Issues & Challenges of Halal Industry Development in Indonesia: Stakeholder Perspectives

Abstract—The halal industry includes several sectors in its development, including Islamic finance, halal food, tourism, pharmaceuticals, media, and cosmetics. All of these industries must be properly integrated to function at their best. Although the halal concept has become a halal lifestyle for most Muslims, the halal industry market is still not developed optimally in Indonesia. Thomson Reuters and Dinar Standards reported that Indonesia is only in the top 10 in the four halal industry sector indicators, including halal fashion (3rd), pharmaceuticals and cosmetics (9th), Islamic finance (6th) and halal food (2nd). In contrast, Indonesia is not in the top ten for the halal media and recreation sector. This paper will highlight the issues and challenges faced by the halal industry from the stakeholder perspectives; business practitioner, academicians, regulator and consumer. The method used in this analysis is a qualitative approach and semi-structured interviews are used as data collection techniques. The interviews were conducted with 10 respondents consisting of academicians, practitioners and regulators. The study is expected to outline the problems and challenges from a stakeholder perspective to help business practitioners and other parties involved in the halal industry realize the current issues

Keywords: halal industry; issues, qualitative; stakeholders

I. INTRODUCTION

As humans need to live a healthy lifestyle, the concept of halal has changed and has become universal and contains elements of benefit for all humans. The concept of halal not only covers the need to implement sharia but also contains the concept of sustainability in all human activities in line with human lifestyles [1]. The embedding of the word “halal” in a product does not only mean a guarantee that the product is allowed to be consumed by Muslims, the tendency of consumers to choose halal products as part of their lifestyle and religious beliefs has driven the consistent growth of this industry [2]. Halal principles include prohibiting the consumption of pork and its derivative products, as well as ensuring that the production, preparation and handling of food is following established Islamic rules.

In its development, the term "halal lifestyle" has emerged which has attracted the attention of various groups, not only among Muslims, but also among non-Muslims in consuming halal products. This is driven by the belief that a halal lifestyle is based on the desire to realize a healthy lifestyle which is the choice of humans in general. In the context of the halal industry, this means that halal products are not only intended for Muslim consumers, but can also be enjoyed by all those who want products that are safe, quality, and in accordance with the principles of sustainability. The halal industry has evolved into an industry that transcends religious boundaries and becomes an industry that offers added value to all consumers. For example, the food sector, Islamic finance, travel, fashion, media and recreation, pharmaceuticals, and cosmetics are growing along with the rise of this halal lifestyle.

When viewed from the potential conditions of the halal industry in Indonesia and globally, the opportunities for the development of the halal industry are enormous. This is due to the large Muslim population around the world who need halal products. Several countries in various parts of the world began to aggressively compete to get the enormous potential of the halal industry [3]. The Indonesian government has issued Law No. 33 of 2014 concerning Halal Product Guarantee (JPH) as an effort to realize the implementation of halal product guarantees [4]. This law is present as an effort to increase the value to entrepreneurs to sell and produce halal products and provide comfort to people who use and use these products.

The halal industry has grown into a new perspective in the development of world market business. With a Muslim population of 3 billion people, the halal industry is the fastest-growing business in the global market. A study conducted by Indonesia Halal Market estimates that the number of Halal products globally is USD 2.3 trillion (excluding banking), and
67% (USD 1.4 Trillion) of this market consists of food and beverages, while a total of USD 506 billion comes from the pharmaceutical industry [5]. The halal industry is a rapidly growing economic sector, focused on the production and provision of products and services in accordance with Islamic principles. The background of the emergence of the halal industry is related to the need for Muslims to ensure that the food, beverages, and consumer products they use comply with the laws of the Islamic religion [6].

Indonesia as a country with the largest Muslim population in the world reaching 231.6 million by 2022,[7] has an important role to play in the development of the halal industry. Nevertheless, Indonesia is currently still a large market in the global halal industry, but its role as a major player is still far behind compared to other countries that have a smaller Muslim population. Some countries that have taken steps forward in the halal industry include: The UK, which has declared itself the center of Islamic finance in the West. China has been named the largest exporter of Muslim clothing in the Middle East. Korea has a mission to become a major halal tourism destination. The United Arab Emirates has ambitions to make Dubai the capital of the Islamic economy. Thailand has a mission to become the world's halal kitchen center. Malaysia has a vision to become the center of the global halal industry and Islamic finance in 2020 [8].

Developing the halal industry, the Indonesian government has taken strategic steps to capitalize on this huge market potential by raising awareness of Islamic ethical values relating to the consumption of halal and thoyyib products. Expanding national strategies and programs dedicated to the development of halal products and services. To accommodate the large domestic halal product market potential, the Indonesian government established the Halal Product Guarantee Agency (BPJPH). Thus, Indonesia strives to become the world's halal center and a pioneer in the globalization of the halal industry.

Although some strategies are applied by the Indonesian government but development of Indonesia's halal industry is still far behind as compared to other Muslim countries. The question may arise why? What are the issues and challenges of halal industry development in Indonesia? This study attempts to answer these questions. Thus, this study examines the issues and challenges of halal industry development from stakeholders' viewpoints.

II. LITERATURE REVIEW

The halal industry covers various sectors such as food, beverages, finance, cosmetics, pharmaceuticals, tourism, and many more. The growing Muslim population throughout the world who tends to prefer the consumption of halal products has become the main driver of the growth of the Halal industry [9]. In addition, the trend of consumer awareness towards products that are safe, quality, and in accordance with religious principles has also driven the demand for halal products [10]. The halal industry also has the potential to advance the local economy and create jobs. Muslim-majority countries are looking to develop the halal sector as a strategy to drive economic growth and improve global competitiveness [11]. In addition, increased investment in research and innovation in the halal sector, including the development of technologies to facilitate halal production, has become an important focus to improve the efficiency and competitiveness of this industry [12].

According to Fatoni and Syahputri (2020), the large Muslim population is not meant to be Indonesia a country that produces halal commodities in the world. This can be seen from Indonesia's inability to enter the Top 10 in all halal industry sectors [13]. This is also in line with what Lady Yulia said about the need to promote halal production which is currently still dominated by Western countries [14]. The development of initiatives and infrastructure that support the halal industry, such as halal industrial parks, distribution centers, and research centers, are also considered strategic steps to advance the halal industry and ensure its sustainability [15]. Other research highlights issues related to food safety in the halal industry, particularly the risk of non-halal contamination or prohibited ingredients that can occur during the supply chain [16]. In addition, it is important to understand the role and influence of halal certification bodies in addressing these issues. Several studies have evaluated the effectiveness, credibility, and role of halal certification bodies in supporting the growth and development of the halal industry in a sustainable manner [17]. An in-depth understanding of these issues has significant relevance for developing effective strategies to improve compliance, quality and competitiveness of halal products in an increasingly competitive global market.

Previous research explains how halal issues and challenges from a literature perspective are used as the main reference. Such as research carried out by Fatoni and Syahputri (2020) employed descriptive qualitative methods [16], Laluddin et al. (2019) used a qualitative approach with conceptual study (17) and Irfany and Rusydiana (2022) used a quantitative approach [18]. However, empirical study that uses a qualitative approach with the interview, to the best of our knowledge is still few particularly in the Indonesian context. To fill this gap. This study attempts to examine the issues and challenges of halal industry development in Indonesia by interviewing some halal stakeholders.

III. METHODS

The objective of this study was to analyze the perspectives of halal industry stakeholders about issues and challenges of halal industry development in Indonesia. To achieve this objective, a qualitative approach with interviews was performed. The interview method was selected to obtain a more in-depth understanding and views from informants regarding issues and challenges of the halal industry in Indonesia.

In data collection, stakeholders involved in the halal industry were selected since they have an important role in the success halal industry in Indonesia. Approximately ten stakeholders consisting of business players/practitioner, academician and policy maker was interviewed. Semi-structured interviews were employed. The semi-structured interviews are associated with the sights and capabilities of business players, academicians and policymakers who know more about halal industry development in Indonesia. All interviews were digitally recorded and transcribed into text. Finally, the thematic analysis used as an analysis technique in this study.
IV. RESULTS AND DISCUSSION

TABLE 1 PROFILE OF THE RESPONDENT

<table>
<thead>
<tr>
<th>Respondent</th>
<th>Position</th>
<th>A long time of work/experience</th>
</tr>
</thead>
<tbody>
<tr>
<td>Respondent A (RA)</td>
<td>Daily board member of Halal Researcher at HRCS-UNS</td>
<td>Academician in HRCS-UNS ± 3 years</td>
</tr>
<tr>
<td>Respondent B (RB)</td>
<td>Daily board member at DPP IAEI in the development of Halal Industry &amp; Creative Industry</td>
<td>Academician in Halal Research ± 5 years</td>
</tr>
<tr>
<td>Respondent C (RC)</td>
<td>Daily board member of Halal Researcher at Brawijaya University</td>
<td>Academician in Halal Research ± 5 years</td>
</tr>
<tr>
<td>Respondent D (RD)</td>
<td>Coordinator in the Halal Certification Division of the Halal Registration and Certification Center at BPPH</td>
<td>Regulator in Halal Industry ± 29 years</td>
</tr>
<tr>
<td>Respondent E (RE)</td>
<td>Head of Cooperatives and Micro Business Government of Ponorogo district</td>
<td>Regulator in Cooperatives and Microntprises ± 15 years</td>
</tr>
<tr>
<td>Respondent F (RF)</td>
<td>Business owners in the food industry</td>
<td>Practitioners in the Business Industry ± 15 years</td>
</tr>
<tr>
<td>Respondent G (RG)</td>
<td>Business owners in the tourism industry</td>
<td>Practitioners in the Business Industry ± 17 years</td>
</tr>
<tr>
<td>Respondent H (RH)</td>
<td>Business owners in the media industry</td>
<td>Practitioners in the Business Industry ± 10 years</td>
</tr>
<tr>
<td>Respondent I (RI)</td>
<td>Managing Editor of Republika</td>
<td>Practitioners in the Media Industry ± 26 years</td>
</tr>
<tr>
<td>Respondent J (RJ)</td>
<td>Business owners in the fashion industry</td>
<td>Practitioners in the Business Industry ± 15 years</td>
</tr>
</tbody>
</table>

The results of interviews with respondents show that the Indonesia halal industry faces several issues and challenges that need to be addressed to ensure continued growth and sustainability, among others:

A. The complexity of halal certification

One of the main reasons is the complexity of the interpretation and application of halal principles in Islam (RD). Islam has many sects and schools of thought, each of which has its unique interpretation of Islamic law. This leads to variations in the understanding of the halalness of a product or service, especially when it comes to food, beverages and related ingredients (RA, RB, RC, RD). The level of complexity is increasing with the development of industry and technology. Innovation and technological advances create a variety of new ingredients and production processes that do not necessarily have a clear halal status (RC).

Complexity also arises from the aspect of globalization and international trade. Each country can have different interpretations and regulations related to halal certification, which requires manufacturers to understand and comply with the specific requirements of each country where they want to market halal products (RE, RA, RB). These results support what was studied by Islam et al. [18] which revealed that Halal certification is a complex process as it involves various complex and multidimensional factors[18]. In addition, the cost and complexity of obtaining halal certification is also a significant issue. The certification process can involve high costs, especially for small and medium-sized producers who may have financial limitations (RF, RG, RJ). These costs include auditing, testing, and administrative costs required to fulfill certification requirements. These resource limitations may hinder the participation of small and medium enterprises in the halal industry, which may impact market inclusion and diversification [19]. Therefore, efforts to improve and simplify the halal certification process are crucial to increase producer participation and advance the halal industry more inclusively and sustainably [20].

B. Problems in Raw Material

Issues related to raw materials in the halal industry are one aspect that requires serious attention. The complexity of modern supply chains makes it difficult to trace the origin and halal status of raw materials. This can make it difficult for manufacturers to ensure that the ingredients used in their products come from halal sources (RC, RD). Furthermore, the risk of cross-contamination is a serious challenge. In complex production environments, the risk of contamination with non-halal ingredients can occur, either accidentally or due to poor management (RB, RH, RJ). The presence of derivative products and additives that may have unclear origins is also a problem. Some additives or derivatives may come from non-halal animal sources, such as enzymes, gelatin, or colorants (RE, RF). The application of new technologies in production can also create challenges related to raw materials. For example, cell- or lab-based food production, which is emerging, may involve ingredients derived from sources that are controversial from a halal perspective (RA, RE, RF).

Changing consumer trends and higher expectations for transparency and halalness add complexity to raw material management. Openness and accessibility of information on the halalness of raw materials are becoming a key demand (RG, RI). The results of this study are in line with Fageh's study [21] which showed that the halalness of raw materials is a fundamental element in the halal industry that has an impact on religious aspects, consumer confidence, and compliance with global market regulations [21]. Candra et al., (2020) indicated that the existence of products and additives that use non-halal components is a problem that has not been fully resolved [22].

C. Fraud in Counterfeiting in Halal Products

Fraud in the certification of halal products is of critical urgency in the halal industry as it concerns the integrity, trust and adherence to religious beliefs of millions of Muslim consumers around the world. Such fraud involves situations where manufacturers or businesses intentionally produce, distribute or market products that claim to be halal but do not meet the halal standards required by Islam. Some forms of fraud include the use of non-halal or unauthorized ingredients, false labels or falsified certifications, and other manipulative practices (RB, RD). Fraud in the falsification of halal product certification has serious implications for the integrity of the halal industry as a whole. As a result, legitimate halal manufacturers and certification bodies that strictly adhere to halal rules will also suffer undeserved losses due to fraudulent
actions by a small number of irresponsible actors (RA, RB, RD).

Another serious challenge is fraud and counterfeiting in halal products. Fraud related to halal labeling and claims can result in loss of consumer confidence in the industry. Fraud can occur at various levels, ranging from falsification of certification to substitution of haram ingredients in halal-claimed products (RB, RC, RE, RG). Consistent with these findings, Triana (2021) revealed that the complexity of global supply chains in the production of food and consumer products makes it difficult to trace origins and production processes, creating gaps where counterfeiting and fraud can occur undetected [23]. Luthviiati & Jenvitchuwn (2021) point out the high economic attractiveness of the halal industry strengthens the drive to engage in fraud and adulteration. Unethical manufacturers or suppliers may see great profit potential in manipulating products to appear halal without requiring full compliance with established halal standards [24].

D. Marketing and Distribution Factors

Marketing and distribution issues in the halal industry are critical aspects that must be seriously considered to ensure the success and sustainable growth of this industry sector. One of the main challenges is the lack of effective marketing strategies for halal products. The halal industry must be able to differentiate its products in an increasingly competitive market and communicate the value of halalness clearly to consumers (RE, RF, RG). Efficient and inclusive distribution is also an issue. Complex supply chains, especially in a global market, can result in challenges in the management and quality control of halal products (RB). In addition to the urgency of marketing and distribution in the halal industry, it is also important to understand that halal standards and certification also affect marketing and distribution strategies (RB, RH). No less important is the utilization of modern technology in the marketing and distribution of halal products. Digital innovations, such as e-commerce and online platforms, can enable producers to reach consumers more efficiently and present halal products more widely (RH, RI, RJ).

Another challenge affecting the halal industry is the marketing and distribution of halal products. Companies need to overcome difficulties in reaching and influencing a wide market, especially outside the Muslim community. Negative perceptions of halal products among non-Muslims, especially in Muslim-minority countries, can be a barrier to wider adoption of halal products (RA, RC, RF, RG, RH, RJ). Supporting these findings, Battour et al., [25] found that marketing and distribution issues that are still a problem in the halal industry are related to a lack of understanding, infrastructure constraints, differences in standards, lack of coordination, and lack of technology adoption.

E. Halal awareness

Halal awareness is a crucial element in the halal industry, one of the problems that needs serious attention. Public awareness of the concepts of halal and haram still tends to be limited in certain areas and communities so negative perceptions and stereotypes of halal arise due to a lack of in-depth knowledge of the principles and benefits of halalness. From the producer's perspective, different levels of knowledge among producers and industry players are also a problem in the halal industry. Some producers may not fully understand the requirements and implications of halal, which may result in errors in the production and marketing of halal products (RA, RB, RC, RD, RE). According to Arifin et al. (2023) in the production factor, halal awareness includes a deep understanding of the ingredients used in halal products.

However, from the consumer perspective, one of the main problems is the low level of knowledge and understanding of the wider community regarding the concept of halal, both in terms of food, beverages, and other products [26]. Many consumers may not fully understand the requirements and principles that make a product considered halal or not. This could be due to cultural differences, education, or even the level of access to available information [23]. As for Khalidi and Pane (2021) in the consumption factor, education and information campaigns about halalness and the benefits of halal products must be intensified to increase public awareness. Consumers need to understand the importance of choosing truly halal products and how to correctly identify halal products through legitimate labels and certifications [27].

F. Sustainability Aspects

Sustainability is also a major concern in the halal industry. The halal industry needs to ensure that the practices of the products used are in accordance with the principles of sustainability and are not detrimental to the environment. This will play a key role in maintaining the integrity and sustainability of the halal industry as a whole. Integrating sustainability aspects in the production and distribution of halal products will help build a good reputation and meet the demands of consumers who are increasingly concerned about the environment (RB, RD, RH, RI). In line with these results, Suharni et al., [28] found that implementation and adherence to sustainability practices should be an integral part of the business and operational strategies of every company in the halal industry. This includes improving energy efficiency, wise waste management, reducing emissions, and using environmentally friendly materials[29]. Additionally, Chen et al., [30] and Wahyudiono [31] indicated that the use of technology can also help in dealing with sustainability issues. Technological innovation can help improve production efficiency, reduce waste, and monitor environmental impacts. The use of information technology and specialized applications can help monitor and track the entire supply chain, ensuring sustainability at every stage of production and distribution [32].

V. CONCLUSION

Overall, the halal industry faces a range of complex issues and challenges. Based on the results as discussed in the previous section, this study highlights that there are six issues and challenges of halal industry development in Indonesia. Among them are the high cost and complexity of obtaining halal certification, halalness of raw material, fraud in counterfeiting of halal products, marketing issues, halal awareness and sustainability aspects. This study suggests that it is important to improve harmonization and standardization of halal standards to make it simple and all elements involved can easily create and access halal certification. Collaborative efforts between government and certification bodies can play an important role in achieving this goal. Furthermore, to address raw material issues, a robust and transparent oversight system must be implemented in the entire halal supply chain.
Again, Governments, certification bodies, and companies must work together to ensure the integrity and authenticity of halal products, and impose strict sanctions against violations. In terms of fraud in counterfeiting in halal products, this study suggests that halal industry requires an integrated approach that focuses on strengthening marketing strategies, improving distribution infrastructure, improving coordination between stakeholders, and utilizing modern technology. In addition, this study indicates that effective marketing strategies and a sensitive approach to local consumer preferences are key to success in marketing halal products globally. In terms of halal awareness, this study suggests that supporting industry players, especially small and medium enterprises, in understanding and fulfilling halal certification requirements is crucial. Financial support, halal education, training, and access to the right information will help enhancing halal awareness in business players and consumers.

REFERENCES