

Contesting Legitimacy: Rethinking the Role of Islamic Political Economy in Shaping Indonesia's Halal Industry

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Abstract. *This study critically examines the dynamics of legitimacy in the development of the Indonesian halal industry through an Islamic political economy approach. This article presents a multidimensional analysis of the intersection between political power and Islamic values by integrating Neo-Institutional Sociology Theory (emphasizing the role of norms and institutional legitimacy) with the classical views of Ibn Khaldun (governance, justice, wealth, and sharia law). The findings indicate a shift in halal sector governance from fulfilling sharia-based economic justice to political interests and power consolidation that have created inequality between sub-sectors influenced by selective regulation, political intervention, and instrumentalization of Islamic norms. Three conceptual frameworks are offered: (1) Islamic Political Economy in the Halal Industry; (2) The Urgency of Re-Islamizing Halal Governance; and (3) State Politics in the Formation of Islamic Economic Institutions. All three are synthesized in the Islamic Political Economy Model as a critical analytical tool to evaluate the dynamics of power and institutional legitimacy in the halal economy.*

Keywords: *Islamic political economy; halal industry; institutional legitimacy; maqāsid al-sharī'ah; Indonesia; neo-institutional theory; Ibn Khaldun*

Abstrak. *Studi ini mengkaji secara kritis dinamika legitimasi dalam pengembangan industri halal Indonesia melalui pendekatan ekonomi politik Islam. Artikel ini menyajikan analisis multidimensional atas persinggungan antara kekuatan politik dan nilai-nilai Islam dengan mengintegrasikan Teori Sosiologi Neo-Institusional (menekankan peran norma dan legitimasi kelembagaan) dengan pandangan klasik Ibn Khaldun (tata kelola, keadilan, kekayaan, serta hukum syariah). Temuan utama menunjukkan adanya pergeseran tata kelola sektor halal dari pemenuhan keadilan ekonomi berbasis prinsip syariah menuju kepentingan politik dan konsolidasi kekuasaan yang menimbulkan ketimpangan antar subsektor yang dipengaruhi oleh regulasi selektif, intervensi politik, dan instrumentalisasi norma Islam. Tiga kerangka konseptual ditawarkan: (1) Ekonomi Politik Islam dalam Industri Halal; (2) Urgensi Re-Islamisasi Tata Kelola Halal; dan (3) Politik Kenegaraan dalam Pembentukan Institusi Ekonomi Islam. Ketiganya disintesis dalam Model Ekonomi Politik Islam sebagai alat analisis kritis untuk mengevaluasi dinamika kekuasaan dan legitimasi kelembagaan dalam ekonomi halal.*

Kata kunci: *ekonomi politik Islam; industri halal; legitimasi kelembagaan; maqāsid al-sharī'ah; Indonesia; teori neo-institusional; Ibn Khaldun*

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Introduction

Indonesia aims to be the global hub for Islamic economics and finance by 2024. President Joko Widodo launched the Indonesian Sharia Economic Masterplan (MEKSI) in 2019, focusing on six key sectors: Islamic finance, halal food and beverages, Muslim-friendly tourism, Modest fashion, Islamic media and entertainment, and halal pharmaceuticals and cosmetics (KNEKS, 2019). According to the State of the Global Islamic Economy (SGIE) Report, Indonesia is ranked 3rd after Malaysia and Saudi Arabia in terms of average sharia economic development in the world (Dinar Standard, 2023). The following are the details of Indonesia's ranking: 1. The Halal Food and Beverage sector was announced in fourth position in 2021, and second position in 2022 and 2023; 2. Muslim clothing has been in third place for three consecutive years. 3. Halal Pharmaceuticals and Cosmetics fell from sixth place in 2021 to ninth in 2022, then managed to rise to fifth in 2023. 4. Media and Recreation sat in fifth place in 2021, dropped tragically to 23rd in 2022, and managed to rise to sixth in 2023. 5. Muslim Friendly Tourism in sixth place in 2021, falling below 10th in 2022, and falling below 10th in 2023. 6. The Islamic Finance Sector was ranked sixth in 2021 and 2022, but fell to seventh in 2023.

The guidance of Sharia practice by the National Sharia Council of the Indonesian Ulema Council (DSN-MUI) plays a crucial role in shaping the halal industry. For example, the council issued a fatwa in 2004 to regulate bank interest in Islamic law. Politics has also influenced the development of the Islamic economy in Indonesia, and it started with the Islamic finance sector, i.e., Islamic bank, to be specific. Government policy in supporting the existence and development of Islamic economy institutionally has existed for a long time, since the administration of President Soeharto (1968-1998), when the president approved the establishment of Bank Muamalat Indonesia in 1992, likewise during the administration of President Bacharuddin Jusuf Habibie (1998-1999) where the Sharia movement was increasingly gaining momentum. Even though there was no significant progress during the time of President Abdurrahman Wahid (1999-2001) and President Megawati Soekarnoputri (2001-2004), the Islamic economy, especially Islamic finance, was still running well.

During the time of President Susilo Bambang Yudhoyono (SBY) (2004-2014), the president signed Law of the Republic of Indonesia 41 of 2004 concerning *Waqf*. Then, the public was invited by Mrs. Ani Yudhoyono (The First Lady) to "Ayo ke Bank," which was continued into an invitation to Islamic banks through the logo "Ayo ke Bank Syariah" in 2009. SBY also approved Law No. 23 of 2011

concerning Zakat Management and repealing Law No. 38 of 1999 concerning Zakat Management. Then, SBY inaugurated the Sharia Economic Movement (GRES/*Gerakan Ekonomi Syariah*) on 17 November 2013. Furthermore, during SBY's time, the Hajj Financial Management Agency (*Badan Pengelola Keuangan Haji/BPKH*) was also established as an Indonesian state institution that manages Hajj finances, which was formed based on Law No. 34 of 2014. Law Number 33 of 2014 concerning Halal Product Guarantee (JPH) was also issued, which was ratified by SBY on 17 October 2014.

After the SBY administration, government support for Islamic economic movement was continued in the government of President Joko Widodo (Jokowi) (2014-2019, 2019-2024), namely by continuing the mandate of Law no. 34 of 2014 by inaugurating the management of the Hajj Financial Management Agency (BPKH) based on the Presidential Regulation of the Republic of Indonesia Number 110 of 2017 concerning the Hajj Financial Management Agency which details the management structure. Then, the government, through Bank Indonesia, initiated the Indonesia Sharia Economic Festival (ISEF) movement has been held every year from 2014 until today, and was named the largest sharia event according to MURI Records. Both President RI and Vice President RI, Jokowi Ma'ruf Amin, stated that Indonesia must be at the forefront in the field of Islamic economics and finance at the global level. This political vision was then facilitated by establishing the National Islamic Finance Committee (KNKS) on 8 November 2016 to help accelerate Islamic financial performance, which ultimately strengthened the improvement of the national economy.

On 10 February 2020, the government changed the name from The National Committee for Sharia Economy and Finance (KNEKS) to include economy, capturing a wider scope. To aid in the post-COVID-19 economic recovery, the government implemented various measures, including the launch of the National Cash Waqf Movement (GNWU) with the aim of reducing social problems and promoting equitable development in remote areas of Indonesia. The government emphasized the importance of developing and managing Islamic finance institutions to achieve economic justice. The government has introduced innovative products and services, such as waqf-linked sukuk, and established the Halal Industrial Zone and social finance industry. Bank Syariah Indonesia (BSI) was created through the merger of three state-owned banks, and Regional Sharia Economic and Financial Committees (KDEKS) were established in several provinces. The previous government highlighted the importance of positioning Indonesia as a global center for the Islamic economy and finance. For instance,

Vice Presidential Candidate Ma'ruf Amin emphasized the need for its development during the 2019 presidential campaign. His influence as the former Chairman General of the National Sharia Council-Indonesian Ulema Council (DSN-MUI) and his leadership within Nahdatul Ulama (NU) add weight to this cause.

Political parties in Indonesia generally show commitment to implementing Sharia, although to varying degrees, with policies aimed at strengthening political legitimacy (Ikhwan, 2018). This includes the case of Prabowo and Gibran (the elected President and Vice President) of Indonesia, who firmly announced continuing the previous legacy in promoting Islamic economic movement (Bisnis, 2024). Therefore, it is essential to be cautious of various stakeholders' interests in the development of the halal industry sectors. Thus, the objective of this paper is to examine political policies shaping the development of Indonesia's halal industry and identify the main challenges in managing the Islamic political economy across the halal industry sectors.

The paper provides an overview of Islamic political economy and the Indonesian halal industry, explains the methodology, and discusses the relationship between Islamic political economy and the halal industry in Indonesia. The paper concludes with recommendations for further studies.

The word "politics" originates from the Greek word "polis," meaning "city" or "city-state." Derivatives of this word, such as "polytheism" and "politicians," relate to citizenship. In the Indonesian context, politics refers to knowledge about state administration (Damanik, 2020). The word "economy" has multiple definitions, including individual affairs, resource allocation, decision-making, social customs, and interactions with political society (Backhouse & Medema, 2009). From an academic point of view, economics is the study of how individuals coordinate their wants and desires within the societal context (Bilous, 2020). Adam Smith introduced the term "political economy" in his book "Wealth of Nations" in 1776, which laid the foundation for understanding wealth creation and economic systems. Adam Smith, who was known as the "father of economics" due to his theories on capitalism and free markets, used the term "political economy" to analyze the interaction between politics and economics (Samuels, 1976). In the Islamic context, politics and economics are discussed when examining the development of Islamic economics and its interaction with various stakeholders (Asutay, 2007; Kahf, 1991). Political economy refers to the practical actions taken by the state to influence the economy for the benefit of society. It encompasses various policies and methods aimed at achieving economic objectives. The term can also be used in a narrow sense to address specific policy issues.

Before the time of Adam Smith, political economy was already practiced, especially in the context of taxation in Islamic states such as the Umayyad, Abbasid, and Ottoman dynasties. The term "Islamic political economy" was introduced by Masudul Alam Choudhury in 2005, influenced by the rapid development of Sharia-compliant finance since the 1960s. He also developed the Theory of Islamic Political Economy, which incorporates the concept of Tawhid (the unity of God) as the epistemological basis for understanding Islamic economics. Islamic finance emerged as part of Islamic economics but later moved towards a more capitalist direction, deviating from the principles of Islamic economics. Islamic economics aimed to provide an alternative to the existing capitalist system and address issues such as environmental problems. However, the development of Islamic finance surpassed the progress in Islamic economics, highlighting the need for a strong ethical basis in Islamic finance (Asutay, 2007). Islamic banking and finance have gained significant momentum in the global finance landscape, and there is a need to analyze their development from a postcolonial political economy perspective, moving beyond Western-centric economic geography (Pollard & Samers, 2007). Critics argue that the postcolonial perspective provides a different lens to understand Islamic banking and finance and challenges the hegemony of conventional banking and finance. The convergence of Islamic banking and finance with conventional finance has led to a gap between the aspirations and realities of Islamic economics. Asutay & Zaman (2009) assert that to bridge this divide, a political economy approach is suggested, emphasizing the importance of institutions, policies, political vision, will, and leadership. The field of Islamic political economics is still new, and research is ongoing to conceptualize and understand its goals, features, and principles (Rosdi, 2015). In the context of Indonesia, Islamic politics has evolved in response to socio-economic and political changes, influenced by market economy and globalization. The trajectory of Islamic politics in Indonesia has been shaped by diverse interests, including conservatism, populism, and business ambitions (Hadiz & Robison, 2012). However, the failure to build effective alliances and institutions has limited the impact of Islamic politics in the country. Choudhury (2016) adds the methodological principles of political Islamic economics, using a theoretical and applied approach within the framework of social choice theory. Overall, there is ongoing research and development in the field of political Islamic economics, aiming to establish a coherent theoretical foundation and practical framework.

In Islamic history, the economy was supported by various sources such as zakat, alms, and wealth from war loot. State spending focused on people's welfare, to be distributed with guidance from QS At-Taubah (9):60. Following the

passing of Prophet Muhammad SAW, the Islamic government was carried on by the Khulafaur Rashiddin: Abu Bakar Shiddiq RA, Umar bin Khathab RA, Ustman bin Affan RA, and Ali bin Abi Talib RA. The Islamic government later transitioned to the Umayyad, Abbasid, and Ottoman eras. However, the pursuit of power, wealth, and luxury at the end of these periods led to their eventual downfall, including the issue of heavy taxation imposed on the people. In between the Ottoman era, the interruption of Islamic economic and political practices occurred during the emergence of Western economics in the 17th century, which led to secularism. After two centuries, Islamic economics regained prominence in the mids of the 19th century, followed by the establishment of the first modern Islamic bank in Egypt in 1963. In Indonesia, the practice of Islamic economics and politics has grown, spanning from the New Order era to the reform era and the present.

From an Islamic perspective, human economy should align with Allāh's orders and prohibitions. While the materialistic nature of human economics focuses on wealth maximization and personal satisfaction, Islamic economics emphasizes fulfilling desires within the Islamic boundaries (Chapra, 1996). While Williams (1999) documents the role of organizations in protecting personal interests amidst social and political pressures, the influence of religion on these organizations and their practices is often overlooked in research. However, Islamic Financial Institutions (IFIs) should embody Islamic values and respond to the responsibilities assigned to them as the name "Islam" they carry (Asutay, 2012). Islamic Political Economy emphasizes the unification of religion and economic activity, while conventional economics segregates religion from economic affairs (secularism). Despite the dominant presence of capitalist and socialist economic systems in the world, the development of Islamic economics continues to gain traction, especially in Indonesia (Witro, 2021). The measurement of economic performance in Islamic economics considers Sharia principles and aligns with the goals of *Maqāṣid al-Sharī'ah*, which include educating individuals, promoting justice, and serving public interest (Abu-Zahara, 1997). While IFIs continue to evolve, they must adapt while maintaining Islamic traditions and values. This requires adhering to the rules of *Al-Muhāfadzah 'ala al-qadm al-shālih wa al-Akhzu bil al-jad id al-ashlah*, which means preserving the righteous past while embracing modern developments.

Islamic political economy is a critical approach based on policies that adhere to the purpose of Islamic law. It aims to criticize the interaction between various stakeholders and the socio-political aspects involved in developing an Islamic economic system. While others have mentioned the debate on the definitions

and the application of Islamic political economy, this paper focuses on filling the research gap by examining the Islamic perspective and redefining Islamic political economy in the context of halal industry sectors. Next session highlights previous studies that discuss the importance and development of each halal industry sector.

Indonesia has been improving its Halal Food ranking indicator over the past two years. The export of Halal food to OIC countries has increased by 16%, and this is expected to further increase after the implementation of the codification of halal products and a digitally integrated trade data system in 2021. Efforts are being made to increase the number of Halal certifications issued, including the codification and digitization of halal certificates to track information on the value and volume of halal products—the merger of PT. Bank Syariah Mandiri, PT. Bank Negara Indonesia Syariah, and PT. Bank Rakyat Indonesia Syariah in 2021 were expected to benefit the progress of Islamic finance in Indonesia significantly. Additionally, Indonesia has 102 financial technology Peer to peer-to-peer lending (P2P) companies, including seven classified as Islamic peer-to-peer (P2P) lending. 88 Digital Financial Innovation (IKD) organizers utilize 15 business model clusters, with five of them being classified as IKD Sharia, according to OJK (2023).

Research shows the phenomenon of living a halal lifestyle in Indonesia, which extends beyond food and drinks to other fields such as Muslim-friendly tourism (Adinugraha & Sartika, 2019; Fathoni, 2020). The government is actively developing Muslim-friendly tourism sites, halal cosmetics by Wardah, Islamic Hospital by RSI Sultan Agung Semarang, halal medicines by herbal companies, Muslim clothing by Zoya and other modest fashion designers, and Islamic finance institutions led by Bank Muamalat Indonesia. Islamic media outlets such as halallifestyle.com, Republika.co.id, and Mysalaam.com also cover news and articles related to halal lifestyle. Various seminars on "living lawfully" are organized by regulators from Bank Indonesia, Financial Services Authority (*Otoritas Jasa Keuangan*/OJK), and various ministries and universities to the community at all levels of age, educational backgrounds, and beliefs. Waharini & Purwantini (2018) research the role of Islamic banking in the development of the halal food industry in Indonesia and conclude that Islamic banking's role extends beyond Sharia-compliant financing to encompass all stages of the halal value chain management process. In this case, Islamic banks play a crucial role in enhancing the halal food industry. Additionally, Sungkawaningrung & Nasrullah (2019) emphasize that the role of Islamic banks extends beyond financing and includes training, coaching, and internal halal regulations regarding food and beverage management.

Waharini & Purwantini (2018) propose the role of Islamic banking in the development of the halal food industry in Indonesia and conclude that Islamic banks play an important role in increasing the halal food industry. In addition, Indonesia has the potential to develop the halal industry in various sectors, which can contribute to national economic growth (Sungkawaningrung & Nasrullah, 2019; Fathoni, 2020). However, challenges such as low awareness of living halal and increasing competition in the local market need to be addressed. The study also highlights that Islamic banks play a role beyond financing and also include internal halal regulations in the food and beverage sector. Halal certification has positive implications for halal businesses, providing consumer protection and increasing trust. Research shows that Muslim-friendly tourism in Indonesia has great potential due to the country's strategic geographical position and high biodiversity. Development of Muslim-friendly tourism can benefit the government, society, and the environment.

Halal industry in Indonesia is supported by various institutions and organizations, with effective coordination under KNEKS. Political strategies and the involvement of influential figures contribute to strengthening the ecosystem. Government regulations, such as Law No. 33 of 2014, were enacted to ensure the guarantee of halal products, including provisions for halal certification and supervision. To support this regulation, Bank Indonesia has issued guidelines and initiatives to develop the halal industry, aiming towards Indonesia as a global center for Islamic economics and finance. MEKSI 2019-2024 and its revision 2025-2029, issued by KNEKS, emphasize the importance of the halal industry. Although Indonesia has a significant Muslim population that certainly creates a high demand for halal products, however, the national consumption and export of halal products from Indonesia to OIC countries and the global market is relatively low.

Indonesia is a country with 87.08% of a 282 million Muslim population, which is 13% of the whole Muslim population in the world (Viva, 2024). From this data, the need for halal products in Indonesia is very large. However, from the facet player, the export of halal products from Indonesia to the Organization of Islamic Cooperation (OIC) countries is only 3% (10th ranking). Meanwhile, Indonesia's halal exports to the global market are only 3.8% (7.6 million US dollars). The following is a list of global halal shopping for 2020 and 2025.

Table 1. Global Halal Shopping 2020 and Potential 2025

| No. | Sector | 2020 (USD Billion) | 2025 (USD Billion) |
|-----|---------------------------------|---------------------|---------------------|
| 1. | Halal Food and Beverages | 1.185 | 1,668 |
| 2. | Islamic Finance | 3,374 | 4,922 |
| 3. | Halal Pharmacy and Cosmetics | 159 | 222 |
| 4. | Muslim-friendly Tourism | 58 | 189 |
| 5. | Modest Fashion | 279 | 375 |
| 6. | Islamic Media and Entertainment | 216 | 308 |

Source: Indonesia Halal Market Report 2021/2022

From the existing potential demand, Islamic finance contributes the highest (3,374 and 4,922 billion US dollars) and Muslim-friendly tourism the lowest (58 and 189 billion US dollars). To promote the production of halal products and enhance competitiveness in the global market, the government has introduced the concept of developing special areas dedicated to halal production. These areas aim to support the production of halal products and ensure their compliance with halal standards. Some of the regions that are currently in the process of verification for halal industrial areas include Cikande Modern Industrial Area in Serang, Banten, and an industrial area in Sidoarjo, East Java. There are also plans for the development of halal industry areas in Bintan, Batam, and West Kotawaringin, among others.

Additionally, the government is focused on providing guarantees for halal products to both domestic and international consumers. This involves the development of an integrated halal value chain, incorporating systems such as the Halal Traceability System and the Halal Assurance System. These initiatives aim to ensure that halal products meet the necessary standards and provide consumers with confidence in their halal status. After the extensive elaboration of the background of the study and the literature review that emphasizes the development of the halal industry in Indonesia and its cross-section with political economy in the country, the following section elaborates on the methodology of this research to address the research questions.

Methods

There are two formulated research questions for this research: How do political policies affect the development of the halal industry in Indonesia? To what extend are the main challenges in managing the Islamic political economy in the

halal sector? These questions aim to explore the intersection of political decision-making and economic practices in the context of the halal industry, focusing on the dynamics of policy influence and the complexities of governance in the Islamic economic system. From the review of existing literature, it is evident that sociology and critical paradigms provide valuable tools for analyzing these research questions. One of these frameworks is Neo-Institutional Sociology Theory (NIS). NIS is a prominent branch of Institutional Theory, often regarded as one of the most influential perspectives in understanding organizational behavior and structure. It is particularly effective in examining how external social, cultural, and political forces shape organizational practices and interactions between industries. However, scholars suggest that integrating NIS with complementary theories can offer a more comprehensive approach, enabling a multidimensional analysis of organizational phenomena (Lounsbury, 2008).

NIS is also recognized for its potential to explain and analyze the influence of external pressures, such as regulatory frameworks, cultural norms, and political policies, on organizational structures and inter-industry relationships. By applying NIS to this research, it becomes possible to explore how external forces, including political policies, shape the evolution of Indonesia's halal industry and influence interactions within the sector (Smith et al., 2008). This theoretical lens offers a nuanced understanding of how institutional pressures affect the dynamics of the halal industry, making it a valuable framework for addressing the research questions.

A brief view from Ibn Khaldun's *Al-Muqaddimah* is also employed in this study, which emphasizes the importance of sociology and societal conditions in understanding history. His model of civilization, as summarized by Chapra (2021), highlights Sharia law, public empowerment, wealth's role in societal sustainability, the link between wealth and development, justice as a prerequisite for progress, and divine evaluation of justice. Adopting Islamic political economy can advance Indonesia's Islamic economy through balanced budgets, disciplined fiscal management, and independent income generation, which Ibn Khaldun views as essential for addressing public needs while balancing government and authority interests.

Both NIS and Ibn Khaldun's views would direct the following findings and analysis to respond to the two research questions.

Results and Discussion

This paper addresses two key research questions: how political policies influence the growth of the halal industry in Indonesia and what the primary challenges are in managing the Islamic political economy within the halal sector. Therefore, the findings would be explained in two sections: the history and the challenges of Islamic political economy practice.

History of the importance of the halal industry from an Islamic perspective

The previous prophets before the arrival of Prophet Muhammad SAW served as messengers of Allâh SWT and leaders of their people. Al-Qur'an and its interpretations depict the political and economic events during the time of the prophets from Prophet Adam (AS) to Prophet Isa (AS) in a simple manner. This is because the context of life was relatively plain during those times, and the primary focus of the prophets was on matters of faith (*tawheed*). During the time of Rasûlullâh SAW, the context of economics and politics became more complex after the message of *tawheed* was delivered. Al-Qur'an provides comprehensive guidance on economic matters, in which one of the applications is Sharia contracts introduced into the market, which was first started in Madinah. Various issues related to wealth distribution, such as the distribution of war booty, zakat, and inheritance, were addressed. Al-Qur'an also contains verses that emphasize the guidance to practice a halal way of life to embed them in way of life, such as in the following matters: a) Islamic finance = QS Al-Baqarah (2): 275-279 concerning the prohibition of ribâ; Q.S. Al-Mâidah (5): 90 concerning the prohibition of gambling; QS Ar-Rum (30): 39 regarding ribâ and zakât; QS An-Nisâ (4): 160 concerning the prohibition of double ribâ; QS Al-Baqarah (2): 278-279 concerning the call to abandon ribâ; QS Al-Hajj (22): 5 concerning the meaning of ribâ; QS An-Nisâ' (4): 29 concerning the prohibition of bâthil transactions; QS An-Nisâ (4): 58 concerning the contract of deposit; b) Halal food and beverages = QS Al-Baqarah (2): 168 regarding halal and good food; QS Al-Baqarah (2): 172 about good fortune; QS Al-An'âm (6): 118 regarding halal food is from animals slaughtered in the name of Allâh SWT; QS Al-Mâidah (5): 88 concerning halal food provided by Allâh SWT; QS An-Nahl (16): 114 regarding halal and good food; c) Muslim-friendly tourism = QS Al-Hajj (22): 46 regarding learning from nature; QS Al-Jumu'ah (62): 10 about spreading out on the earth and seeking the grace of Allâh; QS Al-Mulk (67): 15 about walking in all corners of the world; QS Al-An'âm (6): 11 about walking on the earth

and learning; QS Al-Ankabut (29): 20 regarding taking lessons from a journey; QS Al-Quraish (106): 2 about traveling in winter and summer; QS An-Nisâ (4): 100 about moving to a better place; d) Modest fashion = QS Al-'Araf (7): 26-27 regarding Muslim habits for covering the private parts; QS Al-'Araf (7): 31 regarding the command to wear good clothes for worship; QS. An-Nûr (24): 31 regarding the boundaries of the intimate parts; QS. Al-Ahzab (33): 59 regarding details of the intimate parts; QS Al-Anbiyâ' (21): 80 concerning clothing for war; QS An-Nahl (16): 81 regarding the benefits of clothing to protect the body; QS. An-Nûr (24): 60 about when to reveal the private parts; e) Islamic media and entertainment = QS Al-Isra (17): 64 about the devil's stunning voice; QS Al-An'âm (6): 128 regarding misleading actions; QS Al-Anfâl (8): 49 concerning liver disease; QS Luqman (31): 6 about empty talk; QS Al-Hujurat (49): 6 regarding fake news; QS An-Nisâ (4): 83 regarding broadcasting news to find out officially from the leaders; QS An-Nûr (24): 15-18 regarding broadcasting fake or trustworthy news; and f) Halal pharmaceuticals and cosmetics = QS Asy-Syuara (26): 80 concerning medicine; QS An-Nahl (16): 68-69 regarding the benefits of honey; QS An-Nûr (24): 35 about the benefits of olives; QS Al-Insan (76): 17 regarding the benefits of ginger; QS Al-Anfâl (8): 11 concerning the benefits of water for health treatment.

The exploration and interpretation of Al-Qur'an is fascinating, as it combines various opinions to translate the verses being discussed. A comprehensive understanding can lead to more valid conclusions. Interpreters (*Mufasssirûn*) were scholars from the past who have objectively interpreted Al-Qur'an. Al-Qur'an allows every individual to interact with it according to their intellectual capacity, considering it as guidance for humanity as a whole (*rahmatan lil-'Ālamîn*).

The following table (the first part) shows the development of thoughts from classical and modern Islamic thinkers who have been embedding their expertise in Islamic economic and finance with the interpretation of Al-Qur'an. The second part presents classical and modern secular thinkers. This development of thinking has influenced current political practices in the field of Islamic economics (halal industry sectors), where the concepts adopted by political actors influence the policies implemented.

Table 2. The Period of Classical and Modern Economic Thoughts

| School | Classical | Modern |
|-------------------------------|---|--|
| Islamic Economic Thought | <p>The formation phase begins after the first Qur’anic revelation and goes until the end of the Companions’ era (11–100 A.H./632–718 CE). The scholars in this period are Zaid bin Ali, Imam Abu Yusuf, Yahya bin Adam, Qudama bin Ja’far, Syaibani, Abu Ubayd, and Ibn Zanjawayh. During the translation phase, foreign ideas were translated into Arabic, and the Muslim thinkers got a chance to benefit from the intellectual and practical works of other people (2nd – 5th century A.H. or 8th – 11th century CE). The scholars are Ibn Abu Dunya, Yahya bin Umar, Imam Mawardi, al-Ghazali, al-Farabi, and Ibn Sina. The translation and transmission phases began when Greco-Arab Islamic ideas reached Europe through translation and other contacts (6th – 9th century A.H. or 12th – 15th century CE). The scholars are Ibn Khaldun (d. 1406), al-Maqrizi (d. 1442), al-Asadi (15th century), Ibn al-Azraq (d. 1489), and al-Dawani (d. 1502). It may be called the dormant phase, extended for almost three centuries (16th – 18th century). Some scholars related to the period are al-Tumurtashi, Kinalızāde Ali Çelebi, and Shah Waliullah Dehlawi.</p> | <p>Modern time begins with the awakening period of Islamic economic thought to the present (19th – present centuries). The scholars are al-Mawdudi, Sayyid Qutb, Khurshid Ahmad, Abdul Mannan, Umer Chapra, Zubair Hasan, Salamah Abidin, Ausaf Ahmad, Tag el-Din Seif el-Din, Hasan Abd-Allah al-Amin, Shawqi Dunya, M. Fahim Khan, Akram Khan, Jamil Osman, Munawar Iqbal, Muhammad Abdul Halim Umar, Timur Kuran, Asad Zaman, Necaty Aydin, Nejatullah Siddiqi, Mehmet Asutay, M. Kabir Hassan, Muhammad Aslam Haneef, Mohamad Akram Laldin, Muhammad Syafi Antonio, among others.</p> |
| Contemporary Economic Thought | <ol style="list-style-type: none">1. Pre-classical economic thought was known as the scholastic period, which was based on Christian norms (12th – 15th century).2. Mercantilism period (16th – 18th century)3. Physiocracy period (18th century)4. Classical economic thought (17th – 18th century). The scholars are Adam Smith, David Ricardo, John Stuart Mill, Karl Mark, and Thomas Malthus.5. Neo-Classical economic thought (18th – 19th century). The scholars are Alfred Marshall, William Stanley Jevons, Carl Menger, Jeremy Bentham, Alfred Marshall, and John Maynard Keynes. | <p>Modern economics (19th – present century). The scholars are Amartya Sen, Robert Solow, Paul Samuelson, and Joseph E. Stiglitz etc.</p> |

Sources: Landreth and Colander (2002); Islahi (2014); Authors (2024)

Recent studies have shown that researchers tend to refer more to classical and modern secular thoughts compared to classical and modern Islamic thoughts (Mukhlisin et al., 2022). The tension between Islamic and capitalist approaches

continues to persist in industrial practices today. Despite policymakers gradually incorporating the perspectives of Islamic thinkers, conflicts still emerge. One well-known Islamic economic thought is presented in Ibn Khaldun's *Al-Muqaddimah* (The Introduction), which argues that understanding history requires an understanding of sociology and the condition of human society. Scholars have used Ibn Khaldun's perspective to analyze the factors influencing the development of Islamic economics in different countries. According to Chapra (2021), who summarized Ibn Khaldun's model of civilization, key factors include the application of Sharia law by the authorities, the role of the people in empowering the rulers, the importance of wealth for sustaining society, the connection between wealth and development, the achievement of justice as a prerequisite for development, and the evaluation of justice by the divine. Embracing Islamic political economy can further enhance the development of the Islamic economy in Indonesia. Other studies suggest the need for balanced budget politics, ensuring budget certainty and increased discipline in its use, as well as the creation of income sources to meet people's needs independently and strengthen the government's ability to fulfill its duties and functions. Ibn Khaldun views budget management as a means to solve public problems while considering the interests of both the authorities and the government.

History has documented the experiences of Islamic states and their Islamic political economy and governance. During the Umayyad Caliphate, the economy developed dynamically compared to earlier periods, contributing to the people's prosperity. This progress was due to the leadership of the caliphs and public support for their policies. Political and economic integration during the Umayyad, Abbasid, and Ottoman eras evolved differently, reflecting the context and needs of their times such as emphasized in the following summaries: 1) Umayyad Dynasty (40-129H/661–750 CE). This era was known for significant political and economic advancements under leaders like Caliph Muawiyah, Abdul Malik bin Marwan, and Umar bin Abdul Aziz (Umar II). Their key contributions, among others: administrative reforms (e.g., state records and postal services); introduction of Islamic currency and use of Arabic as the official language; economic justice under Umar II, emphasizing equality, efficient governance, and welfare; 2) Abbasid Dynasty (129-637H/750–1258 CE). It marked the golden age of Islamic civilization, with advancements in knowledge, trade, and stability. Their key achievements: promotion of learning and translation of classical texts; stability along trade routes, like the Silk Road, facilitated economic growth; contributions by Caliph Al-Mansur emphasized disciplined governance and economic policies; and 3) Ottoman Dynasty (699-1341H/1299–1922 CE). At its peak, the Ottomans excelled in social, cultural, and economic development. Their

key contributions: establishment of public infrastructure (e.g., hospitals, markets, and schools); integration of waqf (endowments) into societal development; flourishing trade with Europe, though foreign influence eventually weakened economic sovereignty. The challenges they faced, such as increasing reliance on foreign debt and flawed fiscal policies, and secularization post-17th century, diminished Islamic governance principles.

Economic and political systems in these dynasties often interwove, transitioning from welfare-driven policies to efforts aimed at sustaining opulence in royal courts. Such dynamics led to public dissatisfaction, tax revolts, and eventual fragmentation. They faced similar reasons at the end of their governments, such as: overextension of the empire hindered communication and governance; extravagance in court life and resistance to tax reforms led to the dynasty's decline.

Political rulings and main challenges of Islamic political economy implementation

The following are the findings on Islamic political economy involvement in each halal industry sector based on the two research questions, i.e., how do political policies affect the development of the halal industry in Indonesia, and to what extent are the main challenges in managing Islamic political economy in the halal industry sectors.

Islamic finance

Islamic finance is a leading sector in the halal industry, projected to reach USD 3.69 trillion in assets by 2024. Key players include Malaysia, Saudi Arabia, and Indonesia, which contribute significantly to the industry's growth. The challenges in Indonesia include political instability, secular influences, and competition with conventional financial systems. Within secular education in Indonesia, Islamic finance has not been genuinely embedded in the current politics; therefore, there should be an integrated effort to place Islamic finance as a vital component of the modern economy of Indonesian people, not just to gain political positioning.

Halal food and beverages

Halal food and beverages are the largest segment of the halal economy, driven by rising Muslim populations and awareness of the importance of halal products. The pandemic accelerated consumer preference for halal and ethically produced foods. Indonesia's Halal Product Assurance Agency (BPJPH) oversees certification under

Law No. 33 of 2014, aiming to certify 10 million products by 2024. Despite its large consumption, Indonesia lags behind countries like Malaysia and Brazil in halal food exports. Critiques of the certification process include concerns over its impact on small traders and MSMEs and its centralization of authority. However, it offers career opportunities in various sectors for graduates of halal studies. Globally, halal products are seen as meeting high safety and ethical standards, even in non-Muslim markets, reflecting their growing acceptance and economic significance.

Muslim-friendly tourism

Halal tourism is gaining global momentum as countries seek its economic benefits. Indonesia aims to lead the Global Muslim Travel Index by enhancing its halal tourism initiatives, supported by collaborations like the Indonesia Muslim Travel Index (IMTI). Challenges include misconceptions about halal tourism, as seen in North Sumatra, where the locals misinterpreted it as "Islamizing the local people." Effort. Globally, countries like Saudi Arabia target significant tourist numbers by 2030 to diversify their economies, while Japan actively promotes halal-friendly destinations despite its small Muslim population. These efforts highlight the growing political recognition of halal tourism's potential to attract both Muslim and non-Muslim travelers.

Modest fashion

Islamic clothing emphasizing modesty and identity has fueled the global Modest fashion market, now valued at USD 96 billion. Indonesia plays a significant role but faces challenges due to heavy reliance on imported raw materials, particularly from China. The Covid-19 pandemic exposed vulnerabilities, causing increased costs and production delays. Despite these challenges, Indonesian designers adapted by leveraging online platforms and introducing innovative products, demonstrating resilience and growth potential. To solidify its position in the global market, Indonesia must implement regulations to reduce import dependency, develop local supply chains, and align with Islamic economic principles of self-reliance and sustainability. This approach will ensure the industry's long-term growth and contribution to Indonesia's Islamic economic agenda.

Islamic media and entertainment

Islamic media and entertainment play a vital role in fostering positive Muslim identity, preserving Islamic heritage, and promoting teachings, contributing to

economic and diplomatic influence. However, Indonesia's declining ranking in the global Islamic media index reflects a need to align content with Islamic values, while countries like Singapore excel with innovative platforms like Whatshalal and Salam Planet. The economic potential of Islamic media is demonstrated through "dakwahtainment" and popular Islamic films, with social media preachers effectively engaging audiences despite challenges such as misinterpretation and tolerance issues. In the broader context, Indonesia's halal industry highlights the need for political and social unity. Aligning Islamic principles with democratic governance is essential to address challenges and promote ethical, inclusive, and sustainable growth within the framework of Islamic political economy.

Halal pharmaceuticals and cosmetics

Halal cosmetics and pharmaceuticals represent a strategic sector within Indonesia's Islamic political economy, reflecting the increasing consumer demand for sharia-compliant products and adherence to Islamic guidelines. Despite this growing awareness, only a small fraction of pharmaceutical products in Indonesia are halal-certified, revealing systemic challenges such as insufficient halal-compliant raw materials and weak industry governance. Recognizing these issues, the Indonesian government has adopted policies to reduce reliance on imports and prioritize domestic production, including mandatory halal certification for cosmetics and pharmaceuticals. These measures aim not only to strengthen the halal industry but also to position Indonesia as a global leader in halal production, creating opportunities for both local and international stakeholders. The global interest in halal standards, exemplified by South Korea's initiatives and collaborations with LPPOM-MUI, highlights the expansive potential of halal products in non-Muslim-majority markets. However, to ensure economic sovereignty and maximize local benefits, the government must carefully manage international collaborations by emphasizing domestic innovation and production. This approach aligns with Islamic principles of self-sufficiency and economic justice, fostering a resilient and inclusive halal industry that serves as a cornerstone of Indonesia's Islamic economic framework.

The findings above reveal that Indonesia's halal industry sectors have not yet been fully supported by the consistent application of Islamic political economy principles, despite halal being inherently rooted in Islamic teachings. This disconnect underscores a gap between the foundational values of Islam and the current governance and operational frameworks within the halal industry. While political leaders often emphasize their commitment to supporting the halal

sector during election campaigns, such promises require vigilant follow-up with tangible and actionable policies to ensure their realization. In light of this, the following conclusion section of this paper proposes a conceptual model aimed at illustrating the interplay between the halal industry and political economy practices across different eras. This model seeks to offer a comprehensive framework for understanding and addressing the challenges and opportunities inherent in aligning halal industry practices with Islamic political economy principles, thereby fostering a more coherent and effective integration of these domains.

Conclusions

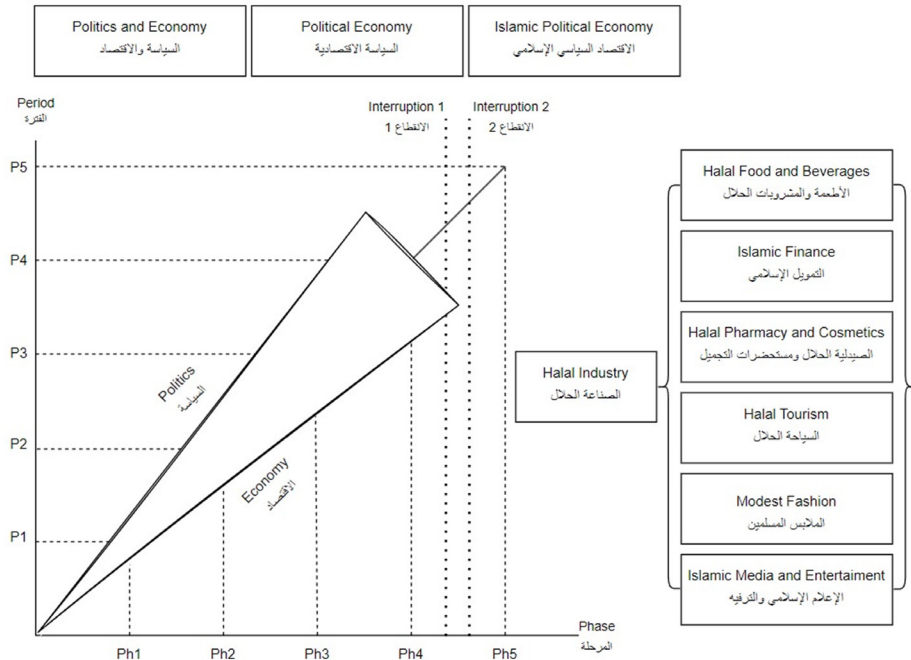
After conducting a thorough review and analysis of political activities in the Islamic economy through the halal industry sector, this paper emphasizes the definition of Islamic Political Economy (الاقتصاد السياسي الإسلامي) as a critical approach based on public policies that are *Mubâhât* - مباحات based on Islamic law, which aims to criticize the interaction between various stakeholders and socio-political apparatus involved in developing the Islamic economic system.

Based on this definition and the formulated problem, the author concludes as follows: The practice of Islamic political economy from the perspective of Al-Quran and Islamic history (see Figure 1 below) is depicted in the discussion prophetic era, starting from Prophet Adam AS until Prophet Muhammad SAW, and during the era of the Khulafâur Rasyidîn until the three phases of the Islamic State. It is understood that the prophets implemented political and economic strategies to fulfill the commands of Allâh SWT, which were given to them as leaders of their communities in their time. The same applies to the era of the Khulafâur Rasyidîn, who continued the teachings of the Prophet Muhammad SAW. All of these predecessors used separate political and economic approaches, which means that the political objective was to maintain the position and power of the governing region, while the economic objective was to fulfill the needs of the people or community at that time. Until the era of the Islamic State, it was found that the political and economic missions became interconnected (referred to as Interruption I), meaning that political strategies were used to achieve economic objectives, which in some periods became the objective of attaining a luxurious life. In some periods, there were rebellions by the people due to dissatisfaction with the political and economic policies, such as tax treatment.

Furthermore, Interruption II, which is secularism in religion, began in the 17th century, where secularization also occurred in the field of political economy.

In the present context in Indonesia, the society has rediscovered an economic context that aligns with the teachings of the Prophet Muhammad SAW, namely Islamic economics. With the advancement of knowledge, the practice of political economy has become increasingly complex, especially when it relates to the halal industry sector, leading to the emergence of the theme of Islamic political economy. In the context of the halal industry sector in Indonesia, it is evident that Islamic political economic strategies have different approaches from one phase to another.

Figure 1. Islamic Political Economy Model in Halal Industry



Notes:

Terms

- P1 Before the Year of the Elephant
- P2 The Year of the Elephant -10H/570-632M
- P3 11-40H/632–661M
- P4 40-1341H/661-1922M
- P5 Current Phase

- F1Before the time of Prophet Muhammad SAW
- F2Prophet Muhammad SAW Phase
- F3Khulafaur Rasyidin Phase
- F4Daulah Islamiyah Phase
- F5Current Phase

Phase and Period

F3 The Phase of Khulafaur Rasyidin:

1. Abû Bakar Shiddîq RA (11-13H/632-634M)
2. Umar bin Khathab RA (13-23H/634-644M)
3. Ustman bin Affan RA (23-35H/644-656M)
4. Ali bin Abi Thalib RA (35-40H/656-661M)

F4 Daulah Islamiyah:

1. Daulah Umayyah (40-129H/661-750M)
2. Daulah Abbasiyah (129-637H/750-1258M)
3. Daulah Utsmaniyah (699-1341H/1299-1922M)

The direction of Islamic political economy in the context of the halal industry sector in Indonesia offers three concepts: 1. The concept of Islamic Political Economy in the Halal Industry Sector; 2. The concept of the Halal Industry that needs the strengthening of Islamic values; and 3. The concept of State Politics in the field of Islamic Economy. In the concept of Islamic Political Economy, it is found that not all presented regulations are binding, as some are advisory, and several regulations are not synchronized and overlap with each other. Therefore, the government needs to harmonize the existing regulations and ensure the interests of the people take precedence over the interests of specific parties when implementing these regulations.

The model of Islamic political economy in the context of the halal industry sector that is implemented in Indonesia is formed based on the understanding of Al-Qur'an and the historical development of politics, economics, and political economy in various periods and phases. The political practice in the halal industry sector has transformed from merely fulfilling human economic needs to fulfilling the desires of power and political legacy. It is found that political changes in a country or region (geopolitics) influence the change in direction of the halal industry sector; the approach of political interests to the implementation of Islamic economy in Indonesia benefits the halal industry sector, and a strong foundation of Sharia law influences the implementation of the halal industry sector. This proposed model of "Islamic Political Economy in Halal Industry" can be further used to criticize the activities of Islamic political economy in Indonesia in various fields within the halal industry sector. For example, it is known that Brazil, which exports the largest quantity of halal poultry to Indonesia, ultimately benefits from the development of the halal food and beverage sector in Indonesia. Many foreign

countries benefit from the development of Islamic finance in Indonesia, such as expanding their investments, i.e., Permata Bank Syariah (Thailand), Maybank Syariah (Malaysia), CIMB Niaga Syariah (Malaysia), Prudential Syariah (UK), Allianz Syariah (Germany). South Korea, known as the main supplier in the cosmetics industry in Indonesia, receives economic benefits from the promotion of halal cosmetics in Indonesia. Japan benefits from Muslim-Friendly Tourism by providing convenience to visitors, such as those from Indonesia, in their country by offering halal food and beverages as well as mosques around the tourist areas. China, in this case, has successfully become a supplier of cotton materials and benefits from the growth of the modest fashion industry in Indonesia. Singapore benefits from the growth of the Islamic media and entertainment industry that has been a part of Indonesian consumption.

The implications of this research provide a recommendation to policymakers that the development of Islamic economy, specifically the halal industry sector, should be constantly monitored through regulations, supervision, and enforcement of legal sanctions to ensure fair and equitable distribution among all Indonesian citizens. Therefore, all programs in this country should involve all stakeholders, including society from various layers (in unity). The role of KNEKS as the leading orchestrator should be further strengthened as a catalyst in Indonesia's movement towards becoming the Global Hub of Islamic Economy and Finance in the near future. In terms of contribution, this research expands upon existing theories related to Islamic political economy. This study suffers from limitations in terms of methodology that focus only on academic debate. However, further researchers can develop methodologies that involve interviews to confirm the practices of Islamic political economy within the government and society.

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