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INDONESIA SEEKS TO BECOME GLOBAL ISLAMIC ECONOMIC HUB

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Indonesia has the potential to grow, develop, and become a global hub for the Islamic economy. Indonesia's position in the Global Islamic Economy Indicator (GIEI) 2021 is in the 4th position. Several dominant sectors in the ranking are halal food because they occupy the second position, up two steps from the previous one. The provisions to achieve this are indeed already in place, such as Indonesia's the largest Muslim population in the world, belief in religion is an inseparable thing in life, experiencing a demographic bonus and enormous population growth, untapped potential for philanthropic funds, and occupying a position as the most generous citizen, and many people still in the category of unbanked and underbanked. Thus, the recommendations are first to ratify the Sharia Economic Bill (Sharia Economic Bill). Second, formulating clear and comprehensive regulations on halal industrial estates (KIH) will allow KIHs to be significant in number and have a massive impact on the ecosystem. Third, the addition of a new HS code (Harmonized System) for halal products as an enabler for the growth of the sharia economic industry. Fourth, incorporating more sharia economic issues into the national agenda (National Long-Term Development Plan (RPJPN) 2025-2045 and National Medium-Term Development Plan (RPJMN) 2024-2029). Fifth, include the halal industry in the national research agenda (National Research Priority (PRN)). Finally, the infrastructure must be prepared to support the halal certification process.

INTRODUCTION

The global halal industry is multiplying, utilizing its high growth potential. In 2019, it was estimated that the industry would grow 5.2 percent, with a total expenditure of USD2.2 trillion. The potential growth of this industry reaches 6.2 percent in 2024, with total spending of USD3.2 trillion (Dinar Standard, 2019). One of the biggest drivers of the development of the global halal industry is the growth of the world's Muslim population, which is expected to increase to 2.2 billion million people by 2030 (Pewforum, 2011).

Indonesia aims to become the center of the global Islamic economy. This ambition arises from two vital facts: first, the resilience of Indonesia's Islamic economy during the pandemic, as evidenced by an increase in ranking from 5th to 4th in the Global Islamic Economy Indicator (GIEI) 2020; and in 2021, the position is still standing at 4th; second, the untapped potential of human geography (i.e., population, cultural, political, and economic geography).

Globally, GIEI 2021 places Indonesia as one of the top 5 global consumers of halal products, including food, pharmaceuticals, cosmetics, simple fashion, and Islamic finance. In 2021, there are some changes in the ranking of these products, such as halal food rising to rank 2, Islamic financing dropping to rank 6, and pharmacy/cosmetics dropping to rank 9.

Halal food in Indonesia has experienced good growth due to increased exports of halal food to Organization of Islamic Cooperation (OIC) countries. The number of halal food exports is also expected to continue to grow in line with the planned launch of halal product modifications and an integrated trade data system by the end of 2021.

No	Sectors	Indonesia's rank in GIEI		
		2021	2020	2019
	Overall rank	4	4	5
1.	Halal food	2	4	>10
2.	Modest fashion	3	3	3
3.	Islamic finance	6	6	5
4.	Pharma & cosmetics	9	6	>10
5.	Media & recreation	>10	5	>10
6.	Muslim-friendly travel	>10	6	4

Figure 1. Indonesia's Ranking in SGIEI Ranking 2019-2020

Source: State of Global Islamic Economic Report, Dinar Standard (2019; 2020; 2021)

Keen to be the world's Islamic financial center, Indonesia, unfortunately, dropped its rank in the Islamic finance sector. Nevertheless, Indonesia has two hopeful events to revive its Global Islamic finance position: the birth of the Indonesian mega Islamic bank, *Bank Syariah Indonesia* (BSI), and boosting confidence from being the 1st rank in the 2021 Islamic Finance Country Index (IFCI).

Domestically, the Islamic economy in Indonesia has a promising future despite its struggle to increase Islamic commercial finance's market share (i.e., 9.95 percent of national financial assets) (KNEKS, 2018). Islamic social finance (i.e., zakat, infaq, sadaqah, and waqf funds) is also striving to escalate its collection (i.e., only less than 5 percent collected from its expected potential) (BKF, 2021). The halal industry is experiencing rapid growth despite the absence of a halal database and enabling regulations.

THE UNTAPPED POTENTIAL

Indonesia has six untapped potentials that would easily make it the center of the world's Islamic economy. First, Indonesia has the largest Muslim population on the earth, although it still has difficulty maximizing this potential. This potential can not only be seen as a vast consumer base but also as a production center that can market its goods and services to the world. Because, with a large population, Indonesia has the opportunity to create specific standards for Islamic economy products for other countries.

Second, Indonesians are ranked 1 in believing religion is essential and an inherent part of everyday life. Based on the report of The Global God Divide (2020), the Indonesian people are among the highest percentage in the world, namely 96 percent of the people who view the need to believe in God to be moral and have good values. The report also states that the Indonesian population firmly commits to religiosity. In this case, 98 percent of the people said that religion is essential in their lives. Because Indonesia has around 85 percent Muslim population, Islamic economics as a faith-based economic system thus has a great potential to attract Indonesians.

Third, Indonesia is experiencing a demographic dividend. The total population with an age range of 15–39 years reaches 39.96 percent of the total population. The contribution of the millennial generation in shaping the structure of the productive age population is relatively high, namely 67.59 percent and around 59.93 percent of the millennial generation (BPS, 2018). It is estimated that the peak of the demographic dividend will occur in 2030. This indicates that consumption, including halal products, will remain high in the coming years.

Fourth is the untapped potential of religious giving funds. Zakat and waqf in Indonesia are potentially humongous (i.e., zakat potential: USD22.9 bn; cash waqf potential: USD12.6 bn), yet their collection is meager (i.e., zakat collected: 3 percent, cash waqf collected: 0.04 percent) (Zaenal et al., 2020).

Fifth, Indonesian citizens are the most generous in the world (Charities Aid Foundation/CAF World Giving Index 2021). Of the three criteria determined by CAF, the highest criterion is the willingness of the Indonesian people to donate to social foundations (83 percent). The Government of Indonesia has also noticed the potential as it has been actively promoting waqf movements and instruments, such as the National Cash Waqf Movement (GNWU), Micro Waqf Bank (BWM), Cash Waqf Linked Sukuk (CWLS), etc.

Sixth, a significant unbanked (51% of the population) and underbanked (26% of the population) population (Google, Temasek, and Bain & Company, 2019). Islamic financial institutions (i.e., Islamic capital market, Islamic banks, and Islamic non-bank financial institutions) should thus develop competitive products and attractive marketing strategies emphasizing the industry's universal values (e.g., sustainable, environmental, social, and governance values) to grab those unbanked and underbanked population.

QUICK WINS

There are six quick wins needed to be addressed by the GoI to achieve its ambition.

First, to ratify the Islamic Economic Bill (*RUU Ekonomi Syariah*). This bill is highly urgent to cover the absence of proper law covering the Islamic economy industry, yet it has been facing a long journey to be ratified since at least 2017/2018. As stated several times, if the government is serious about developing the Islamic economy, the government should legitimize the bill soon.

Second, formulating clear and comprehensive regulations on Halal Industrial Estates (KIH) allows the KIH to not only be huge in numbers but also have a massive impact on the ecosystem. Currently, 3 KIH and more than 10 Industrial Estates have been applying to be KIH (KNEKS, 2020). Despite the enormous interest in KIH, some of KIH's management are not well-informed on the difference between Industrial Estates and Halal Industrial Estates, especially on the incentives they are entitled to receive. The regulation can be either included in the Islamic Economic Bill or a different one.

Third, to add a new HS (Harmonized System) code for halal products to serve as an enabler for the growth of the Islamic economy industry. Currently, Indonesia has no database on halal products. This code will thus create a database allowing the GoI to track the growth of halal products. The GIEI ranking did mention Indonesian's consumption of halal products, but this figure was a proxy for imports of Indonesia to OIC countries. Furthermore, this database is crucial to mapping the halal industry's financing gap, creating a more robust Islamic economic and financial ecosystem. It is, therefore, too grandiose for the GoI to have the ambition to become the world's halal center when the government does not have a database for halal product transactions.

Fourth, to include more of the Islamic economic issues into the national agendas (i.e., the 2025-2045 National Long-Term Development Plan (RPJPN) and 2024-2029 National Medium-Term Development Plan (RPJMN)). The 2020-2024 RPJMN already covered the Islamic economy industry, and the industry has responded well by achieving the target (i.e., to have three KIHs by 2024) before the period ends.

Fifth, to incorporate the halal industry into the national research agenda (i.e., the National Research Priority (PRN)). Tons of research is needed on non-halal substitute products and halal authentication issues. Currently, 46 halal research institutions in Indonesia are engaged in this field, facing struggles in finding research funds, having and maintaining proper laboratories, limited human capital skills, etc. (Kemenag, 2021). Some strategies to solve the problem of halal research are appropriate incentives for halal/halal-related research institutes, factory sharing to reduce operational costs, and a dedicated state budget (APBN) for halal research topics.

Last, to prepare the infrastructure to support the halal certification process. The Ministry of Religious Affairs sets the annual target of 10 million halal-certified products (Kemenag, 2022). Although the Omnibus Law of Job Creation (Law No. 11/2020) promises to grant the halal certification maximum of 21 working days, the halal certification processes involve various parties (e.g., halal auditor, halal assistance (PPH), etc.) to deal with. The government should thus ensure that those involved in the processes are sufficient in numbers to support the annual target.

The ambition to become Global Islamic Economy Hub is legitimate. The timeline is somewhat unclear. The government must have a comprehensive and clear roadmap to achieve it.

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