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## Malaysia

### Food Processing Ingredients Sector

### Food Processing Sector Malaysia

## 2005

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**Report Highlights:**

Malaysia's GDP is expected to grow by 5-6 percent in 2005 and 2006. Changes in consumer lifestyle and the government emphasis on encouraging exports of processed foods from Malaysia are market drivers of the country's food processing industry. Nearly 70% of the raw materials used by the food processing industry are imported. The Government of Malaysia has targeted the \$560 billion global halal foods market by encouraging the development of a halal food hub. The goal of the halal food hub is to boost the local food processing industry, utilizing many imported ingredients, to meet the demand for medium and high quality halal foods.

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## 1. Country Summary

### Overview of Malaysia

<b>Location of Malaysia</b>	South East Asia
<b>Malaysia's land area</b>	329,735 square km (127, 311 square mile)
<b>Form of government</b>	Parliamentary government under constitutional monarchy
<b>Capital</b>	Kuala Lumpur
<b>Population in 2003</b>	25.05 million
<b>Composition of population</b>	Bumiputera (61.3%), Chinese (24.5%), and Indians (7.2%), other Malaysians (1.2%), and non-Malaysians (5.9%)
<b>Religious composition</b>	Islam (56%), Buddhism/Confucianism/Taoism (29%), Hinduism (7%), Christianity (6%), and others (2%)
<b>Major languages</b>	Malay, English, Chinese (including various dialects), and Tamil
<b>Major festivals</b>	Eidil Fitri (Islam), Chinese New Year, Deepavali (Hindu), Christmas, and Harvest Festival (East Malaysia only)

Malaysia is located in South East Asia and slightly larger than New Mexico. The country comprises of Peninsular Malaysia (located between Thailand's southern border and Singapore) and East Malaysia (occupying nearly one-third of northern Borneo Island). The country has a hot and humid climate with seasonal monsoons rains.

Malaysia's population in 2003 stood at 25.05 million and nearly 80% of the population resides in Peninsular Malaysia while the remaining 20% reside in East Malaysia. Malaysia's population consists of various ethnic groups. The indigenous group known as *Bumiputera* accounts for 61% of the population and comprises of ethnic groups such as the Malays, Ibans, Dayaks, Melanaus, Kadazans-Dusuns, Bajaus, and Dayaks. Chinese account for 24% of the population followed by Indians at 7%. Islam is Malaysia's official religion and nearly 56% of the population professes to the Islamic faith. Other major faiths practiced in Malaysia include Buddhism, Taoism, Hinduism, and Christianity. Thus various religious and ethnic festivities are celebrated and are public holidays in Malaysia.

The proportion of Malaysia's population living in the urban area increased from 50.7% in 1991 to 62.0% in 2000 while the proportion living in rural areas declined from 49.3% to 38.0%. The proportion of Malaysia's urban population is expected to increase further in the coming years due to greater job opportunities coupled with higher pay compared to the rural areas. Thus the average income of the working population living in the urban areas is 1.8 times greater than those in the rural areas.

Malaysia has enjoyed moderate to strong economic growth since the 1990s except in 1998 during the Asian Economic Crisis and 2001 during the global economic slowdown. Malaysia's GDP per capita is among the highest in South East Asia after Singapore and Brunei. Inflation and unemployment in Malaysia remains relatively low and the country has nearly 1 million

foreign workers mainly employed in unskilled and semi-skilled work. Malaysia's currency has been pegged to the US dollar since 1998 and currencies, such as the Euro and Japanese Yen, have appreciated against the US dollar and Malaysian Ringgit since 2000.

### Malaysian Economy in Brief

	2000	2001	2002	2003	2004e	2005f
GDP (US\$ billion)	90.3	88.0	94.9	103.7	111.0	117.2
GDP per capita (US\$)	3,844	3,665	3,880	4,131	4,319	4,455
Income per capita (US\$)	3,529	3,386	3,516	3,710	4,036	4,197
Exchange rate - RM to US\$1	3.8	3.8	3.8	3.8	3.8	3.8
Overall CPI	1.5%	1.4%	1.8%	1.1%	1.5%	1.7%
Population (million)	23.5	24.0	24.5	25.1	25.6	26.1
Unemployment rate	3.1%	3.6%	3.5%	3.6%	3.8%	3.8%

Source: Malaysian Statistics Department, Ministry of Finance, and Asian Development Bank.

Malaysia's GDP grew by 7.1% in 2004. The Asian Development Bank forecasts Malaysia's GDP to continue to grow but at a slower pace of 5.6% in 2005 to reach US\$117.2 billion. Unemployment will continue to remain low and per capita income to grow in 2004 and 2005 in line with Malaysia's economic growth trends.

## 2. Market Summary

### 2.1 Malaysia's Food Processing Industry

There are nearly 3,200 manufacturers involved in the food manufacturing industry in Malaysia and the industry accounts for nearly 10% of Malaysia's manufacturing output. Output from the food processing industry increased 7.5% from US\$3.12 billion in 1999 to US\$3.35 billion in 2003. The government has focused on the food processing industry's potential for exports. Exports increased by 36.6% from US\$1.92 billion in 1999 to US\$2.62 billion in 2003. Food manufacturers operating in Malaysia include both Malaysian and multinational companies such as Nestle, Unilever, Cerebos, and US based Campbell Soup.

#### Production and Exports of Processed Foods in Malaysia (US\$ Mil)

	1999	2000	2001	2002	2003	Avg. Annual Growth
Production of processed foods (factory value)	3,116	3,174	3,210	3,198	3,351	1.9%
Export of processed foods (FOB)	1,915	2,022	2,076	2,308	2,616	8.2%

Source: Malaysian Statistics Department.

Nearly 70% of the raw food materials used by the food processing industry are imported and imports grew from US\$1.05 billion in 1999 to US\$1.54 billion in 2003. Raw food materials imported into Malaysia are:

- Primary food materials – Agriculture commodities such as wheat and soybean that are processed into semi-processed food materials or finish food products;
- Semi-processed food materials - Partially processed food materials such as starch and whey that are processed further to produce the finished food products; and
- Processed food materials – Finished food products imported in bulk and repacked in Malaysia.

#### Imports of Food Materials for the Food Processing (US\$ Mil)

	1999	2000	2001	2002	2003	Avg. Annual Growth
Primary food materials	523	492	543	615	729	9.1%
Processed and semi-processed	530	518	669	739	806	11.6%
Total	1,053	1,010	1,212	1,354	1,535	10.3%

Source: MITI Report 1999- 2003.

To encourage development of the food processing industry, the government offers various incentives to food manufacturers to encourage investments in the industry. In 2003, Malaysia received US\$289.5 million worth of investments for food manufacturing of which 59% were from local investments and the remaining 41% from foreign investments. Further investments in the food processing industry are expected according to the Malaysian Industrial Development Authority (MIDA).

## 2.2 Market Drivers of Malaysia's Food Processing Industry

Changes in consumer lifestyle and government emphasis encouraging exports of processed foods from Malaysia are the market drivers of the country's food processing industry.

- Malaysia's rising per capita income and increasing urban population has lead consumers to lead a more modern but busy lifestyle. Thus there is a trend towards meals that are convenient to prepare or ready to eat. Consumers are also demanding more variety in their foods, becoming accustomed to international cuisines including western foods, and also healthier foods. This has provided opportunities for food manufacturers in Malaysia to develop and introduce new food products.
- An important trend affecting the local food processing industry is the establishment of new supermarkets and hypermarkets throughout Malaysia. Shopping at these retails outlets is becoming increasingly popular among consumers. These supermarkets and hypermarkets have cold storage facilities to stock and display chilled and frozen foods. This provides opportunities for food manufacturers to develop and market frozen and chilled processed foods.

The Malaysian government has identified the food processing industry as a priority sector for industrial development and increase exports. Malaysia's Ministry of International Trade and Industries (MITI) estimates the global market for *halal* foods (foods suitable for Muslim consumption) at US\$560 billion annually and a potential for exports of processed foods from Malaysia. Already one-third of the foods produced in Malaysia are exported.

## 2.3 Advantages and Challenges for US Exporters

The Malaysian market for raw food materials used in the food processing industry poses both advantages and challenges for US exporters. Local production is only able to supply 30% of the raw food materials used in the food processing industry and the remainder has to be imported. However, US exporters face strong challenges from imports originating from Thailand, China, Australia, and New Zealand.

### Advantages and Challenges for US Exporters

Advantages	Challenges
Malaysia is dependent on imports for nearly 70% of the raw food materials used in food processing and includes agriculture commodities such as wheat, soybean, sugar, and dairies and semi-processed food materials such as malt extracts, whey, starches, and sugar derivatives.	Only <i>halal</i> meat (beef, lamb, and poultry) and their products certified by an approved Islamic institution are allowed to be imported into Malaysia. Australia and New Zealand have a competitive edge since these countries have an established <i>halal</i> food industry catering for the export markets.

**Advantages and Challenges for US Exporters**

Advantages	Challenges
To support the local food processing industry, which is dependent on imports of raw food materials, there are no quota on imports and import duty on many raw food materials.	Usage of genetically modified (GM) foods is permitted but proposed regulations on labeling of foods containing more than 3% GMF material may discourage food manufacturers from purchasing GMF.
The government is encouraging local food manufacturers to expand their exports and take opportunity of the US\$560 billion global <i>halal</i> foods market.	Though Malaysia is dependent on imports for 70% of the raw food materials, US exporters face competition from locally produced raw food materials that are in sufficient supply (e.g. poultry) including substitute products (e.g. palm oil that is substitutable with soybean oil).
Malaysia's moderate to strong economic growth, rising per capita income, and increasing urbanization of the country's population is creating demand for processed foods.	Food manufacturers are price sensitive and even European and US food manufacturers operating in Malaysia may source from countries that are able to supply raw food materials at competitive prices.
Major food manufacturers compete by developing and marketing new food products into the market creating demand for new raw food materials including ingredients.	Strong price competition from exporters from China, Thailand, Australia, and New Zealand who are also major suppliers of raw food materials to Malaysia.
There are nearly 3,200 food manufacturers in Malaysia comprising both multinational (including US) and local companies producing a variety of local, other Asian, and western foods.	Raw food materials from China, Thailand, Australia, and New Zealand have shorter delivery times and lower freight costs than from the US due to their closeness to Malaysia.

Source: Trade sources.

### 3. Road Map for Market Entry

#### 3.1 Entry Strategy for US Food Exporter

The market for import of raw food materials into Malaysia is open to foreign competition. Thus it is important for US exporters to understand their major competitors and requirements of the food manufacturers before adopting a market entry strategy. US exporters should consider the price sensitiveness of their customers, their product requirements, purchasing policies, and expected purchase volumes.

#### Key Entry Strategies for US Exporters

Strategy	Reasons
Acquire <i>halal</i> certification to cater to the Muslim consumer market.	Muslims account for more than half of Malaysia's population and consume foods that are <i>halal</i> . Furthermore, the government is encouraging local food manufacturers to take advantage of the global market for <i>halal</i> foods.
Emphasize on the competitive advantage of the exporter's products to the food manufacturers.	The Malaysian market is open to imports from any country and major competitors include Thailand, China, Australia, and New Zealand. Thus it is beneficial for US exporters to explain the advantages of using their products such as price competitiveness, uniqueness, sufficient supplies, reliable delivery, technical support, and customer service.
Ensure quality of the raw food materials to instill manufacturers' confidence.	Though food manufacturers are price sensitive towards purchases, they are also sensitive towards consumer demand for more quality foods. Furthermore, manufacturers have to ensure the quality of their food products for their export markets.
Market and promote to increase awareness among food manufacturers.	Many Malaysian food manufacturers are unaware of many semi-processed and processed raw food materials available from the US. Thus marketing and promotional activities increases awareness of an exporter's products and includes participating in events such as trade exhibitions and advertising in the local trade directories.
Establish an efficient distribution network to maximize market penetration.	US exporters should establish the most efficient distribution channel for their products depending on the volume, frequency of purchase, purchasing policy, and location of their customers. Thus single or multiple distribution channels may be required such as direct sales, through importers, and/or agents.

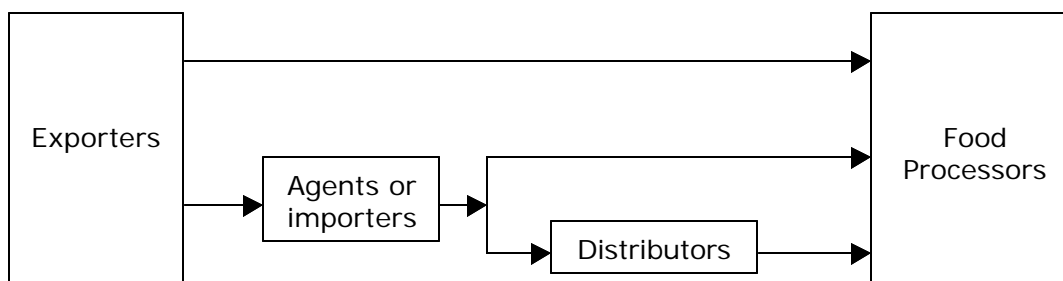
#### 3.2 Market Structure

Raw food materials are imported either directly by the food manufacturers, through importers, or agents. Generally, products purchased in high volume are imported directly by the food manufacturers while those purchased in smaller volume are imported through importers or agents. Importers and agents in turn sell directly to the food manufacturers or through distributors. Distributors are generally used to supply to smaller food manufacturers often located far away from the importers' or agents' business operations. Local producers of



raw food materials generally sell directly to the food manufacturers but will use distributors to supply to the smaller food manufacturers.

### Distribution Channel for Imported Food Ingredients



### 3.3 Regulation on Imported Foods

There are no government quotas for any country on import of raw food materials into Malaysia. Clearance at the port of entry is generally efficient provided all regulatory requirements on imports including safety of the food materials are met. Currently, there is no government regulation banning the use of genetically modified (GM) foods.

#### Important Import Regulations

Issues	Requirements
Meat and seafood products	<ul style="list-style-type: none"> <li>■ Exporters are required to conduct tests on their meat and seafood products to ensure they are free from hazardous substances. FSIS certification is accepted by GOM.</li> <li>■ All imported meat and seafood products are required to have health certificates.</li> <li>■ Meat and meat products require an import license and must be free from anthrax and bovine spongiform encephalopathy. Import licenses are sometimes used to restrict imports of certain products depending on domestic supply.</li> </ul>
<i>Halal</i> meat and meat products	<ul style="list-style-type: none"> <li>■ Imported <i>halal</i> meat and meat products (excluding pork) must be from a plant approved by the Malaysian Islamic Development Council and certified by a recognized Islamic institution based in the country of export.</li> </ul>
Food additives	<ul style="list-style-type: none"> <li>■ Maximum level of food additives (preservatives, dyes, flavoring substances, antioxidants, and food conditioners) are imposed on finished food products (processed food products meant for repacking).</li> </ul>

Source: Ministry of Health.

### 3.4 Sector Profile

Increasing consumer demand for more processed foods coupled with Malaysia's emphasis to increase exports of processed food has led towards the development of Malaysia's food processing industry. Traditional forms of cooking require time to prepare. Increasing consumer income coupled with a modern and busy lifestyle has created a demand for more processed foods that are convenient to prepare. Major foods consumed:

- **Dairy Products.** Dairy products are traditionally not part of the Malaysian diet, except sweetened condensed milk commonly used in hot beverages. Dairy products now consumed include milk drinks, ice cream, yogurt, infant formulas, and milk powder.
- **Bakery Products.** Consumption of bread and pastries are becoming popular since they are conveniently consumed and widely available in the retail outlets. Consumer health consciousness has encouraged food manufacturers to produce bakery products promoted as healthier foods such as those having high fiber, low fat, and high calcium.
- **Meat and Seafood Products.** Beef and poultry products include burgers, mincemeat, hot dogs, sausages, and salami. Poultry meat is also used for frozen breaded chicken parts while canned beef and chicken are pre-cooked in curry and ready to eat. Canned fish includes mackerel in tomato sauce and tuna in oil or brine. Frozen and chilled seafood products include fish cakes, fish balls, and breaded products.
- **Confectionaries and Snack Foods.** Nearly two-thirds of the confectionaries produced are sugar base while the remaining is chocolate base. Savory snacks include potato chips, corn chips, puffballs, and extruded snacks. Popular flavors include cheese, corn, tomato, BBQ, spicy, and onion. Common nuts used in snack foods are peanuts followed by almond while fruit snacks are dried fruit preserves.
- **Soft Drinks.** Carbonated beverages produced by local bottlers are mainly brands from Coca-Cola and Pepsi-Cola. Popular non-carbonated soft drinks include soymilk, fruit juices, chocolate, coffee, tea, and herbal tea. Popular fruit juices include orange, apple, mango, guava, and pineapple.
- **Sauces.** Soy and oyster sauce are an important part of Malaysian cooking and nearly all Malaysian homes have a bottle of soy sauce. A bottle of chili sauce and ketchup is also common in many Malaysian homes and often dipped in dumplings, meat, and seafood. Salad dressings such as mayonnaise and Thousand Islands are also becoming popular.
- **Oil and Fats.** Margarines and cooking oils produced in Malaysia are mainly palm oil base since Malaysia is the world's largest producer of palm oil. However, manufacturers also produce margarines and cooking oils processed from soybean, canola, and sunflower for the more health conscious consumers.

**Canned Fruits & Vegetables.** The local industry for processed fruits and vegetables is limited since Malaysians have a preference for fresh rather than processed fruits and vegetables. Locally processed fruits and vegetables are mostly canned pineapples, baked beans, and peas.

**Food Processing Output ('000 tons except where mentioned)**

<b>Food Product</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
Refined sugar	1,225.8	1,234.1	1,210.4	1,408.8	1,424.1
Wheat flour	760.7	706.4	664.0	664.3	701.0
Carbonated drinks (mil liters)	196.1	223.2	291.4	227.1	365.6
Non-carbonated drinks (mil liters)	155.3	179.9	210.2	213.1	159.1
Sweetened condensed milk	165.1	156.8	149.9	137.9	143.6
Bread	115.4	121.7	127.4	132.5	138.1
Biscuits/cookies	122.4	117.9	112.1	114.9	124.3
Beer (mil liters)	111.1	112.5	109.3	113.1	115.6
Milk drinks (mil liters)	75.0	88.7	82.0	91.0	97.6
Blended cooking oil	87.6	68.3	85.8	63.8	60.3
Full cream powdered milk	38.7	48.8	41.2	50.2	43.3
Malt base drinks (hot drinks)	28.1	30.8	33.8	35.3	36.3
Frozen/chilled processed beef	25.2	25.8	28.1	29.5	30.9
Ice cream (mil liters)	26.1	27.4	28.1	28.6	29.2
Frozen/chilled processed seafood	19.7	20.0	20.6	25.2	26.7
Canned fish	16.4	18.2	20.7	21.9	23.3
Savory snacks	19.4	20.3	20.9	21.6	23.0
Frozen shrimps/prawns	18.4	17.6	19.3	20.6	24.4
Margarine	23.9	19.0	17.3	19.7	20.1
Confectionery	18.2	19.4	19.3	19.1	19.2
Canned pineapples	21.2	18.3	15.8	17.5	18.5
Soy Sauce	14.4	14.9	15.2	15.7	16.1
Fermented milk drinks (mil liters)	13.6	14.4	15.1	15.6	16.0
Chili Sauce	12.0	12.4	12.6	13.0	13.2
Ketchup	11.4	11.8	12.0	12.4	12.6
Coffee (hot drinks)	7.4	8.8	10.6	11.2	12.0
Frozen/chilled processed poultry	8.1	8.4	8.5	10.9	11.7
Canned meat	10.4	10.5	10.5	10.5	11.0
Yogurt	6.6	7.1	7.3	7.4	7.7
Oyster Sauce	3.3	3.4	3.5	3.5	3.6
Nuts	2.2	2.4	2.5	2.6	2.6

**Food Processing Output ('000 tons except where mentioned)**

Food Product	1999	2000	2001	2002	2003
Canned beans	1.7	1.7	1.7	1.6	1.6
Fruit snacks	1.2	1.2	1.3	1.4	1.4

Source: Malaysian Statistics Department, Euromonitor, trade sources, and Spire analysis.

Food manufacturers in Malaysia include Malaysian and multinational companies. Multinational companies are often joint investments between foreign and Malaysian investments. Some foreign brands of food products are produced under license by Malaysian companies with the rights to market within specific geographical markets.

**Profile of Major Food Manufacturers**

Company (Foods Produced)	Parent Company Ownership*	Sales in 2003 (US\$ Mil)	End Use Channel	Production Location
Nestle Products Sdn Bhd (Baby food, confectionary, snack foods, bakery products, cereals, dairy products, ice- cream, pasta, noodles, milk, yogurt, beverages, sauces, and soups)	Swiss	699	Retail and HRI	Malaysia (8)
Yeo Hiap Seng Sdn Bhd (Curry, canned fish, jam, condensed milk, instant noodles, sauces, vinegar, and beverages)	Singaporean	107	Retail and HRI	Malaysia (4)
Dutch Lady Milk Industries Bhd (Sweetened condensed milk, milk powder, infant formula, pasteurized & UHT milk, yogurt, and fruit juice)	Netherlands	98	Retail and HRI	Malaysia (1)
F&N CC Beverages Sdn Bhd (Soft drinks including carbonated drinks and juice),		95	Retail and HRI	Malaysia (6)
Premier Milk Sdn Bhd and F&N Foods Sdn (Dairy products including sweetened condensed milk, creamers, and evaporated milk)		93	Retail and HRI	Malaysia (1)
Mamee Double-Decker Bhd (Snacks, dairy products, confectionary, and beverages)	Malaysian	68	Retail	Malaysia (7) China (1) Myanmar (1)

## Profile of Major Food Manufacturers

Company (Foods Produced)	Parent Company Ownership*	Sales in 2003 (US\$ Mil)	End Use Channel	Production Location
Hup Seng Perusahaan Makanan Sdn Bhd (Bakery products including cookies, wafer rolls, crackers, and sandwich cookies)	Malaysian	46	Retail	Malaysia (1)
Apollo Foods Holding Bhd (Chocolate wafers, chocolate peanuts, chocolate biscuits, and nougat)	Malaysian	30	Retail	Malaysia (1)
Mafipro Sdn. Bhd (Spices and canned food – fish, green pepper, vegetable, sauces).	Malaysian	27	Retail	Malaysia (1)
Hunza Consolidated Bhd (Processed frozen seafood including lobster, squid, and shrimps)	Malaysian	25	Retail	Malaysia (3)
Hwa Tai Industries Bhd (Bakery products including cookies, cake rolls, and digestive biscuits)	Malaysian	25	Retail	Malaysia (1)
Yee Lee Edible Oils Sdn. Bhd (Vegetable fats and oils including cooking oil, margarine, and shortening)	Malaysian	23	Retail and HRI	Malaysia (1)
Oriental Food Industries Holding Sdn Bhd (Snack foods including potato chips, rice crackers, cheese balls, crackers, and wafers)	Malaysian	20	Retail	Malaysia (1)
Perfect Food Manufacturing (M) Sdn. Bhd (Bakery products including cookies, crackers, wafers, tarts, and pies)	Malaysian	18	Retail	Malaysia (1)
Khee San Food Industries Sdn Bhd (Confectionaries including hard and soft candies, wafers, chewing gum, and chocolate products)	Malaysian	13	Retail	Malaysia (1)

## Profile of Major Food Manufacturers

Company (Foods Produced)	Parent Company Ownership*	Sales in 2003 (US\$ Mil)	End Use Channel	Production Location
Dewina Food Industries Sdn Bhd (Ready-to-eat meals, ready-to- use cooking sauces/curries, stocks, seasonings, condiments, and spreads)	Malaysian	9	Retail	Malaysia (1)

*Source: Published company information including websites, trade sources, and The Star newspaper. Note: \*Foreign companies operating in Malaysia have Malaysian investments.*

## 4. Competition

### 4.1 Competition Facing US Food Exporters

US exporters face minimal competition from local producers for many raw food materials used in the Malaysian food processing industry. Main reason is the food processing industry is dependent on imports for nearly 70% of the raw food materials used. However, US exporters face stronger competition from exporters in Thailand, China, Australia, and New Zealand. Their products are competitively priced and their closeness to Malaysia compared to the US puts these countries at an advantage in terms of delivery time and freight costs. Furthermore, Australia and New Zealand have an established *halal* food industry geared towards exports to Muslim markets.

### 4.2 Major Products Categories And Competitors' Market Share

#### Major Imports in 2003

Product	Major Supply Sources*	Strengths of Key Supply Countries	Advantages and Disadvantages of Local Suppliers
Oils and fats Import: 8.22 mil tons (US\$348.8 mil)	<ol style="list-style-type: none"> <li>1. Indonesia – 61%</li> <li>2. Philippines – 9%</li> <li>3. Argentina – 9%</li> <li>4. US - &lt;1%</li> </ol>	Indonesia and the Philippines are major suppliers of coconut oil, Indonesia supplier of fats, and Argentina sunflower seed oil.	Malaysia's is the world's largest producer of palm oil and competes directly with soybean oil.
Sugar and sugar derivatives Import: 1.08 mil tons (US\$257.3 mil)	<ol style="list-style-type: none"> <li>1. Australia – 44%</li> <li>2. Thailand – 34%</li> <li>3. Brazil – 10%</li> <li>4. US - &lt;1%</li> </ol>	Australian and Thai exporters target Malaysia since Malaysia is a major regional importer of sugar.	Malaysia's climate limits cultivation of sugarcane and therefore has to depend on imports for two-thirds of its requirements.
Cereal grains (excluding rice and corn) Import: 1.05 mil tons (US\$174.3 mil)	<ol style="list-style-type: none"> <li>1. China – 40%</li> <li>2. Australia – 21%</li> <li>3. India – 12%</li> <li>4. US – 8%</li> </ol>	Wheat is the main import and though imports from Australia and US are similarly priced, Australia's advantage is its closeness to Malaysia while imports from China and India are known for their lower prices.	Malaysia's cultivation of grain crop is limited to rice and the country's climate is unsuitable for cultivating temperate grain crops.

## Major Imports in 2003

Product	Major Supply Sources*	Strengths of Key Supply Countries	Advantages and Disadvantages of Local Suppliers
Soybean Import: 587, 606 tons (US\$170.4 mil)	<ol style="list-style-type: none"> <li>1. US – 40%</li> <li>2. Argentina – 34%</li> <li>3. Canada – 14%</li> </ol>	The US and Canada are traditional suppliers to Malaysia while Argentinean imports are priced lower than the US and Canada.	Malaysia's tropical climate does not favor cultivation of soybean and therefore demand is met by imports.
Cocoa and semi-processed cocoa products Import: 373,438 tons (US\$290.7 mil)	<ol style="list-style-type: none"> <li>1. Indonesia – 94%</li> <li>2. Ghana – 3%</li> <li>3. Ivory Coast – 2%</li> <li>4. US - &lt;1%</li> </ol>	Indonesian cocoa is suitable for blending with Malaysian cocoa and is the nearest supplier while cocoa from Ghana and the Ivory Coast are used to produce premium chocolate products.	Though Malaysia cultivates cocoa on a wide scale, much has to be blended with imported cocoa.
Fresh, chilled, and frozen seafood Import: 315,360 tons (US\$286.5 mil)	<ol style="list-style-type: none"> <li>1. Thailand – 26%</li> <li>2. Indonesia – 20%</li> <li>3. China – 13%</li> <li>4. US – 2%</li> </ol>	Lower priced imports from Thailand, Indonesia, and China and short delivery time due to closeness to Malaysia.	Established fishing industry but have to compete against cheap imports and local fishing is often hindered by the seasonal monsoons.
Dairies Import: 239,659 tons (US\$302.7 mil)	<ol style="list-style-type: none"> <li>1. Thailand – 35%</li> <li>2. Australia – 19%</li> <li>3. New Zealand – 18%</li> <li>4. US – 2%</li> </ol>	Thailand, Australia, and New Zealand are major suppliers due to their closeness to Malaysia coupled with the price competitiveness of their products.	Malaysia is dependent on imports of raw dairy food materials used in food manufacturing since dairy farming is conducted on a limited scale in Malaysia.
Beef and lamb Import: 127,948 tons (US\$234.3 mil)	<ol style="list-style-type: none"> <li>1. India – 40%</li> <li>2. N. Zealand – 16%</li> <li>3. Australia – 15%</li> <li>4. US – 2%</li> </ol>	Indian imports are lower in price than local beef while Australian and New Zealand beef and lamb are a major source of quality <i>halal</i> meat.	Local industry for rearing cattle, lamb, and sheep is small and therefore production is limited.



## Major Imports in 2003

Product	Major Supply Sources*	Strengths of Key Supply Countries	Advantages and Disadvantages of Local Suppliers
Starches and gluten Import: 120,669 tons (US\$32.9 mil)	<ol style="list-style-type: none"> <li>1. Thailand – 48%</li> <li>2. Vietnam – 13%</li> <li>3. China – 11%</li> <li>4. US - &lt;1%</li> </ol>	Large cultivation of tapioca in Thailand and Vietnam provides the raw material to produce competitively priced starch while China provides lower price starch made from wheat.	Malaysia does not cultivate wheat and local cultivation of tapioca is limited to produce sufficient starch for the food processing industry.
Nuts Import: 47,790 tons (US\$20.5 million)	<ol style="list-style-type: none"> <li>1. India – 30%</li> <li>2. China – 29%</li> <li>3. US – 6%</li> </ol>	Groundnuts are the main imports, which India and China supply at competitive prices while US imports are noted for their quality.	Malaysia has limited cultivation of crops used to produce various nuts.
Poultry Import: 39,858 tons (US\$49.1 million)	<ol style="list-style-type: none"> <li>1. Thailand – 38%</li> <li>2. Denmark – 26%</li> <li>3. Holland – 10%</li> <li>4. US – 5%</li> </ol>	Poultry from southern Thailand supplies to Peninsula Malaysia which it shares a land border while Denmark and Holland have been traditional suppliers of frozen <i>halal</i> chicken.	Well established and organized poultry industry managed by large poultry companies.

Source: Malaysian Statistics Department and trade sources. Note: \*US included if not among the top three major suppliers.

## 5. Best Products Prospects

The best product prospects are developed from a broad base study of the Malaysian market and should not be construed as detailed market studies of each segment. US exporters who are interested to develop viable markets should consider conducting a detailed market study for the products they represent.

### 5.1 Products Having Good Sales Potential

#### Products Having Good Sales Potential

Product Category (HS Code)	2003 Market	2003 Import	Import Tariff Rate	Key Constraints Over Market Developments	Market Attractiveness for US Exporters
Fish (HS 0304)	1.42 mil tons	269,588 tons	None	Main catch are for fishes from the tropical seas including local catch and imports mainly from Thailand and Indonesia. Consumers generally prefer fresh or chilled unprocessed seafood for cooking.	Seafood manufacturers are exporting various processed frozen seafood products to "high-end markets" such as cod and flatfish.
Milk cream and powder concentrate (HS 0402)	198,742 tons	198,742 tons	None	Thailand, New Zealand, and Australia produces and exports milk concentrates to countries with limited milk production.	Milk production in Malaysia is limited and has to depend on imports of milk concentrates to produce various dairy foods.
Starches (HS 1108)	140,000 tons	119,544 tons	None	Starch made from tapioca and rice is imported from Thailand and Vietnam and is lower priced than starch made from wheat.	Malaysia depends on imported starch since local production is limited.

## Products Having Good Sales Potential

Product Category (HS Code)	2003 Market	2003 Import	Import Tariff Rate	Key Constraints Over Market Developments	Market Attractiveness for US Exporters
Beef and lamb (HS 1601, 1602, and 0202)	155,000 tons	113,684 tons	None	Meat must be <i>halal</i> and concerns over bovine spongiform encephalopathy from imported beef.  Competition from low price Indian imports and food manufacturers are more familiar with imports from Australia and New Zealand. Australia is also a major supplier of beef for beef patties used for fast food restaurants in Malaysia.	Malaysia's production of beef and lamb is limited and mainly for the retail and HRI sector.  Malaysian manufacturers are still at the infancy stage of producing various processed <i>halal</i> meat products for the export markets.
Shellfish and crustaceans (HS 0306 and 0307)	370,000 tons	45,772 tons	0-20% import duty and for some 5% sales tax.	Availability from local catch and a local industry breeding shellfish.  Consumers generally prefer fresh or chilled unprocessed seafood for cooking.	Seafood manufacturers are exporting various processed frozen seafood products to "high-end markets".
Poultry (HS 0207)	1.23 mil tons	39,858 tons	None	Imported poultry meat and meat products must be <i>halal</i> . Well developed local poultry farming industry and able to meet industry demands.	Imported poultry offal is combined with local poultry meat as an alternative to beef and pork to produce frozen poultry products such as patties, minced meat, and sausages.

## Products Having Good Sales Potential

Product Category (HS Code)	2003 Market	2003 Import	Import Tariff Rate	Key Constraints Over Market Developments	Market Attractiveness for US Exporters
Malt extracts (HS 1901)	58,282 tons	58,282 tons	No import duty and for some 5% sales tax.	Singapore supplies nearly half of the malt extracts to Malaysia from its re-export trade while Indonesia supplies extracts containing cocoa.	Malaysia does not produce malt extracts for use in food processing.
Groundnuts (HS 1202)	40,000 tons	37,929 tons	No import duty but 5% sales tax.	Low price imports from India, China, and Indonesia and their closeness to Malaysia shortens delivery time and freight costs.	Local cultivation of groundnuts has declined and therefore must depend on imports.
Soybean oil (HS 1507)	33,116 tons	33,116 tons	5% import duty and 5% sales tax	Palm oil competes directly against soybean oil and Malaysia is the world's largest producer. Furthermore, imports of soybean oil from China and Argentina are lower priced than the US.	Malaysia does not produce soybean oil and the US supplies nearly half of Malaysia's import since US soybean oil are well known for its quality.
Whey (HS 0404)	20,005 tons	20,005 tons	None	Australia, France, and Finland produce and export premium grade whey suitable for use in infant formulas and nutritional food products.	Malaysia does not have a cheese making industry to produce whey a byproduct of curdling milk.

Source: Malaysian Statistics Department, Euromonitor, trade sources, Spire analysis, and Malaysian Customs Tariff on Import/Export.

## 5.2 Potential Products Not Present In Significant Quantities

## Products Not Present in Significant Quantities

Product Category	2003 Market	2003 Import	Import Tariff Rate	Key Constraints Over Market Developments	Market Attractiveness for US Exporters
Sugar derivatives and syrup (HS 1702)	N/A	16,413 tons	No import duty but 5% sales tax	Thailand is the leading supplier of competitively priced industrial grade sugar derivatives and syrup sourced from its large cultivation of sugar cane and corn.	Malaysia is dependent on imports since cultivation of sugarcane and corn is limited. The US is Malaysia's second largest supplier.
Corn (not for animal feed) (HS 1005)	20,300 tons	13,844 tons	None	Thailand, China, and Indonesia supplies more than 90% of Malaysia's import due to their low pricing and closeness to Malaysia.	Corn is cultivated on a small scale by local villagers destined for the retail sector and therefore industry must depend on imports.
Yeast including autolyzed yeast (HS 2102)	10,500 tons	9,951 tons	None	Imports from China dominate the market in Malaysia.	Production is limited in Malaysia since cheaper imports are available.
Brazil nuts, walnut, cashew, pistachio, and almonds (HS 0801)	9,862 tons	9,862 tons	No import duty but 5% sales tax.	Limited to use in snack foods and confectionary.	No commercial cultivation in Malaysia and therefore dependent on imports.
Sunflower and safflower oil (HS 1512)	8,319 tons	8,319 tons	No import duty but for some 5% sales tax.	Competition not only from palm oil but also soybean oil since sunflower oil is higher priced.	Malaysia does not produce sunflower and safflower oil and sunflower oil is promoted as a healthier choice.

## Products Not Present in Significant Quantities

Product Category	2003 Market	2003 Import	Import Tariff Rate	Key Constraints Over Market Developments	Market Attractiveness for US Exporters
Extracts of coffee or tea (HS 2101)	5,823 tons	5,823 tons	0-5% import duty.	Indonesia and Brazil are world producers of coffee beans while India tea leaves and therefore able to export extracts at competitive prices.	Cultivation of tea and coffee in Malaysia is limited and mainly to produce dried tea leaves and coffee powder to be used directly for hot drinks.
Cereals (rye, barley, sorghum, oats, and millet) (HS 1002 to 1007, and 1008)	4,602 tons	4,602 tons	None	China followed by Australia and India are traditional suppliers to Malaysia.	These cereal crops are from the temperate climate and therefore not cultivated in Malaysia.
Ice cream powder (HS 210690)	2,877 tons	2,877 tons	None	Exporters in the Netherlands have ties with European multinational food manufacturers who manufacture ice cream in Malaysia.	Malaysia's dairy farming industry is limited to produce ice cream powder.
Protein concentrates (HS 210610)	N/A	1,720 tons	None	Manufacturers prefer not to use protein concentrates of animal origin that are not <i>halal</i> .	The US supplies nearly two-thirds of the protein concentrates to Malaysia.

Source: Malaysian Statistics Department, Euromonitor, trade sources, Spire analysis, and Malaysian Customs Tariff on Import/Export.

### 5.3 Products Facing Significant Barriers

#### Products Facing Significant Barriers

Product Category	2003 Market Size	2003 Import	Import Tariff Rate	Key Constraints Over Market Developments	Market Attractiveness for US Exporters
Sugar (HS 1701)	2.76 mil tons	1.06 mil tons	5% import duty but no sales tax	Imports are subjected to quotas with import licenses issued to sugar millers and refiners. Malaysia has long term arrangements to import sugar from Australia, Thailand, and Fiji.	Malaysia's exports of processed foods are increasing demand for sugar.

Source: Malaysian Statistics Department, trade sources, Spire analysis, and Malaysian Customs Tariff on Import/Export.

END OF REPORT