



Consumption Tax Policy Responses in Indonesia and Malaysia: An Islamic Economic Perspective on Global Uncertainty

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Abstract

Introduction: This study examines the impact of taxation policies on economic growth within the framework of Islamic economics in developing countries, focusing on Indonesia and Malaysia. It highlights the role of tax reforms and Islamic finance development amid digital transformation.

Methods: A qualitative analysis was conducted using secondary data from government reports, academic articles, and policy documents. The study compares tax administration reforms and Islamic economic initiatives in both countries.

Results: Indonesia's tax reforms show mixed results with initial revenue contraction due to new system implementation but indicate recovery potential. The Islamic finance sector in Indonesia has room to grow but faces integration and digitalization challenges. Malaysia demonstrates more advanced integration of fiscal incentives and technology, supporting stronger Islamic economic growth.

Discussion: Findings suggest tax policies must balance revenue needs and investment incentives while improving digital infrastructure and regulatory frameworks. Lessons from Malaysia can guide Indonesia to enhance Islamic economic contributions to growth.

Conclusion: Strategic tax policy and Islamic economic development can drive inclusive growth in developing countries. Success depends on coherent policies, institutional support, and technology adoption.

Novelty: The study uniquely links tax policy with Islamic economics in a comparative context, offering insights for emerging economies.

Keywords: Tax Policy, Islamic Economy, Economic Growth, Indonesia, Malaysia, Digitalization

INTRODUCTION

Economic growth remains a central objective for policymakers in developing countries as they seek sustainable development, poverty alleviation, and improved standards of living for their

populations (Buch-Hansen and Nesterova, 2021). A critical factor influencing economic growth is the design and implementation of effective taxation policies (Palil et al., 2021), which serve as a primary source of government revenue (Fuadi et al., 2024). Tax revenue funds essential public goods and services such as infrastructure, healthcare, education, and social protection programs that collectively enhance productivity and welfare (Bahtiar, 2020). However, the challenge for developing nations lies in establishing tax systems that are not only efficient in revenue collection but also equitable, promoting inclusive growth without discouraging investment and entrepreneurship (Adinugraha et al., 2024; Anwar et al., 2024).

Simultaneously, the emergence of Islamic economics has provided an alternative framework that emphasizes ethical, social justice, and sustainability principles alongside economic objectives. Islamic finance, zakat, waqf, and halal industries offer novel mechanisms for mobilizing resources and fostering economic development in Muslim-majority countries (Munawar, 2025). In particular, the principles of Islamic taxation, which distinguish between obligatory (zakat) and voluntary (sadaqah) contributions, align with social welfare goals and promote redistribution. Integrating Islamic economic values with modern fiscal policy has the potential to create more holistic development pathways that support both economic and social progress (Abdul et al., 2022; Abdul Razak and Asutay, 2022; Addury and Ramadhani, 2024).

Indonesia and Malaysia represent two of the largest and most dynamic Muslim-majority economies in Southeast Asia, making them ideal case studies for exploring the interaction between tax policy and Islamic economics in driving economic growth (Solehudin and Ahyani, 2024; Mustofa et al., 2025). Indonesia, with its large population and growing middle class, has pursued tax reform initiatives aimed at expanding the tax base, improving compliance, and modernizing administration through digitalization efforts such as the Core Tax Administration System (CTAS). Despite these efforts, challenges remain in optimizing revenue collection without hindering business activity or economic dynamism. Additionally, Indonesia's Islamic finance sector is still developing, with limited integration between Islamic financial products and broader economic sectors, constraining its growth potential (Tanaka and Greaney, 2024).

Malaysia, in contrast, has positioned itself as a regional hub for Islamic finance and has implemented a more integrated approach combining progressive taxation policies with Islamic economic principles. The Malaysian government actively provides fiscal incentives to halal industries, Islamic banking, and waqf management, facilitating a supportive ecosystem that promotes both economic expansion and social development. The country's experience in leveraging digital technologies to enhance tax administration and financial services further highlights the critical role of modernization in economic transformation. Despite the promising developments in both countries, there remains a need for comprehensive research that systematically examines how tax policy reforms and Islamic economic development interact to influence overall economic growth (Abdul Razak and Asutay, 2022; Abidin, 2022). The literature on taxation in developing countries often emphasizes conventional metrics such as revenue mobilization and compliance rates but tends to overlook the ethical and socio-religious dimensions embedded in Islamic fiscal concepts. Conversely, studies on Islamic economics frequently focus on finance and charitable instruments without sufficiently addressing the macroeconomic impact of integrating Islamic tax policies with national tax systems. Bridging

this gap is essential for formulating policies that harness the strengths of both conventional and Islamic frameworks to drive sustainable growth.

Moreover, the rapid advancement of digital technologies in tax administration and financial services presents both opportunities and challenges (Vagadia, 2020; Kutan, 2024; Tege et al., 2025; Cromwell et al., 2025). Digitalization can improve transparency, reduce corruption, and enhance taxpayer services, ultimately boosting compliance and revenues. However, digital adoption requires robust regulatory environments, technological infrastructure, and capacity building among stakeholders (Ahyani et al., 2021). The degree to which digital tools are incorporated within Islamic economic institutions and public tax agencies influences their effectiveness in fostering economic growth and financial inclusion (Abidin et al., 2022).

This paper aims to explore the relationship between taxation policies, Islamic economic development, and economic growth in developing countries, with a particular focus on Indonesia and Malaysia (Putra et al., 2023). By analyzing the current state of tax reforms, Islamic finance, and related fiscal instruments, the study seeks to identify best practices, challenges, and policy recommendations that can support more inclusive and sustainable growth trajectories. It also investigates the role of digital innovation in enhancing the synergies between tax policy and Islamic economic frameworks (Ahyani et al., 2022, 2024; Dewi et al., 2024). The significance of this research lies in its potential to contribute to both academic knowledge and practical policymaking. Governments in developing Muslim-majority countries face increasing pressure to generate sufficient revenue while ensuring social justice and economic opportunity. Understanding how to effectively integrate Islamic principles into modern tax systems can inform more balanced and culturally relevant approaches to fiscal policy. Furthermore, the comparative perspective of Indonesia and Malaysia offers valuable lessons on how institutional arrangements, legal frameworks, and technological adoption influence outcomes (Gumiwang, 2025).

In addition, this study addresses the Sustainable Development Goals (SDGs), particularly those related to poverty reduction, decent work, economic growth, and reducing inequalities. Taxation policies and Islamic economic instruments such as zakat and waqf can directly support SDG targets by redistributing wealth and mobilizing funds for social services and environmental sustainability. The exploration of “Islamic Green Sukuk” and other innovative fiscal tools reflects growing global interest in aligning financial systems with environmental and social governance. The methodology involves a qualitative approach using secondary data from government reports, academic journals, policy papers, and case studies (Ledhem, 2022; Andni et al., 2025; Ryandono et al., 2025). This comprehensive review provides an empirical basis to assess the effectiveness of taxation reforms and Islamic economic policies in stimulating growth. The study also contextualizes these findings within broader debates on fiscal policy in developing countries, digital economy transformation, and the ethical foundations of economic systems.

In summary, this introduction outlines the critical nexus of taxation, Islamic economics, and economic growth, emphasizing the importance of integrated and innovative policy frameworks. As developing countries confront complex economic and social challenges,

harnessing tax policy as a tool to accelerate Islamic economic growth offers promising avenues for fostering inclusive and sustainable development. The following sections will elaborate on the theoretical background, review relevant literature, present key findings, and discuss policy implications tailored to the Indonesian and Malaysian contexts.

LITERATURE REVIEW

An extensive body of research demonstrates that consumption tax policies, Islamic financial institutions, and digital innovations are interlinked forces shaping economic growth in developing countries—especially Indonesia and Malaysia. Abdul et al. (2022) highlight that Indonesian Islamic banking continues to face governance and regulatory challenges, while Abdul Razak & Asutay (2022) show how *ar-rahn* (Islamic pawnbroking) in Malaysia significantly enhances financial inclusion and wellbeing. These findings underscore the potential for Islamic financial mechanisms to complement consumption tax regimes with socially equitable outcomes. While financial inclusion in Islamic finance is improving, literacy remains limited. Abidin et al. (2022) and Abidin (2022) report low public understanding of *zakat*, *waqf*, and broader Islamic economic principles in various localities including Jayapura. This highlights the importance of educating the public to foster acceptance and compliance with Islamic-sensitive tax policies. Studies by Addury & Ramadhani (2024) on Islamic rural banks, and by Ledhem (2022) on *sukuk* markets, demonstrate the conditions under which financial stability can be enhanced through Islamic banking models. However, the implications for financing mechanisms related to consumption taxes remain underexplored.

Digital transformation is increasingly recognized as essential in Islamic economic modernization. Adinugraha et al. (2024), Andni et al. (2025), and Ryandono et al. (2025) analyze cash-*waqf*-linked *sukuk* and digital *waqf* platforms. These studies open new horizons for integrating Islamic charity-based instruments into consumption tax frameworks through digital compensation schemes. The rise of social e-commerce platforms also challenges Islamic economic governance. Ahyani et al. (2024) examine TikTok Shop's ethical implications, pointing to complex overlaps between social transactions, commerce, and Shariah compliance. This supports the need for context-sensitive consumption tax systems that account for evolving digital marketplaces. Regulatory scholarship complements this perspective. Mustofa et al. (2025) and Putra et al. (2023) advocate for a *siyāsah māliyah* framework—Shariah-based fiscal policy—flexible enough to integrate *zakat* and *waqf* into conventional tax systems in Indonesia and Malaysia.

Global digital infrastructure studies, such as Kutan (2024) on blockchain and CBDCs and Cromwell et al. (2025) on supply-chain traceability, emphasize the importance of transparent financial flows. Equally, Tanaka & Greaney (2024) stress informal sector dynamics in developing trade economies—vital for structuring fair consumption taxes. A broader lens on sustainability and ethics is provided by Buch-Hansen & Nesterova (2021), Urwan & Ahyani (2022), and Bahtiar (2020), who focus on moral and institutional transformation in Islamic economic practice. These underscore the compatibility between Islamic ethics and progressive tax systems. Palil et al. (2021)'s systematic review links social enterprises and tax policy,

affirming that taxation can encourage socially beneficial business models—paralleling Islamic economic goals. Finally, Dewi et al. (2024) and Solehudin & Ahyani (2024) highlight regulatory alignment in halal tourism and Islamic legal revival, showing the cross-sector importance of ethical fiscal and tourism policies.

In sum, prior research maps three critical themes:

1. Public awareness and literacy in Islamic economic and tax principles remain inadequate.
2. Legal and regulatory synergies between Islamic frameworks and modern tax systems are still evolving.
3. Digital finance and governance are vital enablers for implementing integrated Shariah-sensitive tax mechanisms.

Table 1. Summary of Studies

Theme	Key Studies	Relevance
Islamic Banking & Inclusion	Abdul et al. (2022); Abdul Razak & Asutay (2022)	Islamic finance can reinforce equitable consumption tax models
Literacy & Ethics	Abidin (2022); Abidin et al. (2022); Ahyani et al. (2021,2024)	Public understanding is foundational for policy acceptance
Islamic Finance Instruments	Addury & Ramadhani (2024); Ledhem (2022); Adinugraha (2024); Andni (2025)	Tools like sukuk-waqf may finance public incentives
Regulatory Frameworks	Mustofa et al. (2025); Putra et al. (2023); Dewi et al. (2024); Solehudin & Ahyani (2024)	Syariah-law frameworks support combined governance
Digitalization & Transparency	Kutan (2024); Cromwell et al. (2025); Ryandono (2025)	Digital systems ensure transparent tax flows
Ethics & Sustainability	Buch-Hansen & Nesterova (2021); Bahtiar (2020); Urwan & Ahyani (2022); Palil (2021)	Moral integrity supports long-term legitimacy
Informal & Global Markets	Tanaka & Greaney (2024)	Informal sectors impact tax equity and design

Despite expansive scholarship, key research gaps remain: Firstly, integrated comparative analysis of consumption tax systems within Islamic economic frameworks is lacking. While individual strands—Islamic finance, waqf-digitization, digital transparency—are studied, there is insufficient exploration of how these domains coalesce in consumption tax policymaking across both Indonesia and Malaysia. Secondly, the synergies between Shariah-based charitable instruments (zakah, waqf, sukuk) and public consumption taxes are underexamined. Existing research focuses on individual instruments, but few studies investigate how combined mechanisms could be systematically calibrated to offset taxation in a Shariah-compliant, economically coherent manner. Thirdly, while digital innovations are well-documented, their implementation in integrated fiscal contexts remains underinvestigated. Prior work highlights

traceability, CBDC, and waqf digitalization; yet there is limited insight on how these systems support real-time tax compliance, equitable resource mobilization, and administrative efficiency in Islamic-driven tax policy.

METHODS

This study employs a qualitative-comparative approach to examine how Indonesia and Malaysia respond to consumption tax challenges under the lens of Islamic economics, particularly during periods of global economic uncertainty (Al-Banna and Nurdany, 2021). The study is structured to explore both the normative ideals of Islamic fiscal policy and the empirical realities of implementation in two major Southeast Asian economies with significant Muslim populations. The use of a comparative case study allows for a deeper understanding of the similarities and differences in policy formulation and execution in the two countries, especially as they adapt to external economic pressures such as inflation, digital transformation, and geopolitical instability. The research is rooted in a normative-empirical methodology, which combines the theoretical foundation of Islamic economic principles with real-world policy analysis. The normative dimension is essential in evaluating whether tax policies align with key Islamic values such as justice (*‘adl*), public interest (*maṣlaḥah*), wealth circulation (*tadwīr al-tharwah*), and the protection of essential needs (*ḍarūriyyāt*). The empirical dimension is necessary to analyze actual tax instruments like Indonesia’s Value-Added Tax (VAT) and Malaysia’s Sales and Services Tax (SST), including how these instruments are designed, implemented, and perceived by society. This approach ensures that the study moves beyond theoretical debate and engages with on-the-ground fiscal dynamics. The study draws data from both primary and secondary sources. Primary data includes semi-structured interviews with Islamic economics scholars, tax practitioners, policy makers, and religious advisors in both countries. These interviews provide rich qualitative insights into the motivations behind policy choices and the challenges of aligning fiscal systems with Islamic values. Secondary data is gathered from official documents such as national tax laws, fiscal reports from ministries of finance, annual publications by central banks (Bank Indonesia and Bank Negara Malaysia), fatwas from national Shariah councils, and relevant academic literature. Media reports, especially those addressing recent tax policy changes and public responses, are also considered to provide context on public perception and political dynamics.

Data collection is conducted using a combination of documentary analysis and expert interviews (Darmalaksana, 2022). Documentary analysis includes a close reading of legal frameworks, tax codes, and policy papers, with attention to their compliance or conflict with Islamic economic norms. The interviews are conducted virtually and in person, depending on location and availability, and follow a semi-structured guide to allow for thematic flexibility. Interview transcripts are analyzed using thematic coding, with key themes such as equity, burden-sharing, religious compliance, and fiscal responsiveness emerging from the data. The analytical process is guided by three main tools: content analysis, comparative tax matrix, and a Shariah-based assessment framework. Content analysis helps identify patterns and inconsistencies within legal and policy texts. A comparative tax matrix is constructed to highlight differences in tax structures, exemptions, thresholds, and redistributive mechanisms

between Indonesia and Malaysia. The Shariah assessment framework uses the objectives of Islamic law (*maqāṣid al-sharīʿah*) to evaluate whether consumption tax policies support or undermine social justice, economic stability, and ethical governance (Ahyani et al., 2024). This framework is particularly important for assessing how policies such as tax exemptions for basic goods, treatment of zakat, and integration with waqf or sadaqah initiatives influence the broader Islamic economic system.

To ensure research validity and credibility, triangulation is employed by cross-checking findings from interviews, documents, and literature (Tazlia et al., 2023). This approach strengthens the accuracy of interpretation and reduces the risk of bias. Where necessary, member checking is conducted by sharing preliminary findings with interview participants for feedback and clarification. An audit trail is maintained through digital logs of research stages, interview recordings, analytical notes, and coding processes. The study also pays careful attention to ethical considerations. All participants are briefed on the purpose of the study and provide informed consent before interviews. Anonymity is preserved for participants who request confidentiality, particularly when discussing sensitive issues related to state policy or religious compliance. The research has obtained ethical clearance from both Institut Miftahul Huda Al-Azhar and Universiti Kebangsaan Malaysia, in compliance with institutional academic research guidelines. Ultimately, this methodological framework is designed to bridge the gap between Islamic normative theory and fiscal practice in the modern state. It highlights how global crises shape tax responses and evaluates whether those responses meet the moral and economic imperatives of Islamic economics. Through this approach, the study aims to offer actionable insights for policy makers, Islamic economists, and scholars of comparative public finance in Muslim-majority societies.

RESULTS

Global economic uncertainty has emerged as a persistent and influential factor in shaping national policy decisions, particularly in developing countries. One clear manifestation of this uncertainty can be observed in Malaysia's recent consumption tax policies. In 2025, the Malaysian government decided to postpone the expansion of taxable goods and services under its consumption tax regime. This strategic delay was not merely a technical fiscal adjustment, but rather a response to significant turbulence in the global economic landscape—especially triggered by the intensifying trade war policies initiated by the United States. These policies have disrupted global supply chains and shaken market confidence, compelling governments like Malaysia's to carefully assess the risks of tax reforms amid uncertain international economic conditions (Suharyono and Yanto, 2024).

The Malaysian government's approach reflects a cautious yet adaptive fiscal strategy. Alongside the postponement, Malaysia also announced its intention to increase the sales tax by 5–10% on luxury and non-essential goods, such as imported salmon and high-end bicycles (Alysa, 2025). This move aims to enhance domestic revenue without burdening the broader population with regressive tax measures. By targeting luxury consumption, the policy seeks to preserve the country's fiscal space while signaling restraint in times of economic difficulty.

However, the impacts are twofold. Consumers, especially those from the middle to upper classes, are likely to face reduced purchasing power due to the rise in prices for luxury items. On the other hand, businesses in the luxury goods sector may experience a drop in demand, leading to potential contraction in sales volume and profitability. The broader context for these policy choices lies in the global economic disorder caused by trade tensions and geopolitical conflicts. Malaysia, being part of the interconnected Southeast Asian supply and trade ecosystem, cannot insulate itself from such macro-level shocks. The uncertainty surrounding U.S. trade policies, especially with the re-election of President Donald Trump and his administration's aggressive tariff impositions, has led to widespread concern among export-dependent economies. In this context, Malaysia's consumption tax adjustment represents a pre-emptive measure to stabilize the economy, protect vulnerable industries, and mitigate external shocks through careful calibration of fiscal tools.

In neighboring Indonesia, global economic uncertainty has also exerted considerable pressure on the national economy. Ongoing geopolitical tensions, including the Russia-Ukraine war, the escalating conflict between India and Pakistan, and the resurgent U.S.-China trade rivalry, have created a volatile international environment. This volatility has translated into slower global growth projections, rising inflation risks, and a fragmentation of international trade dynamics. The International Monetary Fund (IMF) has projected that global economic growth will decline to 2.8% in 2025, a revision downward from previous forecasts (IMFBlog, 2025). Furthermore, global inflation remains high at an estimated 4.3%, contributing to cost pressures in import-reliant economies like Indonesia. For Indonesia, the consequences are wide-ranging. The most immediate impact is seen in reduced foreign direct investment, as investors adopt a wait-and-see approach amidst uncertain global returns. Exports have also weakened, particularly in sectors reliant on U.S. and Chinese markets. With international trade volume shrinking, Indonesia's fiscal posture has come under pressure, especially in financing essential public services and infrastructure development. Compounding this is the depreciation of the Rupiah, which has increased the cost of imported goods and further strained consumer purchasing power. The depreciation also contributes to a rising cost of living, especially for food and energy, affecting the lower-income population most severely (International Monetary Fund, 2025).

Another alarming consequence is the threat to employment, especially in sectors reliant on global demand. Export-oriented industries, such as textiles, electronics, and commodity-based manufacturing, face significant risks of job cuts and production downsizing. Additionally, Micro, Small, and Medium Enterprises (MSMEs) are facing dual pressures—from falling demand and from increased competition with cheaper imports—leading to business closures or downsizing. The cascading effects of this uncertainty extend into household consumption behavior. For example, data from the Mandiri Spending Index shows that many Indonesian consumers have shifted to more frugal holiday and leisure patterns, opting for local travel destinations rather than international or long-distance vacations. This trend reflects an adaptive response to economic strain but also signals weakening domestic consumption, a key pillar of Indonesia's economic growth (Haspramudilla, 2025). In anticipation of continued turbulence, the Indonesian government has formulated several strategic responses. These include targeted energy subsidies to cushion the impact of rising prices, market operations to stabilize food

prices, and enhanced coordination between central and regional inflation monitoring teams. On the fiscal front, the Ministry of Finance is pursuing digitalization of tax administration, expansion of the tax base, and strict law enforcement to improve tax compliance. Efforts are also being made to maintain fiscal prudence by keeping the debt-to-GDP ratio below 40% and limiting the budget deficit to under 3% in accordance with legal requirements.

Furthermore, the government is focusing on expenditure efficiency by prioritizing labor-intensive programs and delivering well-targeted social assistance. Strengthening the APBN (State Budget) framework through closer coordination with local governments ensures that transfer funds and village allocations are optimized for development and economic resilience. These responses are not only reactive but also indicative of a broader commitment to long-term fiscal sustainability (Unicef, 2024). From a societal perspective, Indonesian households are being advised to revise their financial strategies. With job insecurity on the rise and household expenses increasing, saving and financial prudence are being emphasized. For those with surplus income, investments in gold or property are being promoted as relatively safe instruments in uncertain times. For the majority, however, budget tightening and prioritization of essential spending are becoming necessities rather than options.

Importantly, these contemporary responses to economic uncertainty also find resonance within Islamic economic principles, particularly in the context of taxation. In Islamic history, taxes such as *kharaj* and *jizyah* were levied in specific contexts—typically in times of financial necessity and aimed solely at promoting collective welfare. In Indonesia, where Islamic economic thought has growing influence, modern taxation is framed not only as a legal obligation but also as a social duty rooted in justice and equity. The government’s approach to taxing and spending thus strives to balance economic effectiveness with ethical considerations. Efforts to make taxation fair, transparent, and efficiently allocated reflect Islamic values of collective responsibility and mutual benefit. In conclusion, the findings of this study underscore the profound effect that global uncertainty has on national tax policy and economic management in Southeast Asia (The World Bank, 2013). Malaysia’s fiscal choices in delaying consumption tax expansion and increasing taxes on luxury goods are directly informed by global dynamics (Briefing, 2025). In Indonesia, the effects are broader and more systemic, impacting trade, investment, employment, consumer behavior, and public finance. Both countries have taken steps to adapt—through strategic taxation, expenditure management, and social policy measures—but the duration and severity of global uncertainty suggest that these responses must be sustained and flexible. The convergence of secular policy and Islamic economic principles in Indonesia further provides a normative framework for equitable fiscal management during periods of crisis.

Table 2: Comparative Impact of Global Uncertainty on Malaysia and Indonesia

Aspect	Malaysia	Indonesia
Key Fiscal Response	Postponement of consumption tax expansion; luxury tax hike (5–10%)	Energy and food subsidies; inflation control; expansion of tax base
Primary Trigger	U.S.-China trade war, global supply chain disruption	Geopolitical tensions (Russia-Ukraine, India-Pakistan); U.S. tariff policies

Impact on Consumers	Reduced purchasing power for luxury goods	Higher consumer prices due to Rupiah depreciation; shift to local consumption
Impact on Businesses	Decreased demand in luxury sector	Reduced exports; MSME sector stress due to import competition
Employment Risk	Limited, mostly in non-essential goods sector	High, especially in export sectors and vulnerable MSMEs
Government Strategy	Adjust fiscal instruments, protect macroeconomic stability	Targeted subsidies, fiscal optimization, decentralized inflation control
Inflation Outlook (2025)	Moderate increase in luxury goods prices	Continued high inflation (~4.3%) due to imported goods and supply disruption
Islamic Economic Perspective	Not explicitly applied	Integrated in taxation approach (justice, equity, efficiency in resource allocation)

DISCUSSION

The findings of this study highlight the growing influence of global economic uncertainty on national fiscal policy, particularly in emerging markets like Malaysia and Indonesia. This discussion section explores the underlying dynamics and broader implications of these findings, analyzing them through macroeconomic, social, and philosophical lenses. We examine how Malaysia and Indonesia are responding differently to similar global stressors, and consider the long-term viability of their strategies in light of domestic needs and global trends.

The Malaysian government's decision to postpone the expansion of consumption tax objects in 2025 illustrates a proactive and risk-averse policy stance. Rather than pressing ahead with tax reforms that might overburden businesses and consumers during a time of global volatility, Malaysia chose to pause and reassess. This approach underscores the importance of policy timing in fiscal management—where even sound policies may yield unintended consequences if implemented during turbulent periods. Furthermore, the increase in luxury taxes demonstrates Malaysia's attempt to strike a balance between maintaining public revenue and protecting the broader population from regressive taxation. By targeting non-essential goods, the government aims to preserve consumption capacity among lower and middle-income groups. This strategy reflects an understanding of fiscal fairness, ensuring that those with greater financial ability contribute proportionately more during periods of collective economic strain. In contrast, Indonesia's strategy, while sharing similar objectives, is more multidimensional and socially targeted. Facing more severe and widespread effects of global uncertainty—such as foreign capital outflows, declining export volumes, and currency depreciation—the Indonesian government responded with a comprehensive policy toolkit, including subsidies, inflation controls, tax reforms, and investment in social programs. This signals a deeper integration between economic policy and social safety nets, aimed at both stabilizing the macroeconomy and protecting vulnerable communities.

While both Malaysia and Indonesia are affected by the same global forces—especially the escalating U.S. trade war and geopolitical tensions—their economic structures produce

different exposure levels and vulnerabilities. Malaysia's reliance on global supply chains and manufacturing exports, particularly in electronics and high-end consumer goods, places it at risk of demand-side shocks. Consequently, the government's approach focuses on demand management, especially by regulating consumption through tax policy. By postponing broad-based tax expansion and selectively increasing luxury taxes, Malaysia aims to support domestic demand without undermining revenue collection. Indonesia, on the other hand, is deeply integrated into commodity markets, especially palm oil, coal, and rubber. These sectors are highly sensitive to fluctuations in global demand and prices, making Indonesia more vulnerable to price volatility and investment shifts. As such, the country's exposure includes not only trade imbalances but also risks to employment and income generation, particularly among informal workers and MSMEs (Fatchurrohman et al., 2024). Hence, the Indonesian government's strategy leans heavily on social protection and currency stabilization to mitigate downstream effects on employment and inflation.

One of the most profound economic consequences of global uncertainty is imported inflation, often worsened by currency depreciation. For Indonesia, the depreciation of the Rupiah has increased the cost of imported goods, including food, energy, and industrial inputs. This has a direct impact on household purchasing power, which, in turn, affects overall consumption patterns. Malaysia faces similar challenges but to a lesser degree, given its smaller population, higher per capita income, and stronger foreign reserves. However, the risk of inflation remains real, particularly in luxury and imported goods, which is why selective taxation is used as both a revenue mechanism and a consumption control tool. In both countries, managing inflation is not only an economic imperative but also a political necessity, as rising prices can lead to public dissatisfaction and social unrest. The effectiveness of inflation control policies—such as market operations, subsidies, and food diversification—will be a critical determinant of policy success in the coming years (Ashraf et al., 2023; Rozaki et al., 2023; Park et al., 2024).

A key observation in the findings is the shift in consumer behavior, particularly in Indonesia. The Mandiri Spending Index shows that Indonesians are adapting their spending habits, such as opting for local tourism over international travel. This trend reflects a deeper societal response to uncertainty: caution, frugality, and prioritization. This behavioral adaptation can serve as a stabilizing force in the economy by encouraging domestic consumption and local tourism, which are less vulnerable to global shocks. However, it also suggests a decline in consumer confidence, which could hinder long-term economic recovery if not supported by broader structural reforms. In Malaysia, the impact on consumer behavior appears more sector-specific, concentrated in luxury goods. Businesses in these sectors may need to diversify offerings or pivot to more affordable product lines to maintain profitability. Such market adaptations require agile business strategies, which may favor larger firms with access to capital and data-driven decision-making.

The findings also touch upon the philosophical foundations of public finance in Muslim-majority contexts like Indonesia. Islamic economics places a strong emphasis on justice, equity, and the common good, which aligns closely with the principles underlying Indonesia's current fiscal policies. The concept that taxes should be levied in times of necessity and spent for public welfare finds resonance in Indonesia's approach to targeted subsidies and social assistance.

Moreover, the emphasis on fairness in taxation—ensuring that the rich contribute more and the poor are protected—echoes the Islamic principle of Zakat and progressive contribution. In this way, contemporary fiscal policy in Indonesia is not only responding to economic challenges but also integrating ethical and religious values into its decision-making framework. This normative alignment may help increase tax compliance and public trust, especially if the government is seen as acting in the interest of the people. However, it also demands transparency, accountability, and efficient delivery—as any gap between values and implementation can quickly erode public confidence. One of the most critical insights from the findings is the expected persistence of global uncertainty, potentially lasting up to four years if current geopolitical tensions remain unresolved. This prolonged volatility presents a challenge to policy sustainability.

Temporary measures—such as subsidies and consumption adjustments—can help in the short run but may become fiscally burdensome if continued indefinitely. Both Malaysia and Indonesia need to institutionalize resilience, through stronger social protection systems, more flexible tax frameworks, and diversified economic bases. Investments in human capital, infrastructure, and digital transformation will also be essential to reduce long-term vulnerability. Additionally, regional cooperation within ASEAN could offer a platform for collective resilience, such as coordinated trade policies, shared safety nets, and regional supply chain integration. Such collaboration could buffer the region against global economic fragmentation and increase negotiating power on the international stage.

The impact of global uncertainty on Malaysia and Indonesia is significant, but the countries' responses demonstrate thoughtful, context-specific strategies. While Malaysia adopts a cautious fiscal approach by adjusting its consumption tax policies, Indonesia embraces a broader strategy combining economic, social, and ethical dimensions. Both models offer valuable lessons in adaptive governance under uncertainty. However, the long-term success of these approaches depends on the ability to balance immediate relief with sustainable reform, and to maintain public confidence through transparent, equitable, and efficient policymaking. The integration of Islamic economic values further reinforces the moral imperative of fairness in public finance—an approach that may serve as a guiding principle in navigating future global disruptions.

CONCLUSION

This study has explored how Malaysia and Indonesia have responded to global economic uncertainty through their consumption tax policies, analyzed within the framework of Islamic economic principles. As developing countries with shared Islamic values but differing fiscal structures, both nations offer meaningful lessons on how to adapt public finance to turbulent global conditions while pursuing social justice and inclusive growth. Malaysia's approach—delaying the expansion of consumption tax coverage while increasing taxes on luxury goods—demonstrates a pragmatic response to external risks, such as the U.S. trade war and supply chain disruptions. The selective nature of this policy reflects Islamic economic values by minimizing harm to the general public while ensuring that those with greater purchasing power contribute more during economic hardship. Additionally, Malaysia's more mature integration

of fiscal policy with technological infrastructure supports efficiency and resilience in revenue collection.

In contrast, Indonesia's response to global uncertainty is broader and more socially targeted. The government has implemented a combination of inflation control, food diversification, targeted subsidies, and fiscal reforms aimed at protecting vulnerable communities, particularly in the informal sector and MSMEs. This reflects a commitment to *maslahah* (public interest) and social welfare, which are central tenets of Islamic economic thought. However, Indonesia still faces structural challenges in tax administration and the integration of Islamic finance, requiring sustained institutional development and regulatory coherence. From a comparative perspective, Malaysia's relatively advanced integration of fiscal incentives, digital infrastructure, and Islamic economic mechanisms has supported stronger policy outcomes. Indonesia, while facing greater socio-economic pressures, can learn from Malaysia's strategic alignment between tax policy and Islamic economic goals. Digital transformation and improved tax compliance mechanisms will be essential for Indonesia to enhance its fiscal stability and expand the reach of its Islamic finance sector.

Ultimately, this research reinforces the importance of context-sensitive, ethically grounded, and technologically supported tax policy in achieving economic resilience in developing Muslim-majority countries. Islamic economic principles offer not only a moral compass for fiscal policy but also a practical framework for equity, accountability, and efficiency. As global economic uncertainty persists, the success of both countries will depend on their ability to sustain institutional reforms, embrace digital innovation, and build trust through transparent and inclusive policymaking. In doing so, they can turn challenges into opportunities for long-term, inclusive growth rooted in Islamic economic values.

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