

# Halal Fashion Industry in Indonesia: Opportunities and Challenges in the Digital Age

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## **Abstract**

*This study aims to describe the opportunities and challenges faced by the Indonesian halal fashion industry in the digital era. This research was conducted with literature research with a descriptive qualitative approach. Secondary data is obtained from various articles, journals, reports and authoritative websites relevant to this research. The results of this study found that the economic potential in the halal fashion industry sector in Indonesia is very large. In addition, the support and role of the government, the ratification of Law Number 33 of 2014 concerning Halal Product Guarantees, the rise of Muslim fashion designers and Muslim fashion festivals, as well as a positive public response make this potential more likely to be developed. In addition to having opportunities to develop, this industry also faces several challenges, including raw materials that are still imported, the need for adaptation to the technology needed in the production process, human resources that are not yet scientifically based and must be innovative, adaptation to digital marketing strategies, limited access to capital and must increase synergy between halal fashion producers, designers and raw material supplier industries.*

**Keywords:** Halal, Fashion, Digital Age

## **A. Introduction**

Fashion has become one of the global businesses. The fashion industry has grown more and more than global market share and exploited the economy. The activity of buying and selling fashion products has occurred in many countries around the world. Fashion is a global industry with a huge economic, political, and cultural impact on the lives of many people, who make, sell, and wear it (Indarti & Peng, 2017). Muslims have spread to many countries, therefore, halal fashion is in demand all over the world. Starting from the large number of migrants from the Middle East to countries in the world, they brought Islamic culture to non-Islamic countries. Previous studies have shown a change in the application of modern Muslim clothing in several countries such as Bangladesh (Hussain, 2010), and Turkey (Kiliçbay & Binark, 2002). In today's era, modern halal fashion has become a trend and spread to many countries that have Muslim communities.

Of the several segments of the halal industry, the modest fashion segment is ranked highest after the Islamic financial segment. This shows that the growth of halal fashion in Indonesia is growing rapidly. This growth is supported by the high interest and Muslim designers for designing Muslim clothing coupled with

the Indonesia Islamic Fashion Consortium (IIFC) event at the Indonesia Islamic Fashion Fair (IIFF), Modest Fashion Project (MOFP), and Muslim Fashion Festival which features works from Muslim designers (Hasan & Hamdi, 2022). Based on data from the State of the Global Islamic Economy Report in 2022, Indonesia's halal fashion sector is in 3rd position in the Top 10 Global Islamic Economy Indicators (Dinar Standard, 2022). Indonesia's Muslim spending on fashion is increasing every year and reaching US\$295 billion in 2021. Islamic fashion will always be sought after by the public because Indonesia itself has a predominantly Muslim population, plus the awareness of Muslim women to perfect their appearance by wearing the hijab is also increasing. In addition, technological advances in the digital era now make it easy for Muslim people, especially women, to find the Islamic clothes they are looking for, such as on online shopping platforms.

Current technological advances and the impact of the Covid-19 pandemic which has affected Indonesia's economic condition since its inception in early 2020, have brought many changes to various aspects of life, without exception the business world (Putri et al., 2022). The digital age has begun, which means that the era of free trade has also begun. Of course, there will be many opportunities and of course there are also many business challenges that will be faced by the halal fashion industry in this era. Freedom and speed of information are among the contributing factors. Opportunity is good news for business owners. However, it is different if what comes is a business challenge. If this is the case, the halal fashion industry must have a strategy in dealing with it.

Research that examines the opportunities and challenges of the halal fashion industry in the digital era is still rarely carried out. Therefore, based on the explanation above, this study tries to explore further about the opportunities and challenges faced by the Indonesian halal fashion industry in the digital age.

This research is a qualitative descriptive research with a phenomenological approach. This research is a literature research that uses secondary data obtained through scientific articles and other relevant documents. The data obtained is then analyzed by producing descriptive explanations in the form of words, tables and symbols that are connected to the object of this study.

## **B. Discussion**

### **1. The Role of Halal Fashion Industry on Economic Growth**

Muslim spending on fashion increased by 5.7% in 2021, from US\$279 billion to US\$295 billion, and is expected to grow by 6.0% in 2022 to US\$313 billion and reach US\$375 billion by 2025 (Dinar Standard, 2022). Globally, Indonesia is ranked 3rd in the Global Islamic Economy Indicator Score for the halal fashion sector 2021 can be seen in Table 1 below:

Table 1. Global Islamic Economy Indicator Score

<b>Rank</b>	<b>Country</b>
<b>1</b>	Uni Emirat Arab
<b>2</b>	Turkey
<b>3</b>	Indonesia
<b>4</b>	China

<b>5</b>	Spain
<b>6</b>	Italy
<b>7</b>	Singapore
<b>8</b>	France
<b>9</b>	Malaysia
<b>10</b>	Germany

Source : State of The Global Islamic Report 2022

With all its potential, the halal industry has a role in economic growth. The halal industry continues to show positive growth every year. This growth certainly contributes positively to the Indonesian economy. The consumption of halal products of the Indonesian people is very large, even the largest in the world (Utari et al., 2022). The halal fashion industry continues to show positive growth every year. This growth certainly contributes positively to the Indonesian economy. The contribution can be seen through the Gross Domestic Product (GDP). The Islamic economy has been proven to contribute to the Gross Domestic Product (GDP) of USD 3.8 billion annually (Kemenkeu, 2021). This contribution to GDP is reflected in the consumption of the Indonesian people as well as export and import activities for halal products (Fathoni, 2020). For fashion products worth 0.44 billion US dollars, they can be exported to the United Arab Emirates, Saudi Arabia, and Turkey. For non-OIC, the Indonesian fashion export market can go to Germany, France, and the United States (Republika.co.id, 2022).

The development of the halal industry has not escaped government interference that supports the growth of the halal industry sector, this support is reflected in the establishment of a halal industry development center by the Ministry of Industry (Hasan & Hamdi, 2022).

## **2. The Potential of Indonesia's Halal Fashion Industry**

The halal fashion industry has enormous potential in Indonesia. This is an implication of Indonesia's vast Muslim population. In 2019, exports of the Muslim fashion sector have reached USD 9.2 billion, equivalent to 9.8% of total exports from the processing industry. When viewed from the domestic market, consumption of Muslim fashion products has reached USD 20 billion with an average growth rate of 18.2%. In addition, the support and role of the government, the ratification of Law Number 33 of 2014 concerning Halal Product Guarantees, the rise of Muslim fashion designers and Muslim fashion festivals, as well as a positive public response make this potential more likely to be developed.

The popularity of hijab and Muslim fashion in Indonesia has increased significantly. This is due to the increase in the number of Muslim women in Indonesia who wear the hijab. As we all know, Indonesia is the largest Muslim fashion market in the world. The increasing demand for Muslim fashion is driving the growth of the Muslim fashion industry in the country. In a relatively short period of time, Muslim fashion has become an important segment of the national textile industry. Based on the Global Business Guide Indonesia website, the hijab market in Indonesia is divided into three segments, including: simple and practical

model hijab used at least 60 – 70% of Muslim women in Indonesia. This type of hijab is sold in a wide selection of models and colors at affordable prices. The second segment of the syar'i hijab used is about 10% of Muslim women in Indonesia. This type of hijab is longer and wider with usually nominated basic colors such as black, brown, and white. In terms of hijab design, the second segment does not feature a variety of models. Finally, the fashionable hijab used by urban and middle-class people. This type of hijab comes in a variety of color options and models that are sold at a premium price.

Based on the data above, the halal fashion market in Indonesia is still dominated by simple and practical models. Despite its low margins, demand and sales volume of this class is quite high and this segment is quite profitable. In contrast, fashionable hijabs for urban communities are relatively limitedly produced but offer high profit margins. GBG Indonesia said that these two markets prove that the market opportunity for hijab products in Indonesia is still wide open, both for the low-end and high-end segments (Wakidah, 2022).

The rapid development of Muslim fashion has continued to increase in recent years. This substantial growth can be observed from the shift in the Muslim fashion market which was originally categorized as a niche market but is now the main market. The huge potential of halal fashion is an opportunity as well as a challenge for Indonesia. Opportunity in the sense that it can make Indonesia the center of halal fashion in the world. In addition, Indonesia's status as the world's largest Muslim country should be the main factor why halal fashion should always exist in Indonesia.

Then the development of technology is also the potential of the halal fashion industry in Indonesia in general. The existence of technology encourages increased socialization and promotion of the halal fashion industry in Indonesia. In addition, technological developments have also made the manufacture of halal industrial products more effective and efficient (Faried, 2019). Growth in the digital age makes for an extraordinary state of affairs in the unstoppable expansion of the market with the emergence of various e-commerce platforms (Wakidah, 2022). Moreover, the pandemic brought its own wisdom for Islamic fashion industry players where this industry was indirectly forced to adapt to digital marketing through e-commerce.

Data from the Indonesian Ministry of Industry states that more than 80% of Muslim fashion products are sold in the domestic market, while another 20% are sold in the international market. Indonesia is the ninth largest market for e-Commerce with revenues of US\$43.4 billion in 2021. This figure puts it ahead of Canada and behind India. With an increase of 32%, the e-Commerce market in Indonesia contributed to the world growth rate of 15% in 2021. Just like in Indonesia, global e-Commerce sales are expected to increase in the coming years (Wakidah, 2022). And in the end this has a positive influence on local brands that previously only did conventional marketing but have now become better known by the wider community because they have been adaptive to using e-commerce platforms in marketing their products. The niche market for this sector is becoming wider than ever.

Bank Indonesia (BI) recorded the value of e-commerce transactions throughout 2021 reaching Rp401 trillion. Bank Indonesia has also projected that e-commerce transactions in Indonesia will continue to increase in 2022 with a value of Rp 530 trillion or grow 31.4% (yoy). This is a positive signal for halal fashion industry players to be able to further strengthen their business development strategies through eCommerce platforms. Data shows one of the best-selling products in e-commerce is fashion and accessories. Lagi-again this is a positive signal for halal fashion industry players to be able to take advantage of this opportunity.

### **3. Challenges of Halal Fashion Industry in Indonesia**

The Ministry of Industry admits that there are still five challenges that must be faced by fashion industry players, namely: 1) Raw Materials, the problem that is often an obstacle is the raw materials that still have to be imported, namely cotton and silk imported from China. Indonesia is still weak in terms of providing raw materials, which is actually the earliest value chain (Sandjojo, 2022); 2) Technology, although Indonesia has the potential for good culture and fabric-making techniques, mass production is still constrained by the technology used. Most weavings still use ATBM and rarely use machines, so the production is still very limited and the production process is long. There are still many SMEs that experience technological stuttering (Muftiarini, 2012). With millennials now, they already tend to be 'literate', but still for market-access technology. Meanwhile, for production technology, most of them are home in nature so certain machines are still traditional; 3) Human Resources, there are still many human resources in the field of fashion based on hobbies or just jumping on the bandwagon and do not have a scientific base. Halal fashion industry players must be innovative and must create spectacular works, then they must be able to be more to international standards, branding as well and improved quality (Razak, 2022). To address this, the government and several designer associations are trying to hold training to advance the fashion industry. The training provided is also about modification to marketing; 4) Marketing, fashion industry players are still confused about where to market their products. The pandemic has had a significant impact on various industrial lines, including the fashion industry. Fashion industry players are also required to be able to adjust to changes in the behavior of the Indonesian people, such as the rampant 'quarantine fashion' trend that gives rise to various types of clothing with casual designs but can still be used when working from home. With limited mobility, digitalization is also an important key in marketing, expanding reach, and as a medium of communication with the target market as a whole (Antaraneews.com, 2021); 5) Capital, challenges that must be faced by these industry players, one of which is capital. Limited access to capital loans due to too high interest from banks; 6) Synergy of Fashion Industry Players, there are three stakeholders that must be drawn in a partnership pattern to develop the Indonesian Muslim fashion industry. They are Small and Medium Industries (SMIs), designers and industrial suppliers of materials. Each party has its own advantages and disadvantages that must be taken into account in this partnership pattern. For SMEs, generally they still focus on production, so

they do not focus on seeing market potential. They love to make something, but haven't taken into account where it's going to go. The next party, the designer, focuses too much on exploration but pays less attention to the wearable aspect. Hal this is a challenge for designers who should better understand the wants and needs of the market. With digitalization and social media growing, they should understand the market more deeply. Then, from the material supplier industry side, tend to still think about the minimum order of quantity. As a result, they will find it difficult to relate to SMEs which are still limited in terms of production.

### C. Conclusion

The halal fashion industry has enormous potential in Indonesia. This is an implication of Indonesia's vast Muslim population. The development of technology is also the potential of the halal fashion industry in Indonesia in general. The existence of technology encourages increased socialization and promotion of the halal fashion industry in Indonesia. In addition, technological developments have also made the manufacture of halal industrial products more effective and efficient. Growth in the digital age makes for an extraordinary state of affairs in the unstoppable expansion of the market with the emergence of various e-commerce platforms. Besides having opportunities, the halal fashion industry in Indonesia also faces challenges including: first, raw materials that still have to be imported, namely cotton and silk imported from China. Indonesia is still weak in terms of providing raw materials, which is actually the earliest value chain. Second, for production technology, most of the fashion industry players are home so that certain machines are still traditional. Third, there are still many human resources in the field of fashion based on hobbies or just jumping on the bandwagon and do not have a scientific base. Halal fashion industry players must be innovative and must create spectacular works, then they must be able to be more to international standards, branding as well and the quality is improved. Fourth, fashion industry players are still confused about where to market their products. Fashion industry players are also required to be able to adjust to changes in the behavior of the Indonesian people. Fifth, there is limited access to capital. Sixth, increasing the synergy of halal fashion industry players, namely Small and Medium Industries, designers and material supplier industries. Further research can explore the opportunities and challenges faced by other halal industry sectors namely, halal food, halal cosmetics, halal tourism ect.

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