

Integrating Halal Certification in Free Trade Agreements: Indonesia's Modest Fashion and Cosmetics

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Abstract

The global halal industry is a strategic driver of international trade, with modest fashion and halal cosmetics contributing significantly to its growth. Indonesia, home to the world's largest Muslim population, plays a key role in this sector, supported by national regulations and free trade agreements. This study investigates the integration of halal certification within Free Trade Agreements (FTAs), focusing on its implications for Indonesian exports to the Middle East. Employing qualitative document analysis, it identifies challenges in regulatory harmonization, market access, and mutual recognition of halal standards—particularly with Gulf Cooperation Council (GCC) countries. While the Indonesia–UAE Comprehensive Economic Partnership Agreement (CEPA) has reduced tariffs, non-tariff barriers such as certification redundancies and logistical inefficiencies persist. Despite rapid growth in Indonesia's modest fashion and halal cosmetics sectors, global competitiveness remains limited due to strong competition from Malaysia, Turkey, and the UAE, as well as constraints in branding, digital trade, and supply chain resilience. The study concludes that regulatory alignment, strategic branding, digital transformation, and stronger trade diplomacy are critical for improving export capacity. These findings offer valuable insights for policymakers, industry actors, and scholars of Islamic economics and international trade.

Kata Kunci: Halal Certification; Free Trade Agreements; Modest Fashion; Halal Cosmetics; Indonesia.

Abstract

Industri halal global merupakan penggerak strategis dalam perdagangan internasional, dengan kontribusi signifikan dari sektor modest fashion dan kosmetik halal. Indonesia, sebagai negara dengan populasi Muslim terbesar, memainkan peran penting dalam sektor ini melalui dukungan regulasi nasional dan perjanjian perdagangan bebas. Studi ini mengkaji integrasi sertifikasi halal dalam Perjanjian Perdagangan Bebas (FTA), khususnya dampaknya terhadap ekspor Indonesia ke kawasan Timur Tengah. Melalui analisis dokumen kualitatif, penelitian ini mengidentifikasi tantangan dalam harmonisasi regulasi, akses pasar, dan pengakuan timbal balik standar halal—terutama dengan negara-negara Gulf Cooperation Council (GCC). Meskipun CEPA Indonesia–UEA telah mengurangi hambatan tarif, hambatan non-tarif seperti duplikasi sertifikasi dan inefisiensi logistik masih berlanjut. Di tengah pertumbuhan pesat modest fashion dan kosmetik halal Indonesia, daya saing global tetap terbatas akibat tekanan dari Malaysia, Turki, dan UEA, serta kendala dalam branding, perdagangan digital, dan ketahanan rantai pasok. Studi ini menyimpulkan bahwa penyesuaian regulasi, penguatan branding, transformasi digital, dan diplomasi perdagangan yang lebih aktif menjadi kunci peningkatan kapasitas ekspor. Temuan ini memberikan wawasan penting bagi pembuat kebijakan, pelaku industri, dan akademisi dalam bidang ekonomi Islam dan perdagangan internasional.

Keywords: Sertifikasi Halal; Perjanjian Perdagangan Bebas; Modest Fashion; Kosmetik Halal; Indonesia

Introduction

The global halal industry has experienced unprecedented growth, emerging as a key driver in the international trade landscape. With Muslim consumer spending projected to surpass USD 2.4 trillion by 2024, the demand for halal-certified products continues to expand beyond traditional food markets into sectors such as modest fashion and halal cosmetics (Dinar Standard Research 2024). Indonesia, as the country with the world's largest Muslim population, is at the forefront of this industry, leveraging its regulatory framework, trade agreements, and market potential to position itself as a global halal hub. Compared to Indonesia, Malaysia has positioned itself as a global Halal hub. To distinguish itself from Malaysia and the UAE, Indonesia must leverage its cultural capital, the scale of domestic Muslim market, and geopolitical influence within ASEAN and the Organization of Islamic Cooperation (OIC) (Dinar Standard Research 2024). However, despite these advantages, the country faces significant challenges in aligning its halal certification standards with international requirements, ensuring market access, and competing with established halal-exporting nations such as Malaysia, Turkey, and the United Arab Emirates (UAE).

According to State of the Global Islamic Economy (SGIE) Report 2023/24, the modest fashion industry has grown considerably in recent years, with Muslim consumer spending on fashion projected to reach USD 428 billion by 2027, reflecting a 6.1% compound annual growth rate (CAGR) (Dinar Standard Research 2024). The increasing demand for Shariah-compliant clothing has led to greater mainstream adoption, with international brands such as Nike, Uniqlo, and Dolce & Gabbana expanding their modest fashion lines to cater to Muslim consumers. Similarly, the halal cosmetics industry has become one of the fastest-growing segments in the global halal economy, valued at USD 39 billion, with expectations of reaching USD 61 billion by 2027, driven by ingredient transparency, ethical consumerism, and the expansion of e-commerce.

Indonesia's halal industry is supported by a robust legal framework, particularly Law No. 20 of 2021 on Halal Product Assurance, which mandates that all consumables—including fashion and beauty products—be halal-certified unless explicitly declared otherwise. The implementation of Government Regulation No. 26 of 2019 and the establishment of the Halal Product Assurance Agency (BPJPH) have further strengthened Indonesia's position in the global halal economy (Kemenag RI 2019). Additionally, Free Trade Agreements (FTAs), such as the Indonesia-UAE Comprehensive Economic Partnership Agreement (CEPA), have played a crucial role in facilitating exports by reducing tariffs and recognizing Indonesian halal certifications in Middle Eastern markets (Kemendag RI 2024b). However, the lack of harmonization between Indonesian halal standards and those

in key export markets, particularly the UAE and Saudi Arabia, remains a significant barrier to seamless trade.

Despite these regulatory advancements, non-tariff barriers, supply chain inefficiencies, and market competition continue to pose challenges for Indonesian modest fashion and halal cosmetics exporters. The Gulf Cooperation Council (GCC) countries have stringent halal compliance requirements, requiring Indonesian businesses to undergo additional certification processes to meet Emirates Authority for Standardization and Metrology (ESMA) and Saudi Food and Drug Authority (SFDA) regulations. This increases the cost and complexity of market entry, limiting the ability of Small And Medium Enterprises (SMEs) to expand internationally. Furthermore, Malaysia and Turkey, as established halal industry leaders, have better international recognition and stronger halal branding, making them more competitive in global markets. Malaysia and Turkey enjoy stronger global recognition for halal products through strategic initiatives such as the Malaysian Halal Certification by JAKIM and the Turkish Standards Institute (TSI) (UNCTAD 2024).

The digital transformation of the global halal industry has also reshaped market dynamics, with e-commerce and social media platforms playing a crucial role in consumer engagement and cross-border trade. Indonesian brands are increasingly leveraging digital platforms such as Shopee, Tokopedia, and international marketplaces like Modanisa and Noon to reach global consumers. However, digital infrastructure gaps, cross-border payment challenges, and logistical barriers remain significant obstacles for Indonesian businesses looking to compete with more technologically advanced players. This issue remains a key concern due to its structural impact on trade performance. While multiple challenges exist, certification redundancy directly affects export costs and market entry speed, especially for SMEs (United Nations Conference 2025).

Given these factors, this study aims to explore the role of halal certification in international trade agreements, the challenges and opportunities faced by Indonesian modest fashion and halal cosmetics exporters, and the impact of regulatory harmonization on global market access. While halal certification is central to Indonesia's export identity, its relevance must be contextualized. Beyond religious requirements, certification plays a geopolitical role in market access diplomacy (Statista 2024a). Nonetheless, challenges also stem from broader issues such as e-commerce infrastructure, political stability, and geoeconomic alignment with Middle Eastern markets. By analyzing Indonesia's legal framework, , trade agreements, and export performance, this research seeks to provide policy recommendations and strategic insights to strengthen Indonesia's position in the global halal industry.

The structure of this paper is as follows. First, it reviews the existing literature on the global halal economy, with a focus on modest fashion and halal cosmetics trends. Second, it examines Indonesia's halal certification system and its alignment with international standards. Third, it analyzes the impact of free trade agreements, particularly the Indonesia-UAE CEPA, on halal product exports. Fourth, it discusses the challenges of regulatory divergence, non-tariff barriers, and supply chain inefficiencies that hinder Indonesia's competitiveness. Finally, it presents policy recommendations and future research directions to enhance Indonesia's halal trade integration and industry sustainability. By addressing these critical issues, this research contributes to the growing discourse on halal industry development, international trade policies, and regulatory harmonization, providing valuable insights for policymakers, industry stakeholders, and academic scholars in the field of Islamic economics and global trade.

Methods

This study employs a qualitative research approach using document analysis to examine the integration of halal certification within free trade agreements and its impact on Indonesia's modest fashion and halal cosmetics exports to the Middle Eastern market. By analyzing regulatory frameworks, trade agreements, and industry reports, this research aims to understand how differences in halal certification standards affect market access and trade facilitation. The study focuses on secondary data sources, including government regulations, international halal certification standards, and official trade agreements, particularly those related to the CEPA. Data is drawn from institutions such as the BPJPH, GCC, the ESMA, and the SFDA.

This research examines Indonesia's halal certification framework under Law No. 20 of 2021 on Halal Product Assurance and its implementing regulations, particularly Government Regulation No. 26 of 2019. These legal instruments provide insights into the certification process, international cooperation mechanisms, and compliance requirements for Indonesian businesses exporting to the Middle East. Similarly, the study reviews the UAE's Emirates Conformity Assessment Scheme (ECAS) and Saudi Arabia's halal certification regulations to assess compatibility with Indonesian standards.

Data analysis follows a thematic approach, identifying key themes such as regulatory harmonization, trade barriers, and compliance requirements. The comparative analysis method is applied to highlight the convergence and divergence between Indonesia's halal certification system and those in Middle Eastern countries. By examining official documents, this study

ensures objectivity and reliability in its findings. Methodological triangulation is used by cross-referencing multiple sources to enhance validity. The research acknowledges limitations, particularly the reliance on secondary data, which may not fully capture on-the-ground challenges faced by exporters. However, the study provides valuable insights for policymakers and industry stakeholders on the role of regulatory harmonization in strengthening Indonesia's competitiveness in the global halal industry.

Theoretical Framework

The theoretical framework for this study is grounded in the interplay between Halal certification regulations and their implications within the broader economic and legal frameworks in Indonesia and the Middle East. The study employs institutional theory to explain how regulatory bodies, businesses, and consumers interact within the Halal ecosystem. Institutional theory suggests that regulatory structures, normative expectations, and cultural cognitive elements shape business behaviors, particularly in compliance with Halal standards. This perspective is relevant given the variation in Halal certification enforcement and governance mechanisms between Indonesia, which has a centralized regulatory model, and the Middle East, where regulatory authority is often distributed among different agencies. Additionally, the study incorporates stakeholder theory to analyze the role of key actors, including government regulators, businesses, religious authorities, and consumers, in shaping the effectiveness of Halal certification policies. By using a comparative analytical approach, the study aims to highlight the institutional constraints and opportunities that influence the implementation of Halal certification across different legal jurisdictions.

In a recent study by Fernando, Eing, and Wahyuni-TD (2025), the integration of the metaverse in Halal logistics and supply chains was examined using bibliometric analysis. Their study identified the growing role of digital environments in streamlining Halal compliance, particularly in ensuring transparency and traceability in Halal-certified products. They proposed a framework for the metaverse-Halal supply chain, which aligns digital transformation strategies with Halal business principles (Fernando et al. 2025). This study contributes to the theoretical understanding of digital governance in the Halal industry and provides insights into how digital technologies can enhance regulatory compliance.

Another significant study by Raimi, Abdur-Rauf, and Olaide Raimi (2024) explored the interdependence between Halal entrepreneurship and Islamic finance. Using a systematic literature review, the study found that Halal

entrepreneurship is strongly linked to Islamic finance principles, particularly in ensuring Shari'ah-compliant funding and ethical business practices. The study developed a theoretical model based on the finance-growth nexus and Maqasid-ul Shari'ah principles, which emphasize ethical standards, social justice, and sustainability (Raimi et al. 2024). The findings suggest that a cohesive integration of Halal entrepreneurship and Islamic finance can drive economic growth while maintaining compliance with Islamic ethical norms. This study is relevant to the current research as it underscores the regulatory and financial dimensions of Halal certification, highlighting the importance of financial inclusivity and compliance in the Halal industry.

Result And Disccussion

Halal Certification Regulations in Indonesia and the Middle East: A Comparative Analysis

Indonesia and the Middle East have established rigorous halal certification frameworks that regulate food, cosmetics, and pharmaceutical products to ensure compliance with Islamic law. While Indonesia has developed a centralized halal certification system through the BPJPH under Law No. 20 of 2021, the Middle East relies on multiple regulatory bodies such as the GCC Standardization Organization (GSO), the ESMA, and the SFDA to harmonize halal standards. These regulatory systems reflect distinct approaches in overseeing halal certification, with Indonesia focusing on national enforcement and the Middle East emphasizing regional standardization.

The Indonesian halal certification system is governed primarily by Law No. 20 of 2021, which mandates that all consumables, including food, beverages, pharmaceuticals, and cosmetics, must be certified halal unless explicitly stated otherwise (Kemenag RI 2021). The law established BPJPH, which operates under the Ministry of Religious Affairs and oversees the certification process. The Indonesian Ulema Council (MUI) remains the religious authority responsible for issuing halal fatwas, which serve as the religious basis for certification decisions (Kemenag RI 2019). The Halal Inspection Agencies (LPH) are accredited by BPJPH to conduct audits on production facilities, ensuring compliance with halal standards.

The Government Regulation No. 26 of 2019 further details certification procedures, including document verification, facility inspection, product testing, and surveillance audits to maintain compliance. With the introduction of Government Regulation No. 42 of 2024, Indonesia has strengthened the Halal Product Assurance System (SJPH), ensuring traceability and transparency in the certification process. The Ministerial

Decree No. 982 of 2019 outlines specific procedures for the international recognition of Indonesian halal certificates, facilitating trade with Middle Eastern countries and beyond (Kemendag RI 2024b).

The UAE has implemented a centralized halal certification system through ESMA, which mandates compliance with the Emirates Conformity Assessment Scheme (ECAS) for all imported and domestically produced halal goods. Products must adhere to UAE.S 2055-1:2015 for food and UAE.S 2055-4:2014 for cosmetics, ensuring strict adherence to halal requirements (RACS 2018) Certification is granted only after rigorous inspections, laboratory testing, and facility audits, with annual surveillance to maintain compliance.

Saudi Arabia follows GSO 2055-1, which aligns with the Islamic principles governing food production. The SFDA mandates halal certification for all imported food and beverage products, requiring certification from SFDA-approved bodies in exporting countries. Meat and poultry products must have both a Halal Certificate and a Health Certificate, issued by an accredited body in the country of origin (Saudi Food & Drug Authority 2024). The Saudi accreditation system relies on the Saudi National Accreditation Committee (SAAC), which evaluates certification bodies before granting approval to certify halal products. A comparison of halal certification frameworks in Indonesia and the Middle East is presented in the table below:

Table 1: Comparison of Halal Certification Frameworks in Indonesia, the UAE, and Saudi Arabia

| Aspect | Indonesia (BPJPH) | UAE (ESMA) | Saudi Arabia (SFDA) |
|---------------------------|---|--|--|
| Regulatory Body | BPJPH (Ministry of Religious Affairs) | ESMA (ECAS) | SFDA, SAAC |
| Primary Standard | UU No. 20 Tahun 2021, G.R. 26/2019 | UAE.S 2055-1:2015, UAE.S 2055-4:2014 | GSO 2055-1, GSO 993 |
| Certification Scope | Food, beverages, cosmetics, pharmaceuticals | Food, cosmetics, personal care | Food, beverages, pharmaceuticals |
| Inspection Process | Facility audits, document review, product testing | Lab testing, audits, surveillance | Pre-approval of exporters, health certificates |
| International Recognition | Mutual agreements via Ministerial Decrees | UAE recognizes selected foreign certification bodies | Saudi Arabia requires SFDA-approved certification bodies |

Source: Kemenag RI 2019; Saudi Food & Drug Authority 2024

A key development in halal trade regulations is the CEPA, which was signed in 2022 to facilitate mutual recognition of halal certification. This agreement reduces trade barriers for Indonesian halal products entering the UAE and aligns certification standards between the two countries (Kemendag RI 2024b). The agreement also strengthens Indonesia's export market for halal cosmetics and processed food products, sectors where Indonesian companies are highly competitive.

Despite these regulatory advancements, challenges remain. Indonesia faces issues in streamlining certification for SMEs, many of which struggle with compliance due to administrative and financial constraints. Meanwhile, the Middle East continues to refine its halal certification system to prevent fraudulent labeling and ensure that all imported products meet rigorous halal requirements. The GSO's push for regional standardization aims to address inconsistencies in certification criteria across GCC states, fostering a more uniform regulatory environment for halal trade (GSO 2008).

As global demand for halal products continues to rise, both Indonesia and the Middle East are enhancing their certification frameworks to maintain leadership in the halal economy. Indonesia's BPJPH-driven system emphasizes national regulatory control with international recognition agreements, while the Middle East's approach, led by GSO, ESMA, and SFDA, focuses on regional standardization and strict import controls (Bappenas 2023). These regulatory models play a crucial role in shaping global halal trade policies and ensuring consumer confidence in halal-certified products.

Free Trade Agreements Involving Indonesia and the Middle East and Halal Product Export Statistics

Indonesia has actively pursued bilateral and multilateral free trade agreements (FTAs) to enhance economic relations with the Middle East, particularly in sectors such as halal products, modest fashion, and halal cosmetics. The most significant agreements include the CEPA and the ASEAN-Gulf Cooperation Council (GCC) Framework of Cooperation. These agreements facilitate trade by reducing tariffs, harmonizing halal certification standards, and promoting investment in halal industries.

The Indonesia-UAE CEPA, signed in 2022, is a landmark agreement that eliminates up to 94% of tariffs on Indonesian exports to the UAE, including halal-certified products such as processed food, cosmetics, and fashion items (Bappenas 2023). This agreement strengthens Indonesia's position as a key supplier of halal goods to the UAE and other GCC countries, where the demand for certified halal products is high. The CEPA also includes mutual recognition of halal certification standards, ensuring that Indonesian halal products meet UAE regulatory requirements, thus simplifying market entry.

The ASEAN-GCC Framework of Cooperation (2024-2028) builds upon previous economic partnerships and focuses on enhancing trade in halal-certified goods between ASEAN and the GCC. The agreement includes policy dialogues on trade, investment cooperation, and regulatory alignment to facilitate smoother trade flows. GCC, which includes Saudi Arabia, the UAE, Bahrain, Kuwait, Oman, and Qatar, is a key trading partner for Indonesia, particularly in the halal food, cosmetics, and modest fashion industries. The framework aims to increase exports by reducing technical barriers to trade, including streamlining halal certification requirements.

Table 2: Comparison of Free Trade Agreements Involving Indonesia and the Middle East

| Agreement | Countries Involved | Key Features | Impact on Halal Trade |
|---------------------------------------|--------------------|--|---|
| Indonesia-UAE CEPA | Indonesia, UAE | 94% tariff reduction, mutual halal certification | Facilitates market entry for Indonesian halal goods |
| ASEAN-GCC Framework | ASEAN, GCC | Trade policy dialogues, regulatory harmonization | Expands halal product exports to GCC countries |
| ASEAN Trade in Goods Agreement (AFTA) | ASEAN members | Tariff reduction within ASEAN region | Supports intra-ASEAN halal trade |

Source: GSO 2008.

These agreements highlight Indonesia’s strategic efforts to integrate its halal industry into the global market, particularly in the Middle East, where demand for halal-certified goods is growing rapidly. Indonesia’s halal industry has experienced significant export growth, with total exports reaching IDR 673.90 trillion (approximately USD 45 billion) in 2024, as reported by the Ministry of Trade (Kemendag RI 2024a). The food and beverage sector remains the leading contributor to halal exports, followed by cosmetics and modest fashion. The Middle East is a primary export destination, accounting for a large share of processed halal food and halal-certified beauty products.

Table 3: Indonesia's Halal Product Export Performance in 2024

| Product Category | Export Value (IDR Trillion) | Key Export Destinations |
|----------------------|-----------------------------|-----------------------------|
| Processed Halal Food | 320.5 | UAE, Saudi Arabia, Malaysia |
| Halal Cosmetics | 185.3 | UAE, Qatar, Turkey |
| Modest Fashion | 168.1 | Saudi Arabia, UAE, Oman |
| Total Halal Exports | 673.9 | Various |

Source: Statista 2024b; Dinar Standard Research 2024

According to State of the Global Islamic Economy (SGIE) Report 2023/24, the processed food sector, which includes instant noodles, snacks, and halal-certified beverages, accounts for nearly 47.5% of total halal exports. The growing demand for halal beauty and skincare products in the UAE and Qatar has also contributed to an increase in cosmetic exports, driven by the region's strict halal compliance requirements. The modest fashion industry is another key growth sector, particularly in Saudi Arabia and the UAE, where Islamic fashion trends are shaping the retail landscape. Indonesian designers and brands have gained recognition in Middle Eastern fashion markets, with exports of modest apparel and hijabs increasing by 12.5% in 2024 (Dinar Standard Research 2024). Overall, Indonesia's strategic engagement in FTAs and its strong halal export performance position the country as a leading global hub for halal-certified products, ensuring greater market access and trade facilitation in the Middle East.

Global Trends in the Halal Industry: Halal Cosmetics and Modest Fashion

The global halal industry has experienced significant expansion, driven by the increasing demand for ethical, sustainable, and Shariah-compliant products. The halal cosmetics and modest fashion sectors have emerged as two of the fastest-growing segments, influenced by demographic shifts, economic policies, and changing consumer preferences. The halal cosmetics industry is projected to grow rapidly due to advancements in ingredient transparency, ethical sourcing, and digital marketing, while modest fashion continues to expand as mainstream brands embrace inclusivity and Muslim consumers seek high-quality, stylish apparel.

Growth of the Halal Cosmetics Market

The global halal cosmetics market is estimated to be worth USD 39 billion and is expected to grow at a CAGR of 9.2% from 2023 to 2028 (Dinar Standard Research 2024). This growth is fueled by rising consumer awareness of halal-certified ingredients, the demand for alcohol-free and cruelty-free beauty products, and the expansion of digital platforms catering to halal beauty consumers. The Asia-Pacific region dominates the halal cosmetics market, with Indonesia, Malaysia, and the UAE emerging as key hubs for production and export. According to *The State of the Global Islamic Economy 2023/24 Report*, the growth of halal cosmetics is driven by several key trends.

One significant trend is the increasing emphasis on ingredient transparency and ethical sourcing, where consumers are demanding products that are not only halal-certified but also vegan and cruelty-free. In response, brands are investing in natural and organic ingredients that comply with Shariah principles while aligning with global sustainability standards (MUI 2013). Additionally, the expansion of digital platforms and e-commerce has played a crucial role in marketing halal beauty products. Social media, influencer-driven content, and the use of AI-powered virtual try-on technologies have significantly enhanced global visibility and consumer engagement. Another notable trend is the growing interest from non-Muslim consumers, who are drawn to halal cosmetics for their clean, safe, and environmentally responsible formulations, thereby expanding the market beyond traditionally Muslim-majority regions.

Growth of the Modest Fashion Industry

The modest fashion industry is experiencing significant expansion, with global Muslim spending on fashion reaching USD 318 billion in 2022, a growth of 8.4% from the previous year. By 2027, it is projected to reach USD 428 billion with a CAGR of 6.1% (Dinar Standard Research 2024). The rise of modest fashion influencers, global fashion weeks featuring modest wear, and the demand for versatile clothing has made this segment increasingly attractive to mainstream brands.

According to *The State of the Global Islamic Economy 2023/24 Report*, the growth of modest fashion is driven by several key factors. One of the primary drivers is the adoption of modest wear by mainstream global brands such as Nike, Dolce & Gabbana, and Uniqlo, which have introduced product lines including hijabs, loose-fitting apparel, and modest sportswear tailored to the needs of Muslim consumers. Furthermore, the rise of e-commerce and the influence of social media platforms such as Instagram, TikTok, and Modanisa have significantly shaped the retail landscape, with digital influencers playing a pivotal role in setting trends and engaging

audiences. In addition, there is a growing emphasis on diversity and inclusivity in major fashion shows, where modest fashion is increasingly featured through collections that harmonize religious values with contemporary design aesthetics.

Market Comparison: Halal Cosmetics vs. Modest Fashion

The following table presents a comparative overview of the halal cosmetics and modest fashion industries based on growth trends and market value:

Table 4: Market Overview of Halal Cosmetics and Modest Fashion

| Industry | Market Value (2022) | Projected Market Value (2027) | Key Growth Drivers |
|-----------------|---------------------|-------------------------------|--|
| Halal Cosmetics | USD 39 billion | USD 61 billion | Ingredient transparency, e-commerce, ethical sourcing |
| Modest Fashion | USD 318 billion | USD 428 billion | Mainstream adoption, social media influence, inclusivity |

Source: Dinar Standard Research 2024

As illustrated in Table 4 above, the growth of both industries is strongly driven by consumer demographics, with Muslim youth populations, ethical consumers, and digital-native buyers shaping purchasing behaviors. The largest markets for halal cosmetics are Southeast Asia, the Middle East, and South Asia, whereas the modest fashion sector sees strong demand in Europe, North America, and the Gulf region.

The global halal industry, particularly in cosmetics and modest fashion, continues to witness exponential growth, increased investment, and mainstream adoption. Both sectors align with ethical consumerism, digital retail trends, and cross-cultural market penetration. As regulatory frameworks strengthen and brands further integrate halal-certified processes, these industries are set to become key pillars of the global Islamic economy.

Challenges and Opportunities in Exporting Indonesian Modest Fashion and Halal Cosmetics

The Indonesian halal industry, particularly in modest fashion and halal cosmetics, has witnessed rapid growth, positioning Indonesia as a key

player in the global halal economy. With the world's largest Muslim population and a strong government push for halal certification, Indonesia has developed a robust regulatory framework to support the export of halal-certified fashion and beauty products. However, while the industry holds vast potential, it faces significant challenges, including regulatory barriers, market competition, and shifting consumer preferences.

Indonesia's strategic initiatives, such as the CEPA and participation in the Halal Expo Istanbul 2024, have created favorable conditions for halal fashion and beauty exports (Kemendag RI 2023). The global modest fashion market is projected to grow from USD 318 billion in 2022 to USD 428 billion by 2027, with a 6.1% CAGR (AFTA 2019). Similarly, (See Table 2) the halal cosmetics market is valued at USD 39 billion, growing at 9.2% annually. These figures indicate a surging demand for Shariah-compliant products, particularly in GCC countries, Europe, and Southeast Asia (Kemendag RI 2024a).

The Middle East is a key export destination due to high demand for Islamic fashion and beauty products. Brands such as Wardah and Zoya have successfully expanded into Saudi Arabia, the UAE, and Turkey, leveraging strong brand identity and compliance with GCC halal regulations (Kemendag RI 2023). Additionally, e-commerce and social media platforms have played a crucial role in connecting Indonesian brands with international consumers, making exports more accessible and scalable. The government's initiatives to streamline halal certification through BPJPH and establish mutual recognition agreements with Middle Eastern and ASEAN countries further reduce technical barriers to trade. The implementation of the Halal Assurance System (SJPH) enhances traceability and transparency, making Indonesian products more competitive in global markets.

Despite its advantages, the Indonesian halal industry faces several barriers to export expansion. One of the main obstacles is regulatory fragmentation, where different countries have varying halal certification standards. The GCC countries, the EU, and ASEAN members have distinct halal compliance requirements, requiring Indonesian businesses to obtain multiple certifications to access these markets. Market competition is another significant challenge. Countries like Malaysia, Turkey, and the UAE have well-established halal fashion and beauty industries, offering strong competition for Indonesian exporters. Malaysian brands, for example, benefit from government-backed halal initiatives and international branding strategies, making them highly competitive in the GCC and European markets.

Additionally, supply chain inefficiencies and high production costs pose challenges. Many Indonesian modest fashion and halal cosmetics brands rely on imported raw materials, increasing production costs and dependency on global supply chains. This makes it difficult for local brands to compete with global players that have more efficient logistics and lower manufacturing costs.

Table 5: Export Performance of Indonesian Halal Fashion and Cosmetics (2024)

| Industry | Export Value (IDR Trillion) | Key Export Destinations |
|---------------------|-----------------------------|---------------------------|
| Modest Fashion | 168.1 | Saudi Arabia, UAE, Turkey |
| Halal Cosmetics | 185.3 | UAE, Qatar, Malaysia |
| Total Halal Exports | 673.9 | Various |

Source: GoodStats 2024

The export of halal cosmetics has been particularly strong in the UAE and Qatar, where demand for ethical, cruelty-free, and halal-certified beauty products is growing rapidly.

Strategies to Enhance Export Competitiveness

To overcome existing challenges and capitalize on expanding market opportunities, Indonesian businesses must implement integrated strategies across multiple fronts. One critical approach is strengthening international branding by enhancing brand identity through digital marketing campaigns, collaborations with influencers, and active participation in global halal expos, all of which contribute to increased visibility and recognition in the international marketplace. In parallel, businesses should expand their presence on e-commerce and digital platforms by leveraging online marketplaces such as Modanisa, Lazada, and Noon, thereby reaching broader consumer segments and improving market penetration.

Equally important is the optimization of supply chains; by reducing reliance on imported raw materials and developing localized sources for fabrics and halal-certified beauty ingredients, businesses can enhance cost efficiency and responsiveness to market demands. Finally, improving

compliance with international halal standards, including the establishment of mutual recognition agreements with regulatory authorities in the GCC and the European Union, can simplify certification procedures and facilitate smoother access to global markets (GSO 2008). Indonesia's modest fashion and halal cosmetics industries hold immense potential in the global market, particularly in the Middle East, Southeast Asia, and Europe. While challenges such as regulatory fragmentation, supply chain inefficiencies, and strong competition persist, strategic investments in branding, digitalization, and supply chain optimization can significantly enhance Indonesia's export competitiveness. The government's continued efforts to integrate halal certification into free trade agreements will further strengthen Indonesia's position as a leading halal industry hub.

The discussion of this research examines the integration of halal certification in free trade agreements and its impact on Indonesia's modest fashion and halal cosmetics exports to the Middle East. The findings indicate that while Indonesia has a well-established halal certification system under BPJPH and comprehensive trade agreements such as the Indonesia-UAE CEPA, challenges remain in regulatory harmonization and market competitiveness. The variations in halal certification standards between Indonesia and Middle Eastern countries, particularly the UAE and Saudi Arabia, create non-tariff barriers that hinder seamless trade. Indonesia's halal certification process, governed by Law No. 20 of 2021 and Government Regulation No. 26 of 2019, is designed to align with international standards, but differences in interpretation and enforcement at the destination countries require additional certification approvals. This process increases costs and administrative burdens for Indonesian exporters, limiting their competitive advantage in the global halal industry.

The role of the Indonesia-UAE CEPA is significant in facilitating halal product exports by reducing tariffs and ensuring mutual recognition of halal certification. However, despite a 94% tariff reduction, exporters still face the challenge of navigating complex regulatory landscapes in the Middle East. The requirement for additional verification by Gulf Cooperation Council (GCC) authorities, including the ESMA and the SFDA, adds logistical complexity for Indonesian businesses. This has resulted in delays and increased compliance costs, making it difficult for SMEs to compete with established players from Malaysia and Turkey, which have long-standing trade relations with Middle Eastern markets.

The export performance data highlights that Indonesia's halal cosmetics and modest fashion industries have experienced substantial growth, with Total halal exports are projected to reach IDR 673.9 trillion in 2024 (Kemendag RI 2024a). The demand for halal-certified cosmetics, particularly in the UAE and Qatar, reflects a shift in consumer preference

toward ethical and Shariah-compliant beauty products. The modest fashion industry has also gained momentum, with major exports directed toward Saudi Arabia, the UAE, and Turkey. However, despite this growth, Indonesia's global market share in the halal sector remains limited compared to other leading exporters. This is partly due to the country's fragmented supply chain, dependence on imported raw materials, and lack of internationally recognized halal branding. While Indonesia is a key producer of halal goods, global consumers still associate Malaysia and Turkey with higher standards of halal integrity, largely due to their aggressive marketing strategies and government-backed halal promotion efforts.

Another critical factor influencing Indonesia's position in the halal industry is the rise of e-commerce and digital platforms, which have transformed consumer access to halal products. The increasing role of online marketplaces has allowed modest fashion and halal cosmetics brands to reach international audiences without relying solely on traditional distribution channels. However, many Indonesian SMEs struggle with the digitalization of their businesses, facing challenges such as cross-border logistics, international payment systems, and compliance with foreign e-commerce regulations. Unlike brands from Malaysia, which benefit from strong governmental support in digital trade, Indonesian brands often lack the infrastructure and expertise to optimize their global reach through digital channels.

The findings suggest that to strengthen Indonesia's competitiveness in the global halal market, strategic interventions are required in several key areas. First, regulatory alignment with Middle Eastern countries should be prioritized through diplomatic and trade negotiations to simplify certification processes and remove redundant regulatory barriers. Second, government-led initiatives to enhance Indonesia's halal branding internationally will be crucial in elevating consumer perception and market confidence in Indonesian halal products. Third, investment in supply chain efficiency and local raw material sourcing will help reduce production costs and increase profitability for exporters. Finally, greater emphasis on digital transformation and e-commerce training for SMEs will ensure that Indonesian brands remain competitive in an increasingly digital global marketplace.

Indonesia's position as a leading halal economy is strengthened by its large domestic market and strong halal regulatory framework. However, overcoming existing trade barriers and enhancing international competitiveness require concerted efforts from both the government and industry stakeholders. As global demand for halal products continues to rise, Indonesia must take proactive measures to integrate into global

supply chains, improve trade facilitation, and promote itself as a world leader in the halal industry. The ability to leverage its strengths in modest fashion and halal cosmetics while addressing market access challenges will determine Indonesia's long-term success in the global halal economy.

Conclusion

This study has explored the integration of halal certification within free trade agreements and its impact on Indonesia's modest fashion and halal cosmetics exports to the Middle East. The findings indicate that while Indonesia has established a strong halal certification system through BPJPH and has strengthened trade relations through agreements such as the Indonesia-UAE CEPA, regulatory misalignment remains a key barrier to seamless trade. Differences in halal certification standards between Indonesia and its key export destinations, particularly the UAE and Saudi Arabia, result in additional compliance costs, extended approval processes, and non-tariff barriers that hinder market expansion. Despite these challenges, Indonesia's halal export sector continues to experience substantial growth, driven by increasing global demand for Shariah-compliant fashion and beauty products.

The modest fashion and halal cosmetics sectors have emerged as key contributors, with primary export destinations including Saudi Arabia, the UAE, and Qatar. However, despite this growth, Indonesia still lags behind competitors like Malaysia and Turkey, which have more established international branding, stronger government-backed promotional efforts, and better integration into global halal supply chains. The digital transformation of the halal industry presents both opportunities and challenges, as Indonesian SMEs struggle with e-commerce logistics, cross-border payments, and digital marketing strategies, which are crucial for expanding international reach.

To enhance Indonesia's global competitiveness in the halal industry, several strategic measures must be considered. First, harmonization of halal certification standards through stronger diplomatic and trade negotiations will be essential in reducing regulatory burdens and improving market access. Second, Indonesia must strengthen its international halal branding to increase consumer confidence and market share. Third, investment in domestic supply chain efficiency will help reduce reliance on imported raw materials and improve cost competitiveness. Lastly, digital capacity-building initiatives should be prioritized to support SMEs in optimizing their presence in global e-commerce markets.

Future research should explore the long-term effects of Indonesia's participation in free trade agreements on halal exports, particularly in assessing the success of mutual recognition agreements in streamlining halal certification processes. Additionally, further studies should examine the role of technological advancements, such as blockchain and artificial intelligence, in enhancing halal traceability and regulatory compliance. By addressing existing trade barriers and capitalizing on new opportunities, Indonesia can solidify its position as a global leader in the halal economy, ensuring sustainable growth and increased international market share for its modest fashion and halal cosmetics industries.

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