



Halal Fashion Value Chain and Local Economic Empowerment: The Case of Pekalongan City, Indonesia

Indah Purwanti^{1*}, Annisa Rizkikadduhani²

¹Universitas Negeri Islam K.H. Abdurrahman Wahid Pekalongan, Indonesia

²Department of Teacher Training and Education, Universitas Mataram, Indonesia

ABSTRACT

The industrial sector has increasingly become a catalyst for economic transformation in Indonesia, particularly as agricultural land conversion and labor shifts accelerate urban industrialization. Within this process, the halal industry has emerged as a strategic field due to the growing global demand for halal-certified products. Pekalongan City, historically recognized for its textile and batik production, represents one of Indonesia's leading creative hubs in halal fashion. This study aims to analyze the structure of the halal fashion value chain and its socio-economic implications for local communities in Pekalongan. Employing a qualitative approach through literature review and field interviews, the research examines the positioning of Pekalongan within the global halal fashion ecosystem. The findings reveal that Indonesia remains a net importer in the global halal fashion trade, with the industry's economic value lagging behind the halal food and beverage sector. In Pekalongan, halal fashion activities are concentrated on domestic markets, while export participation and certification adoption remain limited. The study concludes that the halal fashion ecosystem in Pekalongan is still in its formative stage and requires integrated support in value chain development, export facilitation, and institutional coordination to enhance global competitiveness.

KEYWORDS:

halal value chain, halal fashion, Pekalongan City, local economy, export competitiveness

INTRODUCTION

Indonesia holds a strategic position as the world's largest Muslim-majority nation, with more than 230 million Muslims, or approximately 87 percent of its total population (World Population Review, 2024). This demographic advantage positions Indonesia as a potential global leader in the halal economy. The halal industry has evolved beyond its religious significance to become a key driver of inclusive and sustainable economic growth, particularly across sectors such as food, finance, pharmaceuticals, tourism, and fashion (DinarStandard, 2023).

According to the State of the Global Islamic Economy (SGIE) Report 2023/2024, global halal consumption reached USD 2.4 trillion in 2022, with the halal fashion sector accounting for USD 336 billion and projected to grow by 5.6 percent annually through 2027 (DinarStandard, 2023). Indonesia ranks fourth in the Global Islamic Economy Indicator, yet its contribution to global halal fashion exports remains relatively small compared to its domestic potential (IsDB, 2022). This imbalance highlights a critical gap between production capacity and international value chain integration.

In response to this challenge, the Indonesian government formulated the National Sharia Economy Masterplan (MEKSI) 2019–2024, which outlines Indonesia's vision to become a global halal producer. The masterplan emphasizes the strengthening of the Halal Value Chain (HVC) as a policy instrument to enhance competitiveness across key sectors. Implementation involves collaboration between the Ministry of Industry, the Halal Product Assurance Organizing Agency (BPJPH), and the Indonesian Ulema Council (MUI), focusing on the development of Halal Industrial Parks (KIH) and the streamlining of halal certification processes (Ministry of Industry, 2023). Additionally, the financial sector—led by



Bank Indonesia and the Ministry of Finance—supports this initiative through the expansion of Islamic banking and halal-oriented investment ecosystems (Bank Indonesia, 2020).

At the local level, Pekalongan City stands out as one of Indonesia's creative industry hubs, long renowned for its batik and textile production. Its designation as a UNESCO Creative City reinforces its cultural and economic significance in developing a halal fashion ecosystem rooted in traditional craftsmanship. However, according to Statistics Indonesia (BPS, 2023), the number of manufacturing industries in Pekalongan decreased by 13.79 percent between 2019 and 2021, while export performance reached only IDR 423.68 billion in 2021—dominated by the textile and garment subsectors serving primarily domestic markets. This suggests that Pekalongan's fashion industry remains under-integrated within the global halal fashion value chain, particularly regarding certification, export facilitation, and digital transformation among small and medium-sized enterprises.

Conceptually, the halal value chain adapts Porter's (1985) value chain model by incorporating ethical and Sharia-compliant principles at every stage of production, including pre-production, manufacturing, distribution, and post-market activities. In the context of the fashion industry, the halal value chain extends beyond product certification to encompass design innovation, sustainable branding, and the creation of socially responsible value across networks (Rahman & Rosid, 2023). Understanding the configuration of this value chain at the local level is essential for identifying how the interaction between business actors, government policy, and market dynamics contributes to community economic resilience.

This study therefore aims to analyze the structure of the halal fashion value chain in Pekalongan City and to evaluate its socio-economic implications for local communities. By combining literature review and field-based qualitative inquiry, this research contributes empirical evidence to support Pekalongan's positioning as a strategic node in Indonesia's national halal fashion ecosystem.

LITERATURE REVIEW

The concept of the value chain was first introduced by Porter (1985), who defined it as a systematic framework for identifying the activities that create value and competitive advantage within a firm. According to this model, each organization engages in primary and support activities that collectively determine efficiency, productivity, and profitability. In contemporary practice, value chain theory has been widely adapted beyond corporate analysis to examine inter-firm linkages, global production systems, and sustainable trade practices (Kaplinsky & Morris, 2020). The extension of this framework into the halal industry has given rise to the concept of the Halal Value Chain (HVC), which integrates religious compliance with economic and social value creation (IsDB, 2022).

The halal value chain emphasizes integrity, transparency, and ethical conduct across all stages of production, from sourcing and manufacturing to logistics and marketing. Each stage must comply with Sharia principles while maintaining quality, safety, and traceability standards (Talib et al., 2021). In contrast to conventional supply chains that prioritize efficiency and profit maximization, the halal value chain adds a moral dimension through halal certification, fair labor practices, and environmental sustainability (Rahman & Rosid, 2023). This integration ensures that halal products are not merely religiously permissible but also ethically and socially responsible, aligning with the United Nations Sustainable Development Goals (SDGs) on responsible consumption and production (UNDP, 2022).

At the global level, the halal industry has become one of the fastest-growing sectors in the world economy. The State of the Global Islamic Economy (SGIE) Report 2023/2024 notes that the total expenditure of Muslim consumers across food, fashion, media, and pharmaceuticals reached USD 2.4 trillion, with the halal fashion segment valued at USD 336 billion and expected to grow steadily over the coming decade (Dinar Standard, 2023). The fashion industry plays a crucial role in shaping Muslim identity and lifestyle, offering opportunities for cultural expression, modest design innovation, and cross-border trade. However, the global halal fashion value chain remains highly concentrated in a few countries, with Turkey, the United Arab Emirates, and Malaysia dominating exports, while Indonesia continues to rely heavily on imports of raw materials and limited participation in high-value export markets (IsDB, 2022).

In Southeast Asia, studies have increasingly focused on how integration into the halal value chain can enhance national competitiveness. According to Hashim et al. (2022), countries that succeed in embedding halal principles into industrial policy—through certification infrastructure, cluster development, and export incentives—tend to experience stronger linkages between small enterprises and global markets. Nonetheless, challenges remain in harmonizing international halal standards, ensuring certification credibility, and digitalizing halal supply chains to meet global demand. For emerging economies like Indonesia, strengthening local halal clusters such as the Halal Industrial Park or creative cities like Pekalongan represents a pathway toward inclusive growth and technological upgrading.

Empirical research on halal fashion has highlighted the multidimensional nature of value creation, which encompasses design innovation, branding, and community empowerment. Faried et al. (2019) and Yusof et al. (2021) found that the competitiveness of halal fashion enterprises depends not only on production capacity but also on creative branding, digital marketing, and ethical production practices. Within local contexts, such as Indonesia's batik and modest fashion industries, halal certification remains limited, particularly among micro and small enterprises. This lack of integration often results in weak market positioning and limited access to international distribution channels (Rahman & Rosid, 2023).

The socioeconomic implications of halal value chain development extend beyond firm-level performance. Studies by Bolwig et al. (2020) and Ismail & Ali (2021) demonstrate that inclusive value chain participation can enhance employment, income stability, and gender empowerment, especially in creative sectors where women play significant roles in production. In cities like Pekalongan, where most artisans and workers in the batik and garment sectors are women, the halal fashion value chain presents an opportunity to formalize informal labor, improve working conditions, and strengthen community-based enterprises. However, these benefits depend on institutional capacity, local governance, and the ability of small producers to comply with halal assurance systems.

In this regard, the integration of local creative industries into global halal fashion networks requires a multi-dimensional approach that combines policy support, innovation, and ethical branding. The success of the halal value chain depends not only on market access but also on the creation of knowledge-based ecosystems that connect producers, regulators, and consumers. As noted by the Islamic Development Bank (2022), future growth in the halal economy will be driven by countries that can link traditional craftsmanship with digitalization, sustainability, and global certification systems. For Indonesia, particularly for local creative centers such as Pekalongan, aligning industrial capabilities with global halal value chain principles is essential for transforming cultural assets into competitive economic advantages.

METHODOLOGY

This study applied a qualitative research design to explore the structure of the halal fashion value chain in Pekalongan City and to understand its socio-economic implications for local communities. The qualitative approach was selected because it allows for a contextual and interpretive understanding of social and economic realities, particularly when the boundaries between a phenomenon and its environment are not clearly defined. This approach aligns with Yin's (2018) perspective that qualitative case studies are essential for examining complex social processes within their natural settings. The goal of this research is not statistical generalization, but rather analytical generalization, in which findings from the case can inform broader theoretical and policy discussions related to the halal industry.

The research adopted a case study strategy, positioning Pekalongan City as a representative case of an emerging halal fashion hub in Indonesia. The city provides a suitable context for investigating how creative industries with deep cultural roots transition into the halal economy. The case study design enables the researcher to conduct an in-depth examination of relationships among producers, traders, government actors, and certification institutions that together shape the halal value chain. As Stake (2010) argues, a case study provides an opportunity to understand bounded systems in which economic, cultural, and institutional factors interact to form distinctive industrial configurations.

The empirical materials for this study were derived from both primary and secondary data. Primary data were collected through semi-structured interviews and field observations involving key stakeholders in Pekalongan's fashion sector. These included officials from the Department of Trade and the Department of Industry, local batik entrepreneurs engaged in export activities, and community members involved in production and distribution networks. Informants were selected purposively based on their experience and relevance to the halal value chain, ensuring that multiple perspectives were represented. Secondary data was obtained from an extensive review of academic literature, government publications, statistical reports, and industrial documents. Key references included the State of the Global Islamic Economy Report 2023/2024 [Dinar Standard \(2023\)](#), reports from the Islamic Development Bank [ISDB \(2022\)](#), and statistical data published by the Indonesian Bureau of Statistics [\(BPS, 2023\)](#).

Data collection was carried out between August and November 2022. The process involved a literature review to establish the conceptual foundation of the study and a series of interviews to obtain field-level insights. The literature review encompassed books, peer-reviewed journal articles, and policy documents discussing the global value chain, creative industries, and socio-economic linkages. The interviews were semi-structured to allow flexibility in probing deeper into specific themes such as production processes, certification practices, market challenges, and institutional coordination. Each interview lasted approximately one hour and was conducted either in person or online, depending on participants' availability. Observations were also conducted in batik and garment workshops to record production practices, material flows, and interactions among workers and entrepreneurs. All participants provided informed consent, and their identities were anonymized to protect confidentiality.

The collected data were analyzed following the framework of [Miles and Huberman \(1994\)](#), which involves three iterative stages: data reduction, data display, and conclusion drawing. The researcher first organized and coded the interview transcripts and field notes to identify emerging themes related to the halal value chain, such as production networks, certification barriers, and local market orientation. The data were then organized into thematic matrices to visualize linkages between actors and processes within the local halal fashion ecosystem. Conclusions were drawn by triangulating primary data with secondary sources, ensuring that the interpretations reflected both empirical evidence and theoretical coherence. To enhance the reliability of findings, the study employed member checking, where key informants were consulted to confirm the accuracy of the researcher's interpretations.

While this study provides an in-depth understanding of the halal fashion industry in Pekalongan, it recognizes the contextual nature of qualitative research. The findings are not intended for broad generalization but rather for analytical insight into how local creative industries may integrate into the national and global halal value chains. The case of Pekalongan offers valuable implications for policymakers, scholars, and practitioners seeking to strengthen the linkages between cultural heritage industries and the broader halal economic ecosystem.

RESULT AND DISCUSSION

Overview of the Halal Fashion Industry in Pekalongan

Pekalongan City, located on the northern coast of Central Java, is historically recognized as one of Indonesia's leading centers of textile and batik production. The city's identity as the "City of Batik" has long been intertwined with its cultural heritage, artisanal skills, and strong entrepreneurial tradition. Batik production in Pekalongan is not merely an economic activity but also a symbol of local identity that reflects religious and aesthetic values rooted in Javanese and Islamic traditions. Over the past two decades, the city's industrial landscape has evolved from small-scale household batik enterprises toward a diversified fashion sector that includes ready-to-wear garments, accessories, and creative textile-based products. This evolution provides a unique foundation for the integration of halal fashion principles into the creative local economy.

Despite its strong cultural base, Pekalongan's manufacturing sector has faced structural challenges in recent years. According to Statistics Indonesia (BPS, 2023), the number of registered manufacturing enterprises declined by approximately 13.79 percent between 2019 and 2021. The city's total export value in 2021 reached IDR 423.68 billion, of which the industrial sector contributed IDR 172.06 billion. However, both export volume and production realization decreased compared to the previous year, reflecting the lingering effects of the COVID-19 pandemic and disruptions in global supply chains. The textile and apparel subsectors remain the dominant contributors to Pekalongan's industrial output, accounting for about 60 percent of all manufacturing establishments in the city. This dominance underscores the importance of fashion-related industries as a driver of local employment and urban income generation.

The socio-economic structure of Pekalongan's fashion industry is characterized by a dense network of micro, small, and medium-sized enterprises (MSMEs), family-run workshops, cooperatives, and local distributors. These actors collectively sustain the city's reputation as a creative hub while absorbing a significant portion of the local labor force, especially women. Previous studies such as [Yusof et al. \(2021\)](#) and [Ismail and Ali \(2021\)](#) highlight that creative sectors like batik and modest fashion often serve as engines of inclusive growth, generating both economic and cultural value for local communities. In Pekalongan, the participatory nature of production—where households engage in various stages of design, dyeing, and finishing—reflects a deeply embedded model of community-based entrepreneurship. However, this same feature also reveals structural vulnerabilities, including limited access to financing, technology, and formal certification systems.

In recent years, national initiatives under the National Sharia Economy Masterplan (MEKSI 2019–2024) and the development of Halal Industrial Parks (KIH) have begun to shape local awareness of the halal economy, though implementation at the city level remains fragmented. The concept of halal fashion in Pekalongan is still largely associated with modest clothing styles rather than a comprehensive system of halal production that encompasses ethical sourcing, environmentally friendly processes, and Sharia-compliant certification. Interviews with local entrepreneurs and government officials indicate that most producers prioritize domestic markets where consumer awareness of halal labeling in fashion remains relatively low. Only a few enterprises—typically those with established brands and larger capital, have explored export markets or pursued formal halal certification.

Nevertheless, Pekalongan's cultural assets and creative ecosystem offer substantial potential for transformation. The city's designation as a UNESCO Creative City of Crafts and Folk Arts provides an international platform for promoting sustainable and culturally embedded production. This recognition, combined with growing global demand for halal fashion, positions Pekalongan as a strategic node for integrating traditional craftsmanship with contemporary ethical fashion. As [Dinar Standard \(2023\)](#) notes, the global halal fashion market is increasingly driven by consumer expectations of authenticity, modesty, and sustainability—dimensions that align closely with the aesthetic and moral ethos of batik craftsmanship. Thus, Pekalongan's challenge is not the absence of creative capacity but rather the need to strengthen institutional linkages, digital marketing competencies, and certification infrastructure to enhance competitiveness within the global halal value chain.

The overview of Pekalongan's halal fashion landscape therefore illustrates a paradox: while the city possesses rich cultural capital and an active creative workforce, its participation in the halal fashion value chain remains at a formative stage. The transition from conventional batik production to fully halal-compliant fashion requires systemic support that integrates regulatory clarity, access to halal certification, financial incentives, and export facilitation. As subsequent sections will discuss, these challenges highlight the importance of building a cohesive halal ecosystem that connects local creative industries to national and global markets through value chain integration, innovation, and ethical governance.

Structure of the Halal Fashion Value Chain

The structure of the halal fashion value chain in Pekalongan reflects a dynamic intersection between traditional creative industries and the contemporary halal economy. Drawing on field data and relevant literature, the value chain operates through three interdependent stages: upstream, midstream, and downstream. Each stage contributes distinct forms of value creation and social embeddedness, demonstrating both the strength of local artisanal traditions and the constraints of incomplete institutional integration.

At the upstream stage, the value chain begins with the sourcing of raw materials that serve as the foundation for the city's textile and fashion production. Local suppliers and small traders dominate this segment, providing fabrics, threads, and dyes that are often procured from textile hubs in Solo, Sragen, and Bandung. Although Pekalongan's long-standing expertise in natural dyeing aligns conceptually with halal and environmentally sustainable principles, in practice, most producers rely on synthetic dyes. These materials are cheaper and more consistent in color quality, but they often lack halal certification or clear traceability. This creates a structural vulnerability at the very beginning of the value chain, as producers cannot always guarantee that their inputs comply with halal assurance standards. Several initiatives led by universities and cooperatives have begun experimenting with halal-certified and plant-based dyes, yet adoption among small enterprises remains limited. The preference for cost efficiency over compliance illustrates a tension between cultural continuity and the economic pressures of market competition.

The midstream stage represents the most active and productive segment of the halal fashion value chain in Pekalongan. It includes the transformation of raw materials into finished garments through processes such as batik design, pattern drawing, waxing, dyeing, cutting, sewing, and packaging. This segment is dominated by micro, small, and medium-sized enterprises that operate within household-based clusters. These enterprises not only sustain local employment but also embody a unique blend of Islamic values, aesthetic innovation, and community solidarity. Interviews with entrepreneurs reveal that most producers already practice forms of ethical behavior inspired by religious and moral principles—maintaining fairness in trade, modesty in design, and honesty in production. However, these practices remain informal and unregulated. Only a few medium-scale producers have begun to implement formal halal standards, including separate production lines, cleanliness protocols, and documentation of material origins. The majority operate under what the Islamic Development Bank [ISDB \(2022\)](#) describes as implicit halal orientation—a culturally embedded ethics of production that aligns with Sharia values but lacks formal institutional verification. This situation results in uneven compliance levels across the production network, where social norms substitute for formal certification.

At the downstream stage, value realization occurs through marketing, distribution, and branding activities. Pekalongan's domestic market continues to absorb most of its fashion output through retail stores, cooperative outlets, and exhibitions, while online platforms have become increasingly important in recent years. Digital marketplaces such as Shopee, Tokopedia, and Instagram provide producers with new opportunities to reach consumers beyond local boundaries. Yet, most of these enterprises still focus on domestic consumers, as international exports require formal halal certification, standardized documentation, and higher production capacities. Export-oriented producers are few and typically collaborate with intermediaries from larger cities such as Jakarta and Semarang to reach global buyers. This dependence on middlemen limits the share of profits retained by Pekalongan-based producers and weakens brand recognition in international markets. Moreover, few products are marketed with explicit halal branding, despite their alignment with modest fashion aesthetics. This indicates that while Pekalongan possesses a strong cultural foundation and creative potential, the absence of certification and coordinated marketing strategies restricts its entry into the global halal fashion segment, which increasingly values transparency, ethical labeling, and sustainability ([Rahman & Rosid, 2023](#)).

Taken together, the three stages of the value chain reveal a fragmented but evolving ecosystem. The upstream segment demonstrates technical dependence and limited certification; the midstream exhibits high creative intensity but insufficient formalization; and the downstream remains

constrained by market access and weak branding. Supporting institutions such as the Department of Industry, the Department of Trade, BPJPH, cooperatives, and universities play intermediary roles in training, regulation, and product promotion. However, coordination among these bodies is still fragmented, resulting in overlapping responsibilities and policy gaps. This aligns with the observation by Hashim et al. (2022) that halal value chain integration in Southeast Asia often suffers from institutional fragmentation and weak linkage between policy design and business practice.

Overall, Pekalongan's halal fashion value chain represents a transitional model—an industry embedded in cultural and religious values but only partially integrated into formal halal governance. The local creative economy provides the social infrastructure and moral foundation for halal-oriented production, yet the absence of systematic certification, financing support, and coordinated promotion hinders full integration into national and global halal networks. Strengthening the institutional framework, improving access to halal certification, and fostering collaboration between creative entrepreneurs and regulatory bodies would enable Pekalongan to transform its historical craftsmanship into a globally competitive halal fashion ecosystem. As the Islamic Development Bank (2022) notes, effective halal value chains are those that not only ensure Sharia compliance but also embed inclusivity, innovation, and traceability throughout the production process. For Pekalongan, realizing this vision requires balancing its artisanal heritage with industrial modernization and global market integration.

Challenges in Halal Certification and Institutional Coordination

The development of the halal fashion industry in Pekalongan faces a set of interrelated challenges that stem from the absence of a cohesive certification system and the fragmentation of institutional responsibilities. These challenges influence the capacity of producers to achieve compliance, access wider markets, and integrate effectively into the global halal value chain. Empirical findings from interviews with local government officials, entrepreneurs, and cooperatives reveal that while there is growing awareness of the economic potential of halal fashion, the translation of this awareness into practical and coordinated action remains weak.

The most immediate obstacle lies in the process of halal certification itself. For small and medium-sized enterprises (SMEs), the certification process is perceived as complex, time-consuming, and costly. Many producers lack clear information regarding the procedural steps required to obtain certification from the Halal Product Assurance Organizing Agency (BPJPH), including the documentation of supply chains, facility inspections, and compliance audits. Several interviewees noted that application fees and the need to modify production infrastructure create additional financial burdens, discouraging smaller workshops from applying. Moreover, certification is often viewed as more relevant for food products than for textiles or fashion, reflecting a limited understanding of how halal principles apply to non-food sectors. This misunderstanding is partly rooted in insufficient socialization by relevant authorities and the absence of targeted programs that contextualize halal standards within the creative industries.

Another key challenge involves the institutional fragmentation that characterizes Indonesia's halal governance system. The regulatory landscape includes multiple agencies with overlapping mandates: BPJPH manages certification and audits; the Ministry of Industry oversees industrial development and standardization; the Indonesian Ulema Council (MUI) provides theological endorsement; and local governments facilitate entrepreneurship and promotion. While each institution plays an important role, the coordination among them remains limited. In Pekalongan, this fragmentation is reflected in the lack of a single platform that connects producers, certifiers, and financial facilitators. Entrepreneurs reported that information about training, certification requirements, and financial support is dispersed across different agencies, often communicated inconsistently or without follow-up. This institutional incoherence weakens trust among local producers, who perceive halal certification as a bureaucratic rather than developmental mechanism.

Beyond regulatory fragmentation, the lack of financial and technical support compounds these challenges. Access to affordable credit or grants to upgrade production facilities in compliance with

halal standards remains minimal. Local banks and microfinance institutions have yet to develop specialized financial instruments for halal-oriented industries, despite national policy frameworks that encourage Islamic financing. Similarly, training programs related to halal production, export procedures, and branding are sporadic and project-based rather than continuous. Without sustained mentoring, producers are unable to adapt to rapidly changing market requirements, particularly in global value chains where certification, traceability, and branding are mandatory for entry.

Cultural and perceptual barriers also play a significant role. Many artisans regard their work as inherently halal due to their personal faith and adherence to ethical principles in everyday production. This “cultural halalism” fosters a strong moral foundation but limits the perceived need for formal certification. The notion that religious integrity is sufficient to guarantee halal status leads to low participation in official schemes. While this perspective reinforces ethical conduct, it does not provide the documentation and transparency required by export markets. Thus, the gap between moral conviction and institutional compliance becomes one of the most persistent structural weaknesses in the development of Pekalongan’s halal fashion ecosystem.

The coordination challenges among stakeholders further inhibit the integration of the local fashion sector into the broader national halal economy. The absence of a clear division of responsibilities among government agencies has resulted in duplicated programs and inefficient allocation of resources. For example, training workshops organized by different institutions often cover similar topics but reach different groups of participants, leading to uneven knowledge dissemination. The lack of a unified monitoring mechanism also prevents policymakers from assessing the effectiveness of these initiatives. According to [Hashim et al. \(2022\)](#), such institutional incoherence is a common feature in Southeast Asian halal industries, where the rapid expansion of policy frameworks outpaces administrative capacity.

Addressing these issues requires not only administrative reform but also multi-level collaboration. A more integrated governance model would involve clear delineation of roles among certifying agencies, regulatory institutions, and local governments. Universities and research centers could play a bridge role by providing technical expertise in product testing, eco-halal innovation, and digital traceability systems. Financial institutions should also participate by offering accessible Islamic financing schemes tailored for small producers seeking certification. As [Ismail and Ali \(2021\)](#) argue, sustainable halal value chain integration depends on the alignment of regulatory infrastructure, industry incentives, and community participation.

In conclusion, the challenges facing Pekalongan’s halal fashion industry are not merely technical but structural. They arise from a misalignment between regulatory intentions and practical realities, between national policy ambitions and local implementation capacities. Overcoming these barriers requires a holistic and collaborative approach that recognizes halal certification as both a religious obligation and an economic opportunity. Effective institutional coordination, supported by consistent training, financial inclusion, and digital innovation, will be essential to transforming Pekalongan’s creative sector into a fully integrated component of Indonesia’s halal industrial landscape.

Market Orientation and Export Dynamics

The market orientation of Pekalongan’s halal fashion industry remains largely domestic, reflecting both its cultural embeddedness and structural constraints. Despite being recognized as a creative city with a strong identity in batik and modest fashion, the city’s producers primarily serve local and national consumers rather than international markets. This domestic focus stems from a combination of institutional, logistical, and financial limitations, as well as from the informal nature of production networks. Most enterprises operate on a small scale, with limited capital and low capacity for standardized mass production, which restricts their ability to meet international export requirements.

The domestic market provides a stable yet modest foundation for growth. Producers distribute their products through traditional markets, boutiques, and exhibitions, while digital commerce has expanded their reach in recent years. Platforms such as Tokopedia, Shopee, and Instagram have become central to marketing strategies, enabling artisans to promote their products without the high

costs associated with physical retail. Younger entrepreneurs have leveraged digital branding to target urban Muslim consumers seeking modest fashion that combines cultural authenticity with modern aesthetics. This digital transition signifies an important shift toward adaptive marketing behavior, yet the overall market orientation remains reactive rather than strategic.

Export-oriented activities are limited and largely mediated by intermediaries from major cities such as Jakarta and Semarang. These intermediaries act as aggregators who consolidate products from multiple small producers and sell them under unified brands to overseas buyers. While this arrangement facilitates access to export markets, it also reduces the share of profits and brand visibility for Pekalongan-based artisans. Furthermore, the absence of halal certification undermines the credibility of these products in markets where compliance is mandatory, such as the Middle East, Malaysia, and Brunei Darussalam. Without certification, products from Pekalongan are often marketed as “Indonesian batik fashion” rather than as halal-certified apparel, thus missing the opportunity to capture premium value in the global halal segment.

The export potential of Pekalongan’s fashion industry is further constrained by inadequate logistical infrastructure, limited knowledge of international trade procedures, and a lack of financial instruments tailored for small exporters. Many enterprises depend on informal credit or rotating savings groups to finance production, which restricts their ability to scale operations or invest in quality improvement. Interviews with local government officials indicate that export promotion programs exist but are not specifically designed for halal fashion. They tend to focus on general creative industry support, leaving a gap in targeted interventions that address certification, branding, and digital export readiness.

From a theoretical standpoint, these dynamics illustrate Pekalongan’s position within the Global Value Chain (GVC) as a supplier of low- to mid-value creative goods rather than as a fully integrated halal producer. In GVC terminology, Pekalongan exhibits limited “functional upgrading,” meaning that its producers remain concentrated in labor-intensive activities with little participation in higher value-added functions such as branding, logistics, and certification management ([Kaplinsky & Morris, 2020](#)). Although the city’s creative assets position it advantageously for cultural branding, the absence of coordinated institutional and financial support continues to hinder global competitiveness.

In sum, Pekalongan’s market orientation demonstrates a paradox: strong domestic demand and cultural appeal coexist with weak international integration. The city’s artisans have successfully preserved local identity through creative production but have yet to leverage the full potential of the halal fashion industry in export markets. Effective, sustained growth will depend on how effectively producers, policymakers, and certification bodies can align marketing, certification, and digital transformation strategies to enhance competitiveness within both domestic and global halal value chains.

Socioeconomic Impacts on Local Communities

The halal fashion industry in Pekalongan plays a vital role in sustaining local livelihoods and shaping the socioeconomic fabric of the community. Beyond its contribution to economic output, the industry serves as a platform for social inclusion, women’s empowerment, and cultural continuity. The city’s creative economy, deeply rooted in batik craftsmanship and Islamic ethical values, has provided a resilient foundation for household-based entrepreneurship. Nevertheless, the extent of these benefits remains constrained by uneven participation in global halal value chains and the absence of institutional mechanisms that translate economic activities into long-term social welfare gains.

The socioeconomic significance of Pekalongan’s fashion industry is most visible in the realm of employment. Thousands of residents depend directly or indirectly on the sector for their livelihoods, particularly in batik production, garment tailoring, fabric dyeing, and retail trading. Women constitute a large proportion of the workforce, often balancing productive and reproductive roles within household-based workshops. This gendered dimension of labor not only reflects the city’s cultural norms but also underscores the inclusive character of the creative economy. According to field interviews, many women engage in part-time or home-based work that allows them to contribute to family income while maintaining domestic responsibilities. This pattern mirrors what [Ismail and Ali](#)

(2021) describe as “social upgrading through flexible production,” where participation in value chains enhances household welfare and autonomy even in the absence of formal employment structures.

However, while the industry provides wide employment opportunities, most jobs are informal and lack social protection. Workers often rely on piece-rate wages that fluctuate with market demand, and access to insurance, pension, or labor union representation remains limited. The absence of formal labor contracts also makes it difficult for artisans to access financial credit or government assistance programs. From a socioeconomic development perspective, this informality creates vulnerability, particularly for women and young workers who face barriers to upward mobility. The integration of halal principles into the industry—if combined with certification and institutional support—could potentially formalize many of these informal production units, improving working conditions and wage security. Halal certification, by requiring transparency and documentation, could serve not only as a tool of religious compliance but also as a mechanism for ethical labor governance.

Another critical dimension of the industry’s socioeconomic impact lies in community-based entrepreneurship. Many batik and modest fashion enterprises in Pekalongan are family-run, operating within tight community networks that facilitate collective learning and resource sharing. These social networks function as informal systems of knowledge transmission, where production techniques, aesthetic innovations, and business ethics are passed down across generations. Such forms of embedded entrepreneurship foster social cohesion and resilience, particularly in times of economic uncertainty. During the COVID-19 pandemic, for instance, many workshops survived through cooperative marketing and the use of digital platforms to maintain sales. The moral economy of trust and reciprocity among artisans proved to be an important buffer against market shocks, consistent with the findings of [Bolwig et al. \(2020\)](#) on the role of inclusive value chains in strengthening local resilience.

Despite these strengths, significant disparities persist in income distribution and access to economic opportunities. Artisans who produce for local markets often earn marginal profits compared to traders or intermediaries who control downstream distribution channels. The absence of collective marketing mechanisms means that producers have limited bargaining power and must sell at prices determined by middlemen. Moreover, younger entrepreneurs who possess digital literacy and market access tend to capture higher value-added segments, while older artisans remain confined to traditional production models. This generational divide reflects a broader structural shift from labor-intensive to knowledge-intensive production, in which digital marketing, branding, and certification increasingly determine income levels.

The cultural dimension of the halal fashion industry also contributes to its socioeconomic relevance. In Pekalongan, batik and modest fashion production embody religious values that promote honesty, modesty, and aesthetic harmony. These values not only guide individual business behavior but also shape community identity and pride. The creative reinterpretation of Islamic aesthetics within the fashion sector reinforces a sense of local belonging while connecting Pekalongan to broader transnational narratives of halal lifestyle and Muslim consumerism. Such symbolic capital enhances the city’s visibility as a center of Islamic creative culture and contributes to the preservation of intangible heritage.

Nevertheless, the lack of institutional integration between economic and social development policies continues to limit the transformative potential of the halal fashion industry. Existing training programs and microcredit initiatives focus primarily on business skills and production efficiency, with insufficient attention to social welfare, environmental sustainability, and gender equity. Few formal partnerships exist between local governments, universities, and social organizations to design comprehensive community development programs linked to the halal fashion ecosystem. As a result, the sector’s social benefits remain diffuse rather than cumulative, concentrated in certain clusters but not broadly distributed across the population.

For the halal fashion value chain in Pekalongan to evolve into a catalyst for inclusive development, three conditions are essential. First, the formalization of labor through halal certification and cooperative regulation could help secure worker rights and standardize wages. Second, the integration

of social and educational programs into industrial policy could enhance community capabilities and generational continuity of artisanal knowledge. Third, the promotion of women's entrepreneurship through targeted Islamic financing and training could reinforce gender-inclusive growth. As [Dinar Standard \(2023\)](#) notes, the global halal economy's future competitiveness will depend not only on compliance and innovation but also on its ability to promote ethical, inclusive, and sustainable development at the community level.

In sum, the socioeconomic impacts of the halal fashion industry in Pekalongan are both significant and uneven. The sector sustains employment, empowers women, and preserves cultural identity, yet these achievements remain fragile without institutional reinforcement. Strengthening the social infrastructure of the halal value chain—through certification, cooperative governance, and community-oriented policy design—would transform Pekalongan's creative economy from a source of livelihood into a sustainable model of Islamic social enterprise.

The analysis of Pekalongan's halal fashion industry underscores the intricate relationship between local creative ecosystems and global halal economic frameworks. The findings reveal that while Pekalongan possesses a strong foundation in cultural heritage, craftsmanship, and social capital, its integration into the global halal value chain remains partial and uneven. This situation exemplifies the broader challenges faced by developing regions attempting to balance tradition with modern industry standards.

From a theoretical perspective, Pekalongan's experience reflects the transitional phase of what [IsDB \(2022\)](#) describes as "localized halal value chain emergence." In such contexts, producers exhibit strong ethical and cultural adherence to Islamic values but operate within fragmented institutional environments. The absence of cohesive certification systems, digital traceability, and coordinated policy support limits the conversion of ethical intent into measurable economic competitiveness. While the city's artisans naturally embody halal production values in their daily practices, the lack of formal verification means that these values remain invisible in global markets. This disconnects between moral authenticity and institutional recognition represents a central challenge for many local halal industries across the Global South.

Comparatively, countries such as Malaysia and the United Arab Emirates have succeeded in developing comprehensive halal ecosystems through regulatory standardization, certification harmonization, and international branding initiatives ([Dinar Standard, 2023](#)). These examples demonstrate how strategic coordination between government, financial institutions, and private actors can elevate halal industries from local production clusters to global export networks. For Pekalongan, adopting a similar multi-actor governance model could enhance its capacity to link creative entrepreneurship with international value chain integration.

Another critical dimension relates to innovation and digital transformation. The growing global demand for halal-certified fashion is increasingly shaped by online platforms and cross-border e-commerce. This digital landscape offers opportunities for decentralized regions like Pekalongan to bypass traditional trade barriers and engage directly with consumers worldwide. However, such participation requires the adoption of traceability technologies, digital marketing skills, and compliance documentation that many local producers currently lack. As [Rahman and Rosid \(2023\)](#) emphasize, the digitalization of halal supply chains not only expands market access but also strengthens consumer trust through transparent communication of ethical and religious values. Hence, Pekalongan's future competitiveness depends on the simultaneous enhancement of technological capabilities and institutional frameworks.

The discussion also highlights the potential of the halal fashion industry as a vehicle for inclusive and sustainable development. When integrated effectively, halal value chains can generate multidimensional benefits—economic, social, and cultural. The Pekalongan case illustrates that ethical production, if supported by certification and policy alignment, can become a source of social empowerment, particularly for women and small entrepreneurs. Aligning local initiatives with the Sustainable Development Goals (SDGs), especially those related to decent work, gender equality, and responsible consumption, would reinforce the global relevance of Pekalongan's halal fashion cluster.

As Bolwig et al. (2020) note, sustainable value chains thrive when inclusivity and competitiveness are pursued simultaneously through participatory governance and equitable resource distribution.

Ultimately, the experience of Pekalongan offers valuable lessons for policymakers and scholars seeking to understand how creative local industries can engage with the global halal economy. The city's strengths lie in its deeply rooted cultural identity, ethical production norms, and community-based entrepreneurship. Yet, these assets must be matched by institutional innovations that ensure compliance, certification, and connectivity. Bridging the gap between local realities and global standards will require an integrated strategy that combines education, finance, regulation, and technology. In doing so, Pekalongan could serve as a model of how heritage-based creative industries can transition into globally competitive halal ecosystems while preserving cultural authenticity and social inclusivity.

CONCLUSION

The study of the halal fashion industry in Pekalongan reveals a complex and evolving relationship between cultural heritage, economic adaptation, and institutional transformation. As one of Indonesia's creative cities, Pekalongan demonstrates how a locally grounded craft tradition—particularly in batik and modest fashion—can serve as a foundation for developing a halal-oriented creative economy. Yet, despite its rich cultural capital and strong community participation, the city's halal fashion value chain remains only partially integrated into national and global halal ecosystems.

The research identifies that value creation across the upstream, midstream, and downstream stages is characterized by both strength and fragmentation. At the upstream level, the dependence on non-certified raw materials and synthetic dyes limits the traceability and halal assurance of inputs. The midstream, while highly productive and socially embedded, operates primarily within informal structures that lack standardization and documentation. The downstream, which determines competitiveness through branding and distribution, remains domestically focused, with minimal penetration into international halal markets. Collectively, these structural conditions suggest that Pekalongan's halal fashion industry operates under what can be termed a "hybrid model"—one that combines ethical intent with limited institutionalization.

Halal certification emerges as both a challenge and an opportunity. On one hand, the process is perceived by small producers as complex, costly, and administratively burdensome. On the other, it holds transformative potential as a mechanism for formalization, quality assurance, and ethical transparency. If implemented effectively through coordinated institutional support, certification could reposition Pekalongan as a credible node within the global halal fashion value chain. Such progress requires clear regulatory frameworks, financial accessibility, and targeted capacity-building programs that align with the socioeconomic realities of local producers.

The socioeconomic implications of the industry are equally significant. The sector supports extensive employment, promotes women's entrepreneurship, and reinforces social cohesion through community-based production systems. However, these benefits remain fragile in the absence of social protection and long-term development planning. Strengthening the linkage between halal certification, labor formalization, and social welfare could enhance both productivity and inclusivity, aligning local industrial dynamics with the broader objectives of the Sustainable Development Goals (SDGs), particularly those related to decent work, gender equality, and sustainable consumption.

From a policy perspective, the findings emphasize the need for integrated institutional coordination among key actors, including the Ministry of Industry, BPJPH, local governments, financial institutions, and universities. A coherent governance model should not only streamline certification but also embed halal standards within broader value chain development strategies. Capacity-building efforts must prioritize digitalization, export readiness, and ethical branding to bridge the gap between local craftsmanship and global market expectations.

In conclusion, Pekalongan's halal fashion industry illustrates the possibilities and limitations of building a halal-based creative economy in a developing context. Its evolution demonstrates that

cultural authenticity, when combined with institutional innovation and market-oriented strategies, can generate both economic competitiveness and social value. Realizing this potential requires sustained collaboration among producers, regulators, and communities to ensure that the city's creative heritage evolves into a globally recognized, ethically grounded, and economically inclusive halal fashion ecosystem.

Funding

This research received no specific grant from any funding agency in the public, commercial, or not-for-profit sectors.

Conflict of Interest

The authors declare no conflict of interest related to the publication of this study.

Data Availability

The data supporting the findings of this study are available from the corresponding author upon reasonable request.

Author Contribution

All authors contributed equally to the design, data collection, analysis, and writing of this manuscript. All authors have read and approved the final version of the paper.

REFERENCES

- Bank Indonesia. (2020). *Laporan Ekonomi dan Keuangan Syariah Indonesia 2020* [Islamic Economic and Financial Report of Indonesia 2020]. Jakarta: Bank Indonesia.
- Bolwig, S., Ponte, S., du Toit, A., Riisgaard, L., & Halberg, N. (2020). Integrating sustainability and inclusiveness in value chain analysis: A conceptual framework. *Development Policy Review*, 38(3), 1–19. <https://doi.org/10.1111/dpr.12467>
- BPS (Statistics Indonesia). (2023). *Pekalongan in Figures 2023*. Jakarta: Badan Pusat Statistik.
- DinarStandard. (2023). *State of the Global Islamic Economy Report 2023/2024: Growth Amid Global Challenges*. Dubai: DinarStandard.
- Faried, A. I., Sukmana, M., & Hakim, L. (2019). Development model of halal fashion industry in Indonesia. In *Proceedings of the 1st Halal International Conference and Exhibition 2019* (pp. 45–54).
- Hashim, N. A., Ariffin, S. K., & Omar, W. A. (2022). Halal industry ecosystem and competitiveness: A Southeast Asian perspective. *Journal of Islamic Marketing*, 13(7), 1542–1560. <https://doi.org/10.1108/JIMA-10-2021-0310>
- IsDB (Islamic Development Bank). (2022). *Islamic Economics and the Halal Value Chain: Building Inclusive Growth*. Jeddah: IsDB Institute.
- Ismail, M., & Ali, F. (2021). Halal value chain integration and social welfare outcomes: Evidence from ASEAN. *Asian Journal of Business Ethics*, 10(2), 233–251. <https://doi.org/10.1007/s13520-021-00128-8>
- Kaplinsky, R., & Morris, M. (2020). *A Handbook for Value Chain Research (Revised Edition)*. Brighton: Institute of Development Studies.
- Kementerian Perindustrian Republik Indonesia. (2023). *Laporan Perkembangan Kawasan Industri Halal Nasional*. Jakarta: Kementerian Perindustrian RI.
- Miles, M. B., & Huberman, A. M. (1994). *Qualitative Data Analysis: An Expanded Sourcebook*. Thousand Oaks, CA: Sage Publications.
- Porter, M. E. (1985). *Competitive Advantage: Creating and Sustaining Superior Performance*. New York: Free Press.
- Rahman, N. H., & Rosid, M. (2023). The halal fashion supply chain: Global trends and challenges. *Journal of Islamic Marketing*, 14(5), 980–998. <https://doi.org/10.1108/JIMA-05-2022-0162>
- Stake, R. E. (2010). *Qualitative Research: Studying How Things Work*. New York: Guilford Press.

- Talib, M. S. A., Mohd, R., & Hanafiah, M. H. (2021). Halal supply chain management: A systematic review and future directions. *Journal of Islamic Accounting and Business Research*, 12(8), 1173–1190. <https://doi.org/10.1108/JIABR-09-2020-0295>
- UNDP. (2022). *Halal Economy and Sustainable Development Goals (SDGs): Policy Brief*. New York: United Nations Development Programme.
- World Population Review. (2024). *Indonesia Muslim Population 2024*. Retrieved from <https://worldpopulationreview.com>
- Yin, R. K. (2018). *Case Study Research and Applications: Design and Methods* (6th ed.). Thousand Oaks, CA: Sage Publications.
- Yusof, N., Hashim, M., & Ahmad, Z. (2021). Determinants of competitiveness in halal fashion SMEs: Evidence from Malaysia. *International Journal of Business and Society*, 22(1), 45–61.