



**KETUA**

**DEWAN PERWAKILAN RAKYAT**  
**REPUBLIK INDONESIA**

## **TRADE AMONG MUSLIM COUNTRIES: THE ROLE OF INDONESIA IN HALAL BUSINESS**

Presented on

*Halal Convention Based on the Dinar Dirham in Conjunction with Islamic World Trade Expo 2012*  
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*Yang Amat Berhormat,*

- *H.E. Tuan Guru Dato' Bentara Setia Haji Nik Abdul Aziz Bin Nik Mat;*
- *H.E. Prof. Dr. Mohammad Hanapi bin Mohammad,*
- *Ladies and Gentlemen,*

*Bismillaahir Rahmaanir-Rahiim*

*Assalamu'alaikum wa-Rahmatullaahi wa-Barakatuh*

First of all let us extend our praises and gratitude to Allah The Almighty, for only by His blessings we can attend the Halal Convention Based on The Dinar and Dirham in Conjunction With Islamic World Trade Expo 2012 at Kelantan Trade Centre, Kota Bharu. I would like to thank the organizing committee for allowing me the opportunity to deliver my presentation in this convention titled: *Trade Among Muslim Countries: the Role of Indonesia in Halal Business.*

*Distinguished Ladies and Gentlemen,*

Indonesia is not a country that is based on a single religion, our state is based on Pancasila Ideology. However, state gives great attention to the religious practices and growth since religions have important roles in the national development. In Indonesia, religions do not merely influence the behaviours of their believers in the form of formal religious rites and rituals but also in virtually all social aspects including education, politics and economy.

Our Constitution clearly stipulates that the State guarantee the freedom of all citizen to believe and practice their religions and beliefs.<sup>1</sup> One of the manifestations of this assurance can be seen from the attention given to Halal Trade by the the government.

As we have known there are four (4) types of halal trade, *first*: halal food products, *second*: halal non-food products, *third*: halal service, and *fourth*: halal financial system.

From those four types of halal trade, there are three types that experience robust growth in Indonesia, namely: *halal food products, halal non-food products, and halal financial system.*

In this opportunity allow me to explore the three types of trade in a more detailed manner.

*Honorable Ladies and Gentlemen,*

*On the Trade of Halal Food Products and Halal Non-Food Products*

Indonesia is a country with most numbers of Muslim population. Indonesian Muslims always endeavor to practice Islamic Teachings in all aspects of life, including in the trade of halal food and non-food products. The state is responding

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<sup>1</sup> Article 29 paragraph (2) Constitution 1945.

by paying great attention to this need. Thus the state gives the necessary regulatory supports in the form of legislations and other rules on halal food and non-food products.

Some of the the legislations that regulate about halal food and non-food products are Law on Health, Food and Consumer Protection and the more detailed Government Regulation on Food Label and Advertisement, Regulation of Minister of Health on food products that contain pork<sup>2</sup>, Joint Ministerial Decree between Minister of Religious Affairs and Minister of Health on The inclusion of Halal Sign in Food Labels<sup>3</sup>.

The Law on Consumer Protection stated that: "Businesses are obliged to provide correct, clear and honest information on the conditions and warranties of goods and/or services" and "Business are prohibited from production and/or trade of goods and/or services that are not following the rules on halal production".

Meanwhile, in Government Regulation on Food Label and Advertisement, it is stipulated that everyone who produce or import packaged food to the territory of Indonesia for the purpose of trade and stated that the food is "halal" for humanbeings, are responsible for the accuracy of the aforesaid statement and are obliged to include halal sign or note in the label and in this case, the statement of "halal" is an integral part of the label".

Furthermore the Government Regulation regulates that "To support the accuracy of the "Halal" statement, everyone who produce or import packaged food to Indonesia territory for the purpose of trade, are obliged to test the food products in accredited testing agency as regulated by the relevant legislations". However the elucidation of the same Government Regulation stated that "the inclusion of halal sign is in priciple voluntary in nature"

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<sup>2</sup> RI No. 280/Menkes/Per/XI/1976 on Stipulations on Distribution and Signs for Food that Contains Pork/ Pig Element, and Decision of Minister of Health of RI No. 82/Menkes/SK/I/1996 on the Inclusion of Halal Sign in Food Label and the amendment of the decision No. 924/Menkes/SK/VII/1996.

<sup>3</sup> No. 427/Menkes/SKB/VIII/1985 and No. 68/1985 on the Inclusion of Halal Sign in Food Label.

On the practical level, the implementing regulation of those regulations is The Decision of Director General of Foods and Drugs Administration on the Procedure of Inclusion of Halal Sign in Food Label, which details the followings:

- a. The authorization to include "halal" sign in food label is given by Directorate General of Foods and Drugs Administration.
- b. Food products have to be registered in Ministry of Health of The Republic of Indonesia.
- c. The authorization to include "halal" sign will be given after examination and assessment made by a Team that consists of Ministry of Health, Ministry of Religious Affairs and the Indonesia Ullama Council.
- d. The assessment of The Team shall be submitted to the Fatwa Committee of Indonesia Ullama Council that shall issue the fatwa (legal pronouncement), and to be given Halal Certificate in turn.
- e. The authorization to include the "halal" sign is given by the Directorate General of Foods and Drugs Administration based on the recommendation of the Indonesia Ullama Council.
- f. The authorization is valid for two (2) years as for the certificate.

*Distinguished Ladies and Gentlemen,*

The legislations on halal food that I mentioned earlier are not contradicting the international global trade system of free trade, such as *ASEAN Free Trade Area/AFTA, North America Free Trade Area (NAFTA), European Union* and *World Trade Organization*. Those international trade system as we know have introduced the stipulations on halal guidelines as included in *CODEX Alimentarius*.<sup>4</sup>

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<sup>4</sup> This measure is supported by influential international organizations such as World Health Organization (WHO), Food and Agriculture Organization of the United Nation, and World Trade Organization (WTO).

Even though the inclusion of “halal” label in food products is voluntary in nature, the enthusiasm of national and international food manufacturer to include “halal” label in the packaging of their food products is high. The inclusion of “halal” sign in the packaging of food products will eventually benefit the consumers.

Aside from the inclusion of “halal” label in food product packaging, we also implement halal certification for fast food restaurants. This is intended to ensure the halalness of the fast food products. In addition it also gives more assurance to the consumers.

To reinforce the state assurance on halal food and non-food products, The Indonesian House of Representatives is currently deliberating a Bill on Halal Food Assurance. This bill, later as a law, will serve as a legal basis for halal food and non-food products in Indonesia such as foods, beverages, medicines, cosmetics, chemical products, biological products and genetically engineered products which elements and processes are halal (permissible) to be consumed based on syariah principles.

*Distinguished Ladies and Gentlemen,  
On Syariah Economy: Halal Financial System in Indonesia*

The government of Indonesia also provides supporting regulations for the development of “halal financial system”. This regulatory support has enabled various form of syariah economy or halal financial system in Indonesia including Syariah Commercial Bank, Syariah Business Unit, Syariah Rural Bank, Syariah Micro Finance Institution (Baitul Mal wa Tamwil – Integrated Independent Business Center), Syariah Insurance (*takafu*), Syariah Pawnshop (*rahn*), Syariah Stock Market, and Syariah Business Entities.<sup>5</sup>

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<sup>5</sup> In the elucidation of Article 49 letter (i) Law Number 3 of 2006 on The Amendment of Law Number 7 of 1989 on Religious Court it is stated that different forms of syariah economy include: (a) Syariah

The development of each type of halal financial system is explained below:

*Syariah Banking: Syariah Commercial Bank, Syariah Business Unit and Syariah Rural Bank*

The first syariah bank in Indonesia was established in 1991 under the name Bank Muamalat Indonesia (BMI). The bank started its operation in 1992 after the issuance of a new Law on Banking. In the beginning Bank Muamalat Indonesia did not use Syariah Bank term in its name, instead it used the term "profit sharing bank".<sup>6</sup>

In 1998 Government amended the Law on Banking. The new amendment includes banking procedures based on syariah principles in Indonesia.

A year later, government enacted a Law on Bank of Indonesia, our Central Bank. This law enables the Central Bank to implement syariah based financial policies.

The aforesaid two laws strengthen the legal foundation for the existence of syariah banks in Indonesia<sup>7</sup>. Aside from regulating about syariah bank, the two laws also serve as legal basis for national banking industry to use dual banking system, namely the conventional banking system and syariah banking system in parallel whereas the existing conventional banks are allowed to open a *syari'ah window*.<sup>8</sup>

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Bank; (b) Syariah Micro Finance Institution; (c) Syariah Insurance; (d) Syarian Re-Insurance; (e) Syariah Mutualfunds; (f) Syariah Bonds and Mid-Term Bonds; (g) Syariah Securities; (h) Syariah Financing; (i) Syariah Pawn; (j) Syariah Pension Fund Financial Institution; and (k) Syariah Business.

<sup>6</sup> Nur Kholis, "Potret Politik Ekonomi Islam di Indonesia Era Reformasi," page. 1.

<sup>7</sup> Hasan, "Analisis Industri Perbankan Syari'ah di Indonesia," in *Jurnal Dinamika Ekonomi Pembangunan*, July 2011, Vol. 1 No. 1, page. 1

<sup>8</sup> Yusuf Wibisono, "Politik Ekonomi UU Perbankan Syari'ah: Peluang dan Tantangan Regulasi Industri Perbankan Syari'ah," in *Jurnal Ilmu Administrasi dan Organisasi*, May-August 2009, page. 105-115.

Ever since then, various Syariah Business Units are established in conventional banks such as Syariah Business Branch of IFI Bank, Syariah Business Branch of Jabar Bank, Bank BNI 46 Syari'ah, Syariah Business Branch of Bank Bukopin, BRI Syari'ah, Bank Danamon Syari'ah, BII Syari'ah, and many more. Also various Syariah Commercial Bank were established such as Bank Syari'ah Mandiri that was fully operated under syariah principles in 1999 and Syari'ah Mega Indonesia in 2004. Up until January 2011, 11 Syariah Commercial Banks, 23 Syariah Business Units and 151 Syariah Rural Banks have been established.<sup>9</sup>

The business volume of syariah banking in the last one year, especially for Syariah Commercial Bank and Syariah Business Unit experienced significant growth.<sup>10</sup> Total Assets per-October 2011 (year-on-year) has reached IDR 127.19 trillion or increase immensely for 48.10% which is the highest growth in the last three years. With additional Syariah Rural Banks' assets of IDR 3.35 trillion, total syariah banking assets as per October 2011 has reached IDR 130.5 trillion. The national market share of syariah banking relative to total banking system is around 3,8%.<sup>11</sup>

### *Syariah Insurance (Takaful)*

The development in halal trade in the form of Syariah Insurance in Indonesia was started in 1994, with the establishment of PT Asuransi Takaful Indonesia (a limited liability company). The insurance service that is managed based on syariah principles was explored by fully syariah insurance companies and syariah division in conventional insurance companies.

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<sup>9</sup> Nur Kholis, "Potret Politik Ekonomi Islam," page. 5

<sup>10</sup> Source: Data of Directorate of Syariah Banking, Bank of Indonesia.

<sup>11</sup> Directorate of Syariah Banking, Bank of Indonesia, *Outlook Perbankan Syari'ah Indonesia*, year 2012, page. 1

The syariah insurance is boosted by efforts to secure future plan with protection system that is known in insurance mechanism and the belief that insurance management should be consistent with syariah principles and guidelines.

Until the end of 2007 there were 37 syariah insurance companies, 3 syariah re-insurance companies, 5 syariah insurance and re-insurance brokers. According to Insurance Bureau of The Indonesian Capital Market and Financial Institution Supervisory Board in 2010 there were 45 syariah insurance companies comprising 42 syariah insurance companies and three syariah re-insurance companies.<sup>12</sup>

### *Syari'ah Pawnshop (rahn)*

This year syariah pawn system enters its 8th year in Indonesia since it was launched in January 2003. Until February 2009, Pegadaian Syariah (National Pawnshop Company based on Syariah) has financed 600 thousand customers with total value of IDR 1.6 trillion in 120 branches.<sup>13</sup>

### *Syari'ah Stock Market*

Encouraging development can also be seen in stock market. The Indonesian Capital Market and Financial Institution Supervisory Board has listed 209 equity that are consistent with syariah principles comprising the Syariah Government Bonds, Syariah Stocks, Syariah Private Bonds and Syariah Mutualfunds. Which means public enjoy more options when deciding to invest in syariah equity market.

### *Syariah Government Bonds (Sukuk)*

In 2008 on a law on Syariah Government Bonds was (Sukuk) was enacted on May 7, 2008. The Law is currently used by Government of the Republic of Indonesia as legal basis to issue government sukuk to attract the investor funds.

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<sup>12</sup> Nur Kholis, *Potret Politik Ekonomi Islam*, page. 5

<sup>13</sup> Nur Kholis, *Potret Politik Ekonomi Islam*, page. 5.

This shows government commitment to fund the state budget with syariah financial instrument and it has been proven that the global, corporate and retail sukuk enjoy rapid development after the government shown its political will by issuing Government Syariah Bonds Law.

The main reason to issue government sukuk is to diversify the instruments to finance government budget deficit including to fund the capital cost and to accelerate the growth of syariah economy in Indonesia. Sukuk is seen as a better alternative to foreign debt since it has the element of investment cooperation, risk sharing and assets involvement (real project) which are also serve as basis for sukuk issuance.

There are different types of government sukuk, namely, global sukuk, corporate sukuk and retail sukuk. The initial corporate sukuk was issued by the Government of Indonesia with 8.8% fixed rate coupon and 5 years maturity period, while retail sukuk has 3 years tenor and 12% fixed rate coupon. The one intended for big investors (institutions) is Ijara Fixed Rate with minimum of IDR 1 billion invesment, while Retail Sukuk is intended for individuals (retail) and is issued every February, up until 2011, 3 series of Retail Sukuk have been issued.

### *Syariah Business Entities*

Syariah Business Entities also grow rapidly in Indonesia. This is reflected by the establishment of financing companies that offer syariah financial services such as FIF Syari'ah, al-Ijarah Indonesia Finance, etc. In the real sector there are also companies that offer goods and services that use syariah principles such as Sofyan Hotel, Ahad-Net Internasional, etc.

### *Distinguished Ladies and Gentlemen,*

The development of syariah economy in Indonesia is a matter of state policy that is supported with a set of regulations on syariah financial service. The policies

is of course partially based on the consideration that syariah banks are very resistant to economy crisis that happened in Indonesia in 1998. At that time when many conventional banks went bankrupt due to impacts of the crisis, the syariah banks showed remarkable resistance to financial crisis turmoil.

On the other hand, the syariah economy in Indonesia also positively contributes to the stability of Indonesian macro economy. Therefore it is fair to say that syariah economy is not a mere alternative to conventional financial system but it is a solution for economic stability that is viable to be implemented by any country.

The characteristics of syariah economy, fair, transparent and always put greater public interest ahead, are forces that will enable it to survive in the time of global economic crisis. Currently, all Muslim countries in the world are cooperating to find solution to the crisis to promote the quality of life of Muslim Ummah all over the world. The cooperation among Muslim countries in trade and investment sector is increased to overcome the impacts of the current global multi-crisis. The cooperation can be done by creating new business joint venture transactions, partnership in industry and contribution to the evolution of global Islamic economy.

#### *Distinguished Ladies and Gentlemen,*

In relation to the position of Indonesia among ASEAN Countries, with majority Muslim populations, Indonesia is potential to be the center of international halal products.

For instance, now we have a multilateral cooperation in the ASEAN region, especially among Indonesia, Malaysia, dan Thailand (Indonesia Malaysia Thailand *Growth Triangle* or IMT-GT).<sup>14</sup> Under the framework of IMT-GT, the member

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<sup>14</sup> IMT-GT has several program including cooperation in halal products distribution, halal-highway development in Rantau Malaysia, halal trading projects, development of halal science laboratories network, halal kitchens developments for hotels and restaurants, halal health hub, international halal

countries also collaborate to materialize global *Halal-Hub*, that can create synergy and collaboration to complement each other so that to create value added for the productivity of ASEAN.

We also hope that this kind of cooperation can serve as a model for halal-business cooperation among ASEAN, Asia or Islamic Countries.

We also wish that through the interaction in this Convention together we can improve the resistency of our respective economies so as to contribute to the global Islamic economy.

For your information on September 12-16, 2012, Indonesia will host "*The 3rd Muslim World Business and Investment Zone (MWBIZ) 2012*" exhibition and conference in Jakarta with a theme "Strengthening Economics Alliance". This event is intended to serve as media for mutually benefitting interactions among business leaders and governments, and to open investment opportunities and to establish stronger economic integration among world Muslim business community and Islamic countries amidst of the current global crisis.

Thank you.

*Wassalamu'alaikum wa-Rahmatullaahi wa-Barakatuh*

Kota Bharu, 18 June 2012

**SPEAKER  
DEWAN PERWAKILAN RAKYAT  
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symposium, and establishment of business incubator for halal products and services in the three countries.