



## Mutual recognition agreements: A gateway to global opportunities or a pathway of challenges in Indonesian economics for halal agri-food sector

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### ABSTRACT

### ARTICLE INFO

Indonesia, home to the largest Muslim population in the world, has been observed to possess significant potential for developing a global halal economy. However, the mandatory halal certification in Indonesia presents both challenges and opportunities for international businesses. Within the global business landscape, Mutual Recognition Agreements (MRAs) have been found to explicitly facilitate trade by enabling the acceptance of halal certifications issued by recognized foreign bodies. Regardless of the fact that these agreements provide Indonesian businesses with greater access to global markets, the agreements also introduce certain challenges, such as increased competition from imported halal products. Therefore, this study aimed to examine the potential impact of MRAs on the Indonesian Halal agri-food sector by analyzing the associated challenges and opportunities for local businesses. In order to achieve the stated objective, several key considerations were made, including the strengthening of halal standards, supporting SMEs through tailored financing schemes and government incentives, and ensuring the quality as well as authenticity of imported halal products. The investigation further emphasized the need for a comprehensive strategy that balances market access with the protection of domestic producers while leveraging Indonesia's competitive advantages in the global halal market.

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### 1 Introduction

Indonesia, with a Muslim-majority population, is the country with the world's largest Muslim population in 2024, accounting for approximately 86.7% of its citizens (RISSC 2023). A report from the Royal Islamic Strategic Studies Center (RISSC) (2023) estimated that the global Muslim population was approximately 2.07 billion, and according to the State of the Global Islamic Economy Report 2023/2024, Indonesia ranked third in the global Islamic economy, following Malaysia and Saudi Arabia (SGIE 2023). Furthermore, in the halal food sector, the country is considered the fourth-largest importer in the world, with imports valued at approximately USD 30.3 billion. The economic potential of Indonesia is further evidenced by the consumer expenditure report across global Islamic economy sectors, which was observed to increase by 9.5% year-over-year, reaching USD 2.29 trillion in 2022, with the country ranking first in terms of investment activity, recording over 10 investment transactions in 2022/2023 (SGIE 2023).

Indonesia is among the countries that enforce mandatory halal certification, as evidenced by the stipulation in Clause 4 of Law Number 33 of 2014 on Halal Product Guarantee, which states that "all products that enter, are distributed, and are marketed in Indonesia should be halal certified." This regulation presents both challenges and opportunities for stakeholders worldwide, particularly for exporters who must obtain halal certification before respective exported products can enter the Indonesian market. As observed, the country places significant emphasis on the halal status of its products, particularly in the food sector. This is particularly important because halal awareness has been observed to play a very important role in shaping consumer behavior by associating religious beliefs with purchasing motivations (Nurlatifah & Imam 2021). Studies have shown that both halal certification and consumer awareness positively influence the purchase intentions of halal food products (Septiani & Ridwan 2020), and even in the absence of official certification, halal labels alone have been reported to significantly reduce the probability of Muslim consumers switching brands (Salehudin & Luthfi 2021).

The Indonesian government has established regulations regarding the mechanism of international cooperation through the Ministry of Religious Affairs Regulation Number 2 of 2022. Clause 5 of this regulation states that "International Halal Cooperation in terms of halal product assurance is the mutual recognition for halal certificates." Currently, the Halal Product Assurance Organizing Agency (BPJPH) has recognized 38 Foreign Halal Certification Bodies, covering various sectors such as food, beverages, and slaughtering products. The recognition allows products certified by these 38 international bodies to be accepted as halal in Indonesia and vice versa. Regardless of the fact that the enacted system has significantly enhanced global trade opportunities, it also presents challenges for local enterprises, which must compete with cheaper imported products. This system also simultaneously offers an opportunity for Indonesian businesses to expand internationally by leveraging halal branding. By 2030, the global Muslim population is projected to reach 2.2 billion (KNEKS 2024), emphasizing a growing market for halal-certified products. This study explores whether Mutual Recognition Agreements (MRAs) serve as a gateway to global opportunities or a pathway of challenges for Indonesia's halal agri-food sector.

### 2 Discussion

#### 2.1 Halal Regulation Impact on International Business

Following the enforcement of mandatory halal certification under Law No. 33 of 2014, some significant implications arose, particularly for international businesses seeking access to the Indonesian market. To comply with this regulation, businesses must obtain halal certification through a conformity assessment process that corresponds with the standards set by the Indonesian Halal Product Assurance Organizing Agency (BPJPH) (Government Regulation No. 39 of 2021). This requirement was further updated by the Ministry of Religious Affairs Regulation Number 2 of 2022, which outlined procedures for international cooperation in halal certification.

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International halal cooperation generally operates on the principle of mutual recognition of halal certificates. As a result, the Indonesian government only accepts halal certifications issued by officially recognized Foreign Halal Certification Bodies. This framework enables the seamless import and export of halal-certified products, including food, beverages, and slaughtered goods, provided each good meets the stringent halal standards set by the country. The mutual recognition of halal certification presents a significant opportunity for Indonesian businesses, particularly in the agri-food sector. It allows Indonesian halal-certified products to enter the global market and address the growing consumer demand for diverse and exotic foods. By 2030, the global Muslim population is projected to reach 2.2 billion (KNEKS 2024). This invariably underscores the vast potential for Indonesian halal products to achieve international success, provided the commodities meet the rigorous standards of quality, assurance, and consumer trust required in the global marketplace.

Law Number 33 of 2014 on Halal Product Guarantees introduced significant changes to the policy and implementation of halal product regulations in Indonesia. Halal certification is now mandatory for most products that are supplied, circulated, and traded within the country, including imported goods. Due to these changes, the BPJPH received a surge in demand and numerous cooperation proposals from various countries. Following the enactment of Law Number 33 of 2014, the Halal-20 Halal World 2023 event marked a very important moment in strengthening global cooperation on the Halal Product Guarantee (JPH).

As stated in a previous study, the mutual acceptance of halal certificates facilitated international trade and enhanced the volume and value of Indonesian halal products in the global market. The agreement to expedite the assessment of Foreign Halal Certification Bodies for certificate recognition underscores the ongoing efforts to establish internationally recognized halal standards and reflects the growing global impact associated.

Through the identification of the key determinants of national competitive advantage, Indonesia can lay a strong foundation to become an internationally recognized Global Halal Hub. To achieve this, the government and stakeholders must prioritize enhancing human resource quality, developing infrastructure, and integrating advanced information technology. Supportive policies, including clear regulations and fiscal incentives, will further provide the necessary stability and accelerate the growth of the halal industry, positioning Indonesia as a leading Halal Hub by 2024. MRAs present both opportunities and challenges for Indonesia, for instance, the mutual recognition of halal certification mandates that Indonesia cannot prohibit the entry of products from other countries provided the products have been certified as halal by recognized foreign bodies. This could lead to an influx of lower-priced imports, potentially disadvantaging local producers. Therefore, in order to remain competitive both domestically and internationally, Indonesian businesses must innovate, enhance efficiency, and reduce costs.

Despite the associated importance, it is important to comprehend that the halal certification process is expensive, and this poses a significant challenge for small and medium-sized enterprises (SMEs), which often struggle to allocate the necessary resources to obtain certification at both the national and international levels. Furthermore, in order to ensure compliance with evolving global standards, businesses may need to invest in new technologies, staff training, and quality control measures. These requirements could disproportionately impact smaller enterprises by drastically reducing competitive advantage which will potentially lead to market consolidation in favor of larger corporations.

In 2020, Indonesia was reported to have exported \$8 billion worth of halal products, comprising food, fashion, pharmaceuticals, and cosmetics, to major halal consumer markets. However, a substantial portion of these exports (74%) consisted of animal or vegetable fats and oils, with palm oil alone accounting for more than 80% of the total. While natural resources such as fish, coffee, tea, processed foods, beverages, and forestry products contribute significantly to Indonesia's halal exports, pharmaceuticals, cosmetics, and fashion accounted for only about 7.5% of total exports to halal consumer markets.

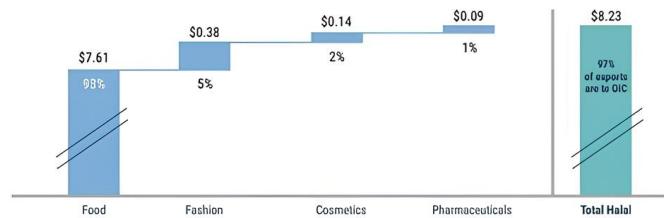


Figure 1: Indonesia's Export of Halal Products to Halal Consumer Markets

The national and local governments of Indonesia play a significant role in developing the halal industry by regulating standards, providing infrastructure, and promoting trade. The BPJPH collaborates with various ministries to support businesses, particularly micro and small enterprises (MSEs), in expanding respective reach into international

markets. Through technical guidance and mentorship programs, BPJPH typically helps prospective halal product exporters improve product quality and build consumer trust both domestically and globally. Despite these efforts, MRAs have not functioned as effectively as anticipated due to several challenges, including disparities in legal systems and variations in product standardization. As previously mentioned, Indonesia holds a competitive edge in halal food production, specifically considering its large Muslim population. The international demand for halal products is substantial, particularly in Malaysia, the Middle East, and European countries with significant Muslim populations. By recognizing Indonesian halal certifications, MRAs can enhance market access for Indonesian halal products in these regions.

Based on observation, a major benefit of MRAs is the elimination of redundant recertification processes in export destination countries, reducing both time and costs for exporters. This increased efficiency allows Indonesian halal products to gain wider recognition in the global market. However, reaching agreements on standard recognition remains a complex and time-consuming process. This is attributed to the fact that differences in halal requirements, such as slaughtering methods, permissible additives, and certification procedures, often pose significant barriers. Effective harmonization requires extensive dialogue and compromise to ensure that mutual recognition does not undermine the halal principles valued by consumers in both countries. In Indonesia, most halal food producers are SMEs, many of which struggle to meet international standards due to limited access to technology, quality management systems, and certification resources. Therefore, without sufficient support, these SMEs may fail to leverage the opportunities presented by MRAs. It is also important to comprehend that the increased market access facilitated by MRAs may intensify competition from imported halal products. If foreign halal products are more affordable or of higher quality, local producers risk losing market share, which could threaten the long-term sustainability of Indonesia's domestic halal industry.

## 2.2 The Export Potency of OIC for Indonesia

The Organisation of Islamic Cooperation (OIC) set an intra-trade target among its member states, aiming to reach 20% by 2015. To achieve this, the cooperation relied on the Trade Preferential System of Islamic Conferences (TPS-OIC), a framework designed to reduce trade barriers, tariffs, and non-tariff obstacles, to foster mutually beneficial relationships among member states (Hidayat 2016). The primary objectives of Muslim international trade are to strengthen economic ties among OIC countries, drive economic growth, and maximize the benefits of trading within the bloc. The increasing global trend toward forming multinational trading blocs has further promoted regional cooperation, as governments work together to establish standardized trading practices to compete with external markets. As stated in a previous study, these agreements include tariff reductions and preferential market access, which facilitate smoother trade between participating countries (Wardani 2016).

Indonesia's export potential to OIC countries has shown consistent growth. As presented in Figure 2, the country's exports to OIC nations rose from 8.97% in 2001 to 14.05% in 2014. Additionally, its strategic investment in the food and beverage sector over the past decade emphasizes its potential as a key player in the halal product market, with demand steadily increasing over time (Muchtar et al. 2024).

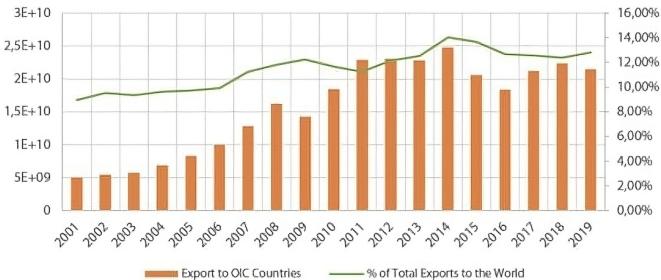


Figure 2: Indonesia Export Growth to OIC Countries (%) (Muchtar et al. (2024))

Indonesian stakeholders have been observed to accurately recognize the significant export potential of the country, particularly to OIC countries, and have developed strategies to position the country as a global hub for halal food. This initiative is supported by the fact that nine of the 10 countries with the highest percentage of Muslims are OIC members. In this regard, the State of the Global Islamic Economy Report 2020/2021 emphasized that free trade agreements and strategic collaborations would play a very significant role in strengthening the halal economies and industries of OIC nations (Muchtar et al. 2024).

## 2.3 Export Opportunities

Based on observation, establishing a reciprocal trade relationship with exporting countries would invariably open new opportunities for Indonesian industries and contribute to more balanced trade relationships. For instance, in exchange for allowing Brazilian meat into Indonesia, the country

could negotiate terms that facilitate the export of Indonesian commodities such as palm oil, seafood, or tropical fruits to Brazil. Additionally, Indonesia could shift its focus from exporting raw materials to value-added products. This implies that rather than solely supplying raw agricultural goods, the country could prioritize the export of processed foods, which not only command higher prices but also generate more job opportunities domestically.

#### 2.4 Threat of the Product that will be Imported to Indonesia

A primary concern regarding the importation of foreign products, such as meat from Brazil, is whether the imported products meet Indonesia's halal standards. This is a significant concern because the imported product may face restrictions or be less attractive to local consumers if recognized as non-halal by Indonesian authorities, thereby reducing its competitive threat. However, if certified as halal, the product could effectively compete directly with domestically produced meat, posing a greater challenge to local producers. Even with halal certification, consumer trust remains a significant factor. This is evidenced by the fact that if Indonesian consumers harbor doubts about the authenticity of imported halal meat, the consumers may still prefer locally sourced products that are largely perceived as more reliable. The trust dynamic in this context could shape market demand and mitigate the impact of imports on domestic meat producers.

The influx of imported meat, particularly if it is cheaper or perceived to be of higher quality, could significantly threaten SMEs in the livestock sector. Typically, the majority of meat exporting countries have lower production costs, and this allows the countries to offer meat at a reduced price, thereby intensifying price competition in the Indonesian market. Price variance of this nature will essentially pressure local farmers to lower respective prices, hence reducing profit margins and providing farmers with Sustainability challenges.

The challenges associated with imported meat extend beyond economic competition to social, cultural, and environmental concerns. While increased trade could bring opportunities for economic growth, it also raises risks related to the livelihoods, food security, and cultural preferences of local farmers. To safeguard domestic producers and maintain a balanced trade environment, Indonesia must implement strategic policies and trade agreements.

#### 2.5 How Indonesia is Addressing the MRA Problems

The policies enacted by the Indonesian government play a substantial role in addressing the challenges posed by MRAs in the halal market. For instance, implementing strategic initiatives was essential to ensure that domestic products could compete effectively with international imports. Strengthening the Halal Inspection Agency and the Halal Product Guarantee Agency (BPJPH) is key to harmonizing with internationally accepted halal standards. Essentially, a more transparent and efficient certification system can enhance consumer trust and foster stronger relationships with international partners. On a global scale, the International Accreditation Forum (IAF) Multilateral Agreements (MLA) aims to facilitate market access by ensuring that accredited certifications and verifications are recognized across multiple countries (IAF 2021). This approach is expected to effectively streamline the process for businesses aiming to enter international markets and eliminate the need for multiple certifications for each country. However, the lack of unified halal certification and regulations across the Muslim world remains a significant challenge in the current era of globalization (Harati & Farzaneh 2024).

Supporting SMEs in the halal agro-food sector is equally important. To achieve this, collaboration between SMEs and the government is necessary to create a more efficient certification process. Specifically designed financing schemes can help SMEs expand respective operations and gain a competitive edge in the halal market. Considering the vast Muslim consumer base, several banking institutions actively support SMEs through loans designed specifically for the halal and Sharia economies (Azwar and Sarip 2024). Engaging Islamic financial institutions to provide funding under favorable terms in compliance with Sharia norms can make these financial schemes more accessible. It is also important to state that enforcing strict import controls on halal goods is crucial to safeguarding local halal businesses. Implementing and enforcing existing regulations can ensure fair competition for domestic producers while maintaining the integrity of the halal market.

A key incentive for SMEs is tax relief, for instance, the implementation of tax incentives in the Mandalika Special Economic Zone has had a positive impact on MSMEs in developing regions, fostering growth, improving access to capital, and expanding market share. However, challenges remain in terms of understanding and navigating incentive policies and administrative procedures (Kaharuddin *et al.* 2024). When utilized optimally, tax incentives can significantly benefit SMEs in both local and international markets. For example, tax breaks for local businesses entering international markets through MRAs have been observed to possess the capability to foster further expansion and competitiveness. In essence, implementing these solutions can strengthen the halal industry in Indonesia, enhance the global reputation of Indonesian halal products, and better meet the needs of Muslim consumers both domestically and internationally. Considering the

critical role of government policy in addressing the challenges posed by MRAs in the halal market, the adoption of strategic initiatives becomes very essential. For instance, strengthening the Halal Inspection Agency and the Halal Product Guarantee Agency (BPJPH) is particularly important for adopting internationally accepted halal standards, thereby enabling domestic products to compete effectively in global markets. It is also important to state that investing in training programs for halal auditors and improving laboratory infrastructure is essential. Regular evaluations must be conducted to ensure the quality and credibility of these aspects. Accordingly, a more transparent and efficient certification system will promote greater trust among consumers and international partners. To further facilitate trade between Muslim and non-Muslim countries, it is necessary to establish globally accepted halal guidelines and regulations covering the entire supply chain (Harati & Farzaneh 2024).

Supporting SMEs in the halal agro-food sector is essential for ensuring the sustainability and competitiveness of the businesses. In this regard, collaboration between SMEs and the government is essential to streamline processes and enhance efficiency. Financing schemes specifically designed by the government for SMEs can help the enterprises to scale respective operations, and engaging Islamic financial institutions to provide funding under favorable terms and Sharia-compliant principles can make these schemes more attractive and accessible. Additionally, strict import controls should be enforced for halal products to protect local halal businesses. To achieve this, strengthening regulations to ensure fair competition among domestic producers while maintaining the integrity of the halal market is necessary. Incentives such as tax breaks for local companies entering international markets through MRAs could further facilitate expansion and increase the country's position in the global halal industry.

Indonesia can also take valuable lessons from leading halal economies such as Malaysia, the United Arab Emirates (UAE), and Turkey, all of which have established internationally recognized halal certification systems. For example, Malaysia, a global leader in halal certification, operates through JAKIM (Department of Islamic Development Malaysia), which enforces stringent halal standards. The country actively collaborates with international halal certification bodies and participates in the Halal World Forum to promote global standardization. Similarly, the UAE has implemented the Emirates Authority for Standardization and Metrology (ESMA), integrating halal certification with a national branding strategy. The country's comprehensive regulatory framework ensures compliance with international halal standards, hence facilitating seamless trade. In Turkey, GIMDES (Association for the Inspection and Certification of Food and Supplies) is saddled with the task of overseeing halal certification. By incorporating halal compliance into its food export strategy, Turkey strengthens its market presence in both Muslim and non-Muslim countries.

Compared to the listed countries, Indonesia still faces significant challenges in achieving international recognition for its halal certification and harmonizing regulations with global standards. In order to effectively enhance its position in the global halal economy, the country should actively participate in MRAs, adopt transparent certification processes, and collaborate with international halal standard organizations. By adopting these measures, Indonesia can expand market access for its halal-certified products and solidify its reputation as a key player in the global halal industry.

### 3 Conclusion

In conclusion, MRAs in the halal sector could be a gateway to global opportunities for enterprises in Indonesia provided the government avails support such as tax reductions or necessary tools, infrastructures, and requirements to help enterprises meet export standards. Regardless of the opportunities presented by MRAs, it was observed that a significant challenge could arise if the government does not carefully monitor the halal standards applied to imported products. A measure that can be adopted to address this challenge is to ensure making a MRA only with countries that could be a potent exporter. Accordingly, the government should also strictly regulate domestic enterprises in order to compete with imported halal products.

### Conflict of Interest

The authors declare no conflict of interest.

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