REGIONAL HALAL CLUSTERS IN THE NCER REGION: REVISITING THE ROLE OF INSTITUTIONAL THICKNESS

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Abstract. This paper explores the development of halal Small and Medium Enterprises (SMEs) in the northern corridor economic region (NCER) of Malaysia. In many countries it is believed that small businesses are able to contribute to promote local economic development and enhance competitiveness. Due to changes in global production systems, clusters and SMEs are increasingly integrated into the value chains that operate across many different regions. Halal SMEs development with a clustering approach in countries like Malaysia has become significant, as it is more effective and efficient for government to provide technical and management supports, training and facilities to a group of firms located in one hub or park than to individual firms in dispersed locations. The cluster location relationships help produce beneficial advantages such as knowledge spill over, ease of access to skilled labor, and competitive pressures to innovate and increase productivity. It is in this direction that this paper shed some light into understanding the increasing importance of clustering and network in the halal food industry of the northern region, Malaysia. Based on qualitative analysis from in-depth interviews with government officials, the paper addresses the local growth of these SMEs, the support mechanism and how it deepens the region’s capacity to develop the industry to become more competitive and sustainable. It further provides significant insights into the emergence of halal hub in the northern region and issues surrounding the importance of institutional thickness that facilitates the growth of the halal SMEs, and its challenges within the regional and global perspective.

Keywords: Halal SMEs, cluster approach, institutional thickness, halal hub, NCER region


Kata Kunci: IKS Halal, pendekatan kluster, ketebalan institusi, hab halal. Wilayah NCER

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INTRODUCTION

In recent years the global demand for halal products has rapidly changed the landscape of halal business in both Muslim majority and minority countries. In this direction, the burgeoning of global halal market has indeed urged countries like Malaysia to adopt a new strategy to implement halal industry resolution for the country and its SMEs. The role of SMEs in the halal sector is a matter of paramount importance for all economies, and this has been recognized by the respective government agencies in the country. The establishment of halal hubs and parks throughout Malaysia has given significant ramifications to the future of many SMEs. Amongst the most dynamic areas are the northern states of the Peninsular. Pioneered by Penang, the northern region has a lucrative potential to develop the region and to help assist SMEs to excel and enter the global market. It is estimated that the global halal food market is worth US$720 billion (at 2009 prices), while Malaysia’s halal food market is worth US$12.21 billion, or 6.3% of its nominal gross domestic product of US$192.82 billion (2009 prices). As of June 2013 Malaysia contributes 1.25% to the global halal trade of US$2.3 trillion. In this connection clustering as a process has become catalyst for SMEs development especially in the halal sector scenario. In line with the literature and empirical studies, we draw upon the example of Malaysia’s Halal Parks as a clustering strategy in bringing the concepts and practices for the entire chain of activities encompassing industrial and food park development and food manufacturing. Though, the halal park is not the only cluster focused on food processing, it is by large a high impact strategy under the Ninth Malaysian Plan (9MP: 2006-2010) proposed by the government.

As mentioned, SMEs are particularly important for the case of halal industry. This is because the food industry in Malaysia is mainly dominated by small and medium scale companies, which contribute about 10% of Malaysia’s manufacturing output. Efforts by the government to develop Malaysia as a Halal Hub have put food processing and food production in the forefront. It is envisaged that the SMEs in this sector (food manufacturing and processing) will continue to reap the benefits of the global food demand and continue to expand in line with policies and incentives introduced by the Malaysian government. The Halal hub initiative is to promote the country as a center for the manufacturing, processing and packaging of Muslim food and the SMEs in this sector have great potential growth in the global market. Thus the paper aims to address the development of the Malaysian Halal SMEs’ in the in the context of clustering strategy. The paper briefly relates to the literature on SMEs clustering, and institutional thickness in regional economic development. Further the processes that are necessary to facilitate successful clustering and dissemination to Halal SMEs in the Northern Malaysian context are also explored. The methodology is outlined, and results generated utilizing a qualitative analysis of in-depth interviews with government agencies and content analysis from government reports and statistics. The analysis discusses these results in terms of the potential in assisting the provision of a range of supporting mechanisms to facilitate successful outcomes for the SMEs, the common obstacles faced and areas for further research that will enable mechanisms for further development. The study area is narrowed down to the particular northern region Halal Parks in Penang, Kedah, and Perlis. The area is seen as a viable and potential hub to develop SMEs clusters in various industries particularly those directly related to local economic development and the rural population. Of this, Penang leads as the main development area in this field whereby it is strategically located in the northern region and its infrastructural development is especially efficient, making the state a potential site to penetrate the modern halal industry in order to sustain its achievement in this sector. Initiated and supported by government intervention, the development of the local Halal SMEs in food industry has a great potential for sustainable economic growth in both rural and urban area of the region.
THE DYNAMICS OF CLUSTERING AND INSTITUTIONAL THICKNESS

The United Nation Industrial Development (UNIDO) defines a cluster as a local agglomeration of enterprises producing and selling a range of related or complementary products within a particular industrial sector or subsector (Richard, 1996). Due to changes in global production systems, SMEs and clusters are increasingly integrated into the value chains that operate across many different regions. In fact, the clustering strategy has also led to many other activities, allowing SMEs to establish strong social networks, where they are willing to work with each other to achieve a shared goal. According to Tallman et al. 2004, these social networks create an interdependency that shapes a strategic direction of markets and technologies in which cluster based organizations thrive and progress. Studies have also shown that there is a significant relationship between clustering and SMEs competitiveness (Pietrobelli & Rabellotti, 2004; Beccattini, 2001; Enright, 2000). Thus SMEs development with a clustering approach has become important as it is more effective and efficient for government to provide technical and management supports, training and facilities to a group of firms located in one place than to individual firms in dispersed locations. Some empirical studies, shows that cluster location relationships help produce beneficial advantages such as knowledge spillover, ease of access to skilled labour, and competitive pressures to innovate and increase productivity. It is also easier for local institutions (i.e. universities/research agencies) to provide technical or training supports, local banks to provide loans, and other local enterprises to conduct subcontracting networks with firms located in one cluster. The participation of these institutions in promoting SMEs is certainly very helpful for the government in implementing its cluster development policies.

In addition to the importance of clustering, the analysis of the economy of a region cannot be separated from the localized social, cultural and institutional structures with which it is closely related. In this sense it is not only the internal versus external orientation of the arrangement of firms but the governance structure and the institutions which also have a significant role in moulding the industrial nature of the region. In this context Amin & Thrift (1994:14) assert the importance of regional “institutional thickness” in the form of ‘an integrated web of supportive organizations including firms, financial institutions, training agencies, local authorities, development agencies, innovation centers, government agencies providing premises, land and infrastructure’, and so on. However this thickness ‘does not involve just the presence of such institutions but also synergies of interaction, collective representation, common industrial purpose, and shared cultural norms and values’. In these authors’ view, the local ‘institutional thickness’ can have a significant influence on economic development since it ‘nourishes relations of trust…stimulate entrepreneurship and consolidate the local embeddedness of industry’ (Amin & Thrift 1994:15). In this connection this paper will explore the role of industrial associations and governance in organizing and regulating a base for the halal food industry SMEs in the northern region of Malaysia.

In addition, some authors argue that clustering and concentration will lead to increasing returns to scale (see, for example, Krugman, 1993; Martin & Sunley, 1996). Porter (1990, 1998) asserts that there are benefits from the comparative advantage of local ‘clusters’ of business concentration that help firms to compete. Institutional and social relations may also strengthen the agglomeration process between firms within localities, developing joint collaboration and networks amongst them (Vatne, 1995). This for instance is the role of government schemes and agencies that provide grants to specific firms in a cluster. Thus, many factors become key influences to the development of SMEs including location, firm’s age, sector, size and ownership structure. External links also play important role such as firm structure, industry structure and the role of government schemes and agencies (Bennet et al., 2001). There are indeed variable geographical pattern of internal firm dynamics, industry structure and/or government intervention. Hence the paper will explore the SMEs cluster dynamics in the particular halal industry parks and how they link with the role of government intervention and support.
THE NCER REGION AND HALAL INDUSTRY DEVELOPMENT

As noted earlier SMEs play tremendous role in most Asian economies. Typically, the SMEs sector is considered to be the biggest source of domestic employment, where according to an APEC survey, SMEs employ as much as 60 percent of the total work force. It is therefore important for a developing country like Malaysia to build a viable SMEs sector in order to broaden the sources of economic growth and sustain the growth. The development of SMEs is top on the national development agenda, as reflected in the Ninth Malaysia Plan (9th MP: 2006-2010) and the Third Industrial Master Plan (IMP3: 2006-2020). Furthermore, in today’s economic environment, isolated firms are unable to achieve the necessary advantages to penetrate new markets and sustain market share in traditional markets. Instead, the path to competitiveness is found in linkages between firms in shared resources between firms that co-operate and compete with each other, with some inputs from public and private organisations that supply for example human resources, technology and physical infrastructure (Adam, 1996; see also Dawood, 2001, Dawood et al., 2012). Malaysia is also expected to be able to build a new set of these competitive advantages that can sustain strong economic performances well into the future.

The northern region encompasses the states of Perlis, Kedah, Pulau Pinang and northern Perak and for the purpose of this research the three states of Penang, Kedah and Perlis will be focused. The government has established the Northern Corridor Economic Region (NCER) initiative focusing on accelerating economic growth and elevating income levels in the northern Peninsula with the objective of becoming a world-class economic region by the year 2025. The northern states of Perlis, Kedah, Pulau Pinang and northern Perak cover an area of 17,816 sq km. The northern region is supported by the existing economic achievements of the region in electronics, tourism and agriculture, as well as its strategic location bordering Thailand and facing the Malacca Straits. Leveraging on the strengths of the region, four key thrust areas have been identified, namely agriculture, manufacturing, tourism and logistics. The business environment of the northern region has gone through an advanced stage of evolution, with experience dealing with large and small local and foreign organizations. This has caused both technical and business support ecosystems to become efficient enablers for private sector participations in this region. At the same time both rural and urban areas have been increasingly interconnected in the development process.

Amongst all the states, Penang contains Malaysia’s second most important region of industrial development after the greater Kuala Lumpur/Klang Valley metropolitan area. While electrical and electronic sector become the backbone of the manufacturing and economic source and income for a significant number of population of Penang State, that is 32.2% of Penang employed persons in 2009 (SERI 2010), the local economy especially the rural economy in the state is still striving on SMEs activities in the agricultural and agro-base industry development, as well as fishery and farming areas, which employ 2.5% of Penang population in 2009 (SERI 2010). Meanwhile in the state of Kedah and Perlis, the major economic activities focus includes agriculture with rice, sugar, herbs and fruits predominating besides manufacturing. Forestry and fishery is also important especially for Perlis where the state is making great efforts to attract small and medium scale manufacturing industries and services. Halal food industry also has become one of the focus for the economic development in all the three states following its potential to grow more local based SMEs. The halal industry is a new growth sector in Malaysia’s manufacturing sector and is one of the fastest growing global businesses, an emerging market force that is attracting global communities with its wholesome, hygienic and contamination free principles in food production. The key areas of the halal industry in Malaysia are categorized into five components: (I) food products – life stock, processed food & beverages, food retailing; (ii) pharmaceutical, cosmetic and personal care; (iii) additives & ingredients; (iv) lifestyle – apparels, restaurant and hotels; (v) services – logistics, standard, auditing & certification, research and technology development. To accommodate and facilitate the growth, the Penang State has initiated the development of Penang International Halal hub to serve the growing global consumer demands for halal products and services in this region. In addition, there are also few other halal parks in the NCER region.
METHODOLOGY

The aim of this research is to relate to the main themes developed in the literature to the halal SMEs sector in the northern region of Malaysia. The aim is specifically to examine the mechanism of growth and institutional thickness in terms of collaborative network set up between the SMEs and institutions in the region. In this respect the purpose of the investigation is also to see the extent to which clustering is evident in the halal sector of this region.

The study draws upon both primary and secondary sources of data. The primary data were generated from field surveys and interviews carried out with respective government institutions directly connected with halal industry and halal parks. Secondary data were mostly derived from government publications, company profiles and documented materials from the halal parks and other related organizations as well as government bodies. A range of questions were asked, including the history of the business, sources of raw materials, government support mechanism, markets, and the challenges faced by this sector. The method involved open-ended and in-depth interviews with key informants for government agencies and non-government agencies who are directly involved with the halal industries. They are government officials, management and research officers, administrative and technical officers from the agencies such as the Ministry of International Trade & Industry (MITI), State Economic Development Corporations, Halal Industry Development Corporation (HDC), research institutions such as MARDI (Malaysian Agricultural Research and Development Institute); the institutions involved in providing grants and subsidies for these industries including SME Corp, SME Bank and MARA. The research has included visiting and observing study areas in order to explore halal industry activities, their production process, government intervention and their social networking. It is based on case studies of three parks in the NCER including Penang International Halal Hub, Kedah Halal Park and Perlis Halal Park. Some of the surveys were done in 2012 and some in 2013.

THE DISTRIBUTION OF HALAL PARKS

Underlying the Malaysia’s effort to strengthen its position as a leading halal industry center, the Government has set a target since the Third Industrial Master Plan (IMP3) for Malaysia to become a global halal hub. Evident of strong institutional support by the Government to develop and promote halal industry in Malaysia, several Federal agencies have also been mobilized to undertake this task. Chief to them are the agencies under the Ministry of International Trade and Industries (MITI) – namely Malaysian Investment Development Authority (MIDA), Malaysia External Trade Development (MATRADE), Small and Medium Enterprises Corporation (SMEC). Various other bodies also involved directly such as the Jabatan Kemajuan Islam Malaysia (JAKIM), Customs, Halal Development Corporation (HDC), Department of Veterinary Services (DVS), Ministry of Health (MOH), local councils, Kontena Nasional Berhad, technical training centers and laboratory for analysis such as Standard and Industrial Research Institute of Malaysia (SIRIM) and Malaysian Agricultural Research and Development Institute (MARDI). One of the initiatives of the halal park is to provide the necessary infrastructure to facilitate investments in the Malaysian halal industry whereby the establishment is to measure and facilitate the growth of the industry. The government through the HDC promotes the development of the halal parks whereby it has established several halal parks as a community of manufacturing and services businesses located on a common property. As of 2011, Malaysia has established 9 halal parks consisting 105 companies with investment value of RM5.25 billion (HDC, 2012) and in 2013, this has increased to 24 parks with 5,200 employees, and total investment of RM8.68billion (HDC website). Figure 1 shows the distribution of halal parks in Malaysia.
The halal park is therefore a center that is well equipped with integrated quality services for the industry, which has the infrastructure of hygienic facilities and uses an integrated approach to main standards. The objective is to improve the economic performance of the participating companies while minimizing their environmental impact. Components of this halal park approach includes the ‘green’ design of park infrastructure, cleaner production processes, pollution prevention, availability and accessibility of raw materials and ingredients, energy efficiency, inter-company linkages and linkages, consolidated services from public agencies as well as linkages for marketing (HDC, 2012). The park is also aimed in bringing together ideas, concepts and practices involving industrial park development, food parks development, food manufacturing, halal traceability and logistics into a new halal system infrastructure. With this integrated approach, each addition to the system enhances the value of the other elements/components of the process.

INSTITUTIONAL THICKNESS AND HALAL HUB POTENTIALS

Recent efforts by the government to develop Malaysia as a Halal hub have positioned food processing and food production industry in the forefront of many states. The SMEs in this sector are envisaged to attain the benefits of the global food demand and continue to expand in line with policies and incentives introduced by the government. To this end Malaysia’s Halal hub is formulated based on a clustering strategy adapting the concept and practices of value chain activities involving industrial and food park development, food manufacturing, halal traceability and logistics.

Thus, the Halal Park has been initiated by the Malaysian government to accelerate the growth of local based SMEs, hence preparing them to be competitive at the global level. The halal park strategy enable the SMEs to establish social networks, where enterprises are prepared to undertake risky, co-operative initiatives, working collectively in order to achieve a shared goal. This also help produce advantages such
as knowledge spill-over, access to skilled labor, better acquirement and assembly of the inputs of production, and competitive pressures to innovate and increase productivity. It also makes it easier for local knowledge institutions (universities/research and development agencies) to provide technical or training supports, local banks to provide loans, and other enterprises to perform subcontracting within the cluster. As highlighted by the Chief Executive Officer of the Eastern Corridor Economic Region Development Council,

“The Halal Parks embrace the clustering approach whereby the respective anchor players will be supported by SMEs that are co-located in the cluster. This approach translates to cheaper production cost via minimized logistic cost, shared facilities, and the ‘just-in-time’ concept which saves space and funds tied up in stocks for businesses”

(HDC, 2012:p.47)

The availability of halal parks in strategic locations throughout Malaysia also provides the adequate infrastructure required for halal related activities. A cluster analysis in the Northern Region Halal Industry confirms that there are strong foundations present in Malaysia to become a global halal hub. One of the NCER agenda is to develop the local SME within the region, in line with the government’s Economic Transformation Program (ETP) which aims to boost the Gross National Income (GNI). More specifically, the program is designed to elevate the local SME status to an international platform and to be export ready. Thus, to ensure the sustainability of SMEs, NCER has provided fiscal and non-fiscal incentives to reward investors that make their base in the region.

Many government bodies and agencies have realized the importance given to the development of halal industry in Malaysia and especially to enhance the competitiveness of the SMEs in this industry. For instance as stated by the Former Deputy Minister of the Ministry of International Trade and Industry (MITI),

“On helping our local industries into halal industries, we help them in terms of packaging and branding as well as the criteria needed to comply with the export market. We also do a lot of business match-making, which usually benefits them directly. At MITI, we are the ones known to organize the world’s largest Halal showcase, in the form of MIHAS (Malaysia International Halal Showcase)”.

(HDC, 2012: pg 18)

PENANG INTERNATIONAL HALAL HUB (PIHH) AND PERDA HALAL PARK

Apart from the strong manufacturing base, the Penang state is also rich with resources in which the SMEs and the halal industry can benefit from. Thus the government has made considerable effort for the halal food industry as it has potential for sustainable economic growth in both rural and urban area of the region. In this connection, the Penang state has initiated the development of Penang International Halal Hub, an area located on a 130acre of prime land within the vicinity of the Penang Science Park. PIHH is established with the aim to provide a platform for halal industry sectors that features an incubation system, shared facilities, test laboratories, halal warehouses, cold chain services and networking infrastructure linking the hub with the global market. It is facilitated with close connectivity to the Penang International Airport, Penang Port, the North-South Highway and the national railway system, which strategically positioned for the Indonesia-Malaysia-Thailand Growth Triangle (IMT-GT). It is also poised to act as the halal hub for the NCER. As mentioned by the Corporate Communication Manager of the PIHH Development Sdn Bhd:

“Here at the PIHH we can provide a place like a center point for sourcing the halal materials and this is also possible with a good link that we have with other halal parks in the region and especially with the IMT-GT market. The hub is also capable to
facilitate an integrated livestock center with facilities for cattle rearing and slaughtering and meat processing to produce halal meat”

(Author’s field survey, June 2013)

Located in Batu Kawan, Penang, the Penang Halal Hub is also aimed to facilitate the promotion and development of Penang International Halal Hub. The government initiative is to direct and coordinate the development of Penang Halal industry amongst all stake-holders, both public and private. The objectives are to strengthen Penang’s economic and competitive edge; to develop Penang global branding as the hub for high quality Halal products and services; and to facilitate the growth of domestic industries and participation of Penang companies in the global Halal market. The Halal clusters in Penang include manufacturing industries, agro-based industries, life sciences, R & D, hospitality and tourism. The Penang International Halal Hub has a great potential to develop local SME clustering in this region.

To facilitate further the development of the hub, the Halal Industry Development Corporation (HDC), an agency under the Ministry of International Trade and Industry (MITI) has tasked to ensure the development of halal industry in an effective manner, and many opportunities are provided to the SMEs for increasing their accessibility to the global market. The provision of the HalalSME.com and HalalMedia.net portals are helpful to provide services for both the readers and the businesses, helping to promote their brand names and halal statuses within the global arena. By utilizing the powers of internet and social networking, this provides the local halal SMEs the opportunity to expand their market and brand names.

Within the region, the PIHH has also taken the effort for establishing an integrated supply chain for promoting the growth of the halal clusters including halal manufacturing industries, the halal logistics, halal agro-based industries, halal life sciences, halal R & D, halal tourism and hospitality, and Islamic based financial services. Of this, the logistics play an integral part to ensure the halal integrity and the entire logistic solution of facilities and services for land, sea and air that will cater for the Halal-compliant. The products offering include halal storage and warehousing, halal transportation, halal distribution, halal shipping, halal freighting for sear and air cargo, samak (syariah-compliant method for industrial cleaning service) service for containers, customs facilities, halal value added services such as labeling and packaging and halal advisory services. An advanced halal compliance distribution hub such as this with ample storage space, comprehensive facilities for trans-loading, packaging, reloading and other value-added services will enhance the needs of importers and exporters in the northern region of Malaysia as well as the Indonesia- Malaysia-Thailand Growth Triangle (IMT-GT) areas.

Besides, the state has also established an agro-based industrial park or PERDA Halal Park in Kubang Menerong, Tasek Gelugor. This is spearheaded by the Penang Regional Development Authority (PERDA), with close collaboration among Malaysian Agricultural Research and Development Institute (MARDI), Agriculture Department, Universiti Sains Malaysia, and several other government agencies. The park caters for the development of regional services (processing, canning, and packaging) and distribution (warehousing and logistic facilities) center for the agro-based downstream processing activities. The incubatees in this agri-based park are equipped with centered infrastructure facilities such as incubator factories, cold warehouse, entrepreneur complex and administrative complex. As commented by the President of PERDA:

“We have about 8-10 incubatees in this park and most of them are involved in food industry cluster especially frozen food and packaging. Some of the village products are brought here and we guide and we give consultation to them and then we provide them with the halal certification and finally help them to market their product under our brand name, PINANG. We also supply industrial space with machineries and equipment for few others.”  

(Author’s field survey, July 2012)
Thus, the incubator program for these halal SMEs afforded them the opportunity to develop and commercialize their products. Besides, there are also other government agencies and banks that help out the halal SMEs here including the SME Bank and SME Corp. SME Bank which is responsible as a development financial institution to nurture and meet the needs of the SMEs. The bank complements the existing products and services provided by commercial banks through a comprehensive and integrated financial and business advisory services. Although many entrepreneurs start with strong capabilities and personal instincts on how to success, there are also many who start businesses with limited knowledge and resources on how to grow their business. High percentage of businesses in the SME category tend to fall each year, frequently within the first two years of operations where numerous factors contribute towards the success or failure of a new business. Thus, SME Bank came up with a solution to offer and deliver their service through the Business Advisory and Consultancy Unit. Here services offered are delivered through Business Counselors (SME Bank’s employees) and External Service Providers (strategic partners, third party experts, consultants and professionals). As mentioned by one of the officer in SME Bank Penang Branch:

“We also provide Entrepreneur Premise Complex for entrepreneurs who wish to expand their business and most of our project is located in Seberang Perai area. The Entrepreneur Premise Scheme is an integrated approach to entrepreneurial development by providing factory space rental and we consider providing financing, entrepreneurial training as well as financial and advisory services”

(Author’s field survey, 11 July 2012)

In addition, SME Bank also have various other support programs for halal SME development such as the Entrepreneurship Training and Special Programs like the Graduate Entrepreneurs Incubation (PIUS), One District One Industry Program (SDSI), and Special Micro Programs and financing. SME Corp is another important organization in this region, promoting the development of competitive and innovative halal SMEs through coordination and provision of business support through the Business Accelerator Program (BAP). SME Corp formulates SME policies across all sectors and coordinates, monitors and evaluates effective implementation of policies and programs across relevant Ministries and agencies. In other words, it is a networking body that integrates all the relevant ministries and agencies in the support mechanism for SMEs in the country. As a center for advisory and information, SME Corp provides business advisory through the “SME Business Centre” where it disseminates information on government funds and incentives on SMEs. Then also act like a channel for feedback on SME issues and provide liaison for domestic and international communities on SME matters. On top of that, SME Corp also provides management of data, dissemination of information and research on SMEs. In terms of business support, SME Corp is responsible to nurture and develop competitive SMEs though specific capacity building programs and financial assistance, providing infrastructure support for SMEs and facilitate linkages with large companies and MNCs.

KEDAH HALAL PARK

Kedah Halal Park is a project under the Kedah State Development Corporation (PKNK) located in Sungai Petani Industrial Area covering an area of 35 acres of land. The park is developed in two phases, 17 acres in Phase 1 and 18 acres in Phase 2. The development of Phase 1 consists of 26 unites of SME factories (3 types). See Figure 2 below. The area is equipped with complete infrastructure and good accessibility to market and the development of the surrounding environment enables and facilitates the factories to practice good hygienic programs through Good Manufacturing Practices (GMP), standard Hazard Analysis Critical Control Point (HACCP), Veterinary Health Mark (VHM) and ISO 9001 towards HALAL certification achievement. Tenants are those SMEs who relocate into the park for better facilities, for entrepreneur upgrading program, and those for product upgrading program. The existing entrepreneurs
will be accredited with the HALAL, HACCP and GMP Certification by 2014. The categories of products include dried grains and flour, frozen products, cordial and pharmaceutical products. Preference is given to those entrepreneurs who already have an operational product in the market, who is under the guidance of an agency or department, who plans to increase their market capacity and those who have products that is eligible for the application of GMP status, HACCP and ISO 9001. There is also a one-stop center consisting members from the respective government bodies and agencies related to Halal industry and certification like the JAKIM, HDC, SIRIM, MIDA, Jabatan Agama Islam Negeri (JAIN), and Kedah BioResources Corporation (Kbiocorp). These agencies are responsible for the application, certification and Halal Accreditation. There are also responsible for monitoring and providing consultancy and business assistance services to the SMEs.

The provision of the halal park in Kedah is seen as an ecosystem that provides an integrated environment that is conducive for the development of the industry and the clustering strategy. Availability of suitable raw materials and products nearby and accessibility to further processing make the park more attractive for potential investors. As illustrated by the PKNK Marketing Executive,

“When we talk about Halal parks, it is the whole ecosystem that is involved. Sometimes, we have a company that produces bread, and within the same park we have other industries that could harm or jeopardize the ‘halalness’ of the bread that they produce. So it is not conducive, because when we talk about halal, it is also about hygiene and cleanliness. When we go with a halal park, the ecosystem is an environment conducive towards the production of halal products, and services for that matter—everything from water, the materials that come in, how they are handled, and so on”

(HDC, 2012: pg.50)

PERLIS HALAL PARK

Padang Besar Halal Park is one of the potential HDC designated parks, which is given priority for development and expansion due to its strategic location. It is a site measuring 27.92 acres situated alongside the main road from Padang Besar to Kangar, Perlis. This is approximately 1 km from the Thailand-Malaysia border township of Padang Besar. This halal park is for production of halal food products (processing, packaging, and logistics) and non-food products (pharmaceuticals, health and beauty). Perlis has the capacity to develop the Padang Besar Halal Park to provide better facilities for international companies especially those from Thailand to invest and further develop the area. In addition, the availability of Collection and Distribution Centre gives advantage for their SME’s player especially from the rural areas. For attracting private sector participation, the park provides incentives in the form of pioneer status, investment tax allowance, re-investment tax allowance and special development and halal products promotion grants (RM10million). It also provides competitive rentals for the premises and reduced certification fees to enable entrepreneurs to access the facilities. Amongst the shared services are testing labs, packaging, storage and cold room for the provision of halal standards and certification. There
is also financing assistance from SME Bank and SMIDEC, Ministry of Entrepreneur and Co-operative Development (MECD), Ministry of Agriculture (MOA) and Ministry of Rural and Regional Development (KKLW). Promotion is facilitated by MECD, MATRADE and MOA. Training and R & D involve agencies like MARDI, Malaysian Palm Oil Board (MPOB), Lembaga Koko Malaysia (LKM), Forest Research Institute of Malaysia (FRIM), MECD, MARA, and SIRIM. MITI is largely involved in marketing and promotion, JAKIM for licensing and marketing, Ministry of Health (MOH) for HACCP and GMP and MOA for production of raw material and branding.

The state government is also responsible in the provision of suitable location, establishing mechanisms to spearhead investment projects, imposition of reasonable premiums for lands, expediting establishment of halal parks, expediting issuance of licenses (PBT), state-level certification (State Religious Department) and site maintenance and site upgrade. The Perlis Halal Park is governed by the Perlis State Economic Development Corporation (Perlis SEDC). Its role as state-level secretariat as mentioned by the Marketing Development Officer,

“A committee has been set up for coordinating the entrepreneurial and halal based products development including identifying the right methods at the state level. The reason is also to make the local Bumiputera (indigenous) entrepreneurs to be aware of the importance of government’s Halal certification in order to improve the marketability of their products”.

(Author’s field survey, June 2013)

The Officer also stressed on the important role played by SEDC Perlis as the facilitator and provider not only for SMEs but also in bringing all the other agencies to work together as mentioned below,

“We try our best to help the halal SMEs here to improve their product quality in order to qualify for various certifications like the Halal/HACCP, GMP/GHP, ISO 9001, MAL, and we do this through close collaboration with the respective issuing or the certification agencies”.

(Author’s field survey, June 2013)

There have been many initiatives introduced by the federal and state government to promote SME participation in the halal industry, through various state and federal agencies including SME Corp, MARA and SIRIM. This also includes the Entrepreneur Development Division under MITI who establish the ‘Groom Big’ program. The ‘Groom Big’ program specifically targets the enhancement of Bumiputera SMEs and cottage industries. ‘Groom Big’ is also a prerequisite for SMEs to establish their presence in the Halal Parks. As highlighted by one of MITI Officer,

“A program like this is designed to elevate the local SME status to an international platform and be export ready and to ensure the sustainability of SMEs. So we work together with SEDC to provide fiscal and non-fiscal incentives to reward investors that meet their base in the region. The incentives include income tax exemption of up to 10 years, investment tax allowance of 100% of qualifying expenditure and customized incentives based on the merit of each case”.

(Author’s field survey, June 2013)

**ISSUES AND CHALLENGES**

There are several issues and challenges identified in the development of halal SMES in the northern region. This includes a stiff regional competition, the lack of local supply for halal raw materials and
some drawbacks from the local halal entrepreneurs. The stiff regional competition appears as the vast market potential of halal products and services has drawn a large number of strong regional competitors including Thailand, Brunei, Indonesia and other ASEAN countries. Halal food products from Malaysia are comparably expensive to those of Thailand, Indonesia and Philippines. The local SMEs halal entrepreneurs face stiff competition from these regional counterparts when they try to gain access to the world Halal market. Thus, the local SMEs will need guidance and assistance especially to explore new export markets. In addition, new global producers are also producing low priced high quality food which sees Malaysia disadvantaged due to its higher production costs. For instance subsidized tariffs for air transportation by Thailand are attracting the FDI to that country and much cheaper China products are dominating the market. According to a comment given by one of the halal hub operator, competitors are also using new high technology media to attract customer such as the video, mp3, and the web. Besides, the halal industry is also facing lack of local halal raw materials, particularly meat and unlike the neighboring countries; the northern region faces challenge in terms of competitive advantage. Thus to ensure the imported raw materials comply with Malaysian Halal Standard, more frequent consultative discussion is needed between the certification bodies and halal suppliers. Furthermore, it is also found that there are some drawbacks from the food producers and suppliers of halal food whereby these SMEs lack the seriousness in their attitude and often have a short-term business lifespan. This is also agreed by the halal park managers. The products are also said to lack the attractiveness whereby there is lack of professional knowledge and training in product development. Some of the firms also lack the knowledge in terms of the legal aspects, and the socio-cultural environment of the importing countries (Interview with PIHH, June 2013). Some of the firms still lack the entrepreneurial skills, and also some halal food suppliers are not consistent in supplying the products. This is also similar to what has been found from other research (see Bohari et al. 2013). On top of that, with high production cost and shortage of capital, some SMES are also weak in market niche research and R & D activities. This also causes them to lag in using the right and up to date technology to develop their own products and to operate under the right capacity to venture into export markets for instance through online marketing and so on.

CONCLUSION

The halal SMEs relationship with clustering benefits involves a long-term process and there are indeed a wider connection between the different function within firms, between producers and suppliers at the inter-firm level and between firms and the wider local and institutional milieu. As such this offers much greater potential for firms to engage in an integrated network but it is not necessarily flexible. It is in this light that this paper has cast some insights to explore the industrial structure of the Northern Region Halal Parks and their dynamics activities and the emerging clusters. Although the halal SMEs have further advantages for the long-term industrialization process, continuous government support is needed to provide a training ground for workers and the creation of indigenous entrepreneurs’ skill, technical, managerial, production as well as marketing know-how. Halal SMEs through the involvement and full support of various government bodies and agencies will eventually provide a potential scenario for enhanced flexibility, diversification and fulfillment of the desired halal hub in the northern region that is potentially competitive in the global market. To date, there have been many initiatives introduced by the government to promote SMEs participation in the Halal industry of the northern region, through various state and federal agencies. It is also anticipated that this will assist the local and rural SMEs to understand that the market demand for halal is important and that it opens up a specific market potential. With the target to penetrate the GCC market, this presents an opportunity for them to supply products to that very discerning and lucrative market. Through the linkages and networks, the local entrepreneurs are able to reap the same benefits for instance in terms of generated employment opportunities and also neighborhood spirits that can be cultivated amongst the rural communities that are engaged in this networking. Penang, with a head start on manufacturing, coupled with a strong commitment and efforts by the government to strengthen the agro-based industry, is well positioned to be a prominent Halal industry player for the country. By far the government role is critical and essential for the needs of the
local SMEs to thrive and benefit further from clustering and networking in this halal parks and thus to ensure a dynamic and sustainable economic growth. More efforts are also needed from the government to overcome the issues and challenges, and the entrepreneurs themselves in terms of upgrading their technology and product to be competitive in the regional and global market.

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