

Tapping into the Lucrative *Halal* Market: Malaysian SMEs Perspective

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Abstract

Halal is essential to the Muslims as it provides them sense of security through which whatever they use or consume is Syariah compliant. Throughout the years, interest in Halal products has increased tremendously among Muslim and even non-Muslims due to the growing awareness of Halal products are not exclusive to religion; and consumers around the world are increasingly demand for lawful or permissible, wholesomeness, high quality, safe and hygienic products. Hence, Halal concept and its qualities have gained global recognition and acceptance. Global Halal market is huge as it covers both Muslims and non-Muslims. Noticing this Halal market is a lucrative and potential opportunity for businesses to tap into, this paper provides an overview of Malaysia's effort towards International Halal Hub and its SMEs Halal export performance. Few questions have been raised from the descriptive analysis, which need to be investigated in future research.

Keywords Halal market, globalization, SMEs, export, opportunity, Malaysia

Paper type: Review Paper

1. Introduction

Muslims' life revolves around the concept of Halal, which is the universal manifestation providing guidance not only on the types of food and drinks to be consumed, but also on daily life matters. Halal is essential, especially to the Muslims, as Halal provides sense of security through which whatever the Muslims use or consume is Syariah (Islamic religious law) compliant.

Throughout the years, Muslims are increasingly making their presence socially and politically, and become askance of the observance of the Islamic principles of Halal and non-Halal (Hanzaee & Ramezani, 2011). Furthermore, there are increasing awareness among producers of good and services, from the fast moving consumer goods (FMCG) to financial institutions, ensuring that their products and services comply with the many aspects of Halal (Kamali, 2011). In fact, Halal concept is moving into the mainstream market rapidly, and also has become a new market force. Further, Halal concept is now considered as a unique brand identifier, which has been influencing and changing perceptions on how businesses should be conducted.

Hence, no doubt Halal has becoming a global icon for quality declaration and daily life choices. It has the likelihood to set standard associated not only with its product quality, but with international best practices as well throughout the whole supply chain (Halal Industry Development Corporation, 2010). Thus, the demand for Halal products had created unlimited business opportunities (Saeed & Ondracek, 2004). Besides, it has become a global phenomenon and no longer a religious issues (H-Media, 2011), and today, most of the countries recognized Halal concept, and it has become the new economy and new wealth opportunities.

There are few factors that drive the growing potential of Halal market. It has been projected that in the next two decades, the world's Muslim population will increase tremendously, rising from 1.6 billion in 2010 to 2.2 billion by 2030. Specifically, the Muslim population is projected to grow at about twice the rate of the non-Muslim population over the next two decades. If this trend continues, the Muslim will make up 26.4% of the world's total estimated population of 8.3 billion in 2030. With that estimation, and with a significant number of non-Muslim Halal consumers, the Halal market is possibly the largest market sector to tap

into. Regionally, Asia-Pacific has the highest (62%) total Muslim population, followed by the Middle East & North Africa (Pew Research Center, 2011).

Literally, the growing number of young and educated Muslims symbolizes a new outlook, which provides the high purchasing power target group for businesses. In the past few years, global Islamic economy has clearly been the top, registering rapid growth, providing lucrative and fruitful prospects and opportunities in various industries. It has been estimated that the Global Islamic economy value about USD 2.7 trillion a year (Thomson Reuter, 2013), comprising of tourism, food and beverages, finance, cosmetics, pharmaceuticals, media/creation and clothing (refer Table 1). Not forgetting, with the emergence of Muslim population worldwide due to migration and religious conversion, there will be more increasing awareness and interest of Halal, hence lead to growing demand for Halal products.

Table 1: 2012 Global Islamic Economy Expenditures

	Sector	Value USD (billion)	Percentage (%)
1.	Tourism	137	5
2.	Food and beverages	1,008	37
3.	Finance	1,079	40
4.	Cosmetics	26	1
5.	Pharmaceutical	70	3
6.	Media/Creation	151	6
7.	Clothing	224	8
	TOTAL	2,695	100

Source: State of Global Islamic Economy Report (Thomson Reuters, 2013)

Apparently, given the amplifying Muslim population, the availability of Halal products is still limited, and the Muslim markets are still underserved (Pew Research Center, 2011; Thomson Reuters, 2013). To meet the demand, some Islamic countries have to import Halal products from non-Muslim countries. For instance, some Muslim countries and even Malaysia import Halal meat from non-Muslim countries, especially Australia and Brazil. This indicates that there is a lucrative and huge business opportunities for Halal products domestically and internationally (Soesilowati, 2010). Global Halal market is huge as it covers both Muslims and non-Muslims.

Interestingly, for non-Halal products, the target market is only about 60% of the world total population; but as for the Halal products, it is the 100% population (Liow, 2012). Hence, Halal market is a lucrative and potential opportunity for businesses to tap into, this paper provides an overview of Malaysia's effort towards International Halal Hub and its SMEs Halal export performance.

2. Malaysia towards International Halal Hub

Knowing the lucrative and profitable market ahead, the Malaysian Government, under the Second Industrial Master Plan (IMP2), 1996 – 2005; the National Agriculture Policy (NAP), 1998 – 2010; the Ninth Malaysia Plan (9MP), 2006 – 2010; and the Third Industrial Master Plan (IMP3), 2006 – 2020, have identified *Halal* market, the trillion dollar industry, as the key growth areas for their small and medium enterprises (SMEs), with the vision towards International *Halal* Hub (Bank Negara Malaysia, 2007; Bohari, Hin & Fuad, 2013).

In May 2008, the Malaysia Government has approved the *Halal* Master Plan, which foresee three phases of roll-out from 2008 to 2020 (as shows in Table 2), which begins with the industry development and preparation, followed by self-establishment, then later widen the geographical coverage as international *Halal* hub. This master plan addresses issues related to certification, sectorial development, *Halal* integrity, implementation, timeframes and responsibilities. To initiate the overall coordination and development of the national *Halal* industry, Halal Industry Development Corporation (HDC) has been incorporated in September 2006. This HDC has been mandated by the government to assist SMEs and works with all the relevant ministries and agencies. Acting as market intelligence, HDC facilitates and support Halal entrepreneurs to penetrate the Halal global market through branding, marketing and promotional campaigns of halal products (Halal Industry Development Corporation, 2012).

Table 2: Phases of *Halal* Master Plan for Malaysia

Phase 1 (2008 - 2010)	Phase 2 (2011 - 2015)	Phase 3 (2016 - 2020)
Develop Malaysia as a global centre for <i>Halal</i> integrity and prepare the industry to growth	Establish Malaysia as one of the preferred locations for <i>Halal</i> related business	Broaden geographic footprint of home-grown companies

Source: Adopted from Bohari et. al (2013). Originated from Bahli (2011)

With such huge opportunities, many countries are working on various initiatives to capitalize on the *Halal* economy growth potential. Global suppliers, producers and retailers have begun to realise the opportunities offered by *Halal* economy and they are aggressively striving to meet the needs (Abdul-Talib & Abd-Razak, 2013).

The vast potential of *Halal* market has attracted quite a number of strong regional competitors, from Muslim to non-Muslim countries. For instance, China, Japan and other ASEAN countries have further strengthened and equipped themselves to be the stronghold global *Halal* market contenders (SERI, 2006). Stiff competition among ASEAN countries as tabulated in the countries' export value (refer Table 3).

Malaysia ranked third position among the ASEAN countries. Several ASEAN countries such as Singapore, Thailand, Indonesia and Brunei have already executing their *Halal* initiatives aggressively, while Vietnam and Philippines just started to explore their *Halal* initiatives. It seems that the *Halal* trend in ASEAN is unstoppable, putting Malaysia into stiff rivalry condition to gain larger market share in global *Halal* market.

Table 3: World and ASEAN Countries 2012 Export Value

Country	Export Value (USD thousand)
World	18,058,027,326
Singapore	408,393,020
Thailand	229,544,513
Malaysia	227,302,727
Indonesia	190,031,839
Vietnam	124,155,913
Philippines	51,995,224
Brunei	13,000,828
Myanmar	8,291,996
Cambodia	7,838,101
Laos	2,758,448
Timor Leste	656,721

Source: International Trade Statistics, International Trade Centre (ITC), 2013.

3. Malaysian *Halal* SMEs Export Performance

The contribution from Malaysia *Halal* exports was 5.1% from the total export as at December 2012 (Halal Industry Development Corporation, 2012). Accordingly, the *Halal* industry is foreseeable to contribute 5.8% to Malaysia's gross domestic product (GDP) by 2020, accompanied by a steady and fairly increase of 5% growth annually (Business Times, 2011). *Halal* industry in Malaysia consist of food and beverages, food ingredients, additives and supplements, toiletries and cosmetics, animal feed, drugs and vaccines, Islamic finance, pharmaceuticals, insurance, leather products and logistics (Halal Industry Development Corporation, 2012). Table 4 summarised the Malaysia *Halal* export value.

Table 4: Malaysia *Halal* Products Export Value

Sector		Value (RM Billion)	Percentage
1.	Food ingredient	12.3	35
2.	Food and beverages	11.90	34
3.	Palm oil derivatives	7.0	20
4.	Industrial chemicals	2.0	6
5.	Cosmetics and personal care	1.8	5
6.	Pharmaceuticals	0.29	-

Source: *Halal* Industry Development (HDC), 2012.

In 2010, there were 662,939 of business establishments in Malaysia. Among the businesses, 645,136 establishments or 97% were represented by the SMEs, meanwhile Multinational Companies (MNCs) totaled to 17,803 or 3% of the total establishments (DOSM, 2010). Despite the vast majority of SMEs establishments, their gross output value (29%) was not significant, and indeed far lagging behind as compared to MNCs (71%). Of the total gross output value of RM 1.7 trillion in 2010, SMEs only contributed RM 507 billion, which means that there is still plenty of room for improvement for SMEs (refer Table 5), especially when they tap into this lucrative *Halal* market.

Table 5: Export Statistics by Types, 2010

Industry Types	All Sectors	
	Establishment	Gross Output Value (RM million)
MNCs	17,803 (3%)	1,270,228 (71%)
SMEs	645,136 (97%)	507,089 (29%)
TOTAL	662,939	1,777,317

Source: Department of Statistics, Malaysia (DOSM), 2010.

Moreover, in 2012, HDC reported that 3,646 businesses received *Halal* Certification, with 218,799 *Halal* certified products. Despite majority (81%) of these registered *Halal*

exporters were SMEs, their *Halal* export value was much less compared to MNCs (Table 6).

Table 6: *Halal* Industry Figures, 2012

	<i>Halal</i> Certified Establishment	<i>Halal</i> Certified Products	Registered <i>Halal</i> Exporters	<i>Halal</i> Export Value (RM million)
MNCs	479 (13%)	69,421 (32%)	233 (19%)	23,038.12 (72%)
SMEs	3,167 (87%)	149,378 (68%)	968 (81%)	8,956.82 (28%)
TOTAL	3,646	218,799	1,201	31,994.94

Source: Halal Industry Development Corporation, HDC, (2012)

Based on these descriptive statistics (Table 5 and 6), it is clear to a certain extent that, based on the number of establishments, SMEs in Malaysia are aware of the *Halal* market opportunities. Nevertheless, the export performance, based on value, was relatively low compared to MNCs, even with lesser business establishments. Hence, it is interesting to investigate: Why *Halal* SMEs are not able to deliver greater export contribution as compared to MNCs? What are the determinants of *Halal* export performance? These are the few questions that worth to be answered.

4. Discussion and Conclusion

Strategically located within the Asia Pacific region, Malaysia connects the route from the Middle East to the Asian continent. With its strong ties with important economic zones such as the Organization of Islamic Countries (OIC) and China, and the full support from the government, Malaysia has the potential to become International *Halal* Hub.

Supports from the Malaysia government are obvious. Malaysia took a holistic approach towards *Halal*, from the Ninth Malaysia Plan (RMK9) to the Third Industrial Master Plan (IMP3), *Halal* industry has been identified as the new growth area which will significantly contribute towards Malaysia's economic development. According to the Malaysia Deputy Prime Minister, at the 7th World *HALAL* Forum 2012, "opportunities in the *Halal* market are endless, as

the concept encompasses the entire value chain of commercial activities”. Further it has been stressed that “Continuous creativity and innovation in products and services are needed to further enhance the industry and brand as well as to spur downstream business activities” (The Star, 2012).

From the descriptive analysis, it is clear that SMEs in Malaysia are the majority player in the *Halal* export activities. The available information indicated that Malaysia SMEs with the largest establishments of *Halal* Certification, *Halal* Certified Products, Registered and Active Exporters, should yield the largest export monetary value for Malaysia in comparison to MNCs. However, according to all the statistics shown in Table 6, the total exports of Malaysia *Halal* products in 2012 was valued at RM32 billion. Indeed, MNCs are the largest contributor to the Malaysian *Halal* export for the year 2012 with a total value of RM23 billion, which represented 72% compared to the contribution of SMEs at only RM9 billion or about 28% only (Halal Industry Development Corporation, 2012). Clearly, Malaysia SMEs export value contribution is far behind compared to the MNCs. From the literature (Hashim, 2012; Bohari, Hin, & Fuad, 2013), *Halal* SMEs are prone to many challenges or barriers associated with their export activities, which is needed to be investigate further.

In conclusion, the potential ranking of Malaysia in the world export value within ASEAN countries (Table 3) shows that Malaysia businesses, especially the SMEs really need to compete and increase their competitive advantages to capture the global *Halal* market. As evidenced by Rosman and Rosli (2012), Malaysia SMEs contribution towards national gross domestic product (GDP) is only at 32%, which is lower compared to its neighbor countries, namely Thailand (38.9%) and Indonesia (57%). As Malaysia is moving towards high-income nation by 2020, its SMEs performances and contributions should be enhanced to a more significant level. With globalization, the challenges that businesses face are becoming greater. Globalization affects the development of SMEs through export opportunities in international market (Tambunan, 2011). Malaysia will lose its bite on *Halal* lucrative market soon as the far-reaching and massive market potential of *Halal* products and services created intense competitions within ASEAN countries, and other Muslim and Non-Muslim countries, as they are also embarking on *Halal* initiatives into their industries.

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