



# Regulatory Readiness of Halal Industry in Indonesia to Overcome Asean Economic Community Border Area

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**Abstract.** The ASEAN Economic Community (AEC) provides various opportunities and challenges for AEC members. With a broader and more diverse market in AEC members, the halal industry in Indonesia has the opportunity to expand at ASEAN level. Meanwhile, the AEC also poses various challenges for the halal industry in Indonesia. Among AEC members, there are several countries which have halal industry, such as Malaysia, Thailand, Singapore, and Brunei, although not all of them has large Muslim population. Unfortunately, Indonesia still become the primary market for halal industry products and services due to its large number of Muslim populations. Furthermore, the overseas market for Indonesia is limited due to the small population of other halal industry-produced countries. Thus, there are many opportunities for the Indonesian halal industry with the existence of the AEC. On the other hand, the AEC brings a big challenge for the domestic halal industry: protect the domestic market from foreign halal products. Therefore, the role of regulation is important to prepare halal industries in Indonesia to overcome AEC. This paper aims to analyze the current regulation regarding the halal industry and the AEC in Indonesia. This paper will mainly discuss regulations for the local halal product and imported halal products. By knowing the current condition of the halal industry in Indonesia, the level of legal readiness can be analyzed. Using the analysis of the regulation supporting halal industry, it can be estimated whether Indonesia is ready or not to take the maximum benefit from the AEC.

**Keywords:** ASEAN Economic Community, Halal Industry, Regulation.

## 1 Introduction

In recent decades, there has been a tendency for the attention of governments in various countries to take part in the halal industry. Especially regarding food products, the term "halal" products has been part of international standards since 1997, which is written in the Codex Alimentarius made by the world food standard certification body in international trade. The World Trade Organization recognizes codex Alimentarius as an international reference for resolving food safety and consumer protection disputes. Each of these countries makes policies that pay special attention to supporting the halal industry development, including in Southeast Asian countries that are members of the ASEAN association.

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The halal industry has a huge opportunity to grow well in South-East Asia due to the vast demand for halal products from Muslim-majority countries such as Indonesia, Malaysia, and Brunei. From the roughly 630 million population in ASEAN countries, about 50%-60% is the Muslim market. Thus, South East Asia is the most robust market for *halal* product outside the Middle East [1]. Moreover, the ASEAN region is well connected, make it easier for halal logistic demands. Furthermore, ASEAN has a geographical advantage due to its strategic location between China and India as the giant market. Thus, it can be stated that ASEAN has a quite comprehensive system to support halal industry [2]. Additionally, the ASEAN Economic Community will establish ASEAN as a single market and production base, turning the diversity that characterizes the region into opportunities for complementary businesses and making ASEAN a more dynamic and powerful segment of the global supply chain.

Currently, there are several strong players in the halal industry in ASEAN, such as Malaysia, Brunei, and Indonesia, as Muslim-majority countries. However, there are strong contenders from minority-Muslim countries such as Thailand and Singapore who start aware of the potential profit from halal products to boost their economy and tourism, particularly to attract Muslim tourists [2]. Therefore, Indonesia needs to prepare a strategy to become a major player in the Halal Industry amid ASEAN Economic Communities.

Through the Globalization era, the Asian Economic Community (AEC) and free trade currently have an impact on increasing the circulation of sales of food, beverage, and cosmetic products, both local and imported products circulating in the community, especially when electronic commerce (e-commerce) begins to develop. However, foreign products in marketplace applications that the public can access are certainly not guaranteed to fulfill the rights of Muslim consumers. Within the scope of guaranteeing halal products, Muslims are required by sharia to consume food and beverages that do not conflict with Islamic law.

The implementation of ASEAN Economic Communities brings a big challenge for the Indonesian halal industry. Despite Indonesia's status as the country with the largest Muslim population globally, its halal industry remains underdeveloped. Considering Indonesia's nature as the largest Muslim country, it has more chance to become a market than a halal industry player. Currently, Indonesia only becomes a primary halal product market, leaving behind Malaysia, its neighboring country. Thus, the free market as the impact of ASEAN Economic Community will instead benefit the other countries in terms of halal industry. Additionally, in this globalization era, the digital economy emergence with existence of electronic trading activities. This growth certainly impacts the global economy, which no longer recognizes the territorial boundaries of a country [3]. In this case, Indonesia could be flooded by imported products through e-commerce. Thus, Indonesia requires a strategy to protect the domestic market from foreign halal products.

Halal product assurance without proper regulation is nothing and complicated to be implemented. Research conducted in Indonesia, Thailand, and Malaysia by Susetyo et al [4] has shown that the supporting law provided by the government are fundamental to support the expansion of *halal* industry. Thus, regulation is essential to prepare halal industries in Indonesia to overcome competition in ASEAN Economic Communities.

This essay aims to explain how is Indonesia's readiness to regulate halal industry with the existence of regional boundaries in connection with the AEC cooperation. This research using qualitative methods to explore the regulation in Indonesia that applicable to halal industry and analyze its relevance amongst halal industry competition in ASEAN Economic Communities. Data was collected through analysis of various legal documents, reports, and previous studies in halal industry.

## 2 The Growth of Halal Industry in Indonesia

Islam has quite comprehensive rules regarding halal and haram. Legal sources in Al-Qur'an and Sunnah provide rules and guidance about what is permissible (Halal) and what is non-permissible (Haram) to be consumed by Muslims [5]. The provision of halal and haram in Islam affects Muslim's consumption behaviour and plays a significant role in consumer decision-making [6]. The demand from Muslim consumers to consume halal products causes the growth of halal industry, such as halal food, halal lifestyle, and halal services, whereby the products should fulfill shariah-compliance requirements [7]. Additionally, profit prospectus from the Halal market holds appeal not only for Muslim nations but also for international brands, particularly within the lucrative halal food sector, generating substantial revenue within the halal industry. Consequently, even companies from minority-Muslim countries start developing products that conform with Islamic values to attract Muslim consumers [8].

Since Muslim's purchase-decision based on their preferences and faith, the information about *halal* status of the product by the *halal* logo is essentials [9]. Therefore, there aroused a demand for trustworthy Halal certificates, which caused the governments in Malaysia, Indonesia, and other Muslim countries to comply by establishing governmental bodies to supervise and regulate the food markets [10]. Since whether a product is Halal or not is a critical factor in Muslims consumption decisions, Halal regulation and certification was developed to help consumers identify products that comply with Islamic principles [11].

Despite the escalating global demand for halal products, it is ironic that some Muslim countries merely serve as markets for these products rather than actively participating in the halal industry. For example, Indonesia, which is the most significant halal food consumer as the country with the largest Muslim population, is not listed in the top 10 countries in Halal Food Indicator. On the contrary, several non-OIC (Organisation of Islamic Cooperation) members, such as Brazil and Australia, have become the major exporter of halal meat to the OIC countries [12]. Furthermore, in Indonesia, only a limited number of products have been certified as halal. The overall percentage of products holding a Halal certificate from 2011 to 2014 amounts to approximately 26.11%. This figure further diminishes concerning halal certification among small and medium enterprises (SMEs). Until 2018, only 12.000 SMEs (out of four million) have had obtained halal certification [13].

Several business communities in Indonesia are still reluctant to implement halal certification due to its cost. This concern arises due to the inadequate comprehension

among business producers in Indonesia regarding the potential benefits of halal certification. Many of them perceive halal certification merely as a hindrance to their business endeavors. In fact, halal certification is an investment to improve the quality and value of the product. As a comparison, Malaysia and Thailand's producers already consider halal certification as an advantage to their products, so they are voluntarily applying for halal certification. Through halal certificates, they have quality assurance of products and provide the Muslim consumers demand of the halal product [4].

Therefore, from the discussion above, it can be concluded that while Indonesia as Muslim-majority countries have advantages due to their in-depth knowledge of Islam, they are left behind in the development of halal products. This could be a challenge for the Indonesian halal industry to survive in ASEAN Economic Communities since Indonesia might be competing with other countries in the ASEAN region. Therefore, regulatory intervention from government is essential to secure Indonesia's position in halal industry.

### **3 Indonesian Regulatory Readiness of Halal Industry in Indonesia to Overcome Asean Economic Community Border Area**

In Indonesia, the 1945 Constitution of the Republic of Indonesia (UUD 1945) Article 29 paragraph (2) mandates that the State guarantees the independence of each resident to embrace their own religion and to worship according to their religion and beliefs. To ensure that every believer of religion worships and carries out his religious teachings, the state is obliged to provide protection and guarantees for the rights of the Muslim community regarding the halal products consumed and used by Muslim consumers.

Currently, Indonesia has a regulation about the halal product in Law No 33 Year 2014 of Halal Product Assurance (HPA). Besides assuring legal guarantees and guarantees of the halalness of food and beverages, this regulation also has a crucial role in supporting Indonesia's economic competition at the world level [4]. Beside the regulation about halal product, Indonesia also has Badan Penyelenggara Jaminan Produk Halal (BPJPH/Halal Assurance Agency in Indonesia) institution which executes and supervise the implementation of this halal certification.

HPA Law Article 4 states that products that enter, circulate, and are traded in the territory of Indonesia must be certified halal. This regulation means that all products, both domestic products and foreign products, which circulated and traded in Indonesia are also obliged to be halal certified. More specifically, PP Number 39 of 2021 Article 125 mentioned that every imported good to Indonesia must have halal certification. By this requirement, only halal-certified products can be imported to Indonesia. However, for the product which is obviously non-halal such as pork derived products, according to the HPA Law Article 26 paragraph (2), if a product is created from non-halal materials, then the products do not need to be halal certified but must contain information of the non-halal status of the products.

Imported goods that enter the territory of Indonesia can be produced in two ways, namely imported goods whose halalness has been confirmed from the country of origin

and imported goods whose halalness has not been confirmed yet. In addition, halal imported goods have two types, which is imported goods that have been obtained the halal certificate from the beginning in accordance with the BPJPH Halal Certificate requirement, and imported goods that have halal certification yet not in accordance with the halal ratification from BPJPH [14].

If the products already have halal certification from origin countries, they can be recognized in Indonesia as long as both countries have mutual recognition cooperation. In the case of Indonesia, the recognition comes from BPJPH. However, these types of products must be re-registered before being circulated in Indonesia, by applying to BPJPH. Meanwhile, Article 47 HPA Law states that halal products originating from abroad need to be re-certified in Indonesia if there is no mutual recognition cooperation between both countries. Therefore, imported goods that already have halal certification but have no mutual recognition with BPJPH or imported goods without halal certification must apply for halal certification in Indonesia using prevailing laws.

From the discussion above, it can be concluded that Indonesia already has provisions to protect the Indonesian market from imported goods without halal certification. In addition, the halal-certified product from overseas needs to register before it can be imported into Indonesia. Therefore, this provision can be the form of protection or barrier to entry for imported products to enter Indonesia.

Another question regarding halal products is the imported halal product through e-commerce. Currently, there are no specific regulations in Indonesia that provide rules about trading halal products through e-commerce. However, we can refer to existing regulations about e-commerce in Indonesia. According to Article 11 PP No. 80 Year 2019 about Trade Through Electronic Systems (E-Commerce Law), every business conducting trade through e-commerce should conduct product standardization according to the provision in the law. It can be concluded that products traded to Indonesia also should fulfil halal certification requirements as part of standardization. Additionally, Article 13 of this regulation also stated that traders should provide clear and correct information about the condition of traded items. Thus, this means every product claiming halal product should provide proof in the form of halal certification or halal label. Therefore, it can be concluded that E-Commerce law can be utilized to prevent the Indonesian market from illegal halal products overseas.

## 4 Conclusion

The halal industry in Indonesia needs regulatory intervention from the government to grow and survive in ASEAN Economic Communities market competition. Currently, there is some regulation in Indonesia which support the halal industry. Regulation in Halal Product Assurance Law and E-Commerce Law has provided several provisions which can be helpful as the barriers to entry to protect Indonesia from halal products from overseas markets. However, regulation about the halal industry in Indonesia is supposed to not only focus on protection but also should support the expansion of the halal industry in Indonesia.

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