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Faridah Hassan · Ismah Osman ·
Erne Suzila Kassim · Balkis Haris ·
Rohana Hassan *Editors*

Contemporary Management and Science Issues in the Halal Industry

Proceedings of the International
Malaysia Halal Conference (IMHALAL)

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Faridah Hassan · Ismah Osman ·
Erne Suzila Kassim · Balkis Haris ·
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Chapter 40

Halal Trade Finance and Global Well-Being: Here Come the Millennials



Rosylin Mohd Yusof, Akhmad Affandi Mahfudz and Sabariah Yaakub

Abstract The growth of the young Muslim population is escalating. According to the State of Global Islamic Economy Report (2016/17), by 2030, 29% of the global young population is projected to be Muslims. This young population is, also referred to as Millennials (born between 1984 and 2000) are expected to play a vital role in the global economy. Characterised as a unique and affluent segment of the population and at the same time having attributes such as brand loyal, affluent, brand loyal, tech-savvy and demands instant access to information, the millennials are expected to form a new demographic customer base. This study seeks to examine the issue of well-being and how the landscape of global well-being via Halal trade finance is expected to change with the emergence of the Millennials as a new market segment. In addition, through library research and reviewing existing literature on Millennials, the study seeks to shed some light on whether Halal trade finance is ready to offer services that meet the needs and demands of this technology-driven generation.

Keywords Halal trade finance · Millennials · Trade finance · Islamic trade finance

40.1 Introduction

Islamic trade finance has been historically proven as the best practice of halal trade finance where the Prophet Muhammad (p.b.u.h) began the trade even before his prophetic mission (Risalah Nubuwwah) disseminated to the ummah. Today, trade has been recognised as a significant tool to boost national economy. Islamic trade finance cannot grow by itself without the overall growth of Islamic finance locally and globally.

Trade can enhance and leverage a country's need to goods and services, technology and others. In fact, trade can foster and trigger entrepreneurial activities that create

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jobs and demand for production and consumption. An access to trade, therefore, is vital and essential for every country as it helps to boost export and import in the international market. Based on OIC global trade statistics, the current potential market for Islamic trade finance could be more than \$1.56 trillion.

However, many empirical studies revealed that the volume of global trade hitherto plummeted in the face global competition particularly among Muslim countries. One of the major issues is the lack of young generation who indulge directly in trade which actually forms a part of national economic growth. The debate is still ongoing whether the economy is prepared to fully recognise and to embrace the needs and demands of this market demographic the millennials, in the Islamic finance industry. On the demand side, it is also imperative to raise the question of whether the millennials are able to play entrepreneurial activity particularly in the field of Islamic finance? Are influencers in the Islamic finance industry willing, ready and able to engage them as stakeholders? How can Islam's inclusive social and economic teachings be used to empower the fast-growing young Muslim demographic?

The State of Global Islamic Economy Report (SGIER 2016/17) predicts that by 2030, Muslims will make up to 29% of the global young population. In this regard, millennial is expected to shape the future and nature of trade finance as they are more exposed to the exponentially technological changes than the previous generation. They are also seen to be more unique, affluent, brand loyal, tech-savvy and demands instant access to information. This powerful economic demographic, the Millennials, are often referred to as the generation who were born between 1984 and 2000. They are divided into two subgroups: 18–24 year olds and 25–34 year olds. Currently, there are about 2 billion Millennials in the world, with 86% living in emerging markets, and accounts for 50% of the entire workforce by 2020.

As the millennial generation enters the workforce, it is becoming increasingly essential that members of the workforce understand their needs, demands as well as their economic role. To date, the intention of this young generation, in the emerging economies like in Malaysia, to embark on entrepreneurship continues to be unclear. Understanding how the millennial generation learns can assist trainers and instructional designers in creating effective training programs. It is very essential to raise the question that what are the learning characteristics of the millennial generation and what implications do these characteristics have on Islamic trade and finance? Second, what are the risks of failing (or choosing not) to embrace the characteristics of millennials into consideration, in terms of Islamic trade and finance?

It is also interesting to note that the millennials have critical relevance to Islamic economy particularly in trade finance where goods are transported from the surplus economy to the deficit one. In addition, the millennials are more creative to engage in entrepreneurial activities like e-commerce that leads to robust growth of trade finance. At the same time, they have their own behaviour and perception towards halal industry or halal trade finance including, halal culinary, halal travel, modest fashion as well as Islamic finance.

Meanwhile, well-being is viewed as a social process with material, social and subjective dimension. Promoting well-being is indeed one of the main goals towards sustainable development of any country as highlighted by the United Nation. In this regard, there is a critical issue on how the concept of well-being can be incorpo-

rated in trade finance particularly looking into the needs and demands of this new market demographic. The perception and behaviour of the millennials would have a significant impact on the future ecosystem of Islamic trade and in turn will have a paramount bearing on the global well-being. Against this backdrop, this present study seeks to:

1. Examine the issue of global well-being and how the landscape of Halal trade finance is expected to change with the emergence of Millennial as a new market segment.
2. Shed some light on whether Halal trade finance is ready to offer services that meet the needs and demands of this technology-driven generation.

40.2 Literature Review

The global halal market has emerged as a new growth sector in the global economy and is creating a strong presence in both developed and developing countries. With a growing consumer base and increasing growth in many parts of the world, the industry is set to become a competitive force in world international trade. The halal industry has now expanded well beyond the food sector further widening the economic potentials for halal. Consistent with this view, (Elasrag 2016) highlighted the importance of understanding the concept of Halal to familiarise non-Muslims about Halal principles and products.

Markets with high sensitivity on halal issues might demand high level of halal integrity to be integrated in the product. This scenario might force the exporting firms to adapt its marketing strategy so as to meet their expectation of halal qualities and also to secure its halalness from any potential risk of cross-contaminations. Mohamad and Hassan (2011) in their study concluded that there is a significant influence of halal integrity on product adaptation strategy. However, there is no significant difference in the mean scores for halal integrity and product adaptation strategy among product categories and market segments.

Meanwhile, well-being is becoming a concept which is more and more involved in any sustainable development agenda. A large amount of work is being carried out to study measurements of well-being, including a more holistic approach to the development and welfare of a country. D'Acci (2011) proposed an idea of well-being and progress to be in equilibrium with each other. It includes several aspects of well-being and progress, like human rights, economic well-being, equality, education, research, quality of urban environment, ecological behaviours, subjective well-being, longevity and violent crime.

Millennial generation who are currently aged 23–35, are the youngest generation in the workplace. According to Sharon (2015), Millennials are described as digital natives, creative, solution-focused, socially conscious and team-oriented. This present paper offers suggestions for successfully engaging millennials in the Islamic trade finance.

Farrell and Hurt (2014) identified six characteristics of millennial learners. A discussion of these characteristics and suggestions for training development is provided by them. Their paper concludes with a discussion of implications for organisational climate, future research, and provides practitioners with key elements to consider when developing products for millennials. The paper concludes that knowledge, experience and ties are the independent variables; meanwhile, attitude, social norm, perceived behavioural control and personality traits act as the mediating variables.

40.3 Halal Trade Finance and Millennials

The current estimate of global halal market stands at around USD 3 Trillion and the industry is expected to grow to nearly USD 8 Trillion by 2030 (The Edge, Feb 2018). For Malaysia, in 2016, Shariah-compliant trade finance accounted for 24.1% of total trade finance provided by the Malaysian banking sector. However, our Islamic finance industry only financed about 5% of total exports in Malaysia, thus signifying a potential growth area. Increasing bank financing for SMEs would also encourage more market-based solutions to meet the funding needs of the halal sector participants, which are now largely reliant on government initiatives.

Promoting halal industry is also consistent with UN's sustainable development goals where products should not just be ethically sourced which is in line with environmental sustainability together with the humane treatment of animals. Driven by growing consumer demand particularly the new market segment of millennials, Islamic trade finance as a component of Islamic finance is also expected to grow remarkably.

SGIER (2018) reports that millennial represents a significant market, particularly in Asia. Based on top countries, millennials engaged with Islamic economy topics, Indonesia ranks first with 126k out of 452,600 Facebook interactions surveyed, followed by Malaysia with 84.7k and Pakistan, 55.9k of interactions. Meanwhile, the most active Islamic economy sectors for Millennials are Islamic Finance (157k), Modest Fashion (101k) and Media/creation recorded 99k of Facebook interactions within the same sample of interactions.

The exponential technological changes in recent years have shaped the needs and demands of future customers of Islamic finance particularly the millennials. Paralleled with the 'Internet of Things' (IoT), mobile apps, digitalization of signage, and other contents, channels and devices as well as useful and instant experiences have set the stage for Islamic financial institutions to come up with product innovations to keep pace with this new development.

For Halal trade finance, in particular, being prepared with the digital ecosystem to embrace these millennials seems to chart future growth. Assessing the current landscape of Islamic trade finance industry, identifying challenges and recommending solutions seem imperative. This present paper attempts to tackle these issues within the peripherals of the two main objectives highlighted earlier.

40.4 Methodology

This present paper is based on a systematic review of articles identified in relevant journals across the fields of trade finance, Islamic trade finance, halal trade finance and millennials. A structured literature review implies a detailed description of the steps taken to select, scan and analyse literature with the aim to reduce biases and increasing transparency and is, therefore, a valuable methodology to develop propositions.

This literature review provides a brief snapshot of elements present in Islamic trade finance and Millennials literature. However, it is not a pretension to cover the entirety of the literature but rather offer an informative and focused evaluation of purposefully selected literature which will serve to achieve two research objectives: The changes in the Islamic trade finance landscape due to the millennials needs and demands and the Islamic trade finance readiness to serve these millennials.

With the objective of defining the scope of review, the authors have agreed upon the themes as well as keywords to be covered. The time period was left open as the field is relatively new and preliminary search indicates that when the time period is specified, the yield is not favourable. In terms of thematic scope, themes were drawn from both the Islamic trade finance and millennials paradigms. Hence, we used a combination of terms related to both areas (e.g. Islamic trade finance AND millennials—refer to Table 40.1) which helped identify articles that may not be appearing when simply searching for the main term ‘Islamic trade finance and Millennials’.

Burgess et al. (2006) suggest review to be limited to peer-reviewed publications in order to ensure a certain level of quality. We were also interested to find out which journals in the field of Islamic trade finance and millennials and therefore seek to analyse in which journals do articles pertaining to Islamic trade finance and millennials appear. Although we strive to follow suggestion by Burgess et al., we expanded the journals to be listed to peer-reviewed journal as well as doctoral dissertation and institution reports. Searches were conducted on databases Emerald Insight and Google Scholar. The analysis strategy uses the principles of content analysis which allow gathering quantitative and qualitative aspects using predetermined criteria focusing on two aspects: identifying products and features of Islamic trade finance and changes millennials will bring to the industry.

Table 40.1 Keywords used in literature search

‘Islamic Trade Finance’		
Islamic Trade Finance Halal Trade Finance Islamic Finance	AND	Millennials

40.4.1 Findings and Discussion

This section starts by presenting the general descriptive statistics from the literature and then two sections address the research questions (presented in each section) (Fig. 40.1).

40.4.1.1 General Trends in the Literature

Keywords	Top five related keywords	Top five subjects	Top 5 Publication/Journals
Islamic trade finance	<ul style="list-style-type: none"> • Islam • Malaysia • Banking • Banks • Religion 	<ul style="list-style-type: none"> • Accounting and finance • Economics • Financial management/structure • Financial investment/markets • Strategy 	<ul style="list-style-type: none"> • International Journal of Middle East finance and management • International journal of ethics systems • Int Journal of social economics • Journal Islamic Accounting and Business research • Journal of Islamic marketing

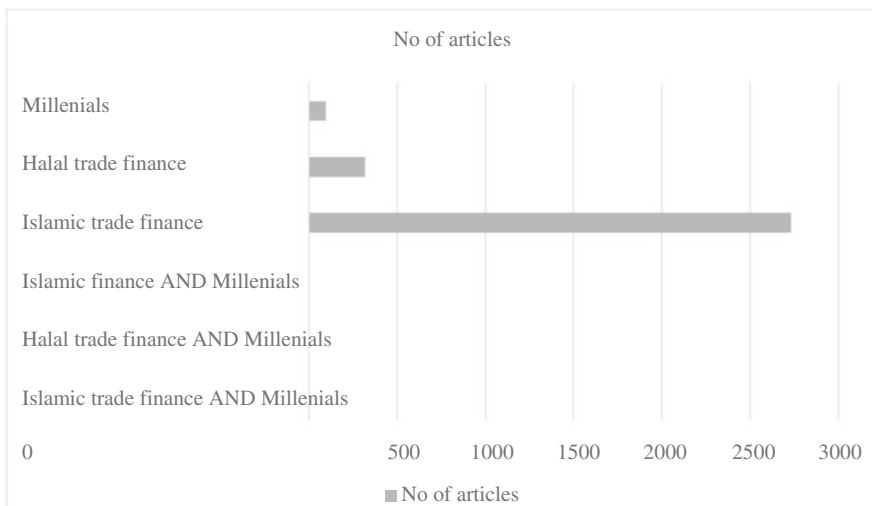


Fig. 40.1 Keywords and number of articles

40.4.2 RQ1: With the Emergence of Millennials as a New Market Segment, How Would the Halal Trade Finance Landscape Change?

40.4.2.1 Understanding the Current Landscape of Halal Trade Finance

To address the above RQ1, we start our analysis by examining the current landscape of Halal Trade finance as offered by Islamic financial institutions globally. Understanding the halal trade finance products, their features and the key providers will enable us to understand how the halal trade finance landscape will change with the emergence of the new market demographic of Millennials.

What is Halal trade finance? The main body of knowledge for Halal trade finance stems back to trade finance, which is a specialised area of finance providing short-term financing of import and export transactions with four fundamental aspects:

- Payment facilitation: enabling and facilitating payment across the globe.
- Financing: variety of opportunities for financing across the lifespan of a transaction
- Risk mitigation: trade finance instruments and services are used to manage risks
- The provision of information about the status of payments of shipments.

Applying the concepts of Halal trade finance to trade finance would mean applying shariah principles to trade finance. Among shariah principles commonly used in the Islamic trade finance instruments are Musyarakah, Murabahah and Wakalah. These products are explained in Fig. 40.2.

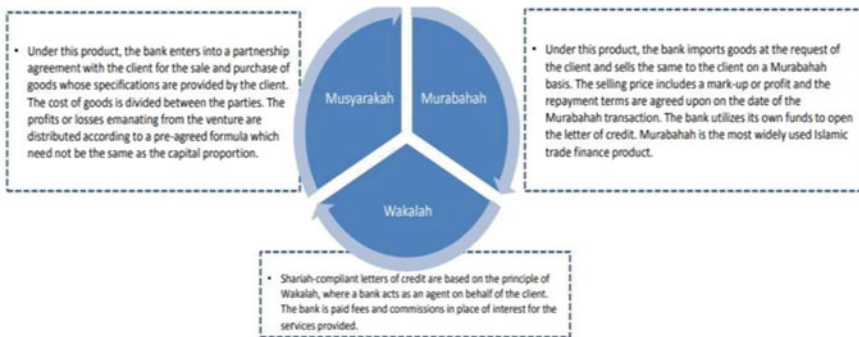


Fig. 40.2 Shariah principles which are commonly used in the Islamic Trade Finance instruments. Source Abdullah (INCIEF 2016)

According to Thomson Reuters and DinarStandard, (State of the Global Islamic Economy Report 2016/17), trade finance, a USD12.3 trillion industry, accounted for 75% of global trade in 2016 and of this substantial size, halal trade finance accounts for only a very small portion at USD186 billion but has the potential to be much bigger (Please refer to Appendix 1). Needless to say, Halal trade finance is a distinct and currently under-addressed the market opportunity.

For companies, numerous halal trade financing needs exist. Depending on their purpose, these needs can be categorised into two types: import and export finance. For import and export financing, the following needs of Halal products and risks/challenges typically exist as shown in Table 40.2.

Based on Table 40.2, the Islamic trade finance industry seems to have products that cater to the import and export of finance needs of both the buyers and sellers in the global trade. However, these products generally do not specifically incorporate the needs and demands of the Millennials where digitalisation, Internet of things (IOT), fintech, instant information access and others seem to define their attributes and characteristics. Thus, this signals future challenges for the providers of Islamic trade finance to innovate products that embrace this new market segment.

40.4.2.2 Changes Required in the Current Islamic Trade Finance Ecosystem

Natural targets for Halal trade finance products would comprise importing and exporting companies operating within the OIC, as well as halal and Islamic-themed products manufacturers that operate in non-OIC countries seeking to access OIC consumer markets. To a lesser extent, non-OIC multinationals exporting to OIC markets may also seek halal trade financing solutions (Thomson Reuters and DinarStandard 2016). Therefore, changes to the halal trade finance sector are to be expected. Among the key steps trade financiers can take are to incorporate changes in the current ecosystem of Islamic trade finance and to understand how this ecosystem is expected to change with the latest developments such the Value-Based intermediation, Fin tech, Green Financing, Crowdfunding and to relate these to Maqasid shariah, sustainable development goals as well to enhance global well-being.

40.4.2.3 Halal Trade Finance and Value-Based Intermediation (VBI)

According to Bank Negara Strategy paper on VBI (March, 2018), Value-Based Intermediation is defined as an intermediation function that aims to deliver the intended outcomes of Shariah through practices, conduct and offerings that generate positive and sustainable impact to the economy, community and environment, consistent with the shareholders' sustainable returns and long-term interests.

Comparisons between current perceived landscape of the Halal trade finance and the envisioned future halal trade finance landscape and the link with global well-being can be depicted in Fig. 40.3:

Table 40.2 Needs, product/description, Shariah-compliant considerations/alternatives and risks/challenges

Need	Conventional Product and Description	Shariah-compliant considerations and alternatives	Risks/ Challenges	Type of finance
1. Ensure that the buyer will pay the specified amount.	Letters of credit provide a conditional payment guarantee to sellers that their buyers will pay the specified amount. This ensures payment is made (for sellers) and goods are provided (for buyers).	Typically, wakalah arrangements are used for Shariah-compliant letters of credit. Under these arrangements, the bank works as an agent for a client, such as a purchaser or supplier of goods. Unlike a conventional agency contract, where interest is paid, in a wakalah arrangement the client pays the banks fees and commissions.	For the bank, the main risks are legal and documentation risks. For the buyers and sellers, it is a challenge if the other party is unable to perform their part of the contract (e.g. if the seller is unable to make payment, or the buyer is unable to deliver the goods as specified).	Both import and export finance
2. Ensure that the buyer will pay the specified amount	Documentary credits provide a conditional payment guarantee to sellers that their buyers will pay the specified amount. A documentary credit is a document that a bank issues on behalf of a buyer, who applies for the documentary credit. This document states that payment will be made by the bank to the seller for the goods and services they offer, as long as the seller meets all the terms and conditions set out in the documentary credit.	The bank provides the service for Shariah-compliant transactions. In return, the bank charges the buyer a fee (ujarah).	There is a risk that the issuing bank does not honour the documentary credit, either because the seller does not meet the terms and conditions set out in the documentary credit, or because the issuing bank reneges. On the second risk, confirmation with one's own bank is usually sufficient to allay this risk; however, it is sometimes costly to do so.	Import finance
3. Parties in a transaction do not know each other well, and it is important for them both to rely on the creditworthiness of a bank.	A banker's acceptance is a promissory note that a bank guarantees and accepts, and is usually used for short-term financing of 6 months or less. It states the amount, date and person who should receive payment, and is typically made based on a deposit at the same bank.	An Islamic banker's acceptance works on the basis of <i>bai' dayn</i> (debt trading) and <i>murabahah</i> (cost-plus-profit) principles.	Banker's acceptances are attractive instruments as they are relatively low in credit risk. However, it is still important to ensure the Islamic banker's acceptance is sought from a reputable bank that can honour the arrangement, especially in OIC countries with lesser-developed financial infrastructure.	Both import and export finance
4. Sellers need favorable financing terms when entering new markets, where business uncertainty may be high.	Export credit financing is provided by export credit agencies to sellers/exporters, typically on behalf of governments, to encourage business in overseas markets.	The Islamic Development Bank's Islamic Corporation for the Insurance of Investment and Export Credit (IIIEC) provides and arranges Islamic export credit financing on behalf of 44 OIC member countries. Most of this financing is done through murabahah, ijarah and istisna contracts.	Credit risks exist where the customer is unable or unwilling to pay for the goods. Country/ political risk may also be present in jurisdictions with volatile political conditions, and legal risk may exist in countries where investor protection is relatively low. Some of these conditions are present in some OIC countries.	Export finance

(continued)

Table 40.2 (continued)

Need	Conventional Product and Description	Shariah-compliant considerations and alternatives	Risks/ Challenges	Type of finance
<p>6. Manufacturing and trading companies need export credit re-financing to finance their pre- and post-shipment trading activities.</p>	<p>Export credit re-financing is a type of short-term financing provided by banks to manufacturing and trading companies to help finance their pre- and post-shipment trading activities. Pre-shipment, it is used to enable the production of goods, and post-shipment, it is used to finance the export of those goods.</p>	<p>The type of Shariah-compliant arrangement used typically depends on whether the purpose is for pre- or post-shipment: for pre-shipment, murabahah (cost-plus profit) is used, while bai'dayn (debt trading) principles are used for post-shipment finance.</p>	<p>Pre-shipment, there can be delays in producing goods or even an inability due to manufacturing problems to produce the goods at all. Post-shipment, foreign buyers may default on payment for goods that were received on a credit basis. Export credit insurance, such as commercial Takaful and Re-Takaful, can help mitigate against this.</p>	<p>Export finance</p>
<p>6. Buyers and sellers need a reliable way of financing their imports and exports through negotiable financial instruments.</p>	<p>Accepted bills are negotiable bills of exchange that are used to finance imports and exports.</p>	<p>Islamic accepted bills (also known as "Accepted bills-I") are used for Shariah-compliant transactions. For imports/purchases, commodity murabahah contracts are typically used, while for exports/sales, bai'dayn (debt trading) principles are usually used.</p>	<p>If the company experience solvency problems, e.g. through non-payment by buyers, this creates a credit risk for the bank.</p>	<p>Both import and export finance</p>
<p>7. Sellers need a convenient and efficient way to convert their accounts receivable into cash to finance their expenses. Sellers may also not have the full financial capability to purchase goods on their own, and may need capital to do so.</p>	<ul style="list-style-type: none"> • Banks provide invoice financing/factoring solutions which advance cash on an interest basis to sellers against the account receivables/ invoices they have from buyers. • The bank and seller may enter into a partnership finance arrangement to purchase goods together. 	<ul style="list-style-type: none"> • Several banks provide Islamic factoring, a Shariah-compliant form of invoice factoring. Islamic factoring usually employs murabahah or commodity murabahah contracts or wakalah arrangements. • The bank and the seller have a musharakah/ partnership arrangement for the sale and purchase of items which are specified by the buyer, and the cost of goods is split between both parties. Profits (or losses) arising from this arrangement are shared following a pre-agreed ratio: this ratio may differ from the ratio of capital provided by the parties. 	<ul style="list-style-type: none"> • Because Islamic factoring depends on accounts receivable, if the buyer experiences non-payment by account debtors, e.g. the account debtor is financially unable to pay, this will create a credit risk for both the company and the bank providing the Islamic factoring facility. • As with any risk-sharing partnership arrangement, a musharakah between the bank and an Islamic economy company may incur losses, e.g. if the company is unable to sell its goods. 	<p>Both import and export finance</p>

(continued)

As evidenced in the above illustration (Fig. 40.3), the perceived current landscape of halal trade finance is more industry driven, legality focussed with minimal active roles among various stakeholders. Meanwhile, amongst others, with value-based intermediation (VBI) being the current policy recommendation by Bank Negara Malaysia, the envisioned future landscape has wider objectives (financial and non-financial objectives), focussing more innovations that include values (Halal and Pure) as well promoting active interactions among various stakeholders (industry players,

Table 40.2 (continued)

Need	Conventional Product and Description	Shariah-compliant considerations and alternatives	Risks/ Challenges	Type of finance
8. Sellers need working capital to finance inventory, human capital and other operational expenses.	Banks provide working capital credit facilities and charge interest rates on the amount advanced.	This is the most common product in Shariah-compliant trade finance. With murabahah products, buyers ask banks to import certain goods. The banks do this and then sell the goods to the buyers for a profit. In murabahah contracts, the bank typically uses its own capital to finance the letter of credit for such financing arrangements. In murabahah working capital products, firms are provided with working capital on a similar cost-plus-profit basis.	It is a risk to finance working capital in instances where significant cash would be tied up in inventory until a product is finally delivered and payment is made.	Both import and export finance
9. Sellers need to be able to collect their goods without waiting on shipping documents, so that they do not incur storage costs and experience delays for their goods.	The buyer provides a shipping guarantee . This indemnifies a shipping company, enabling the shipping company to release the indemnified goods to the buyer without a bill of lading. This allows the goods to be collected without the shipping documents, enabling the buyer to reduce delays and save on storage costs.	With Shariah-compliant finance, a kafalah (guarantee) arrangement typically used.	A potential risk with shipping guarantees is that when the actual shipping documents arrive, the invoice price for the goods is higher than the estimated price for the goods. In this case, the buyer will have to bear the additional cost.	Import finance
10. Sellers need a way to conveniently improve their cash flows by receiving payment upon arrival of goods to the buyer.	<p>Inward bills for collection involve the buyer's bank receiving inward documents, either domestic or foreign in origin, from the seller's bank. The buyer's bank then pays the seller based on this receipt of inward bills, either on a spot or future basis.</p> <p>The reverse of an inward bill arrangement, an outward bill for collection involve the buyer's bank receiving outward documents, either domestic or foreign in origin, from the seller's bank. The buyer's bank then pays the seller based on this receipt of outward bills, either on a spot or future basis.</p>	Typically, wakalah (agency) contracts are used for Shariah-compliant inward and outward bills financing (also known as Inward bills-IQ and Outward bills-IQ).	If the specified terms and conditions are not met, e.g. the seller does not submit the proper documents, the buyer's bank may refuse to process the payment.	Both import and export finance

Source: MFCO, based on IMF WEO April 2018 and KfHR research⁸⁸

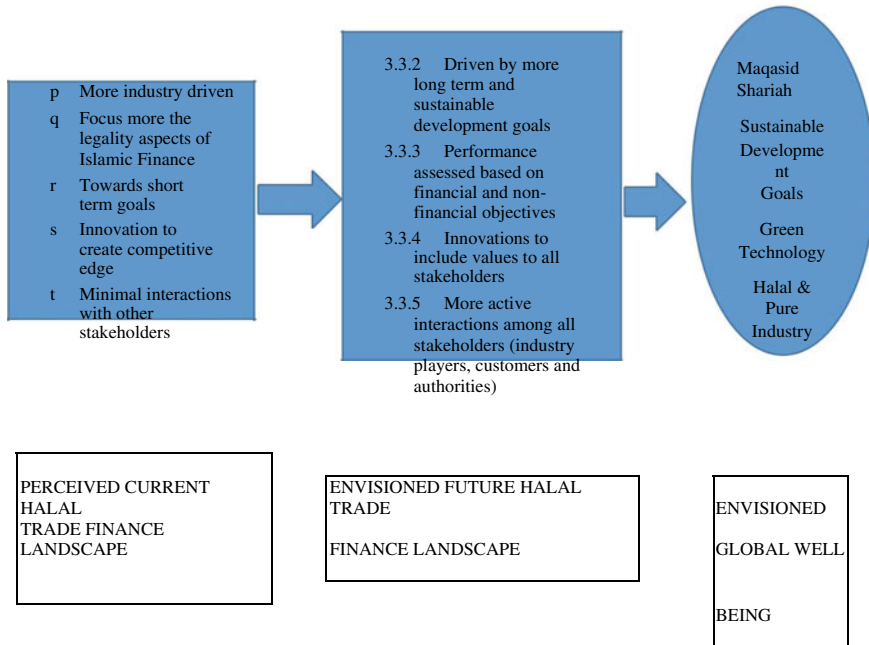


Fig. 40.3 Comparisons between the perceived current Halal finance landscape and the envisioned future Halal trade finance landscape. Adapted from BNM, Strategy paper on VBI (2018)

customers, central authorities, etc.). These elements are seen as the catalysts to future sustainability of the Global well-being while meeting the objectives of shariah such as Protection of al-Din (Islam), Protection of Life, Protection of Intellect or Faculty of Reason, Protection of Progeny or Offspring and Protection of Material Wealth.

40.4.3 RQ2: Is the Halal Trade Finance Industry Ready to Meet the Needs and Demands of the Millennials?

We further extend our analysis to answer our second research objective, where we hope to shed some light on the proposed theoretical changes that the Halal trade finance industry can adopt in addressing future challenges.

Based on the discussion in the Global Islamic Economy Report above, how would the landscape of Islamic trade finance change with the emergence of the millennials? Taking a cue from the conventional trade finance and its alternative shariah-compliant needs, we propose theoretical changes to the Islamic trade finance products with the advent of the millennials as presented in Table 40.3.

Table 40.3 Proposed changes to the Islamic Trade Finance products

Conventional trade finance products	Islamic trade finance products	Proposed changes based on millennials need
Letters of credit	Wakalah arrangements	
Documentary credits	Shariah-compliant transactions service with fee (ujarah)	<ul style="list-style-type: none"> • Fintech • Robo advisor • Legalised crowd funding • Value-based intermediation • Green financing
Banker's acceptance	Islamic banker's acceptance (bai'dayn (debt trading) and murabahah (cost-plus profit) principles)	
Export credit financing	Islamic export credit Financing (most of this financing is done through murabahah , ijarah and istisna contracts)	
Export credit refinancing	For pre-shipment, murabahah (cost-plus profit) is used, while bai'dayn (debt trading) principles are used for post-shipment finance	
Accepted bills	Islamic accepted bills (also known as 'Accepted bills-I'). For imports/purchases, commodity murabahah contracts are typically used, while for exports/sales, bai'dayn (debt trading) principles are usually used	
Invoice financing/factoring solutions or partnership finance	Islamic factoring , employing Murabahah or commodity murabahah contracts or wakalah arrangements (musharakah /partnership)	
Working capital	Murabahah products, i.e. murabahah working capital products	
Shipping guarantee.	Kafalah (guarantee) arrangement	
Inward bills for collection and outward bill for collection	'Inward bills-I' and 'Outward bills-I')	

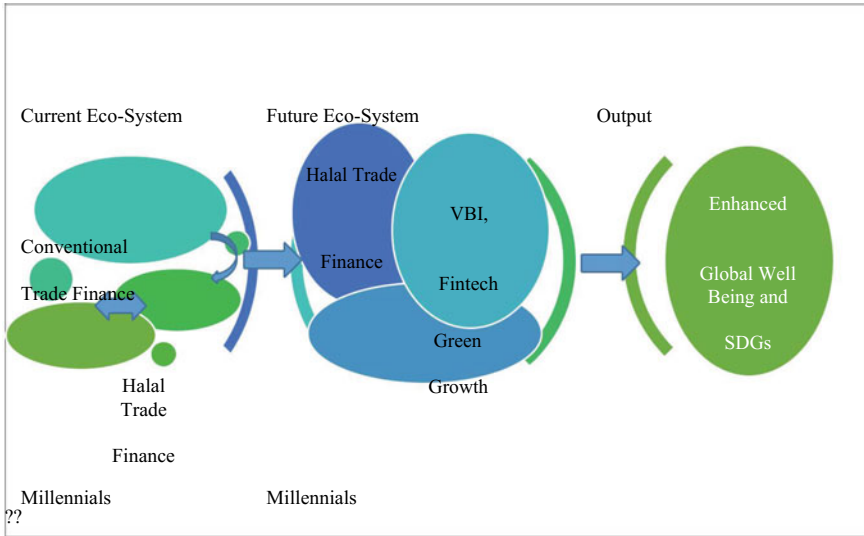


Fig. 40.4 Changes in the Ecosystem of Halal Trade Finance

At this point, the link between Halal trade finance and the Millennials are still subject to further research due to dearth in knowledge stemming from very little literature (almost none actually that specifically discusses on Halal trade finance or Islamic trade finance).

Millennials as presented in the earlier section of this paper) but we would foresee the changes to be on the part of providing services regarding these products, hence, the proposed use of Fintech, Robo Advisor and also to look at a form of legalised crowdfunding for financing-related products such as Murabahah products. Basically, what we foresee is that the changes will come in the form of a new ecosystem for Halal trade finance and the changes are depicted in Fig. 40.4.

In order for us to answer the above research objectives, we start our discussion by highlighting the following issues.

40.4.3.1 Halal Trade Finance, Millennials and Fintech

Forbes Magazine (2017) highlighted that Islamic Fintech landscape covers 120 players globally from Islamic ETFs to cryptocurrencies. For instance, it is worth noting that there are key trends emerging in the Islamic Fintech space where some international players have started launching various products that are in fact consistent with the needs and demands of the millennials. *Wahed*, launched the Islamic Robo Advice with access to Shariah-Compliant Exchange Traded Funds (ETF). *Yielders*, launched an Islamic alternative Asset market place such as the property. *Ovamba*, an Islamic trade finance player introduced Shariah-compliant Initial Coin offering

(ICO) which allows for fees and risk sharing backed halal instruments using a token. *CBX*, provides a shariah-compliant universal payment system backed by grains. *Ethis Crowd*, uses *e-Wakalah* (agency contract) and *Istisnaa* (contract to construct an asset) contracts that allow for crowdfunding of new real estate developments in Indonesia.

40.4.3.2 Halal Trade Finance, Millennials and Green Growth

Sustainable development goals as highlighted by United Nations (UN 2017), requires that in addition to economic development, progress for the entire community is also identified as a key area to ensure that prosperity is sustainable to be shared equitably in the long run. Recently, with support from the World Bank, Malaysia launched a new initiative that addresses both these principles: financing sustainable, climate-resilient growth (World Bank Group 2017). Infrastructure of Halal Trade finance, therefore, is recommended to incorporate the sustainable development goals via Green Financing and promoting trades of Green, Halal and Pure products in the international market.

Global Islamic Economy Gateway (2017) reported that at the UNEP Finance Initiative's global roundtable hosted in Dubai by the UAE Ministry of Climate Change and Environment (MoCCA) in 2016, one of the key questions addressed was how Islamic finance can contribute to the growth of the sustainability sector.

According to the first national survey, timed during the UNEP roundtable, the contributions of financial institutions to the green economy found that 46.8% consider that the rise of Islamic finance will provide more opportunities to develop green finance products and services or to invest in green projects. 'An increasing number of institutions provide a range of Islamic finance products and services, while the views over the prospect for applying them to green finance are mixed', the survey report said.

In Malaysia, there is an immense support from the government to incorporate Green Islamic Financing within the Islamic Finance ecosystem. Various initiatives have been illuminated such tax deduction until year of assessment 2020 on issuance costs of SRI sukuk; tax incentives for green technology activities in energy, transportation, building, waste management and supporting services activities; and financing incentives under the Green Technology Financing Scheme (GTFS) with total funds allocation of 5 billion ringgit until 2022. These initiatives, therefore, set a platform for Halal Green Trade Finance to be one of the key concepts in the future landscape of Islamic Finance locally and Globally.

40.4.4 Conclusion

Our present study seeks to take a closer look at Halal trade finance industry in terms of its readiness to incorporate a significant and unique market demography, the millennials within the ecosystem. Our discussion is focussed on two main research objectives: (1) with the emergence of Millennials as a new market segment, how would the Halal trade finance landscape change? and (2) Is the Halal trade finance industry ready to meet the needs and demands of the Millennials?

We, therefore, attempt to answer the above questions by looking at, first, the academic perspective in terms of the research conducted in the areas connecting Islamic trade finance and millennials. Our findings indicate that while the awareness of the emergence of Millennials as a market segment is present, not many academic papers have been written on the link between Islamic finance generally and Halal trade finance specifically and their links to the Millennials. We also attempt to examine the perceived current landscape and ecosystem of Halal trade finance and the envisioned future Halal Trade Finance landscape and ecosystem. Although limited to theoretical framework, our findings further suggest that there are many potential growth areas that the Halal trade finance industry can venture into to meet the needs and demands of various stakeholders including the millennials without compromising on the Global well-being and *Maqasid Shariah*.

Appendix 1: Trade Finance Products, Description and Market Size

Source Thomson Reuters and DinarStandard, State of the Global Islamic Economy Report 2016/17

Appendix 2: Select Key Providers of Shariah-Compliant Trade Finance

Source Thomson Reuters and DinarStandard, (State of the Global Islamic Economy Report 2016/17)

Appendix 3

See Fig. 40.5.

The explanation of the key steps, according to the Thomson Reuters and DinarStandard 2016/17 report is presented in the boxes below.

Box 1: Key Step 1

1. Work with Islamic Economy Companies to Develop Dedicated Trade Financing Products

A substantial portion of OIC imports needs is fulfilled by conglomerates that cater to Muslim customers without necessarily seeking Shariah-compliant funding.

However, as the Islamic Economy grows, many small-to-medium sized businesses will need to tap into an ecosystem of trade finance services that are Shariah-compliant, which presents a substantial opportunity.

Syed Ali, CEO of Riz Global Foods, a halal food distributor supporting Canadian brands, and exporting to the GCC and China, discussed how he was able to secure Shariah-compliant trade financing, and opportunities for the industry to thrive.

Syed commented, “We have worked with a Canadian bank to structure a Shariah-compliant Purchase Order Financing product that met our faith-based needs... There is a substantial opportunity especially in North America to open halal financial hubs which can be used by all providers jointly sharing the platform and offering services.”

Elaborating upon the scale of the opportunity, Syed Ali further commented. “The halal food Industry in North America is at its infancy. A lot of companies have huge potential to develop in the coming years with proper Shariah-

Key steps



Source: Thomson Reuters and DinarStandard, (State of the Global Islamic Economy Report 2016/17)

Fig. 40.5 Key steps for Islamic trade finance providers

compliant trade financing tools to provide an end to end ethical halal business operation, whether it's in production, distribution or logistics.”

Box 2: Key Step 2

2. Develop Dedicated Marketing Outreach Programs

There is a substantial opportunity to use B2B marketing channels to reach customers across different countries.

Discussing the current disconnect between Islamic finance and SMEs focused on the halal products sector opportunity, Abdulkader Thomas, CEO of SHAPE Financial Corporation commented, “The halal business sector has made its whole pitch based on halal ingredients. But, there seems to be an odd disconnect between the halal business sector and Islamic finance. In some conversations, I feel that the halal business sector distrusts the authenticity of Islamic finance. Moreover, Islamic finance planners have too often focused on the extremes. One is retail. The other is brand name corporates over SMEs. Somewhere lost in the target marketing process is the halal business sector. Both sides need to find each other.”

When discussing the importance of marketing trade finance products to SMEs, Professor Abdul Rashid A. Kadir, Lecturer at INCEIF, commented, “There needs to be greater collaboration and building relationships with OIC and non OIC countries—this can be achieved through both Government to Government (“G2G”) and Business to Business (“B2B”) arrangements.”

Two particular channels can serve as fruitful avenues to reach a key target audience: high-growth, values-based companies that are looking for trade financing to facilitate their expansion into OIC markets.

Firstly, physical channels need to be explored, such as attending trade shows and events dedicated to the Islamic economy, which can support very robust business development. Notable events include the Global Islamic Economy Summit, which attracted over 3000 delegates in 2016, and the World Islamic Economic Forum in Indonesia, which attracted over 2500 delegates in 2016. Global trade events such as Gulfood 2017 attracted over 95,000 trade attendees, including up-and-coming halal players from non-OIC countries, such as Haloodies, Riz Global Foods, and Ieat Foods among many other high potential attendees.

Secondly, dedicated online marketing can help reach SMEs that are looking to grow rapidly. Halal Ad is a notable platform that targets Muslim end users and is expanding into B2B, having posted over 217 million advertisements since inception in 2015. However, only e-commerce platforms such as Ali Baba, as well as Islamic economy focused platforms such as DagangHalal.com can support finance providers seeking to proactively offer trade support services.

Box 3: Key Step 3

3. Co-locate with Trading Companies in OIC Countries

Free zones have played a critical role in spurring economic growth, leveraged as a strategic tool by governments, with 4300 free zones globally in 2015. With the rise of “halal hubs” supporting the Islamic economy, most notably in the UAE and Malaysia, there is a substantial opportunity for trade financing providers to co-locate with Islamic economy companies across the core sectors.

Syed Ali commented, “Halal hubs exist mostly in the Southeast Asian countries and many services have been launched. Halal hubs are yet to be launched in North America. We are working on one such halal hub in Canada to provide the basic infrastructure for warehousing, export-related services, including trade finance, distribution and supply chain management, for national and international markets.”

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