INDONESIA-MALAYSIA COOPERATION IN SUSTAINABLE PALM OIL DEVELOPMENT THROUGH HALAL VALUE CHAIN

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Abstract

The Halal Value Chain in the Indo-Malay region plays a strategic role in strengthening the competitiveness of the global halal industry. Indonesia and Malaysia as major producers *of Crude Palm Oil* (CPO) need to strengthen the integration of the halal value chain through the harmonization of ISPO-MSPO standards to answer sustainability demands, namely the management of the palm oil industry that pays attention to environmental, social, and economic aspects, increasing the transparency of the production process, and strengthening the position of Indo-Malay in the international market. This study examines Indonesia-Malaysia bilateral cooperation in halal certification and sustainable palm oil development through ISPO and MSPO. The qualitative method is used by analyzing secondary data from journals, official reports, websites, books, and related documents. The results of the study show that Indonesia-Malaysia cooperation strengthens the halal value chain through halal certification and palm oil sustainability standards. ISPO–MSPO integration improves supply chain governance and efficiency. This collaboration adds value and competitiveness to halal products. The synergy between the two countries strengthens the position of Indo-Malay in the global market.

Keywords: *Halal value chain, Sustainable palm oil, Indonesia–Malaysia cooperation, ISPO–MSPO harmonization, Green investment*

INTRODUCTION

Crude Palm Oil (CPO) or crude palm oil is one of the strategic commodities that has an important role in the global economy. CPO is used as the main raw material for various industrial products such as cooking oil, cosmetics, pharmaceuticals, and *biofuels*, so that the world's demand for CPO continues to increase from year to year. The strategic role of CPO makes it a commodity that not only has high economic value, but also has a wide impact on social development and community welfare in producing areas.

Indonesia and Malaysia are the two largest CPO producing countries in the world that together account for more than 80% of total global production. Both countries have made the palm oil industry a leading sector that supports national economic growth, provides jobs, and becomes the main source of foreign exchange through exports to international markets. Therefore, the sustainability and competitiveness of the palm oil industry is an important priority for both countries in maintaining economic stability. Indonesia and Malaysia also consistently occupy the top positions in the State of Global Islamic Economy (SGIE) report. (DinarStandard, 2023)

However, CPO management still faces a number of challenges. The main issues that arise are related to allegations of deforestation, environmental exploitation, unfair land distribution, and the welfare of workers and *smallholders*. Global regulatory pressures such as *the Deforestation-Free Supply Chain* policy demand increasingly stringent sustainability standards, potentially affecting export market access. These challenges not only have an impact on trade stability, but also have implications for social aspects such as increasing agrarian conflicts, economic inequality in plantation areas, and income uncertainty for smallholders.

Seeing these various dynamics and external pressures, Indonesia and Malaysia strengthened cooperation through the harmonization of sustainability standards such as Indonesian Sustainable Palm Oil (ISPO) and Malaysian Sustainable Palm Oil (MSPO). This cooperation aims to increase transparency, improve the governance of the palm oil industry, and strengthen the bargaining position of the two countries in the global market. Bilateral collaboration is an important strategy to ensure the sustainability of CPO production while protecting the economic and social interests of the people in the Indo-Malay region

LITERATURE REVIEW

In this study, it was found that *Halal Value Chain* (HVC) has an important role in post-pandemic economic recovery. The study emphasized that the implementation of HVC not only strengthens the recovery of the industrial sector, but also provides a guarantee of safety, comfort, and certainty for consumers in using halal products and services. These findings show that HVC has become a global necessity and not just a widely adopted concept. (Thyra, 2023)

Subsequent research using data from the Central Statistics Agency revealed that after the implementation of HVC, there was an increase in exports and a decrease in imports of halal food and beverage commodities. This indicates that the implementation of HVC has a positive impact on the effectiveness and competitiveness of Indonesian halal products, although its implementation still faces a number of obstacles so that it cannot run optimally. (Charisma, 2023)

On the other hand, research on the development of halal tourism in the Tomb of Habib Basirih shows that the implementation of HVC in the tourism sector still needs improvement. Especially in the aspects of accommodation and culinary that have not been halal certified, this condition indicates that the readiness of halal tourist destinations has not fully met the standards needed by Muslim tourists. (Zakiyah, 2023)

In addition, research related to the comparison of halal policies between Indonesia and Malaysia illustrates that Malaysia has clearer halal regulations and strategies *Nation Branding* more mature. Meanwhile, Indonesia still faces challenges in harmonizing regulations and strengthening national halal branding. Interestingly, even though both countries are Muslim-majority countries, this factor is actually considered to slow down the growth of the halal industry because there is a tendency to feel "already halal by default", so it is less aggressive in innovation and certification. (Hara, 2023)

The novelty of our article with previous research is that this article specifically discusses Indonesia-Malaysia bilateral cooperation through strengthening the Halal Value Chain in the sustainable palm oil sector, which has not been the main focus in the previous research. The research also highlights the harmonization of halal standards (ISPO–MSPO), knowledge exchange, and environmentally friendly production practices, thus providing a new perspective on how the two countries can strengthen their positions in the global market and drive a more competitive and sustainable halal industry.

METHODOLOGY

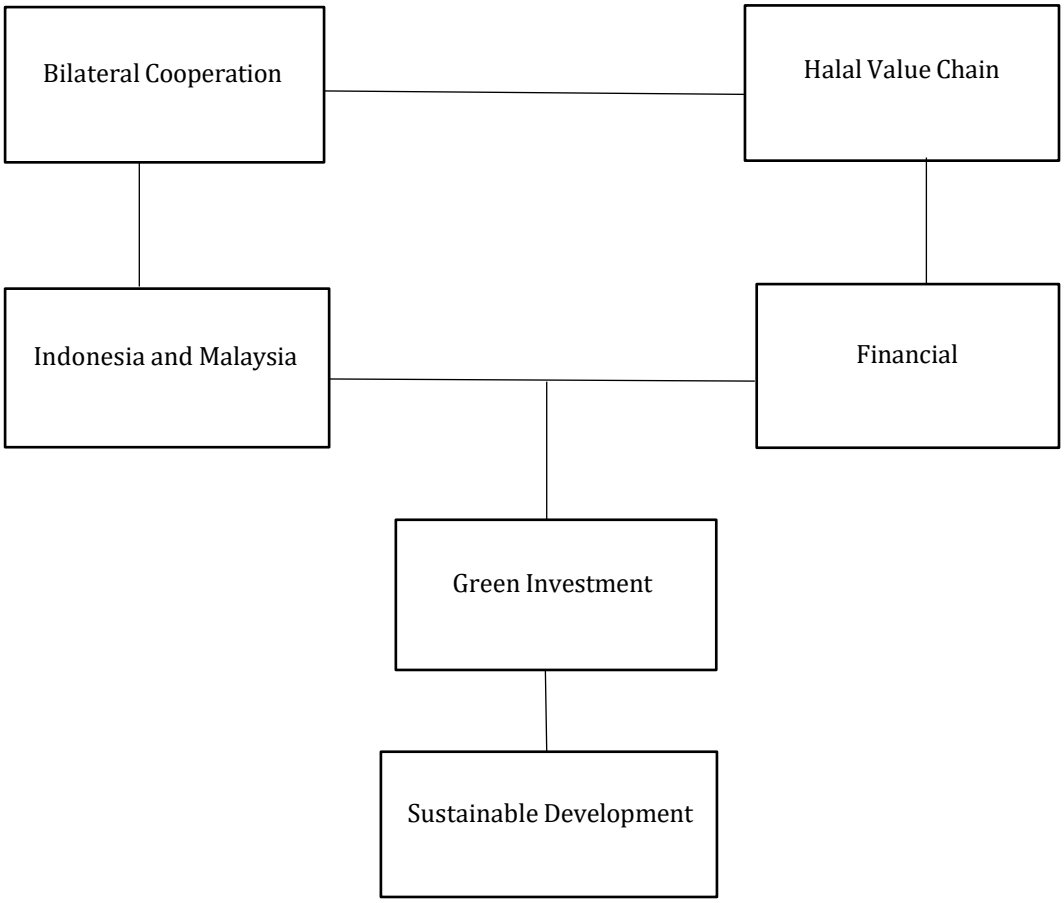
This research uses a qualitative method with a descriptive analysis method because it aims to understand the development of the dynamics of Indonesia-Malaysia cooperation in the field of halal certification and palm oil development through the halal value chain. This approach allows researchers to look more deeply at the context and policy dynamics of the two countries.

Meanwhile, this study uses secondary data obtained from various academic literature, official websites, books, and articles from national and international journals. And the data collection technique is carried out through literature studies through library research and analyzing relevant concepts and findings from previous research. This study utilizes secondary data collected through the literature review process, which is then processed as the main analysis material in the preparation of the research. In addition, this study also uses the Halal Value Chain concept approach and bilateral cooperation as a theoretical basis to see how Indonesia and Malaysia develop strategic collaboration in the palm oil sector through an integrated halal value chain.

With this method, the research is expected to be able to provide a comprehensive overview of the effectiveness of Indonesia-Malaysia bilateral cooperation through the Halal value chain, assess the contribution of sustainable schemes to increasing the added value of the palm oil industry, and produce policy recommendations to strengthen the position of the two countries as the center of an inclusive, competitive, and sustainable global halal industry.

The concepts used in this study are as follows:

Figure.1: Conceptual Frame Work



The concept of Bilateral Cooperation involves two countries in a specific economic agreement, with agreements such as trade, investment, or technical assistance. (Arianthony, 2025)

The halal value chain describes an integrated system in the halal industry that involves the entire production process, from the initial stage to the final distribution stage. This is in line with the research of Nuratikah, et al. who emphasized that the halal value chain is a sustainable process that integrates all activities in the halal ecosystem, so that each stage contributes to economic value and sharia compliance in the halal industry.(Alim, 2024)(Nuratikah, 2024)(Nuratikah, 2024)

The value chain aims to provide maximum value to customers, especially end consumers. In the context of halal, Tieman (2020) quoted by Akhmad Mahbubi explained that the halal value chain occurs when the entire company's value chain internalizes Islamic values, so that every process in production, distribution, and marketing not only adds economic value, but is also in accordance with sharia principles. (Mahbubi, 2023)

RESULTS AND DISCUSSION

Indonesia-Malaysia Challenges in Developing a Halal and Sustainable Palm Oil Sector

Indonesia and Malaysia have a very strategic position in the development of palm oil, but the two countries do not have the integration of halal standards and palm oil sustainability standards. Although Indonesia has ISPO and Malaysia has MSPO, these two certification frameworks are not yet fully harmonious, the two countries still have differences in how to implement them, such as how to assess the risk level of their land and in the rules for tracing the origin of a product. Therefore, ISPO and MSPO have not been able to run in harmony. (Oil, 2025)

The second challenge is the limited access to green investment, especially in meeting the needs of replanting, forest conservation and the application of green technology. According to UNDP, the palm oil sector in Indonesia and Malaysia is still categorized as a high-risk industry by global investors, especially related to deforestation and the impact it has on the environment. In Indonesia itself, there are still many smallholders who do not even have adequate access to capital to meet ISPO standards, while the sector that is run can contribute as much as 4.5% to GDP and can absorb at least 3 million workers.

The next challenge is the pressure of global regulations, especially from the European Union Deforestation Regulation (EUDR). In this regulation, it could help increase costs and require both countries to establish much more stringent systems of deforestation-free geomapping and verification. In this condition, it can have an impact on investment risks and demand a response to joint diplomacy, The three masalh show that the integration of halal value chains based on palm oil not only requires harmonization of standards, but also requires strengthening sustainable funding and policy coordination between the two countries so that they are able to meet the demands of the global market. (CPOPC, 2023) (InfoSAWIT, 2024)

Indonesia-Malaysia Cooperation in Palm Oil Development Through Green Investment

According to the Halal Product Assurance Agency, Indonesia and Malaysia have officially established cooperation in the recognition of halal certification. The strength in Goverment to Government is marked by the signing of a Memorandum of Cooperation (MoC) between the Indonesian government and the Malaysian government regarding halal recognition for both countries for domestic products in their respective countries. With the signing of the MoC, the two countries agreed to cooperate with each other in encouraging and promoting cooperation in assessment and conformity procedures, halal accreditation, standard specifications and the existence of technical regulations for the certification of halal. Then, in this collaboration, there is a transfer of knowledge with the exchange of experience and knowledge, as well as the transfer of technology by providing infrastructure, and research and development as well as the existence of human resources, and matters related to the implementation of halal certification. (Indonesia, 2023)

In the sustainable palm oil development program, Indonesia needs financing of Rp. 60-75 trillion to rejuvenate more than 600,000 hectares of smallholder oil palm plantations, while Malaysia targets replanting on more than 365,000 hectares of land. CPOPC held an international workshop entitled "Breaking Barriers in Achieving Targeted Yield: Driving Success Through Oil Palm Relpanting and GAP Adoption" This is also a form of effort to rejuvenate oil palm plantations and adopt GAP widely. This event was also attended by Indonesia, which is also a palm oil producing country. In addition to halal certification, cooperation between Indonesia and Malaysia in the development of the palm oil sector is also closely related to the concept of green investment, especially in the implementation of ISPO and MSPO sustainability standards carried out internationally. (InfoSAWIT, 2025)

In Nia Kurniawati Hidayat's research entitled *Sustainable palm oil as a public responsibility? On the governance capacity of Indonesian Standard for Sustainable Palm Oil (ISPO)* shows that sustainable palm oil certification is the most important instrument in reducing deforestation and encouraging environmentally friendly plantation practices in both countries and will have an impact on forest empowerment in Southeast Asia. Here, each investment sector must meet ISPO and MSPO standards, ranging from waste treatment, land reforestation, peat conservation, to energy efficiency of palm oil mills.

Then to prevent forest destruction, Indonesia and Malaysia attract green investment through the CPOPC and the Joint Task Force on EUDR. This program prioritizes sustainable diplomacy, synchronization of forest data, and strengthening regulatory risks so that halal palm oil is still accepted by the global community. This step also prepares a safer investment base, especially for replanting, biomass energy and deforestation-free mapping. (Pavilion, 2025)

In addition, Indonesia-Malaysia cooperation in the palm oil sector is also strengthened by scientific findings that confirm that the existence of sustainability practices, halal certification and green investment are interrelated with each other in the governance of the global palm oil industry. With cross-border collaboration in halal certification and sustainability, it can improve supply chain efficiency, reduce carbon emissions and strengthen the market position of halal products at the international level. In this case, it further strengthens the harmonization between Indonesia and Malaysia in halal standardization, especially in Southeast Asia, because at this time consumers do not only look at the aspect of food safety, but also from halal standardization and environmental sustainability. (Hadi, 2013)

Both countries implement sharia financing for green projects. Malaysia became a global pioneer through the issuance of its first corporate Green Sukuk in 2017 under the Malaysian Securities Commission to fund renewable energy, while Indonesia took the lead as the first country to issue Global Green Sukuk (Sovereign Green Sukuk) since 2018, following a significant issuance around 2023 that allocates funds for climate change mitigation, forestry and clean energy projects. These sustainable sharia financing instruments are aligned to support the development of halal value chains, including palm-based ones, provided that the projects are in line with sustainability and environmental principles. (Indrawati, 2023)

There is a strengthening of the digital traceability system to comply with EU regulations such as EUDR. Indonesia and Malaysia are focusing on the development of satellite-based mapping, geolocation tagging and digital auditing at the plantation level to ensure that from each fresh fruit bunch (FFB) can be traced back to its original coordinate point, this rigorous digital traceability system not only supports compliance with global market demand, but also significantly strengthens the integrity of the halal value chain as it allows for clear verification of the source of raw materials and Trusted. (FAO, 2025)

Overall, the implementation of green investment in cooperation between Indonesia and Malaysia has a significant impact on the halal palm oil industry. Replanting increases productivity, palm biomass opens up renewable energy opportunities, sharia financing strengthens the foundation of the green economy, and digital traceability ensures supply chains meet international standards. This combination of investment and technology places halal palm oil as a strategic sector that is not only highly competitive, but also environmentally friendly.

CONCLUSION

Indonesia-Malaysia cooperation in the halal and sustainable palm oil sector shows that standard integration still faces obstacles, ranging from the difference in ISPO-MSPO, limited access to green investment, to global regulatory pressures such as EUDR. Despite this, the two countries have implemented various strategic programs such as the recognition of halal certification, strengthening sustainability standards, diplomacy through the CPOPC, and collaboration on green investment. The real implementation in the form of replanting, palm biomass utilization, sharia financing, and the development of a digital traceability system show that this collaboration has a significant impact on productivity, environmental sustainability, and global acceptance. Overall, the Indonesia-Malaysia synergy emphasizes that halal palm has the potential to become a competitive and environmentally friendly leading sector in the international market.

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