



**DUBAI THE CAPITAL OF THE ISLAMIC ECONOMY:
AN ANALYSIS OF THE CRITICAL SUCCESS
FACTORS AND ISLAMIC BRANDING**

BY

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ABSTRACT

This study is an empirical investigation on three out of seven pillars of His Highness Sheikh Mohammed bin Rashid Al Maktoum, Vice President and prime minister of the United Arab Emirates the Ruler of Dubai about Dubai's vision for becoming the capital of the Islamic economy. The study is structured around three essays, each addressing one pillar. The first essay is an analysis of the critical success factors for the Islamic finance pillar. This pillar has eight initiatives, which were identified by Dubai's leadership as the strategic areas which have to be implemented in order to position Dubai as the global Islamic finance hub. This study has prioritized the eight initiatives, a process that has revealed that initiatives related with standardization are more highly regarded than others. In addition, critical success factors have been identified for at least three initiatives. The success factors have then been ranked and discussed. The second essay focuses on Islamic tourism. The study has analyzed the effect of Islamic branding on Dubai's tourism. It has applied the theory of planned behavior to test tourists' intention to visit Dubai, given its new Islamic brand. Results reveal that Islamic branding has a positive and significant effect on both attitude and subjective norm, but the effect on perceived behavior control is insignificant. The last essay looks at the halal food and beauty products pillar. It is an assessment of Dubai consumer's intention to use halal food and beauty products based on the theory of reasoned action. The results reveal that both attitude and subjective norm have a positive and significant effect on consumers' intention to use halal products. This study provides the first empirical evidence on Dubai's capital of the Islamic economy vision. Hence the study plays a dual role: first it extends the frontier of scientific knowledge through modeling and applying the theories of planned behavior and reasoned action to confirm individual behavior. Secondly, the study will guide policy implementation in Dubai with regard to the vision.

خلاصة البحث

تعد هذه الدراسة دراسة استقصائية ميدانية لثلاث ركائز رئيسية من أصل سبعة ركائز في رؤية صاحب السمو الشيخ محمد بن راشد آل مكتوم – نائب رئيس دولة الإمارات العربية المتحدة رئيس مجلس الوزراء حاكم إمارة دبي- في تحويل إمارة دبي إلى عاصمة الإقتصاد الإسلامي. تتمحور هذه الدراسة حول ثلاث مقالات بحثية، تعالج كل مقالة على حدى واحداً من الركائز السبعة. المقالة البحثية الأولى هي عبارة عن تحليل عوامل النجاح الحرجة للركيزة الأولى والمتعلقة بقطاع التمويل الإسلامي. حيث تندرج تحت هذه الركيزة ثمانية مبادرات تم تحديدها من قبل حكومة دبي كمجالات استراتيجية يجب تنفيذها لتحزز إمارة دبي بعدها لقب دبي؛ مركز التمويل الإسلامي العالمي. وقد تم ترتيب المبادرات الثمانية على أسس تحديد الأولويات، حيث أوضحت نتائج الترتيب عن أن المبادرات المتعلقة بتوحيد المعايير تتمتع بأهمية أكبر عن غيرها، هذا بالإضافة إلى تحديد عوامل النجاح الحرجة لثلاث مبادرات. تلتها عملية تصنيف لعوامل النجاح الحرجة تلك ومناقشتها. أما فيما يختص بالمقالة البحثية الثانية فقد ركزت على السياحة الإسلامية. حيث قدمت الدراسة تحليلاً عن مدى تأثير التسويق الإسلامي (Islamic Branding) على قطاع السياحة في إمارة دبي. وتم استخدام نظرية السلوك المخطط (Theory of Planned Behavior) في هذه الدراسة لإختبار النية السلوكية (Intention) للسائح في زيارة الإمارة، تزامناً مع التسويق الإسلامي لقطاع السياحة فيها. جاءت النتائج مؤكدةً وجود تأثير إيجابي للتسويق الإسلامي على كلٍ من المعتقدات السلوكية (Attitude) والمعتقدات المعيارية (Subjective norm) للفرد، وعدم وجود تأثير يذكر على معتقدات التحكم (perceived behavior control). المقالة البحثية الثالثة تبنت قطاع المنتجات الحلال حيث تم اختبار نظرية الفعل المعقول (Theory of reasoned action) على العملاء المحتملين في إمارة دبي، وكانت النتائج المستخلصة أن المعتقدات السلوكية (Attitude) والمعتقدات المعيارية (Subjective norm) لها تأثير واضح وإيجابي على النية السلوكية (Intention) في استخدام المنتجات الحلال والمروج لها ضمن هذه الركيزة. تعد هذه الدراسة هي الأولى من نوعها حول رؤية دبي؛ عاصمة الإقتصاد الإسلامي من حيث تقديم الأدلة التجريبية عن دبي. كما تلعب هذه الدراسة دوراً مزدوجاً في توسيع الحدود المعرفية من خلال النمذجة وتطبيق نظرية السلوك المخطط ونظرية الفعل المعقول لإثبات السلوك الفردي، كما إن هذه الدراسة ستزود مطبقي السياسات المتعلقة برؤية دبي بالتوجهات السليمة نحو تطبيق أفضل لرؤية دبي؛ عاصمة الإقتصاد الإسلامي.

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DECLARATION

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*I dedicate this work to my dear mother and father. I also dedicate it to my lovely
children Belkhair and Shahad*

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LIST OF ABBREVIATIONS

AAOIFI	Accounting and Auditing Organization for Islamic Financial Institutions
AHP	Analytic Hierarchy Process
CSFs	Critical Success Factors
DCIBF	Dubai Centre for Islamic Banking and Finance
DFM	Dubai Financial Market
DIAC	Dubai International Arbitration Center
DIEDC	Dubai Islamic Economy Development Centre
DSC	Dubai Statistics Center
DSP	Dubai Strategic Plan
GCC	Gulf Cooperation Council
GIEI	Global Islamic Economy Index
GIER	Global Islamic Economy Report
GMTI	Global Muslim Travel Index
HFI	Halal Food Indicator
HTI	Halal Travel Indicator
IDB	Islamic Development Bank
IEC	Islamic Economy Capital
IFSB	Islamic Financial Services Board
IIUM	International Islamic University Malaysia
KRA	Key Result Areas
OIC	Organization of Islamic Cooperation
PBUH	Peace Be Upon Him
SEM	Structural Equation Modelling
TPB	Theory of Planned Behavior
TRA	Theory of Reasoned Action
UAE	United Arab Emirates
USD	United States Dollars
WIBCR	World Islamic Banking Competitiveness Report

CHAPTER ONE

INTRODUCTION AND BACKGROUND TO THE STUDY

1.1 BACKGROUND

The concept of an Islamic economy has attracted attention in both the business and academic circles. The term Islamic economy however has no unique definition so far. Some authors apply it in reference to the 57 economies of the Organization of Islamic Cooperation (Marliere, 2014). Others describe it as “a way of living through products, experiences, services, processes and relationships that are characterized as halal, ethical, wholesome and family-friendly”¹. The Global Islamic Economy Report (GIER) published by Reuters and DinarStandard (2013), argues that an Islamic economy “encompasses all those sectors driven by the Muslim population’s adherence to some form of faith-based activity that has market impact.” This study applies Reuters’ definition first, because this is the meaning adopted by the Dubai government² and secondly, many contemporary authors on this subject (Islamic economy) have a similar understanding of this term (El Qorchi, 2005; Kuran, 1995; Metwally, 1997).

Over the years, the Islamic economy has gradually emerged and grown in different parts of the world. According to Kuran (1995), components of the Islamic economy including Islamic banks, Islamic enterprises, investment companies, redistributive systems and conglomerates were set up in the Islamic world from the early 1970s and in the due course they have formed vibrant sub economies

¹ <http://www.giesummit.com/en/gie-summit/>, (accessed on Oct 11, 2015)

² See http://www.iedcdubai.ae/page/view/5/dubai_the_capital_of_islamic_economy (accessed on Oct, 11 2015)

particularly in the Muslim world. Current statistics indicate that there exist substantial global market value for the various sectors of the Islamic economy. The GIER (2013) for example reveals that the total expenditure of Muslim clients on food and lifestyle sectors was estimated at US \$ 1.62 trillion in 2012, with a potential to rise to US \$ 2.47 trillion by 2018. During the same year, the global Islamic finance assets were estimated at US \$ 1,354 billion (Reuters & DinarStandard, 2013). Similarly, the estimated global market value for other sectors was as follows in 2013; Media and recreation, US \$ 185 billion, clothing and fashion, US \$ 266 billion, while travel stood at US \$ 140 billion, excluding Hajj and Umrah (Reuters & DinarStandard, 2014). These are some of the indicators showing that the Islamic economy has experienced a continuous growth trend and nowadays it constitutes a significant part of the overall global economy.

Consequently, several countries around the world have embraced the Islamic economy, or some of its sectors. El Qorchi (2005) observes for example that by 2005, the global number of Islamic financial institutions had exceeded 300 in over 75 countries. Many countries today are actively competing either for market share or for recognition as the leading business centers for the different segments of the Islamic economy. Recently, a ranking of the leading fifteen (15) countries in this worldwide competition based on the global Islamic economy indicator (GIEI) appeared in Islamic economy report (GIER 2014). GIEI is a compound weighted index which evaluates the general Islamic economy environment in each country. Based on this index in the above report, the top five countries which are regarded as having the healthiest Islamic

economy ecosystems are: Malaysia (111.5), UAE (71.6), Bahrain (64.8), Oman (50.0) and Saudi Arabia (46.6)³.

Other measures of the global competition are sectors specific. For example, leadership in the Islamic tourism industry is measured by the absolute number of customers who enter a given country as tourists. Statistics quoted in GIER (2014) show that the countries with the largest number of Muslim tourists are Malaysia (3.26 million), Turkey (3.05 million) and UAE (2.14 million)⁴. In the Islamic banking sector, the World Islamic Banking Competitiveness Report (WIBCR, 2013) ranked the top five countries based on the distribution of global Islamic banking assets as follows: Saudi Arabia (16%), Malaysia (8%), UAE (5%), Kuwait (4%) and Qatar (3%). Overall, these statistics illustrate an ongoing competition for markets and business leadership in the emerging economies. The Islamic economy has therefore become a new phenomenon that will shape global economic activity in the years ahead.

1.2 DUBAI'S VISION OF AN ISLAMIC ECONOMY CAPITAL

Recently, Dubai (one of the seven emirates constituting the United Arab Emirates) announced an ambitious vision of becoming a global capital of the Islamic economy. This vision was unveiled in January 2013 by His Highness Shaikh Mohammad bin Rashid Al Maktoum, the Vice President and Prime Minister of UAE and ruler of Dubai “to boost the emirate’s exposure to an industry valued at trillions of dollars and further diversify its economic base” (Gregory, 2013).

³ The figure in parentheses is the index score for each country.

⁴ The figures in parentheses are the number of Muslim tourists. Hajj and Umrah are excluded.

The Islamic economy envisaged by Dubai is structured around seven key pillars (Islamic finance, Halal products, Family tourism, Digital economy, Islamic design, Knowledge & information and Standards & certifications). It is intended to be a unique sector which, once added to the existing economic structure will both diversify Dubai's economy and accelerate the emirate's dream of becoming one of the leading economic centers of the world (DSP, 2021). Besides, the Islamic economy is part of the emirate's key strategies for developing a robust economy that is resilient to all forms of disruptive shocks.

To fast track implementation of the Islamic economy capital (IEC) plan, a special body called the Dubai Islamic Economy Development Center (DIEDC) was established in 2013 under the patronage of the crown prince of Dubai. Some of the key objectives of this center include: developing the relevant institutional infrastructure for realizing the vision of the Islamic economy capital. It also exists to ensure adequate coordination and facilitate integration among stakeholders necessary for realizing the emirate's goal. In performing the above functions, the center helps to accelerate and manage the development of Dubai's Islamic economy in trade, tourism, aviation, hospitality, financial services and logistics⁵. In addition, the existing government departments were tasked to implement or support the implementation of the various initiatives. For example, the Dubai Silicon Oasis Authority (DSOA), a leading government entity in the technology sector has undertaken to develop programs, applications, e-commerce platforms as well as supporting start-ups engaged in domains relevant for achieving the IEC vision under the digital economy initiative (T. D. Reuters, 2015a). Similarly in 2014, the Dubai Industrial City, a subsidiary of

⁵ Source: <http://www.iedcdubai.ae/> accessed in October, 2015

TECOM Group⁶ created a halal cluster in order to drive the growth of halal food, personal care and cosmetics sector⁷. Among other things, this halal cluster provides incentives to halal businesses which stimulates the growth and development of the halal industry in Dubai.

1.3 PURPOSE AND STRUCTURE OF THE STUDY

Despite Dubai's committed efforts and the on-going investments under the various pillars (as discussed above), there is no empirical evidence to support and direct those investments. Other than the general market projections given from the various reports such as: state of the global Islamic economy report (GIER), or the World Islamic banking competitiveness report (WIBCR), there is no specific empirical study that informs Dubai's leadership about the feasibility and viability of their strategies. Whereas the global projections may be a good starting point, they cannot however substitute for specific empirical evidence which could turn out with a variety of results in different countries.

This thesis is an effort to provide specific empirical evidence on Dubai, taking into account her specific characteristics. It is a multi-dimensional inquiry focusing on Dubai's IEC vision. It investigates the critical success factors (CSFs) as well as consumers' intentions to use Islamic branded products in Dubai. The study concentrates on three out of the seven pillars namely: Islamic finance, Islamic tourism and the halal industry. Choice of the three pillars is twofold: first, they are graded as the top three sectors based on the global market projections by Reuters and

⁶ TECOM group is Dubai's specialised industry developer whose mission is to set up the foundation for innovation through strategic initiatives in line with the Dubai Plan 2021

⁷ Source: <http://www.dubaitrade.ae/media-centre/uae-news/1931-dubai-industrial-city-launches-halal-cluster>, accessed in December 2015.

DinarStandard (2014). Secondly, Dubai has a reasonable level of infrastructure for the three pillars and has at the same time started to expand that infrastructure via the new investment initiatives. For each of the three pillars, an independent study has been conducted and appear as an essay in the thesis. Hence there are three essays.

Essay one focuses on the Islamic finance pillar. It prioritizes the eight initiatives of the Islamic finance pillar. In addition, it identifies and ranks the critical success factors (CSFs) for three selected initiatives. The online business dictionary defines critical success factors as “a set of characteristics, conditions or variables that have a direct and serious impact on the effectiveness, efficiency and viability of an organization, program or project. Activities associated with CSFs must be performed at the highest possible level of excellence to achieve the intended overall objective”⁸. The CSFs for the three initiatives have been identified both from literature and through interviewing experts on Islamic finance. Following Saaty (2008) and Islam (2010), these CSFs have been ranked using the Analytic Hierarchy Process (AHP). The ranking of these factors is to help to guide and direct the implementation of identified initiatives under Islamic finance.

The second essay is about tourism. The study investigates the effect of “Islamic branding” of tourism to Dubai. Tourism with an Islamic brand has been given different names in literature such as “Islamic tourism”, “family-friendly tourism” or “Halal tourism” (Battour, Ismail, & Battor, 2010). The overriding motivation behind this brand is to tap into the niche market of the millions of tourists looking for destinations that fulfill their travel needs without offending their religious values (Hamza, Chouhoud, & Tantawi, 2012). For Dubai, the Islamic brand involves

⁸ Source: <http://www.businessdictionary.com>; accessed in November, 2015

inaugurating a Prophet Muhammad (PBUH) museum, launching an Islamic science travelling exhibition, development of private and shaded beach resorts for women among other initiatives⁹. The study has applied the theory of planned behavior (TPB) and it has investigated “the intentions to use” the new product. Inbound tourist were asked how the Islamic branding of tourism would influence their intentions to visit Dubai in future.

Essay three focuses on the halal industry. It is a well-known fact that the consumption behavior of the majority of Muslims around the world is greatly influenced by the philosophy of halal, which means “permissible” under the Shariah (Mukhtar & Mohsin, 2012). Literature is robust on the fact that Islam is the fastest growing religion in the world, implying that the market for halal products is equally growing (Shah & Nazura, 2011). A recent global Islamic economy report (GIER, 2014) revealed that the global market for halal food alone stood at US \$ 1,292 billion and is estimated to increase to US \$ 2,536 billion by 2019. For the Dubai Islamic economy vision, several initiatives including the establishment of a halal park to process and package halal food, the formation of a global halal network and launching of a halal logistics corridor have been proposed. This study has applied the theory of reasoned action (TRA) to assess the attitudes of Dubai consumers towards the halal brands and their intentions to use those brands.

At the end, the findings from the three essays have been pieced together with relevant recommendations to the government of Dubai and all implementing agencies. The combined effect of the study is the provision of empirical evidence that will help the Dubai government to improve her strategies or provide direction on what needs to

⁹ Source: <http://www.iedcdubai.ae>, accessed in November, 2015.

be given priority among the initiatives of the vision. In terms of contribution to knowledge, this study has perhaps been one of the first scientific investigations with respect to Dubai's vision.

CHAPTER TWO

ESSAY ONE: AN ANALYSIS OF THE CRITICAL SUCCESS FACTORS FOR THE ISLAMIC FINANCE INITIATIVES

2.1 INTRODUCTION AND MOTIVATION

In recent years (starting from the 1970s), Islamic finance has emerged and developed both as a viable system of financial intermediation and a mechanism for greater financial inclusion (Mohieldin, 2012). Consequently, several countries across the globe have embraced Islamic finance by establishing institutions that are Shariah-compliant. According to Jung, DiVanna, and Shoaib (2008), the “first top 500 Islamic financial institutions listing” indicated that the worldwide sharia-compliant assets had grown by 29.7%, based on 2007 official figures. The growth trend for Islamic finance has continued to rise and the Islamic financial services industry has expanded into many recognizable subsectors namely; Islamic banking, Takaful, Islamic capital markets and Islamic asset / wealth management industry (Perry & Rehman, 2011). Furthermore, the World Bank’s global Islamic finance development center (GIFDC) reported that, “the Islamic finance industry has expanded rapidly over the past decade, growing at 10 -12% annually”.¹⁰

In Dubai, Islamic financial services were introduced about 40 years ago in the form of Islamic banking. According to Warde (2010), the Dubai Islamic Bank (DIB) created in 1975 is considered to be the first, non-governmental Islamic bank established in UAE. Since then, United Arab Emirates (UAE) has been a key player in the field of Islamic Banking and Finance. Presently, UAE is ranked fourth among

¹⁰ <http://www.worldbank.org/en/topic/financialsector/brief/islamic-finance> (accessed on 3 November, 2015)