

THE DEVELOPMENT AND OPPORTUNITIES OF THE HALAL INDUSTRY IN INDONESIA

Eni Puji Estuti¹ & Zumrotun Nafiah²

^{1,2}Sekolah Tinggi Ilmu Ekonomi Semarang

Correspondence Email: enipuji@gmail.com

ABSTRACT

Halal is a concept in Islamic economics where there are established rules so that an end result or process is called halal. This study aims to analyze the development and opportunities of the halal industry in Indonesia using quantitative descriptive methods. For Muslims, halal is a must or a condition that must be met for the food consumed, and the services used to the standard of the process. Halal covers various aspects, including banking, finance, food, tourism, pharmacy, fashion, and media. Indonesia is a country where the majority of the people are Muslim. Logically, the need for halal products and services should be a necessity. Indonesia is the largest market for halal food and beverages. Based on a report from the State of Global Islamic Economy Report 2022, Muslims spend US\$2 trillion by 2021 across industries. Year-on-year growth of 8.9% from 2020, with Islamic finance in 2021, up 7.8%, from 2020. The study found that every year the halal industry develops, and this cannot be separated from the role of the government in regulating halal regulations.

Keywords: Halal industry, economic, Islamic economy

1. INTRODUCTION

Based on the Global-Islamic-Economy-Report-2022, it is estimated that 1.9 billion Muslims worldwide will spend the equivalent of US\$2 trillion by 2021 across the food, pharmaceutical, cosmetic, fashion, travel, and media/recreation sectors of the halal industry. This expenditure reflects year-on-year growth of 8.9% from 2020, with Islamic financial assets estimated to have grown to US\$3.6 trillion in 2021, up 7.8%, from US\$3.4 trillion in 2020. Global Muslim spending in 2022 is expected to grow by 9.1% for the Islamic economic sector outside the Islamic finance sector. All of these, except travel, have returned to pre-pandemic spending levels by the end of 2021. Muslim spending is expected to reach US\$2.8 trillion by 2025 on a 4-year Cumulative with an annual growth rate of 7.5%.

Some drivers of Islamic economic development include the growth of the Muslim population, adherence to Islamic ethical values, and government programs in the halal industry. Malaysia is recorded to be the strongest Islamic economic ecosystem in developing countries, while Indonesia ranks 4th. Islamic economics has been on the agenda in several countries and is considered a core part of economic recovery policies from the pandemic.

Table 1. World Population (September 2022)

Country	Population	Country	Population
China	>1,42 Miliar	Bangladesh	171,594,827
India	>1,41 Miliar	Russia	144,704,502
United State	338,653,036	Mexico	127,724,673
Indonesia	275,908,026	Japan	123,801,638
Pakistan	236,882,454	Ethiopia	124,095,535
Nigeria	219,741,895	Philippines	115,969,226
Brazil	215,538,160	Egypt	111,384,124

Resource : (Global-Islamic-Economy-Report-2022)

With a large population increase, consumption potential also increases. Indonesia's population is 275,908,026 people in September 2022, most of whom are Muslims. This means Indonesia is a potential market for the large demand for halal products. Indonesia accounts for 12.7% of the world's Muslim population. The halal industry in Indonesia has contributed USD 3.8 billion to Indonesia's Gross Domestic Product (GDP) every year (Fathoni, 2020).

Table 2. Investments in the Islamic economy

Share by sector	Percentage
Islamic Finance	66,4%
Halal Food	15,5%
Halal Pharma	8,0%
Media	5,0%
Travel	4,9%

Resource : (Global-Islamic-Economy-Report-2022)

The halal industry has an important role in improving the economy. So, the halal industry should be developed in Indonesia. The halal industry has contributed USD 3.8 billion annually to Indonesia's GDP. From this description, the next question is how the huge potential of global halal products can be an opportunity for Indonesia to meet the demands of the domestic and global markets (www.indonesia.go.id). Indonesia has implemented national sharia economic policies, especially halal law, before the arrival of the pandemic. Saudi Arabia, UAE, Malaysia, and Nigeria are also

strengthening Islamic economies, particularly in halal food, Islamic finance, and fintech. In the Islamic finance sector, Pakistan, Qatar, and Kuwait announced plans for new centralized regulations to improve aspects of governance (Global-Islamic-Economy-Report-2022).

The pandemic that resulted in supply chain changes impacted losses in various sectors, but positive developments still occurred in the pharmaceuticals, cosmetics, and clothing sectors. Certain OIC and non-OIC markets grew by 118% to US\$25.7 billion in 2020/21 from US\$11.8 billion in 2019/20. The UAE, Indonesia, and Malaysia accounted for the highest number of investments, with the UAE securing 16% of all recorded transactions. The halal food and Islamic finance sectors comprised 15.5% and 66.4% of the total deal value, respectively (Thomson Reuters, 2021) (Global-Islamic-Economy-Report-2022).

Muslim spending on food will increase by 6.9% in 2021, from US\$1.19 trillion to US\$1.27 trillion, and is expected to grow by 7.0% in 2022 and reach US\$1.67 trillion in 2025 with CAGR 4 years at 7.1% (Global-Islamic-Economy-Report-2022). As an organization that oversees Islamic countries, the OIC has made various food security programs to develop food, halal food, trade, and development. Muslims around the world, of about 1.9 billion, spend \$1.27 trillion. OIC countries (2020) imported \$200 billion in food and beverage. Muslims spend 7% of their spending on consumption.

2) METHODS

This research is descriptive research qualitative with a phenomenological approach. The descriptive qualitative approach is an effort to understand the various concepts in the research process, using content analysis techniques and library research. Content techniques analysis is a research method used to find out the conclusions of revealing the author's ideas which are manifested as well as latent. This library research uses secondary data from scientific articles and other relevant documents. The data obtained is then analyzed by producing a descriptive explanation in the form of words, pictures, or symbols linked with the object of this research.

3) RESULTS AND DISCUSSION

The world's Islamic financial assets were worth US\$3.6 trillion in 2021 and are expected to grow by 8.0% in 2022 and reach US\$4.9 trillion by 2025 at a 4-year CAGR of 7.9%. In the first half of 2021,

global Sukuk issuance reached a record high of US\$100 billion and will break further records by the end of the year (Thomson Reuters, 2021). Indonesia's position on Islamic economic investment is recorded as the second highest after the UAE (United Arab Emirates). The UAE alone controls 16% of all investment transactions, halal food 15.5%, and Islamic finance 66.4%. (Thomson Reuters, 2021). Indonesia as a country where the majority of the population is Muslim, is very likely to increase the production of the halal industry. So far, Indonesia is still only a halal consumer but has not maximized its potential as a producer of the halal industry.

Indonesia's position compared to other countries in the halal industry will be categorized based on several sectors: Islamic Finance, halal food sector, Halal Tourism Sector, and Sector Muslim fashion. In the Islamic financial sector, Islamic banking in Indonesia started passionately since the 1990s, namely in 1992, this industry began the beginning of the development of the establishment of the first Islamic commercial bank in Indonesia, namely Bank Muamalat. Indonesia has experienced good developments, including merging Islamic banks to become a considerable banking force. Indonesia's Islamic finance position as of September 2021, total assets Islamic finance Indonesia (excluding Shares Sharia) reaches USD 139.33 billion. Indonesia's Islamic financial market share reaches 10.19% of the total market in Indonesia (www.ojk.go.id).

Table 3. Indonesia's Islamic finance industry

Types of Industries	September 2021 (IDR Trillion)
Sharia Banking	646,21
Sharia Insurance Company	43,68
Financing Institutions Sharia	22,28
Islamic Non-Bank Institutions Other	51,86
Corporate Sukuk	37,16
Sharia Mutual Funds	41,31
State Sukuk	1.150,91
Sharia Stock Capitalization	
Sharia Stock	3.595,74

Resource : (www.ojk.go.id)

Growth of Sharia bank assets for 5 years (2017-2021) are 18,97%, 12,57%, 9,93%, 13,11% and 12,22% (www.ojk.go.id). When viewed in the last 5 years, there have been asset fluctuations that show a downward trend. However, when viewed from the development of its assets, it is still experiencing a positive trend. In 2017 Islamic banking assets reached 405.3 trillion rupiah and in 2021 reached 646.2 trillion rupiah.

Indonesia has vast opportunities to become an exporting country for halal food and beverages. In Indonesia, an LPPOM MUI provides legality or halal certification to the industry. MUI was established on January 6, 1988, in charge of conducting halal inspection and certification. LPPOM MUI is the First and Most Trusted Halal Certification Agency in Indonesia and is increasingly showing its existence as a credible halal certification body at national and international levels. This standard is recognized in Indonesia and by the United Arab Emirates Accreditation Board or ESMA (<https://halalmui.org>). The Indonesian government issued Law Number 33 of 2014, the Halal Product Assurance Agency (BPJPH), which marked a new era of halal product assurance in Indonesia. Previously, the guarantee of halal products (JPH) was carried out by the community and was voluntary, through Law 33/2014, the task of JPH shifted and became the responsibility of the state (government) and was mandatory.

BPJPH said that until November 5, 2021, 31,529 business actors applied for halal certification. Of this number, most micro-business actors reached 19,209 or 60.92%. Followed by small business actors as many as 5,099 or 16.17%. So a total of 76% are MSEs (micro and small businesses). LPPOM MUI has designed a halal certification system and assurance system that is implemented, recognized, and even adopted by foreign halal certification institutions, reaching 45 institutions from 26 countries. This huge support from the government shows the attention and tangible form of the Indonesian government in the halal food industry. Based on data from the *Global-Islamic-Economy-Report-2022*, Indonesia is the largest consumer country in halal food and beverages, amounting to \$ 146.7 billion, followed by Bangladesh, Pakistan, Egypt, Nigeria, and Russia. This is very unfortunate that Indonesia is only the largest consumer, not the largest producer.

OIC countries have been negatively impacted, especially tourism hotspots of Egypt, Turkey, Indonesia, and Malaysia. On the other hand, domestic tourism has offset some losses, with the government launching tourism campaigns, while stimulus packages have helped businesses survive. The pandemic destroys the global travel and tourism industry, with a 70% drop and 1 billion fewer incoming travelers in 2020. The role of digital technology has greatly helped travel, food, and many other businesses. The digitization of Muslim-friendly tourism has been very active, with contactless travel becoming increasingly common and travel businesses diversifying their offerings to create new innovations. revenue streams, from eCommerce to food delivery. There is also significant investment activity with Traveloka, which is based in Indonesia, and Tiket.com, both of which plan to go public.

Indonesia has not become a world halal tourist destination. Saudi Arabia occupies the first position, followed by the UAE, Qatar, Kuwait, and Russia.

Like the rest of the fashion industry, modest garment sales are affected yet starting to recover in 2021 as the industry has adapted, while high vaccination rates in more developed countries have boosted sales. The significant shift is to e-Commerce, with high double digits sales growth in Indonesia's primary modest fashion market. As a country with the largest Muslim population in the world, the fashion of the population will also refer to established Islamic religious norms. Muslim fashion has become a market that continues to grow despite the Covid 19 pandemic.

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