

THE INDONESIAN HALAL INDUSTRY IS REVIEWED FROM A MICROECONOMICS AND MACROECONOMICS PERSPECTIVE

Nurwahyu Hasanah Putri¹ Hadi Peristiwo²

UIN Sultan Maulana Hasanuddin Banten, Indonesia

Correspondence Author: hadi.peristiwo@uinbanten.ac.id

Abstract: Halal industry is an effort to process raw goods into finished or semi-finished goods using facilities/equipment whose licenses are in accordance with Islamic law. The large number of Muslim population in Indonesia has a positive impact on the development of the halal industry in Indonesia. In its development, the halal industry is divided into several sectors including halal food, halal fashion, halal pharmacy, halal tourism, halal finance, etc. This study was conducted to review Indonesian halal industry from a microeconomics and macroeconomics perspective. This research uses literature study obtained from various books and relevant journals. The results of this study are in the form of data on Indonesian state revenues and expenditures generated from the halal industry and their effects on the Indonesian economy.

Keywords: Indonesian Halal Industry; Microeconomics; Macroeconomics.

INTRODUCTION

Indonesia as a country where the majority of the population is Muslim, has a fairly high contribution to economic development in Indonesia. According to *the State of the Global Islamic Economy Report*, Indonesia ranks 4th in the overall ranking of the halal industry. Especially in the field of *Halal Food*, Indonesia is ranked 2nd after Malaysia (*State of the Global Islamic Economy Report 2022*). This shows that the growth of the halal industry in Indonesia has begun to grow rapidly. Likewise, the development of Islamic finance has increased following the merger of the three major banks in Indonesia, namely Bank Mandiri Syariah, BRI Syariah and BNI Syariah which were changed to become Bank Syariah Indonesia.

The State of the Global Islamic Economy Report estimates that the world's 1.9 billion Muslims spend the equivalent of US\$2 trillion by 2021 across halal food and beverages, halal pharmaceuticals, halal cosmetics, halal fashion/fashion, halal travel, and the media/leisure sector halal, which as a whole is influenced by ethical consumption inspired by the needs of the Islamic religion. This spending reflects year-on-year growth of 8.9% from 2020, with Islamic finance assets expected to have grown to US\$3.6 trillion in 2021, up 7.8%, from US\$3.4 trillion in 2020. Despite the continuing uncertainty related to the pandemic, Muslim spending in 2022 is expected to grow by 9.1% for the Islamic economic sectors covered in this report, excluding the Islamic finance sector. All of these sectors, except travel, have returned to pre-pandemic spending levels by the end of 2021. Muslim spending is expected to reach US\$2.8 trillion by 2025 with 4 (four) year Cumulative Annual Growth Rate (CAGR) of 7.5%.

The UAE, Indonesia and Malaysia saw the highest amount of investment, with the UAE securing 16% of all transactions recorded. In terms of sector, Halal food and Islamic finance comprise 15.5% and 66.4% of the total deal value, respectively. Muslim spending on food increases by 6.9% in 2021, from US\$1.19 trillion to US\$1.27 trillion, and is expected to grow by 7.0% in 2022 and reach US\$1.67 trillion in 2025 with 4 (four) year CAGR of 7.1%.

Islamic financial assets valued at US\$3.6 trillion in 2021 and are expected to grow by 8.0% in 2022 and reach US\$4.9 trillion in 2025 with 4 (four) year CAGR of 7.9%.

Muslim spending on tourism increased from US\$58 billion to US\$102 billion in 2021 and is expected to grow by 50.0% in 2022 to US\$154 billion and reach US\$189 billion in 2025 with 4 (four) year CAGR of 16.5%. Muslim fashion spending increased by 5.7% in 2021, from US\$279 billion to US\$295 billion, and is expected to grow by 6.0% in 2022 to US\$313 billion and reach US\$375 billion in 2025 at 4 (four) year CAGR of 6.1%. Muslim spending on medicines increased by 6.5% in 2021, from US\$93.5 billion to US\$100 billion, and is expected to grow by a further 6.7% in 2022 to US\$106 billion and reach US\$129 billion on year 2025 at 4 (four) year CAGR of 6.7%. Muslim spending on cosmetics increased by 6.8% in 2021, from US\$65 billion to US\$70 billion, and is expected to grow by a further 7.2% in 2022 to US\$75 billion and reach US\$93 billion in 2025 with 4 (four) year CAGR of 7.4%. Muslim media spending increased by 7.2% in 2021, from US\$216 billion to US\$231 billion, and is expected to grow a further 7.5% in 2022 to US\$249 billion and reach US\$308 billion in 2025 with a CAGR of 4 (four) year of 7.5% (Standard, 2022).

Indonesia as one of the largest Muslim countries in the world has great potential in developing the halal product industry. Based on the 2021/2022 Indonesia Halal Market Report, Indonesia has the opportunity to increase its gross domestic product (GDP) through the halal industry. To support the increase in national exports, the Indonesian Export Financing Agency/Indonesia Eximbank (LPEI) as one of the Indonesian Ministry of Finance's *Special Mission Vehicles* (SMV) is also supporting the development of the Islamic economy in Indonesia, including Indonesia's agenda which is projected to become the center of the world's leading halal producers.

LPEI Executive Director Rijani Tirtoso explained that LPEI provides support to MSMEs through mentoring and training programs to mold MSME players to become new exporters who are ready to be globally competitive, including the halal industry sector. Increasing national exports through financing, insurance guarantees and consulting services not only conventionally but also with sharia schemes. This is also in line with the government's mission to improve the halal certificate industry. Funding that has been channeled to MSMEs is IDR 84 trillion, of which 14.6 percent or IDR 12.2 trillion is with the scheme sharia.

In addition, LPEI collaborates with the National Sharia Economic and Finance Committee (Komite Nasional Ekonomi & Keuangan Syariah (KNEKS)) in providing literacy and education related to market access for halal products, as well as access to sharia financing facilities. Several comprehensive and integrated program implementations with guidance from basic to advanced levels are carried out through consulting services. After being considered bankable and qualified, it is likely that MSME actors will also be facilitated by Business Matching and Financing. (Ministry of Finance, 2022). The development strategy focuses on increasing the role of stakeholders and society in developing the industry and optimizing policies by maximizing product quality (Ferry Khusnul Mubarak, 2020).

METHOD

The method used in this study uses a qualitative descriptive approach. The technique used in this study uses library research, where the data collected is secondary data sourced from several books and other relevant journals. The data obtained is analyzed to get a descriptive

explanation which is then linked to the topic discussed. Data analysis activities in this study were carried out in 3 stages, namely data reduction, data categorization and data verification. *First*, all the data obtained is selected by cutting and simplifying the data according to the topic.

Second, the reduced data is then categorized according to the topic. *Third*, draw conclusions from the data that has been categorized to get the researcher's interpretation of the data. Verification is carried out using triangulation techniques, namely comparing one data source with another data source. Data analysis was carried out by reading data related to the topics discussed and then recorded and studied which then produced conclusions that could be understood.

RESULTS AND DISCUSSION

The Progress and Development of The Halal Industry in Indonesia

Industry is an economic sector whose activities produce or process raw goods into finished or semi-finished goods. Meanwhile, the halal industry is an activity of producing or process goods using facilities/equipment whose permits are in accordance with Islamic provisions and Sharia (Sukoso, 2020). Halal products are products that are declared halal in accordance with the provisions of Islamic law. The halal product industry is part of the sharia economy that has been developed by the government since the last three decades (Kamila, 2021).

Halal in Arabic means permissible and lawful. This is not only related to consumption but also all actions. While *haram* means prohibited and violates the law. The concept of halal in its development covers the industrial sector. Integrating and combining the term "*halal*" in forming a "*halal industry*" is closely related to the term "*halal*" itself. Etymologically, the word ḥalāl comes from the Arabic language which means permissible, permissible, legitimate and legal. The term ḥalāl means it is permitted in accordance with Islamic teachings (*sharia*) (Hendri Hermawan Adinugraha, 2022).

The development of the halal industry in these various fields shows that the halal label has become an important factor in consumer decision making. Therefore, companies are competing to give their products a halal label, thus leading to the halal certification business (Triguswinri, 2021). The halal industry, which was originally born as a need for Muslim consumers for halal food products, is now developing along with the growing awareness of Muslims about the importance of applying sharia values in wider life. We can observe this with the growing development of the Islamic economy, Islamic banking, halal tourism and its tools. In Law 33, JPH, 2014 Article 1, it is stated that halal products can include goods and or services related to food, drink, medicine, cosmetics, chemical products, biological products, genetic engineering products, as well as goods used, used, or used by the community. Because of halal products no only covers food and drink which we consumption. However thus this extends to all possible uses for consumers (Sukoso, 2020).

Opportunities for the development of the halal industry in Indonesia include: a) the high number of Muslim population; b) high demand for and purchasing power of halal products in Indonesia; c) the opening of export opportunities to OIC and non-OIC countries; d) import product substitution policy; e) the formation of the National Sharia Finance Committee (Komite Nasional Ekonomi & Keuangan Syariah (KNEKS); and f) the enactment of the Halal Product Guarantee Law and the establishment of the Halal Product Guarantee Organizing Body (Badan Penyelenggara Jaminan Produk Halal (BPJPH).

To increase the development of the halal industry in Indonesia, several strategies are needed to achieve this goal. Strategies for the development of the halal industry in Indonesia that can be carried out include: Strengthening export products and import substitution, development of halal special economic zones or halal industrial zones, initiation of special agencies for the development of the halal industry, Strengthening the halal value chain (such as: the halal food and beverage industry, strengthening stakeholders halal industry).

On the other hand, in an effort to strengthen industrial competitiveness. The Ministry of Industry has taken the initiative to develop Halal Industrial Zones in Indonesia. Halal Industrial Estate is part or all of an industrial area designed with systems and facilities to develop industries that only produce halal products in accordance with the Halal Product Assurance System. There are four industrial areas included in the development plan for Halal Industrial Estates in Indonesia. The four industrial areas are Batamindo Industrial Estate, Bintan Industrial Park, Jakarta Industrial Estate Pulogadung, and Modern Cikande Industrial Estate.

The Halal Industry is Seen From a Microeconomics and Macroeconomics Viewpoint

The Ministry of Industry groups industrial clusters that encourage industrial development in the strengthening, deepening and growth of clusters of priority industrial groups in the long term. In Indonesia, industry is divided into 2 clusters, namely large and medium industry and small and household industry. Most businesses in Indonesia fall into the SMEs category, but SMIs in Indonesia have had a significant impact on changes in providing employment, increasing the number of companies and supporting household income (Kuncoro, 2020). The large number of industries in Indonesia has led to competition between companies to display the attractiveness of their respective industries so that they appear superior. High industry attractiveness will always have a desire to specialize or develop aggressively in order to dominate certain segments.

The development of the industrial sector in Indonesia in terms of microeconomics and macroeconomics can be seen from various comparative measures such as the number of business units or companies, the amount of labor absorbed, the value of the output (*output*) produced, the contribution in earning foreign exchange, the contribution in forming national income, and the growth rate. A company in the industrial sector certainly has *output* that is produced like the goods it produces. However, in several other industries the output produced is not only in the form of manufactured goods but can also be in the form of electricity, the excess of which is then sold, income from industrial services provided to other parties, as well as receipts from other non-industrial services. In addition to the *output* produced, a company in the industrial sector requires production/input factors to carry out the process of economic activity, as well as the costs incurred. The costs incurred for production are quite diverse, for example raw material costs, fuel costs, building/machinery/equipment rental costs, fees for services, labor costs (wages and salaries).

The halal industry continues to show positive growth every year. This growth made a positive contribution to the Indonesian economy. This contribution can be seen through the Gross Domestic Product (GDP). The Islamic economy has been proven to contribute to the Gross Domestic Product (GDP) of USD 3.8 billion annually (Ministry of Finance of the Republic of Indonesia 2019). This contribution to GDP is reflected in the consumption of the Indonesian people as well as export and import activities of halal products (Muhammad Anwar Fathoni, 2020).

Increasing preference of the public in general for halal products has made the diversity of halal products on the market even more diverse. Likewise, the large population and the increasing income of the Muslim community cause a high variety of halal products. The diversity of halal products is none other than to meet the demand for products which are getting higher day by day (Madjid, 2022). The increase in Muslim expenditure for the halal business and industry sector will increase in the future due to several main supporting factors, namely Islamic economic growth, demographic growth, business practices and lifestyles that focus on halal oriented.

CONCLUSION

1. Indonesia as a country with the largest Muslim population in the world has an important role in the development of the halal industry. Based on data from the State of the Global Islamic Economy Report, Indonesia is ranked 4th overall. This proves that the development of the halal industry in Indonesia is quite rapid, especially in the field of halal food and beverages. The halal industry in Indonesia, of course, also has a good impact on the Indonesian economy.
2. The halal industry continues to show positive growth every year. This growth made a positive contribution to the Indonesian economy. This contribution can be seen through the Gross Domestic Product (GDP). The Islamic economy has been proven to contribute to the Gross Domestic Product (GDP) of USD 3.8 billion annually. Based on the Indonesia Halal Market Report 2021/2022 which was launched by the Dinar Standard, this amount came from increased exports, import substitution and foreign investment (PMA). Judging from each sector, the spending of the world's Muslim population on the food and beverage sector is the highest compared to other sectors. Spending on this sector will reach US\$ 1,185 billion in 2020 and is predicted to increase to US\$ 1,668 billion in 2025. Furthermore, spending on the fashion sector is recorded at US\$ 279 billion. This amount is projected to increase to US\$ 375 billion in 2025. Meanwhile, spending on the tourism sector is the lowest at US\$ 58 billion. Expenditure for this sector is also projected to increase to US\$ 93 trillion in 2025.

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