



Sustainable Islamic Economics and Islamic Finance Developments

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Session II: 11:20 – 12:20

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Aim#: attempts to satisfy the needs of humans but in a manner that sustains natural resources and the environment for future generation

View#: integration between Islamic finance and halal economy

Introduction

Philosophy of Islamic economics

- based on the concept of tawhid, that is, we believe in the oneness of Allah - obeying His order and we accept our faith and trust to Allah
- trust to Allah is realised through pillars of faith and make connection to Allah by pillars of religion

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Economic activities

- must be obeying the rules of Allah
- good attitudes/manners to other
- The current measurement of economic development in many countries heavily relies on GDP and other measures of well-beings – prosperity index or happiness index

Practices of Islamic Economics

- halal food business - as a new sources of growth
- halal business covers food and services
- halal business looks for *halalan toyibban* (lawful and wholesome), which means quality and wholesome - the term of halal foods appears as defining market parameter in the Halal industry
- Islamic financial centre (part of halal services) - Shariah compliant financial products or services are used as the defining market parameter

Practices of Islamic Economics

- It seems that both halal foods and halal finance are not implemented simultaneously
- Our proposition is that the integration will generate new sources of growth - it will complete the cycle from finance-growth and growth-finance hypotheses and a new methodology in calculating GNP

How Could Halal Economy Change Our Position

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Malaysia_Islamic VC Fur

file:///C:/AGI_IDB_Office/Admir/IDB/IDB_RO/CoE-KL/MVCAP/Malaysia_Islamic%20VC%20Fund%20Concept%20Note_April%202016.pdf

Growth Driven by Increasing Muslim Population & Wealth

Est. Value of the Global Islamic Market

- Islamic Finance
- Halal Food
- Clothing
- Tourism
- Recreation
- Pharma

US\$6.4 tn (2018F)

Forecasted to double by 2018

US\$3.2 tn (2012)

Muslims Represent Over 23% of the World's Population & Expanding Rapidly

Global Muslim population: 1.7 billion

2-3% of total Muslim population (large minorities: France 6%, Germany 4%, UK 3%)

Americas' largest Muslim population (U.S. 2.6m)

Less than 1% of total Muslim population

Europe 47m

MENA 34m

Africa 26m

15.5% of total Muslim population (largest Muslim country: Nigeria 17m)

Central Asia 24m

South Asia 51m

East Asia 29m

Highest concentration of Muslim population (95%)

3 largest markets: Egypt (8%), Iran (7%), Algeria (6%), Morocco (5%), Iraq (3%) and Saudi Arabia (2%)

62% of total Muslim population in Asia

3 largest populations: Indonesia, Pakistan and India

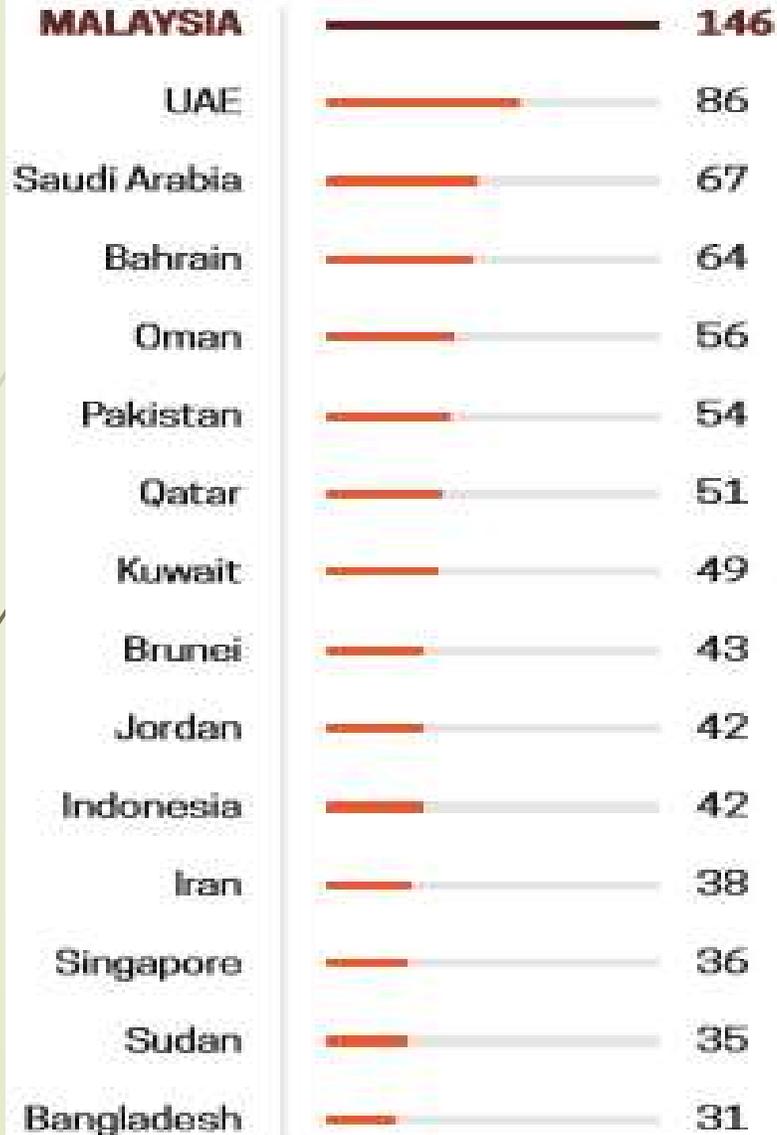
Large minorities: China (25m), Russia (22m)

Sources: Pew Forum, World Bank, Deloitte research and analysis, data as at 2014

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TOP 15 COUNTRIES GIE Indicator Score



TOP 10 Halal Food

- 1 **MALAYSIA**
- 2 UAE
- 3 Brazil
- 4 Australia
- 5 Pakistan
- 6 Oman
- 7 Brunei
- 8 Singapore
- 9 Sudan
- 10 Saudi Arabia



TOP 10 Modest Fashion

- 1 **UAE**
- 2 Turkey
- 3 Italy
- 4 Singapore
- 5 France
- 6 China
- 7 Malaysia
- 8 India
- 9 Sri Lanka
- 10 Morocco



TOP 10 Islamic Finance

- 1 **MALAYSIA**
- 2 Bahrain
- 3 UAE
- 4 Saudi Arabia
- 5 Oman
- 6 Kuwait
- 7 Pakistan
- 8 Qatar
- 9 Iran
- 10 Indonesia



TOP 10 Halal Media and Recreation

- 1 **UAE**
- 2 Singapore
- 3 Qatar
- 4 Malaysia
- 5 United Kingdom
- 6 Lebanon
- 7 Germany
- 8 Oman
- 9 Bahrain
- 10 France



TOP 10 Halal Travel

- 1 **MALAYSIA**
- 2 UAE
- 3 Turkey
- 4 Indonesia
- 5 Thailand
- 6 Saudi Arabia
- 7 Tunisia
- 8 Maldives
- 9 Qatar
- 10 Jordan

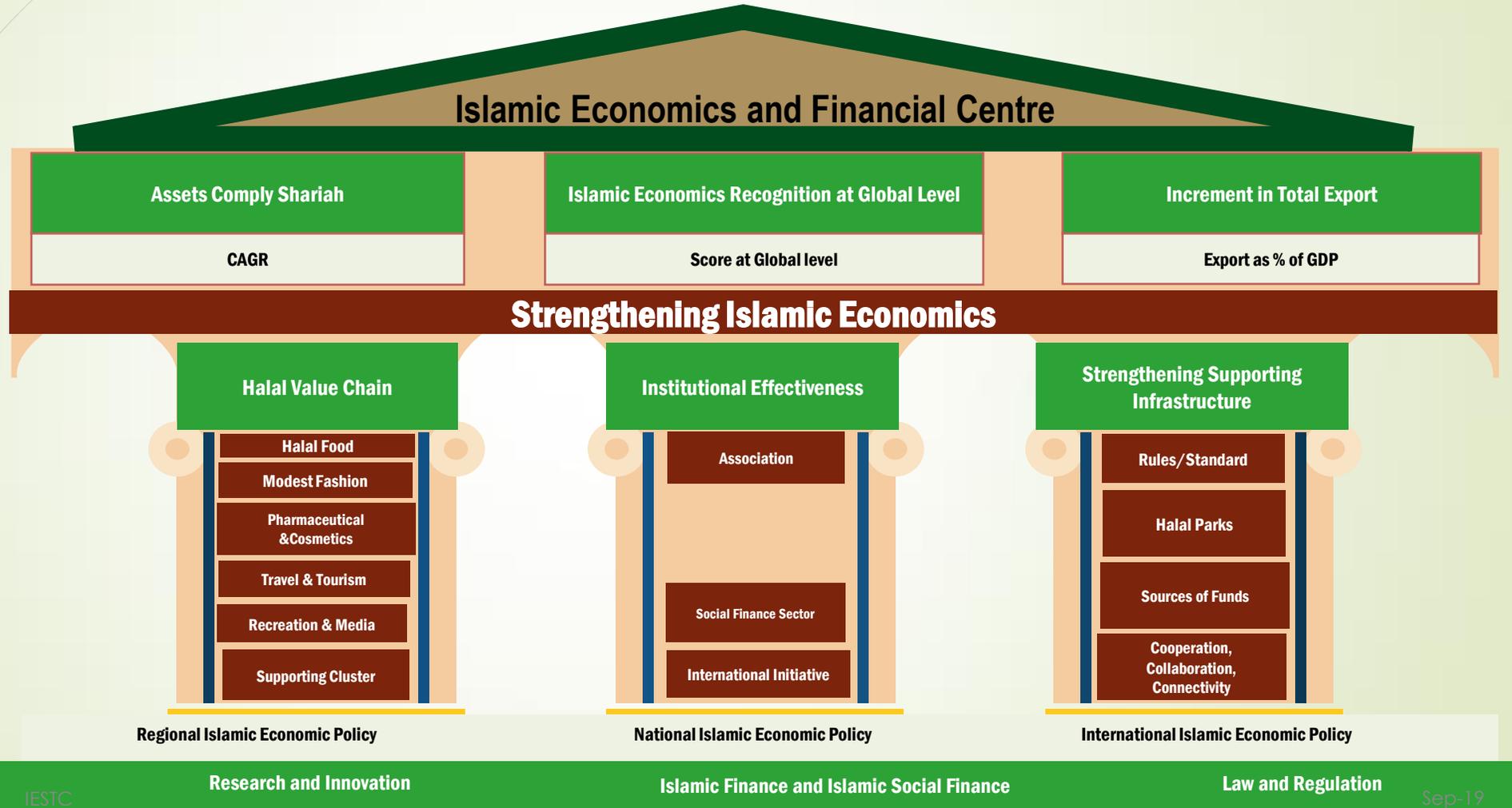
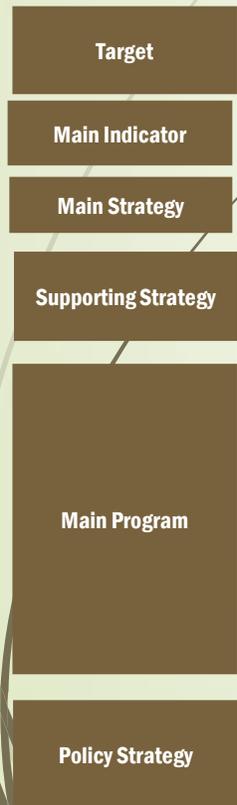


TOP 10 Halal Pharmaceuticals and Cosmetics

- 1 **UAE**
- 2 Singapore
- 3 Malaysia
- 4 Egypt
- 5 Pakistan
- 6 Jordan
- 7 Saudi Arabia
- 8 Indonesia
- 9 France
- 10 Oman

Top 15 Countries	GIE Indicator Score	Islamic Finance	Halal Food	Halal Travel	Modest Fashion	Halal Media and Recreation	Halal Pharmaceuticals & Cosmetics
Malaysia	146	193	89	109	31	57	62
United Arab Emirates	86	88	67	94	63	136	74
Saudi Arabia	67	84	47	43	15	33	47
Bahrain	64	88	30	19	26	40	37
Oman	56	59	57	30	22	40	40
Pakistan	64	56	60	13	21	9	52
Qatar	51	55	42	41	26	61	32
Kuwait	49	57	44	11	11	35	28
Brunei	48	41	52	24	13	29	35
Jordan	42	41	44	39	21	23	50
Indonesia	42	42	42	46	20	10	42
Iran	38	43	35	20	12	24	26
Singapore	36	21	51	25	33	79	63
Sudan	35	32	49	29	9	11	21
Bangladesh	31	36	25	19	26	7	25

Approaches in Islamic Economic Policy Design



Key Performance Indicators

1. Scale of Islamic economics and Islamic finance

2. Global Islamic Index rankings

3. Economic independence

4. Improvement of welfare index – Maqasid Shariah

Regulation on Halal Industry

- defining market parameter - estimated value of this market, demand for halal products and regulation in Halal industry
- Reasons for regulation – public confidence, market discipline and shariah based public policy
- Activities of Regulation
- # Regulation on Halal Activities - **The initial rule is that an object or a thing is permissible unless stated otherwise**
- # Halal Standard - complexity in definition, requirements and variations in interpreting the same requirements across geographical and cultural background – Table 1

Table 1: Halal Standard Parameter by Different Organization

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

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Shariah Governance - if scholars want to derive a legal rule on an object or a thing (or activities) that was not known to be eaten or consumed at the time of the Prophet (saw), hence it is subject to a new ruling (or fatawa) - The role of scholars in giving a fatawa is also needed especially in the presence of the complex definition of halal - to avoid the shariah non-compliant risk, halal committee council is needed at different levels, namely at producer, provider and country level.

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- # Multiple Standard Setting Body - to harmonize the rulings on halal products and services and also the need of such a common standard
- # From regulation to supervision - to highlight 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 should be part of the operational standards

Table 2: Shariah Compliant for Financial Transactions and Companies

Assets	Capital and Liabilities
Sales Based <ul style="list-style-type: none"> <input type="checkbox"/> Murabahah <input type="checkbox"/> Istisna' <input type="checkbox"/> Ijarah <input type="checkbox"/> Tawwaruq 	Liabilities: Islamic Deposits <ul style="list-style-type: none"> <input type="checkbox"/> Wadi'ah <input type="checkbox"/> Qard <input type="checkbox"/> Tawarruq <input type="checkbox"/> Murabahah
Equity Based <ul style="list-style-type: none"> <input type="checkbox"/> Mudarabah <input type="checkbox"/> Musharakah 	Investment Account <ul style="list-style-type: none"> <input type="checkbox"/> Mudarabah <input type="checkbox"/> Musharakah <input type="checkbox"/> Wakalah
Fee Based <ul style="list-style-type: none"> <input type="checkbox"/> Wakalah <input type="checkbox"/> Kafalah <input type="checkbox"/> Rahn 	
	Capital <ul style="list-style-type: none"> <input type="checkbox"/> Mudharabah <input type="checkbox"/> Musharakah

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- Sharia compliant companies –
 - # Primary Filter (Industry/Business Activity) – (i) Financial services based on *riba* (interest); (ii) Gambling; (iii) ***Manufacture or sale of non-halal products or related products***; (iv) Conventional insurance; (v) Entertainment activities that are non-permissible according to sharia; (vi) Manufacture or sale of tobacco-based products or related products; (vii) Stockbroking or share trading in sharia non-compliant securities; and (viii) Other activities deemed non-permissible according to sharia

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- Sharia compliant companies –
- # Secondary Filter (Financial Ratios) - the tolerable level of mixed contributions from permissible and non-permissible activities for turnover and profit-before-tax of a company

Moving Forward – Halal GNP



- Significant development and rapid expanding trend of Halal industry may lead us to think on the contribution of this industry on the economy
- The current methodology in deriving GNP does not take into account the halal and non-halal activities
- The maqasid sharia based socioeconomic development indicators (to preserve the five elements) could also provide the space for halal GNP as one of the indicators

Moving Forward – Halal GNP



- Theoretically, GNP can be viewed in three different ways: The *production approach* sums the “value-added” (VBI) 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 shariah based activities.

Moving Forward

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- 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
- 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)