

# Growth Prospects for Market of Muslim goods in Russia

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## Abstract

**Objectives:** The paper is devoted to the assessment of the market of Muslim goods in Russia and prospects for its growth and development. **Methods/Statistical Analysis:** Using the method of interviewing, the authors obtained information on the halal meat and poultry market and the Islamic clothing market in the Russian Federation. **Findings:** There is a scientifically confirmed strong correlation between the demand and the religious affiliation of the population. The paper presents some facts evidencing the positive dynamics of the segment under study: Muslim population growth, religious consciousness increase, strengthening of the importance of Islamic finance and the emergence of new markets for exports. Prospects for entry of Russian products into the international market are described. **Application/Improvements:** The authors conclude by identifying the major problems to be solved for the successful development of the market of Muslim goods.

**Keywords:** Islam, Muslims, Religious Factor, Sharia

## 1. Introduction

Islam is the second largest confession in Russia. This is especially noticeable in the Russian regions, where Muslims make the majority of population: Dagestan, Chechnya, Ingushetia, Kabardino-Balkaria, Karachay-Cherkessia, Tatarstan and Bashkortostan. Muslim market issues have not practically been studied in the Russian scientific community, which is clearly manifested in the catastrophically small amount of scientific research works. Today, there are no data about the Muslim market of Russia confirmed by scientific studies, except for some forecasts given by individual researchers. Based only on this fact, it can be stated that the Muslim market is one of the most promising consumer markets in Russia. An important component of the development of this market is the assessment of this segment.

Muslim market is a market which involves the circulation of goods originally created to meet the needs of the Muslim population<sup>1</sup>. They can include the following categories:

1. Food products:
  - meat of lawful animals slaughtered according to Islamic law;
  - halal meat semi-finished products;
  - confectionery products made with the use of halal components (gelatin, whey, etc.);

- halal baby food;
- other products.

2. Non-food products:

- perfumes and cosmetics produced according to the norms of Islamic law;
- Islamic clothing, etc.

3. Non-financial services:

- catering food containing exclusively halal products;
- Islam-compliant fitness centers, spas and hair salons;
- publishing of Islamic magazines, books, etc.
- medical services within the framework of Islam;
- halal tourism, etc.

This market attracts many businessmen. In Russia, there are several annual international exhibitions of halal products:

1. Moscow Halal Expo;
2. Caspian Halal Expo;
3. Euro-Asia Expo.

Also there are organizations dealing with the standardization of the “Halal” brand in Russia:

1. “Halal” Standardization and Certification Center. Today, it has acquired international status and is actively working in the framework of the Customs Union;

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2. "Halal" Standard Committee of the Spiritual Directorate of Muslims of the Republic of Tatarstan;
3. "Halal" Standard Committee in the North Caucasus, Chechnya, Dagestan, Ingushetia, etc.

## 2. Goals and Hypothesis

The purpose of the study is to identify the general laws of development of the market and the influence of the strengthening of the role of religion among the population of Russia on the expansion of the Muslim market. Learning the rules of Islam and the identification of trends of increasing the degree of religious consciousness of citizens have made it possible to determine the prospects for halal market growth in Russia.

## 3. Methodological Framework

To assess the state and dynamics of Muslim market, the authors used an interview technique involving a conversation of the researcher with an expert following the question-answer scheme. During the survey, the expert was asked questions about the current state and prospects for development of the Muslim market. Practice shows that the number of experts involved may vary from 10 to 150 persons.

Given the complexity of this goal, let us start from reviewing and analyzing the halal meat market (food products) and the Muslim clothing market (non-food products).

To analyze the halal meat market, we sent questionnaires to 16 organizations throughout Russia: "Halal Ash" LLC; "SAFA" LLC; "VolgaMyasProm" LLC; "Ekoprod" LLC; "Platira" LLC; "Pokiza" LLC; "Priorskolye" CJSC; "Krasnobor" CJSC; "Lisco-Broiler" LLC; "PF "Novo-Ezdotskaya" LLC; "Poultry Factory "Pavlovskaya" LLC; "Elinar Broiler" CJSC; "ES Agro" LLC; "PenzaMolInvest" LLC; "Inzhavinskaya Poultry Factory" CJSC; "Belii Krai" LLC.

As for clothing, we sent questionnaires to 17 experts representing organizations of the studied market: BellaKareema, Bismillah, Firdaws, Hayat, Irada, Jubbah, Maryam, MuslimLine, MuslimUral, Sabr, Sahara, Uhra TM, YaseenHijab, Adab, Aisha, Amani, Al-Barakat.

## 4. Results

Experts seriously disagreed upon the number of registered Russian companies of halal meat market. On their opinion,

this number varies between 10 and 100. We suppose that those who gave a small number talked about large companies only, others mentioned all of them. Talking about numbers, it is enough to show production volumes only of a few large enterprises, such as "Priorskolye" (produces more than 4.5 thousand tonnes of poultry per year), "Chelny Broiler" (more than 5 thousand tonnes per year), "Tsaritsyno" (more than 4 thousand tons of sausage products per year), "Ekol" (more than 6.5 thousand tons of meat of cattle and small ruminants)<sup>2</sup>.

When asked: "What is the share of halal meat and semi-products on the Russian market?" most of experts said 2-4%, others said 5-7%. If we take as a basis for further calculations the market share of 4% and the volume of the meat and poultry market in 2014 amounting to 3.4% of the total volume of retail sales amounting to 26,356.2 billion rubles according to the Federal State Statistics Service, then after making some calculations, we will see that the total value of halal meat market in Russia is equal to 44.805 billion rubles or 1.18 billion US dollars (Figure 1).

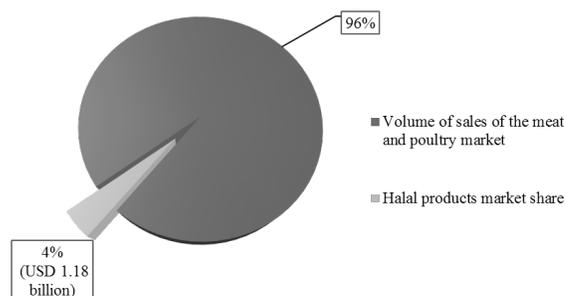


Figure 1. Share of halal meat and poultry in the Russian market in 2014, %.

By comparison, in the UK, where Muslims make about 3% of the population, the halal meat market share is 25, which is shown in Figure 2.

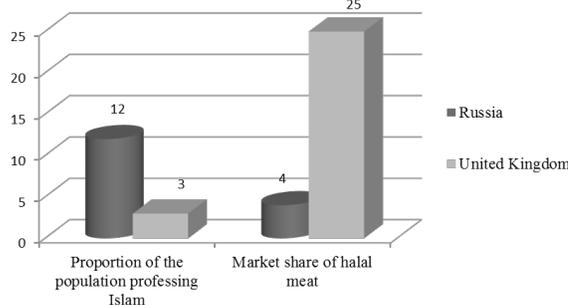


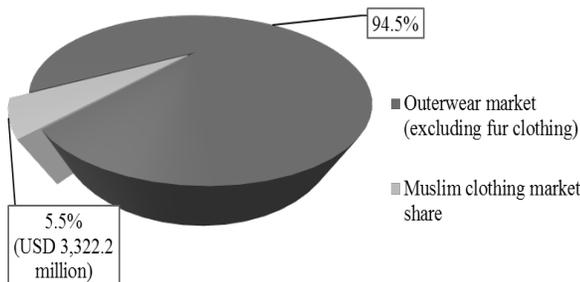
Figure 2. Comparison of the proportion of Muslims and the share of halal meat and poultry in Russia and the UK, %.

According to experts, customers in this market are people of different religious affiliations. This also indicates the importance of the segment for all citizens of Russia, as the high demand for such products is determined by their ecological cleanliness.

As for the prospects, the experts have also disagreed: some of them forecast a growth, others expect a decline. Also, there is an opinion that in the near future this market segment will experience a decline due to the outflow of migrant workers from the Muslim population, but this is offset by the number of people newly converted to Islam, as well as by the popularization and improvement of quality of halal products.

The survey of religious clothing producers has shown that 75% of respondents believe that the number of Russian companies producing religious clothing varies from 5 to 10, and 25% believe that it is above 15. However, according to experts about 30 companies are filling this segment of the market, including the producers themselves. At the same time, customers in this market are both Muslims and people of other faiths.

As for the outerwear (excluding fur clothes) and shoes, according to the Federal State Statistics Service, in 2014 their share in Russia amounted to 8.7% of total retail turnover, so using the data of expert assessment of the share of Muslim clothing in the Russian market amounting to 5.5%, we can determine the market cost estimate which is equal to 126.144 million rubles or 3,322.2 million US dollars (Figure 3).



**Figure 3.** Share of Muslim clothing in Russian outerwear market (excluding fur clothing) in 2014, %.

By comparison, the UK Muslim clothing market, according to experts, amounts to USD 107 million<sup>3</sup>.

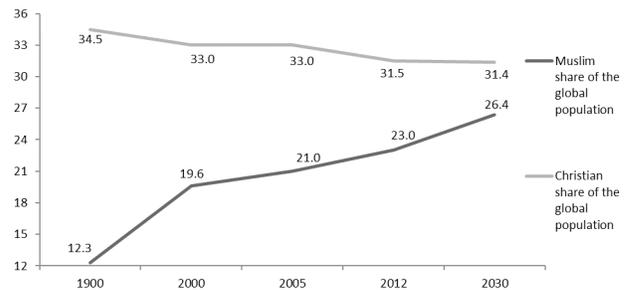
As for the future, 75% of enterprises forecast an increase in this segment of the market, but 25% believe that the expansion is now impossible, since imported materials have become more expensive due to the rise of the dollar and the euro against the ruble.

## 5. Discussion

It is clearly seen that there are very different opinions about the prospects of Russian Muslim market growth, though most of them are positive. It is only a judgment, without stating any figures, which makes such a forecast disputable. Relying on the obtained results, we also expect the Muslim market growth. But, in our opinion, such a hypothesis is based on the following facts:

### 1. Muslim population growth.

According to forecasts, by 2030 Islam will be the dominant religion in the world; Muslims will make 26.4% of the world population, living in about 120 countries, which will be 2.2 billion persons in absolute terms<sup>4</sup>. This dynamic indicates the high Muslim population growth rate that can be seen in Figure 4.



**Figure 4.** Dynamics of the growth of Muslim and Christian shares of the global population from 1900 to 2030, %.

Table 1 shows the structure of the population of 10 countries with the largest number of Muslims in the world<sup>5</sup>.

**Table 1.** Demographic data for 10 countries with the largest number of Muslims, million people

Country	Number of Muslims	Total number	Percentage of Muslims of the total number	Total fertility rate
1. Indonesia	212.3	241.0	88.1	2.3
2. India	183.4	1259.7	14.6	2.5
3. Pakistan	173.9	180.4	96.4	3.6
4. Bangladesh	138.2	152.9	90.4	2.3
5. Nigeria	81.5	170.1	47.9	5.6
6. Iran	78.7	78.9	99.7	1.9
7. Egypt	77.9	82.3	94.7	2.9
8. Turkey	73.9	74.9	98.6	2.0
9. Algeria	36.7	37.4	98.2	2.9
10. Morocco	32.6	32.6	99.9	2.3

According to research of Naumkin<sup>6</sup>, the Muslim community of Russia consists of 15 million indigenous people and 5 million migrants being permanent residents. This number is higher than the population of Libya and Jordan. This means that when 15% of the population are Muslims, the Muslim market share does not reach even 6% (halal meat and poultry markets and Islamic clothing market).

2. Increasing level of the religious consciousness.

These facts are reflected in a certain way in the studies carried out since 2012. During 2012, we conducted a survey (group type: religious affiliation; respondents: Muslims; sample: simple random)<sup>7</sup>. The representative sample covered about 500 people from all social and age groups. Our objective was to identify the Muslim population's priorities when selecting a product.

Answers to the question "Will you give up your job, if you know that it is contrary to Sharia?" showed that 57.4% of respondents answered "Yes, definitely". At the same time, almost all the answers "Yes, if I can find another job" and "Definitely not" were given by the respondents older than 40 years. At the same time, many female representatives under the age of 40 gave negative answers. When asked a theoretical question: "Would you choose more profitable business contradicting Sharia or less profitable one but Sharia-compliant?", 74.2% chose "less profitable but Sharia-compliant business", which indicates the dominant position of the factors such as permissibility in terms of Islam in comparison with the business profitability (see Figure 5).

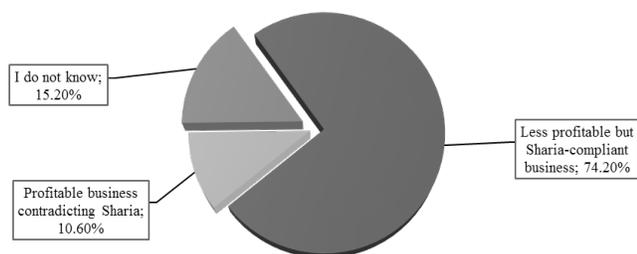


Figure 5. The results of answering the question "Would you choose more profitable business contradicting Sharia or less profitable one but Sharia-compliant?" in 2012, %.

Thus, the study shows a huge influence of religion on the lives of Russian citizens, as well as their desire to apply the rules of Islam in the economic sphere.

A year later, in a survey carried out by the Department of Economics of the Russian Council of Muftis in 2013, when asked "Why do you choose the halal products?" 84% of respondents, or 1071 persons, chose the answer:

"I am a Muslim obedient to the commandments of the Almighty God"<sup>8</sup>.

During the years 2014-2015, we conducted a survey on the topic "What is your priority factor in making economic decisions: religious, social or ecological?"<sup>9</sup>. As of February, 2015, 400 people took part in the survey. The study revealed that the priority factor was religious: 84% of respondents, social: 13%, and ecological: 3%. The survey involved 70% of men and 30% of women, among them were residents of Moscow, St. Petersburg, Grozny, Makhachkala and Krasnoyarsk, so the survey covered different social and age groups living in different parts of the country (North, West, East and South).

At the final stage of sociological research, in 2015, another survey was conducted in which 200 people took part, including 71 men and 129 women. Age ranged from 19 to 64 years, all social groups were represented, which made it possible to conclude that the sample was representative.

As a result, it was found that in addition to the price factor, the Christians' demand was influenced by the social factor (52.3%), the weakest influence was produced by the religious factor: 9% (Figure 6). However, there was an obvious increase in the popularity of this factor related to the age. In particular, men aged 19-34 years made 70%, aged 35-49 years: 20%, and aged 50-64 years: only 10%.

88% of Muslims polled said that their demand was influenced by the religious factor, and the remaining 12% considered ecological factor significant (Figure 6).

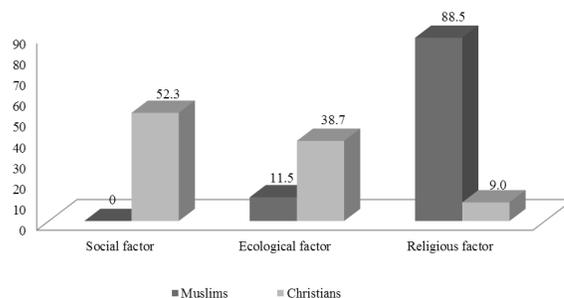


Figure 6. Factors influencing the demand of Muslims and Christians besides the price, %.

This survey has shown that among the Muslims who consider religious factor important 50% are respondents aged 19-34 years, those aged 35-49 years make 35.2%, and aged 50-64 years make 14.8% (Figure 6).

This trend is due to the fact that currently there are some important processes going on in the Islamic world,

such as “awakening”, “revival”, “renaissance”, which predict the further increase in the importance of this factor.

Among Muslims aged 19-34 years, 92.6% said that when choosing the products, they relied on the norms of their religion. When asked “Are there any products that you do not buy according to the requirements of your religion?” 88% of respondents answered positively. Among them, 25% mentioned food products, 17% talked about non-food products, and 58% mentioned products of both groups.

It should be noted that various authors confirm our findings, stressing that the new generation of Muslims is trying to adhere to religious canons, taking into account globalization processes<sup>10</sup>. Given the fact that about 60% of Muslims are under the age of 30 years, in the next decade the market in question will grow rapidly<sup>11</sup>. This should be taken into account despite the fact that according to the results of the survey, 27% of Muslims are not familiar with the concept of halal<sup>12</sup>.

### 3. Strengthening of the importance of Islamic finance.

In Russia, there have been activities carried for years out to promote Islamic finance. This is very important, as the Russian Muslim market enterprises need Islam-compliant financial resources and cash management services.

The Russian market of the Islamic financial services is in its infancy, being very small compared to conventional finance market, and amounts to about 1% of the total market of financial services. There are only a few organizations in Russia that provide Islam-compliant (halal) financial services; their total assets amount to more than 10 million dollars.

At the present time, there are 5 companies providing the Islamic financial services in Russia: “Amal” Financial House (Kazan), TNV “LyaRiba Finance (Makhachkala)”, “Masraf” Finance House (Makhachkala) Cpbank (Kazan), TNV “Saada” (Kazan).

“Amal” Financial house has operated on the market since September, 2011. Islamic finance company TNV “LyaRiba Finance” began its activity in 2011. “Masraf” Financial House has worked since March 2013, and its structure comprises a limited partnership “Masraf & Co” and “Masraf” LLC.

The main services provided by these organizations are:

- attracting deposits under terms of profit and loss sharing;

- funding via commodity-based installments and leasing in the consumer segment and the segment of small and medium-sized businesses;

- settlement and cash services.

It is also important to note that many of Shariah standards (AAOIFI) are translated into Russian, as well as the research works of famous scientists, revealing the order of organization of Muslim market<sup>13</sup>.

Thus, we can say that Islamic finance has a positive dynamic in Russia. Taking into account the attention paid by the state to this problem, it can be assumed that its share in the financial market will grow.

### 4. Emergence of new markets for exports.

Previously we have justified the need for the formation of Muslim market based on an increasing demand within the country, but we cannot underestimate the role of export. A huge amount of food and non-food products comes today in Russia from abroad, which means that Russian producers cannot meet the current demand. It is also important that many Muslim countries are going through similar processes, including an increasing religiosity manifested in the desire of people to follow their religious norms concerning the food, clothes, etc. According to the study conducted by Thomson Reuters, the total halal market will reach 1.6 trillion dollars already by 2018, including food market which will grow up to 667 billion dollars<sup>14</sup>.

Russia is a member of many international organizations, representing the countries where Muslims make the numerical majority, so it is important to develop the Muslim market in all aspects, thereby strengthening relations with international partners, at the expense of both imports and exports. Let us consider these organizations:

- The Shanghai Cooperation Organization (SCO): 6 members, among which the countries with predominant Muslim populations include: Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan. In addition, Afghanistan, Iran and Pakistan participate as observers.

- Big Twenty: 20 participants, among which the countries with predominant Muslim populations include Indonesia (the country with the largest Muslim population in the world) and Saudi Arabia.

- Asia-Pacific Economic Cooperation (APEC): 21 participants, among which the countries with predominant Muslim populations include: Indonesia, Malaysia and Brunei.

- The Central Asian Cooperation Organization (CACO): 5 members, among which the countries with

predominant Muslim populations include: Kazakhstan, Kyrgyz Republic, Tajikistan and Uzbekistan.

- The Commonwealth of Independent States (CIS): 9 members, 1 associate member and 2 observers, among which the countries with predominant Muslim populations include: Azerbaijan, Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan, Afghanistan and Turkmenistan.

Any state is interested in attracting foreign capital, as well as in restraining the processes of capital outflow. If this niche remains unoccupied, the funds of Russian investors observing Islamic laws will go abroad, and the increasing demand will be met by partner countries.

In this regard, the Chairman of the Committee of Commerce and Industry Chamber of the Russian Federation, Alexander Borisov, in one of his speeches emphasized that the evidence of the consumer market development is its ongoing segmentation, which is why the amount of religious goods and, in particular, Islamic (halal) products will increase<sup>15</sup>. Therefore, it is important to appropriately deal with the current trends in order to ensure the maximum efficiency of segmentation process. Deputy Minister of Agriculture of the Russian Federation A.V. Volkov in his welcoming speech at the fifth Moscow International Exhibition "Moscow Halal Expo 2014" said that the activities promoting Islamic products would help create favorable conditions for organizations and entrepreneurs on the Russian and CIS markets, augmenting the economic and cultural potential of our country, and enhancing our participation in international economic, scientific and technical cooperation and trade<sup>16</sup>.

## 6. Conclusion

In conclusion, it should be stated that the Russian Muslim market is quite promising. If the religious factor reflects the increase in population's demand, this factor acts as a demand growth indicator in the market. The entrepreneur operating in the Muslim market may start doing business because of both: for religious reasons, realizing the mission of meeting the demand of Muslims, and for economic reasons, when he believes that it will bring him a profit. According to global experience, the commercial activity will inevitably lead to the development of industry, trade, public catering, services and so forth. In addition, businesses need proper infrastructure, field-oriented experts, etc.

Therefore, the Muslim market will grow because of the following:

- 1) there is a *Muslim population growth* in Russia;
- 2) religiosity of Russian Muslims gets improved;

Strengthening of this trend and enhancing of Muslim market development are possible under condition of improved competitiveness of products of Russian enterprises aimed at meeting the demand of the local population and export development.

One of the important objectives of development of the national halal market and the gradual import substitution is to create favorable conditions for the use of business funds and attraction of investors in Russia.

The major challenges are:

1. Absence of a developed Islamic financial infrastructure;
2. Absence of an appropriate regulatory framework for the activities of Islamic financial institutions;
3. Absence of a uniform state policy of the Muslim market development.
4. Absence of a single control authority for Muslim market.

Thus, Russia has a huge potential in the Muslim market, as this niche has just started to be formed within the business community.

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