

Macroeconomic and Institutional Determinants of Halal Industry Growth: Evidence From OIC Countries

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Abstract

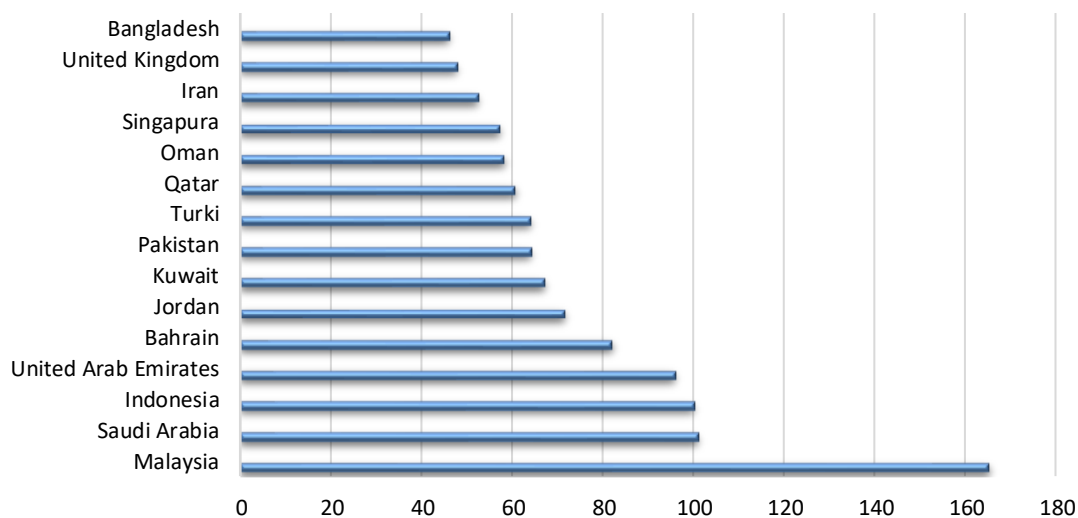
The growing global demand for halal products and services has increased the significance of the halal industry. However, OIC member states still face challenges in maximizing the halal industry's potential, particularly related to macroeconomic conditions and governance quality. This study analyzes the factors influencing halal industry growth in OIC member states, including population growth, inflation, exchange rates, foreign direct investment (FDI), and government effectiveness. The analysis relies a quantitative approach, utilizing secondary data from World Bank and State of Global Islamic Economy (SGIE) Report. The analysis utilizes panel data from 10 OIC member countries for the period from 2015 to 2024. The research finds that exchange rates and government effectiveness have a positively influence on the halal industry growth. Furthermore, inflation and population growth have a negative effect, while Foreign Direct Investment has no significant determinant on the halal industry growth. The empirical evidence from this study show policymakers that the growth of the halal industry depends not only on market potential and investment but also on macroeconomic stability and the quality of governance; therefore, strengthening both is crucial to supporting the industry's growth.

Introduction

The halal industry has evolved into a global economic ecosystem that encompasses not only halal food and beverages, but also cosmetics, fashion, pharmaceuticals, tourism, and Islamic finance (Noviyanti & Hakim, 2025). The State of the Global Islamic Economy report states that this growth is driven by the global Muslim population, which has grown significantly to exceed two billion people, more than 25% of the world's population, creating a massive demand base for the halal industry (Reuters, 2025). In 2023, approximately 2 billion Muslims worldwide spent around \$2.43 trillion across various sectors of the halal industry. In fact, Islamic financial assets are projected to reach \$4.93 trillion (Reuters, 2025). This immense potential has attracted the interest of several non-Muslim countries in developing the halal industry, including Russia, Thailand, Spain, South Korea, Japan, and Mexico(Tariq Khan et al., 2020).

The halal industry growth is closely tied to the role of OIC member states. The Organization of Islamic Cooperation (OIC) is the second-largest international organization after the United Nations (UN), comprising 57 member states with diverse economic and institutional characteristics (Syamsuri et al., 2022). With predominantly Muslim populations, a large market demand base, and high production potential, OIC member states hold a significant position in the halal industry ecosystem. Some are leaders in developing this industry, as indicated by the Global Islamic Economy Indicator (GIEI).

Figure 1. Global Islamic Economy Indicator (GIEI)



Source: State of the Global Islamic Economy 2024/2025.

Malaysia remains the top-ranked country over the past 10 years in halal industry development, followed by Saudi Arabia, Indonesia, and the United Arab Emirates. This achievement is attributable to the availability of robust regulations, well-established certification systems, and an integrated Islamic economic ecosystem (Najla & Fatwa, 2025). However, several other OIC member states have not demonstrated uniform levels of achievement and tend to exhibit relatively low levels of development. Malaysia, for example, achieved a score of 165.1, significantly higher than Saudi Arabia's score of 100.9. Meanwhile, Bangladesh and Iran show relatively low levels of development across most sectors of the halal industry. In contrast, non-OIC countries such as Singapore and the United Kingdom have demonstrated competitive performance in the halal industry. This implies that a large Muslim population does not automatically result in uniform growth of the halal industry across all OIC member states (Zahrianti & Fadly, 2022). This raises an important question regarding the economic and institutional factors that can explain the growth of the halal industry in OIC member states.

The neoclassical growth framework introduced by Robert Solow suggests that a sector's growth is inextricably linked to the availability of capital, labor, and conditions that support productivity (Casian & Vaculovschi, 2025; Solow, 1956). Regarding halal industry growth, these factors are reflected in foreign investment, population growth, and a country's macroeconomic and institutional conditions. Several empirical studies have examined how macroeconomic and institutional factors influence halal industry growth (Arrosikh &

Auwalin, 2019; Cooray & Nam, 2024; Habib et al., 2017; Kurniadi et al., 2025; Lin, 1994; Mu'arrif, 2024; Muharromy & Auwalin, 2021; Nugroho et al., 2025; Rodrik, 2008; Sori et al., 2024).

These studies have yielded varied and inconsistent findings. Kurnadi et al. (2025) find that population growth has a positively effect on the halal industry growth, while inflation has a negatively impact. Arrosikh and Auwalin (2019) state that inflation has a positively influence, whereas exchange rate and FDI do not have significant impact. This aligns with Mu'arrif's (2024) study, which demonstrated that FDI has no effect. From another perspective, Nugroho et al. (2025) presented differing results, showing that FDI significantly influences halal industry growth. Muharromy and Auwalin (2021) demonstrated that population growth and exchange rate have a negatively effect. Meanwhile, the variable of government effectiveness was shown to have a significant effect (Cooray & Nam, 2024; Sori et al., 2024).

Most previous research has focused on how the halal industry contributes to economic development, whereas studies that specifically examine the determinants of halal industry growth from a cross-country perspective remain relatively limited (Ardiansah et al., 2024; Destriyansah et al., 2023; Mu'arrif, 2024; Muharromy & Auwalin, 2021; Mustofa, 2024; Nurzaman, 2025; Syamsuri et al., 2022). Kurniadi (2025) focuses on the 34 provinces in Indonesia, while Nugroho et al. (2025) examine how domestic and foreign investment affect on the halal industry in the top 10 GIEI countries. This indicates that empirical studies using OIC countries as the unit of analysis remain limited.

Based on the empirical studies and theories presented, this study aims to examine and analyze the factors of exchange rate, Foreign Direct Investment (FDI), government effectiveness, inflation, and population growth as determinants of halal industry growth. The research focuses on selected OIC countries based on the Global Islamic Economic Indicator (GIEI) for the period 2015-2024. It is expected to expand the currently limited empirical evidence and provide insight into how macroeconomic and institutional factors relate to variations in halal industry growth across OIC countries.

Literature Review

Halal Industry

In Arabic, the term "halal" is defined as "permissible, allowed" or "legally valid" (Maison et al., 2018; Sani & Abdulmumini, 2025). Halal also refers to related to "tayyib" meaning that good. Halal is defined as anything that is permitted and lawful, not repulsive or unclean, and does not cause harm to others (Malboobi & Malboobi, 2010). The halal aspect is not determined solely by the materials used in production and final products but also by the entire supply chain, which includes production processes, packaging, storage, distribution, marketing, and so on (Fadhil et al., 2026; Siddique et al., 2020). Therefore, the halal industry development requires that all activities within the halal supply chain align with Sharia principles to operate effectively and efficiently (Muhlizoh et al., 2025).

As the global economy evolves, halal has evolved beyond being solely as a religious obligation, but also as a strategic economic asset in international markets (Muhlizoh et al., 2025). The halal industry's market share is no longer limited to the Muslim community; it has

now expanded to include non-Muslims as well. Halal-certified products are now trusted for their quality, cleanliness, and safety. Consequently, demand for the halal industry continues to grow globally, particularly among member countries of the Organization of Islamic Cooperation (OIC) (Ichsan et al., 2025).

Exchange rate

The value of a country's currency in comparison with another currency is determined by the exchange rate (Departemen Pendidikan Nasional, 2008). An exchange rate is basically the value of a foreign currency relative to the local currency. (Sukirno, 2015). Exchange rates are used in various international transactions, particularly in international trade. When the domestic currency depreciates or weakens, the foreign currency appreciates or strengthens (Yuniarti, 2016). This generally shifts the international trade balance toward a surplus. This trade surplus stimulates net exports and strengthens domestic competitiveness, particularly in the halal industry, ultimately accelerating industrial and economic growth (Anagun & Agosu, 2024; Habib et al., 2017; Rodrik, 2008). The proposed hypotheses are presented below:

H1: Exchange rate has a positively effect on the halal industry growth in OIC member countries

Foreign Direct Investment (FDI)

Foreign direct investment (FDI) is considered to have a positively influence on a country's industrial and economic growth (Kumari & Sharma, 2017). FDI contributes not only to expanding access to resources and technology transfer but also to enhancing the competitiveness of local businesses and stimulating various industrial sectors (Haq, 2023; Nugroho et al., 2025). Furthermore, FDI increases productivity and export capacity, ultimately strengthening a country's position in international markets (Mu'arrif, 2024). Various studies have shown that FDI positively impacts various industrial sectors, particularly in developing countries (Nugroho et al., 2025). High levels of foreign investment in a country will lead to increased economic growth, which includes the halal industry (Arrosikh & Auwalin, 2019). Therefore, the hypothesis that can be developed based on this description is:

H2: Foreign Direct Investment (FDI) has a positively effect on the halal industry growth in OIC member countries.

Government Effectiveness

Good and effective governance is evident in performance and service quality, bureaucratic capabilities, and government policies (Annisa, 2023; Irfan et al., 2025; Maarif et al., 2025). The government's effectiveness in carrying out these functions creates an institutional environment more conducive to economic activity (Cooray & Nam, 2024), including the development of the halal industry. The government plays a crucial role in establishing clear and integrated halal certification regulations and standards, credible certification bodies, efficient systems, and consistent policy implementation. Effective governance can reduce administrative barriers and increase certainty for businesses in meeting halal standards. In addition to regulations, government support through halal infrastructure and public education also plays a role in strengthening the growth of the halal

industry (Ahmed, 2022). Therefore, the hypothesis that can be developed based on the above discussion:

H3: Government effectiveness has a positively effect on the halal industry growth in OIC member states.

Inflation

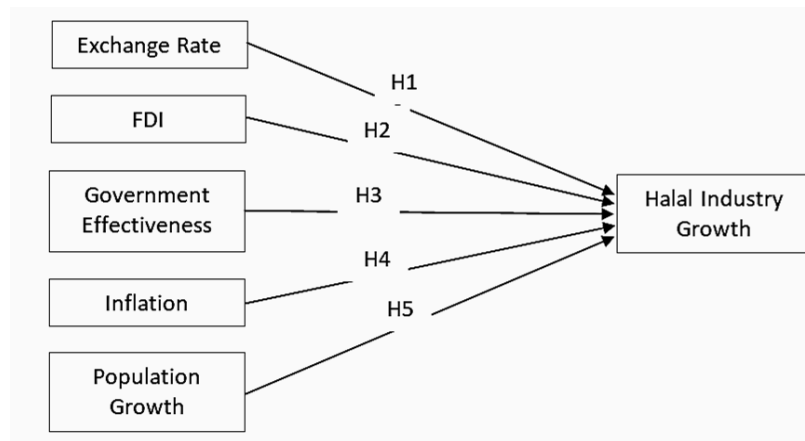
Inflation is a general rise in prices over a specific period (Karim, 2013). A country is said to be experiencing inflation when there is a rise in the price of a commodity that is widespread and sustained over a certain period of time (Murni, 2016). Essentially, inflation inevitably occurs in all countries, and the government's role is to control and manage it. Controlling and managing price stability can at least encourage the public to anticipate rising commodity prices, allowing them to prepare adequately (Al Arif, 2010). Generally, inflation negatively affects industrial and economic growth (Zhang & Zhou, 2025). If the price of a commodity continues to rise, the cost of living increases, and the public must spend more money to obtain goods or services (Adaramola & Dada, 2020). Purchasing power declines and hinders the development of certain sectors, such as the halal industry. This aligns with Irving Fisher's theory, which states that uncontrolled inflation can reduce public purchasing power and weaken consumption levels (Kurniadi et al., 2025). The study proposes following hypothesis:

H4: Inflation has a negatively effect on the growth of the halal industry in OIC member states.

Population Growth

Population growth means the change in the quantity of people in a regional area over a period of time, influenced by factors such as fertility, mortality, and migration (Social, 2023; Vollset et al., 2020). Population growth not only drives demographic change but also expands the consumer base and labor force that support economic activity. The expansion of the halal industry is partly driven by population growth, which contributes to increasing consumer demand for halal products (Mustofa, 2024; Nazaruddin et al., 2023; Noviyanti & Hakim, 2025; Siddique et al., 2020). The continued expansion of the global population is expected to increase the Muslim consumer base, thereby creating greater market opportunities and demand for halal products and services.. (Nazaruddin et al., 2023). However, strengthening the halal industry ecosystem depends not only on population growth or expansion but also on the capabilities and capacity of human resources. Population growth, accompanied by improvements in human resource quality, can strengthen workforce availability and support innovation and the development of the halal industry (Attwood et al., 2023; Aulia & Azizah, 2024). The following hypotheses were developed:

H5: Population growth has a positively effect on the halal industry growth in OIC member states.

Figure 2. Conseptual Framework

Research Methods

This paper adopts a quantitative approach with causal study to analyze and explain the correlations among the research variables. Halal industry growth as the dependent variable in the research with data sourced from State of the Global Islamic Economy (SGIE) Report, while population growth, inflation, government effectiveness, exchange rates, and Foreign Direct Investment are treated as independent variable with data collected from the World Bank.

This study focuses on 10 of the 57 member states of the Organization of Islamic Cooperation (OIC) for the period from 2015 to 2024. Of the 57 OIC member states, not all have consistently available data for the dependent variables used in this study. Therefore, these 10 countries were selected based on data availability and completeness, particularly for the halal industry growth variable, which is measured using the Global Islamic Economy Indicator (GIEI) in the publicly accessible State of the Global Islamic Economy (SGIE) Report. The OIC member states included in this study are Bahrain, Pakistan, Indonesia, Jordan, Kuwait, Malaysia, Oman, Qatar, Saudi Arabia, and the United Arab Emirates.

Table 1. Data measurement

Variable	Name	Measurement	Source
Dependent	Halal Industry Growth	Global Islamic Economy Indicator (GIEI)	State of Global Islamic Economy (SGIE) Report
Independent	1. Exchange Rate	Official Exchange Rate (per US\$)	World Bank
	2. Foreign Direct Investment (FDI)	Foreign Direct Investment (FDI) net inflows (% of GDP)	World Bank
	3. Government Effectiveness	Governance estimate	World Bank
	4. Inflation	Inflation, consumer prices (annual % growth)	World Bank
	5. Population Growth	Population Growth (annual %)	World Bank

Source: Data processed by researchers (2026)

The analysis was conducted using secondary data and a panel data regression approach. Model selection involved three specification tests: the Chow Test, Hausman Test,

and Breusch-Pagan Lagrange Multiplier (LM) Test. These tests were performed to identify the most suitable model among the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM). The results of the model selection tests indicated that the Fixed Effect Model (FEM) provided the most appropriate specification for the analysis. The estimated panel regression equation is as follows:

$$HIG_{it} = \alpha + \beta_1 PG_{it} + \beta_2 INF_{it} + \beta_3 ER_{it} + \beta_4 GE_{it} + \beta_5 FDI_{it}$$

Where:

HIG	: Halal Industry Growth
α	: Konstanta
β	: Koefisien
PG	: <i>Population growth</i>
INF	: <i>Inflation</i>
ER	: <i>Exchange rate</i>
GE	: <i>Government effectiveness</i>
FDI	: Foreign Direct Investment
i	: Cross Section
t	: Time Series

Result

Descriptive Statistics

The descriptive statistical analysis's findings halal industry growth as a dependent variable and independent variables are exchange rate, government effectiveness, population growth, Foreign Direct Investment (FDI), and inflation are as follows:

Table 2. Descriptive statistics

Statistic	HIG	ER	FDI	GE	INF	PG
Mean	1.803374	1.651207	2.390866	0.420288	2.693572	2.240885
Median	1.770790	1.296428	1.871976	0.348083	2.089118	1.740596
Maximum	2.462697	9.671268	15.64288	1.411457	30.76813	8.581733
Minimum	1.528917	-1.201137	-2.760018	-0.682084	-2.540315	-10.92744
Std. Dev	0.185161	3.186994	2.824730	0.520810	4.135894	2.591471
Observations	100	100	100	100	100	100

Source: Processed using Eviews 13.

Table 2 shows that the study was conducted in 10 OIC member countries from 2015 to 2024, with a total of 100 observations across all variables. The dependent variable, halal industry growth, has a mean of 1.803374, ranging from 1.528917 to 2.462697. The first independent variable, exchange rate, shows an average of 1.651207, ranging from -1.201137 to 9.671268. The average of Foreign Direct Investment (FDI) variable is 2.390866, a maximum of 15.64288, and a minimum of -2.760018. Meanwhile, the government effectiveness has a average of 0.420288, ranging from -0.682084 to 1.411457. The average of the inflation variable is 2.693572, with a minimum of -2.540315 and a maximum of 30.76813. Last, population growth variable has an mean of 2.240885, with a maximum of 8.581733 and a minimum of -10.92744.

Panel Data Model Selection

The first step before analyzing the research data is to identify most appropriate model for estimating the correlations among the research variables. There are main approaches tested to decide on the best model, as follows:

Table 3. Chow Test Results

Effects Test	Statistic	d.f.	Prob.
Cross-section F	14.656167	(9,85)	0.0000
Cross-section Chi-square	93.681055	9	0.0000

Source: Processed using Eviews 13.

Table 3 shows that the p-value of the cross-sectional F test is 0.0000, which is below of 0.05 significance. Therefore, the fixed-effects model (FEM) is selected as the appropriate estimation model.

Hausman Test

Table 4. Hausman Test Results

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	11.470305	5	0.0428

Source: Processed using Eviews 13.

Table 4 indicates that the probability value for the cross-sectional random effect is 0.0428. Given that the p-value falls below the 0.05 significance threshold, the fixed-effects model (FEM) is considered the most suitable model for this study.

Diagnostic Tests

Multicollinearity Test

Table 5. Multicollinearity Test Results

Variable	GIEI	ER	FDI	GE	INF	PG
GIEI	1.000000	-0.068609	0.251102	0.441539	-0.124932	-0.185595
ER	-0.068609	1.000000	-0.208673	-0.265078	0.367180	-0.200616
FDI	0.251102	-0.208673	1.000000	0.239344	-0.181762	0.097529
GE	0.441539	-0.265078	0.239344	1.000000	-0.470885	0.159142
INF	-0.124932	0.367180	-0.181762	-0.470885	1.000000	-0.041427
PG	-0.185595	-0.200616	0.097529	0.159142	-0.041427	1.000000

Source: Processed using Eviews 13.

Table 5 indicates that the coefficient values for independent variables are less than 0.8. It implies that multicollinearity is not present in this research.

Heteroscedasticity Test

Table 6. Heteroscedasticity Test Results

Variable	Coefficient	t-Statistic	Prob.
ER	0.006640	0.095931	0.9238
FDI	0.002326	0.825178	0.4116
GE	-0.024092	-0.556956	0.5790
INF	-0.001265	-0.472679	0.6377
PG	-0.001057	-0.456404	0.6493
C	0.073371	0.654546	0.5145

Source: Processed using Eviews 13.

As presented in Table 6, all independent variables have p-values exceeding 0.05 significance level. This results indicate the absence of heteroscedasticity in the estimated model.

Data Analysis

Table 7. Coefficient of Determination

Weighted Statistic			
R-squared	0.727443	F-statistic	16.20436
Adjusted R-squared	0.682551	Prob (F-statistic)	0.000000

Source: Processed using Eviews 13.

The results in Table 7 indicate that the p-value of (0.0000) is less than 0.05. This implies that the research model is considered valid and that the variables population growth, inflation, exchange rate, government effectiveness, and Foreign Direct Investment (FDI) simultaneously influence the variable halal industry growth.

The percentage of the variance explained of the independent variables or R^2 value is 0.727443. Therefore, it can be assumed that the population growth, inflation, exchange rate, government effectiveness, and Foreign Direct Investment (FDI) have a significantly determinant on the variable of halal industry growth 72.74%, while 27.26% is influenced by other determinants not included in the present study.

Table 8. Regression Test

Variable	Coefficient	t-Statistic	Prob.
ER	0.253070	2.976482	0.0038
FDI	0.002086	0.743337	0.4593
GE	0.197394	3.265048	0.0016
INF	-0.006285	-1.850971	0.0676
PG	-0.009606	-3.491656	0.0008
C	1.336010	9.622187	0.0000

Source: Processed using Eviews 13.

As reported in Table 8, the exchange rate variable has a p-value of 0.0038, which is less than 0.10 ($0.0038 < 0.10$) with a coefficient of 0.253070. It implies that the exchange rate has a positively influence on the halal industry growth. In contrast, Foreign Direct

Investment (FDI) has no significant effect on the growth of the halal industry with p-value of $0.4593 > 0.10$. Meanwhile, the government effectiveness variable has a p-value of 0.0016 ($0.0016 < 0.10$) and a coefficient of 0.197394 . This indicates that the government effectiveness variable has a positively significant effect on the halal industry growth variable. Then, the inflation shows a negatively effect with p-value of 0.0676 , which is less than 0.10 ($0.0676 < 0.10$), and a coefficient of -0.006285 . Similarly, the population growth a negative effect with p-value of 0.0008 , which is less than 0.10 ($0.0008 < 0.10$), and a coefficient of -0.009606 .

Discussion

This study identifies several factors that determine the halal industry growth in OIC member countries. First, the exchange rate. Exchange rates have a positively significant relationship with halal industry growth, as indicated by a large coefficient. This suggests that exchange rates are a key driver of halal industry growth. The strengthening of foreign currencies may encourage domestic halal producers to improve their competitiveness and increase exports to capitalize on rising demand for halal products and services. This finding is consistent with (Anagun & Agosu, 2024; Habib et al., 2017; Oyadeyi et al., 2025), which show that exchange rate depreciation has a positive impact on economic growth. A weaker domestic currency makes product prices, particularly those of the halal industry, more competitive in international markets. This could accelerate halal industry exports and expand global markets, thereby contributing the rate of economic growth in the long term (Anagun & Agosu, 2024; Oyadeyi et al., 2025).

Conversely, Foreign Direct Investment (FDI) has no statistically significant effect on the halal industry. The study's findings indicate that foreign investment does not necessarily translate directly into drive the development of a specific sector. These findings differ from those of a study (Nugroho et al., 2025), which identified a positively significant association between FDI and the halal industry. This discrepancy may stem from differences in model specifications and estimation methods. This study found that FDI does not significantly affect economic sector growth, consistent with findings by (Arrosikh & Auwalin, 2019; Epur et al., 2024; Toufiqul & Sowrov, 2025). The results indicate that FDI does not exert the same effect across all industrial sectors but depends on each country's public policies and fiscal conditions (Arrosikh & Auwalin, 2019). Foreign investment flowing into OIC member states has not yet been specifically allocated to sectors that contribute the halal industry growth. Most foreign investment remains concentrated in energy sectors such as oil and gas, mining, and infrastructure (OECD, 2002). Therefore, government policies are essential for addressing the gap between incoming foreign investment and the halal industry ecosystem. The government must formulate policies and strategies that encourage and ensure FDI makes a tangible contribution to strengthening the halal industry ecosystem and capacity.

The positive and significant coefficient for the government effectiveness variable confirms that good governance is crucial to driving halal industry growth. The quality of governance plays a vital role in halal industry development because it involves coordination among the government, business actors, certification bodies, financial institutions, and the general public. These findings align with those of (Cooray & Nam, 2024; Sori et al., 2024),

who state that government effectiveness has a significant influence. A government with institutional capacity must be able to formulate policies that support the halal industry, strengthen the halal supply chain, and enhance product competitiveness. Thus, the more effective the government is in creating supportive regulations, providing adequate facilities, strengthening the halal certification system, and overseeing and enforcing halal standards, the more it will boost the overall of the halal industry growth.

The inflation variable has a negative and significant coefficient, indicating that stable, controlled inflation affects halal industry growth. A negative coefficient for inflation does not imply the absence of inflation or even deflation; rather, it means that inflation continues but remains stable and is effectively managed by the government. These findings corroborate previous research (Azam et al., 2022; Kurniadi et al., 2025), which found that inflation negatively affects halal industry growth and the economy. This indicates that price stability is a critical prerequisite. High, uncontrolled inflation can reduce public purchasing power. This is driven by soaring production costs and rising product prices, which in turn slow halal industry growth (Kurniadi et al., 2025).

The population growth variable has a negatively significant coefficient for halal industry growth. This finding is intriguing because high Muslim population growth does not automatically drive halal industry growth. This aligns with a study (Muharromy & Auwalin, 2021) stating that population growth has a negatively significant effect. Although a large population can create vast market potential, it will not drive halal industry growth without supporting purchasing power, productivity, and high-quality human resources. This is consistent with Solow's Economic Growth Theory, which explains the role of resources in promoting economic development. Population growth that is not balanced by an increase in economic capacity and resource capabilities can increase the burden on the economy and limit productivity (Muharromy & Auwalin, 2021), thereby hindering the sustainable fulfillment of demand in the halal industry.

Conclusions

The findings of this research suggest that macroeconomic and institutional factors play a significant role in driving of the halal industry growth in OIC member states. Exchange rates and government effectiveness have a positively significant impact on halal industry growth in OIC member states. Inflation and population growth have a negatively significant impact on halal industry growth, while Foreign Direct Investment (FDI) does not have a significant impact. These findings indicate that halal industry growth in OIC member states depends not only on market potential and investment but also on economic stability, governance quality, and human resource capacity.

Governments of OIC member states need to strengthen the halal industry ecosystem through consistent and integrated halal regulations and certification, while maintaining macroeconomic stability through inflation control and exchange rate management. Furthermore, in building a sustainable and competitive halal industry ecosystem, public policies issued by governments must be oriented toward directing foreign investment toward strategic sectors of the halal industry. Population growth must also be balanced with

enhancements in human resource quality and productivity. Hence, the population serves not only as a market but also as a productive resource for the halal industry.

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