

The Importance of the Halal Industry in Sharia Economic Development in Indonesia: Opportunities and Challenges

Eka Siti Khasanah¹, Ahmad Syaiful Affa²

¹Magister Ekonomi Syariah, UIN K.H. Abdurrahman Wahid Pekalongan

²Program Studi Manajemen, Universitas Pekalongan

Email: eka.work123@gmail.com

Abstract

The purpose of this research is to examine the critical role of the halal business in speeding the growth of the Islamic economy in Indonesia. This research also highlights possibilities and difficulties in the halal business. In this study, a descriptive qualitative methodology involving library research was applied. According to the findings of this study, the Islamic economy is now accelerating in its growth. This is inextricably linked to the function of the halal business, particularly the key areas of food, medicines, tourism, clothes, media, and halal recreation. Opportunities for the halal industry in many sectors remain abundant, given that Indonesia has one of the world's biggest Muslim populations, with a total population of 231.06 million in 2021. Rapid technical advancements, as well as government backing through laws and instruments, create an excellent potential for this business. International halal products are beginning to enter Indonesia, there is a low utilization of information technology, policies between ministries and institutions are not yet harmonized, and there is a lack of financing, data, and research on the halal economy.

Keywords: halal industry, acceleration, Islamic economic development, opportunities, challenges

A. Introduction

The phrases halal and haram are Qur'anic expressions that are used to describe numerous ideas, some of which are related to food and drink. These two words appear in the Hadith of the Prophet SAW as well (Ali, 2016). According to Al-Jurjani, the term "halal" is derived from the word *الحل* which means "open" (*الفتح*). In layman's words, it refers to something that is not sanctioned for its usage or an act that is permitted by Shari'a (Ali, 2016).

The Shaf'i school's Abû Muhammad al-Husayn ibn Mas'ûd al-Baghawî (436-510H) claims that the word "halâl" signifies anything that is Shari'a lawful since it is excellent. According to Muhammad ibn 'Ali al-Syawkânî (1759-1834 H), it was deemed halal since the rope knots or banned ties that hindered it had been loosened. In keeping with the view of al-Syawkânî (1759-1834 H). Contemporary scholars, such as Yusuf al-Qaradawî, describe halal as that that breaks down dangerous knots and is permitted by Allah.

According to some of the above explanations, halal is something that is permitted by Shari'a to (i) be carried out, (ii) used, or (iii) attempted, because the ropes or bonds that prevent it have been unraveled or elements that endanger it, accompanied by attention to methods obtained, not with muamalah results, which are prohibited.

Other than broad conditions in muamalah, the term halal is also utilized in terminology, one of which is in the economic area. The halal industry is frequently paired with the word halal in economic concepts. The term industry derives from the Latin word *industria*, which implies labor or work. The term industry is frequently used in a wide sense, referring to any human activities that help people meet their basic necessities in order to flourish (Sulistiani, 2019). Industry is an economic activity that transforms raw commodities, raw materials, semi-finished goods, or completed goods into more useful things (Sadono, 1995).

The halal industry, according to the above definition, is all forms of efforts to improve the welfare of the population, both in the form of raw material processing and the development of other aspects that can become economic products permitted by Shari'a (Sulistiani, 2019). Both in the process of making, business, use, marketing, and development, and not the result of prohibited muamalah activities.

Today, the halal sector is a global phenomenon. This is obvious from the halal industry's prospects, which continue to improve year after year. Today, the halal sector is a global phenomenon. The halal sector serves around 1.8 billion Muslim inhabitants. The halal industry's consumer potential grow by 5.2% every year, with total consumer expenditure reaching USD 2.2 trillion (Dinar Standard, 2021). The overall amount spent by halal business customers would also rise, reaching USD 3.2 trillion by 2024. (Dinar Standard et al., 2022).

The halal sector has also been adopted in Indonesia, which is causing worry among many academics and practitioners. The Indonesian government is likewise concerned about the expansion of this business, as seen by the different rules that emphasize the notion of halal in it. Indonesia has the world's fourth biggest population, with the world's largest Muslim population, accounting for 12.7% of the overall population (Fathoni & Syahputri, 2020). Because of the significant Muslim population, there is a high demand for halal items.

The halal sector plays a critical role in economic development. As a result, the halal sector in Indonesia should be developed. Annually, the halal business contributes USD 3.8 billion to Indonesia's Gross Domestic Product (GDP). Aside from that, the halal business has attracted USD 1 billion in foreign investment and produced 127 thousand employment every year (Fathoni & Syahputri, 2020). Industry Halal With thus much potential, Indonesia has no doubt the capacity to become the world's halal goods industry's monarch.

The actuality in Indonesia differs from the prospective circumstances that are held. Currently, Indonesia is merely a customer and cheerleader in the global halal production competition. As can be observed, Indonesia ranks fourth in the

world in terms of halal economic indices, after Malaysia, Saudi Arabia, and the United Arab Emirates (Dinar Standard, 2021). Indonesia will face some difficult issues in the future. It is hoped that Indonesia's future growth would be even more impressive.

Indonesia's future potential remains untapped, as seen by the country's present reorganization of the domestic halal sector structure. Indonesian halal food exports to OIC countries increased by 16%. When the government implements an integrated halal product codification and trade data system by the end of 2021, this will be increased even more. The country is also working to enhance halal certification by codifying and digitizing halal certificates in order to track the value and volume of halal items.

The merger of PT Bank Mandiri, PT Bank Negara Indonesia, and PT Bank Rakyat Indonesia will significantly improve the Indonesian Islamic banking market. The Islamic finance business is also growing. In Indonesia, there are 31 fintech companies. This year, Alami, a Shariah-compliant P2P SME finance platform, took part in various equity and debt investment rounds. The goal of the firm is to become a digital bank.

Accelerated economic growth is exactly what Indonesia requires right now. The development of the halal industry should be the focal point of policy execution by both the central bank and the government. New developments in the halal industrial sector are viewed as critical to boosting the expansion of Indonesia's Islamic economy. Economic growth is possible when productive resources are properly exploited and distributed equally (Wulansari et al., 2017). Sharia economic development aims to meet the major goals of prosperity and inequality reduction through the halal business, which can yet be optimized.

The global economy's issues and the presence of uncertainties necessitate smart initiatives to expand the halal sector industry. The halal sector industry should be able to assist sharia economic growth in Indonesia with government backing. As a result, the purpose of this paper is to dig further into the prospects and problems of the halal sector business in driving the expansion of the Islamic economy in Indonesia. This research is anticipated to create a new discourse for both the government as a policy holder as well as practitioners and entrepreneurs involved in the development of the halal sector business.

B. Methodology

This work was written using the descriptive narrative analysis and literature study technique. The purpose of narrative descriptive analysis is to highlight the relevance of the halal business in speeding the expansion of Indonesia's Islamic economy, as well as the possibilities and problems it faces.

C. Discussion 1. The Halal Industry's Importance in Sharia Economic Growth

The Islamic economy is based on the Islamic faith-inspired ethical needs of Muslims. These are the concepts and ideals that they have accepted

as a "style of life." While they may be culturally and geographically varied, Muslim consumers globally drive a coherent US\$2 trillion potential across a spectrum of lifestyle products and services, while Islamic financial assets amount to a US\$3.6 trillion opportunity, together known as the "Islamic economy."

According to Islamic law, there is a certain manner to slaughter authorized animals that is known as halal, or permissible. Also prohibited from ingestion are pork and its byproducts, alcohol, and any other intoxicating substances. These are considered as haram, or forbidden.

Halal products include both meat and non-meat food items, as well as non-food items such as pharmaceuticals and cosmetics. Furthermore, the Islamic lifestyle includes modest attire and Islamic art (mostly calligraphy), whereas halal tourism comprises resorts and hotels that do not offer pork or alcohol and have separate gyms and swimming pools for men and women.

Halal products are further classified as meat and non-meat food items, as well as non-food items such as pharmaceuticals and cosmetics. Furthermore, the Islamic lifestyle includes modest attire and Islamic art (mostly calligraphy), whereas halal tourism comprises resorts and hotels where pork and alcohol are not offered, as well as separate gyms and swimming pools for men and women.



Indonesia is determined to establish itself as the world's halal hub and a forerunner in the globalization of halal certification (Kamila, 2021). The foundation for halal implementation in Indonesia may be observed in government legislation overseeing the issuance of halal labels via statutory regulations. Specific legislation addressing the issue of halal packaged food goods include Health Law No. 23 of 1992, Food Law No. 7 of 1996, and Consumer Protection Law No. 8 of 1999.

Recently, Indonesia has devoted increasing attention to the halal tourist business, as evidenced by Tourism Law Number 10 of 2009. Indonesia is one of the countries that has been slow to respond by developing halal tourist rules. On the other side, the study found that prioritizing local tourism

is the best predictor of Muslim religious beliefs about spending on halal travel and tourist consumption (Devi & Firmansyah, 2019).

The Halal Product Assurance Organizing Body is one of the special authorities formed by the government. The establishment of BPJPH strives to meet the relatively considerable market potential for local halal products, in keeping with the Indonesian population's rising religious attitudes. The potential for the growth of the Islamic economy is primarily supported by the Indonesian Muslim community's understanding of the benefits of halal goods and services (Kamila, 2021). According to the 2018 Halal Economy and Strategy Roadmap, Indonesia's overall consumption of halal goods and services in 2017 was around US\$ 218.8 billion. This sum is expected to rise by an average of 5.3 percent every year until it reaches US\$ 330.5 billion in 2025.

The adoption of the halal business in Indonesia should be motivated by a desire to see Indonesia's economy thrive. The rise of the halal business may be consistent with the Indonesian government's objective of strengthening the role of the Islamic economy in national economic growth. As can be seen, the halal business has a high potential for contributing to national economic growth.

2. Indonesia's Halal Industry Profile a. Modest Fashion

In terms of clothes and fashion, both the Qu'ran and Sunnah promote modesty. Many typical components of Muslim dress reflect this, such as wearing longer-length clothes with more body covering, nontransparent materials, and looser fits. Despite the many interpretations of 'modesty' among Muslims across the world, these are some of the distinguishing characteristics that designate a garment as 'modest.' Sustainable and ethical manufacturing processes, as well as the use of halal materials, are becoming increasingly important in Muslim nations.

As the fashion industry recovers from the pandemic, the overall deal value in the Apparel and Modest Fashion sector climbed from US\$28 million to US\$3.4 billion in 2019/20, with the total number of agreements increasing to seven from two the previous year. For modest fashion discounts, Indonesia ranks fourth out of four countries.

b. Halal Food Sector

Islamic law specifies which foods are haram, or banned, such as pork and intoxicants, and others are halal, or allowed. Food-related restrictions apply to medications and cosmetics, necessitating the use of halal components, particularly in the case of swallowed items. Muslim majority nations have rules in place that stipulate which ingredients are deemed halal and may demand halal certification for some locally made or imported items.

In 2019/20, halal food deals amounted for 51.86% of total deals. In 2020/21, this fraction fell to 15.5%. The overall deal value fell 35% to \$3.97 billion in 2019/20 from \$6.3 billion in 2019/20. Given the

tremendous growth witnessed on such platforms since the epidemic, food technology businesses continue to receive the greatest investment.

According to this data, Indonesia is the top seller of halal food.

c. Media dan Recreation

Another important virtue emphasised in both the Qu'ran and the Sunnah is using time constructively and positively while abstaining from illegal activities like as gambling and consuming alcohol. These principles influence Muslims' leisure and recreational activities, including travel and tourism.

Media and entertainment investments accounted for 5% of all transactions in the Islamic economy. This is a rise from the previous year's 1%. As a result, the transaction value climbed from US\$121 million in 2019/20 to US\$1.3 billion in 2020/21. Venture capitalists made the vast bulk of investments in this area. Indonesia is one of the top three nations in terms of media and entertainment deals in 2020/21.

d. Islamic Finance

Several principles are provided in the Qur'an and Sunnah to maintain reasonable and fair commercial dealings and transactions free of interest and usury (riba). The subject matter of the transaction must be halal, the amount, quality, delivery time, and payment conditions must be properly established, and the contract must be unambiguous and adhere to explicitly defined Islamic standards.

The number of Islamic financial transactions climbed from 38 in 2019/20, valued at US\$4.9 billion, to 57 in 2020/21, valued at US\$17 billion. The value of the transactions has increased by 246% year on year. Indonesia, Saudi Arabia, and Egypt are the top three nations in terms of Islamic financing agreements in 2020/21.

Islamic banking is expected to expand internationally, even in nonOIC nations such as the United Kingdom, where Islamic fintech businesses are already flourishing. More investment in financial businesses is also expected across the OIC.

3. Opportunities and Challenges of Halal Industry in Indonesia

In the previous few decades, the halal business has grown significantly. The Gross Domestic Product demonstrates this contribution (GDP). The Islamic economy has been shown to contribute USD 3.8 billion to the Gross Domestic Product (GDP) each year (Republik Indonesia, 2019). This contribution to GDP is shown in Indonesian consumption as well as halal goods export and import operations.

What remains an issue is how Indonesia can be both a consumer and a producer of halal products, with the ability to export the commodities produced. In terms of exports, Indonesia's halal business has a huge possibility to improve the value of its exports. The yearly export value of the halal sector fluctuates between USD 5.1 billion and USD 11 billion. The halal business made USD 7.6 billion in 2018 (Fathoni & Syahputri, 2020).

Indonesia remains fourth in the overall GIEI rating. Indonesia continues to rise in the Halal Food indicator rankings, rising to second place in 2022. Exports of halal food to OIC nations grew by 16%. This will be enhanced further when the government launches an integrated halal product codification and trade data system by the end of 2021. The nation is also taking initiatives to strengthen halal certification, such as codifying and digitising halal certifications to track the value and volume of halal goods (Dinar Standard, 2021).

On the other side, one of Indonesia's potential as well as difficulties is the demographic advantage of its people, particularly the millennial and Z generations. Indonesia has a Muslim millennial population that is technologically literate. According to figures from the Central Statistics Agency (BPS), the 1997-2012 birth generation accounted for around 27.94% of the country's population (Statistik, 2021). Generation Z has a population of 68,662,815 persons aged 10 to 24. Meanwhile, the millennial generation accounts for 69.38 million individuals, or 25.87 percent of the population.

With thus much potential, Indonesia should have a tremendous opportunity in terms of demography for the millennial age in establishing the halal business in Indonesia. Technology-literate generations will find it simpler to get information and trade their products for export overseas.

For Millennials (also known as Generation Y) aged 25-40, this will be the second recession since the 2008 Global Financial Crisis. While this is Generation Z's (also called as Gen Z, iGen, homelander, or postmillennials) first crisis, they are now aged 16-24. These generations are collectively paying more on consumer goods than they did prior to COVID19. Businesses throughout the world are responding to the changing requirements and expectations of Millennials and Gen Zs, who account for over 46% of the global population (2019). Businesses have used techniques such as introducing mobile commerce for product sales, leveraging social media to engage younger people, and delivering sustainable and ethically made items to attract the young population.

The post-pandemic period is an ideal moment for the halal business to contribute to recovery efforts by developing realistic strategies. The government has developed a stimulus and relaxation package, especially for the halal business, in an effort to minimise the economic damage. In order to usher in a new order, the administration has devised a comprehensive economic recovery strategy that includes the Islamic economy (Kamila, 2021).

The Halal Product Assurance Organizing Body is one of the special authorities formed by the government. The establishment of BPJPH strives to meet the relatively considerable market potential for local halal products, in keeping with the Indonesian population's rising religious attitudes. The potential for the growth of the Islamic economy is primarily supported by the Indonesian Muslim community's understanding of the benefits of halal goods

and services. According to the 2018 Halal Economy and Strategy Roadmap, Indonesia's overall consumption of halal goods and services in 2017 was around US\$ 218.8 billion. This sum is expected to rise by an average of 5.3 percent every year until it reaches US\$ 330.5 billion in 2025.

D. Conclusion

Indonesia is a massive country with the world's biggest Muslim population. These conditions bring both opportunities and problems. The halal sector industry plays a critical role in contributing to Indonesia's economic growth, particularly the sharia economy. Indonesia, like a coin with two sides that cannot be separated, offers both chances and problems.

Various halal industrial sectors, such as halal food, apparel, tourism, and finance, are the four key attractions for the growth of the halal sector in Indonesia. The millennial and Gen-Z generations, which account for more than half of Indonesia's total population, are the most important source of possibilities and difficulties driving the growth of the Islamic economy from the halal business. The obstacles stem from how to make people productive, as well as technological options that can aid in their production.

REFERENCES

- Ali, M. (2016). The Concept of Halal Food in Sharia Perspective and Product Responsibility of Halal Industr. *Ahkam: Jurnal Ilmu Syariah*, 16(2), 291–306. <https://doi.org/10.15408/ajis.v16i2.4459>
- Devi, A., & Firmansyah, I. (2019). Developing Halal Travel and Halal Tourism To Promote Economic Growth: a Confirmatory Analysis. *Journal of Islamic Monetary Economics and Finance*, 5(1), 193–214. <https://doi.org/10.21098/jimf.v5i1.1054>
- Dinar Standard. (2021). State of the Global Islamic Economy Report 2020/2021. *State of the Global Islamic Economy Report 2020/21*, 4–202. <https://haladinar.io/hdn/doc/report2018.pdf>
- Fathoni, M. A., & Syahputri, T. H. (2020). Potret Industri Halal Indonesia: Peluang dan Tantangan. *Jurnal Ilmiah Ekonomi Islam*, 6(3), 428–435. <https://doi.org/10.29040/jiei.v6i3.1146>
- Kamila, E. F. (2021). Peran Industri Halal Dalam Mendongkrak Pertumbuhan Ekonomi Indonesia Di Era New Normal. *Jurnal Likuid*, 1(01), 33–42.
- Republik Indonesia, K. K. (2019). Media Keuangan. *Kementerian Keuangan*, 14, 140.
- Sadono, S. (1995). Pengantar Teori Ekonomi Mikro. In *Jakarta: PT. Karya Grafindo Persada*.
- Statistik, B. P. (2021). Berita resmi statistik. *Bps. Go. Id*, 27, 1–52.
- Sulistiani, S. L. (2019). Analisis Maqashid Syariah Dalam Pengembangan Hukum Industri Halal Di Indonesia. *Law and Justice*, 3(2), 91–97. <https://doi.org/10.23917/laj.v3i2.7223>

Wulansari, N., Wahyu, & Kurniawan, Y. (2017). Akselerasi pertumbuhan ekonomi melalui sinergi UMKM dan Good Governance di Indonesia. *Prosiding Seminar Nasional Dan Call For Paper Ekonomi Dan Bisnis, 2017*, 262–268.