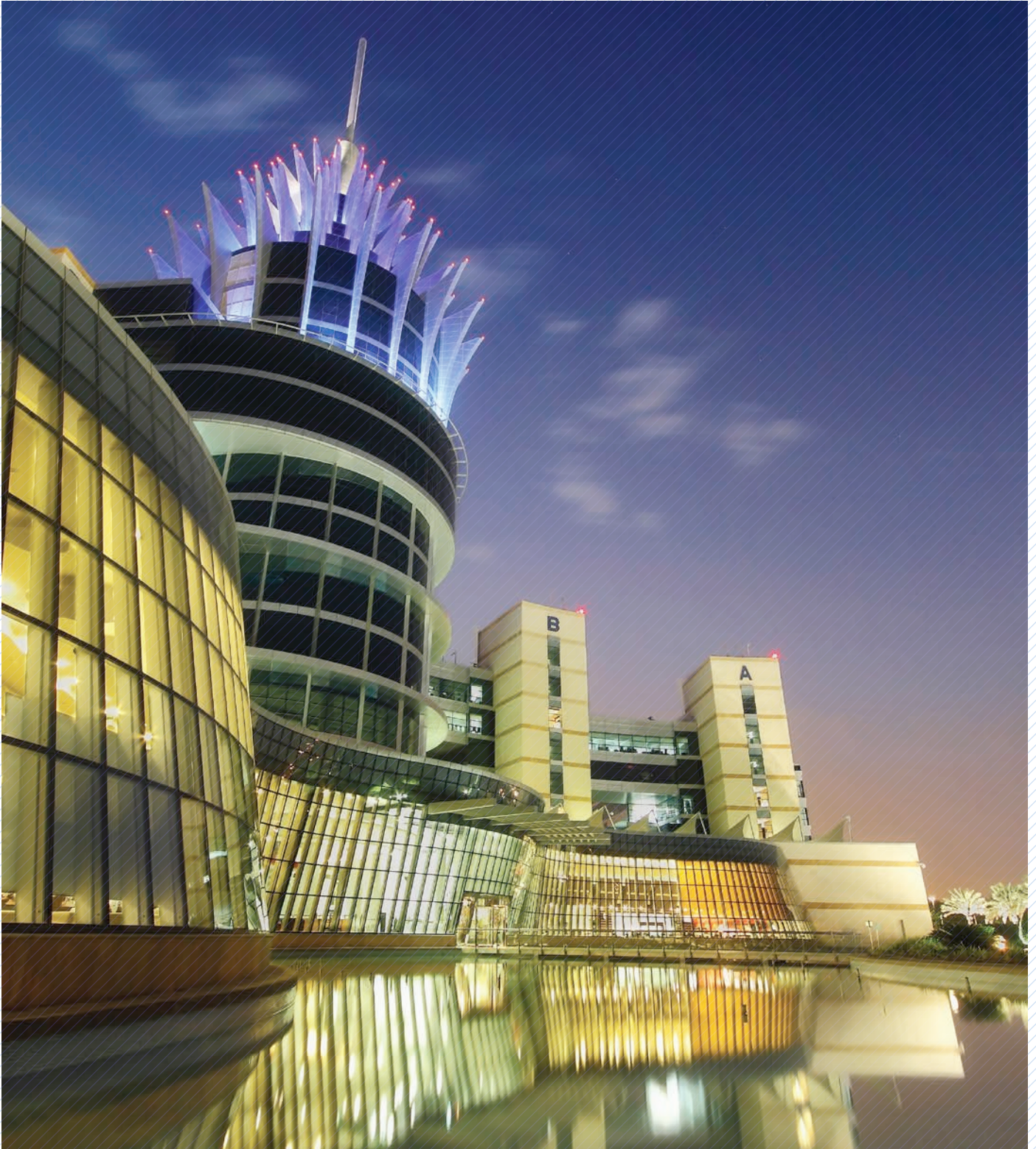


FREE ZONES OUTLOOK REPORT 2017:

Shaping the Growth of the Islamic Economy





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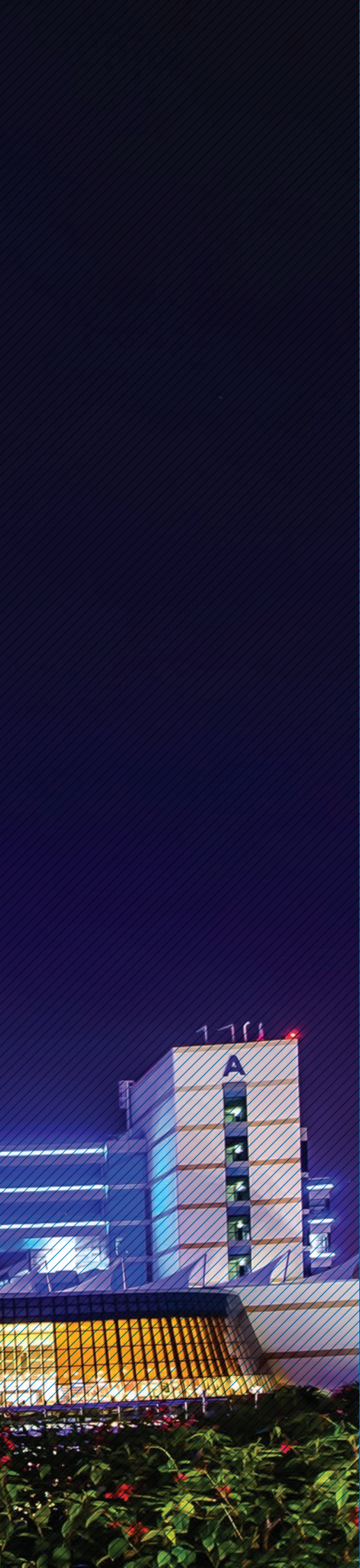
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Dubai Silicon Oasis (DSO).
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Contents

Foreword	6
Executive Summary	8
Report Purpose, Scope, and Approach	12
1. Introduction to Free Zones and the Islamic Economy	15
2. Free Zones in the Islamic Economy	21
3. Opportunities and Considerations in Developing Islamic Economy-Enabling Free Zones	31
4. Islamic Economy Free Zone Activity By Sector	39
5. Interviews	55
Acknowledgment	66
Appendix	68

Foreword



Dr Mohammad Al Zarooni
Vice Chairman & CEO,
Dubai Silicon Oasis Authority

As the global business landscape grows increasingly competitive and seamless, free zones around the world are fast emerging as preferred destinations to locate off-shore businesses. A key highlight of their attractiveness is that companies located in these hubs are enjoying a tax free status among many other incentives.

In addition to their tax-free status, free zones in the UAE offer the advantages of full foreign ownership, reduced custom fees, and lower licensing and set-up charges than elsewhere in the country. Such advantages go a long way in encouraging entrepreneurship and increasing economic growth. According to the figures released by the UAE Ministry of Economy in August 2016, more than 40 free zones currently operate in the UAE, contributing AED 497.2 billion (US\$ 134.75 billion) to the UAE economy in 2015.

Similarly, the diverse sectors of the Islamic economy are today among the major contributors to the UAE's GDP. In 2015, The Global Islamic Economy Indicator valued Islamic finance at US\$ 2 trillion in assets – this figure is expected to surge to US\$ 3.5 trillion by 2021. Optimistic growth forecasts also abound for the halal travel sector that is poised to grow from US\$ 151 billion in 2015 to US\$ 243 billion by 2021.

Merging the Islamic economy sectors in free zones yields unprecedented opportunities for development and economic diversification. Separately and collectively, these sectors contribute to the realization of several national performance goals under the UAE Vision 2021 - including raising the SME contribution to the non-oil GDP to 70 percent, and increasing the contribution of the non-oil sector in general to the GDP to 80 percent.

As we transition to a more technology-focused world, all sectors of the UAE's business and economic landscape are working relentlessly to adopt new, more efficient operating systems.

At Dubai Silicon Oasis Authority (DSOA) in particular, we aim to provide advisory and financial support to technology entrepreneurs within an ideal and motivational working environment, which boosts creativity and innovation among the youth of the future. Reiterating our support for technopreneurship and the Islamic economy, we strongly encourage the growth of the digital Islamic economy sector that has witnessed a phenomenal surge - more than 394 digital Islamic services were identified by Thomson Reuters in 2015, with the majority of these classified

within the following sectors: 37 percent in media and recreation, 24 percent in education, and 21 percent in modest fashion, art and design.

Dubai's ranking as a global leader among Islamic economy enabling free zone cities reinforces the merits and strengths of Islamic economy activations within these free zones. With strong performance across metrics, the expectation of growth and development across the Halal food, Islamic finance, digital Islamic economy, and Islamic-themed media and recreation sectors, is justifiably high.

It is clear therefore that through developing the potential of Islamic economy enabling free zones, the UAE can ensure significant growth of the high-potential SME sector - translating a positive impact on the nation and the wider region. Furthermore, such development will help meet the growing demand of the global Muslim and non-Muslim consumer base that seek an ethical and just socio-economic system.

Executive Summary

Free zones are a key enabler to be utilized across all pillars of the Islamic economy that drive a concentration of companies within that space to better adhere to best practices and provide superior products and services. While still in its infancy as a concept, there are ample opportunities for free zones to create significant economic value across all pillars of the Islamic economy. Free zone contribution to the Islamic economy is currently valued at US\$ 55 billion and it is expected to grow to US\$ 117 billion by 2021. This report identifies which cities have the most potential to enable the development of Islamic economy free zones.



Free zones are an essential tool to drive economic growth and for countries to rapidly industrialize and develop robust sectors. Retrospectively, China's economic miracle owes much to the intelligent use of free zones, attracting leading multinational companies with a range of financial incentives. Looking ahead, at a time when oil prices are low and oil-dependent economies are desperately looking to diversify, free zones signify a hope for continued future prosperity.

Within the Islamic economy, free zones are a relatively new phenomenon and are largely centered around halal food. Malaysia was one of the first nations to take steps to develop this concept, creating dedicated free zone "hubs" across the country. However, 30 free zones across 18 cities have been identified that support Islamic economy activity.

It is anticipated that free zones will play an increasingly important role in the Islamic economy, with the value of Islamic free zone exports is projected to more than double over the next five years. Free zones currently contribute US\$ 55 billion to the Islamic economy and this contribution is set to grow at a CAGR of 13% to US\$ 117 billion by 2021. Halal food and modest fashion are the largest and fastest growing sectors of the Islamic economy, excluding Islamic finance. Free zone contribution to the halal food sector is expected to grow to US\$ 74 billion by 2021 from US\$ 34 billion currently. In the modest fashion sector, free zone contribution is projected to grow to US\$ 14 billion by 2021 from US\$ 7 billion.

This report has identified Dubai as the leading free zone city, buoyed by 7 existing free zones supporting Islamic economy activity. It is followed by Kuala Lumpur, with 3 Islamic economy-enabling free zones, and in third place comes Johor Bahru. Free zones are best positioned to support Islamic economy activity in these locations as there is already a robust Islamic economy ecosystem, close proximity to Muslim consumers, as well as a friendly business atmosphere and well-established free zones.

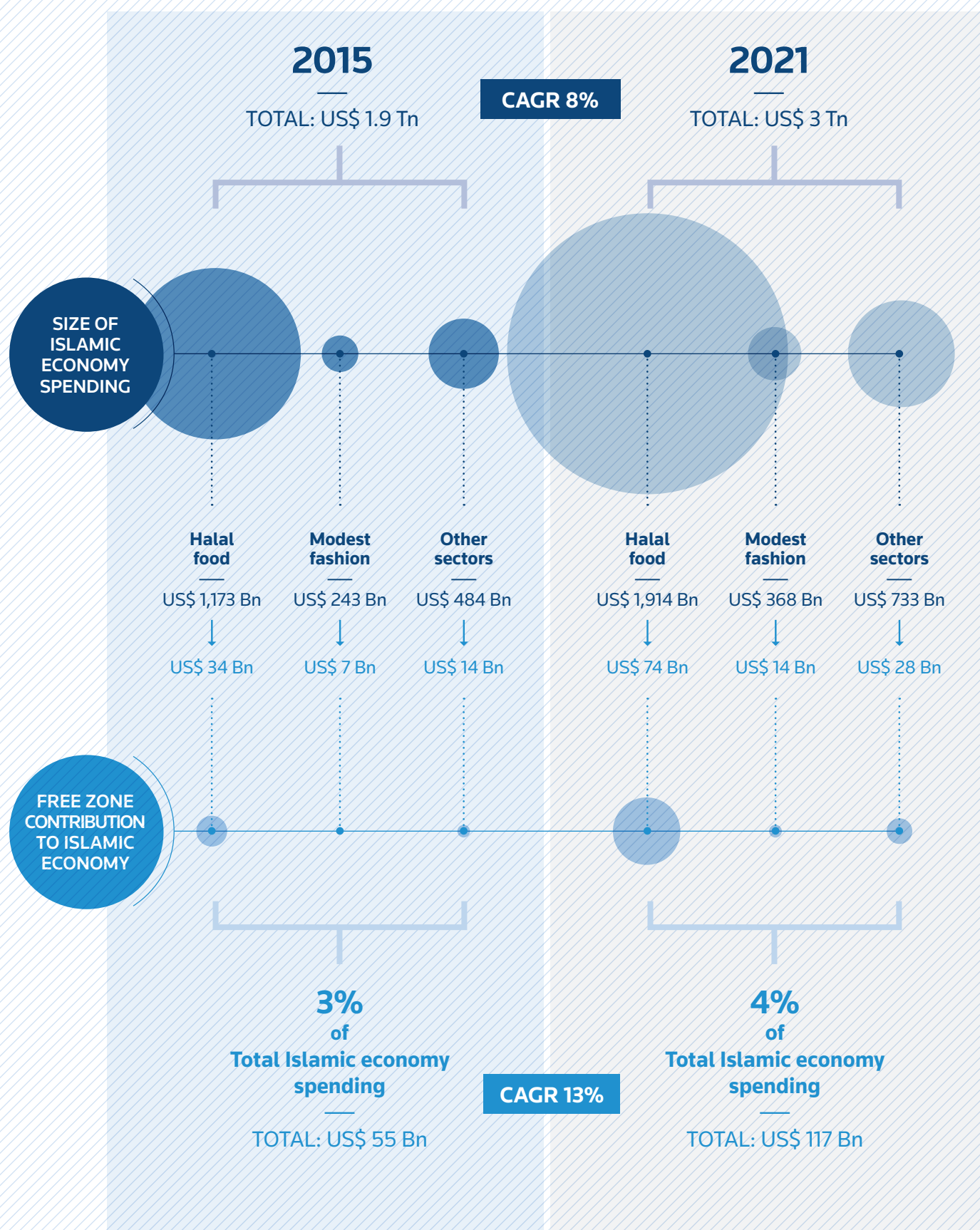
However, there are significant opportunities to utilize a free zone strategy across all sectors of the Islamic economy. We have seen growth in the **food, pharmaceuticals and cosmetics sectors** through the building of dedicated areas that attract large multinationals and help them deliver and innovate in the production of halal market products. Significant gaps have also been addressed, such as the use and production of gelatin in medicines. Free zones that house halal hospitality caterers, as well as halal-certified medical tourism service providers can support the growth of **Muslim-friendly travel**. Existing **financial** free zones can help attract various financing providers and facilitate convergence with the Islamic economy.

Media free zones can encourage the co-location of producers and channels to create new formats and programs for Muslim audiences. The **modest fashion sector** can be supported by encouraging modest fashion designers to relocate to existing free zones. **Digital** free zones, building on initiatives by Dubai's Silicon Oasis (DSO) can actively encourage digital Islamic start-ups.

LEADING ISLAMIC ECONOMY-ENABLING FREE ZONE CITIES



FREE ZONE CONTRIBUTION TO ISLAMIC ECONOMY



Report Purpose, Scope, and Approach



1. *The State of the Global Islamic Economy Report 2014/15* represents the global Islamic economy as core sectors and their ecosystem structurally affected by Islamic values-driven consumer lifestyle and business practices. Collectively these major sectors are: Islamic finance, halal food and lifestyle sectors (modest fashion, travel, pharmaceuticals and cosmetics, and media and recreation.)





1

Introduction to Free Zones and the Islamic Economy

Introduction

Free zones are an essential policy tool used by governments to diversify their economies and drive the development and growth of specific sectors. The zones attract leading multinationals and help new companies develop, in return for tax and trade-related incentives. They have played a key role in the growth success stories of emerging economies, most notably China.

Overview of free zones

A free zone or 'special economic zone' is a designated geographical area where economic incentives are available to domestic and foreign companies. They perform operational activities and conduct trade with "unrestricted flow of goods and services".² There are two main types of free zones identified by the World Bank: export processing zones, which focus on manufacturing for export opportunities and large scale special economic zones, which combine residential, commercial and industrial activity.

Free zones are significant within countries because they concentrate business activity from companies and institutions to a specific region that gains strength from competition and cooperation amongst one another.³ As a result, free zones encourage employment creation, income generation, export growth, export diversification, foreign direct investment, and government revenue for their corresponding countries. Firms and institutions located within free zones increase productivity using "best practices", encourage skilled labor, and move with the "pace of innovation".

There are a number of economic incentives that are commonly used by free zones

around the world, which include customs-related advantages, tax exemptions, reduced regulatory requirements and reduced foreign investment regulations. These incentives attract companies to set up operations within free zones and can stimulate economic activity.

The Islamic economy and national initiatives that support it

The Islamic economy, identified by its core sectors and their ecosystems, which are driven by an Islamic values-based consumer lifestyle and business practices, as defined by the annual State Global Islamic Economy Report, represents a combined Muslim consumer spend on food and lifestyle estimated at US\$ 1.9 trillion as of 2015. This is expected to grow to over US\$ 3 trillion by 2021, driven by rapid growth in the Muslim population, which is expected to exceed 2.2 billion by 2030.⁴

Against a backdrop of fast developing Islamic economy strategies and initiatives, Dubai, Kuala Lumpur, as well as other cities have the highest potential to enable Islamic economy free zones.

- The Dubai Islamic Economy Development Centre (DIEDC) was established in 2013 to develop and promote Dubai as the global capital of the Islamic economy in trade, retail, tourism, aviation, hospitality, financial services, logistics, digital infrastructure, art, knowledge and Islamic standards and certificates.⁵ To encourage the development of the Islamic economy, the DIEDC has worked with strategic partners to develop Islamic economy standards across halal food and Islamic finance; launching halal food networks, designing Islamic heritage attractions and building

2. Introduction to International Free Zones, The Meneren Corporation, 2000 – 2005.
3. Creating Economic Clusters in the Muslim World, MuslimScience, 2007.
4. State of the Global Islamic Economy Report 2016/17, Thomson Reuters and DinarStandard, 2016.
5. 'Dubai Islamic Economy Development Center Overview', DIEDC, 2013.
6. The Halal Industry Development Corporation Website, http://www.hdcglobal.com/publisher/c_initiatives, accessed on July 25th, 2016.
7. 'Special Economic Zones – Notso special', The Economist, 2015.



Downtown Dubai, UAE.

technology incubators. For example, the DIEDC has worked with Thomson Reuters to build the Salaam Gateway portal, which provides information on the global Islamic economy.

- Malaysia's Halal Industry Development Corporation (HDC) established in 2006, is an agency under the Ministry of Trade and Industry created to develop halal standards and promote the development of halal products and services in Malaysia.⁶ The HDC's primary responsibility is to facilitate investment and growth of Malaysia's halal industry. The HDC has facilitated the establishment of halal parks in Malaysia and the Global Halal Support Centre.

Free zones and the Islamic economy

With robust growth in demand for halal products and services tailored to Muslim needs across the lifestyle spectrum, free zones can play an important role in both developing those sectors and ensuring the integrity of halal products is maintained.

The developmental goals of sectors within the Islamic economy can be achieved through clustering halal products and services in the Islamic economy across the value chains within each pillar; enabling easier connections between businesses, better access to essential support services and the sharing of best practices.

The economic importance of free zones

There are over 4,300 free zones worldwide. Countries established free zones to encourage foreign investment and have become an increasingly important component of economic growth. There has been a substantial increase in free zones from 176 zones in 47 countries in 1986, to over 4,300 zones in 130 countries in 2015.⁷ Free zones account for over US\$ 200 billion in global exports and employ over 40 million workers.⁸ Growth of free zones can be attributed to the globalization of trade. Trade grew 85% faster than global GDP between 1983 and 2008, according to the World Bank.⁹

Free zones have been a core driver of growth in emerging economies, with China serving as a case in point. Developing countries in East Asia and Latin America have leveraged free zones to ensure rapid economic growth in their manufacturing sectors; developing large-scale manufacturing and production free zones between the 1990s and 2000s, with heavy focus on electronics,

automotive components and apparel.¹⁰ Companies within these free zones largely relied on low labor costs and proximity to major consumer markets, including Europe, Japan and the US.

For China in particular, free zones have played a key role in their economic miracle. China developed over 200 free zones during the 1990s supporting high-tech firms and science and technology incubators. China alone accounted for 19% of global free zones in 2007, which are mostly privately owned and operated.¹¹

Free zones have also permitted experimentation with China's market-oriented reforms and attracted international capital, technology, and technical and managerial expertise, helping China to integrate into the global economy. In recent years, free zones have contributed 22% of China's GDP and 60% of exports, creating over 30 million jobs.¹²

8. Special Economic Zones Progress, Emerging Challenges, and Future Directions, The World Bank, 2011.

9. Special Economic Zones Progress, Emerging Challenges, and Future Directions, The World Bank, 2011.

10. Special Economic Zones Progress, Emerging Challenges, and Future Directions, The World Bank, 2011.

11. 'China's Special Economic Zones and Industrial Clusters: Success and Challenges', The World Bank, 2011.

12. 'China's Special Economic Zones and Industrial Clusters: Success and Challenges', The World Bank, 2011.



Aerial View of Lujiazui Financial District in Shanghai, China.

The world's leading free zones

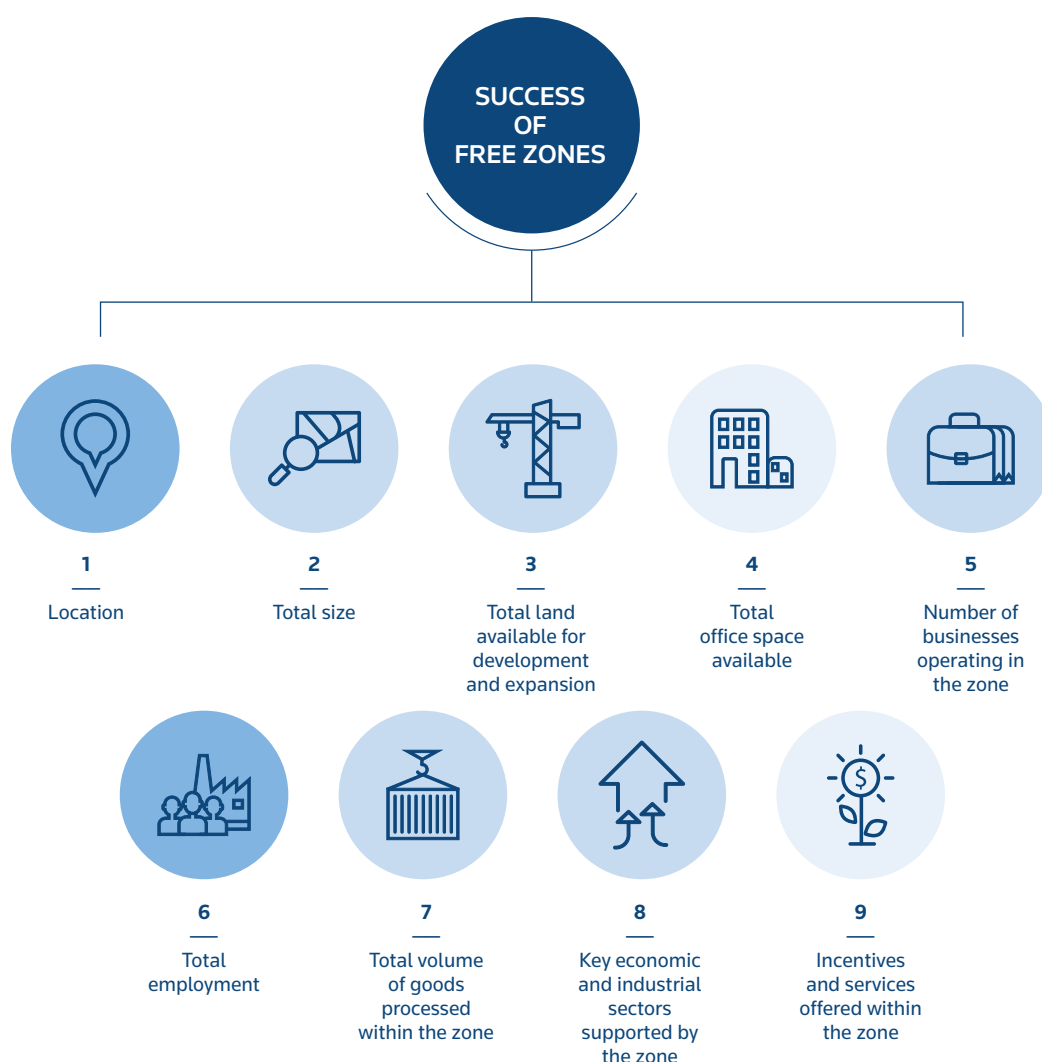
The world's leading free zones are in Dubai and China, with their proximity to source markets and trade routes being their key to success, along with size and appropriate economic incentives.

The leading free zones identified by Foreign Direct Investment Magazine's (fDi) 'Global Free Zones of the Future in 2012/13' report were **Dubai's Airport Free Zone**, the **DIFC**, the **Shanghai Waigaoqiao Free Zone in China**, and the **Iskandar Development Region in Malaysia**. fDi had requested over

600 pre-selected free zones in 120 countries to provide qualitative and quantitative data to the magazine regarding incentives and facilities, to determine the most effective free zones around the world.

In addition to the free zones ranked in 2012/13 by fDi, the magazine also reported the 'Global Free Zones of the Year in 2015 —Winners', which takes into account the size, attractiveness, facilities, and incentives offered to investors.

THE FACTORS THAT DETERMINE THE SUCCESS OF FREE ZONES





2

Free Zones in the Islamic Economy

Methodology for determining the top Islamic economy-enabling free zones

Overview

The Islamic economy-enabling free zones cities ranking seeks to not only determine the free zones in which halal activity is clearly evident but also where there is potential to establish such free zones.

Actual activity may include halal designations (typically for free zones dedicated to halal food, pharmaceuticals and cosmetics), but could also cover the inclusion and support of Islamic economy businesses (such as Islamic-themed media companies operating in a free zone, or accelerators and digital development bodies supporting digital Islamic economy start-ups).

However, there are many other determinants of potential in the largely untapped opportunities to establish free zones that support activity in the Islamic economy, such as proximity to Muslim consumers and a free zone being in a strong Islamic economy-enabling ecosystem.

In determining the cities with the most potential to enable the development of Islamic economy free zones, 5 key metrics were evaluated individually and then combined, at both an overall level across all Islamic economy pillars and at an individual pillar level.

The ranking methodology was applied to 112 cities worldwide, including those that are in Muslim-minority and Muslim-majority countries that met one or more of the criteria assessed in this report.

Specific metrics and criteria

Five metrics were defined according to key evaluation objectives:

- **Islamic economy-related metrics:** Three objectives focused on existing Islamic economy activity in free

zones and potential based on Islamic economy activity and trade.

- **The Global Islamic Economy Indicator (GIEI) country score¹³** — GIEI is a composite weighted index of 6 sector level indicators across 73 countries, showing the current development and health of each sector.
- **Number of free zones with Islamic economy activity in each city** — In each city, the total number of free zones with Islamic economy activity is identified.
- **City's proximity to Muslim consumer spending markets** — This metric is the total Islamic consumer spend by countries within a two-hour radius, in addition to the country each city is located in.
- **General metrics:** A further two objectives sought to evaluate whether the cities contain high-ranked free zones addressing the broader sectors of each Islamic economy pillar; and the ease of doing business within those cities, or whether the city is supportive of start-ups.
- **Number of top-ranked or award-winning free zones or ports** — This metric is divided into two sub-metrics:
 1. The total number of free zones ranked by fDi Intelligence in 2013 has a weighting of 75% for this metric.
 2. The free zones awarded in 2014/2015 by fDi, or the total number of top BMI regional ports

13. The Global Islamic Economy Indicator is a weighted index score assigned to each country in the State of the Global Islamic Economy Report 2015/16, which has been supported by the Dubai Islamic Economy Development Centre and produced by Thomson Reuters and DinarStandard.

that have been identified based on total cargo transport, have a weighting of 25% for this metric.

- **Ease of doing business country score** — Developed by the World Bank, this is a comprehensive annual score that looks at how business-friendly each country is.

- *Summary metrics:* Direct Islamic economy initiatives, current Islamic economy activity and a review of globally top-ranked free zones were evaluated at a summary level.

Normalization: For each score, cities were compared and normalized; with the best cities in each metric receiving a normalized score of 1, and all other cities receiving a proportionately lower score.

- Example: If a city was ranked as the top city for ease of doing business, for that metric it receives a score of 1 and a city that was not ranked receives a score of zero.

Combining the different normalized scores:

Each score was weighted and has an **equal** contribution to the overall rankings, which can be seen in Table 1 below.

Important caveats to our ranking

While the methodology is based on a robust set of criteria, it does not account for the actual current economic impact of existing halal initiatives.

In addition, despite comprehensive secondary research and primary interviews with leading global sector experts, not all current halal initiatives within free zones may have been fully captured due to a lack of publicity.

Furthermore, the Islamic economy is undergoing rapid change, and new initiatives may be announced in cities that are currently not ranked highly on the list. Accordingly, when quoting this report in any publications, we urge readers to undertake additional research and ensure a thorough scanning of the most recent developments at their time of writing.

TABLE 1 ISLAMIC ECONOMY CITY RANKING METRICS

RANKING METHODOLOGY		
OBJECTIVE	METRIC	WEIGHTING
Direct initiatives to serve Islamic economy start-ups/businesses	Number of hubs with Islamic economy activity	1.0
Current activity within key Islamic economy sectors	Islamic economy indicator country score	1.0
General free zone criteria	Number of top-ranked or award-winning free zones or ports:	1.0
	fDi free zones top 50 (2013): Number of free zones in top 50	75%
	Number of fDi top global free zones prize winners (2014 or 2015) or BMI regional ports: Number of top free zones recognized by BMI based on total cargo transport	25%
Financing/incubation ecosystem — start-up/financing ecosystem	Ease of doing business country score	1.0
Vicinity of city to key Islamic lifestyle source/ target markets	City proximity to Islamic consumer spend markets	1.0

The top Islamic economy-enabling free zone cities

Results overview

Dubai and several cities in Malaysia lead the free zone city rankings across all pillars, aided by government-led Islamic economy and halal initiatives that have spurred the development

of free zones, with the potential for further development aided by strong Islamic economy ecosystems and a close proximity to Muslim consumers.

TABLE 2 TOP 15 ISLAMIC ECONOMY-ENABLING FREE ZONE CITIES

GLOBAL ISLAMIC ECONOMY FREE ZONE CITY RANKING

CITIES	COUNTRY	OVERALL SCORE	HALAL HUB SCORE	GLOBAL ISLAMIC ECONOMY INDICATOR SCORE	PROXIMITY TO MUSLIM CONSUMERS	FDI / BMI RANKING AND AWARDS SCORE	EASE OF DOING BUSINESS SCORE
Dubai	UAE	4.37	1.00	0.55	1.00	1.00	0.83
Kuala Lumpur	Malaysia	3.21	0.43	1.00	0.88	–	0.90
Johor Bahru	Malaysia	3.16	0.29	1.00	0.88	0.09	0.90
Shah Alam	Malaysia	3.15	0.29	1.00	0.88	0.08	0.90
Malacca City	Malaysia	3.07	0.29	1.00	0.88	–	0.90
Kuching	Malaysia	2.93	0.14	1.00	0.88	–	0.90
Georgetown	Malaysia	2.92	0.14	1.00	0.88	–	0.90
Abu Dhabi	UAE	2.74	0.14	0.55	1.00	0.23	0.83
Ras Al Khaimah	UAE	2.46	–	0.55	1.00	0.09	0.83
Sharjah	UAE	2.37	–	0.55	1.00	–	0.83
Al Hidd	Bahrain	2.32	–	0.50	1.00	0.18	0.63
Muharraq	Bahrain	2.20	–	0.50	1.00	0.06	0.63
Singapore	Singapore	2.17	–	0.29	0.88	–	1.00
Sohar	Oman	2.08	–	0.39	0.91	0.18	0.60
Jeddah	Saudi Arabia	2.03	–	0.42	0.89	0.18	0.53

SOURCE: BMI, THOMSON REUTERS AND DINARSTANDARD RESEARCH, PROPRIETARY DATASETS AND ANALYSIS, FDI INTELLIGENCE, GLOBAL ISLAMIC ECONOMY INDICATOR*



Muslim woman workers
working in a chicken meat
plant, Turkey. CAPA55 /
SHUTTERSTOCK.COM

Ranking results



Dubai Media City (DMC) part of Dubai Holding is a tax free zone within Dubai.
RUS S / SHUTTERSTOCK.COM

1ST PLACE Dubai, United Arab Emirates

Dubai takes a clear lead in the rankings by virtue of existing Islamic economy activity in free zones across the halal food, Islamic finance, digital Islamic economy and Islamic-themed media and recreation sectors, with strong performances across all metrics.

Existing free zone activity:

Dubai has a strong free zone presence with 11 leading free zones in the fDi 2013 rankings and the **Dubai Multi Commodities Centre (DMCC) Free Zone** receiving the Best Global Free Zone award from fDi in 2015; which is further boosted by its recognition by the Boston Consulting Group (BCG) and The Network as the 11th best global talent hub.

Halal hub activity:

Dubai currently has 7 free zones that are designated halal hubs across the food, digital, Islamic finance, and media and recreation pillars.

1. Two zones supporting halal food:

- a. **Jebel Ali Free Zone (JAFZA)** — JAFZA was recognized as a runner-up in the Middle East in 2015 by fDi Intelligence and hosts over 7,500 companies. The zone has established services for the halal supply chain, which was announced in 2014 during a roadshow in Japan.¹⁴ It also houses established halal food processing companies, which operate out of JAFZA including Food Specialties Limited.
- b. **Dubai Technopark** — The Dubai Technopark is an established research facility focusing on applied science and technology. It announced a halal cluster in 2014 to entice companies that trade in halal products.¹⁵ Al Islami Foods is one of the companies that operate out of Dubai Technopark.

2. One zone supporting the digital Islamic economy:

- a. **DSO** — DSO has been mandated to support the development of digital Islamic companies, engaging start-ups through the Dubai Technology Entrepreneur Centre (Dtec).

Dtec is a technology incubation centre wholly owned by Dubai Silicon Oasis Authority (DSOA). Dtec offers technology entrepreneurs a creative and inspiring space in a vibrant setting offering flexible work solutions. To date, Dtec has attracted the interest of more than 600 start-ups from 63 countries. Nearly 40 percent of the entities are MENA-based, while Asian organizations make up 32 percent, European businesses 20 percent, American and Canadian firms 5 percent, and Australian establishments 3 percent.

14. 'JAFZA Roadshow in Japan Positions Jebel Ali Free Zone as the Halal Industry Hub', PR Newswire, June 2015.

15. 'Dubai sets sights on halal zones', The National, February 2014.

Featuring more than 5,000 square metres of interior designed space ranging from flexi desks to dedicated desk and fully furnished offices, Dtec is considered today as the largest technology incubation centre in the region. With 24/7 access, high speed internet, creative thinking and meeting zones and Freezone visas as standard. Dtec is truly a one-stop shop for starting your technology business in the UAE. Dtec is home to the Silicon Oasis Founders incubator. Silicon Oasis Founders offers venture capital seed stage funding along with a flexible programme including mentoring, strategic business planning, investor, legal and accounts support, all tailored to your particular business needs.

Dtec is located within Dubai Silicon Oasis at the intersection of Sheikh Mohammed Bin Zayed Road (E311) and Al Ain Road (E66), minutes away from Dubai International Airport, Dubai International Financial Centre and Downtown Dubai.

3. One zone supporting Islamic finance:
 - a. Dubai International Financial Centre (DIFC) — The DIFC is a financial hub in Dubai that supports Shariah-compliant global financial trade and exchange. The DIFC has established an Islamic rating agency and is comprised of many companies that offer a variety of Islamic banking products and services.
4. One zone supporting Islamic-themed media and recreation:
 - a. Dubai Production City (International Media Production Zone) — Dubai Production City offers a variety of services including media and film studios, which helped produce 'Bilal,' a 3D animated film by Barajoun.
5. Other — one zone supporting the overall Islamic economy:
 - a. Dubai Knowledge Park — Dubai Knowledge Park has also been a major proponent in driving the vision for Dubai to become the 'Capital of the Islamic Economy' and has established companies including Jardine Human Capital, which specializes in the recruitment of talent within the Islamic economy.

Expansion potential: Dubai also has significant potential by virtue of recent halal regulatory developments by ESMA, to introduce halal standards for other industries including cosmetics and pharmaceutical products.

United Arab Emirates — global Islamic economy metrics:

- Dubai further benefits from its proximity to Muslim consumers, spending US\$ 265 billion across the food and lifestyle sectors in 2014, which was amongst the highest of the 112 cities ranked in this report.
- The UAE was ranked the 2nd highest country on the Global Islamic Economy Indicator behind Malaysia, after the UAE government actively promoted initiatives to develop the global Islamic economy. These initiatives include supporting the Global Islamic Economy Index and hosting the Global Islamic Economy Awards and the Global Islamic Economy Summit annually.
- According to the 'State of the Global Islamic Economy Report 2016/17' sector rankings, the UAE was ranked the following:
 -  1st in halal food for its strong regulatory and compliance standards.
 -  2nd in Islamic finance.
 -  1st in modest fashion.
 -  1st in Muslim-friendly travel for its accelerated growth in Muslim-friendly hotels, while Dubai and Abu Dhabi have become international air transportation hubs.
 -  1st in media and recreation due to increased internet connectivity.
 -  1st in halal pharmaceutical and cosmetics.



2ND PLACE Kuala Lumpur, Malaysia

Kuala Lumpur, the most populated and capital city of Malaysia, is the leading Islamic economy-enabling free zone city in Southeast Asia and is home to 3 nearby halal hubs, aided by other strong performances on Islamic economy indicators.

Existing free zone activity:	There are 4 free zones within a 40-mile radius of Kuala Lumpur that offer incentives for companies in the financial services, pharmaceuticals and cosmetics sectors.
Halal hub activity:	Kuala Lumpur currently has 3 free zones that are designated halal hubs across the Islamic finance, pharmaceuticals and cosmetics sectors: - Two zones supporting Islamic finance: - The Malaysia International Islamic Financial Centre and the Labuan International Business and Financial Centre are headquartered in Kuala Lumpur and were developed as Islamic finance initiatives to offer incentives for banks and private sector companies who engage in international and domestic financial transactions. Companies located in these free zones include Bloomberg L.P., Bank Islam Limited, and Standard Chartered Bank. - One zone supporting halal pharmaceuticals and cosmetics: - The Techpark@Enstek is a recognized halal park near Kuala Lumpur that has dedicated halal facilities, which host halal pharmaceutical and manufacturing companies including AJ Pharma Holdings, which set up the first halal vaccine facility within the free zone.
Expansion potential:	Kuala Lumpur's robust Islamic financial services ecosystem and Malaysia's high ease of doing business score can foster funding opportunities for start-ups across the digital Islamic economy and Islamic-themed media sectors.
Malaysia – Global Islamic Economy metrics:	- The high rankings for cities in Malaysia is attributable to the country's 1st place position on the Global Islamic Economy Indicator. - Furthermore, Kuala Lumpur is in close proximity to US\$ 233 billion of Muslim spending across the food and lifestyle sectors in Malaysia and nearby countries as of 2014, which include Indonesia, Singapore and Vietnam. - There are a number of Malaysian initiatives that support the global Islamic economy, including the certification of halal parks by the HDC (Halal Industry Development Corporation). - According to the the 'State of the Global Islamic Economy Report 2016/17' sector rankings, Malaysia was ranked in the following areas: 5th in halal food. 1st in Islamic finance. 2nd in Muslim-friendly travel. 2nd in pharmaceuticals and cosmetics. - Malaysia's high rankings are due to the country's strong Islamic economy ecosystem, which has been established by notable regulators including the Department of Standards Malaysia (DSM) and the Department of Islamic Development in Malaysia (JAKIM).



Johor Bahru city view from top during dusk. TUAH ROSLAN / SHUTTERSTOCK.COM

3RD PLACE Johor Bahru, Malaysia

The Iskandar Regional Development Authority, which operates from Johor Bahru encourages free zone policies and activity in the city.

Existing free zone activity:	Johor Bahru is located in the Iskandar Development Region and has two free zones that are located within a 40-mile radius of the city.
Halal hub activity:	Johor Bahru currently has 2 free zones that are designated halal hubs across the halal food, pharmaceuticals and cosmetics sectors: - One zone supporting halal food: - The Iskandar Development Region was ranked as a top 10 free zone in the fDi Intelligence rankings in 2013. Johor Halal Park, also within close proximity to Johor Bahru and located in the region, is currently under development and has been accredited HALMAS by the HDC and will support the food sector in Malaysia. HALMAS signifies high quality and excellence in operations, and allows constituents of accredited parks to enjoy incentives that help existing and would be players in the Halal industry. - One zone supporting halal pharmaceuticals and cosmetics: - The POIC Tanjung Langsat Halal Park also operates near Johor Bahru and offers facilities supporting halal cosmetics manufacturers. An example of a company that operates out of the halal park is Musim Mastika Oil & Fats Sdn Bhd.
Expansion potential:	The halal facilities in the free zones in Johor Bahru attract caterers and hospitality providers in the tourism and healthcare industries.
Malaysia — global Islamic economy metrics:	Johor Bahru shares the same global Islamic economy country-level metrics as Kuala Lumpur and the city itself is in an ideal location — in close proximity to Muslims spending US\$ 233 billion across the food and lifestyle pillars.

3

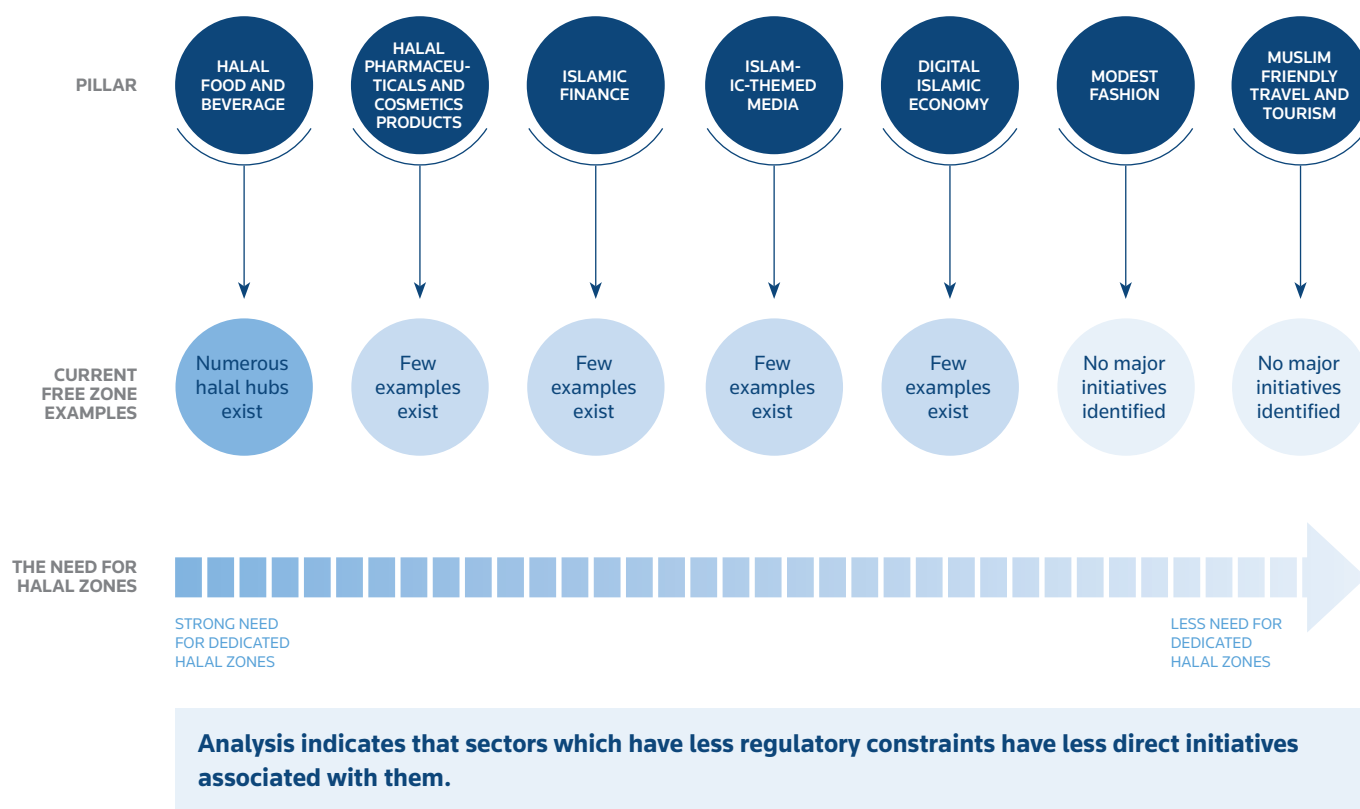
Opportunities and Considerations in Developing Islamic Economy-Enabling Free Zones

Overview

Free zones are an important tool in driving the growth and development of the pillars in the Islamic economy, but the extent to which they are used and the need to have dedicated halal zones, varies significantly from pillar to pillar.

While this report identifies free zones across 112 cities with existing activities in the Islamic economy, there remains substantial room for both Organisation of Islamic Cooperation (OIC) and non-OIC countries to develop tailored free zone strategies across the pillars of the Islamic economy.

FIGURE 1 CURRENT STATUS AND THE NEED FOR FREE ZONES BY ISLAMIC ECONOMY PILLAR



SOURCE: THOMSON REUTERS AND DINARSTANDARD SYNTHESIS AND ANALYSIS

Opportunities for food, pharmaceuticals and cosmetics pillars

The most plausible sectors for establishing dedicated halal free zones are those where the halal integrity of non-durable physical products is much needed, with initiatives to-date focused primarily around halal food hubs.

1. Halal food hubs are a well-developed concept and help to protect the integrity of the food supply chain.

Halal food hubs have been the main area of focus for dedicated free zones, with an early move by the **Port of Rotterdam** in Europe to set up a dedicated halal processing center, followed by Malaysia which sought to establish best practices in the operation of dedicated halal product free zones.

According to Dr. Mohamed Amin Mohd. Kassim, senior advisor to the Penang International Halal Hub, “Rotterdam had the foresight to set up a halal enclave in their European Container Terminal in 1993. In Malaysia, under the direction of the HDC, our goal job was to take it one step further.”

Existing halal food hubs contain dedicated areas in which halal food companies are co-located, including meat and ingredients suppliers and food processors. The hubs have been halal certified, and are subject to ongoing inspection by halal food certification bodies to ensure continued compliance.

Given the risk of contamination of food products, a halal dedicated facility or area that is separated and has clear halal guidelines for all occupant businesses to

follow would help safeguard the integrity of products and help companies gain credibility in Muslim-majority export markets.

Amir Sakic of the Agency for Halal Quality Certification commented, “The idea of a [halal hub] is that sometimes you need to concentrate in one place — in order to protect the integrity of halal and halal business. This conversation is particularly necessary in non-Muslim countries.”

2. Pharmaceutical and cosmetics products are a natural product progression for halal hubs, in particular supporting the development of halal gelatin for medicine production.

The development potential for pharmaceutical and cosmetics products has grown following the evolution of halal standards. Malaysia’s Department of Standards developed guidelines for halal pharmaceuticals in 2012 (MS 2424), and the ESMA introduced a halal mark for the certification of cosmetics in 2015.¹⁶

Discussing the distinct opportunities in gelatin production, Dr. Kassim commented, “If you look at gelatin 0.01% is produced via a halal process. Scholars are now saying we have the capabilities and should try to produce it as halal. You need a large facility that collects the bones of animals that have been slaughtered in a halal way and then the gelatin produced can be supplied to pharmaceutical companies in the consistency that is needed. That you can do in a free zone.”

16. All cosmetics sold in the UAE are halal by default: ESMA. Emirates 24/7, May 2015.



A bird's eye view of the Labuan Financial Park Complex of Labuan FT, Malaysia.
HKHTT HJ / SHUTTERSTOCK.COM

Opportunities for other Islamic economy pillars

Other Islamic economy pillars benefit from encouraging the co-location of companies in the same sector within a free zone, with notable examples. However, there is less of a need for a dedicated halal facility due to an inherent difference in the nature of products and services provided.

Islamic finance: Adding a cluster of Islamic finance service providers in finance sector free zones.

There are 3 leading finance free zones that include investment banks, Islamic fund and wealth management companies, banks,

Islamic banks, insurance companies, takaful companies, human capital development institutions, legal firms, rating agencies, accounting firms, and regulatory entities. The **Malaysia International Islamic Financial Centre** is a dedicated Islamic finance hub.¹⁷ There is a substantial concentration of Islamic banks and financial services providers in the **DIFC**, and the **Labuan International Business and Financial Centre** in Malaysia.¹⁸

Muslim-friendly travel: A dedicated focus on halal products can be added to tourism free zones, with halal product suppliers incorporated into existing halal hubs.

17. Gateway to Asia – Malaysia, international Islamic finance hub, PwC, 2010.

18. 'Malaysia tax haven Labuan to position itself as Islamic finance hub,' Gulf Times, June 2015.

1. Tourism services

There are numerous examples of existing tourism free zones, as well as plans to establish such zones in attractive OIC inbound tourism markets. For example, in 2015 Turkey developed plans to establish tax-free tourism zones in the Aegean and Mediterranean coastal provinces containing entertainment services and shopping malls, with no tax on shopping and accommodation, serving as a stopping point for cruise ships.¹⁹

Such tourism zones include Muslim-friendly service providers across accommodation, other facilities and products.

2. Halal food suppliers and caterers

Given the importance of halal food for Muslims, even when they travel, there is significant scope to include halal food catering companies that supply various touch-points in the Muslim travel experience in halal product hubs, alongside food, pharmaceuticals and cosmetics manufacturers.

Companies located in halal hubs would then have access to best practices and would also be able to serve a broad range of businesses, including hotels and airlines, thereby adding to the perceived integrity of the halal supply chain.

Islamic-themed media and the digital Islamic economy: A dedicated strategy in a broader sector-level initiative.

In both the media and digital sectors, Islamic economy activity could be best served in broader sector-related free zones that focus on developing tailored services for Muslims.

There are 3 specific media-related free zones, including **Twofour54** in Abu Dhabi and **Dubai Production City** in Dubai. They have demonstrably attracted Islamic-themed media companies.

While there are few examples of a dedicated Islamic economy media strategy with free zones, there is significant potential in this market. According to Michael Milo, CEO and founder of **Muslim Kids TV**, an online Islamic-themed channel and a digital Islamic start-up,

“I can see them [free zones] having the effect of an incubator where various supports are provided. Islamic media companies search for the most cost effective infrastructure because they have such resource limitations and many are not-for-profits. Strong subsidies would benefit these companies and could be used to attract them to locate.”

Commenting on how free zones could help Islamic-themed media companies to cooperate, Milo added, “currently Islamic TV channels dominate the Islamic media space. These channels are very spread apart geographically, as well as when it comes to cooperation. Most often they view themselves as competition. A free zone may overcome these challenges and benefit these companies through increased cooperation.”

Similarly, there is significant scope to support the development of digital Islamic companies within the construct of a broader digital economy strategy, particularly in OIC markets, such as the **DSO** and **Malaysia’s Digital Economy Corporation**.

Modest fashion: The potential to create finished products in existing textile zones.

Modest clothing does not need certification. Apparel is tailored to Islamic modesty needs at the final and advanced stages of manufacturing, which typically occurs outside of existing textile-related free zones. There is scope, however, to encourage the co-location of modest fashion brands and designers.

According to Dr. Kassim of PIHH, “there is definitely scope to come up with the finished [modest fashion] product in the free zones. This has potential in particular in Asia where they are producing hijabs in modern, colorful designs.”

De Praetere of Halal Balancing added, “perhaps you can make a small hub of designers and have it [clothing] produced like normal garments. You need to have a synergy of people, like in Silicon Valley where you have a lot of younger people. Working together inspires and often realizes the impossible.”

19. ‘Tax-free tourism zones to be established,’ Daily Sabah, 2015.

Considerations in establishing free zones

There are a number of considerations to successfully establishing Islamic economy-enabling free zones.

1. Determining need and viability in light of alternatives and getting investors on board

In establishing a free zone that is either fully or partly dedicated to halal activities, a careful assessment is required as to what advantages the free zone itself will have. Establishing a zone that captures the broad supply chain for products — or a “vertical” business cluster — requires significant effort to coordinate and to date has only successfully been accomplished in OIC countries, notably Malaysia and the UAE.

Koen De Praetere of Halal Balancing offered a note of caution when interviewed. “The challenge is to define your advantage. If the main advantage is the clustering, this advantage may be limited to smaller companies lacking access to halal information. Logistic advantages of clustering seem to be limited as it is highly unlikely that all raw materials needed will be within that free zone. That is a lot of ‘ifs’ for me.”

There may also be lack of a critical mass for for halal business, particularly in non-OIC countries, to establish scalable free zones, with De Praetere added “most companies in Europe are doing mixed productions. Typically, the non-halal business is the biggest part and supports the business. The halal part is usually a fast growing niche market, but too small to justify dedicated facilities.”

Establishing a viable business case is critical to bringing investors on board. While Dr. Kassim indicated that the right proposition would “help pull in funds from other Muslim countries”, the viability of halal zones has not always been clear. Amir Sakic of the Agency for Total Halal Quality Control commented on the plans to develop a halal hub in Bosnia

which failed to materialize, “The [halal park] project itself did not succeed — the owner of the property ultimately pulled out and moved onto other initiatives.”

However, for other Islamic economy pillars there is significant scope to develop a focus within existing free zones and to take advantage of financial incentives to promote business development and the sharing of best practices. De Praetere, hinting at the broader potential across the Islamic economy pillars added, “if free zones remove or lower business barriers in a sustainable way, they will work.”

2. Ensuring appropriate separation of halal and non-halal products

In order to ensure the viability and acceptability of of halal products produced in a free zone, close supervision is required to ensure the handling of such products is separated, including separate inbound and outbound logistics.

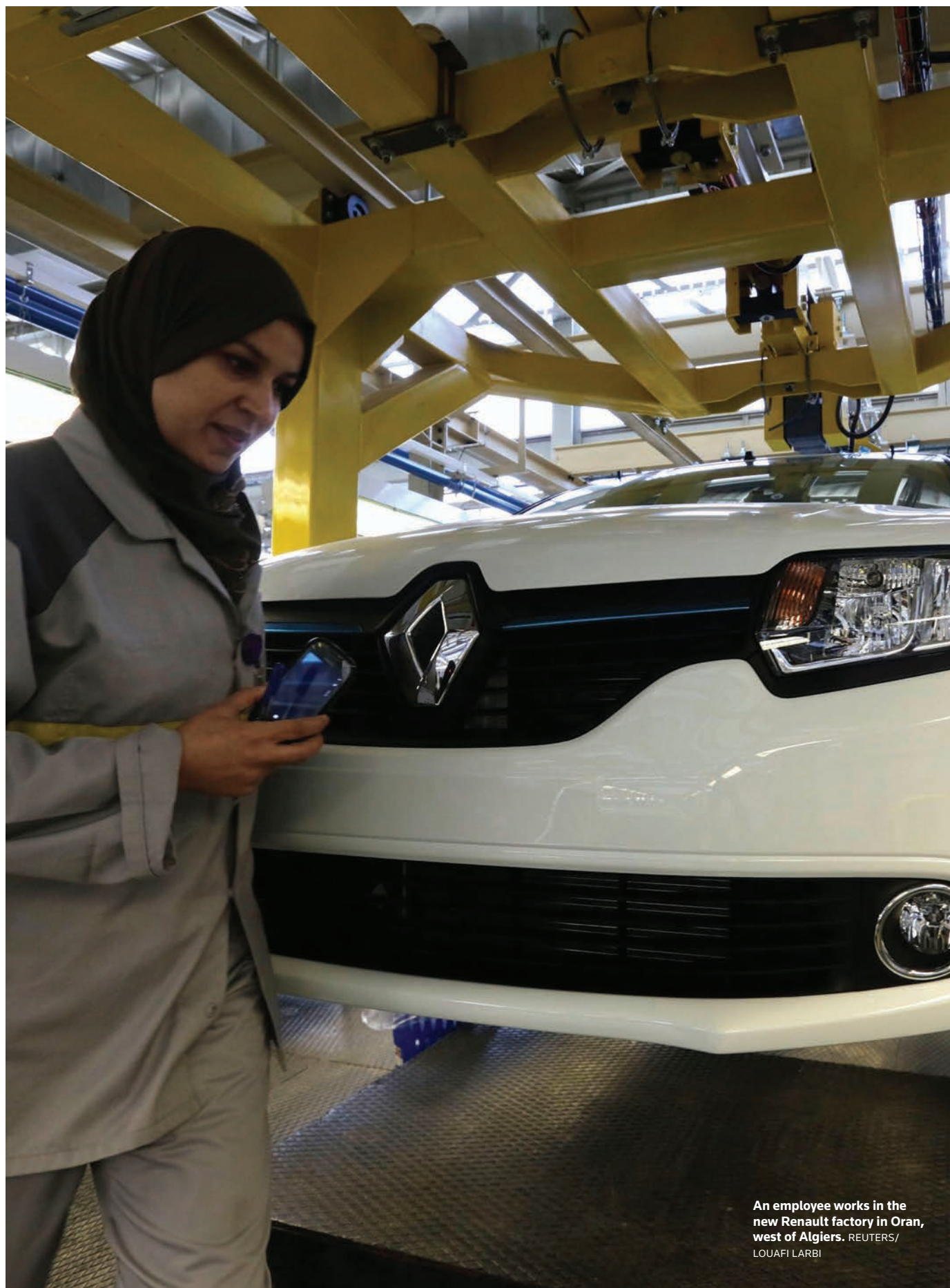
However, this is not easy to accomplish and requires careful supervision. According to Dr. Kassim, “in non-Muslim countries it’s harder to have one body oversee halal initiatives. Anything related to halal must be diverted to the hub and handled properly.”

3. Managing anti-Muslim sentiment

Strong anti-Muslim sentiment may restrict the potential of halal hubs in non-Muslim countries, and this is a risk that needs to be managed through clearly communicating the benefits of such initiatives externally.

De Praetere commented, “halal dedicated hubs outside Muslim countries may not be viable as many non-Muslims will never touch halal products.”

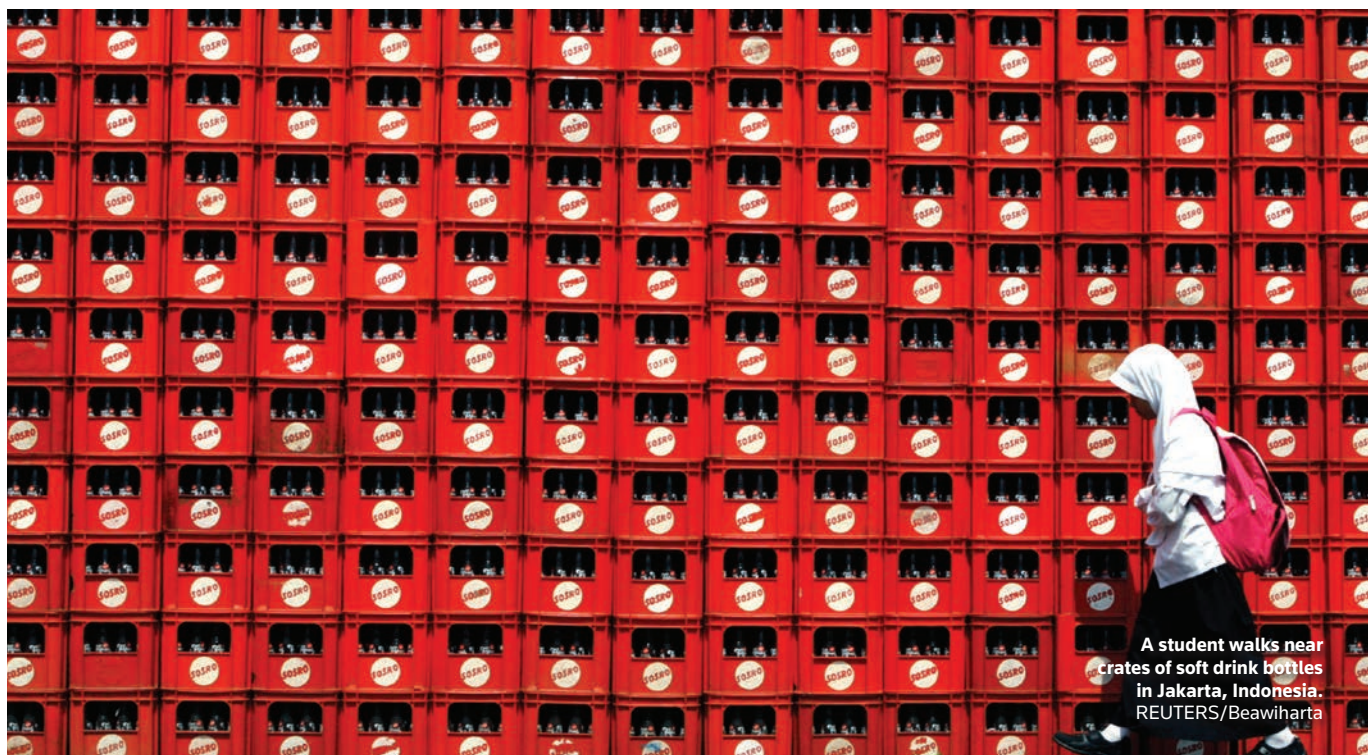
Dr. Kassim added, “Muslims are living all over Europe today. However some of those European countries are quite averse to having a halal project.”



An employee works in the new Renault factory in Oran, west of Algiers. REUTERS/ LOUAFI LARBI

4

Islamic Economy Free Zone Activity By Sector



A student walks near crates of soft drink bottles in Jakarta, Indonesia. REUTERS/Beawiharta

Halal food free zone activity

Overview

This report has identified 30 halal hubs, of which 21 are food-related halal hubs and a further 2 halal hubs that also focus on pharmaceuticals and cosmetics. Malaysia leads the count with 11 halal hubs, followed by the UAE with 8 halal hubs, of which 7 have been highly ranked by fDi Intelligence.²⁰

Introduction to halal food free zone activity

There are 4 OIC countries that have been identified that currently operate free zones for the halal food industry. In Malaysia, there are currently 8 halal food designated hubs, followed by the UAE with 3, Brunei with 2 and Pakistan with 1.

Brunei's Bio Innovation Corridor and the Brunei-Guangxi Economic Corridor were developed to support halal brand initiatives in Brunei. Pakistan's Faisalabad Halal Food Processing Zone has launched a halal industrial food zone and a halal cosmetics zone to provide adequate infrastructure in Pakistan that meets global halal standards.²¹

There are a number of ports in non-OIC countries that hold approved halal certificates and provide facilities for companies that are handling halal food and beverage products. The Port of Rotterdam is the pioneer European port and the largest port in the world to receive a halal certificate in the Netherlands. Other notable ports that have worked to provide services for the halal food market in non-OIC countries include the Port of Marseille in France, the Port of Zeebrugge in Belgium, the Port of Suape in Brazil and the Port of Positra in India.²²

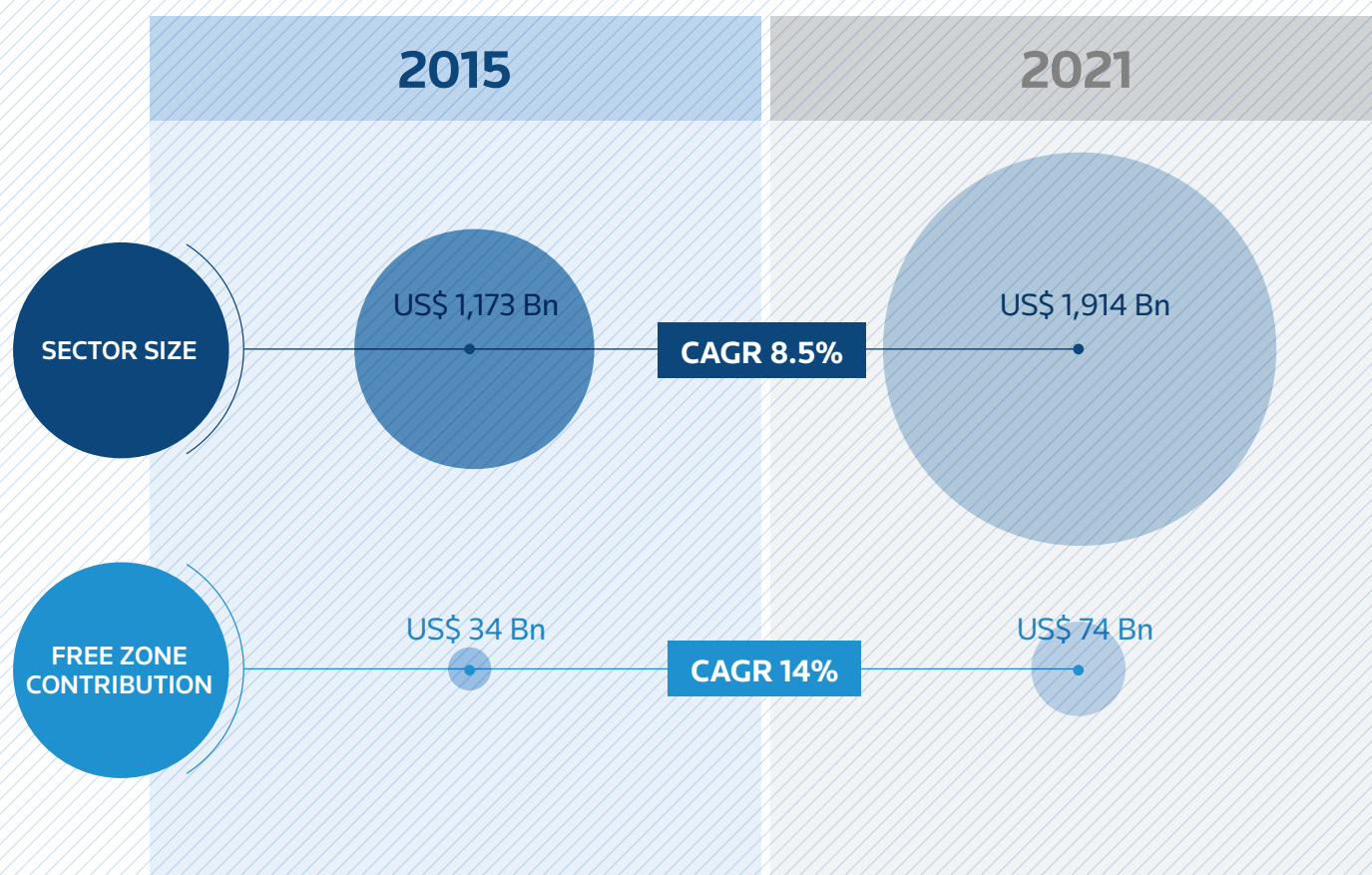
There are also standalone industrial centers and processing centers that provide halal services in China and Thailand. China's Wuzhong Halal Food Muslim Products Industrial Park and Thailand's Pattani Halal Industrial Center are examples of halal food processing centers that cater to companies that manufacture halal products in non-OIC countries.

20. Global Free Zones of the Future 2012/13 & Global Free Zones of the Year 2015 — Winners, fDi Intelligence, 2015.

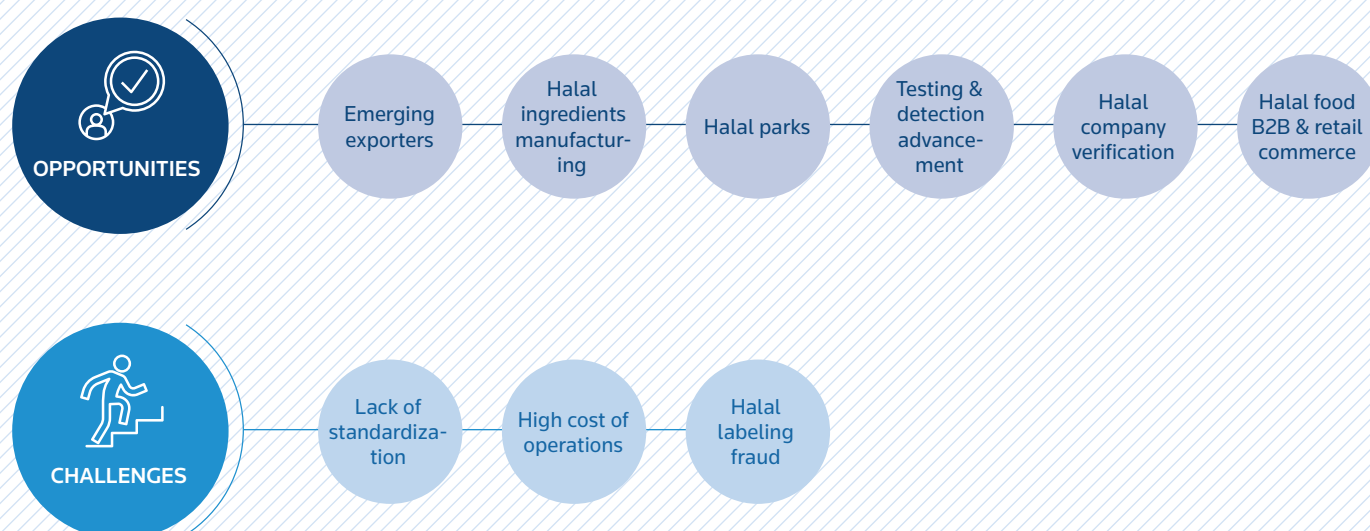
21. Faisalabad Industrial Estate and Management Company website.

22. 'Emerging Research on Islamic Marketing and Tourism in the Global Economy', IGI Global, 2015.

FREE ZONE CONTRIBUTION TO HALAL FOOD SECTOR



OPPORTUNITIES AND CHALLENGES FACING THE HALAL FOOD SECTOR THAT CAN POTENTIALLY BE ADDRESSED BY FREE ZONES





Evening Skyline of Georgetown in Penang, Malaysia. LENISECALLEJA. PHOTOGRAPHY / SHUTTERSTOCK.COM

Halal Food: Dubai, UAE

Free Zone Case Study: Jebel Ali Free Zone (JAFZA)

Description: JAFZA was the runner-up in the 2015 fDi Intelligence Middle East regional rankings. JAFZA has over 7,500 tenants who employ over 160,000 people.

Physical size: Over 300 hectares.

Key halal features: The development of a halal zone was announced in 2014 by JAFZA during an international roadshow showcasing its expertise with the halal supply chain.

Example companies: ARA Foods Middle East, Eurofood FZCO, Food Specialties Limited, Golina Food FZE, Iceland Foods Middle East.

Sectors: Food and beverage manufacturing, transportation, hospitality, tourism, logistics.

Muslim lifestyle spend accessible from city (US\$ in billions): US\$ 265 billion.

Expansion potential: The halal supply chain expertise from JAFZA can also cater to the halal pharmaceuticals and cosmetics industries.

Halal Food: George Town, Malaysia

Free Zone Case Study: Penang International Halal Hub

Description: The Penang International Halal Hub is a Malaysian halal park that covers the food and beverage processing industry.

Physical size: 40 hectares (100 acres).

Key halal features: The Penang International Halal Hub was accredited by HALMAS, which allows companies operating within the free zone to qualify for incentives developed by the HDC. Penang also has halal warehouse and cold chain facilities. The Penang Port in the hub is the first port in Malaysia to achieve the standard MS1900:2005 “Quality Management Systems — Requirements from Islamic Perspectives”, for providing container handling services and dedicated warehouse services within Penang Port.²³

Example companies: Aromacom Sdn Bhd (canned food and beverages), Everbest Soya Bean Products Sdn Bhd (soya products) Swiss Confiserie Sdn Bhd (bakery products), and D’nounce Biofoods Sdn Bhd (herbs extraction).

Muslim lifestyle spend accessible from city (US\$ in billions): US\$ 233 billion.

Expansion potential: The halal standards achieved by the Penang International Halal Hub may also attract companies from other sectors, including halal pharmaceuticals and cosmetics sectors.

23. The Global Market Potential of Halal, Halal Research Council, 2011.



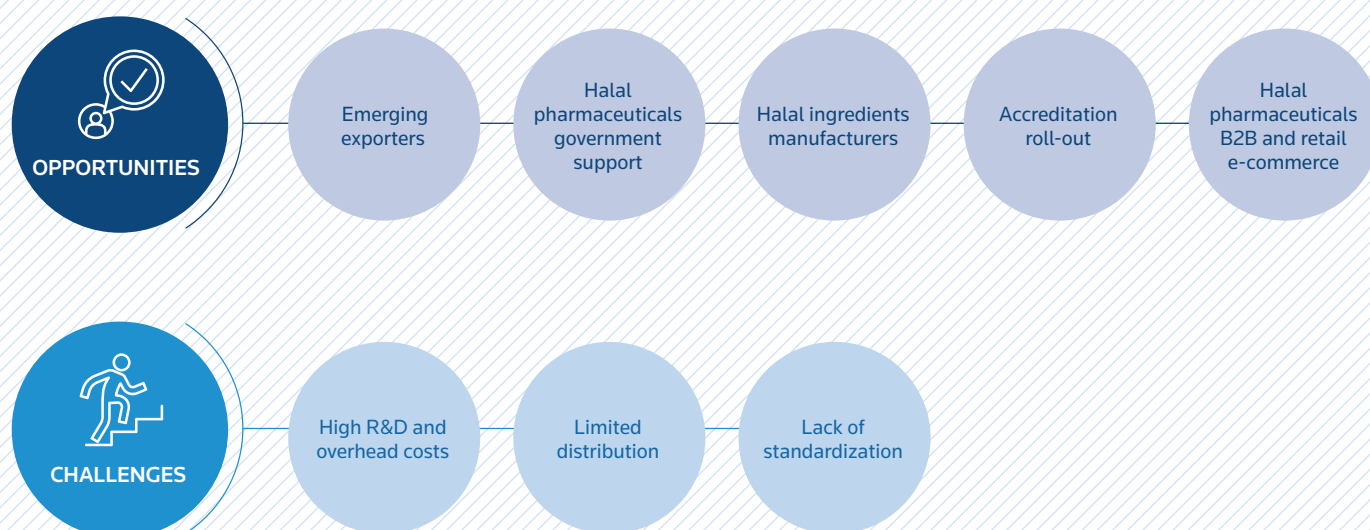
Halal pharmaceuticals and cosmetics free zone activity

Kuala Lumpur and Johor Bahru in Malaysia represent the top halal pharmaceuticals and cosmetics industry-enabling free zone cities. These two cities in Malaysia have halal pharmaceuticals and cosmetics free zones and are within close proximity to Muslim lifestyle consumer markets. The first halal vaccine facility was established in Malaysia. The parks, which support pharmaceuticals and cosmetics

manufacturers, have been designated halal by the HDC in Malaysia.

However, with close proximity to Muslim consumers and robust ecosystems supporting the development of halal pharmaceuticals and cosmetics products, there is substantial opportunity to establish dedicated halal free zones in Egypt, Singapore, Jordan and Pakistan.

OPPORTUNITIES AND CHALLENGES FACING THE HALAL PHARMACEUTICALS AND COSMETICS SECTORS THAT CAN POTENTIALLY BE ADDRESSED BY FREE ZONES



Halal Pharmaceuticals and Cosmetics: Kuala Lumpur, Malaysia

Free Zone Case Study: Techpark@Enstek

Description: Techpark@Enstek is an industrial hub developed to cater for high technology industries by the National Halal Accreditation Center and National Institute of Natural Products, Vaccines and Biologicals for the Ministry of Health in Malaysia.

Physical size: 194 hectares (480 acres).

Key halal features: Techpark@Enstek was accredited HALMAS by the HDC in Malaysia and hosts the first halal vaccine facility.

Example companies: AJ Pharma Holdings Sdn Bhd, Novugen Pharma, Pharmacopia Company, Getz Pharma Malaysia Sdn Bhd and Fresenius Medical Care Malaysia Sdn Bhd.

Sectors: Ingredients manufacturing, pharmaceuticals, snacks, fragrances, sauces and condiments.

Muslim lifestyle spend accessible from city (US\$ in billions): US\$ 233 billion.

Expansion potential: The halal vaccine facility in Techpark@Enstek could facilitate additional pharmaceutical investments by Islamic finance firms.

Free Zone Case Study: POIC Tanjung Langsat

Description: POIC Tanjung Langsat is a halal park that houses 5 companies.

Physical size: 113 hectares (280 acres).

Key halal features: POIC Tanjung Langsat Industrial Complex was accredited HALMAS by the HDC in Malaysia and provides halal services for cosmetics companies.

Example companies: Evyap Sabun Malaysia Sdn Bhd, Inno-Wangsa Oils & Fats Sdn Bhd and Musim Mastika Oil & Fats Sdn Bhd.

Sectors: Biodiesel, personal care.

Muslim lifestyle spend accessible from city (US\$ in billions): US\$ 233 billion.

Expansion potential: Halal services in the POIC complex can also service halal food companies in Kuala Lumpur.



Quality check of the tablets.

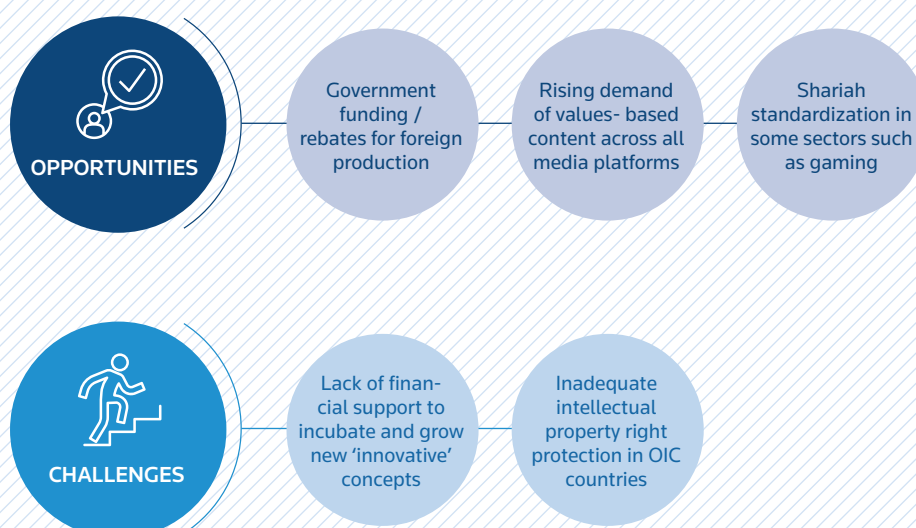


Islamic-themed media free zone activity

There are 2 Islamic-themed media free zones in the UAE and 1 Islamic-themed media free zone in Egypt. These free zones provide media, film, design, and production services and facilities that are appropriate for companies that focus content on cultural and religious traditions in Islam.

Expansion potential: There are also significant opportunities for expansion in Saudi Arabia, Turkey and Indonesia, which currently operate dedicated Islamic-themed TV channels with Islamic programs and content. Dedicated Islamic-themed free zones in these countries can provide incentives for international Islamic-media companies to expand.

OPPORTUNITIES AND CHALLENGES FACING ISLAMIC-THEMED MEDIA SECTOR THAT CAN POTENTIALLY BE ADDRESSED BY FREE ZONES



Islamic-themed Media and Recreation: Dubai, UAE

Free Zone Case Study: Dubai Production City (formerly known as International Media Production Zone)

Description: Dubai Production City was launched in 2003 to enable global and local publishing, printing, and packaging industries to foster growth in media production.

Physical size: 400 hectares.

Key halal features: Houses Islamic-themed media producers — notably Barajoun (producers of 'Bilal').

Example companies: Semantics Global Media, Nasir Rauf Photography Solutions, Sony Professional Solutions and Squad Digital Middle East.

Sectors: Media, graphic design, publishing, packaging.

Muslim lifestyle spend accessible from city (US\$ in billions): US\$ 265 billion.

Expansion potential: There is significant scope to attract a broader range of Islamic-themed media production companies, as well as channels.

Islamic-themed Media and Recreation: Abu Dhabi, UAE

Free Zone Case Study: Twofour54 (Media Zone Authority)

Description: There are over 400 companies that operate in the TwoFour54 free zone, which was highly commended as a media free zone by fDi Intelligence in the Middle East.

Physical size: 50 to 100 hectares (600,000 square meters).

Key halal features: Numerous Ramadan dramas including Hob Fe Al Arbaeen, and culturally and religiously significant media projects such as children's show Iftah Al Yasim.

Example Companies: Ajyaal Media, Al Mohra Production, Al Yamama TV Production, Aldar TV Channel, Cartoon Network, CNN and Qvest Arabiya.

Sectors: Film, broadcasting, music, digital media, events, gaming and publishing.

Muslim lifestyle spend accessible from city (US\$ in billions): US\$ 265 billion.

Expansion potential: There are significant opportunities for digital Islamic economy players in TwoFour54 to use media facilities to advance marketing initiatives, as well as to attract more Islamic-themed media companies.

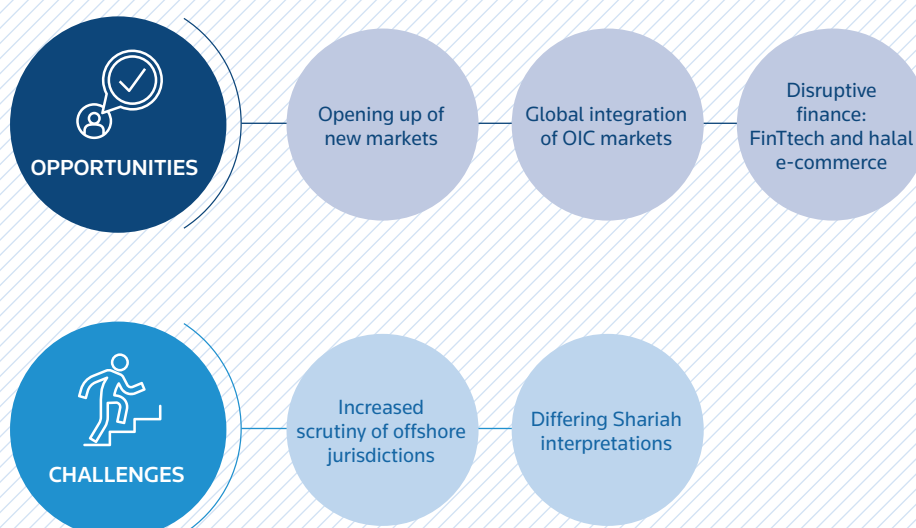


Islamic finance free zone activity

Malaysia and the UAE house leading Islamic financial centers, which are promoted through government initiatives. Dubai's lead position is

driven by initiatives from the DIFC to become a global hub for Islamic finance.

OPPORTUNITIES AND CHALLENGES FACING THE ISLAMIC FINANCE SECTOR THAT CAN POTENTIALLY BE ADDRESSED BY FREE ZONES



Islamic Finance: Dubai, UAE

Free Zone Case Study: Dubai International Financial Centre (DIFC)

Description: The DIFC is a financial hub with a strong ecosystem that includes an independent regulator, global financial exchange, business support services and a robust infrastructure.

Physical size: 44 hectares (110 acres).

Key halal features: The DIFC Authority has engaged in Islamic finance initiatives including establishing the Islamic Finance Advisory Council in 2005, establishing an Islamic rating agency in 2006 and supporting further development of the Islamic finance sector in the Middle East.

Example companies: Credit Suisse AG, AIG MEMSA Holdings Inc., BNY Mellon Asset Management, International, Standard Chartered Bank and Bloomberg L.P.

Sectors: Banking services, asset management, insurance and Islamic finance.

Muslim lifestyle spend accessible from city (US\$ in billions): US\$ 265 billion.

Expansion potential: Dedicated Islamic finance firms in the DIFC are able to provide funding opportunities for all other Islamic economy sectors.

Islamic Finance: Kuala Lumpur, Malaysia

Free Zone Case Study: Labuan International Business and Financial Centre

Description: Labuan International Business and Financial Centre is a special economic zone that boasts a range of business and investment structures, facilitating cross-border transactions in a business-friendly environment.

Physical size: Over 1,000 hectares.

Key halal features: Labuan International Business and Financial Centre offers Shariah-compliant Islamic insurance services and Islamic banking.

Example companies: ASEAN Retakaful International Ltd., Al Fajer Retakaful Insurance Company K.S.C.C., Etiqa Offshore Insurance, The Dalwa Bank, Bank Islam Limited and The Bank of Tokyo.

Sectors: Business and financial services, Islamic banking, insurance and commodities trading.

Muslim lifestyle spend accessible from city (US\$ in billions): US\$ 233 billion.

Expansion potential: Labuan's International Business and Financial Centre can support international trade and funding opportunities for companies in Islamic economy sectors.



Digital Islamic economy free zone activity

In line with Dubai's leadership vision of making Dubai 'The Capital of Islamic Economy', DSOA was mandated to support "Islamic Digital" and "Arabic Content" initiatives and has already been making considerable headway with its commitment to supporting start-ups engaged in these domains through the Dtec, DSOA's wholly owned entrepreneurship centre and the largest of its kind in the region.

While Malaysia currently does not have dedicated digital Islamic free zones, there are a number of initiatives, specifically in Kuala Lumpur, which have been established to identify and accelerate local start-ups, including the Malaysian Digital Economy Corporation for general digital technology companies within the region. Another example is the Malaysian Global Innovation & Creativity Centre, which supported the start-ups Trip on Halal and Qur'an Academy.

Digital Islamic Economy: Dubai, UAE

Free Zone Case Study: DSO

Description: DSO is a government-owned free zone, established in 2005 to "facilitate and promote modern technology-based industries",²⁴ and is designed as a hi-tech ecosystem to offer entrepreneurial support, an incubation center and venture capital funding.

Physical size: 720 hectares (7.2 million square meters).

Key halal features: DSOA and the Dubai Islamic Economy Development Centre have collaborated to develop reports and host events to promote growth of the digital Islamic economy in the emirate, notably the 'Innovation 4 Impact' competition in 2015 and 2016.

Example companies: Awareness Technology Inc., Bcode Software, Emirate Venture Capital Limited and Innoventures Middle East FZCO.

Sectors: High-technology, digital, IT services and venture capital.

Muslim lifestyle spend accessible from city (US\$ in billions): US\$ 265 billion.

Expansion potential: DSO is in a prime position to develop dedicated accelerator programs for start-ups addressing Muslim needs, following a similar model to Affinis Labs in the US, which has supported several digital Islamic start-ups in the last year, including crowdfunding site, Launchgood, and Islamic dating app Ishqr.

24. DSO website, <https://www.dsoa.ae/en/about-dubai-silicon-oasis/>, accessed on July 25, 2016.



Emiratis look at technology exhibits at the Museum of the Future. REUTERS/NOAH BROWNING

Modest fashion and Muslim-friendly tourism free zone activity

In this report, we have not identified free zones that specifically cater to the modest fashion and Muslim-friendly tourism industries. However, in OIC countries, a number of opportunities have been identified that support these sectors' potential to expand.

Muslim-friendly tourism expansion potential:

Dubai's JAFZA is designated halal primarily for its food services, but may also impact the high level of tourism within the UAE. There are Muslim-friendly hotels located in JAFZA, including the Ramada Hotels Downtown and the Gloria Hotel. The UAE's high score on the Muslim-friendly tourism indicator also sets it apart from other countries.

In addition to the UAE, Bahrain, Singapore, Jordan and Malaysia have significant potential to facilitate Muslim-friendly tourism within free zones; buoyed by strong Islamic economy ecosystems that support the tourism sector, as well as a close proximity to Muslim consumers.

Modest fashion expansion potential:

The UAE, Indonesia and Jordan present significant opportunities for free zones, although there are no dedicated modest fashion free zones within these countries. Dubai's JAFZA hosts modest fashion companies, while the UAE has a strong modest fashion country indicator score. There is significant potential to create hubs within existing textile zones; and as such Singapore, Egypt, Bangladesh and Turkey have considerable potential to encourage modest fashion activity in existing free zones.

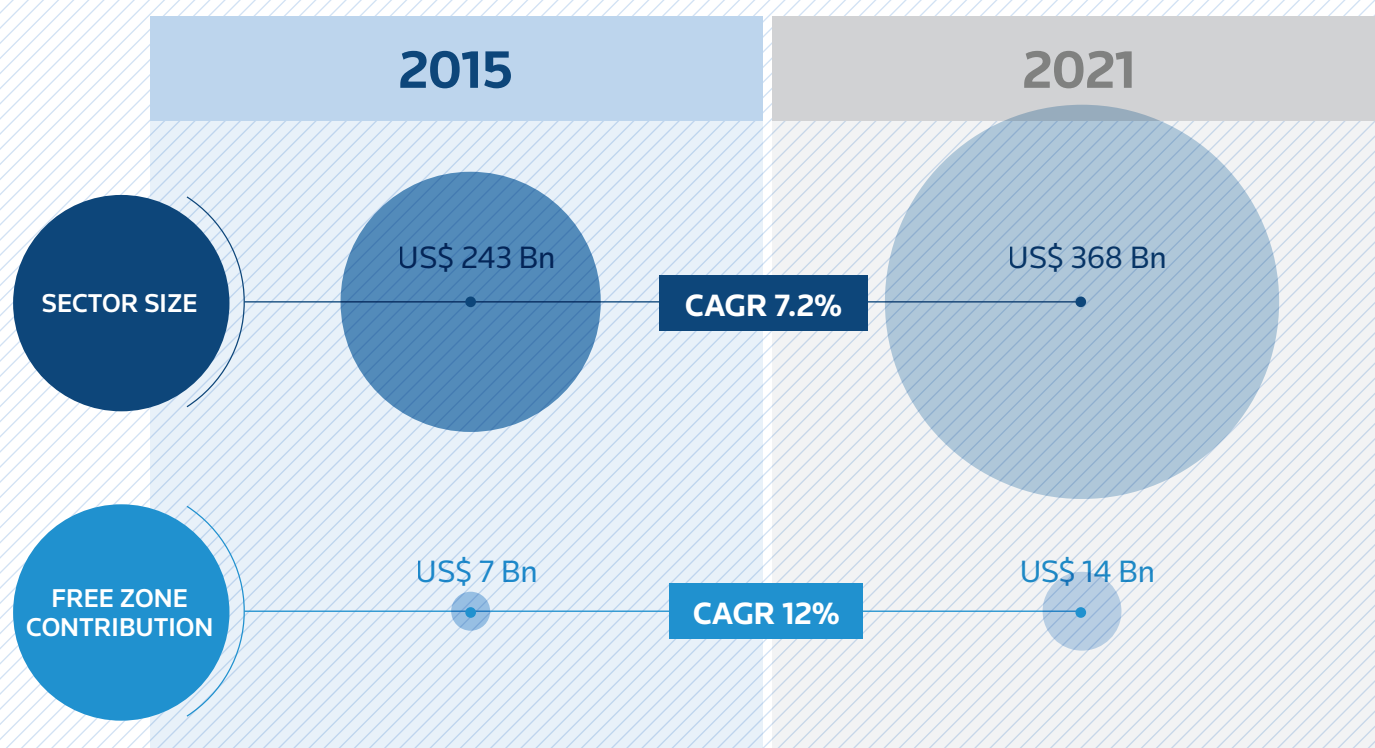
In Jakarta, Indonesia, ModernCikande Industrial Estate is a free zone dedicated to fashion and has been highly commended in the fDi Global Free Zones of the Year — 2015. Indonesia's modest fashion sector has also seen robust growth and that is reflected through its modest fashion indicator score.²⁵

25. "Indonesia's modest fashion designers are rocking the international runways," Salaam Gateway, http://www.salaamgateway.com/en/fashion-art-design/story/indonesias_islamic_modest_fashion_designers_are_rocking_the_international_runways-salaam20032016053027/, accessed on July 25, 2016.



A model walks on the runway for Anniesa Hasibuan collection during New York Fashion week at Moynihan station, New York, USA. LEV RADIN / SHUTTERSTOCK.COM

FREE ZONE CONTRIBUTION TO MODEST FASHION SECTOR



OPPORTUNITIES AND CHALLENGES FACING THE MODEST FASHION SECTOR THAT CAN POTENTIALLY BE ADDRESSED BY FREE ZONES



OPPORTUNITIES AND CHALLENGES FACING THE HALAL TRAVEL SECTOR THAT CAN POTENTIALLY BE ADDRESSED BY FREE ZONES



5

Interviews



Amir Sakic

Director, Agency for Halal Quality Certification, Bosnia

Director of Halal Quality Certification in Bosnia and Herzegovina Amir Sakic has been heading the company since its establishment in 2006. Amir is a certified lead auditor for halal products and also actively supports the development and implementation of halal standards. He also participates in international organizations supporting halal initiatives, including the Institute for Standards Bosnia and Herzegovina, AHC (European Association of Halal Certifiers), SMIC (Institute for Metrology and Standards of Islamic Countries). Amir Sakic is a qualified Imam, Khateeb and Muallim since 1991.

Tell us about the halal hub initiatives in Bosnia

We did have a private initiative for halal hubs in Bosnia — but the project did not succeed. It was set up at the beginning of the financial crisis and then it became difficult to find investors. Also the project itself was too slow. But, several companies were interested in investing.

Why is there a need for halal hubs?

From my understanding the two main reasons are to protect halal integrity and to boost the business.

The idea is that sometimes you need to concentrate in one place in order to protect the integrity of halal and halal business. Arguably there may be less of a need in Muslim countries, but this conversation is certainly necessary in non-Muslim countries.

What are other key considerations in setting up halal hubs?

You need to look at the type of product, such as the source of raw materials, before deciding whether a business needs to be in a dedicated free zone-type area or somewhere else.

Free zones may sound attractive from a marketing perspective, but in a real sense it is hard to set it up in terms of production. It is a difficult topic and it should be considered alongside other obstacles that the business would face.

“You need to look at the type of product, such as the source of raw materials, before deciding whether a business needs to be in a dedicated free zone-type area or somewhere else.”



The Capital City Of Bosnia
And Herzegovina — Sarajevo
by night.



Dr. Mohamed Amin Mohd. Kassim

Corporate Advisor, Penang International Halal Hub

Dr. Mohamed Amin Mohd. Kassim has worked in the logistics and freight transport industry for over 30 years. Dr. Mohamed is currently the Deputy Managing Director of Century Logistics, a pioneering integrated logistics provider recognized by the Malaysian government. Dr. Mohamed also serves as a corporate advisor for the Penang International Halal Hub in Malaysia and works to develop policies and solutions, to upgrade regional logistics development and human capital through education and training. Dr. Mohamed holds a PHD in supply chain management from the University of London.

Why are free zones so important?

Free zones are important when you talk about international trade — where you effectively need to “hub” cargo. Products may come from different countries, but those countries may not be the best places to ship out to others.

So you need a place to bring ingredients and commodities together and come up with a final product. A zone where the tax scenario is friendlier can attract investors to set up there. Likely these hubs will be very close to or linked to onward hubs for shipment.

Also, free zones tend to bring in investors that invest in production. For a long time, India had been difficult for investors to come onboard due to strict currency controls. However, in the last 5-7 years the country started using free zones and also bringing in foreign investment and it has been very successful in doing this.

Please provide an overview of halal hubs, how they became a phenomenon in Malaysia and what has your role been?

First of all, we are not the first to look at halal logistics — in fact the Dutch did it before this. They created a portion of the Rotterdam port to handle halal.

Rotterdam — they had the foresight — to create a halal enclave in 1993 inside of a free zone, with 60% of their products being halal. Our job in Malaysia was to take it one step further. In Malaysia and other Muslim countries it is easier to have one body to oversee everything. In other countries, it is harder to have one body. So it becomes an issue — are those bodies in non-Muslim countries doing it for profit or for pure reasons?

As the volume of products increased not all facilities could cater to halal products

properly. There was some talk about how we could create specialized halal hubs where only halal products are being handled. It started out from the ports themselves, led by Rotterdam. Anything related to halal is diverted to the hub and handled properly.

But when it comes to trade hubs, such as e-commerce, you need a place to store the goods. They need to be handled in a more economical way.

Penang is part of Malaysia, but we view it independently as a state. The whole of Penang wanted to become a halal state. So they made me a corporate advisor for the HDC in Malaysia and occasionally I am invited to discussions.

What are some of the major success factors for Islamic economy free zones, especially those focused on halal products?

First of all, the location of the facility is important. You must be very close to a terminal — both a sea port and an airport should be close by.

The situation will depend on 2-3 things — one being where you are bringing products and commodities. It is OK if that is far from source as long as the market is closer.

If you look at gelatin — only 0.01% is a halal-related process. For a long time — because of its use in medicines, people have said it is permitted. But today the scholars are saying we have the capabilities. They may want us to provide the source ingredients, but it must be from the bones of animals that have been slaughtered in the halal way. Where can you find the abattoirs where you debone and send bones to a hub or free zone to create gelatin? The gelatin can be fed to pharmaceutical companies as long as supply is consistent.

So this is something with potential — the question is where will it happen in a big way?

But many of the promoters of free zones do not want to wait too long before companies are operational in the zone and it is up and running. They may end up dedicating only half to halal.

What is Dubai's potential to succeed with a free zone strategy to support the Islamic economy?

Let's look at Dubai — it has created a very vibrant economy through its ports and airports.

Over the last three years there has been a big move by the government to invite more entrepreneurs and industrialists to Dubai.

For me, although I have not personally conducted an audit, Dubai should be doing well as they have the funds and the logistics hubs — it is about inviting the right industrialists.

What potential is there to establish free zones for the modest fashion sector?

Globally there is currently an anti-Islamic sentiment. But in Asia it is a very different thing, even in Vietnam. They are producing Hijabs — modern, colorful designs to meet the younger generations' requirements. However, Indonesia, Thailand, Vietnam, as well as the Middle East are seeking to address the opportunities in modest fashion.

When we think about locations such as China, Sri Lanka, Vietnam and Indonesia, they can prepare the textiles and just need to come up with the finished product inside the free zones. It can also be done very easily on the Indian subcontinent.

“A zone where the tax scenario is friendlier can attract investors to set up there. Likely these hubs will be very close to or linked to onward hubs for shipment.”



Koen De Praetere

CEO, Halal Balancing

Koen De Praetere is the founder of Halal Balancing and has extensive experience working with international food companies to improve general management, operational, commercial and change management strategies in Europe, Asia, South America, and the Middle East. Koen founded Halal Balancing in 2010 to provide expert assistance for companies entering the worldwide halal market. Koen holds a master's degree in agriculture, food industry, food chemistry and chemistry and a master's degree in business administration.

Why are free zones important and what is driving the overall increase in their number?

I personally do not have much experience of free zones, but to me the key element is whether or not there are some financial advantages or synergies relevant to one's business. If free zones remove or lower some business barriers in a sustainable way, it will work. And within the halal context, there should be some real halal synergies to make it a success.

Why are they important for the Islamic economy and which free zones are currently most successful?

Free zones, apart from financial support, usually will try to create horizontal synergies: providing some general services that are beneficial to the different businesses within the free zone.

Next to horizontal synergies, there are also vertical synergies: synergies within a business segment or in other words, the synergy within the supply chain.

So the question boils down to what is most beneficial to the Islamic economy: a horizontal or vertical synergy — synergy of clustering halal businesses or the synergy of a halal supply chain? And is this advantage sustainable?

My biggest concern, from a European perspective, has always been of establishing a halal supply chain. Raw materials and ingredients come from all over the world, so it takes a lot of effort to create reliable halal supply chains.

Free zones cluster businesses together to create synergies. This is what most people would think would happen. So a lot depends on what kind of halal synergies the free zone can create and how sustainable it is.

There is not so much innovation in halal itself; its rules are clear and do not change. But halal execution may differ as expectations of Muslim consumers are not always the same. This complicates the creation of sustainable halal synergies within a certain free zone. And what do I do if I can find a better quality supplier outside of the free zone? Furthermore, halal is just an enabler not a qualifier. One does not win a customer because one is halal, one wins the customer because the product or service is better liked by that customer. Being halal is only the entry ticket to be allowed into the Islamic economy, but it is not the winning ticket.

I tend to compare it a bit with food safety. To be in the food business you need to have safe food. But this cannot be the marketing message, otherwise NASA's food or hospital food would sell the most. The same goes for halal: it should be halal, but being halal will not give you any competitive advantage over other products or services that are halal or 'better' halal. The product or service will have to make the difference.

But to achieve high food safety levels, most countries focus on establishing supply chains of safe food, not 'Safe Food' free zones. Vertical synergies seem to be more important than the horizontal ones, which usually boils down to providing a structure for training and (halal) knowledge transfer. This can also be organized outside free zones.

So an important question will remain: is an economic free zone a success because something is free, or because of the halal synergy it is generating?

Therefore, it may be difficult for halal parks in Muslim countries to generate sustainable synergies — it is already halal. So the non-halal advantages may be the drivers of success. In non-Muslim countries however, it may make some sense, in the right business environment.

What potential is there to develop free zones that support modest fashion?

I would wonder even more about modest fashion. As far as I see it is more about how to respect the views on clothing and so on and less about how it is produced. Perhaps you can make a small hub of designers to nurture a creative environment and have it produced like normal garments.

I do believe in the synergy of people working together in the same area, like in Silicon Valley. Also in Belgium you have young people, Muslim and non-Muslim, working together to convince traditional companies to develop more halal products for the Muslim markets in Europe. Working together inspires and often realizes 'the impossible.'

What are the ingredients for success for an Islamic economy free zone?

I'm looking at it from a halal synergy point of view, so it has to be halal if it is meant to be a halal hub — otherwise you have no halal advantage.

Furthermore, it is worthwhile to take some time to define the type of synergies one wants to create and whether they are critical for success and sustainable.

Halal knowledge or best practices itself, may be a weaker than expected advantage as this is often organized successfully outside of free zones. Free zones targeted at small start-up companies, however, may be worthwhile considering.

What are the challenges and considerations in setting up a halal free zone?

In general, I think it makes more sense to have halal hubs outside of Muslim countries than inside them. I am not aware of that many successful halal parks in Muslim countries that get their success from the halal

“There is not so much innovation in halal itself, its rules are clear and do not change. But halal execution may differ as expectations of Muslim consumers are not always the same.”

synergy they are creating, and not from the other services offered.

Then the challenge is to define your advantage. If the main advantage is the clustering, this advantage may be limited to smaller companies lacking access to halal information. Logistic advantages of clustering seem to be limited as it is highly unlikely that all raw materials needed will be available at the halal free zone. And that one wants to work with the potential suppliers within that free zone. That is a lot of 'if' for me.

I tend to think the halal supply chain may often be more important than clustering together in halal free zones. From that perspective, it may be better to invest in training in halal and create synergies at that level to motivate people to create a halal supply chain.

Halal hubs outside Muslim countries also may not be economically viable as many non-Muslims will never touch halal products.

Because of that, most companies in Europe active in halal are doing mixed productions: halal and non-halal. Typically, the non-halal part is the biggest part and supports the business. The halal part is usually a fast growing niche market, but too small to justify dedicated facilities. Unless one can explain

to non-Muslims that halal is of high quality and the production processes are in line with those of non-halal products, dedicated halal facilities will be limited, and hence, so will be the potential of halal hubs.

I strongly believe in the synergies between halal and non-halal supply chains as they are key for sustainable growth of the Islamic economy and, in my opinion, also important for making halal hubs work.

That is why I have always been a very big fan of Bosnia — now speaking as a European. Bosnia does have a European culture with Muslim heritage. It is well-situated to work out what could be halal in a non-Muslim country. Their halal agency was one of the first (and still one of the few) to combine typical European quality thinking with halal certification — they are well placed to find those compromises. Additionally, they could set up dedicated halal companies with enough turnover to serve only halal markets as the Muslim population in Bosnia is about 50%. Those businesses could survive until non-Muslims are ready to accept halal.

Spain also has a large community of Muslims with a European culture and there has been an initiative to set up a halal hub in Cordoba, targeted at Islamic tourism.



A worker monitors bottles of fruit juice at a production line at an Aujan Industries juice factory in Dubai. REUTERS/Jumana El Heloueh



Michael Milo

CEO, Muslim Kids TV

Michael Milo is the founder and director of Milo Productions Inc. and Muslim Kids TV. Michael has worked in the television and educational media industry for over 20 years and has focused on project management, communications, administration and leadership. Michael has also worked as a media developer and editor at the University of Saskatchewan for over 14 years prior to founding Muslim Kids TV. Michael holds a Bachelor of Fine Arts and a Masters of Business Administration with concentrations in marketing and finance.

What are some of the existing free zone initiatives in the Islamic media sector?

I know that in Malaysia — what they have done with Malaysia Digital Economy Corporation (MDEC,) which is a government corporation that is encouraging the digital economy — companies can obtain MSC status. An MSC status company receives very favorable tax breaks, access to various grant programs and marketing support. Cyberjaya, just outside of Kuala Lumpur, is like Silicon Valley where MSC status companies can set up with preferred leasing and improved IT infrastructure.

I know there are other media zones in the GCC region and other Arabic speaking countries that similarly support the infrastructure needs of media companies. For example, Huda TV studios are located in Egyptian Media Production City (EMPC). They benefit from the infrastructure, as well as a large talent pool. There are thousands of media professionals that freelance throughout the EMPC. The result is better cross-fertilization of ideas and better collaboration because of co-location.

I have not heard of anyone starting an Islamic media free zone. I think because Islamic media is at an early growth stage. Islamic media companies, if they have the resources, take advantage of existing media free zones.

What are the potential benefits of free zones in the Islamic media sector?

Free zones — I think a dedicated area would be very advantageous, especially if there were additional supports available to also stimulate the industry, like start-up programs, consultancy services, conferences and training.

I can see them having the effect of an incubator where various supports are provided. Islamic media companies search for the most cost effective infrastructure because they have such resource limitations and many are not-

for-profits. Strong subsidies would benefit these companies and could be used to attract them to locate.

Currently Islamic TV channels dominate the Islamic media space. These channels are very spread apart geographically, as well as when it comes to cooperation. Most often they view themselves as competition. A free zone may overcome these challenges and benefit these companies through increased cooperation.

Free zones will be very beneficial to start-up companies. Currently many of the people establishing Islamic channels are coming in without much media experience. They are often philanthropists. A start-up zone could provide invaluable input into the business aspect of Islamic media and television. The returns for these philanthropists would be in the form of much more efficient operations of their channels, better utilization of resources and higher quality products.

How can companies collaborate within a free zone?

Developing a common voice for Islamic media is very important. There are now hundreds of channels and many supporting service companies. For example, an association may be able to represent channels to satellite service providers to negotiate better rates.

A free zone could bring member organizations together for training, conferences and cooperation on various industry initiatives. For example, it would ensure that there is less duplication among channels regarding language markets. Many philanthropists are focusing on multiple language markets so this is important.

Islamic channels need to improve cooperation on content sharing. Programming is expensive and is one of the weakest areas for Islamic TV

channels. Cooperating together to improve content will better ensure the long term success of TV channels. This also covers the area of utilizing third-party production services. Islamic TV channels are far behind in this area, producing most content in-house and licensing very little content from third-party producers. An Islamic media free zone could work with TV channels to set up production funds to support third-party producers. Such funds exist in all mature media markets and have had the effect of adding variety to programming and creatively stimulating the industry.

“Islamic channels need to improve cooperation on content sharing. Programming is expensive and is one of the weakest areas for Islamic TV channels.”

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Appendix

Methodology for determining free zone contribution to the Islamic economy

To determine the economic contribution of free zones to the Islamic economy, their estimated contribution based on our analysis to the global GDP (by expenditure) is applied to the Islamic economy sector expenditure.

Reliable figures for free zone economic contribution are not available on a global level. Instead, a representative global sample was constructed to estimate free zone contribution to global GDP. Projections for free zone contribution to global GDP were made based on the sample estimate and our analysis.

Data used:

- **Free zone exports data** obtained from the International Labour Organization (ILO) working paper "ILO database on export processing zones (revised)".
- **Global exports, and total exports** figures for sample countries were obtained from the World Bank database.
- **Global GDP (by expenditure)**, used as a proxy for estimating the contribution to Islamic economy sectors, which are based on spending figures. This figure is calculated based on its components (household expenditure, government expenditure, capital formation, exports and imports), for which data was obtained from the World Bank database.
- **Size of Islamic economy and its sectors** in terms of global spending for 2015 and their projections for 2021 were obtained from Thomson Reuters' State of the Global Islamic Economy Report (SGIE) 2016/2017.

A sample of 51 countries from various regions was constructed to estimate the percentage contribution of free zones to exports. A sample estimate for this percentage was derived from total free zone exports and total exports for the countries in the sample. The contribution of free zones to exports, based on the sample and our analysis, is 9.9% for 2015.

The percentage contribution of global exports to GDP (by expenditure) was calculated. Based on this percentage, and the percentage contribution of free zones to global exports, free zone contribution to global GDP (by expenditure) was calculated to be approximately 30%.

Based on the following conservative assumptions, estimates for the contribution of free zones to global GDP (by expenditure) were estimated till 2021. The percentage contribution of free zones to global exports will be approximately 13% by 2021, implying an annual increase of 0.5%.

For Islamic economy sectors, it is assumed that percentage free zone contribution to the Islamic economy expenditure is roughly in line with global GDP expenditure.

Notes

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