

# POLITICAL ECONOMIC POLICY AND ISLAMIC INTELLECTUAL CAPITAL: IMPACT ON THE GROWTH OF ISLAMIC FINANCIAL INDUSTRY IN INDONESIA

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## ABSTRACT

*The purpose of this study is to determine the effect of political economy policies and Islamic intellectual capital on the growth of the Islamic finance industry in Indonesia. The research method used is literature study. The point of view used is the technical Islamic political economy which is the area of power and power (Siyasah Maliyah or known as Tadakhul ad-daulah/state intervention) and Islamic intellectual capital which aims to create a good life (al-hayat at-tayyibah). The results of the study explain two findings. First, the reason for sound political and economic policies is that the intervention of political authorities has not made the development of the Islamic finance industry progress as expected. The implications of the existing policies are not in line with expectations of equal distribution of wealth, thus hampering efforts to eradicate poverty. Second, the reason for the need for Islamic intellectual capital is because literacy and awareness of Islamic intellectual capital towards the Islamic financial industry have not increased significantly. As a result, state policies that are able to properly control the Islamic financial industry cannot be fully utilized. This research shows that human capital that adheres to sharia rules is the basis for good political economy policy makers. With a broad view of social and economic life, it will be able to create a leader character who is honest, trustworthy, responsible, and cannot be trusted in formulating political and economic policies. This can encourage the achievement of the goals of economic welfare through the Islamic financial industry.*

**Keywords:** Politics, Economics, Islamic Intellectual Capital, Islamic Finance.

## INTRODUCTION

Economic development in Indonesia cannot be separated from the discourse of realizing the Islamic financial industry. The existence of interdependence between the Islamic financial market and the macroeconomy, especially as a barometer of fiscal and monetary policy in Indonesia (Wahyudi & Sani, 2014). In addition, maqasid ash sharia can be a development index capable of strengthening the economic foundation (Esen & Esen, 2019). Therefore, the Islamic finance industry is very important for economic growth in Indonesia (Juhro et al., 2020).

The Islamic finance industry has an integrated social framework and interconnection between individuals, community groups and the state. The individual-society-state relationship must be interpreted as a relationship that has goodness in cooperating harmoniously to achieve

just and prosperous community welfare in accordance with the mandate of the 1945 Constitution. The intervention of political authority. However, the emphasis is on the areas of human morals and development ethics (Jan & Asutay, 2019) Unfortunately, sometimes the implications of government policies are not in line with these expectations. The worst aspect is the issue of morality which has an impact on the high rate of corruption in Indonesia (Mbaku, 2019; Grundler & Potrafke, 2019). Whereas Islamic financial products should be adaptive and responsive (Saputro et al., 2019).

A study reveals that intellectual capital can give birth to positive spiritual literacy as one of the best ways to avoid practices that deviate from the implementation of sharia law in the economic activities of Muslim communities (Salonius, H., & Lönnqvist, A. (2012). In other words, Islamic intellectual capital-based management can effectively improve the financial performance of individuals and organizations (Buallay, 2019; Saruchi, et al., 2019). This shows that intellectual capital has a good impact on sustainable political-economic development and public policies (Pedro et al., 2018).

Islamic intellectual capital is able to create individual characters who have high social concern, for example through zakat, infaq, and alms that can help the efforts to improve the welfare of the poor (Khan, 2013; Utami, 2020). This is what the authors want to say that there are important reasons and steps that stakeholders must take in building an economic development order based on strong political economy policies to create a better life (al-hayat at-tayyibah) and Islamic values through the Islamic financial industry from in terms of intellectual Islamic Capital as an effort to build morality and social justice for the entire community.

## METHODS

This study aims to explore the political economy and intellectual capital policies of Islam and its impact on the financial industry in Indonesia. The research method used in this research is a literature study.

The approach is based on two assumptions. First, the economy (which concerns the phenomenon of wealth) and politics (which deals with the phenomenon of power) are bound by the interplay of relationships. Technically, the Islamic political economy is better known as *Siyasah Maliyah* or in other terms *Tadakhul ad-daulah* (state interference). Second, the intellectual linkages of Islamic capital with the morality of the actors who hold power who can influence political and economic policies in a country.

## RESULT AND DISCUSSION

### **Political and Economic Policies are Needed in the Development of the Islamic Finance Industry in Indonesia**

In its development, there are many previous research studies that reveal the impact of intellectual capital on the development of the Islamic finance industry in Indonesia. According to Djamil et al. (2013), intellectual capital affects a company's stock return. In addition, other studies reveal that financial performance is related to market value, the effectiveness of the

Islamic supervisory board, intellectual capital, and the responsibility of Islamic companies (Sardo & Serrasqueiro, 2017).

Historically, the development of Islamic finance in Indonesia has been less encouraging and has lagged far behind other Muslim countries. This is closely related to the political economy played by the ruling political authorities. Islam is said to be related only to spiritual matters, with no relation to society and the state. The problem of political relations between Islam and the state has actually been going on for a long time, where each era has experienced ups and downs, it really depends on how to interpret the relationship between religion and the state. The ups and downs of the relationship between the government and Muslims are as follows;

First, antagonistic relationship pattern. In this phase, there was suspicion among the government. Second, reciprocal relationship patterns. At this stage, there is a process of learning from each other and exploring each other's positions. Third, the accommodative relationship. At this stage, mutual understanding grows. Where the government does not position itself as a predator, on the other hand, the Muslim community grows optimism that various policies taken by the government do not distance themselves from Islamic teachings. The three patterns of relations ended with accommodative politics shown by the Government during the New Order era, this was marked by the birth of ICMI, the Law on Religious Courts and the establishment of the Amal Bhakti Muslim Pancasila Foundation (Thaba, 1996).

The accommodative politics carried out by the New Order government also had a significant influence on the issuance of policies with the issuance of Law No. 21 of 2008 concerning Syari'ah Banking. The political policies undertaken by the government later became the epicenter of the development of the Shari'ah financial industry. By itself, the ideals of Islamic economic principles are no longer limited to utopia. For example, the principles of worship (al-tauhid), equality (al-musawat), freedom (al-hurriyat), justice (al-'adl), please help (al-ta'awun) and tolerance (al-tasamuh) will slowly be used as part of positive bargaining for the acceleration of economic development (Azhar et al., 1992).

It is further explained that in order for political-economic policies to be successful, policymakers must provide an environment conducive to each individual's conception of a developing political economy, while at the same time managing against the dangers that are behaviorally informed and to be driven behaviorally (Oliver, 2019). This is because political and economic policies that are based on sharia values as in the Siyasaḥ Maliyah concept or in other terms are Tadakhul ad-daulah (state intervention) contain many positive values such as ethics, shura, amar makruf nahi munkar, justice and prosperity. which is based on 'ubudiyah and uluhiyah', namely responsibility as the caliph of Allah (Choudhury & Malik, 2016). And also the world view (tassawur) for spiritual development which has two goals, namely mardhatillah and al-falah (Rosdi, 2015). Spiritual development is intended for policymakers so that it is hoped that political and economic policies will really be able to encourage the Islamic finance industry to continue to advance.

## **Intellectual Islamic Capital is Needed in the Growth of the Islamic Finance Industry in Indonesia**

The characteristics of the concept of development and economy in Islamic studies are realizing a good life (*al-hayat at-tayyibah*) and material and spiritual which includes the scope of empowerment of human and environmental resources, demanding a balance of rights and obligations, equitable distribution, and material development. and non-material (Schacht, 1984). This concept is known as the Islamic economic system which focuses on (1) monotheism, caliphate, and *tazkiyah*; (2) physical and moral aspects of spiritual development; (3) human capital as the first foundation in the development process to achieve human benefits; (4) Functions and roles of the state; (5) Time scale of worldly and spiritual development.

The availability of human resources in developing countries is quite abundant. Therefore, the development of human resources in the economy is very important. But in fact, the presence of technology has begun to shift the role of humans as one of the main drivers of development. To anticipate this, the quality of human resources must be improved through the development of electronic infrastructure, the availability of digital resources, and features of the social environment (Gabdullin, 2020).

The presence of Islamic economic development in the future requires a lot of restructuring related to the dilemma between policies and human resources. Both are very important for carrying out poverty alleviation in developing countries. But to put them all together is quite difficult. It is true that, without the support of government policies, Islamic economic development will experience obstacles. Meanwhile, without productive human capital, efforts to catch up with economic development, including technology are impossible (Das & Drine, 2020). Therefore, this dilemma must be resolved immediately.

To achieve the objectives of the Islamic economic development system, human capital is the main thing. Islamic human capital that adheres to Sharia rules has a broad view of social and economic life that gives birth to the human side in the sense that one human being will contribute to caring for another human being, for example through *zakat*, *infaq* and *alms* (Chapra & Umer, 2008; Khan, 2013 ; Utami et al., 2020).

As mentioned in previous studies, the development of an Islamic economy requires human capital that has the intellectual capacity as the right strategy that must be properly invested in facing the changing economic and financial climate which continues to fluctuate. The following are four main substances that have the potential to collaborate with Islamic intellectual capital, all of which are detailed as follows.

### **Islamic Finance Development**

Individual capital consisting of financial, human and social capital and social entrepreneurship is one of the keys to success in entrepreneurship. The Islamic financial market is a new alternative source of capital for companies and Small and Medium Enterprises (SMEs). However, in the development of several decades, SMEs have had difficulty accessing the capital market. Understanding of the procedures for obtaining capital and Islamic capital market literacy is still relatively low. This is a dilemma facing SMEs growing in developing countries. Policies can encourage the opening of access to capital markets, but only focus on easy access but not yet

accompanied by comprehensive education including the availability of human resources needed for SMEs to access capital.

The Muslim community has a big role in economic empowerment. This can be seen from the increase in social movements such as Islamic financing through Islamic microfinance institutions such as Bayt al-mal (Islamic public finance) wa al-Tamwil for SMEs and mosque-based Islamic cooperatives (Usman & Tasmin, 2016). The main obstacle faced is the lack of government regulations in advancing capital microfinance institutions (Rusyana, 2014).

So far, intellectual capital has only been linked to the performance of Islamic banking, while more than that Islamic intellectual capital is an important indicator in the development of an Islamic economy and is expected to resolve the dilemma between policy and human capital. Islamic intellectual capital offers an important component of organizational capital, namely the ability to survive (resilience) in the face of any situation and condition (Daou et al., 2019). This method is to improve the efficiency of human capital, the efficiency of energy capital resources (Akram et al., 2020); building structural and appropriate working capital (Dee et al., 2019); creating a competitive advantage towards an Islam-based creative economy that can be recognized through the concept of work ethic (Purnamasari, 2020).

### **Agricultural Production Sector**

Agriculture for several developing countries which has the potential to support natural resources such as Indonesia is very suitable for intellectual capital. Technology is used to simplify the production process and increase plant productivity. On the other hand, human capital becomes productive because of the land that is cultivated. Several policies in developing countries are very supportive of this sector (Hossain et al., 2019). The Islamic finance industry and government also provide access to venture capital for the sustainability of the agricultural sector. Intellectual capital has a role to play in promoting sustainable agricultural development otherwise known as the Islamic green revolution (Fuks et al., 2020). On the one hand, the idea of farming with intellectual capital can face various changes in the global environment, especially to increase agricultural production and on the other hand, it can increase the income of poor households (Sarker et al., 2019). This is where the role of Islamic intellectual capital is expected to be able to overcome the dilemma of the food crisis and poverty and increase the bad connections between stakeholders in the field that have occurred so far.

### **Intellectual property rights**

Intellectual property rights (IPR) are an important indicator that must protect the copyright of local communities. It is a form of policy as well as legal protection that increases the sources of economic development in developing countries. The low awareness and protection of IPR causes violations to occur and endangers the creators and inventors who have struggled (Idris, 2010). Increase spiritual awareness of the importance of respecting the rights of others. It also denies that the development of an Islamic economy cannot provide a solution for IPR. It is precisely Islamic intellectual values that are collaborated with IPR policies that will positively build individual moral and spiritual conditions, create a creative economy.

## Islamic Tourism Sector

Islamic tourism has made a lot of progress and promises to be empowered by the community (Jaelani, 2016; Basrowi et al., 2020). Halal tourism as an icon of Islamic tourism can significantly improve the economy of the local community. In addition, the roles of human resources, media, research and development, events, state capacity, public and government support, marketing strategy and infrastructure are vital requirements. Furthermore, from the perceptions of experts, public and government support, marketing strategies, and human capital (Borzooei & Asgari, 2013).

How then the field of Islamic tourism must be one of the priorities for human empowerment. With intellectual capital training that is based on developing professional skills in the tourism sector, the community becomes more productive (Irawan et al., 2019). The advantages of Islamic intellectual capital as in the four indicators of sustainable Islamic economic development as described above can empower resources through good management and create new innovations through technology. This is in line with the findings which explain that the efficiency of IC in organizations is one of the important indicators of the development of the Islamic financial industry because of the positive relationship that IC has produced on the performance of Islamic finance in various other countries (Khan et al., 2019; Nawaz & Haniffa, 2017).

Projecting job growth and skills needs, and considering productivity create a competitive environment in which business and government will generate income without sacrificing available capital (Noe et al., 2017). In addition, the quality control of human resources must be able to carry out a strong corporate social responsibility position.

Based on research conducted by Forcadell and Aracil (2017), a large number of European banks and companies with good management qualities, especially during periods of economic crisis, appear to have been affected by their involvement in the efficient use of human capital.

It must consider various strategies and forms of actual efficiency in the view of Islamic economics. Current policy and human resource dilemmas can be resolved. Unfortunately, even though in theory it is effective and efficient, practices that are not in accordance with sharia principles are quite difficult not to occur if there is no good collaboration between the government, companies, and the community.

## CONCLUSION

Based on the results and discussion as presented, the study revealed three findings. The first finding shows that the reason political economy policies are needed in the growth of Islamic finance in Indonesia is because the policies issued by the state can fulfill the competency of resources that actually control Islamic financial institutions. This policy creates a competitive advantage towards an Islamic-based creative economy through the concept of a work ethic. One of the keys to the success of the policy is to direct the policy on the entrepreneurial dimension, namely the control of individual capital consisting of financial, human, social and social entrepreneurial capital.

Likewise in agriculture, the policy of providing access to venture capital for the sustainability of the agricultural sector, unfortunately the intellectual capital resources involved

in it are still weak in fulfilling various aspects that must be met to get financing from the Islamic financial industry appointed by the government. In the field of IPR, the opportunities opened up by the state to protect all creations, tastes and human initiatives in the field of Islamic economics have not been properly utilized by the human resources involved in it. Literacy and awareness of Islamic intellectual capital towards IPR are not yet high so that good state policy cannot be utilized properly. In the field of halal tourism, various state policies to open taps are very good, but the ability of market players to provide and grow this sector is still weak so that halal products are in dire need of effective technological innovation.

The second finding shows that the reason Islamic intellectual capital is needed in improving Islamic finance is that intellectual capital can improve the performance of Islamic finance. Islamic intellectual capital offers an important indicator for the progress of the Islamic finance industry, namely the ability to survive (resilience) in the face of situations and conditions of political economic and social uncertainty, build structural and working capital globally, and create a competitive advantage towards an Islamic-based creative economy.

Empirically, this research is expected to be able to contribute to the development of the Islamic financial industry through the implications of political economy policy and Islamic intellectual capital needed for policymakers. Whereas practically, research can be an approach that can be taken for further research on the performance of Islamic finance to create public welfare and support the advancement of science, especially the Islamic economic system.

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