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Ethno-Political Dynamism and Its Role in the Development of Indonesian Islamic Banking Law

Article

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Abstract

Studies on Indonesia's political conditions during the New Order until the 1990s reveal a significant shift in political dynamics, transitioning from a stance largely closed to Islamic interests to one that increasingly accommodated Islam through specific policies. This article aims to determine the influence of the ethno-political dynamics of Islam formed by the New Order on the development of Islamic banking law and its impact on the financial sector in Indonesia. Through a historical and contextual literature review, supplemented by interviews, it was observed that ethno-political dynamics significantly influenced the evolution of Indonesian banking law during and after that period. The influence of Islamic ethno-politics, particularly in academic circles, has increasingly emerged as a dynamic force in facilitating the development of Islamic banking in Indonesia, underscoring the numerous challenges encountered in achieving market acceptance. Although its growth has not met market expectations, ethno-politically, Islam continues to lobby for Islamic banking regulations. Furthermore, since 2019, the role of ethno-politics has continued to realize policy and regulatory responses aimed at encouraging the growth of Islamic finance in Indonesia.

Keywords: *Ethnopolitics; Islamic banking law; Islamic finance.*

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INTRODUCTION

Ethno politics is the study of political processes influenced by ethnic factors resulting from the interaction of ethnonational ideologies, beliefs, values, social mores, and norms.¹ Many forms of ethno-politics have largely studied the social or political conflicts for example in Pakistan by Rashid

¹ S Suleymanova and J Dzhantheeva, "Essential Characteristics of Ethnopolitical Communications'," *SHS Web of Conferences* 94, no. 3018 (2021): 1–6, <https://doi.org/10.1051/shsconf/20219403018>; Imam Asmarudin et al., "Initiating the Reform of Principle Norms in the Formation of Laws in Indonesia," *Jurnal IUS Kajian Hukum Dan Keadilan* 12, no. 2 (August 19, 2024): 208–26, <https://doi.org/10.29303/IUS.V12I2.1390>.

& Shaheed,² the clash of many areas of East Europe at the end of the Cold War by Gurr,³ in Czechs and Slovaks by Jourek,⁴ in Indonesia by Rahmawati,⁵ in Sri Lanka by Imtiyaz & Stavis,⁶ and Bulgaria by Ganey & Lazarov.⁷

However, a differing ethno-political approach, where it has been applied to the development of the Islamic financial industry was explored by Kitamura.^{8,9} Kitamura (2020) found that, in the neo-liberal era in Malaysia, the Bank Nasional Malaysia (BNM) endeavored to pursue the provision of more significant economic opportunities for Malay Muslims. For illustration, to protect Malay Muslims' interests, Islamic banking was used as an ethnopolitical apparatus to integrate Islamization into the Malaysian economic discourse.¹⁰ In contrast to Kitamura's narrow interpretation, Rudolph viewed ethnopolitics more holistically, seeing it more an accommodation of policy directions. This lens revealed a government's acceptance of the demands of the ethnopolitical community and its broader societal influence on ethnic principles. This approach promulgated ethnopolitics as a powerful policy mechanism by accommodating the interests of a mono-ethnicity while also advancing that ethnicity's contribution to the national welfare.¹¹

Political studies in an Indonesian context appear to be more broadly studied and address the existence of multi-perspectives regarding ethnicities. In this context, 'ethnicity' is being used in a sociological sense, in which Indonesia is divided into Islamists, Nobles, and the *Abangan* (a group of people who embraced Islam but did not practice Islam as a whole).¹² Interestingly, there is evidence from Indonesian ethnographic studies which have revealed nearly 1300 ethnicities. However, only eight major ethnicities remain in the broader discourse.¹³

In some previous discussions, Kitamura was one of the first authors to reveal the role of ethnopolitics as an apparatus in Islamic financial industry development.¹⁴ Kitamura's research,

² Rashid and Shaheed F, "Pakistan: Ethno-Politics and Contending Elites, United Nations Research Institute for Social Development (UNRISD)," *Discussion Paper*, no. 45, June (1993): 1–35.

³ T R Gurr, "Peoples against States: Ethnopolitical Conflict and the Changing World System: 1994 Presidential Address," *International Studies Quarterly* 38, no. 3 (1994): 347–377, <https://doi.org/10.2307/2600737>.

⁴ O Jourek, *Ethno-Political Conflicts in Post-Communist Societies* (Cambridge, Mass: Harvard University, John F. Kennedy School of Government, 1999).

⁵ A Rahmawati, "Papuan Ethnopolitical Conflict: Causes, Contexts, and Policy Implications" (California, USA, 2004).

⁶ A R M Imtiyaz and B Stavis, "Ethno-Political Conflict in Sri Lanka," *Journal of Third World Studies* 25, no. 2 (2008): 135–152, <https://doi.org/http://www.jstor.org/stable/45194483>.

⁷ I Ganey and V Lazarov, "The Nature and Solution of Ethno-Political Conflicts," *Bulgarian Experience, International Conference; Knowledge-Based Organization* 221, no. 2 (2015): 582–586, <https://doi.org/10.1515/kbo-2015-0099>.

⁸ H. Kitamura, "Policymakers' Logic on Islamic Banking: Islamic Banking as an Ethno-Political Tool in Malaysia," *Journal of Current Southeast Asian Affairs* 40, no. 2 (2020): 245–265, <https://doi.org/10.1177/1868103420972406>.

⁹ H. Kitamura, "Islamic Finance as an Ethnopolitical Agenda in the 1980s: An Inquiry into the Role of Islamic Finance Pioneers," *Sojourn Journal of Social Issues in Southeast Asia* 36, no. 1 (2021): 98–123, <https://doi.org/10.1355/sj36-1d>.

¹⁰ Kitamura, "Policymakers' Logic on Islamic Banking: Islamic Banking as an Ethno-Political Tool in Malaysia'."

¹¹ J R Rudolph, "The Significance of Ethno-Politics in Modern States and Society," in *The Palgrave Handbook of Ethnicity*, ed. S Ratuva and ed) (Springer Nature Singapore Pte Ltd, 2019), 149–167.

¹² C Geertz, *The Religion of Java* (California: Free Press, 1960).

¹³ Ananta et al., "A New Classification of Indonesia's Ethnic Groups (Based on the 2010 Population Census)," *ISEAS Working Paper*, no. 1 (2014).

¹⁴ H Kitamura, "Islamic Finance as an Ethnopolitical Agenda in the 1980s: An Inquiry into the Role of Islamic Finance Pioneers'."

which focused on Malaysia, pioneered work in better understanding the development of this faith-based financial sector. It suggests that a covert mission on the government's side interpolated the political interests of local ethnicities (Malays and Muslims) into the industry rather than focusing solely on economic motives.¹⁵

The results of Kimamura's research are noteworthy when considered in the context of Indonesia, which has the largest community of Muslims in the world. Nevertheless, Indonesian Muslims do not play a role in thought and action that is commensurate with their numbers.¹⁶ Despite the significant Muslim majority in Indonesia, the Islamic banking law did not take its first tentative steps until 1992. Our preliminary findings suggest that this lag in development was due to the policy impacts on Indonesia's economy during president Soeharto's New Order Regime (NOR). This period may have failed to accommodate the broader interests of Muslims adequately. Indeed, Ali claimed that in respect of economic development, the NOR was heavily dependent on foreign aid and, consequently, lacked the will to recognize the interests of Muslims.¹⁷ Further, Hefner also noted that the NOR led by President Soeharto relied heavily on *Pancasila* as a single development foundation. As a result, Islamic organizations have argued that their attempts to obtain a more incredible voice, especially during 1983-1988, were significantly limited by the promulgation of *Pancasila*.¹⁸ It consists of five principles that are an Indonesian state ideology.¹⁹

Hefner describe that the NOR principles reduced opportunities for the insertion of Islamic values in national policies given the considerable Western political influences at the time. This prescription has implications for restrictions on Islamic political thought, which the Islamic financial industry led to its late growth compared to other Muslim jurisdictions. In western Asia, the Jordan Islamic Bank for Finance and Investment was established in 1978,²⁰ while Malaysia established the Bank of Islam Malaysia Berhad in 1983. In comparison, Indonesia's development was comparatively late, when in 1992, *Bank Muamalat* was established, with guidance from the Indonesian Muslim Scholars Association (*ICMI*) led by B.J. Habibie,²¹ and under Law No. 7/1992 of Banking.

The study of Indonesian Islamic politics has been widely discussed yet there is a dearth of investigations focusing on the development of Islamic banking law. This paper's focus serves

¹⁵ H Kitamura, "Policymakers' Logic on Islamic Banking: Islamic Banking as an Ethno-Political Tool in Malaysia'."

¹⁶ M. Van Bruinessen, "Indonesian Muslims and Their Place in the Larger World of Islam' [117-140," in *Indonesia Rising: The Repositioning of Asia's Third Giant*, ed. Anthony Reid (Singapore: ISEAS, 2012).

¹⁷ M Ali, "Islam and Economic Development in New Order's Indonesia (1967-1998)," East-West Center Paper 12, 2004.

¹⁸ R W Hefner, "Public Islam and the Problem of Democratization," *Sociology of Religion* 62, no. 4 (2001): 491–514; Yohanes Firmansyah et al., "Elaboration, Collaboration, And Contribution Of Traditional Law In Indonesian National Legal System," *International Journal of Social Science and Religion (IJSSR)*, March 2021, 1–21, <https://doi.org/10.53639/ijssr.v2i1.37>.

¹⁹ The first principle is *Ketuhanan yang Maha Esa* (a one-God belief). The second, *Kemanusiaan yang Adil dan Beradab* (humanitarianism which is civilized and just). The third, *Persatuan Indonesia* (Indonesia's commitment to unity) (Morfit, 1981). The fourth, *Kerakyatan yang dipimpin Oleh Hikmat Kebijaksanaan Dalam Permusyawaratan/ Perwakilan* (the idea of a people led or governed by wise political governance through consensus and consultation). The fifth, *Keadilan Sosial bagi Seluruh Rakyat Indonesia* (a social justice pledge for all Indonesians). M Morfit, "The Indonesian State Ideology According to the New Order Government'," *Asian Survey* 21, no. 8 (1981): 838–851, <https://doi.org/10.2307/2643886>.

²⁰ A S Saleh and R Zeitun, *Islamic Banking Performance in the Middle East: A Case Study of Jordan*, Economics Working Paper Series, WP 06-21 (Department of Economics, University of Wollongong, 2006).

²¹ Shofwan Al Banna Choiruzzada and Bhakti Eko Nugroho, "Indonesia's Islamic Economy Project and the Islamic Scholars," *Procedia Environmental Sciences* 17 (2013): 957 – 966.

to better understand this gap by exploring the Indonesia experience, and the resultant significant delays in integrating Islamic law into the wider financial sector. The discussion framework is based on the political conditions that influence the delay in the development of Islamic banking law in Indonesia, as well as the historical background of ethnopolitical thought that encouraged the formation of Islamic banking law.

Certain critical pillars underpin the study of Islamic banking law the first deals with its nature. Islamic law fundamentally frames Islamic finance as *Sharia* or *shar'iah*.²² However, ethnographically, sources within Muslim society indicate no consensus on the meaning of “Islamic finance”.^{23,24}

The second relates to the principles of Islamic financial institutions. It is agreed that these institutions be founded on Koranic principles.²⁵ These are firmly based on solidarity and social order.²⁶ It implies that they function (i) without charging interest, known as *riba* prohibition, which means profits and losses are shared,^{27,28} (ii) avoiding *gharar*, which is uncertainty or the use of asymmetrical information, (iii) without *maysir*, defined as gambling, speculation or hoarding,²⁹ and (iv) the payment of *zakat*.³⁰ *Zakat* is one of five central Islamic pillars, namely, *shahadah*, *salat* (praying), *zakat*, *saum* (fasting), and *hajj* (go to Mekka). Then it is helpful to reduce poverty in society.³¹

RESEARCH METHODS

This study is a qualitative literature review focusing on the role of Islamic ethnopolitics as a dynamic enabler in the birth of Islamic banking in Indonesia. The data obtained through a study of purposively selected literature serves to better understand the politics of the Islamic movement during the birth of the development of Islamic banking law in Indonesia in the 1990s to 2000s. Which ultimately resulted in Islamic banking becoming a crucial part of the national financial industry discourse.

Analysis and discussion are framed by ethnopolitical theory that has been applied by Kitamura to the study the development of the Islamic financial industry in several countries. This study also uses an ethnopolitical lens to investigate the role and relationship of ethnic-based politics of Indonesian Muslims in economics, differing from past research which has largely focused on national interests in practical politics and law. Additionally, this research aims to use ethnopolitics as a broader analysis tool to seek greater comprehension of Islam in Indonesia and its more recent influence on banking law.

²² H D Seibel and O Imady, “Principles and Products of Islamic Finance’,” *Working Paper*, no. 1 (2006).

²³ D Rudnycky, “Technologies of Servitude: Governmentality and Indonesian Transnational Labor Migration’,” *Anthropological Quarterly* 77, no. 3 (2004): 407–434, <https://doi.org/10.1353/anq.2004.0045>.

²⁴ Kitamura, “Policymakers’ Logic on Islamic Banking: Islamic Banking as an Ethno-Political Tool in Malaysia’.”

²⁵ Ibrahim Warde, *Islamic Finance in The Global Economy* (Edinburgh, U.K: Edinburgh University Press, 2010).

²⁶ Seibel and Imady, “Principles and Products of Islamic Finance’.”

²⁷ N Schoon, “Islamic Finance – an Overview’,” *European Business Organization Law Review* 9 (2008): 621–636, <https://doi.org/10.1017/S1566752908006216>.

²⁸ M Husen, “An Overview of Islamic Finance’,” *IMF Working Paper* 15, no. 120 (2015): 1–35.

²⁹ The World Bank, “Islamic Finance,” 2015.

³⁰ M M Metwally, “Economic Consequences of Applying Islamic Principles in Muslim Societies’,” *International Journal of Social Economics* 24, no. 7/8/9 (2017): 941–957.

³¹ M Z Hossain, “Zakat in Islam: A Powerful Poverty Alleviating Instrument for Islamic Countries’,” *International Journal of Economic Development Research and Investment* 3, no. 1 (2012): 1–11.

ANALYSIS AND DISCUSSION

The Islamic Ethnopolitical Debate in Indonesia

Indonesia's Islamic finance industry's late arrival is closely related to the political polemics of its time.³² Many studies have shown that, during Indonesia's early years, the concentration of Islamic political movements focused more on the relationship between religion and the state rather than other more specific aspects, such as efforts to realize an Islamic financial industry.^{33,34} After obtaining independence and during the Old Order regime shows, the movements of political Islam mainly focused on the fight to ensure Islamic law must integrate into the state system. Such activities received severe opposition from President Soekarno's Indonesian National Party (*PNI*), and other nationalist-secular figures who promulgated the separation between Islam and state.³⁵

The change of power from President Soekarno's Old Order Regime (OOR) to President Soeharto's New Order Regime (NOR) in 1966 provisioned little ethnopolitical policy shift. Soeharto's government preferred a more ethnonational ideology of the values and norms of ethnic Islam.³⁶ As a result, the NOR was widely opposed by those with political affiliations with Masyumi, Natsir, and Darul Islam.³⁷ These tensions continued until 1987, in a pattern of relationships called "antagonistic" between Islamist groups and the New Order government. This antagonism was motivated by the strain of drafting the marriage law in 1973, plus restrictions on Islamic activities in education in the 1980s.³⁸ Such constraints meant that Islamic ethno-politics was stifled and inhibited discussions about the development of the Islamic financial industry. Nevertheless, Malaysia's closest neighbor had begun building its Islamic financial sector and made ethno-politics a tool in its policy development.^{39,40}

The conditions set by the NOR, which built state power and political ideology with strict restrictions on Islamic mass organizations within the lower levels of society, led to several social conflicts. Islamists, especially those from within Traditionalist-Muslim circles, remained without a political voice. Without such a voice, there was no real political advocacy to encourage the establishment of Indonesian Islamic financial bodies. The obstruction of Islam ethnopolitics was solidified by the domination of the Government party (*Golkar*), the NOR architects, who won elections with significant majorities throughout the 1970s and 1980s (Table 1).

³² Sulistyandari Sulistyandari et al., "Implementation of Prudential Banking Principles: State Responsibility in Combating Banking Crimes in Indonesia," *Volksgeist: Jurnal Ilmu Hukum Dan Konstitusi*, November 2024, 341–59, <https://doi.org/10.24090/volksgeist.v7i2.12132>; Choiruzzada and Nugroho, "Indonesia's Islamic Economy Project and the Islamic Scholars."

³³ J. R Angel, "The New Emerging Forces in Indonesian Foreign Policy," in *Thesis of Doctor of Philosophy in the Australian National University, February*, vol. II, 1970.

³⁴ Prayudi, "Analysing The Role Of Islam Within Indonesia's Culture And Politic," *Ponte* 73, no. 4 (2017): 120–132.

³⁵ Bani Syarif Maula, "Post-Islamism and the Rise of Sharia Laws in Contemporary Indonesia: Aspirations of Implementing Islamic Laws in a Democratic Era," *International Journal of Social Science and Religion (IJSSR)*, June 2023, 163–84, <https://doi.org/10.53639/ijssr.v4i2.137>.

³⁶ Suleymanova and Dzhanteeva, "Essential Characteristics of Ethnopolitical Communications'."

³⁷ Vedi R Hadiz, "Indonesian Political Islam: Capitalist Development and the Legacies of the Cold War," *Journal of Current Southeast Asian Affairs* 30, no. 1 (2011): 3–38.

³⁸ F M Siraj, "Anti-Democracy Policy of the Indonesian 'New Order' Government on Islam in 1966-1987," *Jurnal Al-Tamaddun* 14, no. 2 (2019): 75–87, <https://doi.org/10.22452/JAT.vol14no2.7>.

³⁹ Kitamura, "Policymakers' Logic on Islamic Banking: Islamic Banking as an Ethno-Political Tool in Malaysia'."

⁴⁰ Kitamura, "Islamic Finance as an Ethnopolitical Agenda in the 1980s: An Inquiry into the Role of Islamic Finance Pioneers'."

Table 1 *Election Results in the NOR era*

Party/Years	1971	1977	1982	1987
GOLKAR*	62.8%	62.1%	64.3%	73.2%
PDI**	27.1%	29.3%	27.8%	16.0%
PPP***	10.1%	8.6%	7.9%	10.9%
Totals	100%	100%	100%	100%

Sources: Liddle (1982), Suryadinata (1982), *Kompas*, June 7 1987, <http://www.kpu-baubaukota.go.id/>

- Notes: - GOLKAR (Golongan Karya); Government party representing nationalist, nobles, and religious groups
- PDI (Partai Demokrasi Perjuangan): Nationalist opposition party
- PPP (Partai Persatuan Pembangunan); Fusion party of Islamic political parties

Emergence of Islamic Ethnopolitics in Islamic Banking Law

The development of Islamic banking law began in the 1990s. Profit-sharing banks were born when Law Number 7 of 1992 regulated the term dual banking system, enabling banks two undertake two activities at once as conventional banks or conversely as Islamic banks. The development of Islamic banking law during the “dual banking system” period was marked by the enactment of Law Number 10 of 1998 paralleled with the rapid growth of Islamic ethnopolitics in Indonesia. This period came to be known colloquially as the reform era. The development of Islamic banking law was then marked with Law Number 21 of 2008 concerning Islamic Banking, where Islamic banking law stands independently in national banking regulations.⁴¹

However, the emergence of Islamic banking law in the 1990s, was indeed the result of a long and protracted process of ethnopolitical development in decades prior. Ethnopolitical Islam emerged through two distinct paths. Firstly, ‘academic social’, wherein movements and ideas about the ethnopolitics of Islam were voiced by social groups with strong academic backgrounds. This pathway influenced thinking discourse towards discussions about local and global political change and was widely voiced by young Muslim scholars and modernist Western alums since the 1980s.⁴² In comparison, they did not campaign specifically to encourage the occurrence of Islamic ethnopolitics within the Islamic financial sector. Their ideas stress Islamic renewal extended into education and culture, global human rights, social justice, and, more broadly, Muslim civil society. Dahlan et al. highlighted that prior to the 1990s, Islamic political discourse faced substantial challenges under the New Order, particularly as Muslim organizations were denied opportunities to express and advance their agendas.⁴³

In 1983, Amin Aziz led a study group in Bandung City to discuss the idea of an independent Islamic economic movement, which led to the “First Islamic Economic National Conference”. Aziz helped to encourage more credible research around establishing Islamic financial institutions. These

⁴¹ Ahmad Dahlan, Mawardi Mawardi, and Shaifurrokhman Mahfudz, “The Crucial History of Sharia Banking Law Development in Indonesia,” *Al-Manahij: Jurnal Kajian Hukum Islam* 17, no. 1 (April 6, 2023): 27–40, <https://doi.org/10.24090/MNH.V17I1.7191>.

⁴² Hefner, “Public Islam and the Problem of Democratization.”

⁴³ Ahmad Dahlan, Adam Voak, and Naerul Edwin Kiky Aprianto, “The Political Challenge of Islamic Economic Development in The Jokowi Government, Indonesia,” *IQTISHODUNA: Jurnal Ekonomi Islam* 13, no. 1 (April 1, 2024): 81–100, <https://doi.org/10.54471/IQTISHODUNA.V13I1.2386>.

efforts resulted in an Islamic microfinance institution, namely “*Baitut-Tamwil Teknosa*” in 1984. It is initially drawn together as a Technose Expertise Services Cooperative.⁴⁴ However, establishing Baitul-Tamwil Teknosa was not enough catalyst to realize broader Islamic financial industry development ambitions. Indeed, in a sociological context, this lacked support from Indonesian ethnic Muslims. Comparing it with the *Tabung Haji*, which had been entrenched in Malaysian society since 1963, allowed for Bank Islam Malaysia Berhad to be established in 1983. The work towards this institution had almost no political, social, or economic obstacles to its development.^{45,46}

The second pathway is what the authors believe to be the “practical political”. This path was platformed by a group of “former academics” who were initially active in the student movement. The most prominent of these advocates, Akbar Tandjung, was entrenched in mainstream politics by entering the ruling *Golkar* party. The Tandjung’s representation was influential in changing the policy directions of *Golkar*, which for two decades was controlled by *Abangan* (a group of people who embraced Islam but did not practice Islam as a whole). *Abangan* was initially somewhat anti-Islamic but then gradually changed to “*santri*” of Islam, a form of Islam that practiced Islam and emphasized the mission of political Islam. His reliability and pragmatism strengthened Tanjung’s status within this group.⁴⁷ He was reportedly inspired by other religious figures such as Ali Alatas, BJ. Habibie and others played pivotal roles in the government party structure. This influence strengthened “Islamic” guidance in Suharto’s government and became more visible.⁴⁸ As a result of this internal influence, the early beginnings of Islamic ethno-politics were revealed, primarily driven by practical politics. However, broader discussions were confounded due to a social polarization dividing Islam (*santri*) and the *Abangan*.⁴⁹

Further, the authors contend that this confused social-political environment led to a lack of policy clarity in NOR, which was torn between the promulgations of the “Bandung group” as a symbol of “*Abangan*” Islam, and their deference to modern Muslim scholars. This fragmented stance ultimately led to a division of Muslim political power in Indonesia. In addition, NOR regime afforded more ability to modernists and a marginalization of traditionalist Islamic groups. This fractured political environment ultimately led to an extraordinary moment of Islamic dynamism in Indonesia. In 1984, the *Nahdlatul Ulama (NU)*, Indonesia’s largest Islamic organization, forcefully carried out a “neutral” policy in politics, attracting formal support from the *PPP* and introducing ‘*khittah*’ (back), which was a return to its original 1926 charter.

The 1990s saw the NOR change in dynamism, which began to facilitate the emergence of “pro-Islamic” ethno-politics. This shift in ideological approach would form the basis of the Islamic financial industry development movement,⁵⁰ strengthening the ethno-political arm of Islam in Indonesia, particularly in the 1990s, towards a more Islamic worldview. This practical

⁴⁴ Choiruzzada and Nugroho, “Indonesia’s Islamic Economy Project and the Islamic Scholars.”

⁴⁵ Schoon, “Islamic Finance – an Overview.”

⁴⁶ H Yahaya, “Tabung Haji Malaysia as a World Role Model of Islamic Management Institutions,” *International Journal of Business and Management Innovation* 5, no. 11 (2016): 44–55.

⁴⁷ D Hejazziey, “Political Aspects of Shari’a Banking Law in Indonesia,” *Jurnal Indo-Islamika* 2, no. 1 (2012): 105–124, <https://doi.org/10.15408/idi.v2i1.1659>.

⁴⁸ R William Liddle, “The Islamic Turn in Indonesia: A Political Explanation,” *The Journal of Asian Studies* 55, no. 3 (1996): 613–634.

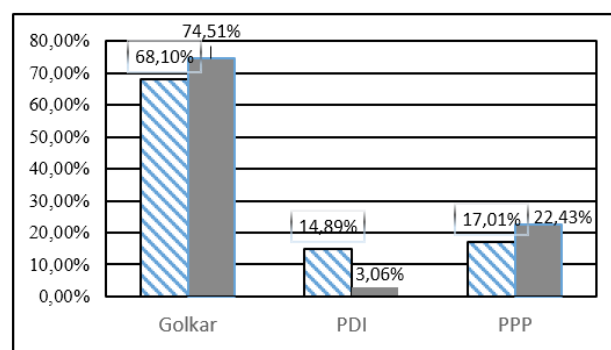
⁴⁹ Geertz, *The Religion of Java*.

⁵⁰ Z Hamat, “History of Islamic Bank in Indonesia: Issues behind Its Establishment,” *International Journal of Finance and Banking Research* 2, no. 5 (2016): 178–184, <https://doi.org/10.11648/j.ijfbr.20160205.13>.

shift was manifested in some vital government department appointments.^{51,52} Meanwhile, in civic organizations' policies, the government provided more expansive space for media to tell the stories of broader Islamic struggles. For example, the *ICMI* and *MUI* facilitated the Muslim education foundation and Islamic news media. These policies change in the 1990s, discussed by Bouchier and Hadiz,⁵³ are also referred to as the 'beginning of the end for the NOR, as they resulted from an openness via a brief democratic thaw (Effendy, 2003;⁵⁴ Bouchier & Hadiz, 2003;⁵⁵ Rinakit, 2005;⁵⁶ Zarkasyi, 2008;⁵⁷ Carnegie, 2008;⁵⁸ Fatgehipon, 2016;⁵⁹ Bouchier, 2018)⁶⁰.

Consequently, Islamic ethnopoltics during the 1990s began to strengthen. The 1992 and 1997 elections showed increases in support *Golkar* party, along with *PPP*, at the expense of the *PDI* party (see figure 1).

Figure 1: Party Votes in the 1992 and 1997 Elections



Source: it is summarized from the General Election Commission and various media sources

Figure 1 shows the positive influence of the entry of the *HMI* group of Akbar Tanjung and Habibie, which boosted the electoral fortunes of the *Golkar* party, which rose to 74.51% in the 1997 elections. Table 2 also reveals a significant rise in support of the ethnopoltical sectors of Islam outside of the governing power structure. The *PPP* votes increased from an average of 9% in the elections before 1992 to nearly 20% in the 1992 and 1997 elections. It appears then that the ethnopoltics of Islam were also strengthened by the harmonization of relations between the state and Islamist groups outside the central power system. These ethno-political shifts became more

⁵¹ Liddle, "The Islamic Turn in Indonesia: A Political Explanation."

⁵² Hadiz, "Indonesian Political Islam: Capitalist Development and the Legacies of the Cold War."

⁵³ D. Bouchier and V. R. Hadiz, *Indonesian Politics and Society: A Reader*, ed. D Bouchier and V R Hadiz (London: Routledge Curzon, 2003).

⁵⁴ B Effendy, *Islam and State in Indonesia* (Singapura: Institute of Southeast Asian Studies, 2003).

⁵⁵ Bouchier and Hadiz, *Indonesian Politics and Society: A Reader*.

⁵⁶ S Rinakit, "The Indonesian Military after the New Order," in *Southeast Asian Studies (ISEAS) and Nordic Institute of Asian Studies (NIAS)* (Copenhagen Denmark: Singapore, 2005).

⁵⁷ H M Zarkasyi, "The Rise of Islamic Religious-Political Movements in Indonesia the Background, Present Situation and Future'," *Journal of Indonesian Islam* 2, no. 2 (2008): 368–378.

⁵⁸ P J Carnegie, "Political Islam and Democratic Change in Indonesia," *Asian Social Science* 4, no. 11 (2009): 1–7, <https://doi.org/10.5539/ass.v4n11p3>.

⁵⁹ A H Fatgehipon, "The Relationship Amongst Soeharto, Military, and Muslim in the End of New Order Regime," *Paramita: Historical Studies Journal* 26, no. 1 (2016): 1–8.

⁶⁰ D. M. Bouchier, "Two Decades of Ideological Contestation in Indonesia: From Democratic Cosmopolitanism to Religious Nationalism," *Journal of Contemporary Asia* 49, no. 5 (2018): 713–733, <https://doi.org/https://doi.org/10.1080/00472336.2019.1590620>.

apparent when the ethnic power of the *santri* (an Islamist term introduced by Geertz,⁶¹ and Islamist factions by Buehler,⁶² entered the broader and majority government. They were represented within the executive and the judiciary and were directly involved in encouraging policy advancement for the sector.

In essence, the policies published for establishing Islamic finance resulted from the Islamic ethnic collaborations driven by B.J. Habibie (Chairman of *ICMI*) and Hasan Basri (Chairman of the *MUI*). This heterogeneous political grouping converged with a shared mission, facilitating 1992 Indonesia's first Islamic bank.⁶³

The Decline of Ethnopolitical Islam

1. Sociological aspects

The ethnopolitical power of Islamic factions emerged when Islamic economic and financial ideas were voiced by Muslims in 1980.^{64,65} Although the first attempts were minimal, they brought a discussion of the Islamic Finance industry into the more significant Indonesian public discourse. Indeed, by 1993, the campaign for Economic Islamization in Indonesia had successfully attracted public attention.⁶⁶ However, it became apparent that, after the 1990s, although Islamic banking was successfully present in Indonesia, there was an *anomaly* or misalignment among the Muslim people regarding the further expansion of the Islamic financial industry. From 1992 to 1997s, the growth of Islamic commercial banks was only one (*Bank Muamalat*) and a few Islamic Rural Banks (*BPRS*).⁶⁷

This paradox shows that the ethnopolitical power established in the early 1990s did not automatically translate to broader national efforts to solidify an Islamic financial sector. Indeed, within this period, the more significant Indonesian population was still focused on the traditional understandings of Islamic banking principles, such as pronouncements around bank interest, to the detriment of an understanding of the central concepts and development of a modern and globally competitive Islamic financial industry.⁶⁸ Rudnyckyj and Kitamura suggest that tensions within the Muslim community meant a lack of consensus regarding the essence or definition of what a modern Islamic financial sector would like in Indonesia.^{69,70} Many Indonesians today still do not understand that these first tentative Islamic banking steps were hard fought and a politically tortuous process.⁷¹ In hindsight, it is ironic that the efforts of the *ICMI* are largely unrecognized within the historic Indonesian financial sector discussions.

⁶¹ Geertz, *The Religion of Java*.

⁶² M. Buehler, "Islam and Democracy in Indonesia," *Insight Turkey* 11, no. 4 (2009): 51–63, <https://doi.org/https://www.insightturkey.com/file/828/islam-and-democracy-in-indonesia-fall-2009-vol11-no4>.

⁶³ K A Perwaatmadja, "Interview," *Tuesday*, 2017.

⁶⁴ Liddle, "'The Islamic Turn in Indonesia: A Political Explanation.'"

⁶⁵ Hamat, "History of Islamic Bank in Indonesia: Issues behind Its Establishment'."

⁶⁶ Choiruzzada and Nugroho, "Indonesia's Islamic Economy Project and the Islamic Scholars'."

⁶⁷ Siti Kunarti et al., "The Legal Politics of Outsourcing and Its Implication for the Protection of Workers in Indonesia," *Sriwijaya Law Review* 8, no. 1 (January 2024): 1, <https://doi.org/10.28946/slrev.Vol8.Iss1.2750.pp1-19>.

⁶⁸ Sofhian, "The Rationality Prohibition of Riba (Usury)," *Al-Ulum* 15, no. 1 (2015): 237–266, <https://doi.org/10.30603/au.v15i1.224>.

⁶⁹ Rudnyckyj, "Technologies of Servitude: Governmentality and Indonesian Transnational Labor Migration'."

⁷⁰ Kitamura, "Policymakers' Logic on Islamic Banking: Islamic Banking as an Ethno-Political Tool in Malaysia'."

⁷¹ Perwaatmadja, "Interview."

It also appears that the sociological conditions within Indonesia were much less responsive than those related conditions in Malaysia. In Malaysia, there is a dynamic relationship between the religion and ethnicity of most Malays, manifested in the role of Islam in the Malaysian Constitution.⁷² Islamic economic and financial development has been seen politically as the embodiment of the state in supporting the financial mission of ethnic Malay Moslems.⁷³ This representation of ethnic Malays and Muslims in Malaysia has recognized the appropriateness of a sustainable Islamic financial sector. Fischer describes this political environment as a ‘phenomenon of Islamic nationalization’.⁷⁴ However, momentum in Indonesia built when, in 2004, the *MUI* issued a Fatwa Decree of the Indonesian Ulema Council Number 1 of 2004 concerning “interest or usury” (*fa'idah*). The Fatwa proved a catalyst for establishing related government policies, referencing the importance of economic market orders and the public recognition for establishing an Islamic banking system.⁷⁵

2. Political Aspects

The decline of ethnopolitical Islam began in and around the 1997 reformation era.

The collapse of the NOR in 1997 significantly affected its underlying political influence, with the considerable erosion of the *HMI*, *MUI*, and Islamist factions in the government, which were all political groups that advocated heavily for Indonesia’s establishment of its first Islamic bank.⁷⁶ Surprisingly, the reformation created many other Islamic political parties, and in the 1999 elections, the first elections in the reform era, 17 of the 48 parties were Islamic groups. However, this number decreased in the 2004 elections, leaving only seven parties labeled specifically for Islam, with many plagued by leadership struggles.⁷⁷ As a result, Islamic parties shifted their emphasis to a battle for power.⁷⁸ Even the Prosperous Justice Party (*PKS*), still seen as strictly Islamic, was left out of broader discussions. Further, public support for Islamic parties declined, especially those opposed to sharia law.^{79,80}

Through these turbulent times, Indonesia became a laggard in the Islamic finance sector and became increasingly less globally relevant. To illustrate, the Global Advisors’ Islamic Finance Outlook Report 2016/2017 positioned Indonesia at number 10 (score 36), far below Malaysia (score 121), which ranked first. In 2019, this positioning increased marginally to a ranking of ninth, which

⁷² M B Ahmad, “Islam and Economic Growth In Malaysia, Thesis (Magister)” (Naval Postgraduate School, 2003).

⁷³ P S White, “Working in the Islamic Economy: Sharia-Ization and the Malaysian Workplace,” *Sojourn: Journal of Social Issues in Southeast Asia* 26, no. 2 (2011): 304–335, <https://doi.org/10.1355/sj26-2g>.

⁷⁴ J Fischer, “Islamic Mobility: Car Culture in Modern Malaysia,” *Journal of Consumer Culture* 16, no. 2 (2016): 572–591, <https://doi.org/10.1177/1469540514531683>.

⁷⁵ M. S. Antonio, “Interview” (Andalusia Mosque, Tazkia Institute, Bogor: Tazkia Institute, 2018).

⁷⁶ Liddle, “‘The Islamic Turn in Indonesia: A Political Explanation.’”

⁷⁷ S Yunanto and A F A Hamid, “Fragmentation and Conflict among Islamic Political Parties in Indonesia during Reformasi Era (1998–2009), Anatomy, Factors and Implications,” *Journal of Indonesian Islam* 7, no. 2 (2013): 337–365, <https://doi.org/10.15642/JIIS.2013.7.2.337-365>.

⁷⁸ A K Umam and A A Junaedi, “Political Islam: The Shrinking Trend and the Future Trajectory of Islamic Political Parties in Indonesia,” *Masyarakat, Kebudayaan Dan Politik* 30, no. 1 (2017): 1–12, <https://doi.org/10.20473/mkp.V30I12017.1-12>.

⁷⁹ Buehler, “Islam and Democracy in Indonesia.”

⁸⁰ S Mujani and W R Liddle, “Politics, Islam, and Public Opinion,” *Journal of Democracy* 15, no. 1 (2004): 109–123, <https://doi.org/10.1353/jod.2004.0006>.

again contrasted with Malaysia's number one ranking.⁸¹ Nationally, in 2017, Indonesia's Islamic banking market share was below 6%, far from the expectations announced by the Bank Indonesia which had projected a level of 10%.

It, therefore, can be seen that even in 2017, while Indonesia is the most prominent Islamic country by population, it does not match the potential Islamic banking demand.

Ethnopolitical Islam Shaping Banking Law to Banking Industry

Between 2015 and 2021, Indonesia experienced a reemergence of Islamic ethnopolitics. It has been suggested that this resurrection responded to a more visible display of the Islamic faith within Indonesian society.⁸² Heryanto also suggests that Indonesian culture was experiencing a growth in religious piety and practice, which translated into greater Islamic identity expression. This identity attribution has notionally coincided with an increased presence of Islamic banks.⁸³

This shift in "religious piety" soon translated to "political piety," which became clear in the formation of policies related to the Islamic economy and financial matters. In 2015, a range of policies emerged, leading to the illumination of Islamic ethnopolitics. Ultimately translated into (i) a greater focus on the development of Islamic finance, (ii) considered thought around national frameworks for Islamic finance, and (iii) and broader societal appreciation of the Halal industry. Started from the publication of the Sharia Financial Architecture Masterplan (*MAKSI*, 2015), which facilitated the creation of the National Committee for Islamic Finance (*KNKS*, 2016), the publication of the Indonesian Islamic Financial Architecture Masterplan 2019-2024 (*MEKSI*, 2019), and then finally the establishment of the National Committee for Sharia Economy and Finance (*KNEKS*, 2020). The latter Committee aims to advance the Indonesian Islamic economic and financial ecosystem. The *KNEKS*, chaired by the President, was supported by (i) national higher financial institutions (*OJK* and *BI*), (ii) 'Bappenas', (iii) the Ministry of Finance and various related ministries, (iv) the Ministry of Religion, and (v) the *MUI*, which symbolized the return of Islamic ethnopolitics in Indonesia. Moreover, Maulana et al. promulgates that *MUI* now plays a larger role in issuing fatwas within the halal industry.⁸⁴

More recent developments in the sector include the launch of *Bank Syariah Indonesia (BSI)* in 2021, which resulted from the mega-merger of the *Bank Syariah Mandiri (BSM)*, the *Bank Rakyat Indonesia (BRI) Syariah* and the *Bank Nasional Indonesia (BNI) Syariah*. Such a merger shows a renewed commitment to establishing Indonesia as a global competitor within the Islamic banking sector. Notwithstanding this mega-merger, Indonesia still has many challenges in becoming a recognized international Islamic finance center, primarily concentrated in western Asia. The United

⁸¹ Thomson Reuters Team, "State of The Global Islamic Economy Report 2016/17, Thomson Reuters in Collaboration with DinarStandard and Supported by Dubai The Capital of Islamic Economy," 2015.

⁸² G Fealy and R Bush, "The Political Decline of Traditional Ulama in Indonesia'," *Asian Journal of Social Science* 42 (2014): 536–560, <https://doi.org/10.1163/15685314-04205004>; Istianah Zainal Asyiqin, M Fabian Akbar, and Manuel Beltrán Genovés, "Cryptocurrency as a Medium of Rupiah Exchange: Perspective Sharia Islamic Law and Jurisprudential Analysis," *Volksgeist: Jurnal Ilmu Hukum Dan Konstitusi* 7, no. 2 SE-Articles (November 2024): 227–92, <https://doi.org/10.24090/volksgeist.v7i2.10975>.

⁸³ Ariel. Heryanto, "Identity and Pleasure : The Politics of Indonesian Screen Culture," 2014, 246.

⁸⁴ Diky Faqih Maulana, Makhrus Makhrus, and Hamidatul Hasanah, "The Urgency of *MUI* Halal Fatwa about Food, Beverage, Medicine and Cosmetic Products for the Consumer Protection," *Volksgeist: Jurnal Ilmu Hukum & Konstitusi* 5, no. 2 (2022), <https://doi.org/https://doi.org/10.24090/volksgeist.v5i2.6421>.

Arab Emirates, for example, represents 8.7 percent of total Islamic financial assets, followed by Bahrain at 5.3 percent and Qatar at 4.8 percent shares.⁸⁵

The previous description of the ethnopolitical dynamics in encouraging Islamic banking law in Indonesia can be better visualized in Table 3.

Table 2. *Ethno-political Dynamism in Indonesia's Islamic Banking Law*

years	ethno-political Islam indication
1980s	Beginnings of Islamic finance and economic ideas
1990s	Islamic ethnopolitics has entered the political and governmental discourse and has succeeded in developing Islamic Banking Law issues
1998s	Ethnopolitics has developed in various ways of thinking about reform, thus giving birth of dual banking system in banking law No. 10/1998
2018-19s	Ethnopolitics is again interesting, especially in the birth of independency of Islamic Banking No. 21/2008, and at the vice president who is an expert in Islamic banking law
2021	Ethno-politics is getting more decisive in the development of the Islamic finance industry.

Source: Year data and results processed by the author

A renowned expert in Islamic economics and law, Ma'ruf Amin played a pivotal role in transforming the ethnopolitical focus from theoretical frameworks tied to banking law to practical applications in the financial sector. This shift culminated in the establishment of Bank Syariah Indonesia (BSI) in 2021, a significant milestone achieved through the merger of three state-owned Islamic banks. The creation of BSI represents a pragmatic step in advancing Indonesia's Islamic banking industry and integrating Sharia-based economic principles into the broader financial system.

CONCLUSION

Ethnopolitics has significantly contributed to the complex legal framework of Islamic banking and its emergence as a distinct industry in Indonesia. Since the early 1980s, ethnopolitics has supported the development of this sector, with its influence catalyzed in the 1990s. The New Order (NOR) period was a period that facilitated a more significant Islamic influence in the Golkar Party and encouraged the birth of the Indonesian Muslim Intellectuals Association (ICMI), and revealed that Islamic organization has a role to play in the shaping of Islamic banking law. In 1992, the embryonic stage of banking law encouraged the first Islamic bank in Indonesia through Law No. 7 of 1992. Notably, the reform period gave birth to Law No. 10/1998, which provided a more expansive space for the establishment of Islamic banks and support for Islamic political parties. The influence of ethnopolitics in Indonesia has waned over time, but regained momentum

⁸⁵ Muhammad Syarif Hidayatullah and Rahmat Fadillah, "Economic and Legal Dimensions of Collateral Existence in Modern Mudhârabah Contracts: Understanding the Relationship between Risk Management, National Law, and Contemporary Fiqh," *Al-Manahij: Jurnal Kajian Hukum Islam*, November 2022, 223–38, <https://doi.org/10.24090/mnh.v16i2.6860>; Hariyanto Hariyanto, "Risk-Based Business License and Problems Arising After The Job Creation ACT," *Jurnal IUS Kajian Hukum Dan Keadilan* 10, no. 2 (August 23, 2022): 354–66, <https://doi.org/10.29303/IUS.V10I2.1082>; M I Tabash and R S Dhankar, "The Flow of Islamic Finance and Economic Growth: An Empirical Evidence of Middle East'," *Journal of Finance and Accounting* 2, no. 1 (2014): 11–19, <https://doi.org/10.11648/j.jfa.20140201.12>.

following two key developments: the enactment of Law No. 21/2008 on Islamic Banking and the 2019 election of Ma'ruf Amin as vice president.

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