

Potential for Sustainable Halal Industry Development in Indonesia : Literature Review and Global Trend Analysis

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Abstract. This research explores the potential for developing a sustainable halal industry in Indonesia through a literature review and analysis of global trends. As the country with the largest Muslim population in the world, Indonesia has great potential in the halal industry, including the food, beverage, cosmetics, tourism, and sharia finance sectors. Increasing global and domestic demand for halal products is driving the growth of this sector. It also plays a serious role in supporting sustainability through environmentally friendly practices and efficient resource management. This research uses qualitative methods with a literature study approach to identify opportunities and challenges in achieving sustainability in the halal industry in Indonesia. The results show that implementing Environmental, Social, and Governance (ESG) principles can increase competitiveness and attract investment. However, we must overcome global competition, foreign cultural penetration, and economic imbalances. This research provides strategic insights for stakeholders to strengthen Indonesia's position as the centre of a sustainable global halal industry.

Keywords: Halal Industry, Sustainability, ESG

1 Introduction

The halal industry is a significant sector in the global economy, particularly in countries with large Muslim populations, such as Indonesia. With a Muslim population reaching 241.7 million people or 89.02% of the total population as of December 2022, Indonesia has enormous market potential for halal products (Ministry of Home Affairs, 2022). In recent years, many countries have seen the development of the Sharia economy and the halal lifestyle as a potential source of new, sustainable economic growth. Based on the State of the Global Islamic Economy Report (SGIER) 2022, global Muslim consumer spending is projected to grow by 9.1% in 2022 and reach USD 2.8 trillion in 2025 with a Compound Annual Growth Rate (CAGR) of 7.5% for four years (SGIER, 2022).

The importance of developing the halal industry in Indonesia is also in line with global trends that show a significant increase in demand for halal products. Indonesia, with the largest Muslim population in the world, is still the great global consumer of halal food, with a consumption value of USD 135 billion, or around 11.4% of total global consumption (Indonesia Halal Market Report, 2021/2022). Furthermore, Indonesia has the potential to increase the contribution of the halal industrial sector to Gross Domestic Product (GDP) by USD 5.1 billion or IDR 72.9 trillion, showing the prominent role of this industry in the national economy (Indonesia Halal Market Report, 2021/2022).

The halal industry in Indonesia not only holds immense economic potential but also serves as a crucial driver for sustainable development in the country. Sustainability in the context of the halal corporation includes the efficient use of natural resources, responsible waste management, and reducing the carbon footprint in the production process. It is in line with the Sustainable Development Goals (SDGs) launched by the United Nations, especially SDG 12 (Responsible Consumption and Production) and SDG 13 (Climate Action). By integrating sustainability principles, the halal industry can have a strategic role in achieving inclusive and environmentally sound economic development (State of the Global Islamic Economy Report, 2019).

To promote sustainability, the incorporation of Environmental, Social, and Governance (ESG) principles into the halal industry is becoming increasingly relevant. Good ESG practices can increase consumer confidence and attract the most investment, as more investors are attracted to companies committed to sustainability. It provides added value not only for consumers and the wider community but also strengthens the competitiveness of the Indonesian halal industry in an increasingly competitive global market (Adamsah & Subakti, 2022).

See the potential and existing challenges that the analysis aims to explore the potential for developing a sustainable halal industry in Indonesia by conducting a literature review and analysing global trends. This research will also identify the opportunities and challenges for halal companies in Indonesia to achieve sustainability. Thus,

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it takes up that this research shall provide strategic insights for stakeholders, one and the other in the public and private sectors, to strengthen Indonesia's position as the centre of a sustainable global halal industry.

2 Literature Review

"Halal" is also used for halal food, kitchen, clothing rules, cutlery, logos, and halal certificates. The halal industry is an industry that produces goods and services adapted to Sharia. Everyone learns to obey the rules taught in the Koran about halal, haram, and sunnah to avoid halal (Adamsah & Subakti, 2022).

Halal from the Arabic terms, namely "halla" "hillan" "yahillu", and "halal" which means something that is permitted or according to the rules of the Sharia. Thus, the halal industry views the production of industrial products as mandatory by the Sharia rules that are acceptable in Islam (Masyhud, 2019). The concept of Sharia states that everything eaten by Muslims, both food and non-food, must come from halal sources. According to Law Number 33 of 2014 concerning Halal Product Guarantees, the aim of the halal industry is that the state is obliged to protect and guarantee the halalness of products (Nurhisam, 2020). Halal labelling on industrial products is very crucial for assessing product quality because halal reflects the intrinsic value of both the production process and the final product (Kamilah & Lestari, 2019)

The halal industry has become the main focus of the world economy in the last decade. Regarding economic growth, many studies have highlighted the significant role of the halal industry in its contribution to a country's economic development. In the Indonesian context, halal production also has great potential to influence economic growth (Maulana & Zulfahmi, 2022).

Every year, the halal industry continues to progress. This growth will indeed have a positive impact on the Indonesian economy. Sharia economics agreed to contribute to the Gross Domestic Product (GDP) of 3.8 billion US dollars annually (Mahfudhoh, 2020). Citizen consumes halal products, and import-export activities are proof of their contribution to GDP. Indonesian people's consumption of halal products is the largest in the world. More than 36% of all households in Indonesia used halal products in 2017. It is comparable to 20% of Indonesia's GDP (Ministry of Finance of the Republic of Indonesia 2019).

Indonesia is one of the many countries developing the halal sector with enormous potential. Of course, this great potential is a consequence of the large population of Indonesian Muslims. Indonesia's natural resources are very abundant. Indonesia's abundant natural resources have great potential to be developed and utilized in various industries, including food, clothing, tourism, medicine, and cosmetics. This production includes industry (Fahmi, 2020).

3 Methods

The method in this article uses library research, namely collecting data by understanding and studying theories from various literature related to the research. There are four stages of library study in research, especially preparing the necessary equipment, preparing a working bibliography, organizing time, and reading or recording research materials. Data collection used search engines for sources and constructed them from various sources, such as books, journals, and previous research. Library materials from various references are analysed critically and must be in-depth to support the propositions and ideas. (Adlini et al., 2022).

The research method used in this research is a descriptive-analytical research method using a qualitative approach. This approach is adapted from the leading research objective, especially analysing the potential for developing a sustainable halal industry in Indonesia. An analytical research design is to describe in detail how several individuals experience a specific phenomenon. Describing a phenomenon in detail is usually done by collecting data from individuals who have experienced the phenomenon. The size of the group of individuals studied can vary (Yusuf & Agustang, 2020).

The research utilizes secondary data collections, obtained indirectly from the research subject such as internet sources or references. Secondary data sources are from previous research from scientific articles or journals, government reports, academic publications, journal articles, and official statistical data (Sari & Zefri, 2019).

4 Results and Discussion

4.1 Global Trend Analysis

Globalization can also encourage foreign investment in the Islamic economy and could contribute to economic development. Islamic economics also plays a significant role in people's welfare in the era of globalization (Agustira et al., 2024). The halal industry is a market that has great potential in the future to provide goods and services both domestically and internationally. The concept of halalan tayyiban is a concept about food and drink

that must be practiced by humans in general and the Islamic community (Bayumi, 2022). The potential for this industry is not only developing in countries with a majority Muslim population but also in minority countries. This Islamic lifestyle is not only related to the food product consumer sector but also to the financial, travel, fashion, cosmetics, health, entertainment, and even education sectors. Although the halal industry has received a lot of attention, businesses in Muslim countries have not been able to fully exploit this opportunity (Safitri & Afandi, 2023).

The outbreak of the global halal trend is a crucial issue that is important to be discussed by Sharia economic activists. Nowadays, halal is not just about fulfilling needs, and Muslims' compliance with sharia, however, is one of the standards recognized worldwide. The global demand for halal products exceeded USD 2.2 trillion in 2019, with a yearly growth rate of 5.2%, reflecting the increasing portion of the world's Muslim population that seeks halal products. (Maulana & Zulfahmi, 2022).

Data from the National Sharia Finance Committee (KNKS) states that the total Global Islamic Finance Market was US\$ 2.438 trillion in 2017 and it is predicted to pass on to increase to US\$ 3.809 trillion (up 56%) in 2023. Meanwhile, in the Global Islamic Commercial Banking Market sector, The figure was recorded at US\$ 1.721 trillion in 2017 and is expected to reach US\$ 2.441 trillion in 2023 (up 41.8%). The 2016/2017 Global Islamic Economy Report shows that the value of spending on halal food and lifestyle in the world reached US\$ 1.9 trillion in 2015 and is predicted to increase to US\$ 3 trillion in 2021. Seeing this great potential, both Muslim and non-Muslim countries Muslims are competing to work on Sharia-based businesses (KNEKS, 2019).

Thailand, whose majority population is Buddhist, is even the largest exporter of halal-certified food in the world. China is also a provider of halal clothing materials to the Middle East. Even Japan and South Korea are also actively developing this halal industry even though the number of Muslims in their countries is a minority. The Manila Times reported that the Philippines is actively working on blooming thriving halal management. (KNEKS, 2019).

This global trend has a significant impact on Indonesia, particularly in the halal industry. The halal industry is currently at the forefront of universal attention, and Indonesia is gearing up for the global halal market, notably through halal certification.

Innovation and technology, including the utilization of blockchain in the halal supply chain, are crucial for the development of the halal industry. Blockchain technology has demonstrated its significance in various production, and the halal supply chain is no different. With the growing demand for halal products, it is essential to ensure transparency and trustworthiness in the supply chain. The halal supply chain is a complex network involving numerous stakeholders such as farmers, processors, distributors, and retailers, each playing a crucial role in ensuring products meet the required halal standards. However, the current system often lacks clarity, making it challenging to trace the product's source and verify its authenticity. Blockchain technology has the potential to address this issue by establishing a transparent and secure system capable of tracing the entire supply chain (Rifka Mustafida, 2024).

4.2 Opportunities and Challenges

Globalization has both positive and negative impacts. When managed effectively, it can bring significant benefits to populations. In Indonesia, globalization has created new opportunities for the halal industry, including food, cosmetics, finance, and tourism. One of the significant positive impacts of globalization is the expansion of new markets for Indonesian halal products and services (Agustira et al., 2024). It has allowed Indonesian halal products to access international markets through e-commerce platforms.

The presence of a thriving halal industry has the potential to increase the value of industrial exports, particularly in halal food and Muslim clothing. Additionally, it can help develop the role of the Sharia financial industry, contributing to financial inclusion (Adamsah & Subakti, 2022). The Indonesian Halal Industry Master Plan 2023-2029 includes programs aimed at increasing entrepreneurship in the halal industry, particularly for micro, small, and medium enterprises. The following measures have been created to enhance productivity, competitiveness, and workforce quality (Soraya Siti Rahayu et al., 2024).

In conclusion, the Indonesian people play a crucial role in the progress of the halal industry by participating in halal industry entrepreneurship. It is essential for the sustainable growth of halal businesses, aiming to enhance productivity, competitiveness, and the quality of human resources.

Apart from opportunities, the global halal industry must also confront convincing challenges. From an external perspective, Indonesia faces several challenges. Firstly, there is stiff competition from countries such as Malaysia, Brunei Darussalam, Turkey, Pakistan, Qatar, and the United Arab Emirates, as well as non-Muslim countries including Australia, Thailand, Singapore, United Kingdom, Italy, and others (Soraya Siti Rahayu et al., 2024). To stay competitive, Indonesia must continually innovate and creatively utilize its resources.

To address these challenges, the government has established the National Standardization Body (BSN), together with the National Accreditation Committee (KAN), which coordinates with related parties such as BPOM, the Ministry of Religion, the Ministry of Trade, the Ministry of Industry, the Ministry of Agriculture,

MUI, YLKI, and other entities operating in the halal products sector. Indonesian MSMEs must participate in halal certification, as without it, they may face obstacles when dealing with the free trade market (Yulia, 2019).

5 Conclusion

With the increasing globalization, the halal industry has significant market potential for offering goods and services both domestically and internationally in the future. This potential is not limited to countries with a majority Muslim population but extends to minority countries. The Islamic lifestyle encompasses not only the food consumer sector but also the financial, travel, fashion, cosmetics, health, entertainment, and education sectors. This global trend has a major impact on Indonesia, particularly in the halal industry. Indonesia is preparing for the world halal market and is at the centre of international attention in establishing a global halal industry, including through halal certification.

The existence of the halal industry has both positive and negative impacts on Indonesia. On the positive side, it increases the export value of the halal industry, enhances the halal potential, and boosts the role of the Sharia financial industry in achieving financial inclusion. On the downside, Indonesia faces competition from developed countries regarding product quality and competitive prices. As a result, Indonesia should prioritize halal certification as a reliable factor when entering the global market.

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