

RECONSIDERING MODELS OF ISLAMIC SUB-ECONOMY IN URBAN INDONESIA: DEVELOPMENTAL ETHICS OR NEOLIBERAL LOGIC?

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Reconsidering Models Of Islamic Sub-Economy In Urban Indonesia: Developmental Ethics Or Neoliberal Logic? Licensed Under a Creative Commons Attribution-ShareAlike 4.0 International License

Abstract

The study of the Islamic sub-economy in Indonesian cities typically links its expansion to middle-class ethical consumption and development-oriented religiosity. This article challenges that assumption by examining how Islamic moral norms translate into administrative standards, organizational procedures, and market instruments. Drawing on a qualitative analysis of multi-level regulatory and institutional documents on halal governance in Indonesia, the study investigates the institutionalization of halal values within urban economic spaces. Findings indicate that this institutionalization is driven less by consumer demand than by regulatory infrastructures that standardize, certify, and operationalize moral norms across economic sectors. Rather than acting as primary drivers, the urban Muslim middle class appears as a social group that receives, reproduces, and amplifies already-established norms. Based on these findings, the article offers a conceptual model of institutional hybridization: the four-layer hybridization model of the urban Islamic economy –comprising hybrid governance, organizational forms, urban spaces, and subjectivity. This model identifies a sequential mechanism of institutional transformation overlooked in previous studies. Religious values are thus understood not merely as organic ethical expressions but as products of institutional processes that simultaneously standardize, operationalize, and commodify morality within market-oriented governance arrangements. Documentary evidence further suggests the emergence of market-oriented governance rationalities, in which the language of ethical development serves as a source of institutional legitimacy. This study contributes to debates in Islamic political economy by shifting analytical focus from individual ethical consumption toward the regulatory infrastructures through which religious values are standardized, commodified, and circulated in contemporary urban Indonesia.

Keywords: Islamic sub-economy; institutional hybridization; market-oriented governance; ethical commodification; urban Indonesia

A. Introduction

To date, the expansion of the Islamic sub-economy in Indonesian cities has become increasingly apparent, especially since Indonesia once again ranked highest as the “Top Muslim Friendly Destination” in the Global Muslim Travel Index in June 2023 (Annur, 2023), an achievement that has been maintained since 2019 and demonstrates the country's success in mainstreaming halal tourism since 2014 through the Ministry of Tourism and Creative Economy. The growth of sharia hotels and the expansion of halal destinations from Aceh and Lombok to Jakarta, Yogyakarta, Malang, Lampung, and Makassar confirm that Islamic values are now embedded in urban infrastructure and everyday economic practices (Natalia, 2023). This pattern intersects with the dynamics of the post-reform Islamic market, which is characterized by increased consumption, aspirations for social mobility, and the search for quality of life among the Muslim middle class through “Islamized” products and services, ranging from halal certification, religious tourism, to an Islamic lifestyle combined with the ethos of productivity and self-improvement characteristic of Western management theory (Kailani, 2018). Based on this framework, the commercialization of religious attributes gained momentum because the state, industry players, and urban da’wah practitioners were all trying to reinterpret Islamic values to make them compatible with the modern economic system.

Despite these developments, a growing body of scholarship has increasingly approached the expansion of the Islamic economy through a relatively consistent analytical lens—namely, by linking its growth to the rise of Muslim consumer culture, halal standardization, and development-oriented ethical discourses operating within market-based rationalities. Within this cumulative debate, prominent scholars have raised important conceptual concerns regarding the extent to which Islamic economic expansion represents an alternative moral project or, instead, a religiously embedded response to market transformation. Kuran (2004), for example, notes that much of the discourse on Islamic economics and Islamic sub-economy—encompassing sectors such as halal industries, Muslim-friendly tourism, Islamic finance, philanthropic institutions, and urban Muslim lifestyle markets—tends to be merely rhetorical and couched in convincing moral language, but is not supported by a truly coherent development paradigm. In a more theoretical realm, Tripp (2006) shows that the Islamic moral economy is always in inherent tension with the rationality of modern capitalism because the two contain different visions of justice, welfare, and economic goals. On the other hand, Rudnycky (2010) reveals how the ethos of piety and spiritual motivation can be shaped into a tool to support neoliberal productivity, thereby blurring the line between prophetic values and managerial rationality. These findings resonate with the Indonesian context, where Salim (2003) notes that the idea of “Islamic development” is often presented normatively without adequate theoretical elaboration, while Fischer (2015) shows how halal standardization mechanisms introduce a form of technocratic rationality that is intertwined with market logic, even when framed as an effort to strengthen religious values. Meanwhile, a collection of studies by scholars tracing the interconnectedness of Muslim politics, culture, and consumption has been presented by Johanna Pink (2009), Gökarıksel & McLarney (2010), Fealy & White (2008), and Krawietz & Gauthier (2024) with various analyses.

At the same time, such critical perspectives rarely receive comprehensive attention in contemporary Indonesian Islamic economics literature, particularly those

that tend to focus on documenting sectoral growth or conducting quantitative assessments without questioning the normative assumptions underlying these developments. Most discussions instead celebrate the expansion of Islamic economic initiatives yet offer little reflection on whether this direction of growth is truly aligned with the ethical commitments claimed by the discourse of Islamic development. As noted by Hefner (2003), the establishment of Bank Muamalat marked an early attempt to “Islamize capitalism” in Indonesia, but this process was from the outset shaped by technocratic calculations, political compromises, and the logic of state capitalism, so that the expansion of Islamic economic institutions moved faster than the development of an ethical framework that should have guided its reform. In line with Salim (2003), the institutionalization of economic-religious practices was likewise directed by the political priorities of development rather than by a normative vision of Islamic social justice. This pattern corresponds with contemporary zakat practices, in which distribution is often guided by institutional performance indicators, visual logic, and public representation strategies such as showcasing “successful” *mustahik* rather than conducting in-depth needs assessments sensitive to social vulnerability (Amirullah et al., 2025), and thus reinforces the view that the institutionalization of Islamic economics in Indonesia has from the outset been driven by technocratic and political logics, causing its ethical dimension to be frequently sidelined.

Taken together, the existing literature has significantly advanced our understanding of how Islamic economic expansion is shaped by Muslim consumer culture, halal standardization, technocratic governance, and market-oriented ethical discourses. Yet, these studies have largely examined such dynamics either as ideological critique, consumer practice, institutional growth, or sectoral transformation in isolation. As a result, little attention has been paid to the sequential institutional mechanism through which Islamic moral claims are translated into governance structures, organizational practices, urban economic spaces, and market-oriented Muslim subjectivities. It is within this unresolved gap that the present study intervenes.

We argue that the tendency of Islamic economic institutions to develop through technocratic and political mechanisms without a solid ethical foundation carries significant implications for the Islamic sub-economy in Indonesia. Economic practices that emerge in urban spaces follow market logic more than the values of justice that constitute their normative claims, thereby making sectors such as the halal industry, religious tourism, and Muslim entrepreneurship easily driven toward symbolic commercialization. For this reason, it becomes important for us to re-examine how claims of Islamic morality and ethics are framed, circulated, and reproduced within various practices of the Islamic sub-economy in Indonesian cities, as well as how such framings function as legitimacy for urban market practices. The tension between ethics and the market also needs to be understood through questions concerning the extent to which the expansion of the Islamic sub-economy is carried out according to neoliberal logic despite being wrapped in ethical narratives, and how the relationship between these two rationalities operates in practice. In addition, the process of institutional hybridization and reassessing the role of the urban Muslim middle class in producing new forms of ethical commodification that shape the direction of the Islamic sub-economy raise further questions regarding their implications for Islamic development ethics in urban spaces. These conditions blur the boundaries between ethics and the market and weaken the potential of the Islamic sub-economy to offer a development project oriented toward inclusion and equity.

Referring to the mapping above, this article contributes by offering a way of

reading the Islamic sub-economy that does not stop at institutional developments or sectoral indicators but places it within an analytical framework that highlights how Islamic values are shaped, negotiated, and enacted in the contemporary urban landscape. This approach expands the discourse on Islamic economics by emphasizing the importance of examining representational processes, power relations, and middle-class dynamics that shape today's Islamic economic practices. Finally, our article concludes with a rereading of the role of the Muslim middle class, which has thus far been regarded as the primary driver of the development of Islamic economics.

B. Methods

This study uses qualitative document analysis to examine developments, policy orientations, and the construction of legitimacy in the Islamic sub-economy in urban areas of Indonesia. This method allows researchers to identify patterns of meaning, narrative structures, and key messages in official and institutional documents related to the halal industry, Muslim tourism, and Islamic value-based entrepreneurship (Bowen, 2009).

The data comprises government regulations, halal industry roadmaps, Muslim-friendly tourism guidelines, certification agency reports, ministry publications, and institutional promotional materials. These sources were selected because they collectively represent the multi-level regulatory architecture – from national legislation to sector-specific implementation guidelines – through which halal values are codified, disseminated, and legitimated across urban economic spaces (Patton, 2015). Documents were selected through purposive sampling based on three criteria: substantive relevance to the research objectives, institutional authority of the issuing body, and temporal coverage spanning key policy shifts in Indonesian halal governance. Priority was given to documents that explicitly address halal certification, Islamic entrepreneurship, or Muslim-friendly urban services. To ensure comparability, the sample includes materials from national ministries (e.g., Ministry of Religious Affairs, Ministry of Tourism), provincial-level agencies, and recognized halal certification bodies operating in major Indonesian metropolitan areas.

Data analysis followed the six-phase thematic analysis framework developed by Braun and Clarke (2006), which provides a rigorous and transparent methodology for identifying, analyzing, and reporting patterns within qualitative data. The phases included: (1) data familiarization through repeated reading and annotation of documents; (2) generation of initial codes capturing salient features related to morality, market logic, and institutional process; (3) searching for themes by grouping codes into broader candidate themes; (4) reviewing themes against coded extracts and the full data set to ensure internal coherence and external distinctiveness; (5) defining and refining theme names and boundaries; and (6) producing a final analytic narrative. The analysis proceeded iteratively, with movement back and forth between coding, theme development, and interpretation to capture the dynamic interplay between ethical claims and market-oriented governance.

To enhance credibility, the analysis incorporated negative case analysis – actively seeking documents or passages that contradicted emerging patterns – and peer debriefing, in which preliminary findings were discussed with two qualitative researchers familiar with Islamic political economy but not directly involved in the study. Transferability is supported by detailed documentation of the sampling criteria, document characteristics, and analytical decisions, enabling readers to assess the applicability of findings to other contexts (e.g., halal governance in Southeast Asian or

Gulf cities). Dependability and confirmability were addressed through an audit trail that records coding decisions, theme revisions, and interpretive memos throughout the research process.

C. Findings and Discussion

1. Findings

This section presents empirical findings obtained from a systematic analysis of Law 33/2014, Government Regulation 31/2019, the 2019–2024 Indonesian Sharia Economic Master Plan, Minister of Industry Regulation 25/2025, and the 2025 BPJPH Performance Report, all of which are explained in Table 1. The findings are summarized in tables and presented descriptively without theoretical interpretation. The selection of these five documents is academically justified because they represent the main institutional sources used by the state to define, regulate, operationalize, and evaluate the halal sector. The Law and Government Regulation form the legal framework, the Master Plan sets the strategic direction, the Ministerial Regulation regulates the administrative mechanisms, and the BPJPH Report provides evidence of implementation. A joint analysis of these documents allows for a comprehensive understanding of how halal is constructed, standardized, and expanded through regulatory, technocratic, and market instruments. The document analysis approach is relevant because these texts are policy artifacts that reflect institutional priorities and governance practices (G. A. Bowen, 2009). The division of findings into legal, administrative, and market categories was chosen to distinguish three levels of institutional operation. Legal findings indicate normative boundaries, authorities, and legal obligations. Administrative findings describe procedures, technical standards, and service mechanisms that translate law into bureaucratic practice. Market findings reveal the economic consequences of regulation, including changes in production patterns, incentive structures, and the expansion of the halal industry. This classification facilitates mapping of; (1) what the state regulates, (2) how it is implemented, and (3) how it impacts the market, an approach that is common in policy and political economy studies.

Table 1. Empirical Findings from Regulatory and Institutional Documents

| Document | Legal Findings | Administrative Findings | Market Findings |
|---|--|--|--|
| Law No. 33/2014 on Halal Product Assurance | <ul style="list-style-type: none"> a) Mandatory halal certification for all products circulating in Indonesia (Art. 4). b) Legal definition of halal, authority of BPJPH, and integration with MUI fatwas (Art. 1, 6, 10–12). c) Administrative and criminal sanctions for violations (Chapter VIII). | <ul style="list-style-type: none"> a) Certification procedures: registration, inspection, fatwa determination, and certificate issuance (Art. 25–33). b) BPJPH and local government supervision obligations. c) Mandatory halal labeling and mechanisms for certificate | <ul style="list-style-type: none"> a) Producers must adjust supply chains to meet halal standards. b) Non-halal products must carry a specific label. c) Certification becomes a prerequisite for entry into modern retail markets. |

| Document | Legal Findings | Administrative Findings | Market Findings |
|--|--|--|---|
| | | revocation. | |
| Government Regulation No. 31/2019 (Implementation of Law 33/2014) | <ul style="list-style-type: none"> a) Reinforcement of mandates for BPJPH, LPH, and MUI in halal governance (Art. 4–7). b) Legal basis for halal auditing and institutional accreditation. | <ul style="list-style-type: none"> a) Detailed technical procedures for certification, inspection standards, and audit reporting (Art. 28–37). b) MSME facilitation through certification support. c) Public service system based on NSPK and SIHALAL digital platform. | <ul style="list-style-type: none"> a) Certification as a prerequisite for product distribution and export. b) Producers are required to prepare production documentation to meet audit requirements. |
| Masterplan of the Indonesian Sharia Economy 2019–2024 | <ul style="list-style-type: none"> a) Halal positioned as a national development strategy and economic policy instrument. b) Mandatory harmonization of halal regulations across ministries. | <ul style="list-style-type: none"> a) Establishment of Halal Industrial Areas, Halal Value Chains, and Halal Lifestyle Districts. b) Quantitative targets: halal GDP contribution, export value, and industry investment. c) Strengthening of the national halal institutional ecosystem. | <ul style="list-style-type: none"> a) Halal framed as a major global market opportunity. b) National branding: Indonesia as the “Global Halal Hub 2024.” c) Promotion of halal hotels, halal fashion, and Muslim-friendly tourism. |
| Ministry of Industry Regulation No. 25/2025 (IHYA Award) | <ul style="list-style-type: none"> a) Establishes the legal foundation for the Halal Industry Award. b) Defines award categories and the mandate of the Ministry of Industry in assessment. | <ul style="list-style-type: none"> a) Evaluation system based on managerial scoring, visual audits, self-assessment, and production documentation. b) Mandatory field verification to determine award recipients. | <ul style="list-style-type: none"> a) Industries compete by highlighting “halal compliance” as a market advantage. b) Moral attributes function as branding and marketing |

| Document | Legal Findings | Administrative Findings | Market Findings |
|---|--|--|--|
| | | | tools. |
| BPJPH Performance Report 2025 (Semester I) | <ul style="list-style-type: none"> a) Reinforces halal as a “strategic public service.” b) Demonstrates the state’s mandate to expand halal oversight. | <ul style="list-style-type: none"> a) 1,243,076 products certified. b) 5,324 MSMEs supported. c) Expansion of LPH across 34 provinces. d) Dozens of MoUs with ministries, regional governments, and global partners. e) Digitalization of halal services through SIHALAL. | <ul style="list-style-type: none"> a) Significant growth of the halal market following increased certification volume. b) Rising consumer demand in line with the expansion of the halal ecosystem. c) Halal certification becomes a competitive requirement in food-beverage, pharmaceuticals, cosmetics, and tourism sectors. |

Source: Author compilation

The results of the table reading show that the five documents provide complementary findings in three areas, namely legal, administrative, and market. Legally, Law 33/2014 stipulates halal certification obligations, defines the authority of BPJPH, regulates relations with MUI, and stipulates sanctions. Government Regulation 31/2019 strengthens the institutional mandate and provides a legal basis for audits and accreditation. The Master Plan positions halal as an instrument of development policy and requires harmonization across ministries. Minister of Industry Regulation 25/2025 provides the legal basis for the IHYA Award and its categories, while the 2025 BPJPH Performance Report affirms halal as a strategic public service. Administratively, Law 33/2014 regulates the certification process, supervision, labeling, and revocation of certificates. PP 31/2019 details technical procedures, inspection standards, MSME facilitation, and the use of the SIHALAL digital system. The master plan establishes the formation of Halal Industrial Zones, halal value chains, quantitative targets, and the strengthening of the institutional ecosystem. The Minister of Industry Regulation regulates a management score-based evaluation system, visual audits, self-assessment, and field verification. The BPJPH report presents administrative achievements in the form of the number of certified products, support for MSMEs, expansion of LPHs in all provinces, inter-agency cooperation, and service digitalization.

In terms of the market, Law 33/2014 makes halal certification a prerequisite for entry into modern retail, requires supply chain adjustments, and mandates labeling for non-halal products. Government Regulation 31/2019 confirms certification as a requirement for distribution and export and encourages producers to prepare production documentation. The master plan positions halal as a global market opportunity, introduces Indonesia's branding as a Global Halal Hub, and promotes the Muslim-friendly hotel, fashion, and tourism sectors. The Minister of Industry Regulation notes competition in industries based on halal compliance and the use of moral attributes as a branding tool. The BPJPH report shows market growth in line with increased certification, rising consumer demand, and halal requirements as a condition for competing in the food, pharmaceutical, cosmetics, and tourism sectors.

2. Discussion

a. Moral Framing and Urban Market

Previous empirical findings show that there is a regulatory architecture that embeds halal into the legal, administrative, and market systems in the Indonesian economy. For that reason, the moral framing in the development of the Islamic sub-economy in urban Indonesia is clearly evident in how the state conceptualizes halal not only as a normative obligation, but as a "public value" that must be instilled throughout the entire economic chain. In Law No. 33/2014, halal is defined as a legal certainty that must be attached to every product circulating in Indonesia, from raw materials to distribution and sales (Articles 1 and 2). The normative language used, such as "legal certainty," "in accordance with Islamic law," and "halal guarantee," explicitly shows that the state positions halal as a mandatory ethical standard, but at the same time makes it an administrative framework that can be measured, certified, and supervised. From the outset, this moral framework has tied Islamic ethical values to the technocratic process of certification and supervision, thereby reducing "halal" to a unit that can be tested and standardized. At the same time, this moral framework became stronger when Government Regulation (PP) No. 31/2019 explained in detail the mechanism for implementing JPH, including the role of BPJPH in setting norms, standards, procedures, and conducting public outreach on the importance of Halal Products (Article 4 paragraph 3). Here, it is evident that the state not only regulates but also actively educates, shapes opinions, and creates a collective imagination about halal consumption. Halal is constructed as part of moral responsibility as well as a modern lifestyle through the obligation to include labels, halal publications, and the expansion of the halal market (Article 7 letter d). Therefore, what is formulated in this regulation can be said to connect the moral space and the market space through the language of policy, where morality is constructed as something that must be accessed in the market, and the market must be built to follow morality.

Of course, the role of moral framing does not only come from state regulations but also from the fatwas of the DSN-MUI, which since 1999 have been the main normative reference for the Islamic economic sector. We all know that DSN fatwas were initially intended to translate basic values such as justice, avoidance of usury, and transparency into technical formulas that frame how transactions ranging from *murābahah*, *mudhārabah* to *ijarā* should be carried out. Now, especially in urban areas, these fatwas function as a moral infrastructure that constructs ethical boundaries for business actors and provides religious legitimacy for economic practices that want to be positioned as "sharia compliant." However, when the DSN fatwa was integrated into the state's halal certification system through Law 33/2014 and PP 31/2019, this

moral authority was also absorbed into administrative and market logic. In practice, fatwa-based certification quickly became a market necessity, as products without halal labels found it difficult to enter modern retail outlets or be exported, and hotels and restaurants had to meet halal standards to obtain the “Muslim-friendly” label. In other words, fatwas not only establish laws, but also become “moral capital” that expands the commercial appeal of the halal sector.

This moral construct reaches its most explicit form in the 2019–2024 Indonesian Sharia Economic Masterplan (KNKS), particularly in its vision of establishing “Indonesia as the center of the global sharia economy.” In this document, Islamic economics is associated with “universal Islamic values” while also setting out concrete strategies to expand the halal market, strengthen the halal industry in urban areas, and integrate halal into national branding. In several sections, the Masterplan links Islamic ethics with the urgency of economic development, emphasizing words that are synonymous with economic performance such as “competitiveness,” “the halal industry as an economic engine,” and “increasing the contribution of the halal sector to GDP.” Thus, morality becomes a category that drives the economy and at the same time a tool of legitimacy for the expansion of the urban halal sector. However, this moral framing does not work neutrally. The assertions contained in the Master Plan show that Islamic morality is always narrated in relation to economic performance. Halal must be realized through certification; certification must be linked to industrial growth; industry must be built through halal clusters and zones; and the entire system is geared towards the expansion of the domestic and global halal market.

A similar trend can be seen in various operational policies, such as the “Guidelines for Muslim-Friendly Tourism Services” published by the Ministry of Tourism and Creative Economy, which emphasize that Indonesia must “take advantage of the momentum” to attract a larger segment of Muslim tourists for economic benefit, while framing moral needs such as halal food and clean worship facilities in the logic of guidance, evaluation, surveys, and promotional campaigns so that “Muslim-friendly” shifts to become a “marketable category” in the “urban hospitality” industry. This pattern appears to be similar to Fischer's (2016) findings that the halal tourism industry builds a “moralized consumer space” in which the preferences of the urban middle class are framed as ethical needs as well as market opportunities, so that morality is used to justify new market segmentation. Most recently, the 2025 BPJPH Performance Report has further reinforced this process by positioning halal certification as a “key service” that not only supports economic growth but also “religious harmony,” while expanding the halal ecosystem through dozens of MoUs across ministries, regions, state-owned enterprises, and international cooperation. even presenting the issue of low halal literacy among the public as an administrative deficit that must be addressed by the state, indicating that morality is treated as a managerial problem rather than an ethical practice.

The same pattern is expanded upon by Permenperin No. 25/2025 concerning the Indonesian Halal Industry Award (IHYA), which transforms Islamic moral contributions into performance indicators through technical assessments, management, program planning, campaigns, and field verification, making morality not only a normative guideline but a “competitive benchmark” that determines who is considered worthy of representing the image of the national halal industry. At this point, among the many applications of halal regulations in Indonesia, morality is positioned as a language that makes the agenda of strengthening the halal market ethically acceptable. Therefore, as emphasized by Fischer and Nisa (2025), Indonesia’s halal development agenda runs through the language of “global competitiveness” and “the Muslim

middle class as the engine of the market,” which makes Islamic morality operate within the logic of economic competition, not as an ethical framework that challenges the market itself.

b. Neoliberal Logics under Ethical Claims

Why appear pious but work for an impious market? After discussing in the previous section how the state instills halal values into administrative mechanisms, this irony becomes even more apparent when placed in a social landscape that Aspinall (2013) refers to as “a nation in fragments,” a public space driven by patronage and moral performativity. In such an atmosphere, the expansion of the Islamic sub-economy does not move as an antithesis to the market, but rather piggybacks on the same logic of representation, where ethics are displayed and the market is given a stage. Neoliberalism can be understood as a rationality that organizes subjects through market and consumption mechanisms, as explained by Foucault (2008) in “governmentality” and Ong (2006) in highlighting identities formed through marketable choices. In Muslim societies, Roy (2004) shows that globalization encourages the “de-territorialization” of Islam so that religious expression appears as a sign and lifestyle, in line with Bauman’s (2007) view that consumption is the main medium of self-formation. Therefore, the Indonesian halal phenomenon is not an anomaly, but a specific variant of global neoliberalism that works through administrative morality and Muslim consumer culture. Calder (2020) shows how “halalization” organizes religion into neat authentication procedures or as a commodity, so that consumption, which is touted as having moral value, actually operates as market infrastructure. In line with this, Rudnyckyj (2010) shows how self-discipline, inner management, and spiritual reform are reorganized into tools for shaping obedient and productive neoliberal subjects. At this point, it is difficult to ignore the impression that morality is not present as a restraining force, because what emerges is ideological cosmetics that make competitive logic seem ethically acceptable, as if the market operates with a noble religious spirit when in fact it is driven by ambitions for expansion and an ability to read business opportunities, not ethics.

The ambition to create religion-based market segmentation can be seen when reviewing the 2019–2024 Indonesian Sharia Economic Masterplan, which shows how halal morality is incorporated into the logic of growth through quantitative targets that measure the success of Islamic values with index rankings, GDP contributions, export capacity, and the expansion of the halal value chain. The realization of domestic halal consumption, estimated to reach more than USD 200 billion, is positioned not as an ethical question regarding production structures, but as a market opportunity that must be optimized through mandatory certification, halal lifestyle campaigns, Regional Halal Hubs, and the National Halal Fund. This effort is also essentially a way to encourage Indonesia to achieve Global Halal Hub status (Akim et al., 2024). At the same time, this spirit gains legitimacy from Permenperin No. 25/2025 by turning sharia commitments into administrative competitions, where management scores, self-assessment forms, and visual evidence from factories determine who is eligible to receive the IHYA Award. In fact, the 2025 BPJPH Performance Report then presents halal morality as a performance commodity that is calculated and must be complied with, as evidenced by 1,243,076 certified products, 5,324 MSMEs that have been fostered, the expansion of LPH in more than 34 provinces, and dozens of inter-institutional MoUs, complete with infographics and achievement tables in the style of corporate reports. In addition, the technocratization of morality also occurs in zakat, by prioritizing categories that are very much in line with the neoliberal ethos of self-

improvement, rather than zakat based on social justice (Amirullah et al., 2025; Retsikas, 2017). This phenomenon further reveals that morality is being used as a language to streamline the expansion agenda, making halal not an arena for criticism of the market but an integral part of a competitive mechanism that ensures the Islamic sub-economy runs efficiently, measurably, and accountably.

Upon closer inspection, the extent to which the Islamic sub-economy has penetrated the market is not a phenomenon that arose naturally from collective piety, but rather the result of a political-economic configuration that has gradually normalized halal values as the infrastructure of consumption. The surge in halal-certified products by 2025 and regulatory obligations that force the entire production chain to comply with certification requirements demonstrate how religious institutions are structured to ensure administrative compliance. At the same time, there are more than 117,000 halal industry entities concentrated on the island of Java (K. U. J. Putri, 2025), dominated by the food and beverage sector, which is historically the most-ready to absorb investment and the easiest to commodify. In other words, the expansion of the Islamic sub-economy follows the existing capital infrastructure map, rather than distributing benefits evenly. Resonating with this, Luhuringbudi et al. (2025) found that urban piety is shaped by the rhythm of urban capitalism, so that halal values are most quickly commodified in spaces with established infrastructure. Furthermore, within the framework of Zelizer's (1994, 2011) economic sociology, which emphasizes that moral values are attached to economic transactions and shape the social meaning of money, halal morality can be read as a kind of "cultural lubricant" that facilitates the mobilization of capital within Muslim networks. This pattern makes halal products popular not only because they carry sacredness, but because they offer a "sense of regulatory security" that is reinterpreted as a lifestyle, middle-class identity, and symbol of order. Therefore, what moves the market is not the sharia value itself, but the "cultural authority" attached to the term halal, an authority that is then used to drive consumption.

In that context, we argue that the main reason why the Islamic sub-economy has become so widespread is because it operates at the intersection of the largest Muslim demographic, the expansion of the urban middle class, and a politics of representation that makes piety a public performance. One example is Jakarta, as explained by Pribadi & Sila (2023), which is an example of an area with a strong and abundant Muslim middle class and a prominent halal lifestyle. Aspinall (2013) explains why this is the case, referring to Indonesia's public sphere as an arena of patronage fragmentation. Within this logic, halal consumption becomes a mechanism for demonstrating moral compliance in a safe, standardized, and politically risk-free manner. At the same time, the state and capital actors view halal as a calculable language, a morality that has been given indicators, scores, and indices so that it can be included in the growth matrix. This is why the halal industry is growing rapidly, because morality has been processed into a market-friendly form. This is in line with what Haenni (2009) shows, that the explosion of Islamic-labeled consumption is mainly driven by the rise of the conservative Muslim bourgeoisie, and this marks a new phase of contemporary re-Islamization.

From a cultural economics perspective, this process does not stop at commodification. What happens is moral upgrading, or a condition where market practices are given a touch of symbolic ethics to make them appear more noble without changing the structure of competition. As evidence, Willer's (2009) study of Sunilk Clean & Fresh shows how purity and modesty are reimagined as marketing aesthetics for women who wear headscarves, making religiosity a commercial added value rather

than an alternative ethic for the market. A similar example can be seen in Kuppinger's (2009) analysis of Razanne & Fulla dolls, which utilize icons of piety to compete with Barbie while still operating as global consumer products that follow modern branding logic. Both cases show that morality functions primarily as a "cultural veneer" or symbolic decoration that refines commodification without challenging the underlying economic structure. Consequently, the halal lifestyle campaign, the establishment of the Regional Halal Hub, and the announcement of the IHYA Award winners demonstrate how morality is showcased on a macro level as a spectacle to reinforce the impression that competitive markets can still operate within a framework of religious values. In line with Hoesterey (2017), the commercialization of Islamic values in Indonesia takes place through what he calls "entrepreneurial piety," a process in which piety is produced as a brand, commodity, and symbolic capital compatible with the ethos of capitalism. Therefore, what is at work is the logic of accumulation, production optimization, inventory acceleration, and market expansion. Halal certification acts as a cultural technology that aligns ethics with modern market governance.

If the question arises as to whether this phenomenon is part of neoliberal logic, the answer is yes, in a form that is unique to Indonesia. Neoliberalism here does not appear as extreme deregulation or aggressive privatization, but as the infiltration of moral values into market mechanisms so that capital expansion can proceed through channels that appear ethical. This pattern can be seen in various sectors. Research conducted by Mukhlisin & Hudaib (2025) shows that IFRS standardization has encouraged Islamic financial institutions in Indonesia to shift from an ethical orientation to technical compliance that mimics capitalist structures. The findings of Putri & Sunesti (2022) show that Islamic housing packages religious symbols as a consumption attraction for the middle class, while the study by Mutiah et al. (2024) shows that Wardah's advertisements construct a discourse of halal through text, visuals, and public figures so that religious values are used as a marketing strategy. A broader framework for interpreting this trend can be found in the analysis by Hadiz & Robinson (2012), which explains that Islamic politics in Indonesia did not grow as an independent moral movement but operates within an oligarchic structure that demands competition, patronage, and material calculations. Therefore, the expansion of halal cannot be understood as an ethical movement, because it developed in the same arena, namely a space that demands moral representation to gain legitimacy without changing its political-economic foundations. The state did not withdraw from this process; on the contrary, it strengthened the apparatus of auditing, standardization, and certification that made the market work more efficiently. In this context, piety functions as a moral marker that obscures the fact that the main drivers of growth are not Islamic normative values, but economic incentives, the structure of the food and beverage industry, and the ever-increasing consumption of the middle class.

c. Institutional Hybridization in Urban Islamic Economies

If the previous section showed how morality was turned into the language of policy and then absorbed by market mechanisms, the question that arises is no longer simply how morality works in the economy, but how the entire moral-administrative-market configuration is maintained and expanded. To answer this, we need to look at a deeper process, namely the formation of new institutions that can no longer be clearly placed in the categories of "religion," "state," or "market." As Ong (2006) calls it, the emergence of "assemblages," namely a set of moral values, governance techniques, and capital calculations that operate together without stable boundaries. This phenomenon

is also discussed in Latour's (1993) critique, that the modern social world is actually inhabited by hybrids, forms that thrive on a mixture of religious, technical, and political elements, and are therefore never pure. In the Islamic world, Bowen (2003) shows that the bureaucratization of Islam in Indonesia has given rise to institutions that are administratively state-faced but derive their legitimacy from moral language, such as the Office of Religious Affairs (KUA), which legalizes marriages through a registration procedure, but whose authority is accepted because it deals with matters understood to be religious. Furthermore, according to him, the Religious Court also works within the framework of state law while interpreting *fiqh* as the basis for its decisions. Even halal certification before the BPJPH shows a similar pattern, where the fatwas of scholars are packaged in the form of standards and audits. These examples show that these institutions cannot be positioned as state institutions alone; they operate through a crossover of administrative authority and moral legitimacy. From this, institutional hybridization appears as a mechanism that transfers religious norms into a form that can be organized, exchanged, and inserted into urban life.

From this, hybrid institutions do not stop at translating religious norms into administrative rules. They reshape the situation that makes these norms work and be recognized in city life. When moral language is embedded in government procedures and market infrastructure, it begins to regulate how services are organized, how values are weighed, and how authority is read in public spaces. Halal standards, sharia hospitality, and various Muslim-friendly services do not exist as ethical slogans, but as a way of working that binds service providers, regulators, and consumers in the same rhythm. At this point, morality is no longer something that exists outside the state or the economy; it becomes a regulatory mechanism that makes administrative rules and commercial practices move in the same direction. The resulting landscape is one in which religious legitimacy, bureaucratic order, and market trust rely on each other. It is from this pattern that the conceptual model in Figure 1 is constructed. The model places the moral, administrative, and market spheres not as three separate layers, but as mutually reinforcing elements. Morality provides the basis for claims and legitimacy; administrative techniques translate it into rules and procedures; the market circulates it as a guarantee of quality and exchangeable value.

Figure 1. Four-Layer Hybridization Model of the Urban Islamic Economy

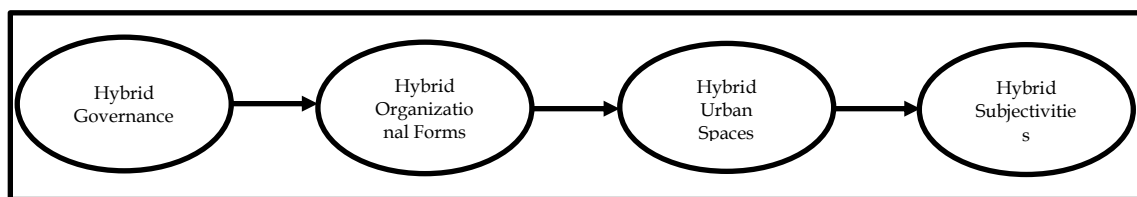


Figure 1 shows how religious norms begin to operate within the administrative machine, how that apparatus provides space for the market to grow, and how the market in turn pushes for the emergence of new rules. This process does not occur as a one-off event; it moves repeatedly and reshapes legitimacy, regulation, and commercial value over time. Therefore, the diagram above marks four domains where this process unfolds, namely governance, organization, space, and subject. Religious norms are first fused into rules and procedures, then translated by organizations into working methods, taking shape in the spatial order of the city, and ultimately shaping the habits and dispositions of the urban Muslim subject. Each stage prepares the conditions for the next, so that hybridization operates as a mutually activating

sequence rather than as a closed order. First, at the top section it appears that governance moves in tandem with the state's administrative apparatus. Their encounter occurs in a highly technical space—audit, certification, standardization, and monitoring—where religious norms are translated into procedures and performance measures used by the bureaucracy. Ethical standards that were initially normative slowly turn into instruments of verification and prerequisites for legality. In this configuration, morality and administration do not negate one another; they instead reinforce each other. The expansion of the halal sector proceeds through two sources of legitimacy at once, namely ethical values that provide religious meaning and technocratic logic that ensures its operational feasibility.

Second, the impact of this process is visible in the organizational forms that develop within the realm of Islamic economics. Islamic banks, sharia hotels, halal cosmetic companies, and sharia property developers combine three demands at once, namely *fiqh* conformity, administrative compliance, and market competitiveness. These organizations become laboratories where various principles are reduced, negotiated, and adjusted to the realities of production, marketing, and consumption. In practice, piety does not appear as an abstract principle but as an operational formula that guides internal audits, product design, risk management, and communication strategies. A number of studies show that organizations in Islamic economics serve as sites where religious ethics are processed into technical mechanisms. Rudnyckyj (2009) describes spiritual engineering that transforms piety into performance metrics, productivity training, and audit practices. Fischer (2011) highlights halal governance, in which *fiqh*-based legitimacy is combined with bureaucratic standardization and market trust. Maurer (2005) traces the technicalization of sharia, when *fiqh* principles are embodied in risk management tools, compliance protocols, and product structures. Sloane-White (2017) shows how corporate Islam integrates Islamic ethics into managerial routines, HR policies, and commercial strategy. Taken together, these findings demonstrate that organizations are the starting point where religious norms are converted into administrative logic and commercial value.

Third, hybridization at the organizational level takes its concrete form in urban space. Lefebvre (1992) emphasizes that space is always produced through social relations, while Soja (1996) proposes “thirdspace” as a way of reading space that does not stop at its material form or at the representations attached to it, but at how space is lived and produced through social practice. With this framework, spaces associated with Islamic economics cannot be understood merely as service infrastructures. They are formed through rules, moral signs, and patterns of interaction that give these spaces a dual function: as sites of commercial activity and at the same time as spaces that carry ethical demands and religious identity. Following Knott's (2015), framework of the geography of religion, such spaces function as religious locations shaped by signs, rules, bodily circulation, and commercial practices carrying moral content. Religion appears not primarily through ritual but through the organization of space that conditions how people move, see, and interact. Sharia hotels, halal tourism zones, shopping centers with halal curation, Muslim community coworking spaces, and halal industry hubs demonstrate how ethics are processed into spatial aesthetics, while administrative standards are materialized into service infrastructures. The city ultimately becomes the primary arena where the state, religion, and the market acquire their visual, architectural, and sensory form—a configuration that shows how urbanity becomes the material medium of Islamic economic hybridization and the Islamic sub-economy.

Fourth, this entire sequence of processes ultimately shapes the figure of the urban Muslim who lives at the intersection of multiple demands. They are not only consumers who comply with halal rules, nor merely citizens who follow state regulations. This subject grows within the rhythm of institutions and spaces already filled with moral signs and administrative procedures; they learn to read both as part of everyday life. In this sense, what Mahmood (2005) calls the politics of piety finds a new context, in which piety does not appear as an autonomous moral choice, but as a disposition cultivated through a series of habits offered by the environment—restaurant menus with halal certification, hotel interiors that reorganize intimacy, or shopping malls that structure the flow of consumption as a form of compliance. These spaces do not coerce but guide; they do not indoctrinate but arrange how the body moves and senses halalness. In line with Bashir (2010), who emphasizes that the Muslim body is shaped by the encounter between moral demands and everyday needs, and that piety grows through repetitive bodily habits rather than autonomous choice. As in Foucault's (1988) framework of technologies of the self, which provides a way to see how individuals cultivate their convictions through devices that appear technical. Halal certification, for example, functions as a means of soothing moral anxiety and giving the sense that daily choices lie on the right path. Halal aesthetics—colors, scents, or spatial arrangements—become signs that help someone locate themselves within the ethical landscape they imagine. Here, consumption and obedience are not opposed; they meet in small habits that make the act of buying or choosing certain spaces feel like part of an effort toward self-improvement. Piety and consumption ultimately form a mutually reinforcing experience for the urban Muslim subject.

d. Are Urban Middle-Class Muslims Really the Sole Drivers of Ethical Commodification?

However extensive the popular studies on the halal market in Indonesia that position urban Muslims as the main actors behind the expansion of ethical commodification, we still seek to reconsider such mainstream scholarly claims. Indeed, the rise of ethical consumption preferences—from halal cosmetics and sharia tourism to Islamic lifestyle—cannot be separated from the moral aspirations of the middle class seeking religious certainty in a modern economy. On the other hand, the halal industry, halal tourism, and Muslim businesses are often promoted as Islamic development ethics, even though their ethical foundation relies more on religious references and the idealization of the early Islamic period (the *sunnah* in the economic practices of the Prophet Muhammad) than on a clear developmental framework. This momentum is welcomed by the urban middle class, turning these moral references into commercial opportunities. Therefore, for us, the push for ethical commodification does not emerge from the bottom up, because it is shaped by an institutional configuration that reorganizes how morality operates within the urban economy. As Kuran's (2004) critique points out, first, Islamic economics and the Islamic sub-economy emerged primarily as instruments of legitimacy and the expansion of Islamist influence, not as pure responses to consumer demand or middle-class aspirations. Second, the presence of Islamic economics supports political projects through funding, moral symbolism, and representational effects, while much public support for it arises from preference falsification and identification with "Islamic values," rather than from autonomous economic evaluation.

From this point, the argument that the urban Muslim middle class is the primary driver of ethical commodification becomes weak. What is more decisive is the institutional and political configuration that produces, frames, and incentivizes the

forms of consumption that appear ethical. From this perspective, the claim that the Muslim middle class is the main driver of ethical commodification becomes problematic. Ethical commodification grows because of institutional infrastructures that bring together morality, administration, and market logic into a single machine for producing value. The middle class then occupies the position of user and amplifier of that logic, not its original source. Thus, the question is no longer “what does the middle class want?”, but “how do institutions, regulations, and urban space shape the forms of desire that are then attached to the middle class?”. From here it becomes clear that the development of the Islamic sub-economy in urban areas cannot be understood merely through the moral preferences or purchasing power of the middle class, but through the broader institutional configuration that defines what is considered ethical, proper, and valuable. From the overall findings, the directional tendency is clear: ethical commodification in the urban Islamic economy is not primarily driven by development ethics, but by neoliberal logic operating through standardization, audit, regulation, and market mechanisms. What appears as ethics is in fact shaped and disseminated through technocratic and commercial apparatuses that generate value, regulate preferences, and reorganize the subject. In this context, development ethics functions more as a language of legitimacy, while its main driver is the neoliberal logic that packages morality as a commodity.

D. Conclusion

The findings of this study show that the development of the Islamic sub-economy in Indonesian cities cannot be understood solely through claims of development ethics. Islamic morality enters administrative procedures, is operationalized within modern organizations, materializes in urban economic spaces, and ultimately shapes the dispositions of the urban Muslim subject. Through this sequence, ethics gradually shift from normative principles into techniques of regulation, standardization, and commodification. These findings also demonstrate that the urban Muslim middle class does not function as the primary driver of ethical commodification, but rather as a subject shaped by institutional infrastructures that first define what is considered ethical, legitimate, and worthy of consumption. The main contribution of this study lies in the formulation of the Four-Layer Hybridization Model, which explains how morality, governance, organization, urban space, and subjectivity interact within the contemporary Islamic sub-economy.

The implications of this study are twofold. Academically, this research opens new directions for the study of Islamic economy by shifting analytical attention from consumer preference and sectoral growth toward the institutional mechanisms through which religious values are translated into governance, organizational practice, and market formation. In the Indonesian policy context, these findings suggest that the expansion of halal ecosystems, Muslim-friendly tourism, Islamic finance, and other sectors of the Islamic sub-economy should not be evaluated solely through certification volume, market growth, or branding performance, but also through their capacity to sustain social justice, ethical inclusion, and the developmental commitments claimed by Islamic economic discourse. This study is limited by its reliance on documentary evidence and institutional representations. Future research may extend this model through ethnographic observation, organizational inquiry, or comparative urban studies to further examine how institutional hybridization operates across different social and regional contexts.

E. Acknowledgements

The findings of this study show that the development of the Islamic sub-economy in Indonesian cities cannot be understood solely through claims of development ethics. Islamic morality enters administrative procedures, is operationalized within modern organizations, materializes in urban economic spaces, and ultimately shapes the dispositions of the urban Muslim subject. Through this sequence, ethics gradually shift from normative principles into techniques of regulation, standardization, and commodification. These findings also demonstrate that the urban Muslim middle class does not function as the primary driver of ethical commodification, but rather as a subject shaped by institutional infrastructures that first define what is considered ethical, legitimate, and worthy of consumption. The main contribution of this study lies in the formulation of the Four-Layer Hybridization Model, which explains how morality, governance, organization, urban space, and subjectivity interact within the contemporary Islamic sub-economy.

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F. Author Contributions Statement

K and AI contributed to the conceptual direction of the study, reviewed the conceptual model, and provided input on the policy and practical implications of the research. MAK conceptualized the study, developed the theoretical framework, conducted the primary document analysis, interpreted the findings, drafted the initial version of the manuscript, coordinated the integration of the analytical sections, and refined the overall academic argument of the article. ANV and SK carried out supporting literature analysis, integrated the findings into the broader discussion, and undertook substantive editing and restructuring to enhance clarity and coherence. All authors reviewed and approved the final manuscript.

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