Islamic Economy Option: SWOT Case Study Analysis

Suzanna El Massah¹,²

Abstract

The 21-century world has come up with new face that calls for innovative ways to gain power. Soft power is second face of power that allows obtaining desired result by attracting and co-opting others rather than coercing them. Islamic Economy deals with billions of dollars in several sectors that will be affected by Islamic based principles, which will have a massive effect on the worldwide trade. Currently, there is no Muslim society that strictly follows the entire Islamic laws. This paper investigates the feasibility of applying Islamic economic option within the conventional world economy. United Arab Emirates is one of those governments that seek unorthodox innovative solutions. It has recently launched Dubai, the Capital of Islamic Economy initiative. This paper analyses the merits for Dubai to achieve that title and it formulates strategies that Dubai should apply to achieve that goal.

JEL classification numbers: A1, E6, M2, P4, P5, Z1
Keywords: Islamic Economy, Soft Power, United Arab Emirates, Dubai, SWOT analysis.

1 Introduction

With the fast paced life and changes globally, economic risks and uncertainty are growing rapidly. This is proved by the excessive wealth disparities around the world and the severe financial and economic crises that vexed the world recently³. Hyman Minskey did an extensive analysis of economic instability and concluded that most were due to the excessive credit growth (Arrif & Iqbal, 2011). Islamic economics is the study and practice of economics by following Islamic law (Shari’ah). Almost all transactions in Islamic system are asset-based; whereas the main rationale of an Islamic financial system is equity participation rather than debt-creation.

The concept describes the ability to attract and co-opt instead of enforcing, in order to influence the behaviour of others is known as Soft Power. The developer of this concept

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³The whole world has suffered from the financial turmoil unleashed in 2008.
was Joseph Nye. This includes factors such as the values, culture, policies and institutions (Nye, 2011). The past three decades indicate that Dubai is moving forward on the path of being a soft power and boomed to become a tourist and economic center (Schmid, 2006). In a span of fifty years, Dubai has remarkably moved through different industrial status, while a similar transition took more than two centuries for the western countries (Pacione, 2005).

2 Objective and Methodology

This paper deals with the intersection between Muslim society and economics, and the formulation of institutional framework and political decisions to support the social and cultural values so that economic success can be achieved. It is the first paper to analyze the use of Islamic Economy to establish the soft power in the new world’s order. It is also the first to study the new Initiative of Dubai to establish an Islamic Economy hub. This research has four main objectives. Firstly, it determines whether the Islamic economy involves principles or theoretical foundation. Secondly, tests for the feasibility of IE in the world of conventional economic system. Thirdly, investigate the potential success of the Dubai`s Islamic economy Initiative. Fourthly, identify the required strategies to enable Dubai to become a leading IE and enhance its position as soft power.

For accomplishing the goals of this study, several methodologies are adopted which include analysis of theoretical foundation literature in Islamic Economics, in addition to comparative analysis throughout comparison between Islamic Economy Option (IEO) and the contemporary Conventional Economic Option (CEO). Furthermore, SWOT analysis is conducted in regard to the launch of Dubai as an IE hub.

3 Islamic Economics: Is it principles or theoretical foundation?

Islam appeared in the Middle East during the 7th century by Prophet Muhammad as a prolongation of earlier messages by Abraham, Moses and Jesus. A Muslim refers to someone who follows the teachings of Islam as mentioned in the Holy Qur’an⁵, while an Arab refers to a person of Arab heritage who speaks Arabic. Islam is the second largest religion in the world (M.M. Metwally, 1997). Islam has prohibited some things due to their impurity and harmfulness. These justifications are explained in Qura’n in regard to wine and gambling, seductive clothing, usury, pornographic literature, homosexuality, cheating, mind-altering drinks, “impure” food⁶. A person, who chooses the path of guidance and refrains from the prohibition, becomes a lawful Muslim. Others who deviate and do not follow the prohibitions are considered as unbelievers (Al-Lahim, 1995). The Islamic economic system has similarities with Keynesian and mixed capitalism. In such a case the government is actively involved in the production and distribution of public and economic goods, and ensuring steadiness by taxing and spending.

⁴by shedding the light on Dubai`s Strengths, Weaknesses, Opportunities and Threats.
⁵Forbidden to you (for food), are; dead meat, blood, the flesh of swine, and that on which has been invoked, the name of other than God...“(Qur’an, Al-Maidah 5:4).
⁶Part of the culture ethos of Muslims.
3.1 Islam as Faith-based Principles

A Muslim consumer differs from other consumers as his faith based morals pivot his behavior around the satisfaction of God (Metwally, 1997). Subsequently, faith-based principles influence the economic decision-making and hence affect the supply and demand in different economic sectors that Muslims deal with.

Almost all economic sectors are affected by these Muslims faith-based principles as presented below:


- **Islamic Finance** includes retail, business financing, insurance and investments. The conventional lending system works in such a way that the loan is given on a fixed or a function of any other benchmark rate. However, the Islamic system encourages the sharing of any profits or loss taking place, between the lender and the borrower.

- **Muslim clothing/fashion** is determined by Islamic command to maintain modesty, in addition to wear good quality clothing so as to reveal the blessings of Allah.

- **Muslims travel** should assure providing Muslims with suitable services to observe their religious obligations such as daily prayers, modesty in clothing, cross-gender interactions and halal food.

- **Art, entertainment and Media**: Muslim consumption is to follow the high moral standards for God sake. As Muslims should spend time with activities that do not have negative effects on themselves or their families. It is worth noting that there is diversity among Muslims in adopting and understanding the Islamic values in regard to Media & Recreation practices.

- The same explained “halal” aspect affects Halal pharmaceutical & Cosmetics. Medicine must not have any prohibited ingredient/derivatives.

3.3 Islamic Economics and the Contemporary Economics

Overall Islamic economic concepts are not considerably different from the conventional contemporary model led by the capitalist sector (Ennis, Crystal, 2005). Capitalist sector is based on three core elements that are Mode of Production; Trade and commerce; rational activity; Exchange (Rodinson, 1978). The legal corpus normally reflects the values held by any society. In an Islamic society, these values are derived from the Qur’an and hadith. Therefore, individual have freewill in Islam but he will be sanctioned by Islamic values that should be respected and reflected in the legal corpus.

One of the very critical issues is the problem of identifying “Riba”, profit and interest. These terms were analyzed heavily in Islamic economics writings. Where “Riba” is gaining returns without bearing any risk, while profit means earning the return where risk is involved (Al-Buraey, 1985). There is a debate among Muslim scholars that whether the prohibited “Riba” is a typical synonym to bank interest or the purpose of Shari’ah was to prevent exploitation of the weak (Cumming et al, 1980). However, Interest doesn’t have to

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7For more details; http://www.nutrition.co.th/halal.html
represent greed since it could be regulated socially in the economy to ensure that productivity and social consistency are fostered, but generally, the majority of Muslim writers are in favor of considering bank interest a form of usury “Riba”. Nevertheless, some scholars saw the restriction of bank interest in any economy as an impediment for economic development, as that may discourage savings and encourage capital flight to higher yield (Ennis et al., 2005).

4 Global Islamic Economy in Practice

In the present time, there exists no such society that can be followed as an Islamic economy, apart from that, the experiences of less complex early Islamic economies are not sufficient (Metwally, 1997). Muslim countries economies are large and fast growing with combined US$8 trillion GDP (Thomson Reuters Report, 2013). This situation has invited the need to supply goods, services and financial instruments to meet the faith-based demand of Muslims investors and consumers. It is worthwhile to mention that Muslim countries and individuals vary greatly in practicing Islamic law (Shari’ah). Some are firmer than others, yet it is not easily accessible or homogenous market due to the multiplicity of standards, local and cultural preferences.

4.1 Global Islamic Economy Situation Analysis

This research has adopted an operational definition of Islamic Economy by Thomson Reuters Report in 2013 where the global IE includes virtually all the economic sectors. The major sectors include Islamic insurance and finance, conservative tourism and media, Halal products such as food, cosmetics and pharmaceuticals that are compatible with Islamic values (Thomson Reuters Report, 2013).

- Halal Food Sector

The breadth of Muslim demand in F&B (Food and Beverage) market represents a strength and opportunity for the Halal food sector to grow and succeed. The global Muslim spending on F&B in 2012 has reached 16.6% of the global expenditure amounting to $1,088 billion, which is expected to be $1,626 billion by 2018. This is considered a top rank if compared with other markets as shown in Fig (1) (Thomson Reuters Report 2013).

![Figure 1: Muslim market relative to global top F&B markets (US Billion, 2012)](Source: The State of the Global Islamic Economy Report, 2013)
The OICCs import 91% of meat and live animals. This is a $14 billion chance to serve supply chain of this Halal food market. This opportunity is waiting to be grasped by international trade (imports) or by capable OICCs (Thomson Reuters Report, 2013). The absence of well-qualified and properly educated employees for this sector hinders rapid growth and innovation.

- Islamic Finance Sector

Islamic finance is the most developed and well-established sector in the IE sphere and it affects the development of other sectors as well. Islamic finance sector consists of six main players which include Sukuk arrangers, banks, takaful operators, Islamic funds, crowd funding and Islamic finance education as shown in fig. (2).

![Figure 2: Islamic finance sector](image)

There are few Standard Setters and Regulators of Islamic financial services; AAOFFI, IFSB and IILM. They are well established, however; they are still insufficient for attaining full efficiency. The countries with stand-alone regulations for Islamic finance are shown in Table (2).

<table>
<thead>
<tr>
<th>Country</th>
<th>Stand-alone Islamic Finance Regulations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Afghanistan</td>
<td></td>
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<tr>
<td>Bahrain</td>
<td></td>
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<tr>
<td>Bangladesh</td>
<td></td>
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<tr>
<td>Brunel Darussalam</td>
<td></td>
</tr>
<tr>
<td>Djibouti</td>
<td></td>
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</tbody>
</table>

8Based on 2012 estimates
9Their education should be covering three disciplines; religion, science and technology and business. 10It was created in 1991 to issue Islamic international standards on accounting, auditing and corporate governance. It has 200 members from 45 countries, including central banks, Islamic financial institutions, and other participants in the Islamic banking and finance industry. 11It was established in 2003 to enhance stability of Islamic financial services industry by issuing global standards and guiding principles for the industry. IFBS has 189 members comprise 53 regulatory and supervisory authorities, 8 international intergovernmental organizations and 128 market players, professional firms and industry associations operating in 44 jurisdictions (Thomson Reuters-a, 2013). 12International Islamic Liquidity Management Corporation was established by central banks, monetary authorities and multilateral organizations to create and issue short-term Shari’ah compliant financial instruments to facilitate effective cross-border Islamic liquidity management.
There are 34 countries have a total of 216 takaful/re-takaful operators. In addition to 249 full Islamic banks and 114 Islamic banking windows, 24 banks of them are the major players dominating the Sukuk market with amount of $13,475 million. The major international Sukuk arrangers are shown in Table (3) below.

<table>
<thead>
<tr>
<th>Book Runner</th>
<th>Issue Amount (US Million)</th>
<th>Market Share (%)</th>
<th>Number of Issues</th>
</tr>
</thead>
<tbody>
<tr>
<td>HSBC Holdings PLC</td>
<td>1,987.5</td>
<td>17.94</td>
<td>7</td>
</tr>
<tr>
<td>Standard Chartered PLC</td>
<td>1,682</td>
<td>15.18</td>
<td>9</td>
</tr>
<tr>
<td>Citi</td>
<td>1,282.2</td>
<td>11.57</td>
<td>5</td>
</tr>
<tr>
<td>Emirates NBD PJSC</td>
<td>886</td>
<td>8.00</td>
<td>7</td>
</tr>
<tr>
<td>Dubai Islamic Bank Ltd</td>
<td>682.2</td>
<td>6.16</td>
<td>4</td>
</tr>
<tr>
<td>National Bank of Abu Dhabi</td>
<td>537.5</td>
<td>4.85</td>
<td>4</td>
</tr>
<tr>
<td>Riyadh Bank Ltd</td>
<td>500</td>
<td>4.51</td>
<td>1</td>
</tr>
<tr>
<td>Bank Al Bilad</td>
<td>500</td>
<td>4.51</td>
<td>1</td>
</tr>
<tr>
<td>Alinma Bank</td>
<td>500</td>
<td>4.51</td>
<td>1</td>
</tr>
<tr>
<td>RHB</td>
<td>434.4</td>
<td>3.92</td>
<td>3</td>
</tr>
<tr>
<td>Abu Dhabi Islamic Bank(ADIB)</td>
<td>332.2</td>
<td>3.00</td>
<td>2</td>
</tr>
<tr>
<td>RBS</td>
<td>291.7</td>
<td>2.63</td>
<td>2</td>
</tr>
<tr>
<td>Malayan Banking Bhd</td>
<td>200</td>
<td>1.81</td>
<td>1</td>
</tr>
<tr>
<td>Abu Dhabi commercial Bank Ltd</td>
<td>165.6</td>
<td>1.49</td>
<td>1</td>
</tr>
<tr>
<td>NattlComml Bank Saudi Arabia</td>
<td>125</td>
<td>1.13</td>
<td>1</td>
</tr>
<tr>
<td>Kuwait finance House</td>
<td>125</td>
<td>1.13</td>
<td>1</td>
</tr>
<tr>
<td>Natixis</td>
<td>125</td>
<td>1.13</td>
<td>1</td>
</tr>
<tr>
<td>Al Hilal Islamic Bank</td>
<td>125</td>
<td>1.13</td>
<td>1</td>
</tr>
<tr>
<td>CIMB Group SdnBhd</td>
<td>125</td>
<td>1.13</td>
<td>1</td>
</tr>
<tr>
<td>Credit Agricole CIB</td>
<td>125</td>
<td>1.13</td>
<td>1</td>
</tr>
<tr>
<td>Barwa Bank QSC</td>
<td>125</td>
<td>1.13</td>
<td>1</td>
</tr>
<tr>
<td>Masraf Al Rayan</td>
<td>74.6</td>
<td>0.67</td>
<td>1</td>
</tr>
<tr>
<td>QInvestLLc</td>
<td>74.6</td>
<td>0.67</td>
<td>1</td>
</tr>
<tr>
<td>Alkhair Capital Saudi Arabia</td>
<td>74.6</td>
<td>0.67</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>11,080.10</td>
<td>100.00</td>
<td>58</td>
</tr>
</tbody>
</table>

The largest asset class of the Islamic fund sector is the money market funds\textsuperscript{13}. The number of Islamic funds in the world amount to approximately 636\textsuperscript{14}, mostly based on Shari’ah negative screens\textsuperscript{15}. Global finance has been lately fascinated by Islamic finance. Several famous well established international banks are leading arrangers on Sukuk issuances globally with separate Islamic window or subsidiaries. Moreover, England’s government is the first non-Islamic state to pronounce Sukuk issuance. Yet, there are more than thousand Islamic finance institutions worldwide with $1.35 trillion of assets in all Islamic finance institutions\textsuperscript{16} growing annually at 15-20\% in many of its core markets (Thomson Reuters-b, 2013).

- Muslim Clothing/Fashion Sector:
  Figure (3) shows global Muslim market in the second largest rank. The 2012 global expenditure on clothing and footwear shows that the Muslim populations over the world have spent 10.6\% which is expected to reach 11.15\% till 2018. Muslims in Western Europe\textsuperscript{17} and North America have paid about $21 billion on relatively homogenous clothing patterns 2012 (Thomson Reuters-a, 2013).

![Muslim Market relative to global top clothing market (US Billion)](source: The State of the Global Islamic Economy Report, 2013)

Such large market with thousands of small firms without large corporations offers the opportunity for Islamic finance, media, marketing institutions and especially for SME development and financing. On the other hand, many OICCs are major clothing exporters\textsuperscript{18} and they have the set-up which can grasp the opportunity in Islamic clothing market.

- Muslim Travel Market Sector
  The spending by Muslim tourism is expected to grow from 12.5\% in 2012 to $181 billion in 2018, of global expenditure (Thomson Reuters-a, 2013). The market comparison in shown in Fig (4)

\textsuperscript{13}Thomson Reuters Islamic Asset Management Report presents a detailed profile of this sector.
\textsuperscript{14}Recorded by the Thomson Reuters Islamic Finance Development Report (2013)
\textsuperscript{15}That filters out non-investable companies based on Islamic laws.
\textsuperscript{16}full sharia-compliant as well as those with sharia ‘windows’
\textsuperscript{17}Germany, France, UK.
\textsuperscript{18}Bangladesh, Turkey, Indonesia, Morocco and Pakistan.
Regionally, GCC\textsuperscript{19} country based tourists represent 31\% of the total Muslim travel expenditure. Global travel industry key players targeting are Muslim tourists by meeting core Muslim needs\textsuperscript{20}.

- Muslim Media and recreation Market Sector

Muslims’ faith based needs extend to media and recreation service that have many diverse subdivisions covering service providers, distribution channels\textsuperscript{21}, talents, marketing and financial services. Muslim recreation consumer market is one of the largest as shown by fig. (5). Muslims spending on recreation services is 4.6\% of global expenditure and expected to increase to 4.8\% by 2018 (Thomson Reuters-a, 2013).

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure5.png}
\caption{Muslim market relative to global top recreation consumer markets (US Billion) (Source: The State of the Global Islamic Economy Report, 2013)}
\end{figure}

\textsuperscript{19}Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, UAE.

\textsuperscript{20}Japan’s Kansai International Airport has certified one of its restaurants as halal. Bangkok’s Suvarnabhumi Airport provides prayer room and Jumu’ah prayers. Many OICCs-based resorts provide gender segregated swimming pools, alcohol-free and family-oriented environment. Several non-Muslim majority destinations have tapped this market too; Gold Coast Australia’s mayor wants more prayer rooms in shopping centers, extended trading hours and more halal restaurants; Taiwan has built gender-segregated ‘halal’ spas; and New Zealand has produced a halal culinary guide to its South Island ((Thomson Reuters-a, 2013).

\textsuperscript{21}Namely; TV, radio, online/apps, mobile cellular, print, and theater.
There is a big opportunity to scale and supply Muslims with faith based media and recreation products. These should not be limited to religious education but also include leisure media based on Islamic spirit.

- **Halal Pharmaceutical and Cosmetics Sector**
  The spending by the Muslim consumers in 2012 on cosmetics were $26 billion whereas in the case of pharmaceuticals it amounted to $70 billion, which are 6.6% and 5.7% of global expenditure\(^2\). In comparison to the global market, Muslim pharmaceutical is the third largest, as presented in fig (6), while the global Muslim cosmetics is the sixth largest market, as shown in fig. (7), compared to top countries. Hence, such figures indicate the existence of a significant potential for Halal Pharmaceutical and Cosmetics markets.

\(^{22}\)Major global pharmaceutical companies Merck, Pfizer and GlaxoSmithKline are already engaged in halal certification of their medicines marketed to Muslims globally.
The considerable size of sector indicates that opportunity exists to expend into this segment. The success of O2M nail polish proves a market opportunity in cosmetics products that serve Muslim women’s needs.

4.2 Factors inducing the Global Islamic Economics Growth

There are two main drivers that shape the worldwide IE growth which are Global Environment Based (GEBs) drivers and Islamic Market Based (IMBs) drivers. Four major IMBs affect IE progress; Muslim population is growing annually by 1.5% compared with 0.7% worldwide, with median age 24 years (Thomson Reuters Report, 2013). That would derive the demand for appropriate goods and services markets for those young Muslims. Muslims have faith based values which affects many sectors such as food, finance and business, clothing, recreation, services, education, charity and personal care. The third driver is the excellent projection about the growth of the OICCs markets from 2013 through 2018 to be 6.3% on average, more than the global GDP growth averaging 5.3%. Also, the Intra-OICCs trade significant growth is a driver that stimulates growth of the IE sectors such as Islamic finance and Halal food trade. The GBE drivers include participation of multinationals, search for new markets by developed economies, global ethical business and communication revolution.

5 The Initiative of Dubai: Capital of Islamic Economy

While addressing Dubai’s initiative, we should go back over the history of Dubai. During the last five decades, Dubai worked intensively to build its global soft power. When Dubai airport was opened in 1959, followed by launching the Emirates Airlines in 1985, due to its strategic vision, Dubai managed to become the link between the east and the west (Sayed Farook, 2013). After the period of unprecedented growth, Dubai’s economy was hit by the global crisis in 2008-2009 which resulted in slowdown of its growth rate and different economy indices. Since then, Dubai’s economy has witnessed much recovery (OGB, 2013). Several initiatives were announced afterwards, to establish an all-inclusive platform of IE sectors and products, aiming at integrating IE as a part of Dubai’s economy.

5.1 Dubai’s Economy

The high foreign direct investment inflows accentuated Dubai’s reputation to make it the most vibrant economy. For foreign investment, the UN ranked it as the seventeenth most attractive economy in the world (Davidson, 2009). By the summer of 2008, the non-oil sectors accounted for more than 95% of its GDP (Pacione, 2005 & Davidson, 2009). Dubai’s policy of economic diversification resulted in heavy expansion of tourism, real estate and infrastructure sectors through state aid and private investment (Schmid, 2006).

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23http://www.suhaibwebb.com/personaldev/worship/prayer/is-breathable-nail-polish-sufficient-for-wu%E1%B8%8Du/

24OICCs (Organization of Islamic Cooperation Countries): The 57 Muslim-majority countries.


26Intra-OICCs trade increased from 13% in 2000 to 17% in 2013 (Thomson Reuters Report, 2013)
In addition to tourism and real estate, much of Dubai’s economic prosperity is due to its booming financial services sector and zero tax policies. In 2004, the finance sector represented almost 10% of Dubai’s GDP. This made Dubai the most developed financial market in the region with its exchanges internationally linked and the technological infrastructure in place to meet global requirements (Matly et al., 2007; Pacione, 2005; OBG, 2013).

In 2008, when the financial crises was entering its second year, Dubai experienced its impact as the occupancy rates of hotel declines in search for cheaper alternatives by the tourists and the interest of foreigners in the real estate declined. A major difficulty faced in finding credit in the international market by the Dubai’s banks and mortgage lenders. Many major ratings agencies downgraded Dubai’s banks (Davidson, 2009).

At the end of November 2009, Dubai World, the state owned conglomerate, announced that it was in serious need of a restructuring of its debt. This had raised number of questions concerning the sustainability of Dubai’s economic model. Abu Dhabi’s decision to bailout its neighbour seriously questioned the autonomy of Dubai-like post-industrial ‘city states’, illustrating that the Dubai model is unsustainable (Political Geography, 2010).

5.2 Dubai’s IE Initiative

The current indicators suggest that Dubai has surpassed the worst of the crisis and is gradually resuming its position as a leading financial and commercial centre in the GCC.

The inclination of Dubai’s government to explore new lands and build an IE sector is well justifiable in this context of post debt crisis reforms. Quranic injunctions forbid interest and usury “Riba” and approve trade “Tijara”. Tijara is all about the real sector of the economy, namely production and distribution intermediate and final products. This explains why a sector of IE could possibly support Dubai’s economy and avoid future crises.

In January 2013, Prime Minister of UAE launched the Dubai: Capital of Islamic economy initiative which envisions setting up an integrated platform for an “Islamic economy” (Gulf News-a, 10 January 2013). The IE strategy for Dubai identified seven strategic objectives/pillars.

- First pillar: Global references and economic engine of Islamic finance; aims at constructing global platform for Islamic guidelines and operations and building investor’s confidence in Dubai.

Since the initiative launch, some positive signs have arisen; the Higher Committee for the development of IE launched a series of initiatives such as the Islamic Sukuk initiative, which so far has attracted AED 46 billion, in April 2013, Sharjah Islamic Bank (SIB) floated a $500 million of Shari’ah-compliant bond, the nominal value of Sukuk listed reached more than $12bn, in total, 15 Sukuk are listed in Dubai, five on the Dubai Financial Market (DFM) and 10 on NASDAQ Dubai. Later in May 2013, NASDAQ Dubai announced introducing a platform to allow trading of both Islamic and conventional bonds (SayedFarook, 2013); that would enhance transparency and liquidity27.

- Second pillar: Trusted name of Halal food; by forming Dubai as an International Centre for Halal Industry targeting 10% of the market by 2015.

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27 as prices of NASDAQ Dubai-listed bonds will be visible to all investors at the same time. Previously, these debt securities were traded only through banks offering over-the-counter trading
By setting this center in Dubai they will be able to check for Islamic quality standards as well as an accreditation center to certify these products (Zaheer Bitar, 21 March 2013).

- Third pillar: family friendly tourist destination; the strategic plan targets positioning Dubai as a center for family tourism.

Dubai has successfully passed a long way in tourist attraction for families from all over the world. The number of tourists has increased by 11.1% during the first half of 2013 compared to the same period of 2012.

- Fourth pillar: Leader in Islamic digital economy; the strategic plan seeks to make Dubai a pioneer and incubator in this field

This can be done by creating an appropriate climate in Dubai for the development of electronic applications, programs, and games to be a global center for Islamic media and Islamic E-commerce.

- Fifth pillar: the capital of Islamic fashion, arts and design; the strategic plan aims to strengthen Dubai’s position as a center for Islamic design and architecture, a global destination for showcasing and trading of various types of Islamic arts, and a global center for design, display and retail of conservative fashion.

Dubai has recently launched "Dubai Design Centre" that will include design schools and facilities for high brands designers that would enhance promoting Dubai as a global fashion destination (BBC Monitoring Middle East, 2013)

- Sixth pillar: Leading global network of IE information and education; a number of UAE Universities started to provide courses and degrees in Islamic economics in order to prepare qualified human resources for this sector.

Joint initiatives backed by the government are expected to support the emirate’s efforts towards becoming a leader in Islamic finance. The curriculum includes master’s degrees, foundation certificates and short-term training programs in Islamic banking and finance (SayedFarook, 2013).

- Seventh pillar: World class centre for IE standards, certification and accreditation; the strategic plan aims to establish Dubai as the global reference for the issuance of Islamic management standards and a certified center for issuance of Halal certificates for various products and services.

This will allow Dubai to become the capital of IE by reducing the gap between its goal and lack of legislation. Moreover, Dubai will establish a center for Islamic governance, which will set the regulations that manage contracts and economic activities in accordance to Shari’ah. The proposal will include Islamic finance instruments, insurance, contracts’ arbitration, Halal food industry and trade standards as well as Islamic quality-management standards (Gulf News-a, 2013).

5.3 State of Islamic Economy in Dubai and its Future Potential

Dubai is not a stranger to IE as it was the home for the first Islamic commercial bank in 1960s. Crises have proved that IE has been more supportive to sustainable development than conventional finance. This vision of Dubai as IE hub is will not only allow the development of IE but it will also bring it close to the Asian and MENA region which are adopting economic activities that are Sharia compliant. Along with it, it will attract the inflow of investment. That would lend further momentum to Dubai’s well diversified and adaptive economy (Gulf News-a, 2013) as well as establishing a convergence between sectors.

What are the Strengths in Dubai? What would make it successful?
Dubai has known with achievements and accomplishments. Therefore, owning “DUBAI FACTOR”; the brand name is considered strength for this initiative to succeed. Dubai’s historical roots as a trading hub mean it could be well-placed to act as a bridge between different regions (Gemma, 2013). Moreover, Dubai’s strategic global assets place it in a unique position to rapidly make the change. For example DP World controls more than 65 marine terminals across six continents (SayedFarook, 2013). UAE and Dubai in particular have snapped a long way in most sectors of the IE, which would form several strength points in each sector.

In regard to Halal food, UAE was selected to take the chair of the technical committee for halal food and cosmetics standards set up by the OIC, led by ESMA. Abu Dhabi is driving a solid action plan particular for the production of Halal meat with an aim is to amplify the production and make it more commercial.

In regard to Islamic Finance; UAE is one of the countries who have regulations for Islamic finance. It has also, established a unified sharia board (OBG, 2013). Its total Islamic finance assets amount to USD 118 billion. Table (4) shows UAE leading 4 banks of the top 25 Islamic banks around the world.

<table>
<thead>
<tr>
<th>National Commercial Bank</th>
<th>Islamic Window</th>
<th>KSA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Al Rajhi Bank</td>
<td>Full Islamic</td>
<td>KSA</td>
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<tr>
<td>Bank Maskan</td>
<td>Full Islamic</td>
<td>Iran</td>
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<tr>
<td>Kuwait Finance House</td>
<td>Full Islamic</td>
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<td>Bank Melli Iran</td>
<td>Full Islamic</td>
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<td>Dubai Islamic Bank</td>
<td>Full Islamic</td>
<td>UAE</td>
</tr>
<tr>
<td>Bank Kerjasama Rakyat Malaysia Berhad</td>
<td>Full Islamic</td>
<td>Malaysia</td>
</tr>
<tr>
<td>Bank Saderat</td>
<td>Full Islamic</td>
<td>Iran</td>
</tr>
<tr>
<td>Abu Dhabi Islamic Bank</td>
<td>Full Islamic</td>
<td>UAE</td>
</tr>
<tr>
<td>Qatar Islamic Bank</td>
<td>Full Islamic</td>
<td>Qatar</td>
</tr>
</tbody>
</table>

28 Is a UAE Government body established in 2001, It has the mandate to lead and monitor quality standards in the UAE.
29 Based on 2012 estimate covering banking, takaful, Sukuk, funds and other financial institution activity
30 The largest banks with Islamic assets
There are 24 banks worldwide are dominating the Sukuk market through amount of $13,475 million, UAE controls around 25% of them by 19 Sukuk issues, as shown in Table (3). Additionally, Dubai has a distinguished experience in the area of Sukuk; the restructuring of Nakheel, following the debt crisis, marked the first time “Sukuk” had been used in the Middle East to settle outstanding trade creditor claims (Gemma, 2013). Along with this, Dubai is home to many Islamic insurance companies.

For Tourism and Travel sector; Dubai International Airport, is one of the top airports and hub of many airlines (HalalFocus.net) and Emirates Airline had received award by Skytrax in 2013 for the best airline.

In the hotel industry, there are many hotels in Dubai which are providing environment without alcohol (HalalFocus.net). Al Jawhara group in UAE has hotels that have a separate gym and swimming pool for women. Hotel occupancy has amplified from 81% in 2011 to 88% in 2012 (Thomson Reuters-a, 2013).

With respect to Clothing Sector; the future of the fashion industry has great hopes as the government has taken deep interest in it. There are several local designers in the UAE for Muslim women fashion, they support the Halal clothing sector and strengthen the Dubai initiative. Many catwalks globally have featured UAE’s Rabia Z brand and which is now sold now in 45 countries.

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31 Islamic bond
32 Australia: Qantas take pork off menu after Emirates tie-up (August, 2013)
33 UAE: Dubai official says more hotels becoming “alcohol-free” (October 2013)
34 owned by designer RabiaZagarpur
The pharmaceutical industry in UAE is quite strong; UAE hosts many big and well established pharmaceutical companies which include One Pure and Julphar which have a wide presence. One Pure, apart from UAE, has presence in North America\textsuperscript{35}. As for Media and recreation; QuranTouch App (Dubai) was launched in March 2013. QuranTouch app is available on the iTunes store whose downloads have surpassed 1.5 million and growing at a rapid pace with majority of its users coming from the GCC countries.  

\begin{itemize}
    \item What would make Dubai lag behind other competing countries? What are the points of Weakness?
\end{itemize}

There are several systematic weaknesses afflicting the entire segment of IE, few others involving Dubai only. The lack and difficulty to establish international central Shari’ah standards, as well as the inability to provide suitable risk sharing management for possible bankruptcy are significant weaknesses, especially in transactions that involve foreign parties (Mahmoud Mohieldin, 2007). Additionally, Consumers perception and knowledge are major weaknesses in the Islamic banking in its core Muslim majority markets amongst Dubai. Furthermore, Crowd Funding suffers regulatory support\textsuperscript{36} as well as the awareness for social responsibility through micro finance in the Muslim countries.

In regard to Halal Food, there are not definite standards identifying a travel business as Halal. However there have been some attempts at standardization by private entities\textsuperscript{37}. Also, the lack of staff training on Muslim customer needs is considered a weakness in the sector. On the other hand, many players in Halal Tourism are struggling with financing. Additionally, Media and recreation sector suffers from availability of both creative talent and management talent, which are compatible with Shari’ah rules, to lead this industry towards its potential. Besides the above, majority of the Muslim consumers are unaware of forbidden ingredients in medicine or cosmetics along with difference in certification standards in the Cosmetics Sector\textsuperscript{38}. Furthermore, one of major weaknesses is that, professional education and training institutes have not yet considered major specialization in all sectors of IE.

\begin{itemize}
    \item What external factors that could be Opportunities to enhance the performance?
\end{itemize}

The young and rapidly growing population can provide opportunities for IE and the creation of Synergy between different IE sectors on common grounds can will allow mutual benefit (Thomson Reuters-a, 2013). For Halal Food; the grow rate is expected increase above 4.8% annually which is expect to reach $6.4 trillion till 2020 that creates investment opportunities of nearly $2.9 trillion. The Halal meat and live animals market is ready to absorb Islamic finance or investment, based on a $ 72 billion food trade deficit in OICCs. With consumer market above one trillion dollar and lacking one single Halal-brand name, there is a wide opportunity to develop a Halal brand especially for the OIC-based companies.

\begin{itemize}
    \item[35]http://www.onepurehalalbeauty.com
    \item[36]As public crowd-funding is not allowed in most Muslim markets
    \item[37]Crescent rating, a Singapore based company, has pioneered halal friendly travel by rating hotels/resorts against a five-level Crescent rating Standard.
    \item[38]For instance; there are different schools of thoughts about whether the use of alcohol-based products in cosmetics is allowed.
\end{itemize}
In regard to Islamic Finance; there are wide range of opportunities than can be taken in this sector; assuming most favorable scenario\(^{39}\) Islamic finance markets of the OICCs, the prospective of the Islamic banking could reach $4,095 billion in assets inside OIC (Thomson Reuters-a, 2013. As trade increase between OICCs, it would create opportunities for banks in the region for trade financing\(^{40}\).

For Tourism and Travel sector; The GCC countries spend 31% of the global tourism expenditure\(^{41}\). Promoting Dubai as a heart for tourism will allow it to maintain a key position. Its center of attention can include different tourism business such as hotels and resorts.

With respect to Clothing Sector; In most OICCs, local clothing firms which dominate the market are driven by the culture of that place. Landmark Group in UAE with $4.58 billion retail revenue is the only OICCs clothing retailer listed in the top Global 250 retailers\(^{42}\).

The pharmaceutical industry; Dubai and UAE as whole, host major large pharmaceutical companies that gives good opportunities in manufacturing Halal products in this market segment and the R&D of Halal ingredients provides opportunity for firms with patentable products.

As for Media and recreation: technological advances is an opportunity for almost most of IE sectors. There is an opportunity in Halal travel as the hotels can use Smartphone apps to provide information so that Muslim needs can be fulfilled. The OICCs are also net importers of “media & recreation” services by around $6 billion net imports in 2012\(^{43}\).

What are the external factors that might threaten the progress of the initiative performance?

Dubai’s initiative of IE is subject to risks that threaten the Global Islamic Economics survival (systematic risks), in addition to the risks that may be exposed to Dubai in particular (unsystematic risks). The negative global perception relating Islam and geopolitics are affecting approval of Islam-inspired products from economic sectors.

Although Takaful\(^{44}\) sector is expanding, but with a slower rate\(^{45}\), as it is facing a serious threat of losing customers to conventional competitors due to the struggle for scale and the harsh competition with conventional insurance companies who can manage risks more efficiently. On the other hand, Dubai’s renowned western culture may be a threat to becoming capital of Islamic Economy\(^{46}\). The different countries that are considered rivals for becoming the center of the IE include Malaysia, Saudi Arabia which occupies the

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\(^{39}\)The optimal scenario assumes full regulatory support to Islamic finance in OICCs and a complete Islamic banking penetration with the proportionate Muslim demographic of OICCs.

\(^{40}\)Kuwait based Aisya Investments has recently launched an Islamic finance fund with $20 million in seed capital. Asiya Investments seeks to tap into the growing trade between the GCC and the emerging Asia economies, which is growing at 30 percent annually (Thomson Reuters-c, 2013)

\(^{41}\)Despite represents only 3% of the Global Muslim population.

\(^{42}\)Deloitte Top 250 Global retailers, Jan 2013.

\(^{43}\)Only for print (news, books, other) toys, games, sports, cultural recreational services, media and other information services. Based on trade data from UN Comtrade Database 2012; DinarStandard analysis.

\(^{44}\)Islamic Insurance.

\(^{45}\)Takaful globally is expected to grow by 16% annually compared to an average 22% between 2007 and 2011 (Thomson Reuters-a, 2013)

\(^{46}\)DinarStandard Analysis: The evaluation was equally weighted between two sets of criteria; Islamic economy strength and wide geographic reach (Thomson Reuters-a, 2013).
second largest center of Islamic finance\textsuperscript{47}, Turkey the second most popular destination for Muslim tourists\textsuperscript{48} and Indonesia. Non-Muslim competitors include USA, Singapore and United Kingdom (Liam, 2013).

5.4 How Can Dubai gain the Title?

The previous analysis elaborated major internal and external helpful and harmful aspects that would affect Dubai’s initiative. The previous SWOT analysis aims at; coming up with the appropriate strategies to achieve the success and minimize the risk of failure; figure (8) shows that process.

![SWOT Analysis Process](image)

The following Figure (9) presents the SWOT matrix together with TOWS Matrix. That helps to make a defensive plan to minimize weaknesses and avoid threats.

<table>
<thead>
<tr>
<th>STRENGTHS</th>
<th>WEAKNESSES</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Dubai Factor</td>
<td>1. Lack of unified benchmarks and standards</td>
</tr>
<tr>
<td>2. Dubai’s strategic location</td>
<td>2. Missing key skills of creative talent</td>
</tr>
<tr>
<td>3. Control on strategic global assets</td>
<td>3. Absence of efficient scale of production in several IE sectors</td>
</tr>
<tr>
<td>4. OIC membership</td>
<td>4. Lack of trained management and staff</td>
</tr>
<tr>
<td>5. Political leadership will</td>
<td>5. Insufficient knowledge, perception and awareness</td>
</tr>
<tr>
<td>6. Regional acceptance</td>
<td>6. Limited professional education and training for IE</td>
</tr>
<tr>
<td>7. Sectorial fortes-competitive advantage: Halal food: developing standards, hosting strong Halal food company</td>
<td></td>
</tr>
<tr>
<td>Islamic finance: Oldest Islamic bank, stand-alone regulation, 4\textsuperscript{th} largest center for Islamic finance activity, 4 banks of top 25 Islamic banks, 1\textsuperscript{st} issuer of Sukuk in the ME, dominating quarter of worldwide Sukuk, hosting big Islamic insurance companies</td>
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</table>

\textsuperscript{47}2012 estimate covering banking, takaful, Sukuk, funds and other financial institution activity (Thomson Reuters-a, 2013).

\textsuperscript{48}by number of arrivals according to Global Muslim Lifestyle Travel Market Study 2012 by DinarStandard/Crescentrating
**Suzanna El Massah**

**Travel:** Dubai international airport, global alliance, hosting Muslim friendly hotels & services
Clothing: developing state-of-art design district by 2020, local designers for Muslim women fashion
Pharma: hosting 3 big international pharmaceutical companies.
Media: Quran Touch Application with 1.5 million downloads

### OPPORTUNITIES

<table>
<thead>
<tr>
<th>1. Large, young &amp; fast-growing demographic with unfulfilled customer needs</th>
<th>(OS) Strategies Use strengths to take advantage of opportunities activate synergy between IE sectors especially Islamic finance &amp; other sectors build a center of excellence for fashion Establish regional agreements in different sectors of IE Build incentive &amp; support schemes to encourage investment in IE sectors Integrated marketing &amp; awareness campaigns for all IE sectors.</th>
</tr>
</thead>
<tbody>
<tr>
<td>2. Alliances</td>
<td>(OW) Strategies overcome weaknesses by taking advantage of opportunities consistent framework &amp; standards for all participants in Islamic banking, notably in area of insolvency (central national Shari’ah board) develop a holistic project for marketing &amp; education campaigns to both educate &amp; build goodwill Get use of many local startups along with discovering local talents through setting up organized contests to discover talent Integrated marketing &amp; awareness campaigns for all IE sectors.</td>
</tr>
<tr>
<td>3. Synergy between IE sectors.</td>
<td></td>
</tr>
<tr>
<td>4. Sectorial opportunities:</td>
<td></td>
</tr>
<tr>
<td>Halal food: expected growth in trade, food trade deficit in OICCs, absence of global brand, Halal-connected services Islamic finance: Islamic banking appeal, expected growth in demand for ethical finance &amp; business, potential to finance other IE sectors, need for Islamic microfinance</td>
<td></td>
</tr>
<tr>
<td>Travel: large GCC expenditure Clothing: global fragmentation with large demand, no global brand Pharma: high demand with well establish infrastructure and ongoing R&amp;D Media: technological advances, marketing relations with other IE sectors, OICCs are net importers, absence of global brand, many creative startups</td>
<td></td>
</tr>
</tbody>
</table>
## 6 Concluding Remarks

Islamic Economics is simply Economics with Islamic faith-based principles that would find solutions for modern day world’s problems. There is no complete practical experience of IE model, but Islamic economics principles and guidelines from Qur’an and Sunna are to be used to develop customized economic models suitable to each country’s stage of development. It has been found that a large number of Muslim countries led towards serious actions to implement Islamic laws to mold their economic behavior.

Dubai has worked intensely to build its global soft power. IE is based on linking the financial economy with the real economy and is by nature more supportive to sustainable development. Such initiative is to add much to the diversification of Dubai economy away from its real estate and foreign capital-driven growth model (Gemma, 2013).

The study concluded many points of strength that supports flourishing Islamic economy in Dubai as well as wide range of Islamic Economy opportunities. The research came up with some required strategies to achieve the success and minimize the risk of failure. Therefore, Dubai, with its prominence in marketing, should work on worldwide campaigns promoting

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49 A number of 15 major Islamic finance contracts for transactions are in the process of standardizing documentation, getting reviewed by prominent scholars from Shari’ah Review Bureau, Freshfields Bruckhaus Deringer in London (SayedFarook, 2013).

50 Such as the Islamic Development Bank, the Organization of Islamic Cooperation, Standards and Metrology Institute for Islamic Countries.

51 Such as; Malaysia, Iran, Pakistan, UAE and Saudi Arabia.
for Dubai’s best practices in IE to steer Muslims and non-Muslims toward investment and consumption within IE products. If this is applied in the right manner then 2013 will be remembered as vital year for IE. This is because Dubai will obtain its desired outcome not by using military force or economic sanctions but by encouraging its adoption through different values. This will result in emulation of its model of Islamic Economy, and aspires to a level of prosperity and openness that others will follow. In this manner the soft power can work by making others desire the same outcome by co-opting instead of enforcing them.

References

[38] Reuters Middle East, Islamic Finance Gateway Weekly Briefing (sep.2013), Thomson Reuters Islamic Finance Gateway.
[41] SayedFarook (Feb 2013), Economic Update: Dubai focuses on Islamic finance as part of its economic diversification strategy, Arab investor special issue on the occasion of GIES, P.9.
[46] Thomson Reuters-a, the state of the global Islamic economy, 2013 Report