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DETERMINANTS OF *HALAL* TRADE FLOWS: THE INFLUENCE OF *HALAL* CERTIFICATION, *HALAL* PRESENCE AND MUSLIM POPULATIONS ON MALAYSIA'S HALAL EXPORTS

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AUTHOR'S DECLARATION

I declare that the work in this thesis was carried out in accordance with the regulations of Universiti Teknologi MARA. It is original and is the results of my own work, unless otherwise indicated or acknowledged as referenced work. This thesis has not been submitted to any other academic institution or non-academic institution for any degree or qualification.

I, hereby, acknowledge that I have been supplied with the Academic Rules and Regulations for Post Graduate, Universiti Teknologi MARA, regulating the conduct of my study and research.

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ABSTRACT

The Malaysian government has identified the *Halal* Industry as a catalyst of growth; however, the performance of the *Halal* industry, in particular its trade sector, is not on par with its targeted growth. Aside from the underperformance of *Halal* exports, the *Halal* Development Corporation's (HDC's) target markets for *Halal* exports are clearly different from the top 10 Malaysian *Halal* export destinations, indicating that current target markets differ from the trend and need to be reviewed. Therefore, the main aim of this study was to investigate the determinants of *Halal* trade flows, particularly the influence of *Halal* certification and the Muslim population on Malaysia's *Halal* exports. The second aim was to examine the influence of the same determinants at the categorical level with the assumption that they would be almost identical. This study utilized *Halal* export data from the Department of Statistics Malaysia (DOSM) for the period between 2010 and 2018 to conduct empirical analysis based on the structural gravity model framework. The structural gravity model requires the inclusion of multilateral trade resistance (MTR) variables in the equation to address the border puzzle phenomenon. To account for MTR, this study followed the latest trend in the structural gravity model by using fixed effect variables as well as intranational trade data to cater to unilateral time-variant variables. The inclusion of these variables solved the statistical debate on the collinearity of unilateral variables and provided theoretically consistent and efficient estimation results. This study is believed to be the first to empirically measure the influence of *Halal* certification, domestic *Halal* certification, and Muslim demand on *Halal* export flows using actual *Halal* trade data. Another novelty of this study is its proposed general definition of the *Halal* industry and its categorization of *Halal* export products by their SITC code. Given that the definition of the *Halal* industry is not readily available, this study proposed that the *Halal* industry can be defined as an industry that produces and offers good quality products and services in accordance with *Syari'ah* law. This definition does not change the structure or concept of the *Halal* industry, especially in identifying *Halal* products and services. Apart from the filling knowledge gaps, this study offers information and insights from the managerial perspective. The estimation of the full sample model indicated that the size of Malaysia's GDP has a negative influence on *Halal* trade flow while importer size has a positive influence on flows. Results of importers' per capita income further showed that *Halal* products are not luxury products. Next, distance and common borders have a negative influence on *Halal* trade flows, while both the *Halal* certificate and the Muslim population enact a positive influence on *Halal* trade flows. As for *Halal* categories, the six *Halal* categories demonstrated different estimated results. *Halal* palm oil derivatives (POD) exhibited the most similar result to the aggregate full sample estimate. The findings of this study carry implications for policy makers in designing better strategies to boost *Halal* export flows. Streamlining targeted markets for *Halal* exports is the first recommendation. Greater focus should be given to China and India as primary targets because of the proximity and purchasing power of both countries. Emphasising palm oil as the core of the *Halal* industry is another policy recommendation of this study. The study's findings show that the palm oil industry comprises a significant share of *Halal* exports via its subsectors of *Halal* POD, *Halal* ingredients, and *Halal* food and beverage. Malaysia's position among the world's top palm oil exporters will further boost *Halal* Malaysian exports that are built around the palm oil industry.

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