

## A Competitive Analysis of Halal Industry Ecosystem Development Between Indonesia and Malaysia

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### Abstract

The global halal industry has evolved into a competitive economic ecosystem, with Malaysia and Indonesia emerging as key players. This study aims to analyze the competitive advantages of the halal industry ecosystems in both countries through a comparative approach involving governance, financial infrastructure, and sector performance. Using a qualitative method with secondary data analysis from 2023-2025 strategic reports, this study finds significant divergence in ecosystem maturity. Malaysia, ranked 1st in the IFDI 2024, demonstrates superiority in a centralized governance model through HDC and JAKIM, as well as a dominant Islamic capital market with corporate sukuk outstanding reaching 84.6% of total bonds. In contrast, Indonesia, ranked 4th, adopts a collaborative governance model (KNEKS-BPJPH) focusing on domestic market strengthening and MSME certification. The study concludes that Malaysia's competitive advantage lies in its mature export-oriented ecosystem and financial integration, while Indonesia's strength lies in its massive market scale and digitalization potential.

**Keywords:** Halal Industry, Economics, Indonesia, Malaysia, Comparative Analysis

### Abstrak

*Industri halal global telah berkembang menjadi ekosistem ekonomi yang kompetitif, dengan Malaysia dan Indonesia muncul sebagai pemain utama. Studi ini bertujuan untuk menganalisis keunggulan kompetitif ekosistem industri halal di kedua negara melalui pendekatan komparatif yang melibatkan tata kelola, infrastruktur keuangan, dan kinerja sektor. Dengan menggunakan metode kualitatif dan analisis data sekunder dari laporan*

*strategis 2023-2025, studi ini menemukan perbedaan signifikan dalam tingkat kematangan ekosistem. Malaysia, yang menduduki peringkat 1 dalam IFDI 2024, menunjukkan keunggulan dalam model tata kelola terpusat melalui HDC dan JAKIM, serta pasar modal Islam yang dominan dengan sukuk korporasi yang beredar mencapai 84,6% dari total obligasi. Di sisi lain, Indonesia, yang menduduki peringkat 4, mengadopsi model tata kelola kolaboratif (KNEKS-BPJPH) yang berfokus pada penguatan pasar domestik dan sertifikasi UMKM. Studi ini menyimpulkan bahwa keunggulan kompetitif Malaysia terletak pada ekosistem ekspor yang matang dan integrasi keuangan, sementara kekuatan Indonesia terletak pada skala pasar yang besar dan potensi digitalisasi.*

**Kata Kunci:** *Industri Halal, Ekonomi, Indonesia, Malaysia, Analisis Perbandingan*

## INTRODUCTION

Based on research on the Urgency of Sharia Economics in Facing the Global Economy (Septiani & Thamrin, 2021) The Islamic economic system can be based on the two world economic systems, namely socialism and capitalism, which are considered economic systems because they meet the requirements of an economic system. One example is the Islamic economic system based on the Sharia paradigm as a micro foundation, as well as from a philosophical perspective. Islamic economics or Sharia economics is always based on the principles of the Quran and Hadith. Another interpretation states that the system in Sharia economics is related to the regulation of economic activities in a particular government or society.

According to the Islamic perspective, economic growth is valuable. An increase in production factors is not considered economic growth if the production includes products that are clearly harmful to humans (Fitria, 2016). Currently, the halal industry is becoming a global trend. This shows that the halal industry has an important role in driving the economy to continue to grow from year to year. The rapid development of Malaysia's halal industry, especially in the halal food industry, has enhanced Malaysia's reputation as a respected and highly regarded country. This also makes Malaysia an attractive location for businesses related to halal goods and services (Farah Mohd Shahwahid, Norazla Abdul Wahab et al., 2015).

The Islamic economic system in Indonesia has not developed as rapidly as in other countries. This development is divided into the Islamic financial sector and the non-financial sector. Financial data is available to view and measure the Islamic financial industry, while the non-financial industry requires more in-depth research. Indonesia is a country with great potential for developing halal businesses. The

large Muslim population in Indonesia certainly presents tremendous opportunities. With abundant natural resources, including rich natural wealth, fertile soil, and mountains containing many minerals such as gold, nickel, tin, copper, and others, Indonesia also has oil reserves in several regions, making it a potential market for the halal industry. For the transition of events and progress in Indonesia's industries, including food, clothing, footwear, travel, medicine, beauty care products, etc. (Harahap, 2023).

The existence of a performance gap between the halal industry ecosystems of Indonesia and Malaysia is a fundamental issue that is the focus of this study. Despite its superior market potential, Indonesia faces challenges in orchestrating a complex ecosystem, whereas Malaysia is able to control this through a more focused model (Akoum, 2016). This gap is thought to stem from fundamental differences in policy design, institutional effectiveness, and the level of integration of supporting infrastructure. This study systematically examines the differences in policy governance models between Malaysia's centralized framework (HDC-JAKIM) and Indonesia's collaborative model (KNEKS-BPJPH-MUI) and analyzes how these institutional arrangements influence the effectiveness and acceleration of halal industry ecosystem development. It further compares the role of Islamic financial infrastructure in both countries, particularly the contributions of BI-OJK in Indonesia and BNM-SC in Malaysia, in facilitating the expansion of the halal real sector. In addition, the study evaluates the core competitive advantages generated through the respective ecosystem development strategies implemented in each country.

The primary objective of this research is to evaluate and compare the policy, regulatory, and institutional governance models employed in constructing halal industry ecosystems in Malaysia and Indonesia. It also assesses the functional role and strategic contribution of Islamic financial infrastructure in stimulating halal sector growth in both jurisdictions. Furthermore, the study identifies and formulates the key competitive advantages emerging from the structural and regulatory configurations of the halal industry ecosystems in the two countries.

To analyze competitive advantage, this study adopts Porter's Diamond Model of National Advantage as its analytical framework. The model posits four interrelated determinants that shape the competitive environment of domestic industries: factor conditions, demand conditions, related and supporting industries, and firm strategy, structure, and rivalry. Factor conditions refer to the availability and quality of production inputs, including natural resources, human capital, and institutional capacity supporting the halal industry. Demand conditions reflect the scale and sophistication of domestic halal consumption, which drive innovation and quality enhancement. Related and supporting industries encompass the presence of integrated Islamic financial systems, halal logistics, and certification institutions

that reinforce ecosystem efficiency. Firm strategy, structure, and rivalry capture the regulatory environment, competitive dynamics, and organizational characteristics that influence industry performance. In this study, Porter's framework is applied qualitatively to examine how the interaction between regulatory governance and financial-market infrastructure produces distinct competitive advantages in Indonesia and Malaysia (Harris, n.d.).

## **LITERATURE REVIEW**

### **Islamic Economics**

Conceptually, the halal industry ecosystem is defined as the systemic integration of stakeholders that ensures the integrity of sharia values throughout the value chain, from raw materials to end consumers. This ecosystem is supported by four intertwined fundamental components: regulatory governance that guarantees certification standards; supply chain management that maintains product traceability; development of competent human resources; and inclusive sharia financial infrastructure. Specifically in the financial component, compliance with sharia principles is a crucial element in ensuring the sustainability of the ecosystem. The implementation of sharia compliance in microfinance institutions (such as BMTs) not only serves as a supervisory mechanism, but also plays a strategic role in promoting economic sustainability and poverty alleviation by providing ethical access to capital for grassroots entrepreneurs (Santika, 2024).

Further in terms of financial infrastructure, Islamic banking product innovation has become a vital instrument to facilitate the increasingly complex needs of the halal industry. The application of Multi Akad (now a strategic solution to bridge the gap between modern industry financing needs and sharia compliance) As outlined in the bibliometric study, the use of multi-contracts such as combining a sale contract (Murabahah) with a lease contract (Ijarah) or a partnership contract (Musyarakah) enables Islamic banks to offer more flexible and varied products without violating sharia principles. This flexibility is crucial for halal industry players who need integrated supply chain financing schemes from upstream to downstream, ensuring that capital flows remain within strict Sharia corridors while remaining economically competitive (Rohmadi et al., 2024).

However, product flexibility and sharia compliance alone are not enough without the support of fundamentally sound and resilient financial institutions. The health of Islamic banking is an absolute prerequisite for ensuring the sustainability of financing support for the halal industry ecosystem. Based on an analysis using the Risk Profile, Good Corporate Governance, Earnings, and Capital (RGEC) method for the 2019-2023 period, Islamic banks in Indonesia are generally in the Very Healthy category, despite facing the challenge of a stagnant market share of 7.3%. These findings indicate that internally, Islamic banks have strong capital and

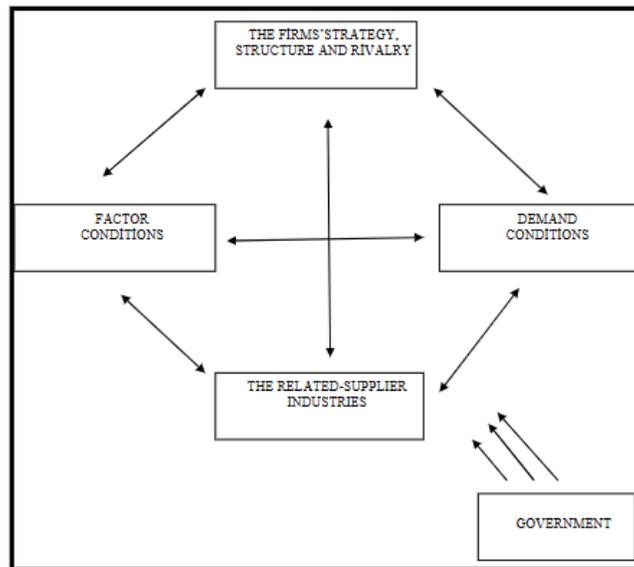
risk management capacities for expansion. This stability is crucial for Islamic banks to not only survive but also play an aggressive role in channeling financing to the real sectors of the halal industry without compromising the stability of the national financial system (Huda et al., 2025).

The health of financial institutions must be placed within the broader framework of Islamic economic philosophy, which encompasses the achievement of prosperity (Al-Falah) and distributive justice, not just financial gain. Due to its orientation towards equitable efficiency and public welfare, which form the moral basis for all economic activity, the Islamic economic system has fundamental advantages over both socialist and capitalist economic systems. (Putri et al., 2025). Product standardization in downstream markets is proof of the importance of consumer protection and welfare guarantees in this environment. Halal labels have been shown to have a significant impact on Muslim buyers' choices, especially when it comes to imported goods. This shows that halal labels are not just official marks, but also an important component that connects macroeconomic philosophy with market beliefs at the micro level, ensuring that halal values are maintained from upstream to downstream (Izaah et al., 2025).

**Porter’s Diamond Model**

**Figure 1**

The determining factors of diamond model (Porter,1990:127)



In demand conditions, these are related to the quality and sophistication of the demand for goods or services in the home market. They reflect a country's wealth in terms of production factors, including traditional (e.g., natural resources,

labor) and advanced (e.g., infrastructure, research facilities, and skilled human capital) (Afshar & Shah, 2025). Customers who are well versed with technological advancements can put pressure on companies to be innovative and produce high-quality products (Bouchra & Hassan, 2023). In related and Supporting Industries, these encompass the position of supplier industries and complementary sectors that encourage cooperation, knowledge spillovers and value chain synergies (Tsai et al., 2021). In Firm Strategy, Structure, and Rivalry, these factors look at how important competition, firm organisations, and corporate governance in the domestic environment are for performance and innovation (Constantin et al., 2022). On Government, it can impact any of the four determinants by acting as a catalyst or challenger by using policy, regulation, investment, and institutional reform (Kim et al., 2023).

## **RESEARCH METHODS**

### **Design of Research**

This study adopts a qualitative approach with a comparative case study design. The qualitative approach was chosen because of its ability to capture the complexity, depth, and context behind the phenomenon of ecosystem development, something that cannot be fully explained by quantitative data alone. The comparative case study design, with Indonesia and Malaysia as the units of analysis, allows researchers to systematically compare various policy, institutional, and industrial variables. This design aims to explore causality and identify the determining factors that explain the differences in performance between the two cases. (Yin, 2018)

Secondary data was the author's choice for collecting data sourced from credible and verifiable public documents. The use of secondary data was considered effective in answering questions focused on policy analysis and macro-industry performance. The types of data used were as follows:

1. Global Industry Reports :  
State of Global Islamic Economy (SGIE) and Islamic Finance Development Report (IFDI)
2. Government Policy Documents:  
Indonesia Sharia Economics, Finance Master Plan (MEKSI) and Malaysian Halal Industry Master Plan
3. Financial Statistics Data:  
Statistic publications from bank Indonesia (BI), the Financial Services Authority (OJK), Bank Negara Malaysia (BNM), and the Securities Commission Malaysia (SC)
4. Academic Literature:  
Peer-reviewed scientific journal articles, books, and relevant dissertations.

### **Data Collection Techniques**

Data collection techniques are compiled through systematic documentation studies. This process involves the identification, aggregation, and cross-validation of relevant data and information from various sources (Nilamsari, 2014). Data collection focuses on the last five years (2020-2025) to ensure the timeliness and relevance of the analysis.

### **Data Analysis Techniques**

Thematic comparative analysis is a technique used to analyze collected data (Rofiq, 2015). This process consists of several logical stages:

1. Data Codification, which divides data from both countries into main themes based on the ecosystem framework, such as regulation, financing, and supply chain themes
2. Cross-Case Analysis, which compares data for each theme in stages.
3. Theoretical abstraction, the process of interpreting and compiling the results of comparisons to develop ideas about competitive advantages and success factors for each ecosystem model

## **DISCUSSION**

### **Strategies for Global Sharia Economy Center**

MESI 2019-2024 suggests four main steps to make Indonesia a global center for the sharia economy. First, enhancing the Halal Value Chain by focusing on sectors or clusters that are highly competitive and have significant potential. Islamic finance, whose master plan has been established in the Indonesian Islamic Finance Master Plan (MAKSI) and updated in MESI. Third, strengthening micro, small, and medium enterprises (MSMEs) as the primary drivers of the halal value chain. Fourth, leveraging and strengthening digital economy platforms in trade, such as online markets and e-commerce, is expected to drive and accelerate the achievement of other strategies.

### **Comparative Analysis of Policy and Regulatory Governance**

The results of the document analysis show fundamental differences in the approach to halal ecosystem governance. Malaysia has adopted a centralized, export-oriented model. Based on the Halal Industry Master Plan, (Halal Industri Master Plan Malaysia 2030, n.d.) Malaysia's vision is to become a Prominent, Visible, and Globalized Halal Malaysia with a focus on seven strategic pillars, including the production of local Halal Champions for the global market. (Komite Nasional Ekonomi dan Keuangan Syariah, 2023) Institutional structures in Malaysia are highly integrated, with the Halal Development Corporation, handles industrial

development, while JAKIM holds sole authority over globally recognized certification.

**Table 1**  
Comparison of Halal Ecosystem Governance Structure

Key Indicators	MYS	INA
Governance Model	Centralized	Collaborative
Key Strategic Regulator	Halal Development Corporation (HDC)	National Committee for Islamic Economy and Finance (KNEKS)
Certification Authority	JAKIM (Single Authority)	PJPH (Admin) & MUI (Fatwa)
National Vision	Global Leader	World's Leading Halal Producer
Strategic Focus	Export Hub & Internationalization	Domestic Market Strengthening & Import Substitution

Source: Data Processed from Halal Industry Master Plan 2030 (HDC) and Masterplan Industri Halal Indonesia 2023-2029 (KNEKS).

This centralized strategy has proven effective in driving industry performance. According to the *Bank Negara Malaysia Monthly Highlights* (Bank Negara Malaysia, 2024), Malaysia's export-oriented ecosystem is supported by a robust financial sector, where the banking system maintains a high Liquidity Coverage Ratio (LCR) of over 160% and a stable Gross Impaired Loans ratio at 1.4%, ensuring ample funding for industrial expansion. Furthermore, the *Islamic Capital Market Statistics* (Securities Commission Malaysia, 2025) reveals that the integration between the halal industry and Islamic finance is exceptionally strong, evidenced by the dominance of Corporate Sukuk Outstanding, which reached 84.66% of total corporate bonds in early 2025. This indicates that Malaysia's governance model not only regulates standards but also successfully channels Islamic financial capital to fuel the real sector.

In contrast, Indonesia implements a collaborative and multi-agency model. Referring to the 2023-2029 Indonesian Halal Industry Master Plan (MPIHI), Indonesia's vision is to become the World's Leading Halal Production Center. (Komite Nasional Ekonomi dan Keuangan Syariah, 2023) The management structure involves the National Committee for Sharia Economics and Finance (KNEKS) as the strategic coordinator, the Halal Product Guarantee Agency

(BPJPH) as the administrative certification regulator, and the Indonesian Ulema Council (MUI) as the fatwa authority. Although this model is more inclusive, the challenge of cross-agency coordination often poses an obstacle compared to Malaysia's one-stop model. The 2024 Indonesian Sharia Economics and Finance Study (KEKSI) data emphasizes the importance of synergy between authorities to accelerate halal certification for MSMEs, which are massive in number (*KEKSI - Kajian Ekonomi Dan Keuangan Syariah 2024*, n.d.).

### Comparative Analysis of Sharia Financial Infrastructure

Sharia financial infrastructure is the most significant differentiator in the competitiveness of the two countries. Based on the Islamic Finance Development Report 2024, Malaysia ranks first in the world with an IFDI score of 144, while Indonesia ranks fourth with a score of 85. (ICD-LSG Islamic Finance Development Report 2024, n.d.)

**Table 2**

Comparasion of Key Islamic Economy Indonesia (INA) vs Malaysia (MYS)

Key Indicators	MYS	INA	Remarks
Global Ranking (IFDI Score)	Rank 1 (144)	Rank 4 (85)	Malaysia leads the global Islamic finance ecosystem.
Halal Food Ranking	Rank 1	Rank 2	Indonesia is in second position after Malaysia
Muslim-Friendly Travel	Rank 1	Rank 3	Malaysia is the top destination for Muslim-friendly tourism.
Modest Fashion	Top 10	Rank 3	Indonesia holds a significant advantage in the creative fashion sector.

Source: Data Processed from ICD-LSEG Islamic Finance Development Report 2024 and State of the Global Islamic Economy (SGIE) Report 2023/2024.

Table 2 highlights a fundamental divergence in the governance philosophy of the halal ecosystem between the two nations. Malaysia employs a centralized model characterized by high efficiency, where the Halal Development Corporation (HDC) acts as the primary agency for industrial development, working in tandem with JAKIM as the sole certification authority. This streamlined structure allows

Malaysia to focus its strategic vision outwardly, positioning itself as a 'Global Leader' and an International Export Hub.

In contrast, Indonesia adopts a collaborative model involving multiple stakeholders. The National Committee for Islamic Economy and Finance (KNEKS) serves as the strategic coordinator, tasked with synergizing the functions of the Halal Product Assurance Organizing Agency (BPJPH) as the administrative regulator and the Indonesian Ulema Council (MUI) as the fatwa authority. This multi-agency structure reflects the complexity of the Indonesian landscape, where the current strategic focus is prioritized on strengthening the massive domestic market and pursuing import substitution to realize the vision of becoming the World's Leading Halal Producer.

**Table 3**

Sharia Banking Health Indicators (2024/2025 Comparison)

Financial Indicator	Malaysia (June 2025)	Indonesia (Dec 2024)	Brief Analysis
Total Sharia Banking Assets	Stable & Dominant	IDR 980.30 Trillion	Indonesia's assets show positive growth approaching 1 Quadrillion.
Market Share	45.6% (Mainstream)	7.38% (Niche)	Malaysia's Islamic banking is far more dominant.
Credit Risk (Gross Impaired Loans / NPF)	1.4%	2.04%	Malaysia's asset quality is slightly better and highly stable.
liquidity (LCR / FDR)	160.6% (LCR)	84.77% (FDR)	Malaysia has abundant liquidity (>100%), ready to finance expansion.

Source: Data Processed from Bank Negara Malaysia Monthly Highlights (June 2025) and OJK Sharia Banking Snapshot (December 2024).

Meanwhile, in Indonesia, despite positive growth, the Islamic banking market share is still struggling to break through the psychological barrier of 10%. The 2024 Indonesian Islamic Finance Development Report (LPKSI) notes the need for policy transformation to accelerate growth. (Laporan Perkembangan Keuangan Syariah Indonesia, 2024 | A, n.d.). Bank Indonesia has strengthened its Islamic monetary operations framework through the Bank Indonesia Sukuk (SukBI)

instrument in accordance with Bank Indonesia Regulation No. 20/14/PBI/2018 to manage liquidity (Lembaran Negara Republik Indonesia, n.d.). However, the integration between the financial sector and the halal real sector (halal value chain) is not yet as strong as in Malaysia.

### Comparative Analysis of Supply Chains and Leading Industrial Sectors

Malaysia has a competitive advantage in physical infrastructure through the development of Halal Parks that are integrated with the global supply chain. Their sector focus, as outlined in HIMP 2030, is very specific to high value-added sectors such as Pharmaceuticals, Cosmetics, and Medical Tourism (Halal Industri Master Plan Malaysia 2030, n.d.). Indonesia, on the other hand, has strengths in its domestic market scale and creative economy. The Indonesian Sharia Economic Masterplan highlights the strengthening of halal industry clusters based on MSMEs and Muslim-friendly tourism (Kementerian PPN/Bappenas, n.d.). Indonesia excels in the Modest Fashion and consumer-based halal food sectors. However, Indonesia's main challenge is the high level of imports of halal industrial raw materials, unlike Malaysia, which has positioned itself as a global hub for halal raw materials.

**Table 4**  
Comparison of Halal Ecosystem Governance Structure

Supply Chain Aspect	MYS	INA
Supply Chain Orientation	Export-Oriented.	Domestic-Oriented.
Industrial Infrastructure	Halal Parks (HALMAS)	Kawasan Industri Halal (KIH).
Logistics & Traceability	Advanced.	Developing
Raw Material Sourcing	Import-Dependent.	Resource-Rich.
Strategic Focus	Export Hub & Internationalization	Domestic Market Strengthening & Import Substitution

Source: Data Processed from *HDC Halal Industry Master Plan 2030* and *KNEKS Masterplan 2023-2029*.

As summarized in Table 4, fundamental divergences in the supply chain orientation of the two countries. Malaysia has strategically positioned itself as a

Global Halal Hub with a strong export orientation. This is supported by a highly mature industrial infrastructure in the form of HALMAS-certified Halal Parks, which offer an integrated ecosystem and special tax incentives for foreign investors. In contrast, Indonesia's supply chain orientation is more focused on meeting massive domestic market demand as an import substitution strategy. Supporting infrastructure in the form of Halal Industrial Zones (KIH) in Indonesia is currently still in the acceleration stage of development in various provinces to catch up with the physical infrastructure gap (Komite Nasional Ekonomi dan Keuangan Syariah, 2023) (Halal Industry Master Plan 2030, n.d.).

From a technological and logistical perspective, Malaysia demonstrates its superiority in adopting advanced technologies such as blockchain to ensure traceability and halal integrity from upstream to downstream, which is a key prerequisite for premium export markets. Their leading sectors also focus on high value-added industries such as halal pharmaceuticals and cosmetics. Meanwhile, Indonesia is still focused on administrative digitization through the Si Halal application to accelerate certification. However, Indonesia has a natural competitive advantage in the availability of raw materials (resource-rich), unlike Malaysia, which tends to be import-dependent or reliant on imported raw materials. Indonesia's sectoral strength is particularly evident in the creative economy, such as modest fashion and Muslim-friendly tourism, which is driven by a large consumer base.

### **Human Capital**

Human capital is a critical enabler in the halal ecosystem. Malaysia has established a mature talent development ecosystem under the coordination of HDC, which offers globally recognized professional training programs such as Certified Halal Executives and Halal Auditors. This standardization allows Malaysia to export halal expertise and consultancy services to other countries. In contrast, Indonesia is currently in an acceleration phase to meet the massive demand for Halal Product Process Assistants (PPH) and Auditors following the enactment of the mandatory halal certification law. While universities and Professional Certification Bodies (LSP) in Indonesia are active, the standardization of global competency specifically for export-oriented halal expertise still requires enhancement compared to Malaysia's established framework.

### **Digital Transformation and Technology Adoption in Halal Ecosystem**

Digital transformation has become a vital accelerator that distinguishes the halal ecosystem development strategies in both countries. Malaysia shows superiority in the adoption of deep-tech technology that focuses on the upstream side and supply chain integrity. The use of blockchain and Internet of Things (IoT) technologies in Malaysia's halal logistics system enables real-time product traceability from farm

to table. This strategy not only strengthens global consumer confidence in JAKIM certification, but also positions Malaysia as a premium export hub capable of meeting strict international food safety standards. (Halal Industri Master Plan Malaysia 2030, n.d.)

On the other hand, Indonesia's digital landscape is dominated by consumer-facing innovation and financial inclusion. Indonesia has recorded high penetration rates in the sharia fintech and halal e-commerce sectors, driven by the adaptive behavior of its large Muslim middle class. The Indonesian government has responded to this trend through the digitization of public services, such as the launch of the SI HALAL application, which simplifies the halal certification registration process for businesses. In addition, the integration of cross-border payment systems through QRIS (Quick Response Code Indonesian Standard) has opened up new market access for halal MSMEs to transact efficiently, proving that Indonesia's digital strength lies in the democratization of the sharia economy (*KEKSI - Kajian Ekonomi Dan Keuangan Syariah 2024*, n.d.).

### **Strategic Challenges and Barriers**

Despite leading the global market, Malaysia faces structural challenges related to the limitations of its relatively small domestic market. This makes Malaysia's halal industry highly dependent on external demand, making it vulnerable to global economic fluctuations. In addition, the Halal Industry Master Plan 2030 also identifies the threat of increasingly fierce competition from non-Muslim countries (such as Thailand, South Korea, and Japan) that are now aggressively developing their own halal ecosystems. These competing countries are beginning to emulate Malaysia's quality standards and offer competitive substitute products, which could potentially erode Malaysia's export market share if product innovation is not continuously improved. (Halal Industri Master Plan Malaysia 2030, n.d.; State Of The Global Islamic Economy Report 2024 / 2025 From Crisis To Catalyst: Evolving Islamic Economy Opportunities Produced By Supported By In Partnership With, N.D.).

Meanwhile, Indonesia faces classic challenges in the form of bureaucratic complexity and logistical inefficiencies that hamper price competitiveness. The biggest challenge at present is realizing the target of mandatory halal certification for millions of micro and small enterprises (MSEs) through self-declaration. This process is often hampered by low producer literacy, limited numbers of Halal Product Process Assistants (PPH), and post-certification supervision issues (State of the Global Islamic Economy Report, 2023) Furthermore, the 2024 Indonesian Sharia Economics and Finance Study reveals that Indonesia is still in a vulnerable position as a net importer of raw materials for the halal industry, particularly in the food and pharmaceutical sectors (such as beef, gelatin, and active chemicals). This

dependence on imported raw materials weakens industrial independence and often complicates the halal traceability process in the upstream sector.

### **Identifying the Competitive Advantages of Each Country**

Based on the above analysis, the competitive advantage of each country can be summarized as follows: Malaysia: Its strength lies in its ecosystem maturity. Stable regulations, world-class certification standards, and a deep sukuk market make Malaysia an efficient export hub. Indonesia: Its strength lies in Market Scale and Digital Potential. A demographic bonus and the largest Muslim consumer base provide high bargaining power. In addition, the Bank Indonesia-driven digitalization of certification and payments (QRIS) initiative is a unique accelerator for Indonesia.

### **CONCLUSION**

This study concludes that there is a strategic divergence in the development of the halal industry ecosystem, whereby Malaysia has a competitive advantage in terms of the maturity of its export-oriented ecosystem, supported by centralized governance and dominant Islamic capital market integration, while Indonesia's advantage lies in its massive domestic market scale and accelerated economic digitalization.

The policy implications of these findings emphasize the need for the Indonesian government to strengthen regulatory harmonization between institutions (KNEKS, BPJPH, and related ministries) and create more effective link and match mechanisms between Islamic financial instruments and real industry players in order to transform consumption potential into global production power. However, this study has limitations because it relies solely on macro-level secondary data without involving primary data from business actors. Therefore, further research is recommended to use a quantitative approach or micro-empirical studies to measure the effectiveness of halal certification policy transmission on the export performance of MSMEs more specifically.

Two main benefits are expected from this research. Academically, this research adds to the literature on comparative economic systems, particularly on how Islamic economics is applied and the dynamics of competition in the halal industry over the last five years (2025). Practically, this research aims to produce evidence-based policy recommendations for strategic stakeholders in Indonesia, such as KNEKS, BI, OJK, and BPJPH, in an effort to formulate strategies to improve the competitiveness of the nasyid halal industry.

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