

Halal Finance and Halal Foods: Are They Falling Apart?

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Abstract: For a country that is looking for new sources of growth, the Halal industry has the potential to achieve that ambition. To realize this aspiration, the country has to put in place measures to support the industrial growth, and should have the strategy of becoming one of the most trusted and reliable Halal providers in the world. To achieve the aspiration of becoming a centre for production and trade of halal foods and services, regulations need to be developed. However, our analysis indicates that: first, the regulation on halal foods and services shows that the halal property is used as the underlying assets for Islamic financial transactions. Second, a new set of filter needs to be introduced that look into the halal sources of funds (halal funds/money) for companies operating in the halal industry. Third, a halal GNP could be introduced as a result of the integration between halal finance and halal foods. Therefore, both halal foods and halal finance should be integrated to create a new source of growth.

Keywords: standardization; halal goods; sharia compliant; regulation; Halal GNP

JEL classification: D01; D10; D21; D83; L15

1. Introduction

The halal industry is reported as being the fastest growing global business across the world. According to the Halal Journal,³ a Kuala Lumpur-based magazine, it was estimated to be at USD2.3 trillion in 2012, a tremendous increase from 2008 which was at about USD560 billion.⁴ Halal food accounted about 29% of total halal trade which was approximately about USD661 billion. It has created a lucrative market and huge opportunities for halal food businesses - both domestic and international trades. This could be considered as a new source of growth. At the same time, the Halal food products have spread out into wide range of products – from raw and processed agricultural-food industry to non-food products such as

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³ Please visit: <http://www.halaljournal.com/> and Socio-economic Environmental Research Institute (www.seri.com.my).

⁴ Please also refer to <http://www.mih.com.my/> 2013.

pharmaceuticals, health products, medical devices, cosmetics and toiletries; and services such as logistics and hotel business. In addition, the increasing demand for safe, high quality food in primary markets also encourages the producer to tap into those markets. Nonetheless, the incidents of food marketed as Halal failing to meet Halal requirements has spurred demand for genuine Halal products. Therefore, regulation is very crucial from this perspective.

Principally, the halal business must be lawful and wholesome (*halalan toyibban*),¹ which means quality and wholesome. The halal standard is created to fulfill those characteristics. From here, the term of standard for halal foods appears as defining the market parameter for the Halal industry. In reality, the term also covers the processes of producing halal foods or known as halal services. To ensure that the entire production processes are halal, the source of financing should also be from a halal source. It is after all, what Islamic finance is all about – promoting justice and equity in transactions while abandoning usury. Islamic banking's concept of sharing risks and returns could protect a fledgling Halal business, while simultaneously nurtures the growth of the Halal industry.

Countries like Malaysia, Indonesia, London, Bahrain, United Arab Emirates,² Australia and Singapore have declared themselves as Islamic financial centres, which basically considered as part of halal services. Sharia compliant financial products or services are used as the defining market parameter.³ It seems that both halal foods and halal finance are not well-integrated, except in Malaysia and Pakistan.⁴

Our aim in this paper is to propose that they should be integrated. We will prove this proposal with the following proposition. Our proposition is that the integration will generate new sources of growth, because it will be able to complete the cycle from finance-growth and growth-finance hypotheses. The proposition would also suggest a new methodology in calculating GNP.

The remaining discussion of this paper will be divided into five sections. Section two will discuss on the insight into the regulation of halal industry. Section three will establish that Islamic finance will be part of halal industry. Section four will discuss the new way of calculating the halal GNP. The conclusion will be presented in section 5.

¹al-Baqarah (2:168), al-Maidah (5:1), (5:4-5), (5:87-88), (5:96), al-A'raf (7:157), an-Nisa'(4:160), at-Tahrim (66:1), al-Hajj (22:30)

²Only recently Dubai declared itself as capital city of Islamic economy.

⁴ In this paper, we simplify sharia compliant financial products or services as halal finance.

2. An Insight into the Regulation of Halal Industry

In addition to the points raised in section 1, Halal emerges as a defining market parameter only in recent years. The defining market parameter could be seen from various forms: the estimated value of this market (<http://www.mihis.com.my/> 2013), and demand from 1.6 billion Muslim consumer or 23 per cent of world population (Pew Research Centre 2013). Another defining market parameter is the regulation in Halal industry. Halal funding in reality is actually small in relative to potentially lucrative Halal related sectors. Although no exact figures are available, guesstimates indicate that only 30 per cent of total Islamic loans in Malaysia are actually being used by businesses in potential halal sectors. If 1.6 billion Muslims spend USD1 a day on Halal food, the total would come up to USD584 billion a year.

According to Mohd Ali & Mohd Rizki (2015) to ensure that the entire production process is halal, the source of the financing should also be from a halal source, i.e. using Islamic banking services. It is after all, what Islamic finance is all about; promoting justice and equity in transactions while abandoning usury. Islamic banking's concept of sharing risks and returns could protect a fledgling halal business.

As of August 2008, less than 10% of those in the halal industry in Malaysia had adopted Islamic financing which has definitely shown its potential. This has left many to ponder why halal producers have not opted to create a complete halal supply chain from A to Z, beginning with financing. Some producers deem halal financing as being a more expensive option to conventional financing. Currently more than 80 per cent of the halal producers in Malaysia are non-Muslims. This is one of the reasons of slow take up of Islamic fund. It is paradox that such Muslim concern is being capitalised on by non-Muslim businessmen. By right, Muslim businessmen should lead the industry to grab any available opportunities and make the most profit from halal industry.

Secondly, according to industry sources, lack of knowledge and exposure to halal financing structures could be the main reasons behind this perception, as some have argued that the provision of halal financing is indeed cheaper than conventional structures available to business and small and medium-sized enterprises (SMEs). In fact, all halal producers should only be seeking halal financing. This is to ensure that the entire chain is halal, starting with the capital. It depends on where the producers are. In some countries, the tax laws have not been changed to provide a level of playing field for Islamic financing, so invariably it costs more. For example, stamp duties may be higher as several documents are involved in one financing structure. Legal documentation also plays an important part due to its unique sharia requirements and some countries do not have legal concepts that support these requirements, for example, trusts law. In summary,

pricing reflects the relative difficulties in establishing working products. However, over time, this should resolve by itself.

Thirdly, it is even a sad situation when the Muslim entrepreneurs themselves are using interest financing. Despite their knowledge of impermissibility of interest, they are still using the conventional medium to finance halal businesses. This value deterioration is caused by a low conviction on tawhid (oneness of God) and exact understanding on the teachings of Islam. There are also occurrences of Muslim entrepreneurs using non permissible technique of slaughtering or haram ingredients in the processes of their halal businesses.

A producer typically produces a full package of non halal products and services or a full package of halal products and services or partially produces halal products and services. In general, a producer of Halal products and services is a company established under the Company Act. For example, in Malaysia, it is regulated under Companies Commission of Malaysia. The regulation focuses, among others, on the formation of companies, legal personality, capacity and power, director's duties, governance and financial aspects. The companies also have to comply with several requirements such as to act as private companies and not be involved in any insider trading. For certain companies such as Islamic banking institutions or Islamic trust fund companies, they are required to spell out in their article of association that their businesses follow the sharia. However, for companies having no such provision that requires them to disclose their activities, i.e. compliance with sharia or produce a halal products and services, regulation becomes important as the defining parameter. Traditionally, the regulator has to keep a close watch on the reasons of regulation and the areas of halal activities that need to be regulated.

2.1. Reasons of Regulation

Public Confidence – products and services labelled as halal could develop public confidence and the sharia standard guideline is very much needed here. That is, building confidence at the microeconomic level focuses on exposing the non-compliant risk of each individual product or services; and at the firm level, isolating company from the holistic framework of sharia-compliant companies. The regulator would try to see that the products and services operate in a lawful and wholesome manner. By supervising the sharia-compliant companies, the regulator is expected to maintain public confidence in the real sectors, at least toward new proposal on halal GNP.

Market Discipline - Both, disclosure and market discipline complement formal supervision. Market participants (i.e., producers, customers, non-profit organizations) can play an important role in this situation. In free and open markets, market participants can use their decisions (e.g. boycotting the non-halal products and avoiding the sharia non-compliant investment) to reward those

producers that are complying most effectively. More accurately, reward producers with most performed products and services as a way of going forward.

How market participants make those decisions are not always easy to determine. Even in a system with a well-structured regulation and other market “regulators” (for example, Muslim Consumer Groups) that provide the list of halal products and services, it seems that the market relies heavily on ingredients and logo for example, often seemingly exposing the shortfalls in the current practices of regulation.

These market reactions can be explained to certain extent by the difficulty of projecting the producers’ performance based on available disclosures. For market discipline to be a truly effective complement to formal supervision, market participants must be armed with accurate and timely information, not just current list of products and services. They also need to be equipped with information that has a longer-term value such as qualitative and quantitative information on the operators’ business strategies, products and services compliant risk profiles, and risk appetites.

Basis for Sharia Based Public Policy - The main objective of a public policy is to establish a relationship that involves three major groups, i.e., capital providers, producers and customers. The capital providers are the government, individuals or private and non-governmental organizations (NGOs). Producers are those who operate halal businesses. The customers are the users of halal products and services. These three groups are linked in this verses: “*On the Day when every person will be confronted with all the good he has done, and all the evil he has done, he will wish that there were a great distance between him and his evil* [Surat Al-Imran, Verse 30]. In another verse, “*They believe in Allah and the Last Day, they enjoin Al-Ma’ruf (Islamic Monotheism, and following Prophet Muhammad (saw) and forbid Al-Munkar (polytheism, disbelief, and opposing Prophet Muhammad (saw), and they hasten in (all) good works, and they are among the righteous* [Surat Al-Imran, Verse 114]

The overall effectiveness of a public policy, however, will depend on the extent of its contribution to develop human self in order to achieve its real well-being that spans beyond an increase in income and wealth, as guided by the Sharia. In a broader context, how the framework of Maqasid Shari’ah could be brought into the picture of the Halal development model.¹

¹Namely, in preserving the human’s faith (*deen*), their self (*nafs*), their intellect (*‘aql*), their posterity (*‘nasl*), and their wealth (*maal*). In addition, all of these universal intents should be able to interact with each other and are closely related in preserving one another.

2.2. Activities of Regulation

In this section, we suggest several areas that become part of the activities in regulating the halal development.

2.2.1. Regulation on Halal Activities

The widely accepted *Qaid'a* (or maxim) in 'Usul ul-Fiqh (principle of jurisprudence) is: **The initial rule is that an object or a thing is permissible unless stated otherwise.**¹ The verses mentioned in footnote lead to the conclusion that Allah (swt) has made everything halal. However, from this wide group of permissible things and objects, there are certain prohibitions that also come from the al Quran and al hadith. Among the objects or things that are clearly not permissible to consume are: pork,² blood, carrion (carcasses of dead animals), animals slaughtered in the name of anyone but "Allah", an animal that has been strangled, beaten (to death), killed by a fall, gored (to death), savaged by a beast of

⁹This *Qaid'a* is derived from many verses in the Qur'an: for example "He it is Who created for you all that is on earth." [Al-Baqarah 2:29], and "Allah is He Who has created the heavens and the earth and sends down water from the sky and thereby brought forth fruits as provision for you; and He has made the ships to be of service to you, that they may sail through the sea by His command, and He has made rivers to be of service to you." [Ibrahim 14:32] and also "This day [all] good foods have been made lawful, and the food of those who were given the Scripture is lawful for you and your food is lawful for them. And [lawful in marriage are] chaste women from among the believers and chaste women from among those who were given the Scripture before you, when you have given them their due compensation, desiring chastity, not unlawful sexual intercourse or taking [secret] lovers. And whoever denies the faith - his work has become worthless, and he, in the Hereafter, will be among the losers." [Al Ma'idah 5:5] and "All food was lawful to the Children of Israel except what Israel had made unlawful to himself before the Torah was revealed. Say, [O Muhammad], "So bring the Torah and recite it, if you should be truthful." [Al Ali Imran 3:93]

²"Prohibited to you are dead animals, blood, the flesh of swine, and that which has been dedicated to other than Allah, and [those animals] killed by strangling or by a violent blow or by a head-long fall or by the goring of horns, and those from which a wild animal has eaten, except what you [are able to] slaughter [before its death], and those which are sacrificed on stone altars, and [prohibited is] that you seek decision through divining arrows. That is grave disobedience. This day those who disbelieve have despaired of [defeating] your religion; so fear them not, but fear Me. This day I have perfected for you your religion and completed My favor upon you and have approved for you Islam as religion. But whoever is forced by severe hunger with no inclination to sin - then indeed, Allah is Forgiving and Merciful." [Al Ma'idah 5:3], "I do not find within that which was revealed to me [anything] forbidden to one who would eat it unless it be a dead animal or blood spilled out or the flesh of swine - for indeed, it is impure - or it be [that slaughtered in] disobedience, dedicated to other than Allah. But whoever is forced [by necessity], neither desiring [it] nor transgressing [its limit], then indeed, your Lord is Forgiving and Merciful." [Al 'an'am 6:145] and also "He has only forbidden to you dead animals, blood, the flesh of swine, and that which has been dedicated to other than Allah. But whoever is forced [by necessity], neither desiring [it] nor transgressing [its limit] - then indeed, Allah is Forgiving and Merciful." [An Nahl 16:115]

prey (unless finished off by a human), alcohol,¹ and food over which Allah’s name is not pronounced.² The concern is how to make it fully utilized and continuously evolved as it may involve new product like genetic engineering. This will require good standard and governance.

2.2.2. Halal Standard

Risk factors in the Halal industry include complexity in definition, requirements and variations in interpreting the same requirements across geographical and cultural background.³ What are the items to be covered in the Halal standard? Based on the sample of few standards, the information presented in Table 1 shows that parameter for halal differs according to jurisdictions and organizations. For example, the processing and preparation of derivative or new food (other than as described above) are subjected to various ingredients and the processing, preparation, packaging, transportation and storage require elements that comply with the sharia standard. Therefore, each requirement needs to have a specific certificate, for example, certificate for slaughtering house, certificate for processing plant or kitchen (e.g. halal kitchen), and the certificate for restaurant.

Table 1. Halal Standard Parameter by Different Organizations

FAO	Halal Food Standards Alliance of America	Malaysia Halal Standard
Definition	Definition	Definition
Halal Term Lawful Food Food of animal origin Food of plant origin Drink Additives Slaughtering Preparation, Processing, Packaging, Transportation and Storage	Slaughtering Requirement	Halal Term Food and beverage products Consumer goods
Labelling Requirement	Requirement for Processing Plants	Governing Law – follow the Shafi’I school of thought, or the Maliki,

¹ *O you who have believed, indeed, intoxicants, gambling, [sacrificing on] stone alters [to other than Allah], and divining arrows are but defilement from the work of Satan, so avoid it that you may be successful. [Al Ma’idah 5:90]*

² *“And do not eat of that upon which the name of Allah has not been mentioned, for indeed, it is grave disobedience. And indeed do the devils inspire their allies [among men] to dispute with you. And if you were to obey them, indeed, you would be associators” [of others with Him]. [Al ‘an’am 6:121]*

³ Variations in opinion are due different schools of thoughts. There are four major schools of thoughts in Islam: Hanafi, Maliki, Shafi’i and Hanbali.

		Hambali or Hanafi school of thought
	Requirement for Halal Meat Stores	Requirement for food premises
	Requirement for Halal Restaurants and Caterer	Requirement for Slaughter House
		Requirement for Halal logo
		Recognized regulatory authority (JAKIM, JAIN or MAIN)

Source:

a) *FAO, General Guidelines for the Use of the Term "Halal", 1997.*

b) <http://halaladvocates.net/site/hfsaa/our-standards/>

c) <http://www.halal.gov.my/v3/index.php/en/guidelines/malaysia-standard>

2.2.3. Sharia Governance

Based on the maxim discussed above, if scholars want to derive a legal ruling on an object or a thing (or activities) that was not known to be eaten or consumed at the time of the Prophet (saw), then it is subjected to a new ruling (or fatawa). The new ruling might also be due to: a mixed of halal and non-halal items; the process in arriving to the halal status needs to be in place. For example, a fatawa is needed to determine the status of genetic engineering. In reaching the fatawa on genetic engineering, the eminent scholar, Sheikh Yusuf Al Qardawi states the following:

"One of the blessings of Islam is that it never abstracts scientific programs or narrows the scope of the mind in the field of science and technology. There are many benefits we can derive from this, say, for instance in treating genetic diseases by using the effective genes to prevent harm or disease. This is something commendable in Islam according to legal rule "Prevention is better than cure"; the rule is taken from the hadith; "There should be neither harm nor reciprocating injury."¹

It shows that research done by scholars on scientific knowledge and technology (e.g. food scientists, veterinary doctors, doctors, and pharmacist) and scholars (e.g. sharia and economic scholars) from the aspects of benefits, and harm of a particular halal object or thing (another maxim) is necessary. The role of scholars in giving a fatawa is also needed especially in the presence of the complex definition of halal. Therefore, to avoid the sharia non-compliant risk, halal committee council is needed at different levels, namely at producer, provider and country levels.

¹http://www.einfad.my/FMS_en/index.php?option=com_fatwa&task=viewlink&link_id=2128&Itemid=59.

2.2.4. Multiple Standard Setting Body

As reported in Table 1, the consumer should be aware that there is an approved standard setting body in each jurisdiction. The agencies dedicated to play a role as regulator for halal products and services are such as Jabatan Kemajuan Islam Malaysia (Malaysia), Majelis Ulama Indonesia (Indonesia), Brunei Islamic Religious Council (Brunei), the Central Islamic Committee of Thailand for Halal Food Standard (Thailand), Halal Research Council (India) and the Halal Food Standards Alliance of America (HFSAA). Consumers should also be able to identify the logos of other approved standard setting body in other jurisdictions as this could assist them in making decisions when buying imported consumer goods or patronizing certain food outlets overseas. Therefore, in encouraging the cross border activities, the existence of multiple standard setting bodies should be minimized. A single standard setting body, like FAO, should be considered as a concerted effort to harmonize the rulings on halal products and services, and also to the need of such common standard in the Muslim minority countries.

2.2.5. From regulation to supervision

The supervisory framework in addressing the supervisory issues which impact operations and institutional development of Halal industry should be developed. Arguing against universal supervision or creating separate specialized supervisions, the approach should be able to set up risk-based supervisory framework. This framework needs to be able to highlight on the need to supervise Halal industry and focuses on the issues of supervision such as risk management (e.g. reputational risk to operator/country), governance, transparency and disclosure and market conduct; and should be part of the operational standards.

3. Sharia Compliant for Financial Transactions and Companies

As discussed above, the current regulation on halal products and services is based on the products themselves; hence the halal products and services. Our aim in this section is to establish that the financial products and services comply with the sharia based on the underlying contract.

3.1. Sharia Compliant in Financial Products and Services

Under the sharia law on transactions, there are various types of contracts, from contract of sales and purchases (e.g. murabahah), contract of usufructs such as leasing (ijarah), contract of sharecropping (muzara'ah), to partnerships and equity participation (musharakah and mudarabah). Islamic financial institutions are permitted to adopt all these types of contract.¹ Under these contracts, the law

¹See (Ismail & Tohirin, 2010, pp. 178-199).

prohibits the collection and payment of interest, the avoidance of economic activities involving speculation or 'gharar' and the investment in unlawful activities.

The consequences of each contract can be seen in the rights, obligations and legal effects. These effects are not one and the same in all contracts, but they vary from one to another. For example, the effects of the contract of sale are the transfer of proprietary rights in things, obligation of the seller to deliver goods (which is known her quantity and quality) and establishment of his right to demand the price. The effects of rent are the transfer of proprietary rights in usufruct to the tenant. Thus, we found that these effects differ from one contract to another.

In general, it can be said that the following effects accrue from the contracts. *First*, the owner has the obligations to perform the transfer of proprietary rights in things or usufruct, commutative or non-commutative, such as sale, gift, rent, and borrowing. *Second*, obligation of performing a specified work regardless whether this work is the delivery of fungible property which is a debt which a person owes to another, such as contract of loan, or other work, such as the work of a hiring or agent. *Third*, arising the right of security as, for example, in pledge, surety and bail, and transfer of debt.

Hence, Islamic financial institutions conduct their activities in accordance with Sharia which entails that the institution pledges: (i) not to engage in interest-based debt transactions; (ii) not to conduct pure financial transactions disconnected from real economic activity; (iii) not to participate in transactions where there is exploitation of any party; and (iv) not to participate in activities regarded as harmful to society. In addition, laws are needed to allow financial institutions to operate according to Islamic rules. The example of financial transaction is presented in Table 2. For example, Islamic financial institutions can offer the sales based transaction using *murabahah*, *istisna'*, *ijarah* or *tawarruq* contracts.

The above compliance would be able to define the financial transactions (i.e., financial products and services) based on the underlying contractual features. Also the lists of property to be traded and financial products to be invested and/or offered need to comply with the sharia.

3.2. Sharia Compliant Companies

The involvements of companies in the following elements are criteria used for evaluating the status of sharia-compliant companies. Countries, like United Arab Emirates, Indonesia, Malaysia and Pakistan come up with the following parameter for sharia compliant companies.

3.2.1. Primary Filter (Industry/Business Activity)

- Financial services based on *riba* (interest);

- Gambling;
- **Manufacture or sale of non-halal products or related products;**
- Conventional insurance;
- Entertainment activities that are non-permissible according to sharia;
- Manufacture or sale of tobacco-based products or related products;
- Stockbroking or share trading in sharia non-compliant securities; and
- Other activities deemed non-permissible according to sharia.

Table 2. Hypothetical Example of Islamic Financial Institution’s Balance Sheet

Assets	Capital and Liabilities
Sales Based <input type="checkbox"/> Murabahah <input type="checkbox"/> Istisna’ <input type="checkbox"/> Ijarah <input type="checkbox"/> Tawwaruq	Liabilities: Islamic Deposits <input type="checkbox"/> Wadi’ah <input type="checkbox"/> Qard <input type="checkbox"/> Tawarruq <input type="checkbox"/> Murabahah
Equity Based <input type="checkbox"/> Mudarabah <input type="checkbox"/> Musharakah	Investment Account <input type="checkbox"/> Mudarabah <input type="checkbox"/> Musharakah <input type="checkbox"/> Wakalah
Fee Based <input type="checkbox"/> Wakalah <input type="checkbox"/> Kafalah <input type="checkbox"/> Rahnu	Capital <input type="checkbox"/> Mudaharabah <input type="checkbox"/> Musharakah

3.2.2. Secondary Filter (Financial Ratios)

The Sharia Advisory Council (SAC), which establishes the ruling on sharia compliant companies, also takes into account the level of contribution of interest income received by the company from conventional fixed deposits or other interest-bearing financial instruments. Dividends received from investments in Sharia non-compliant securities are also considered in the analysis carried out by the SAC. For companies with activities comprising both permissible and non-permissible elements, the SAC considers two additional criteria: (i) the public perception or image of the company must be good; and (ii) The core activities of the company are important and considered *maslahah* (public interest) to the *ummah* (nation) and the country, and the non-permissible element is very small and involves matters such as *`umum balwa* (common plight and difficult to avoid),

`uruf (custom) and the rights of the non-Muslim community which are recognized by Islam.

In addition, to determine the tolerable level of mixed contributions from permissible and non-permissible activities for turnover and profit-before-tax of a company, the SAC has established several quantitative benchmarks based on *ijtihad* (reasoning from the source of sharia by qualified sharia scholars). If the contributions from non-permissible activities exceed the benchmark, the securities of the company will be classified as sharia non-compliant. The benchmarks are:

The five-percent benchmark - this benchmark is used to assess the level of mixed contributions from activities that are clearly prohibited such as *riba* (interest-based companies like conventional banks), gambling, liquor and pork.

The 10-percent benchmark - this benchmark is used to assess the level of mixed contributions from activities with the element of *`ulum balwa*; which is a prohibited element affecting many people and difficult to avoid. An example of such a contribution is the interest income from fixed deposits in conventional banks. This benchmark is also used for tobacco-related activities.

The 20-percent benchmark - this benchmark is used to assess the level of contribution of mixed rental payment from sharia non-compliant activities, such as rental payments from premises used in gambling, sale of liquor, etc.

The 25-percent benchmark - this benchmark is used to assess the level of mixed contributions from the activities that are generally permissible according to sharia and have an element of *maslahah* (public interest), but there are other elements that may affect the sharia status of these activities. The examples of activities that belong to this benchmark are hotel and resort operations, share trading, and stock broking. This is because these activities may also involve other activities that are deemed non-permissible according to the sharia.

By combining the analysis in sections 2 and 3, that is, the sharia compliant financial products and services that use the halal goods and services as the underlying property, we may conclude that both are closely attached to each other.

4. Moving Forward – Halal GNP

The significant development and rapid expanding trend of Halal industry may lead us to think on the contribution of this industry to the economy. In deriving the figure on Gross National Product (GNP), the current methodology does not take into account the halal and non-halal activities. Furthermore, the maqasid sharia based socioeconomic development indicators, which also aim to preserve the five elements, could also provide the space for halal GNP as one of the indicators. In this section, we would like to suggest a new dimension of Gross National Product

which calculates the contribution of each agent (i.e., consumer, company, government and exporter/importer) in the economy.

How does the methodology work? Theoretically, GNP can be viewed from three different ways: The *production approach* sums the “value-added” at each stage of halal production, where value-added is defined as total sales less the value of intermediate halal inputs into the production process. For example, flour would be an intermediate halal input and bread the final halal product; or an architect’s services would be an intermediate halal input and the building is the final halal product if it is used in sharia based activities.

The *expenditure approach* adds up the value of purchases made by final users - for example, the consumption of halal food, televisions (which provide halal services), and halal medical services by households; the investments in machinery by sharia compliant companies; and the purchases of halal goods and services by the government and foreigners. Gross savings are calculated as the difference between GNI (Gross National Income) and public and private consumption plus net current transfers. GNI and GNI per capita are the sum of gross value added by all resident producers plus any product taxes (less subsidies) that are not included in the valuation of output plus net receipts of primary income (compensation of employees and property income) from abroad. The *income approach* sums the halal incomes generated by production - for example, the compensation employees receive and the operating surplus of companies (roughly sales less costs).

5. Conclusion

The objective of this paper is to integrate the halal foods and halal finance. Our analysis shows the following results: first, the regulation on halal goods and services shows that this property is used as the underlying assets for Islamic financial transactions, therefore both are integrated. Second, a new set of filter needs to be introduced that look into the halal sources of funds (halal funds/money) for companies operating in the halal industry. Third, a halal GNP could be introduced as a result of the integration of halal finance and halal foods.

Currently, non-Muslims control 80 percent of Malaysia’s halal business. In fact, one of the main reasons for the slow take up rate of Islamic funds for Halal initiatives is the fact that the Muslims themselves, who should be making up the core of Islamic finance customers, are unaware of the potentials, hence staying away from the halal venture. It is a paradox that such Muslim concerns are being capitalised on by non-Muslim businessmen. By right, Muslim entrepreneurs should lead the industry and grab any opportunities as well as making the most profit from Halal goods and services.

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