

## HALAL INDUSTRY DEVELOPMENT STRATEGIES Muslims' Responses and Sharia Compliance In Indonesia

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**Abstract:** Halal Industries have persistently become an important issue globally, including in Indonesia. This study aims to analyze the strategies for halal industry development implemented by business actors in Indonesia as well as provide Indonesian Muslim's responses and sharia compliance to halal context in their life. Using a mixed methodological approach with Analytical Network Process with religious leaders, academic and economics experts, local government, and business actors as the participants, it found that the strategies used to develop halal industry are not appropriate due to internal factors such as lack of standardization, branding, and limited human resources, and external ones which are the absence of a roadmap for halal industry and less supports from the government. Improving effective government policies and training human resources are among the strategies that might be applied. However, it also found greater attention among Indonesian Muslim and non-Muslim communities consuming halal products and enjoying halal experiences as their sharia compliance and lifestyle.

**Keywords:** Halal industry development, Muslim lifestyle, Indonesia, sharia compliance.

### Introduction

Halal industries are experiencing rapid growth, with an expenditure worth 1.4 trillion US dollars in 2017 estimated to reach 2.6 trillion US dollars in 2024.<sup>1</sup> The population of Muslims and the fact that Islam is

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<sup>1</sup> Nils-Gerrit Wunsch, *Halal food market revenue worldwide 2014-2024, by category*, (2017), in <https://www.statista.com/statistics/795463/halal-food-market-revenue-global/>

the second-largest religion adherent in the world<sup>2</sup> trigger the optimism that the halal industry is likely to be thoughtfully developed. However, compared to several Muslim countries such as Malaysia and the United Arab Emirates (UAE), Indonesia was initially slow in taking advantage of this industrial opportunity. While the consumption of halal products, for example, cosmetics, is worth 3.9 billion.<sup>3</sup>

Social scientists have paid considerable attention to the phenomenon of halal industries with various themes, for instance, Rasul,<sup>4</sup> Küpeli, et.al.,<sup>5</sup> Purwandani, et.al.,<sup>6</sup> Joeliaty, et.al.,<sup>7</sup> Suci, et.al.,<sup>8</sup> Yusuf, et.al.,<sup>9</sup> on Muslim-friendly hotel and halal tourism; Suryawan, et.al.,<sup>10</sup> on the role of halal standards, Ratanamaneichat, et.al.,<sup>11</sup> on varied problematic issues of halal food products, and Sukesi and Hidayat<sup>12</sup> on the purchase intentions of halal cosmetics. Meanwhile,

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<sup>2</sup> Ibid

<sup>3</sup> Statista Research Department, *Muslim consumer expenditure on cosmetics worldwide in 2019, by leading country*, (2020), in <https://www.statista.com/statistics/795040/global-muslim-expenditure-on-cosmetics/>

<sup>4</sup> Tareq Rasul, "The Trends, Opportunities and Challenges of Halal Tourism: A Systematic Literature Review," *Tourism Recreation Research* 44, no. 4 (2019): 434–450.

<sup>5</sup> Tuğba Şen Küpeli, Burcu Koc, and Azize Hassan, "Understanding Religion-Based Tourism Terminology in the Context of the Hotel Industry," *Anatolia* 29, no. 2 (2018): 252–266.

<sup>6</sup> Intan Purwandani and Mohamad Yusuf, "Localizing Indonesian Halal Tourism Policy within Local Customs, Qanun, and Marketing," *Journal of Policy Research in Tourism, Leisure and Events* 0, no. 0 (2021): 1–19.

<sup>7</sup> Joeliaty Joeliaty, Yudi Ahmad Faisal, and Wendra Wendra, "An Analysis of Strategy Formulation for Halal Hotel Human Resources in Indonesia," *Cogent Business and Management* 7, no. 1 (2020).

<sup>8</sup> Afred Suci et al., "Muslim-Friendly Assessment Tool for Hotel: How Halal Will You Serve?," *Journal of Hospitality Marketing and Management* 30, no. 2 (2021): 201–241.

<sup>9</sup> Muhammad Yasir Yusuf et al., "Halal Tourism to Promote Community's Economic Growth: A Model for Aceh, Indonesia," *Pertanika Journal of Social Sciences and Humanities* 29, no. 4 (2021): 2869–2891.

<sup>10</sup> Anom Sigit Suryawan, Shuji Hisano, and Joost Jongerden, "Negotiating Halal: The Role of Non-Religious Concerns in Shaping Halal Standards in Indonesia," *Journal of Rural Studies* 92, no. September (2022): 482–491.

<sup>11</sup> Chiratus Ratanamaneichat and Sakchai Rakkarn, "Quality Assurance Development of Halal Food Products for Export to Indonesia," *Procedia - Social and Behavioral Sciences* 88 (2013): 134–141.

<sup>12</sup> Sukesi and Wanda Gema Prasadio Akbar Hidayat, "Managing the Halal Industry and the Purchase Intention of Indonesian Muslims the Case of Wardah Cosmetics," *Journal*

Widiastuti et al.,<sup>13</sup> slightly similar to the study, paid much attention to the analysis of the obstacles related to the development of the halal industry using a literature review and in-depth interviews with experts and found that policy, production, socialization, infrastructure, and human resources are among the obstacles.<sup>14</sup> However, it did not further explore the response and sharia compliance of the Indonesian Muslim communities in the context of 'halal' inherent in their lifestyle. Hence, the factor contributing to the slow development of the halal industry in Indonesia remains unclear, and a comprehensive study should be conducted to trigger potential opportunities to improve those challenging valuable markets (see table 1.).

**Table 1.** Halal Industry Ranking 2022<sup>15</sup>

Indicator	Indonesia's Rank	First Rank
Halal Food	2	Malaysia
Sharia Finance	6	Malaysia
Travel	N/A	Malaysia
Fashion	3	UAE
Media and Entertainment	N/A	Malaysia
Cosmetics and Pharmaceuticals	9	Singapore

The table reports that Malaysia is ranked first in the Islamic finance, halal food, Muslim-friendly travel, media, and recreation sectors. However, the modest fashion sector is dominated by the United Arab Emirates, while Indonesia is ranked in the third. In the food sector, the Organization of Islamic Cooperation put Malaysia in the second rank as importer of halal food products (\$ 14.96 billion)

of *Indonesian Islam* 13, no. 1 (2019): 200–229. *Journal of Indonesian Islam*, Volume: 13, No. 01 (2019): pp. 200-229.

<sup>13</sup> Tika Widiastuti et al., “Obstacles and Strategies in Developing Halal Industry: Evidence From Indonesia,” *Humanities & Social Sciences Reviews* 8, no. 4 (2020): 398–406.

<sup>14</sup> Ibid.

<sup>15</sup> Dinar Standard, *State of the Global Islamic Economy Report: Unlocking Opportunity, State of the Global Islamic Economy Report 2020/21*. [https://cdn.salaamgateway.com/reports/pdf/State+of+the+Global+Islamic+Economy+Report+2022\\_V2\\_Updated.pdf](https://cdn.salaamgateway.com/reports/pdf/State+of+the+Global+Islamic+Economy+Report+2022_V2_Updated.pdf)

after Saudi Arabia (\$ 21.54 billion).<sup>16</sup> However, Indonesia with a population of 260 million people is not included in the top 10 halal food importers. Based on data from the State of the Global Islamic Report in 2018<sup>17</sup>, Indonesia has been ranked as the first country with expenditure worth \$ 170 billion on halal food. Presently, the halal food market in Indonesia is dominated by foreign products. Factors considered to raises Malaysia's position better than Indonesia in the halal industry areas are knowledge, trust, motivation for sharia compliance, and market potential.<sup>18</sup> Nevertheless, Indonesia persistently has excellent potential prospects to increase and change the level of halal food, sharia finance, and modest fashion. Similarly, cosmetics and pharmaceuticals, Muslim-friendly travel, media, and entertainment will grow deliberately to attain a better level.

Concerning Muslim-friendly tourism, Indonesia was ranked the fourth-best halal tourism destination in the world in 2019.<sup>19</sup> Indonesia is reported to have gradually moved from ranking sixth in 2015, fourth in 2016, third in 2017, second in 2018, and fourth in GMTI in 2019.<sup>20</sup> This is also an area of concern because Indonesia has extraordinary natural resources, as well as fact that two provinces in Indonesia, namely Banda Aceh and West Nusa Tenggara have been appreciated as world halal tourism destinations.<sup>21</sup> However, this achievement does not stimulate other provinces to develop halal tourism.

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<sup>16</sup> M. Shahbandeh, *Leading importers of halal food in 2015, by OIC country (in billion U.S. dollars)*, in <https://www.statista.com/statistics/785070/top-importers-of-halal-food-global/>

<sup>17</sup> Ibid

<sup>18</sup> Rozailin Abdul Rahman, et.al., "Exploring the OIC Food Manufacturer Intention Towards Adopting Malaysian Halal Certification:., *American Journal of Food Technology*, 9, 5, (2014), 266-274, see also Poniman, D., "Purchase, S. and Sneddon, J. "Traceability systems in the Western Australia halal food supply chain." *Asia Pacific Journal of Marketing and Logistics*, 27, 2 (2015), 324-348.

<sup>19</sup> Sherly Puspita, "Indonesia dan Malaysia Jadi Destinasi Wisata Halal Terbaik Dunia 2019 Versi GMTI," April 10, 2019, in <https://travel.kompas.com/read/2019/04/10/070000627/indonesia-dan-malaysia-jadi-destinasi-wisata-halal-terbaik-dunia-2019-versi>

<sup>20</sup> Fauziah Mursid, *Indonesia Naik ke Peringkat 4 Global Islamic Economy*, (2020). In <https://www.ihram.co.id/berita/qk52z9430/indonesia-naik-ke-peringkat-4-global-islamic-economy>

<sup>21</sup> <https://www.liputan6.com/lifestyle/read/2609074/3-provinsi-ini-dominasi-anugerah-wisata-halal-nasional-2016>

The fact that Indonesia lags in halal industry development leads to more concern. An urgent agenda is to understand the reasons behind Indonesia's inability to respond sooner to the advantage of halal industry opportunities and to become the country as a predominant player in the halal industry markets. Business actors and consumers in Indonesia should be aware of the benefits of implementing the halal industry concept. According to some studies, lack of government attention, whose intention tends to protect business actors more than consumers, and poor public responses to halal products are some factors driving much apprehension in scholarly halal industry studies.<sup>22</sup> In response to that phenomenon, some research questions have risen, such as "Why has not Indonesia become a major player in the global halal industry?" "What do business actors in the halal industry face the obstacles?" "What strategies can be implemented to develop the halal Industry market in Indonesia? The study aims to take part in this academic attention which could contribute to the scientific findings on the development strategy and Indonesian Muslim's response. This study elaborates on various perspectives of the halal industry based on respondents from West Nusa Tenggara, Banda Aceh, and North Sumatra by using the Analytical Network Process (ANP) method.<sup>23</sup> The decision to choose respondents from these three regions is because West Nusa Tenggara and Aceh provinces have been appreciated as the world halal tourist destinations and are regarded as representatives for the development of the Indonesian halal industry. Meanwhile, North Sumatra has the potential to develop this sector, especially after the government designated Lake Toba as a National Tourism Strategy Area, although the discourse of the halal tourism industry was rejected.

With regard to the use of ANP because this research involves the interaction and dependence of high-level hierarchy elements,<sup>24</sup> namely

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<sup>22</sup> Setiawan Budi Utomo and Heri Sudarsono Sekaryuni, Ratih, Agus Widarjono, Achmad Tohirin, "Promoting Islamic Financial Ecosystem to Improve Halal Industry Performance in Indonesia: A Demand and Supply Analysis," *Journal of Islamic Marketing* 12, no. 5 (2021): 992–1011. See also Warto and Zainal Arif, "Halal Product Business Between Opportunities and Challenges, Problematics and Their Solutions," *Al-Ulum*, 20, 1, (2020), 274 -294.

<sup>23</sup> Saaty, "Decision making with the analytic hierarchy process," *International Journal of Services Sciences*, 1, 1, (2008).

<sup>24</sup> Moses L. Singgih, *Pemilihan Alternatif Perbaikan Kinerja Lingkungan Sektor Industri Potensial di Jawa Timur dengan Metode Economic Input – Output Life Cycle Assessment (EOI –*

the Indonesian Ulema Council, the Halal Industry Strategic Planning Compilers, the Trade Industry Service, and Halal Industry Actors in the Food and Tourism Sector.

### Halal Industry: Concepts and Reviews

The halal concept initially derives from the Islamic teaching from the Qur'an, which states that Muslims must eat only *halal* (approved or lawful) and *tayyib* (clean) food products while abstaining from *haram* (forbidden or unlawful) foods, according to these dietary standards (al-Baqarah: 172). The notion and knowledge of Halal based on Mustafa studies have grown in Muslim and non-Muslim countries for more than 30 years, traced from various literature.<sup>25</sup> Following the verse of the Qur'an above, the concept of *halal* implies cleanliness, security, hygiene, nutrition, virtue; make creation, preproduction process, trustworthiness, honesty, and administration of food items as well as other money-related and social activities. Based on these criteria, the *halal* process should be devoid of pork, alcohol, these two-based products, and other synthetic products made from them. Therefore, Halal food acceptance and popularity stems from the Islamic belief which describes halal products are tastier, healthier, and more hygienic than Haram ones.<sup>26</sup> These well-recognized characteristics are formulated as legal Halal food ethics and certification standards.<sup>27</sup> Aside from food sectors, Halal principles have been broadly formulated in developing service, beauty, and health products such as stationery, toiletries, pharmaceuticals, and cosmetics, as well as finance, insurance, and banking products.

As a country with a Muslim-majority population, there is an increased demand for various halal products. The communities prefer becoming halal consumers of goods or services related to food,

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*LCA) dan Analytic Network Process (ANP)*, (Surabaya: Seminar Nasional Perencanaan Wilayah dan Kota, ITS, 2009), 106.

<sup>25</sup> Mohamed M. Mostafa, "A Knowledge Domain Visualization Review of Thirty Years of Halal Food Research: Themes, Trends and Knowledge Structure," *Trends in Food Science and Technology* (2020).

<sup>26</sup> Saad Al-Harran and Kim Cheng Patrick Low, "Marketing of Halal Products: The Way Forward," *The Halal Journal*, (January/February 2008), 44-46.

<sup>27</sup> Kambiz Heidarzadeh Hanzace and Mohammad Reza Ramezani, "Intention to Halal Products in the World Markets," *Interdisciplinary Journal of Research in Business*, 1, 5, (2011), 1-7.

beverages, medicines, cosmetics, chemical, biological, and genetically modified products, fashion, and halal tourism. It also occurs in Muslims abroad, such as in Europe, where Muslims are a minority group, in which the market value of halal products grows significantly to high purchasing power parity and the increasing preference for this industry. The exportation of halal products demands an increase, thereby creating opportunities and benefits for business actors.<sup>28</sup>

Why non-Muslim consumers prefer *halal* products is among the aspects examined in extensive scholarly works on *halal* industries. For example, Rezai et al.<sup>29</sup> and Haque et al.<sup>30</sup> found that 38.7% of the non-Muslim population in Malaysia choose halal meat products as they agree with the food principle of controlling Halal goods. They accept and consume sustainably halal food.<sup>31</sup> Non-Muslim customers' behaviours towards halal foods are influenced by the foods' safety, nutrition, and qualitative qualities.<sup>32</sup> Consumers have become more aware of the nutritional and ethical criteria that govern food ingredient items, such as hygiene, nutrition, quality, origin, and animal welfare.<sup>33</sup>

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<sup>28</sup> Bashir, K.M.I., Kim, J.-S., Mohibbullah, M., Sohn, J.H. and Coi, J.-S., "Strategies for improving the competitiveness of Korean seafood companies in the overseas halal food market", *Islamic Marketing*, 10, 2, (2019), 606-632.

<sup>29</sup> Rezai, G., Mohamed, Z., & Nasir Shamsudin, M., "Non-Muslim Consumers' Understanding of Halal Principles in Malaysia," *Journal of Islamic Marketing*, 3, 1, (2012), 35-46.

<sup>30</sup> Ahasanul Haque, Abdullah Sarwar, Farzana Yasmin, Arun Kumar Tarofder and Mirza Ahsanul Hossain, "Non-Muslim consumers' perception toward purchasing halal food products in Malaysia," *Journal of Islamic Marketing* 6, 1 (2015), 133-147.

<sup>31</sup> Arif Billah, Md Ahbabur Rahman, and Md Tareq Bin Hossain, "Factors Influencing Muslim and Non-Muslim Consumers' Consumption Behavior: A Case Study on Halal Food," *Journal of Foodservice Business Research* 23, no. 4 (2020): 324-349. See also Vloreen Nity Mathew, Ardiana Mazwa Raudah binti Amir Abdullah, Siti Nurazizah binti Mohamad Ismail, "Acceptance on halal food among non-Muslim consumers," *Procedia-Social and Behavioural Sciences*, 121, (2014), 262-271.

<sup>32</sup> Vinicius Antonio Machado Nardi et al., "Predicting Food Choice: A Meta-Analysis Based on the Theory of Planned Behavior," *British Food Journal* 121, no. 10 (2019): 2250-2264. See also Yuhanis Abdul Aziz and Nyen Vui Chok, "The role of Halal awareness, Halal certification, and marketing components in determining Halal purchase intention among non-Muslims in Malaysia: A structural equation modelling approach," *Journal of International Food & Agribusiness Marketing* 25, 1 (2012), 1-23.

<sup>33</sup> Ismail Abd Latif, Zainalabidin Mohamed, Juwaidah Sharifuddin, Amin Mahir Abdullah and Mohd Mansor Ismail, "A comparative analysis of global halal certification requirements," *Journal of Food Products Marketing*, 20 (2014), 85-101.

The increasing demand for halal goods and services is influenced by several factors, namely fulfillment of sharia compliance in economic behaviour, the increasing Muslim population in the world<sup>34</sup>, the increase of middle-class Muslim community that has highly aware of the halal status of a product, and The implementation of AFTA in 2003 and the inclusion of halal provisions in the KODEX supported by WHO and WTO.

### Internal and External Problems of the Halal Industry

The respondents stated that the slow growth of the *halal* industry in Indonesia is not only due to the standardization of the halal industrial brand and limited human resources but also includes other external problems, such as the absence of a roadmap and lack of government support. However, when compared in terms of percentage, the complexity of external problems is viewed as more robust than the internal ones. This means that the halal industry is undeveloped because of the problems encountered by this sector.

**Table 2:** The Geomean of Internal - External Problems

Internal Problem		External Problem	
Internal Industry	0,3307	Government	0,4102
HR / Auditor	0,3253	Legal Standards	0,3081
Marketing	0,3257	Infrastructure	0,2555

Internally, there are three problems are associated with this sector development: internal industry, marketing, and human resources. The industrial aspect is regarded as relatively new in Indonesia. Therefore, not all business actors are interested in its development. The *halal* industry stigma, which is only for Muslim consumers, is still strong, and this is a serious problem that tends to affect its development. Besides, referring to the 2018 Ministry of Cooperatives and SMEs data, the number of micro, small and medium enterprises reached 64,194,057, while large-scale businesses were relatively 5,550.<sup>35</sup> However, only 59,951 companies have halal certification, constituting only 0.09% of the total number of companies in Indonesia.

<sup>34</sup> Fidel Ali Permana, "Inilah Agama Dengan Perkembangan Paling Pesat di Dunia," available at: <http://internasional.kompas.com/read/2015/04/07/02103571/Ini.Aga-ma.dengan.Perkembangan.Paling.Pesat.di.Dunia>

<sup>35</sup> Badan Pusat Statistik. *Direktori Industri Manufaktur Indonesia*, (2020).



The second internal problem is marketing. The intense competition in the halal industry requires entrepreneurs to adopt the appropriate marketing strategy to achieve set goals. The keyword for this problem is branding. Producers need to realize that Muslim consumers are a potential market. Therefore, marketing needs to be carried out by utilizing Islamic branding. It is interpreted as using names related to Islam or depicting a product's halal identity. Producers from non-Muslim countries have adopted Islamic branding, namely halal products (halal certification), to market their products to Muslim consumers;<sup>36</sup> for example, the KFC and CFC food products originated from America, while Nestle milk producers are from Switzerland. Likewise, Malaysia, Singapore, and Thailand enormously market their products using sharia branding. Therefore, whenever sharia finance or halal food is mentioned, people immediately think about Malaysia.

**Table 3:** Number of Businesses in Indonesia by Unit<sup>37</sup>

Indicator	2018 **)	
	Total	Market (%)
Businesses Unit (A+B)	64.199.606	
A. Micro, Small, and Medium Enterprises	64.194.057	99,99
- Micro Enterprises	63.350.222	98,68
- Small Business	783.132	1,22
- Medium Enterprises	60.702	0,09
B. Big Business	5.550	0,01

**) Halal Certification in 2018	
The number of industries	59.951
The number of halal certificates	69.985
The number of products	727.617

Another internal problem is the quality of Human Resources. Quality human resources certainly support Indonesia's success in developing Islamic finance. It is undeniable that the existence of human resources in quantity and quality determines halal industrial performance. Furthermore, the relevant HR quality for the development of businesses based on sharia values certainly includes

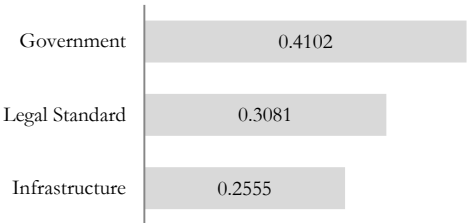
<sup>36</sup> Baker Ahmad Alserhan, "On Islamic branding: brands as good deeds," *Journal of Islamic Marketing* 1, 2 (2010).

<sup>37</sup> The Food, Drugs and Cosmetics Assessment Institute (LPPOM)

adequate knowledge, skills, and competencies in the halal industry as well as moral commitment and integrity to manage this industry.<sup>38</sup> Moreover, the lack of human resources is evident in LPPOM MUI (The Assessment Institute for Foods, Drugs, and Cosmetics of the Indonesian Ulama Council) data which reported that the total number of auditors recorded is 1800, while the required number is 25 thousand. Furthermore, there is a human resources problem; for example, in the banking sector, where the average human resources have a general educational background, Islamic finance is often considered non-sharia.

**Figure 1:** External Problem Analysis

**W: 49%**



Externally, the halal industrial issues include infrastructure, legal standards, and government support. Infrastructural domains are related to roads and supporting factors such as the availability of the halal food industry, places for religious activities, e.g. mosques surroundings, shopping places, and the hospitality of residents in tourist destinations. Infrastructure plays a vital role in the development of this industry. It facilitates the movement of goods and services, encourages increased productivity and mobility of the population, and facilitates trade between regions, provinces, and even countries. Regarding public and private financing allocation, infrastructure is the locomotor of the halal industrial and national development. However, its existence affects the marginal productivity of private capital and the reduction of production costs. Moreover, infrastructure could enhance the quality of life and welfare by increasing consumption and labour productivity, offering access to employment, and boosting prosperity and macroeconomic stability. A

<sup>38</sup> Amiur Nuruddin, "SDM Berbasis Syariah," *Jurnal Tsaqafah*, 6, 1 (2010).

study carried out by the World Bank (2016) (Data Source) stated that the elasticity of GDP (Gross Domestic Product) on the availability of infrastructure in a country is relatively 0.15. It means that an increase of 1 per cent in infrastructural availability causes a GDP growth of 15%.

The second external problem faced is legal standards. It is admissible that the legal problem of the halal industrial standard is still minimal. For example, the Halal Product Guarantee Law does not yet have clear technical guidelines; therefore, it needs to be applied. Besides, certain institutions that need to be formed according to this law have not been appropriately realized even at the regional level, thereby raising doubts about their implementation. This development requires a solid legal foundation. Irrespective of the fact that there is a Law on Halal Product Guarantee, this policy lacks technical guidelines, thereby complicating its implementation in the field. The technical implementers applying this law (Halal Product Guarantee Agency/BPJH) have yet to perform their duties optimally.

Meanwhile, the third problem is government support. Irrespective of its great potential, the government's focus on the halal industry is relatively limited. Indeed, the government is committed to strengthening the halal MSME sector, thereby encouraging the development of these types of businesses. It is realized by simplifying and accelerating the licensing process, facilitating halal certification costs, and self-declare mechanisms for MSME actors on certain products following standards set by the halal Product Guarantee Agency (BPJPH). Practically, it requires easy, fast, and inexpensive technical instructions.

### **Priority Solutions in the Development of the Halal Industry**

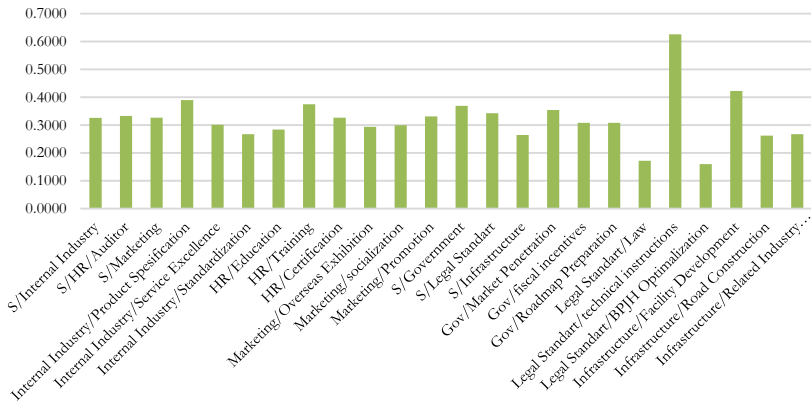
The various aforementioned internal-external problems require diverse solutions. According to the participants' responses the most prioritized solution for the internal problem is product specifications (see figure 3). Therefore, the halal industry in Indonesia has personal characteristics that are different from other countries. The halal industrial products need to be packaged in such a way that they are attractive and suitable for sale, as well as able to compete with other items.

According to the participants, excellent service solutions and standardization are crucial factors in developing the halal industry.

Fortunately, excellent services cause consumers to prefer the Indonesian halal industry. However, halal standardization, following international standards, also causes consumers to feel safe and comfortable when using products from the Indonesian halal industry, thereby making them want to repurchase these items.

To overcome HR problems, some of the participants, that are business actors, offered several solutions in the model, namely by participating in training to enhance the capabilities of the halal industry players, as well as the provision of certification and education. This solution is expected to increase the number of qualified human resources and public education in this sector. Meanwhile, concerning the marketing problem, these business actors stated that promotions designed to attract market shares globally need to be adequately executed because it causes these consumers to become interested in using products from the Indonesian halal industry. There is a need for knowledge of halal tourism and market segments as well as the performance confidence of Indonesian business actors.

**Figure 2:** Internal - External Geomean Solutions



The next solution is based on geomancy, namely the need to penetrate the market to attract consumers, thereby causing them to switch to halal industrial products. It is made as attractive as possible to encourage halal product enthusiasts to utilize their purchasing power. A clear roadmap by the government directs market players in managing this industry. This directive ensures that business actors focus on developing innovation and creativity for this industry. Furthermore, the subsequent solution is highly relevant, namely the

use of fiscal incentives from the government aimed to boost the performance of the business world, and investment has also not yet been felt by the halal industry. The fiscal incentives issued by the government tend to be a stimulus for business actors, thereby causing them to be more enthusiastic and have a prolonged impact on the development of the Indonesian halal industry.

The participants provided solutions to common legal problems based on geomean results because it was deemed necessary to implement technical guidelines for the industry and optimize the Halal Product Guarantee Agency (*Badan Penyelenggara Jaminan Halal*, called for BPJH). The solutions offered by these participants also serve as guidelines for businesses and consumers in implementing this sector. These technical guidelines aim to provide directives for the halal industry concentration based on a precise and legally determined mechanism. The participants offered another solution, the implementation of laws to create harmony between business actors, consumers, and related parties to ensure that the welfare and comfort of this industry are achieved.

The subsequent solution to resolve the common legal problem is optimizing the Halal Product Guarantee Agency or BPJH. The duty and function of this BPJH are to ensure the quality of halal products that are either circulated or traded in Indonesia. In other words, BPJH needs to be more effective by checking the registration of the halal certificate procedure, verifying, guiding, and supervising business actors who produce halal-certified products, collaborating with all parties related to this industry, and determining the halal standards following international specifications.

### **Strategies for Developing Halal Industry**

Based on the aforementioned internal-external problems and solutions, the respondents stated that the development strategy of halal industry comprises the halal area (0.221), government policy support (0.204), coaching and training (0.193), mentoring (0.187), including research and collaboration (0.163).

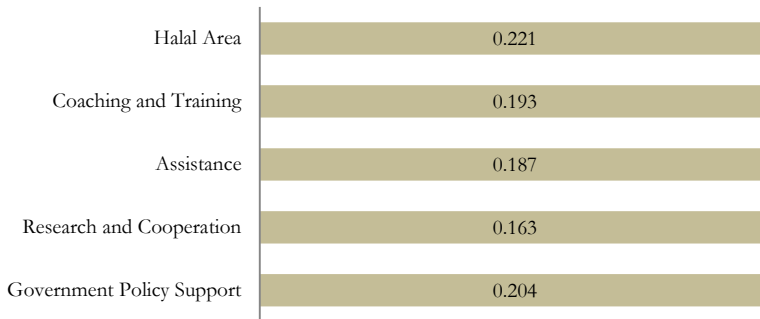
The strategy for the development of the halal industry shown in figure 4 is categorized into 5 categories, namely:

### ***Halal Area Development***

All provinces in Indonesia possess diverse characteristics. The vast territory and beautiful nature lacking in other countries have not been maximally developed. Several provinces are well known for their Islamic nuances; for example, Aceh Province, which applies Islamic law, was designated the Best Muslim-Friendly Cultural Destination in the 2016 National Level Halal Tourism Competition (KPHN). This achievement needs to be utilized by developing a halal industry in the food, clothing, and tourism sector.

Figure 3: Halal Industry Development Strategy

**W: 8,6%**



According to respondents, the construction of halal areas needs to be prioritized given the great demand for this industry in the future, especially for food and beverages as well as cosmetics and medicines. This step also needs to be executed immediately, supposing Indonesia does not want to be preceded by Thailand, which targets to become the fifth largest exporter of halal products in the world. The intended industrial area is based on certain criteria, including halal industrial area management and barrier, working with laboratories for inspection and testing, clean water management systems, and trained workers that offer product assurance. It is consistent with Bashir's statement, which stated that some of the adopted approaches are understanding consumers behaviours and developing marketing strategies according to the socio-economic and geographic status of each country, training employees and producing competitive halal seafood products,

exploiting increasing global influence, building halal supply chains and industrial estates, as well as promoting digital marketing and tourism.

### ***Government Policy Support***

Government support for the development of the halal industry is perceived from 2 aspects, namely as a regulator and as an economic actor. The government, as a regulator, monitors the economy by issuing various regulations in the halal industry. In addition, the government has started to show its seriousness in efforts to accelerate the growth and development of the halal industry by fixing several laws and regulations considered to be factors inhibiting the acceleration policy. Several regulations include Law No. 21 of 2008 on Sharia Banking, Regulation of the Minister of Tourism and Creative Economy No. 2 of 2014 concerning Guidelines for the Implementation of Sharia Hotel Businesses, and Law No. 33 of 2014 concerning the Guarantee of Halal Products. Especially, Law No.13 of 2013 concerning halal assurance was strengthened by the existence of the Halal Product Guarantee Agency (BPJPH), tasked with issuing the halal certification. Unfortunately, the role of this agency has not been properly executed because of the incomplete technical regulations related to the guarantee of halal products. Therefore, LPPOM MUI continues to carry out its previous functions. On the contrary, BPJPH also needs to develop an effective, credible, efficient, and accountable certification system that can resolve the community's demands and needs.

The government plays a huge role as an economic actor. The industrial sector consistently makes a significant contribution to economic growth. "Apart from driving the economy, the industry also has a multiplier effect, such as increasing the added value of domestic raw materials, absorbing local labour, and earning foreign exchange. However, reviewing the worth of expenditure in the halal industry, estimated at \$3 trillion in 2021, the government needs to ensure that this sector is strengthened in a well-planned, structured, and systemized manner. This policy is expected to stimulate the development of this industry in Indonesia, thereby ensuring it becomes a significant player at the international level. Ghazali and Sawari<sup>39</sup>

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<sup>39</sup> Mohd Al-Ikhsan Ghazali and Siti Salwa Md. Sawari, "Amalan Standard Halal di Negara-negara Asia Tenggara (the Practices of Halal Standard in Southeast Asian Countries)," *UMRAN - International Journal of Islamic and Civilizational Studies*, 1, 1 (2014).

reported that the Malaysian and Brunei governments majorly focused on setting halal standardization; therefore, both countries' systems have stronger legality than other Southeast Asian nations. Othman Baharudin<sup>40</sup> compared the halal standardization in various Southeast Asia countries, namely Indonesia, Malaysia, Singapore, Brunei, Thailand, Vietnam, and the Philippines. The results showed certain infrastructure and technological capabilities differences in implementing halal standardization.

Government policy support is relevant in setting halal standardization and halal certification obligations. Globally, over 400 institutions issue halal certification despite having different halal standards; for example, the United Kingdom Halal Food Authority (HFA) permits slaughtering by mechanical and electric stunning. Meanwhile, the Halal Monitoring Committee (HMC) and the Muslim Council of Britain (MCB) stated that the process was not halal. It is similar to the threshold for alcoholic use in food products. LPPOM MUI stipulates that the use of alcohol is allowed, supposing its content in the final product is undetected and in the intermediate (products that are indirectly consumed) is not more than one percent (LPOM-MUI, 2012). Meanwhile, other institutions set different levels, such as JAKIM Malaysia (0.01%), AOI Thailand (1%), and MUIS Singapore (0.5%). These results are based on the fact that the halal certification obtained in a certain country is often rejected by the ulama council or institutions in other nations. Therefore, cooperation and trust among halal certification agencies, producers, the government, and other related parties, are needed to encourage the growth of this industry.

### ***Coaching and Training***

Coaching and training strategies are formulated to solve HR problems in the halal industry. The poor response and public awareness of halal products are a challenge in the development of this industry. Public awareness to boost knowledge of halal products, especially food, beverages, medicines, and cosmetics, is still poor.

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<sup>40</sup> Baharudin Othman, Sharifudin Md. Shaarani and Arsiah Bahron, "The Potential of ASEAN in Halal Certification Implementation: A Review," *Pertanika J. Social Sciences & Humanities*, 24, 1 (2016), 1-24.



Meanwhile, non-Muslim countries such as Japan, Thailand, and South Korea are more concerned with halal products.<sup>41</sup>

The number of people possessing the expertise to work in this industry is few. Based on reports from LPPOM MUI, there are relatively 1,800 registered auditors. LPPOM MUI requires a minimum of 25 thousand auditors to cover all halal-certified products. Meanwhile, in terms of business actors, 59,951 (0.09%) out of 64,194,057 companies have halal certification. Based on these considerations, human resource development and training strategy is necessary.

Education and training are efforts to develop intellectual abilities and HR personalities in the halal industry. In addition, it is hoped that the entire public and business actors possess the knowledge, ability, and skills related to halal production. Formal education and training play a huge role in increasing human resources' competencies which lead the individual to be more creative, effective, and efficient in achieving the halal producers' set goals. Usually, the better the implemented educational and training programs, the more skilled human resources are needed to complete their respective tasks. Furthermore, human resources that undergo routine education and training tend to offer better output.

### ***Assistance***

Assistance is one of the strategies necessary for developing the halal industry. It is an activity executed by halal assistants to strengthen institutions and businesses, ensuring industrial players increase productivity and competitiveness and develop sustainably on a larger scale. Assistance is a means of empowerment related to helping individuals, institutions, the business world, and industries to realize their dreams. Assistance is a collaboration between 2 parties (assistance and clients) based on mutual trust and respect.

Besides, micro, small and medium enterprises (MSMEs) engaged in the halal sector require assistance. It is necessary because the basic knowledge of MSMEs is related to the importance of meeting the requirements of the Halal Assurance System. Therefore, halal products are still lacking. Furthermore, the Halal Assurance System has not been

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<sup>41</sup> Zenefale, "Trend Global Produk Halal Menjadi Gaya Hidup Negara-Negara Non Muslim", (2015), available at: <https://prasetya.ub.ac.id/berita/Trend-Global-Produk-Halal-MenjadiGaya-Hidup-Negara-Negara-Non-Muslim-17511-id.pdf>.

fully implemented due to inconsistent production and poor quality MSMEs. Moreover, most MSMEs also have difficulty obtaining information about the status of halal of the utilized materials because it is bought in small quantities, thereby prone to fraud. Therefore, business actors need to be proactive in seeking information.

Halal industrial assistance must also be carried out during the halal certification process. Besides, certification for halal industry MSMEs is necessary because Law Number 33 of 2014 concerning Halal Product Guarantee mandates that some products must possess a halal certificate. Understanding halal certification is important because MSMEs play strategic social, economic, and political functions. Furthermore, halal certification is able to guarantee quality products, thereby creating opportunities for MSMEs to be able to export these goods abroad. However, getting MSMEs to carry out halal certification is difficult. There is an assumption that Muslim entrepreneurs trade halal products; therefore, they do not need halal certification. This is evident in the research carried out by Huda (2012), which stated that the regulation embodied by the halal certification from the Indonesian Ulema Council (MUI) had not been fully understood by food producers. Furthermore, for MSMEs, the cost is one of the considerations involved when applying for halal certification. Therefore in the future, the BPJPH and LPPOM need to work together toward developing important points to facilitate halal certification for MSMEs.

### ***Research and Collaboration***

The last strategy that needs to be adopted is research and collaboration. In the Industrial Revolution 4.0 era, research and collaboration play a significant role. Ideally, the research carried out is not only related to the manufactured products; rather, it also aids in developing or improving existing items. The biggest challenge in carrying out research is the difference between the industry's needs and the analysis's outcome or result. Furthermore, the results are often on a trial scale, leading to a high risk of failure; therefore, the level of confidence in the industry is still not optimal. Therefore, any research carried out to develop the halal industry needs to be in accordance with the needs of this sector.

The aforementioned halal industrial development strategy is interesting to discuss. According to participants, the first strategy,

namely building a halal area, is currently a government priority that needs to be responded to by Islamic financial institutions and Muslim investors. Moreover, when this research was carried out in 2018, building an ideal halal industrial area became a discourse because Indonesia did not yet have a roadmap for the industry. However, in 2019 the government issued the Indonesian Sharia Economic Master Plan from 2019 to 2024, which aims to develop the Islamic economy or halal industry. Following this master plan and the National Committee for Islamic Economics and Finance (KNEKS), the target for infrastructure investment in the halal industrial area in Indonesia is relative Rp. 6,445 trillion.<sup>42</sup> The infrastructural development is expected to maximize the halal industry's potential, including business capital, logistics financing, transportation, export support facilities, and national and regional prioritized infrastructure. This strategy is inconsistent with the research carried out by Widyastuti et al.<sup>43</sup> In this research, the first prioritized strategy is human resources (0.244). On the contrary, Amalia<sup>44</sup> stated that regulatory and policy aspects are the top priorities in an integrated Islamic economic system.

The participants focused on aspects of government resources and regulations. It is consistent with the research carried out by Widyastuti, which stated that the prioritized strategies include human resources (0.244), infrastructural (0.217), production aspects (0.203), policy (0.190), and socialization (0.146). Meanwhile, Amalia reported that regulatory and policy aspects were the main priority, followed by building a halal lifestyle (13.3%) and strengthening human resource capacity (12.7%). Meanwhile, this research stated that the main priorities for developing the halal industry are halal area (0.221), government policy support (0.204), coaching and training (0.193), mentoring (0.187), and research and cooperation (0.163). Therefore, it was generally agreed that human resources must be upgraded to

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<sup>42</sup>Menteri Perindustrian Republik Indonesia, "Webinar Strategis Nasional: Indonesia Menuju Pusat Produsen Halal Dunia," (2020). Available at: <https://knks.go.id/-storage/upload/1603517180-Paparan%20Menperin%20%20Webinar%20KNEKS%-20-%20KIH.pdf>

<sup>43</sup>Widiastuti et al., "Obstacles and Strategies in Developing Halal Industry: Evidence From Indonesia."

<sup>44</sup>Euis Amalia and Nur Hidayah, "Strategies for Strengthening Halal Industries towards Integrated Islamic Economic System in Indonesia: Analytical Network Process Approach," *Al-IQTISHAD: Jurnal Ilmu Ekonomi Syariah* 12, 1 (2020).

manage the halal industry through education, training, or mentoring. Conversely, the role of the government in the form of policy support is needed to drive economic activity. Some related regulations, such as ease of investment, processing of halal certification, and a favorable investment climate, are indeed expected to be facilitated by the government.

### **Constructing Halal Concerns through Local Wisdom**

Many Indonesian people in business who run small-medium enterprises (SMEs) have unintentionally developed halal industries in various companies, even simultaneously integrating Islamic teachings with local wisdom. For instance, the halal industry in Lake Toba is developed by including information that characterizes Islam, such as a written notice in front of the restaurant - “*hidangan muslim*” (Muslims’ food), “*Bismillah*” with ethnic Batakness decoration.

Meanwhile, business actors in the halal industry market in Aceh have developed “*Gampong Wisata*” (Tourism Village) based on Acehnese local wisdom, such as coffee. In developing the halal industry, people in Aceh carried out an activity called “Rebranding” in 2016, developed strategic planning for the halal industry in 2017, and developed the main plan for developing tourism places (RIPDA) in 2017–2018. The Indonesian Muslim community wants Indonesian tourism destinations to be greatly developed by considering Islamic teachings as well as local culture (local wisdom).<sup>45</sup> Providing facilities, accommodation, and services based on the principles of halal tourism and local wisdom, Muslim tourists have high satisfaction and tend to be loyal to return to visit.<sup>46</sup> Even, Indonesian halal tourist destinations are the third highest search trend after Japan and Malaysia on social media.<sup>47</sup> It confirms that Indonesian halal tourism as a halal industry sector sustains its presence in the global market and continuously

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<sup>45</sup> Intan Purwandani and Mohamad Yusuf, “Localizing Indonesian Halal Tourism Policy within Local Customs, Qanun, and Marketing,” *Journal of Policy Research in Tourism, Leisure and Events* (2021): 1–19.

<sup>46</sup> Dwi Suhartanto et al., “Tourist Experience in Halal Tourism: What Leads to Loyalty?,” *Current Issues in Tourism* 24, no. 14 (2021): 1976–1990; Dwi Suhartanto et al., “Millennial Loyalty in Halal Tourism: A Destination-Based Analysis,” *Current Issues in Tourism* 25, no. 9 (2022): 1467–1480.

<sup>47</sup> Sulaiman Ainin et al., “Sentiment Analyses of Multilingual Tweets on Halal Tourism,” *Tourism Management Perspectives* 34 (2020).

becomes a concern for the Indonesian Muslim community, the government, and every stakeholder related to this sector.

For example, in Padang Sidempuan, the halal industry focuses on Salak (snake fruits) as their local product with the halal label and promotes their products in their local language; *Mandailing* language. They make the best use of local wisdom in promoting their business.

“The basic ingredients of our product are fruits, so we do not use chemicals. The packaging is also modern and has met the standards of durability, beauty, and healthy. Since snake fruits are grown locally, we prioritize local wisdom by naming our product in local languages, Mandailing languages (*Narara, Najako, Nabora*). The halal certification from the provincial Indonesian Ulema Council (MUI) has positively improved our confidence in promoting and selling our snake fruits.”

Halal certification has indeed improved and supported snake fruits' production and selling point in Padang Sidempuan. It can be seen from a business actor of snake fruits who mentions:

“The turnover has increased after our snake fruits are certified. It is very beneficial because today's consumers are smarter and care about halal products. We also improve how we package the snake fruits so that they become more attractive and have better quality than before.”

However, according to a business actor in Padang Sidempuan, one of the issues related to halal certification is budget, such as the registration fee and visitation fee. It can be seen in the following excerpt of the interview:

“So, the main problem is budget; if we want to certify our product, we need to pay the registration fee and the visitation fee for the auditor who will see the process of making our products. The cost is quite high, especially for entrepreneurs of small businesses. In Padang Sidempuan, many business actors do not care about halal certification because it requires a large budget to get it. With small capital and profit, this is difficult for them.”

Such challenges also faced by business actors in the halal industry in Aceh, which involves the Indonesian Ulema Council (MUI). One respondent stated, “What challenges me is to get the halal certification that should involve the role of MUI. Besides, some restaurants believe their product is halal, yet some do not wash the eggs.”

Since most people in Aceh are Muslims, only a few restaurants consider using the halal label. It can be seen from an interview conducted with a business actor in Aceh:

“Some people do not want to use the halal label because they consider that everything is already halal following Islamic Sharia, so there is no need to put a halal label anymore, yet there are some restaurants that wash their rice in the toilets. It is *halal*, but it is not *layyib*.”

Besides food, coffee is also the most popular product from Aceh. Even though coffee is naturally halal, the process of producing the coffee cannot be halal. It is based on what was mentioned by a business actor in the halal industry in Aceh:

“When coffee is dried under the sun on the road, sometimes chickens and dogs walk on the coffee. People say that if they dry the coffee on the road, it will dry quickly. We have informed the society that the process of producing the coffee can make the coffee not halal.”

Meanwhile, business actors in Lombok focus on different kinds of nuts as their local products. Based on an interview conducted with Teti Indrawati, that the halal industry development in Lombok and other regions in Nusa Tenggara Barat is fully supported by Local Regulations for the halal product.

“When someone has not enough money for their halal industry business, the governor will support the business actor so that he/she can develop his/her halal industry product. The supports given are not limited to halal products, but also halal services.”

Based on this information, it can be concluded that one factor that can improve the development of the halal industry in Indonesia is the government's support. The government and private institutions need to support the business actors of the halal industry in developing their businesses so that small entrepreneurs of the halal industry can compete with other competitors from other countries.

## Conclusion

The halal industry, presently a lifestyle in the world, constitutes various sectors such as fashion, food, tourism, cosmetics, and several others concerning Islamic concepts. Since 87 percent of the total Indonesian population are Muslims, it has great potential compared to

other countries. However, Indonesia is one of the countries with a slow response, if not failed to grab fast the advantage provided by the halal industries. This inadequate response of the halal industry is caused by industrial factors, limited resources, lack of support from government regulations, and other supporting infrastructure. In overcoming these problems, appropriate solutions and strategies need to be adopted.

Developing human resources competence is the most prioritized solution. It could be applied by holding outreach, creating more awareness of this industry, and marketing strategies which promotional designs which attract public interest in halal products. Some solutions were highlighted and prioritized for the issues of weak government support, missing clear and precise legal standards as well as inadequate facilities and infrastructure. The participants also offered other appropriate solutions such as building supporting halal facilities, publishing technical and manufacturing guidelines, legalizing the integral rules determining Islamic values and teachings and Indonesian local wisdom, and government support through market penetration, providing fiscal incentives, and drafting the industrial roadmap.

Building halal areas for business is another better strategy to develop in this industry. It is a top priority because it leads to the emergence of the area's food, cosmetics, laboratory, and halal center. Furthermore, the mentoring strategy by the government, private sector, and non-governmental organizations support the success of the halal industrial development program. The subsequent strategy is research and collaboration carried out following the needs of the halal industry. Its implication is based on the fact that the government and producers need to design integrated halal industrial strategies. The coaction between the government and business actors must also be strengthened to accelerate the halal industry's growth. Various activities that improve the quality of human resources, such as education, training, mentoring, and halal auditor certification, are necessary. After all, simultaneously breaking all the obstacles with those various offering strategies will bring Indonesian societies performing halal lifestyle in various life dimensions, either routine fundamental life needs such as halal food and beverages or leisure demands, for instance, halal experiences during traveling in Indonesian tourist destinations.[]

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