



DOI:<https://doi.org/10.38035/dijdbm.v7i1>  
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## Analysis of the Implementation of Enhancing the Competitiveness of Halal SMEs in Indonesia

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**Abstract:** The halal industry in Indonesia has experienced rapid growth and plays a significant role in strengthening the national economy. As the country with the largest Muslim population in the world, the demand for halal products continues to rise, particularly among Micro, Small, and Medium Enterprises (MSMEs). This study aims to analyze the implementation of Sharia principles in enhancing the competitiveness of halal MSMEs in Indonesia. The research employs a descriptive qualitative method using a literature review and secondary data analysis sourced from official institutions such as BPS, BPJPH, and KNEKS in 2025. The findings indicate that the implementation of Sharia principles which encompass halal compliance, justice, transparency, and business ethics has a positive impact on strengthening the competitiveness of halal MSMEs. The food and beverage subsector grew by 5.68% (year-on-year) and contributed 18.67% to the national GDP, while 9.8 million products had been certified halal as of October 2025. In addition, the total Islamic financial assets reached IDR 10,774 trillion, accounting for 28.6% of the total national financial assets, with a 12.8% (yoy) growth rate. These findings demonstrate that the application of Sharia principles enhances the credibility, efficiency, and competitiveness of halal MSMEs both nationally and globally. Nevertheless, the study identifies several challenges, such as low halal literacy among MSME actors, limited digitalization in the certification process, and insufficient collaboration among supporting institutions. Therefore, strengthening strategies through digitalization of certification services, entrepreneur education, and implementation of self-declaration programs are essential steps to promote the development of halal MSMEs that are inclusive, competitive, and sustainable.

**Keyword:** Halal Industry, Sharia Principles, Competitiveness, Msmes, Islamic Economy.

## INTRODUCTION

The halal industry in Indonesia has become a key sector supporting economic development at the national level. As the country with the largest Muslim population in the world, with more than 240 million people, interest in halal products and services continues to increase significantly. This phenomenon is not limited to the food and beverage sector, but also includes cosmetics, pharmaceuticals, tourism, and Islamic finance. According to data from the Central Statistics Agency (BPS) for 2025, the manufacturing sector, especially halal food and beverages, experienced a growth of 5.68% (annually) with a contribution to the Gross Domestic Product (GDP) reaching 18.67%. This growth illustrates the enormous potential of the halal industry in strengthening economic resilience and creating new business opportunities, especially for Micro, Small, and Medium Enterprises (MSMEs).

Halal MSMEs play a very important role in expanding the national sharia economy. However, amid increasing demand for halal products, many MSME players do not yet fully understand or apply sharia principles in their business operations. Data from the Halal Product Guarantee Agency (BPJPH) shows that as of October 2025, there were 9.8 million products that had obtained halal certification, but this figure is still relatively small compared to all MSME products circulating in the local market. This reflects a gap between the huge potential of the halal industry and business actors' understanding of the importance of applying sharia principles, such as halal, fairness, transparency, and ethics in business.

Although BPJPH data shows that 9.8 million products have been certified halal as of October 2025, this figure is still a minority compared to the total MSME population. This indicates a significant gap between the massive potential of the halal market. (Raya et al., 2025) and the level of adoption and comprehensive understanding of sharia principles (including halal, fairness, transparency, and business ethics) among business actors. In this context, it is important to conduct an in-depth analysis of the extent to which the application of sharia principles can increase the competitiveness of halal MSMEs. The application of sharia principles such as halal, fairness, transparency, and ethics in business has been proven to influence the competitiveness of MSMEs by increasing consumer trust and product credibility. This is in line with the findings of Fathorrazi and colleagues, which show that halal certification can increase business legitimacy and expand market access for MSMEs in the food sector. (Raya et al., 2025) In addition, studies on the halal supply chain confirm that compliance with Sharia norms throughout the supply chain can increase efficiency and perceptions of product quality. (Irdawati & Ratnamurni, 2025) This study is expected to contribute both academically and practically to strengthening the halal industry ecosystem in Indonesia. Therefore, this study aims to analyze the implementation of Sharia principles and their impact on increasing the competitiveness of halal MSMEs in Indonesia, using a qualitative descriptive approach based on the latest secondary data from 2025 from official institutions such as BPS, BPJPH, and KNEKS.

## METHOD

This study uses a qualitative descriptive approach with a library research method. The data used is secondary data obtained from various official sources such as the Central Statistics Agency (BPS), the Halal Product Guarantee Agency (BPJPH), the National Committee for Sharia Economics and Finance (KNEKS), as well as scientific journal publications and national economic news reports from 2023 to 2025. Data collection techniques were carried out through documentation, namely by searching, identifying, and classifying written sources relevant to the research topic.

Data analysis was carried out using descriptive-analytical methods. The use of secondary data through literature review methods is widely used in current research on halal.

Putri and her colleagues showed that halal industry trends can be analyzed by mapping publications, information from the government, and reports from various institutions to create a comprehensive picture of the state of the industry.(Soraya et al., 2024) In addition, the application of a theoretical approach that focuses on the halal supply chain, as expressed by Firdiansyah and his team, provides a solid analytical framework for evaluating the relationship between sharia principles and MSME performance.(Ekonomi et al., 2021).

**RESULTS AND DISCUSSION**

**Overview of the Halal Industry in Indonesia**

The halal industry in Indonesia is an important sector that plays a significant role in accelerating the country's economic growth. With the largest Muslim population in the world, Indonesia has a very potential halal market both for domestic use and export. Increased public awareness of the importance of halal in everyday life has increased demand for halal products and services. According to data from the Central Statistics Agency (BPS), the manufacturing industry, particularly in the food and beverage sub-sector, recorded a growth of 5.68 percent compared to last year (year-on-year) in the second quarter of 2025. Its contribution to the Gross Domestic Product (GDP) reached 18.67 percent. In addition, this sub-sector experienced higher growth in the same period, namely 6.15 percent. This figure reflects the continued strengthening of economic activities related to the halal industry, making it one of the main components of national economic development.

Globally, halal products are also showing an increase in demand. Based on the State of the Global Islamic Economy (SGIE) 2024–2025 report, it is estimated that the value of international halal product consumption will reach US\$3.1 trillion by 2027. Indonesia ranks third in the world in halal economic development after Malaysia and Saudi Arabia, reinforcing Indonesia's important position in the context of the global halal industry. The Indonesian government has established several Halal Industrial Zones (KIH), including Halal Modern Valley in Serang, Bintan Inti Halal Hub in the Riau Islands, and Safe n Lock Halal Industrial Park in Sidoarjo. The aim of this initiative is to create an integrated halal industry ecosystem, from raw materials to production, distribution, and export processes.

**TABLE 1. Halal Certification Data**

Year	Number of Halal-Certified Products (in Millions)	Description/Data Source
2020	4,0 million	SiHalal Data (processed by KSP)
2021	5,5 million	SiHalal Data (processed by KSP)
2022	7,2 million	SiHalal Data (processed by KSP)
2023	8,5 million	SiHalal data (until Sep 2023)
2024	9,6 million	BPJPH data (until Feb 2024)
2025	9,8 million	BPJPH achievement (until October 2025)

Source: BPJPH

**Application of Sharia Principles in the Halal Industry**

The application of sharia principles is the main foundation for the development of the halal industry in Indonesia. These principles cover aspects of halal, safety and goodness, fairness, honesty, and transparency at every stage of production, distribution, and consumption. According to a report from the Halal Product Guarantee Agency (BPJPH), as of October 2025, there were 9.6 million products in Indonesia that had obtained halal certification, and within a year, that number increased to 9.8 million products.

This increase shows the growing awareness of business actors regarding the importance of halal certification and the implementation of sharia principles through this certification,

which directly increases product credibility in the eyes of global consumers and expands access to export markets, especially in the Middle East and South Asia. Thus, sharia principles not only fulfill religious obligations but also become a non-price competitive advantage for MSMEs in domestic and international markets. The implementation of sharia principles is also supported by the strengthening of institutional systems, with an increase in the number of Halal Inspection Agencies (LPH), Halal Product Process Assistance Agencies (LP3H), and halal supervisors.

In 2025, there were more than 109 LPH, 331 LP3H, and 103,000 halal assistants throughout Indonesia. This figure shows the government's strong commitment to building a reliable and nationally standardized halal institutional infrastructure. Several domestic companies have also become successful examples of applying sharia principles in their businesses, such as PT Wardah in the halal cosmetics sector, PT Mayora and PT Indofood in the halal food and beverage sector, and the development of halal tourism in Lombok and West Sumatra. This implementation not only builds consumer trust but also provides economic added value for industry players.

The impact of implementing sharia principles on the competitiveness of MSMEs has been proven by various studies. Setiyawan and his team found that the application of a halal supply chain improves the production performance of MSMEs through efficiency, process standardization, and demand for halal products. Fathorrazi and his colleagues also emphasized that halal certification plays an important role in building the image and reputation of MSME brands. In the context of global competition, Mahadin and Hasan revealed that innovation, compliance with certification, and Sharia standards are crucial elements for the competitiveness of halal products in the international market.

### **The Role of Sharia Principle Implementation on Halal Industry Competitiveness**

The impact of sharia principle implementation on MSME competitiveness has been proven by various studies. Setiyawan and his team found that the implementation of halal supply chains improves MSME production performance through efficiency, process standardization, and demand for halal products.(Setiawan et al., 2023) Fathorrazi and his colleagues also emphasized that halal certification plays an important role in building the image and reputation of MSME brands.(Raya et al., 2025) In the context of global competition, innovation in compliance with certification and sharia standards is a crucial element for the competitiveness of halal products in the international market.

The application of sharia principles has been proven to have a positive effect on increasing the competitiveness of the halal industry in Indonesia. The implementation of sharia values not only ensures product halalness but can also increase consumer confidence, expand access to export markets, and strengthen financial sector stability. According to data from the National Committee for Sharia Economics and Finance (KNEKS), total sharia financial assets in the country reached IDR 10,774 trillion or around 28.6 percent of total national financial assets in 2025, with an annual growth of 12.8 percent. This shows that sharia principles have an important contribution in strengthening economic performance at the national level.

Apart from the financial sector, the halal value chain, also known as the Halal Value Chain (HVC), also contributes significantly to the national GDP. The application of sharia principles in the HVC not only encourages increased efficiency in the supply chain but also opens up opportunities for investment and exports to member countries of the Organization of Islamic Cooperation (OIC). Halal products from Indonesia are now increasingly accepted in the global market, especially in the Middle East and South Asia. From a social and economic perspective, the application of sharia principles also contributes to the creation of new jobs, encourages innovation, and strengthens economic inclusion in society. Therefore, strengthening the halal ecosystem in the country is a crucial strategy to increase the global competitiveness of Indonesia's halal industry.

### Challenges and Strategies for Strengthening the Competitiveness of the Halal Industry

Despite its rapid development, the halal industry in Indonesia still faces various challenges that need to be resolved in order to maximize its growth and competitiveness. These challenges include:

1. Low understanding of halal among business actors, especially in the MSME sector.
2. The halal certification process is still considered difficult and is not yet uniform across all regions.
3. Limitations in digitization in the certification process and marketing systems for halal products.
4. Lack of research and innovation on halal products that adopt modern technology.
5. Halal logistics and supply chain infrastructure that is not yet well integrated.

To overcome these challenges, the government, through BPJPH and KNEKS, has implemented several strengthening strategies, including:

- a. Digitization of halal certification services, including the implementation of a self declaration system for MSME players.
- b. Implementation of a free halal certification program (SEHATI) for small and micro businesses.
- c. Enhanced collaboration between the government, industry, and universities to accelerate innovation and research on halal products.
- d. Strengthening of the “Indonesia Halal Lifestyle” branding to support promotion at the global level.
- e. Development of logistics infrastructure for halal and Halal Supply Chain Hubs in strategic industrial areas.

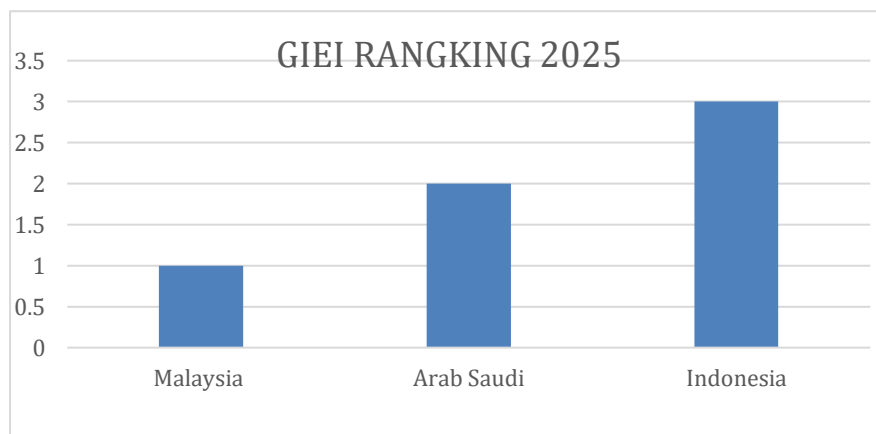
Furthermore, the government is also preparing to implement mandatory halal certification for non-food products in 2026. This policy is expected to expand the scope of the halal sector in the country and strengthen Indonesia's position as a global halal industry center.

### International Comparison

On a global scale, Malaysia is renowned for its integrated halal ecosystem system through the Halal Industry Development Corporation (HDC), while Thailand has developed a halal research center through the Halal Science Center at Chulalongkorn University. Compared to these two countries, Indonesia is now showing significant progress, ranking third in the 2025 Global Islamic Economy Index.

Indonesia's strengths lie in the size of its domestic market, government support through KNEKS and BPJPH, and rapid growth in the number of halal certified products. However, to become a leader in the global halal industry, Indonesia still needs to strengthen its research, innovation, and international recognition of its certification standards.

**GRAPH 1. Use of Halal Certification in Asia**



**TABLE 2. Use of Halal Certification in Asia**

Rank	Country	Additional Notes in Journal
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1	Malaysia	Consistently excels in Halal Food and Muslim-Friendly Travel.
2	Saudi Arabia	Strong in Islamic Finance and Halal Cosmetics/Pharmaceuticals.
3	Indonesia	Leading in Modest Fashion (Rank 1) and Muslim-Friendly Tourism.

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Source: Halal Certification and Its Impact on Tourism in Southeast Asia

Malaysia continues to demonstrate excellence in the halal ecosystem thanks to the integration of research, certification bodies, and industry a structural advantage also highlighted by Firdiansyah and colleagues in their research on halal supply chain integration and innovation.(Ekonomi et al., 2021) In contrast, Indonesia still faces challenges related to the discrepancy between the number of certifications and the quality of their implementation, as found in a study conducted by Maulana and his colleagues on the low level of understanding of law and sharia among micro, small, and medium enterprises.(Nanta & Dien, 2024).

### **Policy Implications And Strategic Recommendations**

Based on the above results and discussion, several policy implications and strategic recommendations can be formulated as follows: 1. The government must increase fiscal and non-fiscal incentives for halal businesses, especially for the MSME sector. 2. Higher education institutions and research institutions need to strengthen cooperation in research and development of technology-based halal products. 3. A national “Brand Indonesia Halal” program is needed to enhance Indonesia's image in the international market. 4. The use of digital technologies such as blockchain and the Internet of Things (IoT) must be increased to strengthen the halal product tracking system. 5. International cooperation needs to be strengthened through mutual recognition in halal certification. 6. Awareness of halal needs to be increased through education, outreach, and training for communities and businesses in various regions.

Proposals to strengthen the halal ecosystem through digital implementation, simplification of the certification process, and increased knowledge are in line with the suggestions of Irdawati and colleagues, who point to the need to modernize the halal process in order to improve the performance of MSMEs.(Irdawati & Ratnamurni, 2025) In addition, the results of research by Setiawan and his team on the significant impact of the halal supply chain on the performance of MSMEs reinforce the view that sharia-based policies are not only an obligation but also an efficient economic approach.(Setiawan et al., 2023).

## **CONCLUSION**

### **Improving Halal Literacy and Education**

The government and relevant institutions must expand training, outreach, and mentoring activities for MSME actors so that they better understand the importance of sharia principles and halal certification.

### **Digitizing the Certification Process**

The use of digital technologies such as online systems, blockchain, and the Internet of Things (IoT) needs to be strengthened to accelerate, optimize, and improve the effectiveness of the halal certification process.

### **Multi-Stakeholder Collaboration**

There is a need for more solid cooperation between the government, Islamic financial institutions, academia, and the private sector in creating an integrated and sustainable halal ecosystem.

## Incentives and Policy Support

The government is encouraged to provide tax and non-tax incentives for MSMEs that are committed to implementing sharia principles and obtaining halal certification.

## Strengthening Innovation and Global Branding

The development of technology-based halal product innovations and the promotion of the Indonesia Halal brand must be improved to strengthen Indonesia's position as a global halal industry hub.

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