

Strengthening Sharia Economy Through Halal Industry Development in Indonesia

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ABSTRACT

Indonesia is the largest Muslim country in the world, with more than 87% of the total Muslim populations. This quantity is a promising market share, including products and services. The purpose of this study is to examine the prospect of halal industries in supporting the development of Islamic economics in Indonesia. The study employs a normative juridical method by using secondary data. The results of the study show that halal industry markets, such as food, tourism, fashion, and medicine sectors, can be capital in Islamic economic development in Indonesia. One of the efforts of the Indonesian government in encouraging Islamic economy development is by developing & incorporating sustainable halal values in the Indonesian Islamic economic masterplan in 2019-2024. The process of issuing halal certification for products and services requires at least three parties, namely the Halal Product Assurance Agency, the Indonesian Ulama Council, and the Halal Inspection Agency. This is in accordance with the mandate of Law Number 33 the Year 2014 on Halal Product Assurance. To support the Islamic economy through the halal industry, Indonesia is expected to be able to maximize local wisdom in maximizing global market opportunities.

Keywords: *Islamic economics, halal industry, Indonesia*

1. INTRODUCTION

The Muslim population is the majority population in Indonesia, reaching 87 % of the total populations and serves Indonesia as the largest Muslim country in the world. With this attribute, Indonesia has an enormous potential to develop sharia economy as a new source of economy. The prospect of sharia economic can be seen from the growth of the Muslim population, estimated to reach 27.5% of the world's total population by 2030. [1]

The existence of sharia economy is considered to contribute USD 3.8 billion to Gross Domestic Product (GDP) per year. In addition, sharia economy is also able to attract USD 1 billion in foreign direct investment, and open 127 thousand new jobs every year. [2]

Sharia economy also has the potential to contribute to reducing the current account deficit. Since 2011, Indonesia has experienced current account deficits caused by a weak external demand to export commodities and fall of commodity export prices. Improving this current deficit, export activities must be increased with a careful strategy in looking at opportunities for export commodities. The government must be careful and accurate in monitoring commodities that are in high demand, such as halal products and services. According to the Halal Industry Development Corporation, the halal industry was estimated to reach USD 2.3 trillion in 2016.[3] Halal products and services cover a number of sectors, including food, addictive ingredients and

substances, cosmetics, animal food, medicines and vaccines, Islamic finance, pharmacy and logistics.

Indonesia's halal product export contributes 21% of Indonesia's total exports. Although this figure is not the best, the development of Indonesian halal product has increased by 19 % since 2016. [4] In the future, the export role of halal products must be increased by maximizing demand utilization for halal product export destination countries, as well as potential exports to the Organisation of Islamic Cooperation (OIC) countries.

Regarding the flow of sharia economy, Indonesia has an opportunity to become the largest market and producer of halal products in the world. It is because Indonesia is in a strategic position for halal superhighway links in the global halal supply chain. Strategies in the trade sectors and efforts to diversify products need to be focused on several potential markets for halal products. In addition, it is also needed to consider to increase the quantity and quality of the products for optimizing export commodities of Indonesian halal goods and services.

Another halal industry segment that is potential to be developed is halal tourism segment. Currently, halal tourism is very popular and becomes a phenomenon among global tourism industries. Muslim travelers are the world's largest spenders in the tourism sector, spending USD 120 billion in 2015. This spending tends to increase reaching USD 169 billion in 2016 and is expected to reach USD 283 billion in 2022. Global halal tourism data currently show that Indonesia is the fourth largest Muslim tourist, with the total

expenditure up to USD 9.7 billion, or equivalent to IDR 141 trillion, with a total of 200 million domestic tourists.[5]

As the largest archipelago country, with more than 17,000 islands, 300 tribes, 746 languages and dialects and more than 800,000 mosques, Indonesia has great opportunities to increase the state revenues through Muslim friendly tourism. Recently, Indonesia has been categorised as the Top 5 World Halal Tourist Destinations, earnings USD 13 billion foreign exchange, and contributing to USD 57.9 billion to the Gross Domestic Product.[6]

In 2020, the tourism sector is projected to be the largest contributor to the country's foreign exchange. This growth is a positive result of accelerating halal tourism in several Indonesian tourist destinations, such as Lombok, Padang, Aceh, Bangka Belitung, Jakarta, and North Maluku. The key factors that support halal tourism in Indonesia are the support of policy and regulation, marketing and promotion, and the development of destinations through attractions of accessibility and amenities. In addition, increasing tourism capacity, which includes human and industrial resources, is also crucial.

In line with the above conditions, this study aims to look at the strategic steps in developing sharia economy in Indonesia as well as the certification procedures for halal products in supporting and strengthening sharia economics through the halal industry. The method used in this study is normative juridical using secondary data. In addition, this study also uses primary data to support the results of the study.

2. Strategy In Developing Sharia Economy In Indonesia

Government of Indonesia (GoI), through the National Development and Planning Agency, has inaugurated and launched the Indonesian Sharia Economic Masterplan in 2019-2024 on May 14 2019. The National Islamic Finance Committee was formed to materialize it into national development and build halal industry sectors in Indonesia.

In order to support sharia economic development through the halal industry, Indonesia is expected to be able to maximize local wisdom in capturing global market opportunities. Sharia economic targets at a domestic level include an increase of business scale, independence and welfare. While at the international level, it is in the form of the Global Islamic Economy Indicator increase.

Total expenditures of all Muslim in the world in 2018 for various halal economic sectors, such as food and beverages, halal pharmaceuticals and cosmetics, halal clothing, halal tourism, halal media and entertainment, and Islamic finance, reached USD 2.1 trillion (0.27% of the total world gross domestic products). This trend is expected to continue to increase in the following year to reach USD 3 trillion in 2023. This is in line with the growth of the Muslim population in the world. [7]

Based on The State of the Global Islamic Economy Report 2018-2019, Indonesia was ranked as the 10th largest country that implemented Islamic economics. The

Indonesian Islamic Economics Masterplan has four main strategies, namely: [8]

- 1) Firstly, by strengthening halal value chains by focusing on sectors that are considered potential and highly competitive. The National Islamic Finance Committee (KNKS) will establish and develop a halal hub and halal industrial zones in prospective areas, assist the development of halal centers for industries including micro, small and medium enterprises (MSMEs), halal certification, and others. This value chain is very long, starting from a producer to a product ready on consumer tables. Industrial estates will also include producers, banking services, warehouses, halal testing sites, distribution agencies, to produce halal products that are ready for export.
- 2) Secondly, by strengthening Islamic finance from capital or asset development. Strengthening Islamic finance had been outlined by Indonesian Islamic Financial Architecture Master Plan in 2015. Islamic banking is encouraged to finance projects that have not been implemented because of the lack of capital. Organic growth in Islamic banking is relatively good, with the total assets is nearly IDR 500 trillion. However, this figure is very small when it is compared to the whole of Indonesia banking. It constitutes only 5,9 % of the whole national banking sector. The National Islamic Finance Committee encourages Islamic banking to become bigger, more advanced, and eventually become the backbone of the Indonesian economy.
- 3) Thirdly, by strengthening the Micro, Small and Medium Enterprises (MSME) sector as the main driver of halal value chain products. The National Islamic Finance Committee (KNKS) will provide more assistance and education related to financing or establishing sharia-based MSMEs. Currently, if it is focusing more on the product quality, KNKS will encourage MSMEs to prioritize halal certification, including Islamic finance, to build or develop small and medium businesses.
- 4) Fourthly, by strengthening digital economics, especially trade (e-commerce, market place) and finance (financial technology), that will accelerate the achievement of other strategies. The National Islamic Finance Committee will give its best to build infrastructures and facilities so that Islamic banking can cope and accommodate the demand and lifestyle of this industrial revolution era.

To implement these four strategies, the Indonesian Islamic Economics Masterplan outlines several basic strategies that must be implemented. They are: raising public awareness, improving quantity and quality of human resources, strengthening research and development capacity and strengthening fatwa, regulation and governance. The use of a digital economy will make Indonesian halal products become more competitive not only in domestic markets but also in global markets. This strategy must be implemented by involving various sectors based on sharia in order to increase national economic growth. It is because the

ongoing growth in the sharia sector has a direct and significant impact on the growth of the real sector.

With the existence of halal supply chains, the expectation of quality standards, product quality, halal products and services, can be fulfilled. It will integrate various entities, started from the input, production, process and distribution, marketing and consumption. For instance, the input of food products must be halal guaranteed, starting from the breeding process, including the animal feed, fertilizers and halal chemical materials.

National Islamic Finance Committee has a very important role in determining the success of sharia economic development in Indonesia. This includes giving a policy recommendation for national development strategies in sharia financial sector; coordinating in compiling and implementing the plan for the direction of the strategic policies and programs in the Islamic financial sector; formulating recommendations for solving problems in the Islamic finance sector; and monitoring and evaluating the implementation of strategic policies and programs in the financial sector. [9] Having high awareness of Islamic economic potential, supportive policies and regulations, and infrastructure readiness and reliability are key factors to the success of sharia economic development.

3. Halal Product Certification In Supporting Of Sharia Economy

In implementing sharia economic development, there are numbers of challenges will be faced. One of them is the cost for halal certification that is relatively costly, especially for micro-entrepreneurs. In accordance with the Law No. 33/2014 on Halal Product Assurance, all sold or marketed products are obliged to halal certification that comes into effect five years after the Law was enacted.

The mandatory clause of halal certification is regulated in Article 4 of Law Number 33 of 2014, which states that products that enter, circulate and are traded in the territory of Indonesia must be halal certified. However, there are exceptions to non-halal products that are required to include non-halal information, as stipulated in Article 26 paragraph 2 of the constitution.

Till this day, there are not many industries in Indonesia, especially the micro, small and medium enterprises (MSMEs) that are halal certified. In addition, there are still many leading franchise food and beverage products that are not halal certified. Ironically, consumers do not realize or even care about it. Therefore, massive and strategically effective socialization is crucially needed. The Law Number 33 of 2014 will play a very important role for the industry so that both consumers and producers get a clear legal umbrella and are expected not to burden industries, especially micro, small and medium enterprises (MSMEs) that are encouraged to focus in developing halal industries and provide relief in terms of product certification.

Since the enactment of Law Number 33 of 2014 on Halal Product Assurance, the procedure for issuing halal certificates in Indonesia will at least involve three parties,

namely: Halal Product Assurance Agency (BPJPH), Indonesian Ulema Council (MUI), and Halal Examination Agency (LPH). The stages of issuing halal certificates are as follows:[10]

- 1) Firstly, application submission by business actors. A business actor submits a request for Halal Certificate to Halal Product Assurance Agency (BPJPH), by submitting the following documents: Business organization profile, product name and type, list of products and materials used, and the process of product processing.
- 2) Secondly, the selection of Halal Examination Agency (LPH). Business actors entitle the right to choose their preference LPH to access and/ or approve the halal products. LPH is an institution that gets permission to carry out assessments and/or inspections of product halalness. LPH can be established by the government and/or by the community. The chosen LPH will then be determined by BPJPH. LPH determination is conducted no later than five days since the documents are declared complete.
- 3) Thirdly, product inspections. The inspection is carried out by the LPH Halal Auditor determined by BPJPH. The inspections and or testing of halal products are carried out at the business location during the production process and/or in the laboratory. A laboratory test can be carried out should the auditor finds the doubtful material in terms of its halalness during the on-site inspection. The result of the inspection and or halal product testing is then submitted to BPJPH.
- 4) Fourthly, the determination of halal products. BPJPH delivers the results of the inspection and/or testing of product halalness conducted by LPH to the Indonesian Ulema Council (MUI) to obtain the determination of halal products. MUI then sets the product halal through a Halal Fatwa session. The Halal Fatwa session is held no later than 30 (thirty) working days since MUI received the testing/inspection results from BPJPH.
- 5) And the fifth, the certification issuance. Products that have been declared halal by MUI fatwa are then delivered to BPJPH for getting halal certificates. This certificate should be issued no later than seven days since the halal product decision is received from MUI. Business actors must install or stick halal labels along with their registration numbers on their business products. Furthermore, BPJPH will also publish the Halal Certificates for each product. For products that are declared not halal, BPJPH will return the Halal Certificate application to the business actor with formal reason and explanation.

The Halal-certified products will be guaranteed halal along those supply chains starting from material supply, processing, storage, packaging, distribution, sale and presentation of products. Other internal challenges concerning the Halal Certification is the lack of entrepreneurs who seek for halal certification of their business and products. This situation is due to the lack of awareness of the entrepreneurs about the importance of halal

certification of their business and the lack of public awareness, in general.

Now, the development of halal industries in Indonesia requires security, comfort and consumer's trust. Those can be obtained through halal certification for small micro-business products. Cooperation and synergy of all parties starting from industry, government and supervisors are expected to run harmonically and synchronically. So, the growth of the halal industry can be maximized to support Indonesia's growth.

The synergy between the community and the government is crucially needed, especially on the supervision of halal products. It is because the public can provide information to the related parties about the halalness of the products that circulate in the market and whether those products are mixed or contaminated with non-halal products. Besides, the community can also ask for an explanation to the related parties if they are doubtful about the halalness of a specific product, or make a report to any suspicious product to the authority.

4. CONCLUSION

Indonesia, supported by its majority Muslim population, is a potential market for sharia economic growth. Islamic economics has been proven as a solution to an unstable economy. One of the efforts that needs to be taken to support sharia economic growth is by strengthening halal products and services like food and beverage sector, cosmetics, medicine, fashion, tourism, sharia finance and logistics. In order to support sharia economic growth, the Indonesian government launched the Masterplan of Indonesian Sharia Economy in 2019-2024. The masterplan aims to: strengthen the value chain of halal products by focusing on sectors that are considered potential and highly competitive; strengthen the sharia financial sector with a master plan that has been outlined in the Indonesian Sharia Financial Architecture Masterplan; strengthen the Micro, Small and Medium Enterprises sector as the main driver of the halal value chain; and strengthen the field of digital economics, especially trade (e-commerce, market place) and finance (financial technology).

Strengthening the halal industry sector can also be developed through a measurable and optimal halal certification process. Through halal product assurance, businesses can improve value-added to produce and sell halal products. The procedure for issuing halal certificates in Indonesia involves at least three parties, namely: Halal Product Assurance Agency (BPJPH), Indonesian Ulama Council (MUI), and Halal Examination Agency (LPH). By having sharia economic masterplan and reliable halal product certification procedures, it is expected to improve the quality standard, product quality, and halal products and services so that it will give a positive impact (better to rephrase and revised) to the growth of Indonesian economy.

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