HALAL ECONOMIC: CHALLENGES AND EMERGING OPPORTUNITIES IN MALAYSIA


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Abstract

The purpose of the paper is to investigate the challenges and opportunities for halal industries in Malaysia. Since the market for certified Halal products is developing robustly, both domestically and internationally and Malaysia has become the leader and centre of reference for the world. This research builds on existing research published in the Munich Personal RePEc Archive on challenges and opportunities in halal industry. In addition to an extensive literature review, four segment of halal categories were discussed in order to discover the challenges and opportunities with regards to halal industry in Malaysia. The results show that the future market demands and the competitive opportunities related to halal industry are the main motivators for Malaysia to undertaken the significant initiatives across regulation, trade and industry support to strengthen the status as a Halal hub in the trade-driven of Islamic economy. The early adopters for each of halal segments face several challenges such as ambiguous halal guidelines, lack of international halal certification, lack of collaboration among governing agencies (i.e. Jabatan Kemajuan Islam Malaysia (JAKIM) and Halal Industry Development Corporation), a lack of cost-effective standards and a general misunderstanding of halal practices. The findings of the present study may help government policy makers recognise the issues that should be addressed in motivating industries players to adopt halal practices. This study contributes to the advancement of knowledge on the challenges and opportunities of adopting halal certificate in Malaysia.
INTRODUCTION

Halal transcends the traditional industry-sector boundaries, geographic, cultural, and even religious boundaries. From a business perspective, the halal market undoubtedly offers a range of compelling opportunities. As many traditional markets reach saturation, the emergence of a new market, based on halal values and principles, is in effect creating a new commercial paradigm. This is strongly led by the food and beverage sector, and has more recently expanded into the pharmaceutical, cosmetic and personal-care sectors, driven by increasing consumer awareness and an entrepreneurial eye for new market opportunities. Thus, this industry is competing and struggling to capture the unique consumer segment with the values, ethics and trust as Malaysia is the key mover of halal industry (Mahathir, 2010).

Since Halal is a ‘farm-to-fork’ process and all the way through the supply chain, aspects such as warehousing, transportation and logistics all play a role in maintaining and demonstrating Halal integrity. Consumers nowadays become more concerned towards halal (Lada, 2010) matters and they expect the final product is safe to be consume (Kim and Chung, 2011). The Halal market is a complex and fragmented jigsaw puzzle whose defining parameters are still fluid and expanding. Variables based on cultural assumptions, habits and preferences, different interpretations of the law and the global nature of food product supply chains add to this complexity. From consumer awareness to technological innovations, the Halal market is continuously being influenced and driven to new levels of evolution.

In line with this development, the Malaysian Government is focusing on increasing halal products in making Malaysia an international halal hub. Thus, one of the best achievements is when Malaysian Halal Certification, which is designed to cater the halal goods sectors, have been named as the world’s best example for halal food benchmarking by the United Nation in 1997 (Bohari, Wei Hin & Fuad, 2013). As a reputable Islamic country, moderate and progressive with food companies that are more than 3500 companies and total production of more than USD 9 billion, Malaysia is well positioned to play a leading role in the development of the halal food market. This discussion is intended to look at the challenges faced to become an Islamic country in the production of the world’s halal hub and strategies used among producers of halal products.

With the intention of becoming the major hub for halal food production, Malaysia has developed special zones to encourage more foreign and local investments to go into business for production and processing of food products. Renowned as an Islamic country that fights for the safeguard of Muslims’ rights, Malaysia has successfully introduced a number of halal system that has gained international recognition. Islamic banking and financial system and other financial products that are based on Islamic law pioneered by Malaysia have been adopted by many parties, including among non-Muslim countries. The success of the country in leading the development of halal system in the food sector should be fully utilized by the business and production community in particular the small entrepreneurs who are basically involved in industrial and food business.

Small enterprise entrepreneurs are the backbone of the country’s industrial base. The growth of small enterprise is fully supported by the government by providing a range of plans, programs, mechanisms and assistance. Among other things, the establishment of government agencies such as the Development Corporation for Small and Medium Enterprises, Ministry of Entrepreneur Development, policy plan such as industrial master plan, the implementation of programs such as vendor development program and the establishment of various entrepreneurship funds and venture capital (Khaled Nordin, 2009).

Undoubtedly, business and entrepreneurship are a very challenging field. Various factors are needed to achieve success in business including management skills, competent personnel, strong financial resources, products and services and most importantly is the numerous and loyal customers. This paper seeks to describe the challenges and strategies for industry players in order to have a high sensitivity to their environment. Provided with the government's efforts to make Malaysia a centre for Halal hub, they should take this opportunity to identify the types of products that attract good market.
METHODOLOGY

Essentially, this paper acts as a tentative proposal that serves as an idea for future research to define the research focus and obtain early feedback in the research area related to Halal industry. The main medium of data collection in this research is via secondary data collection method. The reasons of using this method is due to the information obtained is greatly reliable, faster and efficient for the introductory type of research as compare to the primary data collection (Sekaran & Bougie, 2016). In addition, the secondary data are obtained from various databases such as Emerald, ScienceDirect, ProQuest and Researchgate. In total, there are 37 journal articles, three online newspaper’s article and one government official website was reviewed for this research.

SEGMENTATIONS OF THE HALAL MARKET

The realm of halal not only refer to food but may extend to other final products such as toiletries, pharmaceuticals and nutraceutical, cosmetics and services including tourism and finance. The concept of halal was taken for granted previously, as nations were generally self-sufficient in food production. With the onslaught of global trade and changing lifestyles, non-Muslim countries are dominating the trade of processed food and generally halal products. Currently, a certain degree of assurance is provided by halal certification of halal products, which in any case can be issued by any of over 100 halal certification bodies worldwide (The Halal Journal, 2008). Each organization has their own set of halal standards and guidelines. The fragmentation is further accentuated when crossing national boundaries where to date there is no functioning mechanism for mutual recognition between countries. The lack of proper regulation of certification means that non-halal produce has unknowingly ended up on the plates of Muslim households (IslamOnline.net, 2006).

CHALLENGES IN HALAL INDUSTRY

The first challenge is the confusion surrounding Halal standards, primarily because they are being produced by so many different government-linked organizations; private organizations and independent Halal certification bodies (HCB’s); national standards bodies, regional bodies such as ASEAN, GSO and the EU; and international bodies such as the SMIIC or OIC initiative. The challenge for manufacturers is to determine which standard will actually provide market access, and in too many cases multiple certificates are necessary for exporters (Thomson Reuters and Dinar Standard, 2016). Halal certification is a necessary operational step to addressing Muslim needs, but the lack of global alignment on certification increases costs and can destroy value. The studies conduct by Talib (2013), stated that ineffective system of halal will directly result in increasing the cost for implementation. Halal falls below global best practices due to a lack of commonly accepted standards among certification bodies globally, oftentimes resulting in duplicate certification costs and added complexity. Besides, Malaysian Halal certification need to be coherent to other qualifications like Malaysian Standard MS1500 and general guidelines on the production, preparation, handling and storage of Halal foods.
which comply to the most widely recognized and established standard; GMP and GHP to further heightened its calibre.

Secondly, the absence of any viable international schemes to accredit Halal certification bodies (HCBs) has long been a problem for the Halal industry (Hussein Elastrag, 2016). The majority of Halal food is being produced in Non-Muslim majority countries, and is certified by independent HCB’s that operate with little regulatory oversight. There are over 300 officially recognized certifiers globally, but there remains limited oversight by impartial accreditations bodies, leaving substantial room for misrepresentation. Current accreditation initiatives, such as being developed by SMIIC, GSO and ESMA are all moves in the right direction, more coordination between the accreditation bodies is needed to avoid unnecessary duplication or competition. The third challenge is the difficulty to obtain shariah-compliance funding (Sohail et al, 2006). Companies wishing to scale or to vertically integrate their supply chain face challenges in obtaining shariah-compliance funding. The slow financing approval process which particularly by the government linked financial institutions has diminished the spirit of small and medium enterprise (SMEs) to expand their production capacity to meet export demand.

Another challenges for manufacturer are the role to meet Halal requirement itself. It is crucial for government to monitor and supervise all manufacturers especially in food field. The main idea is to ensure manufactured products should be free from contamination and should not contain any haram ingredients during its preparation, production and storage (Talib et al, 2013). The total quality management practice needs to be applied for the purpose of marketing Halal products where the food manufacturer should not only focus on methods for Halal certification. Therefore, quality assurance and wholesomeness could increase the demand for such products. The stiff regional competition such as Thailand, Indonesia, Brunei and other Asian countries as these countries aiming to be the global Halal players is also one of challenges that focusing on small and medium enterprise (SME). For instance, non-Muslim countries such as Thailand, Brazil, Argentina, Australia and New Zealand are already actively producing Halal certified meat to cater to the increasing needs of the Muslim consumers around the world. Thus, the local SMEs will need guidance and assistance specially to explore new export markets.

Furthermore, there seem to be lack of supply for Halal raw materials especially meat products. This is where there is high percentage, about 70% of raw materials for food processing being imported. The supply of raw material also becomes one of the main issues in Malaysia (Sazelin Arif, 2008). The unsteady regulatory and agricultural production environment would affect the supply of raw materials. It may cause the Halal food industry fails to meet the expectation and demands of consumers. Recognizing this need, small entrepreneurs should take advantage of business opportunities to reap the benefits of increasing profits for halal industry. As to ensure the compliance of these raw materials with Malaysian Halal standard, suppliers should always be in contact with the Malaysia’s certification body, JAKIM.

In addition, the speed of issuing Halal logo is another challenge faced by JAKIM. This could be due to JAKIM not having a fully-fledged research and development unit to test, analyse and doing on-site inspection (Zulkifli Hassan, 2007). It is now being done by a third party that enables the Halal application at the appointed time. The term traceability is highly related to the Halal concept. Traceability promotes transparency as well as ensures information is accessible along the supply chain. For instance, several enforcement programs that conducted by the Malaysian authorities after the enactment of the Trade Description Act (TDA) 2011, many food manufacturers and food premises were caught as using unrecognized Halal certificates at their premises or on their product’s packaging.

For pharmaceutical or nutraceutical, cosmetics and health products, the main challenge is lack of global alignment on certification that will increase costs and can destroy value. Vaccination refusal is a global phenomenon and is on the rise in Muslim-majority countries, posing the threat of epidemics. This is partly due to the perceived prevalence of porcine gelatine in vaccines, with only two major companies manufacturing Halal or animal-component free vaccines, Novartis and AJ Pharma. There’s been a notable rise in vaccination refusal in certain Muslim-majority countries, such as Malaysia, due
to doubts about Halal compliance. An estimated 19.9 million infants worldwide were not immunized in 2017, with a high percentage in Muslim-majority countries. If animal-component free vaccines are successfully marketed to Muslim and non-Muslim consumers alike, the sector could be worth USD50 billion by 2020. A challenge is the lack of government support and qualified Halal certifiers (Zhari, 2007). AJ Pharma has launched a polio vaccine that is animal-component free, and is to launch an inactivated polio vaccine in 2019. However, it has not been able to get Halal certification due to the limited of Halal standards.

Insufficient Muslim auditors who are trained in Good Manufacturing Practices (GMP) guidelines is also one of the challenges (Talib et al, 2013). The use of GMP guidelines which important for maintaining quality, is correspond with a country’s legislation for pharmaceutical, cosmetics and personal care products have been designed to improve product quality and traceability to protect human life and help ensure that products are pure and healthy (tayyib). It is not just a case of detecting non-Halal ingredients but also unethical masbooh ingredients (best to avoid) because of damaging effects from them absorbed through the skin or internally with medication. Ensuring that Halal auditors and technical experts have this training is essential for the growth of Halal certified pharmaceuticals and cosmetics.

For tourism sector, the challenges that commonly be face is when accommodate both Muslims and non-Muslims at the same destination. Business Emirates, 2009 on their report state that normally 4 stars hotels and above will provide an exclusive bar for the guest and this definitely against the shariah compliant requirement. This is also especially relevant to beach destinations, where Muslims want to avoid gazing at bikini-clad Westerners, while some non-Muslims prefer to party freely without being followed by watchful eyes. One approach to avoid this is designating separate areas for Muslims and others for non-Muslims but an indirect impact will occur where certainly it will reduce the number of tourists who want to stay at the hotel (Mohd Rizal Razalli et al., 2012). The Indonesian island, Lombok does precisely on that. In order to avoid putting off non-Muslim visitors to Lombok, as well as avoid offending Muslim tourists by the skimpy outfits worn by sunbathers, the local government has identified areas that are suited to Muslim guests, where Western tourists need to cover up, whereas, party hotspots in the area, such as the tiny Gili Trawangan island off the West coast of Lombok remain unaffected.

Other than that, marketing to Muslim travellers without alienating non-Muslims is also crucial challenges to all hotelier. Hotels and destinations that cater to Muslim tourists certainly do not want to attract the Muslim traveller segment at the expense of other markets, and therefore one dilemma is what their marketing strategy should be. One approach is to market themselves as a family-friendly hotel/destination without using the terms “Muslim” or “Halal” (Henderson JC, 2010). For instance, Al Jawhara, a Dubai-based hotel group through their ads has promotes its “unique family-oriented hospitality”, despite the fact that the hotel clearly caters to Muslim needs. Another hotel group that successfully accommodates Muslim needs while being inclusive and not branding itself as a Halal hotel is Shaza Hotels. The luxury hotel operator focuses on authentic Arabian hospitality while being values-driven, and therefore appeals to both Muslims and non-Muslims alike. Another way to avoid the dilemma of marketing to Muslims while non-alienating others, is to market to the Muslim audience through targeted marketing channels, such as Muslim media, local publications in Muslim majority countries, as well as targeted ad campaigns.

EMERGING OPPORTUNITIES IN HALAL INDUSTRY

The halal industry has emerged as a new evolution sector in the global economy and is creating a strong presence in developed countries. Challenges lies in the industry are actually a gap and opportunities to tap by the industry players. Therefore, Islamic economy companies play an important role in addressing Muslim consumer needs and play a critical role in driving economic growth and activity. The Indicator measures the strength of the Islamic economy for 73 countries, across supply and demand drivers, governance, awareness and social considerations. Therefore, here are the main components of growth’s factors in Halal industry:
SIZEABLE AND GROWING MUSLIM POPULATION

Among the main aspects for the robust growth of the Islamic Economy sectors is the fast growing, young, and increasing number of Muslim populations worldwide. According to Pew Research projections on the Future of World Religion (2015), stated that by 2050 there will be 2.8 billion Muslims (30% of the population) worldwide.

GROWING ECONOMIC DEVELOPMENT OF HALAL BUSINESS

The Islamic Economy continues to evolve, driven by young Muslims asserting their values and requiring companies to provide products and services that meet their faith-based needs. Besides that, participation from non-Muslims also contribute to the growth of Islamic economy globally. Looking at the potential in terms of economy benefits and changing lifestyle for healthy and good virtue in this industry has attract the attention of non-Muslim as well.

EMERGENCE OF POTENTIAL HALAL MARKET IN NON-MUSLIM COUNTRIES

The demands for halal products and services are not restricted to Muslim country only. This is because of several reasons such as Muslim people migrating to non-Muslim country and those non-Muslim who is practicing a healthy lifestyle. Therefore, to address the unmet needs of Muslim consumers, primarily in non-Muslim countries, several new product segments have emerged in the Halal Food industry over the last few years. Some example success story in halal business can be seen through Halal Eat which based in United Kingdom and expand the business in Melbourne, Australia and registered domains across Europe and in South Africa. Besides, Saffron Road also one of the well-documented success stories and a rapidly growing U.S.-based processed food manufacturer with revenues exceeding $40 million in 2016.

ISLAMIC VALUES INCREASINGLY DRIVING LIFESTYLE AND BUSINESS PRACTICES

Islam as a ‘way of life’ for many Muslims continues to guide all aspects of their lives, including their consumption behaviour. Indeed, the practice and adherence to Islam varies greatly among Muslims based on their age group, geographic region/country, cultural influences and other factors. According to a Pew Global Attitudes survey (2015), selected 42 countries, 83% of respondents from Islamic countries considered “religion as very important in their lives.”

Anecdotally, a growing prominence in the media of Muslim women wearing hijab as Olympic athletes and professionals are asserting their rights through Modest Fashion clothing. Many of these values do have a universal appeal and thus many products and services do not have to be exclusively positioned for Muslims.
CONCLUSION

The Halal industry is progressively growing and attained attention among industry players globally. The comprehensiveness of the industry which integrated into all sectors, makes it an attractive niche for business to invest in as the opportunities are boundless. Moving forward, the Halal industry is expected to remain on this path as it gathers more attention and exposure worldwide.

For current and prospective Halal industry players, government agencies and investment firms, the time is prepared to participate in the Islamic Economy across all key pillars and to generate substantial returns. The involvement of governments and private sectors contribute to the sustainability of the Halal ecosystem through certification by religious authorities as well as implementation of policies is vital to boost the halal industry. Religious authorities of several countries are also working together towards establishing a global Halal standard, which would ensure an even more sustainable industry going forward.

There are big opportunities in the implementation of proper halal procedures in producing the products. With the growing number of Muslim populations, this market segment is expected to grow fast. On the hand, these opportunities come with big challenges. These challenges as stated above should be discussed further by the authority bodies involved in order to overcome those issues. As a pioneer in halal industry, the Malaysian government have to involved seriously in planning, develop and facilitate the industry in order to encourage participants to be in this Halal ecosystem.

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