

MODUL BISNIS ISLAM

“ISLAMIC INDUSTRY”

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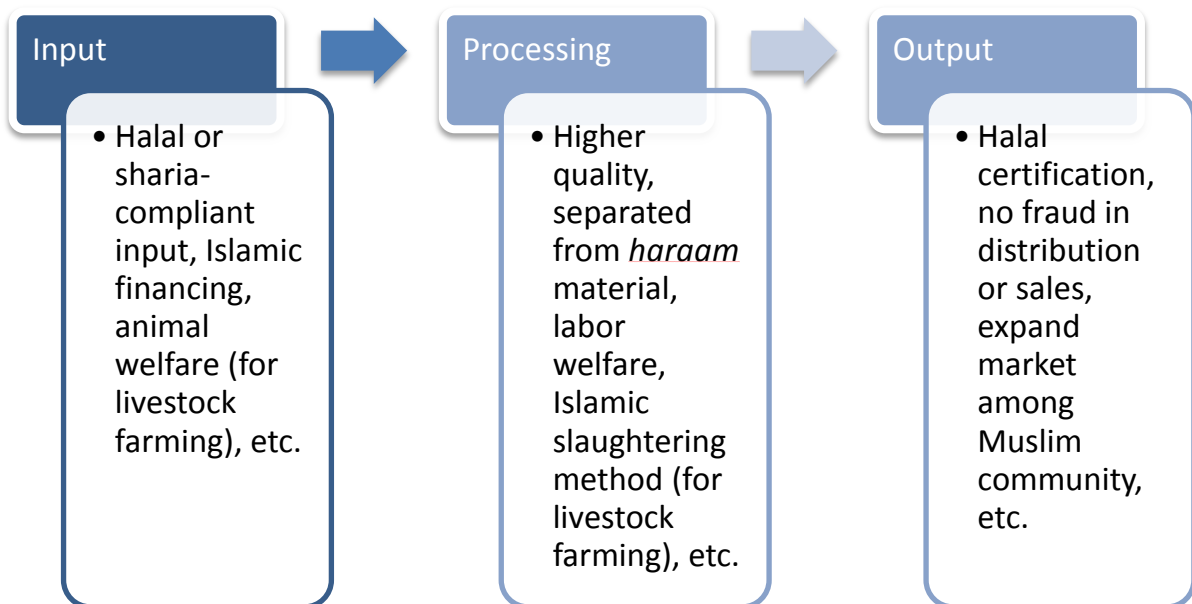
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Definition and Scope of Islamic Industry

- **Islamic industry*** is any forms of business activities in the goods manufacturing or provision of services sector to meet the needs of consumers based on Islamic principles both in process and outcome.
- Islamic industry → any forms of business activities, except for those contravenes Islamic (sharia) law.
- **Islamic industry*** includes extractive (e.g. fishery, mining, etc), agriculture and livestock farming, trade, manufacturing (e.g. food, clothes, pharmaceutical, etc) and service (e.g. halal travel and hospitality, Islamic financial institution, etc).
- Besides the outcomes, Islamic industry *emphasizes* the business process that should follow the Islamic values and law, e.g. using Islamic financing, labor welfare, animal welfare (for livestock farming), halal raw material input and processing, etc.

Islamic Business Process*



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*) There has been no exact Islamic industry definition, scope of Islamic industry theory and Islamic business process theory. Hence, it may change along with the development of Islamic industry.

Scope and Definition of Halal

- **Halal** comes from an Arabic term which means **permissible** or **lawful**
- Halal term is often used in reference to foods and drinks. For example, food that is permissible for Muslims to eat or drink under Sharia law. Its antonym is **haram** = forbidden.
- Halal term is strictly used to label food and beverage products, food contact products, cosmetics, pharmaceutical products, etc.
- A thing – in this term is food, beverage, cosmetics, etc – is considered halal or haram according to the Holy Quran or Sharia Law.
- Muslims should consume not only halal product but also tayyib. This means every product we consume has to be permissible according to Sharia (halal) and safe, not harmful to our bodies (tayyib).
- Any products that are not clearly stated as halal or haram are categorized as *syubhah* (dubious, ambiguous) and Muslims should avoid consuming syubhah products until the halal or haram status is clear.
- FAO (Food and Agriculture Organization) in *General Guidelines for Use of the Term “Halal”* stated 3 criteria for use of the term Halal for food and beverage.
 1. **Lawful food**; food that is permissible according to Sharia Law. It is then divided into 4 particular aspects which are **food of animal origin, food of plant origin, drink, and food additives**. In Islam, all sources of food are lawful except the following sources, including their products and derivatives which are considered **unlawful**:
 - a. **Food of Animal Origin**
 - Pigs, boars, dogs, snakes, monkeys, mules, domestic donkeys
 - Carnivorous animals with claws and fangs; lions, tigers, bears, and other similar animals
 - Birds of prey with claws; eagles, vultures, and other similar birds
 - Pests; rats, centipedes, scorpions, and other similar animals
 - Animals forbidden to be killed in Islam; ants, bees, woodpecker birds
 - Animals which are considered repulsive generally like lice, flies, maggots, and other similar animals
 - Animals that live both on land and in water; frogs, crocodiles, and other similar animals
 - All poisonous and hazardous aquatic animals
 - Any other animals not slaughtered according to Sharia law
 - Blood
 - b. **Food of Plant Origin**

Intoxicating and hazardous plants except where the toxin or hazard can be eliminated during processing

c. Drink

- Alcoholic drinks
- All forms of intoxicating and hazardous drinks

d. Food Additives

All food additives derived from items **a**, **b**, and **c** above. Example: pork gelatine

2. Slaughtering method; all lawful land animals should be slaughtered by following these requirements:

- Should be a Muslim who is mentally sound and knowledgeable of the Islamic slaughtering procedures
- Animal to be slaughtered should be lawful according to Sharia law
- Animal to be slaughtered should be alive or deemed to be alive at the time of slaughtering
- The phrase “Bismillah” (in the Name of Allah) should be invoked immediately before the slaughter of each animal
- Slaughtering device should be sharp and should not be lifted off the animal during the slaughter act
- Slaughter act should sever the trachea, esophagus, and main arteries and veins of the neck region

3. Preparation, Processing, Packaging, Transportation and Storage; all food should be prepared, processed, packaged, transported and stored by following these rules:

- Does not consist or contain anything which is considered to be unlawful according to Sharia law
- Has not been prepared, processed, packaged, transported and stored using any appliance or facility that was not free from anything unlawful according to Sharia law
- *Halal* food can be prepared, processed, packaged, transported and stored in different sections or lines within the same premises where non-halal foods are produced, provided that necessary measures are taken to prevent any contact between halal and non-halal foods
- *Halal* food can be prepared, processed, packaged, transported and stored using facilities which have been previously used for non-halal foods provided that proper cleaning procedures, according to Islamic requirements, have been observed

Global Halal Market

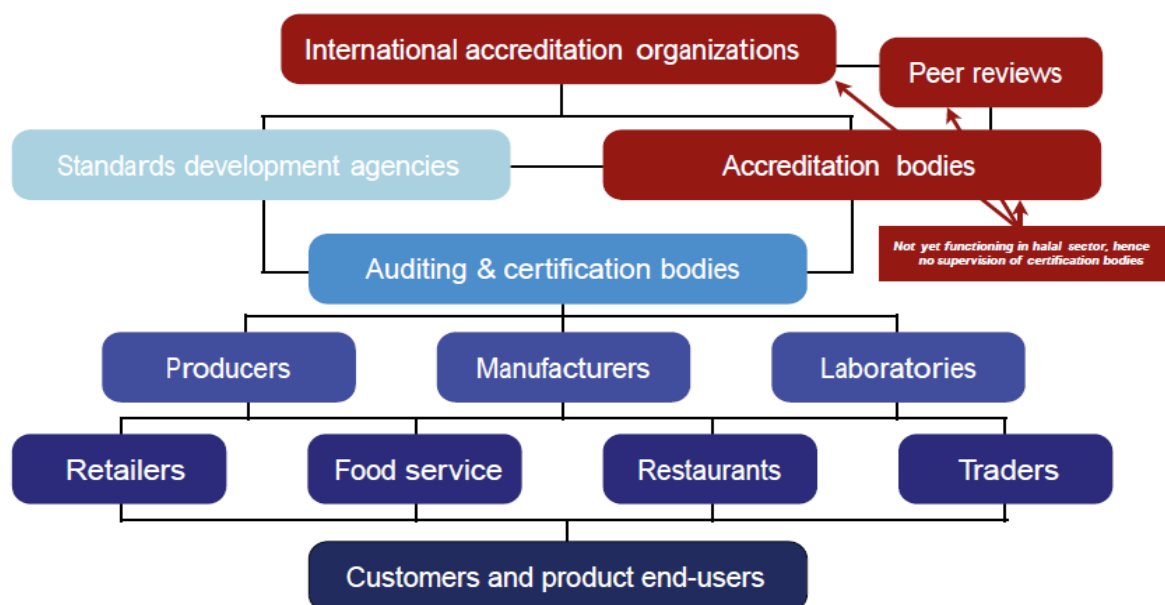
- **Global Islamic Economy Indicator (GIEI)** is a composite weighted index comprised of six sector level indicators, of which are **Halal Food, Islamic Finance, Halal Travel, Modest Fashion, Halal Media and Recreation, Halal Pharmaceuticals and Cosmetics** across 73 core countries. GIEI is not a ranking of current size and growth of each market, but evaluates the quality of the overall Islamic economy ecosystem.

- Each sector was evaluated based on the following key metric categories that were equally weighted: 1) supply/demand drivers relative to country size, 2) governance, 3) awareness, and 4) social considerations.
- The top 15 countries in GIE Indicator 2015/2016 consist of 14 OIC member countries and 1 non-OIC member countries. The 1st rank of GIE Indicator in 2015/2016 was Malaysia with the total score 116.
- Malaysia also became the best developed Islamic economy country in three sectors, of which are Halal Food, Islamic Finance, and Halal Travel. Surprisingly, the other three sectors' 1st ranks were achieved by the non-OIC member countries. Those are China for Modest Fashion sector and Singapore for Halal Media and Recreation and Halal Pharmaceuticals and Cosmetics sectors.
- In 2014, Indonesia was the top country with Halal food consumption with a market worth \$ 157.6 billion. (SGIE Report 2015/2016).
- Muslim across the globe total expenditure on food in 2014 was \$ 1,128 Billion or 16.7% of global expenditure on food. It is predicted that in 2020 global Muslim total expenditure on food will reach \$ 1,585 Billion or 16.9% of global expenditure.
- The most imported stuff from food trade by OIC member countries are vegetable products (49.5%, worth \$ 150 Billion), food processing manufacturing (31.9%, worth \$ 68 Billion), and animal and animal products (18.5%, worth \$ 39 Billion).
- The criterion measured in halal food indicator are; 1) Trade: OIC food trade relative to its size, 2) Governance: regulation/certification requirements, 3) Awareness: media/events, and 4) Social: Food Price Index
- In Islamic Finance sector, the global Islamic finance assets in 2014 reached \$ 1,814 Billion and it is predicted that in 2020 it will potentially reach \$ 3,247 Billion. For Islamic banking assets, it has reached \$ 1,346 Billion in 2014 and will potentially reach \$ 2,610 Billion in 2020.
- Islamic finance segment across the countries measured by GIEI in 2014 was Islamic banks with Islamic banking assets worth \$ 1,346 Billion, Sukuk with value of sukuk outstanding worth \$ 295 Billion, Takaful with takaful/retakaful assets worth \$ 33 Billion, Islamic funds with net asset value worth \$ 56 Billion, and other financial institutions.
- Global Muslim market for travel sector reached \$ 142 Billion in 2014, it was the third largest after China (\$ 160 Billion) and United States (\$ 143 Billion). The total expenditure on travel by Muslim across the globe reached \$ 142 Billion or 11% of global expenditure in 2014 and it is predicted that in 2020 it will reach \$ 233 Billion or 13% of global expenditure.
- Countries with the biggest Muslim tourism expenditures in 2014 were Saudi Arabia (\$ 17.8 Billion), United Arab Emirates (\$ 12.6 Billion), Kuwait (\$ 9.7 Billion), and Qatar (\$ 9.5 Billion). The criteria measured in halal travel sector are; 1) Trade: Inbound Muslim Travel relative to its size, 2) Governance: Halal Friendly ecosystem, 3) Awareness: media/events, and 4) Social: contribution to employment.
- In Modest Fashion sector, the global Muslim market in 2014 reached \$ 230 Billion and became the third largest after the United States (\$ 400 Billion) and China (\$ 310 Billion). It is equivalent to 11% of the global expenditure on clothing.

- Countries that export most clothing to OIC countries are China (\$ 28,629 Million), India (\$ 3,872 Million) and Turkey (\$ 2,338 Million). The criteria measured in modest fashion sector are; 1) Trade: Clothing export to OIC countries, 2) Awareness; Number of news articles and events, and 3) Social; Clothing Price Index, Labor Fairness Index.
- In Media and Recreation sector, the global Muslim market has not yet been making a remarkable expenditure. Its expenditure in 2014 was \$ 179 Billion and equivalent to 5% of the global market expenditure. It was also the lowest compared to the United States, Japan, China, United Kingdom, and Germany.
- Halal media and recreation is the only sector that is dominated by non-OIC member countries in its top 10 ranks. The criteria are: 1) Supply drivers relative to country size (Recreation exports to OIC), 2) Awareness; Number of news articles and events, and 3) Social; Internet Access Index.
- OIC member countries made \$ 256 Billion in global imports and \$ 34 Billion in OIC imports for pharmaceutical sectors and also earned \$ 514 Billion from global exports and \$ 4 Billion for OIC exports. The global Muslim market spent \$ 75 Billion on pharmaceutical in 2014 or 6.7% of global expenditure.
- In halal pharmaceuticals and cosmetics sector, countries that export most pharmaceutical products to OIC are France (\$ 4,947 Million), Germany (\$ 3,900 Million), and UK (\$ 1,890 Million)

Halal Standard and Certification

- Mainstream food sector **regulatory framework**



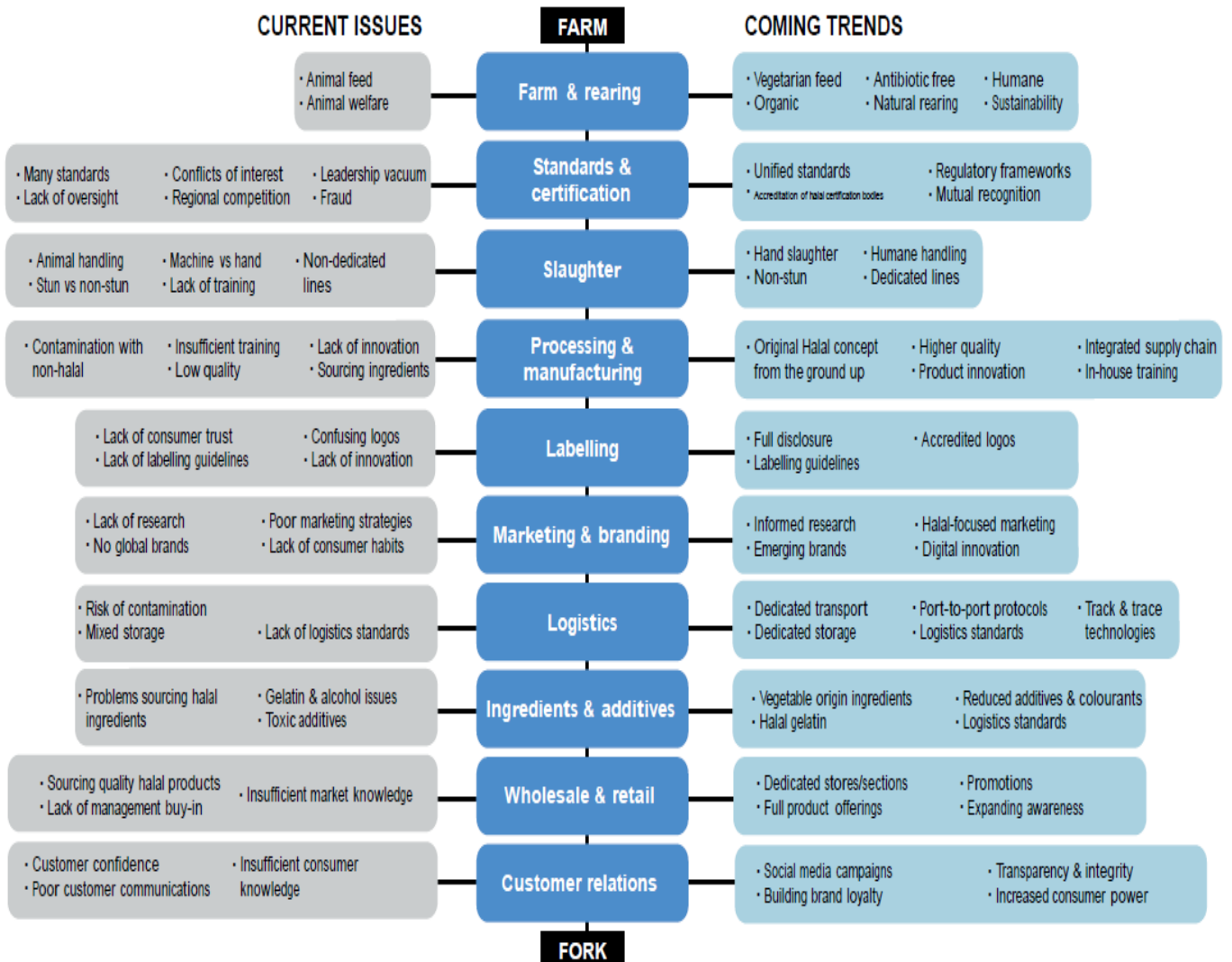
- **Variations** in regional halal regulatory

Multicultural Country (e.g. Malaysia, Singapore)	Muslim Majority (e.g. GCC Countries)	Muslim Minority (e.g. UK, US, France)
Mixed religion and culture	Traditional Muslim majority population	Immigrant Muslim minorities
Well-established Muslim presence	Halal low priority – assumed to be halal	Political sensitivity
Pioneered standards and certification	Primarily consumers	Halal as identity
Consume and produce	Exporters target market	Disposable income
Multinational presence	Slow to develop standards	High industry interest
Local SMEs and microenterprises	Political support starting	Multinational headquarters
Halal as economic driver	Multinational presence	Consumer awareness
Halal as political platform	Developing local industry	Marketing expertise
		Innovation and creativity
		Global influence

- **Issues** in halal standards and certification:
 - **Manufacturers and exporters:**
 1. The lack of an international framework to ensure halal integrity complicates the manufacturers and exporters in deciding whether they access export markets or serve the local Muslim community.
 2. Pressure for a regulatory framework that can carry the halal market to line-up with the mainstream food industry normative procedures. The difficulty is partly due to lack of clarity about to which industry players must appeal.
 - **Consumers**
 1. Muslim consumer power is just starting to be a recognizable market force → consumer as a key component in the value chain
 2. Growing awareness among halal customers that they represent a powerful market that crosses geographical, racial, and cultural boundaries.
 - **Industry**
 1. National halal certification boards operating in Southeast Asia, such as MUI, have to date not felt any needs to be accredited by their national accreditation board
 2. Sanitary and phytosanitary measurement to protect:
 - Human or animal health from food-borne risks
 - Human health from animal- or plant-borne diseases

- Animals or plants from pests or diseases

- **Issues: Farm-to-Fork Meat Standard**



Sources

State of the Global Islamic Economy Report 2015/2016, Thomson Reuters

General Guidelines for Use of the Term “Halal”, FAO