

**MALAYSIAN EXPORTS TO MIDDLE EASTERN ASIAN COUNTRIES
(MEACs): THE ROLE OF HALAL DEVELOPMENT (HD) AND TRADE
AGREEMENT (TA)**

By

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for the degree of Master of Arts**

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**EKSPORT MALAYSIA KE NEGARA-NEGARA TIMUR TENGAH (MEACs):
PERANAN PEMBANGUNAN HALAL (HD) DAN PERJANJIAN
PERDAGANGAN (TA)**

ABSTRAK

Pertumbuhan ekonomi Malaysia dalam tiga dekad yang lalu kebanyakannya disumbangkan oleh kejayaan dalam sektor eksport. Sektor eksport dikuasai oleh pengeluaran produk seperti peralatan elektrik dan elektronik, jentera, logam dan bahan api. Antara tiga rakan kongsi eksport utama Malaysia adalah Amerika Syarikat, Singapura dan Jepun. Mempunyai destinasi eksport yang lain adalah penting untuk memastikan bahawa Malaysia tidak hanya bergantung kepada beberapa destinasi sahaja. Oleh itu, kajian ini mengkaji eksport dua hala antara Malaysia dan negara-negara Timur Tengah (MEACs) untuk tempoh 2002 hingga 2009 bagi mengkaji kesan potensi pembangunan Halal yang sedang berlaku di Malaysia. Di samping itu, kajian ini juga meneliti impak perjanjian perdagangan ke atas eksport Malaysia ke negara-negara Timur Tengah (MEACs). Dengan menggunakan data panel, kesan statik, kajian ini menunjukkan bahawa kesan rentas rawak adalah model terbaik untuk diguna pakai. Dapatan kajian menunjukkan bahawa, pada tahap tertentu, pembangunan Halal memainkan peranan penting dalam mempromosikan produk halal ke negara-negara Asia Timur Tengah, tetapi ia memerlukan lebih banyak usaha untuk menyelesaikan beberapa isu penolak. Selain itu, Perjanjian Perdagangan tidak memberi kesan yang negatif kepada permintaan untuk import ke negara-negara Timur Tengah dari Malaysia.

Skop Kajian: Pembangunan Halal; Eksport Malaysia;

**MALAYSIAN EXPORTS TO MIDDLE EASTERN ASIAN COUNTRIES
(MEACs): THE ROLE OF HALAL DEVELOPMENT (HD) AND TRADE
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ABSTRACT

Malaysia's economic growths in the last three decades are mostly attributed to the success in exports sector. Export sector is dominated by manufacturing products such as electrical and electronics equipment, machinery, metal and mineral fuels. Among the top three Malaysian exports partners are United States, Singapore and Japan. Diversifying export destination is crucial so as to ensure that Malaysia will be reliant to selected few only. Thus, this study examines the bilateral export between Malaysia and Middle Eastern Asian countries (MEACs) for the period of 2002 to 2009 in order to investigate the potential impact of Halal development that is taking place in Malaysia on Malaysian exports. In addition, this study also examines the impact of trade agreement on Malaysian export into MEACs. By using panel data, static effect, this study indicates that the cross-random effect is the best model to be applied. The findings show that, the Halal development in certain extent play a vital role in promoting Halal products to MEACs, but it required more efforts to solve the pressing point. Besides, Trade Agreement has no threat of Trade Agreement diverting MEACs' demand for import from Malaysia.

Field of Research: *Halal Development; Malaysian Exports;*

LIST OF ABBREVIATIONS

| Short Words | Explanation |
|--------------------|---|
| MEACs | Middle Eastern Asian Countries |
| JAKIM | Jabatan Agama Islam Malaysia (Malaysia Department of Islamic Development) |
| JAIN | Jabatan Agama Islam Negeri (State department of Islamic development) |
| MAIN | Majlis Agama Islam Negeri |
| HDC | Halal Development Corporation |
| NGO | Non-Government Organization |
| MCG | Muslim Consumer Group |
| MNC | Multinational Company |
| FTA | Free Trade Agreement |
| BTA | Bilateral Trade Agreement |
| MITI | Ministry of International Trade and Industry |
| MIDA | Malaysia Development Authority |
| MANTRADE | Malaysian External Trade Development Corporation |
| MIHAS | Malaysia International Halal showcase |
| GDP | Growth Domestic products |
| HALMAS | Halal Malaysia |
| HPRI | Halal Product Research Centre |
| DOC | Department of Chemistry of Malaysia |
| WHF | World Halal Forum |
| IIUM | <i>International Islamic University of Malaysia</i> |
| HD | Halal Development |
| HPARK | Halal Park |
| HFIRM | Halal Firm |

CHAPTER 1

INTRODUCTION

1.0 OVERVIEW

Trade involves multiple parties participating in the voluntary negotiation and the exchange of one's goods and services that someone else possesses (Investopedia, 2012). In short, trade can be defined as export and import. International trade expanded rapidly in the second half of the 20th century. The trade growth consistently outstripped the growth of real output, resulting in greater openness and greater interdependence among economies. Global economy gave business the ability to market products and services around the world. It allows the development of partnership and alliances throughout the world which become the key success in today's business. This trend is expected to continue as many newly industrialized economies are growing at a faster rate. Generally, trade induced countries to grow and to develop (Lopez, 2005). Several studies have confirmed the vital role played by trade in promoting growth, such as those by Edwards (1992), Harrison (1996), Edwards (1998), Frankel and Romer (1999) and Noguera and Siscart (2005).

Figure 1.1 and 1.2 shows the scatter plot of trade versus GDP for 96 countries for 1970 and 2006 respectively. The lines are positive, indicating that, as the trade increased, the GDP per capita also increased. The steeper trend is shown in both figures indicates the

countries are started to gain more on trade. The correlation between trade and GDP is 14 percent in 1970 and association is stronger in 2006 (30 percent). The improvement was perhaps due to the positive movement on volume of trade in globally. This might due to the increased in the openness (to trade) as countries liberalizing their economy. According to Frankel and Romer (1996), the openness to trade improves the efficiency of the economy. This idea was supported by (among others) Dollar (1992), Harrison (1996), Edwards (1998), Irwin & TerviÖ (2002), Alcalá & Ciccone (2004) and Noguer & Siscart (2005).

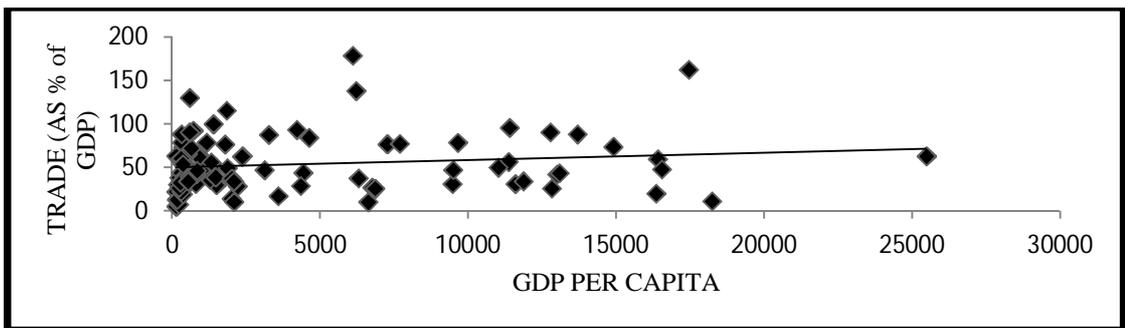


Figure 1.1: Trade vs. GDP for selected economies in 1970

Source: World Bank (WB, 2011)

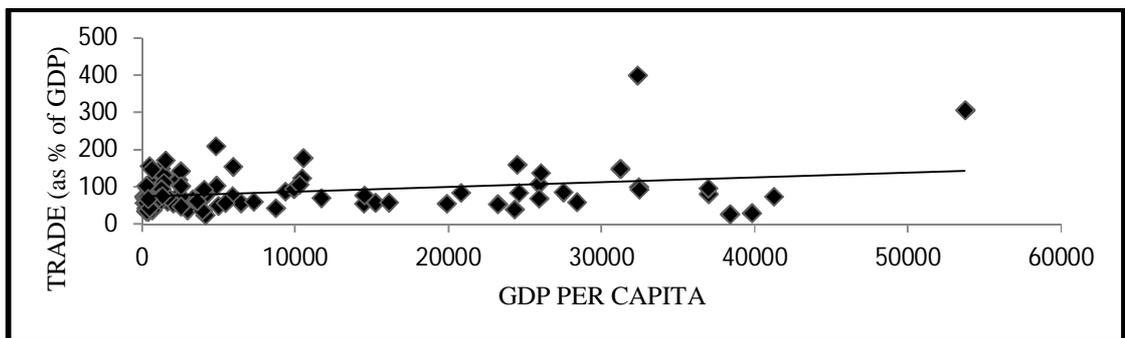


Figure 1.2: Trade vs. GDP for selected economies in 2006

Source: World Bank (WB, 2011)

Note: The data taken for 96 countries

Dollar (1992) using the cross sectional analysis found a positive and significant correlation between openness and growth in developing countries such as Africa, Asia, Latin America and Europe (Middle East); for the period 1976-1985. Harrison (1996), continued the research by collected the data from 1960-1987. This study used cross-sectional analysis and panel data analysis. Seven proxies were used, Trade Reform 1 (TR I), Trade Reform 2 (TR II), Black Market Premium (BLACK), Share of Trade in GDP (TR Share), Movement Toward International Prices (MTIP), Price Distortions Index used in Dollar (DOLLAR) and Indirect Bias against Agriculture from Industrial Sector Protection and Overvaluation of the Exchange Rate (INDIRECT). The finding suggested that only one of the seven openness proxies affects growth positively when cross section data are employed. Three of the seven proxies for openness revealed a positive association with growth when the data are averaged over five-year periods.

Edwards (1998) increased the proxy used by Harrison (1996) and was done in 93 advanced and developing country between the period 1980 and 1990. The panel data analysis was used in the estimation of a random effect growth equation. Nine alternatives openness indexes are used to analyze the relationship between trade policy and productivity growth. The indices are, Sachs and Warner Openness Index (OPEN), World Development Report Outward Orientation Index (WDR), Leamer's Openness Index (LEAMER), Average Black Market Premium (BLACK), Average Import Tariff on Manufacturing (TARIFF), Average Coverage of Non-Tariff Barriers (QR), the Heritage Foundation Index of Distortions in International Trade (HERITAGE),

Collected Trade Taxes Ratio (CTR) and Wolf's Index of Import Distortions (WOLF). All indices have significant positive relation between openness and productivity growth.

In addition, Alcalá & Ciccone (2004) studied the European country in 1985. These researchers used the method of Two Stage Least Square (TSLS) to compare the effects of trade on productivity. The result shows that an increase in the real openness trade would increase the productivity trade. Enriching the openness and growth studies were Noguer & Siscart (2005) who used the Gravity Model and simple OLS estimation to find the effects of trade on income. The finding shows, trade has a positive and statistically significant relation with income per capita. The result obtained similar to Irwin & Terviö (2002). Table 1.1 summarizes of the evidence on openness and growth.

Table 1.1: The summary of evidence on openness and growth

| Study | Data |
|------------------------------|-------------------------|
| Dollar (1992) | 95 developing countries |
| Sachs and Warner (1995) | 122 countries |
| Dollar and Kraay (2003) | 63-154 countries |
| Alcalá and Ciccone (2004) | 138 countries |
| Chandran and Munusamy (2009) | 1 country (Malaysia) |

Source: Lopez (2005)

Dollar (1992), Sachs and Warner (1995), Dollar and Kraay (2003), Alcalá & Ciccone (2004) and Chandran and Munusamy (2009), confirmed the importance of trade on economic development, although they used different set of indicators (trade, openness,

tariff and so on). These researchers end up with a similar conclusion that trade (especially exports) is a growth-enhancing.

1.1 EXPORT AND ECONOMIC DEVELOPMENT IN MALAYSIA

Malaysia is known as an active exporting country since the early centuries A.D. Its border with the Strait of Malacca which is an important international shipping crossroad, promotes the country's international trade. Since the beginning of history, Malacca has served as a fundamental regional commercial center for Chinese, Indian, Arab and Malay merchants for trade (MATRADE, 2011). The terrain consists of extensive coastal plains backed by mountains inferiors are an extra reward for Malaysia becoming a strategic place to trade. Malaysia has transformed itself since 1970s from a producer of raw materials into a developing and emerging multi sector economy. Malaysia has been a major supplier of primary products to the industrialized countries such as tin, rubber, palm oil, timber, oil, liquefied natural gas and so on. However, in 1970, the export expanded to become multi sector economy from being a raw materials producer to manufacturing industries such as textiles, electrical, and electronic goods, rubber products and others. As a result, Malaysia has grown rapidly in the 1980s and 1990s. This remarkable growth attributed by its openness policies, emphasizing the role of export. The relationship between exports and GDP improvement can be seen from Figure 1.3.

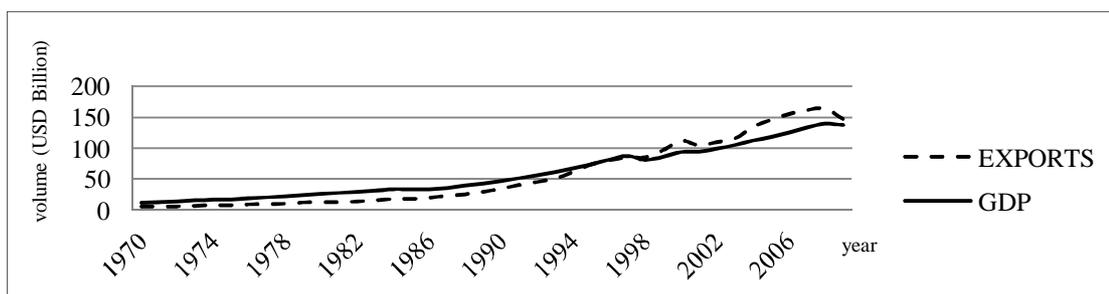


Figure 1.3: Malaysian Exports and GDP (in Billion, USD)

Source: World Bank (WB, 2011)

Malaysia's openness to trade has led to rapid economic growth thus subsequently contributed to the decline in poverty and income inequality. Figure 1.3 shows, the export has induced the economic growth in Malaysia. The export has a strong relationship with GDP in Malaysia. As the GDP increases, the export also shows a positive performance. They are both showing upward trends over time since 1970. Interesting to note that before 1997, Malaysian GDP tends to be higher than exports. Nevertheless, after 1997 or to be more precise after the financial crisis that struck East Asia in 1997, Malaysia's GDP declined sharply but the export was above GDP. Luckily, the economic growth slowed temporarily (Charette, 2004). Among countries affected by the crisis were Indonesia, South Korea, Thailand, Hong Kong, Laos and the Philippines. China, India, Taiwan, Singapore, Brunei and Vietnam were less affected. The crisis began in Thailand when the financial system and institution collapsed and affected the Thai baht. The instability of the financial institutions and huge debt led the country to bankruptcy. The crisis spread to southern Asia and Japan. It caused their currencies to slump, stock markets to devalue and private debt to rise. It gave huge impacts on the worldwide economic.

After 1997, exports were higher than GDP. This might be explained by the series of economic crisis that struck the West since the early 2000. For instance, in 2001, United States, the largest Malaysian trading partners experienced economic slowdown that forced the demand for import from Malaysia to be lower. Decreasing in demand for Malaysian exports subsequently triggered Malaysians GDP to end up below the expectation. However, as mentioned by MITI (2011), the economic crisis recovers gradually. The continuous recovery from the global economic recession has given a positive impact on Malaysia's trade performance in 2010. This was largely contributed by exports of RM 639.4 (MITI, 2011). Exports expanded by 15.6 percent compared to 2009. In January 2011, Malaysia's export grew by three percent to the RM 54.04 billion compared to January 2010 and recorded a trade surplus of RM 9.2 billion (MITI, 2011). As Malaysia's trade with US, Japan and Singapore is large, their economic stability is crucial in ensuring a better growth. Malaysia too needs to diversify its export location so that it will not be too concentrated on limited few only.

Figure 1.4 depicts two main components of Malaysian exports namely manufacturing exports and foods. The manufacturing industry in Malaysia became a significant contributor to the country's economy growth (Chandran & Munusamy, 2009). As shown in Figure 1.4, the manufacturing sector is a dynamic and flourishing component of the national economy. The amount of manufacturing goods exported is growing over time, albeit falling a bit in the recent year. Similar pattern could be observed for food exports. The pressing point for both products from Islamic perspective is the permissibility to be consumed or in the simpler and Arabic word, Halal. While the emphasis on food is

mainly on the content itself, the focal points for manufactured products are on inputs used as well as the manufacturing procedures.

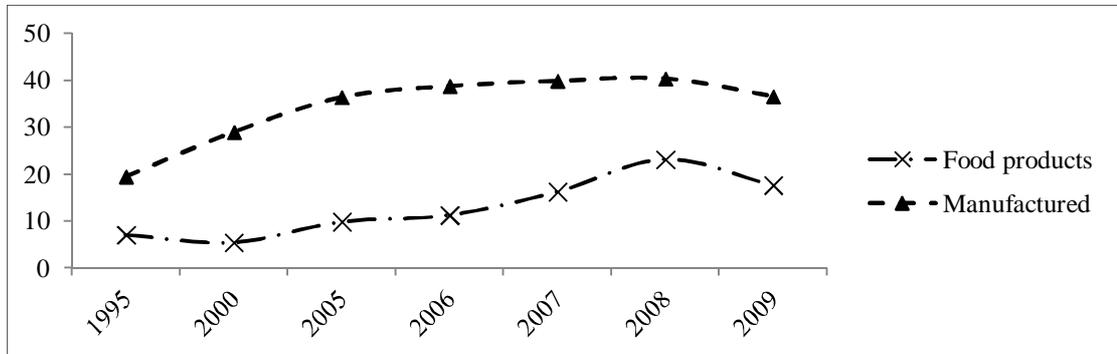


Figure 1.4: Malaysian Total Manufactured and Foods Exports (in Billions, USD)

Source: World Bank (WB, 2011)

Next section elucidates details on some areas that support Halal sector. The selling point for Malaysian exports could be on the Halal issues. More active trading activities between Malaysia and Islamic countries such as Middle Eastern Asian countries (MEACs) are expected to take place, apart from that non-Islamic country but with huge Muslims' population such as India and China. Recently, China and India were named as appropriate destinations for Malaysian exports, with China currently ranked as third largest trading partner and India remained among the top ten export destination. However, the roles of Halal in these countries were treated secondary. In line with extensiveness and aggressiveness of Malaysian authority in promoting Malaysia as a Halal hub, populous and rich Islamic countries should be in the top priority to be set as Malaysia's next top export location.

1.2 HALAL DEVELOPMENT

The development of Halal products and services is now becoming one of the favorable products among the community. In Malaysia, in order to support the development of Halal sector, several institutions have been established. Among the important Halal-related institutions are Department of Islamic Development Malaysia (JAKIM) and Halal Development Corporation (HDC). JAKIM is particularly vital as it holds a sole responsibility in issuing Halal certification.

HDC provides the necessary infrastructure to facilitate investments in the Malaysian Halal industry. The establishment of Halal parks by HDC is among measures introduced to facilitate the industry growth. The Halal parks is a key step towards improving the downstream production of Halal products. It also provides manufacturers, both local and foreign, with the means to establish and maintain internationally accepted manufacturing process standards that incorporated both the scientific and religious requirements of ensuring Halal integrity. At this stage, HDC established nine Halal parks; nine are under development and two will be built in near future. For the time being, there are 28 companies operating in these Halal parks and the number is expected to increase in the future.

In addition, there are various supporting services established by government in order to ensure the smooth running of Halal industry, ranging from the processing procedure to promotion and transportations. Table 2.6 provides the detail summary. Besides the government initiatives, there are also support provided by Non-Government

Organization (NGOs) such as Halal center in several universities in Malaysia and Muslim Consumer Groups (MSG), at national and state level.

As shown by government and non-government agencies, there are ongoing efforts in creating Malaysia as the center of Halal hub. With this integrative approach and the continuous effort done by various Halal agencies and institutions demand for Halal products increased between 2005 and 2010 (Figure 1.5).

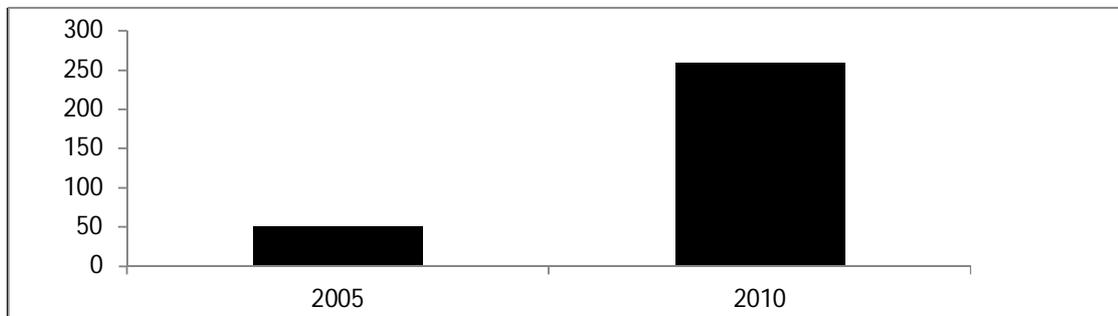


Figure 1.5: Demand for Halal products in Malaysia (in Millions, RM)

Source: Halal Development Corporation (HDC, 2011)

To enhance the demand for Halal products, Malaysia also tied the trade relationships with Indonesia, Thailand, Brunei and Singapore. The triangle trade relationships with Indonesia-Malaysia-Thailand (IMT), Brunei-Indonesia-Malaysia (BIM) and Indonesia-Malaysia-Singapore (IMS) have been recognized for the Halal zones. Besides, Malaysia also will identify the key products and market based on the consumers' and market demand, preferences and potential.

The value-added Halal products are being examined to ensure they meet the national food requirements, therefore would enhance the competitiveness and profitability level. The main purpose of this trade relation and organizations is to provide information (knowledge) and guidelines to consumers especially the Muslims about products that should follow Islamic principles. In the Holy Quran, Allah commands Muslims and all mankind to eat Halal things.

“Mankind! Eat of that which is lawful and wholesome, and follow not the footsteps of the devil. He is an avowed enemy of you.”

Al-Baqarah (2:168)

The command for Halal is also stressed in the Hadiths:

“O People! Allah is al-Tayyib (Pure), and He only accepts that which is pure! Allah has commanded the believers what He has commanded the Messengers, for He said, 'O Messengers! Eat from the pure foods, and do right,' and He said, 'O you who believe! Eat from the pure and good foods we have given you.’”

(Ahmad, Muslim and al-Tirmidhi)

The Hadith also mentioned that the prophets and the believers have been commanded to eat from the pure things. It is obligatory for Muslims to consume Halal food and use Halal products solely because they do not eat and use consumer goods for the sake of pleasure only but also for performing their religious duties, responsibilities and mission in this world.

1.3 PROBLEM STATEMENT

Historically, United States was the largest trading partners for Malaysia for the past few decades, as shown in Table 1.2. It is interesting to note that, in 2000, Malaysia's exports to the US were about 21 percent of Malaysia's total exports, and this amount ranked Malaysia as the 12th US major trading partner. The trade between the US and Malaysia primarily comprised assembled electrical goods and manufactured electronic products.

Table 1.2: Top 10 Malaysian exports destination

| | US | Singapore | Japan | China | Thailand | Hong Kong | Korea | Netherlands | Australia | India |
|------|------------------|------------------|------------------|------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| 1990 | 4986.10 [17] | 6752.83 [23] | 4505.54 [15] | 619.19 [02] | 1032.75 [04] | 933.59 [03] | 1359.52 [05] | 774.63 [03] | 493.63 [02] | 477.89 [02] |
| 1995 | 15312.80 [21] | 14960.40 [20] | 9198.69 [12] | 1889.09 [03] | 2868.10 [04] | 3941.10 [05] | 2015.23 [03] | 1781.39 [02] | 1121.90 [02] | 820.70 [01] |
| 2000 | 20161.60 [21] | 18050.10 [18] | 12780.20 [13] | 3028.16 [03] | 3550.29 [04] | 4440.08 [05] | 3234.91 [03] | 4108.38 [04] | 2425.60 [02] | 1924.59 [02] |
| 2003 | 20539.50 [20] | 16522.60 [16] | 11221.70 [11] | 6810.02 [06] | 4615.31 [04] | 6783.79 [06] | 3039.35 [03] | 3430.60 [03] | 2613.74 [02] | 2533.82 [02] |
| 2006 | 30190.50 [19] | 24743.90 [15] | 14241.10 [09] | 11646.10 [07] | 8501.78 [05] | 7947.03 [05] | 5805.92 [04] | 5849.27 [04] | 4553.36 [03] | 5128.62 [03] |
| 2009 | 20388.60 [12] | 24571.90 [15] | 15008.10 [09] | 16840.40 [10] | 8099.18 [05] | 7812.31 [05] | 6204.96 [04] | 6026.88 [04] | 6040.19 [04] | 6099.78 [04] |

Note: Figures in [] denote percent of total exports.

Source: The Asian Development Bank (ADB, 2010).

Whether or not the strength of Malaysia as a major trading partner of the US is due to the growing strength of domestic entrepreneurs is a critical issue that needs to be given attention. The point is, rather than domestic entrepreneurs exporting huge amounts to the US, it could be that multinational corporations (MNCs) from the US (or even from other developed countries) have re-exported their products made in Malaysia to their home country.¹

¹ Although this is not our main focal point, this study highlights the issue here to raise a pressing issue relevant to the export context. It has a bearing on long-term Malaysian economic growth and its development path.

Besides, for the past two decades, Japan has been the third largest Malaysian trading partner, with those exports being dominated by electrical and electronic equipment, machinery, and mineral fuels. While mineral fuel exports are to be expected (due to Japan has a scarcity of natural resources), other categories could have features similar to the case of the US. Since there are many MNCs from Japan operating in Malaysia with the aim of attracting or exploiting natural resources and the cheap supply of labor, this study can expect that the capability of Malaysia to penetrate the Japanese market might be due to the presence of Japanese MNCs rather than competitive Malaysian companies.

Among the ASEAN countries, Singapore has consistently been the largest trading partner and the second largest after the US. In fact, despite a declining percentage, Singapore was the largest export destination in 2009, exceeding the US, in second place. Besides, China, which appeared for the first time as the third largest Malaysian exports destination. The main products exported to Singapore are electrical and electronic equipment, machinery, metals, and mineral fuels. Some of these were for Singaporean domestic consumption, and the remainders were re-exported. The combined East Asian economies, such as Japan, China, Hong Kong, and South Korea, represent the largest trading partner of Malaysia.

Malaysia has to hope for economic stability in countries such as US, Japan and Singapore as these countries are the top few exports' destination of Malaysia. Based on Figure 1.6, from 1995 to 2009, there were two periods when Malaysia recorded a negative growth rate or drop in exports. On the one hand, the drop in 2001 was primarily explained by the US economic slowdown. As the US is among the top three of

Malaysian export locations, any sluggishness in income in the US will affect demand for Malaysian exports. This, to a certain extent, contributed to a slower economic growth by Malaysia. On the other hand, the decrease in Malaysian exports in 2009 could be due to the influence of an economic slowdown in European economies, combined with a natural disaster that took place in Japan, which is also among the top three Malaysian export locations.

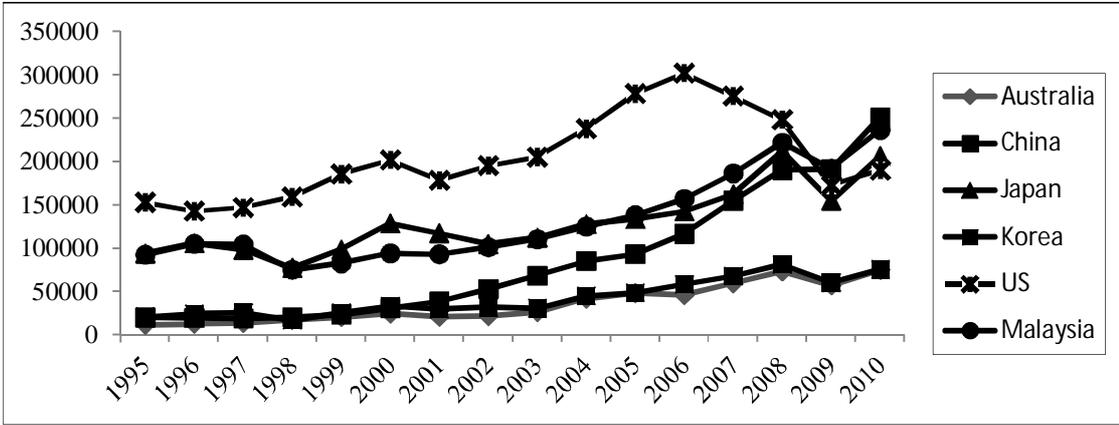


Figure 1.6: GDP (in Million, USD)

Source: United Nations Conference of Trade and Development Statistics (UNCTAD, 2012)

In a nutshell, Malaysia’s economic growth has been inextricably linked with the expansion of its external sector. Thus, the contraction of the external sector is likely to have a big impact on the prospects for Malaysia’s economic growth. It is important for Malaysia to diversify its export locations to mitigate the adverse impact of the country’s heavy dependency on a few countries, such as the US.

Hence, in order to stabilize Malaysian economy, Malaysia badly needs to diversify its export location so that it not to be too concentrated on limited few only. Malaysia's potentially desirable export locations are Middle Eastern Asian countries (MEACs). How big is the market for Malaysian exports in MEACs? As a hint, this study presents the demand for imports by MEACs in Table 1.3. The demand for total imports by MEACs has increased, ranging from more than twofold (or 248 percent) in the case of Lebanon to 63 times (or 6391 percent) in the case of Iraq between 1995 and 2010. That demonstrates a huge market demand for import into MEACs. Success in penetrating MEAC markets could provide a strong shield for the Malaysian economy (via stable exports) in the event of the economic slowdown in the West (US and European countries).

Besides, through the Halal development initiatives in Malaysia, Middle Eastern countries (MEACs) could be an attractive location to trade. For the purposes of this study, MEACs were chosen for two reasons: (1) this region has many Muslims consumers and (2) they are relatively rich compared to other parts of the globe, such as African and Southern Asian countries. Some MEACs might have a higher Muslims population as the majority of the population is Muslim. The figures for GDP per capita (GC) show that the bulk of MEACs are able to exert a sufficiently strong demand for Malaysia's exports. Combined with relatively high income in some MEAC countries surely MEACs should be a target market for Malaysia's exports in the future.

Table 1.3: Import demand of MEACs (IM), GDP per capita (GC), and population (PO)

| | | 1995 | 2000 | 2005 | 2010 | | | 1995 | 2000 | 2005 | 2010 |
|---------|----|-------|-------|-------|--------------|--------------|----|-------|-------|--------|---------------|
| Bahrain | IM | 3679 | 4634 | 9339 | 10143 [2.75] | Qatar | IM | 3398 | 3252 | 10061 | 22000 [6.46] |
| | GC | 11.5 | 12.4 | 14.7 | NA | | GC | NA | 30.0 | 32.2 | NA |
| | PO | 559 | 638 | 724 | 1261 | | PO | 501 | 590 | 820 | 1758 |
| Iraq | IM | 665 | 13210 | 23532 | 44203 [63.9] | Saudi Arabia | IM | 28085 | 30237 | 59510 | 103635 [3.46] |
| | GC | NA | 1.0 | 0.6 | 0.7 | | GC | 9.0 | 9.4 | 9.4 | 9.4 |
| | PO | 20904 | 24313 | 27598 | 32030 | | PO | 18491 | 20045 | 24041 | 27448 |
| Jordan | IM | 3696 | 4597 | 10455 | 15262 [4.13] | Syria | IM | 4709 | 3815 | 10862 | 18833 [3.59] |
| | GC | 1.7 | 1.7 | 2.1 | 2.5 | | GC | 1.2 | 1.2 | 1.3 | 1.5 |
| | PO | 4195 | 4797 | 5411 | 6047 | | PO | 14171 | 15988 | 18484 | 20446 |
| Kuwait | IM | 7790 | 7156 | 15807 | 22399 [2.87] | Turkey | IM | 35707 | 54150 | 117000 | 186000 [5.21] |
| | GC | 21.0 | 19.4 | 24.7 | NA | | GC | 3.7 | 4.1 | 4.9 | 5.4 |
| | PO | 1627 | 1940 | 2264 | 2736 | | PO | 58864 | 63627 | 68143 | 72752 |
| Lebanon | IM | 7278 | 6227 | 9327 | 17970 [2.48] | UAE | IM | 20984 | 35009 | 80814 | 180726 [8.10] |
| | GC | 4.6 | 4.6 | 5.1 | 6.7 | | GC | 23.3 | 23.2 | 24.0 | NA |
| | PO | 3462 | 3742 | 4052 | 4227 | | PO | 2348 | 3033 | 4069 | 7511.69 |
| Oman | IM | 4249 | 5039 | 8970 | 18160 [4.27] | Yemen | IM | 1582 | 2326 | 5400 | 9746 [5.34] |
| | GC | 7.5 | 8.7 | 9.7 | NA | | GC | 476.7 | 532.7 | 562.5 | NA |
| | PO | 2232 | 2264 | 2429 | 2782 | | PO | 15148 | 17723 | 20648 | 24052 |

Note: Figures in [] denote a ratio relative to the value in 1995. Import demand is in millions of USD, GDP per capita is in thousands of USD and population is in thousands.

Source: United Nations Conference of Trade and Development Statistics (UNCTAD, 2012) and World Development Indicators (World Bank, 2011).

It is surprising that, although the people of Malaysia and MEACs generally share a similar religious belief, which is Islam, the volume of trade between Malaysia and MEACs is not that impressive. Table 1.4 demonstrated Malaysia's exports to MEACs as a percentage of total Malaysian exports.

Nonetheless, Table 1.4 does not demonstrate impressive ties between Malaysian and each Middle Eastern Asian country, as the percentage of trading between Malaysia and each Middle Eastern Asian country remained too low. Except for the UAE, Malaysia's ties with other MEACs can be described as negligible. Its ties with Iraq, Kuwait, and

Lebanon are very weak. Therefore, the intention of this study is to examine the MEACs as a new focus for Malaysian exports. In particular, this study attempts to identify the major factor(s) that can be used as policy tools in order to further enhance MEACs as export destinations for Malaysia. One of our biggest concerns about trade between Malaysia and MEACs is the distance. Due to this, the exported goods that are supposed to be cheap could be higher.

Table 1.4: Malaysian exports to MEACs (as a percentage of total export)

| | Bahrain | Iraq | Jordan | Kuwait | Lebanon | Oman | Qatar | Saudi | Syria | Turkey | UAE | Yemen |
|------|---------|------|--------|--------|---------|------|-------|-------|-------|--------|------|-------|
| 1995 | 0.04 | 0.02 | 0.18 | 0.09 | 0.03 | 0.05 | 0.01 | 0.40 | 0.07 | 0.30 | 0.93 | 0.11 |
| 1998 | 0.04 | 0.04 | 0.12 | 0.09 | 0.04 | 0.06 | 0.04 | 0.38 | 0.06 | 0.41 | 0.88 | 0.13 |
| 2001 | 0.03 | 0.04 | 0.08 | 0.07 | 0.03 | 0.11 | 0.03 | 0.39 | 0.06 | 0.42 | 0.94 | 0.06 |
| 2004 | 0.03 | 0.05 | 0.27 | 0.09 | 0.03 | 0.06 | 0.04 | 0.38 | 0.12 | 0.31 | 1.23 | 0.09 |
| 2007 | 0.04 | 0.01 | 0.05 | 0.10 | 0.03 | 0.09 | 0.17 | 0.41 | 0.09 | 0.51 | 1.67 | 0.13 |
| 2008 | 0.05 | 0.10 | 0.28 | 0.19 | 0.05 | 0.16 | 0.12 | 0.53 | 0.09 | 0.41 | 1.89 | 0.17 |
| 2009 | 0.06 | 0.10 | 0.10 | 0.10 | 0.06 | 0.10 | 0.35 | 0.52 | 0.11 | 0.30 | 1.81 | 0.13 |

Sources: Own calculation based on data taken from United Nations Conference of Trade and Development Statistics (UNCTAD, 2011)

1.4 RESEARCH QUESTIONS

The following research questions are expected to address key issues that have been highlighted. These are:

- a) What are the hurdles and promoting factors of Malaysian exports to MEACs?

Specifically:

- i. What is the implication of Halal Development (HD) on Malaysian exports into MEACs?

- ii. Does Halal Development (HD) has a similar impact on various types of Malaysian exports into MEACs?
- iii. What are the consequences of Trade Agreement (TA) between MEACs and other countries on Malaysia exports to MEACs?

1.5 RESEARCH OBJECTIVES

In general this study aims at investigating the hurdles and promoting factors of Malaysian exports to MEACs. Specifically, this study attempt to:

- a) To examine the implications of Halal Development (HD) in Malaysia on its exports into MEACs.
- b) To identify the consistency impact of Halal Development (HD) on various types of Malaysian exports to MEACs.
- c) To examine the implication of Trade Agreement (TA) between MEACs and other countries than Malaysia.

1.6 SCOPE AND LIMITATION

This research will cover MEACs consisting of Bahrain, Iraq, Jordan, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia, Syria, Turkey, UAE and Yemen as a potential primary destination of Malaysian Halal products. This is because a majority of MEACs population is relatively rich and has higher incomes and consequently, higher per-capita rates on consumption. Majority of countries in the region are classified as high income such as United Arab Emirates, Saudi Arabia, Qatar, Oman and Kuwait. Besides, the

number of Muslim's population is also huge in some areas in MEACs. In addition, Malaysian and MEACs generally share a similar religious belief. For a start, before considering other Muslims countries particularly in the African region, this study focuses on MEACs only. This is in line with the country's aspiration.

African region² might not be a primary destination for Malaysian Halal products due to the low-income population and instability of institutional quality. Besides, from the ASEAN region such as Thailand and Indonesia, these countries are not preferably chosen as a primary destination on Malaysian Halal products due to the fact that, these countries are among the lower-income nation, there is no point to export products in these countries if most of the population is unable to pay for the products. Although Indonesia consists of huge Muslims' population, but still the purchasing power of this country really much concerns by Malaysian.

1.7 SIGNIFICANCE OF STUDY

Malaysia is growing as a center for Halal products. More products will be produced in the future and the numbers will be beyond the capability of domestic market to consume. Thus, fully exploration to find the outside market is crucial. Hence, understanding the role of Halal in promoting exports is very crucial and as to date, no study has investigated this issue.

² The examples of the country in African region is Niger, Burkina Faso, Mali, Senegal, Somalia and Guinea.

Although everyone might be expecting positive impact of Halal development on Malaysian exports, particularly to Islamic countries, based on preliminary observation (on Table 1.4) it is very volatility. Therefore, this study could provide clearer evidence regarding the impact of Halal development on Malaysian exports.

At the end of this research, suggestions will be proposed so that it will help Malaysia to identify the destination to trade efficiently and in the meantime improving their strategies to promote Malaysian Halal products globally. The information collected can help Malaysia to grab all the opportunities and eliminate the weaknesses.

1.8 OPERATIONAL DEFINITION

| Variables | Definition |
|------------------------|--|
| Market size | Market size is referred to the GDP for the exporting country represent production capacity, whereas the GDP for the importing country may reflect the size of market which represents the potential demand for imports (Sohn, 2005) |
| Distance | Distance is termed as the geographical distance (Filipini & Molini, 2003) |
| Exchange rate | Exchange rate is related to the price of one currency in terms of another. It is used to translate values from one currency to another (Kreinin, pp. 2, 2006) |
| Trade Agreement | The trade agreements, particularly free trade agreements (FTAs), have two possible extreme outcomes, namely trade diversion and trade creation. The trade diversion will lead to FTA members resorting to higher-cost producers and thus losing efficiency gains. Besides, the trade creation will bring in more economic progressiveness and, hence, greater prosperity (Burfisher, Robinson and Thierfelder, 2001) |

| | |
|------------------------------|--|
| Institutional Quality | The Institutional quality is related to the political stability. The quality of institutions deteriorates with the increase in real per capita gross domestic product (GDP) across MEACs countries. In contrast, a higher risk rating and a higher degree of openness improve the quality of institutions (Kandil, 2009) |
| Halal Development: | Halal Development in Malaysia coordinates the overall development of the Halal industry in Malaysia. It focuses on development of Halal standards, certification, Halal products, Halal services and others (Ren Jan, pp. 24, 2012). |
| | Halal Park: A Halal park comprising a community of manufacturing and service business located on a company's property. It is considered as one of the building blocks of the Halal industry (HDC, 2012). |
| | Halal Firm: A Halal firm is a firm working together in Halal park in producing Halal products (HDC, 2012). |
| | Halal Jakim: JAKIM played a role as a sole responsibility in issuing Halal certificates (JAKIM, 2012) |

1.9 THE OUTLINE OF THE THESIS

This research contains seven chapters. All chapters are being arranged according to the level of the research stage so that the link of the chapters will clearly recognize. In the first chapter, it discusses about the global trade and growth, economic development in Malaysia, problem statements, research objectives and research questions. To add, this chapter also explains about the scope and limitation of this study, contributions of this research and as a final point will be discussed on the outline of the thesis.

Chapter two elucidate on the background of study. The Halal development background and Halal institutions are introduced in this section. The detail explanation on Halal Development Corporation (HDC) and Department of Islamic Development in Malaysia

(JAKIM) are explaining in detail within this section. Other supporting agencies related to Halal industry also presented in this chapter. As this study also related to the Trade agreement (TA), thus a bit discussion on it is conferred in this chapter.

Chapter three, discusses on the extent literature (theoretical review) on the subject matter. In this chapter will be explaining the past researches done in detail and the link between the previous researches and current are determined. The previous and current articles, journals, books and thesis are the sources taken in order to identify deeply about the research done by the past researchers. The fourth chapter is on empirical review and hypothesis development. A few determinants suggested in this section such as distance, market size, Halal development, exchange rate, trade agreement and institutional quality. The further discussions on the hypothesis are explained in this chapter.

The fifth chapter demonstrates on research methodology used. The research methodology is the procedures or guidelines used by the researchers in order to organize the research and the process for collecting the data. This chapter is divided into a few parts, with the first part is regarding on the empirical model (gravity model) and the second part elucidates on the estimation procedure used (panel data analysis). This chapter also presented on how the data of research being collected, including the focus guiding the enquiry. In short, the discussion will be on how the data was analyzed.

The results and findings will be interpreted in the sixth chapter. It is containing the data analysis quantitatively. All the data collected will be analyzed in order to answer the

research questions and research objectives. The conclusion and suggestion for future research will be conferring on the final chapter (chapter seven). This study will conclude all the discussion and come out with the implication for future research.

1.10 KEYWORDS

| Short Words | Explanation |
|--------------------|--|
| MEACs | It stands for Middle Eastern Asian Countries (the export destination of this study). Throughout its history the Middle East has been a major center of world affairs. Middle East remains a strategically, economically, politically, culturally and religiously sensitive region. |
| HDC | It stands for Halal Development Corporation. HDC's role in increasing awareness among various groups in the industry. HDC holds fast to its new dictum that 'Halal means Business', expanding Halal beyond logo certification into food and non-food sectors |
| JAKIM | It stands for Department of Islamic Development Malaysia. JAKIM play an important role in issuing Halal certificate in order to differentiate the Halal products. Halal certification represents the interface between standards set and their applications to the producers and becomes a symbol of guarantee for the consumers. Besides, JAKIM also monitoring and enforcement of Halal guidelines |
| HADITH | A collection of traditions containing sayings of the prophet Muhammad |
| QURAN | The sacred writings of Islam revealed by God to the prophet Muhammad during his life at Mecca and Medina |
| HALAL | It refers to things or actions permitted by Shariah law without punishment imposed on the doer. It is usually used to describe something that a Muslim is permitted to engage in, for example, eat, drink or use |
| HALMAS | HALMAS, is an accreditation given to Halal Park operators who <u>have successfully complied with the requirements and guidelines</u> |

| | |
|----------------|--|
| | <p>stipulated under the Halal Development Corporation designated Halal park development. With the HALMAS status, operators, industry players and logistic operators will be able to enjoy incentives given by the Halal industry Development Corporation (HDC) to help existing and would be players in the Halal industry.</p> |
| APEC | <p>APEC (Asia Pacific Economic Cooperation), it seeks to promote free trade and economic cooperation throughout the Asia Pacific Region</p> |
| ASEAN | <p>ASEAN (Association of Southeast Asian Nations), it aims to accelerate economic growth, social progress, culture development among its members, protection of regional peace and stability, and opportunity for member countries to discuss differences peacefully</p> |
| WTO | <p>WTO (World Trade Organization) is the organization established replacing GATT (General Agreement of Tariff and Trade). The organization intends to supervise and liberalize international trade. The organization deals with regulation of trade between participating countries.</p> |
| MATRADE | <p>MATRADE (Malaysia External Trade Development), acts as the national trade promotion agency under MITI, undertakes various export promotion activities including the promotion of the Halal sector. Among the activities include participation in international trade fairs overseas, organizing specialized Halal marketing missions to selected market, undertaking advertising and promotion of the Halal sector and disseminating information on market opportunities in the Halal industry to Malaysian companies</p> |
