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Critical Analysis of Economic Development Issues in Muslim Countries

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ABSTRACT

Economic development in Muslim countries faces various challenges stemming from economic, social, political, and institutional factors, which affect the achievement of sustainable societal welfare. This study aims to critically analyze the issues of economic development in Muslim countries from the perspective of Islamic economics. The method used is library research with a descriptive-qualitative approach through the analysis of various scientific literature, books, and relevant research findings. The results of the study show that low governance quality, high levels of corruption, political instability, wealth distribution inequality, and suboptimal human resource development, including women's participation in education and the workforce, are the main factors hindering economic development. On the other hand, the implementation of Islamic economic principles, Concepts like distributive justice, the prohibition of usury, strengthening hisbah institutions, and optimizing the role of the state in creating fair market mechanisms have the potential to support more inclusive and sustainable development. This study concludes that the success of economic development in Muslim countries requires synergy between governance reforms, institutional strengthening, improving human resource quality, and the consistent implementation of Islamic economic values. These findings are expected to serve as a reference for formulating economic development policies focused on justice, welfare, and sustainability.

1. INTRODUCTION

Developing countries with large Muslim populations hold a strategic position in the global economic landscape. A deep understanding of the challenges faced by these countries is becoming increasingly important due to the dynamics of globalization and rapid changes in the international economic arena(Jafar Shiddiq, Nur Laily Hidayati, 2024). The ultimate goal is sustainable and fair economic development, but there are many unique obstacles that must be overcome because of the complexity of social, political, and economic issues (Afif et al., 2013).

The basic prerequisite for implementing Islamic economics is the prohibition of riba (usury), maisir (gambling), gharar (uncertainty), dholim (oppression), and haram (forbidden). Therefore, Muslims everywhere are required to study, understand, and apply Islamic law in an economy based on Sharia(Sunan et al., 2025). Muslims are obliged to comply with laws based on the principles of Islamic economics as a means of submitting to Allah SWT. This forms the foundation of Islamic economics in the community(Habibi et al., 2024). Although Having a lot of supporters, an economy regulated by Islamic law doesn't grow as fast as the old economy. Both Muslims and non-Muslims have to follow this. This is because the Islamic economy itself aims to bring benefits to everyone as well as profit (Sjahdeini, 2014).

Islamic financial practices are growing globally with globalization, gaining popularity in several continents and regions such as Asia, Africa, Australia, Europe, North America, Canada, and the Middle East(Santoso et al., 2024). With a value of $882 billion, or Rp11,466 trillion, Islamic banking is one of the most well-known Islamic economic systems worldwide, establishing five criteria—advocacy, infrastructure, human resources, network, and regulation—in the Global Islamic Finance Report 2015. The 10 Centers of Excellence in Islamic Banking and Finance consist of the following ten countries:

1. Kuala Lumpur – Malaysia
2. Manama – Bahrain
3. Dubai – UAE
4. London – United Kingdom
5. Doha – Qatar
6. Kuwait – Kuwait
7. Karachi – Pakistan
8. Riyadh – Saudi Arabia
9. Jakarta – Indonesia
10. Istanbul – Turkey

Based on this data, Malaysia still holds the first rank, and Indonesia is in ninth place. The main question of this survey is how the Islamic economy spreading all over the world (Maldiaji, Vol.3 No.2).

2. METHOD

This study uses a qualitative research approach with a library research method. This approach was chosen because the research aims to critically analyze various economic development issues in Muslim countries through reviewing theories, concepts, previous research results, and various scientific documents related to development economics, Islamic economics, governance, and sustainable development policies (Sugiyono 2023).

The data used are secondary data obtained from various sources, including reputable national and international journal articles, scientific books, reports from international institutions, and official publications relevant to the theme of economic development in Muslim countries(Nasirin & Ahfadz, 2022). The selected literature focuses on studies about the structural characteristics of Muslim countries, political economy, welfare distribution, the concept of the welfare state, and the implementation of Islamic economic principles in economic development (Lexy J Moleong 2021).

The data collection technique was carried out through documentation, which means identifying, inventorying, and reviewing various literature related to the research focus(Nasiruddin & Hidayati, 2022). Next, all the data were classified based on discussion themes, making it easier to analyze the factors that influence economic development in Muslim countries. (Mestika Zed 2018)

The data analysis used content analysis carried out in a descriptive-analytical way. The analysis steps start with data reduction, data presentation, and then drawing conclusions through interpretation of various theories and previous research findings(N. L. Hidayati & Ahmad, 2025). This approach allows the researcher to gain a comprehensive understanding of the relationship between economic, political, social, institutional factors, as well as Islamic economic values in influencing the success of economic development in Muslim countries (John W, Creswell 2018)

To improve the validity of the research, a source triangulation technique was used, which involves comparing various research results and expert opinions that have different perspectives on Islamic economic development(nur laily Hidayati et al., 2021). Through this technique, it is hoped that the research results can provide an objective picture of the challenges as well as opportunities for economic development in Muslim countries in facing the dynamics of the global economy (Norman K Denzin 2017)

3. RESULTS AND DISCUSSION

A. Structural Characteristics of Muslim Countries

Sustainable economic development in Muslim countries cannot be separated from the existing social and political dynamics. Findings from various studies show that aspects like governance, democracy, women's participation, and social inclusion are crucial factors that determine the success of development programs(Sunan et al., 2025). 42,000. The distribution of Islamic boarding schools shows that Islamic boarding schools have a strategic position as centers of Islamic education as well as human resource development that can support the social and economic development of the community.

Hasanah and Pratiwi (2020) stated that increasing women's participation in education and the workforce has a significant positive impact on the economic growth of Muslim countries(Budi Santoso et al., 2024). This participation expands the human resource base and boosts national productivity, while also supporting the achievement of inclusive and fair development goals (Hasanah & Pratiwi, 2020).

In addition, Susanti et al. (2023) emphasize that strengthening democracy and transparent, accountable governance can solidify the foundation for sustainable development, especially in terms of resource distribution and public services. However, challenges still arise in the form of social inequality, political conflicts, and corrupt practices that hinder the effectiveness of development policies(N. L. Hidayati & Ahmad, 2025). These obstacles not only impact the economic aspects but also create instability that can slow down development and reduce investment attractiveness. Therefore, synergy between economic policies and socio-political reforms is very important to create conditions conducive to sustainable economic growth and equitable welfare (Susanti et al., 2023).

B. Political Economy

These findings are in line with previous studies that highlight the importance of social and political factors, such as democracy, good governance, and social participation, in supporting sustainable development in Muslim countries (Shaikh & Hassan, 2020).

However, this study puts extra emphasis on the role of women's participation as a key factor in boosting economic growth, which has been somewhat overlooked in previous studies (Hasanah & Pratiwi, 2020). From the perspective of Islamic education and management, the findings highlight the importance of developing human resources who are not only technically competent but also aware of social justice values and actively involved in the development process(November et al., 2025). Inclusive Islamic management needs to accommodate the involvement of various social groups, including women, in decision-making as well as in the implementation of sustainable development programs (Hasanah & Pratiwi, 2020).

Theoretically, this research enriches the sustainable development literature by integrating socio-political aspects into the Islamic economic framework. Practically, the findings suggest that development policies in Muslim countries should not only focus on economic aspects but also strengthen governance, transparency, and social empowerment as prerequisites for successful development. One unique thing is the close link between democracy and achieving the SDGs revealed in the data, showing that economic and social development cannot run effectively without the support of a healthy political system. These findings open up opportunities for developing Islamic education management that emphasizes governance and leadership as an integral part of sustainable development.

C. Impact on Wealth Distribution and Welfare

In Islam, as an alternative to addressing the weaknesses in socialism and capitalism, the concept of the welfare state is introduced. This approach tries to reduce tensions between the two systems and create solutions that strengthen the shortcomings of each(Azhar et al., 2025). The welfare state adopts Keynes' theory, which emphasizes the importance of the government's role in the economy, something that is missing in the capitalist system due to the invisible hand of the market. This concept also includes the importance of social welfare through "proper regulations" and the allocation of funds for charitable activities. However, excessive spending on charity is caused by minimal investment from both the private sector and the government in other sectors (Al-sadr, Vadillo, and Chapra 2025).

A welfare state is an idea that came up as a reaction to the inability of the free market to ensure equality in well-being and social justice. Nowadays, in economics, the government acts as the main party responsible for income redistribution, providing social security, and protecting groups in society that are vulnerable to economic threats. This role is carried out through fiscal policies, giving subsidies, and social programs aimed at tackling poverty and inequality (Umam & Jalaludin, 2023).

However, various recent studies show that conventional welfare states still have fundamental problems that haven't been solved(Shiddiq & Wakhid, 2021). People’s dependence on government support, the swelling of social budgets, and the low effectiveness of policies in reducing long-term inequality are the main criticisms of this model(umam, syafiul, fauziyah, 2021). Welfare states are only seen as fulfilling physical needs, while social and ethical aspects are less considered in public policy. This situation shows that welfare state issues are not just about the technical aspects of policy, but also concern the welfare paradigm being applied (Kumaidi, Syukri Iska, Arna Saskia 2025).

CONCLUSIONS AND SUGGESTIONS

In capitalist economic theory, the market mechanism is based on the principle of a free market with supervision. This means the government only monitors and is not supposed to intervene. The government is just a spectator. In contrast, in the Islamic economy, while free markets are still recognized, their mechanisms must be regulated. These mechanisms are managed by the hisbah institution. In some cases, if the market experiences abnormal fluctuations, the government must step in to resolve them.

Umer Chapra stated that the free market system has realized prosperity in Western economies. However, that prosperity does not reflect a good relationship between social and individual interests. In other words, it cannot create an even distribution of wealth, which is actually increasing. Moreover, the level of economic instability and the rise in unemployment have added to the hardships of the poor. This shows that fair efficiency and equitable distribution are still neglected, even though development has progressed very rapidly and there has been extraordinary growth in wealth. Without government oversight, income cannot be distributed evenly. It is the distribution of income and wealth supervised by the state that will provide economic justice.

This shows that the Islamic economy acknowledges government intervention within certain limits, as explained in the Hadith about three things that should not be controlled by individuals, namely: fire (energy source), grass (natural resources), and water.

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