Will Indonesia Surpass Malaysia in SGIE?

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Abstract

According to the 2023 State of the Global Islamic Economy (SGIE) report, Indonesia has ascended to the top three positions in the Global Islamic Economy Indicator (GIEI), as disclosed by DinarStandard in Dubai, United Arab Emirates, on Tuesday (26/12/2023). Indonesia, which ranked fourth in 2022, now holds the third position, trailing behind Malaysia, which has consistently held the first position for the past decade. Despite being a Muslim-majority nation with abundant resources, Indonesia's placement in the SGIE ranking report suggests it should rank higher than Malaysia, Saudi Arabia, and the United Arab Emirates. This underscores a significant disparity between potential and actual performance, prompting further inquiry, particularly considering Indonesia's status as the world's most populous Muslim nation, with Muslims comprising 87.20% of its 273.5 million inhabitants. This study employs a qualitative descriptive approach, gathering data from various journals and annual reports on the Global Islamic Economy. It aims to explore potential strategies that the Indonesian government can adopt to bolster the halal industry, positioning Indonesia to surpass Malaysia and become a leading force in the global halal market.

Keywords: Halal Industry, Islamic Economics, Global Islamic Economy

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1. INTRODUCTION

The State of the Global Islamic Economy (SGIE) gained significant attention following its discussion at the Vice Presidential Debate on Friday, December 22, 2022. During the debate, Vice Presidential Candidate Gibran Rakabuming Raka referenced Vice President Muhaymin Iskandar's report, emphasizing the country's role in advancing an Islamic economy. According to Islamic Economics Association (MEA) Chairman Erick Tohir, Indonesia currently holds the fourth position in the SGIE among Islamic economy nations, trailing behind Malaysia, Saudi Arabia, and the United Arab Emirates. However, Tohir highlighted a lack of awareness regarding Indonesia's robust standing in the global Islamic economy, underscoring the need for greater promotion of Indonesia's potential in this domain.

MEA Chairman (Tohir, 2023) believes that Indonesia possesses the potential to ascend to the top of the SGIE rankings. As the country with the world's largest Muslim population, Indonesia enjoys a distinct advantage over its counterparts in the SGIE rankings. The SGIE evaluates six indicators or sectors: Islamic Finance, Halal Food, Muslim-Friendly Travel, Modest Fashion, Pharma & Cosmetics, and Media & Recreation.

Despite Indonesia's commendable performance in the Global Islamic Economy Index (GIEI), scoring 68.5 points, it still lags behind Malaysia, Saudi Arabia, the United Arab Emirates, Bahrain, and Qatar. However, the report also acknowledges Indonesia as the country with the fourth-largest Islamic economic ecosystem globally, signaling significant potential for further development and advancement in the future. (DinarStandard, 2022)

In specific sectors, Indonesia ranks second in halal food, third in halal fashion, and ninth in the halal pharmaceutical and cosmetics sector. However, it does not yet feature in the top ten for Muslim-friendly tourism, nor in the upper echelon for halal media and leisure. Indonesia's standing continues to improve steadily. In the latest Dinar Standard released on
Tuesday, December 26, 2023, Indonesia secured the third position after Malaysia and Saudi Arabia, marking its highest ranking ever in the GIEI. Notably, Indonesia ranked fourth in 2022, fifth in 2019, and tenth in 2018, while Malaysia has maintained the top spot for over a decade. The disparity in indicator values is considerable, with Malaysia's index reaching 207.2 in 2022 compared to Indonesia's 68.5

Center for Economic Reform (CORE) Executive Director Mohammad Faisal shares the conviction that Indonesia harbors the potential to lead the SGIE rankings. Faisal contends that Indonesia, boasting the world's largest Muslim population, rightfully deserves the top spot. While Indonesia currently occupies the fourth position in the SGIE rankings, Setiawan suggests that a substantial gap exists between the country's capabilities and aspirations, signaling room for enhancement in Indonesia's Islamic economy ecosystem. Given its significant Muslim populace and abundant natural resources, Indonesia stands poised to cultivate a robust Halal industry and other sectors within the Islamic economy.

Moving forward, it is imperative for Indonesia to prioritize the development of its Islamic economy and enact policies and initiatives conducive to ascending the SGIE rankings. With a strategic approach, Indonesia can emerge as a frontrunner in the global Islamic economy, fully realizing its potential in this pivotal sector.

2. RESEARCH METHOD

According to (Sugiono, 2012) this study adopts a qualitative research approach known for its descriptive nature. Qualitative research of this kind endeavors to draw conclusions by presenting and elucidating research procedures or events concerning the research subject, articulated through narratives within the halal industrial sector. The objective of this research is to elucidate and delineate potential strategies for the Indonesian government to foster the development of the halal industrial sector, thereby positioning Indonesia to outstrip Malaysia in asserting dominance within the global halal industry. Data collection methods in this study predominantly entail library research. This entails sourcing literature from various academic sources, journals, printed books, online publications, and research institutions. (Rahmawati & Walyoto, 2022)

3. RESULTS AND DISCUSSION

3.1. Results

Although Indonesia has yet to surpass Malaysia in the top SGIE ranking, it harbors the potential to emerge as the epicenter of the global Islamic economy. With the world's largest Muslim population and abundant resources, Indonesia possesses a robust foundation for the advancement of the halal industry. Nonetheless, achieving this aspiration necessitates the formulation of an effective strategy to foster the development of the halal industry and address prevailing challenges.

A pivotal stride towards ensuring the provision of halal products to its populace was taken with the establishment of the Halal Product Assurance Management Board (BPJPH). This organization, a recent addition to the Ministry of Religious Affairs of the Republic of Indonesia (Kemenag), was instituted in October 2017 under Law No. 33 of 2014 on Halal Product Guarantee (JPH), enacted during the tenure of President Susilo Bambang Yudhoyono. The JPH Act mandated the establishment of the BPJPH within three years of its enactment. Presidential Regulation No. 83 of 2015 further stipulated that the head of the government agency would also lead the BPJPH. (Hiya & Nawawi, 2014)

The BPJPH operates under a framework of regulations defining its scope and functions, including Ministry of Religious Affairs (PMA) Order No. 42 of 2016 and Ministry of Religious Affairs (KMA) Order No. 270 of 2016. Its responsibilities encompass formulating JPH policies, setting norms and standards, issuing and revoking halal certificates and labels, registering certificates for foreign products, promoting and educating about halal products, and fostering collaboration with domestic and foreign institutions within the realm of halal product assurance. (A’la & Rahman, 2022)

To ensure the efficacy of JPH implementation, the BPJPH collaborates with various entities, including relevant ministries, the Halal Inspection Institute (LPH), the Halal Product Processing Supporting Institution (LP3H), the Indonesian Ulema Council (MUI), and the Halal Product Fatwa Committee. This collaborative effort aids in the development and establishment of halal standards, procedures, and policies, as well as in the issuance of halal certificates for products. Additionally, the BPJPH forges international partnerships in the realm of halal product assurance to secure global recognition.
for halal products originating from Indonesia. Domestically, a series of initiatives are underway to bolster JPH implementation through collaboration between the BPJPH and various stakeholders, including ministries, regional governments, state-owned enterprises (BUMN), local government-owned enterprises (BUMD), universities, economic organizations, and community groups. The BPJPH continuously expands its synergy with diverse stakeholders to fortify JPH implementation and enhance the Indonesian halal ecosystem (Lubis et al., 2023)

The (BPJPH, 2023b) has pursued numerous strategic initiatives and innovative endeavors aimed at accelerating halal product certification. These efforts are geared towards realizing Indonesia's vision of emerging as the foremost global hub for halal products.

3.2. Discussion

Based on the findings of her research, (Hasanah, 2021) asserts that Muslim-majority Indonesia has actively cultivated its halal industry to harness its substantial business potential. The enhancement and refinement of the domestic halal industry not only bolster consumer confidence in provided products and services but also confer a competitive advantage in the global market. The development of halal products entails the refinement of equipment and production methods to ensure alignment with Islamic religious tenets.

In another study, (Azizah et al., 2022) underscore the pivotal role of halal certification in this process, as it provides assurance to customers regarding compliance with Halal standards. By championing the Halal industry, Indonesia is opening avenues for new business ventures and contributing to its economic growth.

The Halal Product Assurance Management Board (BPJPH) aspires to emerge as a premier provider of halal product guarantees worldwide by establishing a robust halal registration and certification service system, effective development and monitoring mechanisms, a network of organizational collaboration, and standardization of halal product assurance. The agency is also committed to implementing high-quality organizational protocols to uphold service excellence. In alignment with this vision, administrative reforms are endorsed to enhance the agency's efficiency and effectiveness in delivering halal certification services. Through these efforts, the BPJPH endeavors to advance Indonesia's halal industry and propel the nation to prominence in halal product assurance on the global stage. (BPJPH, 2023a)

The evolution of the halal industry is guided by Islamic law, which delineates parameters for halal status. In adherence to Sharia, all products and services must align with its provisions, leading to a surge in demand for halal-labeled offerings globally. Formerly known as the halal economy, the halal industry encompasses economic activities in accordance with Islamic law principles. Indonesia's halal industry is witnessing rapid growth due to escalating demand for halal products and services domestically and internationally. The 2019 Global Islamic Economic Situation Report by Thomson Reuters and DinarStandard underscores that the halal economy comprises various sectors rooted in Islamic law, values, and beliefs. It emphasizes a structural influence stemming from harmonious consumer lifestyles and the promotion of Islamic principles in business endeavors. Essentially, the halal economy encompasses the Islamic economy and the halal industry itself. (Hakim et al., 2023)

Purnomo in (Hakim et al., 2023) delineates several characteristics of the halal business that have emerged in response to its development. Firstly, while halal is inherently associated with Muslims, halal products exhibit flexibility, thereby appealing to consumers of all religions. Secondly, within Islamic teachings, halal signifies an obligation for Muslims, ensuring spiritual safety; however, in industry, it pertains to meeting quality, health, and safety standards, prioritizing consumer well-being. Lastly, trading halal products necessitates certification by a recognized halal institution, typically endorsed by the Islamic Ulema Institute of the respective country. Subsequently, these products are identified with halal certificates and logos, affirming their adherence to halal standards.

Economic actors from both Muslim and non-Muslim nations engage in halal business endeavors, with Islamic countries such as Indonesia, Malaysia, the United Arab Emirates, and Saudi Arabia actively involved in halal product and service development. Additionally, non-Islamic nations like Thailand, Brazil, and Australia are venturing into the halal market and producing halal offerings. The halal industry is governed by four key elements, known as
the 4Ms: human resources, raw materials, processes, and finance. Halal products that satisfy these criteria are highly sought-after by consumers seeking assurance of compliance with Islamic law. As global demand for halal products continues to rise, the halal industry presents lucrative opportunities for companies aiming to tap into this burgeoning market. (Hakim et al., 2023)

### Table 1. Country Ranking in The Global Islamic Economy Indicator

<table>
<thead>
<tr>
<th>Group of Banks</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
</tr>
</thead>
<tbody>
<tr>
<td>Malaysia</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Indonesia</td>
<td>5</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>3</td>
</tr>
</tbody>
</table>

*Source: DinarStandard Report (DinarStandard, 2020)*

Indonesia and Malaysia rank among the top five in the global Islamic economy, as indicated by Table 1 of the Global Islamic Economy Status 2023 (SGIE). This achievement is attributed to the government’s policy ensuring halal certification for all products, whether for domestic consumption or export. The halal food sector, in particular, offers avenues for fostering economic growth and development in both Muslim-majority and minority nations. Consequently, the Indonesian government is channeling efforts into bolstering the domestic halal food and beverage industry to catalyze overall halal industry growth. A nuanced comprehension of the halal industry is imperative, especially in implementing halal certification and assurance, which entails adherence to Islamic law, product and service quality assurance, and catering to the escalating global demand for halal products. Through strategic engagement with the halal industry, companies can harness its potential and contribute to economic growth. (Salam & Makhtum, 2022)

Halal certification in Indonesia was initially administered by the Indonesian Ulema Council (MUI). However, concerns over the efficacy of MUI’s halal product labeling prompted government intervention, leading to the drafting of the Halal Product Assurance Bill to establish a comprehensive and effective halal certification system. Subsequently, Law No. 3 of 2014 on Halal Product Assurance was enacted, providing a legal framework for halal certification in the country. This legislation aims to ensure consumer access to halal products in adherence to Islamic law and foster the growth and development of Indonesia’s halal industry. The government, through BPJPH, is tasked with implementing the halal certification process, encompassing inspection, testing, and certification of products and services. By ensuring consumer access to halal products, Indonesia is making significant strides in the halal industry, thereby contributing to economic growth. (Yaniza et al., 2023)

The Indonesian government, in collaboration with the House of Representatives (DPR), has authorized the Ministry of Religious Affairs to establish the Halal Product Assurance Organization Agency (BPJPH). BPJPH is entrusted with ensuring compliance with Islamic law for all halal products manufactured or sold in Indonesia. To certify halal labels for all products, including food, beverages, cosmetics, and industrial goods, BPJPH collaborates closely with the Indonesian Ulema Council (MUI), which issues halal fatwas. Moreover, BPJPH is responsible for registering halal certificates for imported foreign products to guarantee their adherence to halal standards. Established to streamline the halal certification process and ensure consumer access to halal products, BPJPH's initiatives have propelled Indonesia's halal industry growth and positioned the nation as a global leader in halal product assurance. (Lubis et al., 2023)

### Table 2. Indicator Score Rank By Sector In Top 5

<table>
<thead>
<tr>
<th>Sector</th>
<th>Malaysia 2020</th>
<th>Indonesia 2020</th>
<th>Malaysia 2022</th>
<th>Indonesia 2022</th>
<th>Malaysia 2023</th>
<th>Indonesia 2023</th>
</tr>
</thead>
<tbody>
<tr>
<td>Halal Food</td>
<td>1</td>
<td>4</td>
<td>1</td>
<td>2</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Islamic Finance</td>
<td>1</td>
<td>&gt;5</td>
<td>1</td>
<td>&gt;5</td>
<td>3</td>
<td>&gt;5</td>
</tr>
<tr>
<td>Muslim-Friendly Travel</td>
<td>1</td>
<td>&gt;5</td>
<td>1</td>
<td>&gt;5</td>
<td>&gt;5</td>
<td>&gt;5</td>
</tr>
<tr>
<td>Modest Fashion</td>
<td>4</td>
<td>3</td>
<td>&gt;5</td>
<td>3</td>
<td>&gt;5</td>
<td>&gt;5</td>
</tr>
<tr>
<td>Pharma &amp; Cosmetics</td>
<td>1</td>
<td>&gt;5</td>
<td>2</td>
<td>4</td>
<td>&gt;5</td>
<td>2</td>
</tr>
<tr>
<td>Media &amp; Recreation</td>
<td>2</td>
<td>5</td>
<td>1</td>
<td>&gt;5</td>
<td>3</td>
<td>&gt;5</td>
</tr>
</tbody>
</table>

*Source: (DinarStandard, 2023), (DinarStandard, 2022)*
Table 2 demonstrates Indonesia's year-on-year progress in the halal industry, fueled by the burgeoning number of halal-certified industries. Halal certification not only attracts Muslim consumers but also instills confidence in non-Muslims, thereby encouraging purchases and usage of halal products. Indonesia's burgeoning halal industry has positively impacted its economy, solidifying its stature as a global leader in halal product assurance. The Indonesian government, through BPJPH, remains committed to promoting the halal industry and ensuring consumer access to halal products compliant with Islamic law, thus catalyzing economic growth. (Salsabila & Nur, 2023)

Traditionally, Muslim-majority countries, particularly those in the Middle East and Southeast Asia, such as Malaysia, are synonymous with the halal industry. The Annual Report on the World Islamic Economy underscores that a significant portion of the Islamic economic sector resides in developing countries, with the top 10 Islamic economic powers comprising predominantly developing nations. (Nadya et al., 2020). Despite not being the largest Muslim-majority nation by population, Malaysia has dominated the halal economic sector for a decade, thanks to persistent governmental support and community backing for halal industry development. (Faisal, 2023)

Ajis Setiawan, an Islamic economist at SEBI University of Islamic Economics, contends that resource-rich Indonesia's potential surpasses that of Malaysia, Saudi Arabia, and the United Arab Emirates. However, Indonesia grapples with a notable disparity between its potential and expectations, owing to suboptimal policy measures, including insufficient regulatory support for the halal industry and Islamic finance across upstream and downstream sectors. By enhancing policy frameworks and offering regulatory backing, Indonesia can unleash its full potential in the halal industry, emerging as a global leader in halal product assurance.

Hence, comprehensive, integrated, and efficacious policies spanning upstream to downstream sectors are imperative. Indonesia aims to fortify its position in the global halal supply chain and Islamic financial landscape, necessitating robust measures encompassing halal industrial zones and harnessing diverse resources across sectors in a robust, integrated, and sustainable manner. Ecosystem support in the form of robust financing policies, skilled workforce development, regulatory frameworks, tax incentives, networking, and marketing initiatives is indispensable. Without such initiatives, the global halal market's potential to drive substantial benefits to national economies, employment, and societal welfare remains curtailed, rendering it inefficient and suboptimal.

Notably, Indonesia's halal industrial park must be intricately intertwined with a micro, small, and medium-sized enterprise (MSME) network and a resilient ecosystem. Failure to achieve this synergy risks limiting the global halal market's transformative impact on national economies, employment, and societal welfare. Accordingly, Indonesia must endeavor to establish a robust halal industrial park, integrating excellence across myriad economic sectors. This endeavor holds promise for positioning Indonesia as a formidable player in the global halal industry, fostering economic growth and engendering fresh business opportunities for Indonesian enterprises.

As of July 2023, the Islamic financial market commands a market share of 10.89%, with Shariah banking stagnating at 7.7%. Indonesia's Islamic finance status remains modest within the global Islamic finance arena. Therefore, realizing Indonesia's vision of becoming a global Islamic financial hub and securing a commanding position in the global halal supply chain necessitates an accelerated pace in Islamic finance and halal industry development, which can significantly benefit the national economy, employment, and societal welfare. Stronger policy interventions are imperative to enhance the populace's welfare. (Setiawan, 2023)

To ascend to the pinnacle of the Global Islamic Economy (SGIE) rankings, the Indonesian government can undertake six immediate actions. First, ratification of the Islamic Economic Law (RUU Ekonomi Syariah) is imperative. Second, the development of clear and comprehensive regulations for Halal Industrial Parks (KIH) can substantially impact the ecosystem. Third, the introduction of a new Harmonized System (HS) code for halal products can stimulate Islamic economy industry growth. Fourth, the integration of Islamic economic issues into national agendas, such as the National Long-Term Development Plan 2025-2045 (RPJPN) and the National Medium-Term Development Plan 2024-2029 (RPJMN), is indispensable. Fifth, inclusion of the halal industry in national research agendas, such as...
the National Research Priorities (PRN), is crucial. Finally, infrastructure readiness to support the halal certification process must be ensured. (Yuniarti et al., 2022)

The Ministry of Religious Affairs has set an ambitious target of producing 10 million halal-certified products annually to meet escalating demand domestically and internationally. By implementing these strategic interventions, Indonesia can bolster its leadership position in the global halal industry and spur economic growth.

4. CONCLUSION

One strategy that the Indonesian government can pursue is to augment investment in the halal industry and cultivate a comprehensive ecosystem to bolster its growth. This entails directing resources towards research and development, fostering innovation, and supporting small and medium-sized enterprises (SMEs) within the halal sector. Moreover, governments can endeavor to enhance the regulatory framework governing halal products, ensuring that halal certification processes are transparent, reliable, and easily understood.

Another viable strategy for the Indonesian government is to position Indonesia as a premier halal tourism destination. Leveraging its rich cultural heritage and diverse array of halal tourism offerings, Indonesia can attract Muslim tourists from across the globe. By championing halal tourism, Indonesia can invigorate its halal industry and elevate its standing in the SGIE report.

In conclusion, realizing Indonesia's full potential in the halal industry demands a concerted and collaborative effort from the government and stakeholders alike. This entails promoting industry development and addressing prevailing challenges comprehensively.

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I express my gratitude to Allah SWT for the opportunities bestowed upon me for personal development and knowledge acquisition. My gratitude remains incomplete without extending prayers and salutations to the Prophet Muhammad SAW, the epitome of knowledge. I beseech that through the blessings of Salawat upon him, my pursuit of knowledge and that of all earnest seekers may garner the pleasure of Allah SWT and the benevolence of the Prophet Muhammad SAW.

6. REFERENCES


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