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Sharia Finance, SDGs, and Economic Growth: Empirical Evidence from Muslim Countries in Asia

Nisa Azzahro[1], *Muthoifin*[2], *Shahbaz Alam*[3]

[1,2]Department of Islamic Economic Law, Universitas Muhammadiyah Surakarta, Indonesia

[3]Indian Centre for Islamic Finance, India

[1]i000220041@student.ums.ac.id, [2]mut122@ums.ac.id, [3]shahbaznadwi2@gmail.com

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Abstract

Objective: This study examines the role of Sharia finance in driving economic growth and supporting the achievement of the SDGs in Muslim countries in Asia. The main objective is to analyze the development, challenges, and contributions of Sharia financing systems, as well as to compare their performance with conventional financial systems in promoting economic growth, financial inclusion, and sustainability. **Theoretical framework:** The theoretical framework is grounded in Islamic financial principles that prohibit riba (usury), gharar (excessive uncertainty), and investment in haram sectors, while emphasizing social justice, risk-sharing, ethical investment, and inclusive development, which are closely aligned with the core objectives of the SDGs, particularly SDG 1, SDG 8, and SDG 10. **Literature review:** The literature review synthesizes previous studies on the development of Islamic finance in Malaysia, Indonesia, Brunei Darussalam, and Muslim regions of the Philippines, focusing on regulatory frameworks, levels of Islamic financial literacy, product innovation, and the sector's contribution to regional economic growth and sustainable development. **Methods:** Methodologically, this study employs a descriptive and comparative literature-based approach, analyzing the implementation and evolution of Sharia and conventional financial systems across selected Asian Muslim countries, while identifying key challenges and opportunities in advancing SDG-oriented finance. **Results:** The findings reveal that Sharia finance has experienced significant growth in Asia, with Malaysia emerging as a global Islamic finance hub and Indonesia demonstrating substantial market potential. Despite this progress, challenges remain, including limited financial literacy, regulatory fragmentation, and the need for greater product and technological innovation. Empirical evidence suggests that Sharia finance contributes positively to financial inclusion, sustainable economic growth, financial stability, human capital development, and technological adoption, thereby reinforcing its relevance to SDG-driven development strategies. **Implications:** The study's implications highlight the importance of strengthening Islamic financial literacy, harmonizing regulations, and encouraging innovation to position Sharia finance as a strategic pillar of sustainable and inclusive economic growth in Asia. **Novelty:** The novelty of this research lies in its comprehensive and integrative analysis of Sharia finance within an SDG framework, demonstrating its comparative advantages over conventional finance in fostering equitable and sustainable development.

Keywords: sharia finance, sdgs, economic growth, asian muslim countries, islamic economics.

INTRODUCTION

Islamic finance has emerged as a significant component of the global financial system, particularly in Muslim-majority countries, where it functions not only as an alternative to conventional finance but also as a mechanism for promoting ethical, inclusive, and sustainable economic development. Unlike conventional financial systems that are primarily interest-based, Islamic finance operates on a set of normative and ethical principles derived from Sharia, which aim to ensure fairness, transparency, and social responsibility in economic transactions. These characteristics make Islamic finance increasingly relevant in addressing contemporary development challenges, especially those articulated in the Sustainable Development Goals (SDGs) [1].

One of the core principles of Islamic finance is the prohibition of riba (usury), which prevents the generation of income through exploitative interest-based transactions and requires profits to be earned through legitimate trade and productive economic activities. This principle encourages real-sector engagement and risk-sharing, thereby supporting economic stability and long-term growth. In addition, Islamic finance strictly prohibits gharar, or excessive uncertainty in contracts, to ensure transparency, clarity, and mutual consent among contracting parties. Transactions involving maysir (gambling or speculative activities) are also forbidden, reflecting Islamic finance's emphasis on justice, accountability, and social welfare in financial dealings. These principles collectively promote ethical finance and align closely with the objectives of the SDGs, particularly SDG 8 (Decent Work and Economic Growth) and SDG 16 (Peace, Justice, and Strong Institutions) [2].

In recent decades, several Muslim-majority countries have made substantial progress in developing Islamic financial systems. Saudi Arabia, as one of the global centers of Islam, has established a highly developed Islamic finance industry that supports national development strategies. Through initiatives such as Vision 2030, the country has utilized Sharia-compliant financial instruments to diversify its economy, reduce dependence on oil revenues, and promote private sector participation in infrastructure and development projects. These efforts demonstrate the potential of Islamic finance to contribute to SDG 9 (Industry, Innovation, and Infrastructure) and SDG 12 (Responsible Consumption and Production) [3].

In the Asian context, Sharia financing plays a crucial role in supporting micro, small, and medium enterprises (MSMEs), which constitute the backbone of many national economies [4]. By providing Sharia-compliant financing mechanisms such as murabaha, mudarabah, and musharakah, Islamic financial institutions enable MSMEs to access capital, expand operations, and create employment opportunities. This contribution directly supports SDG 1 (No Poverty) and SDG 10 (Reduced Inequalities) by enhancing financial inclusion and empowering underserved economic actors [5].

Moreover, Islamic finance increasingly encourages investment in sustainable and environmentally friendly projects, reinforcing commitments to SDG 13 (Climate Action) and broader sustainability goals. In Indonesia, for instance, Sharia financing has significantly contributed to the development of MSMEs, which play a vital role in employment generation and Gross Domestic Product (GDP) growth. Given these dynamics, examining the role of Sharia finance in advancing economic growth and SDG achievement in Asian Muslim countries is essential to understanding its potential as a driver of sustainable and inclusive development [6].

Despite the positive impacts, the challenges faced by sharia financing cannot be ignored. One of the main challenges is the lack of supporting infrastructure. To maximize the potential of sharia financing as a tool for inclusive and sustainable economic growth, it is important to address issues related to infrastructure, regulation, and financial literacy. Further research is needed to explore these complex relationships and to identify effective strategies for leveraging sharia financing. With the right approach, sharia financing can be a key driver in achieving sustainable economic growth in Asian Muslim countries [7].

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The research also shows that there is sharia financing that provides better access for MSMEs to obtain capital, increasing their productivity and competitiveness in the market, In Malaysia, sharia financing has also contributed to the development of the real sector by providing the necessary funds for investment in productive projects [8]. In addition, clear and supportive regulations will create a conducive environment for the growth of the Islamic finance industry [9]. Then this study aims to analyze the use and impact of sharia financing on economic growth in Asian Muslim countries. By looking at how the growth of the Islamic finance sector correlates with macroeconomic indicators such as GDP, unemployment rate, and poverty.

The Importance of Research. Economic growth is the main indicator in assessing the progress of a country. In the context of Muslim countries in Asia, the Islamic financial system plays an increasingly significant role as public awareness of Islamic economic principles increases. Islamic financing, which is based on the principles of justice, transparency, and the prohibition of usury, is believed to be able to make a positive contribution to sustainable economic growth. However, the extent to which sharia financing impacts economic growth is still an important question that requires in-depth empirical study.

This research is important because of the literature gap in examining the relationship between sharia financing and economic growth specifically in Muslim-majority Asian regions, such as Indonesia, Malaysia, Pakistan, Bangladesh, and others. Each country has a different regulatory framework and development of the Islamic finance industry, so comparative analysis is needed to see consistent or different patterns of influence between countries.

The novelty of this research lies in:

1. A cross-country empirical approach aligned with the SDGs, combining macroeconomic indicators and Islamic financial variables from several Asian Muslim countries to examine how Sharia finance contributes to sustainable and inclusive economic growth, particularly in achieving SDG 8 (Decent Work and Economic Growth) and SDG 10 (Reduced Inequalities).
2. A financing-instrument–specific analysis, focusing on key Sharia financing modes—such as murabahah, mudharabah, and ijarah—and assessing their differentiated impacts on growth indicators, including GDP, investment expansion, and real-sector development, which are closely linked to SDG 9 (Industry, Innovation, and Infrastructure).
3. An updated empirical contribution to Islamic economics literature, providing recent evidence from Asian regions that represent some of the fastest-growing markets for Islamic finance, while explicitly situating Islamic financial development within the global SDGs framework, including financial inclusion and poverty reduction objectives under SDG 1 (No Poverty).
4. Policy-relevant insights for regulators and practitioners, offering concrete recommendations for policymakers, Islamic banking institutions, and economic authorities in Muslim countries to optimize Sharia finance as a strategic instrument for sustainable development, financial stability, and social welfare in line with national SDG agendas.

Thus, this research not only addresses key academic debates in Islamic economics but also delivers practical, SDG-oriented solutions for advancing sustainable economic development based on Islamic principles across the Asian region.

LITERATURE REVIEW

Sharia financing is one of the methods of raising funds based on the principles of Islamic law that prioritize justice, openness, and obedience to sharia. To achieve common prosperity in this situation, Islamic financial institutions act as a bridge between the owner of the fund (shahibul maal) and the party who needs the funds (mustahiq) and avoid the practice of usury, gharar, and maysir. The two main components of sharia financing are the sharia component which requires all transactions to comply with Islamic law, and the economic component which considers fair benefits for all parties [10].

Types of sharia financing products include: Murabahah is the buying and selling of an item plus a predetermined profit margin. Mudharabah: cooperation between business managers and capital owners with agreed profit sharing. Musharakah is a cooperation between two or more people with an agreed capital deposit, profit sharing, and risk sharing. Ijarah is the practice of renting goods or services with a predetermined fee. Istisna: financing for the production of goods according to special orders and requirements. Although the characteristics and ways of working of these goods vary, they all aim to provide fair transactions by sharia law. Furthermore, in order to be a tool for the sustainable development of Muslim societies, Islamic financing is focused on social and moral issues in addition to economic issues [11].

According to an Islamic perspective, economic growth theory highlights the importance of maintaining a balance between economic growth and social and moral values from an Islamic point of view. Growth encompasses more than just an increase in production output and wealth; Growth also involves distributive justice and the spiritual dimension of human development. Islam promotes sustainable, fair, and responsible growth, in contrast to conventional economic theory, which is sometimes considered unsuitable for Muslim-majority countries. Thus, the welfare of the world and the hereafter is the core of the success of Islamic economics [12].

Through the murabahah contract, the sharia financing method is implemented by setting the selling price of commodities transparently, consisting of the cost of goods and profit margin. The fixed-rate approach, which determines margins over the financing period and is affected by the duration and credit risk, is commonly used to determine margins. Murabahah financing prioritizes sharia principles by avoiding fines and resolving delays socially, although it is often equated with traditional interest. This method seeks to encourage economic development by offering fair funding by Islamic principles [13].

Contracts that adhere to Islamic principles are used in sharia financing; The main contract, murabahah, ensures a guaranteed profit margin. Islamic banks use restructuring to address financing problems by rescheduling or amending contracts by the fatwa of the National Sharia Council, without increasing the invoice amount and charging only actual fees, while taking into account customer preferences and business conditions [14].

In the long term, sharia financing instruments such as zakat, business sukuk, and government sukuk significantly boost Indonesia's economic growth. Islamic mutual funds have a detrimental impact, while Islamic stocks and Islamic banking financing have no real impact. All of these instruments have short-term negative consequences influenced by the economic crisis related to the Covid-19 pandemic. This condition shows that macroeconomic conditions and the ability of the real sector to absorb cash have a significant impact on how well Islamic finance drives economic growth [15].

The impact of exports, Bank Indonesia Syariah Certificate (SBIS), and Islamic bank funding on Indonesia's economic expansion. The study's findings show that despite the negative impact of SBIS, Islamic bank financing and exports are not substantial in the near term. These three factors have a detrimental effect on economic growth in the long run. Growth was hampered by the prevalence of consumer murabahah financing and the allocation of funds to SBIS, which limited distribution to the real economy. Furthermore, exports, which are mostly made up of low-value raw materials, have an adverse impact. To help economic progress, the study highlights the need to strengthen the export-added value and expand productive Islamic financing [16].

Indonesia's economic growth is positively and significantly influenced by financing from Islamic banks. The VECM approach and data from 2010–2016 show a reciprocal relationship between real GDP and Islamic funding. The expansion of Islamic finance stimulates economic activity in the real sector, which in turn encourages economic expansion. However, third-party fundraisings (DPK) have a detrimental effect, highlighting the difficulties that Islamic banking faces in competing with traditional banks. The importance of increasing the effectiveness of Islamic financial distribution to encourage sustainable economic growth is emphasized in this study [17].

By raising funds from external parties and allocating funds by sharia principles, Islamic banking makes a significant contribution to Indonesia's economic growth [18]. The findings of this study show that although Islamic finance is not very important, third-party funds from Islamic banking have a substantial impact on GDP growth. However, both have made a positive contribution to economic expansion. These results are consistent with previous research that highlighted the contribution of productive financing to long-term and sustainable economic growth.

Islamic finance is essential to drive economic expansion, especially in terms of real sector funding and profitable companies. The findings of the study show that Islamic banking financing significantly and positively affects GDP, as evidenced by Indonesia's coefficient of influence of 81.7% [19]. This conclusion, which confirms that Islamic financing can improve economic activity and people's welfare, is also supported by the findings of another Malaysian study. As a result, in Muslim-majority countries, Islamic finance is a key tool for sustainable economic growth.

The economic growth of Malaysia and Indonesia is positively and significantly influenced by Islamic financing through sukuk instruments. One of the financing alternatives that drives the growth of the sharia capital market and economic expansion is sukuk, which is based on asset ownership by sharia principles. Sukuk issuance in Indonesia has grown rapidly and supports macroeconomic stability. Similar beneficial effects are seen in Malaysia, the world's largest sukuk market. However, the impact of sukuk on economic growth in Brunei Darussalam is not significant, perhaps as a result of other, more important economic factors. This study shows how important Islamic finance is for economic expansion in Muslim-majority countries [20].

Table 1. Bibliography List

Topic	Sources/References	Short Description
The concept of Financing with Sharia principles and legal aspects in providing Financing to PT. Bank Rakyat Indonesia (Persero) Tbk. Sharia branch office in Semarang.	Fiqh Muamalah, Financing in Sharia Banking	The discussion on the types of Sharia Financing Products includes: Murabahah, Mudharabah, Musyarakah, Ijarah, and Istisna.
Economic Growth From An Islamic Perspective	Sustainable Economic Growth Strategy in Islamic Perception	According to an Islamic perspective, economic growth theory emphasizes the importance of maintaining a balance between economic improvement, and moral and social values, to achieve sustainable, fair, and responsible growth
Mechanism for Determining Murabahah Financing Margin in Sharia Financial	Analysis of the Mechanism for Determining the Profit Margin of Murabahah Financing of	Stating that the murabahah contract is carried out by setting the selling price of goods

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Institutions	Sharia Financial Institutions (LKS)	consisting of the cost of goods and profit margins that are agreed upon transparently
The Influence of Islamic Financial Instruments on Indonesia's Economic Growth	Islamic Banking and Economic Growth: the Indonesian Experience.International Journal of Islamic and Middle Eastern Finance and Management.	Sharia financing instruments such as zakat, corporate sukuk, and government sukuk have a significant positive influence on Indonesia's economic growth in the long term.
The Influence of Sharia Banks on Economic Growth in Indonesia	The role of Islamic banking in Indonesia's economic growth, Analysis of the contribution of Islamic banking to Indonesia's economic growth.	The increase in Sharia financing encourages real-sector economic activity which ultimately increases economic growth.
The Impact of Sukuk Performance on Economic Growth in ASEAN Islamic Countries	The Economic Performance of Selected Sukuk Issuing Countries. International Journal of Communication, Management and Humanities.	Sharia financing through sukuk has a positive and significant impact on economic growth in Indonesia and Malaysia. Sukuk is an alternative funding that supports the Islamic capital market and economic growth. However, in Brunei Darussalam, the influence of sukuk is not significant due to other economic factors that are more dominant. Overall, sharia financing plays an important role in driving economic growth in Muslim-majority countries.

METHODOLOGY

This research employs a library research methodology, which systematically relies on the comprehensive collection and analysis of secondary data obtained from a wide range of authoritative literature sources. The materials used in this study include classical and contemporary books on Islamic economics, peer-reviewed scientific journals, academic articles, policy reports, and official documents issued by international institutions and national authorities. These sources were selected based on their relevance to Sharia finance, economic growth, and sustainable development, particularly in the context of Muslim countries in Asia and the Sustainable Development Goals (SDGs) [21].

A qualitative research approach is adopted to enable an in-depth exploration of concepts, principles, and dynamics underlying the relationship between Sharia financing and economic growth. This approach is suitable for examining normative frameworks, ethical foundations, and institutional practices of Islamic finance, which cannot be fully captured through purely quantitative methods. The qualitative design allows the study to contextualize Islamic financial practices within broader development discourses, including SDG-oriented development strategies such as SDG 8 (Decent Work and Economic Growth), SDG 1 (No Poverty), and SDG 10 (Reduced Inequalities) [22].

Data analysis is conducted using a structured content analysis technique, which follows several systematic stages. The process begins with the identification and formulation of specific research problems related to the role of Sharia finance in promoting inclusive and sustainable economic growth. This is followed by the development of a comprehensive analytical framework that integrates Islamic economic theory, financial development concepts, and the SDGs framework. The final stage involves the application of a clear and coherent methodological structure to ensure analytical rigor and consistency [23].

The core activities of this research include extensive data collection through critical and comparative reading of selected literature, systematic recording of relevant arguments and empirical findings, and in-depth processing of library materials. Special attention is given to studies discussing Islamic financial instruments such as murabahah, mudharabah, musharakah, and ijarah, as well as their implications for financial inclusion, MSME development, and real-sector growth. These aspects are closely associated with SDG 9 (Industry, Innovation, and Infrastructure) and SDG 16 (Peace, Justice, and Strong Institutions), which emphasize institutional quality and sustainable economic systems [24].

This methodological approach is chosen for its ability to generate a comprehensive and contextual understanding of Sharia finance without requiring extensive fieldwork. Through careful synthesis of existing scholarship, this study seeks to explain the significance, implementation patterns, and challenges of Sharia financing in supporting economic growth from an Islamic perspective. Moreover, by linking Islamic financial principles with the SDGs, this methodology enables the identification of normative and practical pathways through which Sharia finance can contribute to sustainable development in Asian Muslim countries. Ultimately, the approach allows the researcher to explore diverse scholarly perspectives, identify recurring patterns and gaps in the literature, and provide a holistic assessment of Sharia financing as both an economic instrument and a moral obligation within Islamic teachings [24].

RESULTS AND DISCUSSION

Overview of Shariah Financing in Asian Muslim Countries

In recent decades, Islamic finance has grown rapidly in Asian Muslim countries. The foundation of this financial system is Islamic sharia, which prohibits investment in forbidden industries (haram), riba (interest), and gharar (extreme uncertainty). Many major Islamic financial mechanisms are widely used in various countries, including ijarah (rent), murabahah (buying and selling with profit margins), musharakah (capital partnerships), and mudharabah (profit sharing) [24].

One of the main centers of growth in the Islamic finance sector in Southeast Asia is Malaysia. To encourage the expansion of this industry, the Malaysian government and financial regulators, including Bank Negara Malaysia, have established strict laws and regulations. Because of this, Malaysia's Islamic finance market is still growing rapidly and offers a wide range of products, including Islamic capital markets, Islamic banking, and Islamic insurance (takaful). Malaysia is best known as a pioneer in the development of sukuk, or Islamic bonds, which attracted investors from all over the world [25].

With the largest Muslim population in the world, Indonesia has significant potential to advance Islamic finance. However, Islamic financial literacy and the lack of products that meet the needs of the general public continue to be major obstacles to the growth of this sector [26]. Through the establishment of a unique supervisory body and supportive rules, the Indonesian government, acting through the Financial Services Authority (OJK), has promoted Islamic financial inclusion. The trend of adoption of sharia financing in Indonesia is still growing, even though it is small in size compared to the conventional financial system.

Some Muslim regions in the Philippines and other Southeast Asian countries such as Brunei have also begun to create Islamic financial systems with more sophisticated restrictions. These regions provide inclusive financial options for local Muslims through the use of Sharia financing systems [27]. Despite progress, sharia financing in Asia still faces a significant number of obstacles, such as inconsistent regulatory requirements across countries, low public awareness and literacy of sharia products, and requirements for product innovation that better meets the demands of contemporary markets. Strategic opportunities to reach larger market sectors, especially young people, are presented by the development of sharia-based financial technology, or fintech.

In addition to serving as an alternative financial system, Islamic finance in Asia promotes economic progress while upholding social justice and expanding financial inclusion. Communities underserved by conventional banks benefit from the financial stability and economic empowerment generated by the principle of profit sharing and excessive risk avoidance [28].

Economic Growth Trends in Asian Muslim Countries

Over the past few decades, economic growth in Muslim countries in Asia has largely accelerated, while exhibiting diverse dynamics. Asia's largest Muslim countries, including Bangladesh, Pakistan, Malaysia, and Indonesia, have experienced steady GDP growth, although there are still ongoing structural problems. Research shows that the revival of Asia's Muslim economy has been greatly aided by the expansion of the Islamic financial sector, particularly Islamic banking. The industry promotes profitable economic and investment activities by supporting financial inclusion and offering alternative finance that is in line with Islamic teachings [29].

Increasing foreign and domestic investment, along with the use of information and communication technology (ICT), which increases the productivity and efficiency of economic sectors, is a further factor driving economic growth in Muslim countries in Asia [30]. Long-term economic growth is positively influenced by investments in health and education to improve the quality of human resources. Growth is higher in countries that can make the most of their population potential, or demographics [31].

The challenges of economic growth in a number of Muslim countries in Asia are still highly dependent on the natural resources sector, which is vulnerable to global price changes, which undermines the stability of economic growth. In many countries, political instability and weak institutional characteristics are major obstacles to achieving progress. Empirical research shows how important it is to improve institutional quality to drive sustainable economic growth [32], Social inequality and poverty are still major obstacles that need to be overcome so that economic growth can have a broad and inclusive impact [33].

Malaysia and Indonesia have relatively stable economic growth and are the centers of Islamic countries in Southeast Asia, leveraging the potential of the domestic market and the development of Sharia-compliant products [34], Pakistan and Bangladesh have relatively stable economic growth driven by the agricultural, manufacturing, and widow sectors, although there are some challenges in infrastructure and regulation. Gulf states such as Bahrain and Oman have relatively volatile economic growth due to their dependence on oil and gas, despite ongoing economic diversification efforts [35].

Policy changes that emphasize strengthening institutions, improving human resources, and utilizing technology have the potential to drive economic growth in Asian Muslim countries. Furthermore, the Islamic finance sector is expected to play a greater role in driving financial inclusion and profitable investments, which will support equitable and sustainable economic growth. According to a study by Naz & Gulzar, economic growth in Asian Muslim countries correlates positively with the existence and growth of Islamic banking [36].

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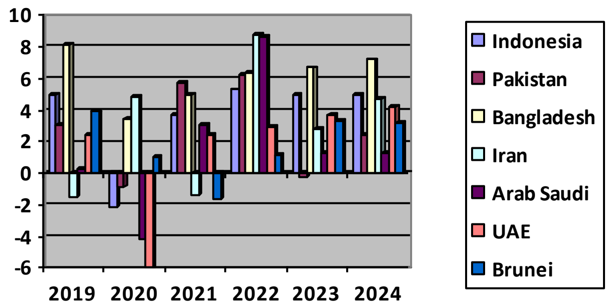

Figure 1. Economic growth graph in Asian Muslim countries in the last 6 years

Indonesia: Recorded stable growth of around 5% per annum, with a significant contribution from domestic consumption and mining sector investment.

Pakistan: Experienced sharp fluctuations, with contractions in 2020 and 2023, but expected to recover in 2024.

Bangladesh: Showing strong growth, despite criticism of the quality of its growth.

Iran: Affected by international sanctions, but showing recovery in 2022 and 2024.

Saudi Arabia: Growth is slow in 2024, influenced by oil production cuts by OPEC+.

UAE: Growth is expected to pick up in 2024 and 2025, driven by increased oil production and the tourism sector.

Brunei: Moderate growth, with a reliance on the energy sector.

The Influence of Sharia Financing on Economic Growth

Sharia financing has a significant influence on economic growth in Muslim countries. The Islamic financial sector offers a number of advantages over the conventional banking system, such as increasing financial inclusion, promoting economic stability, and meeting financing requirements while adhering to the idea of fairness [37]. According to empirical research, the Islamic financial sector and economic growth are positively correlated in a number of Muslim countries in the Middle East, Southeast Asia, and South Asia. According to research by Bakhita (2017) shows that Islamic finance, which is used in countries such as Malaysia and Indonesia, is essential to boost economic activity, reduce financial risks, and create jobs [38].

Islamic banking, which is based on sharia principles, helps create more stable capital flows and reduce the volatility often found in conventional financial systems. In a study by Grassa and Gazdar, they found that the development of Islamic finance has a positive effect on the economic development of the Gulf countries, particularly in terms of financing and investment that can reduce dependence on natural resources. By Islamic ethical values, they also show how Islamic financing contributes to the development of a more sustainable economic environment [39].

However, the challenge faced by countries developing Islamic financial systems is that reliance on monetary and fiscal policies that are not always consistent with Islamic values poses difficulties for countries trying to build Islamic financial systems. This can make it difficult to manage liquidity and meet the demands of the broader economy. Furthermore, although the industry is growing, some countries still lack the infrastructure and legislation necessary to sustain the Islamic financial sector [40]. Overall, the contribution of the Islamic finance sector to economic growth is still visible despite some difficulties in its development and implementation in Asian Muslim countries, which shows that the industry has the

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potential to play an important role in driving more sustainable and inclusive economic growth.

Comparison between Sharia and Conventional Financing Systems

A better knowledge of both systems and their impact on the economy can be obtained by comparing Islamic and conventional financing methods. In essence, the foundation of the Islamic financial system is different from the conventional system. Islamic finance places more emphasis on the concepts of justice, risk sharing, and the prohibition of usury and ambiguous transactions (gharar), or haram, than on the traditional system, which bases financial transactions on interest (riba). The structure of financial products is one of the key differences identified in comparative analysis. Islamic finance includes things like mudharabah (profit sharing), ijarah (rent), and murabahah (buying and selling with profit margins). These products aim to promote social and economic justice in addition to profit [41].

The fact that Islamic finance is usually more stable during financial crises is one of its benefits. This is because interest, which can cause financial instability, is not part of the Islamic financial system. Because of their exposure to interest-based assets, many conventional banks suffered significant losses during the global financial crisis, although Islamic banks were often more immune to such volatility [42]. Bank Islam prioritizes loans that support the real sector and avoid speculation, despite potential liquidity constraints.

However, the Islamic financing system faces some difficulties, particularly with regard to Islamic financial literacy and the incompatibility of the underlying financial market infrastructure. For example, many countries that have embraced the Islamic financial system still need to improve their legislation to support the creation of increasingly sophisticated products and ensure the stability of the sector. Although more established and offering a wide range of financial instruments, conventional financing systems often struggle with the problems of economic injustice and unequal distribution of income, which is contrary to the main purpose of Islamic financing.

On the other hand, conventional systems are more adaptive and can provide a wider range of funding options, particularly in highly competitive global markets. Conventional banks can expand internationally more quickly because they are better able to take advantage of technological advances and global financial products. However, according to a study by Zaher and Hassan, Islamic finance may be more accessible by concentrating on areas that require funding, such as small micro-enterprises, which are often overlooked by conventional banks [43].

Overall, there are advantages and disadvantages to both conventional and Islamic funding methods. While conventional systems offer greater flexibility and efficiency in managing financial portfolios, Islamic financing provides a fairer option that emphasizes social and economic principles. Therefore, many countries are increasingly adopting a dual strategy, which blends the best parts of both systems to build a more stable and inclusive financial system.

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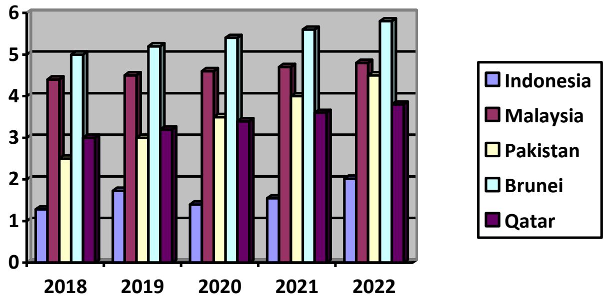

Figure 2. Chart of the Ratio of Mudharabah Financing to Total Financing in Asian Muslim Countries in the Last 5 Years

Indonesia: There has been a significant increase in the use of mudharabah contracts, from 1.28% in 2018 to 2.02% in 2022. This reflects the efforts of Indonesian Islamic banks in developing profit-sharing-based products.

Malaysia: The mudharabah contract remains the top choice in sharia financing, with a stable ratio in the range of 4.4% to 4.8% over the past five years.

Pakistan: There has been a significant increase, from 2.5% in 2018 to 4.5% in 2022, indicating a wider adoption of mudharabah contracts.

Brunei Darussalam: Shows high stability in the use of mudharabah contracts, with the ratio increasing slightly from 5.0% in 2018 to 5.8% in 2022.

Qatar: The use of mudharabah contracts increased gradually, from 3.0% in 2018 to 3.8% in 2022, reflecting increased awareness of the importance of profit-sharing-based financing.

This research utilizes a library research approach with qualitative methods and content analysis, which provides a systematic framework for understanding the relationship between sharia financing and economic growth in Asian Muslim countries. By not involving field data, this method can explore in depth the meaning, urgency, and challenges of sharia financing through relevant and valid literature sources. The analysis process is carried out critically with the stages of problem determination, preparation of theoretical frameworks, and data processing based on comprehensive scientific literature readings [44].

Preliminary findings show that sharia financing is experiencing rapid development in Asian Muslim countries, with Malaysia as a major pioneer. Malaysia has successfully developed various Islamic financial instruments, such as sukuk, Islamic banking, and takaful in a structured and innovative manner [45]. Indonesia also shows a positive trend despite facing obstacles in the form of low Islamic financial literacy and limited products that suit the needs of the community. Other countries such as Brunei and the Philippines have also shown gradual adoption of the Islamic financial system.

In terms of contribution to the economy, sharia financing has been proven to play a role in encouraging inclusive and stable economic growth. Asian Muslim countries that have successfully utilized this instrument have experienced increased access to finance, productive investment activities, and strengthened MSME sectors. In the long run, fairness-based financing and excessive risk avoidance create more resilient financial stability than conventional interest-based systems. However, the challenges that arise include the lack of uniformity of regulations between countries, limited supporting infrastructure, and the dominance of fiscal and monetary policies that are not fully in line with sharia principles. For this reason, the development of sharia fintech is a strategic step in reaching the younger generation and expanding the scope of services.

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Overall, Islamic financing is not only an alternative financial system but also an important means of sustainable economic development in the Asian Muslim world. This study strengthens the understanding that the integration of sharia principles in the financial system is able to encourage economic growth that is just, stable, and in accordance with Islamic values.

Table 2. Analysis

Research Methods	This research utilizes a library research approach with qualitative methods and content analysis, which provides a systematic framework for understanding the relationship between Sharia financing and economic growth in Asian Muslim countries, the preparation of theoretical frameworks, and data processing based on comprehensive scientific literature readings.
Purpose	To strengthen the understanding that the integration of sharia principles in the financial system can encourage economic growth that is just, stable, and by Islamic values.
Preliminary Findings	Sharia financing is experiencing rapid development in Asian Muslim countries, with Malaysia as a major pioneer. Malaysia has successfully developed various Islamic financial instruments, such as sukuk, Islamic banking, and takaful in a structured and innovative manner. Indonesia also shows a positive trend despite facing obstacles in the form of low Islamic financial literacy and limited products that suit the needs of the community. Other countries such as Brunei and the Philippines have also shown gradual adoption of the Islamic financial system.
Important Role	Sharia financing has proven to play a role in encouraging inclusive and stable economic growth. Asian Muslim countries that have successfully utilized this instrument have experienced increased access to finance, productive investment activities, and strengthened MSME sectors. In the long run, fairness-based financing and excessive risk avoidance create more resilient financial stability than conventional interest-based systems.
Challenge	lack of uniformity of regulations between countries, limited supporting infrastructure, and dominance of fiscal and monetary policies that are not fully in line with sharia principles.

The findings of this study indicate that Sharia financing has developed significantly in Asian Muslim countries and has become an increasingly important driver of economic growth, financial inclusion, and sustainable development. The expansion of Islamic finance in the region is closely linked to its foundational principles, which prohibit *riba*, *gharar*, and speculative activities, while promoting ethical investment, risk sharing, and real-sector engagement. These characteristics position Sharia finance as a financial model that is highly compatible with the Sustainable Development Goals (SDGs), particularly SDG 8 (Decent Work and Economic Growth), SDG 1 (No Poverty), and SDG 10 (Reduced Inequalities).

Malaysia stands out as a regional leader in Islamic finance, supported by strong regulatory frameworks and proactive government policies. The development of sukuk, Islamic banking, and takaful has strengthened capital mobilization and supported infrastructure and development projects, contributing to SDG 9 (Industry, Innovation, and Infrastructure). Indonesia, although still facing challenges related to Islamic financial literacy and product diversity, demonstrates substantial potential due to its large Muslim population and expanding MSME sector. Sharia financing in Indonesia has played a crucial role in supporting micro and small enterprises, which are central to employment creation and inclusive economic growth. Similar trends are observed in Brunei Darussalam and Muslim regions of the Philippines, where Sharia-compliant financial systems have enhanced access to finance for underserved communities.

Economic growth trends across Asian Muslim countries further highlight the relevance of Islamic finance. Countries such as Indonesia, Malaysia, Pakistan, and Bangladesh have experienced relatively stable GDP growth, supported by increased investment, technological adoption, and human capital development. Islamic banking contributes to these outcomes by providing alternative financing channels that reduce excessive risk and promote productive investment, aligning with SDG 16 (Peace, Justice, and Strong Institutions) through improved financial governance and stability. However, reliance on natural resources, institutional weaknesses, and political instability continue to hinder sustainable growth in several countries, underscoring the need for stronger institutions and diversified economies.

The comparative analysis between Sharia and conventional financing systems reveals that Islamic finance tends to be more resilient during financial crises, as it avoids interest-based speculation and emphasizes asset-backed transactions. While conventional finance offers greater flexibility and a wider range of instruments, it often exacerbates income inequality, which contradicts the objectives of sustainable development. Sharia financing, by contrast, prioritizes social justice and inclusivity, making it particularly effective in supporting MSMEs and marginalized groups. Despite its positive impact, the development of Islamic finance in Asia faces challenges, including regulatory inconsistencies, limited infrastructure, and misalignment between fiscal and monetary policies and Sharia principles. Addressing these challenges through regulatory harmonization, financial literacy programs, and Sharia-based fintech innovation is essential to enhance the contribution of Islamic finance to the achievement of the SDGs and long-term sustainable economic growth.

CONCLUSION

Sharia financing in Asian Muslim countries has demonstrated substantial development and plays a crucial role in promoting regional economic growth while supporting the achievement of the Sustainable Development Goals (SDGs). Despite persistent challenges—such as regulatory fragmentation, limited Islamic financial literacy, and insufficient product innovation—Sharia finance offers a more inclusive and equitable alternative to conventional financial systems. Its foundational principles align closely with several SDGs, particularly SDG 1 (No Poverty) through enhanced financial inclusion, SDG 8 (Decent Work and Economic Growth) via productive investment and risk-sharing mechanisms, SDG 9 (Industry, Innovation, and Infrastructure) through support for real-sector development, and SDG 10 (Reduced Inequalities) by expanding access to finance for underserved communities. Empirical evidence indicates that Malaysia has emerged as a leading Islamic finance hub due to strong institutional support and coherent regulatory frameworks, while Indonesia, as the world's largest Muslim-majority country, exhibits significant growth potential despite ongoing challenges related to infrastructure, product diversification, and market penetration. Other Southeast Asian economies, including Brunei Darussalam and Muslim regions in the Philippines, have also initiated the development of Sharia-compliant financial systems, contributing to broader regional progress toward sustainable development. Sharia financing positively affects financial inclusion and economic stability through profit-and-loss sharing principles that reduce excessive risk and speculative behavior. Its contribution to economic growth is particularly evident in countries such as Indonesia, Malaysia, and Pakistan, where Islamic finance supports more stable capital flows, reduces dependence on extractive sectors, and strengthens resilience against financial shocks—an outcome consistent with SDG 16 (Peace, Justice, and Strong Institutions). Although limitations remain, especially in harmonizing fiscal and monetary policies with Sharia principles, the overall economic contribution of Islamic finance is significant. Comparative analysis shows that while both Sharia and conventional systems have strengths and weaknesses, Sharia finance places greater emphasis on social justice, ethical investment, and crisis resilience. By adopting a complementary dual-financial-system approach, Asian Muslim countries can strengthen financial stability, accelerate SDG achievement, and build a more sustainable and inclusive economic system.

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Author Contribution

The author solely contributed to the conceptualization, theoretical framework, literature review, data interpretation, and writing of this manuscript. The author also integrated the SDGs perspective into the analysis of Sharia finance and economic growth, revised the manuscript critically, and approved the final version for submission and publication.

Conflicts of Interest

The author declares no conflicts of interest regarding the publication of this study. The research was conducted independently without any commercial, financial, or institutional relationships that could be construed as influencing the research outcomes, interpretations, or conclusions presented in this article.

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