Journal of Social Philanthropy and Halal Research
Vol. 2 No. 11 (2025) pp. 30-38
ISSN (print): xxxx-xxxx | ISSN (online): xxxx-xxxx
Journal Homepage: https://journal.unesa.ac.id/index.php/jsphr

Opportunities and Challenges of Indonesia's Halal Industry: A Qualitative Analysis

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DOI: xxxx

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Keywords:
Halal Industry; MSME;BPJPH; Halal Product.

ABSTRACT

Indonesia, as the country with the largest Muslim population in the world, holds significant potential for the development of the halal industry, both in terms of the domestic market and global opportunities. With more than 244 million Muslims, Indonesia represents a highly strategic captive market for halal products and services. The government has taken substantial measures through the establishment of the Halal Product Assurance Agency (BPJPH) and the enactment of Law No. 33 of 2014 on Halal Product Assurance. However, the realization of halal industry development still faces fundamental challenges, such as regulatory complexity, low levels of halal literacy, limited infrastructure, and the relatively weak competitiveness of Indonesian products in international markets compared to competing countries such as Malaysia and Thailand. This study employs a qualitative approach based on literature review using content analysis of accredited journals and official government data. The findings reveal a significant gap between market potential and the implementation of halal certification, with only around 30% of MSME products being halal-certified. On the other hand, opportunities for halal industry development remain vast, in line with the global trend of ethical consumerism and government support through the Indonesian Islamic Economic Masterplan 2019–2024. The study concludes that strengthening halal literacy, simplifying regulations, enhancing infrastructure capacity, and adopting global branding strategies are key for Indonesia to transform from merely being a large consumer of halal products into a leading global producer with strong competitiveness.

Article Info:
Submitted:
14/09/2025
Revised:
10/10/2025
Published:
30/11/2025

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INTRODUCTION

Indonesia ranks as the country with the largest Muslim population globally. Goodstat (2025) reports that approximately 244.7 million Indonesians identify as Muslims, representing more than 86 percent of the nation's total population(*Goodstat Research Report*, 2025). The proportion of Indonesia's Muslim population affirms that the country not only holds potential as a center for the development of Islamic civilization but also as a major domestic market for halal products and services. The halal industry plays a strategic role in strengthening the national economy; thus, its development in Indonesia is not merely optional but a strategic necessity aligned with societal needs (Adamsah & Subakti, 2022). Globally, the halal industry has experienced rapid growth, and Indonesia's position within this context is particularly significant—not only due to the size of its domestic market but also its potential to become a leading producer and exporter of halal products. The halal industry is both a concept and an approach that seeks to understand and analyze the dynamics of industries related to the production, distribution, and consumption of halal goods and services (Adamsah & Subakti, 2022)

In terms of policy, Indonesia's halal industry has received strong institutional support with the establishment of the Halal Product Assurance Agency (BPJPH) in 2019, as the implementation of Law No. 33 of 2014 on Halal Product Assurance. The creation of BPJPH marked an important milestone in the halal certification system in Indonesia, as the government assumed a central role in ensuring halal product assurance for society. Between 2019 and 2022, a total of 749,971 products were certified halal, averaging approximately 250,000 products per year. This figure indicates a significant increase compared to the previous period, which only reached around 100,000 products annually. BPJPH has introduced various strategic initiatives to accelerate halal certification and strengthen the halal ecosystem in Indonesia, with the broader goal of positioning the country as the world's leading halal product producer (*BPJPH INDONESIA*, 2025).

Despite these achievements, several fundamental challenges remain. First, bureaucratic complexity in the halal certification process continues to hinder access, particularly for Micro, Small, and Medium Enterprises (MSMEs). In Pamekasan Regency, for instance, the main obstacles faced by MSMEs in halal certification include a lack of information on requirements and procedures, complex processes, and costs perceived as burdensome ((*BPJPH INDONESIA*, 2025). Second, the global competitiveness of Indonesian halal products remains relatively low compared to

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ISSN (print): xxxx-xxxx | ISSN (online): xxxx-xxxx

countries such as Malaysia, Thailand, or even Brazil, which—despite being a non-Muslim country—has become one of the world's leading exporters of halal products. Data on halal exports show that Indonesia's market share is still relatively small compared to non-Muslim exporters such as Brazil, Thailand, and Australia. Key barriers include the absence of harmonized global standards, high certification costs for MSMEs, and limitations in an integrated halal supply chain from upstream to downstream (Hasna, 2025). Third, low halal literacy among MSMEs means that many business actors have yet to recognize the urgency of halal certification, either as a regulatory requirement or as an instrument to enhance product value in the marketplace(Ramadhani & Timur, 2025) . At the international level, Indonesia's halal certification system also continues to face challenges of global recognition, underscoring the need for harmonized standards that can enhance both competitiveness and consumer trust.

On the other hand, the opportunities for Indonesia's halal industry are vast. First, with the world's largest Muslim population, Indonesia possesses a captive domestic market that will continue to expand in line with the growth of the Muslim middle class. Second, the halal sector aligns with global trends toward sustainable and ethical lifestyles (ethical consumerism), making halal products attractive not only to Muslim consumers but also to non-Muslims who prioritize quality, hygiene, and product safety. Third, government support through the Indonesian Islamic Economic Masterplan 2019–2024 further demonstrates the state's commitment to positioning the halal industry as a pillar of national development.

Nevertheless, comprehensive research on the opportunities and challenges of Indonesia's halal industry remains limited. Most existing studies focus either on regulatory aspects or statistical data, while holistic analyses linking policy, business literacy, global competitiveness, and infrastructure readiness are still rare. This study seeks to address that gap by adopting a qualitative approach based on literature review, drawing upon Sinta-indexed journals and official government data. The urgency of this research is not only academic but also practical. From an academic standpoint, it aims to enrich the body of literature on the development of the halal industry in Indonesia by emphasizing the nexus between vast domestic market opportunities and global economic challenges. From a practical perspective, the study seeks to provide insights for policymakers, business actors, and relevant institutions in strengthening strategies for the advancement of Indonesia's halal industry. With a more comprehensive understanding, Indonesia is expected to play a greater role in the global halal supply chain while maximizing both the economic and social benefits of the industry's development.

Accordingly, this research aims to provide an in-depth qualitative analysis of the opportunities and challenges of Indonesia's halal industry, with the expectation of contributing to policy development, business strategies, and the enhancement of halal literacy within society.

The Halal Product Assurance Organizing Agency (BPJPH)

The Halal Product Assurance Organizing Agency (BPJPH) is a non-ministerial government body (LPNK) directly responsible to the President of the Republic of Indonesia. Established under Presidential Regulation No. 153 of 2024, BPJPH serves as the central authority for administering halal product assurance in Indonesia in accordance with Law No. 33 of 2014 concerning Halal Product Assurance (JPH). Based on BPJPH Regulation No. 1 of 2024, BPJPH is mandated to: (a) formulate and establish JPH policies; (b) determine norms, standards, procedures, and criteria for JPH; (c) issue and revoke halal certificates and labels; (d) register halal certificates for foreign products; (e) conduct socialization, education, and publication on halal products; (f) accredit Halal Inspection Bodies (LPH); (g) register halal auditors; (h) supervise JPH implementation; (i) provide training for halal auditors; and (j) establish cooperation with domestic and international institutions in the field of halal product assurance.

In carrying out its mandate, BPJPH collaborates with relevant ministries and/or institutions, Halal Inspection Bodies (LPH), Halal Product Process Assistance Institutions (LP3H), the Indonesian Ulema Council (MUI), and the Halal Product Fatwa Committee. BPJPH also engages in international cooperation on halal assurance, while at the national level it works with various stakeholders, including ministries/agencies, local governments, state-owned enterprises, universities, business associations, communities, civil society organizations, training institutions, and halal research centers. Strategic initiatives are continuously pursued to accelerate halal certification processes and strengthen the halal ecosystem, with the ultimate goal of positioning Indonesia as the world’s leading halal product producer (BPJPH Indonesia, 2025).

Concept and Definition of the Halal Industry

The legal definition of halal in Indonesia is regulated under Law No. 33 of 2014 on Halal Product Assurance (UU JPH), implemented by BPJPH under the Ministry of Religious Affairs. This regulation makes Indonesia one of the first countries to mandate halal certification in phases—beginning with food and beverages, followed by pharmaceuticals, cosmetics, and consumer goods. The halal industry encompasses all economic activities related to the production, distribution, and provision of goods and services in compliance with Islamic principles. Its scope extends beyond food and beverages to include pharmaceuticals, cosmetics, tourism, logistics, and Islamic finance. This reflects that halal is a comprehensive ecosystem requiring adherence to sharia standards throughout the entire economic value chain. Unlike conventional industries, the halal industry embodies not only financial goals but also spiritual and social dimensions,

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ISSN (print): xxxx-xxxx | ISSN (online): xxxx-xxxx

thereby receiving growing global attention amid rising consumer awareness of sharia-compliant products(Sudarmi et al., 2025).

Opportunities in Indonesia's Halal Industry

The prospects for Indonesia's halal industry are substantial, both in terms of demand and supply. On the demand side, the large Muslim population forms a potential domestic market. Muslim consumers are increasingly aware of the importance of halal products—not only for religious reasons but also for health, safety, and quality considerations. According to the Global Islamic Economy Report global Muslim consumer spending exceeded USD 2.2 trillion, with steady growth projected annually. Indonesia contributes significantly, particularly in halal food, halal tourism, and halal cosmetics(*Islamic Bussines Riview*, 2023).

On the supply side, Indonesia benefits from abundant natural resources and a large workforce. For instance, the food and beverage industry remains the largest contributor to non-oil and gas manufacturing GDP (approximately 6.5% in 2022, BPS). If fully integrated with the halal ecosystem, this sector could significantly boost halal exports. Furthermore, the government has introduced the Indonesian Islamic Economic Masterplan 2019–2024, emphasizing four strategic pillars: (1) strengthening the halal value chain (food, beverage, fashion, tourism), (2) enhancing Islamic finance, (3) empowering micro, small, and medium enterprises (MSMEs), and (4) strengthening regulations and human resources. Bank Indonesia projects that priority halal value chain sectors (agriculture, halal food and beverage, Muslim fashion, and Muslim-friendly tourism) will grow by 4.5–5.3%, supported by Islamic banking financing growth of 14–16% (Bank Indonesia, 2023). In addition to the domestic market, export opportunities are promising, as Middle Eastern, South Asian, and even European markets are increasingly open to Indonesian halal products.

Challenges of the Halal Industry in Indonesia

Despite its vast potential, Indonesia's halal industry faces several critical challenges:

1. Regulatory and Certification Implementation
   Although the JPH Law has been enacted, technical obstacles persist. Many MSMEs struggle to access halal certification due to high costs, limited information, and bureaucratic complexities.
2. Product Quality and Competitiveness
   Indonesian halal products remain dominated by low value-added commodities. Competitor countries such as Malaysia, Thailand, and Brunei have advanced further in

global halal branding. The influx of imported halal products also intensifies competition, while local producers lack strong competitiveness (Fathoni, 2020).

3. Infrastructure and Ecosystem Limitations
   Supporting infrastructure such as halal hubs, halal parks, and halal logistics remains insufficient, leading to higher production and distribution costs.
4. Consumer Awareness and Halal Literacy

Halal awareness is closely linked to knowledge, understanding, and religiosity. However, halal literacy in Indonesia remains low, particularly among MSMEs. Many entrepreneurs do not recognize the importance of halal certification, while consumers often assume local products are automatically halal without checking official labels(Hasyim, 2023).

RESEARCH METHOD

his study employs a qualitative research approach using the literature review method. The data sources include accredited national journals, prior research publications, and official government reports, which provide a comprehensive perspective on the halal industry in Indonesia. The analysis was carried out through content analysis (Creswell, 2018), focusing on identifying patterns, recurring concepts, and key themes related to both opportunities and challenges. Furthermore, to ensure the validity of the results, source triangulation was applied by cross-checking findings from different types of literature, including academic articles, statistical data, and policy documents. This methodological framework strengthens the credibility of the study and provides a more holistic understanding of the issues examined.

RESULT AND DISCUSSION

Synthetic Analysis and Implications

Indonesia's large Muslim population provides a natural base for the halal industry. Nevertheless, data from BPJPH (2024) indicate that only 4 million out of an estimated 13 million MSME products are certified halal—around 30%. This highlights a significant gap between market potential and certification realization, driven by factors such as limited halal literacy high certification costs, and inadequate infrastructure. The implications are threefold

Domestic Economy: A large halal consumer base offers opportunities, but low certification levels risk Indonesia becoming a major importer of halal products.

Global Exports: Although Indonesian halal products are entering international markets, limited branding and global standard recognition hinder competitiveness.

Policy: While the government has launched progressive policies such as the Islamic Economic Masterplan, weak literacy, costly certification, and infrastructure bottlenecks could undermine implementation.

CONCLUSION

Vol. 2. No. 1 (2025) pp.30-38
ISSN (print): xxxx-xxxx | ISSN (online): xxxx-xxxx

The halal industry in Indonesia has a very strong foundation, supported by the dominance of the world's largest Muslim population, accounting for 87.2% of the total population. This creates a potential captive market for the growth of the halal ecosystem, ranging from food, beverages, cosmetics, and pharmaceuticals to tourism. However, data indicate a significant gap between market potential and the realization of halal certification—only around 4 million products are certified out of an estimated 13 million SME-medium-scale products. This shows that although the domestic market is available, the industry has not yet been able to fully meet this demand. At the global level, Indonesia holds a strategic opportunity to become the center of the world's halal industry. The international halal market is projected to reach USD 2.4 trillion in 2024, with Indonesia beginning to penetrate markets in the Middle East, South Asia, and even Europe. Nevertheless, global recognition of standards and branding remain major challenges, limiting the expansion of Indonesian halal products in international markets. On the other hand, regulatory issues, halal literacy, and infrastructure remain serious obstacles. The implementation of mandatory halal certification (Law No. 33/2014 and Government Regulation No. 39/2021) has not been fully matched by the readiness of business actors, particularly SMEs, who face limitations in knowledge, costs, and access to laboratory testing. Low halal literacy (Nurhayati & Huda, 2021) and the limited capacity of Halal Inspection Bodies (LPH) prolong the certification process and weaken global competitiveness. Therefore, it can be concluded that:

1. The dominance of the domestic Muslim market provides a fundamental strength for the growth of Indonesia's halal industry.
2. The globalization of halal offers Indonesia a strategic position in the global halal value chain, but this requires strengthening competitiveness through branding, international standardization, and product innovation.
3. Regulatory, literacy, and infrastructure challenges must be addressed through collaboration between the government, halal institutions, academia, and industry players, so that Indonesia's vast potential can be realized as a source of global competitive advantage.

Overall, the analysis highlights that Indonesia's halal industry is in a transitional phase: moving from enormous potential toward the actualization of a global role. Indonesia's success will largely depend on policy consistency, improving halal literacy among society and business actors, and investing in infrastructure to support halal certification and distribution.

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