





## Is Indonesia Destined to Become the World's Market for Halal Products?

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### Abstract

This study aims to discover and analyse the existence of MSMEs in Indonesia in the world's Halal products and Services market. As a country with the largest Muslim population in the world, Indonesia can become one of the largest markets in the world. As indicated in the Global Islamic Economic Report (GIER), Indonesia is one of the top ten countries that control the Islamic economic market, yet it fails to dominate its own Islamic market. Accordingly, the government needs to play a stronger role through regulatory policies to encourage the development of the Islamic economic ecosystem in Indonesia (halal value chain). The researchers have conducted normative juridical research with the analytical descriptive method by collecting, describing, analysing and presenting what is (*das sein*) and what ought to be (*das sollen*). The conclusion of this study shows that the quadruple helix innovation system can guarantee the development of MSMEs to achieve a high level of competitiveness - efficiency and effectiveness of the products and services produced.

**Keywords** *Business Ecosystem, Halal Product, MSMEs, Quadruple Helix*

### INTRODUCTION

Indonesia can potentially become a world market for halal goods and services. Indonesia's failure as the world's largest Muslim country needs stakeholders' attention. This research is important because Indonesia should hold the world's halal product market. However, Indonesia's position as the largest Muslim in the world is yet to earn its leading place in the global halal market competition (non-top ten global halal). This is due to both external as well as internal factors. In the external sector, the competition map is getting tougher, while internally, there are handicaps in the form of weak public awareness of competition, a lack of the Indonesian people's awareness of halal standardization, and an inadequate understanding of the law. At the same time, apart from halal products - food, cosmetics, and medicines - Indonesia has begun to be able to compete in the fields of Islamic finance, halal tourism, and Muslim fashion in the world (Permana, 2019).

Indonesia has enormous unused potential in the ecosystem of halal products and services worldwide by involving all stakeholders to synergize to increase the capacity and capability of MSMEs to be competitive with imported products. Micro, small and medium enterprises (MSMEs) are only a bearing for development; the existence of MSMEs is still a complement to economic and legal politics in sustainable economic development. Despite the influence of economic globalization, the state's commitment to attaining constitutional goals remains questionable (Azis, 2018).

MSMEs are the foundation of the national economy in developing countries, where their contribution is up to 60% of the national income (GDP) compared to large industries in which they

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contribute 40% to the GDP (Fikri, 2010; Suparji, 2020). As Suparji (2020) states in his research, the global competitiveness of MSMEs and their contribution to national economic growth could be further developed. Their contribution has been more than 60% of the GDP, absorbing up to 97% of the workforce and 14% of total national exports, while the number of MSMEs has reached more than fifty-seven million businesses; hence, there is a need to enhance their capacity and capability. Changing the business ecosystem to a green economy poses a challenge for MSMEs to remain competitive; hence, the constraints they face need to be addressed immediately, enabling them to continue growing and becoming a mainstay in the national economy. Access to financing, lack of credit guarantees, production efficiency, and effectiveness remain serious obstacles MSMEs face in global competition, which must be considered and solutions must be sought through government regulation and policies (Suparji, 2021).

Such a condition is bound to harm the business world in general, and MSMEs in particular, if their existence is only considered as a complement to economic development. There is bound to be an increase in unemployment if the competitiveness of MSMEs remains weak and they act as mere spectators of the large potential of the global halal ecosystem. The weakness of Suparji's research is that it tends to emphasise legal reform that is adaptive to all changes in the business environment to support green economic ecosystems and MSME business development through government facilities and policies. Globalization and free markets bring intense competition, whereby only products with competitive advantages can survive in the business world, including MSMEs. For this reason, the government needs to support the existence of this largest business sector, namely MSMEs, by supporting the creation of a conducive ecosystem. Such a halal-based economy should be materialized through a policy of preference for domestic products because Indonesia is a country that has the largest Muslim market share in the world, with more than two hundred million people (Firmansyah, 2022).

Limited capital is a common-place problem in MSMEs. It is evident that both Sharia and conventional financial literacy have only reached 76%, which has the potential to transform and digitize finance for MSMEs in increasing their production capacity and improving the quality of their products. One of the difficulties of MSME actors in obtaining capital for MSME development is that capital owners do not yet have a prominent level of confidence in lending to MSME business actors. They still lack confidence in the success of MSME businesses, their ability to increase production capacity and quality, in addition to their managerial capabilities, especially related to financial administration, to facilitate financial inclusion and the use of information technology in increasing business opportunities and expanding market share (Firmansyah, 2022).

The contribution of MSME business units to Indonesia's economic growth has been highly significant as they constitute almost ninety-nine percent of all business units. It is, therefore, paramount that MSMEs be enabled to become major players in Indonesia's and the world's halal product ecosystem. Accordingly, the government needs to ensure that MSMEs are empowered by expanding market access through collaboration with various digital marketplace platforms and digitizing their finances (Hartomo, 2020).

The halal ecosystem is a potential that can be developed by MSME businesses where the development and demand for world halal products and the world Muslim market share offer a very lucrative potential for business actors, including MSMEs - both in developing as well as developed countries. Therefore, a new orientation is needed in shaping the world's halal market by transforming the halal industry (Benuf & Azhar, 2020 see Muhaimin, 2020).

The progress of MSMEs has not been maximized due to limited access to capital and credit guarantees as well as the budget for obtaining halal product certificates (Nugraheni, 2020). Based on the background above, the authors see that regulations alone are not sufficient to solve the above stated MSME problems. The purpose of this research is to investigate and analyze the Existence of

MSMEs in Indonesia in the world's market for Halal products and Service.

## RESEARCH METHOD

The Authors have conducted normative juridical research with an analytical approach based on statutory rules to solve problems that exist within positive law or also referred to as doctrinal legal research. In normative law methodology, this can be done through the search for principles, rules, and legal systematics, both codified as well as in the form of legislation (Benuf & Azhar, 2020, see Muhaimin, 2020).

Experts say that normative juridical research is a legal study that originates from positive or dogmatic legal norms - where the law as a system of norms and rules originates from legal products, both from regulators and court decisions as well as opinions of other experts to produce arguments, theories or a new concept as a prescription in solving the problem under investigation (Muhaimin, 2020).

This research has been conducted to seek the truth through a scientific approach, namely through procedures and thought processes taking into account quantitative criteria – it must be based on facts, objectivity, the nature of the research can be quantitative by formulating deductive-hypothetical logic or hypothetical-generalization logic, which is asked through observation and discovery of facts in the field, then with an analytical descriptive approach it is concluded based on the discovery of the gap between *das sollen* and *das sein* – objective considerations. (Suryana, 2012)

Bambang Waluyo argues that normative juridical research is a document study using legal sources in the form of regulations and decrees and library sources to analyze and resolve legal issues. This study aims to get an objective description of a situation in a complete and detailed manner regarding a collection of arrangements regarding Islamic finance and MSMEs (Kholid, 2018).

This form of research is intended to be a statute approach research, namely research that aims to track and analyze based on material in laws and regulations and analyze between *das sollen* and *das sein* -between what ought to have happened and what has happened (Efendi & Ibrahim, 2016).

## FINDINGS AND DISCUSSION

The message in the Qur'an Surah Al Baqarah Verse 168 requires that something that is *halalan thayiban* is an order from Allah SWT as a form of self-serving to be free from sin as well as a basic personal right of Muslims that must be respected. As a guarantee of quality with zero tolerance for including unclean materials or substances into halal materials, whether intentionally or not – contaminated with *haram* (forbidden) materials. Halal products contain spiritual and safety (quality) aspects which require them to be free from the main elements of the ingredients or the results of contamination of prohibited materials so that they are suitable for consumption by Muslim and non-Muslim consumers globally. The increasing trend of global halal products and services has been creating great potential in the national economy over the years, with an economic potential of nearly three trillion dollars (Syamsu, 2023).

The potential for the halal industry is very promising. It is evident from the trend in the world community for the need for halal products, which continues to show a significant increase, especially in the food, clothing and pharmaceutical, and beauty and tourism industries. The halal industrial ecosystem can potentially become a *prima donna* in the world economic sector. The development of halal products and lifestyles, which are experiencing an increasing trend, encourages investor interest in building and developing the Sharia industrial sector in Indonesia as well as with Indonesia being the largest Muslim market share in the world as well as government

support in encouraging the Indonesian halal industry to become a champion in the global halal industry (Ahyar, 2020).

The position of Indonesian MSMEs is comparable to those in India. In addition to access to formal finance, MSMEs in India are also being constrained by management limitations, as well as the complexity of MSME procedures due to the application of the banking adequacy ratio based on Basel III (Nikam, 2019).

Such challenges call for a government policy to overcome the challenges MSMEs face. Such policies included fiscal as well as non-fiscal policies. Indonesia has implemented fiscal policies for MSMEs based on Government Regulation (PP) No. 23 of 2018, applying a 0.5 percent tax for turnover of no more than IDR4.8 billion annually (Kemenkeu, 2022). In addition to that, the government can potentially offer convenience through non-financial policies, namely by facilitating the process of halal certification for MSMEs which generally do not have a budget outside of production – all of the foregoing to enable MSMEs to be more productive and competitive in the halal industrial ecosystem. Likewise, in India, the government also encourages the empowerment of startups and MSMEs through the benefit of fiscal zero percent for MSMEs (Nikam, 2019).

### **MSMEs in the Halal Industry in Indonesia**

Orosz in Suparji states that MSMEs can make a more optimal contribution by increasing access to capital and assistance to increase effectiveness and efficiency in production so that they have a level of global competitiveness in line with the conditions faced as a consequence of the free market (Suparji, 2021).

The obstacles that are often faced by MSMEs are the lack of financial inclusion and literacy; the protection of MSMEs requires a different approach vis-à-vis the existing regulations; hence, there is a need for an adaptive legal reform granting them equal treatment with large and established businesses. The existing fiscal and monetary policies do not support the existence of MSMEs - there are no subsidies and the implementation of a financing system (equated with large businesses). Based on the foregoing, it can be concluded that the achievement of the purposes of the 1945 Constitution through the development of people's businesses and MSMEs has experienced ups and downs since the era of independence, as a result of which there are still groups of people who are classified as underprivileged (Azis, 2018).

Facilities need to be provided by the state specifically to MSMEs - without compromising the essence of maintaining halal integrity - through the provision of a simple halal product guarantee registration form and the imposition of a processing fee adjusted to the business conditions and sales turnover of each of these MSMEs so that through halal certificates and other documents they can expand their market access – going from local to global (Ahyar, 2020).

Partnerships between large entrepreneurs and MSMEs can create prosperity for stakeholders and contribute to national economic growth by fulfilling commitments and business ethics; however, an unequal bargaining position frequently occurs due to setting detrimental partnership agreement clauses (Tanjung, 2022).

For such reason, the role of the government and corporate companies - through CSR - is needed to provide protection and progress for MSMEs. It needs to be based on sociocultural aspects and mutually beneficial partnerships among stakeholders - whereby corporations absorb MSME products, making it easier to market them. Partnership agreements need to be simple and understandable to both parties and applicable in complex circumstances. Policies in business competition in Indonesia aim to encourage the equal distribution of business opportunities, legal certainty, and ease of access to markets, capital, and technology for MSMEs following the mandate of the Monopolistic Practices and Unfair Business Competition law (Kelly et al., 2020).

Indonesia is currently still the largest consumer in the world in the world's ecosystem of halal

products and services. Indonesia has the potential to be a winner based on indicators and instruments that support this - large potential consumers of halal products and services, availability of certification bodies, and recognized fatwa institutions (Syamsu, 2023).

In addition to the foregoing, product quality assurance is supported by regulations (Undang-Undang Nomor 33 Tahun 2014 Tentang Jaminan Produk Halal (Lembaran Negara RI Tahun 2014 Nomor 295, Tambahan Lembaran Negara RI Nomor 5604), 2014), policies, and also qualified halal auditors so that Indonesia can play a more active role in the global halal export market. Indonesia's weakness is undeniable in that the limited non-production budget for the processing of halal certification can potentially lead to a high-cost economy, thereby reducing the level of competitiveness (Syamsu, 2023).

### **Quadruple Helix System**

Cummings, Cross & Cummings, Davenport & Prusak state that development must refer to Sustainable Development (SDGs) adopted at the 2015 UN General Assembly session (United Nations, 2015). In this context, the collaboration of stakeholders with community members plays a significant role in finding innovative solutions through knowledge sharing to use resources through social networks and related local communities effectively. Economic-based knowledge has become available as a result of globalization in sustainable development through innovation and knowledge transfer as well as collaboration among all stakeholders (Triple Helix (TH) Model); however, Kimatu (2016) believe that TH is still ineffective due to the lack of support from civil society for it to become the Quadruple Helix (QH) model as the fourth pillar towards achieving sustainable development. There is an urgent need for civil society involvement in such a helix model because it places greater focus on the micro perspective so that dynamic relationships, synergy, collaboration, coordinated environment, and value creation activities accelerate problem-solving due to the maximization of effective resource exploration (Hakeem et al., 2023).

### **CONCLUSIONS**

The results of this study indicate that the quadruple helix innovation system can help ensure that the legal system has strong binding power while providing a multiplier effect on the national economy. The quadruple helix quality system creates cohesiveness of the government through fiscal and non-fiscal incentives as well as policies and regulations that support the productivity of MSMEs in halal goods and services in the academic sector with support from the National Science and Technology Law which can be expected to encourage economic growth through innovation and access to information. Collaboration in the quadruple helix between government, academia, industry, and community allows MSMEs to develop and compete globally in the Ecosystem of Halal Products and Services. The halal ecosystem requires a halal social environment that must be adaptive so that stakeholders can always be agile towards any changes that occur.

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