

Transformation of Islamic Economic Discourse: Academic Perspectives and Policy in Indonesia

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Abstract

This article investigates the discursive evolution of Islamic economics in Indonesia, focusing on the intersection of academic narratives and public policy. Employing a qualitative narrative approach, the research examines how Islamic economic thought has transitioned from theological idealism to policy pragmatism. The study utilizes document analysis of academic publications, institutional records, and regulatory texts, interpreted through theoretical frameworks including *maqāṣid al-sharī'ah*, discourse theory, and critical realism. Findings reveal a dynamic interplay wherein academic scholarship shapes and is shaped by policy developments. The establishment of Islamic financial institutions, curricular reforms in Islamic economics education, and the incorporation of *zakāt* and *waqf* into state policy illustrate this interaction. Ideologically, the field has diversified, accommodating multiple interpretations and promoting hybrid models that combine ethical fidelity with institutional functionality. The study contributes to the theoretical refinement of Islamic economics and offers practical insights for governance, pedagogy, and economic planning in Muslim-majority societies.

Keywords

Islamic economics; academic discourse; public policy; Indonesia; institutional transformation

Introduction

The rise of Islamic economics as a distinct discipline emerged from both the critique of conventional economic paradigms and the aspiration to establish a value-based system rooted in *al-sharī'ah al-Islāmiyyah*. Indonesia, the world's most populous Muslim-majority country, has been a key arena for such developments. Over the past few decades, Islamic economics in Indonesia has evolved from marginal intellectual debates to a significant component of national policy (Chapra, 2000; Kuran, 2004). This transformation is not merely institutional but discursive, as it involves shifts in how economic principles are conceptualized, taught, and implemented within the framework of Islam.

Academic engagement with Islamic economics has sought to reconcile normative ideals derived from Islamic sources with the demands of contemporary economic systems. Scholars have explored theoretical models that incorporate ethical considerations, social justice, and community welfare (*maṣlahah*) as core components (Naqvi, 1981, p. 37; Ariff, 1982). These models challenge the value-neutral assumptions of mainstream economics and promote alternatives grounded in *fiqh al-mu'āmalāt*. The Indonesian context, however, introduces unique dynamics, particularly the role of public policy in shaping and being shaped by academic discourse. The government's increasing involvement in Islamic financial regulation, education, and institutional design reflects this entanglement.

The literature reveals that while Islamic economics has matured in scholarly terms, its practical application remains contested. Some critics argue that state-led Islamic economic policies in Indonesia risk instrumentalizing religion for political or economic gain (Kuran, 2004; Warde, 2000). Others contend that such policies are necessary to legitimize and operationalize Islamic values within a pluralist and global economic environment (Siddiqi, 1981; El-Ashker & Wilson, 2006). This duality reflects a broader tension in Islamic economics between its identity as a religious project and its function as an economic tool. Navigating this tension requires critical analysis of how academic narratives intersect with state interests and public perception.

Although many studies address the history and theory of Islamic economics, few have systematically analyzed the narrative evolution of academic and policy discourses in Indonesia. Most existing works are either doctrinally driven or empirically narrow, failing to account for the ideological and institutional interplay that defines the Indonesian case (Zaman, 2002; Khan, 1994). There is a pressing need to examine how Islamic economics is framed and reframed in both academic literature and government policy. This study addresses this gap by offering a comprehensive narrative analysis of key texts, regulations, and institutional developments.

Accordingly, this research seeks to explore: (1) how the academic discourse of Islamic economics has evolved in Indonesia; (2) how public policy has interacted with and influenced this discourse; and (3) what institutional and ideological shifts have

occurred as a result of this interplay. The objectives are to reconstruct the historical and theoretical development of Islamic economic thought in Indonesia, assess its policy implications, and propose an integrative narrative framework that reflects both doctrinal integrity and policy relevance.

Literature Review

Islamic economics has garnered considerable scholarly attention, particularly in its attempt to integrate religious principles with modern economic thought. Foundational texts such as *Towards a Just Monetary System* by Chapra (1985, p. 21) and *Islamic Economics: A Survey of the Literature* by Siddiqi (1981) laid the groundwork for understanding Islamic economics not merely as an alternative to capitalism or socialism but as a distinct paradigm informed by ethical and spiritual values. These works emphasize the foundational principles of *justice ('adl)*, *prohibition of ribā*, and redistribution through *zakāt* as essential mechanisms of economic balance. Additionally, Al-Faruqi (1982, p. 64) underscored the civilizational mission of Islam as integral to economic activity, situating Islamic economics within the broader Islamic worldview (*tasawwur Islāmī*).

Scholarly perspectives evolved further with the contributions of Naqvi (1981, p. 118), who emphasized the human-centered nature of Islamic economics and proposed a value-laden methodology distinct from positivist economics. This normative approach, however, faced criticism from economists like Kuran (2004), who argued that Islamic economics lacked empirical robustness and theoretical coherence. Meanwhile, Ariff (1982) highlighted the need for methodological rigor and empirical substantiation, encouraging a balance between normative and positive elements. These tensions reflect an ongoing debate within the literature about the epistemological foundations of Islamic economics and its feasibility in contemporary economic systems.

In the Indonesian context, early works focused on institutional developments, such as the emergence of *Bank Muamalat Indonesia* and the role of *Majelis Ulama Indonesia* (MUI) in issuing fatwas on Islamic finance. However, there has been limited exploration of how academic narratives have evolved alongside these institutional innovations. Scholars such as Asutay (2007) and Warde (2000) stressed the need to examine the interaction between state policy and Islamic economic discourse. Yet, their focus remained largely on the Middle East and Western Muslim communities, leaving a gap in understanding the unique Indonesian trajectory. This study aims to fill that void by synthesizing theoretical debates with empirical developments in Indonesia.

Theoretical Framework

The analytical foundation of this study is built upon the interconnection between Islamic epistemology and contemporary discourse theory. At its core, Islamic

economics draws upon *fiqh al-mu'āmalāt*, the body of jurisprudence regulating transactions, and aligns economic behavior with *maqāṣid al-sharī'ah*—the overarching objectives of Islamic law. According to Chapra (2000), these objectives include the preservation of faith, life, intellect, progeny, and wealth, which collectively inform a moral compass for economic governance. This theoretical framework provides the ethical orientation of Islamic economics, distinguishing it from secular models that often adopt utilitarian or consequentialist foundations.

The concept of discourse, as articulated by Foucault (1972) and later expanded within Islamic contexts by Zaman (2002), serves as a tool for understanding the evolution of academic and policy narratives. Discourses are not merely linguistic expressions but regimes of truth that structure knowledge production and social institutions. In this regard, Islamic economic discourse reflects power relations and ideological formations within society. The Indonesian context presents a case where religious discourse interacts with bureaucratic rationality, generating hybrid forms of policy and institutional practices (El-Ashker & Wilson, 2006).

Institutional theory, particularly the neo-institutionalist approach, also underpins this study. North (1990) argued that institutions evolve as both formal rules and informal norms, shaped by cultural and historical contexts. Islamic economic institutions in Indonesia, such as Islamic banks and zakāt bodies, function within this duality—adopting formal legal structures while negotiating with religious traditions. Siddiqi (1981) emphasized the necessity of context-sensitive institutional design that does not compromise the ethical integrity of Islamic economics.

The sociology of knowledge, especially Berger and Luckmann's (1966) work on social construction, further complements this study. Knowledge, including that of Islamic economics, is not static but constructed through dialogic interactions among scholars, policymakers, and religious authorities. This perspective allows for the examination of academic texts and policy documents as narrative artifacts that both reflect and construct socio-economic realities. In Indonesia, this dynamic is evident in how Islamic economics curricula, policy white papers, and fatwas collectively shape public understanding and institutional practice.

Moreover, critical realism as a meta-theoretical lens helps bridge the normative and empirical dimensions of Islamic economics. Bhaskar (1978) contended that social science must account for the stratified nature of reality—comprising the empirical, the actual, and the real. Applying this to Islamic economics implies that visible institutional changes are underpinned by deeper discursive and ideological transformations. This framework enables a critical interrogation of not just what Islamic economic policies claim to do, but what they actually achieve within the socio-political milieu.

Finally, the integration of these theoretical strands—Islamic jurisprudential ethics, discourse theory, institutional analysis, sociology of knowledge, and critical realism—provides a robust platform for analyzing the transformation of Islamic economic discourse in Indonesia. It allows the research to move beyond descriptive accounts and

engage with the epistemological, ideological, and institutional dimensions that shape both academic narratives and policy outcomes.

Previous Research

Early scholarly efforts to define Islamic economics were heavily normative, focusing on values, principles, and religious obligations. Siddiqi (1981) offered one of the first comprehensive definitions, highlighting Islamic economics as a system centered on justice, brotherhood, and prohibition of *ribā*. His work, based on doctrinal sources, served as a foundational text for subsequent research. However, it lacked a concrete application framework, limiting its empirical utility. This gap was partially addressed by Naqvi (1981, p. 105), who explored the humanistic and moral economy inherent in Islam, proposing a model that integrated ethics and economics. Yet, his work remained theoretical and underdeveloped in institutional terms.

By the mid-1980s, attention shifted to institutional feasibility. Chapra (1985, p. 93) analyzed monetary policy and financial institutions in an Islamic context, arguing that Islamic economics could function within existing global systems if guided by Islamic moral imperatives. He emphasized *shūrā* (consultation) and *maslahah* as policy foundations, advocating for reformed but not isolated Islamic institutions. Ariff (1988) continued this thread by assessing the operational challenges faced by Islamic banks, pointing out discrepancies between ideal theory and market realities. His research was instrumental in highlighting the need for adaptive policy design in Islamic economic implementation.

In the 1990s, Kuran (1994) provided a seminal critique, arguing that Islamic economics was more ideological than analytical. He contended that the field lacked rigorous methodological tools and empirical validation. While controversial, his critique prompted scholars to refine their approaches and develop more robust frameworks. Khan (1995) responded by emphasizing the diversity within Islamic economics, asserting that its pluralistic methodologies could be a strength if grounded in systematic analysis. His work represented a call for interdisciplinary engagement and contextual sensitivity.

The early 2000s saw a growing interest in the intersection of Islamic economics and public policy. Warde (2000) examined Islamic finance as a global phenomenon, noting its increasing institutionalization and regulatory complexity. Though his focus was global, his insights apply to Indonesia's evolving Islamic financial infrastructure. Asutay (2007) later expanded on this by introducing the idea of "Islamic moral economy," advocating for a holistic model that balances profitability and ethical commitment. He emphasized the importance of civil society and ethical governance, themes increasingly relevant in Indonesian economic discourse.

Despite these advances, few studies have systematically examined the Indonesian case through a narrative framework. Most works either address regulatory aspects or

general theological principles, missing the evolving discourse that links academia and policy. The research gap lies in understanding how academic perspectives and public policy co-evolve, particularly in a pluralist and democratic context like Indonesia. This study aims to fill that void by constructing a narrative that captures institutional shifts, ideological tensions, and epistemological developments in Indonesian Islamic economics.

Research Methods

The type of data utilized in this study is qualitative and textual, comprising academic publications, public policy documents, and institutional reports. This aligns with the research objective of understanding discursive transformations rather than measuring economic outputs. As Flick (2002, p. 46) argues, qualitative data is particularly effective in capturing meanings, interpretations, and evolving narratives. Such data allows the study to delve into how Islamic economic thought has been constructed, contested, and applied in Indonesia over time.

The primary data sources include peer-reviewed journal articles, Islamic economics textbooks, national policy papers, *fatwas* from the *Majelis Ulama Indonesia (MUI)*, and institutional publications from Bank Indonesia and BAZNAS. These sources provide both academic and policy perspectives essential for narrative analysis. According to Denzin and Lincoln (2000, p. 102), triangulating across different textual sources enhances credibility and depth, allowing for a comprehensive examination of ideological shifts. Classical Islamic texts and international works also serve as background sources to contextualize the Indonesian discourse.

The data collection technique employed is document analysis, which involves systematic examination and interpretation of texts to uncover patterns, themes, and meanings (Bowen, 2009, p. 29). This method is particularly suitable for analyzing evolving discourses, as it enables the researcher to track changes in terminology, conceptual framing, and policy orientation over time. By focusing on key academic publications and policy texts from 1990 to 2009, the study ensures consistency with the historical scope required.

The data analysis technique used is thematic analysis, which involves identifying, analyzing, and reporting recurring themes within the data (Braun & Clarke, 2006). This method is well-suited to discourse-based research, as it allows for categorizing data according to thematic clusters such as "Islamic economic ethics," "policy pragmatism," and "institutional hybridity." It also facilitates comparative analysis between academic and policy narratives, revealing convergence or divergence in their evolution. Ryan and Bernard (2000) emphasized that thematic analysis supports the development of grounded theory while allowing flexibility in interpretation.

Conclusion drawing in this study is achieved through iterative synthesis, where themes are integrated to construct a coherent narrative that answers the research questions.

As Miles and Huberman (1994, p. 276) argue, qualitative conclusions must emerge from continuous interaction with the data, theory, and research objectives. This study, therefore, iteratively revisits the theoretical framework and empirical data to develop conclusions that are both conceptually grounded and contextually relevant. The final analysis reflects a holistic understanding of how Islamic economic discourse has transformed in Indonesia through academic and policy interactions.

Results and Discussion

The transformation of Islamic economic discourse in Indonesia cannot be understood without examining the interplay between academic theory and public policy. The theoretical framework established in this study—rooted in *maqāṣid al-sharī'ah*, discourse theory, institutionalism, and sociology of knowledge—provides a lens through which this interplay becomes visible. Early Islamic economic scholarship focused primarily on normative ideals, but the Indonesian experience illustrates how these ideals are reinterpreted in the context of policy-making and institutional demands. For instance, the transition from idealistic to pragmatic narratives reflects not a dilution of Islamic principles, but a strategic adaptation to the realities of state governance (Chapra, 2000; El-Ashker & Wilson, 2006).

Previous research has outlined the dichotomy between normative and empirical models in Islamic economics (Kuran, 1994; Khan, 1995). However, few have examined how this dichotomy is negotiated within a specific national context. In Indonesia, academic discourse has increasingly engaged with policy language, producing hybrid narratives that borrow from both Islamic ethical precepts and economic pragmatism. This hybridization aligns with the critical realist perspective, which recognizes that institutional forms often mask deeper ideological transformations (Bhaskar, 1978). Thus, what appears as policy compliance may in fact signify discursive reorientation, enabling Islamic economics to remain relevant within Indonesia's pluralistic democracy.

A significant shift has been the institutionalization of Islamic economic thought through educational curricula, financial regulation, and fatwa issuance. These institutions have not only disseminated knowledge but have actively shaped it. The *Majelis Ulama Indonesia* and Islamic higher education institutions, for example, have framed Islamic economic principles in ways that align with national economic strategies. This co-production of knowledge by religious and state actors demonstrates Berger and Luckmann's (1966) thesis on the social construction of reality. The study of these interactions reveals the mechanisms through which Islamic economic discourse gains legitimacy and authority in public policy.

New expert perspectives suggest that Indonesia's case may serve as a model for reconciling Islamic values with modern economic governance. Unlike in some Middle Eastern contexts where Islamic economics remains a niche academic pursuit or a state-

imposed ideology, the Indonesian experience shows a more dialogical process. The involvement of civil society, academia, and policymakers has created a participatory discourse that both shapes and reflects public consciousness. This participatory nature underscores the potential of discourse theory in explaining how Islamic economic principles can be democratized and localized without losing their normative core (Asutay, 2007).

This general narrative underscores the contribution of this research in filling a critical gap: the need for a narrative-based, context-sensitive understanding of Islamic economic transformation. By highlighting the Indonesian experience, the study adds nuance to global Islamic economics discourse, which often overlooks regional variations. It also provides methodological innovation by integrating narrative analysis with critical realism, enabling a layered interpretation of discursive shifts. The next sections delve into the thematic findings aligned with the study's research questions, further unpacking how academic and policy discourses interact to shape Islamic economic thought in Indonesia.

1. Academic Evolution: From Theological Idealism to Applied Frameworks

The first research question addresses how the academic discourse of Islamic economics has evolved in Indonesia. Initially grounded in theological idealism, Indonesian Islamic economic scholarship focused heavily on scriptural interpretation and moral exposition. Scholars such as Siddiqi (1981) and Naqvi (1981, p. 105) emphasized the spiritual dimensions of economics, positioning *taqwā*, *ʿadl*, and *zakāt* as core principles. Indonesian academics during the 1980s and 1990s adopted these perspectives, producing works centered on the re-Islamization of economic life. This phase reflected a strong commitment to Islamic ethics, but it lacked operational clarity, limiting its practical influence on policy and financial regulation.

In the early 2000s, academic narratives began to shift toward applied frameworks. Institutions such as the Islamic University of Indonesia and Universitas Islam Negeri (UIN) introduced curricula that integrated Islamic economics with conventional economic theory, including quantitative methods and policy analysis. This marked a discursive transformation from a solely *taʿlīmī* (educational) to a *taṭbīqī* (applied) orientation. Scholars like Antonio (2001) and Ascarya (2004) began exploring Islamic finance instruments such as *sukuk* and *mushārah*, creating models compatible with national development plans. These developments reflect the growing institutionalization and professionalization of Islamic economics in Indonesia.

This evolution was not without contestation. Conservative scholars criticized the integration of Western economic tools as diluting the Islamic essence of the discipline. However, others argued that such synthesis was necessary for Islamic economics to remain relevant in a globalized policy environment (Ariff, 1988; El-Ashker & Wilson, 2006). The tension between authenticity and applicability became a recurring theme, reflecting broader debates in the field about epistemological boundaries and

methodological pluralism. This discourse tension catalyzed theoretical refinement and interdisciplinary approaches in Indonesian academic circles.

Furthermore, academic discourse began to incorporate policy analysis, signaling a shift toward state-relevant research. Publications increasingly addressed issues such as *Islamic banking regulation*, *halal industry development*, and *poverty alleviation through zakāt*. This transition was partly driven by government interest in Islamic economic instruments as tools for inclusive development. Scholars adapted their frameworks to meet the needs of policymakers, producing hybrid narratives that blend Islamic values with technocratic language. This convergence illustrates the influence of policy feedback mechanisms in academic discourse development (North, 1990; Asutay, 2007).

By the late 2000s, Indonesian Islamic economics had matured into a multidimensional discipline. It encompassed moral philosophy, institutional design, financial instruments, and public policy critique. This diversification was facilitated by expanded international collaboration, including conferences, joint publications, and participation in global Islamic finance forums. Such engagements introduced new theoretical inputs and exposed Indonesian scholars to comparative models, enriching domestic discourse while anchoring it in local realities. This global-local dynamic aligns with the sociology of knowledge theory, where epistemic communities influence each other across borders (Berger & Luckmann, 1966).

Finally, academic discourse also expanded into popular media and civil society. Indonesian economists published in national newspapers, delivered public lectures, and contributed to Islamic education initiatives, thereby broadening the reach of their ideas. This dissemination reflects a shift from exclusive scholarly circles to public intellectual engagement, reinforcing the legitimacy and visibility of Islamic economics. It also demonstrates the dialogic nature of discourse production, where academic, public, and policy narratives mutually inform one another.

2. Policy Convergence: Shaping and Shaped by Islamic Economic Thought

The second research question examines how public policy in Indonesia has interacted with and influenced Islamic economic discourse. This relationship is characterized by both top-down policy initiatives and bottom-up academic advocacy. In the 1990s, the Indonesian government began formally recognizing Islamic financial institutions, starting with the establishment of Bank Muamalat Indonesia in 1991. This policy milestone was influenced by academic lobbying and international models, particularly those from Malaysia and the Gulf states (Warde, 2000). It also marked the state's first active engagement with Islamic economics as more than a religious or cultural phenomenon, legitimizing it as a policy tool for national development.

The influence of public policy on academic discourse became evident through regulatory reforms and institutional development. The Indonesian Financial Services Authority (OJK) and Bank Indonesia issued a series of regulations that standardized *shari'ah*-compliant practices across financial sectors. These policy shifts prompted

scholars to focus more on regulatory compliance, financial product innovation, and institutional governance. Academic publications increasingly addressed risk management in Islamic banks, capital adequacy under Basel accords, and the operationalization of *murābahah* and *wakālah* contracts (El-Ashker & Wilson, 2006). This redirection of scholarly inquiry highlights how policy frameworks can reorient academic priorities and discourse.

In parallel, public policy began to incorporate Islamic economic principles into national development strategies. Presidential decrees and ministerial regulations promoted the use of zakāt and waqf as poverty alleviation mechanisms, aligning with Islamic distributive justice ideals. The institutionalization of BAZNAS (Badan Amil Zakat Nasional) exemplifies how Islamic concepts entered mainstream policy language. Scholars responded by developing frameworks to evaluate zakāt's macroeconomic impact, thereby reinforcing its credibility in policy planning (Chapra, 2000). This feedback loop illustrates how academic discourse adapts to and legitimizes state policy initiatives, creating a co-productive dynamic.

Yet, this convergence also introduced tensions. Critics argued that the state's selective appropriation of Islamic economic concepts risked instrumentalizing religion for political legitimacy rather than genuine reform (Kuran, 2004). The use of Islamic finance as a development tool raised concerns about commodification of faith and the potential erosion of ethical integrity. Academic responses were mixed: some defended the pragmatic turn as necessary for broader acceptance, while others warned of theological dilution and technocratic reductionism (Naqvi, 1981, p. 106; Ariff, 1988). These debates reflect ongoing negotiations between policy relevance and religious authenticity.

The policy-academic interaction also influenced educational policy. Government support for Islamic economics programs in public universities led to the creation of standardized curricula, textbooks, and accreditation procedures. While this institutionalization expanded academic opportunities, it also introduced bureaucratic constraints that could limit intellectual diversity. Nevertheless, scholars seized these opportunities to innovate pedagogically, incorporating case studies, simulations, and real-world projects into their teaching (Siddiqi, 1981; Khan, 1995). This engagement reflects the mutual reinforcement between policy implementation and academic development, wherein state recognition enhances academic legitimacy, which in turn feeds into policy design.

International partnerships further solidified the policy-academic nexus. Indonesia's cooperation with Islamic Development Bank (IDB), the OIC, and Malaysia's Islamic finance sector facilitated knowledge transfer and best practices adoption. Conferences and technical workshops often included policymakers and academics, fostering interdisciplinary dialogue. This transnational interaction informed both domestic policy and academic research, embedding Indonesia within a global Islamic economic network. Such developments underscore the importance of internationalization in shaping localized Islamic economic discourse (Asutay, 2007).

Ultimately, public policy has played a dual role—both as a catalyst and a filter for Islamic economic thought in Indonesia. While it has facilitated institutional growth and theoretical innovation, it has also imposed frameworks that may constrain alternative perspectives. The Indonesian experience demonstrates that Islamic economic discourse is not merely a scholarly endeavor but a policy-relevant domain shaped by governance structures, regulatory dynamics, and socio-political interests.

3. Institutional and Ideological Realignments in Indonesian Islamic Economics

The third research question explores the institutional and ideological shifts resulting from the interplay between academic discourse and public policy in Islamic economics in Indonesia. These shifts reflect the adaptation of Islamic economic principles to contemporary state structures and global economic frameworks. Initially, Islamic economics in Indonesia was largely a grassroots movement, driven by Islamic organizations and independent scholars promoting financial ethics and social justice. However, as the state began incorporating Islamic financial institutions and educational programs into its bureaucratic structure, a significant institutional realignment occurred (Chapra, 2000; Ariff, 1988).

This institutional transformation is evident in the formalization of Islamic financial entities such as Islamic banks, microfinance cooperatives, and zakāt boards. The standardization of these institutions through OJK regulations and MUI fatwas has both legitimized and bureaucratized Islamic economic practice. These entities now operate within frameworks modeled after conventional financial institutions, albeit with Islamic ethical guidelines. This process reflects North's (1990) theory of institutional evolution, where informal religious norms become codified into formal economic systems. However, it also raises concerns about the potential marginalization of indigenous or alternative interpretations of Islamic economics.

Ideologically, there has been a shift from radical critiques of capitalism to more accommodative positions that seek to work within existing economic systems. Early Islamic economists in Indonesia viewed capitalism as fundamentally incompatible with Islamic values. Over time, however, academic discourse has softened this stance, focusing instead on ethical reform and inclusivity within the capitalist framework. Scholars such as Antonio (2001) and Ascarya (2004) advocate for value-driven capitalism that incorporates *al-akhlāq al-karīmah* (noble ethics). This ideological shift mirrors the transition from revolutionary to reformist models of Islamic economic thought and aligns with the critical realist framework, which emphasizes underlying structural continuity amidst surface-level changes (Bhaskar, 1978).

The curricular shift in Islamic economic education also reflects ideological realignment. Earlier curricula prioritized *fiqh*-based instruction, emphasizing jurisprudential sources and religious obligations. Today, however, academic programs in Indonesian universities include courses on banking regulation, financial accounting, and

quantitative methods. This shift responds to policy demands and market realities but also signals a reconceptualization of what constitutes Islamic economics. The result is a hybrid model that blends theological content with professional competencies, producing graduates who are both ethically grounded and technically skilled (Siddiqi, 1981; Khan, 1995).

Furthermore, ideological pluralism within Islamic economics in Indonesia has expanded. There is now greater tolerance for diverse interpretations of *shari'ah*-compliant finance and economic justice. Liberal and progressive Islamic scholars advocate for gender-inclusive financing, environmental sustainability, and participatory governance within Islamic economic frameworks. These views were marginal in earlier discourse but have gained traction through academic publications, policy workshops, and civil society engagement (Naqvi, 1981, p. 99; El-Ashker & Wilson, 2006). This pluralism reflects Berger and Luckmann's (1966) view that knowledge systems evolve through negotiation among various social actors.

Institutionally, Islamic economic actors have also diversified. In addition to state agencies and religious bodies, private institutions, NGOs, and international partners now contribute to policy design and academic research. This diversification has enabled more inclusive and dynamic discourse but also introduced competition over interpretive authority. The MUI, for instance, has faced challenges from newer think tanks and academic centers that propose alternative *fatwas* or analytical models. Such tensions exemplify Foucault's (1972) notion of competing discourses, where legitimacy is contested and renegotiated across institutional boundaries.

Finally, the ideological realignment includes a growing recognition of *maqāṣid al-shari'ah* as a unifying framework. Once seen as abstract legal theory, *maqāṣid* is now widely invoked in both academic and policy discussions as a tool for evaluating the socio-economic impact of Islamic policies. This shift marks a convergence between traditional jurisprudence and modern evaluative frameworks, enhancing the applicability of Islamic economics in public governance. It also demonstrates the internal dynamism of Islamic thought and its capacity to engage with contemporary policy needs while remaining rooted in ethical imperatives.

Core Findings and Pathways Forward

This study has explored three central questions regarding the transformation of Islamic economic discourse in Indonesia: the evolution of academic narratives, the influence of public policy on these narratives, and the resulting institutional and ideological realignments. The findings confirm that Islamic economics in Indonesia has undergone a significant metamorphosis—from doctrinal idealism to a pragmatic and policy-engaged discipline. Academic discourse has matured, embracing applied methods and policy-relevant analysis while retaining core Islamic ethical principles. This transition has been catalyzed by the development of Islamic higher education, scholarly

engagement with international frameworks, and the increasing integration of Islamic finance into Indonesia's economic planning.

Public policy, in turn, has not only incorporated Islamic economic principles but actively shaped their academic articulation. Through regulatory frameworks, institutional support, and curricular reforms, the Indonesian state has facilitated the formalization and professionalization of Islamic economics. This reciprocal relationship—where academic discourse informs policy and vice versa—has resulted in a co-evolutionary process that reflects Indonesia's unique socio-religious and political context. The institutionalization of zakāt, the growth of *sharī'ah*-compliant financial markets, and the mainstreaming of Islamic economic education exemplify this synergy.

Institutionally and ideologically, Islamic economics in Indonesia has moved toward greater pluralism and inclusivity. It now accommodates a spectrum of interpretations, ranging from traditionalist to reformist. This ideological expansion has allowed Islamic economics to respond to emerging global challenges such as gender equity, environmental sustainability, and social justice. At the same time, the emphasis on *maqāṣid al-sharī'ah* has provided a coherent normative framework that aligns ethical imperatives with measurable development outcomes. The hybridization of discourse—blending theological, academic, and policy elements—has positioned Indonesia as a potentially influential voice in the global Islamic economic landscape.

The theoretical implications of this study lie in its narrative reconstruction of the discursive evolution within Islamic economics, offering a nuanced understanding of how conceptual frameworks have shifted over time. By integrating discourse theory and critical realism, the study presents a robust analytical lens that captures the dynamic interplay between ideas, institutions, and socio-economic contexts. This approach enhances our understanding of how Islamic economic knowledge is not only produced but also shaped, contested, and operationalized within institutional environments that are themselves embedded in historical and cultural specificities. The framework put forth bridges abstract theoretical insights with concrete institutional practices, illuminating the processes by which normative claims gain traction and policy relevance.

Moreover, the study refines and extends the application of *maqāṣid al-sharī'ah* (the higher objectives of Islamic law), demonstrating its conceptual versatility beyond traditional jurisprudence. It shows how *maqāṣid* can serve as a guiding framework for public policy formulation, economic development strategies, and institutional governance—particularly in contexts that require both religious legitimacy and socio-economic responsiveness. This reconceptualization situates *maqāṣid* not merely as a legal tool, but as a multidimensional ethical compass capable of informing broader debates in economic justice, welfare policy, and sustainable development within Islamic paradigms.

Practically, the study offers valuable insights for policymakers, educators, and institutional actors engaged in Islamic economic reform. It advocates for a model of engagement that upholds theological authenticity while remaining responsive to modern economic challenges. This includes aligning institutional mandates with ethical imperatives, fostering interdisciplinary dialogue, and promoting reflective policy design grounded in Islamic values. Such a model could serve as a strategic blueprint for the continued development of Islamic economics, particularly in other pluralistic Muslim-majority societies where balancing tradition and innovation is an ongoing concern.

Conclusion

This research has traced the transformation of Islamic economic discourse in Indonesia, revealing a dynamic interplay between academic theorization, public policy, and institutional practice. The study found that academic discourse evolved from normative idealism into a more applied and policy-relevant form, reflecting both internal intellectual development and external socio-political demands. Public policy not only adopted Islamic economic principles but also redirected academic agendas, leading to a reciprocal and mutually reinforcing relationship. Institutional and ideological shifts further demonstrated how Islamic economics in Indonesia has adapted to contemporary realities without abandoning its ethical foundations.

The findings reaffirm the theoretical alignment between Islamic jurisprudential ethics and modern discourse analysis. They also underscore the contribution of Indonesian Islamic economics to global scholarship through its unique integration of *sharī'ah* principles and pragmatic governance. This synthesis presents a promising model for balancing authenticity and applicability in Muslim-majority societies grappling with modernization and globalization.

Based on these insights, practical recommendations include strengthening interdisciplinary research, promoting inclusive discourse through civil society, and refining policy tools grounded in *maqāṣid al-sharī'ah*. For future research, longitudinal studies on institutional behavior and empirical assessments of Islamic economic policies could deepen understanding of their real-world impact. By embracing both normative ideals and contextual realities, Islamic economics in Indonesia can continue to evolve as a robust and relevant paradigm.

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