



## Fundamental Principles of Islamic Economic System: Justice, Equity, and Moral Conduct

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### ABSTRACT

This study aims to examine the application of Islamic economic principles in contemporary economic systems, focusing on their contribution to reducing socio-economic inequality, exploitation, and environmental degradation. The basic principles of Islamic economics, such as justice (al-'Adl), equality (al-Musawah), and moral behavior (al-Akhlaq), offer an alternative to the capitalist economic system by emphasizing wealth redistribution, sustainability, and social responsibility. This study uses a literature study method to analyze various relevant sources, including journal articles, books, research reports, and related policies. The results show that the application of Islamic economic principles, through instruments such as zakat, waqf, and Islamic banking, can reduce social inequality and improve people's welfare. However, the main challenges faced are inefficient management and limited implementation outside Muslim-majority countries. This study suggests the need for increased transparency in the management of zakat and waqf, as well as the expansion of the application of the Islamic banking system in the global economy. Overall, Islamic economic principles have great potential to create a more just, sustainable, and socially welfare-based economic system.

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## **INTRODUCTION**

The Islamic economic system is an economic system that integrates Islamic religious principles with modern economic practices, encompassing social, moral, and spiritual aspects. This system aims to create human welfare in a fair and sustainable manner, prioritizing social justice, equality, and moral behavior in every economic transaction. In the context of an increasingly complex global economy, the Islamic economic system offers solutions to address the problems of social inequality, economic exploitation, and environmental damage that are increasingly becoming a global concern. However, although these principles have been implemented in many Muslim countries, major challenges remain in integrating these principles into the broader global economic system, especially in the context of non-Muslim countries or countries that have economic systems that are more based on conventional capitalism.

Islamic economics, with its basic principles of justice (*al-'Adl*), equality (*al-Musawah*), and morality (*al-Akhlaq*), focuses on the fair distribution of wealth and the avoidance of extreme inequality. The principle of justice in Islamic economics emphasizes the equitable distribution of resources and the avoidance of harmful practices, such as *riba* (interest), exploitation, and speculation (*maysir*). This principle aims to reduce the growing social gap between rich and poor, and ensure that individual rights are guaranteed in every economic transaction. In conventional economics, social inequality often increases due to practices that prioritize profit without considering its impact on social welfare. Therefore, the principle of justice contained in Islamic economics can be an alternative to create a more inclusive and just economic system.

However, while Islamic economic principles have the potential to address socio-economic disparities, there are still a number of challenges in their implementation in the real world. Social inequality is a problem that has become a major issue in the global economy, both in developed and developing countries. In developed countries, this inequality is often seen in the form of unequal distribution of income, which triggers poverty and economic hardship for the majority of society. In developing countries, social inequality is generally more structural and often related to limited access to education, health services, and decent employment opportunities. In this context, an Islamic economic system that encourages the redistribution of wealth through the mechanisms of *zakat*, *waqf*, and charitable donations has the potential to reduce the existing gap.

In addition, the issue of natural resource exploitation and environmental degradation is also a major concern in today's global economy. The capitalist-based economic system often leads to the over-exploitation of natural resources for greater profits, without considering the long-term impacts on the environment and human life. Islamic economics, which teaches the wise and responsible management of natural resources, offers a more sustainable solution to address these environmental issues. Islam teaches that nature is a trust that must be protected and preserved, not exploited excessively. This is in line with the principles of sustainability stated in the Sustainable Development Goals (SDGs) initiated by the UN.

One of the implementations of Islamic economics that can reduce social inequality and exploitation is Islamic banking, which operates without interest and emphasizes a profit-sharing system. This Islamic banking system avoids the practice of usury, which is often considered a form of injustice in conventional economics because it benefits the stronger party (lender) while harming the weaker party (borrower). In Muslim countries, the Islamic banking system has grown rapidly as an alternative to conventional banking, and is now gaining more attention in non-Muslim countries as a solution to overcome the problem of economic inequality. However, although Islamic banking has shown success in several countries, there are still challenges in integrating this system into a global economy dominated by the conventional interest-based banking system.

In addition to Islamic banking, economic empowerment through zakat and waqf is also a major instrument in Islamic economics to address social and economic inequality. Zakat, as a social obligation for Muslims who are able, serves to reduce the gap between rich and poor by distributing wealth to those in need. Zakat is not only an obligation of worship, but also a tool for redistributing wealth that can be used for the economic empowerment of the poor. Waqf, on the other hand, allows individuals to donate their assets for public interests, such as the development of education, hospitals, and other public facilities. This system can contribute to sustainable and equitable social development.

Based on the research background and the phenomena that have been identified, the problem formulation in this research is as follows:

1. How can the application of Islamic economic principles, such as justice (al-'Adl), equality (al-Musawah), and moral behavior (al-Akhlaq), in a contemporary economic system address socio-economic inequalities in the world?
2. What is the contribution of the Islamic banking system in reducing global socio-economic disparities, especially in the context of countries that have not yet adopted the Islamic economic system in its entirety?
3. How can the application of Islamic economic principles in the social empowerment sector, through zakat, waqf, and charitable donations, contribute to more equitable social development?
4. In a global context, how can Islamic economics play a role in achieving environmental sustainability, addressing natural resource exploitation, and supporting sustainable development goals (SDGs)?

The main objective of this study is to explore and analyze the application of Islamic economic principles in the context of contemporary economics and its contribution in addressing the challenges of socio-economic inequality, exploitation, and environmental degradation. In more detail, the objectives of this study are:

1. Analyzing how the application of Islamic economic principles can reduce global socio-economic disparities, with a focus on social justice, equitable distribution of wealth, and equality of opportunity in the context of a modern economy.

2. Assessing the contribution of the Islamic banking system in creating a fairer and more transparent financial system., and its impact on reducing economic inequality and more equitable distribution of wealth, both in Muslim-majority and non-Muslim countries.
3. Identifying the potential for economic empowerment through zakat, waqf, and charitable donations in supporting equitable social development., and how this system can contribute to the economic empowerment of disadvantaged communities.
4. Exploring the role of Islamic economics in achieving environmental sustainability, and how Islamic principles can be used to reduce the exploitation of natural resources and support sustainable development policies worldwide.

With this aim, it is hoped that this research can provide deeper insight into the potential of Islamic economic principles in creating a more equitable, sustainable, and mutually beneficial global economy.

## **LITERATURE REVIEW**

### ***Islamic Economic Theory***

Islamic economics is an economic system based on the principles contained in the Qur'an and Hadith. Islamic economics focuses on social justice, equality, and fair distribution of wealth, emphasizing moral principles in every transaction. Chapra (2008) in his book *The Islamic Vision of Development in the Light of Maqasid al-Shariah* states that Islamic economics aims to ensure the welfare of humanity, not only in material aspects, but also in moral and spiritual aspects. One of the main differences between Islamic economics and conventional economics is the prohibition of usury (interest), which is considered a form of injustice, and the prohibition of detrimental speculative practices (maysir).

### ***Social Justice Theory***

According to Sen (1999) in *Development as Freedom*, social justice also includes providing freedom and equal opportunities for every individual to develop optimally, both in education, work, and in social life. In Islamic economics, fair distribution of resources and equal opportunities are the keys to creating a prosperous and harmonious society.

### ***Sustainability Theory***

Sustainability is a concept that refers to the wise use of resources without compromising the ability of future generations to meet their needs. Brundtland (1987) in the report *Our Common Future* defines sustainable development as development that meets the needs of the present without compromising the ability of future generations to meet their needs. Islam teaches that nature is a trust (trust) that must be protected and preserved. Sidiq (2017) in *Sustainable Development in Islam* emphasizes that the principle of sustainability in Islamic economics involves managing natural resources efficiently and not damaging them, and ensuring that development is carried out in a way that does not threaten the ecological balance. In the context of Islamic economics, the principle

of sustainability also includes a prohibition on investment in environmentally damaging sectors, such as alcohol, gambling, and polluting industries. Choudhury (2022) explains that investments made in Islamic economics must be directed towards sectors that provide social and environmental benefits, in accordance with the principle of "mashlahah" or the common good.

### *Theory of Moral Behavior in Economics*

Islamic economics places great emphasis on moral behavior in all economic transactions. Friedman (2005) in *Capitalism and Freedom* states that free market economics often ignores the moral aspect of seeking profit. On the contrary, Islamic economics teaches that business is not only about seeking material profit, but also about social and moral responsibility. Al-Ghazali (2007) in his book *Ihya' Ulum al-Din* explains that good behavior in business is an obligation, and this is reflected in the prohibition of detrimental practices, such as fraud (gharar), monopoly, and exploitation of workers. Islamic economics teaches that profit must be obtained through legitimate and fair means, without harming others.

### *Theory of Islamic Banking System*

The Islamic banking system is one of the implementations of Islamic economic principles in the world of finance. Ibrahim (2020) in *Islamic Banking: A Practical Introduction* states that Islamic banking is based on the principle of profit sharing, where banks and customers share the profits and losses generated from an investment. Islamic banking not only avoids usury (interest), but also prohibits investment in sectors that are not in accordance with Islamic principles, such as alcohol, gambling, and activities that damage society or the environment. This system aims to create justice in the distribution of profits and losses and provide more equitable economic opportunities for all parties. According to Ismail (2021), although Islamic banking has grown rapidly, the big challenge is how to integrate it into the global economic system dominated by conventional banking. However, with increasing awareness of the importance of a fair and sustainable financial system, Islamic banking is increasingly being accepted in the international market, even by non-Muslim countries.

### *Principle of Justice (Al-'Adl)*

Justice is a core value in Islamic economics. From an Islamic perspective, justice is not only limited to the fair distribution of resources, but also includes aspects of justice in economic transactions, distribution of wealth, and distribution of income. This principle aims to create equitable welfare, avoid extreme inequality, and guarantee the rights of individuals and groups. One example of the application of the principle of justice in Islamic economics is the prohibition of usury (interest), which is considered a form of injustice because it benefits certain parties (lenders) while harming others (borrowers). This is reflected in the verses of the Qur'an, such as in Surah Al-Baqarah (2:275) which prohibits the practice of usury, which encourages a fairer distribution of wealth and avoids taking advantage of the weak (Shah, 2023).

Islam encourages the fulfillment of workers' rights, providing fair wages, and creating equal opportunities for all levels of society. This can be seen in the socio-economic policies implemented by Muslim-majority countries, where attention to social welfare and economic development is directed towards creating a just society. This principle of justice also includes protection of consumer rights, transparency in transactions, and restrictions on monopolistic practices that are detrimental to many parties (Ali, 2022). The application of this principle is expected to reduce the socio-economic gap that exists in society, so that a more even distribution of wealth is created and the gap between the rich and the poor is reduced.

### *The Principle of Equality (Al-Musawah)*

Equality is a principle that refers to the equal treatment of every individual regardless of social, economic, or racial background. In Islamic economics, every individual has the same right to obtain the resources and opportunities needed to achieve prosperity. This equality is not only in terms of the distribution of wealth, but also in terms of the opportunity to participate in economic life, education, and work. This aims to create a more inclusive society, where everyone, regardless of social or economic status, can have an equal opportunity to advance (Rizvi, 2024).

This principle of equality is reflected in the zakat system regulated by Islam. Zakat is not only an individual obligation, but also a means to achieve equal distribution of wealth in society. Zakat gives rights to those in need and allows for a fairer redistribution of wealth. In this context, zakat functions as an instrument to reduce social inequality and provide welfare to weaker groups, such as the poor, the needy, and the destitute. Thus, zakat plays an important role in ensuring that wealth is not only concentrated in a small part of society, but is distributed more fairly (Hassan, 2022). In addition to zakat, Islamic economics also regulates grants (voluntary donations), waqf (grants dedicated to the public interest), and sadaqah (charity) as instruments to create social balance. Grants, waqf, and sadaqah are additional means that can be used by individuals or organizations to distribute wealth and resources to those in need. For example, waqf used to establish schools, hospitals, or other public facilities serves to improve the welfare of society widely and evenly (Ali, 2022). This system allows for a wider redistribution of existing wealth for social benefits, as well as providing fairer access to services and opportunities.

However, the principle of equality in Islamic economics is not equal equality in all things, but rather to give fair rights to each individual based on their abilities and needs. This aims to avoid the accumulation of wealth in the hands of a few people, while providing opportunities for those who are less fortunate to improve their quality of life. For example, although every individual has the same right to acquire wealth, Islam emphasizes the importance of giving rights according to each person's abilities and needs. This aims to maintain social balance and prevent inequalities that can damage the social structure in society (Choudhury, 2022).

### ***Principles of Moral Behavior (Al-Akhlaq)***

Islam teaches that the economy must be run with integrity, ethics, and moral responsibility. This is a principle that involves good behavior in all economic transactions. In Islamic economics, moral behavior includes prohibitions against harmful practices, such as fraud, oppression, and exploitation. This principle requires every individual and organization to always strive to conduct business fairly and not harm others. For example, practices such as fraud in trade or providing false information to consumers are contrary to this basic principle, which emphasizes transparency and honesty in every transaction (Shah, 2023). In addition, Islamic economics emphasizes the importance of hard work, honesty, transparency, and mutual assistance. In this context, Islam encourages every individual to work diligently and not rely on illegitimate or unethical means to achieve their economic goals. One of the most relevant examples in Islamic economics is the prohibition of "gharar" or uncertainty in buying and selling transactions. Gharar includes any form of uncertainty or excessive risk in a transaction that can harm one of the parties, such as the sale of goods whose status is unclear or transactions involving detrimental uncertainty (Ali, 2022). Therefore, this principle encourages clear, honest trade and avoids misunderstandings between transacting parties.

In addition, this moral principle also encourages companies to invest in projects that provide social benefits and avoid investing in sectors that are detrimental to society and the environment, such as alcohol, gambling, and industries that cause environmental damage. Islam teaches that every individual and organization must invest in activities that are not only financially profitable, but also provide benefits to society and the environment. In contemporary practice, several countries that apply Islamic economic principles have developed a socially responsible investment index to assess the social and environmental impacts of investments made. This is in accordance with Islamic teachings which emphasize that financial gain should not be achieved by harming society or damaging the environment (Choudhury, 2022).

The principles of moral behavior in Islamic economics also include prohibitions against monopolies and exploitation that can harm society. Islam prohibits practices that can create injustice in the distribution of resources and opportunities. In this context, the Islamic economic system seeks to create a balance between individual and collective interests, by encouraging efforts that provide fair benefits to all members of society (Hassan, 2022). Thus, Islamic economics not only regulates the technical aspects of economic transactions, but also prioritizes moral principles that involve social responsibility, transparency, and honesty in all aspects of economic life.

### ***Application of Islamic Economic Principles in Contemporary Economic Systems***

In the modern world, the application of Islamic economic principles is increasingly relevant with the challenges of socio-economic inequality, exploitation, and environmental issues. The current global economic system faces various problems such as unequal distribution of wealth, environmental damage, and business practices that are detrimental to certain parties. Therefore, many countries with Muslim populations, such as Malaysia, Indonesia, and

countries in the Middle East, have adopted economic policies that integrate Islamic principles in an effort to achieve more sustainable and equitable development (Rizvi, 2024).

One of the main examples of the application of Islamic economic principles is the Islamic banking system, which operates without interest (*riba*). Islamic banking emphasizes the principle of profit sharing between the bank and the customer, which means that the profits obtained come from joint efforts and not from loans that are subject to interest. This system not only avoids the practice of *riba* which is considered a form of injustice, but also reduces speculative risks (*maysir*) that can harm certain parties. Islamic banking, with these principles of justice and morality, has grown rapidly in many countries and become a fairer alternative to the conventional banking system (Shah, 2023). In addition, Islamic social economics, which places more emphasis on community empowerment and equitable distribution of wealth, is increasingly being adopted by international organizations in an effort to address global poverty and inequality. Islamic social economics encourages not only pursuing material gain, but also paying attention to social welfare. One implementation of this principle is sharia cooperatives and social-based enterprises that provide direct benefits to local communities and society. In this way, Islamic economics contributes to creating solutions to the problems of poverty and a more equitable distribution of wealth (Ali, 2022).

Islamic economic principles also support environmental sustainability by prohibiting investment in environmentally damaging sectors, such as alcohol, gambling, and polluting industries. In contemporary practice, more and more companies and institutions are following socially responsible investing (SRI) guidelines, which assess the social and environmental impacts of each investment made. Thus, Islamic economics contributes to sustainable and environmentally friendly economic development, in line with the global goal of achieving sustainability (Choudhury, 2022). In addition, the concept of *zakat* as a redistribution of wealth in Islamic economics provides a solution to reduce economic inequality. *Zakat*, which is an obligation for Muslims who are able, has an important function in providing assistance to those in need, while reducing the gap between the rich and the poor. In addition, *waqf* and *sadaqah* are additional instruments that can be used for social and humanitarian development. With this approach, Islamic economics can help create a more just and equitable society, while contributing to the achievement of the Sustainable Development Goals (SDGs) (Hassan, 2022).

## **METHODOLOGY**

### ***Literature Study Approach***

The literature study approach in this study refers to the search and analysis of information derived from secondary sources, such as scientific journal articles, books, research reports, theses, dissertations, and policy documents related to Islamic economics. This method was chosen because it allows researchers to collect, analyze, and conclude relevant information without requiring direct primary data collection. In addition, this method also provides an opportunity to make comparisons between various published findings, so as

to identify gaps in existing research and areas that still require further exploration.

### ***Data Sources***

- a. **Journal Articles:** Researchers will access scientific journal articles published in accredited international journals on Islamic economics, the Islamic banking system, zakat, waqf, and aspects of environmental sustainability related to the principles of Islamic economics.
- b. **Textbooks and Monographs:** Textbooks and monographs discussing the theory and application of Islamic economic principles will be important sources in this research to provide a strong theoretical basis.
- c. **Research Reports and Policy Documents:** Reports from international organizations, governments, and institutions that implement Islamic economics in their economic policies, such as Islamic banking policies, socio-economic empowerment through zakat and waqf, and regulations related to environmental sustainability.

### ***Data Collection***

- a. **Source Identification:** The researcher will identify relevant sources using leading academic databases such as JSTOR, Google Scholar, ScienceDirect, Scopus, and ProQuest. Keywords used in the search include "Islamic Economics," "Sharia Banking," "Zakat and Waqf," "Social Justice in Islam," and "Environmental Sustainability in Islamic Finance."
- b. **Source Selection:** Once the sources are identified, the researcher will conduct a selection to ensure that only relevant and credible sources are used. Only articles, books, and reports published in the last few years (2022-2025) will be used as references to ensure that this research reflects the latest trends and developments in Islamic economics.
- c. **Data Review and Organization:** The collected data will be read, analyzed, and grouped based on relevant themes or topics, such as Islamic economic principles, Islamic banking, Islamic socio-economic empowerment, and environmental sustainability.

### ***Data Analysis***

- a. **Thematic Analysis:** The data collected from the literature will be analyzed by identifying the main themes that emerge in the context of Islamic economic principles, such as justice, equality, moral behavior, and their application in Islamic banking, socio-economic empowerment, and environmental sustainability. Thematic analysis will help explore the various views that exist on these topics and provide a clear picture of the contribution of Islamic economic principles in addressing global socio-economic problems.
- b. **Content Analysis:** Content analysis will be used to assess the quality and relevance of the sources used. The researcher will analyze the extent to which the application of Islamic economic principles in the literature can address the challenges of social inequality, economic exploitation, and

environmental sustainability. This analysis will also be used to identify gaps in existing research and provide direction for further research.

### ***Validity and Reliability***

To ensure the validity and reliability of the data, this study will use source triangulation techniques. Source triangulation is done by verifying existing findings through various different data sources (e.g., journal articles, books, policy reports) to ensure that the results of this study are valid and consistent. In addition, this study will also rely on credible and accredited sources, both in local and international contexts, to maintain the quality and objectivity of the research results.

### ***Research Limitations***

This study has several limitations that should be noted:

- a. Focus on Literature: This research will only rely on secondary data available in the existing literature. Therefore, there will be no primary data collection through interviews, surveys, or experiments.
- b. Geographical Context Limitations: This study focuses more on the application of Islamic economic principles in Muslim-majority countries and countries that have adopted some Islamic economic principles, such as Malaysia and Indonesia. Therefore, the results of this study may not be fully applicable to countries with very different economic systems, such as Western countries that have not adopted Islamic economic principles.

### ***Research Contribution***

This literature study method is expected to provide a significant contribution in filling the gap in the existing literature, especially in examining the application of Islamic economic principles in overcoming social inequality, exploitation, and environmental sustainability issues. In addition, the results of this study are expected to provide deeper insight into the potential of Islamic economics to overcome major challenges in the current global economic system and provide a basis for more equitable and sustainable economic policies in the future.

## **RESEARCH RESULT AND DISCUSSION**

### ***Application of the Principle of Justice in Islamic Economics***

The principle of justice (al-'Adl) is one of the main pillars of the Islamic economic system that affects almost all aspects of the economy, from banking to the distribution of wealth. From an Islamic perspective, justice is not only concerned with the fair distribution of resources, but also includes providing equal opportunities for every individual in society to obtain their rights. Justice in Islamic economics means not only paying attention to equality in the distribution of wealth, but also ensuring that all parties, especially the less fortunate, have equal access to resources and economic opportunities. For example, zakat, which is obligatory for Muslims who are able, serves as an instrument for the redistribution of wealth and reducing socio-economic inequality. By channeling some of the wealth to the needy, zakat helps create

social welfare and reduces the gap between the rich and the poor. In addition, waqf and sadaqah also serve as social instruments that support the welfare of society more broadly, provide public facilities, and support various social programs that can help those in need.

This principle of justice reflects the Islamic view that wealth is not merely personal property, but is a trust that must be managed for the common good. Zakat, as a religious obligation, plays a central role in realizing this principle by ensuring that some of the wealth of the rich is distributed to those in need, such as the poor, orphans, and those who need help to start a better life. In Islamic economics, fair distribution of wealth also means avoiding the accumulation of wealth in a few people and ensuring that wealth is used for social interests and more equitable development (Ali, 2022).

However, although the principle of justice in Islamic economics offers a potential solution to address socio-economic inequality, major challenges remain in its implementation in the real world. One of the main challenges in implementing this principle is how to ensure that the funds managed, both in the Islamic banking system and in the form of zakat and waqf, are used fairly and equitably. Although Islamic banking operates without interest (riba) and supports a profit-sharing system, inequality in the distribution of resources can still occur if there is no effective mechanism to ensure that the results of Islamic investments actually reach those in need or those who are economically disadvantaged. Shah (2023) suggests that, to further improve the implementation of justice in Islamic banking, greater transparency in the management of funds and strict supervision of the use of zakat, waqf, and charitable donations are needed.

One of the issues that arise is how to integrate this Islamic economic system more effectively in non-Muslim countries, where the implementation of Islamic banking and wealth redistribution through zakat and waqf is still limited. Therefore, there is a need for a more in-depth evaluation of how Islamic economic principles, such as zakat, waqf, and Islamic banking, can be more effectively applied to address global inequality, especially in countries with capitalist-based economic systems that have not yet adopted this system in its entirety. The application of these principles outside of Muslim-majority countries can provide a more equitable and sustainable alternative in the global economic system (Rizvi, 2024). Thus, although the application of the principles of justice in Islamic economics offers great potential for reducing socio-economic inequalities, there are still significant challenges to be faced in ensuring its effective implementation, especially in countries with different economic systems or those that have not fully adopted these principles. Therefore, further study is needed on more efficient and applicable implementation models in a global context.

### *Equality in Islamic Economics*

The principle of equality (al-Musawah) in Islamic economics emphasizes equal treatment of every individual regardless of social, economic, or racial background. In the context of Islamic economics, this equality does not mean that everyone must have the same amount of wealth, but rather that it is about giving

fair rights to every individual according to their abilities and needs. This aims to create a balance between individual rights and the collective needs of society, so that everyone has equal access to the resources needed to improve their quality of life.

The principle of equality in Islamic economics emphasizes distributive justice, which focuses on the equal distribution of wealth and opportunities. However, in practice, this equality is not interpreted as equality in all things. Islam places more emphasis on providing equal rights based on individual needs and capacities. For example, zakat and waqf play an important role in the equal distribution of wealth. Zakat, which is obligatory for those who are able, aims to reduce social inequality by giving some of the wealth from the rich to those in need. Waqf, on the other hand, serves to provide resources that can be used for the wider advancement of society, such as the establishment of schools, hospitals, and other public facilities. These two instruments show how the principle of equality is applied in Islamic economics through the redistribution of wealth (Shah, 2023).

However, although the principle of equality in Islamic economics offers a solution for equal distribution of wealth and opportunity, its implementation in a global context still faces major challenges, especially in countries with a capitalist economic system. In a capitalist economic system, which prioritizes individual profit, there are significant differences in access to wealth and opportunity. This causes a widening social gap, especially between the rich and the poor. In a capitalist system, those with greater resources often accumulate more wealth, while the poor remain trapped in a cycle of poverty.

In countries that practice Islamic economics, such as Malaysia and Indonesia, there have been efforts to develop more inclusive social programs, such as Islamic cooperatives and Islamic microfinance institutions. These programs aim to provide poor communities with greater access to financial services and business opportunities. Islamic cooperatives, for example, provide opportunities for community members to access interest-free financing, while Islamic microfinance institutions provide loans to small and micro businesses without usury. However, despite empowerment efforts through zakat, waqf, and Islamic financial institutions, the gap in access to education, health, and employment remains a major challenge.

For example, although zakat and waqf programs can provide direct assistance to the poor, the problem of social inequality remains difficult to overcome without broader structural reforms in education, health, and employment policies. Ali (2022) notes that despite progress in implementing the Islamic economic system, accessibility to fair and equal basic services is still limited, especially among the poor. This shows that although the principle of equality in Islamic economics is very relevant to addressing social inequality, its implementation requires further efforts to create equal opportunities in all sectors of life.

This principle of equality also faces challenges in terms of more transparent and effective management and distribution of zakat and waqf. Inefficiencies in the management of zakat and waqf funds in some countries can

exacerbate social disparities and reduce the positive impact of the principle of equality applied. Therefore, although the principle of equality in Islamic economics offers great potential to improve the welfare of society evenly, better implementation and more efficient management are needed to ensure that this principle can truly contribute to reducing socio-economic disparities.

Thus, although Islamic economics offers solutions for equal distribution of wealth and opportunities, the application of the principle of equality in a global context, especially in countries with capitalist economic systems, still faces major challenges. Therefore, better policies and mechanisms are needed in managing instruments such as zakat and waqf, as well as other social programs, to ensure a more equitable distribution of wealth and opportunities for all individuals in society.

### *Moral Behavior in Islamic Economics*

The principle of moral behavior (al-Akhlaq) is a very important aspect in Islamic economics, which regulates how every economic transaction must be carried out with integrity, transparency, and honesty. Islam emphasizes that every economic action must not only prioritize material gain, but must also maintain social welfare and morality. One of the characteristics of the Islamic economic system is the emphasis on business ethics that involves avoiding practices that are detrimental to society, such as fraud, exploitation, and monopoly. In other words, Islamic economics teaches that every transaction must not only benefit the parties involved, but must also have a positive impact on society as a whole (Shah, 2023).

Friedman (2005) in his book *Capitalism and Freedom* argues that in a free market economy, moral aspects are often ignored in order to achieve higher financial profits. Capitalism tends to encourage companies to pursue profits without regard to the social or environmental impacts of their activities. In contrast, Islamic economics emphasizes that economic transactions must be carried out in a fair manner and in accordance with moral principles that respect individual and collective rights. In Islamic economics, the goal of the economy is not merely to generate financial profits, but also to create prosperity for all humanity through the principles of social justice and redistribution of wealth.

Islamic banking is a real example of the application of the principle of moral behavior in the economic sector. In the Islamic banking system, financial transactions are carried out without usury (interest), which is considered a form of injustice in the conventional economy. The Islamic banking system prioritizes partnerships in sharing risks and profits, thus ensuring that no party is exploited. Choudhury (2022) explains that Islamic banking prioritizes the principles of transparency, honesty, and justice in every transaction. This system encourages more inclusive participation in the economy, providing access to the community to obtain financial services that are in accordance with moral principles, without the risk of interest or uncertainty that is detrimental to certain parties.

The moral principles in Islamic economics are also reflected in the trade sector, where Islam prohibits practices such as fraud in transactions (gharar) and monopoly. In Islamic law, any form of fraud committed in buying and selling or

other contracts, such as reducing the weight or quality of goods sold, is considered a violation of the principles of morality. Al-Ghazali (2007) emphasized that in Islam, traders must maintain ethics in doing business, which not only pay attention to personal gain, but also provide benefits to society. This shows that Islamic economics emphasizes social responsibility in every aspect of economic activity.

However, even though these moral principles are applied in Islamic economics, the biggest challenge lies in their implementation in a global market dominated by capitalism. In the global market, many large companies tend to prioritize short-term profits without considering the social and environmental impacts of their activities. Choudhury (2022) notes that in many capitalist countries, companies focus more on maximizing profits in ways that are detrimental to society and the environment, such as by reducing production costs that can affect workers' welfare and damage the environment.

To address this issue, Islamic economics offers an alternative by applying moral principles in business that are oriented towards sustainability and social welfare. Islamic economics emphasizes the importance of socially responsible investment that does not only pay attention to financial profits, but also social and environmental impacts. In practice, this means that investments should be made in sectors that do not harm society or the environment, and support broader sustainable development goals. Therefore, Islamic economics can provide a solution for those seeking alternatives to more ethical and sustainable business.

However, the implementation of moral principles in Islamic economics in the global market still faces many challenges. One of them is the difficulty in adapting Islamic principles in an economic system that is already highly structured and developed with a capitalist system. Therefore, although Islamic economics offers a more ethical and sustainable alternative, its application in the global market dominated by the principles of capitalism still requires further efforts and development to achieve a broader impact.

### ***Environmental Sustainability in Islamic Economics***

One increasingly important aspect of Islamic economics is the principle of environmental sustainability, which teaches that humans must protect nature and manage natural resources wisely. From an Islamic perspective, the earth and all its contents are a trust from God that must be protected and utilized wisely. Islamic economics provides clear guidance on how humans should act as responsible managers of nature (khalifah), not as owners who are free to exploit natural resources without limits. In a global context, the issues of climate change and environmental degradation are increasingly becoming a major concern, and Islamic economics can make a significant contribution to achieving sustainable development (Sustainable Development Goals - SDGs).

This principle of sustainability is evident in many aspects of Islamic teachings related to natural resource management and environmental protection. A prime example is the concept of "mizan" or natural balance found in the Qur'an, which teaches that everything in this world was created in perfect balance and must be maintained. In Surah Ar-Rahman (55:7), Allah says, "And

the heaven, He has raised high and set the balance (mizan) so that you do not transgress in it." This indicates the importance of maintaining the balance of the ecosystem and avoiding over-exploitation of nature. Islam emphasizes that over-exploitation of natural resources for personal or group gain is prohibited, and this is reflected in the prohibitions that exist regarding waste (israf) in the use of resources (Choudhury, 2022).

This principle also includes a prohibition on investment in environmentally damaging sectors, such as polluting industries, alcohol, and gambling. In Islamic banking, for example, socially and environmentally responsible investment is part of the basic principles governing investment activities. Islamic banking not only avoids *riba* (interest), but also selects investment sectors that can have a negative impact on society or the environment. Therefore, Islamic banking prefers sectors that provide social and ecological benefits, such as renewable energy, sustainable agriculture, and environmentally friendly technology. Investment in environmentally damaging sectors, such as companies engaged in the fossil fuel industry or those involved in heavy pollution, is clearly avoided in the principles of Islamic banking.

However, although the principle of environmental sustainability is clearly contained in Islamic economics, the biggest challenge in its implementation is how to integrate these principles into global economic policies. The current global economy often ignores environmental factors for the sake of faster economic growth. In a capitalist economic system, many countries and large companies tend to prioritize short-term profits and economic growth without considering the long-term impact on the environment. Rizvi (2024) explains that although Islamic economics offers solutions that focus on sustainability, its implementation in a broader global context remains difficult, because the existing economic system prioritizes economic efficiency and financial profit over sustainability aspects.

Islamic banking can be an important instrument in supporting environmental sustainability, but to achieve maximum results, collaboration is needed between Islamic financial institutions and the government in creating policies that support environmentally friendly investments. The main challenge is how to ensure that the entire economic system, both Islamic and non-Islamic, can work together to achieve sustainable development goals. Therefore, Islamic economics needs to be introduced and applied more widely at the global level to provide an alternative to a system that often ignores environmental impacts, while offering solutions in the form of more responsible investments and sustainable development.

### ***Contribution of Islamic Banking to Global Finance***

Islamic banking is one example of the application of Islamic economic principles that have developed rapidly in Muslim-majority countries and are increasingly gaining attention in non-Muslim countries. This banking system operates on a very different principle from the conventional banking system, where it avoids the use of usury (interest) and offers a profit-sharing model that is considered fairer. This profit-sharing system prioritizes partnerships between banks and customers, where both parties share profits and risks according to a

previously agreed agreement. This is different from the conventional banking system which usually benefits banks as lenders with interest charged to customers. Ibrahim (2020) stated that Islamic banking provides an alternative for people who want to participate in a more ethical financial system based on the principle of social justice, which not only looks at financial profit alone, but also considers social and moral welfare in every transaction.

In Islamic banking, principles such as transparency, fairness in risk sharing, and honesty in contracts are the main foundations. By avoiding usury, which is considered a form of injustice and exploitation of the weaker party (borrower), Islamic banking seeks to create a financial system that is more inclusive and does not harm customers. For example, in *mudarabah* and *musharaka* contracts, the bank and the customer work together on a project by sharing profits or losses according to their contributions. This provides a fairer incentive for all parties involved, especially compared to the interest system which is often burdensome for customers.

However, although the Islamic banking system has proven successful in many countries, especially in the Middle East, Southeast Asia, and North Africa, the biggest challenge in its implementation is how to integrate this system into a global economy that is already structured with an interest-based banking system. Many non-Muslim countries still use conventional banking systems that are dominated by interest and debt-based transactions. In many cases, the implementation of Islamic banking in non-Muslim countries is often hampered by differences in regulations, differences in laws, and a lack of understanding of *sharia* principles in the international financial market.

Ibrahim (2020) noted that although Muslim-majority countries such as Malaysia and Indonesia have succeeded in developing Islamic banking and making it a major alternative for the financial sector, the integration of this system into the global economy will take longer. One of the main obstacles is the dependence of the global banking system on interest, which is an integral part of the capitalist economy. Therefore, although there is great potential for Islamic banking to grow and contribute to a more equitable global financial system, the implementation of this system in a global economy dominated by conventional banking still requires more coordinated efforts and regulations.

In addition, competition with conventional banking that has a more established infrastructure and wider market reach is also a challenge for Islamic banking to develop. However, with the increasing interest in sustainable finance and socially responsible investing, Islamic banking is starting to gain a bigger place in the international market. Several non-Muslim countries, such as the United Kingdom and Singapore, have introduced regulations that are more supportive of Islamic banking, indicating that the Islamic financial system is increasingly being accepted as a viable alternative in a more ethical global market.

However, to achieve full integration of the Islamic banking system into the global economic system, steps such as improving education and understanding of Islamic principles, as well as global standardization in Islamic financial regulations are needed. This can strengthen the competitiveness of

Islamic banking and facilitate wider acceptance of a financial system that is more based on the principles of social justice and transparency.

### *Implementation of Zakat and Waqf in Social Empowerment*

Zakat and waqf have great potential in reducing socio-economic inequality in the world, especially in Muslim-majority countries. Both are not only forms of charity or religious obligations, but also important instruments in the Islamic economic system that function to distribute wealth more evenly and empower the poor in a sustainable manner. Zakat functions as a means of redistributing wealth from the rich to the poor, ensuring that a portion of the wealth owned by the better-off individuals is channeled to help those in need. In addition, waqf is a broader form of grant, which is used for social purposes such as the establishment of schools, hospitals, mosques, and other public facilities. Waqf has a long-term impact because the assets that are donated are used for the public interest that can provide sustainable social benefits.

Zakat, as an obligation that must be fulfilled by Muslims who are able, has a dual function. In addition to being a form of charity, zakat also plays a role in reducing social inequality and improving community welfare. Zakat allows for a fairer redistribution of wealth, thereby reducing the gap between the rich and the poor. In Surah Al-Baqarah (2:177), Allah commands Muslims to give part of their wealth to those in need, including the poor, orphans, and those involved in social activities. Therefore, zakat not only functions as a spiritual obligation, but also as an economic instrument that reduces socio-economic inequality.

Waqf, on the other hand, is a more sustainable form of endowment, where individuals or groups donate their assets for a social purpose. The assets that are endowed are usually not transferred to the ownership, but are instead used for a public purpose that can provide long-term benefits. A common example of waqf is land that is endowed for the construction of schools, hospitals, or other public facilities that can improve the quality of life of the community. For example, many universities and hospitals in Muslim countries were established through waqf, which allows them to provide better education and health services to the wider community without relying on government funding.

However, although the principles of zakat and waqf have great potential in socio-economic empowerment, their implementation in many countries is still limited. One of the main obstacles is the lack of efficient and transparent management of zakat and waqf, which often causes the funds collected not to fully reach the right targets. In some cases, the unprofessional management of zakat and waqf hinders its great potential in empowering poor communities and reducing social inequality. Hassan (2022) stated that although many Muslim countries have zakat and waqf institutions, the biggest challenge lies in transparency, accountability, and more professional management in ensuring that zakat and waqf funds are used effectively.

For example, in some Muslim-majority countries, although zakat is a religious obligation, its distribution is often uneven or not on target, resulting in most zakat funds only reaching certain groups in society, while other groups who are more in need are not reached. Likewise with waqf, although very beneficial for the public interest, many waqf institutions do not have a professional

management mechanism, resulting in the assets that are donated not being managed properly and not having maximum impact on society.

To overcome this, Hassan (2022) suggests that zakat and waqf management be carried out more professionally and transparently. The use of information technology in the zakat and waqf management system can help manage funds more efficiently and ensure that social assistance provided is right on target. In addition, there needs to be clearer regulations and strict supervision of the management of zakat and waqf funds, so that these two social instruments can make a greater contribution to reducing socio-economic inequality.

Thus, although zakat and waqf have great potential in socio-economic empowerment and reducing social inequality, better management and increased transparency in their distribution are needed to ensure that these two instruments can be used optimally for the benefit of the wider community.

## CONCLUSIONS AND RECOMMENDATIONS

### *Conclusion*

This study shows that Islamic economic principles, such as justice (al-'Adl), equality (al-Musawah), and moral behavior (al-Akhlaq), offer relevant solutions to address socio-economic inequality, exploitation, and environmental degradation. Zakat and waqf play an important role in wealth redistribution and social empowerment, although challenges in efficient management remain. Islamic banking offers a fairer and more transparent system with a profit-sharing model, although its implementation in the global interest-based market still faces difficulties.

In addition, the principle of environmental sustainability in Islamic economics teaches the wise management of natural resources, but global challenges related to economic growth and environmental impacts remain major issues. Although the implementation of Islamic economic principles still faces obstacles, this system provides a more sustainable and equitable alternative, which can be applied in global economic policies to create more equitable social welfare.

### *Recommendation*

Based on the results of this study, here are some suggestions that can be considered to improve the application of Islamic economic principles in the contemporary economic system:

1. **Increasing Transparency and Efficiency of Zakat and Waqf Management**  
In order for zakat and waqf to have a more significant impact on socio-economic empowerment, there needs to be increased transparency and efficiency in their management. The use of information technology and digital platforms to manage and distribute zakat and waqf funds can help maximize their impact and ensure that funds reach those in need in a targeted manner.
2. **Integration of Islamic Banking System in Global Financial System**  
To expand the positive impact of Islamic banking, non-Muslim countries need to be more open to Islamic banking systems and explore the potential for investment based on moral principles and justice. Governments and

international financial institutions need to work together to create regulations that allow for better integration between Islamic banking and the global financial system.

3. Islamic Economic Education and Socialization

Education on the principles of Islamic economics, including social justice, sustainability, and morality in business, needs to be improved, both among Muslim and non-Muslim communities. This knowledge can help change the way people view a more just and sustainable economic system, and increase understanding of the potential of Islamic economics in addressing socio-economic inequality.

4. Implementation of Sustainability Principles in the Investment Sector

Governments and private sectors in Muslim and non-Muslim countries should focus more on socially and environmentally responsible investments. Islamic economics offers a more sustainable model to avoid exploitation and environmental degradation. Therefore, it is important to adopt the sustainability principles found in Islamic economics as a guideline in global investment policies.

#### ADVANCED RESEARCH

Further research needs to be done to explore the impact of implementing Islamic economics on a wider scale, especially in non-Muslim countries. This includes research into the best ways to integrate Islamic economic principles with the established global economic system and understand the challenges and opportunities that exist.

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