

## Measuring Pragmatism in Islamic Economic Practice in Southeast Asia

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### Abstract

This study aims to examine the foundation for the application of Islamic economics and sustainable development based on Islamic principles in Southeast Asian countries, focusing on three nations recognized among the top 15 in implementing Islamic economics. The Southeast Asian region is highly diverse in terms of economic structure, populism, public education, and government systems. The paper highlights anomalies and pragmatic practices in Islamic economics. Pragmatism in Islamic economic practices is often found among lower-to middle-income groups with limited education, who perceive that the costs (margins) charged by Islamic financial institutions are higher than those of conventional ones. At the national level, Islamic economic pragmatism is reflected in its use as a tool for diplomacy and international economic cooperation. Findings show that all three countries face similar challenges of low inclusiveness in Islamic economic-based development. However, they show positive trends in economic stability due to diversification. In terms of environmental sustainability, Singapore leads in eco-friendly innovation, Malaysia has established a sharia-compliant carbon market, while Indonesia continues to face complex environmental issues. Regarding social sustainability, all three countries share the common issue of high socio-economic inequality.

**Keywords:** *Islamic Economic; Pragmatism; Islamic bank*

### Introduction

The failure of the economic systems of capitalism and socialism to create community welfare has encouraged several countries to look for a better system that is able to play a role in all elements to achieve the welfare of the people (Budiantoro et al., 2018). Another claim about Islamic economics is the ability to create sustainability that the capitalist economic system does not have. The capitalist economic system is considered to be the main cause of many economic crises that occurred during the 20th to 21st centuries (Huda, 2016).

However, on the other hand, there are also opposing views on Islamic economics. Many researchers have revealed that the practice of Islamic economics requires the pragmatic background of its economic actors, ranging from regulators, banking practitioners, practitioners of Islamic microfinance institutions, to the public.

For example, based on the Global Islamic Economy Indicator (GIEI) in the State of the Global Islamic Economy (SGIE) Report 2023 issued by DinarStandard, 3 out of 11 countries in Southeast Asia are included in the 15 best Islamic economies. The 3 countries are Malaysia, Indonesia, and Singapore. In the report, Singapore is not only a non-Muslim country that is included in the 15 best Islamic economic countries, but Singapore has a higher Islamic financial index than Turkey.

State of the Global Islamic Economy (SGIE) is an annual report that provides a comprehensive analysis of the development of the Islamic economy globally. The report covers a wide range of economic sectors that operate in accordance with Islamic Sharia principles. The data presents comprehensive information on 81 countries measured (DinarStandard, 2023).

Indicator Scores Breakdown for Top 15 Ranking Countries

	GIEI	Islamic Finance	Halal Food	Muslim-Friendly Travel	Modest Fashion	Media & Recreation	Halal Pharma & Cosmetics
1 Malaysia	193.2	408.7	128.0	99.4	73.6	74.4	73.9
2 Saudi Arabia	93.6	194.9	48.5	99.7	34.3	37.5	34.3
3 Indonesia	80.1	93.2	94.4	60.7	66.3	52.4	58.6
4 United Arab Emirates	79.8	115.7	59.2	136.2	51.3	44.5	41.3
5 Bahrain	75.0	125.1	55.0	88.1	33.4	49.6	38.5
6 Iran	74.6	159.8	41.2	65.7	20.5	24.2	33.1
7 Türkiye	74.0	46.1	85.1	161.8	86.2	46.0	52.6
8 Singapore	62.7	52.2	67.7	50.3	64.3	72.6	79.9
9 Kuwait	60.2	123.6	42.2	28.7	20.0	26.8	29.2
10 Qatar	57.1	74.4	49.7	60.4	37.4	63.3	37.2
11 Jordan	52.2	65.6	49.4	88.3	22.1	26.3	39.9
12 Oman	50.0	78.7	48.3	48.0	20.1	24.4	26.3
13 Pakistan	47.5	69.6	51.4	38.4	27.5	17.2	28.6
14 South Africa	44.7	51.1	53.8	25.3	32.4	31.9	43.2
15 United Kingdom	44.7	46.0	43.7	28.1	47.7	54.4	48.2

Figure 1: The 15 best countries in running an Islamic economy  
 Source: Dinarstandard. (2023)

Based on these claims, researchers examine sustainable development based on Islamic economics in the Southeast Asian region. The Southeast Asian region was chosen because it has the uniqueness of the diverse economic conditions of the countries that are included in the 15 countries with the best implementation of Islamic economics. The diversity ranges from the economic base, the level of community prularism, public education, to the government system.

Although only 2 countries in Southeast Asia are included in the ranking and have Muslim-majority populations, it is enough to make Asia rank third with the largest asset value after other MENA (Middle East and North Africa) and GCC (Gulf Cooperation Council) regions (Refinitiv, 2022). The GCC is a trading bloc consisting of six Arab countries in the Persian Gulf with various economic and social objectives. The six countries are Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, UAE.

The Muslim population in Indonesia alone is 240 million. In comparison, the total Muslim population in Europe is 50 million, or only 20 percent of the Muslim population in Indonesia. Meanwhile, the Muslim population in Malaysia is 21 million, and in Singapore is 900 thousand.

In addition to examining the claims of Islamic economics, this paper extends the analysis to the future practice of Islamic economics in the three selected countries by elaborating on key structural dimensions such as regulatory frameworks, institutional arrangements, and macroeconomic conditions in each country. This allows for a more comprehensive understanding of how Islamic economic principles are operationalized in different national contexts.

Furthermore, this study aims to provide a comparative perspective that can serve as a counterbalance to existing literature, thereby reducing potential cognitive bias in evaluating Islamic economic performance across countries with different socio-economic and political systems.

The study of the level of state pragmatism in practicing Islamic economics is an important step to ensure that Islamic economic principles can be applied effectively and efficiently in a dynamic global context. With a pragmatic approach, the state can overcome challenges, encourage innovation, improve social welfare, and ensure the long-term success of Islamic

economic policies. Therefore, this study is not only relevant but also essential for sustainable and equitable economic development.

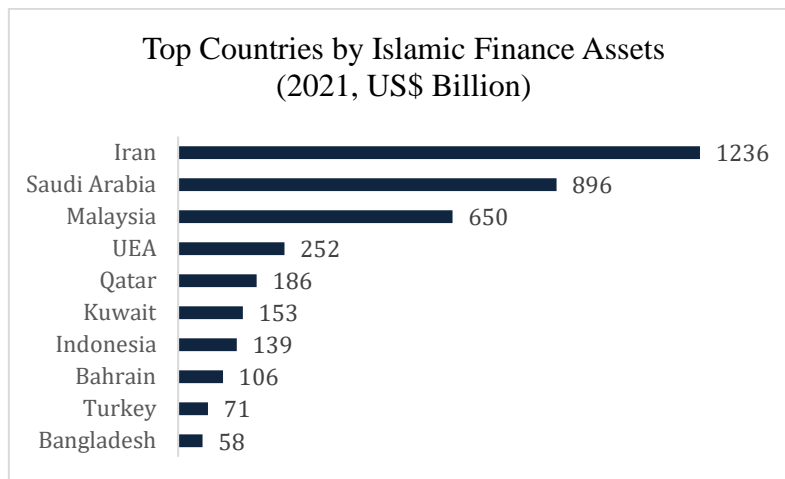


Figure 2: Countries with the highest Islamic economy assets  
Source: Refinitiv (2022)

Based on the background above, this study is formulated around the following research problem: the manifestation of pragmatism in the practice of Islamic economics in Indonesia, Malaysia, and Singapore, as well as the factors that explain the differences in its implementation across these countries. The objectives of this study are: (1) to analyze the forms of pragmatism in Islamic economic practices in Indonesia, Malaysia, and Singapore; (2) to identify the institutional, economic, and regulatory drivers of such pragmatism; and (3) to evaluate the implications of these practices for sustainable development in the three countries.

### Method

In this research, the approach method that will be used by researchers is a phenomenological approach that tries to understand Islamic economic practices and the motives behind certain policies. The methodology underlying phenomenology includes four stages: First, bracketing is a process where researchers identify by postponing any preconceived beliefs and opinions about the phenomenon being studied. Second, Intuition, in this stage, the researcher must remain open to attributing the meanings of certain phenomena to people who have experienced them. Intuition requires researchers to remain creative in dealing with highly varied data, to a certain extent, understanding new experiences that arise. Third, analyzing this stage will involve the process of deepening the data, meaning that the researcher is required to experience life with the data he will describe to enrich the essence of certain experiences that emerge. Fourth, describing, which is describing. At this stage, the researcher will begin to understand and be able to define the phenomena that occur.

This study is a qualitative research based on a descriptive phenomenological design. The data used in this research are secondary data obtained from academic journals, official institutional reports, policy documents, and international databases related to Islamic economics, macroeconomic indicators, and sustainable development. Therefore, this study is primarily a literature-based study (secondary data analysis), without primary data collection such as interviews or surveys.

This paper aims to challenge claims about the practice of Islamic economics and provide a holistic view of the future of Islamic economics in light of the regulatory and economic

conditions of each country. This research does not limit the literature to articles in certain journals or official reports from various institutions. This is due to various data that cannot be obtained from articles in certain journals.

The unit of analysis in this study consists of three countries in Southeast Asia, namely Indonesia, Malaysia, and Singapore. These countries are selected based on their inclusion in the Global Islamic Economy Indicator (GIEI) ranking and their relevance as comparative cases representing different economic structures, population compositions, and regulatory systems in the implementation of Islamic economics. Indonesia and Malaysia represent Muslim-majority economies with developing and emerging financial systems, while Singapore represents a non-Muslim-majority but highly advanced financial hub with strong Islamic finance participation.

The selection of these three countries is justified by their contrasting yet comparable positions in the development of Islamic economics, which allows for a more comprehensive comparative analysis of pragmatism in policy implementation and economic practice

## **Result and Discussion**

### **Pragmatism in Indonesia**

Indonesia has the ambition to become a leader in the Islamic economy. This ambition is based on Indonesia's potential, first, in 2020, Indonesia's GDP is the largest compared to countries that are members of the Organization of Islamic Cooperation (OIC). Second, Indonesia is considered the most competitive in attracting foreign direct investment (FDI) compared to other OIC countries. Third, the country with the largest Muslim population in the world with 240 million people, or about 5 times the entire Muslim population in Europe. Indonesia's share of global halal food exports has been in the range of 15%-18% in the last five years (Bank Indonesia, 2021).

To realize this ambition, the Indonesian government has created a blueprint policy framework for Islamic economics and finance. The blueprint policy framework for the development of Islamic economics and finance issued by Bank Indonesia explains that one of the important points in the national Islamic economic policy pillar is the investor base. The investor base is closely related to the economic conditions of the community. Although Indonesia is a country with a large amount of GDP, in terms of GDP per capita, Indonesia is relatively low. Indonesia ranks 5th in Asia for the level of GDP per capita, with a value of less than half of Malaysia's GDP per capita or only about 6 percent of Singapore's GDP per capita. The GDP per capita of Southeast Asian countries can be seen in the following Figure 3.

Not only does Indonesia have a fairly low GDP per capita, but the poverty rate in Indonesia is also high. In 2022, the percentage of poor people in Indonesia was 9.57% of the total population. This puts Indonesia in the fourth position with the highest poverty rate. Above Indonesia are Thailand (6.3%), Malaysia (6.2%), and Vietnam (6.1%) (Data Indonesia, 2022).

These economic conditions have implications for people's economic decision-making patterns. Pragmatism in the formation of Islamic economic law cannot be separated from the urge to meet market demands and sharia provisions (Rahman, 2015). On the one hand, pragmatism seems to be in line with the fiqh rule that changes in law are in line with changes in time, place, customs, and habits in an area. However, pragmatic reasoning is not always in accordance with the socio-juridical reality of Indonesian society (Yasin, 2017).

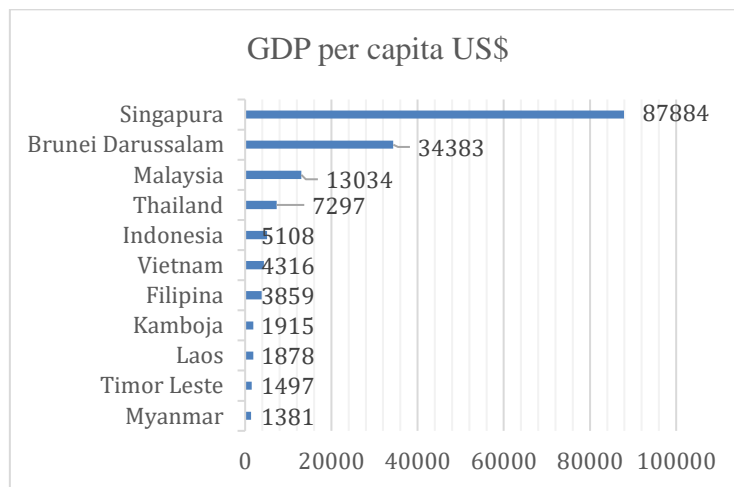


Figure 3: GDP per capita value of ASEAN countries (2023)  
Source: International Monetary Fund (IMF) (2023)

Many Indonesians prefer conventional financial institutions due to the perception that the margins of Islamic financial institutions are greater than those of conventional financial institutions. Pragmatism by economic factors is reflected in the structure of the types of contracts in Islamic financial institutions. The murabahah contract is the most widely used. The murabaha agreement is a contract that has received a lot of criticism and is considered to be a "product engineering" of Islamic financial institutions (Suhirman, 2021).

Contract	Nominal (billion Rp)	Percentage	growth 2022 (yoy) (%)
Murabahah	242,229	47.7	21.71
Musyarakah	226,787	44.6	19.54
Mudharabah	10,572	2.1	1.51
Qardh	13,872	2.7	13.94
Ijarah	8,132	1.6	15.92
Istishna	3,141	0.6	20.87
Mustijasa	1,205	0.2	30.93
Salam	2,138	0.4	0.00
Total	508,076		

Figure 4: Percentage of contracts in Indonesia  
Source: Financial Services Authority (OJK), 2022

In addition, the level of community pragmatism is reinforced by weak regulations in Indonesia. Weak regulation in Indonesia is reflected in the following Regulatory Quality chart, where Indonesia ranks last among Singapore and Malaysia. Regulatory Quality, released by the World Bank, is the perception of the government's ability to formulate and implement good policies and regulations that enable and encourage private sector development. The World Bank released regulatory quality data from 203 countries in the world.

In addition to the weak regulation of cooperatives and BMTs in Indonesia, criticism of the application of Islamic economics can also be seen from historical traces. History records that the beginning of Islamic banking practices was influenced by the pragmatic political interests of the New Order regime (Hidayati, 2005; Yasin, 2010). Although Islamic banks were

established in 1992, the Islamic banking law was only passed in 2008. This condition also affected the process of Islamic economic development (Yanti, 2018).

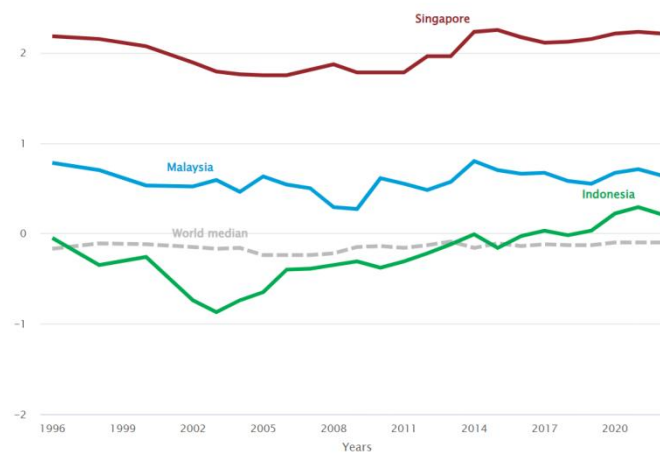


Figure 5: Regulation quality graph  
Source: The World Bank (2022).

### Critique of Islamic Economics in Indonesia

Financing at BUS (Islamic commercial banks), UUS (Islamic business units), and BPRS (Islamic People's Financing Banks) is dominated by consumptive financing and murabaha. The murabahah agreement is a contract that has received a lot of criticism because it is considered a conventional "product engineering". So, if viewed from the pragmatic paradigm of Islamic economics, which emphasizes benefits, Islamic economic practices have not provided maximum benefits for the country's economic base (MSMEs).

### Pragmatism in Singapore

This is in contrast to Indonesia and Malaysia, which have a Muslim population base. Singapore embraces a form of secularism that gives the state the authority to decide the boundaries between religion, politics, and the state. Nevertheless, Singapore is among the 15 countries with the best Islamic economic practices alongside many Muslim countries (see Figure 1). One of the main factors for this achievement is Singapore's interest in practicing Islamic economics in its international banks as a means of cooperation with GCC countries.

Almost all major and minor world religions were part of Singapore's beginnings, including the entire spectrum of modernist, conservative, and reformist orientations. In fact, 20% of Singaporeans claim no religion, Buddhism accounts for 31.1%, Christianity 18.9%, Muslims 15.6%, Taoism 8.8%, Hinduism 5%, and other minority religions totaling 0.6% (Singapore Department of Statistics, 2020). Pew Research Center named Singapore the most religiously diverse country in the world (Pew Research Centre, 2014). Ethnically, 74% of Singaporeans are of Chinese descent (Statista, 2023).

In terms of geography, Singapore is the twentieth smallest country in the world, with an area of only 728 km<sup>2</sup>. Singapore's population of 5.7 million people makes it the second most populous sovereign state in the world. Singapore does not have sufficient water resources, nor does it have the land to be self-sufficient. Therefore, Singapore imports 90% of its food. Singapore is a metropolitan country that is strategically located at the intersection of the East and West maritime (Musa, 2023).

Because of its unique circumstances, Singapore, from its inception, took a pragmatic approach. This pragmatic approach aimed to address three existential challenges that Singapore faced: (i) to unify a highly religiously diverse society, (ii) to prevent religion from being used for political contestation, and (iii) to psychologically prepare citizens. To put aside religious differences to defend the country from the security threats of its predominantly religious neighbors.

In 2021, Singapore was the world's 32nd-largest economy in terms of GDP (current US\$), 19th in total exports, 16th in total imports, 9th in terms of GDP per capita, and 6th most complex economy according to the Economic Complexity Index (ECI). Singapore relies on the concept of intermediary trade expanded into entrepot trade by purchasing raw goods and refining them for re-export to maintain a high level of export-oriented industrialization. The largest commodity in Singapore's import-export trade is oil.

Oecworld (2022), in 2021, Singapore imported \$22.5 billion worth of Crude Oil, making it the 12th largest importer of crude oil in the world. In the same year, crude oil became Singapore's 3rd most imported product. Singapore imports crude oil mainly from the United Arab Emirates (\$6.12 billion), Qatar (\$3.13 billion), the United States (\$2.91 billion), Saudi Arabia (\$2.09 billion), and Australia (\$1.86 billion). The fastest growing Crude Oil import markets for Singapore between 2020 and 2021 are the United Arab Emirates (\$3.11 billion), the United States (\$1.62 billion), and Qatar (\$1.24 billion).

Singapore's financial sector is heavily influenced by foreign cooperation and import-export trade commodities in the Gulf countries. To expand Singapore's economic cooperation network with its strategies and policies, the Singapore government creates a balance between local and foreign investors in terms of foreign investment. Singapore has several economic policies, such as FDI, SWF, and petrodollar.

Foreign Direct Investment (FDI) is the various regulations that countries have put in place to govern their foreign investments. These policies play an important role in the decision-making process of foreign investors. The income from FDI is greatly influenced by the investment climate and the rate of return on the investment. Singapore is the country that receives the most foreign investment in Southeast Asia.

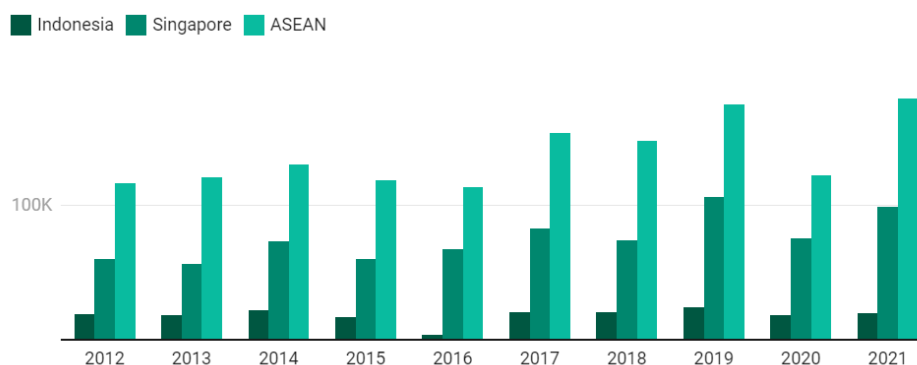


Figure 6: Foreign Direct Investment (FDI) Inward Flows to ASEAN by Host Country, 2012-2021 (US\$ million)  
 Source: (UNCTAD, 2023)

The next policy is SWF (Sovereign Wealth Fund). According to the IMF, a sovereign wealth fund is a pool of capital or funds controlled by the government or related government agencies

that invests in other countries' assets to seek profits above the free rate of return. Singapore, as one of the SWF countries that also has trade agreements with Middle Eastern countries, is required to cooperate based on Islamic law. To expand Singapore's economic cooperation network, as mentioned in the theory of national interest, where the goal of a country is power and prosperity.

No.	Investor	Country	Est.	Type	AuM (\$b)*
1	NBIM	Norway	1997	SWF	1,548
2	CIC	China	2007	SWF	1,240
3	SAFE IC	China	1997	SWF	1,082
4	ADIA	UAE - Abu Dhabi	1967	SWF	984
5	KIA	Kuwait	1953	SWF	801
6	GIC	Singapore	1981	SWF	769
7	PIF	Saudi Arabia	1971	SWF	700
8	QIA	Qatar	2005	SWF	429
9	ICD	UAE - Dubai	2006	SWF	341
10	Temasek	Singapore	1974	SWF	288

Figure 7: 15 Companies with the highest SWF  
 Source: Global SWF. Last updated January 2024

\* Assets under management: Latest period USD figure if available, estimation otherwise

\*\* Allocation to Alternative Assets, incl. real estate, infrastructure, private equity, and hedge funds

From the graph above, it is clear that Singapore and the Middle East fall into the category of world SWF giants. Singapore, which has a role as an international financial center, has an economic interest in attracting massive FDI and SWF from the GCC.

The next policy is the Islamic Petrodollar. The Petrodollar Islamic economy in Singapore is growing rapidly because oil-exporting countries (especially the Gulf Cooperation Council countries) have two options when it comes to placing their petrodollars. First, petrodollars can be used to import goods and services. Second, petrodollars can be used to buy foreign assets in the international capital market.

In Singapore, Islamic banking is carefully planned to accelerate its economic development. The strategies and policies developed for Islamic banking and finance cover the interests of investors, products, and markets. Several laws have been drafted to enable investors to enjoy competitive tax rates to start and participate in the Islamic banking and finance business.

### Critique of Islamic Economics in Singapore

Unlike Indonesia and Malaysia, the basis of Islamic economic practice in Singapore is business pragmatism. The Singapore government, through its international Islamic banking, makes Islamic economics a tool of trade cooperation between Singapore and several major oil-producing countries. From the perspective of pragmatist theory, the Singapore government's policy has achieved the principle of expediency because the profits from the trade become financing capital and the benefit of the people of Singapore.

When viewed from the principle of the benefits of Islamic economics, the policies carried out by Singapore are good because, basically, the Islamic economy has a goal to prosper, not only to seek profit. Therefore, many countries where the majority of people are non-Muslims have also implemented Islamic economics in various ways (Musyafah, 2019).

This finding explains that there is no relationship between the government system in a country and the growth of its Islamic economy. This paper refutes the results of research from (Grassa & Gazdar, 2014), which explains that countries that apply Islamic law have accelerated the development of Islamic finance. Countries with a mixed legal system between common law and Islamic law tend to be flexible in responding to changes, so that it is sufficient to support the development of Islamic finance. As for countries with civil law and Islamic law legal systems, they are less flexible in responding to changes, thus slowing down the growth of Islamic finance.

### **Pragmatism in Malaysia**

Although Malaysia's Muslim population is only 10 percent of the total Muslim population in Indonesia, Malaysia's Islamic bank ranking is far superior to Indonesia's (The Asian Banker, 2020). Malaysia is one of the countries with the fastest-growing Islamic finance industry in the world. The total market share of Islamic banking in Malaysia has reached 29% by the end of 2020 (Bank Negara Malaysia, 2022), while the market share of the Islamic economy in Indonesia is still at the level of 6.51% (OJK, 2022). In addition, the total assets of the Islamic economy in Indonesia are only about 21 percent of the total assets of the Islamic economy in Malaysia.

Not only does Malaysia excel in terms of percentage market share and total assets, but it also excels in the growth of Islamic finance in the world. The growth of each Islamic finance sector (Islamic banking, sukuk, Islamic funds, takaful, and other Islamic financial institutions) recorded double digits in 2021, as in the previous year.

The Islamic funds sector recorded the largest growth compared to other sectors, with an increase of 33.7%, followed by the takaful sector with an increase of 17.7% in 2021. Despite 2021 being the year with the highest growth compared to previous years, 81% of the growth in total Islamic fund assets is only focused on 3 countries, namely Iran, Saudi Arabia, and Malaysia (Refinitiv, 2022).

Malaysia's score based on the IFDI, Islamic Finance Development Indicator (2022) conducted by Refinitiv, The Islamic Corporation for the Development (ICD) and The Islamic Development Bank (IsDB) received the highest score for all categories ranging from knowledge, governance, sustainability and awareness. Malaysia is the third-largest economy in Southeast Asia and 34th in the world by nominal gross domestic product. Malaysia's inflation rate in mid-2023 was around 2.4% (World Bank, 2022), and the poverty rate in 2022 was 4.5% (Statista, 2023). These inflation and poverty rates make Malaysia one of the fastest-growing economies after the 1997 Asian financial crisis.

World Bank (2023). Following its independence in 1957, Malaysia has successfully diversified its economy from an economy based on agriculture and commodities to one based on manufacturing and services. Malaysia is one of the most open economies in the world, with an average trade-to-GDP ratio of over 130% since 2010.

Openness to trade and investment plays an important role in job creation and income growth; in fact, 40% of jobs in Malaysia are export-related. Malaysia experienced a significant increase

in economic growth after the Asian financial crisis in 1997-1998. Since 2010, Malaysia's economic growth has averaged 5.4%.

Malaysia's economic openness and efforts to differentiate its economy have also had an impact on the Islamic economy in Malaysia. Bank Islam Malaysia Berhad (BIMB) is Malaysia's first Islamic bank. BIMB was established on March 1, 1983, and became a milestone in the development of the Islamic financial system in Malaysia. In order to increase the number of players in the Islamic banking system, Bank Negara Malaysia (BNM) introduced a scheme called the "Interest Free Banking Scheme". Under this policy, commonly referred to as the "Islamic Window", all commercial banks were given the opportunity to offer Islamic banking products and services alongside their conventional services.

Under this policy, Malaysia became the first country to implement a dual banking system where Islamic and conventional banks coexist in a national financial system. Subsequently, in 1999, BNM introduced the concept of an Islamic banking subsidiary, which allowed financial institutions that implemented the "Islamic Window" scheme to convert and form a full-fledged Islamic commercial bank. During this era, the Islamic banking system in Malaysia began to flourish and become more competitive, which then encouraged foreign banks to enter Malaysia.

The existence of such Islamic foreign banks is regulated through the Islamic Banking Act 1983. The objective of this strategy is to create competitive conditions and to improve the overall performance of the Islamic banking industry. The result of this system liberalization policy is the entry of financial institutions from Middle Eastern countries in the Malaysian banking market, namely Al Rajhi Banking & Investment Corporation, Asian Finance Bank, and Kuwait Finance House (Rama, 2015).

Based on the roadmap for the development of Islamic banking in Malaysia, it is targeted that total Islamic financing will reach around 40 percent of total financing by 2020. The Malaysian government is consistent in encouraging the development of the Islamic banking industry by inviting foreign financial institutions to establish Islamic banking businesses in Malaysia.

This liberalization process of the Islamic financial sector has significantly contributed to increasing the market share of Islamic banking in Malaysia. In addition, the relatively stable business environment supported by a complete and comprehensive infrastructure has encouraged international financial institutions to make Malaysia their Islamic banking business investment destination. This has created the growth of a diverse community of local and international financial institutions.

In Malaysia, the Islamic banking sector has contributed significantly to the development of the overall financial system, which in turn can impact economic growth (Hassan et al., 2011). In Malaysia, both personal consumer and investment products are often financed by Islamic banks. Personal consumer financing, such as vehicle financing and home financing, reached RM 60.5 billion at the end of December 2019 (Bank Negara Malaysia, 2020).

Financing for personal needs can affect the economy indirectly because it increases the production volume of products financed by Islamic banks, such as vehicles, electronics, and even housing. Personal financing is predominantly in the form of murabahah (cost-plus financing), while musyarakah (profit-sharing) and mudarabah (profit-sharing) are visible, equity financing is very low. The early Islamic banking model was built on two forms of equity financing (musyarakah and mudarabah) (ISRA, 2012).

Islamic banks in Malaysia mostly engage in long-term financing; they only disburse short-term financing in the form of murabaha specifically for the purchase of household appliances (ISRA, 2012). The default of Islamic bank customers may affect the banks and their ability to finance more economic activities; however, the short-term impact on Malaysia's economic growth is not significant.

### **Critique of Islamic Economics in Malaysia**

Criticism of Islamic economics in Malaysia rests on the policy of economic liberalization. The policy of economic liberalization must be guarded very carefully due to the potential negative impact on the economy in the long run. Economic liberalization can lead to greater social and economic inequality: Economic liberalization often increases the gap between the rich and the poor. This is because the gains from liberalization tend to be unevenly distributed, with certain groups or urban areas benefiting more than rural areas or the less well-off.

Economic growth does not always go hand in hand with good income distribution and prosperity. Economic growth is defined as an increase in gross domestic product regardless of the ratio of the increase to the population growth rate. In other words, the value of economic growth does not see changes in the economic structure (Arsyad, 2010). A high rate of economic growth will not always hurt income distribution. On the other hand, low rates of economic growth are not always directly proportional to improvements in income distribution (Todaro & Smith, 2006).

Economic growth is one of the indicators of successful development. However, the most important goal of development is to reduce poverty through income redistribution and/or economic growth (Kakwani & Son, 2023). Economic growth is a "necessary condition" for poverty reduction, with a "sufficient condition" of economic growth being effective in reducing poverty. In other words, growth must be evenly distributed among all income groups, including the poor.

In addition, economic liberalization has the potential to make countries dependent on foreign investment and the global economy. Economic liberalization can increase dependence on foreign investment and international trade. This makes the country more vulnerable to global market fluctuations, and economic or financial crises in other countries can have a significant impact on the domestic economy.

### **Sustainable Development**

Sustainable development is a concept that refers to development that meets the needs of the present without compromising the ability of future generations to meet their own needs. It emphasizes a balance between economic growth, social inclusion, and environmental protection to ensure that the benefits of development can be enjoyed by all in the long term.

Aspects of sustainable development include (1) Economic, relating to stable and inclusive economic growth; (2) Environmental, relating to preservation of natural resources and reduction of environmental impacts; (3) Social, relating to social justice and community empowerment. The following are some descriptions of country rankings based on several criteria that affect the sustainability of Islamic economy-based economies in Indonesia, Malaysia, and Singapore:

### **Macroeconomic Stability**

The World Economic Forum (WEF) released a framework to measure and rank the competitiveness of countries around the world, which is GCI 4.0, or Global Competitiveness

Index 4.0. Here are the 12 pillars of GCI 4.0 that describe various aspects of a country's competitiveness:

1. Institutions
2. Infrastructure
3. ICT Adoption
4. Macroeconomic Stability
5. Health
6. Skills
7. Product Market
8. Labor Market
9. Financial System
10. Market Size
11. Business Dynamism
12. Innovation Capability

Of the 12 GCI pillars, the economic stability pillar has a direct and significant link to sustainable development. Economic stability enables long-term planning and investment in sustainable projects, including renewable energy and green infrastructure. Here are the rankings of Indonesia, Malaysia, and Singapore based on the 4th pillar of the GCI, namely macroeconomics:

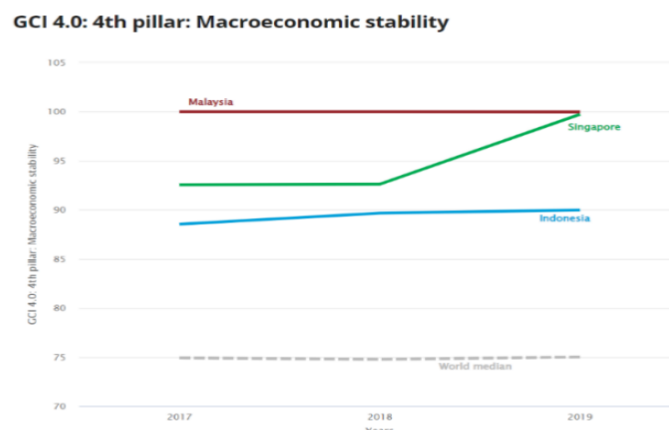


Figure 8: The 4th pillar of the GCI: Macroeconomic Stability  
Source: The World Bank (2020).

Macroeconomic stability, Islamic economic practices, and sustainable development are interrelated and mutually supportive. Islamic economics, with its just and sustainable principles, contributes to the macroeconomic stability necessary for sustainable development. By adopting Islamic economic practices, countries like Indonesia can achieve stable, equitable, and sustainable economic growth, which supports long-term prosperity for the entire society. Likewise, a stable macroeconomic environment creates conditions that allow for more effective application of Islamic economic principles, supporting equitable and sustainable growth.

Stable economic policies support long-term investments in sustainable projects, such as green infrastructure and environmentally friendly technologies. In addition, macroeconomic stability attracts more investment in sukuk (Islamic bonds), which are used to finance various infrastructure and sustainable development projects.

Macroeconomic stability enables long-term planning and investment in sustainable projects. This stability is important for attracting investment in green infrastructure and other projects that support economic and environmental sustainability. Macroeconomic Stability assesses the macroeconomic stability of a country, including:

- a) Controlled inflation rate.
- b) Stability and sustainability of government debt.
- c) Macroeconomic stability is important to create a safe environment for investment and economic growth.

### **Economic globalization**

Economic globalization is the process of economic integration between different countries around the world. It involves the exchange of goods, services, technology, capital, and information between countries, all of which is carried out through international trade flows, foreign investment, and the influence of information and communication technology. Here are some important aspects of economic globalization:

1. **International Trade**  
Economic globalization facilitates the exchange of goods and services between countries, both in the form of exports and imports. This includes the establishment of free trade agreements and regional economic alliances, such as the European Union or ASEAN.
2. **Foreign Investment**  
Multinational corporations play an important role in economic globalization by making foreign direct investments (FDI) in various countries. These investments may take the form of establishing new factories, acquiring local companies, or forming business partnerships.
3. **Capital Flow**  
Economic globalization creates a global financial market that enables cross-border capital flows. This includes portfolio investments, foreign exchange trading, and speculative capital movements.
4. **Labor Movement**  
Economic globalization also affects the movement of labour, either through increased international migration or through outsourcing and offshoring of production activities.
5. **Technology and Communication**  
The development of information and communication technology (ICT) has been a key driver of economic globalization. The Internet and digital communications have erased geographical boundaries, facilitating electronic commerce, service outsourcing, and global business collaboration.
6. **Financial Market Integration**  
The global financial market allows easy cross-border capital flows, but also brings risks such as the global financial crisis.

Economic globalization has a complex impact with several benefits and challenges. On the one hand, economic globalization can increase access to global markets, improve economic efficiency, and raise living standards in many countries. In the context of Islamic economics, globalization can provide a platform to promote Islamic economic principles, such as social justice, equitable distribution, and poverty alleviation. Here are the rankings of Indonesia, Malaysia, and Singapore in economic globalization:

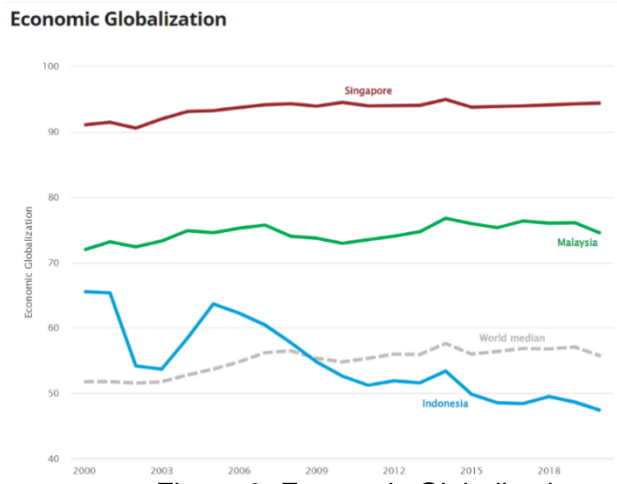


Figure 9: Economic Globalization  
Source: The World Bank (2024).

Economic globalization opens up opportunities for countries with Islamic economic systems to engage in international trade, attract foreign investment, and promote halal products and services. Meanwhile, Islamic economic principles, such as fairness in trade and the prohibition of usury, can influence global business practices by encouraging higher ethical standards. Islamic economics contributes to financial inclusion through Islamic financial products that conform to religious principles, which can be integrated into the global financial system.

Globalization can promote economic growth, but it can also lead to the unsustainable exploitation of natural resources. Therefore, it is important to integrate environmental policies within the framework of globalization. Globalization enables the transfer of green technologies and sustainable practices between countries, supporting sustainable development. On the other hand, globalization can magnify economic inequality. Therefore, sustainable development policies need to focus on equitable wealth distribution and social inclusion.

As for the interpretation of the graph, with a low level of globalization, access to international markets will be limited. This means products and services that adhere to Islamic economic principles, such as halal products, will have a smaller market and fewer opportunities for expansion. A low level of globalization also allows for minimal foreign direct investment (FDI) flows. This may affect emerging sectors of the Islamic economy, such as Islamic banking and sukuk (Islamic bonds), which may depend on global investors for growth and expansion.

In addition, low globalization may limit access to raw materials and technology needed to produce halal goods and services. This may affect the quality and quantity of halal products available in the market. Halal industries in countries with strong Islamic economies may face difficulties in exporting their products, which may hinder industry growth and reduce revenue.

**Comparative Analysis Table**

To provide a clearer comparison of Islamic economic pragmatism across the three countries, the following table summarizes the key differences:

Aspect	Indonesia	Malaysia	Singapore
Economic Base	Large population, low GDP per capita	Middle-income, export-oriented	High-income, global financial hub
Islamic Finance Driver	Domestic demand, Muslim population	Structured policy & dual banking system	International trade & financial strategy

Main Contract Dominance	Murabahah (consumptive financing)	Murabahah with growing diversification	Investment-based & cross-border finance
Regulatory Strength	Relatively weak	Strong and structured	Very strong and efficient
Islamic Finance Role	Domestic financial inclusion	National financial system integration	Global financial diplomacy tool
Key Pragmatism Factor	Economic necessity & perception	Policy liberalization	Economic strategy & global positioning
Sustainability Trend	Moderate progress, inequality issues	Strong financial growth, inequality concern	Strong environmental innovation

Table 1. Comparative Analysis of Islamic Economic Pragmatism in Indonesia, Malaysia, and Singapore

### Conclusion

From the description above, it is known that the pragmatism of Islamic economic practices is caused by many factors and occurs in various layers of society. In developing countries, the pragmatism of Islamic economics occurs at the level of middle- to lower-income groups, where individuals often prefer conventional banks due to the perception that the margins charged by Islamic financial institutions are higher than those of conventional financial institutions. This perception is influenced by both economic conditions and levels of education. At the state level, Islamic economic pragmatism is reflected in the use of Islamic economics as a tool for diplomacy and international economic cooperation among countries. The findings of this study indicate that pragmatic motives are embedded in both individual financial behavior and national policy strategies across Indonesia, Malaysia, and Singapore.

In terms of recommendations, government policy should be strengthened by ensuring that Islamic economic development strategies are more inclusive, competitive, and aligned with public welfare objectives, as well as improving integration between Islamic and conventional financial systems to enhance accessibility and public trust. In addition, regulatory strengthening is necessary to improve transparency, efficiency, and the overall quality of governance in Islamic financial institutions, which will contribute to higher institutional credibility and market confidence. Furthermore, public education plays a crucial role in improving Islamic financial literacy through structured education programs, community outreach, and integration into formal education systems, in order to reduce misconceptions regarding cost structures and financial products in Islamic banking. Finally, future research should expand its scope by incorporating primary data such as interviews with key stakeholders, as well as adopting broader comparative and longitudinal approaches to better capture the dynamic development of Islamic economic pragmatism across different contexts and time periods.

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