

## The Political Challenge of Islamic Economic Development in The Jokowi Government, Indonesia

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### ABSTRACT

The Jokowi administration which held two terms of parliament between 2014-2019 and 2019-2024 introduced what many believed were controversial policies around the development of Sharia financial frameworks, resulting in significant political discussion within Indonesia. With conflicts and robust grassroots challenges between the government and Islamic groups particularly preceding the 2019 election. This article aims to better understand the Jokowi government's support for the development of Sharia finance, as well as the strategies and policies implemented by his government in dealing with tensions with Islamic groups. This research deploys a historical analysis of literature during Jokowi's two terms of government. The research interestingly reveals that the Jokowi government had indeed introduced a series of initiatives and platformed various master plan iterations to encourage and support the growth of Sharia finance in Indonesia. However, policy implementation challenges still prevail and may place real pressure on future governments to either roll back these initiatives or discard them completely. Yet, even given this political antecedence Jokowi's government has managed to initiate and deploy a Sharia finance master plan. Only time will tell, whether Indonesia can overcome many political challenges to continue on its new strategic Islamic-inspired economic path.

**Keywords:** jokowis' government, islamic economic development, political challenge, indonesia

### INTRODUCTION

Before 1992, particularly during the period 1983-1985 under the New Order regime, Indonesia mandated that all mass organizations adhere solely to Pancasila as their foundational ideology. This period witnessed significant challenges within the political discourse, particularly from Muslim organizations, who felt they were left without a voice.

Consequently, Islamic economic development, including Sharia banking, faced substantial challenges due to the suppression of Islamic political voices. However, with the collapse of the New Order regime in 1998 and the subsequent reform era, opportunities for the advancement of Islamic economics have

emerged. This transition marked a turning point, allowing for greater exploration and development of Islamic banking in Indonesia, despite previous political obstacles.

Today, Indonesia is led by President Jokowi Widodo (Jokowi) and Ma'ruf Amin, who won the 2019-2024 presidential election. Previously, Jokowi, accompanied by Vice President M. Jusuf Kalla, led Indonesia for the 2014-2019 political term.

Jokowi's administration promulgated that the Sharia economy is a crucial component of Indonesia's vision of becoming one of the world's largest economies by 2045. It is believed that this economic strategy will serve to drive national growth through many financial vehicles and channels including *zakat* (alms), *waqaf* (mortmain property), and *sukuk* (Islamic bonds).<sup>1</sup>

In this article, we examine the development of the Islamic economic system during the Jokowi-Jusuf Kalla administration (2014-2019) and the possibilities for Islamic economic growth in the Jokowi-Ma'ruf government (2019-2024).

Previous studies reveal considerable academic discussion around Islamic banking and the establishment of financial institutions recently. Kahf (2004) emphasizes that the birth of the Islamic Development Bank (IDB) was a new phenomenon that is giving rise to a very different approach to banking globally.<sup>2</sup> Venardos however suggests that the Islamization of financial institutions in Southeast Asia will be more subtle in its deployment as compared to other regions in the world.<sup>3</sup> Yet, while political challenges exist Ahmad found that countries like Malaysia were still able to implement Islamic banking and subsequent economic development, resulting in them becoming extremely influential in Southeast Asia.<sup>4</sup>

Despite early doubts, the concept of Islamic banking has surprisingly even spread to European countries. Ahmad<sup>5</sup> Engzell<sup>6</sup> and Belouafi & Chachi<sup>7</sup> opining that Britain has now become the centre of Islamic banking in Europe, largely supported by a growing Muslim population.

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<sup>1</sup> Tempoco, "Jokowi: Sharia Economy Is Key to Becoming World's Largest Economy, 14 of May," 2019, <https://en.tempo.co/read/1205423/jokowi-sharia-economy-is-key-to-becoming-worlds-largest-economy>.

<sup>2</sup> M. Kahf, "Islamic Banks: The Rise of a New Power Alliance of Wealth and Shari'a Scholarship," in *The Politics of Islamic Finance*, 2004, 17-36.

<sup>3</sup> A. Venardos, *Islamic Banking & Finance in Southeast Asia: Its Development and Future* (Singapore: World Scientific, 2005).

<sup>4</sup> M. B. Ahmad, "Islam and Economic Growth In Malaysia, Thesis (Magister)" (Naval Postgraduate School, 2003).

<sup>5</sup> W. Ahmad, *Islamic Banking in the United Kingdom: Opportunities and Challenges* (London: Kingston Business School, 2008).

<sup>6</sup> C. Engzell, *Islamic Banks in the United Kingdom: Growth in the 21st Century* (Sweden: Uppsala University, Department of Economic History, 2008).

<sup>7</sup> A. Belouafi and A. Chachi, "Islamic Finance in the United Kingdom: Factors Behind Its Development and Growth," *Islamic Economic Studies*, IRTI 22, no. 1 (2014): 37-78.

Yet, even given this growing awareness both from a religious perspective globally, Indonesia a largely Muslim country has been a laggard. Hefner<sup>8</sup> Ali<sup>9</sup>, Carnegie<sup>10</sup>, Barton<sup>11</sup>, Hadiz<sup>12 13</sup>, Choiruzzada & Nugroh<sup>14</sup>, Indrastomo<sup>15</sup>, and Gyene<sup>16</sup> suggest that this was a result of Indonesia's political situation before Jokowi's first government, which was based on the New Order which largely contributed to the softening of the Islamic political movement in Indonesia.

Historically, Indonesia had many Islam-affiliated political parties which subsequently lost their voice as part of the secular nationalism of both Soekarno and Soeharto who imposed major restrictions on any politicized Islam. For example, after 1949, Soekarno repositioned the meaning of Islam in the national political plan by withdrawing the Jakarta Charter from the constitution. Then in 1965, President Soeharto also closed the door to the historical influence of political Islam by preventing Masyumi from rebounding.

Hefner sees the rise of Muslim intellectuals in the 1980s as a forerunner to the revival of the Islamic political socioeconomic system in Indonesia.<sup>17</sup> Choiruzzada<sup>18</sup> and Indrastomo<sup>19</sup> suggest the Indonesian Ulema Council (MUI) and the Indonesian Muslim Scholars Association (ICMI) are the two main institutions that played a role in the establishment of the first Islamic bank in Indonesia in the 1990s.

This study however differs from previous research in that it focuses solely on Islamic economic development during Jokowi's 2014-2019 administration and its future potential impacts post the second administration in 2019-2024.

This study purposively discusses the social implications arising from policy implementation in both Jokowi's governments. His administration was

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<sup>8</sup> R. W. Hefner, "Public Islam and the Problem of Democratization," *Sociology of Religion* 62, no. 4 (2001): 491-514.

<sup>9</sup> M. Ali, "Islam and Economic Development in New Order's Indonesia (1967-1998)," East-West Center Paper 12, 2004.

<sup>10</sup> P. J. Carnegie, "Political Islam and Democratic Change in Indonesia," *Asian Social Science* 4, no. 11 (2009): 1-7, <https://doi.org/10.5539/ass.v4n11p3>.

<sup>11</sup> G. Barton, "Indonesia: Legitimacy, Secular Democracy, and Islam," *Politics & Policy* 38, no. 3 (2010): 471-496, <https://doi.org/10.1111/j.1747-1346.2010.00244.x>.

<sup>12</sup> Vedi R. Hadiz, "Indonesian Political Islam: Capitalist Development and the Legacies of the Cold War," *Journal of Current Southeast Asian Affairs* 30, no. 1 (2011): 3-38.

<sup>13</sup> Vedi R. Hadiz, *Political Islam in Post-Authoritarian Indonesia. Centre for Research on Inequality, Human Security and Ethnicity* (CRISE (University of Oxford, Working Paper, 2010).

<sup>14</sup> Shofwan Al Banna Choiruzzada and Bhakti Eko Nugroho, "Indonesia's Islamic Economy Project and the Islamic Scholars," *Procedia Environmental Sciences* 17 (2013): 957 - 966.

<sup>15</sup> B. S. Indrastomo, "The Emergence of Islamic Economic Movement in Indonesia: A Political Economy Approach," *Kyoto Bulletin of Islamic Area Studies* 9, no. 3 (2016): 63-78.

<sup>16</sup> P. I. Gyene, "Democracy, Islam and Party System in Indonesia: Towards a Consensus-Oriented Model," *PCD Journal* 8, no. 1 (2019): 27-55.

<sup>17</sup> Hefner, "Public Islam and the Problem of Democratization."

<sup>18</sup> Choiruzzada and Nugroho, "Indonesia's Islamic Economy Project and the Islamic Scholars."

<sup>19</sup> Indrastomo, "The Emergence of Islamic Economic Movement in Indonesia: A Political Economy Approach."

the first to prepare a comprehensive master plan for Sharia economic development for Indonesia, beginning with the Indonesian Sharia Financial Architecture Masterplan (AKSI) (2015). Then followed by the Indonesian Sharia Economic Masterplan (MAKSI) 2019-2024 platformed in 2019. This study also aims to better understand how his administrations were able to quiet political tensions with Islamic groups that had emerged in the lead-up to the 2019 presidential election.

## METHODS

This study has adopted a qualitative research approach<sup>20</sup> based on a historical examination of the literature of the period. The data was collected from scholarly literature and publicly available government reports and publications. It aims to highlight the political challenges of Islamic economic development in Indonesia during Jokowi's two terms of government and wishes to explore his administration's relationship with Islam-based politics.

## RESULT AND DISCUSSION

The results of the research reveal that Jokowi's government experienced a significant period of tension with Islamic movements and groups which showed opposition to his government's direction on Islamic economic policy. While similar disquiet also occurred during the New Order era under President Soeharto's government; however, what differentiates the two is that Jokowi's government dealt with the opposition in a non-violent manner, with his government being able to continue to push for policies that strengthened the development of Islamic finance in Indonesia.

### **Islamic Economic Development Before Jokowi's Government** *The Tension of Political Islam*

Political Islam is a response to issues related to inequalities of power and wealth in the modern world as conveyed through the ideals, terminology, imagery, and symbolism of the Islamic religion.<sup>21</sup> In Indonesia, political Islam before 1992 had a disharmonious relationship with the government. Especially in the period 1975-1980, under President Soeharto's New Order. Soeharto's centralized presidential approach made maximum use of and even strengthened the executive's dominance, to curb political Islam and communist influences.<sup>22</sup><sup>23</sup> The government viewed political Islam as an impediment to global recognition and Indonesia's economic growth, as these groups largely promulgated an

<sup>20</sup> Lexy J. Moleong, *Metode Penelitian Kualitatif* (Bandung: Remaja Rosdakarya, 2008). and A. Michael Huberman and Matthew B. Miles, *Qualitative Data Analysis: An Expanded Sourcebook*, 2nd ed. (London: Sage Publications, 1994).

<sup>21</sup> Hadiz, "Indonesian Political Islam: Capitalist Development and the Legacies of the Cold War."

<sup>22</sup> Barton, "Indonesia: Legitimacy, Secular Democracy, and Islam."

<sup>23</sup> Gyene, "Democracy, Islam and Party System in Indonesia: Towards a Consensus-Oriented Model."

Islamic state, like that proposed in DI/TII under S.M. Kartosuwiryo from West Java, who had a vast influence in Indonesia in the late 1940s.<sup>24</sup><sup>25</sup><sup>26</sup>

Thus, President Soeharto, during his administration, did not enjoy any realm of harmony with Islam. Islamic political ideology was quietened, giving birth to simmering ideological conflicts.

In the 1970s and 1980s, opponents of the government emerged in the Muslim community and they were affiliated with Masyumi, the Natsir Party, and Darul Islam<sup>27</sup> which led to disharmonious relations between Islam and the New Order government.

The tension between political Islam and Soeharto's government were reduced when young modernist Muslim thinkers emerged at the end of 1980's. They drove the goal of Muslim politics, intending to balance state power and promote a culture of pluralism, public participation, and social justice.<sup>28</sup> Their presence added to the strength of political Islam's bargaining power towards the New Order's power.<sup>29</sup> In the 1990s, they established ICMI as the foremost Islamic political soft infrastructure in influencing the policy process, capital investment, and establishment of the first Islamic bank in Indonesia in 1992.

### *Stages of Islamic Economic Development*

The chronology of Islamic economic development could be characterized as tumultuous and chequered. Mas Mansur spoke of the interest-free banking system on the eve of independence but lacked academic and political support. Yet, the existence of the Trade Group of Indonesia or *Sarikat Dagang Indonesia* (SDI) reflected a commercial Muslim identity.<sup>30</sup>

During Soekarno's Old Order era, the concept of advancing Islamic economics had not yet emerged. The political landscape centred on national political structures, with Soekarno developing affiliations with the Indonesian Communist Party during the early to mid-1960s. Conversely, his relationship with major Muslim parties like Masjumi was strained. This period was

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<sup>24</sup> R. E. Elson and C Formichi, "Why Did Kartosuwiryo Start Shooting? An Account of Dutch-Republican-Islamic Forces Interaction in West Java, 1945-49," *Journal of Southeast Asian Studies* 42, no. 3 (2011): 458-486, <https://doi.org/10.1017/S0022463411000361>.

<sup>25</sup> M. Hasbi, "The Band Of Abdul Qahhar Mudzakkar Biographical Sketch of Rebellious Leaders of Islamic State- Indonesian Islamic Army (DI/TII) of Sulawesi," *Journal of Indonesian Islam* 8, no. 2 (2014): 263-283, <https://doi.org/10.15642/JIIS.2014.8.2.263-283>.

<sup>26</sup> A. Rahman, "Benteng Alla: Islamization of the Ancestral Land by Darul Islam/Tentara Islam Indonesia," *IHiS (Indonesian Historical Studies* 4, no. 1 (2020): 125-136.

<sup>27</sup> Hadiz, "Indonesian Political Islam: Capitalist Development and the Legacies of the Cold War."

<sup>28</sup> Hefner, "Public Islam and the Problem of Democratization."

<sup>29</sup> M. Ramadhan, "Jokowi's Economic Policy and Islamic Economics in Indonesia," *International Journal on Language, Research and Education Studies* 2, no. 3 (2018): 358-368.

<sup>30</sup> Prayudi, "Analysing The Role Of Islam Within Indonesia's Culture And Politic," *Ponte* 73, no. 4 (2017): 120-132, <http://www.pontejournal.net/index.html>.

characterized by a lack of emphasis on Islamic economic development, as political alliances and dynamics took precedence over such endeavours.<sup>31 32</sup>

During Suharto's New Order era preceding the 1990s, the dynamic between the state and Islam encountered significant political impasses in reconciling the diverse aspirations of Muslim interests. The New Order regime mandated that Islamic organizations adhere solely to the Pancasila principle. Meanwhile, prominent Islamic groups like Nahdhatul Ulama and Muhammadiyah refrained from overt opposition.<sup>33 34</sup>

During the 1980s, the notion of Islamic economy and banking began to surface, championed by Muslim intellectuals like A.M. Saefuddin and Amin Aziz. They founded the Agribusiness Development Center, initially aimed at different objectives but also served as a platform for discussing Islamic economic principles. Additionally, the shift from the New Order to a more receptive stance towards political Islam in the 1990s ushered in the inception of the Islamic-inspired economy.

### **Islamic Development in Jokowi Government**

#### **Jokowi Political Power**

Jokowi has an excellent political pedigree. Before his presidency, he led Surakarta, a city in Central Java, for two periods (2005-2009 and 2009-2012). He then led at the provincial level as the Governor of DKI Jakarta (2012-2014) before becoming the national leader as the 7<sup>th</sup> president for two terms (2014-2019, 2019-2024).

This popularity was appreciated by *The Strait Times* which awarded Jokowi "the ST Asian of the year 2019".<sup>35</sup>

Jokowi was a gift for the Indonesian Democratic Party of Struggle (PDI-P). He represented grassroots politics and became a President although genealogically with no royal bloodlines like the six previous Presidents.

He brought satisfaction to Megawati Soekarno Putri, Chairperson of PDI-P, who had twice faced defeat in presidential bids during the era of direct democracy, first in 2004 against Susilo Bambang Yudhoyono (SBY) and later in 2009 against Prabowo Subianto. Jokowi's victory in the presidential election revitalized her national political presence, which had waned during SBY's tenure from 2004 to 2014. However, controversy arose over Jokowi's choice of deputy during his first term. In the 2014-2019 Presidential Election, he selected Jusuf Kalla, a senior figure from the Golongan Karya (Golkar) party, as his Vice President candidate. Golkar Party had supported the Red and White Coalition,

<sup>31</sup> R. Mortimer, *Indonesian Communism Under Sukarno: Ideology and Politics 1959-1965* (Ithaca, NY: Cornell University Press, 1974).

<sup>32</sup> K. B. Teik and V. R. Hadiz, "Critical Connections: Islamic Politics and Political Economy in Indonesia and Malaysia," *IDE Discussion Paper* 239 (2010): 15, <http://hdl.handle.net/2344/900>.

<sup>33</sup> T. B. Pepinsky, "Political Islam and the Limits of the Indonesian Model," *Taiwan Journal of Democracy* 10, no. 1 (2014): 105-121.

<sup>34</sup> Prayudi, "Analysing The Role Of Islam Within Indonesia's Culture And Politic."

<sup>35</sup> B. Bland, *Politics In Indonesia: Resilient Elections, Defective Democracy* (Sydney, AUS: Lowy Institute, 2019).

which nominated Prabowo Subianto-Hatta Radjasa as the President / Vice President candidates, Jokowi's main competitors. Despite this, Jokowi managed to diminish the influence of the Red and White Coalition. The United Development Party (PPP) and the National Mandate Party (PAN), initially part of the opposition coalition, joined forces in 2015, followed by Golkar Party's official entry on May 17, 2016, effectively dissolving the Red and White Coalition.<sup>36</sup>

The controversy continued in 2019-2024 period. Jokowi appointed Ma'ruf Amin in the last minutes to be his Vice President candidate and stripped Mahfud MD, a highly experienced national figure and considered a strong Vice President candidate at the time.

Jokowi's courage in the final seconds of the presidential election with Ma'ruf and leaving Mahfud MD, according to Bland,<sup>37</sup> shows that Ma'ruf, with all his reputation for Islam, had shifted from his rigid orthodox model. It influenced the many nationalists-dominated PDIP to accept Ma'ruf as a Vice President candidate to accompany Jokowi.<sup>38</sup>

Jokowi's politics were seemingly highly superior. With Ma'ruf Amin, he continued to gain support from loyal parties in the 2014 presidential election, namely PDIP, NasDem, PKB, Hanura, and PKPI, and two newly founded parties (PSI, Perindo). Even large parties like Golkar and PPP did not shift allegiances and remained loyal to Jokowi's government. PAN however left the Jokowi government coalition and joined the Great Indonesia Movement (Gerindra) Party, the Prosperous Justice Party (PKS), the Democratic Party, and the Berkarya Party in the *Adil Makmur* Coalition to support the President-Vice President Candidates Prabowo Subianto-Sandiaga Uno. Jokowi-Ma'ruf Amin won the 2019-2024 presidential election with 55.50% of the total votes, and Prabowo-Sandiaga received 44.50% of the votes.

### ***The Debate around Jokowi's Government***

Jokowi's political dominance however does exhibit some shortcomings, which certain experts perceived as weaknesses in his political strategies. While this perspective remains subjective, it holds significance for political and democratic analysis, warranting careful consideration. Aspinall & Mietzner (2019) state that in the last five years, the old social divisions between pluralist and Islamist societies have been revived.<sup>39</sup> In the 2019 presidential election, it was clear that Jokowi's victory was thanks to the support of an alliance of

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<sup>36</sup> R. Wardi, "Golkar Officially Supports Govt, Leaves Red and White Coalition," 2016, <https://jakartaglobe.id/news/>.

<sup>37</sup> B. Bland, *Politics In Indonesia: Resilient Elections, Defective Democracy* (Sydney, AUS: Lowy Institute, 2019).

<sup>38</sup> B. Muhtadi, "Jokowi's First Year: A Weak President Caught between Reform and Oligarchic Politics," *Bulletin of Indonesian Economic Studies* 51, no. 3 (2015): 349-368.

<sup>39</sup> E. Aspinall and M. Mietzner, "Southeast Asia's Troubling Elections: Nondemocratic Pluralism in Indonesia," *Journal of Democracy* 30, no. 4 (2019): 104-18.

traditionalist Muslims and minority religions, while his competitor, Prabowo, received much support from groups carrying more prominent Islamic symbols.

In his study, Power (2018) proclaimed a significant decline in Indonesia's democratic institutions under President Jokowi ahead of the 2019 presidential election.<sup>40</sup> Largely, related to the continued mainstreaming and legitimacy of the conservative and anti-pluralistic brand of political Islam and the increasingly open repression, as well as the powerlessness of the political opposition. Jokowi's administration had adopted what was described at the time as an "authoritarian turn" ahead of the 2019 general election, namely the government's efforts to weaken and suppress democratic opposition.

Warburton argues that Jokowi's development strategy was divided and coherent, and his decision-making is more *ad hoc*.<sup>41</sup> However, Jokowi has broad structural characteristics from the socio-political situation that allowed Indonesia, during Jokowi's presidency, to return to its development style. In 2016, Jokowi's new development model began to emerge. Jokowi administration focused on infrastructure development and an agenda of deregulation.

However, Muhtadi criticized Jokowi's policies for the 2014 period. Initially, the public had high hopes for Jokowi's new political style. "Yet, he failed to fulfil his reform promises because he needed to be more decisive in creating a combination of personal and external factors. He should have shown leadership in seriously combating anti-corruption issues and human rights violations. He preferred economic development over democratic reform, which showed that he was not immune from the oligarchic politics that had dominated Indonesian politics, which had benefited certain political elites".<sup>42</sup>

Warburton and Muhtadi allude to Jokowi's infrastructure development model, which was accelerating rapidly. However, the development model had left many more essential governance issues unresolved, such as controlling foreign debt, which continued to increase. Corruption had also not declined, and past human rights issues still needed to be resolved.

Hamayotsu & Nataatmadja however opine that Jokowi faced tough challenges in dealing with and managing partisan interests, which were considered to play a significant role in his victory.<sup>43</sup> Meanwhile, in the context of democratic reform, the overall contribution of Jokowi's government was considered by these commentators as marginal.

### ***Jokowi Policies in Islamic Economic Development***

<sup>40</sup> T. P. Power, "Jokowi's Authoritarian Turn and Indonesia's Democratic Decline," *Bulletin of Indonesian Economic Studies* 54, no. 3 (2018): 307–338.

<sup>41</sup> E. Warburton, "Jokowi And The New Developmentalism," *Bulletin of Indonesian Economic Studies* 52, no. 3 (2016): 297–320.

<sup>42</sup> B. Muhtadi, "Jokowi's First Year: A Weak President Caught between Reform and Oligarchic Politics," *Bulletin of Indonesian Economic Studies* 51, no. 3 (2015): 349–368.

<sup>43</sup> K. Hamayotsu and R. Nataatmadja, "Indonesia in 2015: The People's President's Rocky Road and Hazy Outlooks in Democratic Consolidation," *Asian Survey* 56, no. 1 (2016): 129–137, <https://doi.org/10.2307/26364352>.

Jokowi's three policies to encourage Sharia economic development in Indonesia began with AKSI in 2015, the establishment of the National Sharia Financial Committee (KNKS) in 2016, and MAKSI in 2019.

### 1. *Indonesian Sharia Financial Architecture Master Plain (AKSI)*

AKSI was announced in 2015, 1 year after Jokowi was appointed the 7<sup>th</sup> President of Indonesia. It was Jokowi's response to the 20 years of Sharia financial development in Indonesia that had yet to impact the national financial sector.

The complexity of Indonesia's Sharia financial industry was due to in large part on its focus on retail banking, which needed improvement due to confusing regulations and a lack of consumer clarity.<sup>44</sup>

However, Indonesia's Islamic finance had salient and unique features, such as the world's first Sharia Online Trading System (SOTS), retail *Sukuk* (Sharia online securities trading system), Islamic rural banks (BPRS), and informal Islamic microfinance institutions called *Baitul Maal wat Tamwil* (BMT).

### 2. *National Sharia Finance Committee (KNKS)*

Jokowi's administration founded KNKS in 2016. Bambang Brodjonegoro, serving as the Minister of National Development Planning and Head of the National Development Planning Agency (Bappenas), emphasized that KNKS reflects the government's dedication to advancing the Islamic economy and financial sector in Indonesia. This initiative aims to engage various stakeholders and enhance coordination among communities, ministries, institutions, and other relevant parties in the realm of Islamic finance.<sup>45</sup>

The President and Vice President led KNKS, and its Steering Committee consisted of 10 leaders from the government and related authorities, namely the Minister of National Development Planning/Head of Bappenas, Coordinating Minister for Economic Affairs, Minister of Finance, Minister of State-Owned Enterprises, Minister of Cooperatives and Small and Medium Enterprises, Minister of Religion, Chairman of the Board of Commissioners of the Financial Services Authority (OJK), Governor of Bank Indonesia, Chairperson of the Board of Commissioners of the Deposit Insurance Corporation (LPS), and Chairperson of MUI.

### 3. *Indonesian Islamic Economic Master Plan (MAKSI)*

KNKS crafted MAKSI 2019-2024 to serve as a blueprint for advancing Indonesia's Islamic real and financial sectors. The overarching goal of MAKSI was to elevate the country's share of the Islamic financial market to 20% within the next five years, positioning Indonesia as a significant player in the global Halal industry. Jokowi outlined the government's strategic focus on five key sectors for developing Indonesia's Sharia economy: food and beverage, fashion,

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<sup>44</sup> A. Sharonov, J. Kelimbetov, and K. Nibbe, "The Islamic Economy-The Fastest Growing Economy," in *Eurasian Focus. Skolkovo: Institute for Emerging Market Studies (IEMS), School of Management Skolkovo, EY, Astana International Financial Centre*, 2018.

<sup>45</sup> R. Aisyah, "Expanded Committee To Boost RI's Sharia Economy" (Jakarta, Sat: The Jakarta Post, 2019).

tourism, media and recreation, pharmaceuticals, and cosmetics. Additionally, the government pledged to reinforce Islamic finance, support Sharia-based micro, small, and medium-sized enterprises (MSMEs), and promote the digital economy by offering Sharia-compliant products.<sup>46</sup>

### ***The Opportunity for Islamic Development in the Jokowi Government***

The three initiatives (AKSI, KNKS, and MAKSI) held strategic significance for both domestic and international economic progress. According to the Global Islamic Economy report, Indonesia's expenditure on Halal products reached US\$218.8 billion in 2017, making it the largest market in the world for the Halal industry. This value was projected to experience steady growth, with a compound annual growth rate (CAGR) of approximately 5 to 6 % annually.<sup>47</sup>

Globally, the 2018 Global Islamic Economy (GIE) indicators placed Indonesia in Halal finance at 10th place, Halal travel at 4th place, and Halal modest fashion at 2nd place. Then, in the 2019 Global Islamic Economy Report (GIER), Indonesia rose from 10<sup>th</sup> to 5<sup>th</sup> place, after Malaysia, UAE, Bahrain, and Saudi Arabia. Indonesia had the best sector in modest Halal fashion (#3), Islamic finance sector (#5), and Muslim-friendly travel (#4). Then, in Islamic Finance Country Index (IFCI) 2019, Indonesia scored 81.93 or ranked first in the global Islamic financial market.

Humayon Dar, the Director-General of Cambridge Institute of Islamic Finance (Cambridge-IIF), as cited by Lawi said that the 2019 Global Islamic Finance Report (GIFR) assessed the main factors that influenced the development of the Islamic economy in Indonesia, and they were (i) the regulation and improvement of the banking and Islamic finance industry, (ii) political-will, and (iii) potential demand.<sup>48</sup>

#### ***1. Islamic Finance***

Despite being home to the largest number of Sharia financial institutions globally, Indonesia's 10th-place ranking in the Halal finance (GEI) category was considered unusual. With over 5000 institutions, including 34 Sharia banks, 58 Takaful (Sharia Insurance) companies, 7 Sharia venture capital firms, 163 BPRSSs, and 4500-5500 Sharia cooperatives or BMTs, the country's Islamic finance sector was substantial. However, as of August 2017, Indonesian Islamic financial assets amounted to IDR 1,048.8 trillion, with Sharia banking accounting for approximately IDR 389.7 trillion 5.44% of the national total banking assets. Despite these figures, the sector faced challenges in reaching a 6% market share in Islamic banking.<sup>49</sup>

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<sup>46</sup> R. Aisyah and M. I. Gorbiano, "Indonesia Aspires To Become Global Halal" (Jakarta, Wed, May: The Jakarta Post, 2019).

<sup>47</sup> Republika, *Potensi Besar Industri Halal Indonesia* (Sunday, Feb, 2019).

<sup>48</sup> G. F. K. Lawi, "Indonesia Duduki Peringkat Pertama Pasar Keuangan Syariah Global," 2019.

<sup>49</sup> Z. Hasan, "Market Share Islamic Banking In Indonesia," *Iqtishaduna* 8, no. 1 (2019): 124-137, <https://doi.org/10.46367/iqtishaduna.v8i1.157>.

Another obstacle to promoting the expansion of Sharia financial institutions stemmed from the observation that the volume of Sharia finance still did not adequately represent a significant portion of Indonesia's Muslim population.<sup>50</sup> Since 1992, only one Sharia bank, Bank Muamalat, was established by the Muslim community. The remaining 34 Sharia banks were either subsidiaries of conventional commercial banks or units within traditional enterprises. Ironically, despite being the pioneer of Sharia banking and originating from the Muslim community, Bank Muamalat faced financial difficulties, particularly liquidity issues, and was still in the process of recovery.

## 2. Halal Travel

Indonesia is renowned as a captivating destination, boasting a diverse array of natural wonders. From the breathtaking marine and mountain landscapes of Raja Ampat in Papua to the enchanting coastal and hilly terrain of Gunung Kidul in Yogyakarta, and the lush mangrove forests of Pariaman in West Sumatra, the country offers a wealth of tourism treasures. Other notable attractions include the picturesque hill areas of Bandung in West Java, Baturarraden in Central Java, and Kaliurang in Yogyakarta, as well as the unique landscapes of Bromo in East Java and the expansive garden packages encompassing Bogor Safari Park, Bogor Botanical Gardens, and Mekarsari Fruit Park. Additionally, landmarks like the Dian Al Mahri Mosque in Depok, West Java, further enhance the appeal of Indonesia's halal tourism offerings.

The issuance of Regulation No. 17 of 2020 by the Minister of Industry marks the initial stride toward establishing integrated Halal industrial zones in Indonesia, including projects such as the Modern Industrial Estate Cikande Serang in Banten and the Halal Industrial Zone SAFE n LOCK in Sidoarjo, East Java. Furthermore, initiatives like Ilham Habibie's proposal to develop a Special Economic Zone (KEK) in Aceh underscore the nation's commitment to fostering Halal-friendly economic sectors.

According to data from the Global Islamic Economy Summit report, Halal tourism generated a turnover of 184 billion US dollars in 2017, with significant contributions from Gulf Cooperation Council (GCC) countries, where visitors displayed notable average spending of up to 5,000 US dollars per visit. Projections indicate that by 2023, the Halal tourism market share is expected to reach US\$ 177 trillion.<sup>51</sup>

However, the real potential of Indonesia's Halal tourism has yet to be supported by real infrastructure, namely Sharia hotels. Riyanto Sofyan, the head of the Team for the Acceleration of Halal Tourism Development (TP3H),

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<sup>50</sup> Asmani, "Banks Get Light to Offer Another Islamic Product", *The Straits Times (Singapore)*, June 13 (2006).

<sup>51</sup> Republika, *Potensi Besar Industri Halal Indonesia*.

projected an annual increase in the number of Sharia hotels in Indonesia in 2018. However, according to the Central Statistics Agency (BPS) in 2018, there were only 730 Sharia hotels, reflecting a growth of 118%. This figure still trailed behind the number of conventional two-star hotels (745) and was nearly half the number of three-star hotels (1,302).

Reports from gatra.com (June 10, 2018) and Syarizka (Bisnis.com, May 11, 2018) cite data from the Ministry of Tourism indicating that only two hotels, Sharia Solo Hotels and Sofyan Hotels in Jakarta, had been certified by DSN-MUI (Sharia or Halal Authority Council). Similarly, only 75 Sharia restaurants had obtained Sharia certification.

Halal tourism also presents opportunities for Muslim community-based Micro, Small, and Medium Enterprises (MSMEs). These include Tanggulangin Leather Crafts in Sidoarjo, Silver handicrafts in Kota Gede, Ceramic Crafts in Kasongan, carved wooden furniture in Jepara, batik centers in Pekalongan, and muffler and eyelash crafts in Central Java, and Cibaduyut, West Java. While most regions possess the potential for Sharia SMEs, especially in provinces like Sumatra, South and East Kalimantan, South Sulawesi, West Nusa Tenggara, and North Maluku, few MSMEs collaborate with Sharia financial institutions for capital. Access to affordable Sharia financing remains limited, even at the BMT and Sharia Rural Bank (BPRS) levels, due to stringent conditions and guarantees, rendering many MSMEs ineligible for bank loans.<sup>52</sup>

### 3. Halal Modest Fashion

The enactment of Law Number 33 Year 2014 concerning the Guarantee of Halal Products, the rise of Muslim fashion designers, Muslim fashion events, and positive public responses have all allowed modest Halal fashion to grow exponentially in Indonesia.

In 2019, the domestic market for Muslim fashion products amounted to US\$ 20 billion, showing an average growth rate of 18.2%. Exports from the Muslim fashion sector surpassed US\$ 9.2 billion, representing 9.8% of total manufacturing exports. Indonesia also ranks among the Top 10 Consumer Markets for Muslim fashion, with total spending reaching US\$ 21 billion, and holds the 3rd position in the Top 10 Modest Fashion rankings.<sup>53</sup>

Hence, Halal Modest Fashion emerges as a pivotal catalyst for the Halal industry, dominating the domestic market. With the world's largest Muslim population and the extensive demand for Muslim attire across various societal

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<sup>52</sup> M. S. Antonio, "Islamic Microfinance Initiatives To Enhance Small And Medium Enterprises In Indonesia From Historical Overview to Contemporary Situation," *Journal of Indonesian Islam* 5, no. 2 (2011): 313–334.

<sup>53</sup> A. Anwar Fathoni and T. H. Syahputri, "Potret Industri Halal Indonesia: Peluang Dan Tantangan," *Jurnal Ilmiah Ekonomi Islam* 6, no. 03 (2020): 428–435, <http://jurnal.stie-aas.ac.id/index.php/jie>.

realms such as work, education, and socio-religious engagements, the modest Halal fashion segment stands out as the most promising market compared to the Halal finance and Halal travel sectors.

#### *4. Halal Potential*

##### *Agribusiness*

The concept of advancing the Halal agro-industry in Indonesia, alongside enhancing the nation's economic competitiveness globally, and ensuring optimal access to agricultural technology for empowering farmer markets, remains a work in progress. Conversely, Indonesia boasts significant potential in its agrarian sector. From 2013 to 2018, the accrued additional value of GDP in agriculture amounted to IDR 1,375 trillion, with a notable 47% increase in the GDP value of the Agricultural Sector in 2018 compared to 2013. The agricultural sector's role in driving national economic growth is increasingly recognized as pivotal and strategic, with its contribution to the national economy rising from 13.14% in 2014 to 13.53% in 2017.

##### *Islamic economy based on digital*

The digital market is experiencing significant growth in retail and e-finance, with Indonesian Muslim youth entrepreneurs such as Nadiem Makarim of Gojek and Ahmad Zaky of Bukalapak leading the way with their respective service platforms. However, despite the proliferation of e-markets and e-finance, there is still a lack of emphasis on implementing Halal trading mechanisms and systems rooted in Sharia economics. This is primarily due to the insufficient understanding of the Islamic economic system within the realms of e-commerce, e-markets, and e-finance. To address this, Indonesia must encourage influential universities to spearhead initiatives aimed at enhancing literacy in Sharia financial systems tailored for e-commerce and digital transactions.

#### *The Social-Political Challenges*

Indonesia is hailed as a country in which Islam and democracy co-exist admirably, and it is an exemplar of a moderate country, despite sporadic violence.<sup>5455</sup> What if any is its correlation with Islamic economic development?

Under President Jokowi's administration, Indonesia's democracy has witnessed the emergence of a faction within Islamic politics. A notable aspect often overlooked by the public is the presence of numerous grassroots advocates for Sharia economics in Indonesia. These activists are aligned with various Islamic ideological groups, including those associated with conservative Islamic movements such as the "212 movements". The "212 Islamic movements" protested against the alleged blasphemy of Basuki Tjahaya Purnama or Ahok, Jakarta's former Governor, a Chinese-Christian Indonesian. Mass demonstrations occurred twice within a few weeks, on November 4, 2016 (thus "411 movement") and December 2, 2016 (thus "212 movement"). In Indonesia,

<sup>54</sup> Barton, "Indonesia: Legitimacy, Secular Democracy, and Islam."

<sup>55</sup> Teik and Hadiz, "Critical Connections: Islamic Politics and Political Economy in Indonesia and Malaysia."

both demonstrations were the most extensive mass gathering organized by Islamic symbol organizations. Some scholars perceived the mass demonstration of "212 movements" as a heightening politics of right-wing Islamic populism.<sup>56</sup>

During the "212" gathering in 2019, while it didn't attract as many religious and political figures as the "212 movements" did between 2016 and 2018, Muslims from diverse regions across Indonesia still participated actively. This indicates that the "212 Movement" has evolved into a significant Muslim force that operates outside the mainstream narrative.

Sholikin highlighted the significance of the "212 movements" as a pivotal moment for observing religious dynamics in Indonesia, particularly concerning the decentralization of religious authority. Historically, NU, Muhammadiyah, and MUI held sway as national religious authorities. However, new individuals and organizations, exemplified by Habib Rizieq Shihab and the Front of Islamic Defenders (FPI), have emerged as influential figures and institutions, challenging the traditional centers of religious authority. This shift might explain why mainstream Islamic powers, notably NU and GP Ansor (NU's Youth Organization), have withheld their support.<sup>57</sup>

The 212 movement continues to run its mass communication arm the 212 Alumni Management (PA 212). PA 212 holds a mainstream position and consistently addresses matters related to religious defense, frequently offering criticisms of the Jokowi administration.

Following the 212 movements, the establishment of the 212 Syariah cooperative occurred at the Andalusian mosque within the Tazkia Institute complex in West Java on January 6, 2017. M. Syafi'i Antonio, a prominent figure in developing Indonesia's Islamic economy, assumed the role of Chairman, alongside other notable individuals such as Didin Hafidhuddin, Anggito Abimanyu, Ichsanuddin Noorsy, and Ma'ruf Amin. Hafidhuddin, associated with Dompet Dhuafa, an NGO specializing in zakat, infâq, and sadaqat, serves on the Advisory Council. Abimanyu is recognized for his precision and integrity in economic matters, while Noorsy is esteemed as a critical economic observer. Ma'ruf Amin, Jokowi's Vice President, chairs the Advisory Council.

The Sharia Cooperatives "212" introduced the "212Mart" retail store concept, which has expanded to 192 stores (Kompas.com, August 29, 2018). This model diverges from traditional Shari'a Savings and Credit Cooperatives (KSPPS). According to Savitri & Adriyanti, the establishment of Cooperative 212 serves as a platform for middle-class Muslim entrepreneurs. The rise of the 212 movement signifies the emergence of Islamic populism in Indonesia, characterized by the resurgence of nationalist and religious ideologies as political tools for capital accumulation.

<sup>56</sup> L. A. Savitri and D. Adiyanti, "The Demise of Emancipatory Peasant Politics? Indonesian Fascism and the Rise of Islamic Populism," *ERPI, International Conference Authoritarian Populism and the Rural World, Conference Paper*, no. 69 (2018).

<sup>57</sup> A. Sholikin, "Gerakan Politik Islam Di Indonesia Pasca Aksi Bela Islam Jilid I, II Dan III," *Madani* 10, no. 1 (2018): 12-33.

The development of "212Mart" serves as a social initiative to foster Islamic economic growth in Indonesia but has become entangled in political tensions due to its association with opposition to Jokowi's government. While Jokowi's administration maintains close ties with NU, Indonesia's leading Islamic organization, NU's involvement in Sharia-compliant banking remains limited. Many NU figures are urged to play a more active role in advancing Islamic banking and economic practices to leverage NU's influence in driving demand for Halal products and financial systems in Indonesia.

## CONCLUSION

The second term of Jokowi's administration (2014-2019) and future governments face the ongoing challenge of uniting all stakeholders involved in Indonesia's Sharia economic development, posing a significant hurdle to its broader integration into the national economy.

Jokowi's policies have initiated substantial collaboration among government institutions, legislative bodies, DSN-MUI, MES, and Islamic finance practitioner organizations, culminating in the issuance of the 2019-2024 Indonesian Sharia Economic Masterplan. Furthermore, in the 2020-2024 period, Jokowi's appointment of Ma'ruf Amin, an esteemed expert in Islamic economics, as Vice President, underscores the administration's commitment to this agenda.

Tangible outcomes include the establishment of Islamic Industrial Zones, the consolidation of major Sharia commercial banks into Bank Syariah Indonesia (BSI), and the active involvement of Islamic boarding schools in the MSME program. This article contends that Indonesia possesses significant potential in Sharia public financial resources, the Islamic financial market, and the Halal industry. The government should explore *zakat* funds as a supplementary source of state finance, given their substantial potential, estimated at approximately IDR 217 trillion, equivalent to 3% of Indonesia's GDP. Furthermore, the government should explore a more collaborative stance towards Islamic political movements to listen to their concerns and needs. Many of which exhibit confidence and influence in advancing Sharia financial institutions in Indonesia.

This article acknowledges the need for statistical data across various sectors to gauge the success of Sharia economic development under the Jokowi administration. Further research is warranted to fortify existing and forthcoming data, thereby consolidating the understanding of Indonesia's progress in this domain.

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Adam Voak: Contribute to formulating research ideas, collecting data, processing data, and interpreting data.

Naerul Edwin Kiky Aprianto: Contributing to writing systematics, research methods.

Ahmad Dahlan: Contributing to analyzing interpretation results, the language proofread.

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The author declares that there is no conflict of interest.

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