

From Marginalization to Recognition: The Impact of Islamic Political Economy on Indonesia's Islamic Economy During the New Order

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Abstract

The New Order era (1966–1998) marks a pivotal period in Indonesia's political and economic history. This study examines the influence of Islamic political economy on the evolution of Islamic economy during this time, using a literature review to explore how political dynamics and economic policies shaped its development. The findings reveal that Islamic political economy faced significant challenges due to the New Order government's focus on capitalist and industrial-oriented policies, which often marginalized sharia-based economic systems. For instance, the Islamic banking sector struggled to expand as regulations were more favorable to conventional banks. Despite these obstacles, intellectual groups and scholars sought to integrate Islamic principles into national policies, with the establishment of Islamic financial institutions like Bank Muamalat Indonesia in 1991 serving as a milestone. By the end of the New Order era, there was a noticeable increase in public interest and awareness of Islamic economy, driven by political shifts and a growing desire for a fairer, Islamic-aligned economic system. Consequently, Islamic economics began to gain wider recognition, eventually becoming an integral part of the national economic framework.

Keywords: Economic Policies; Islamic Economy; Islamic Political Economy; New Order Era; Sharia-Based Economy

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Introduction

Indonesia's economic orientation has continued to change since Indonesia proclaimed its independence. Similarly, the nature of the economy went from closed to open during the New Order. At the beginning of independence, the government at that time did not fully focus on economic development because although Indonesia had been declared independent, in practice Indonesia was not completely free from the Netherlands. In addition, Indonesia at that time was hit by political turmoil and rebellion that spread in various regions such as Sumatra and Sulawesi. These reasons made Indonesia's economic condition deteriorate, even though it had experienced growth in the 1950s which then declined drastically (Tambunan, 2018).

It is different from the situation during the leadership under Suharto, which is known as the New Order government. The economic situation inherited by the very poor Old Order government changed significantly during the New Order period, namely with a dramatic increase in the Indonesian economy. The New Order government at that time aimed to improve the welfare of the community through economic and social development in the country. Similarly, during the New Order, cooperation with the West, which had been stalled at the beginning of independence, was re-established and stayed away from the influence of communist ideology (Tambunan, 2018).

The New Order is an important period in Indonesia's political and economic history that lasted from 1966 to 1998. This era began with the issuance of the Eleventh March Decree (Supersemar) by President Sukarno, who then appointed General Suharto to take over power (Hasan, 2014). This government was marked by various significant changes in the country's political and economic structure. However, the New Order era was also marked by various controversies, including restrictions on political freedom and the suppression of certain groups. However, it is important to understand the historical context of the New Order to understand the subsequent developments in Indonesian history.

During the New Order era, there were also many turmoils in both the political and economic fields. This led to the fall of Suharto, as well as his 32-year reign. In the economic growth that occurred and the increasing social changes, it is undeniable that Suharto dominates it. It is also undeniable that in the New Order government, Suharto played the most role in all the policies taken by the rulers at that time (Jaiz, 1999).

The importance of understanding the role of Islamic political economy in the development of Islamic economy lies in its contrib to encouraging sustainable, fair, and sharia principles-based economic growth (Aprianto, 2018). A good understanding of Islamic political economy is important in the development of Islamic economy for sustainable economic growth. Islamic political economy provides a positive force for the acceleration of economic development in accordance with sharia principles. The Islamic economic system prioritizes the welfare of the community to realize justice. By understanding and applying these principles, Islamic economy can have a positive impact on a country's economy (Sudiarti, 2016).

Islamic political economy can be used to solve various social and economic problems facing Muslim countries today. In this context, a good understanding of Islamic political economy will help in formulating effective policies to address these problems. The Indonesian government's Islamic economic politics is manifested in the form of "interventions" that encourage the development of Islamic economy. These interventions included the establishment of laws, the establishment of Islamic financial institutions, and the organization of Islamic economic forums. With a good understanding of Islamic political economy, the government can take appropriate steps to encourage fair and sustainable economic growth (Irkhami, 2019). To promote fair and sustainable economic growth, political policies also play an important role in the development of Islamic finance in Indonesia. In this context, a good understanding of Islamic political economy will help in formulating policies that support the development of the Islamic financial sector, such as Islamic banking, Islamic insurance, and Islamic capital markets in the future.

In December 1990, with Suharto's blessing, the largest group of Muslim intellectuals gathered under one roof since the mid-1960s, gathered in the city of Malang, East Java to form an organization called the Indonesian Muslim Scholars Association (ICMI). The move came as a surprise to those who doubted Islam that it could find refuge under Suharto. This angered military leaders who saw it as an attempt to avoid their claim to popular support.

The purpose of this research is to analyze the influence of Islamic political economy on the evolution of Indonesia's Islamic economy during the New Order era, highlighting the challenges faced and the milestones achieved in integrating Islamic principles into national economic policies.

Literature Review

History of Islamic Economy in Indonesia: The Influence of the New Order

The history of Islamic economy in Indonesia is closely related to the country's broader economic and political development, especially during the New Order era (1966-1998). The New Order, under General Suharto, was characterized by rapid economic development, political stability, and a focus on industrialization and foreign investment (Nababan et al., 2024). However, this period also saw significant economic inequality and corruption, which created fertile ground for alternative economic systems, including Islamic economics, to gain traction (Nababan et al., 2024). Islamic economy, which emphasizes the principles of justice, equitable distribution, and sustainability, is beginning to be seen as a potential solution to the economic gap exacerbated by New Order policies (Desvianti et al., 2024). Despite its potential, the implementation of Islamic economy in Indonesia has faced major challenges, including limited public understanding and a lack of comprehensive regulatory support (Nursaid et al., 2023). The gradual expansion of Islamic banking and financial institutions during and after the New Order era showed a growing, albeit slow, acceptance of Islamic economic principles (Nursaid et al., 2023). In addition, the Islamic economic system's focus on monetary policy, such as open market operations, has been analyzed for its potential to contribute to economic growth and stabilize inflation in Indonesia (Khoirurrizki et al., 2024).

The evolution of Islamic economy, particularly during the New Order era, was significantly influenced by the broader framework of Islamic political economy, which sought to establish a different economic paradigm rooted in Islamic principles and values. This period marked a post-colonial counter-hegemonic attempt to redefine the economic system in Muslim societies, overcoming the development failures attributed to the colonial legacy (Yilmaz, 2018). Islamic economy emerged as a third way between capitalism and socialism, emphasizing religious ethics and fairness in commercial transactions, such as fair remuneration and risk-sharing between creditors and debtors, which are central to Islamic teachings (Guo, 2023).

The establishment of Islamic financial and banking institutions during this era was motivated by the desire to create an alternative financial system that adhered to Islamic norms, aiming to avoid social imbalances caused by the interests-based system and promote a participatory and sharing economy (Yilmaz, 2018). However, the practical implementation of these ideals faces challenges, as the dualism

between secular and Islamic worldviews creates tensions that hinder the development of a cohesive Islamic economic agenda (Maghrebi et al., 2023). Despite these challenges, countries such as Saudi Arabia, Pakistan, Malaysia, and the UAE played an important role in shaping the contemporary Islamic finance industry, demonstrating the influence of political economy on the practical aspects of Islamic economics (Watkins, 2020). The focus on charitable giving and poverty alleviation, while avoiding a culture of dependency, further highlights the moral and ethical dimensions of Islamic economics, which aim to balance the right to private property with social justice (Wilson, 2019). Overall, the Islamic political economy of the New Order era significantly shaped the theoretical and practical evolution of Islamic economics, seeking to align economic activities with the broader objectives of the Islamic moral and social framework (Guo, 2023).

The New Order Era: Influence on Islamic Economy

Despite its economic focus, the New Order regime had a negative view of political Islam, banning Islamic parties and emphasizing national stability and economic development rather than political Islam. This has led to a new generation of Muslim intellectuals preferring non-political roles (Rosidi, 2022). In the new normal, post-New Order era, instruments such as Green Sukuk have been significant in enhancing Indonesia's economic development strategy, contributing to government financing and economic growth (Sisdianto et al., 2024). The transition to the reform era in 1998 brought a more open socio-political environment, with increased freedom of speech and political debate, in contrast to the censorship of the New Order. This period also saw a debate about the role of the state in the economy and the implications of market reforms (Purnomo & Suryono, 2022). Thus, while the New Order era laid the foundation for economic development, it also set the stage for the role of Islamic political policy and economic strategy to develop in the following period.

The New Order era in Indonesia, which lasted from 1966 to 1998, significantly influenced the development of the Islamic economy in Indonesia. During this period, the government mainly focused on rapid economic growth and modernization, often setting aside Islamic economic principles. However, the post-New Order period saw a revival of interest in and the implementation of the Islamic economic system. The Islamic economic system, which emphasizes principles such as justice, equitable distribution, and sustainability, has been increasingly recognized for its potential to address economic inequality and contribute to sustainable development

in Indonesia (Desvianti et al., 2024). The growth of the Islamic finance industry, including Islamic banking, sukuk (Islamic bonds), Islamic stocks, and Islamic mutual funds, has become significant, although challenges remain in fully integrating these instruments into the broader economic framework. While Islamic banking and sukuk have shown a positive and significant impact on economic growth, Islamic stocks and mutual funds have not reached the same level of influence (Azwar et al., 2024).

In addition, the application of Islamic economic principles in certain financial products, such as the *mudharabah muthlaqoh* agreement in hajj savings products, has been successful, following the pillars and conditions of the Islamic economy (Rasidi & Hasan, 2024). Despite these advances, the Islamic economy in Indonesia faces major obstacles, including limited public knowledge, a shortage of skilled experts, and an inadequate educational framework to support its growth (Nursaid et al., 2023). The government's initiatives and the gradual expansion of Islamic banking indicate a positive trajectory, but there is a need for more comprehensive policies and regulations to fully support the development of the Islamic economy (Nursaid et al., 2023). Overall, while the New Order era did not prioritize Islamic economic principles, subsequent periods have seen significant efforts to integrate these principles into Indonesia's economic development, highlighting ongoing progress and challenges.

Islamic Economics in the New Order: Navigating Dualism and Practical Challenges

In the context of economic studies, Islamic economics in the New Order era presents a complex interaction between theoretical aspirations and practical challenges. The fundamental problem lies in the inherent dualism between Islamic and conventional economic paradigms, rooted in different metaphysical foundations and methodologies. This dualism makes it difficult for Islamic economics to emerge independently or coexist seamlessly within the framework of conventional economics (Maghrebi et al., 2023). Various perspectives of Islamic economics highlight the challenges of integrating Islamic principles with modern economic practices. The idea of removing secular elements from economic theories to align them with the Islamic worldview, for example, raises questions about the feasibility and authenticity of such efforts (Sencal, 2022). Additionally, Islamic economics lacks some scientific characteristics of modern economics, such as

falsifiability and predictive power, complicating its acceptance and application in contemporary economic systems (Azadarmaki, 2023).

Despite these theoretical challenges, Islamic finance has experienced significant growth, with institutions operating in more than 70 countries and managing large assets. However, operational issues remain, necessitating a critical analysis of underlying practices and principles (Maulidizen, 2018). The integration of moral law derived from divine roots into economic models offers a unique perspective but requires rigorous scrutiny to ensure these models are practical and aligned with Islamic teachings (Choudhury, 2011). Thus, while Islamic economics promises an ethical alternative to conventional systems, its evolution in the New Order era faces challenges that demand careful consideration and innovative solutions.

Despite the challenges of aligning Islamic economics with the scientific characteristics of modern economics, the comparative concept in Islamic economics offers a unique methodology for addressing economic problems, which can be beneficial to both Islamic and Western economic systems (Azadarmaki, 2023). The New Order era also saw the introduction of Islamic macroeconomic instruments, such as the profit-sharing system, which aimed to stabilize the economy by ensuring transparency and shared responsibility in profits and losses, thus promoting economic equality.

Methods

In the context of qualitative research, the data analysis process is indeed a critical stage that involves several meticulous steps to ensure accurate and meaningful conclusions. Qualitative data analysis is an iterative and continuous process that consists of three main stages: data reduction, data presentation, and conclusion/verification. Data reduction involves condensing the collected data to focus on the most relevant information, which is essential for effectively managing large volumes of qualitative data (K. Khan, 2023). This process is supported by various qualitative analysis techniques such as content analysis and thematic analysis, which help in identifying patterns and themes in the data (Hayes, 2023). The data presentation stage involves organizing the data reduced to a coherent structure that facilitates easy interpretation and analysis. This can be achieved through a variety of methods, including visual displays such as charts and graphs, or narrative descriptions that provide a detailed explanation of the findings (Kittur & Tuti, 2024).

Finally, the conclusion/verification stage involves drawing insights and verifying findings to ensure their validity and reliability. This stage often uses triangulation methods to cross-verify data from various sources, thereby increasing the credibility of the research. The qualitative descriptive analysis techniques used in this study involved collecting data through a variety of approaches, including online and print literature reviews, and analyzing them to provide a comprehensive description of the research findings (Nshi, 2023). Case analysis methods, such as those used by Yizhuo Guo, provide historical evidence and insights into the impact of religious ethics on Islamic economics, further enriching the triangulation process (Guo, 2023).

Result and Discussions

Regarding policy in every step of the New Order government, Suharto took an important role in it, thus Suharto dominated in every policy taken by the government at that time. So it is not surprising that Suharto's cronies at that time dominated also in some important matters. which Suharto should have noticed at that time clearly, because in the end it was they who caused the collapse of the stronghold of the New Order Government. So this discussion presents several things including:

Political Dynamics and Economic Policies of the New Order

The concept of *maqasid al-shariah*, which serves as a moral guide in Islamic economics, was also significant during this period. It emphasizes the creation of solid Islamic financial institutions, regulation by Islamic law, and the protection of moral values in business, aiming to achieve the welfare and justice of society (Karimullah, 2023). In addition, the allocation and distribution of state revenue is influenced by Islamic economic perspectives, promoting a fair distribution of income through initiatives such as the National Money Waqf Movement and the Islamic Economic Brand (Ahyani et al, 2022). Suharto-era policies laid the foundation for the rapid development of the Islamic economy in Indonesia, which continued to flourish in the post-Suharto reform era, characterized by a more open socio-political environment and greater freedom of speech (Purnomo & Suryono, 2022). Overall, the New Order period was crucial in instilling Islamic economic principles into Indonesia's national economic policy, laying the foundation for future growth and development in the sector.

In the period starting from 1991-1998, the development of Islamic banks in Indonesia was relatively slow. This is because it is not supported by aspects of legislation. The current law is Law No. 7 of 1992 concerning Banking and Government Regulation (PP) No. 72 of 1992 which is one of the implementing regulations of the law. Article 6 of Law No. 7 of 1992 stipulates that commercial banks and rural banks (BPR) whose activities are based on the profit-sharing principle are not allowed to conduct business that is not based on the profit-sharing principle. And vice versa. This means, there is no opportunity to open Sharia Windows in conventional banks. The regulation is a barrier to the development of Islamic banks, because the growth path of Islamic banks is only through the expansion of existing Islamic bank offices or the opening of new Islamic banks that require very large funds (Hasnita, 2017).

Table 1. Policies or legislation on Economy and or Islamic Economy during the New Order

Year	Laws/Regulations
1968	Law No. 6 of 1968 concerning Domestic Investment
1968	Law Number 13 of 1968 concerning the Central Bank of the Republic of Indonesia
1969	Government Regulation Number 44 of 1969 concerning Zakat
1974	Law Number 11 of 1974 concerning Banking Principles
1974	Law Number 1 of 1974 concerning Religious Courts
1974	Presidential Decree Number 44 of 1974 concerning the Establishment of the Zakat Fund Management Agency
1983	Presidential Decree Number 51 of 1983 concerning the Transfer of BPR from the Interest System to the Profit-Sharing System
1983	Law Number 7 of 1983 concerning Income Tax
1991	Establishment of Bank Muamalat Indonesia (BMI)
1992	Law No. 22 of 1992 concerning Commercial Banks
1992	Government Regulation No. 72 of 1992 concerning Sharia Commercial Banks
1992	Law Number 7 of 1992 concerning Banking
1992	Presidential Decree Number 55 of 1992 concerning Amendments to Presidential Decree Number 51 of 1983
1992	Decree of the Minister of Finance Number 1241/KMK.017/1992 concerning the Implementation of Sharia Bank Business Activities
1992	Law Number 22 of 1992 concerning Banking

1998	Law No. 10 of 1998 concerning Amendments to Law No. 7 of 1992 concerning Banks
1998	Law Number 10 of 1998 concerning Amendments to Law Number 7 of 1992 concerning Banking
1999	Law No. 38 of 1999 concerning Zakat Management
2000	Government Regulation No. 14 of 2000 concerning the Implementation of Law No. 38 of 1999 concerning Zakat Management
2002	Law No. 17 of 2002 concerning Amendments to Law No. 38 of 1999 concerning Zakat Management

Despite the limitations faced in establishing BMI as a bank adhering to Sharia principles, it has inspired public awareness and the practice of Islamic economy. This momentum led to the establishment of micro-Sharia financial institutions, such as the BPRS, now known as the Islamic rural banking, and Baitul Mal Wattamwil (BMT). In 1998, the government enacted Law No. 10 of 1998, amending Law No. 7 of 1992, to include provisions for banking operations based on Sharia principles. A year later, Law No. 23 of 1999 concerning Bank Indonesia (BI) was promulgated, and Article 10 of this law allowed BI to implement financial policies based on Sharia principles. The enactment of these two laws further solidified the legal foundation for the existence of Islamic banks in Indonesia (Hasnita, 2017).

President Suharto's tenure significantly influenced Indonesia's economic development through a series of strategic policies and international alignment. After taking power, Suharto faced economic challenges that were crippled by the mismanagement of the Old Order. He initiated substantial economic reforms, including the introduction of the development trilogy (development trilogy) and REPELITA (Five-Year Development Plan), which required large foreign investment. To attract this capital, Suharto fostered closer ties with the United States, which led to significant American involvement in Indonesia's economic development during 1966-1980 (Setia, 2023). However, this period was also marked by widespread corruption, which, although initially considered a necessary crime to facilitate growth, ended up becoming a significant obstacle. Corruption, often in the form of bribery, hampers corporate productivity and output, especially in areas with lower democracy indices (Kurniawan & Riyanto, 2020). The 1997 Asian Financial Crisis further exposed the vulnerability of Suharto's economic model, which led to its downfall and ushered in a period of reform that included decentralization and democratization (K. S. Pribadi & Chan, 2022).

The Role of Islamic Political Economy in the Development of Islamic Economy

Wahid is considered a shrewd politician, who has staked his status as grandson of NU co-founder Kyai Wahid Hashim into an unshakable grip over the leadership. It was Abdurrahman Wahid who persuaded the cleric to wisely withdraw from formal politics in 1984. He argued that NU's status as a political player limited its acceptance of the military and bureaucracy. He instead saw the possibility of NU acting as a pressure group; Wade through choppy waters between interest groups, and tout the organization's broad rural membership as a valuable barometer of social opinion. Wahid's vision was, in effect, a reaffirmation of Islamic political influence under the guise of a non-governmental organization. The ruse seemed to work. Shortly before NU's annual congress in November 1989, Wahid claimed (Nim., 2011):

"We are free to carry out our activities without government interference. NU has publications, internal newspapers, and disseminates ideas through public meetings and oral instruction. Previously we had to get permission for all these activities. With permission, there are limits on what we can do."

The 1989 Congress itself disappointed Wahid in several ways. Because although it asserted its leadership and ensured it was perched on an influential footing ahead of national and presidential elections in 1992-3, it also showed the political immaturity of the Muslim community. The meetings in the congress process discussed more simple issues such as whether it is halal or haram (permissible or prohibited under Islamic law) to earn wages working in breweries. More complex issues of social and political change seem beyond the reach of many followers of rural religion. Wahid argues that a more educated membership recognizes the need to adjust to new situations; that Islam should respond to these complex issues, "I would say within five years, we will be able to formulate a more socially oriented approach; Not only talking about halal and haram (Mufidah et al., 2021)."

Islamic political economy plays an important role in the development of Islamic economy, especially in Indonesia. This role can be seen from various economic fields that run the Islamic economic system. For example, Bank Shari'ah, which operates in banking, and Baitul Maal wa Tamwil (BMT), a cooperative that supports the people's economy with an orientation towards common welfare. Welfare in the view of Islamic political economy provides a positive force for economic development in doing business in accordance with Islamic sharia. One of the characteristics of the Islamic economic system is to prioritize the welfare of society

for the realization of justice. Therefore, many parties encourage the implementation of political economy oriented to the common good (Baharuddin, 2017).

In addition, through Islamic economic policies, the development of Islamic financial institutions, education and training, the development of the halal industry, the integration of Islamic economic principles in the state budget, and legal protection, the government can promote economic growth that is sustainable, fair, and in accordance with Islamic values. However, it should be noted that political situations and conditions also influence the development of Islamic economic practices. For example, the politics of the New Order era in Indonesia limited the development of Islamic economic practices. Meanwhile, the politics of the reform era supported the development of Islamic economic practices. This is evidenced by the rapid progress of Islamic economic practices in the fields of Islamic banking, Islamic insurance, Islamic capital markets, Sukuk, Islamic mutual funds/unit trusts, Islamic microfinance institutions, and Islamic public finance in the reform era due to favorable political conditions and situations (Y. Pribadi, 2019).

Challenges of Islamic Political Economy

The success of the Islamic banking sector, although operating under regulations that have traditionally supported conventional banking, can be attributed to several factors. Islamic banks, which operate on the principle of profit sharing and prohibition of interest in accordance with Sharia law, have shown resilience and growth even under the regulatory framework designed for conventional banks (Felysha, 2023; Ingratubun, 2022). The capital requirements of the Basel Committee, for example, have had different impacts on Islamic and conventional banks. While the total regulatory capital ratio helps reduce margins for conventional banks, it does not affect the margins of Islamic banks. In contrast, Tier-1 capital ratios increase Islamic banks' margins, demonstrating the need for tailored regulations for Islamic banks to optimize their performance (Khan et al., 2023).

In addition, Islamic financial regulations, which are aligned with Sharia principles, play an important role in the sustainable growth of Islamic banks by ensuring that their operations remain ethical and compliant with Islamic law (Pane et al., 2024). Despite the structural similarities between Islamic Banking and Finance (IBF) and conventional banking, IBF has the potential to evolve in line with its founding values through a systemic and inclusive approach, as evidenced by the Malaysian Islamic banking system (Imon, 2022). The dual approach of adhering to Sharia principles while navigating the conventional regulatory landscape has

allowed Islamic banks to flourish. Significant differences in risk management and profit-sharing mechanisms between the two banking systems further highlight the unique strengths of Islamic banking, which can offer fairer financial solutions compared to conventional banking interest-based models (Felysha, 2023). Therefore, the success of the Islamic banking sector under conventional banking regulations underscores the adaptability and robustness of Islamic finance principles in a diverse regulatory environment.

The integration of Islamic economic principles into national policies faces significant challenges and opportunities. The New Order government, led by General Suharto, prioritized political stability and rapid economic development, with a focus on industrialization and foreign investment, which often led to economic inequality and environmental problems (Nababan et al., 2024). Despite the government's emphasis on secular economic policies, there is a growing interest among intellectuals and scholars in promoting Islamic economic principles as a means to address these inequalities and promote sustainable development. Islamic finance, with its principles of justice, equitable distribution, and the prohibition of interest, is seen as a potential driver of economic growth and social equality (Desvianti et al., 2024; Nuswantoro, 2024). However, the relationship between Islamic political forces and the New Order government is complex, as the government often views these groups as a threat to national integration and imposes restrictions on their political activities (Rahman, 2024).

The relationship between Muslims and the New Order is still riddled with suspicion and prejudice. The New Order rulers in the 1970s were still suspicious of the idea of establishing Islamic banking as a manifestation of the movement to establish an Islamic state or the realization of the Jakarta Charter. Therefore, the government did not allow the establishment of such institutions. The reason the New Order government did not allow the establishment of Islamic banking was because the way Islamic banks operated, which demanded fairer distribution with a profit-sharing system, was not in line with the applicable law, namely Law No.14 of 1967, Chapter I, Article 1, which did not allow the operation of banks without credit interest (Itang, 2014).

Islam had a significant impact on the lives of Indonesians, going to be the main focus of government measures adopted throughout the New Order era. The importance of Islam during the New Order period was exemplified by the establishment of the Indonesian Ulema Council (MUI), which was established to serve as a platform for Islam between 1975 and 1998. The establishment of the

Indonesian Ulema Council (MUI) assisted the government during the New Order period by resolving problems within the organization and was designed to foster unity and cooperation among all Muslims in the State of Indonesia. The establishment of MUI as an effort by the government during the New Order period was able to show the results that the level of understanding of Islam became better and the relationship between pluralism in society was increasingly harmonious (Karmiati, 2023).

Increasing Awareness and Interest in Islamic Economy

Since its inception, BMI has opened doors to people who want to take advantage of Islamic bank services. Currently, Bank Muamalat provides services through 312 outlets spread across 34 provinces, supported by a network of more than 3,800 Online Post Offices/SOPPs throughout Indonesia. In addition, Bank Muamalat is also the only Islamic bank that has opened an overseas branch, namely in Kuala Lumpur, Malaysia. Bank Muamalat Indonesia (BMI) played an important role in the development of Islamic economy during the New Order era in Indonesia. BMI was born from the anxiety of Indonesian Muslims over bank interest which is considered haram. To meet the needs of the Muslim community for interest-free financial institutions, the Indonesian Ulema Council (MUI) held an interest-free bank seminar in August 1990. The results of the seminar were then brought to the MUI National Conference, and MUI initiated an interest-free bank (Rasyid, 2017).

The increase in public awareness of Islamic economy at the end of the New Order era can be attributed to several interrelated factors. One significant factor is the increasing presence and activity of Islamic Financial Institutions (MFIs), which, despite their limited reach, are beginning to play a more active role in promoting Islamic economic principles. This is crucial in distinguishing Islamic economics from the Western system and addressing the lack of understanding among the people (Nasution & Rahmayati, 2023). In addition, the government's comprehensive fiscal and monetary policies aimed at economic recovery, especially in the wake of the health crisis, include efforts to increase public literacy about Islamic financial products. This is evident in initiatives such as socialization programs conducted with students, which significantly increase their understanding and willingness to adopt Sharia products (Puspitasari et al., 2023).

In addition, the principles inherent in Islamic finance, which are rooted in the Quran and Sunnah, began to attract non-Muslim customers, thus expanding acceptance and reducing Islamophobia. This shift in perception is partly due to the

visible benefits and ethical considerations of Islamic banking, which appeal to a wider audience. Finally, Indonesia's large Muslim population, coupled with a regulatory mandate prioritizing Islamic financial products, created fertile ground for the growth of Islamic insurance and other financial products, despite its initial low market share and awareness (Wibowo & Rohman, 2024). Collectively, these factors contributed to a significant increase in public awareness and acceptance of the Islamic economy during this period.

Conclusion

The conclusion of this study shows that Islamic political economy during the New Order era faced various significant challenges due to the dominance of economic policies oriented towards capitalism and industrialization. The economic policies of the New Order government tend to ignore Islamic economic principles, which leads to the marginalization of the sharia-based economy. One example is the difficulty of the Islamic banking sector to develop because of regulations that are more favorable to conventional banking. Nevertheless, there have been efforts by intellectual groups and scholars to integrate Islamic economic principles into national policy. These initiatives include the establishment of Islamic financial institutions, such as Bank Muamalat Indonesia in 1991, which became an important milestone in advancing the Islamic economy amid the dominance of conventional economies. This research also found that at the end of the New Order era, there was an increase in public awareness and interest in Islamic economy, which was influenced by political changes and people's desire to find alternatives to a fairer economic system in accordance with Islamic values. As a result, Islamic economics began to gain wider recognition and became an integral part of the national economic system.

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