

Development of the Halal Industry Towards the Growth of the Islamic Economy in Indonesia

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Abstract: As a country with the largest Muslim population in the world, Indonesia actually has great potential for the development of the halal and sharia industry. Unfortunately, this potential has not been matched by good achievements at the global level. The halalness of a product is a mandatory requirement for every consumer, especially Muslim consumers. Be it products in the form of food, medicine or other consumer goods. The halal product industry is currently experiencing development not only as a halal product but also as a halal lifestyle. This research is a normative legal research with the research method being library research. Based on the results of the study, it is known that with the birth of Law Number 33 of 2014 concerning Halal Product Guarantee, there is a guarantor and legal certainty regarding the guarantee of halal products. To become a major player in the world's halal industry, full support from the government is needed. The halal industry roadmap needs to be made as soon as possible so that the goals and development of the halal industry in Indonesia are more focused. The existence of the National Sharia Finance Committee (KNKS) is also expected to help the development of the halal industry in Indonesia.

Keywords: Halal products industry, Islamic Economic Growth

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1. Introduction

The halal industry is currently a global trend. This is evident from the prospects of the halal industry which continues to grow from year to year. According to the State of The Global Islamic Report (2019), there are around 1.8 billion Muslims who are consumers of the halal industry. Consumer opportunities in the halal industry increase by 5.2% annually with total consumer spending reaching USD 2.2 trillion. This number is expected to continue to increase every year. The projection of the Compound Annual Growth Rate (CAGR) of the halal industry will increase to 6.2% in the period 2018 to 2024. The total funds spent by consumers of the halal industry will also increase to reach USD 3.2 trillion in 2024. From these data we can see that the halal industry has very bright prospects in the future (State of Global Islamic Economy Report 2019).

Indonesia is one of the countries that has great potential to develop the halal industry. Of course, this great potential is an implication of the large number of Muslim population in Indonesia. Indonesia contributes 12.7% of the world's Muslim population. The total population in Indonesia is estimated to reach 273 million people, so the number of Muslims is equivalent to 87.2% of the total population in Indonesia (World Population Review, 2020). This large Muslim population also makes the demand for halal products large. Indonesia is called the embodiment of the world's halal industry market. In fact, the total spending spent by Indonesia on halal products was USD 218.8 billion in 2017 (Ministry of Finance of the Republic of Indonesia 2019).

The halal industry has a strategic role in improving the economy. So, the halal industry should be developed in Indonesia. The halal industry has contributed USD 3.8 billion to Indonesia's Gross Domestic Product (GDP) each year. In addition, the halal industry has also contributed USD 1 billion in investment from foreign investors and opened 127 thousand jobs per year. If optimized again, the halal industry can increase the value of exports and the country's foreign exchange reserves (Ministry of Finance of the Republic of Indonesia 2019). So, it is only right that Indonesia starts developing the halal industry in order to build the economy optimally.

2. Materials and Methods

This research is a qualitative descriptive study with a phenomenological approach. This research is a library research that uses secondary data obtained through scientific articles or other relevant documents. The data obtained is then analyzed by producing descriptive explanations in the form of words, pictures

or symbols that are connected to the object of this research.

Data analysis in this study was carried out in three stages, namely data reduction, data categorization, and data verification. Data reduction in this study was carried out by selecting all data through cutting and simplifying existing data according to the research topic. Furthermore, the categorization of the reduced data was carried out according to the research topic, namely the role of the Halal Industry in the Indonesian Economy. The last stage is data verification to draw conclusions which are the researcher's interpretation of the data. Verification is carried out using the triangulation technique, namely comparing one data source with another data source (Neuman and Djamba 2014).

3. Results and Discussion

3.1 *The Role of Halal Industry in Islamic Economic Growth*

The halal industry continues to show positive growth every year. This growth certainly provides a positive contribution to the Indonesian economy. This contribution can be seen through the Gross Domestic Product (GDP). The sharia economy has been proven to contribute to the Gross Domestic Product (GDP) of USD 3.8 billion annually (Ministry of Finance of the Republic of Indonesia 2019). This contribution to GDP is reflected in the consumption of the Indonesian people as well as export and import activities of halal products. Indonesian people's consumption of halal products is very large, even among the largest in the world. It was recorded in 2017 that the total consumption of halal products in Indonesia was USD 200 billion or more than 36% of total household consumption. This amount is also equivalent to 20% of Indonesia's GDP (Ministry of Finance of the Republic of Indonesia 2019). Consumption of halal products will continue to grow with an average growth of 5.3%. In 2025, it is estimated that the level of consumption of halal products in Indonesia will reach USD 330.5 billion (Katadata Publication Team 2020).

Bappenas stated that the majority of this large total consumption comes from imported products (Akbar, 2019). However, if we increase production in the halal industry sector, we can reduce the deficit in the trade balance (Ministry of Finance of the Republic of Indonesia 2019). In fact, it is not impossible that we can also increase exports of halal products. In terms of exports, the halal industry has great potential to increase Indonesia's export value. The export value that can be generated from the halal industry ranges from USD 5.1 billion to USD 11 billion annually. In 2018, the halal industry generated USD 7.6 billion. Indonesia has a halal export opportunity for halal products of 3.8% globally (Indonesia Halal Lifestyle Center 2019). This figure can be increased again by improving the quality of halal products exported. In addition, competitive pricing is considered important so that our products can compete with products from other countries. If halal products from Indonesia can compete in the world market, then of course Indonesia can become the mecca of the world's halal industry. Talking about increasing exports, it is certain that there is an increase in production. To increase production, a company needs an increase in the number of workers. So, there is a positive relationship between exports and the provision of workers. The halal industry also has an economic influence on employment. In terms of employment, the halal industry is able to open 170,000-330,000 jobs (Lifestyle Center 2019). If the halal industry continues to grow, then this number could be even greater. The halal industry with all its potential can be used to encourage an increase in the value of foreign exchange reserves. There are several ways we can do this. First, increase the export value of the halal industry. Halal commodities that have great potential to be exported by Indonesia are halal food and Muslim clothing. As previously explained, to encourage export value, the steps that must be taken are to increase commodity production accompanied by improving quality and setting competitive prices. Second, increase the potential for halal tourism.

Halal tourism is the sector with the greatest potential to drive increased foreign exchange reserves. Moreover, Indonesia has received many awards in the context of halal tourism. So, what we must do is improve the quality of Indonesian halal tourism by developing a targeted strategy. The strategies that we can do are to strengthen the integration of tour packages, improve the quality of human resources. Third, increase the role of the Islamic financial industry in order to realize financial inclusion. The Islamic financial industry can be used to support access to capital for Micro, Small and Medium Enterprises (MSMEs) engaged in the halal sector through financing. This capital can be used for business expansion. Just imagine, if there are many MSMEs expanding their businesses, then production activities will increase. This increase in production can bring Indonesian halal commodities to international trade. In addition, the financial inclusion program also provides convenience in payment transactions for MSMEs. If more and more MSMEs transact through the Islamic financial industry, there

will be an increase in the market share of the Islamic financial industry. As a result, the Islamic financial industry will become stronger so that it can have a wider impact on improving the welfare of society.

3.2 Halal Industry Potential in Indonesia

The halal industry has enormous potential in Indonesia. This is an implication of the very large number of Indonesian Muslims. The potential of the Indonesian halal industry can be seen from several sectors, namely the halal food sector, the sharia financial sector, the halal tourism sector, and the Muslim fashion sector. The following is an explanation of the potential of each sector. First, the halal food sector. Halal food is a basic need for a Muslim. This basic need must be met so that a Muslim can continue his life. If we look at the number of Muslims in Indonesia, of course Indonesia has potential in this sector. The potential that is truly visible is the very promising market potential. In 2019, Indonesia spent USD 173 billion on halal food consumption. This makes Indonesia the largest market for halal food and beverages in the world (State of Global Islamic Economy Report 2019). Second, the sharia financial sector. The sharia financial sector is the gateway to the halal industry in Indonesia. Since the formation of Bank Muamalat Indonesia in 1992, the sharia financial sector has brought quite good development to the sharia financial industry. Islamic financial assets continue to grow every year. In 2018, Islamic financial assets increased by 13.97% (yoy) to IDR1,287.65 trillion (Financial Services Authority 2019). Indonesia ranks seventh in the world's Islamic financial asset market with a total asset value of USD 86 billion. Indonesia also ranks 5th in the Top 10 Islamic Finance (State of Global Islamic Economy Report 2019).

In 2019, the financial industry market share reached 8.69%. This figure is the total of the Islamic banking market share of 5.94% plus the Non-Bank Financial Industry (IKNB) market share of 2.75% (CNN Indonesia 2019). The growth of this financial sector reflects the potential of the Islamic financial sector which is quite large in Indonesia. Third, the halal tourism sector. Indonesia is a country that has cultural diversity and is rich in history and religious traditions. In addition, the beautiful natural scenery in Indonesia and its friendly people are Indonesia's attractions in the tourism sector. When associated with halal tourism, Indonesia's potential is very large. There are many tourist attractions that can be visited by halal travelers, including mosques, palaces, tombs, heirlooms, and halal cuisine (Jaelani 2017). There are several factors that make the potential for halal tourism in Indonesia so great, namely: relatively rapid growth of the Muslim population, the growth of the middle-class income of the Muslim population which is also quite large, the large number of young Muslims who like to travel, rapidly growing access to tourism information, friendly and satisfying facilities and services, the existence of Ramadan travel that attracts tourists, and a travel business that is increasingly growing and responsive to tourist needs (Alwafi Ridho Subarkah 2018). Fourth, the Muslim fashion sector. The potential for Muslim fashion in Indonesia is no less great. The Muslim fashion industry continues to grow from year to year. In 2019, exports of the Muslim fashion sector had reached USD 9.2 billion or equivalent to 9.8% of total exports from the processing industry. When viewed from the domestic market, consumption of Muslim fashion products has reached USD 20 billion with an average growth rate of 18.2% (FIN Editorial Team 2019). Indonesia is ranked 3rd in the Top 10 Modest Fashion and Top 10.

Muslim Consumer Markets Fashion with a total spending of USD 21 billion (State of Global Islamic Economy Report 2019). In addition, the support and role of the government, the ratification of Law Number 33 of 2014 concerning Halal Product Assurance, the rise of Muslim fashion designers and Muslim fashion shows, and positive public responses make this potential increasingly possible to be developed (AI Faried 2019; Aan Nasrullah 2018). In addition to the potential in each sector, technological developments are also a potential for the halal industry in Indonesia in general. The existence of technology encourages increased socialization and promotion of the halal industry in Indonesia. In addition, technological developments also make the manufacture of halal industry products more effective and efficient (Faried, 2019; Jaelani, 2017).

3.3 Challenge Halal Industry in Indonesia

In developing potential halal industry in Indonesia, of course We will get challenge . challenge This Can originate from aspect external and from internal aspect . From the aspect Externally , the challenges faced by Indonesia are : first , the large number of competing countries (Permana 2019). Competitor countries the among them are Malaysia, Brunei Darussalam, Turkey, Pakistan, Qatar, United Arab Emirates , and so on . In fact , there are competing countries that include to in non- Muslim countries . These countries including Australia, Thailand, Singapore, United Kingdom, Italy, and so on . So that it doesn't left behind , Indonesia must Can utilise with Good the potential it has . If not , then Indonesia will only will become consumers in a large and promising market This .

Challenge from external this also has an effect to consumption product domestically . If there is Lots product foreign enter to Indonesia, then consumption Indonesian products will decreased . The impact is that the balance sheet trading will experience deficit Because more Lots incoming imports rather than export . So, the solution from problem This is seriousness government in to uphold law customs (Pryanka , 2018). We need protection For protect product local . Policy protection This must Can press number import , but No make the importing country " offended ". The aim is so that the product local protected at a time still guard connection international . Second , not yet existence valid halal certificate globally . This is due to Not yet existence consensus made by countries in the world regarding standardization international halal certificate . Every country has criteria alone in determination halal certification . Criteria This Not yet Of course accepted by other countries. Thus, it was created irregularity in halal certification . Of course just , thing This Can impact to trust consumer moment product the exported to other countries (Randeree 2019). Because that , it is necessary held meetings between countries in the world to discuss standardization this halal certification . At least , this step This Can started by the Organization Islamic Cooperation (OIC).

Temporary That , the internal challenges experienced by Indonesia are : first , the lack of halal awareness among Indonesian society . In addition , understanding Indonesian society towards the concept of halal is still felt less . There are many Indonesian society who consider that all products on the market are halal products (Pryanka , 2018). Halal awareness has relatedness with religiosity and knowledge about halal concept . Based on research conducted by (Nusran , et al. , 2018), religiosity own more influence big to behavior consumption halal products versus knowledge to a halal products . There is also research conducted by (Kartika, 2020; Kurniawati and Savitri , 2019) which states that halal awareness is influenced by the level religious beliefs , reasons health , halal label/logo, and level good exposure . In addition , based on research conducted by (Yasid , et al. , 2016), halal awareness is influenced by religious beliefs , identity self and media exposure . Therefore, to increase halal awareness in Indonesia, the key is to conduct socialization. Socialization must be carried out continuously, directly or indirectly. Direct socialization can be done by conducting religious studies on the concept of halal, holding seminars on the theme of the halal industry, conducting visits to educational institutions, and holding halal industry events and exhibitions. Meanwhile, indirect socialization can be done through various media. In print media, socialization can be done by writing articles in newspapers and magazines, making books and comics about the concept of halal as done by the Indonesian Ulama Council (MUI) (Nusran, 2018).

4. Conclusion

Indonesia has tremendous potential to develop industry halal. Potential the in Among them is the large Muslim population which is projected to reach 256 million people in 2050, the growth various sector industry halal specifically financial, tourism and fashion sectors, the recognition of Indonesia's achievements in the eyes of the world, Indonesia's geographical conditions and demographic bonus, technological developments, and the ratification of the Halal Product Guarantee Law number 33 of 2014.

This potential can encourage growth economy through improvement mark export and foreign exchange reserves. But on the other hand, Indonesia also has challenges in developing this halal industry. The challenges faced by Indonesia come from external and internal.

From an external perspective, the challenges faced by Indonesia are the large number of competing countries, the absence of certificates halal Which applicable in a way international. Meanwhile, from an internal perspective, the challenges faced by Indonesia are the lack of halal awareness among Indonesian people, the existence of problems in the implementation of the Halal Product Guarantee Law and the low awareness of Indonesian people to compete. Through this research, it is hoped that many groups Which the more aware will importance industry halal so that it can support efforts to advance the Indonesian halal industry. By seeing the potential and challenges, the government recommended For more promote education to perpetrator business about importance maintain and guarantee quality goods and services offered to society , especially related guarantee its halalness remember majority The Indonesian population is Muslim. In addition , it is necessary There is mentoring Micro , Small and Medium Enterprises (MSMEs) in the halal certification process considering there are 57.83 million MSME actors (in 2018) who became majority perpetrator business in Indonesia. With education and mentoring This , it is hoped that Indonesia will be able to shift from consumer countries halal products become a producing country in the future

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