

Export Barriers to Halal Food Processing Small and Medium Enterprises (SMEs) in Malaysia

Mohd Mansor Ismail^{1*}, Md. Saiful Islam² and Wan Mohd Marzuki Wan Bakar³

¹*Agricultural and Food Policy Studies Institute, Universiti Putra Malaysia, 43400 Serdang, Selangor, Malaysia*

²*Department of Management, University of Rajshahi, Rajshahi - Dhaka Hwy, Rajshahi 6205, Bangladesh*

³*Department of Agribusiness and Information Systems, Faculty of Agriculture, Universiti Putra Malaysia, 43400 Serdang, Selangor, Malaysia*

ABSTRACT

The aim of this research is to examine the factors obstructing the Malaysian halal food processing SMEs in their exporting efforts. Enhancing the export performance of halal food processing industry is crucial in materializing Malaysia's dream of becoming global halal hub envisaged in Third Industrial Master Plan (IMP3), 2006-2020. The data was generated from 181 randomly selected SMEs from 12 states of Malaysia engaged in exporting halal processed foods through a structured questionnaire. Factor analysis, Kaiser- Myer- Olkin (KMO), and Reliability tests were conducted in order to derive perceptions of SME exporters about export barriers. The results indicate that procedural barriers are more obstructive than internal and external barriers. Non recognition of food quality assurance certificate, high tariff, inadequate tax incentives to encourage export, lack of government assistance to overcome export barriers, very high standards for export products, delays in payment, inadequate market information and need of excessive documentation and paper work were viewed as crucial procedural barriers to export. The result of the study will help halal food manufacturers and exporters to be more serious in attaining competitiveness and setting suitable business strategies to sustain their presence in competitive international markets. It will also help the support providing agencies of public and private sectors to modify the existing policies or formulate new ones in favor of halal food processing SMEs.

Keywords: Export, export barriers, Halal Food Processing, SMEs, Malaysia

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E-mail address:

mami@agri.upm.edu.my (Mohd Mansor Ismail)

* Corresponding author

INTRODUCTION

Exporting activities can bring manifold favorable outcomes for countries and

exporting firms. At a national level, an economy may realize an accumulation in its foreign exchange reserves, witness an increase in the number of jobs available in its labor market, and ultimately enjoy a spillover effects of its societal prosperity (Marin, 1992; Sharpe, 1995). At the enterprise level, on the other hand, the exporting firms can achieve benefits in the form of improved innovation and performance, development of managerial skills, and better utilization of resource capacity (Bertschek, 1995). Exporting, in the case of small and medium enterprises (SMEs), gains particular relevance because it is the most common foreign market entry mode for these types of firms. As a consequence of these favorable externalities, effective export management is critical for the development of firm competitiveness and macro-level economic performance (Morgan, *et al.*, 1998). Agricultural sector worldwide is one of the important contributors in the development process of many countries. However, this sector continues to face numerous challenges; among the critical challenges are implementation of policies to make agricultural activities sustainable and a sound income provider for those who venture into it. Despite these challenges, many countries still faithfully believe that this sector is important as evidenced by the huge national budget allocations for the upgrading of the agricultural sector. In Malaysia, the government acknowledges that this sector is relevant and allocated almost USD1.6 billion in the 2011 budget for agricultural activities as well as set up

more agriculture agencies and programmes that was hoped would boost the development of the agriculture sector.

Globalization has further opened up the world market for business firms. But all firms, especially in SME sector, do not have the ability to initiate and sustain business operations in competitive foreign markets. In most countries governments have designed programs to reduce export barriers and improve domestic firms' capabilities to compete internationally. Malaysian Government has a range of programs to promote SMEs' contributions to the national goal of internationalization.

Barriers to exporting can be associated with all those obstacles that limit the firm's ability to initiate, to expand, or to sustain business operations in foreign markets. Export barriers can be broadly classified into two groups of internal and external barriers (Leonidou, 1995a). Leonidou (1995b, 2000) classified internal export barriers into functional and informational, and external barriers into procedural, governmental, task, and environmental barriers. Seringhaus, *et al.* (1990) classified export barriers into operational, motivational, informational, and knowledge barriers. Ramaswani, *et al.* (1990) grouped export barriers into four categories: lack of export knowledge, internal resource constraints, procedural barriers, and exogenous variables .

Halal products, acceptable products for Muslim consumers from the religious view point, are fast gaining worldwide recognition not only as a new benchmark for safety and quality assurance but also the hygiene,

sanitation and safety aspects (SIRIM,2004). The Third Industrial Master Plan (IMP3), 2006-2020, encompasses government's intention to develop Malaysia as the global halal hub for the production and trade in halal goods and services (GOM,2006). This measure is intended as the average global halal food trade is estimated to be worth RM 600 billion per year (SIRIM,2004). The presence and intensity of export barriers to Malaysian SMEs involved in manufacturing and exporting of halal processed foods will negatively influence export performance and prevent them from utilizing their export potential.

Limited research has been conducted on ...Export related issues in the halal food trade have received limited research attention in the Malaysian small business literature and this study was conducted to address the issue. The study reported in this article attempted to provide an insight into the nature of the exporting problems faced by halal food exporting Malaysian SMEs. Understanding these issues will assist in tailoring the existing and new public and private initiatives aimed at encouraging effective halal food export promotion.

THE PROSPECT OF HALAL FOOD INDUSTRY IN MALAYSIA

Food is one of the basic survival needs of human beings. Muslims adhere to strict dietary laws whereby the consumption of food is subject to the observance of preparation procedures as specified by the Holy Quran. 'Halal' is an Arabic word meaning lawful or permitted (IFANCA,

2007; Agriculture and Agri-Food Canada, 2006; JAKIM , 2007). The Muslims are prohibited from consuming pork and alcohol because they are regarded as unclean or termed as *Najis* and therefore are both considered Haram. Meat products must be certified as Halal and must come from certified slaughterhouses that follow strict Islamic slaughter practices (Talib *et al.*, 2009).

Estimates have been made on the size of the global market for halal products and services since demand statistics are not readily available. There are some realities that indicate high prospects of halal food:

1. The Muslim population is about 2.1 billion in 2012 and is increasing at 1.84% each year.
2. Halal products and services are also gaining acceptance among non-Muslims.
3. The global market value for trade in halal food and non-food products is estimated at US\$ 2.1 trillion annually (GOM, 2006).

Very favorable and congenial entrepreneurial environment exists in Malaysia for the development and promotion of halal food industry. As a modern Islamic country with an open economy and a well developed physical and institutional infrastructure, Malaysia has the edge in the development of the halal industry and is capable of supporting initiatives and programs to develop and promote the said industry (GOM, 2006). In fact one of the objectives of the the Third

Industrial Master Plan (IMP3) 2006 -2020, is to make Malaysia the global halal hub for the production and trade in halal goods and services (GOM, 2006). Some positive factors, listed below, would help Malaysia realize the desired objective:

1. Malaysia is viewed as a progressive Islamic and business friendly country by both Muslim and non-Muslim world communities;
2. The country possesses raw materials, supporting infrastructure, and processing technologies to produce and market halal products;
3. It has established a solid industrial base and is progressive towards a higher level of industrialization;
4. There is worldwide recognition of its halal certification due to its stringent criteria and sought after by other countries;
5. Malaysia is strategically located within the Asia Pacific region, with potential benefits from the presence of major areas of production and consumption;
6. It has created very conducive operating environment, in particular necessary policies and an efficient institutional infrastructure, to support the development of the industry; and
7. There is strong commitment from the government (GOM, 2006, MoA, 2004).

Malaysian companies, especially halal food manufacturing companies, are offered a wide range of incentives to support their

efforts towards exporting. The incentives include:

- i. Grants for business planning and development, product and process improvements, productivity and quality improvements and certification, market development and brand promotion;
- ii. A special grant for the development and promotion of halal products;
- iii. Investment Tax Allowance (ITA) of 100 percent on qualifying capital expenditures for five years for companies which produce halal foods; and
- iv. Double tax deduction on expenditures for obtaining halal certification and accreditation (GOM, 2006).

In spite of all government incentives and favorable entrepreneurial environment, the halal food production in Malaysia is relatively small compared to other countries in the region. Today the country is dependent on import of both processed foods and almost 70% of agricultural raw materials.

RESEARCH METHODS

Sample and Data Sources

The study is based on small and medium-sized enterprises (SMEs) operating in halal food manufacturing sector in Malaysia. The data was collected from 185 small and medium-sized enterprises that are engaged in export. The study employs the definition of SME recommended by the National SME Development Council (NSDC). According to NSDC “an enterprise with annual sales

turnover not exceeding RM25 million or full time employees not exceeding a total of 150 is an SME (NSDC, 2005). Following the definition of an SME, we referred to the SMIDEC (Small and Medium Industries Development Corporations) directory to identify potential respondents in the food processing industry of Malaysia .

The study used a quantitative methodology. The survey instrument was a structured questionnaire and consisted of 10 sections and 76 questions. Prior to mailing, the questionnaire was pilot tested with 20 expert academics and processed halal food exporters. Nine questions in section one and six questions in section ten were designed to gather demographic information of randomly selected firms and individual respondents (owners/ managers) respectively. In order to measure perceived barriers which firms faced during the exporting process, the respondents were asked to rate three questions relating to internal, external, and procedural factors in section five on a six-point scale ranging from (1) I disagree a lot to (6) I agree a lot.

The purpose of the study was explained in an accompanying cover letter and the recipients were strongly encouraged to participate in the survey. To encourage them further, they were promised a copy of the survey report.

A total of 600 questionnaires were mailed to firms included in SMIDEC directory from May-to December 2007. Respondents who did not respond after a two-week period were reminded by telephone and were requested to complete the

questionnaire. Enumerators were hired and sent to firms to collect the questionnaire once confirmation was received acknowledging that the SME owners agreed to provide response to the questionnaires. To ensure that the questionnaires were answered by the SME representatives. The enumerators were tasked to collect their business cards or to get the firm's endorsement. The number of participants who completed the questionnaires were 185 which attributed to a response rate of 30.83 percent.

Instrument Development

We developed a survey questionnaire to collect information from SME owners or managers to recognize the factors that significantly influence the export operations of halal food processing SMEs in Malaysia. The research process for this study includes four main steps:

1. Formulation of research problems that include reviewing related literature, understanding the concepts of halal foods, export process, common barriers to SMEs export efforts and formulating research propositions;
2. Questionnaire development, which includes selecting items for questionnaire, designing survey questionnaire and then interviewing academics and practitioners in SMEs or entrepreneurs area;
3. Data collection and analysis, including survey administration, data collection, factor analysis and reliability test; and

4. 4. Identification of the factors which influence SMEs' halal food export activities.

values of at least 0.855. Upon confirmation of sampling adequacy factor analysis was carried out. Table 1 shows the results of KMO and Bartlett's Test.

DATA ANALYSIS AND RESULTS

Fitness for Factor Analysis

A correlation analysis was conducted to find out whether the variables are fit to factor analysis. The result showed that the 51 variables are correlated with each other. Furthermore, most correlation coefficients are over 0.3 and these coefficients are statistically significant at the significant level of 0.05.

Measure of Sampling Adequacy

The Keiser-Meyer-Olkin (KMO) sampling adequacy test and Bartlett's test of Sphericity were used to measure sampling adequacy. Interpretive adjectives for the KMO measure of sampling adequacy are: marvelous (in the 0.90's), meritorious (in the 0.80's), middling (in the 0.70's), mediocre (in the 0.60's), and unacceptable (in the 0.50's) (Rezai, 2008). Bartlett's test of Sphericity and KMO test of sampling adequacy were initially performed on the data to confirm the appropriateness of conducting factor analysis (Tabachnick, 2001). KMO test for the set of predetermined variables reached

Factor Analysis

Exploratory factor analysis was used to reduce the number of variables measuring 'Internal' 'External' and 'Procedural' exporting barriers into a meaningful and smaller number of subsets or factor groups. The factor analysis of the internal exporting barriers is presented first. Factor analysis was conducted on the internal, external and procedural exporting barriers independently. This approach gave a better result than the other approach where the three barriers were combined and factor analyzed.

In carrying out exploratory factor analysis, it is recommended to perform a principal components analysis (PCA) for factor extraction, since the objective is to summarize most of the original information (variance) in a minimum number of factors for prediction purposes. In addition, we used the varimax rotation method in the study to make the factor structure more interpretable. The factor solution of perceived internal exporting barriers was obtained using PCA for factor extraction and varimax rotation method. The factor loading was set at (0.50).

TABLE 1
Results of KMO and Bartlett's Test

Test Type	Result
Kaiser-Meyer-Olkin Measure of Sampling Adequacy	.855
Bartlett's Test Sphericity, Approx. Chi-Square	5892.279
Significance	.000

(Source: Survey, 2007)

Factor Analysis of Perceived Internal Export Barriers

A total of 28 variables were considered for measuring internal export barriers. Of the 28 selected variables two variables with factor loading less than 0.50 were discarded. The results of the varimax rotation PCA are given in Table 2. It is observed that the internal exporting barriers are grouped into five factors. The factors have been labeled as: 1) Resource and Capacity Constraints; 2) Market and Knowledge Constraints; 3) International Linkage Constraints; 4) Supply Chain Constraints; and 5) Financial Constraints.

The First Factor

Consisted of 13 variables, 'Resource and Capacity Constraints' has appeared as number one factor with a total variance of 42.063 percent. The variable "Our firm is unable to meet the packing/labeling requirements of the overseas markets" has the highest factor loading (.809).

This is followed, by "Our firm does not have the capacity to develop new products for foreign markets" (.800); "Our firm does not have the product range required by the overseas markets" (.723); "Our firm does not have a good quality assurance system" (.718); "Our firm cannot meet product quality standards demanded in overseas markets" (.709); "The quality of the raw materials our firm receives is too unreliable to sustain exports" (.701) respectively. The variable with the lowest factor loading (.509) of this factor is "Our firm is too small to sustain exports."

The Second Factor

With 7 variables 'Market and Knowledge Constraints' is recognized as the second factor of internal barriers. This factor has a total variance of 7.524 percent. "Our firm does not have trained and experienced personnel for export marketing" has the highest factor loading (.716). This is followed by "We lack knowledge about export markets and exporting" (.678), "We were unable to locate a reliable export agent" (.654), "The domestic market consumes all our output" (.632), "It is too expensive to export our products" (.611), "The domestic market is more profitable for our firm" (.583), and "Our firm does not have an internationally recognized brand name" (.567).

The Third Factor

'International Linkage Constraints' is the third factor which has a total variance of 4.612 percent and consists of 4 variables. Of the four variables "Our firm is unable to control foreign middlemen" has the highest factor loading (.796). It is followed by "There is too much conflicting international market data" (.743), "Our firm has no warehousing facilities abroad" (.625), and "Our firm lacks foreign market connections" (.584).

Supply Chain Constraints and **Financial Constraints** emerged as the fourth and fifth factors respectively with single variable each. Only variable of fourth factor- "Our firm lacks in alternative supply of Halal raw materials" has the factor loading of .712. On the other hand, the only

TABLE 2
Rotated Component Matrix for Internal Export Barriers

Factor Groups	1	2	3	4	5
Resource and Capacity Constraints					
Our firm is unable to meet the packing/labeling requirements of the overseas markets	.809				
Our firm does not have the capacity to develop new products for foreign markets	.800				
Our firm does not have the product range required by the overseas markets	.723				
Our firm does not have a good quality assurance system	.718				
Our firm cannot meet product quality standards/ specs demanded in overseas markets	.709				
The quality of the raw materials our firm receives is too unreliable to sustain exports	.701				
There is not enough demand from overseas buyers for our products	.666				
Our firm unable to offer technical/after-sale service	.649				
Our firm is not committed to the development of export activities	.579				
Our firm is not interested or willing to export	.542				
Our firm lacks production capacity to dedicate to foreign to foreign markets	.538				
Our firm lacks the financial resources necessary to conduct market research in overseas markets	.531				
Our firm is too small to sustain exports	.509				
Market and Knowledge Constraints					
Our firm does not have trained and experienced personnel for export marketing		.716			
We lack knowledge about export markets and exporting		.678			
We were unable to locate a reliable export agent		.654			
The domestic market consumes all our output		.632			
It is too expensive to export our products		.611			
The domestic market is more profitable for our firm		.583			
Our firm does not have an internationally recognized brand name		.567			
International Linkage Constraints					
Our firm is unable to control foreign middlemen			.796		
There is too much conflicting international market data			.743		
Our firm has no warehousing facilities abroad			.625		
Our firm lacks foreign market connections			.584		
Supply Chain Constraints					
Our firm lack in alternative supply of Halal raw materials				.712	
Financial Constraints					
Our firm has insufficient resources to finance exports					.832
Eigenvalues	11.778	2.107	1.291	1.254	1.114
Explained Variations	42.063	7.524	4.612	4.479	3.979
Cumulative Variations	42.063	49.586	54.199	58.678	62.657

(Source: Survey 2007)

* Note: Words in bold refer to Latent factors

variable of the fifth factor “Our firm has insufficient resources to finance exports” holds .832 factor loading.

Factor Analysis of Perceived External Export Barriers

A total of 8 variables were considered for measuring external export barriers. The results of the varimax rotation PCA are given in Table 3. The external exporting barriers are grouped into two factors. The factors have been named as: 1) Location, Culture and Image Constraints; and 2) Competition and Demand Constraints.

The First Factor

‘Location Culture and Image Constraints’ appeared as the first factor of perceived external export barriers with a total variance of 55.595 percent. This factor is comprised of six variables. “Overseas customers are

too demanding” variable has the highest factor loading (.85). This is followed by “Foreign markets are too politically instable” (.82), “Malaysia is too far from the markets” (.81), “Our products are not used in foreign markets” (.77), “Culture and language barriers made it difficult for our firm to conduct business in foreign markets” (.64), and “The image of Malaysian food products in foreign markets is poor” (.60).

The Second Factor

‘Competition and Demand Constraints’ is the second factor of external export barriers. This factor is composed of two variables and has a total variance of 14.314 percent. The variable “The competition is too fierce in export markets” has the factor loading of (.92) followed by “There is in sufficient demand for our products in foreign markets” (.91).

TABLE 3
Rotated Component Matrix for External Export Barriers

Factor Groups	1	2
Location, Culture and Image Constraints		
Overseas customers are too demanding	.85	
Foreign markets are too politically instable	.82	
Malaysia is too far from the markets	.81	
Our products are not used in foreign markets	.77	
Culture and language barriers made it difficult for our firm to conduct business in foreign markets	.64	
The image of Malaysian food products in foreign markets is poor	.60	
Competition and Demand Constraints		
The competition is too fierce in export markets		.92
There is in sufficient demand for our products in foreign markets		.91
Eigenvalues	4.448	1.145
Explained Variations	55.595	14.314
Cumulative Variations	55.595	69.909

(Source: Survey 2007)

Factor Analysis of Perceived Procedural Export Barriers

A total of 15 variables were considered for measuring procedural export barriers. Of the selected variables one variable with factor loading less than 0.50 was discarded. It is seen from the results presented in Table 4 that the procedural exporting barriers are grouped into four factors labeled as: 1) Recognition and Support Assistance Constraints; 2) Risk and Complexity Constraints; 3) Information, Documentation and Payment Constraints;

and 4) Standards and Market Regulation Constraints (Table 4).

The First Factor

For procedural export barriers ‘Recognition and Support Assistance Constraints’ was rated as number one factor with five variables and a total variance of 44.06 percent. The variable “Our foreign customers do not pay debt received” has the highest factor loading (.78). The factor loadings of other four variables vary from .70 to .76.

TABLE 4
Rotated Component Matrix for Procedural Export Barriers

Factor Groups	1	2	3	4
Recognition and Support Assistance Constraints				
Our foreign customers do not pay debt	.78			
Our food quality assurance certification is not recognized by overseas buyers	.76			
High tariff barriers will make our products too expensive	.74			
Malaysia lacks in tax incentives to encourage export	.71			
Lack of Malaysian government's assistance to overcome export barriers	.70			
Risk and Complexity Constraints				
It is too risky to grant credit to foreign customers		.83		
It takes too much time to get our product to market		.82		
Foreign distribution channels are too complex		.73		
We loss too many goods in transit		.63		
Information, Documentation and Payment Constraints				
We have inadequate market information			.84	
Delays in payment made export unattractive			.78	
There is too much documentation and paper work associated with exports			.56	
Standards and Market Regulation Constraints				
Malaysia sets the standard too high for its export products				.89
Foreign market regulations are too difficult				.73
Eigenvalues	6.17	1.64	1.20	1.08
Explained Variations	44.06	11.70	8.57	7.68
Cumulative Variations	44.06	55.76	64.33	72.01

(Source: Survey, 2007)

The Second Factor

'Risk and Complexity Constraints' is the second factor of procedural export barriers. It has a total variance of 11.70 percent and includes four variables with factor loading from .63 to .83. The variable "It is too risky to grant credit to foreign customers" has the highest factor loading (.83).

The Third Factor

'Information, Documentation and Payment Constraints' has a total variance of 8.57 percent. It includes three variables with factor loading from .56 to .84. "We have inadequate market information" has the highest factor loading (.84).

The Fourth Factor

The fourth and the last factor of procedural export barriers is 'Standards and Market Regulation Constraints'. This factor is comprised of two variables and has a total variance of 7.68 percent. The variable "Malaysia sets the standard too high for its export products" is with higher factor loading (.89).

Reliability Test

Reliability is an assessment of the degree of consistency between multiple measurements of variables (Rezai, 2008). In this study, the Cronbach's Alpha was used to measure the reliability of 51 relevant variables that have been used in factor analysis. The reliability of the resulting factors was tested by Cronbach's Alpha score.

The internal reliability for all the factors have been tested and the alpha scores for each factor are presented in Table 5. The reliability tests for the factors show that all factors excepting "Standards and Market Regulation Constraints" and "Information, Documentation and Payment Constraints" have alpha scores of more than .70, the benchmark for exploratory research (Alam *et al.*, 2011).

DISCUSSION AND CONCLUSION

The overall objective of the study was to identify the exporting problems encountered by halal food processing SMEs in Malaysia. The empirical information resulted from this

TABLE 5
Internal Reliability Analysis on Factors that Create Barriers to Exporting

Factor	Cronbach Alpha Scores	Number of Item
Resource and Capacity Constraints	.851	13
Market and Knowledge Constraints	.865	07
International Linkage Constraints	.843	04
Location, Culture and Image Constraints	.868	06
Competition and Demand Constraints	.720	02
Recognition and Support Assistance Constraints	.834	05
Risk and Complexity Constraints	.740	04
Information, Documentation and Payment Constraints	.682	03
Standards and Market Regulation Constraints	.640	02

(Source: Survey, 2007)

study indicates that food processing SMEs of Malaysia confront more or less problems of the same nature though with different intensity, in selling their halal processed foods in overseas markets.

The activities of the exporting firms are obstructed by three broad categories of barriers. These are Internal Export Barriers or firms' internal limitations; External Export Barriers or general external conditions over which firms have little or no control and Procedural Export Barriers or limiting conditions which can be minimized through collaborative efforts among exporters, importers and export supporting agencies of exporting country. Inadequate production capacity, lack of financial resources, lack of high commitment and willingness to export, inability to meet overseas market standards and providing after-sale services, inability to develop new products and increase product range required for overseas markets, absence of good quality assurance system, lack of knowledge of export markets and exporting process, lack of reliable export agent, demand for recognized brand names, foreign market connections and warehousing facilities abroad emerged as important obstructing variables to export from the results of factor analysis.

With regard to external barriers poor product image, cultural and language difference, distant market locations, politically instable markets, insufficient demand and high competition in export markets were perceived as important obstacles to exporting. Results indicate that procedural barriers are more obstructive

than internal and external barriers. Non recognition of food quality assurance certificate, high tariff, inadequate tax incentives to encourage export, lack of government assistance to overcome export barriers, very high standards for export products, delays in payment, inadequate market information and need of too much documentation and paper work were viewed as crucial procedural barriers to export.

It is understood from the study of literature that the Government of Malaysia is highly concerned about the development of food industry, especially halal food industry. The role of SMEs in the economy has been rightly recognized. Favorable policies and strategies are incorporated in national plan documents. Several governmental departments namely: 1) The Small and Medium Industries Development Corporation (SMIDEC); 2) The Malaysia External Trade Development Corporation (MATRADE); 3) The Malaysian Industrial Development Authority (MIDA); 4) The Malaysian Export Credit Insurance Berhad (MECIB); and 5) The Export-Import Bank of Malaysia Berhad (EXIM Bank) are working with sixty export assistance programs to support government policies. These programs require a wide and comprehensive publicity so that SME owners become aware of these programs and take advantage of them. Attempts may be taken to simplify exporting procedures, attractive incentives may be offered to motivate SMEs for higher volume of exports and preferential treatments may be given to SMEs for market development and fund raising.

Critical barriers as perceived by the halal processed food exporters may be overcome by enthusiastic and collective efforts of policy makers, public and private sector support agencies, and the SME halal food manufacturers and exporters. The standards of quality of exportable processed foods should not be under graded. Moreover technical, infrastructural, financial, and marketing support should be provided by the Government to halal food processing SMEs so that they can attain and maintain international halal standards and help the Government in establishing Malaysia as a 'Global Halal Hub'.

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