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The Role of Good Corporate in Enhancing the Resilience and Performance of the Islamic Economy Amid Global Economic Uncertanty : A Focus on Malaysia and Indonesia

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Abstract. *This study aims to analyze the role of Good Corporate Governance (GCG) in enhancing the resilience and performance of the Islamic economy amid global economic uncertainty, with a focus on Malaysia and Indonesia. In the context of an increasingly unstable global economy, particularly with the impacts of trade wars and market volatility, the application of strong GCG principles becomes crucial for the sustainability and development of the Islamic economic sector. This research employs the literature review method by analyzing various relevant studies on GCG, Islamic economics, and the challenges and opportunities faced by Malaysia and Indonesia. The findings indicate that effective implementation of GCG can strengthen the stability of the Islamic economy through better risk management, increased transparency and accountability, and enhanced investor confidence. In the context of Indonesia and Malaysia, the two countries with the largest Muslim populations in the world, GCG plays a significant role in driving the growth of the halal industry and reinforcing the Islamic financial sector, which serves as a mitigation tool in facing global economic uncertainty. This study is expected to provide new insights into the importance of GCG in building the resilience of the Islamic economy in Southeast Asia, particularly in Malaysia and Indonesia*

Keywords: GCG, Global Economic Uncertanty, Trade War, Halal Industry

1. Introduction

In recent decades, global economic uncertainty has posed significant challenges to various economic sectors, including the Islamic economy. Financial crises, trade wars, global pandemics, and geopolitical tensions have revealed the vulnerability of economic systems that lack a solid foundation in terms of good governance. Therefore, the concept of Good Corporate Governance (GCG) has become an important pillar in strengthening economic resilience and performance, including in the context of Islamic economics in Southeast Asian countries such as Malaysia and Indonesia. Global economic uncertainty encompasses various challenges, including economic recession, energy price fluctuations, and financial crises that can affect economic stability. In facing this uncertainty, Islamic economics offers principles that emphasize balance, fairness, and sustainability, which can help mitigate systemic risks. On the other hand, GCG serves as a mechanism that ensures that these principles are applied consistently in every economic transaction. (Siddiqi,2021) Islamic economics, which emphasizes the principles of justice, transparency, and social responsibility, is often seen as a fairer and more sustainable alternative to conventional economics. In this context, the implementation of Good

Corporate Governance plays a vital role in maintaining the integrity and efficiency of Islamic financial markets, especially amid increasing global uncertainty. GCG, which includes strict supervision of corporate behavior, responsible leadership, and sustainable resource management, can help reduce the systemic risks faced by Islamic economic institutions.

Effective implementation of GCG can not only increase public confidence in the Islamic economy, but also encourage increased competitiveness and innovation. Malaysia and Indonesia, as two countries with rapidly growing Islamic banking sectors, face similar challenges in implementing good governance in their Islamic economies. Success in overcoming these challenges will depend largely on the extent to which GCG principles can be consistently applied across various institutions operating in the Islamic economy. GCG in Islamic financial institutions plays a role in ensuring that sharia principles are properly implemented, as well as ensuring that the operations and management of these institutions are transparent and accountable. This is increasingly relevant in conditions of global uncertainty that require institutions that can withstand various crises, be they economic, political, or social. (Abedifar, Mollah, & Al-Mazrooei, 2020)

Effective implementation of GCG can not only increase public confidence in the Islamic economy, but also encourage increased competitiveness and innovation. Malaysia and Indonesia, as two countries with rapidly growing Islamic banking sectors, face similar challenges in implementing good governance in their Islamic economies. Success in overcoming these challenges will greatly depend on the extent to which GCG principles can be consistently applied in various institutions operating in the Islamic economy. Malaysia, with its well-established Islamic banking sector, has set an example in the application of GCG in the Islamic economy. The country has strong regulations on corporate governance and transparency in the Islamic banking sector. On the other hand, Indonesia, despite its great potential in developing the Islamic economy, still faces several obstacles related to the legal infrastructure and business culture that support GCG principles. GCG can improve economic resilience by ensuring management that focuses on sustainability and fairness. Principles such as transparency, accountability, and social responsibility in GCG can create trust in the market, which in turn will improve economic performance. With good GCG, Islamic financial institutions are better able to manage risk and survive in times of crisis. (Hassan, 2020).

In addition to good governance, CSR also plays an important role in improving economic resilience. CSR in the context of Islamic economics does not only focus on profit, but also on social and environmental impacts. This is in line with the principle of maqashid syariah, which aims to achieve human welfare through sustainable and fair resource management. (Ariff & Kamaruddin, 2021). Malaysia has been a successful example in implementing GCG in the Islamic banking sector. The country has introduced various regulations governing good governance, including in Islamic financial institutions. This success is also supported by regulations that strengthen transparency and accountability in the Islamic financial industry. (Ismail & Ahmad, 2019). Indonesia, despite its great potential in developing the Islamic economy, still faces major challenges in implementing GCG. These obstacles include a lack of clear regulations and a business culture that does not support transparency and accountability. (Pramudya, 2020). However, several positive steps have begun to be taken, such as improvements in Islamic capital market regulations and increased awareness of the importance of GCG.

The implementation of good GCG will have a direct impact on the performance of financial institutions, both in terms of profitability and operational efficiency. Transparent and accountable GCG also increases public trust, which ultimately drives economic growth. (Sharma & Johri, 2018). In an uncertain economic environment, GCG serves as a tool for effective risk management. With strict supervision of asset and operational management, Islamic financial institutions can reduce potential losses caused by global market fluctuations. (Mustafa & Shamsuddin, 2020). Regulations that support GCG are essential to ensure that good governance principles are consistently applied across the Islamic economic sector. Malaysia has established a strong regulatory framework to support GCG in the Islamic banking sector, while Indonesia is still in the process of developing a better regulatory framework. (Hassan & Abdul Rahman, 2022). The application of GCG in the Islamic economy is not limited to the Islamic banking sector, but also covers other sectors such as Islamic insurance, Islamic capital markets, and other financial institutions. In each of these sectors, the application of good GCG principles can create a more transparent, accountable, and fair system. This will certainly have an impact on overall economic performance, both at the macro and micro levels.

2. Methods

This study uses a literature review method that aims to identify, evaluate, and synthesize relevant research on Good Corporate Governance (GCG) in Islamic economics, particularly in Malaysia and Indonesia. The literature analyzed includes journal articles, books, international agency reports, and other related publications published in the last five years. The literature search was conducted through databases such as Google Scholar, JSTOR, and ScienceDirect, focusing on articles discussing the relationship between GCG and the resilience of the Islamic economy.

3. Results and Discussion

3.1. The Role of Good Corporate Governance in Enhancing the Resilience of Islamic Financial Institutions

The results of this study indicate that the effective implementation of Good Corporate Governance (GCG) in the Islamic economic sector can improve the resilience of Islamic financial institutions, particularly in Malaysia and Indonesia. Good GCG can improve transparency, accountability, and risk management, all of which contribute to the financial resilience of Islamic financial institutions amid global economic uncertainty. Research by Hassan (2020) reveals that well-implemented GCG helps Islamic financial institutions manage risk better and strengthen their resilience during periods of global economic uncertainty. This shows that Islamic financial institutions that consistently apply GCG principles tend to be more resilient to global economic shocks, such as the financial crisis and the COVID-19 pandemic. In Malaysia, the successful implementation of GCG is reflected in the relative stability of the Islamic banking sector compared to the conventional sector during the 2008 global economic crisis and the COVID-19 pandemic.

On the other hand, Indonesia, despite its great potential in the Islamic finance sector, faces challenges in implementing consistent GCG. Although regulations are in place, effective GCG implementation in Indonesia is still limited by infrastructure that is not yet fully supportive and a lack of awareness of the importance of GCG among Islamic financial institutions. These findings are supported by Pramudya (2020), who highlights Indonesia's challenges in implementing GCG, which include lower awareness among industry players and a lack of supportive regulations. This shows that the Islamic finance sector in Indonesia has not yet fully adopted the GCG standards needed to improve economic resilience.

3.2. The Impact of GCG on Financial Performance During Global Economic Uncertainty

The study also found that the implementation of good GCG not only improves the resilience of Islamic financial institutions, but also has a positive impact on their financial performance. For example, in Malaysia, Islamic financial institutions that have strictly implemented GCG have shown more stable and better performance during global economic uncertainty. This is reflected in the results of research by Abedifar et al. (2020), which states that effective GCG implementation can improve financial performance by reducing volatility and improving risk management, which plays a role in increasing the resilience of Islamic financial institutions. This shows that financial institutions that implement GCG well are better able to manage risk and continue to make profits despite external shocks. Conversely, Islamic financial institutions in Indonesia that have not fully adopted GCG practices show greater performance fluctuations, especially during times of global economic uncertainty. Sharma & Johri (2018) also confirm that institutions with good GCG standards are able to survive and show positive performance amid economic crises.

3.3. Challenges and Opportunities in Implementing GCG in Indonesia

One significant finding from this study is that Indonesia still faces various challenges in implementing GCG properly. Although Indonesia has great potential to develop its Islamic economy sector, the implementation of GCG is still hampered by several factors, including weak legal infrastructure and low awareness among industry players of the importance of GCG. Research by Pramudya (2020) shows that the main challenges Indonesia faces in implementing GCG include a lack of understanding of the importance of good governance and suboptimal supervision by regulators. However, Indonesia also has opportunities to improve the implementation of GCG, such as by strengthening regulations and increasing awareness among Islamic financial industry players about the importance of transparency and accountability. Sharma & Johri (2018) note that strengthening regulations and increasing training on GCG will help Indonesia improve the governance of the Islamic economic sector and enhance its performance. However, Indonesia also has opportunities to improve the implementation of GCG, such as by strengthening regulations and raising awareness among Islamic finance industry players about the importance of transparency and accountability. Sharma & Johri (2018) note that strengthening regulations and increasing training on GCG will help Indonesia improve the governance of the Islamic economy sector and enhance its performance.

This study also highlights the importance of the relationship between maqashid syariah and GCG in the Islamic economic sector. Maqashid syariah, which aims to achieve human welfare through the principles of justice, balance, and sustainability, is very much in line with GCG principles that emphasize transparency, accountability, and social responsibility. Ariff & Kamaruddin (2021) show that the implementation of good GCG in the Islamic finance sector not only improves the performance of these institutions but also contributes to the achievement of maqashid syariah objectives, such as social justice, poverty alleviation, and community empowerment. This is important, considering that in Islamic economics, good financial performance is not only measured by profitability, but also by its impact on the social and economic welfare of the community. Therefore, the implementation of GCG that integrates the principles of maqashid syariah can create a more just and sustainable economic system. The successful implementation of GCG in the Islamic economic sector is highly dependent on existing regulations. In Malaysia, regulations supporting GCG in the Islamic banking sector are quite strong, enabling Islamic financial institutions to operate properly and stably. In Indonesia, although there are already several regulations governing this sector, the implementation of GCG is still hampered by a lack of supervision and uneven enforcement of regulations across Islamic financial institutions. Hassan & Abdul Rahman (2022) emphasize that clear regulations and strong supervision are essential to ensure that GCG principles are applied consistently in the Islamic economic sector.

4. Conclusions

This study aims to explore the role of Good Corporate Governance (GCG) in improving the resilience and performance of the Islamic economic sector, with a focus on Malaysia and Indonesia, in the face of global economic uncertainty. Through an in-depth literature review and relevant data analysis, this study finds that the effective implementation of GCG has a significant impact on the resilience of Islamic financial institutions, particularly in managing risk and maintaining stability amid the global economic crisis. As a country with a rapidly growing Islamic economic sector, Malaysia has demonstrated success in implementing GCG in the Islamic banking sector. Supportive regulations and a more established legal infrastructure have created a stable system in which Islamic financial institutions can better manage risk and strengthen public confidence in the sector. The results of this study reinforce the finding that the implementation of transparent and accountable GCG enables Islamic financial institutions in Malaysia to better withstand situations of global economic uncertainty, such as the 2008 financial crisis and the COVID-19 pandemic. On the other hand, Indonesia, despite its great potential in developing the Islamic economy, still faces greater challenges in consistently implementing GCG. One of the main challenges is the lack of clear regulations and suboptimal supervision from relevant authorities. This study shows that despite several policies and regulations that have been implemented, the implementation of GCG in Indonesia is still hampered by low awareness among industry players about the importance of good governance, as well as limitations in the legal infrastructure that supports the effective implementation of GCG principles.

However, this study also identifies significant opportunities for Indonesia to improve the implementation of GCG in the Islamic economy sector. By strengthening regulations and raising awareness of the importance of GCG, Indonesia can create a more transparent and accountable system, which in turn will increase the competitiveness and resilience of the Islamic economy sector in the country. Stricter policies and better supervision from regulators are essential to ensure that GCG principles are consistently applied across all Islamic financial institutions. In a global context, good GCG implementation not only leads to better financial performance but also supports the achievement of broader economic and social goals, in line with the principles of maqashid syariah. Sharia maqashid emphasizes the achievement of human welfare through the principles of justice, balance, and sustainability. The implementation of GCG in line with sharia maqashid in the Islamic finance sector helps create a system that focuses not only on profitability but also on broader social and economic impacts, such as community empowerment and poverty reduction. As part of GCG implementation, strengthening transparency and accountability in Islamic financial institutions plays a key role in improving economic performance and resilience. Success in managing risk, which is one of the main principles of GCG, helps these institutions remain stable and operational despite global economic turmoil. This study confirms that the application of good GCG principles in the Islamic economy sector is not only important for the sustainability of Islamic financial institutions, but also for creating a more equitable and sustainable economy, in accordance with the objectives of maqashid sharia.

One of the main findings in this study is the importance of regulations that support the implementation of GCG in the Islamic economy sector. In Malaysia, more mature regulations and stricter supervision by relevant authorities have enabled more effective GCG implementation. Meanwhile, Indonesia still needs updates in terms of regulations and supervision to create a more solid foundation for GCG implementation. Therefore, more supportive policies and increased regulatory capacity are very important to strengthen the Islamic economic sector in Indonesia. Finally, this study provides a clear picture of how the proper implementation of GCG in the Islamic economic sector can improve the resilience and performance of Islamic financial institutions amid global economic uncertainty. Although Malaysia has achieved a higher level of maturity in terms of GCG implementation, Indonesia needs to focus more on improving regulations and strengthening the capacity of regulators. With these steps, the Islamic economy sector in Indonesia can develop more optimally, promoting the achievement of more inclusive, fair, and sustainable economic goals, in line with the principles of maqashid syariah.

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