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# Comparative Analysis of Economic Growth in Countries Implementing Conventional Versus Islamic Financial Systems

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**ABSTRACT**

This research is motivated by the global economic growth that moves volatile and the vulnerability of the conventional financial system to the recession that hit the last few decades and the Islamic financial system that is still not well implemented in Muslim-majority countries. This study analyzes the comparison of economic growth for countries that implement Islamic and conventional financial systems. The sample is 10 countries with the largest Islamic financial assets and 10 largest countries that implement conventional financial systems. Independent t-test/Mann Whitney test is used for hypothesis testing. The results of this study show that there is no difference in economic growth for countries that apply Islamic and conventional financial systems. This is due to the relatively small size of the Islamic financial ecosystem and its incomplete implementataion in many Muslim-majority countries.

***Kata Kunci:***
*Pertumbuhan Ekonomi, Sistem Keuangan Islam, Sistem Keuangan Konvensional*

***ABSTRAK***

*Penelitian ini dilatarbelakangi oleh pertumbuhan ekonomi global yang bergerak fluktuatif dan rentannya sistem keuangan konvensional terhadap resesi yang melanda beberapa dekade terakhir serta sistem keuangan syariah yang masih belum diterapkan dengan baik di negara-negara mayoritas Muslim. Penelitian ini menganalisis perbandingan pertumbuhan ekonomi negara-negara yang menerapkan sistem keuangan syariah dan sistem keuangan konvensional. Sampelnya adalah 10 negara dengan aset keuangan syariah terbesar dan 10 negara terbesar yang menerapkan sistem keuangan konvensional. Uji hipotesis menggunakan uji t independen/uji Mann Whitney. Hasil penelitian ini menunjukkan bahwa tidak terdapat perbedaan pertumbuhan ekonomi pertumbuhan ekonomi negara yang menerapkan sistem keuangan syariah dan sistem keuangan konvensional. Pasalnya, ekosistem keuangan syariah masih kecil dan belum diterapkan dengan baik di negara-negara mayoritas Muslim.*

## INTRODUCTION

A growing skeptical paradigm states that Islamic Economics is solely for Muslims. The Islamic label has raised the prejudiced perception among some Western economists that Islamic Economics is not suitable to be applied in multicultural countries. Meanwhile, Islam itself is a Rahmatan Lil `Alamin religion that provides for the welfare of all people.

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The glory of Islamic civilization in the past has not been able to be repeated in the modern era. It can be seen in today's global economic system which is Western-oriented and has become the foundation of the economy in many countries, including in Muslim-majority countries (Jan & Asutay, 2019). The conventional economic system tends to be fragile, which can lead to a “Bubble Economic Effect”, where rapid economic growth can easily burst, resulting in economic turmoil (Martin & Ventura, 2012). Such conditions will continue to recur. Several economic bubbles have occurred in the last few centuries (Victor et al., 2016). Historical data shows that since the implementation of conventional economics in 1876, there have been at least fourteen recessions. Financial crises are accompanied by severe and prolonged economic downturns, high unemployment rates, and slow economic recovery, and there are always losers and winners (Askari & Mirakhor, 2015). This is because the conventional economic system is highly dependent on capitalist countries. This emerging recession has an impact on slowing and even negative economic growth. Here is the global economic growth for 2018-2022:

Figure 1: Global Economic Growth


Source: World Bank (2023)

In the last five years, global economic growth has fluctuated. A downward trend has been observed since 2019 and was further exacerbated in 2020 due to the COVID-19 pandemic. Improvement occurred in 2021 but was reversed again in 2022. This shows that global economic growth is fragile and can easily collapse. Several major crises in the international financial system such as those that occurred in East Asia, instability in the foreign exchange market, and crises that occurred in capitalist countries such as the United States were caused by easy access to credit which resulted in an increase in debt, especially short-term, which was the result of the absence of good risk analysis (Chapra, 2007).

The growing internationalization of Islamic finance will provide an additional boost to equity-based finance in the West. In other words, conventional finance and Islamic finance can begin to reinforce each other mutually (Askari et al., 2010). Over the past 30 years, Islamic finance has undergone tremendous expansion in asset size and diversification, the number of Islamic financial institutions, and geographical coverage (EL Tiby & Grais, 2015).

The Islamic financial system developed because of its basic principles. These principles are considered capable of solving the problems being faced by the global economic system (Javaid & ul Hassan, 2013). The first underlying principle is justice, this principle emphasizes equality in the receipt of benefits from financial transactions, which will create equitable distribution of wealth and opportunities in economic activities (Iqbal & Mirakhor, 2013). The next principle is the prohibition of usury and gambling, this principle can suppress financial crises and market volatility instability (Kayed & Hassan, 2011).

History shows that during the 1,300 years of Islamic leadership, the Islamic economic system was more resilient in the face of crisis (Chapra, 2008). Although there were frequent recessions, they were well anticipated. During the leadership of Umar bin Khattab, there was a famine, and Caliph Umar was able to ensure the welfare of his people (Jaribah, 2006). Even when conditions stabilized during the leadership of Amirul Mukminin Umar Bin Abdul Aziz, the Caliph of the Umayyad Dynasty sent a zakat collector to collect zakat in Africa to be given to the poor people there (Syalabi, 1994). However, no one was found to be eligible to receive the zakat.

This happens because the Islamic Economic system is built on the real economic system (Khan, 2020), (Choudhury, 2020), (Zulkhibri & Manap, 2019) which is far from gambling, usury, and speculation (Visser, 2019), (Hasan & Mollah, 2018). This Islamic economic system will boost the production of goods and services, leading to increased employment and greater economic stability in a country.

Historically it has been shown that Islamic Finance is more stable and resilient to crisis shocks (Amar et al., 2017), (Aziz, 2008), (Kohli & Sharma, 2010), (Eid & Asutay, 2019). However, its implementation in the lives of Muslims remains minimal. Islamic businesses in Muslim-majority countries are still underdeveloped. This is because governments in these countries have not fully focused on expanding the existing Sharia market and tend to adopt a 'Bottom Up' approach, relying on voluntary community initiative, which leads to slow progress. There is a lack of stimulation and commitment from governments to significantly develop Islamic finance (Akhter et al., 2009).

In addition, the immature Islamic economic ecosystem hinders the implementation of Islamic finance. The lack of synergy between the government and various parties in building the Islamic finance industry, along with the limited understanding of Islamic finance within the Muslim community has made Islamic finance a guest in its own house. The conventional financial system remains the primary choice for most Muslim communities and is applied across all sectors of the economy.

This study offers novelty by directly comparing the economic growth of countries implementing conventional and Islamic financial systems, using more up-to-date data that reflects the current global economic conditions. The study also examines how both systems respond to global economic dynamics, including financial crises, which have not been extensively discussed in previous literature. With a more in-depth empirical approach and quantitative analysis, this research provides a fresh perspective on the strengths and weaknesses of each system in promoting economic growth.

This research makes a significant contribution by offering insights that policymakers can use to choose or combine the most effective financial system for fostering sustainable economic growth. Additionally, the study can clarify how the Islamic financial system, often considered more stable and ethical, can serve as an alternative to the conventional financial system, especially in countries experiencing economic instability. These findings are also valuable for investors and financial institutions in understanding the different risks and opportunities between the two systems, offering better guidance in making financial and investment decisions.

## LITERATURE REVIEW

### Conventional Financial System

The concept of conventional finance focuses on the role of financial institutions in mediating between savings and investments, as well as the role of markets in resource allocation. Figures such as Adam Smith, who explained the principles of free markets in The Wealth of Nations, and John Maynard Keynes, who emphasized the importance of aggregate spending in monetary policy, have made significant contributions to this understanding. David Ricardo highlighted the role of financial institutions in international trade, while Milton Friedman developed monetary theory explaining the relationship between money supply and inflation. Additionally, Eugene Fama introduced the efficient market hypothesis, which states that asset prices reflect all available information. Together, the contributions of these figures form the foundation of conventional finance theory and its critical role in economic growth (Mitchell, 2014).

The Financial System is the link between the owners of capital and business actors. The financial system means the structure available in the economy to mobilize capital from various surplus sectors of the economy and allocate and distribute it to various sectors in need. The transformation of savings into investment and consumption is facilitated by the active role played by the financial system. Simply put, the financial system is a set of institutions (such as banks), instruments (such as securities, stocks, debentures, etc.), markets (such as money markets and capital markets, etc.) that are used to mobilize capital (Sharma, 2021). Conventional finance includes stocks, bonds, auto loans, housing, private debt, venture capital, and other financial instruments (Rifai, 2015).

### Islamic Financial System

The concept of Islamic finance is based on Islamic principles that emphasize justice, ethics, and social responsibility in economic activities. This system prohibits practices such as *riba* (interest), excessive speculation, and investments in industries are considered *haram*, such as alcohol and gambling. Figures like Muhammad Baqir al-Sadr, who developed modern Islamic economic thought, and Umer Chapra, who emphasized the importance of social justice in Islamic economics, have made significant contributions to the theory and practice of Islamic finance. Abdul Razak Al-Sanhouri is also recognized for his efforts in establishing the legal principles underpinning Islamic financial transactions. Together, the contributions of these figures form the foundation for the development and application of Islamic finance in various countries, promoting more inclusive and sustainable economic goals (Rexhepi & Ramadani, 2017).

Islam provides guiding principles, and establishes a set of rules, for all aspects of human life, including economic aspects (Iqbal & Mirakhor, 2011). However, one of the main contributions of Islam was to codify, systematize, and formalize traditional trade and business practices into a formal legal system of standardized contracts, leading to a trade law that was compatible with Islam (Iqbal & Mirakhor, 2011). Islamic finance applies Islamic law in financial and business transactions (Askari et al., 2009), (Ismail & Arshad, 2009). Islamic economics and finance refers to an economic and financial system that operates in accordance with Islamic principles and guidelines derived from the Quran (the holy book of Islam) and the teachings of the Prophet Muhammad (Zulkhibri & Manap, 2019). The basic principles of Islamic financing are built on the avoidance of interest (*riba*), *gharar* (uncertainty), *maisir* (transactions similar to gambling) and the prohibition of unauthorized businesses as stated in the Quran (Hasan & Mollah, 2018).

## Economic Growth

The first theory of economic growth is often associated with Adam Smith, a Scottish economist and philosopher, who presented his views in his famous book, The Wealth of Nations, published in 1776. In this work, Smith introduced the concept of the invisible hand and emphasized the importance of the division of labor, trade, and capital accumulation as the main drivers of economic growth. Adam Smith articulated several key points regarding economic growth, including the importance of the division of labor, which enhances production efficiency through worker specialization. He also emphasized the role of innovation and technological advancement in increasing production capacity. As a proponent of free markets, Smith believed that competition and the "invisible hand" of the market could optimize resource allocation and drive efficiency. Additionally, he viewed capital accumulation as a vital driver of growth, as investment in infrastructure and equipment enhances production capacity. Smith also recognized the benefits of international trade, where countries can specialize and mutually benefit from each other's outputs. Finally, he argued that economic growth generated by individual freedom and market activities contributes to the overall welfare of society while acknowledging the importance of equitable wealth distribution (Waterman, 2002).

The concept of Islamic economic growth according to Ibn Khaldun, as described in Muqaddimah, emphasizes the importance of the relationship between social, cultural, and political factors in influencing the economic growth of a society. Ibn Khaldun argued that economic prosperity depends not only on the accumulation of capital and resources but also on social solidarity (*'asabiyyah*), which creates stability and cooperation among members of the community. He observed that a nation's prosperity increases when there is social unity and effective leadership, while conflict and division hinder growth. Thus, Ibn Khaldun's view of economic growth is holistic, taking into account non-economic aspects that play a crucial role in fostering welfare and prosperity (Spengler, 1964).

Economic growth is characterized by an increase in the production of goods and services (output) per capita. The focus is on three aspects: process, per capita output and long run.

Economic growth is a process, not just a snapshot of the economy. The dynamic aspect of the economy, or how the economy develops or changes over time, is the focus of this section. (Boediono, 1999).

Economic growth is the periodic increase in the level of economic activity. Thus, annual comparisons of local revenues are required. Economic growth is a quantitative figure that describes the growth of the economy over a certain period of time compared to the previous year (Sukirno, 2017). Meanwhile, Kuznets explains that economic growth is the ability of a country to provide various goods and services to its population (Todaro, 2014). Such capacity building can be achieved through technology transfer and mechanical, institutional and philosophical adaptation to different circumstances.

Economic Growth can be measured by Gross Domestic Product (GDP). Gross Domestic Product or GDP is the most closely watched economic statistic because it is considered to be the best single measure of the welfare of society. This is because GDP measures two things at the same time: the total income of everyone in the economy and the total expenditure of the state to buy goods and services produced by the economy. The reason GDP can measure total income and expenditure is because for an economy as a whole, income must equal expenditure (Mankiw, 2021).

A well-developed financial system can contribute significantly to the process of economic development through three channels: First, through technical progress that can be achieved with the help of human and physical capital. Any increase in human and physical capital is provided by increased savings and investment. Second, economic development is highly dependent on the level of capital formation, in sufficient quantities and on favorable terms. Third, the financial system enlarges the market and increases the efficiency of the medium of exchange and thus helps economic development (Sharma, 2021).

## METHODOLOGY

### Population and Sample

The population in this study are all countries in the world totaling 195 countries. In determining the sample, the researcher used a non-probability sampling technique with a judgment sampling method, where the author chooses a research sample that is in accordance with the research objectives (Mudrajat, 2011).

While the sample in the study were 10 countries with the highest assets of Islamic financial institutions and the 10 largest countries calculated from Gross Domestic Product (GDP) that apply conventional financial systems. The samples in this study are as follows:

**Table 1: Research Sample**

| No | Countries that Implement Islamic Financial System | Countries that Implement Conventional Financial Systems |
|---|---|---|
| 1 | Saudi Arabia | United States of America |
| 2 | Iran | People's Republic of China |
| 3 | UEA | Japan |
| 4 | Qatar | Germany |
| 5 | Kuwait | United Kingdom |
| 6 | Bahrain | India |
| 7 | Turkey | France |
| 8 | Indonesia | Italy |
| 9 | Malaysia | Canada |
| 10 | Bangladesh | South Korea |

Source: World Bank (2023)

**Data Analysis Technique**

*Independent t-Test*

This test aims to determine whether two unrelated research samples have different mean values (Ghozali, 2020). This test is carried out by comparing the difference between the two average values with the standard error of the average difference between the two research samples.

Decision Making:

a) If the probability> 0.05, then $H_0$ is accepted or there are equal variants
b) If the probability <0.05, then $H_0$ is rejected or there are different variants

*Test Mann Whitney*

It is a non-parametric test used to measure the difference between two independent groups. The Mann Whitney test is another experiment for two independent populations that do not meet data normality and homogeneity. The Mann Whitney test is used as an alternative to the Independent t test.

*Normality Test*

Normality tests aim to identify extreme values in each observation, whether it is the highest extreme value or the lowest extreme value. Statistically, the significance of the normality test is measured using the Kolmogorov-Smirnov and Shapiro Wilk methods. If the Kolmogorov-Smirnov and Shapiro Wilk values are statistically significant, namely ≤ 0.05, it can be concluded that the observed sample data is normally distributed.

*Homogeneity Test*

Homogeneity test is one of the main assumptions in the t-test technique. If the data variance between sample groups is not homogeneous, the t-test results can be biased (Abdullah & Jogiyanto, 2015). The homogeneity test can be seen in the Levene value or its significance value. If the Levene value is significant (≤ 0.05), it can be concluded that the two sample groups have homogeneous variants.

## RESULT AND DISCUSSION

### Results

*Descriptive Analysis*

Descriptive analysis is a data analysis technique that focuses on describing the data that has been collected, without analyzing it. Descriptive statistics describe each economic growth in countries that apply the Islamic and Conventional System. Economic growth can be displayed as follows:

a) Economic Growth in Countries that Implement Islamic Financial System

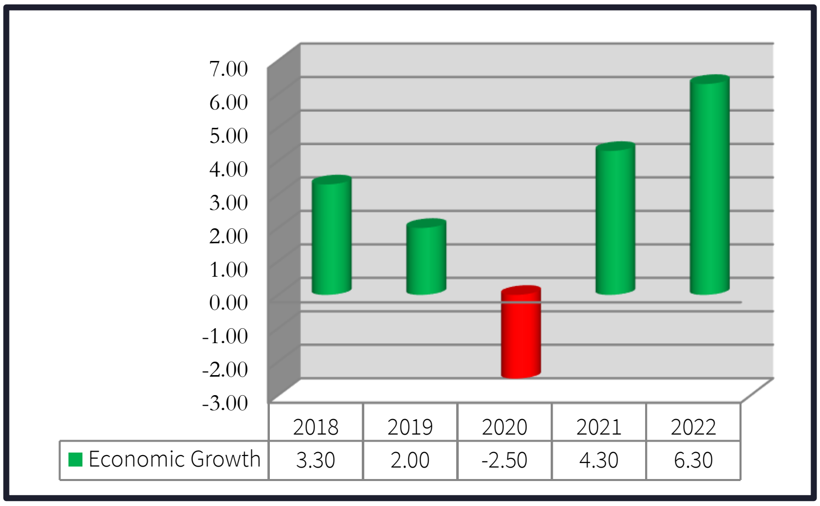
**Table 2: Economic Growth Countries Implementing Islamic Financial Systems**

| No | Countries | *Economic Growth* | | | | |
|---|---|---|---|---|---|---|
| | | **2018** | **2019** | **2020** | **2021** | **2022** |
| 1 | Saudi Arabia | 2,8 | 0,8 | -4,3 | 3,9 | 8,7 |
| 2 | Iran | 2,6 | -2,7 | 3,3 | 4,7 | 2,7 |
| 3 | UEA | 1,3 | 1,1 | -5,0 | 3,9 | 7,4 |
| 4 | Qatar | 1,2 | 0,8 | -3,6 | 1,6 | 4,8 |
| 5 | Kuwait | 2,4 | -0,6 | -8,9 | 1,3 | 8,2 |
| 6 | Bahrain | 2,1 | 2,2 | -4,6 | 2,7 | 4,9 |
| 7 | Turkey | 3,0 | 0,8 | 1,9 | 11,4 | 5,6 |
| 8 | Indonesia | 5,2 | 5,0 | -2,1 | 3,7 | 5,3 |
| 9 | Malaysia | 4,8 | 4,4 | -5,5 | 3,1 | 8,7 |
| 10 | Bangladesh | 7,3 | 7,9 | 3,4 | 6,9 | 7,1 |
| | Average | **3,3** | **2,0** | **-2,5** | **4,3** | **6,3** |
| | **Total Average** | | | **2,7** | | |

Source : World Bank (2023)

Based on the table above, it can be seen that the average economic growth in countries that apply the Islamic financial system in the last five years has moved positively and is above the average global economic growth which is only at 2.38%. Then to see the development of economic growth in countries that apply the Islamic financial system in 2018-2022, it can be seen in the following chart:

**Figure 2: *Trend* Economic Growth Countries Implementing Islamic Financial Systems**




Source: Processed by the author (2023)

Economic growth trends fluctuate. There was a significant decline in 2020, as the peak of the world economic downturn due to the COVID-19 pandemic. However, economic growth has shown a positive trend in the last two years. This shows a good ability to recover from the global economic downturn to be able to maintain this positive trend.

b) Economic Growth in Countries that Implement Conventional Financial System

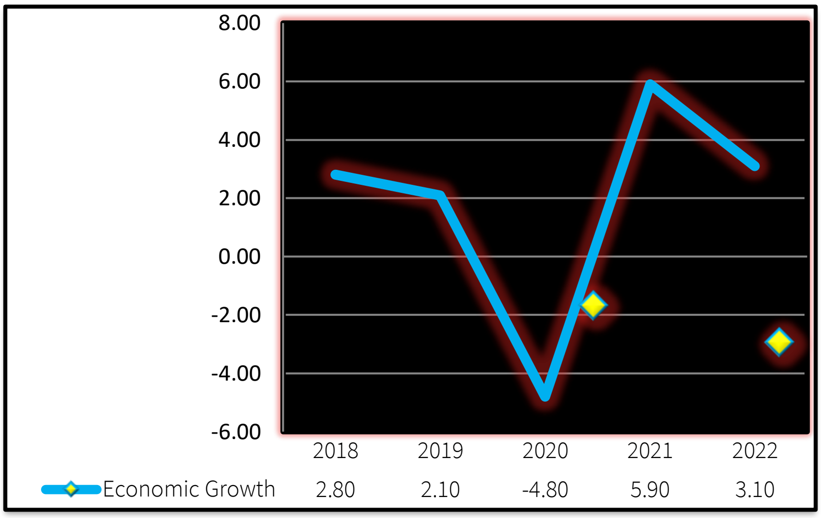
**Table 3. Economic Growth Countries Implementing Conventional Financial Systems**

| No | Countries | *Economic Growth* | | | | |
|---|---|---|---|---|---|---|
| | | **2018** | **2019** | **2020** | **2021** | **2022** |
| 1 | United States of America | 2,9 | 2,3 | -2,8 | 5,9 | 2,1 |
| 2 | People's Republic of China | 6,7 | 6,0 | 2,2 | 8,4 | 3,0 |
| 3 | Japan | 0,6 | -0,4 | -4,3 | 2,1 | 1,0 |
| 4 | Germany | 1,0 | 1,1 | -3,7 | 2,6 | 1,8 |
| 5 | United Kingdom | 1,7 | 1,6 | -11,0 | 7,6 | 4,1 |
| 6 | India | 6,5 | 3,9 | -5,8 | 9,1 | 7,0 |
| 7 | France | 1,9 | 1,8 | -7,8 | 6,8 | 2,6 |
| 8 | Italy | 0,9 | 0,5 | -9,0 | 7,0 | 3,7 |
| 9 | Canada | 2,9 | 1,9 | -5,1 | 5,0 | 3,4 |
| 10 | South Korea | 2,9 | 2,2 | -0,7 | 4,1 | 2,6 |
| | Average | **2,8** | **2,1** | **-4,8** | **5,9** | **3,1** |
| | **Total Average** | | | **1,8** | | |

Source: World Bank (2023)

Based on the data above, it can be seen that the economic growth of countries that apply conventional financial systems has grown positively in the last five years. However, the average growth is still below the average global economic growth of 2.38%. Then to see the development of economic growth in countries that apply conventional financial systems in 2018-2022, it can be seen in the following chart:

**Figure 3: *Trend* Economic Growth Countries Implementing Conventional Financial Systems**




Sumber: Processed by the author (2023)

The trend of economic growth fluctuates. In 2020, economic growth declined significantly by -4.80%. Although it had improved in 2021, the positive trend was unable to survive in 2022. This shows that there is a slow recovery process from the downturn that occurred in 2020 and is very unstable. This shows the vulnerability to recession and the slower recovery process experienced by countries that implement conventional financial systems.

*Data Analysis*

a) Data Normality Test (*Kolmogorov Smirnov/Shapiro-Wilk*)

The Kolmogorov-Smirnov one-sample test is used to test the normality of the data. The Kolmogorov-Smirnov test can determine whether the sample values used for the hypothesis testing are normally distributed. The normality criteria are based on the Kolmogorov-Smirnov (KS) non-parametric statistical test: if the Kolmogorov-Smirnov Z value ≤ Z-table, or if Asymp. Sig (2-tailed) > α, then the data is declared normally distributed. The following is a table of the Kolmogorov-Smirnov test results:

**Table 4: Kolmogorov Smirnov/Shapiro Wilk Test Results**

| | Kolmogorov-Smirnov[a] | | | Shapiro-Wilk | | |
|---|---|---|---|---|---|---|
| | Statistic | df | Sig. | Statistic | df | Sig. |
| Economic Growth | ,156 | 100 | ,000 | ,945 | 100 | ,000 |

a. Lilliefors Significance Correction

Source: Processing Results of *SPSS* 26.0 Version (2023)

Sekaran states that, if the Kolmogorov Smirnov test results, the Asymp. Sig (2-tailed) is greater than 0.05 (α = 5%, significant level) then the data is normally distributed (Uma Sekaran, 2017). If the research data is > 50, then what is seen is the Kolmogorov-Smirnov column.

Based on the data above, the probability from the Kolmogorov Smirnov test results shows that the variable is 0.000 which is less than 0.05, therefore, it can be concluded that the data is not normally distributed.

b) Homogeneity Test

Data variance must be equal, which is the second prerequisite for the independent t-test. Data variance can be tested using the Levene test. If the sig value> 0.05 then the data is assumed to have unequal variances. The following is a table of Levene Test results:

**Table 5: Levene Test Results**

**Test of Homogeneity of Variances**

| | | Levene Statistic | df1 | df2 | Sig. |
|---|---|---|---|---|---|
| Economic Growth | Based on Mean | ,005 | 1 | 98 | ,942 |
| | Based on Median | ,018 | 1 | 98 | ,892 |
| | Based on Median and with adjusted df | ,018 | 1 | 96,229 | ,892 |
| | Based on trimmed mean | ,015 | 1 | 98 | ,901 |

Source: Processing Results of *SPSS* 26.0 Version (2023)

Referring to the table above, it can be seen that the significance of 0.942> 0.05 so it can be concluded that it has the same variance, indicating that they are homogeneous.

For the independent t-test, the data must meet the requirements of normal distribution and be homogeneous (have the same variance), and the normality test results show that the data is not normally distributed. Then the Mann Whitney Non-Parametric Difference Test will be conducted.

c) Hypothesis Testing with Mann Whitney

This test is an alternative to the parametric test if the research sample does not meet the normality and homogeneity test. The α value used is usually 5% (0.05).

## Discussion

*Comparison of Economic Growth of Countries Implementing Islamic Financing and Conventional Financing*

**Table 6: Average of *Economic Growth***

***Group Statistics***

| | Financial System | Mean | Std. Deviation | Std. Error Mean |
|---|---|---|---|---|
| Economic Growth | Islamic Finacial System | 2,6720 | 4,10505 | ,58054 |
| | Conventional Financial System | 1,8160 | 4,31596 | ,61037 |

Source: Processing Results of *SPSS* 26.0 Version (2023)

Based on Table 6, the results obtained from the first part of the SPSS output show that the average economic growth of countries implementing the Islamic Financial System is 2.67> the economic growth of countries implementing the Conventional Financial System.

In absolute terms, it is clear that the average economic growth is different, but to see whether this difference is statistically significant it is also necessary to review the second part of the output, the Mann Whitney Test:

**Table 7: Man Whitney Test Result**

**Test Statistics**[a]

| | Economic Growth |
|---|---|
| Mann-Whitney U | 1087,000 |
| Wilcoxon W | 2362,000 |
| Z | -1,124 |
| Asymp. Sig. (2-tailed) | ,261 |

a. Grouping Variable: Financial System

Source: Processing Results of *SPSS* 26.0 Version (2023)

From the SPSS output, the probability/Sig is 0.261. Because the probability / Sig> 0.05, there is no difference in economic growth between countries that apply many Islamic financial systems and those that use conventional financial systems. This shows that there is no difference in economic growth between countries that apply the Islamic Financial System and Conventional Financial System. Although the average economic growth of countries that implement the Islamic financial system is better, the difference is not statistically significant.

This study reveals that there is no significant difference in economic growth between countries that implement conventional financial systems and those that adopt Islamic financial systems. For instance, GDP growth data from countries like Malaysia and Indonesia, which adopt Islamic financial systems, shows growth rates comparable to those of countries that implement conventional financial systems, such as the United States of America and the People's Republic of China. This concrete evidence indicates that both financial systems, whether conventional or Islamic, have a similar impact on economic growth, suggesting that the challenges faced by each system do not create significant differences in overall economic performance.

This insignificant difference is certainly linked to other micro and macro factors that influence the economic growth of a country. Micro factors that influence economic growth include the level of entrepreneurship, infrastructure, quality of Human Resources, and government policies (Saleh et al., 2020). Macro factors that influence economic growth include monetary and fiscal policies, global macroeconomics, political stability and security, and demographics, and the complex interaction of these factors forms a system that affects the level of economic growth of a country (Kostakis, 2014).

This is also inseparable from the small Islamic finance ecosystem in Muslim-majority countries. The connectivity between Islamic finance and economic activities is still low. Although economic activities in Muslim-majority countries, such as halal food, Muslim friendly travel, modest fashion, pharmacy and cosmetics, are sharia-based and have become the main preferences of the Muslim community, not all of them are financed through Islamic finance. This dilutes the distance between Islamic and conventional finance.

In addition, Muslim countries have not been able to utilize the enormous potential of the Islamic market, where currently Muslim countries are only able to become the largest consumers for the halal industry, not as producers. This can be seen from the great dominance of non-Muslim countries in the export of halal commodities, such as Brazil, India, and the United States which are the largest countries exporting meat to OIC (Organization of Islamic Cooperation) member countries. Likewise, the Muslim fashion industry is still dominated by China and India.

Muslim countries need to integrate every supporting component of Islamic finance so that the Islamic economic ecosystem will grow bigger. Muslim governments need to design regulations/policies and incentives to encourage the growth of Islamic finance. Utilization of philanthropy containers into productive assets that can boost the country's economy. In addition, the development of Islamic finance should begin with the smallest element of the economic component. This can be achieved by strengthening the capacity of Micro, Small, and Medium Enterprises (MSMEs) in the halal industry through improved access to capital, affirmative regulatory support, and program integration to enhance the sustainability of the Islamic industry.

Increasing the implementation of Islamic finance needs to be done through various efforts involving the government, financial institutions, communities, and other economic actors. The government needs to develop a clear and supportive regulatory framework for Islamic finance. In addition, efforts to educate and increase public awareness about the principles and benefits of Islamic finance are paramount. The capacity of Islamic financial institutions needs to be improved, one way is by developing innovative products and services so that the Islamic financial ecosystem will increase (Achsien & Purnamasari, 2016).

For Islamic finance to be well implemented there is also a need for better socialization of the principles of Islamic finance, strengthening with various regulations, and the community and financial institutions need to work together to promote understanding and adoption of Islamic financial products.

## CONCLUSIONS

Based on the interpretation and discussion of the research results above, it can be concluded that there is no difference in economic growth between countries that implement Islamic financial systems and those that implement conventional financial systems. This is because the Islamic financial ecosystem remains small and is not well implemented in Muslim-majority countries. The connectivity between Islamic finance and economic activities is still low. Although economic activities in Muslim-majority countries are Sharia-based, not all of them are financed through Islamic finance. So this dilutes the distance between Islamic and conventional finance.

The results of this study may not be generalizable to all countries implementing either conventional or Islamic financial systems. Each country has unique economic, cultural, and political contexts that can influence the analysis outcomes. Therefore, these findings are more relevant to the countries included in the sample and may not reflect conditions in other countries.

This study only covers the period between 2018 and 2022. This limitation means that the analysis does not consider long-term factors that may influence economic growth, such as changes in financial policies, political conditions, or other external factors that could impact the economies of the countries involved.

### Recommendation

Muslim countries need to integrate all supporting components of Islamic finance to expand the Islamic economic ecosystem. Muslim governments need to design regulations and policies, as well as incentives, to encourage the growth of Islamic finance. The utilization of philanthropic resources to create productive assets can boost the country's economy. Additionally, the development of Islamic finance should begin with the smallest elements of the economic component. This can be achieved by strengthening the capacity of Micro, Small, and Medium Enterprises (MSMEs) in the halal industry through improved access to capital, affirmative regulatory support, and program integration to enhance the sustainability of the Islamic industry.

Future research is advised to enhance generalizability by expanding the sample studied to include more countries from various regions and with different levels of economic development. By broadening the scope of the research, the analysis results can become more generalizable and reflect a wider range of conditions in the implementation of both conventional and Islamic financial systems. Additionally, employing a comparative approach between different groups of countries will provide richer insights into how economic, cultural, and political contexts influence economic growth. Furthermore, researchers should utilize a longitudinal approach that encompasses a longer time frame, as analyzing data over several years will enable them to better understand how long-term factors, such as changes in financial policies, political conditions, and global dynamics, impact economic growth. This approach will allow researchers to capture more complex trends and patterns, as well as causal relationships that may not be evident in short-term analyses

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