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## **Becoming a Global Halal Hub: Is Indonesia Ready?**

*By Syafiq Hasyim*

### **SYNOPSIS**

*State Law No. 33/2014 on Halal Product Assurance is to be enacted in October 2019, meaning it will be in force three years after the law was passed in 2014. Many expect it to enhance Indonesia's bid to become the world's largest international halal market. The issue, however, is not that simple.*

### **COMMENTARY**

INDONESIA HAS embarked on an ambitious push to be a global halal hub since the establishment of a halal research and study centre in 1989 known as LPPOM by the Indonesian Ulama Council (Majelis Ulama Indonesia, MUI). This expectation is based on the fact that Indonesia is the world's largest Muslim country, with 87 percent of its 260 million population being Muslim.

The enactment of State Law No. 33/2014 expected in October this year will shift the task of realising the vision of Indonesia as an international halal hub from MUI to the newly-created State Agency of Halal Product Assurance, BPJPH. The BPJPH will become the country's halal regulator, replacing the LPPOM. The position of MUI is to provide fatwa (religious rulings) within BPJPH.

### **Indonesia as a Major Halal Economy**

In my recent interview with Prof. Sukoso, the head of BPJPH, for the Indonesia Programme and *RSIS Commentary*, it was clear that Indonesia could become an international halal hub, acting as a global player.

However, three driving factors – social, political and theological – will influence

whether Indonesia would succeed or not in its quest to be a leader in the global halal economy.

### ***Minority Response***

This impending state law on halal should have been preceded by an intensive discussion during its legislative process with the minority groups – more or less 12% of the total Indonesian population. A factor that should be considered is their pessimistic response to the impending implementation of this halal law in October 2019. It is stipulated in the law that full enactment will have to take place three years after the legislation of this law in 2014.

The minority groups have suggested that State Law No. 33/2014 would be better implemented if it was only for Muslim consumers and producers because it relates to their religious norms. The minority groups worried about the emergence of food-based segregation and exclusivism in the community.

Some attempts to secure a judicial review of the law by the Constitutional Supreme Court were made without success. The content of this judicial review was to emphasise that State Law No. 33/2014 should be a special law for Muslims only.

Human right activists also argue that as the majority, it is not necessary for Indonesian Muslims to have a halal law. They claim that the argument that this law is to protect the rights of Muslims to consume halal food is misplaced. Usually, those who get state protection are minority groups such as those in Thailand and many European countries.

### ***Flexibility to Market***

Another issue that confronts Indonesia's ambition to be an international halal hub relates to the strictness of halal standards imposed by this upcoming law. In defining the Indonesian halal standard, State Law No.33/2014 refers to the Shafii school of Islamic law which is very strict when it comes to implementing halal standards.

In this regard, the Indonesian halal authority cannot accept the application of *istihalah*. The *istihalah* concept of Islamic jurisprudence is followed mostly by the Hanafi school of Islamic law. It means the change of an impure substance to a pure one, or in this instance, from haram (not permissible) to halal (permissible) through natural and artificial intervention such as the use of chemicals.

This concept is challenging for Indonesia because many goods and products, especially foods and pharmacy, involve the processing and transformation of products through *istihalah*.

It means that the halal market of Indonesia will be very limited in reaching out to producers and consumers. On the contrary, the rejection of the concept of *istihalah*, in fact, is no longer popular among Muslim Middle East countries. Most of them take the view that *istihalah* is permitted in Islam.

### ***Better to Allow Istihalah***

Economically speaking, allowing rather than prohibiting the concept of *istihalah* will bring more benefits for the halal market-place in Indonesia. It is based on the fact that many international products are the result of *istihalah* especially in foods, medicines, and cosmetics. When the halal authority of Indonesia rejects the will of the global market, two possible situations will arise.

The first is that the international market will adjust to the Indonesian market trends because of Indonesia's big market size. The second is that the international market will find a country that can accept the concept of *istihalah* as an intermediary agency to penetrate the large Indonesian market space.

This situation can happen because the halal law of Indonesia allows for a mutual recognition agreement. With this mechanism, products of countries that use the concept of *istihalah* like Singapore will be recognised by the halal authority of Indonesia.

### ***Dilemma of SMEs***

Halal certification is expected to have a positive effect on small and medium enterprises (SMEs) in Indonesia. It appears many established SMEs such as restaurants have readily accepted this law on halal. They have sought their halal certificates through MUI.

A different situation is seen from the smaller SMEs like street food vendors who are not so happy and are not ready to comply with the regulation requiring businesses to possess the halal certificate. Besides, they see that the halal certificate could create complications for them while not really adding any new value to their businesses.

If the BPJPH does not tackle this issue, it will create other challenges for Indonesia's ambition to become an international halal hub: it would lack the support of the largest portion of halal market in Indonesia – the SMEs.

### **What Should Be Done?**

Based on the three challenges as mentioned above, three steps can be proposed: First, the BPJPH should go on a public education offensive to popularise the content of this law to the minority and human right groups. BPJPH may want to improve on the implementation of the law.

Second, the halal body may want to rethink its halal standards and adopt a more market-friendly standardisation of halal while remaining true to the framework of Islamic law. In that context, it may want to consider the application of *istihalah* in Indonesia – the permissible transformation of products from haram to halal.

The concept of *istihalah* is not prohibited in Islam but it is part and parcel of dissenting opinion (*khilafiyyah*) allowed in the intellectual process and understanding of shariah or Islamic law. Third, BPJPH should be active in providing information and possible subsidy for micro-SMEs to gain the halal certificate.

BPJPH's idea of "clustering" the SMEs to gain a halal certificate is very promising. The idea, still being finalised, involves the collective certification of SMEs on a sectoral basis to reduce the certification fees for each SME. Empowering them by boosting their capacity to get a halal certificate is, however, much more important.

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*Syafiq Hasyim is a Visiting Fellow at the Indonesia Programme of the S. Rajaratnam School of International Studies (RSIS), Nanyang Technological University (NTU), Singapore.*

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**Nanyang Technological University**

Block S4, Level B3, 50 Nanyang Avenue, Singapore 639798  
Tel: +65 6790 6982 | Fax: +65 6794 0617 | [www.rsis.edu.sg](http://www.rsis.edu.sg)