Islam and Civilisational Renewal

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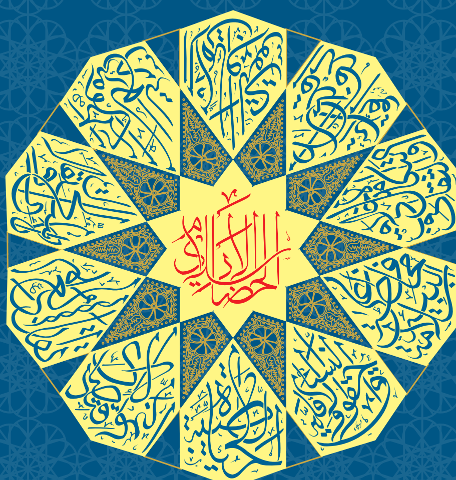

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ISLAM AND CIVILISATIONAL RENEWAL

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*Marco Tieman**
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The Growing Gap between Supply and Demand

The halal industry is expanding rapidly. Muslim consumer markets are today among the world's fastest growing. Despite the significant size of the halal industry, however, which is growing in width (read: introducing new halal certifiable categories) and depth (read: more companies are embracing halal certification), there is an evident gap in meeting increased demand for high-quality halal consumer products. There is also a systemic shortage of halal-certified raw materials, other ingredients, and additives. As halal moves from a product approach towards a supply chain approach, issues of halal integrity have also come to the fore. Likewise, it remains problematic that multinationals from non-OIC countries dominate all halal categories, with only limited (and further diminishing) roles for companies from the Muslim world. There is also a total lack of horizontal and vertical collaboration in halal supply chains, leaving true halal synergy advantages on the table.

These trends show there is a growing gap between the demand for halal and its supply networks. *If these halal production and supply network problems are not fixed, they will limit the full potential of the halal industry, perhaps even resulting in a collapse in international halal trade*. It must therefore be asked, how do we best organise halal production and supply networks in order to meet demand and bring halal mainstream, both in OIC and non-OIC countries?

The Halal Industry

The existing halal industry is highly fragmented, consisting mainly of micro-enterprises focused on serving local markets. In OIC countries, these are not well organised and struggle to scale up and operate efficiently. Moreover, although Islamic banks have seen enormous growth over recent years, the resultant massive increase in Islamic funds has not benefited the micro-enterprises producing halal products.

As a result, there are very few large halal brands in OIC countries, whether in the food, cosmetics, or pharmaceutical industries. Top halal brands are still dominated by multinational companies from non-OIC countries. As things stand today, OIC countries have a very limited role in the halal value chain. The same is true for commodity trading. Although OIC countries are large producers of several agriculture commodities, such as palm oil and spices, commodity trading is in the hands of non-OIC countries.

As halal moves mainstream, in order to guarantee the availability of halal products, a new way of organising the production and trade of halal products is required, particularly in OIC countries.

Malaysia's Halal Parks

More than 10 years ago, Malaysia became the first country to announce an ambition to become a global halal (production and trading) hub. Today, other OIC countries have announced similar plans, like the United Arab Emirates and, more recently, Indonesia and the Kingdom of Saudi Arabia. The Malaysian government's ambition was fully supported by the private sector and by the country's state governments, both of whom developed halal industrial parks. Today, there are 22 halal parks in Malaysia, of which 14 have *halmas* status. This special status was awarded by the Halal Industry Development Corporation (HDC) to all halal parks of a certain size (more than 100 acres and focused on attracting FDI) and came with financial incentives for both the park's operators and investors.

According to HDC, a halal park is a 'community of halal manufacturing and service businesses located on a common property with the aim of preserving the integrity of halal products'. This halal integrity is ensured by JAKIM, who halal-certifies all manufacturing and service businesses located in the park, where possible.

The halal parks set up in Malaysia are therefore dedicated industrial parks for halal-certifiable industries. HDC measures the success of these parks based on traditional property development performance indicators, such as occupancy rates and investment. Successful halal parks are close to raw materials or a logistics hub (seaport or airport), and are usually managed by private operators. Ready-made factory lots are not suitable for attracting FDI, but could be a model for affordable SME space. Synergy advantages are limited, however, incorporating shared promotion of *halmas* status and quarterly dialogue sessions of industry stakeholders organised by HDC.

Currently, the effectiveness of these halal parks is uncertain. Export figures for halal parks are unknown, as are levels of realised investment (only proposed investments are measured). Certainly, the halal parks have not resulted in massive relocation of industries or in massive FDI investment from regional and multinational players. Although the effectiveness of halal parks is therefore questionable, they could certainly still constitute an important vehicle for building production assets and supply networks in OIC countries.

Moving to Halal Parks 2.0

The halal parks that have developed over the years are merely dedicated zones for halal industry and services, supported by halal certification (bodies) and government incentives. We would like to call this model Halal Park 1.0 (figure 1). However, as noted, these halal parks have not provided significant synergy advantages for industries operating within them, failing to deliver ground-breaking innovations or create new global halal brands.

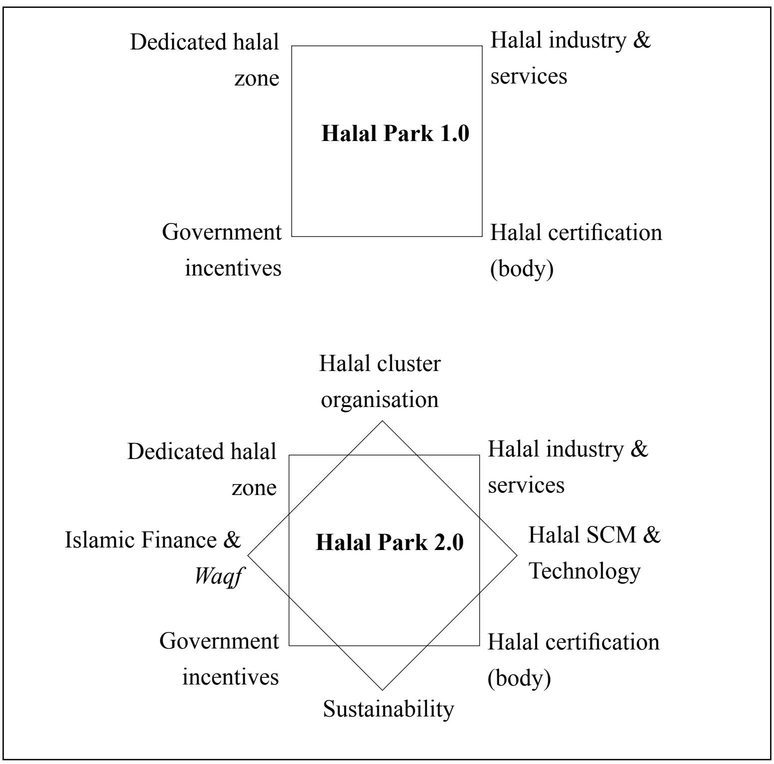

Figure 1: Halal Park 1.0 and 2.0

This is primarily because Halal Parks 1.0 were not designed as halal ecosystems. In future, therefore, halal parks need to be designed as halal clusters—as a spatial clustering of halal production chains in an industrial park or economic zone.

Hence, we propose that the halal ecosystem of a halal park extend beyond the physical boundaries of the park itself, orchestrated by a halal cluster organisation. This organisation will ensure the development and interconnectivity of its cluster, both within and outside the country. The goal of the Halal Park 2.0 is to generate synergy advantages for industries located within it, realised through horizontal and vertical collaboration. Horizontal collaboration allows for the sharing of information and resources, in addition to the bundling of halal volumes. Vertical collaboration allows for effective halal supply chain assurance, standardisation, and optimisation.

As halal moves from a product approach (focused on ingredients and production processes) towards a supply chain approach (source to point of consumer purchase), supply chain management and technology becomes an integral component of halal parks in order to support industries in creating end-to-end halal supply chains by design. Availability of halal logistics are important here, beyond traditional halal storage and transportation services.

The sustainability of halal parks and their supply chains is an important factor in living in balance with nature (*mizan*). Halal parks therefore require sustainability standards for energy, water, and waste. They thereby provide an opportunity to link halal supply chains to ecological issues fitting halal supply chains and clusters.

Finally, Islamic finance plays a critical role in supporting halal production and supply networks when realising a true/complete halal value chain. For this, a full range of Islamic banking services are required, including *sukuk*. Islamic philanthropy also has a place in the Halal Park 2.0, notably through *waqf*, which can play an essential role in providing high-quality facilities, vocational and technical training, as well as entrepreneurial coaching.

Policy recommendations

Halal parks should be based on a solid halal cluster design, requiring close governmental control to ensure C4 (correct-consistent-complete-clear) halal ecosystems are built. These should be sustainable and contribute to the creation of halal production assets and supply networks for OIC countries.

To achieve these ends, a halal park standard should be developed by OIC countries. This will require the halal certification of industrial developers who wish to establish and manage a Halal Park 2.0.

Halal parks should also collaborate, both within countries and globally, in order to create synergy advantages. In 2019, a 'Halal Cluster Network' was established in Indonesia, championed by the Modern Halal Valley. This should be replicated elsewhere.

Further academic research is needed to better understand halal parks and halal cluster requirements, within both OIC and non-OIC countries.

Notes

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