatives to the Islamic financial system. Islamic banks, zakat institutions, and waqf play a vital role in supporting the implementation of Islamic values in the economy. However, these institutions often face challenges related to efficiency, professionalism, and competitiveness. To overcome these challenges, a comprehensive strategy is needed to strengthen the capacity of these institutions. One crucial step is investment in human resource development, providing quality training and education for Islamic finance professionals. In addition, Islamic economic institutions should also utilize technology to improve operational efficiency and transparency, strengthening public trust.

²⁵ Ismail Cebeci, "Integrating the Social Maslaha into Islamic Finance," *Accounting Research Journal* 25, no. 3 (2012): 166–84, <https://doi.org/10.1108/10309611211290158>.

²⁶ A Ifayani Haanurat, Adinda Syalsabilla Aidha Vediany, and Sahay Amrita Tollentino, "Instagram's Impact on Sharia Economic Law Literacy in the Digital Age and Indonesia's Sharia Economy Strengthening," *Revenue Journal: Management and Entrepreneurship* 1, no. 2 (2023): 112–18, <https://doi.org/10.61650/rjme.v1i2.317>.

Zakat and waqf institutions, in particular, have great potential to support equitable and sustainable economic development. However, this potential is often not fully utilized due to the lack of effective management and adequate regulatory support. For this reason, it is necessary to reform the governance of zakat and waqf by adopting a more modern and professional approach. For example, zakat funds can be invested in development projects with significant social impact, such as education, health, and infrastructure.²⁷ Meanwhile, waqf can be used to support research and innovation, which will strengthen the competitiveness of the Islamic economy at the global level.

In addition, strengthening Islamic economic institutions also requires support from public policies that align with sharia principles. Governments in Muslim countries should take a proactive role in creating an ecosystem that supports the growth of the Islamic economy. This includes drafting regulations that support the development of Islamic banks, zakat, and waqf, as well as incentives to encourage private sector participation in the Islamic economy. These policies should be designed to create synergies between the public and private sectors, thereby strengthening the foundation of the Islamic economy in the long run.

In addition to institutional strengthening, it is also important to build collaborative networks among Muslim countries to strengthen the position of the Islamic economy in the international arena. Organizations such as the Organization of Islamic Cooperation (OIC) can be crucial in facilitating economic cooperation among its member countries. Through this platform, Muslim countries can share experiences, knowledge, and resources to support the effective implementation of Islamic economics. This cooperation can also help create a more inclusive and equitable global market, as the principles of Islamic economics can be applied more widely.

In this process, it is essential to stick to the principle that Islamic economics is not just about technically complying with Sharia rules but also about creating a system reflecting Islamic values, such as justice, solidarity, and sustainability. With the reconstruction of the paradigm, the integration of Islamic values, and the strengthening of Islamic economic institutions, this system has great potential to become a relevant and effective solution in the face of increasingly complex global challenges. This approach will not only strengthen the position of the Islamic economy in the world but also significantly contribute to efforts to create a more just and sustainable world.

²⁷ Suud Sarim Karimullah, "Konsep Dan Implementasi Zakat Untuk Pelestarian Lingkungan," *DIRHAM: Jurnal Ekonomi Islam* 6, no. 1 (2025): 51–65, <https://doi.org/10.53990/dirham.v6i1.396>.

CONCLUSION

Economic secularization has created profound challenges for the Islamic financial system, both in terms of the marginalization of Islamic values and in actual practice amidst the dominance of the secular global economic system. The modern monetary system, rooted in materialism and individualism, has reduced ethics and justice to peripheral aspects, ignoring the balance at the core of sharia principles. In this context, the reconstruction of the Islamic economic paradigm is urgently needed to respond to global challenges. It is not enough to reject usury or formally implement zakat; Islamic economics must become a holistic, adaptive, and inclusive alternative, utilizing technology, supporting sustainability, and balancing society's material and spiritual needs.

More than just a reaction to secularization, the Islamic economic system should be a transformational force that expands the application of values such as justice, social solidarity, and sustainability in every sector of the economy. Strengthening Islamic economic institutions through professionalism, technology, and global cooperation can be an essential catalyst in creating an ecosystem that is competitive and relevant to the needs of the times. In the face of the dominant secular system, Islamic economics has the potential to create more equitable structural reforms and offer a new vision of economics that places human well-being and sustainability as top priorities. This is a challenge and an opportunity to make the Islamic economic system an ethical, sustainable, and future-oriented universal solution.

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