

Determinant of Preferred Export Logistics Gateway in Malaysia Halal Product Industry: A Review

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Received: May 24, 2016

Accepted: July 3, 2016

ABSTRACT

In view of the vast economic potential of the global Halal industry, Malaysia has formulated a plan to strategize Halal industries as a new sector that shall contribute to its economic growth and position herself as the Global Halal Hub under the Third Industrial Master Plan (2006-2020) and Malaysia Eleventh Plan (2016-2020). However, Malaysia export trend and neighboring country re-export and transshipment activity indicates that there is a potential for Malaysia halal product manufacturers and its logistics provider to divert their export from local logistics gateway to a neighboring country for shipping their goods to final destination country. This research paper aims to provide preliminary insight into the determinant factors that influence the manufacturers and logistics provider decisions in the choice of preferred export logistics gateway.

KEYWORDS: Logistics Gateway, Freight Forwarder, Halal Product.

INTRODUCTION

Halal food market has become a potential industries worldwide in tandem with its tremendous growth, not only to Muslim nations but also to non-Muslim nations. As Muslims make up a considerable segment (23%) of the world's population, catering to this massive market of over 1.5 billion people is very significant [26]. World Muslim population forecast to grow 35% from 1.8 billion in 2012 to 2.2 billion in 2030, which represent about 26.4% of the total world population. The figure further estimated to growth to 30% or 2.6 billion Muslims worldwide as of 2050. This projection will make sure the demand for Halal industry to remain growth and sustainable. Halal industry has been recognized as one of the fastest-growing global consumer markets. Halal food industry which accounted nearly 17% or worth an estimated US\$650 billion or more of the worldwide food supply had created a huge global business opportunity. Halal food industry itself represents 61% of overall Halal market [28]. In summary, the total global Halal market value estimated to be around USD\$2.3 trillion [6] estimated that out of this total value which approximately 5 to 10% of total expenditure will be in the logistics segment.

Malaysia Halal industry development started in 1974 with the issuance of Halal certification from the Research Center of the Islamic Affairs Division of the Prime Ministers Office. Effective in 1994, Halal logo certificate being issued. The first Halal inspection company was appointed in 1998. Then, in 2002, JAKIM was established to look into all activities regarding the halal certification. In view of the potential growth of Halal food industry, it has led government to the formation of the Halal Industrial Development Corporation (HDC) in September 18, 2006 with the vision of positioning Malaysia as the Global Halal Hub and main responsibilities to promote and facilitate the Halal industry development in Malaysia. Based on data provided by the Ministry of International Trade and Industry and Department of Statistics, Malaysia, Halal industry export has rapidly grown from RM23.9 billion in 2011 to RM37.7 billion in 2014. Halal industry accounted an average 4.36% of total Malaysia export for the same period. "Growth of the Halal market is estimated to be at a rate of 7% annually" [1]. Based on the Malaysia halal product key export destination countries for period 2012 until 2014, China has been ranked as the top destination, followed by Singapore, United States and other countries [16]. According to Datuk Seri Mustapa Mohamed, Minister, International Trade and Industry, "Malaysia's Halal export stood at RM37.7 billion as at the end of last year, surpassing the government's target of RM19 billion by 2020. This achievement was unprecedented and signified the Malaysia's position as a significant player in the global halal sphere. The target was set under the Halal Master Plan, which was developed seven years ago." [31]. According to [1], Malaysia Second Industrial Master Plan (1996-2005) and Third Industrial Master Plan (2006-2020) stated the Malaysian government strategic plan to accelerate and position its Halal sector to become a Global Halal Hub.

LITERATURE REVIEW

Potential Halal Export Logistics Gateway

The export sector have consistently contribute to Malaysia GDP growth. “Export revenues play an important role in achieving economic growth in both low and high-income countries. Exports are crucial for the economic development of nations” [8]. Based on Matrade annual report 2013, Malaysia export has increased positively to 2.4% from RM702.64 billion to RM719.81 billion for the period 2012 to 2013. The export uptrend continues in 2014 with total RM766.1 billion recorded. The same report also shows that for the period 2012-2014, China rank top Malaysia trading partner followed by Singapore and other countries. Effective from the period 2012 until 2014, Singapore has takeover China to become Malaysia top export destination country. While among ASEAN countries, Singapore is a top destination for Malaysia export from 2011 until 2014 with average annual export value for the last five years recorded RM95,618 million per year.

According to World Bank Group, Singapore with a population size of 5.39 million people and surface area 716 square kilometers is a regional and global hub for finance and trade services. Its efficient services sector and strong manufacturing industry have led to the main contributor of the Singapore economy growth. External trade generates through an increase in export had remain the vital role of this growth. Singapore annual net exports [15] reported due to her excellence role as an entrepot for Southeast Asia, Singapore had established her growth through “re-export economy” which is 86% of its total export for the period 1965-1982 were actually re-export. Re-export activity continuously plays a pivotal role in the Singapore economy, where International Enterprise Singapore (IES) reported in 2004 that Singapore’s re-export represent 46% of overall commodity exports which total \$200 billion [7]. In [30] pointed out that due to Singapore re-export activity, it has encouraged Malaysia manufacturers to divert their export product to Singapore purposely for re-export to another final destination country. In this regards of this export diversion trend and re-export activity, Malaysia halal stakeholders and related industries player such as third party logistics provider, airport and port operator and others relevant agencies has to waive some of this potential business opportunity i.e. carrier charges, freight charges commision, local export clearance charges, customs goods and services tax (GST), port charges, airport aircraft landing and parking charges and etc. which can be considered as revenue loss. Thus, it is paramount important for the logistics industry specifically logistics hub gateway for airport and seaport to enhance their competitive advantages among the region in order to overcome the possibility of our halal export product being diverted to neighboring country specifically Singapore for re-export to worldwide.

Logistics Gateway

In response to the regional trade growth challenges, it is common for any regions with huge trade volumes to develop a logistics gateway facility which is an essential aspects of local, national and globalize transportation systems [8]. In a globalize trade a logistics gateway served as a center for international trade supply chain which provide country well connected integration system for road, rail, marine and air transportation that bridge between geographical area. Proper planning and development of this transport infrastructure is important in order to ensure the logistics gateways to serve effectively [29]. In [20, 21] classified logistics gateway as a place where international transport movement are transshipped to global areas and vice versa. In [9] mentioned that logistics gateway terminal can be described as an interchange between regional and international carriage organization. Eventhough conventional logistics gateway concentrates only on transshipment between sea and land transportation network, it has extended to consist of all types of value added activities associated with logistics and freight. As mentioned by [23], seaport has been identified as the most important logistics gateway and intermodal hub among many others supply chains. Due to low cost and efficient maritime transportation particularly for longer time shipment products, more than 90% of global trade volume are carried by vessel. Thus, seaport have significant implications in the development of effective logistics gateways for transshipment and link between sea and land regionally and internationally [29]. As seaports structure an important role for logistics gateway of international trade, they can be considered as a major contributor to the local economic growth. In [10] pointed out roles of seaports in accelerating the local economic development as follows: i) creating employment and income in many related industries through expansion of value added logistics operation ii) by providing and applying new transportation equipment and system in facilitating international trade the seaports have positively impacts the growth of country economy and position itself as an influential logistics gateways for international inbound and outbound trade iii) by growing the seaport efficiency in tandemly it will spur the cross-border activities of international trade and enhance the development of the export oriented economy which will results in economic globalization.

With regards to the essential roles of logistics gateway in increasing the export and eventually contribute to the economic growth, in 1998, Malaysia has invested around US3.6 billion and completed new Kuala Lumpur International Airport (KLIA). With this reinforcement effort, it has made Kuala Lumpur to become an important logistics gateway hub in the international airline industry and provide a competitive challenge to Singapore in overcoming the flows of cargo diversion from Malaysian sea and air traffic being exported through Singapore

[2]. In [3, 22] revealed that the most important factor influencing decisions in choosing an air cargo transshipment gateway and routing is a flight connection schedule and landing charges. In [27] reported that due to flexible of flight connectivity, Intel which has facilities producing chips in the north of Malaysia has leakage its export through the Singapore airport logistics gateway. In some cases, time delivery cycle element is considered another factor attribute forwarders and manufacturer decision in selecting export logistics gateway. In Malaysia, most of the electronics hub are located in Penang (in the north) and central (Klang Valley) not within the Senai airport vicinity, which located in southern peninsular. Due to time priority in the shipment turnaround of these products, electrical and electronics goods are exported out frequently through KLIA and Penang airport [3]. In [27] revealed that about 25-30% of air traffic throughput is diverted through Singapore. In 2008, Air Asia top management agreed that infrastructure facilities are a main aspect need to be considered in managing the aviation industry challenge compared to expensive fuel price or increase in passenger volume [3]. For forwarders and airlines, one of the most vital infrastructure facilities needed is a warehouse [12]. In [12] further revealed that there are few factors influencing the airport logistics gateway choice by the airlines, this can be categorized as market factors, restriction, time factors, cost factors, perception of airport quality, strategy factors and other factors.

Based on a study by [24], there are five factors identified as a fundamental characteristic to analyze airport as a competitive logistics gateway. Demand factor has ranked the utmost vital factor, secondly is an airport service factor and followed by spatial, facility and managerial factors. Singapore seaport good network connectivity and its recognition as a center for trade distribution, logistics financial and transshipment has resulted in the leakage of cargo from Malaysia. Johor Port congestion due to area limitation and deep draft requirement for large containership are some other factors attributed to the shipping principal decision to redirect their containerized vessel and its cargo calling to Singapore Port logistics gateway [14]. For gateway ports to effectively function [29] conclude that the identified dimensions are good infrastructure, situated in a strategic location, efficiency, well connected and provide various port services.

As reported in [5], due to its capability to handle bulky goods and cheaper cost, sea freight is the preferred choice for logistics gateway. Overall freight volume handled by sea constitutes 98.4% or 539.2 million tonnes of the achieved freight volume in 2014. For air freight due to lack of connectivity and frequency of air cargo flights, low cargo volume as well as competition from neighboring countries has contributed to the 0.8% decline of the annual growth rate between 2005 and 2014. Presently, there are about 1084 companies registered with MATRADE and have been exporting products which are certified halal. Potentially, about 989 companies or 91.24% halal product manufacturers may decide to use seafreight and approximately 51.57% of this halal product manufacturers company located in Selangor, southern Perak, northern Melaka and Negeri Sembilan. Based on this location statistics, there is a high potential for using Port Klang as a preferred logistics gateway for export.

Freight Forwarder

Freight forwarders have long been recognized to play a critical role in facilitating cross-border trade and global carriage of goods through respective logistics gateway [4]. Freight forwarder functions as logistics intermediary between carrier and shipper, arrange related clearing services or forwarding [25]. Freight forwarder has been recognized as an important segment in logistics intermediaries for their experiences in coordinating cross border trade, therefore many companies have started to use a freight forwarder for carriage of their goods internationally [17]. In [18] also described freight forwarder as an international trade expert who can provide multitasking coordination activity to support the shipment delivery worldwide. This activity includes but not limited to such as booking for cargo space, prepare and submission relevant documents for clearing and arrange for inward and outward transportation at the related airport or seaport logistics gateway.

According to FIATA (Federation Internationale des Associations de Transitaires et Assimiles) or in English "International Federation of Freight Forwarders Associations" definition, "...The freight forwarder is a company which provides services of freight forwarding on behalf of a customer. These include transport, regrouping, storage, management, packaging and the distribution of cargos as well as auxiliary and advisory services regarding issuing and managing documents, customs facilitations, declaring cargos to the authorities, the insurance of merchandise, collecting and paying freights" [11].

Freight forwarders function as an important coordination center within the supply chain of shipper/consignees, shipping lines and ports. From the carriers' point of view, freight forwarder acting as a party who contribute to the shipment space fulfillment by consolidating various shipper's goods. Shipping liners need only to work with one freight forwarder instead to deal with all the shipment owners [13]. Freight forwarder also plays an important role in coordinating a shipment of numerous freights without compromising any delays and ensure quality delivery. Furthermore, freight forwarder able to negotiate a discount rate for freight and insurance by arranging high volume of shipment to carrier companies. Freight forwarder also contributes by reducing the penalties and period of empty load transport services, due to its functions in solving the loading issue and coordinates the overload shipment problems during the intermodal transportation. Without freight forwarder as

an appointed agent, goods owner need to deal with various shippers and organize the complex process of transportation [4].

For factors influence freight forwarder choice of logistics gateway transshipment hub, in [22] pointed out that in general there are two types of cost elements being considered; i) financial cost and ii) time cost. Financial cost consists of a) line-haul cost and b) airport charges, while components of time cost include i) flight schedule ii) loading/discharge and formalities clearance time and iii) waiting time. Other factors attribute to freight forwarder decision in the choice of logistics gateway transshipment points such as traffic jams, customs advance administration system and international aviation policy. The overall aim for the freight forwarder to choose a logistics gateway transshipment point is to minimize their total transportation cost [22]. In [3]stressed that there are some evidence large and congested airport may influence freight forwarders to divert their choice of airport logistics gateway. Ultimately, by appointing an experience freight forwarder for handling the consignments, the shipper or goods owner will benefit in cost reduction resulted from transport route optimization and exclusive rates for insurance and transportation[4]. In [12]revealed that forwarders interested to cooperate with passenger airlines only if they can combine and provide a various range of destination for consignment operations. In [12] further expressed that the presence of many freight forwarders at the logistics gateway terminal evidence the demand capacity for the area, which eventually contribute impact to the origin-destination volume.

Based on [13]analysis, determinant factors and elements influencing freight forwarders decision in selecting seaport logistics gateway are infrastructure, efficiency, information system, hinterland connection, customer service, location and cost. For seaport logistics gateway infrastructure, its includes quality operation performance, cranes, terminal capacity, berths size and quantity. Efficiency of seaport logistics gateway always related to reliability and speed of the seaport services. The improvement in communication and information system has been perceived to impact in seaport logistics gateway cost and service performance. Hinterland connection is vital in distributing the consignments to and from the seaport logistics gateway. Lack of intermodal connections could lead to the seaport logistics gateway congestion, delays and additional operating cost thus would effect to the seaport logistics gateway competitiveness. In an evaluation of customer requirements study by [19], in order to achieve high-performance intermodal services to and from Malaysian ports, proper investments in intermodal infrastructure including railway lines and inland terminals need to be established in suitable corridors. Seaport logistics gateway customer service always related with the ability to fulfill customer's requirements, reliability, and quality. Strategic seaport logistics gateway location could impact to reduce the total operating cost and make the seaport logistics gateway more attractive. The cost factor is considered as an important element in the seaport logistics gateway choice. Type of port charges freight forwarders needs to incurred includes terminal handling charges, stevedoring, pilotage, towage, water, electricity, storage and garbage disposal. In Malaysia, according to Federation of Malaysian Freight Forwarding (FMFF) total membership all over the states currently are about 1091 members with Selangor and Johor registered the highest Freight Forwarding membership.

CONCLUSION

Based on Malaysia export trends, statistics, previous reports and re-export activity by Singapore, its indicate that local halal manufacturers and third party logistics specifically freight forwarder has the potential for using Singapore as the major logistics gateway to export their products worldwide. This export logistics gateway diversion trend occurred in the last decades as Singapore become one of the major export destination country for Malaysia's products. Malaysia Halal product export volumes are expected to grow tremendously over the next 10-25 years. Hence, it is pertinent to develop a strategy to curb the possibility of halal product being diverted or leakage to neighboring country logistics gateway particularly Singapore for re-export to final destination countries. Inefficiency services, lack of infrastructures and cost aspects are some major challenges for nation port logistics gateway operators in enhancing their competitive advantages regionally and internationally which in tandem with a Malaysia vision of becoming the Global Halal Hub and to strategize Halal industries as a new sector contribute to economic growth which was formulated in the Third Industrial Master Plan (IMP3), 2006-2020. Eventually, this may influence Malaysia freight forwarder and halal manufacturers industry decision for the choice of local port as the 'Preferred Logistics Gateway to Asia' (Logistics and Trade Facilitation Master Plan, 2015-2020) to export their product worldwide.

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