

Indonesia and Malaysia Halal Certification Policy: Opportunities and Challenges

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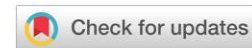
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ABSTRACT

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This study discusses the Halal Certification Policy in Indonesia and Malaysia, as well as the opportunities and challenges faced in developing the halal industry. Despite Indonesia having the largest Muslim population in the world, Malaysia continues to rank first in the State of Global Islamic Economy (SGIE). This study identifies factors that contribute to Malaysia's dominance, including an organized certification system, government support, and strong halal infrastructure. Meanwhile, Indonesia faces challenges in harmonizing international standards, certification costs for small businesses, and developing an integrated halal ecosystem. Through a descriptive qualitative approach, this study examines the achievements of SGIE Indonesia 2023 in the halal food, Islamic finance, fashion, Muslim-friendly tourism, cosmetics, and media sectors. This study is important to provide strategic insights for the development of better halal certification policies and practices in Indonesia, as well as strengthening its position in the global halal industry

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INTRODUCTION

Halal certification has become an important instrument in maintaining consumer trust in products that are claimed to be in accordance with Islamic law. Indonesia and Malaysia, as the two countries with the largest Muslim populations in the world, have a significant role in the development and supervision of halal standards at the regional and global levels. As centers of the halal economy and trade, these two countries are not only trying to meet domestic needs, but also competing in providing halal products for the international market. (Raihan et al., 2022)

In Indonesia, the halal certification policy has been regulated by the government through the Halal Product Guarantee Agency (BPJPH), which was formalized through Law Number 33 of 2014 concerning Halal Product Guarantee. Halal certification in Indonesia is required for all products in circulation, including food, beverage, medicine, cosmetics, and consumer goods. This policy places Indonesia as one of the countries with very strict halal regulations. (Republik Indonesia, 2014)

Meanwhile, Malaysia through the Department of Islamic Development of Malaysia (JAKIM), has also long been a pioneer in halal certification at the global level. (*Halal Malaysia Portal*, nd) Malaysia even targets itself as the world's halal center, with more established policies and widely accepted by the international market. Malaysia's halal standards are known to have a high reputation because of their recognition in various countries. In addition, the halal industry sector in Malaysia is also well integrated with other sectors such as tourism, cosmetics, and Islamic banking. (Agustina et al., 2019)

However, although both countries have fairly solid halal regulations, differences in policies between Indonesia and Malaysia often pose challenges, especially regarding the harmonization of halal standards in the global market. For example, differences in halal certification processes between the two countries can affect the export and import of halal products between the two. This challenge is further complicated by the increasing global demand for halal products and internationally recognized standards.

Various studies related to halal certification policies in Indonesia and Malaysia have been conducted, but most of these studies tend to focus on one country only. Only a few studies have comprehensively compared halal certification policies in the two countries, and evaluated the opportunities and challenges that arise from the differences in regulations. Furthermore, previous studies have not highlighted much about how this halal policy affects trade relations between the two countries and its impact on competitiveness in the global market. (Zein et al., 2020)

Existing research tends to focus more on the technical or legal aspects of halal certification policies without considering strategic aspects, such as how these policies affect halal industry players in both countries. In addition, there are not many studies that

discuss how halal certification policies in both countries can be harmonized to support economic integration in the ASEAN region and at the global level. Therefore, there is a significant research gap related to the comparative analysis of halal policies between Indonesia and Malaysia, especially in the context of the challenges and opportunities that arise from these policies. This study aims to fill this gap, by analyzing in more depth the implications of the halal certification policies of both countries for both domestic and global markets.

This research is important because halal certification is no longer just a religious issue, but also an economic, social, and political issue that has a broad impact on both countries. Amid the increasing global demand for halal products, both Indonesia and Malaysia have great opportunities to strengthen their positions as leaders in the halal industry. However, without strong policy harmonization, these opportunities could turn into challenges that hinder the progress of the halal industry in both countries. (Vivi Kristiana et al., 2020)

In addition, with the increasing development of international trade and economic integration, unsynchronized halal certification policies can be an obstacle to bilateral and regional cooperation. In this context, in-depth research on the comparison of halal certification policies in Indonesia and Malaysia becomes very relevant. This research is not only important for both countries, but also for other countries that want to adopt the halal certification system as part of their international trade strategy. Furthermore, this research is also expected to provide strategic recommendations for the government and halal industry players in Indonesia and Malaysia to improve cooperation, overcome existing challenges, and maximize the opportunities offered by the global halal market. Thus, this research will not only contribute to the development of public policies related to halal, but will also have a positive impact on the growth of the halal industry in both countries and the world in general. (Annisa, 2021)

This introduction outlines the historical background and significance of halal certification in Indonesia and Malaysia, identifies existing research gaps, and highlights the urgency of this comparative study. Further explanation of the methodology and analysis will be provided in the following sections of this article.

RESEARCH METHOD

This study uses a descriptive qualitative method to explore and describe in depth the halal certification policies in Indonesia and Malaysia, as well as identify the opportunities and challenges faced by both countries in implementing these policies. The descriptive qualitative method was chosen because this study aims to comprehensively understand complex phenomena, especially related to policies, regulations, and economic dynamics

that affect the halal industry in both countries. Descriptive qualitative research allows researchers to collect and analyze data in depth through various sources, such as policy documents, government reports, interview results, and literature studies. Through this method, researchers can explore the social, cultural, and economic contexts surrounding halal policies in Indonesia and Malaysia, and understand how differences in regulations between the two countries affect bilateral cooperation and competitiveness in the global market. (Matović & Ovesni, 2023)

The data collected in this study were analyzed descriptively, with the aim of describing the real state of halal policies in each country and identifying their differences and similarities. This descriptive approach is important because this study not only focuses on the normative aspects of the policy, but also on its practical impact on industry players and consumers. In addition, the descriptive qualitative method also provides flexibility to understand the perspectives of stakeholders, such as the government, producers, and consumers, who are directly involved in the implementation of halal certification policies. Thus, this study is expected to produce findings that are not only academically relevant but can also provide practical recommendations for the development of halal policies in the future. This method also allows researchers to identify various opportunities and challenges arising from halal certification policies, as well as formulate strategies that can help both countries optimize their positions in the global halal industry. (Hijrah Abd Kadir et al., 2021). .

RESULT AND DISCUSSION

In 2023, Indonesia successfully recorded significant achievements in *the State of Global Islamic Economy Report (SGIE)*, especially in various halal industry sectors. In the halal food sector, Indonesia scored (94.4), indicating rapid progress in the production and distribution of food products that comply with international halal standards. Meanwhile, in the field of Islamic finance, Indonesia scored (93.2), reflecting the stability and development of an increasingly strong Islamic banking system. (*The State of the Global Islamic Economy 2023/24 Report | Salaam Gateway - Global Islamic Economy Gateway* , nd)

In the halal fashion sector, Indonesia scored (66.3), making it one of the major players in the global Muslim fashion industry. The Muslim-friendly travel sector also scored (60.7), demonstrating Indonesia's readiness to welcome Muslim tourists with facilities that suit their needs. For the halal cosmetics and pharmaceutical sector, Indonesia scored (58.6), reflecting positive developments in providing halal-compliant cosmetic and pharmaceutical products. Lastly, in the media and recreation sector,

Indonesia scored (52.4), reflecting the growing contribution of this sector to the halal economy.

With these values, Indonesia has successfully placed itself in the Top 3 Global position in the halal economy industry, below Malaysia in first place and Saudi Arabia in second place. This achievement confirms Indonesia's position as one of the leading countries in the development of the global halal industry, while also demonstrating the strong commitment of the government and industry in advancing related sectors.

Halal Certification in Malaysia

Malaysia consistently ranks first in *the State of Global Islamic Economy Report* (SGIE) despite Indonesia having a larger Muslim population, due to several strategic factors that Malaysia has implemented in developing the halal economy. Here are some of the main reasons that support Malaysia's dominance in SGIE:

1. **Strong Halal Regulation and Infrastructure** Malaysia has a highly organized and globally recognized halal certification system. The Department of Islamic Development Malaysia (JAKIM) is an institution that has built an international reputation in halal certification standards. Its certification process is considered more systematic, transparent, and accepted in many countries, making Malaysian halal products more competitive in the global market.
2. **Consistent Government Support** The Malaysian government places great emphasis on the development of the halal industry by providing supportive policies, including fiscal incentives, special funding, and investment in research and development. Initiatives such as the Halal Industry Master Plan help coordinate the entire halal sector from food, cosmetics, to tourism.
3. **Integrated Halal Ecosystem** Malaysia has successfully integrated the halal industry into various economic sectors, including food, tourism, Islamic finance, cosmetics, and pharmaceuticals. The country has also developed Halal Parks, special industrial zones that support the production and distribution of halal products. These Halal Parks are one of Malaysia's strengths in increasing efficiency and innovation in the halal industry.
4. **Extensive International Cooperation** Malaysia has strengthened international trade relations and become a reference center for global halal certification. Malaysia is actively involved in various international forums and has many bilateral and multilateral agreements that facilitate Malaysian halal products to enter foreign markets.
5. **Development of Islamic Finance Industry** In addition to the halal industry, Malaysia's Islamic finance sector is also very advanced, with a variety of innovative Islamic

finance products and supportive regulations. Malaysia has long been one of the main centers for global Islamic finance, which includes sukuk, Islamic insurance, and Islamic banking products.

6. Strategic Geographical Position Malaysia has a very strategic geographical position on international trade routes, making it an important hub for the distribution of halal products to various regions, including Southeast Asia, the Middle East and other global markets.
7. Innovation and Technology in the Halal Industry Malaysia strongly encourages the use of technology in the development of the halal industry, from *blockchain technology* to track the halal supply chain to innovation in the production of halal food and cosmetics. These innovations increase consumer confidence and the competitiveness of Malaysian halal products in the global market. (Rohaeni & Sutawidjaya, 2020)

Although Malaysia is recognized as a pioneer in the global halal industry and halal certification, the country still faces several challenges that need to be overcome to maintain and strengthen its position as a leader in the halal industry. Here are some of the key challenges of halal certification in Malaysia:

First, halal standards vary across countries, and although Malaysia has international recognition, Malaysian halal-certified products are not automatically accepted in all countries. This creates challenges for manufacturers who want to export halal products to international markets that have different standards, such as the Middle East or European countries. (Fatonah et al., 2023) *Second*, not all business actors in Malaysia have an adequate understanding of the importance and process of halal certification. Several companies, especially in non-food sectors such as cosmetics, pharmaceuticals, and fashion, still face difficulties in complying with halal regulations and meeting the requirements set by JAKIM. The lack of education and socialization about the benefits and requirements of halal certification is a challenge that must be overcome to ensure more local products meet halal standards. (Rusydia & Marlina, 2020) *Third*, although Malaysia has a strong halal certification system, the next challenge is to ensure that product innovation and diversification of the halal sector continue to grow. Currently, the food sector still dominates the halal industry in Malaysia, but other sectors such as cosmetics, pharmaceuticals, halal tourism, and media still require greater attention. Without this diversification, Malaysia risks being left behind by other countries that are focusing on developing various halal sectors other than food. *Fourth*, in Malaysia, which has a multi-ethnic population, there are challenges in promoting halal products to non-Muslim consumers. Some non-Muslim consumers may misunderstand that halal products are only for Muslim consumers, whereas halal-certified products have high

standards of quality, cleanliness, and safety. Educating non-Muslims about the benefits of halal products for all consumers is still a challenge. (Musthofa & Buhanudin, 2021)

Halal certification in Indonesia

Currently, Indonesia has not fully reached the position of Malaysia in terms of halal economic development, even though Indonesia has the largest Muslim population in the world. There are several reasons why Indonesia is not yet on par with Malaysia in this sector, however, Indonesia is heading in the same direction with several important initiatives. Here are some comparative factors and steps that Indonesia is taking:

1. Halal Certification System

In Indonesia, the halal certification system has begun to experience major improvements with the presence of the Halal Product Assurance Organizing Agency (BPJPH) in 2019, replacing the role of halal certification previously carried out by the Indonesian Ulema Council (MUI). Although Indonesia already has a Halal Product Assurance Law that requires all products circulating in Indonesia to be halal certified, the implementation and infrastructure of certification are still being developed. A strong and globally recognized system, such as that implemented by Malaysia through JAKIM, is still in the process of being strengthened in Indonesia.

2. Halal Infrastructure and Ecosystem

Malaysia has successfully built well-integrated Halal Parks to facilitate the development of the halal industry. Indonesia, despite its great potential in terms of natural and human resources, still does not have an integrated halal infrastructure as good as Malaysia. Indonesia still faces challenges such as problems in logistics, distribution, and supervision of halal standards that need to be improved to achieve optimal efficiency and innovation in the halal industry.

Indonesia itself with the regulation of the Minister of Industry Number 17 of 2020 concerning the procedure for obtaining a certificate in the framework of the establishment of a halal industrial area, has built five halal industrial areas (KIH), namely Batamindo Industrial Park in Batam, Riau Islands, Bintan Inti Industrial Estate in Riau Islands, JIE Pulogadung in DKI Jakarta, Modern Cikande Industrial Estate in Serang Banten, and Safe n Lock Halal Industrial Park in Sidoarjo, East Java. It is hoped that this area will be able to attract the attention of global investors to make Indonesia a *global hub* for world halal products. (*National Committee for Sharia Economics and Finance* , nd)

3. Government Support

The Indonesian government has shown a strong commitment to strengthening the halal sector, but this support has only begun to be seen more massively in recent years. The 2019-2024 Sharia Economic Masterplan is one of the important initiatives that maps

out strategic steps to accelerate the development of the sharia and halal economy. However, the implementation of this policy still requires time and stronger support, especially at the local level. (Musthofa & Buhanudin, 2021)

4. International Cooperation

Malaysia has long been known as a pioneer in international cooperation related to halal certification and halal product trade. Meanwhile, Indonesia has also begun to strengthen its international cooperation, although not as efficient as Malaysia. Indonesia is trying to increase access for local halal products to the global market, but still faces challenges in harmonizing standards with other countries. Indonesia's halal economic diplomacy efforts are increasingly visible, especially by becoming part of international organizations that focus on the halal industry. (Zein et al., 2020)

5. Islamic Finance

Malaysia has one of the most advanced Islamic financial systems in the world, supported by strong regulations and infrastructure. Indonesia, despite significant growth in Islamic finance, is still in the development stage. Several important initiatives such as strengthening Islamic banks through Bank Syariah Indonesia (BSI) show great commitment, but this sector still needs more support to become one of the main players in the global market. (Gunawan et al., 2021)

6. Other Halal Industries

Indonesia has great potential in the halal food sector, Muslim fashion, and Muslim-friendly tourism, but still needs strengthening in terms of innovation and marketing. (Dewi et al., 2020) The halal cosmetics industry in Indonesia also continues to grow, although it is still less competitive than Malaysia which has previously developed halal cosmetics and pharmaceuticals. In the halal tourism sector, although Indonesia is known as a favorite destination for Muslim tourism, facilities and service standards still need to be strengthened to be more competitive at the global level.

7. Technology and Innovation

One of the major differences between Malaysia and Indonesia is the use of technology in the development of the halal industry. Malaysia has adopted technologies such as blockchain to monitor the halal supply chain and promote innovation in the food, cosmetics and pharmaceutical sectors. In Indonesia, the use of technology in the halal industry is still in its early stages, but there are increasing efforts to introduce technology as a tool to increase transparency and efficiency. (Sari et al., 2023)

Indonesia's Potential:

Although it has not reached Malaysia's current level, Indonesia has great potential to catch up and perhaps even surpass Malaysia in the long term. Some factors that support this potential are:

1. The world's largest Muslim population is a large domestic market for halal products. (Aditya, 2022)
2. Abundant natural resources to support the halal food, cosmetics and fashion sectors. (Transisi et al., 2019)
3. Government policies that are increasingly directed towards strengthening the halal sector and sharia economy. (*Halal Industry for All - Katadata Data Analysis* , 2021)
4. The role as a global producer in several sectors can be enhanced through more structured halal certification.

Although Indonesia has a larger Muslim population, several structural challenges such as coordination between institutions, standardization that is not as comprehensive as Malaysia, and the lack of integration of the halal industry in various sectors still need to be improved. However, with great potential, Indonesia continues to strengthen its position and has the opportunity to catch up, especially with various new policies that increasingly encourage the development of the national halal industry.

CONCLUSION

Halal certification policies in Malaysia and Indonesia have their own advantages and challenges. Malaysia has positioned itself as a global leader with strong infrastructure, international recognition, and comprehensive government support. Meanwhile, Indonesia, with the largest Muslim population in the world, continues to improve its system to ensure all products are halal, although it still faces some challenges in implementation and supervision. Indonesia is not like Malaysia at the moment in terms of its dominant position in the global halal industry, but with the right strategy and continuous improvement, Indonesia has great potential to match and strengthen its position. By focusing on strengthening regulations, infrastructure, government support, and technological innovation, Indonesia can accelerate the growth of its industry and compete globally.

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