

CHARACTERISTICS OF AND INCREASING BUSINESS OPPORTUNITIES IN ISLAMIC COUNTRIES

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ISLAMIC WORLD

Islam is the world's second largest religion, with about 1.6 billion followers (or 23.4% of the global population) in 2010, which is only second to Christianity (2.17 billion). The number of Muslims is projected to reach 1.9 billion (24.9%) in 2020 and 2.2 billion (26.4%) in 2030. In terms of the number of believers, Islam is expected to be on par with Christianity by 2070. In this report, we refer to the countries/regions where Muslims live as "the Islamic world". Such countries include those of which the state religion is Islam, or where Muslims account for the largest share of the total population. All 57 member countries of the Organization of Islamic Cooperation (OIC) are basically considered to be part of the Islamic world.

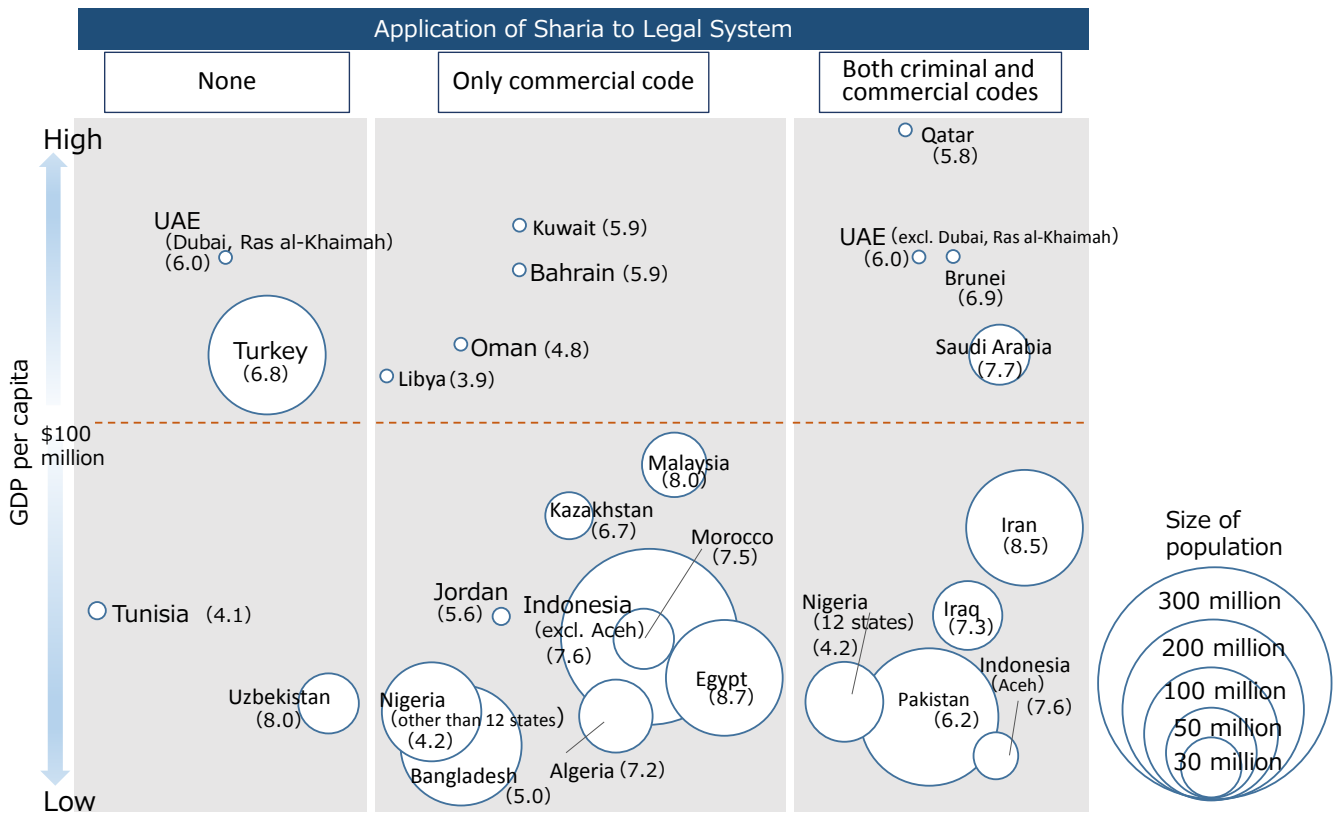
The practice of and adherence to Islam varies greatly among Muslims, depending on their denomination and geographic area/country. Muslims believe in one God (Allah), and their religious faith is based on a covenant between God and each individual. Interpretation of Islam's central religious text, the Qur'an, a revelation from Allah, is up to each person. As such, some Muslims strictly refrain from eating haram (forbidden) foods, but others take a flexible approach. Such diversity is an attractive aspect of Islam, but at the same time, it may give rise to misunderstanding by non-Muslims.

Classification 1: Shariah (Islamic Law) and Legal System

In this report, we look at Islamic countries from two perspectives. First, we have grouped major OIC countries based on (1) degree of religious conservativeness, (2) size of population, and (3) GDP per capita, as business opportunities are expected to increase in the Islamic world (Chart 1). To judge (1), we look at how Sharia (Islamic law) is reflected in each country's legal system. Countries where Sharia is applied to both the criminal and commercial codes are considered most conservative, followed by those where the Islamic law is applied only to the commercial code, and then those where it is applied to neither of them.

As for size of the economy, the group of high-income economies with per-capita GDP of \$10,000 or more mainly consists of relatively small countries in the Middle East and Southeast Asia, while most of the other countries fall into the group of emerging economies with per-capita GDP of less than \$10,000. Growth potential is large in the latter, as it includes many populous countries and the middle-income group will likely expand. Generally speaking, the more religiously conservative a country is, the more crucial it is for companies in non-Muslim countries to ensure that they follow the halal practice and understand employees' religious beliefs. We should also note that the adherence to religion may differ from region to region in one country, as seen in the United Arab Emirates.

Chart 1: Degree of Religious Conservativeness and Size of Economy in OIC Member Countries



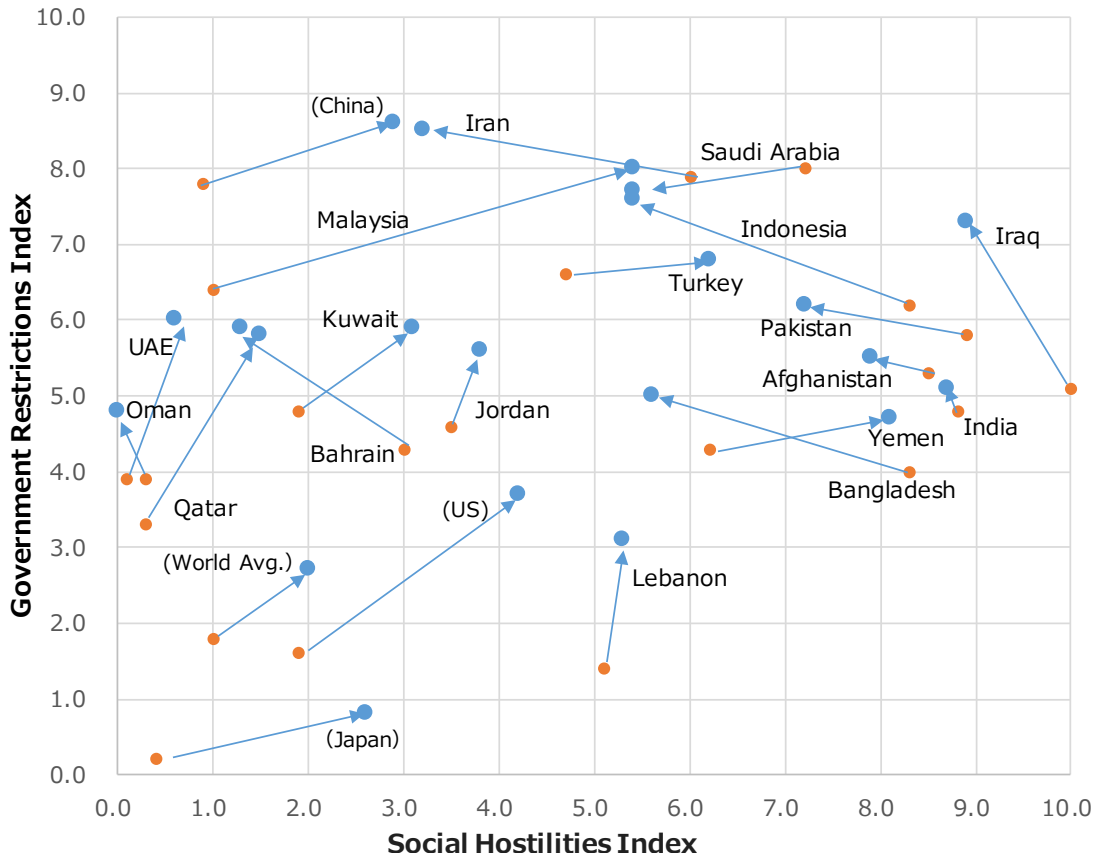
Note: In each group classified based on the application of Sharia to each country's legal system (horizontal axis), countries are positioned based on the Government Restrictions Index in Chart 2 (shown in parenthesis; 2015), with a higher score on the right side.
 Source: Compiled by MGSSI based on data from IMF, Pew Research Center, and Global Religious Future Project.

Classification 2: Changes in Government Restrictions and Social Hostilities Involving Religion

Next, we look at changes in the Social Hostilities Index (which measures acts of religious hostility) and the Government Restrictions Index between 2007 and 2015, which were released by Pew Research Center (Chart 2). During the period, government restrictions on religion were strengthened in a majority of the countries (vertical axis). Looking at the Social Hostilities Index (horizontal axis), countries with a score of 7.0 or above in 2007, such as Iraq, Pakistan, Bangladesh, and Saudi Arabia, saw their score drop in 2015, while those with a score of 5.0 or below in 2007 saw their score rise, except for Oman and Bahrain. One factor behind these trends include the liberalization of Islam. For example, Saudi Arabia, a conservative Islamic state, recently abandoned its driving ban for women.

Malaysia is a multicultural country where Muslims and various ethnic groups (non-Muslims) live, but there were few religious conflicts in the past. In recent years, however, the country is shifting towards conservative Islam, with an Islamic fundamentalist party gaining increasing support from the public, leading to intensified confrontation between Muslims and Chinese Malaysians. Meanwhile, Turkey is constitutionally a secular state, and its government has not announced policies directly linked to Islam. However, President Erdogan has introduced some measures under the banner of Islamic fairness, which can be interpreted by Muslims as "redistribution of wealth". In our view, increasing prejudice against Muslims (called "Islamophobia") worldwide is another factor behind the changes.

Chart 2: Changes in Government Restrictions Index and Social Hostilities Index in Islamic Countries, Japan, the US, and China (between 2007 and 2015)



Note:

Government Restrictions Index is based on 20 indicators of ways that national and local governments restrict religion, including prohibition of religious activities (proselytizing, preaching, etc.) Such restrictions include the Brunei government's order in 2005, which requires any religious group that is a non-Sunni Shafi'i sect of Islam to register and name all members.

Social Hostilities Index is based on 13 indicators of ways in which private individuals and social groups engage in conflicts and acts of combat based on their religious beliefs, such as religiously biased crimes, efforts to stop particular religious groups from growing or operating, as well as religion-related violence, including terrorism and armed conflict. For example, Indonesian authorities banned religious activities of the minority Muslim Ahmadiyah sect, saying that it was bid'ah, which led to a rise in fanatic believers' attacks.

Source: Compiled by MGSSI based on data from Pew Research Center and Global

BUSINESS OPPORTUNITIES IN ISLAMIC WORLD

Most Muslim countries are undoubtedly growth markets. In this section, we overview the market size and look at two prospective business areas.

Market Size of the “Islamic Economy”

The market size of the Islamic economy (halal food and other Muslim-focused markets) was about \$2 trillion in 2016, based on the State of the Global Islamic Economy Report released by Thomson Reuters (Chart 3). It is expected to reach \$3.1 trillion in five years through 2022, with an average annual growth of 7.3%. The market is growing not only for beverages and foods, but also for cosmetics, fashion, and entertainment for Muslims. Moreover, Muslim tourists travel overseas more frequently than before, which is not limited to religious pilgrimage. As such, the economy is expanding in various fields. The report included the ranking of each country’s market based on the Global Islamic Economy Indicator (GIEI). Malaysia and the United Arab Emirates led the index overall, mainly due to their excellent market environments in the halal food and Islamic finance sectors. At the beginning of this report, we defined the “Islamic world” as Muslim-majority countries/regions. Note, however, that India, of which 14.4% of the total population of 1.32 billion are Muslims, as well as some European countries, including the UK and France, which have accepted many immigrants, are major contributors in the “Islamic economy”.

Chart 3: Market Size of Islamic Economy (unit: \$1 billion)

		Total (excl. Islamic)	Halal Food	Cosmetics	Pharmaceuticals	Fashion	Travel	Media and Recreation	Islamic Finance	
Market size	2016	2,006	1,245	57	83	254	169	198	2,202	Breakdown
	% in total spending	11.9%	17.0%	7.3%	6.8%	11.0%	11.8%	5.2%	–	
Market size	2022	3,081	1,930	82	132	373	283	281	3,782	1,599
	% in total spending	–	18.7%	8.1%	8.4%	12.3%	14.0%	5.7%	–	Takaful
Ranking based on GIE Indicator	1	Malaysia	Malaysia	UAE	UAE	Malaysia	UAE	Malaysia	Saudi Arabia	43
	2	UAE	UAE	Singapore	Turkey	UAE	Singapore	Bahrain	Other Islamic financial institutions	124
	3	Saudi Arabia	Brazil	Malaysia	Italy	Turkey	Qatar	UAE	Sukuk	345
	4	Bahrain	Australia	Egypt	Singapore	Indonesia	Malaysia	Saudi Arabia	Islamic funds	91
	5	Oman	Pakistan	Pakistan	France	Thailand	UK	Oman		
	6	Pakistan	Oman	Jordan	China	Saudi Arabia	Lebanon	Kuwait		
	7	Qatar	Brunei	Saudi Arabia	Malaysia	Tunisia	Germany	Pakistan		
	8	Kuwait	Singapore	Indonesia	India	Maldives	Oman	Qatar		
	9	Brunei	Sudan	France	Sri Lanka	Qatar	Bahrain	Iran		
	10	Jordan	Saudi Arabia	Oman	Morocco	Jordan	France	Indonesia		

Source: Compiled by MGSSI based on data from Thomson Reuters and the State of the Global Islamic Economy Report 2017/18.

“Market Muslim” Business That Focuses on Increasing Middle-Income Group and Changes in Life Style

One of the most promising business areas will be the “Market Muslim” business targeting consumers in Islamic countries, where population is growing explosively. Many Islamic countries are attractive as a consumer market because the middle-income group is expanding, especially in populous nations Indonesia and Turkey, and the ratio of young people in the total population is high in many countries. Existing business models targeting Muslims include halal food, as well as a cellular phone designed for Muslims (helping users get on time for prayers and indicating the direction to Mecca), which turned out to be a big success. Of note, some Japanese manufacturers have provided fabric for black abaya (a loose-fitting robe worn by women) in Saudi Arabia, by utilizing Japan’s high-level dyeing technologies. Such high-end products are popular as they have great color.

Many people believe that Muslims have a conservative lifestyle based on their religious beliefs. In recent years, however, consumer behavior has changed, especially among young people. For example, variations in color and design of abayas have increased, and fashion shows were held in Indonesia and Malaysia, etc. Muslim fashion is attracting increasing attention as “modest fashion” from a wider range of people, including non-

Muslims. Some brands in the West, including Dolce & Gabbana, have already entered the modest fashion industry.

In Muslim-majority countries in the Middle East and North Africa, the labor force participation rate for women is relatively low compared to the other parts of the world. However, Saudi Arabia set a target to increase women in the workplace in its national development plan VISION 2030. Given such movements toward women's empowerment, products/services targeting Muslim women are expected to increase going forward.

When entering the "Market Muslim", we should consider the impact of the wider use of the Internet and smartphone. As Islam strongly prohibits all form of idolatry, Saudi Arabia, a conservative Islamic state, previously imposed tough restrictions on the entertainment industry. Now, young Saudi Arabian enjoy playing mobile games, and their spending for smartphone apps is the largest in the world. Given the government's efforts to invite foreign companies not only in the game industry, but also in the film and other entertainment industries, meaningful growth is expected on this front. In addition, e-commerce services targeting Muslims, including online marketing platform Zilzar in Malaysia, emerged recently, and various items from foods, drinks, healthcare products, to apparel including hijabs, are traded online. We also note that more and more Muslims, especially younger generations, use messaging services (e.g., WhatsApp) and SNS (e.g., Facebook and Twitter), which have apparently affected their lifestyle (Chart 4). Business opportunities targeting such consumers must be noteworthy.

Chart 4: Ratio of Active Users of SNS in Total Population (as of Jan 2018)

UAE	99%
Saudi Arabia	75%
Turkey	63%
Indonesia	49%
Egypt	40%
Nigeria	10%

Source: Compiled by MGSSI based on Statista.

Halal Certification and Related Business

The halal concept is common in many countries of the world, but halal certification of foods, pharmaceuticals, and cosmetics, etc., are issued by government agencies or major Islamic organizations in each country. As such, the standards, systems, and roles of halal certification differ from country to country. There is no single globally-harmonized halal certification, like the ISO (International Organization for Standardization). It is said that there are more than 400 halal certifications globally, and several certifications often exist in one country.

Chart 5: List of Halal Certifications Issued by Department of Islamic Development Malaysia (JAKIM)

MS Standard	Description	Year
MS1500	Halal Food -- Production, Preparation, Handling, and Storage -- General Guidelines (Second Revision)	2009
MS1900	Shariah-Based Quality Management Systems -- Requirements	2014
MS2200-1	Islamic Consumer Goods -- Part 1: Cosmetic and Personal Care -- General Guidelines	2008
MS2200-2	Islamic Consumer Goods -- Part 2: Usage of Animal Bone, Skin, and Hair -- General Guidelines	2013
MS2300	Value-Based Management System -- Requirements from Islamic Perspectives	2009
MS2393	Islamic and Halal Principles -- Definitions and Interpretations on Terminology	2013
MS2400-1	Halalan-Toyyiban Assurance Pipeline Part 1: Management System Requirements for Transportation of Goods and/or Cargo Chain Services	2010
MS2400-2	Halalan-Toyyiban Assurance Pipeline Part 2: Management System Requirements for Warehousing and Related Activities	2010
MS2400-3	Halalan-Toyyiban Assurance Pipeline Part 3: Management System Requirements for Retailing	2010
MS2424	Halal Pharmaceuticals -- General Guidelines	2012
MS2565	Halal Packaging -- General Guidelines	2014
MS2594	Halal Chemicals for Use in Portable Water Treatment -- General Guidelines	2015
MS2610	Muslim Friendly Hospitality Services -- Requirements	2015

Source: Compiled by MGSSI based on Malaysian Standards Online data.

Malaysia has the most advanced "halal ecosystem" in the world. It is the first country to provide government certification of halal foods. The standard MS1500 was introduced in 2000, providing guidelines for production, preparation, handling, and storage of halal foods. In 2008, the government also developed a master plan for

the halal industry, which includes the target to boost GDP by 8.7% by establishing itself as a global hub for the halal industry and developing related industries based on its integrated know-how. With the aim of building a comprehensive halal-related industry, the country has established 13 kinds of certifications in 10 areas, including foods and logistics (Chart 5). It has also provided support for companies to obtain certifications or to develop halal products.

As already shown in Chart 3, the market for halal foods and beverages is large in size and accounts for a large share of the Islamic economy. Going forward, business opportunities will likely increase for healthcare products and pharmaceuticals. Lifestyle-related diseases, including diabetes, have become a social problem in many Islamic countries, as (1) their traditional meals tend to have a high sugar content, (2) their lifestyle and dietary habits have been influenced by those of Western countries, and (3) it is not easy for people in the Middle East and other countries in the tropical zone to make exercise a habit (Chart 6). As such, more and more people are becoming health-conscious, leading to growing needs for organic vegetables and halal-certified vitamin supplements. Mitsui Chemicals obtained halal certification for taurine, a major ingredient of Taisho Pharmaceuticals' famous Lipovitan D energy drinks, and introduced it in the Indonesian market.

Chart 6: Health-Related Indicators in Islamic Countries

Region	Country	% of Muslims	Median age (estimated)	Medical spending per person (PPP int. \$) *1	% of overweight or obese population (BMI≥25)	% of population with high blood pressure		% of population with high cholesterol *2	Daily salt consumption (g/aged 20+)	Annual avg. vegetable consumption per person (kg)	% of population with diabetes (aged 20-79)	% of population with insufficient physical activity *3 (aged 18+)
						Male	Female					
Middle East	Turkey	98.0%	30.9	971	66.3%	19.2%	20.4%	39.7%	10.43	234	14.9%	32.8%
	Saudi Arabia	93.0%	27.5	1,990	69.6%	21.0%	16.2%	39.0%	8.14	93.3	23.9%	61.0%
	Iran	99.5%	30.3	1,218	62.3%	18.1%	16.1%	54.1%	10.22	230	9.9%	33.5%
	UAE	76.9%	30.3	1,718	74.0%	14.6%	8.7%	57.6%	9.33	80.4	19.0%	38.4%
	Iraq	99.0%	20	629	57.9%	20.2%	18.6%	44.0%	9.56	131	9.5%	49.3%
	Qatar	67.7%	33.2	2,851	78.1%	16.4%	11.5%	57.0%	10.71	N.A.	22.9%	25.3%
	Kuwait	74.1%	29.3	2,249	75.4%	20.2%	13.4%	56.2%	9.87	161	23.1%	56.6%
	Oman	85.9%	25.6	710	67.4%	16.7%	15.0%	49.6%	9.61	133	14.2%	N.A.
	Lebanon	61.3%	30.5	1,150	68.7%	22.9%	16.5%	44.2%	7.96	188	15.0%	38.8%
	Yemen	99.1%	19.5	218	46.8%	22.7%	22.4%	32.3%	8.57	33.3	8.5%	N.A.
	Jordan	97.2%	22.5	828	65.9%	18.9%	13.8%	48.8%	10.50	118	11.4%	15.6%
Bahrain	70.3%	32.3	1,651	71.7%	17.6%	14.0%	53.4%	13.68	N.A.	21.8%	N.A.	
Afghanistan	99.7%	18.8	159	16.2%	23.6%	22.4%	21.9%	8.62	34.1	8.3%	N.A.	
Southeast Asia	Indonesia	87.2%	30.2	273	24.5%	22.5%	21.4%	57.1%	8.55	40.7	5.8%	23.7%
	Malaysia	63.7%	28.5	894	38.5%	23.2%	18.1%	52.1%	9.08	63.2	10.9%	52.3%
Southwest Asia	Pakistan	96.4%	28.3	122	23.0%	26.9%	23.8%	31.0%	9.95	29.8	7.9%	26.0%
	Bangladesh	90.4%	26.7	85	18.1%	21.6%	20.2%	25.7%	9.00	26.2	6.3%	26.8%
(Ref)	India	14.4%	27.9	196	22.0%	24.2%	22.7%	27.9%	9.46	75.5	9.1%	13.4%
	China	1.8%	37.4	578	34.4%	22.5%	18.6%	33.4%	12.29	326	9.0%	24.1%
	Japan	1%以下	47.3	3,632	23.2%	29.9%	23.7%	57.1%	12.44	100	5.1%	33.8%
	US	1%以下	38.1	8,845	64.4%	18.0%	15.0%	53.8%	9.16	118	9.2%	32.4%
Year		2010	2017	2012	2014	2015	2008	2010	2012	2015	2010	

Notes:

1) PPP int.\$ = Purchasing Power Parity at international dollar rate (virtual currency which has the purchasing power equivalent to the USD)

2) Total cholesterol ≥5.0mmol/L

3) Moderate-intensity physical activity per week, less than 150 minutes, or vigorous-intensity physical activity per week, less than 75 minutes.

Source: Compiled by MGSSI based on data from JETRO's research on health-related markets in major countries/regions, Pew Research Center, and CIA's "The World Fact Book".

We also see meaningful growth potential for halal pharmaceuticals and vaccines. In Islamic countries, not many halal pharmaceuticals have been developed to date, partly because the use of haram medicine/vaccines is permitted for life-threatening diseases. In recent years, however, significant progress has been made in this field, with a halal flu vaccine hitting the market. As demand for halal pharmaceuticals and health foods, as well as ingredients of such products, will likely continue to expand, the market targeting Muslims seems promising.

CHANGES IN SOCIAL CHARACTERISTICS OF ISLAMIC WORLD

Given the large growth potential, it is very important for companies seeking new business opportunities to understand changes in social characteristics of the Islamic world, such as increasing lifestyle-related diseases and changes in the lifestyle of the young generation. Young Muslims prefer less conservative fashion and enjoy entertainment, and they are connected with the other parts of the world via SNS and other methods. Saudi Arabia's reforms to develop the entertainment industry and promote women's empowerment particularly warrant attention.

Furthermore, it is no longer unusual for Muslim countries to import foods from non-Muslim countries, thanks to the development of logistics/transportation networks. In addition, Muslims travel overseas more often than before. These changes have led to a higher risk of being exposed to haram products including pork. Against this backdrop, demand for products with halal certification is rising year by year. As halal certification differs from country to country, there is a growing call for globally-harmonized certification like the ISO. The OIC countries may accelerate moves toward an integrated halal certification.

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