

Malaysia Small and Medium Enterprises (SMEs) Expand into Vietnam Halal Food Industry

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Abstract

Halal food industry is expanding in international marketplace due to the increasing number in Muslims. Enterprises from the globe are encouraged to invest in this market since many countries have lowered their restriction on foreign investment. Vietnamese market is viewed as a strong potential for the growth of Halal foods with its national trade promotion program to encourage local and foreign firms to produce halal foods. Getting more Malaysia small and medium enterprises (SMEs) are entering into Vietnam Halal food industry in recent years and the number is increasing in recent years. They are advised to conduct country environmental analysis and entry mode evaluation in order to discover the potential impacts on their foreign investment. It is also useful for SMEs to identify the opportunities in Vietnamese market.

Keywords: *Malaysia Enterprise, Vietnam Halal Food Industry, Country Environmental Analysis, Foreign Investment.*

1. Introduction

Due to the globalization and advanced in technology, many firms are deciding to enter into global market. World Halal Forum shows that the global halal market size by region in Asian Countries is growing since year 2004 and achieved USD \$416.1 billion in year 2010

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(International Markets Bureau, 2011). The total market value of Halal is USD\$2.27 trillion and Vietnam needs more halal products as mentioned by Malaysia Trade Commissioner, Ahmad Shanizam (Tran, 2011). Therefore, this study is aimed to examine Malaysia small and medium enterprise (SME) entering into Vietnam Halal food industry. It is considered a good global market due to its rapid growth of economy, similarity of culture, political stability and huge business potential to Malaysia SME. However, company need to conduct the proper research and business survey before entering into Vietnamese marketplace by introducing halal foods. It will help to increase the market opportunity and reduce the business risk.

1.1. Background of Malaysia Small and Medium Enterprise (SME) in Vietnam Halal Food Industry

The growth of halal foods has become a big business in global market due to the demand from Muslims, which the trend is driven by Muslim millennial' s spending power and their mix of faith and consumerism (Sherwood, 2017). Halal foods industry has a great potential in marketplace even though Muslims are minority in Vietnam (Viet Nam News, 2015). There are getting more Muslims tourists were visiting Vietnam and the local government has discovered a shortage of Halal food places. Statistics also show that revenue from Halal agriculture was reached \$20 billion in 2014 and more than 3500 firms are entering into this industry. As part of national trade promotion program of Vietnamese Ministry of Industry and Trade, Malaysia SMEs are welcomed to exploit this global Halal market which is expected to be worth \$2.3 trillion annually (Vietnam Breaking News, 2017). In Malaysia, local government has developed Halal Industry Master Plan (HIMP) to encourage more SMEs export their Halal products (Arif Shah, 2017). The export has achieved RM42 billion in 2015.

From the host countryside, Vietnam agribusiness is keep expanding since past decade. Vietnam is now ranks as the United States' 11th largest agriculture export market (International Trade Administration, 2017). This trade is expected to grow further as Vietnam's economy is developing rapidly, which in turns, led to increase in consumption for various kind of halal foods. Therefore, the raw materials for halal foods are needed and mostly are imported from other countries. Figure 1.1, 1.2 and 1.3 shows the consumption of imported raw materials such as soybeans, wheat and poultry meat in Vietnam market retrieved from Vietnam General Customs Department, U.S. Bureau of the Census Trade Data, World Trade Atlas, and Traders Estimates.

Figure1.1 Imported soybeans from 2014 to 2017

Unit: 1000 tons	2014	2015	2016	2017
Total Consumption	4,451	5,000	5,170	5,290
Total Local Production	889	822	840	880
Total Imports	3,648	4,502	4,600	4,700
Total Exports	81	295	300	310

Figure1.2 Imported wheat from 2014 to 2017

Unit: 1000 tons	2013/2014	2014/2015	2015/2016	2016/2017
Total Consumption	1,850	2,250	2,275	2,350
Total Local Production	0	0	0	0
Total Imports	2,033	2,320	2,600	2,700
Total Exports	126	160	150	250

Figure1.3 Imported poultry meat from 2014 to 2017

Unit: 1000 metric tons	2014	2015	2016	2017
Total Consumption	1,240	1,390	1,481	1,549
Total Local Production	875	908	945	985
Total Imports	613	636	662	690
Total Exports	0.2	0.2	0.2	0.2

In order to access the global business opportunity in Vietnam Halal foods industry, firms are encouraged to conduct country environmental analysis and entry mode evaluation. Potential impacts from each of the environmental factors are discussed in following sections. Besides, suggestions on possible entry modes are provided for marketers to make sure they can carry their business effectively in Vietnamese market.

2. Business Assessment on Halal Foods Manufacturing in Vietnam

Country environmental analysis and business potential evaluation are conducted to assess the global business opportunities in Vietnam Halal foods industry.

2.1. Country Environmental Analysis

The Vietnam country report done by Euler Hermes Economic Research in year 2014 has highlighted the strengths and weakness of the nation. Strengths that can help SME to enter into halal manufacturing are the open economy with growth model based on

trade and the strong performance in agriculture with various natural resources. Therefore, firms can access into the nation by developing foods manufacturing easily with the plenty of available resources and materials. However, there are some weaknesses such as lack of improved infrastructure and complicated business environment (Euler Hermes Economic Research, 2014). In order to access Vietnamese market, firms are encouraged to conduct country environmental analysis. PEST (Political, Economic, Social-Cultural and Technology) analysis on Vietnam can help the SME to determine how these factors affect the performance of operation in the global environment. It is also important to assist firms to understand clearly of a situation that related to internal and external factors when formulate global strategies (Makos, 2013).

2.1.1. Political and its Potential Impacts

Political is about the government rules and regulations and other legal factors that bring the impacts to organization. Political plays an important role in global business markets because all operations must comply with the rules, regulations and policies stated by the enforcement bodies such as local government. Vietnam government is communist state where the political risk is not high. The political stability in Vietnam is considered above average for most of the global firms. However, firms who wish to enter into this nation must limit on political activities and free speech (Central Intelligence Agent, 2014). There is no major risk for foreign investors, but the government is encouraging firms to get local partners, making operation invaluable and reducing fixed investments to reduce political risk (Costello, Nash, Kavanagh, SMYTH & Boyce, 2010). Besides, the risk of seizure of assets is not serious in this nation but the government does not allow any kind of political dissent by local or foreign people. Other political risk can also be reduced by practicing legal protection of intellectual property under the Civil Code 1995 and Law on Intellectual Property 2005. Corruption is another issue in political impact where the country is ranked 112th out of 182 economies in Transparency International 2011 Corruption Perceptions Index.

2.1.2. Economic and its Potential Impact

Economic issues that normally faced by marketers are unemployment rate, inflation, interest rate, economic growth, exchange rate and others (Kinicki & Williams, 2011). This factor can affect company's sales and operating profit, especially the multinational corporation where the operations are located around the world. Economic has direct impact on organization's profitability condition. Many firms will choose Asian marketplace due to its high potential. Asian market is viewed as one of the main markets for global economic growth. The market is believed to grow at 6.1% at year 2015 and 6.2% in year 2016 under the forecast (Asian Development Bank, 2015). Vietnam is

considered a very strong market for foreign investor due to its rapid development. According to the data from World Bank, this nation is ranked 7th in the world economic growth potential and achieved positive growth in GDP for past 4 years (2010-2014). World Bank also reports that Vietnam's economic growth is estimated to expand 6.28% during the first half of year 2015 where its development is believed to continue strengthen by strong GDP (World Bank, 2015). When compare to past performance, the country economy was expanded more than 10% in a year and the Dong's devaluation in year 2014 had helped exporters to regain competitiveness (Bloomberg Business, 2014). The potential economic risk will be the high inflation rates always happens in Vietnam which was over 18% in year 2011, 6,8% in year 2012 (Hoang, 2013). Besides, Vietnam's food and beverage industry is growing rapid as almost 21 percentages in 2013 (Figure 2.1).

Figure 2.1 Gross output of food and beverage manufacturing industries (at current prices)
Unit: Billion Vietnam Dong (VND)

Year	2009	2010	2011	2012	2013	Change (%)
Gross output of food and beverage industries in Vietnam	466,166	582,720	717,963	869,433	1,050,868	20.9 %
Gross output of food manufacturing	418,481	529,622	660,492	786,298	945,374	20%
Gross output of beverage manufacturing	47,685	53,098	57,471	83,135	105,494	26.9%

Source: USDA. (2015). Global Agriculture Information Network. Vietnam Food Processing Ingredients Annual Report.

2.1.3. Social-Cultural and its Potential Impact

Social-cultural factors can let marketers understand the customers' needs and wants. There are many elements from social such as demographic, culture, lifestyle, education and others. Those factors will shape customers' buying behavior and intention for purchase. Population in Vietnam is approximately 89.71 million in year 2013 stated in the World Fact-Book and the number is increasing for following years (Central Intelligence Agent, 2014), refer to figure 2.2. Many Vietnamese practices Confucianism where this belief has influence on the whole society. Vietnamese is also the official language and follow by English as second language. Vietnam has achieved significant results in education and its literacy rate is very high with the record of 90.3% (UNESCO, 2015). Besides, Vietnam has many religions such as Mahayana Buddhism, Daoism, Catholics and Muslim. Number of Muslim in this nation is not huge (0.1% of the population) compared to other religions but the growing rate is significant. Food is considered very important element in Vietnamese culture. They believe taking good

foods can bring luck and harmony to the family. They are very concern about the quality of foods. Therefore, it creates an opportunity for firms to enter into this nation by introducing good food. Halal food is one of the good choices to introduce where the manufacturing of halal food is fulfilling all the requirements to guarantee the quality. The potential social-cultural risk is the diversity of background and culture of Vietnamese compared with Malaysian. Conflict and social issues might be occurred when the firms are not sensitive regarding the culture when enter into foreign market. It will result in bad consumer satisfaction and the chances to be banned by local communities are higher.

Figure 2.2 Vietnam population growth rate

	2014	2015	2016	2017
Population	92,545,915	93,571,567	94,569,072	95,540,800
Growth rate	-	+1.11	+1.07	+1.03

Source: Worldometer. (2017). Vietnam population. Retrieved from <http://www.worldometers.info/world-population/vietnam-population/>

2.1.4. Technology and its Potential Impact

Technology is getting advanced in today global society. Technology advancement and the role of internet can help the marketers to reduce the cost, expand the business and takes advantages from opportunities. Vietnam has invested heavy in infrastructure but yet to produce systematic facilities. The nation is implementing a project call Vietnam Urban Upgrading Project from 2004 to 2014 to improve the urban areas (The World Bank, 2014). Many roads are remained unpaved and ports also inadequate. The communication infrastructure is insecure and weak but steadily improving. Besides, Vietnam inadequate logistic infrastructure will become a barrier for international trade where the average time for transferring a good was around 22 days. It will make the firms incurred more cost and risk (Vietnam Investment Review, 2012). However, the food manufacturing supply chain in the nation is keep developing. It had increased the efficiency of distribution networks. The potential technology risk is firms need to consider and plan carefully for the distribution channels in order to make sure the products can be effectively reach customer. Besides, halal food manufacturing is involving a series of standard procedures and requirements where require the aid of technology and facilities during the production.

2.2. Business Potential Evaluation and its Opportunity

To engage in halal foods manufacturing, firms must consider about all the requirements of producing halal products which including the raw materials, productions, delivery and other variables. Muslim consumers are existed globally where the food they

consume must be allowed by Islamic law. Therefore, global firms must aware of halal concept when involving in this industry. According to Alqudsi (2014) the whole supply chain process must fulfill the halal requirements as well to deliver good customer satisfaction and reduce the risk when conducting business in Vietnam

When entering into Vietnam halal market, firms are needed to pay close attention to halal certificate. Halal is carrying the meaning of lawful according to Islamic law. The director of Halal Certification Agency in Vietnam also known as HCA Vietnam stated that this certificate is a global scheme for responsible products or services which must be obtained by foreign firms who wish to produce or provide products to Muslims according to Shari'ah law (Vietnam Business Forum, 2015). This business forum also mentioned that Vietnamese companies are first focus on populous Islamic market which encourages the cooperation with Malaysian corporations to share knowledge and experiences stated by the trade counselor. Therefore, obtaining halal certification is a necessary to enter Vietnamese market. Due to the strict compliance with halal requirements, the country has estimated exported the products to more than 1.83 billion Muslim in global markets (Salama, 2015).

Vietnam has opened the door for halal manufacturing to foreign investor. The country Ambassador to Malaysia Professor Nguyen Hong Thao is welcoming Malaysians to invest in Vietnam halal industry whereby Malaysia can produce locally and export to Vietnam (Musa, 2013). It is a great opportunity to enter into this market due to the experience and expertise of Malaysia in halal sector which has been seen as the best partner for Vietnam in halal food processing industry viewed by the local government. Besides, Musa (2013) stated that Malaysia is one of the largest foreign investors in Vietnam with more than 441 projects which worth over US\$10billion.

Besides, Vietnam can provide up to 1000ha to build the halal park and on the same time providing sufficient labors. The country is ranked 3rd in the world's faster growing affluent populations with higher consumption and better purchasing power (Tuoi Tre News, 2015). Vietnamese market is expected to grow and reach 100 million by year 2020. There is a huge demand on food and agriculture where consists of large populations are looking for halal food due to the culture and lifestyle. Number of Muslims in worldwide is expected to grow and representing 27% of the world population. There are 62% of world's Muslims live in Asia and non-Muslim consumers also spent more than \$3 billion annually on halal foods. Therefore, there is great business opportunity in Vietnam for halal food manufacturing (Viet Nam News, 2015)

Besides, the country has strengthened its trade by increasing the foreign direct investment into food manufacturing sector. According to the report done by BMI Research (2015) Vietnam also builds strong relationship with US which shows a

significant market improvement whereby Washington is seeing Hanoi as one of the most potential marketplaces in South East Asia. Halal manufacturing industry in Vietnam is emerging which attracting many foreign investors. Halal Vietnam (HVM) is responsible for halal products certificated services in Vietnam. It is established in year 2010 by constantly providing expertise and services to the food industry. HVM is also supporting local and foreign manufacturers to access international market where firms must go through its verification in order to engage in halal food manufacturing inside the country (Halal Vietnam, 2010).

2.3. Factors to Consider when Choosing Entry Mode

SME who wants to enter into Vietnamese market is facing another critical global decision which is choosing the right entry mode. Firms must consider the cost, benefits and risk associated with the business in global marketplace. There are many types of entry mode which have their own advantages and disadvantages. Some foreign countries will require global firms to use particular mode in order to having business in their nation. Firms can choose different entry modes which depend on their capabilities, financial ability and global strategy. Before choosing the mode of entry, firms must consider three factors which are ownership advantage, location advantage and internalization advantage (Griffin & Pustay, 2013). Ownership advantage is the tangible or intangible resources owned by the firm that serve as competitive advantage. When SMEs enter into Vietnamese market, they will face the liability of foreignness which refers to the political and cultural disadvantages when compare to local firms (Kuznetsov & Kuznetsova, 2014).

Therefore, SME must understand the whole completed process of halal food manufacturing since it is standardization concept which based on Islamic Law. It will help the SME to enter into Vietnamese halal market with better preparation. Second factor is location advantage. This factor will affect the desirability of SMEs to produce their products in home country or host country. Firms normally will compare the economic situation and environment characteristics of the home country to Vietnam to decide where to locate their production facilities. Third factor is internalization advantage. Firm must consider factors such as level of transaction cost, political stability, government requirements and other environmental issues to decide produce goods itself or contracting with other firms.

3. Recommendation and Conclusion

Exporting and joint-venture are recommended to adopt when entering into Vietnam Halal foods industry. Exporting is a good entry mode due to SME in Malaysia has better knowledge and technical expertise in technology compared to Vietnamese. It serves as

a strong ownership advantage to allow firms taking more competitive advantage over their rivals in international market. Besides, SMEs from Malaysia are found to have better equipment and skills in halal food manufacturing which is more desirable than Vietnam production. Exporting can avoid the cost of establishing manufacturing operations in Vietnam. It will help the firms to reduce operation cost and lower the financial exposure. Besides, this mode allows firms to access local condition to meet the requirements of Vietnamese. Exporting also enables SME to gain global economies of scale. It has been supported by the Vietnam Ambassador to Malaysia Professor Nguyen Hong Thao who welcoming Malaysians to invest in Vietnam halal industry by producing locally and export to Vietnam (Musa, 2013). There are also disadvantages such as logistic complexity and tariff barriers. However, Malaysia and Vietnam had involved in trading alliance such as ASEAN which help to ease the process of doing business among members.

Second suggested entry mode is joint-venture. Halal food manufacturing in Vietnamese market is emerging and the government is encouraging foreign firms to joint ventures with Vietnamese counterparts. There are few advantages such as Vietnamese counterparts are familiar with the local culture and law. Besides, joint venture can help to develop local economy and provide more career opportunities to Vietnamese. Vietnam also can provide up to 1000ha to build the halal park and on the same time providing sufficient labors for foreign firms (Tuoi Tre News, 2015).

In conclusion, Vietnam Halal foods industry has strong potential to grow and serve as a good global marketplace for Malaysia SMEs to expand their halal foods manufacturing. Environmental analysis is essential for firms to understand the market opportunities and impacts before they start investment. Furthermore, a proper entry mode is effective for SMEs to conduct business in global marketplace in order to save cost and utilize their resources.

International trade is defined as the exchange of goods and services among countries such as import and export. International trading that involves middle income countries is increasing due to the advancement in technology and changes in environmental forces. Besides, impacts of globalization have created vital opportunities as well as challenges for many middle income countries, such as Malaysia and China. Globalization is known as the 'global integration of international trade, investment, information technology and culture' (Investopedia, 2018). Globalization in international trade has led to open door economy in many countries and boosts up a nation's development (Amadeo, 2018). As the result, China and Malaysia are treated as the champion of globalization due to their growing influence in Asian market (Meinardus, 2017).

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Many international trade theories can explain the investment activities among global firms. They are effective to guide firms on developing business strategies, identifying export opportunities, gaining competitive advantage and formulating solutions for external threats (Griffin & Pustay, 2013). International trade theories which had chosen to discuss on Malaysia exporting are Adam Smith's absolute advantage theory and Steffan Linder's country similarity theory; while Dunning's Eclectic theory and New Trade Theory are applied on China exporting.

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