

THE IMPACT OF THE HALAL INDUSTRY AND ISLAMIC FINANCIAL ASSETS ON INDONESIA'S ECONOMIC GROWTH USING THE VECTOR AUTOREGRESSION (VAR) APPROACH

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ABSTRAK

Penelitian ini bertujuan untuk mengetahui dampak dari keberadaan industri halal dan aset keuangan syariah terhadap pertumbuhan ekonomi yang ada di Indonesia. Metode penelitian menggunakan pendekatan kuantitatif. Data penelitian dikumpulkan dalam bentuk time series dari Badan Pusat Statistik (BPS), Otoritas Jasa Keuangan (OJK) dan State of The Global Islamic Economy Report (SGIE). Data tersebut diinterpolasi setiap bulan dan dianalisis menggunakan metode VAR. Temuan dalam penelitian ini menunjukkan terdapat hubungan yang positif dan signifikan antara industri halal terhadap pertumbuhan ekonomi di Indonesia dalam jangka pendek. Sedangkan aset keuangan syariah tidak berpengaruh signifikan terhadap pertumbuhan ekonomi di Indonesia. Dari hasil uji kausalitas Granger menunjukkan bahwa terdapat hubungan kausalitas satu arah antara industri halal dengan pertumbuhan ekonomi di Indonesia. Hasil penelitian menunjukkan industri halal berperan penting dalam mendorong pertumbuhan ekonomi di Indonesia. Dengan adanya penelitian ini diharapkan industri halal dan aset keuangan syariah meningkatkan pertumbuhan ekonomi Indonesia lebih baik lagi dengan pengembangan industri halal.

Kata kunci: pertumbuhan ekonomi, industri halal, aset keuangan syariah

ABSTRACT

The present study intends to examine the influence of the halal business and Sharia financial assets on economic growth in Indonesia. The research method requires a quantitative methodology. Research data was acquired in time series form from the Central Statistics Agency (BPS), Financial Services Authority (OJK), and State of the Global Islamic Economy Report (SGIE). The VAR approach is used for analysis once the data is interpolated monthly. The findings in this research suggest a favorable and significant association between the halal industry and economic growth in Indonesia in the short term. Meanwhile, Islamic financial assets significantly affect economic growth in Indonesia. According to the results of the Granger causality test, a one-way causal relationship exists between economic development in Indonesia and the halal industry. The research results demonstrate that the halal industry is essential in supporting economic growth in Indonesia. With this research, the halal industry and Sharia financial assets can improve Indonesia's economic growth by increasing the halal sector.

Key words: economic growth, halal industry, islamic financial asset.

INTRODUCTION

The Islamic economy has emerged as the primary focus of numerous nations during the global economic recovery. Sharia economy and halal sector are sources of new

growth engines that can increase economic growth in diverse countries (Achdiat, 2022). Indonesia should be a pioneer and the world's largest producer of halal industry. However, The State of the Global Islamic

Economy Report 2022 highlighted that Indonesia is one of the world's largest consumers of halal products, comprising 11.34% of global halal expenditure.

Indonesia is the second largest consumer globally in the halal food sector, while in the halal cosmetics sector, it is the fourth largest consumer. Meanwhile, Indonesia's Sharia economic development continues to improve, and Indonesia managed to rank 4th in the world. Second place in the field of halal food, fourth in the field of the Islamic finance sector, third in the field of halal fashion, ninth place in the pharmaceutical and medicine sector, and not even in the top 10. Second place in halal food, fourth in the Islamic finance sector, third in halal fashion, ninth in the pharmaceutical and medicine sector, and not even in the top 10 Moslem-friendly travel dan media and reaction. Our position must still catch up to Malaysia.

Considering this vast market potential, sustainable celery must be improved to meet domestic and foreign demand. Thus, Indonesia has a large domestic market and has the opportunity to become the world's leading halal producer. It is time for Indonesia to be a role model and mecca for the world's halal industry. Industrialization of halal products is a solution to make Indonesia a global producer of halal products (Bakar et al., 2021).

The growth of the Islamic economy involves the halal food and beverage sector, modest fashion, cosmetics, pharmaceuticals, media and recreation, and travel. This growth is expected to reach US\$2.8 trillion by 2025, an increase of 7.5% (CAGR) (IDN Financial, 2022). The fact is reinforced by Bank Indonesia (BI) data in the Indonesia Halal Market Report 2021/2022, noting the potential contribution of the Islamic economy to a total of US\$ 5.1 billion to national GDP through exports of halal products, foreign investment growth, and import substitution (IDN Financial, 2022).

The *Annual Islamic Finance Conference* (AIFC) report revealed that in the last decade, Islamic finance has become one of the

fastest-growing sectors in the global financial industry, surpassing conventional financial markets.

The readiness of the Islamic financial services industry is one strategy for supporting sustainable finance and strengthening the Islamic Economy and Finance Moreover, the value of Islamic financial assets is projected to reach USD 3.69 trillion by 2024.

In the study of economic growth, the theory of economic growth is divided into two groups. First, classical growth theory is based on the belief and effectiveness of market mechanisms. Second, modern economic growth is a theory initiated by classical economists, namely Adam Smith, David Ricardo, and Harrod Domar. Harrod Domar's theory emphasizes the importance of investment formation for economic growth. The higher the investment of a country, the better the economy in the country. These investments affect aggregate demand and expenditure through production capacity (Chotib and Huda, 2020).

Permana (2020) revealed that Islamic financial institutions have implications for economic growth in reducing poverty levels by increasing people's incomes and reducing poverty. The findings of Saestu (2023) and Fathoni (2022) revealed that three halal business sectors are believed to be more vulnerable to the Covid-19 pandemic to facilitate national economic recovery, namely halal finance, halal food industry, and halal fashion Quddus (2022) and was reinforced by Madjid and Hasan (2022). They found that lifestyles in the Islamic banking sector, halal tourism, and halal food positively affect Indonesia's economic growth.

Charity (2017) found that developing Islamic finance can boost economic growth. However, this positive effect is needed by an underdeveloped institutional framework (Mubarok and Imam, 2022). Governments should consider implementing proactive and favorable economic and institutional policies for Islamic finance (Dewi et al., 2023).

This research found that lifestyles in the Islamic banking sector, halal food, and halal

tourism can increase Indonesia's economic growth. The halal factor becomes the commercialization of lifestyle, where a product must have halal components, and consumers become part of the contemporary lifestyle (Dwi, 2015).

Halal financing from the banking sector and the Islamic stock market has proven stronger than mainstream finance. In addition to guaranteed halal, health is also guaranteed, and halal fashion is now on the rise, along with Muslim fashion, which is increasingly innovative and global (Gunawijaya, 2017). The role of Islamic financial institutions in the digital era can be maximized by technological transformation, which aims to support performance and increase efficiency and productivity, supporting the profitability of Islamic financial institutions. Adopting high-level technology in Islamic financial institutions contributes to economic growth and a more equitable distribution of the economy (Chotib and Huda, 2020; Saestu, 2023; Arijofa and Khairunnisa, 2020).

Based on the explanation above, several studies have explored the role and relationship between the halal industry and Islamic finance. However, most of these studies still use a qualitative approach to literature studies. So, in this study, researchers want to study more deeply and contribute comprehensive thinking with the *vector autoregressive* (VAR) method with time variables to analyze the dynamic impact of the focus of the research study. So, in this study, researchers conducted a study entitled "The Influence of Halal Industry and Islamic Financial Assets on Indonesia's Economic Growth with a Method Approach Vector Autoregression (VAR)."

THEORETICAL REVIEW

Economic Growth Theory

The classical economic growth theory of optimal population has explained the relationship between the number of workers and the output level, or GDP, whereby the best state of growth will occur when total

production grows as the number of workers increases.

As a refinement of these classical theories, Solow's neoclassical growth theory assumes that the rate of technology and the rate of depreciation are constant, the rate of population growth is constant, and there is no import-export, no government sector, and that all people in the area have jobs.

According to Romer, the technology factor is also an endogenous component of economic growth because individuals can own and use technology without incurring costs. Schumpeter also argues that entrepreneurship determines a region's economic progress.

He continued among business people with the ability and creative stability to innovate fresh and new ideas regarding production, diverse procedures, and management. According to Harrod-Domar, increasing capital investment is very important because it increases production (Fitryani et al., 2020).

Halal Industry

According to Sharia, the halal industry produces halal goods and services. Halal is also used in halal food, kitchen, dress code, tableware, logo, and halal certificate. Anonymous from halal itself is haram. To avoid haram, each individual follows the instructions regarding halal and haram taught by the Qur'an and Sunnah. The following are the basic foundations related to the halal industry.

Al-Qur'an

Allah SWT warns us, as Muslims, to consume halal things strictly. This can be seen from the verses of the Al-Quran, including surah Al-Baqarah, verse 168, Al-Maidah, verse 87, An-Nahl, verse 114, and many other verses that discuss the halal industry.

يَا أَيُّهَا النَّاسُ كُلُوا مِمَّا فِي الْأَرْضِ حَلَالًا طَيِّبًا وَلَا تَتَّبِعُوا خُطُوَاتِ الشَّيْطَانِ إِنَّهُ لَكُمْ عَدُوٌّ مُبِينٌ ١٦٨

It means:

"O people, eat some (food) on earth that is halal and good and do not follow the steps of Satan. Indeed, he is a real enemy to you." (QS: Al-Baqarah:168)

Allah SWT reiterates the need to be devoted to Allah SWT. Allah SWT says:

يَا أَيُّهَا الَّذِينَ آمَنُوا لَا تَحْرَمُوا طَيِّبَاتِ مَا أَحَلَّ اللَّهُ لَكُمْ وَلَا تَعْتَدُوا إِنَّ اللَّهَ لَا يُحِبُّ الْمُعْتَدِينَ ٨٧

It means:

"O you who believe, do not forbid anything good that Allah has made lawful for you, and do not exceed the limits. Indeed, Allah does not like those who transgress limits". (Q.S: Al-Ma'idah: 87)

Allah SWT commands us to eat something halal and be grateful for it. Allah SWT says:

فَكُلُوا مِمَّا رَزَقَكُمُ اللَّهُ حَلَالًا طَيِّبًا وَاشْكُرُوا نِعْمَتَ اللَّهِ إِنَّ كُنُتُمْ لِيَاءَهُ تَعْبُدُونَ ١١٤

It means:

"Eat some of what Allah has given you as lawful and good (sustenance) and be grateful for Allah's blessings if you only worship Him." (QS. An-Nahl: 114)

Hadith

Likewise with hadiths, there are several hadiths that discuss the halal industry as an explanation of verses from the Koran, including the following hadith.

إِنَّ الْحَلَالَ بَيِّنٌ وَإِنَّ الْحَرَامَ بَيِّنٌ وَبَيْنَهُمَا مُشْتَبِهَاتٌ لَا يَعْلَمُهُنَّ كَثِيرٌ مِنَ النَّاسِ فَمَنْ اتَّقَى الشُّبُهَاتِ اسْتَبْرَأَ لِدِينِهِ وَعَرْضِهِ وَمَنْ وَقَعَ فِي الشُّبُهَاتِ وَقَعَ فِي الْحَرَامِ

It means:

"Indeed, halal matters are clear, and haram matters are also clear. There are doubtful matters between the two that are unknown to many people. Whoever keeps himself away from doubtful matters has saved his religion and honor. Whoever falls into doubtful matters, then he fell into illegal matters". (HR Bukhari dan Muslim)

A good understanding of religion makes Muslims more selective in selecting products consumed (Bakar et al., 2021). Fatwa MUI

Number: 26 of 2013 Concerning Halal Standards Cosmetic Products and Their Uses. Which contains: (1) Cosmetics have become one of the human needs in general; (2) That the cosmetics that every Muslim will use must be made from halal and holy ingredients; (3) Technological developments have been able to produce various cosmetic products that use various types of ingredients and have various functions, where it is often unclear whether the ingredients are pure or not; (4) Regarding this problem, questions arise from the public regarding the halal standards of cosmetic products and their uses; (5) Therefore, it is necessary to establish a fatwa regarding halal standards for cosmetic products and their use as a guideline.

The decision of the Fatwa Committee Fatwa Council Indonesian Ulema Regarding the Determination of Halal Products on 13 Muharram 1431 H/30 December 2009 M. With the existence of the Majelis Ulama Fatwa, the ummah Indonesian Islam is increasingly protected from the legal aspect of all its needs, coupled with the existence of institutions specifically tasked with audit the products consumed by Muslims.

This institution is the Food and Drug Monitoring and Distribution Agency of the Ulema Council Indonesia (LPPOM MUI). It oversees products circulating in Indonesian society by giving them halal labels (Dewan Syariah Nasional Nomor 112/DSN-MUI/IX/2017) in 2017, the guarantee administration body inaugurated Halal Products (BPJPH) through the provisions of Law Number 33 of 2014 regarding Halal Product Assurance (Fathoni, 2022).

Law No. 30 of 2014 concerning Halal Products guarantees the halal industry's function and purpose, namely to ensure the freedom of each resident to embrace their respective religions, where the state is obliged to provide protection and guarantees about halal products. In improving the halal value chain, the government needs to concentrate on industrial sectors, which have many opportunities in Indonesia. Some halal

industry sector clusters that Indonesia can develop are.

Halal Food and Beverage

Food and drink are primary needs for every human being. For a Muslim, consuming food and drink must be halal and good (thayyib). The Koran, as in Surah An-Nahl (16): 114:

فَكُلُوا مِمَّا رَزَقَكُمُ اللَّهُ حَلَالًا طَيِّبًا وَاشْكُرُوا
نِعْمَتَ اللَّهِ إِنَّ كُنُفُومَ إِيَّاهُ تَعْبُدُونَ ۝ ١١٤

It means: "Eat some of what Allah has given you as lawful and good (sustenance) and be grateful for Allah's blessings if you only worship Him."

From this verse, we recommend mentioning the necessity of consuming halal and good food and drink.

Halal Tourism

This one thing is attractive to various countries in the world. Even though they are not majority Muslim, like several countries in Europe, they are now developing halal tourism as the Muslim-friendly tourism genre. Besides, Muslim-friendly destinations contain historical or Islamic values, such as al-Hambra in Granada and various heritage sites of Islamic dynasties. Others are Muslim-friendly services, such as hotels that provide prayer equipment, Qibla direction, the Koran, and halal food.

Muslim Fashion

Muslim fashion has attracted designers and Muslims in various parts of the world. They want an elegant style that beautifies their appearance, thus increasing their self-confidence. Indonesia is now a reference for this development. Several muslim fashion designers were born and raised in this country.

The hijab community has also emerged as an association that pays attention to and consumes the latest muslim fashion. This trend is a means of friendship that strengthens brotherhood and gives birth to ideas and movements that support the development of world muslim fashion trends. Their

interactions take place face-to-face and also online via social media.

Halal Media and Recreation

Creative industries with muslim nuances are attractive to Indonesian people. Among these are creative works in the form of films and animations that originate from novels. Then, it was developed into a film that was shown on the big screen and attracted the attention of the national public. Various soap operas also include Islamic values in a number of their scenes, thereby showing the closeness of the product to the majority of the population in this country who embrace Islam.

Halal Pharmaceuticals and Cosmetics

Halal pharmaceuticals and cosmetics are made from ingredients that comply with Islamic law. Their content is free from elements of forbidden animals that are slaughtered outside of Islamic guidelines. These commodities must be produced and processed using tools that are not mixed with substances outside of Sharia. Thus, halal pharmaceuticals and cosmetics harmonize Islamic law, good manufacturing practices (GMP), and halal raw materials.

Energi

Fossil energy will decrease due to increasing consumption. Renewable energy is an alternative world need, so people's mobility remains high. This energy comes from plants and scientific engineering developed by scientists (Hasbi, 2021).

Sharia finance in Indonesia is divided into several clusters that play a role in supporting the economy (Bakar et al., 2021). Here are the clusters in Islamic finance (Abd. Majid and Kassim, 2015)

Sharia Banking

Sharia banks provide financial facilities following Islamic law sourced from the Koran and hadith.

Sharia banks are explained in Law No. 21 of 2008 concerning Sharia Banking. Sharia

Banks are banks that carry out business activities based on Sharia principles, or principles of Islamic law regulated in the fatwa of the Indonesian Ulema Council, such as the principles of justice and balance ('*adl wa tawazun*), benefits (*maslahah*), and universalism (*aliyah*). They do not contain gharar, maysir, usury, injustice, and haram objects.

Sharia Capital Market

According to OJK, Sharia capital markets are activities whose principles do not conflict with Islamic law.

According to Undang-Undang No 8 of 1995 concerning Capital Markets (UUPM), the capital market includes activities related to Public Offerings and Securities Trading, Public Companies related to the Securities they issue, and institutions and professions related to Securities.

Non-Bank Financial Institutions

A non-bank financial institution, or LKBB, is an agency that operates in the financial sector and is responsible for collecting and distributing funds back to the community. The money collected is not in deposits, savings, or current accounts. However, LKBB issues securities. Meanwhile, funds are distributed to the community through investment and credit services (Yunus and Rini, 2021).

RESEARCH METHODS

The method used in this research is a quantitative research method with the Vector Autoregressive VAR Model. This model was chosen because it could capture economic events. The magnitude of the influence of the short-term relationship between the halal industry in Indonesia, sharia financial assets, and GDP as an indicator of economic development in Indonesia from 2015 to 2021 can be studied using the VAR approach.

The test tool used is EViews 10. This research uses secondary data in the form of time series data taken from statistical reports from BPS (Central Statistics Agency), OJK

(Financial Services Authority), and SGIE (State of the Global Islamic Economy). The data is then analyzed by interpolating it into monthly intervals.

The stages of testing the VAR method for this analysis test are: 1) Stationary tests as evidence of the stability of each variable are used with the Augmented Dickey-Fuller value as the test criterion value; 2) Testing to determine the optimal lag length to determine the length of the period duration of a variable that is influenced by previous period variables and other variables; 3) The cointegration test is used to obtain the possibility of a long-term equilibrium relationship between variables. This test is performed as a follow-up test of the stationary test. This test uses the Johansen cointegration test; 4) Granger causality test to check for a causal relationship between two variables (Saestu, 2023). This study examines the relationship between the Halal Industry, Islamic Financial Assets, and GDP.

The equation model that can be built to see the influence of the halal industry and Islamic financial assets on Indonesia's economic growth in this study can be seen as follows.

$$GDP = \alpha + \beta_j \sum_{j=1}^{60} EG_{t-j} + \gamma_j \sum_{j=1}^{60} HI_{t-j} + \delta_j \sum_{j=1}^{60} IFAT_{t-j} + \mu_{1t}$$

Where:

EG = Indonesia's Gross Domestic Product as an indicator of economic growth in percent.

HI = The Growth in transaction value of Indonesia's halal industry, which includes halal food, fashion, pharma, cosmetics, media, and tourism in percent.

IFA = The Growth of Islamic financial assets, which include Islamic banking, Islamic capital market, and Islamic NBFIs in percent.

ANALYSIS AND DISCUSSIONS

Progression of Indonesia's Economy

Indonesian economic growth shows high volatility between 2015 and 2021. Based on figure 1, it is known that the development of Indonesian economic growth at constant prices according to the business sector has continued to increase throughout 2005-2019, with the highest value occurring in 2018, which amounted to 5.17%. 2019 experienced a decline, so economic growth was only 5.02%. The sharp decline in GDP in 2020 was due to the high number of COVID-19 cases globally.

So, all economic sectors experience contraction, negatively affecting economic growth by -2.07%. Even though it is still in a pandemic condition, Indonesia's economic growth has increased, reaching 3.70% in 2021.

Progression of Industri Halal and Islamic Financial Assets in Indonesia

The halal industry is a global trend today. This is proven by its continued growth. In 2015, the value of the Indonesian halal industry was USD 191.08 billion, and it continued to increase to USD 210.4 billion (figure 2).

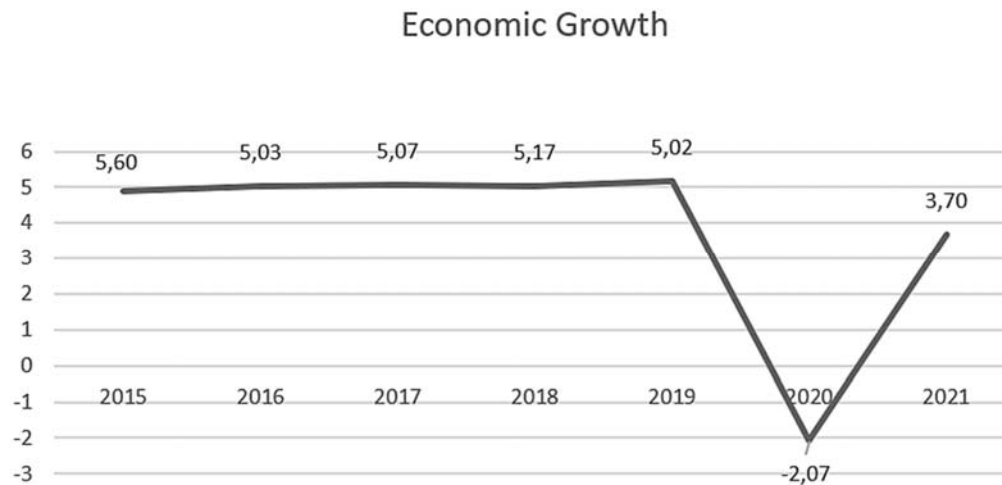


Figure 1
Development of Economic Growth

Source: Data processed by EViews 10, 2022

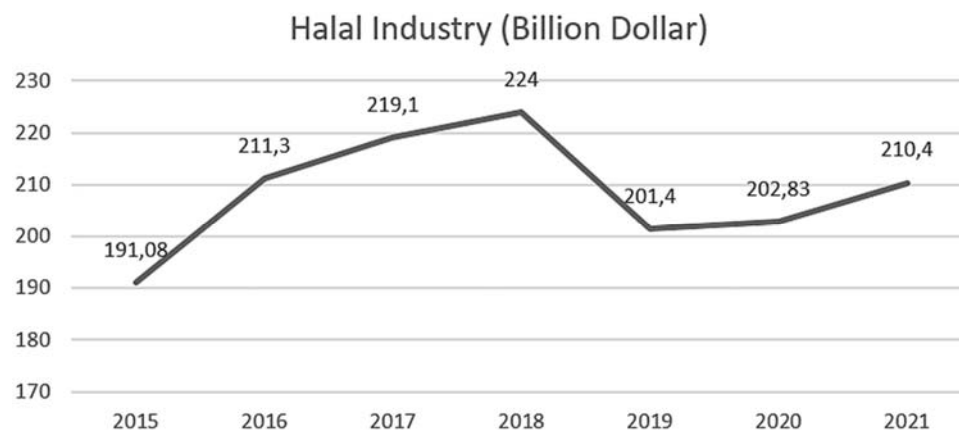


Figure 2
Development of Halal Industry in Indonesia

Source: Data processed by EViews 10, 2022)

According to a report from the around 1.8 billion Muslims are consumers of the halal industry. Opportunity consumers in the halal industry increased by 5.2% annually, and total consumer spending reached USD 2.2 trillion. This amount is expected to continue increasing every year.

Projections from the Compound Annual Growth Rate (CAGR) of the halal industry will increase to 6.2% from 2018 to 2024. Total funds spent by halal industry consumers will also increase to USD 3.2 trillion by 2024.

The data show that the halal industry has very bright prospects in the future. The halal industry plays a strategic role in boosting the economy. As it should be, the Halal industry is developed in Indonesia. The halal industry contributes USD 3.8 billion to Indonesia's Gross Domestic Product (GDP) every year.

In addition, the halal industry has contributed USD 1 billion in foreign investment and created 127 thousand jobs every year. When optimized again, the halal industry can increase the value of exports and the country's foreign exchange reserves.

Islamic financial industry assets, based on the State of Global Islamic Economy Report (SGIE), consisting of the Islamic banking sector, Islamic capital market, and Islamic non-bank financial industry, reached

USD 23 billion in 2015 and continued to increase rapidly until 2021, amounting to USD 210.4 billion (Figure 3). Islamic financial assets continue to experience growth every year. In 2018, Sharia financial assets increased by 13.97% (yoy) to IDR 1,287.65 trillion.

Indonesia ranks 6th in the world's Islamic financial asset market with a total asset value of USD 119 billion. In 2022, the market share of the Islamic financial industry will reach 10.69%. In detail, the market share of Islamic banking assets is 7.09%, the Islamic non-bank financial industry (IKNB) is 4.73%, and the capital market is 18.27% .

Research Result

Time series data is declared stationary if it does not contain unit roots. According to Gujarati, the time series data is said to be stationary with the condition that it has a constant average and variance throughout the period and will move stably without seeing the movement of positive or negative trends (Luthan et al., 2019).

This stationary test was performed using the Augmented Dickey-Fuller method, which compared the calculated ADF value with the Mackinnon critical value. The data to be tested is at the first level of differentiation. The following are the ADF test output results in a broad outline (table 1).

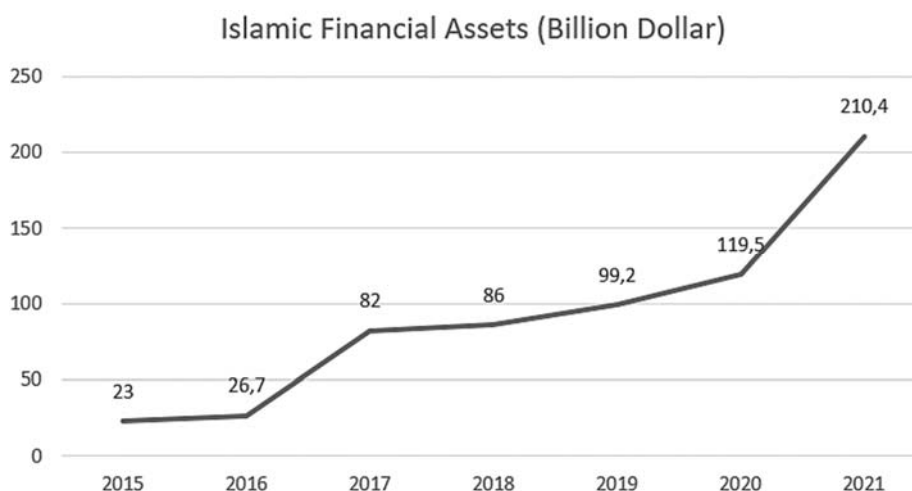


Figure 3
Development of Islamic Financial Assets Indonesia

Source: Data processed by EViews 10, 2022

Table 1
Stationary Test Results

| Variable | Unit Root | ADF t-Statistics | Mackinnon 5 % Critical Value | Probability | Concl. |
|----------|------------------|------------------|------------------------------|-------------|---------------|
| EG | Level | -2.037316 | -2.898145 | 0.2706 | No stationary |
| | First Different | -2.444914 | -2.897678 | 0.1329 | No stationary |
| | Second Different | -9.982570 | -2.898145 | 0.0000 | Stationary |
| HI | Level | -2.249500 | -2.897678 | 0.1909 | No stationary |
| | First Different | -3.261483 | -2.897678 | 0.0200 | Stationary |
| | Second Different | -10.09092 | -2.898145 | 0.0000 | Stationary |
| IF | Level | -0.454903 | -2.897223 | 0.8936 | No stationary |
| | First Different | -5.858073 | -2.897223 | 0.0000 | Stationary |
| | Second Different | -10.06369 | -2.898145 | 0.0000 | Stationary |

Source: Data processed by Eviews 10, 2022

Table 2
Optimum Lag Length Test Results

| Lag | LogL | LR | FPE | AIC | SC | HQ |
|-----|-----------|-----------|-----------|-----------|-----------|-----------|
| 0 | -911.3480 | NA | 972419.5 | 22.30117 | 22.38922 | 22.33652 |
| 1 | -421.2333 | 932.4133 | 7.793320 | 10.56667 | 10.91887 | 10.70807 |
| 2 | -370.2917 | 93.18575* | 2.804765* | 9.543701* | 10.16006* | 9.791158* |

Source: Data processed by Eviews 10, 2022

EG, HI, and IFA components are stationary at the ^{second} difference level, with alpha 5% seen as stationary. The interpretation of stationary results in table 1 is as follows.

In the EG variable, the probability value at the 2nd level difference value is 0.0000, smaller than alpha 5%, so it is concluded that the EG is stationary.

The HI variable can be seen as the probability value at the level of ^{second} difference, which is 0.0000, smaller than alpha 05%, so it can be concluded that the HI is stationary.

In the IFA variable, the probability value at the level of the ^{second} difference is 0.0000, which is smaller than the alpha value of 5%, so it is concluded that the IFA is stationary.

The next stage is determining the optimal lag with the following results (table 2).

The optimum lag test acquisition in table 2 shows the optimal lag length is 2. The asterisks are seen in almost all criteria in lag 2. The effect of the Halal Industry and Islamic

Financial Assets variables on economic growth will experience the optimum point at lag 2.

The next stage is the cointegration test, which determines long-term relationships in non-stationary components. This shows that, although each component is not stationary, a linear combination of all variable components will produce a stationary residual. Johansen's cointegration method was used in this test with the following results (table 3).

The test results show that the all-probability trace statistic is greater than the alpha level of 5% and the trace statistic value is smaller than the critical value. Thus, it can be concluded that there is no cointegration between the Halal Industry, Islamic Financial Assets, and economic growth.

The equation has a short-term equilibrium relationship between HI, IFA, and EG. Because it was not cointegrated, the test was continued with the Vector Auto Regression (VAR).

Table 3
Unrestricted Cointegration Rank Test (Trace)

| Hypothesized | | Trace | 0.05 | |
|--------------|------------|-----------|----------------|---------|
| No. of CE(s) | Eigenvalue | Statistic | Critical Value | Prob.** |
| None | 0.106182 | 14.98709 | 29.79707 | 0.7809 |
| At most 1 | 0.053120 | 5.894599 | 15.49471 | 0.7080 |
| At most 2 | 0.018025 | 1.473341 | 3.841466 | 0.2248 |

Source: Data processed by Eviews 10, 2022

Table 4
Granger's Causality Test

| Null Hypothesis | Obs | F-Statistic | Prob. |
|--|-----|-------------|--------|
| Halal Industry Does not Granger Cause Economic Growth | 82 | 4.31023 | 0.0168 |
| Economic Growth Does not Granger Cause Halal Industry. | | 2.45497 | 0.0926 |
| Islamic Financial Assets Do not Granger Cause Economic Growth | 82 | 0.42988 | 0.6521 |
| Economic growth Does not Granger Cause Islamic Financial Assets. | | 0.01425 | 0.9859 |
| Islamic Financial Assets Do not Granger Cause Halal Industry | 82 | 0.85486 | 0.4293 |
| Halal Industry does not Granger Cause Islamic Financial Assets. | | 1.14397 | 0.3239 |

Source: Data processed by Eviews 10, 2022

Based on stationary and cointegration tests, the relationship between HI, IFA, and EG is stationary and equilibrium in the Short term, so causality analysis can be carried out and will show valid and reliable results. This causality analysis uses the Granger method. The results of the causality test in table 4 are as follows (table 4).

The results of the table 4 can be known: HI probability value on EG is 0.0168, smaller than $\alpha = 5\%$. The probability value of EG on HI is 0.0926, and the value is greater than the level of confidence $\alpha = 5\%$. Then, it can be concluded that HI and EG have unidirectional causality, i.e., there is causality from HI to EG. The results show that the HI variable is statistically significant in influencing EG. On the other hand, EG is not significant in influencing HI. Therefore, it is concluded that there is a one-way causality from Halal Industry to Economic Growth;

The probability value of IFA on EG is 0.6521, and the value is greater than the level of confidence $\alpha = 5\%$. The EG probability value on IFA is 0.9859, higher than the confidence level $\alpha = 5\%$. Then, it can be con-

cluded that there is no causality between islamic financial asset and economic growth.

The IFA probability value on HI is 0.4293, which is greater than the level of confidence $\alpha = 5\%$. The probability value of HI in IFA is 0.3239, which is also greater than the level of confidence $\alpha = 5\%$. Thus, it can be concluded that there is no causality between islamic financial assets and the halal industry.

VAR Estimation Result

Based on the estimation results for the short term in table 5, the Halal Industry has a positive and significant relationship to economic growth. In times of rising halal industry, Indonesia's economic growth will rise. This result is undoubtedly under research by Quddus (2022) who research that the halal industry positively influences economic growth. Therefore, the government needs to pay serious attention to macro instrument policies to support the increase in national economic growth (Quddus, 2022). Meanwhile, islamic financial assets do not affect economic growth. This result is undoubtedly based on research by Budiyo (2016).

Table 5
VAR Estimation Result

| Endogenous Variable | Exogenous Variable | Coefficient | SE | T-Statistik |
|---------------------|--------------------|-------------|-----------|-------------|
| D(EG) | C | 1.831325 | | |
| | HI (-1) | 0.119715 | (0.03901) | [3.06899] |
| | IFA (-1) | 0.011366 | (0.02068) | [0.54959] |
| | HI (-2) | 0.112194 | (0.03866) | [2.90194] |
| | IFA (-2) | 0.008443 | (0.02044) | [0.41310] |
| | R-squared | 0.971958 | | |
| | Adj. R-squared | 0.969715 | | |

Source: Data processed by Eviews 10, 2022

DISCUSSION

The Impact of Halal Industry on Indonesia's Economic Growth

The halal industry positively and significantly impacts Indonesia's economic growth. According to granger's causality test results, the probability level is 0.0168 or less than 0.05. The halal industry has a significant influence because it contributes greatly to real economic activities and is supported by a good halal ecosystem. In 2019, halal consumers spent an astonishing \$1.17 trillion on halal food, making it the second largest sector after islamic finance.

In addition, the trend of customers purchasing natural and regular food and beverage items has led to increased revenue from consumers who use halal food products. Indonesia ranks fourth in the world in Shariah economy indicators (Puspita et al., 2020).

In addition, Indonesia is one of the largest consumers of halal products globally, with 11.34% of global Halal expenditures. The Indonesian halal food sector is the second-largest in the world. Based on data from the Central Statistics Agency (Badan Pusat Statistik, 2023), the food and beverage industry makes a significant contribution to the processing industry (Badan Pusat Statistik, 2023).

This sector contributes to the gross domestic product. In addition, halal-certified products in Indonesia have also increased (Mubarok and Imam, 2022). In contrast, the Halal cosmetics sector is the fourth-largest

Indonesia is recognized as the country with the highest Muslim majority in Asia. With around 88.1% of its total Muslim population, it accounts for 12.7% of the world's Muslim population and keeps growing.

In improving the halal value chain, the government needs to concentrate on industrial sectors, which have many opportunities in Indonesia. Some halal industry sector clusters that Indonesia can develop are:

Halal Food and Beverage

Food and drink are primary needs for every human being. For a Muslim, consuming food and drink must be halal and good (thayyib). The Koran, as in Surah An-Nahl (16): 114:

فَكُلُوا مِمَّا رَزَقَكُمُ اللَّهُ حَلَالًا طَيِّبًا وَاشْكُرُوا نِعْمَتَ اللَّهِ
إِنْ كُنْتُمْ إِيَّاهُ تَعْبُدُونَ ۝ ١١٤

It means:

"Eat some of what Allah has given you as lawful and good (sustenance) and be grateful for Allah's blessings if you only worship Him."

From this verse, we recommend mentioning the necessity of consuming halal and good food and drink.

Halal Tourism

This one thing is attractive to various countries in the world. Even though they are not majority Muslim, like several countries in Europe, they are now developing halal tourism as a Muslim-friendly tourism genre. This includes Muslim-friendly destinations that contain historical or Islamic values, such as al-Hambra in Granada and various heritage sites of Islamic dynasties. Others are

Muslim-friendly services, such as hotels that provide prayer equipment, Qibla direction, the Koran, and halal food.

Muslim Fashion

Muslim fashion has attracted designers and Muslims in various parts of the world. They want an elegant style that beautifies their appearance, thus increasing their self-confidence. Indonesia is now a reference for this development. Several muslim fashion designers were born and raised in this country.

The hijab community has also emerged as an association that pays attention to and consumes the latest muslim fashion. This trend is a means of friendship that strengthens brotherhood and gives birth to ideas and movements that support the development of world muslim fashion trends. Their interactions take place face-to-face and also online via social media.

Halal Media and Recreation

Creative industries with muslim nuances are attractive to Indonesian people. Among these are creative works in the form of films and animations that originate from novels. Then, it was developed into a film that was shown on the big screen and attracted the attention of the national public. Various soap operas also include Islamic values in a number of their scenes, thereby showing the closeness of the product to the majority of the population in this country who embrace Islam.

Halal Pharmaceuticals and Cosmetics

Halal pharmaceuticals and cosmetics are products made from ingredients that comply with islamic law. The content is free from elements of forbidden animals and slaughtered not by islamic guidelines. These commodities must be produced and processed using tools, not by Sharia, and not mixed with substances. Thus, halal pharmaceuticals and cosmetics are harmonized with Islamic law, Good Manufacturing Practices (GMP), and halal raw materials.

Energy

Fossil energy will decrease due to increasing consumption. Renewable energy is an alternative world need, so people's mobility remains high. This energy comes from plants and scientific engineering developed by scientists.

The growth in Muslim consumers is significant as it will impact the GDP and influence consumer behavior. Muslim consumers are obligated to choose, buy, and use Halal products. Muslim consumers' behavior toward Halal products affects the Indonesian economy, as they spend around \$190.4 billion on the food sector alone. This result is due to the commitment of the Ministry of Economy, which states that Indonesia can become the leading halal producer in the world.

Using Halal products will impact the Indonesian GDP and contribute to the global progress of the Halal lifestyle, positively impacting the global Islamic economy (Adju et al., 2023).

The Impact of Islamic Financial Assets on Indonesia's Economic Growth

The results of this study indicate that Islamic financial assets in the short term do not affect Indonesia's economic growth, which is in line with Fathoni (2022) research. The cause of the non-significance of Islamic financial assets affecting economic growth is the low market share and inclusion index of Islamic finance in Indonesia, so they have contributed little to economic growth. The share of the islamic financial market as of June 2022 was recorded at 10.41%, much lower than the conventional financial market share, while the Islamic financial inclusion index only reached 12.12%, far behind the financial index in general, which reached 85.10%.

The low market share of islamic finance indicates that public interest in islamic finance still needs to be higher than in conventional finance. Several factors are suspected to cause low public interest in islamic financial products and services, including

the low level of Islamic financial literacy, which will only reach 9.14% in 2022. Based on ADB Institute research, financial literacy is an intrinsic factor that influences and motivates people to seek information and act on what they know. An increase in the Islamic financial literacy index will indirectly increase the Islamic financial inclusion index, which aligns with more excellent public knowledge of financial products and services.

The second factor is that the innovation and competitiveness of the Islamic financial industry still need to be improved compared to those of the conventional financial industry. Islamic financial products have more limited innovation, higher prices of products and services, and a narrower office network than the conventional financial industry, so they cannot reach the public, especially in remote areas.

CONCLUSION AND SUGGESTIONS

The halal industry and Indonesia's economic growth have a good and important short-term relationship, as concluded from the overall study results and the reasons above. Meanwhile, Islamic financial assets do not have a major influence on Indonesia's economic growth. The Granger causality test shows a one-way causality relationship between the halal industry and economic growth.

The advice that researchers can give is that it would be good for the halal industry to be further developed with the aim of improving economic growth in Indonesia. Halal industry developers can start by applying it to tourist attractions, finance and fashion.

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