

Chapter 12

Globalization, Digitalization, and Financial Inclusion in Islamic Banking

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ABSTRACT

The rapid growth of Islamic banking and the evolution of financial technology have posed significant challenges to Shari'ah-compliant banks. Addressing these challenges is crucial given the increasing global interest in Islamic banking as an alternative to conventional banking. This chapter explores the role of financial technology and digital globalization in Islamic banking, examining primary challenges and strategies for overcoming them. The chapter highlights the necessity of improving the digital experience and strengthening infrastructure and human resources. It also identifies risks associated with digital financial inclusion, such as third-party involvement, the use of agency networks, rising costs, and data privacy and security concerns. The chapter recommends that policymakers and decision-makers enhance efforts to develop legislative frameworks, systems, policies, and regulatory structures to support the use of financial technology and digital financial inclusion in Islamic banking.

DOI: 10.4018/979-8-3693-4111-7.ch012

INTRODUCTION

The interconnectedness of the world has deepened under globalization, with emerging economies now accounting for over 50% of international trade flows (World Bank, 2020a). Trade among Southern countries has surged significantly. Traditional cross-border flows of goods and services have diminished, replaced by digital pathways for trade, services, information, technology, research, and communications. Digital platforms now play crucial roles in national economies and cross-border business operations, reducing transaction costs and creating a vast global customer base. This has enabled companies worldwide, of various sizes and types, to establish extensive customer databases and enhance communication methods. In this context, contemporary small companies function as multinational entities, leveraging digital platforms such as Amazon, Facebook, Alibaba, and eBay (Jayathilaka & Park, 2022; Schilirò, 2020). These small multinational companies access new markets and interact seamlessly with customers and suppliers worldwide (Gopal & Schnabl, 2022). People across countries now use digital platforms to find employment, showcase products, talents, and skills, access educational and scientific research opportunities, receive training, and build personal networks, whether social, academic, or commercial (Thrassou et al, 2020).

Globalization is frequently viewed in the literature as a multi-definitional and multi-dimensional concept signifying increasing interconnectedness among peoples and states (Bankole & Kareem, 2017; Gulmez, 2017; Guttal, 2007; Wilson, 2012). Economically, globalization is increasingly characterized by greater integration among economies worldwide. This includes the movement of goods, services, information, technology, and research across borders. This integration is evident in the global flow of e-commerce and digital transactions, surpassing traditional trade methods. Even developing nations have elevated their Gross Domestic Product (GDP) through increased participation in digital globalization (World Bank Group, 2020).

Globalization and digitalization are interconnected, with globalization measurable through cross-border trade in goods, international finance, and the massive flows of data, information, ideas, and innovations. Digitalization, representing a new form of globalization, has transformed transactions, business, and commerce. Digital platforms have enhanced global economic, financial, and social connections, increasing the volume and quality of data and information. Recent global crises, such as the COVID-19 pandemic, have significantly shifted towards digital globalization and the digital economy, affecting companies, governments, consumers, investments, and trade. This shift underscores the pivotal role of information and communication technology in global trade and business (Telukdarie et al., 2023).

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