

Indonesian Halal Industry Development Strategy in the Islamic Finance Sector to Face Global Halal Competition

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Abstract: This study explores strategic efforts to strengthen Indonesia’s halal industry through the active involvement of Islamic financial institutions and the establishment of regulatory frameworks to enhance global competitiveness. Using a qualitative descriptive approach that integrates normative theological and phenomenological perspectives, the research draws from primary data via expert interviews and secondary sources, including policy reports, academic literature, and official statistics. The findings highlight the pivotal role of Islamic financial institutions in supporting halal-certified businesses, particularly through Sharia-compliant financing, technological innovation, and increased market outreach. Moreover, the establishment of the Halal Product Assurance Agency (BPJPH) and the implementation of mandatory halal certification in 2024 are identified as critical policy milestones. Despite bureaucratic inefficiencies and low public literacy, Indonesia’s potential to become a global halal hub remains high, contingent on inter-institutional collaboration, enhanced digitalization, and strengthened regulatory capacity. This study contributes to the global discourse on halal industry development by presenting Indonesia as a model for integrated halal ecosystem strategies, where financial institutions, regulatory bodies, and industry stakeholders co-create a sustainable and inclusive halal economy.

Keywords: Sharia Financial; Halal Industry; Global Halal; Halal Certification

Introduction

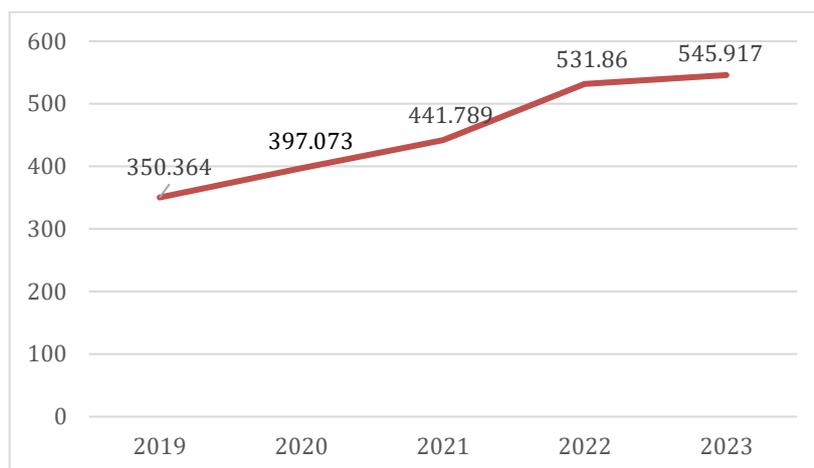
The global halal trend has emerged as a significant focus in the international economy, with halal products increasingly recognized as a standard that caters not only to Muslim consumers but also to a broader market. In 2019, global halal product consumption reached \$2.2 trillion, growing at an annual rate of 5.2% (KNKS, 2020). Halal has transcended its role as a basic necessity, evolving into a lifestyle choice and a source of added value for global consumers, including Muslims and non-Muslims (Zulfakar et al., 2014). The rise of digitalization and sustainability trends has further propelled the growth of the halal ecosystem, leveraging e-commerce and m-commerce platforms to enhance the connectivity of the global halal market. (Lesmana, 2023).

As the country with the largest Muslim population globally—237.53 million people or 86.9% of Indonesia's total population (Ministry of Home Affairs, 2022)—Indonesia possesses significant potential to lead the global halal industry. However, its role remains predominantly as a consumer rather than a producer of halal products. Indonesia is the world's largest consumer of halal products (Nasution, 2020) but ranks only fifth in the global Islamic economy, trailing Malaysia, the United Arab Emirates, Bahrain, and Saudi Arabia (KNKS, 2020). This disparity highlights Indonesia's suboptimal halal industry development, underscoring the urgent need for an integrated strategy to enhance its competitiveness in the international market.

Low public literacy regarding the concept of halal remains a significant barrier to the development of Indonesia's halal ecosystem. Many business actors lack an understanding of the importance of halal certification, resulting in a limited number of certified products. In 2022, the demand for halal certification rose to 10,643 business entities, up from 8,333 in 2021 (Nurul Ulya & Djumena, 2022). Despite this progress, the certification process continues to face obstacles, including insufficient human resources at the Halal Product Assurance Agency (BPJPH) and lengthy bureaucratic procedures (Gillani et al., 2016). Additionally, the Islamic banking sector's market share, constituting only 5% of the total financial sector, reflects a lack of synergy between Islamic financial institutions and the broader halal economy (Standard & Gateway, 2019).

The Indonesian government has implemented strategic initiatives to support the development of the halal industry, including the establishment of the National Sharia Finance Committee (KNKS) through Presidential Regulation Number 91 of 2016 to accelerate the growth of the national Sharia economy by strengthening the Sharia financial sector and integrating the halal industry. The creation of the Halal Product Assurance Agency (BPJPH) under Law Number 33 of 2014 represents a concrete step to regulate halal certification in a structured manner and enhance the competitiveness of Indonesian halal products in international markets (Masduqie, 2022)

Chart 1. Chart of Islamic Commercial Bank Assets 2019-2023



Source: OJK, 2023

The graph illustrates the consistent annual growth of assets in Islamic commercial banks in Indonesia. According to the State of the Global Islamic Economy (SGIE) 2023 report, Indonesia ranks among the top three countries with the highest Global Islamic Economy Indicator (GIEI). Bank Indonesia Deputy Governor Juda Agung highlighted that Islamic banking financing in the real sector grew by 15.8%, outpacing the overall real sector financing growth of 10.5%.

Data from the Financial Services Authority (OJK) shows a significant increase in the total assets of Islamic Commercial Banks, rising from IDR 254,184 billion in 2016 to IDR 586,055 billion in 2024. This growth is driven by the public's growing understanding of the Islamic banking system and the expansion of office networks, workforce, and technological support. Additionally, the halal food and beverage sector strengthens the Islamic economic ecosystem through domestic demand and exports. With synergies between banking, the real sector, and consumer demand, Indonesia's Islamic economy is expected to continue its growth, further solidifying its global position.

However, bureaucratic constraints, lack of coordination between institutions, and low public literacy remain significant obstacles to the effective implementation of this policy. Despite these challenges, global halal trends, such as the rise in ethical consumerism and digitalization post-COVID-19, present significant opportunities for Indonesia to enhance the competitiveness of its halal products (Lesmana, 2023). In this context, the Islamic financial sector has the potential to be a key driver in supporting the halal industry's growth through Sharia-compliant financing, financial product innovation, and the improvement of public literacy. This study aims to analyze the role of Islamic financial institutions in developing the halal industry in Indonesia, focusing on strengthening financial infrastructure, innovating Islamic financial products, and increasing public awareness. With an integrated strategy, Indonesia is expected to optimize its potential as the global hub for the halal industry, boosting its contribution to the worldwide halal market.

Research Method

This study uses a qualitative descriptive approach by combining normative theological and phenomenological approaches. Research data were obtained from secondary sources in books, journals, articles, and reports, as well as primary data through interviews with key informants. Secondary data used include statistical data from KNKS (2020), a comparative analysis of halal production practices based on the book by Riaz & Chaudry (2018), and a study of the potential of the halal industry in supporting economic growth based on the article by Mujahidin (2020).

Data analysis was done through data reduction, classification, and validation. The triangulation method was chosen to validate the data because it allows researchers to compare data from various sources, thereby increasing the credibility of the findings, minimizing bias, and gaining a more comprehensive understanding of the potential for developing the Indonesian halal industry (Adamsah & Eka Subakti, 2022).

Results

Islamic financial institutions have an important role in supporting the growth of the halal industry in Indonesia. In addition to acting as financial intermediaries, these institutions also support government policies by providing financing and services following Sharia principles, specifically aimed at the halal industry. For example, in 2023, Bank Syariah Indonesia (BSI) reported that they had distributed more than IDR 10 trillion financing for the halal industry sector, including MSMEs engaged in food, fashion, and halal tourism. This figure shows Islamic financial institutions' real contribution in supporting the halal sector's growth in Indonesia (BSI Annual Report, 2023).

Regarding the Prospects for Cooperation between Sharia Banking and the Halal Industry, Islamic banking can take advantage of sectors such as halal tourism, halal fashion, and others through strategic partnerships that offer special services, such as discounts and financing. It encourages synergy between Islamic banking and the halal industry's real sector, ultimately strengthening Indonesia's position in the global halal market.

It is widely known that technology can improve spending efficiency. So, technology is a key element in improving the efficiency and competitiveness of Islamic banking. With technological innovation, Islamic banking is expected to provide practical and efficient services to the community, especially the younger generation familiar with digital technology.

The National Sharia Economic and Financial Committee (KNEKS) can support national economic resilience. KNEKS has a strategic role in accelerating and developing the Sharia economy through policy coordination and master plan preparation. With this master plan, the halal industry

development can be carried out in a structured manner, covering various related sectors.

Establishing a Halal Product Guarantee Organizing Agency (BPJPH) is also necessary to regulate, supervise and issue halal certificates. BPJPH plays an important role in the halal certification process, which is expected to be more efficient and organized. For example, in 2022, BPJPH could only issue around 12,000 halal certifications from 64,000 applications received (BPJPH Performance Report, 2022). It shows a major challenge in their service capacity, especially in facing the implementation of the halal certification obligation in October 2024. With this mandatory certification, BPJPH is expected to increase the number of halal-certified products by three times.

The development of the real sector through the halal industry opens up great opportunities for the national economy. Strengthening an efficient and competitive halal value chain is needed so that Indonesia can compete in the global halal market. Clear regulatory support and increasing access to financing for small and medium enterprises are also important factors in realizing this issue. Efficiency in Islamic finance includes product innovation and good risk management. Through appropriate Islamic financing instruments and strengthening risk management, Islamic banking is expected to improve financial performance and strengthen Indonesia's position in the global halal market.

Discussion

Financial institutions are entities that carry out business activities in the financial sector. The main activities of this institution include collecting funds through various systems, distributing funds with certain mechanisms, or a combination of both. In general, the activities of financial institutions focus on sales, investment, consumption, and distribution of goods and services (Munawir & Maskupah, 2021). The functions of financial institutions, including Islamic financial institutions, can be described as follows:

1. The Policy Role (Financial Institutions as Policy Regulators)
2. Financial institutions assist the government in formulating policies that support economic growth and achieve other socio-economic goals.
3. The Guarantor Role (Financial Institutions as Guarantor)
4. Through letters of credit, financial institutions provide guarantees for import transactions involving goods and services.
5. The Payment Role (Financial Institutions as Payment Providers)
6. Financial institutions enable consumers to make payments for goods and services using bank products such as checks, demand drafts, credit cards, or debit cards.
7. The Intermediation Role (Financial Institutions as Intermediaries)

8. Funds collected from the public are allocated to support the needs of the business sector, such as infrastructure development, equipment, and other capital goods.
9. The Agency Role (Financial Institutions as Representatives)
10. Financial institutions act on behalf of customers to manage and protect their assets (Bakhri & Anjas Wulandari, 2020).

Financial institutions act as liaisons between parties with excess funds (*surplus of funds*) and parties in need of funds (*lack of funds*), thus becoming intermediaries in the financial activities of the community (Yustati & Handayani, 2017). In Indonesia, the financial system is divided into two main categories: the banking financial system and the non-bank financial institution system. Financial institutions that distribute funds to the community through loans or other mechanisms, as well as collecting funds and providing payment services per legal provisions, are included in the category of the banking financial system. Examples of institutions in this category are Commercial Banks and Rural Credit Banks, which are known as *depository financial institutions* because they can accept deposits from the public. Conversely, non-bank financial institutions are not allowed to collect funds directly from the public and are called *non-depository financial institutions* (Annisaa et al., 2019).

Halal Industry Prospects and Banking Contribution in Indonesia

According to the 2016-2017 Global Islamic Economy report, Indonesia is ranked 10th as one of the largest halal industry producers in the world. Globally, total spending on the halal industry reached US\$ 2.97 trillion, with the food sector contributing around US\$ 1.9 trillion, or equivalent to Rp 25,270 trillion (Azam & Abdullah, 2020). Research in Islamic Economics shows that optimal management of the halal industry in Indonesia has the potential to positively contribute to the revenue of the State Budget (APBN) (Mujahidin, 2020).

The financial sector is one of the important pillars of Indonesia's economic growth. However, growth achieved through the financial sector will not be sustainable if the real sector is ignored. Often, the wider community is not much influenced by the financial sector. Therefore, the real sector must focus on achieving economic growth targets. In this case, Islamic banking plays an important role in driving the growth of the real sector, especially in sectors that focus on halal business. Some methods that can be used to increase the contribution of Islamic banking to the halal sector include:

1. Collaboration with Companies Producing Halal Labeled Products

In this case, the government needs to issue relevant regulations, such as laws, circulars, or fatwas, that require companies in the halal industry sector to cooperate with Islamic banking in terms of financing. This step is expected to encourage the growth of the

Islamic financial sector in Indonesia. The halal industry and Islamic banking relationship is mutually supportive and beneficial.

2. Partnership between Islamic Banking and Halal Tourism in Indonesia

Offers such as discounts at tourist attractions, restaurants, and fashion stores for debit or credit card users from Islamic banks are a special attraction. In 2016, the number of tourists reached 1.235 billion people, an increase of 4% from the previous year, and is predicted to reach 1.8 billion global tourists by 2030 (Rifai, 2017). As one of the fastest-growing industries, the tourism sector contributes significantly to the economy, both directly and indirectly (Rifai, 2017).

Several regions in Indonesia, such as Lombok and West Sumatra, have gained international recognition as the best halal destinations, opening up great opportunities to attract foreign tourists. It has the potential to increase the country's foreign exchange. Islamic banking can support this growth by financing communities around halal tourism centers to develop their tourism businesses. In addition, Islamic banks can provide education to local residents and support annual activities that attract more visitors. By utilizing halal tourism as a long-term investment opportunity, Islamic banks can also facilitate transactions through Islamic debit card services and Sharia Cards at tourist locations.

3. Collaboration of Islamic Banking with the Halal Fashion Industry

In 2013, Muslim spending on clothing and footwear reached USD 266 billion, with Indonesia ranked third at USD 18.8 billion. Dinars Standard estimates that online fashion consumption by Muslims reached USD 4.8 billion in the same year (Standard, 2018). As the trend of online shopping increases, Islamic banks need to partner with e-commerce platforms to provide appropriate payment services. However, until now, not many Islamic banks have offered such facilities. Indonesia has great potential in the Muslim fashion industry. This country is included among the top five members of the Organization of Islamic Cooperation (OIC), a major exporter of Muslim fashion, along with Bangladesh, Turkey, Morocco, and Pakistan (Riaz & Chaudry, 2018). Thus, it can be concluded that the potential for halal fashion is very large in the future.

The role of Islamic banks in supporting this industry includes providing financing or working capital through mudharabah contracts. Halal fashion entrepreneurs also need to be given easier access to funds to develop their businesses. Facilities such as letters of credit (L/C) are very important in procuring raw materials for export and import purposes. Only a few Islamic banks, such as PT Bank Muamalat Indonesia and Tbk., provide this facility. It is hoped

that more Islamic banks will be able to offer export-import services to support the growth of the halal fashion industry.

4. Technology Development

Islamic banking is still lagging behind conventional banking, especially regarding technology utilization. It makes conventional banking more desirable because it can provide convenience through more advanced technology-based services. To compete, Islamic banking needs to improve the quality of the technology used. Islamic financial institutions, especially Islamic banking, must innovate to face the demands of the digital era. Nowadays, people tend to prioritize practical services, and sophisticated technology can solve these needs. In addition, with the dominance of the younger generation in the Indonesian market, who are very familiar with technological devices, it is important for Islamic banking to offer relevant modern services to attract attention and meet the needs of this group. (Lin, 2011)

5. Increasing Market Share of Islamic Banking

Based on data from the Financial Services Authority (OJK), the market share of Islamic banking in Indonesia has increased. In 2016, its market share reached 4.86%, higher than the previous year's 4.46%. The government has an important role in driving this growth. In comparison, Malaysia achieved a higher market share because of the legal system it implemented. Malaysia uses a *common law system*, which allows the introduction of new products only based on agreement between the parties as long as it does not violate applicable regulations. In contrast, Indonesia, which adheres to a *civil law system*, requires a legal basis in the form of a law for each new product. It tends to limit the innovation of Islamic banking practitioners in Indonesia.

6. Formation of the National Committee for Sharia Economics and Finance (KNEKS)

One of the strategic steps in developing the halal industry is the establishment of the National Committee for Sharia Economics and Finance (KNEKS) through Presidential Regulation No. 28 of 2020. KNEKS aims to support national economic development, accelerate the growth of the Sharia economy, and strengthen coordination, synchronization, and synergy between authorities, ministries/institutions, and stakeholders in the Sharia economic and financial sector. KNEKS has also prepared *the 2019-2024 Indonesian Sharia Economic Masterplan* to support the development of the halal industry in the country. With this master plan, the prospects for the growth of the halal industry in Indonesia are increasingly promising.

As a coordinating body, KNEKS also faces various obstacles, especially in synergy between related ministries and institutions. For example, KNEKS reported that in 2022, only 60% of their strategic programs were successfully implemented on time (KNEKS Performance Report, 2022). The main inhibiting factors include the lack of cross-sector coordination and low Sharia economic literacy at the regional level. To overcome it, increased collaboration between KNEKS and local governments is needed, as well as the involvement of the private sector in the Sharia economic ecosystem.

The Role of Islamic Banking in Supporting the Halal Industry in a Sustainable and Inclusive Manner

Islamic banking has a significant role in supporting the halal industry development in Indonesia, including the halal food sector. Its existence is crucial in maintaining halal integrity (Van Der Crujisen et al., 2021). Islamic banks can contribute to the halal value chain, which includes three main stages: halal control, logistics, and verification.

However, the halal certification process in Indonesia still faces various obstacles. One of the main challenges is the difference of opinion between the Indonesian Ulema Council (MUI) and the Ministry of Religious Affairs regarding the authority to grant halal certificates. In addition, the low number of products or companies that are halal certified is due to the lack of understanding of business actors regarding certification procedures. Many businesses that have great potential in the future have not been managed properly, so they face difficulties when applying for halal certification.

Entrepreneurs are less interested in halal certification because it requires a long procedure and a lot of documents to obtain it. Like most countries with a large Muslim population, halal certification institutions are not the best choice because it is assumed that all food produced in the country is halal. Therefore, halal certification is not necessary (Gillani et al., 2016). In conditions like this, Islamic banks have a strategic role in developing the halal industry by strengthening the efforts of entrepreneurs who apply for loans. The role of Islamic banks is very active, facilitating the presence and expansion of Halal certified companies. It will make Indonesian people more aware and prefer to use products from entrepreneurs who have obtained Halal certification.

The halal industry is currently facing various obstacles. One solution that can be offered is the active role of Islamic banking. Islamic banks can guide halal logistics companies to pay more attention to the halal aspects of their products. A good first step is to prioritize products from companies that Islamic banks have fostered. In this way, the halalness of the product can be guaranteed because the entire process, from production to consumers, is directly supervised by Islamic banks.

Educational efforts related to halal products need to be significantly increased. The public must be given a comprehensive understanding of the importance of halal-labeled products as a form of halal assurance. One effective strategy is to promote a halal lifestyle that emphasizes that halal is

not merely a religious obligation but also a healthy and valuable lifestyle need. Islamic banking has a strategic role in supporting this campaign by allocating Corporate Social Responsibility (CSR) funds to promote products from its business partners.

Various promotional media can be utilized to expand the reach of halal products. Bazaar activities or culinary festivals are effective examples. In addition, holding talk shows and seminars on halal lifestyles can also be an effective educational medium. The materials that can be delivered include the importance of halal products, health and spirituality benefits, and practical guidance in choosing halal products. As a Sharia financial institution, Sharia banks have a strategic role in encouraging the development of the halal industry by requiring their customers to obtain halal certification for the products they produce or distribute. Thus, the role of Sharia banks is not only limited to the financing aspect but also includes the marketing aspect.

Strengthening the Real Sector of the Sharia Economy

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Increasing productivity and competitiveness is a key strategy to improve the real sector. Strengthening the halal value chain is part of an effort to increase efficiency from upstream to downstream in making, distributing, and marketing halal goods. For the workforce to compete in the global market, developing skilled and knowledgeable human resources (HR) is also important. Regulations and policies that support the halal industry are also important. The halal product assurance system will ensure that all goods meet halal requirements through strict certification. Clear regulations will also make businesses confident to invest and grow.

Strengthening Sharia financial infrastructure is very important to boost the real sector. Small and medium enterprises (SMEs) in the halal industry can obtain financing more easily to increase production capacity. In addition, other strategic steps include international economic diplomacy and increasing brand awareness. By encouraging people to apply halal practices in their lives, demand for halal goods can increase. Economic diplomacy is very important to build relationships with other countries to expand the market for Indonesian halal products.

Overall, developing the halal industry in Indonesia is a strategic step to increasing its competitiveness in the global market. By implementing the various strategies mentioned above, Indonesia can utilize its great potential to become the center of the world's halal industry.

Improving the Efficiency of Islamic Finance

Improving efficiency in Islamic finance is a strategic step to support the development of the halal industry in Indonesia, especially in facing global competition. This efficiency includes resource management and innovation in products and services provided by Islamic financial institutions. One effort that can be made is to utilize appropriate financing instruments, such as the Istishna contract. This contract allows Islamic banks to fund projects with specific needs, such as infrastructure development or production of goods. For this reason, Islamic banks must improve quality control and ensure that the products produced are following the agreed specifications so that they can meet customer expectations and increase their level of satisfaction.

Effective risk management is a crucial aspect of improving the efficiency of Islamic finance. Islamic banks must take proactive steps in handling financing risks, such as credit and market risks. Banks can reduce potential losses through optimal risk management while improving financial performance. In addition, improving the quality of human resources (HR) and utilizing information technology are also important factors to ensure that Islamic bank operations run more efficiently.

Islamic banks in Indonesia must be able to highlight competitive advantages through increased operational efficiency to compete globally. Based on research, although the productivity of Islamic banking in Indonesia has progressed, various efficiency challenges still require attention. Therefore, a comprehensive evaluation of the performance of Islamic financial institutions is needed, as well as the implementation of appropriate strategies to encourage continuous efficiency improvements.

In general, improving the efficiency of Islamic finance is a major factor in supporting the development of the halal industry in Indonesia so that it can compete in the global arena. By emphasizing product innovation, effective risk management, and improving the quality of human resources and technology, Islamic banks can strengthen their role in the halal industry while contributing to national economic growth.

Establishment of the Halal Product Guarantee Organizing Agency (BPJPH)

Establishing the Halal Product Guarantee Agency (BPJPH) is a strategic step to encourage the development of the halal industry in Indonesia, especially in the Islamic financial sector. BPJPH ensures that every product marketed meets halal standards, increasing the competitiveness of Indonesian products at the international level. The presence of BPJPH makes the halal certification process more structured and efficient, ultimately supporting forming a more solid halal industry ecosystem.

BPJPH prioritizes implementing halal certification obligations scheduled to begin on October 18, 2024. This policy aims to make Indonesia the main center of the world's halal industry, not only as a market but also as a production base. BPJPH's head, Muhammad Aqil Irham, highlighted the importance of synergy between various parties, such as the government, academics, clerics, associations, business actors, and the community, to build a competitive and sustainable halal ecosystem.

BPJPH plays an important role in Islamic finance by encouraging Islamic financial institutions to finance business actors who need halal certification. With adequate access to financing, business actors can more easily meet certification requirements while improving the quality of their products. In addition, BPJPH is also actively expanding collaboration with international halal certification institutions to increase recognition of Indonesian halal products in the global market. Currently, many certification institutions from various countries have shown interest in collaborating with BPJPH to ensure the accreditation and mutual recognition of halal certificates.

BPJPH faces significant challenges in meeting the halal certification target. One of the obstacles is limited human resources and infrastructure. For example, the number of halal auditors registered with BPJPH until the end of 2023 is only around 1,500 people, far from the ideal need of 5,000 auditors to handle the increase in certification applications (BPJPH Statistics, 2023). In addition, the long bureaucratic process often hinders small business actors from obtaining halal certification. It is a concern, considering that around 90% of halal industry players are MSMEs (KNKS, 2022).

Overall, establishing BPJPH and implementing halal certification obligations are strategic steps to strengthen Indonesia's position in the global halal industry. By strengthening the halal industry ecosystem supported by collaboration between various parties and the active role of the Islamic financial sector, Indonesia has a great opportunity to become a major leader in the world's halal market.

Conclusion

This study concludes that the development of Indonesia's halal industry, particularly within the Islamic financial sector, is essential for positioning the country as a global leader in the halal economy. Islamic financial institutions play a critical enabling role, not only by providing Sharia-compliant financing but also by facilitating the expansion of halal-certified enterprises and promoting a halal lifestyle through strategic partnerships and public awareness initiatives. The establishment of the Halal Product Assurance Agency (BPJPH) and the enforcement of mandatory halal certification starting in 2024 mark significant steps toward building a robust national halal ecosystem. However, challenges remain, including limited institutional coordination, inadequate halal literacy, and technological gaps within Islamic banking services. Addressing these issues requires a holistic and collaborative approach involving government agencies, Islamic banks, small and medium-sized enterprises (SMEs), and civil society. The integration of digital financial technologies, improved risk management systems, and capacity-building efforts for halal auditors are crucial in enhancing system efficiency and public trust.

This study opens pathways for comparative international research on halal industry frameworks across Muslim-majority and minority countries. Future research could explore the effectiveness of cross-border halal certification systems, fintech applications in Islamic finance for halal trade, and the impact of ESG (Environmental, Social, and Governance) integration into halal supply chains. Furthermore, the Indonesian model offers valuable insights for policymakers worldwide seeking to link Islamic finance with industrial policy in emerging economies. The synergy between Islamic financial infrastructure, national regulation, and community-based enterprise development may serve as a scalable model for fostering inclusive and sustainable halal industries globally.

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