

Economic Growth and Development from An Islamic Economic Perspective: A Literature-Based Conceptual Analysis

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Abstract

Macro economics is a branch of economics that studies the economy as a whole, focusing on factors that affect the entire system such as economic growth, inflation, unemployment, and government policies. Macroeconomics has two basic ideas: economic development and growth. Gross Domestic Product (GDP) growth, which represents the entire production of a country, is the main indicator of economic growth. On the other hand, economic development encompasses more areas, including improving people's living standards, their quality of life, and their general well-being. This study explores the differences between economic growth and development, the factors that influence them, and the impact of economic policies on the two concepts. This article uses a Literature review approach that is appropriate to the subject of discussion. An analysis of the literature shows that sustainable economic growth can improve quality of life, but inclusive economic development requires policies that support fairer distribution, better access to basic services, and community empowerment. Policy recommendations to encourage inclusive and sustainable economic development are also presented in this study. Sharia economics is an economic system based on Islamic principles and sharia law. The goal is to create an economic system that is fair, balanced, and brings benefits to all of humanity, not just profit-oriented..

Keywords: Economy, Growth, Development



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INTRODUCTION

The current condition of the sharia economy in Indonesia shows positive development and continues to grow. Indonesia is even ranked third in the Global Islamic Economy Indicator, outperforming several Middle Eastern countries. This growth is supported by an increase in Islamic financial literacy, an increase in Islamic financial assets, as well as great potential in various sectors such as social finance, halal industry, and the digital economy.

Economics is a social science that studies how individuals, firms, and societies manage scarce resources to meet their needs and wants, as well as how they interact in economic systems to produce, distribute, and consume goods and services.

The field of economics known as macroeconomics examines various economic phenomena, such as inflation, unemployment, economic growth, and government initiatives that have an impact on the domestic or global economy. Economic growth and economic development are two key ideas in macroeconomics. While there is often confusion between these two ideas, there is an important difference between them.

Macroeconomics studies the economy as a whole, including issues such as economic growth, inflation, unemployment, and economic policy. Economic growth and economic development are two key concepts that are often the focus of macroeconomic analysis. Although the two are often used interchangeably, they have important differences. Economic growth and development are two key concepts in macroeconomics that are often related but have significant differences.

Economic growth focuses on increasing output and income, while economic development more broadly, includes improvements in people's quality of life and well-being.

Data on the level of public understanding of the principles of sharia economics and Islamic financial products. For example, the Islamic financial literacy survey conducted by Bank Indonesia.

METHOD

Research methods are systematic ways used in research to collect, analyze, and interpret data to achieve research objectives. It involves structured scientific procedures, procedures, or measures to obtain valid and reliable data. The references used in this writing are papers related to sharia economics.

This research is a literature research whose material comes from literature sources, namely, Literature research through literature research. Library research is closely related to theoretical studies and other references to values, cultures, and norms that develop in the social situation being studied. This research is basically also called conceptual research or is a thought that cannot be separated from the philosophical approach of language analysis and conceptual analysis. Linguistic analysis is used to find the true meaning, while concept analysis is used to find keywords that represent an idea.

The research of this article uses descriptive analysis, which explains and clarifies the main research object of economic growth theory by considering the opinions of religious, cultural and economic experts, so that conclusions can be drawn. easier to understand. In contrast, deductive analysis can be used to draw conclusions, where all relevant information is extracted to arrive

at a particular conclusion. Depending on the objectives, topics and methodologies of the research, an interdisciplinary methodology called an approach is used. In other words, a problem is studied in two or more departments and the results are then presented as a complete comprehensive thesis. In this way, questions about the current economic situation are compared to Islamic economic theory.

RESULT AND DISCUSSION

Definitions, Characteristics, Formulas, and Examples

1. Economic Growth

Economic growth is an increase in the amount of production of goods and services in a certain period. The results of the production of goods and services are reflected in the value of a country's national income. Economic growth is characterized by an increase in the production of goods and services, an increase in per capita output, and changes in the economic structure (Sarahfina, 2024).

The sharia economy in Indonesia is showing positive growth. The State of the Global Islamic Economy (SGIE) report in 2023 places Indonesia in third place on the Global Islamic Economy Indicator (GIEI). In 2025, Islamic financial assets are predicted to reach IDR 3,157.9 trillion - IDR 3,430.9 trillion, showing significant growth.

In measuring economic growth, we can use 2 concepts of national income, namely *Gross Domestic Product* (GDP) or *Gross National Product* (GNP).

a. *Gross Domestic Product* (GDP)

GDP is a national income that calculates the production or income of all citizens in the country, whether Indonesian citizens or foreign

citizens. In Indonesian, GDP is referred to as Gross Domestic Product.

b. Gross National Product (GNP)

GNP is a national income that calculates the production or income of all natives living in a country or abroad. In Indonesian, GNP is referred to as Gross National Product.

Generally, developing countries use GDP to measure economic growth. Meanwhile, GNP is used by developed countries. This is in line with the following statement:

- 1) If GDP is greater than GNP, it is certain that a country is still in the developing stage. Because they still receive capital assistance from abroad.
- 2) If GNP is greater than GDP, then the country's economy is classified as developed. Because the country was able to invest its capital in neighboring countries.

2. Economic Growth Formula

1). Calculating Economic Growth with GDP

If Indonesia's GDP in 2016 was 50,000 billion, and in 2017 it was 55,000 billion, the rate of economic growth in 2017 is?

Known:

GNP_n = GNP tahun yang dicari

GNP_o = GNP tahun sebelumnya

$$\frac{GDP_n - GDP_o}{GDP_o} \times 100\%$$

$$\frac{55.000 - 50.000}{45.000} \times 100\%$$

$$\frac{5.000}{45.000} \times 100\%$$

$$= 11\%$$

2). Calculating Economic Growth with GNP

If Indonesia's GNP in 2018 was 80,000 billion, and in 2019 was 85,000 billion, the economic growth rate in 2019 will be?

Known:

GNP_n = GNP tahun yang dicari

GNP_o = GNP tahun sebelumnya

$$\frac{GNP_n - GNP_o}{GNP_o} \times 100\%$$

$$\frac{85.000 - 80.000}{80.000} \times 100\%$$

$$\frac{5.000}{80.000} \times 100\%$$

$$= 6,25\%$$

An example of economic growth can be seen in the development of industrial estates in several regions, such as the Jababeka Industrial Estate in Cikarang, West Java. PuloGadung Industrial Estate in Jakarta. KIIC Industrial Estate in Karawang, West Java. MM2100 Industrial Estate in Bekasi, West Java. Gresik Industrial Estate (KIG) in Gresik. Java Integrated Industrial and Port Estate (JIPE) in Gresik. East Kalimantan Industrial Estate in Bontang, East Kalimantan, and others.

In addition, the government is also aggressively encouraging MSMEs to produce more and more diverse products. MSME products in Indonesia are very diverse, covering various sectors such as culinary, fashion, handicrafts, and digital products. Examples include processed foods such as chips, packaged foods, beverages, to fashion products such as clothing, accessories, and bags. In addition, there are also MSME products in the field of handicrafts, herbal products, and even digital services and others.

3. Economic Development

Economic development is an increase in the GNP and GDP of a country, which is accompanied by changes in the quality of life and the equal distribution of people's income. From this understanding, it can be seen that the goal of economic development is not only concerned with the amount of state revenue, but also focuses on the welfare of the population (Sarahfina, 2024).

If economic growth can be measured by numbers, then economic development has 3 important indicators to measure its success, namely **Monetary Indicators**, **Non-Monetary Indicators**, and **Mixed Indicators**.

a. Indicator Monetary

Monetary indicators in economic development are seen from the increase in a country's per capita income. The way to calculate per capita income is to divide the amount of national income by the number of people in the country.

b. Non Moneter indicator

Non-monetary indicators in economic development consist of three aspects, namely:

- 1) **Life Expectancy** Figure, which is a benchmark for the government's performance in improving health development programs and nutritional adequacy.
- 2) **Infant Mortality Rate**, which is the number of babies who die before reaching the age of 1 year at a certain time per 1000 live births in the same time period.
- 3) **The Literacy Number**, is a benchmark for the success of the education system to introduce literacy skills. Literacy numbers range from 0 to 100. The higher the score, the more it is a sign that the education system in the country is already running effectively.

c. Mixed Indicators

Mixed indicators in economic development consist of two aspects, namely:

- 1) **The Core National Socio-Economic Survey (SUSENAS INTI)**, is an annual survey organized by the Central Statistics Agency (BPS) to look at the socio-economic conditions of the community. SUSENAS INTI is important data used for planning, monitoring, and evaluating economic development carried out by the government. In SUSENAS INTI, the data collected includes; levels of education, health, housing,

labor force size, family planning, crime, tourist travel, and access to mass media.

- 2) **The Human Development Index (HDI)** is data that explains how the population can access the results of development in obtaining income, health, and education. HDI is formed from 3 basic dimensions, namely age, knowledge, and standard of living. The Human Development Index (HDI) has several benefits. First, as a measure of success in efforts to build the quality of life of the population. Second, to determine the ranking or level of development of a country. Third, HDI is useful for evaluating government policies.

4. Factors Affecting Economic Development

The success of economic development in a country is influenced by 7 factors, namely Human Resources, Natural Resources, Science and Technology, Government System, Socio-Culture, Capital, and Political Conditions.

a. Human Resources (HR)

The country's economic development planning is highly dependent on human quality. Because, human resources are needed to process Natural Resources into something that has added value. In order to become a quality human resource, individuals must have expertise, high curiosity, always innovate, and be responsible.

b. Natural Resources (SDA)

Natural Resources include soil, climatic or weather conditions, forest products, mining products, and marine products. The abundant availability of natural resources facilitates the economic development process.

c. Science and Technology (Science and Technology)

If Natural Resources and Human Resources already exist, the country needs Science and Technology to process them. The more sophisticated the technology has, the greater the country's chances to advance. Through the use of science and technology, the state can produce more goods and services, quickly, easily, and provide benefits for the welfare of the people.

d. System of Government

Economic development is also influenced by the system of government. A country that adheres to a liberal system gives freedom to its residents in carrying out economic activities. This is related to the [economic system](#) that is applied. The economic system is divided into 5, namely Traditional, Command, Liberal, Mixed, and the Pancasila Economic System that applies in Indonesia.

e. Socio-Cultural

Socio-cultural values affect the development process. This value can be a driving or inhibiting factor. For example, the culture of mutual cooperation owned by the Indonesian people or the work ethic that is characteristic of Japanese society. On the contrary, Corruption, Collusion, and Nepotism (KKN) is certainly a slow development process.

f. Capital

Capital is very important in building a country's economy. Capital is needed to process raw materials, buy equipment, and build infrastructure. Capital can be obtained from the business actors themselves, the government budget, the private sector, or the assistance of foreign investors. The higher the capital owned, the faster economic development will reach the target.

g. Political Conditions

Politics and economic development are certainly interconnected. If the political conditions in a country are not good, such as experiencing wars or

coups, it will affect investors who want to invest in that country. On the contrary, good political stability will invite investors to invest their capital to invest.

Examples of economic development include: equitable access to education in remote areas, improvement of health services, construction of toll roads and modes of transportation, and other aspects directly related to people's lives.

5. Economic Growth Rate

Economic Growth Rate is a measure of how fast a country's economy grows in a given period of time, usually measured in percentages. Based on data from the Central Statistics Agency (BPS) at the beginning of 2025, Indonesia's economic growth rate in 2024 will be 5.03%. This growth shows that Indonesia's economy has increased significantly compared to the previous period. This growth also reflects an increase in the fourth quarter of 2024, which was 5.02% (y-on-y) and 0.53% (q-to-q).

- **Indonesia's economy grew 5.03% (C-to-C) / (cumulative growth):**

This means that Indonesia's economy as a whole has grown by 5.03% compared to the previous year.

- **Indonesia's economy grew 5.02% (y-on-y) / (year-on-year/year-on-year comparison) in Q4 2024:**

This shows that Indonesia's economy grew by 5.02% compared to the same quarter in the previous year.

- **Indonesia's economy grew 0.53% (q-to-q) / (quarter-to-quarter/quarter with the previous quarter of the same year) in Q4 2024:**

This shows that Indonesia's economy grew by 0.53% compared to the previous quarter.

6. Economic Growth and Development in Islamic

Economic growth and development in Islamic is a broad concept that emphasizes the improvement of the welfare of mankind, both materially and spiritually. Islamic emphasizes just, sustainable, and socially responsible economic growth, with principles such as justice, responsibility, and social justice.

Concept of Economic Growth and Development in Islam:

a. Economic Growth:

In an Islamic perspective, economic growth is not only about increasing production and income, but also about improving the quality of life and social welfare. Growth must be accompanied by justice, namely the fulfillment of basic needs of the community and an equitable distribution of income.

b. Economic Development:

Economic development in Islamic aims to improve the quality of life of the community as a whole, including social, cultural, and spiritual aspects, not just economic aspects. Sustainable and responsible development is essential to maintain a balance between human needs and natural resources.

Fundamentals That Support Economic Growth and Development in Islamic:

a. Tauhid

Economic growth must be based on the principle of monotheism, namely faith in one God and the unity of the ummah. This means that all economic activities must be aligned with Islamic values, such as justice, honesty, and social responsibility.

b. Rububiyyah

Allah is the Lord of the universe, including the economy. This means that humans must be responsible for the wise and sustainable management of natural and economic resources.

c. Khalifah

Humans are the caliphs (representatives) of Allah on earth, which means they are responsible for managing the earth and all its natural resources for the benefit of humans.

d. Tazkiyah

Self-purification (tazkiyyah) is essential to realize healthy and sustainable economic growth. This means that human beings must improve their moral, moral, and spiritual qualities in order to pursue not only material gains, but also the values of goodness and justice.

The following is a comparison table of conventional and sharia economic indicators:

1) Main Objectives

Conventional economics is oriented towards economic growth and maximum profits, often ignoring social and environmental impacts. Islamic economics emphasizes community welfare, equitable distribution of wealth, and environmental sustainability, as well as balanced economic growth.

2) The Function of Money

In a conventional economy, money is considered a commodity that can be traded for profit. In the Islamic economy, money only serves as a medium of exchange and should not be traded.

3) Interest (Riba)

Interest (riba) in financial transactions is prohibited in the sharia economy. Instead, a profit-sharing system (mudharabah, musyarakah) is used

that involves shared risks and benefits between the parties who provide capital and those who manage the capital.

4) Speculation

Conventional economics often involves speculation and derivative financial products. Islamic economics limits or prohibits irresponsible speculation and financial products that contain ambiguity (gharar).

5) Zakat

Zakat in the sharia economy is a religious obligation that functions as an instrument of wealth redistribution and helps the poor and needy.

6) Financial Transactions

Financial transactions in the sharia economy must be in accordance with sharia principles, avoiding riba, gharar, and maisir. Financial transactions in the conventional economy are not always tied to sharia principles.

CONCLUSION

Economic growth is a quantitative increase in output, while economic development is a qualitative improvement in the quality of life. Both are interrelated and play an important role in the economic survival of a country.

Economic growth and development in Islam is not only about material improvement, but also about improving the quality of life of society as a whole. Islam emphasizes the principles of justice, responsibility, and balance to achieve sustainable and responsible economic growth and development.

The fundamental difference between the concept of growth in Islamic and conventional economics lies in the philosophical foundation and goals to be achieved. Islamic economics emphasizes sustainable and equitable

growth, with the ultimate goal of achieving *falah* (the welfare of this world and the hereafter), while conventional economics is generally oriented towards purely economic growth, focusing on increasing Gross Domestic Product (GDP) and individual profits.

The practical implications of the development of Islamic finance include several important aspects for Islamic financial institutions, governments, and regulators. For Islamic financial institutions, this means increasing innovation of sharia-based products and services, as well as strengthening sharia governance and compliance. Governments and regulators need to strengthen regulatory frameworks, provide policy support, and improve Islamic financial literacy.

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