

Food Processing Prospers in Malaysia

U.S. agricultural exports to Malaysia rose to \$404 million in calendar year 2001, a hefty increase from the \$322 million exported in 2000. As much as one-third of these products is destined for the Malaysian food processing industry, which imports \$180 million worth of ingredients a year.

Though U.S. exports to Malaysia have waxed and waned with economic conditions, regional and global downturns have

had little adverse effect on the Malaysian food processing industry. However, stringent economic times have induced greater efficiencies and more selective product purchases.

Malaysia's 23.8 million people enjoy the benefits of living in the third wealthiest country in Southeast Asia. A mix of manufacturing, service and agricultural sectors provides the stable economic foundation that has resulted in almost two-thirds of the population achieving middle-to-upper levels of income. Purchasing power is expected to be higher as per capita income is projected to increase by 5.5 percent in 2003, up to \$3,710.

Quality Counts

With \$13 billion in sales in 2000, Malaysia's innovative food processing industry demands a wide variety of quality ingredients in reliable quantities. Composed of 3,200 businesses, the sector is one of the more dynamic in Southeast Asia and has enjoyed yearly average increases of 9 percent in value since 1995. Growth for the industry is expected to continue over the next three years at a 3-5 percent annual rate.

Major food production industries include refined sugar, wheat flour and baked products, non-alcoholic beverages, edible oils, dairy products, confectionery and snacks, fish and seafood, beer, canned



Products by the Number

These U.S. exports occupy the following market shares in Malaysia's import marketplace:

- Oilseeds (34 percent of imports)
- Protein concentrates (27 percent)
- Sugar derivatives (22 percent)
- Edible nuts (21 percent)
- Tomato purée (11 percent)
- Coffee and tea concentrates (9 percent)
- Extracts and essences (9 percent)
- Juice concentrates (9 percent)
- Essential oils (7 percent)
- Frozen poultry (7 percent)
- Peas and beans (5 percent)
- Fats and oils (4 percent)
- Starches (4 percent)
- Dairy ingredients (2 percent)
- Cereals and cereal products (2 percent)
- Fish and seafood (1 percent)
- Frozen beef and lamb (1 percent)

pineapple and processed meats. Except for locally available commodities—edible oils, poultry, pineapple, processed meats and cocoa and chocolate products—most industries rely on imported ingredients.

Local businesses range in size from small, family-owned to large, publicly held enterprises. Others are subsidiaries of foreign or multinational conglomerates.

Halal Foods Are Big Business

There are several major considerations for U.S. exporters who want long-term, substantial business as suppliers to local food and beverage manufacturers.

- Since 60 percent of Malaysia is Muslim, it's very important to satisfy Malaysia's demand for *halal* certified ingredients. Processed *halal* foods are those prepared in accordance with prescribed Muslim practices. Also, 20 percent of Malaysia's

consumers are Buddhist and Hindu and don't eat beef products.

- Price competitiveness is very important. Besides the United States, Malaysia imports food ingredients from around the world. Major suppliers include Australia, Thailand, India, New Zealand, the European Union, Argentina and Brazil.
- Exporters should consider the food processor's purchasing policy. Some who use large quantities do buy directly. Others source through local agents to simplify their acquisition process.
- Study targeted food processors. Know their financial strengths; geographic market spread; how much they import; level of research, development and investment in new products; and level of interest in U.S. products.

Re-Exports Drive Economy

Many Malaysian food and beverage manufacturing industries export to overseas markets. The product diversity that characterizes the sector has been the result of several factors:

- A wide range of high-quality, imported processed foods and beverages are present, due to low import duties. This has stimulated the introduction of new foods to companies that produce for local consumption. The domestic popularity of biscuits and confectionery and snack products can be directly attributed to this phenomenon.
- Malaysia's open trading environment has stimulated extensive use of imported ingredients by its food processing industry, enabling experimentation in and introduction of a variety of new processed products to the market, such as prepared frozen foods, processed meats and beverages.



- Already highly respected for its *halal* products, Malaysia aims to be the international center for *halal* food production. It has one of the widest ranges of processed *halal* foods in the world, which allows for easy market penetration in other Muslim countries.
- The Malaysian government has encouraged consumers to “buy Malaysian,” and urged the retail sector to carry more locally produced foods and beverages. This show of confidence has increased investment in processing facilities as well as the development of new products, expansion of the domestic market into both the retail and hotel, restaurant and institutional sectors and entry into new overseas markets. ■

This article was based on a report prepared for the FAS Office of Agricultural Affairs, U.S. Embassy, Kuala Lumpur, Malaysia. Tél.: (011-60-3) 2168-5023; Fax: (011-60-3) 2168-5023; E-mail: faskl@tm.net.my

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