

2ND INTERNATIONAL CONFERENCE ON ISLAMIC AND HALAL ECONOMIC STUDIES (ICIHES 2024)



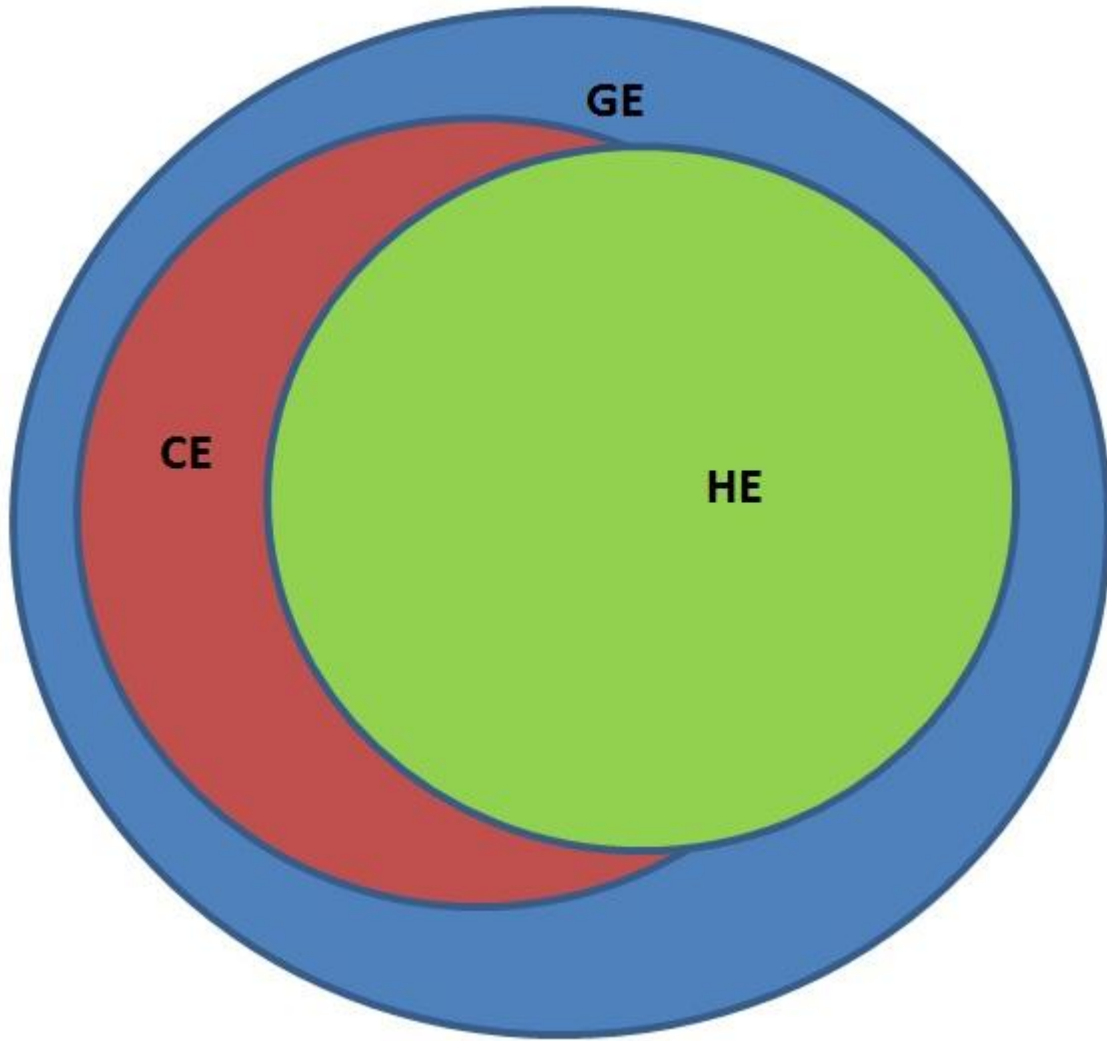
OPPORTUNITIES AND GAPS IN HALAL ECONOMY

Dr. Salman Ahmed Shaikh
Associate Professor
International Islamic University Malaysia

OUTLINE

- ❖ Global, Traditional and Halal Economy
- ❖ Halal Economy of Goods and Services
- ❖ Opportunities in Halal Economy
- ❖ Gaps in Halal Economy
- ❖ Conclusion and Recommendations

GLOBAL, TRADITIONAL AND HALAL ECONOMY



Global Economy – GE

Conventional Economy – CE

Halal Economy – HE

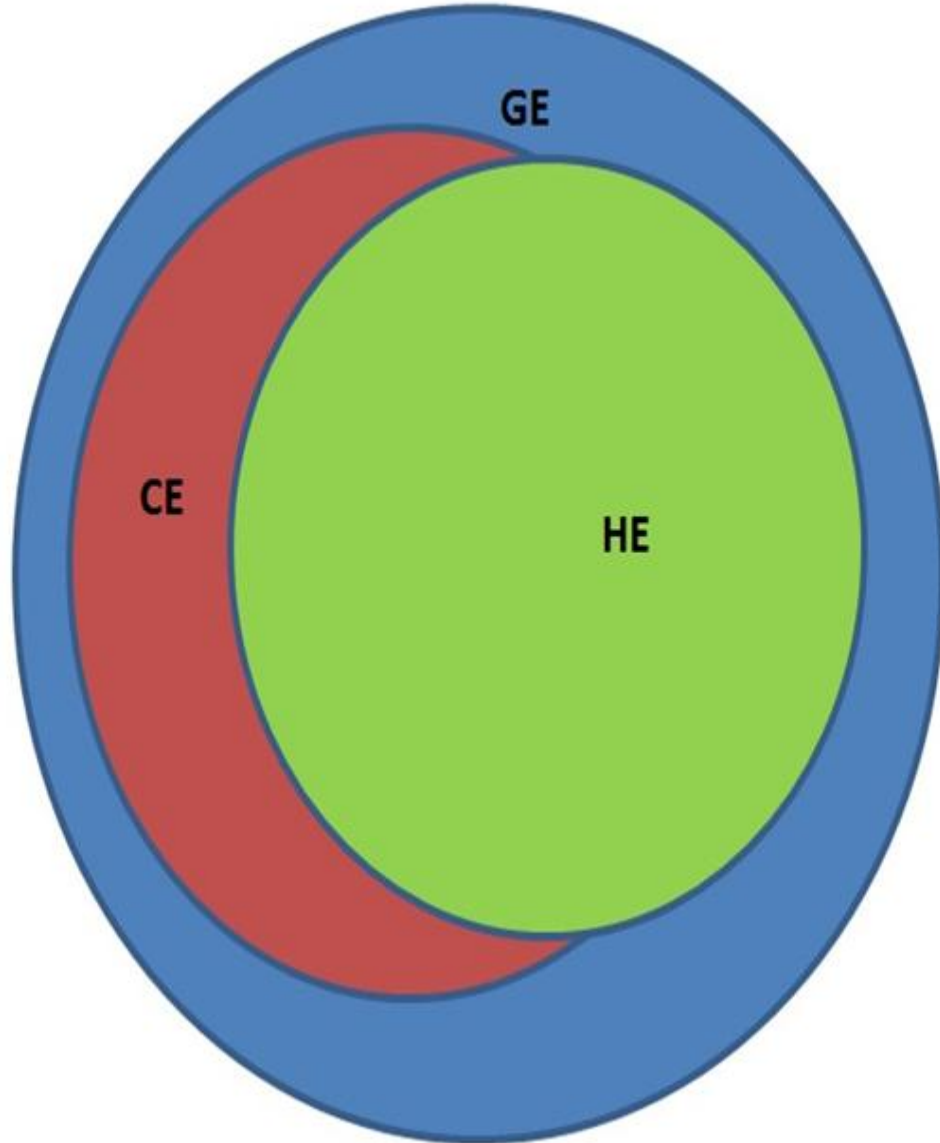
$$GE = CE + HE$$

CE and HE have much common area.

Part of CE not in HE is where there are prohibitions

HE adds to GE in distinct ways too.

GLOBAL, TRADITIONAL AND HALAL ECONOMY



Beyond ME Redistribution

Zakat

Ushr

Sadqa

Cash Waqf

Property Waqf

Inheritance Laws

Global Economy – GE

Conventional Economy – CE

Halal Economy – HE

HE adds to GE in distinct ways

- In Market Economy
- Beyond Markets

HALAL ECONOMY OF GOODS



Halal Foods

- Red Meat, White Meat, Ingredients
- No Alcohol, Pork Related Enzymes, Fat & Gelatin, Blood, Human Organ (Placenta)



Clothing & Footwear

- Scarfs, Veils, Caps, Abaya, Halal Sportswear (Track Suit, Swim Suit)



Lifestyle

- Halal Scents, Halal Cosmetics, Halal Soaps
- No Alcohol, Pork Gelatin, Lard, Collagen, Placenta, Blood, Rooster Comb Hyaluronic Acid, Carnivorous Animal By-Products



Halal Pharmaceuticals

- Natural Medications & Diet Inspired from Prophet (pbuh) - Olives, Honey, Seeds etc.
- No Ethanol, Pork Derived Medicines (Collagen, Lard, Pancrea)

HALAL ECONOMY OF SERVICES



Halal Banking & Insurance

- Car Financing, Home Financing, Umrah Financing, Personal Finance, Credit Cards
- Agriculture, SME, Mortgage, Lease, Hire Purchase & Overdraft Financing
- Family and General Takaful



Halal Investments

- Halal Mutual Funds
- Halal Capital Market Instruments: Sukuk and Halal Stocks



Halal Logistics and Packaging

- Transportation, Labeling and Packaging of Halal Products
- Separate warehousing of Halal products



Halal Regulation, Testing and Certifications

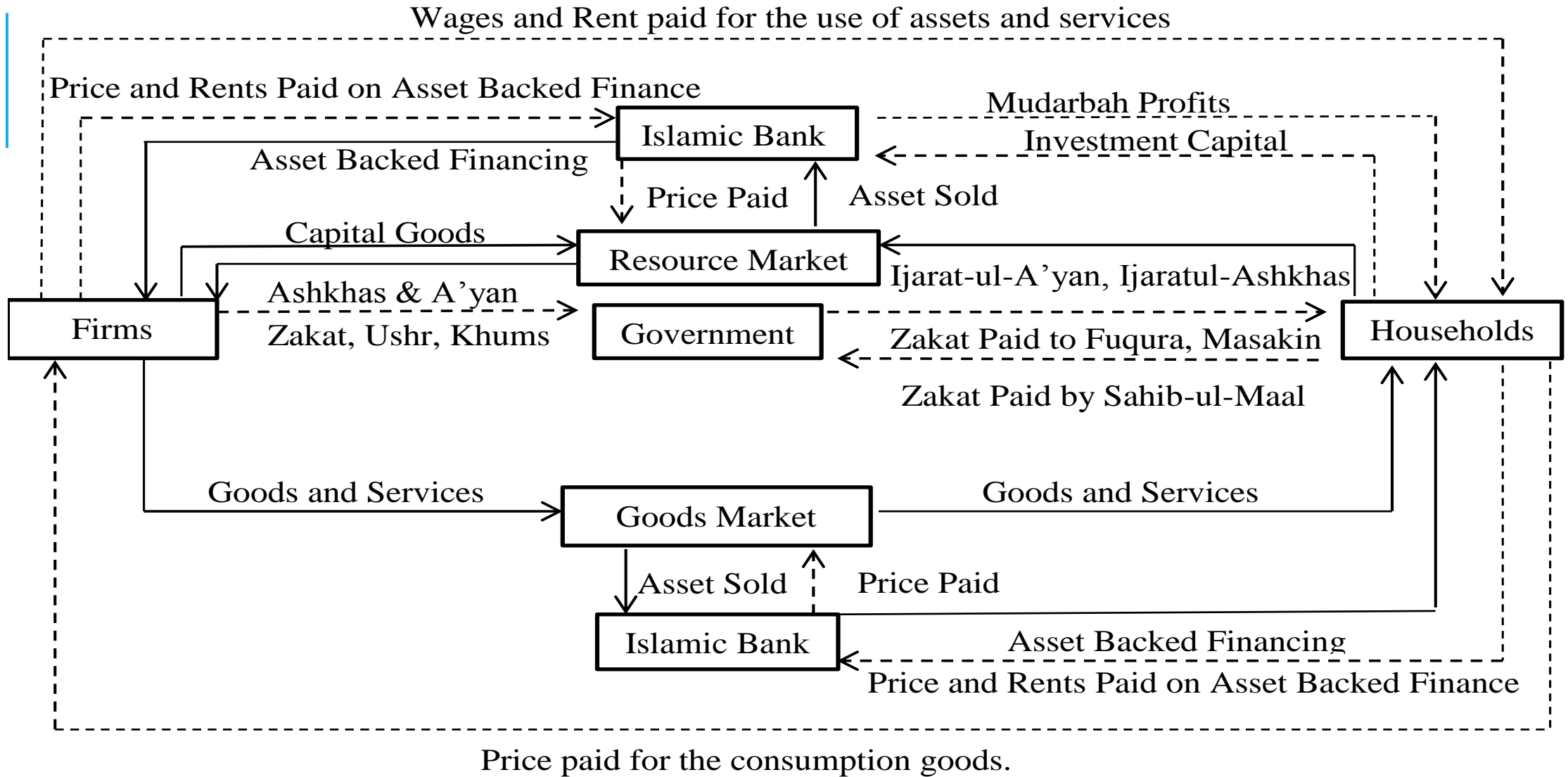
- Halal Regulation, Shariah Consultancy , Screening and Audit in Banking and non-Banking financial institutions.
- Halal testing and certifications of Halal products



Halal Education, Recreation and Entertainment

- Halal Media Content, Halal Education Portals, Halal Advertising, Halal Tourism, Halal Recreation

ISLAMIC ECONOMIC FRAMEWORK



SIZE OF HALAL MARKET & PROJECTIONS

Market Segment	2022	2027F	CAGR
Islamic Finance	3,958	5,955	8.51%
Food	1,403	1,887	6.11%
Fashion	318	428	6.12%
Cosmetics	84	129	8.96%
Travel	133	174	5.52%
Media & Recreation	247	344	6.85%
Pharmaceutical	108	142	5.63%

TRADE OPPORTUNITY

OIC imports are set to grow at 7.6% CAGR in 5 years, reaching \$492 billion in 2027.

US\$ BILLION (2022)

Top 5 OIC Importers



Top 5 Exporters to OIC

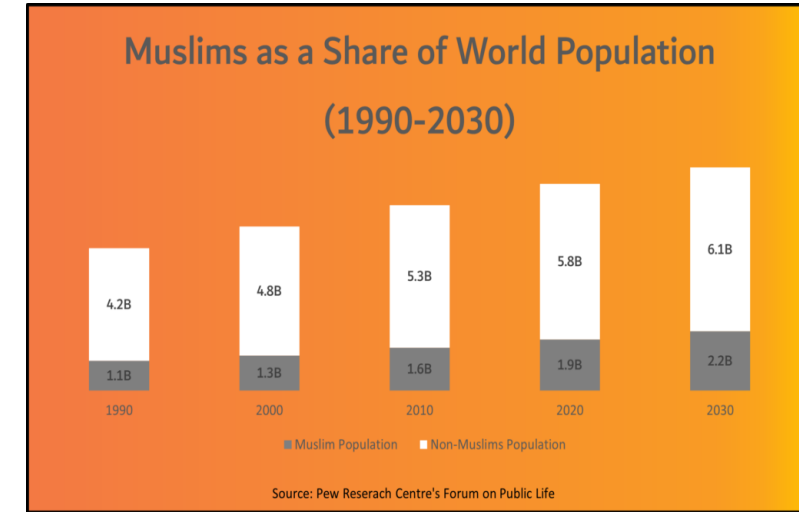


\$359 billion OIC imports

Top 5 represents **34%** of exports to OIC

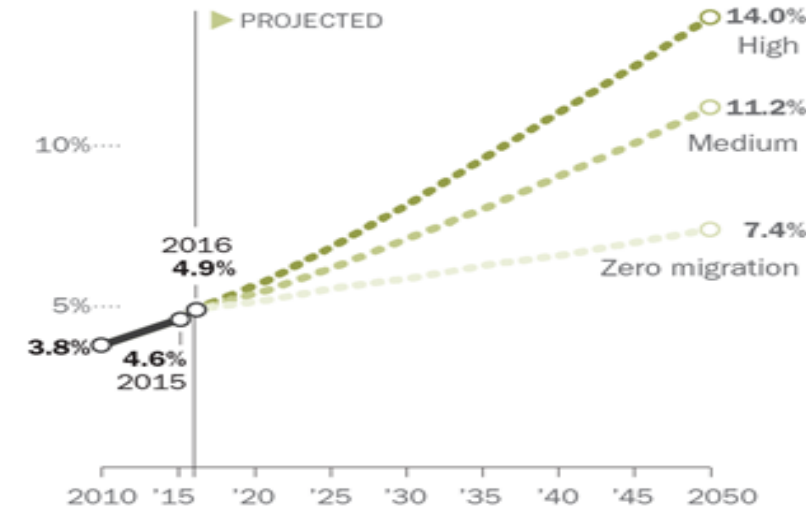
OPPORTUNITIES

- ❖ Growing Muslim population (Expected to reach 2.2 billion in 2030)
- ❖ Outmigration to EU and North America
- ❖ Growing middle income class in growing Muslim economies
- ❖ Increased sensitivity and awareness of Halal USP
- ❖ Tapping niche segments for better market positioning. E.g. Affinity of Islamic ethos with goals of circular economy, ESG, SDGs, impact investments, ethical investments, green investments etc.



Amount of growth in Europe's Muslim population depends on future migration

Muslim share of Europe's population under different migration scenarios



AFFINITY BETWEEN ESG AND ISLAMIC FINANCE

Environment

- Moderation
- No Waste
- Responsible Use
- Sharing
- Protecting Land
- Protecting Life

Also with:

Circular economy

Green economy

SDG 6,7,11,12,13,14,15

Social

- No Racism
- Social Equality
- Need Fulfilment
- Reduced Inequality
- Cooperation
- Social Freedom

Also with:

SDG1, SDG2, SDG8

Governance

- Justice
- Fairness
- Transparency
- Accountability
- Consultative Decisions
- Unity and Order

Also with:

CG Framework

CSR

AFFINITY BETWEEN **ESG** AND ISLAMIC FINANCE

Principles	Islamic Teachings
Moderation	“And let not your hand be tied (like a miser) to your neck, nor stretch it forth to its utmost reach (like a spendthrift), so that you become blameworthy and in severe poverty” (Al-Isra: 29).
Responsible Resource Use	“Can there be wastefulness while performing ablution?” Prophet Muhammad (pbuh) replied: “Yes even if you perform it in a flowing river.” (Ibn-e-Maja, Hadith No. 425).
Avoiding Waste	“But waste not by excess: for Allah loveth not the wasters” (Al-An’am:141).
Sharing Excess Resources	“Among the three types of people with whom God, on the Day of Resurrection, will exchange neither words nor look at is the one who possesses an excess of water but withholds it from others.” (Sahih Al-Bukhari, Hadith No. 2358).
Preserving Land	“Do not spread corruption in the land after it has been set in order” (Al-A’raf: 56).
Respecting Bio-Diversity	“There is a reward for acts of charity to every beast alive” (Sahih Al-Bukhari, Hadith No. 2466).

AFFINITY BETWEEN ESG AND ISLAMIC FINANCE

Principles	Islamic Teachings
No Racism	“Surely the most noble of you in the sight of Allah is the most righteous among you” (Al-Hujurat: 13).
Social Equality	In last sermon of Hajj, Prophet Muhammad (pbuh) said that ‘no white man has superiority over a black man and no Arab has a superiority over a non-Arab’.
Need Fulfilment	Islamic principles emphasize on need fulfillment. Islamic principles emphasize goal orientation to achieve need fulfillment.
Reduced Inequality	Inclusive programs, such as Zakat, Waqf, Riba-free Qard and Mudarabah.
Cooperation	Islamic principles also promote cooperation in good and non-cooperation in evil (Al-Maida: 2).
Social Freedom	Everyone has right to trade and exchange, provide labour and engage in lawful enterprise. Qur'an says: “Do not devour another's property wrongfully – unless it be by trade based on mutual consent.” (Al-Nisa: 29).

AFFINITY BETWEEN ESG AND ISLAMIC FINANCE

Principles	Islamic Teachings
Justice	“O believers! Stand firm for justice as witnesses for Allah even if it is against yourselves, your parents, or close relatives...” (Al-Nisa: 135).
Fairness & Transparency	Islamic teachings emphasize on documenting contracts where contractual performance is spread over a timeline (Al-Baqarah: 282).
Accountability	Islamic institution of ‘Hisba’ fosters accountability and control.
Consultative Decisions	In collective matters, Islam suggests the use of consultative decision-making (As-Shura: 38). It helps in leveraging cognitive diversity, builds consensus, team motivation, synergies and reduce the chances of mission drift, demotivation and conflicts.
Unity and Order	Islamic teachings emphasize the importance of sticking to ‘Jamaat’ (Sahih Muslim 1855a). In socio-economic context, it implies that rules, order and authority shall not be challenged to the point of revolt. It brings disasters. Even within short teams, Islamic norms recommend having chain of command to ensure order and control.

AFFINITY BETWEEN MAQASID AND SDGS

SUSTAINABLE DEVELOPMENT GOALS



Maqasid	Affinity with SDGs
Hifdh-ud-Deen	1, 10, 16, 17
Hifdh-un-Nafs	1, 2, 3, 5, 6
Hifdh-ul-Aql	3, 4
Hifdh-ud-Nasl	7, 11, 12, 13, 14, 15
Hifdh-ul-Maal	8, 9, 10

Caveat: Maqasid have priorities. Islamic ethics and norms are more broader and in some ways unique too.

GAPS IN HALAL ECONOMY

Country	Top 5 Export Destinations in 2023 of Top 10 OIC Countries by GDP									
	1	Value (bln \$)	2	Value (bln \$)	3	Value (bln \$)	4	Value (bln \$)	5	Value (bln \$)
Indonesia	China	60.9	USA	22.8	Japan	22.1	India	21.6	Malaysia	13.6
Saudi Arabia	China	59.6	Japan	34.0	India	33.1	Korea	31.1	USA	16.1
Turkiye	Germany	21.1	USA	14.9	Iraq	12.8	UK	12.5	Italy	12.4
Iran	Iraq	36.7	China	17.4	Turkiye	6.4	Taiwan	5.2	Afghanistan	3.2
Bangladesh	USA	9.2	Germany	6.8	UK	4.6	Spain	4.1	France	2.7
Egypt	Turkiye	3.5	Saudi Arabia	3.4	Italy	2.8	UAE	2.2	USA	2.1
Nigeria	Netherlands	6.2	Spain	5.4	USA	4.8	France	4.0	India	3.8
Pakistan	USA	5.0	China	2.7	UK	2.0	Germany	1.5	Netherlands	1.4
Malaysia	Singapore	48.1	China	42.1	USA	35.5	Hong Kong	19.7	Japan	18.8
UAE	India	54.7	China	48.7	Japan	45.0	Iraq	39.8	Saudi Arabia	20.2

Intra OIC trade is minimal and oil-centric

Saudi Arabia, Bangladesh, Nigeria, Pakistan and Malaysia's top 5 exports markets do not feature OIC.

Reasons: Disparity in growth in OIC, relative prices, similar comparative advantage in labor intensive industry

GAPS IN HALAL ECONOMY

Country	Top 5 Import Destinations in 2023 of Top 10 OIC Countries by GDP									
	1	Value (bln \$)	2	Value (bln \$)	3	Value (bln \$)	4	Value (bln \$)	5	Value (bln \$)
Indonesia	China	64.8	Singapore	18.1	Japan	15.7	Malaysia	11.8	USA	11.7
Saudi Arabia	China	44.5	UAE	17.0	USA	16.6	India	11.3	Germany	9.0
Turkiye	Russia	45.6	China	45.0	Germany	28.6	Switzerland	19.9	USA	15.7
Iran	UAE	21.4	China	18.2	Turkiye	7.1	Pakistan	3.0	Germany	2.0
Bangladesh	China	17.7	India	9.5	Indonesia	3.8	Malaysia	2.9	Brazil	2.6
Egypt	China	13.5	Saudi Arabia	6.0	Russia	4.8	Germany	4.8	USA	4.8
Nigeria	China	14.1	Belgium	4.4	Singapore	4.0	India	3.5	USA	2.5
Pakistan	China	11.7	UAE	4.8	Saudi Arabia	4.4	Indonesia	3.4	Qatar	3.3
Malaysia	China	56.7	Singapore	31.5	USA	19.5	Taiwan	18.3	Japan	15.5
UAE	China	85.4	India	43.0	USA	32.9	Saudi Arabia	18.7	Japan	15.7

Intra OIC trade is minimal and oil-centric or re-exports from UAE.

Turkiye, Nigeria and Malaysia's top 5 import markets do not feature OIC.

Reasons: Disparity in growth in OIC, relative prices, similar comparative advantage in labor intensive industry

GAPS IN HALAL ECONOMY

- ❖ OIC Countries are largely net importers due to comparative disadvantage; geographical distance also matters less than political distance.
- ❖ Tariff and non-tariff barriers high among OIC.
- ❖ STEM education required behind S&T of testing, packaging needs to be developed.
- ❖ Halal economy focuses largely on market economy, but no need to undermine beyond market economy.
- ❖ Cost of regulation can amplify comparative disadvantage.

COST OF REGULATION IN HALAL ECONOMY



Let inverse demand function be:

$$P_d = a - bQ$$

Let inverse supply function be:

$$P_s = c + dQ$$

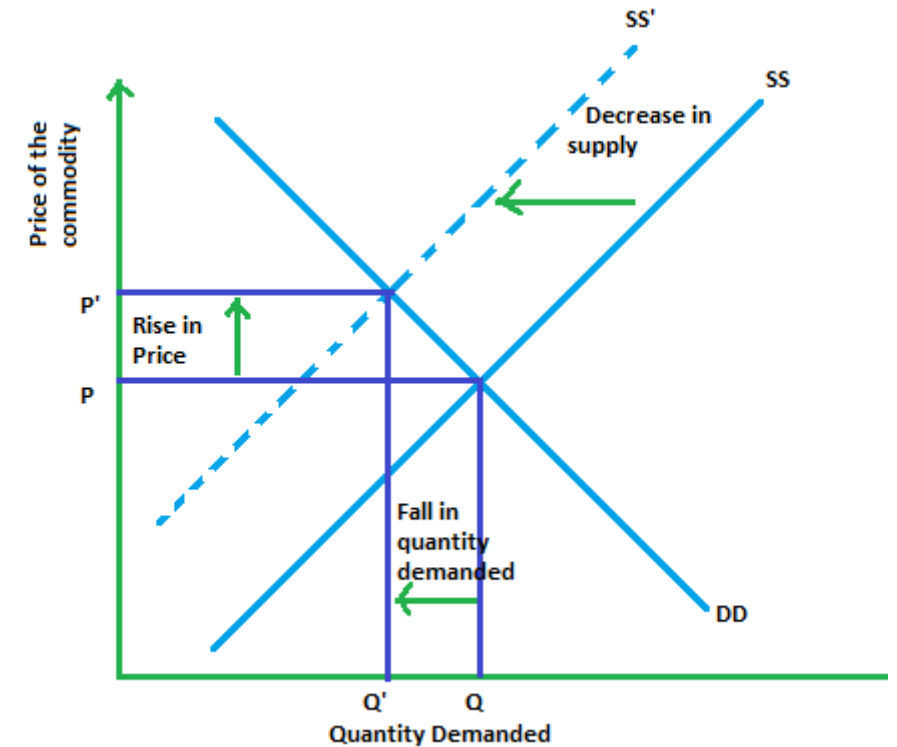
Equilibrium price is given by:

$$p = \frac{ad + bc}{b + d}$$

Equilibrium quantity is given by:

$$q = \frac{a - c}{b + d}$$

With cost of regulation increasing due to Halal testing and certification, c will change to c' where $c' > c$. This will raise the equilibrium price and decrease the equilibrium quantity of Halal products.



CONCLUSIONS AND RECOMMENDATIONS

- ❖ Create more awareness about Halal products (goods as well as services).
- ❖ Integrate thematic synergies with circular economy, ESG, SDGs, Impact, green, ethical etc.
- ❖ Check cost of regulation (micro-private vs. centralized regulation model) and moral hazard in regulation.
- ❖ Tariff incentives for import of technological infrastructure for Halal production.
- ❖ Tax incentives for Halal production and consumption and high excise duty on non-Halal.
- ❖ Promoting STEM education for boosting Halal testing capacity, production innovation and efficiency.

JAZAK ALLAH KHAIR

For Questions, Comments and Suggestions

Dr. Salman Ahmed Shaikh

salman@iium.edu.my

salman@islamicconomicsproject.com