

# A Study of Global Value Chain through Islamic Economic Framework

Lailan Tawila Berampu<sup>1</sup>, Hardi Mulyono<sup>2</sup>

<sup>1</sup>*Faculty of Economic and Business, Universitas Medan Area, Tanjung Rejo, Medan Sunggal, Kota Medan, Sumatera Utara 20154, Indonesia*

<sup>2</sup>*Universitas Muslim Nusantara Al Washliyah, Medan Amplas, Kota Medan, Sumatera Utara 20147, Indonesia*

\*Corresponding author: lailantawilaberampu25@gmail.com

**Abstract**— Global Value Chain is a useful tool for tracking global production patterns for improving the economies of countries in the global economy with highly complex industrial interactions explicitly for poor and developing countries. This study seeks to link several previous studies, which discussed GVC with Islamic economic Fiqh. Of these, the objective of the current investigation is to study a GVC through Islamic economic framework (Fiqh). This study designed using Qualitative approach with reviewing the relevant literature (themes and topics). The results of this study found that the global dimension of GVC through the concept of Fiqh is input output, which consists of the sharia principles such as moral, quality and priority scale. Further, its distribution intended for Da'wah, education, social and economy. For geographical scope, it consists of a trade negotiation space of various countries. In conclusion, the structure of government in spending money to society who are weak in the faith will lead to deviation of economic activity from the right path.

**Keywords**—Global value chain, Islamic economic framework, Concept of Fiqh, Input-Output

## 1. Introduction

The Global Value Chain is an analysis that has significant implications for the worldwide economy [1]. Because the GVC analysis increases the increase in international trade, global Gross Domestic Product (GDP) and employment. The evolution of GVC in various sectors, such as trade, apparel, electronics, tourism and, business service outsourcing has a positive influence on global trade, production, employment, discussion, and companies in developing countries, producers, and workers can help connect into the global economy. GVC connects companies, workers, and consumers throughout the world and is often a steppingstone for companies and workers in developing countries to participate in the global economy. For many countries, especially low-income countries, their

ability to enter the GVC is crucial to their country's development progress. For developing countries, the ability to enter the GVC is about how to compete successfully and to reap profits in terms of national economic development, which results in more jobs to reduce unemployment and poverty. Thus, GVC is not only about whether a country will participate in the global economy or not, but how to enter the GVC and benefit.

Each country has textually clear rules of the global economy. This paper discovered the topic of GVC which concerning Islamic economic jurisprudence of Umar bin Al-Khatib. The election of Umar bin Al-Khatib commercial jurisprudence as the theme of the study, is based on the words of the Prophet Sallallahu Alaihi Wa Sallam who ordered his people in the event of differences and disagreements of opinion, to hold fast to his Sunnah and Sunnah Khulafaur-Rashidin afterwards. Umar bin Al Khattab's commercial jurisprudence is an essential part of Islamic economics. However, the global economic situation at the time of Umar Radhiyalalhu Anhu did not resemble the condition of merchandise and variants as it is today. The contribution of Umar Radhiyallahu Anhu's economic jurisprudence in global economics had laid the foundations and rules that would guarantee Muslims at this time and in this era. Every time get the benefit and avoid the Muslims from various *mudharat* [2].

## 2. Literature Review

### 2.1 A conceptual overview of the Global Value Chain

Global Value Chain refers to various activities carried out by companies, farmers, and workers to bring products or services ranging from concepts to end consumers and recycling [3]-[4]. The GVC activities include design, production, processing,

assembly, distribution, maintenance and repair, disposal /recycling, marketing, finance, and customer service. GVC distributes these functions among many companies spread throughout the world [5]-[6].

In the context of distribution, there is a "leading company" which is a group of companies that occupy certain functional positions along the chain. Leading companies determine prices, products specification and delivery times [7]-[8]. GVC governance, therefore, is a set of concrete activities and forms of organisation in a particular division of labour between leading companies and other business actors [9].

To understand the dynamics of global economic change requires knowledge of how GVC is regulated and what distribution effects arise from various forms of GVC governance. Based on the observation that the concept of GVC governance is a value chain rarely spontaneously coordinated through market exchanges [9]. Instead, GVC is regulated through strategy and decision making by individual and businesspeople. These businesses are not only large companies that manage access to the final market globally include businesspeople at regional, national and local levels.

The Holding Company faces several choices in deciding how to manage trade and production networks in the global industry. First, whether to make parts and components or provide certain services within the company, hold them in the market, or involve various types of outsourcing with suppliers in the long run. Second, if the parent company decides to outsource the supplier, it needs to determine the characteristics of the goods or services (such as price and volume) and identify the quality and others that the supplier must-have.

Thus, examining GVC governance means studying management decisions in all suppliers and sub-suppliers, the strategies behind decisions taken, choosing a method and implementing them, and building systems to monitor business activities along the chain [10]. However, from a broader perspective, businesspeople shape GVC governance by indirectly producing goods or services, changing, handling, or trading products and services. Such as civil society organisations, trade unions, consumer groups, communities, policymakers, and industrial groups [11]-[12].

Ultimately, countries and international organisations play a leading role in developing and maintaining GVC through the facility, regulatory,

and distribution interventions [13]. The state can also be a businessperson directly in GVC - for example, through state-owned companies and public procurement. In other words, countries play an active role in the 'world of GVC' and only with a comprehensive analysis of all businesspeople can accurately explain the dynamics of GVC's governance changes and processes related to capital accumulation.

The emergence of GVC is redrawing the "boundaries of international knowledge" Industrial competitiveness is now increasingly determined by the outlines of international production networks and by national borders [14]. The production of goods and services is fragmented and spatially dispersed and regulated by parent companies, coordinating various supplier and sub-supplier activities throughout the world [15]. In other words, GVC has become the backbone of the world economy and a centralised economic nervous system [16].

The parent companies have progressively focused on specific tasks that become the company's advantages. In contrast, outsourcing and offshoring to others is a movement that opens up the possibility of creating suppliers in new locations. This supplier can work independently without the need to involve the State/government. The supplier has significant consequences for the design of trade, industry policy, and for the outcome of a country's development.

GVC has opened up new opportunities for developing countries to participate in the global economy but also heightens risks and uncertainties in doing global business. GVC's participation does not lead to inclusive development unless an increase in the share of value-added is created and managed domestically and distributed fairly in various social groups. The GVC has provided increased economic growth for value chain actors and economic and social benefits.

## 2.2 Importance of Global Value Chain

The global economy is currently facing very complex industrial interactions. To deal with these interactions requires the GVC methodology as a useful tool to track patterns of global production shifts, geographically connecting production activities with businesspeople in a single industry. The GVC methodology can also determine a country's role in industrial development. The GVC

framework focuses on adding value in a trade, from concept to production and end consumers.

GVC examines job descriptions, technology, standards, regulations, products, processes, and markets in specific industries and places, thus providing a holistic view of the global industry both from the top-down and from the bottom up. The comprehensive nature of this framework allows policymakers to answer questions about development issues that may not have been able to be addressed before. Also, GVC explains the global-local dynamics that have emerged in the last 20 years [17].

Policymakers and researchers alike understand the pros and cons of the spread of globalisation; the GVC framework is increasingly important in overcoming the reality of new industries in developing countries as new drivers of global value. Developing countries are increasingly recognising the role of GVC as an important chain, to make international products and international certification a prerequisite for the success of the export-oriented competition. GVC becomes a tool in the development of a workforce that is an integral part of dynamic economic improvement, the proliferation of regulations and standardisation of private companies [18]-[19]. GVC has also proven beneficial in social and environmental development. Several institutions and governments are researching the GVC to understand the global industry and to guide the formulation of new programs and policies to encourage economic development.

Understanding Islam as Global Economic (i) Al-Quraysh (1-2) because of the custom of the Quraysh (1), i.e. their habit of travelling in winter and summer; (ii) An Nahl (112) and Allah have made a parable (with) a country that was once safe and secure, sustenance came to him abundantly from all over the place, but the inhabitants denied God's blessings; therefore Allah inflicted upon them the famine and famine fear, because of what they do; (iii) Fussilat (10) And he created him high mountains on it. And then He blesses, and He determines the food (for the inhabitants) in four periods, adequate to (meet the needs) of those in need.

### 2.3 Understanding Umar bin Khattab as Khalifah

Based on the word of Allah in the Quran 22 (40-41) which tells us that when Allah gave authority over

the land to the Companions of His Prophet (Apostles) who had been driven from their homes, they were instructed to do four things namely to establish prayer, paying zakat, ordering what is right and prohibiting what is terrible. Imam Abu Bakar al-Jassas said: such acts are Muhajirin's attributes because they are people who were driven out of their homes unjustly. Allah states that if Allah gives the displaced people power over the land, they will establish prayers, pay zakat, order what is right and forbid what is wrong. It is a description of the correct Caliph which Allah gave authority to the land to Abu Bakar, Umar, Uthman, and Ali.

History bears witness and is narrated through a bidding process that Umar conducts an examination of the market and trade in the best possible way. Umar made the protection and development of state institutions serving finance, justice, and the military, as well as matters relating to the appointment of the governor. Umar struggled to get people to obey Allah's commands and the Prophet Muhammad's commands, and he tried to make people avoid what was forbidden by Allah and by His Prophet, by using his position as caliph of the Muslims, and through the provincial governor in Muslim country. Ibn Taymiyyah: "The governor's main objective in Muslim provinces is to order what is good and ban what is bad." Umar struggled to defend the concept of monotheism, fight deviations, fight crime, and encourage good [20].

### 2.4 Umar bin Khattab is concerned with Markets and Trade

Umar always checks traders who make transactions in the market and makes traders make transactions following shari'ah. Umar will appoint another person who is responsible for the market. Umar was appointed Sa'ib ibn Yazeed, who was in charge of the Madeenah market. Researchers will pay attention that the Hisbah (market checking) system in an Islamic country develops according to Islamic principles and is developed together with the Muslim community to become one of the foundations of Islamic society. It is known that Umar is very serious about accountability in the market. Umar used to walk around the market, carrying his cane with which he would discipline anyone who deserved it.

It is reported that Anas bin Malik said: I saw 'Umar wearing an izar with fourteen patches, some of which were of leather, and he was not wearing a

shirt or robe; he wore a turban and carried his cane, walking around the Madeenah market. Umar prevented hoarding in the Muslim market. Umar once expelled Hatib Ibn Abi Balta'ah for selling products at very high prices (not by market prices). Narrated Ibn Jundub said: Umar said to them, "do you want to do business in our market? If so, then you have to let other people take part in this business, if not, then get out of our market ". Umar also prohibited hoarding food for people and animals. Malik narrated in al *Muwatta*, that Umar bin AL Khattab said: "There will be no hoarding in our market. There is no rich person who can hoard Allah's provisions, who has come to our market and save them from us. But anyone who brings goods to the market winter and summer are guests of Umar; let him sell whatever he wants and keep whatever he wants."

Umar will intervene to determine appropriate prices for essential commodities; interventions like this are needed to protect consumers and traders. A man carries olive oil, which he starts to sell on the market at a price higher than people usually pay. Umar said to him: please sell it at market prices or leave our market, because we will not force you to follow our market prices, and Umar made the man leave

### 3. Results and Discussion

#### 3.1 Global Value Chain and Its Relationship on Islamic Economic Framework (Market and Trade)

In [21], the GVC dimension consists of a common and global size. On a worldwide aspect, GVC contains elements of the input-output structure of a GVC, geographic scope, and governance structure. This paper will discuss the three elements of GVC one by one. First, an example of the GVC input-output segment for fruits and vegetables is as shown in Figure 1.

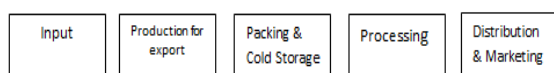


Figure 1: Global Value Chain (Input-Output)

The chain segment in Figure 1 illustrates how various processes in the GVC chain create value that contributes to the product or service [21]. It means that in the GVC input-output process, each chain must have added value. Creating added value

in each string is not new to Islamic economics in the Fiqh of Umar Radhiyallahu Anhu, many narrations explain the urgency of all the activities of producing goods and services carried out by a Muslim to improve what he has, both in the form of natural resources and assets, and prepared to be used by the perpetrators themselves or by Muslims. First, the rules of production in Umar Radhiyallahu Anhu's economic jurisprudence are based on (i) Sharia principles, not only in terms of halal and haram, but broader than that which includes three sides, namely creed, science and charity; (ii) The principle of morals, in fact, in the Fiqh of Umar bin Al Khattab's economic jurisprudence, requires Muslim producers' engagement with noble morals and away from evil morals. Bad moral Muslim producers will endanger the production process, such as lies, cheating, harming others, and so forth; (iii) Quality, in Islam the quality of production is not merely related to the material, but the quality improvement is a demand/obligation for Muslims, as written in the Qur'an (Al-Mulk: 2) and explained in Muslim Hadith no 1955 so that all people Islam is good for everything; and (iv) Paying attention to the Production Priority Scale, the purpose of production in Islam is to pay attention to the urgency in realising sharia goals. Umar bin AL Khattab forbade Muslim producers to produce secondary goods for profit, while the ummah experienced a shortage of food and other primary products.

The goals of distribution themselves in the Islamic economy include the objectives of da'wah, educational purposes, social goals, and economic goals. Second, geographic scope, geographical analysis is first based on a review of global supply and demand. Muslims are one people who have one territory. While the division of the Muslims in several countries and various regions is out of this fundamental law; because Allah says, "Verily (monotheism), is the religion of you all, the one religion and I am your Lord, so fear Me" (Al-Mu'minun: 52). In the GVC Geographic scope, trade flows at each stage of the value chain use a database of international trade statistics. Indeed, since the Caliphate, the database has been used by Umar in the scope of international trade in areas in Islamic countries based on two periods of time, namely prosperity and famine time. The GVC operates on different geographical scales (local, national, regional and global). Also, it continues to grow, since Umar caliph was very concerned about

the ease of movement of trade between regions in Islamic countries. For instance, the excavation of the canal connects Egypt and the Hijaz, so that ships can sail, so that the price of food in Medina and Egypt are the same.

The third is the Governance Structure. Among the obligations of the state in Islam is to oversee economic activities to prevent people who are weak from the faith side, which will lead to deviations of economic activity from the right path. Supervision is one of the essential tasks of management in the concept of modern management, namely ensuring that everything is in order [22]. Umar Radhiyallahu Anhu is very well-known in supervising his people, and his firmness in the people who commit irregularities, especially if the person who committed the deviation is the person responsible for public works, such as governors, judges and tax officials. For that Umar Radhiyallahu Anhu stipulates four articles in the governance structure namely *hisbah* and market supervision, asset control, work supervision, and regulation and environmental protection [23].

#### 4 Conclusions

This paper reviews the concept of GVC on international markets and trade concerning the Islamic economic Fiqh of Umar bin Al Khattab. For facilitating the understanding of the GVC concept during the caliph. This paper first parses the importance of GVC analysis, Umar's leadership in global trade and markets, and the relationship between GVC and global business from the perspective of Umar bin Al Khattab's economic jurisprudence.

The discussion of GVC literature on the concept of economic Fiqh of Umar bin Al Khattab about GVC is that there must be an Islamic element. Umar said: "Truly trading is not lawful but for something permissible to eat and drink." So everything that is forbidden to consume is forbidden in producing it, offering it, and distributing it.

On the other hand, an unlawful Muslim produces something illegal for consumption by a Muslim, even though it is prepared for non-Muslims. Thus, GVC in the concept of Islamic economics works in cleaning the world of harmful things. It is confirmed by the history of Ibn Abbas, who condemned Muslims who sell wine to people who would make it a *khamar*. In this case, Umar

Radhiyallahu Anhu said, "Truly the world is a charming delight. Whoever takes it correctly will be given God's blessing in it, and whoever takes it with others, he is like a person who eats and is not full." Another case with conventional economics is that economic resources are exploited in useful products and *mudharat*, as long as it benefits the producers.

The limitation of this study is that the authors review GVC only from a global dimension, even though GVC has global and local scope. For further researchers, the authors suggest conducting empirical research and incorporating the regional aspects of GVC in future research.

#### References

- [1] Antràs, P., and Chor, D. "Organizing the global value chain." *Econometrica*, vol. 81, no. 6, pp. 2127-2204, 2013.
- [2] Ibrahim, M. H., and Alam, N. "Islamic economics and Islamic finance in the world economy." *The World Economy*, vol. 41, no. 3, pp. 668-673, 2018.
- [3] Gereffi, G. "A global value chain perspective on industrial policy and development in emerging markets." *Duke J. Comp. & Int'l L.*, vol. 24, pp. 433-441, 2013.
- [4] Gereffi, G. "Global value chains in a post-Washington Consensus world." *Review of international political economy*, vol. 21, no. 1, pp. 9-37, 2014.
- [5] Ponte, S., and Sturgeon, T. "Explaining governance in global value chains: A modular theory-building effort." *Review of International Political Economy*, vol. 21, no. 1, pp. 195-223, 2014.
- [6] Ponte, S. "The hidden costs of environmental upgrading in global value chains." *Review of International Political Economy*, vol. 21, pp. 1-26, 2020.
- [7] Humphrey, J., and Schmitz, H. "Governance in global value chains." *IDS bulletin*, vol. 32, no. 3, pp. 19-29, 2001.
- [8] Preuss, L. "Rhetoric and reality of corporate greening: a view from the supply chain management function." *Business Strategy and the Environment*, vol. 14, no. 2, pp. 123-139, 2005.
- [9] Gibbon, P., Bair, J., and Ponte, S. "Governing global value chains: an

- introduction.*” *Economy and society*, vol. 37, no. 3, pp. 315-338, 2008.
- [10] Kano, L. “*Global value chain governance: A relational perspective.*” *Journal of International Business Studies*, vol. 49, no. 6, pp. 684-705. 2018.
- [11] Bair, J., and Palpacuer, F. “*CSR beyond the corporation: contested governance in global value chains.*” *Global Networks*, vol. 15, no. s1, pp. S1-S19, 2015.
- [12] Nickow, A. “*Growing in value: NGOs, social movements and the cultivation of developmental value chains in Uttarakhand, India.*” *Global networks*, vol. 15, no. s1, pp. S45-S64, 2015.
- [13] Mayer, F. W., Phillips, N., and Posthuma, A. C. “*The political economy of governance in a ‘global value chain world.’*” *New Political Economy*, vol. 22, no. 2, pp. 129-133, 2017.
- [14] Dicken, P. *Global shift: Mapping the changing contours of the world economy.* New York: SAGE Publications Ltd, 2007.
- [15] Coe, N. M., and Yeung, H. W. C. “*Global production networks: mapping recent conceptual developments.*” *Journal of Economic Geography*, vol. 19, no. 4, pp. 775-801, 2019.
- [16] Cattaneo, O., Gereffi, G., and Staritz, C. *Global value chains in a postcrisis world: a development perspective.* New York: The World Bank, 2010.
- [17] Gereffi, G., and Korzeniewicz, M. *Commodity chains and global capitalism,* Canada: ABC-CLIO, 1994.
- [18] Gereffi, G., and Frederick, S. *The global apparel value chain, trade and the crisis: challenges and opportunities for developing countries.* New York; The World Bank, 2010.
- [19] Yamin, M., Sinkovics, R. R., Lee, J., and Gereffi, G. “*Global value chains, rising power firms and economic and social upgrading.*” *Critical perspectives on international business*, vol. 11, no. 3, 319-339, 2015.
- [20] Al-Tel, O. I., and Mohd Nor, M. R. “*Umar Ibn Al-Khattab's Visits to Bayt Al-Maqdis: A Study on Its Reasons And Objectives.*” *Journal of Al-Tamaddun*, vol. 12, no. 1, pp. 79-91, 2017.
- [21] Fernandez-Stark, K., and Gereffi, G. “*Global value chain analysis: a primer.*” In *Handbook on Global Value Chains.* Edward Elgar Publishing, 2019.
- [22] Quattrone, P., and Hopper, T. “*A ‘time-space odyssey’: management control systems in two multinational organisations.*” *Accounting, organizations and society*, vol. 30, no. 7, pp. 735-764, 2005.
- [23] Handoko, L. H., and Kayadibi, S. “*The Implementation of Good Governance in the Era of Caliphate Omar Ibn Abd al-Aziz (61H-101 H/717-720 M).*” *Global Review of Islamic Economics and Business*, vol. 1, no. 2, pp. 133-149, 2015.