

# The development of Islamic economics in the Malay Lands: a historical study and economic practice

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<https://doi.org/10.46367/iqtishaduna.v14i1.2529>

**Received:** Apr 21, 2025. **Revised:** Jun 17, 2025. **Accepted:** Jun 20, 2025. **Published:** Jun 26, 2025.



## Abstract

**Purpose** – This study aims to examine the historical development of Islamic economic civilization in the Malay Lands and analyze how Islamic economic values and institutions are applied in the socio-economic practices of local communities. **Method** – Using a descriptive qualitative approach and library research methods, this study traces historical sources, classical manuscripts, and scientific literature that discuss the Islamic economic system in regions such as the Sultanates of Malacca, Aceh, Johor, and Kedah. **Findings** – The study results show that the Islamic economic system has been firmly integrated into the social structure of Malay society through the practices of zakat, waqf, baitul mal, and Islamic trade ethics based on justice and social welfare. These institutions are not only mechanisms for distributing wealth but also act as instruments of da'wah and strengthen public morals. However, the main obstacles to revitalizing the system are modern challenges such as secularizing the economic system, limited sharia regulations, and the dominance of the capitalist model. **Implications** – The implications of this study emphasize the importance of the reconstruction of Islamic economics that is not only normative but also contextual and operational to be able to answer the needs of contemporary society sustainably.

**Keywords:** Islamic economics, Malay, historical, economic practices.

## Introduction

Islamic economic civilization in the Malay Lands reflects the complex interaction between the theoretical heritage of Islam, the practical application of sharia economic values, and the dynamics of historical and contemporary challenges (Sari, Jannah, and Sahrial 2024). Throughout history, the Islamic economic system has significantly contributed to Malay society's social structure and economic governance, mainly through practices such as zakat, waqf, ethical trade, and sharia-compliant property ownership. However, in the modern context, especially amidst the pressures of globalization and the penetration of the capitalist economic system, the existence and effectiveness of Islamic economics face new challenges both conceptually and in terms of implementation.

Islamic economics is a system rooted in the Qur'an and Sunnah, which emphasizes the principles of justice, balance, and equitable distribution of wealth (Tahir 2017). In Malaysia and the wider Malay region, the development of Islamic banking and financial institutions has shown a positive relationship with economic growth, especially after regulatory reforms that strengthened the legal and institutional infrastructure (Yusof and Lee 2020). This system carries a spirit of moral economy that differs from the conventional approach emphasizing profit maximization. Islamic economics' main pillars are social welfare, distributive justice, and eliminating exploitation (Ahmadi et al. 2024).



However, despite significant progress in Islamic economic theory and policy, significant gaps remain, particularly in the empirical application and integration of these principles into contemporary economic systems. Many studies are still normative or conceptual, while the lack of standardized instruments often hampers the practical application of Islamic economics at the community or country level, limited adequate regulation, and the dominance of conventional financial systems (Al-Jarhi 2013; Dayu, Harahap, and Nawawi 2024).

In Southeast Asia, including the Malay Archipelago, the main challenges in developing a modern Islamic economy include the complexity of laws and policies, limited public access to Islamic financial products, and low Islamic economic literacy among the public. In addition, there has been no complete mapping of how the role of the state, local institutions, and Muslim economic actors systematically contribute to building a sustainable and inclusive Islamic economic system (Tahir 2017). In this framework, there is an urgency to carry out an Islamic economic reconstruction that is not merely symbolic or an "Islamization" of conventional economic theory. This reconstruction includes formulating a new theory based on operational *maqashid sharia*, touching on concrete solutions to contemporary issues such as social inequality, poverty, unemployment, and resource exploitation. This direction aligns with the idea that Islamic economics must emphasize financial inclusion, structural justice, and the development of innovative financial instruments, thereby contributing to sustainable development goals (Dayu, Harahap, and Nawawi 2024).

On the other hand, applying Islamic economic values in a global system that is complete with capitalist interests is also not without challenges. Islamic economic practices often face a dilemma between moral idealism and market reality, as well as differences in interpretation of economic jurisprudence among scholars that cause a lack of integration of regulations and policies across countries (Ahmadi et al. 2024). Previous studies examining the development of Islamic economics are still limited, such as those conducted by Muda et al. (2004); Osman and Hamid (2006); Salleh (2014); Mahyudi and Aziz (2018); Amalia and Saefuloh (2021); Putra et al. (2023); Batubara et al. (2024). However, these studies do not specifically discuss the development of Islamic economics in the Malay lands. Therefore, this is the novelty of this study. This is where it is important to review the roots of Islamic economic civilization in the Malay Lands as a contextual and historical starting point. Studies on Islamic economic practices in the past can inspire how these values are applied culturally and structurally by Malay society in their daily lives.

This study aims to explore historically how Islamic economic civilization developed in the Malay Lands and how these values persist or change in the ever-evolving socio-economic dynamics. Much of Islamic economic literature focuses on the Middle East or contemporary approaches. The Malay world has a long history of implementing Islamic economic values, even before the colonial period. This study can provide a historical understanding of how Islamic economics has been culturally and systemically rooted in this region. Studies of Islamic economics have often ignored the local and historical context of regions such as the Nusantara, so this study adds to the richness of regional perspectives in the global Islamic economic discourse. The application of Islamic economics needs to consider the local socio-cultural context. This study can help bridge the gap between Islamic economic theory and reality in the Malay lands, thus producing a contextual Islamic economic model that is more acceptable to local communities and strengthening its implementation. Thus, this study not only seeks to fill the gap in historical literature but also contributes to developing a more empirical, applicable, and relevant Islamic economy today, especially in the Malay lands.

## Literature review

The study of Islamic economics globally has become an academic concern in the last few decades. The literature shows that globally, historical, institutional, and practical approaches are critical in understanding the dynamics of Islamic economic development in society in general. However, in the Southeast Asian region, especially the Malay Archipelago, the literature is still limited.

### *The concept of Islamic economic civilization*

Islamic economic civilization refers to a socio-economic system built on sharia principles, including material aspects and moral, social, and spiritual values (Hidayat 2023). Islamic economic civilization aims to create collective welfare through fair wealth distribution, exploitation elimination, and strengthening social solidarity (Mubarak, Taufikurrahman, and Panorama 2024). This aspect of civilization cannot be separated from the thinking of *maqāsid al-sharī'ah*, which includes the protection of religion, soul, mind, descendants, and property (Dusuki and Abozaid 2007). In the Malay region, Islamic economic civilization developed as part of Islamic preaching and the Islamic power system, especially through the Islamic Sultanate, which integrated the economy with Islamic values, for example, in the management of zakat, trade systems, and waqf practices (Azra 2004).

Islam entered the Malay lands through Arab, Persian, and Indian Muslim traders since the 12th century and gradually replaced Hindu-Buddhist influences in areas such as Kedah, Terengganu, and Sumatra (Roelofs 1970; Guillot 2020; M. U. Ismail, Ramli, and Zakaria 2022). This Islamization was not only religious but also included economic values. Muamalah practices such as fair trading, trust, prohibition of usury, and zakat began to be known. Muslim traders were known as agents of *da'wah* through ethical trade. Historical evidence of the Terengganu Batu Bersurat Inscription (1303 AD) contains Islamic law, including aspects of muamalah (Rahim et al. 2010).

The history of Islamic economics in Malay Land began with the spread of Islam through trade routes in the 13th century. Andaya dan Andaya (2001) noted that Malay sultanates such as Malacca, Aceh, Johor, Kedah and Brunei were maritime trade centers that adopted Islamic economic principles in their laws and social structures. One significant piece of historical evidence is the Melaka Law, which contains economic provisions based on sharia, such as the prohibition of usury and the regulation of buying and selling contracts (Zainal 2022). The Islamic government united political power and sharia law, including in the market, tax (*kharaj*), zakat, and waqf (IMF 1989). According to Azra (2004), the network of ulama that was formed between the Middle East and the Archipelago had a significant role in the spread of classical Islamic economic thought, including the concepts of zakat, waqf, and the role of *baitul mal* in the distribution of wealth. The Islamic scientific tradition of living in Islamic boarding schools and *surau* in Malay Land strengthens community-based Islamic economic practices (Salaeh 2023).

### *Islamic economic theory: basic principles*

Islamic economic theory is a framework of economic thought based on Islamic principles to realize social justice, shared prosperity and blessings in economic life (Al-Jarhi 2013; Tiran 2023). Islamic economics is not merely an interest-free financial system but a system built on justice (*adl*), welfare (*maslahah*), and social responsibility (Dusuki and Abdullah 2024; Darwis and Rahmah 2025). The main principles of Islamic economics include the prohibition of usury and exploitation, fair distribution of wealth through zakat and waqf, transparency and honesty in transactions, and a balance between individual needs and collective interests (Shafiq 2022). This model differs from conventional economics based on



profit-motive and rational efficiency because Islamic economics places spiritual and ethical values in every economic process (Iqbal and Mirakhor 2011).

Islamic economics is theoretically defined as a resource management system and wealth distribution based on sharia principles, namely the Qur'an, Sunnah, Ijma', and Qiyas (Chapra 2016). The main principles in Islamic economics include justice (al-'adl), balance (tawazun), social responsibility (mas'uliyah), and the prohibition of ribawi, gharar (uncertainty), and maysir (speculation). Tahir (2017) proposed the need for a reconstructive approach to understanding Islamic economics by building a new theoretical framework based on maqashid al-shariah, not simply Islamizing conventional economic theory. He emphasized that Islamic economics must be seen as a system of values and morals, not just a technocratic tool. Islamic economics has distinctive characteristics compared to conventional economics, namely that Islamic economics has the goal of pleasing Allah and common welfare; its motivation is worldly and hereafter; its practices are halal, free from usury, and ethical; distribution of wealth through zakat, infaq, and waqf; free market but supervised by morals and sharia law (Chapra 2016).

#### *The role of social institutions in Islamic economics: zakat, waqf, and baitul mal*

One of the characteristics of Islamic economic civilization is the role of socio-economic institutions such as zakat, waqf and baitul mal. Zakat and waqf are not only instruments of worship but also mechanisms for distributing wealth and empowering the community's economy (Hasbulah et al. 2022). Zakat is a mandatory instrument in Islam that functions as a wealth redistribution system (Razak 2020). Its economic objectives are to reduce social and economic disparities, help the poor and needy groups (asnaf), and encourage consumption and economic growth from the bottom. The socio-economic impact of zakat is to eradicate poverty and promote social justice (Zauro et al. 2020). Waqf is a voluntary donation of assets (usually immovable) for the public or religious interest (Shaikh, Ismail, and Shafiai 2017). Its economic objectives are to provide public services and become a source of long-term financing (productive waqf). The socio-economic impact of waqf is to improve the quality of life and empower the community sustainably (Elmahgop et al. 2025). In Malay, waqf is widely used to construct madrasas, mosques and other social facilities (Razak 2020).

Baitul mal is an Islamic financial institution that manages community funds (zakat, waqf, infaq, sadaqa, etc.) (Wulandari and Kassim 2016; Ascarya, Husman, and Tanjung 2023). Its economic objectives are to regulate the distribution of state wealth fairly and by sharia, as well as finance development and meet the community's social needs. The socio-economic impact of baitul mal is to realize the state's role as a protector of the people's economy and encourage collective welfare. Baitul mal, the state treasury in the classical Islamic system, manages sources of state income such as zakat, kharaj, jizyah and ghanimah. In Malay, baitul mal functions as a state tool to realize economic justice and is a source of sharia-based development financing (A. G. Ismail, Shafiai, and Ahmad 2022).

Several contemporary studies discuss the role of Islamic economic institutions such as zakat, waqf, and Islamic finance. Productive waqf is a strategic instrument in socio-economic development because it is non-commercial but sustainable (Ahmadi et al. 2024). On the other hand, zakat is an obligation of worship and an effective distribution mechanism if managed in a structured manner by the state zakat institution. In the review of Yusof and Lee (2020), Islamic banking in Malaysia positively contributed to macroeconomic growth, especially after the Islamic financial reform. However, Al-Jarhi (2013) highlighted that there is still a gap between the theory and practice of Islamic economics, especially because the models used are still trapped in an imitation approach to the conventional system.





### *Islamic economic ethics in Malay society practice*

Economic ethics in Islam refers to honesty (ṣidq), justice (adl), and trust in economic activities. In Malay society, these values are seen in the tradition of trading fairly, not raising prices unjustly, and upholding the blessings of good fortune. This ethical trade practice is part of cultural da'wah, strengthening Islamic identity in the people's economy (M. N. bin Mohamad and Ismail 2023). Concepts such as consensus, mutual assistance, and halal sustenance are local reflections of sharia values internalized in the economic culture of Malay society. Thus, economics becomes a rational practice and an expression of faith and social values. The Malay community, which is predominantly Muslim, has historically and culturally implemented Islamic economic values, both explicitly and implicitly, in their daily life practices. Islamic economic ethics have been rooted in the social and cultural practices of the Malay community (Solihin 2017). Despite the challenges of modernity, preserving and strengthening these values is essential to maintaining the integrity and balance of the people's economy.

### *Historical-transformational theory: Malay perspective*

A historical-transformational approach can be used to understand the Islamic economic civilization in the Malay Lands. This theory refers to an approach that examines changes in Malay society, culture, politics and economics from a dynamic historical perspective, namely changes that occur because of the interaction of various internal and external factors, as well as the ability of Malay people to adapt or transform their identity from time to time. Forming sultanates like Melaka is an important starting point in Malay transformational history. Interaction with Arab, Indian and Chinese traders brought new values such as Islam, administrative systems and maritime trade (Nugroho and Seng 2024). Islamization is not only a change in religion but also touches on the value system, politics and literature. The arrival of the Portuguese, Dutch, British and Japanese brought significant changes to the social and economic structure. The transformation occurred from the feudal system to the colonial system and capitalism. The Malay language experienced a change in function: from the language of the court and culture to an administrative tool and then a symbol of nationalism (A. N. A. Mohamad, Salleh, and Mohamad 2022). The 1957 constitution institutionalized the definition of "Malay" (Islamic religion, customs and language), cementing an identity that had been fluid throughout history (Ostwald and Subhan 2021). Urbanization and globalization challenged the traditional definition of Malay but also gave rise to a backlash in the form of "re-Islamization" or "cultural revival."

According to Azra (2004), Islamization in Southeast Asia, including the economy, went through a gradual process, from elite conversion and adaptation of local values to the formation of Islamic institutions such as the baptismal and sharia courts. The main challenges in developing Islamic economics in Southeast Asia are the complexity of regulations, weak public literacy, and the dominance of the global capitalist system. Dayu, Harahap, and Nawawi (2024) emphasize the need for innovation in Islamic financial instruments, such as green sukuk, digital zakat, and sharia fintech platforms, to expand financial inclusion. A model that combines Malay historical values with contemporary Islamic economic principles is needed in the local context. The relevance of classical thinking and contextual approaches is critical. According to Rahman (1979), a historical approach is needed so that Islamic economics does not lose its traditional roots but remains relevant in the context of the times. Therefore, the reconstruction of Islamic economics in the Malay Lands must start with a study of history, sociocultural structures, and existing institutional potential. This theory provides a framework for understanding Malays not as a frozen ethnic group but as an entity constantly developing, responding and adapting to changing times. This is important in understanding



how the Malay people build their identity from history through collision, adjustment and reinterpretation.

## Method

This study uses a descriptive qualitative approach with a library research method. Data sources are obtained from history books, journal articles, classical Malay manuscripts, and relevant colonial and institutional documents. The main object of this study is Islamic economic civilization in the Malay Land region, which includes areas such as the Sultanates of Malacca, Johor, Aceh, and Kedah from the 14th century to the early 20th century. Data were collected through document studies, manuscript analysis, and academic literature reviews discussing Islamic economics and its Southeast Asian civilization. The analysis was carried out thematically by emphasizing the relationship between Islamic economic values, historical context, and institutional applications in Malay society.

## Results and discussion

### *The beginning of Islamic economic civilization in Malay land*

Islamic economic civilization in Malay Land began in the 14th century, and Islam was introduced through trade routes. Through Muslim traders, Islam was introduced by Arab, Persian and Indian Muslim traders who traded in important ports such as Kedah, Perlak and Melaka. The arrival of Islam brought changes in terms of faith and culture and made a deep impression on the economic system and governance of Malay society. The Malacca Sultanate became the center for spreading Islam and introduced sharia economic practices into state policy. Baitul mal was established as an institution that manages state revenues from zakat, jizyah, and other taxes. The Melaka Sultanate was important in spreading Islam and implementing Islamic economic principles in administration. Islamic economic practices are also reflected in the Melaka Law, which regulates financial transactions based on sharia principles, such as the prohibition of usury and fair pricing. Islamic economic civilization in Malay Land cannot be separated from the Islamization process from the 13th to 15th centuries, along with the development of maritime trade routes in the Melaka Strait. In this context, Islam is not only embraced as a spiritual religion but also as a civilization system that touches on legal, political, and economic aspects.

The Malacca Sultanate (1400–1511) was an early example of an Islamic state that implemented law and economics based on sharia principles. The Malacca Laws contained trade regulations governing the ethics of muamalah, the prohibition of usury, provisions for sale and purchase contracts, and the mechanisms of zakat and sadaqah. This shows that Islamic economics has been formally institutionalized within the framework of classical Malay governance (Zainal 2022). Moreover, the Islamization of the economy was also strengthened by the role of ulama as moral agents who provided sharia legitimacy in economic activities. In the Malay tradition, the ulama were religious teachers and economic advisors to the sultan and traders. This strengthened the integration of Islamic values in daily economic transactions. These changes form the principles of Islamic economics, which combine sharia principles in trade, agriculture, muamalah and social relations activities. Like the Sultanate of Malacca, the Sultanates of Aceh, Johor and Perak also developed a more structured system of zakat, waqf and Baitul mal. Then, there is support for economic activities such as the spice trade, textiles and agriculture, which align with Islamic values. Islamic economic civilization in Malay Land did not emerge suddenly; instead, it developed through interactions between preaching, trade, and government (Sudarman et al. 2021). The arrival of Islam brought a new economic paradigm based on justice, balance and blessing, and formed a basic structure that is still influential in the economic development of Muslims in Malaysia and Indonesia today.



*Islamic economic institutions: zakat, waqf, and baitul mal*

Traditional Islamic economic institutions such as zakat, waqf, and baitul mal play an important role in wealth redistribution and poverty alleviation. In the Sultanate of Aceh, Sultan Iskandar Muda established a religious and economic institution based on waqf managed by the ulama. Zakat was collected by the local amil and distributed to eight mustahiq groups by sharia principles. The three pillars of Islamic economics, waqf, zakat, and baitul mal, have a central role in supporting the economy of traditional Malay society. Waqf, for example, is widely used to fund the construction of public facilities such as mosques, madrasahs, hospitals, and even road infrastructure. In the Sultanate of Aceh, the practice of waqf had been carried out systematically since the 17th century, even covering agricultural land and gardens, the results of which were channeled for education and da'wah (Azra 2004). Waqf has powerful roots in Islamic civilization in the Malay Lands. Since the 17th century, there has been evidence of land waqf in Aceh, Melaka, and Johor to finance the construction of mosques, madrasahs, and even public facilities such as bridges and markets. Waqf is transgenerational, where waqf assets may not be sold or inherited, but the proceeds are used for the community's welfare on an ongoing basis (Azra 2004).

Zuki (2012) states that productive waqf was introduced more systematically in the early 21st century, especially in property assets, gardens, and cash waqf funds. The Malaysian government has also developed a Corporate Waqf model through cooperation between waqf institutions and business entities to combine spiritual values with social and economic benefits. From an economic perspective, waqf can reduce people's dependence on public funds and create alternative financing for development. Tahir (2017) stated that waqf can be a source of social capital in the Islamic economic system because of its nature, which does not create a debt burden and does not seek personal gain. However, the literature also notes several significant challenges in waqf management in Malaysia and Indonesia, including asset legality, non-transparent administration, and lack of professional management. Therefore, institutional reforms that include digitalization, audit standardization, and multi-sector collaboration are needed to optimize the potential of waqf as a sharia economic instrument (Ahmadi et al. 2024).

Religious institutions and local rulers collect and manage zakat in the Malay Lands. The function of zakat is not only as personal worship but also as a mechanism for redistributing wealth from the rich to the poor. In a social context, zakat becomes a social safety net that reduces economic disparities between levels of society. Zakat in Islamic civilization in the Malay Lands is seen as an obligation of worship and a means of distributing wealth and a social safety net integrated into the sultanate government's structure. In ancient legal texts such as the Malacca Kanun Law and the Pahang Law, there are provisions regarding zakat fitrah, zakat on wealth, and the role of amil zakat, who are appointed directly by the sultan or local leader. This shows the systematization of zakat in the Malay Islamic state system (Zainal 2022). Ahmadi et al. (2024) emphasized that the social role of zakat is very large because it can reduce the gap between the rich and the poor, especially in agrarian societies. In Malay, zakat is also a form of moral legitimacy for rulers and social elites because it shows their social responsibility towards the people.

During the colonial period, the zakat collection system shifted to the personal realm because the British and Dutch colonial administrative systems weakened religious authority. However, in recent decades, Malaysia has pioneered re-institutionalizing zakat through the state zakat agency, which is integrated with the country's fiscal and development systems. A study by Yusof and Lee (2020) noted that zakat in Malaysia is now distributed in cash through empowerment programs such as skills training, housing, and micro-business assistance (Zainal 2022). However, challenges still exist, especially regarding distribution efficiency and information transparency. The lack of zakat recipient data integration and overlapping

programs with other social institutions still need to be overcome (Dayu, Harahap, and Nawawi 2024). Baitul mal functions as a state financial institution that receives and manages sources of funds from zakat, kharaj, jizyah, and fai'. This institution reflects fiscal awareness within the sharia framework, prioritizing justice and public welfare. Unfortunately, formal documentation of the baitul mal system in colonial archives is limited, but Malay scholarly literature mentions its function as part of the Islamic administrative system. Zakat, waqf and baitul mal are the three main pillars of Islamic economics, which not only play a role in helping the needy but also act as catalysts for economic development based on Islamic values (Mohamed and Shafiai 2021). In Malay Land, all three have been rooted for centuries and are now increasingly relevant in developing an economic system that is fair, sustainable and has integrity.

### *Islamic economic ethics in Malay trade practices*

Ethics in Islamic trade emphasize honesty, trustworthiness, fairness, transparency, and social responsibility (Ahmad et al. 2023). One of the significant contributions of Islamic economic civilization in the Malay Lands is trade (Smolo 2024). Muslim traders in this region are widely known to have high moral standards. Malay Muslim traders are known for their integrity in transactions, which encourages the acculturation of Islamic culture through economic interactions. Principles such as the prohibition of usury, gharar (uncertainty), and maysir (gambling) are avoided in daily business practices (Rahmadani and Fajar 2024). The implementation of honesty in trade is prohibited from cheating on the scales, hiding defects in goods, or deceiving buyers. Trustworthiness, being responsible for assets, agreements and business contracts. Justice is not being oppressive or oppressive in buying and selling. Prohibition of usury: profits should not be obtained through exploitation of benefits (interest). Transparency, information about prices, quality and conditions of goods must be explained to customers. Unclear (gharar) or speculative (maysir) business transactions are prohibited. In practice, they avoid fraud, price manipulation, and hoarding of goods and prioritize mutually beneficial transactions.

Since the time of the Malay Sultanate of Melaka, Islamic principles have been integrated into the commercial life of society (Muslim, Mohamed, and Arham 2024). The values practiced by Malay Muslim traders reflect the influence of Islam (Setiawan 2023). The Malacca Maritime Law states that traders who cheat on measurements or scales may be subject to fines or penalties. Malay proverbs such as "honesty brings blessings" reflect this value. The loan or debt system in Malay society previously avoided the element of usury. Traders do not raise prices excessively in times of crisis due to the Islamic prohibition against ihtikar (selling goods to increase the price). The practice of bargaining is carried out fairly and thoroughly. There is no coercion in buying and selling; "ease is less" is the main principle. Muslim traders who reach the nisab will pay zakat on their profits, not only out of religious obligation but also as a form of social responsibility. This follows the principles of al-Ridha (willingness) and al-amanah (honesty) in fiqh muamalah (Chapra 2016).

This trade ethic builds trust between sellers and buyers and influences foreign trading partners, such as traders from India, China, and the Middle East. Religious conversions often occur through honest and open economic interactions. This proves that Islamic economics is not only commercial in purpose but also becomes a medium for preaching and civilization. Good trade ethics by Malay-Islamic traders became an effective medium for preaching. Many foreign people are attracted to Islam through civilized trade interactions. Trade also contributed to the expansion of the empire and the spread of Islamic influence to the archipelago. This ethic is still applied today through Sharia-based commerce, such as Islamic cooperatives and banking. Use Islamic sales and purchase contracts (murabaha, salam, istisna'). Codes of ethics in contemporary Muslim business include advertising honesty, halal-



haram, and corporate social responsibility (CSR). Islamic economic ethics in Malay trade proves that trade is a profit-making activity and a field for implementing Islamic values (Nordin et al. 2022). The traditional trading culture of Malay society - honest, fair and ethical - results from understanding that actual profit is not only worldly but also spiritual.

#### *Transformation and challenges of Islamic economic modernization*

Despite the decline during the colonial period, the revival of Islamic economics began in the 20th century, especially in Malaysia. However, challenges such as economic secularization, lack of Islamic economic literacy, and the dominance of the capitalist system remain obstacles. A contextual, inclusive, and sustainable reconstruction of the Islamic economic system is urgently needed. During the colonial period, Islamic economic institutions stagnated and even declined due to the implementation of the capitalist and secular colonial economic system. The function of zakat was shifted to the personal-spiritual realm, and the Western colonial administrative structure marginalized the waqf and baitul mal systems. As a result, the Islamic economic system that was previously the foundation of people's welfare weakened and shifted to European-style consumption and capital accumulation patterns.

However, since the end of the 20th century, especially in Malaysia, Islamic economics has been revived by establishing Islamic banks, takaful institutions, and sharia-based capital market instruments. These reforms show that Islamic economics can respond to contemporary challenges, such as social inequality, moral crisis in business, and the need for a sustainable economy. The transformation of the modern Islamic economy has characteristics such as Islamic banking, which is not based on benefits but on the use of contracts such as murabaha, mudharaba, and ijara. The Islamic capital market already has sukuk, sharia-compliant shares, and Islamic investment funds. Takaful (Islamic insurance) is based on the principles of *tabarru'* and mutual assistance. Productive waqf, investment in commercial projects, property, and education through waqf assets. Smart zakat, where zakat distribution uses AI, blockchain, and a national database system.

The challenge in the modernization process in Malay lands is the dualism of the economic system; countries in Malay lands often practice a dual economic system, namely conventional and Islamic systems running simultaneously. Islamic economics is sometimes just a 'label' without actual structural changes. Constraints on laws and policies: countries in the Malay region do not yet have a specific legal framework for Islamic financial institutions, and waqf still faces issues of legality, inheritance and administration. Due to a lack of expertise and innovation, there is still a misconception that Islamic economics is not competitive and dependent on conventional systems because of a lack of alternative exposure. Technology integration: Islamic fintech is still in its infancy in Malaysia; the challenge is to balance modern technology and sharia compliance (AI, blockchain, halal e-wallet).

However, the challenges faced are also not easy. The complexity of regulations, limited public literacy of sharia principles, and pressure from the global financial system are obstacles to the comprehensive implementation of Islamic economics (Dayu, Harahap, and Nawawi 2024). A systemic approach is needed that modifies conventional economics to "look Islamic" and builds epistemological and structural foundations based on Islamic values. The modernization of the Islamic economy is an important and ongoing process. It does not intend to change the basic principles of Islam but to adapt its implementation to current realities to ensure this system is relevant, effective and competitive. Although challenges still exist, the potential of Islamic economics as a just, sustainable and ethical system is increasingly being accepted in the Islamic and Malay worlds and globally.

### *Future directions towards the reconstruction of Malay Islamic economy*

The development of Islamic economics in the Malay Lands in the future must be directed at reconstruction sourced from local heritage and universal Islamic values. This is not merely adopting a modern Islamic banking system but also revitalizing traditional institutions such as baitul mal and waqf as solutions to contemporary economic problems, including poverty, financial access, and unemployment. Opportunities and future directions for the Islamic economy in Malay land can be implemented, such as opportunities for digitalization and Islamic fintech, with the emergence of digital Islamic financial applications: e-zakat, waqf chain, P2P sharia-compliant, blockchain for transparency in the distribution of zakat and fidia. Then, as in Malaysia, the government supports Islamic economics as the mainstream, not an alternative, the sharia inclusive index as a marker for the level of development of Malay lands. Building a sukuk and halal market. Islamic economics is recognized as a resilient alternative system, especially during financial crises. Social finance, smart zakat, and productive waqf can be developed more adaptively in a modern context. In addition, the government's role is crucial in creating a legal, regulatory, and educational ecosystem conducive to implementing the Islamic economic system (Tahir 2017).

The reconstruction of the Malay Islamic economy begins with fundamental reforms and policies regarding the integration of zakat, waqf and baitul mal in the economic foundations of the country and state in Malay land, as well as fiscal incentives for sharia-compliant companies and cooperatives. Revitalizing traditional institutions through waqf as a catalyst for development: education, affordable housing, modern agriculture and baitul mal as an investment agency for the people, not just a distribution of aid. The transformation of education and awareness through expanded Islamic economics modules in schools and universities and the iteration of Islamic finance for communities so that people are aware and choose the Islamic economic system. Use technology and innovation through Islamic fintech, blockchain zakat, digital waqf, and halal e-commerce market. Community economic empowerment through promoting Islamic cooperatives, group farming, and trade networks among Muslims and focusing on village and suburban economies to build local resilience.

### **Conclusions**

Islamic economic civilization in the Malay Lands is not only part of the intellectual and spiritual history of the Malay people but also manifests itself as a practical system that regulates economic activities based on the values of justice, welfare, and social balance. Through institutions such as zakat, waqf, and baitul mal, Islamic economics has contributed to governance that favors the people's interests. Since the 14th century, the influence of Islam on the economic system of the Malay people has been seen in trade practices, legal regulations such as the Malacca Law, and resource management based on sharia principles. Islamic economic ethics emphasize honesty, social responsibility, and fair distribution of wealth, which are the main differences from the capitalist economic system. Despite the progress in institutionalizing Islamic banking and finance in the modern era, there are still significant challenges in limited literacy, unintegrated policies, and the influence of conventional economic globalization. Therefore, a reconstructive and contextual approach to Islamic economics in this region is needed, involving local history as a basis for developing concepts and policies. By making Islamic economic civilization in the Malay Lands the focus of the study, this study seeks to fill the gap between normative theory and empirical practice while offering a new direction in building an Islamic economic system rooted in history but relevant to contemporary challenges.

This study has theoretical implications referring to the study's contribution to the development of science and academic discourse in Islamic economics and economic history. This study confirms that the Islamic economic system is not foreign but has been rooted in



Malay culture and civilization since the Sultanate era. Forming a narrative that the traditional Malay economy does not just have an Islamic culture but has an Islamic structure. Encouraging the expansion of the maqasid sharia framework in understanding the history and application of Islamic economics. This study has practical implications referring to how the results can be used in basic formation, education and economic development of the people. The discovery that the Islamic economic system had functioned effectively in Malay Land allowed the current policies (zakat, waqf, baitul mal) to be framed based on a valid historical heritage. Institutions such as waqf and baitul mal can be revived as contemporary economic instruments. This study can be used as a curriculum reference in history, Islamic economics, and Islamic civilization in schools and universities. This study outlines that the muamalah practice of the Malay community in the past could be a role model. Justifying mainstreaming Islamic economics in the country's development agenda based on Malay-Islamic identity.

This study has limitations, namely that it relies heavily on secondary sources which are not always explicit about Islamic economic practices. Many traditional Islamic economic documents in Malay Land are not systematically documented. The geographical scope is limited to regions such as Melaka, Aceh, or Johor-Riau, so it does not reflect the entire Malay Archipelago; this means that the analysis results may not be generalized for the entire region. Further research is needed to explore old Malay manuscripts, legal texts, trade letters, and baitul mal records as primary sources. Collaboration with national archives, museums and local Islamic heritage study centers is highly recommended. It is necessary to conduct further studies based on field studies on Islamic economic practices in Malay lands. Comparative studies must be conducted in other regional areas such as Sumatra, Java, Brunei, and Southern Thailand (Patani) to broaden the context and strengthen the findings.

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