

Halal Certification System as a Resource for Firm Internationalization: Comparison of China and Malaysia¹

François N. Dubé², Yang HaiJuan² and Huang Lijun³

Abstract

There is a broad consensus to the effect that public agencies can mitigate the obstacles and uncertainties associated with the process of firm internationalization. One critical aspect of such interventionist policy is the establishment of a national/region halal certification system, which has been widely recognized has a core factor in the international expansion of halal food firms. Based on a thorough field research conducted in the halal food industries of the Ningxia Autonomous Hui Region of China and Malaysia, the present article shall explicitly examine how exactly different models of halal certification can promote and ease access of local firms to international markets. Using both qualitative and quantitative methodologies, the present article will allow us to formulate general conclusions regarding the relationship between firm internationalization and halal certification, as well as specific insights for other halal food industries seeking to promote their international activities.

Keywords: *halal industry, firm internationalization, halal food, certification*

I. Introduction

The present article intends to examine the process of firm internationalization by focusing on the specificities of the halal food industry. According to a large pool of literature, the firm internationalization process is fraught with risks and filled with uncertainties (Conconi et al., 2010).

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2. Department of Economic Research, University of Ningxia, Yinchuan, China, Email : francois.dube.3@ulaval.ca , Tel.: 1500 958 5078

3. Department of Economic Research, University of Ningxia, Yinchuan, China, Email : yhj20614383@163.com , Tel.: 1 389 517 9865

4. Centre for Research on Economic Development of Western China, Department of Economic Research University of Ningxia, Yinchuan, China, Email : hlj1963@126.com , Tel.: 09 51 206 1661

These barriers include, among others, the lack of funding mechanisms adapted to export activities, the lack of information and knowledge about target markets, the inability to meet administrative and bureaucratic requirements related to exports, etc. There is also a broad consensus to the effect that public institutions can somewhat mitigate these barriers and facilitate the internationalization process (De Carvalho, 2012; Da Rocha et al., 2007). Public agencies can provide firms with an easier access to funds and information about potential foreign opportunities, and - by sharing the costs and risks through effective use of coordination projects and economies of scale - make it much easier for even small firms to access foreign markets and undertake export activities (Legendijk & Charles, 2003).

As we shall see, in Malaysia and China, both local and national governments have played a leading and central role in encouraging the development of the halal food industry in recent years, especially through various export promotion policies aimed at promoting firm internationalization. But while in both cases public agencies have adopted a proactive and interventionist role, these new halal food development hubs differ greatly in terms of the nature, the efficiency and the scale of their internationalization promotion policies. The respective results of these policies, with regards to the performance of halal food firms on the international arena, also differ greatly, ranging from obvious failures to brilliant successes.

But a specific aspect of these export promotion policies - one that is especially important for the halal food industry - deserves more attention: the halal certification system. Indeed, halal certification has been widely recognized as a core factor in the international expansion of halal food firms by many authors, although none has tried to quantify or compare its influence (Bohari et al., 2013; Borzooei et al., 2013; Hadju, 2011; Hussain, 2009). Considering that different regions and countries have put in place different halal certification systems, each with its own set of characteristics, limits and advantages, it appears as essential to assess and measure their efficiency and influence on firm internationalization.

The main purpose of this article is thus to examine and measure how different models of halal certification system can affect the performance of halal food firms, particularly with respect to their objective of accessing foreign markets. By focusing on two halal food industrial parks, in Malaysia and in China, we shall see how different models of halal certification can facilitate or hinder the process of firm internationalization. Using both qualitative and quantitative methodologies, the present article will allow us to formulate general conclusions regarding the relationship between firm internationalization and halal certification, as well as specific insights for other halal food industries seeking to promote their international activities.

The Rise of the Halal Food Industry in Asia

The halal industry - which in Arabic means the industry of "what is allowed" - refers to the way we produce and deliver goods and services in a manner that is consistent with Islamic law, or Sharia, avoiding practices and products prohibited (haram) by the precepts of Islam. While the concept of halal is most often associated with the food production and processing industry, it also applies to areas as diverse as pharmaceuticals, healthcare products, tourism, cosmetics and hygiene products, logistics, packaging and many others areas (Rizal & Seong, 2006). This industry is known for the importance it gives to the verification and certification measures at all stages of production to ensure that products are not contaminated with non-halal materials or processes, which involves rigorous analytical techniques (Nakyinsige et al., 2012).

With a worldwide Muslim population of around 1.6 billion people, the estimated total value of the growing global halal industry was around \$ 2.3 billion in 2012 and this amount is expected to increase consistently in the coming years. This remarkable growth is due to a significant increase in consumption of halal products in Muslim countries and to an ever growing awareness of Muslim consumers concerning the importance of halal certification (Bohari et al., 2013; Husain & al., 2012). This significant growth of the halal industry is nowhere more evident than in the Arab Muslim countries of the Persian Gulf, especially when considering the rise of their food imports. To meet the needs of their growing domestic demand, the six states of the Gulf Cooperation Council (GCC) have to import 90% of their annual grain needs and 60% of their meat products. For Saudi Arabia alone, that is 5 million heads of cattle annually (Xia, 2008).

This exponential demand coming from the GCC represents a significant financial windfall for those who can capture a share of this market and has obviously led to a heightened interest of foreign entrepreneurs (Rizal & Seong, 2006). Currently, multinational agro-business firms in Brazil, Australia and New Zealand have secured the biggest share of world exports of meat and processed halal products to countries in the Middle East. But in recent years, several Asian regions and countries with a significant Muslim population have sought to capture a share of this market by encouraging the development and internationalization of their local halal production base. This is the case, among others, of Brunei Darussalam, Indonesia, Thailand, the Philippines, and, of course, Malaysia and China.

In the majority of these countries, the development of the domestic halal industry is strongly supported by both central and local public authorities, in particular with various internationalization and export promotion policies. Such measures have been at the very core of the industrial policies in these countries, and are generally defined in the literature as the set of collective actions of institutional stakeholders

(governments and affiliated para-public agencies) to support firms setting up, undertaking and developing international activities (mostly, but not restricted to, export). This interventionist approach in favor of promoting export corresponds to an active model of economic interventionism, mostly in vogue in the rising Asian economies (Kuchiki, 2005; Mitsui & Fatimah, 2003).

According to this model, the role of public agencies is to address market failures by providing a wide range of services and resources, such as networking and business matching activities, target market analysis, marketing services, etc. (Hatem, 2005) Public policies can also assist firms in obtaining bank loans in order to finance their international activities (OECD, 2010). The empirical literature suggests that such export promotion policies were at the very heart of the internationalization of many agro-food industries, including Kenya (Yutaka & Zombori, 2011), Latin America (Gálvez-Nogales, 2010), Indonesia (Burger et al. 2011) and Mongolia (Webber & Labaste, 2010).

But beside the obvious and visible aspect of such industrial development support policies, the halal food industry also benefits from another aspect of public intervention, which, although less apparent, is potentially much more influential: the halal certification system. Indeed, the halal certification system is fundamentally inseparable from the overall halal food industry, and we argue in this paper that it constitutes a significant factor in determining the export performance of halal food firms. By looking at the halal certification models currently in place in Malaysia and China, and by analyzing how the core characteristics of these models differ, we shall assess how exactly they affect the degree of firm internationalization inside the halal food industry.

Halal Certification System as a Resource

Given the potential importance of halal certification for the internationalization of halal food firms, it is essential to examine in greater detail the theoretical underpinnings of firm internationalization. Internationalization is, as defined by Welch and Luostarinen (1993), "the process of increasing involvement in international operations". From this definition, theories of firm internationalization have sought to explain the reasons why a given firm engages in international activities, the different paths to internationalization, and, concerning public policy research, how institutions can hinder or ease this process. Many convergent and competing theories have been developed to answer these questions, of which one approach is particularly relevant in the context of the halal food industry: the resource-based view of firm internationalization.

Rooted in the works of Chandler (1962) and Penrose (1959), the resource-based view

of internationalization considers the firm as a collection of specific and heterogeneous resources. According to this approach, whether a firm will achieve and maintain a profitable position in the international market depends on its ability to obtain vital and exclusive resources, and on maintaining this advantage. Independently of the content of the international activity itself, the resource-based view implies that internationalization consists, according to Conner (1991), in the mobilization, the accumulation and the development of resources, which are then used to initiate international activities.

If the distinctive resources of a given firm meet the four characteristics of exclusivity (i.e. they are valuable, scarce, difficult to imitate, and limited), they can provide a significant competitive advantage for the firm in the international arena. Many empirical studies confirm the insights of the resource-based view of firm internationalization. Indeed, it appears that many aspects of international development are utterly dependent on the critical resources available to the firm. For example, resources determine the path, the speed and the sequence of internationalization (Kamakura et al., 2012), and different resources create different competitive advantages (Wang & Ahmed, 2007).

In this article, we shall regard halal certification systems as a resource made available for firm internationalization by public agencies. Thus, public agencies can exert a beneficial influence and ease firm internationalisation process by influencing the four characteristics of exclusivity of its domestic halal certification system, namely its value, its scarcity, its difficulty to imitate, and its limited aspect. By doing so, public agencies are in fact modifying the resource available for firm internationalization. Guided by the theoretical framework presented above, we shall evaluate and compare the inherent characteristics of the halal certification systems currently in place in Ningxia and Malaysia. This way, we shall be able to evaluate which one of these certification systems is the most effective in regard to promoting firm internationalization, and assess the validity of our theoretical assumption.

As we can see from the above introduction, to address the issue of halal certification as a resource provides us with a very promising field of research to investigate and compare the effects of halal certification systems on firm internationalization in China and Malaysia. The results presented below are based on qualitative and quantitative empirical data, collected during a wide-scale field research conducted in the Wuzhong Halal Food Industrial Park and the Penang International Halal Hub, between November 2014 and March 2015. In total, 78 halal food firms in these three countries were interviewed on site or by phone. In more than half of the cases, researchers had the opportunity to visit facilities, review products and certificates, and assess firsthand the degree of internationalization of halal food companies. In addition, researchers had

the opportunity to visit 18 government institutions and agencies (in the cities of Yinchuan, Wuzhong, Penang and Kuala Lumpur). These valuable testimonies will be used to better contextualize the data and estimate the effects of each halal certification system.

Halal Food Industry in Ningxia and Malaysia

Without any doubt, Malaysia is widely seen and recognized as the world's most successful example of halal food industry development, and its model has been regarded as the basis for the development of halal food industries in many countries. The development of the halal industry in Malaysia started 30 years ago. Halal inspections were then carried out by a private company appointed by the federal government. A public institution - JAKIM - was later established and all halal certification and auditing activities came under the control of the Malaysian federal state, with local states being responsible for the definition of the Islamic law. From 1996, the development of halal industry was integrated into main industrial and agricultural government plans, including the Halal Industry Development Master Plan, which was adopted in May 2008.

As part of these efforts, halal industrial parks were established as one of the pillars of the Malaysian halal industry development master plan. Such parks consist in communities of manufacturing and service companies, supported by public and private organizations offering research, logistics, training and other services. The purpose the Malaysian halal industrial parks is to improve the economic performance of member firms; this includes boosting the performance on both domestic and international markets, increasing awareness and enforcement of various certifications and standards, increasing product innovation, and so on. In order to do so, public agencies provide a variety of services to member firms, including various financial incentives, such as full income tax exemption on capital expenditure for a period of five years. As a result of these efforts, Malaysian halal industrial parks have benefited from over RM 6 billion in investment from 17 multinational companies and over 80 small and medium companies.

For the purpose of this study, we have selected the Penang International Halal Hub (PIHH) as our main research field in Malaysia. The PIHH is situated along the Straits of Malacca, in the historical city of Penang, which has been a traditional successful trading hub for northern peninsular Malaysia. Halal Penang, a state-owned agency, was set up in 2008 in order to manage the Penang International Halal Hub and support Malaysia's vision to become the world halal hub. Halal Penang is focused on promoting, enhancing and driving the growth of the halal cluster and help make up a holistic and integrated halal supply chain. Positive outcomes of these efforts are already visible, the local halal industry has grown from a handful of 55 companies in

2008 to the 565 there are today. In terms of its degree of internationalization, the Penang International Halal Hub is a success-story: 100% of the member firms have already undertaken international activities, mostly export in neighboring markets.

Much like Malaysia, China is also keen to access the rising Arab markets and to benefit from their lucrative export and investment opportunities. Currently, China has nearly 6,000 firms of halal food production, concentrated mainly in the five provinces of the Chinese Northwest. The Ningxia Hui Autonomous Region is undoubtedly the heart of the efforts of China in terms of halal food industry development. Indeed, according to available data, the Ningxia halal industry in 2012 included up of 655 firms (including 102 large-scale enterprises) and employed some 20,000 people, with a total industrial value of 17.43 billion yuan (Tian, 2013).

Members of the Hui Muslim ethnic minority in Ningxia, composing around 34% of the total population of 6,390,000, form a large pool of consumers and an invaluable source of expertise in the field of halal industry. Indeed, religious and cultural affinities shared by the Hui Muslim minority and their co-religionists in the Middle East, according to local experts, represent a unique comparative advantage of Ningxia, forming the central pillar of the regional export promotion policy. Based on the principle of "promote trade through culture", the religious and cultural background of local Chinese Hui Muslims is conceived as "bridging" the differences with the Muslim world, the Hui people playing the role of mediators between the halal food firms of Ningxia and the Arab-Muslim markets.

At the local and municipal levels, authorities are fully committed to achieving these development goals. This proactive trend in favor of Ningxia's halal industry is especially evident in the city of Wuzhong, where a Funds for the development of the halal food industry was established in 2010, with annual investments of 5 million yuan, seeking to promote the development of halal food production chain and to ease recognition of local products by foreign halal certification bodies (Tian, 2013). These efforts eventually resulted in the formation of the largest halal industrial park in China: the Wuzhong Halal Food Industrial Park. As of 2012, 176 companies were active in this industrial park, including 139 firms of halal food production (80% of the industrial base).

But as of today, several years after the establishment of such export promotion strategy, results are not up to the initial expectations, and the current situation is far from ideal. Indeed, despite the impressive efforts of public officials and state agencies, local firms have quickly encountered many obstacles and constraints hindering their international expansion (Xia, 2008; Wu, 2013). The data gathered in the course of the field survey shows that the overall internationalization degree of the Wuzhong halal food industry appears to be very low. Of all the firms in the Wuzhong Halal Food

industrial park, only around 20% have any export or international experience; these firms are mainly active in Malaysia, the United Arab Emirates and Saudi Arabia.

Effects of Halal Certification Models on Firm Internationalization

Halal food firms in these two countries were asked to evaluate their level of internationalization (on a scale of 1 to 5, 5 being the highest level, based on set of common standards, i.e. percentage of revenue coming from exports; number of international cooperative projects; size of presence in foreign markets). Firms were then asked to assess, according to their experience, whether their internationalization activities benefited or not from their domestic halal certification system (on a scale of 1 to 5, 5 being the most beneficial effect). Finally, further qualitative data were collected to explain in details the statistical effects of each halal certification system.

As we can see from Figure 1, both industries differ widely in terms of their level of firm internationalization. The mean score of firm internationalization among Ningxia halal food firms was 1.37/5, compared to 3.46/5 for the Malaysian halal food industry. The standard deviation of the scores for each group (1.08 and 1.46) indicates that the spread of the scores is slightly higher in the Malaysian halal food industry than among Ningxia halal food firms.

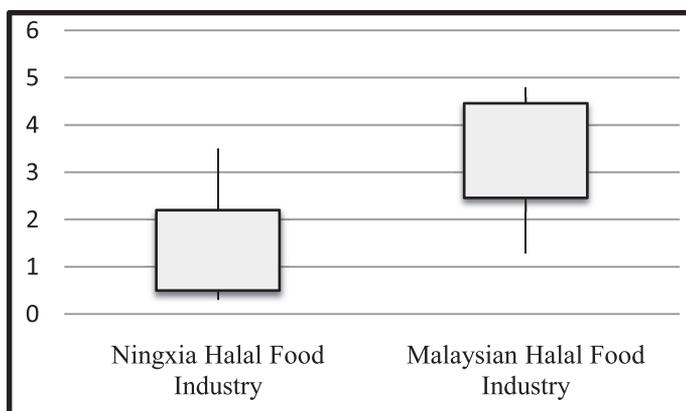


Figure 1: Level of firm internationalization

In order to determine if this difference is statistically significant, we shall compare the difference between the mean score of firm internationalization under both halal certification systems. The results of the independent samples t-test tell us that the difference between the means (2.09) of the two certification systems is statistically significant. Indeed, the results showed that the degree of firm internationalization under the Malaysian halal certification system was significantly higher ($M = 3.46$; SD

= 1.08) than under the Ningxia halal certification system (M = 1.37; SD =1.46); t = 8.22, p = .000. The difference would lie between 1.5 and 2.5, which shows that the effect is quite large, considering that the maximum value for the degree of firm internationalization is 5.

Since the difference between the samples we have collected is larger than what we would expect based on the standard error, then the difference is genuine, and we can assume that the Malaysian halal certification system is thus significantly more effective to promote firm internationalisation than the Ningxia halal certification system. This is well illustrated by Figure 2, where we can clearly see that the responses from the Ningxia halal food industry form a negative relation, implying that the beneficial effect of the local halal certification system is not associated with an increase in the objective degree of firm internationalization. Respondents from the Malaysian halal food industry, on the other side, report a strong and positive relation between the efficiency of their domestic halal certification system and their degree of firm internationalization.

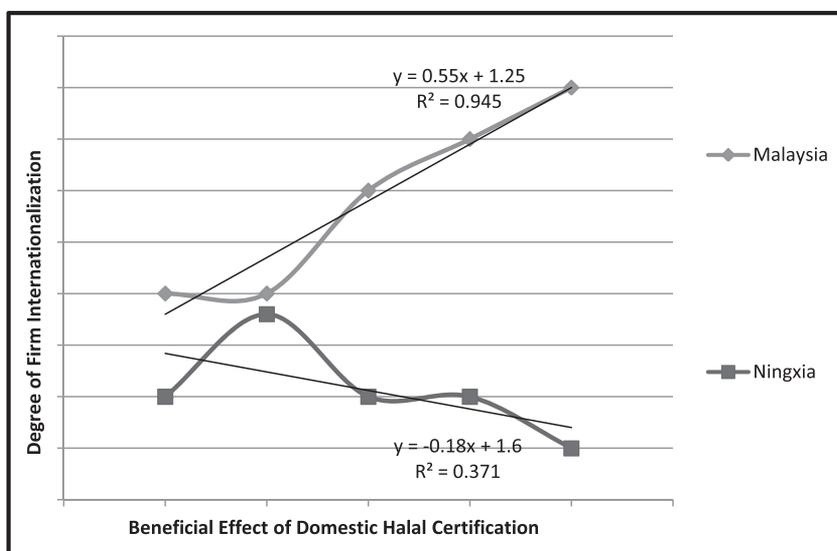


Figure 2: Firm internationalization/certification beneficial effect

The testimonies of respondents and qualitative data collected on site confirm our statistical results. As we have noted, Malaysia has fully centralized its halal certification system under the authority of the central government, and its halal certification system is fully supported by relevant government institutions. Established in 1997, the Malaysian Islamic Development Department (JAKIM) acts as Malaysia's sole agency responsible for issuing and controlling halal certificates. The Malaysian

halal standard, named the "General guidelines for Halal food production, preparation, processing and storage" (MIS500: 2004), complies with good manufacturing practice standards (GMP) and good hygienic practices (GHP) and is ISO-compatible. Because of this high degree of coherence, it is widely recognized by other certification bodies as being the most reliable halal standard in the world, and, as we saw, it represents a significant competitive advantage for Malaysian firms.

On the other side, China's current national halal certification system is still vastly decentralized and lacks coherence. It is based on a customer-centred and voluntary approach, with no central organization or agency seeking to monopolize the certification process at the national level. Halal certificates are freely available from different regional/private agencies. Respondents in Ningxia can obtain their certificate from the Ningxia Halal Certification Center, a regional government body established in 2008 in charge of certifying local firms. However, respondents in Ningxia were unanimous in saying that the regional halal certificate is "completely useless" when it comes to international and export activities, since it is not recognized outside of China.

Because of this, firms in Ningxia have to apply to foreign halal certification bodies in their target market. This is the only way Ningxia firms can have their products certified and accepted on the international arena. For firms that have no international experience, this represents a overwhelming challenge: most entrepreneurs have described this process as long, expensive and complex, and understanding the international certification requirements, filling the relevant formalities, organizing inspection visits of foreign certification officials, etc. are among the greatest challenges they face.

When asked about this lack of foreign recognition, officials from the regional Trade Office and the Ningxia Halal Certification Center indicated that the current priority of the Ningxia government is to develop relations inside China, and expand the influence of the Ningxia halal certification among other Chinese provinces. Indeed, as of 2015, the Ningxia halal certificate has been fully recognized by Shaanxi, Gansu, Qinghai, Yunnan, Tianjin and Sichuan provinces. When it comes to international recognition, however, local halal food firms cannot count on local institutions.

Moreover, many Muslim countries have recently started to require that not only the food products be certified halal, but also that the entire logistics process, from production to consumption, be "halal", to fully ensure the integrity of the products. The main principle of halal logistics is that halal products be separated from non-halal products throughout the entire logistic chain, in order to avoid any possibility of cross-contamination. Currently, the Ningxia halal certification does not meet these requirements, which further limits its ability to export halal food. The Malaysian certification system, however, includes a halal standard specifically designed to ensure the halal integrity of logistic and supply chains.

Another aspect of the halal certification system concerns the support infrastructure, meaning the way public institutions and agencies provide the required support and assistance in order to efficiently implement their halal certification system. In this aspect, Malaysia again proves its superiority. Indeed, respondents in Malaysia have said that the process of securing their halal certificate was fast and smooth, thanks mostly to the halal certification pre-assessment and coaching services provided by the Halal Industry Development Corporation (HDC). Established in 2006, HDC acts as a focal point of the halal industry in providing comprehensive support to domestic firms, including information and certification resources. Among its main services, HDC offers training and educational programs for Malaysian and international companies (more than 50,000 people have benefited from such training in Malaysia).

Before submitting their halal certification application, Malaysian firms can benefit from a pre-assessment inspection by the experts of HDC, in order to ensure that their products meet halal, safety and quality requirements. This pre-assessment program is comprehensive and focuses on all eventual issues: halal logistics, halal management, Islamic finance, halal slaughter practices, halal production, and so on. It also includes the assessment of chemical and molecular components. Firms that fail the pre-assessment inspection are then "coached" by HDC experts, so to help them rectify the problems and successfully secure a certificate. The current approval rate for halal certification in Malaysia is around 90%, which reflects the high efficiency of the coaching program.

Moreover, in order to be effective and help firms grow abroad, it is absolutely central for the certification support infrastructure to be flexible, and to always target their intervention according to the needs and the priorities of the halal food firms themselves. The Malaysian model of certification support mostly applies these principles, and its international success is the product of a much larger multilevel national strategy. Instead of trying to cater to the needs of different firms with one single program, Malaysian public agencies have opted for a multivectoral support infrastructure (which includes halal parks, SMECorps, HDC, JAKIM and many more specialized agencies), diverse enough to respond to the various needs of firms. This shows that in order to develop a strong and successful export-oriented halal industry, there is no one-size-fits-all solution: instead, public agencies at all levels have to create an environment where halal food firms can prosper and internationalize themselves.

In Ningxia, this kind of support infrastructure appears to be seriously lacking, and local entrepreneurs are left alone in the certification process. And yet, this is despite the fact that the goals of the Ningxia Center for Halal Certification include the "promotion of local firms on the international arena" and "providing assistance to local firms in securing international halal certification". In fact, such support is rarely offered nor

given. The center does provide training in order to help local firms obtain and secure local certification, but such training is optional and does not concern foreign certification requirements. At the end of the day, local entrepreneurs have no guideline and no idea as to where to start in order to secure foreign certification, which explains why so many firms in Ningxia rely on intermediary firms and middlemen to initiate their first export activities. This lack of support infrastructure also explains why the current approval rate is much lower than in Malaysia, at around 50%, and why the overall certification process is longer, at around 45 to 60 working days.

Conclusions on Halal Food Firm Internationalization

The results presented above mostly confirm our initial hypothesis, and point to the fact that the aspect of export promotion policies under study - namely the halal certification system - can significantly affect the degree of firm internationalization. Indeed, we saw that public agencies can play a positive role for firm internationalization in promoting a halal certification system that meet the four characteristics of exclusive resources. This is the case of the halal certification system currently in place in Malaysia: its centralized nature, reliable integrity and strong support infrastructure make the Malaysian halal certificate a valuable, scarce and inimitable resource. This, in turn, provides a significant competitive advantage for Malaysian firms in the international arena.

These significant results give us a strong insight about the mechanisms by which public agencies can help and support the internationalization process of halal food firms. Of course, a successful process of firm internationalization does not depend only on the sole certification: many external factors also play a fundamental role, such as international business environment, target market, international and national trade policies, etc. However, all other things being equal, we argue that a highly influential and reliable halal certification system is a major asset that can help firms overcome obstacles that are inherent in a transition towards international markets.

In the case of Ningxia, where the unreliability and the lack of recognition of the certification system is hindering the export performance of local firms, improving the regional halal certification system should be an absolute priority of authorities. As long as the Ningxia industry is struggling with a decentralized, unreliable and multi-polar certification system, it will be very difficult for local firms to gain a sustainable foothold in foreign markets. The first step towards an coherent internationalization strategy should be the monopolization and centralization of all halal certification activities in Ningxia under a public certification agency. Only by centralizing such activities can the local halal food industry hope to secure the recognition of foreign halal certification bodies.

In Ningxia, we also saw that the problem is not limited to the sole certificate. It appears that many of the obstacles to the internationalization of the Ningxia halal food industry are due to the inadequate support infrastructure. Services and resources provided by public agencies do not correspond to the local and specific needs of the firms. Thus, we agree with the conclusions of Yang Baojun (2007) and Liu Jianguo (2013), according to which the difficulty of going abroad for Ningxia halal food firms emanates in part from the fact that there is an evident "lack of coordination" between public agencies and private firms.

From a theoretical point of view, data presented in this paper appear to show that the theoretical approach introduced previously, namely the resource-based view of firm internationalization, is a compatible theory, and appear to be particularly adapted to the halal food industry. A study of halal food industry which would ignore the certification aspect appear misguided. We can only agree with Coviello & McAuley (1999) when they encourage future research "to use a more holistic approach to the conceptual thinking" of internationalization and to avoid silo mentality, which has undermined this research area for too long.

Thus, the lesson for the development of future halal industries and for future research in this area is that the real issue at play here is not whether interventionist policies are a suitable choice for promoting the international development of halal food firms (this is widely unanimous and has been many times proven), but to evaluate what type of halal certification system is best able to overcome the specific obstacles and barriers faced by local firms in their internationalization process. In order to do this, it is necessary to first study in details and identify the specificities of local barriers, in order to question the relevance of the certification system currently in place. To do this, future researchers should concentrate their efforts on conducting extensive empirical research to collect both qualitative and quantitative data among firms, always with the goal of identifying a more efficient, more targeted model of certification and internationalization.

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