



FOOD AND BEVERAGES SECTOR BRIEF

# MALAYSIA



# Country Overview

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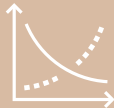




Malaysia is a democratic parliamentary monarchy, consisting of 13 states and 3 federal territories in 2 distinct regions: Peninsular Malaysia and East Malaysia on the island of Borneo. The national capital is Kuala Lumpur, while the federal government seat is in Putrajaya.

In the last 50 years, Malaysia achieved one of the largest economic growths in the world, with an average 6.5% GDP growth per annum. Malaysia's economy has transformed from being agricultural and mining dependent in the early 1970s, to an upper middle-income country, with diversification across its economic sectors with emphasis on modern industrial structures.

The government has been swift in its response to the adverse effects of the COVID-19 pandemic, and in order to mitigate and cushion the negative economic impact, has launched various economic stimulus and recovery packages amounting to RM295 billion or 20% of GDP. For 2021, GDP growth is projected to rebound to between 5.5–8%, in line with expected improvement in the global GDP. Despite the pandemic, neither food manufacturing nor international trade are facing the worst scenario.



Indicator	 Population (million)	 GDP per capita (USD)	 Economic growth (GDP annual variation, %)	 Inflation rate (%)	 Trade balance (billion USD)	 Exports (billion USD)	 Imports (billion USD)
2015	31.2	9,663	5.0	2.7	22	209	187
2016	31.6	9,523	4.2	1.8	20	201	181
2017	32.0	9,965	5.8	3.5	22	223	201
2018	32.4	11,077	4.8	0.2	24	246	222
2019	32.6	11,213	4.3	-1.4	27	238	211

## Sector Overview

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Malaysia, over the last decade, has earned a reputation as a food haven. Due to its food and beverages sector developing rapidly, growing in volume, quality and diversity, a well-performing food manufacturing and a food service segment has emerged. Food processing now accounts for approximately 10% of the country's manufacturing output, making this sector increasingly important in the national economy. The Malaysian government believes that food and beverages is a strategic field of development.

The food processing industry is predominantly Malaysian-owned, and micro-, small- and medium sized companies play a determining role in most segments, with high potential to innovate and grow. According to the Malaysian Investment Development Authority (MIDA), there are more than 8,000 establishments within the local food processing industry, most of them in the SME range. The largest players are multinationals, such as Nestle with seven production locations in the country, Yeo Hiap Seng, Fraser & Neave and Dutch Lady.

The natural export market for Malaysian companies is the ASEAN region, and the government of Malaysia, as well as the trade promotion organisations put a lot of effort into preparing local SMEs to cope with the challenge of internationalisation.

## Food processing and most important products

The country has a very colourful cuisine due to its historical and ethnical background, and the food sector corresponds to this diversity. The most important segments of food processing are the following:

### **Meat processing**

Malaysia is among the top consumers of poultry meat worldwide, with more than 50 kg per capita annual consumption. The second most preferred meat is beef, but people eat only 6.5 kg per annum. With some regionally relevant companies in the poultry production, such as Ayamas, CP, CAB Cakaran Corp and Leong Hup International, Malaysia can be a net exporter of poultry. Regarding beef and mutton, the country is a net importer, with less local processing capacity than in the poultry segment. Beef is mainly imported from India, in the lower price segment, and from New Zealand and Australia, in higher-end market and HORECA segments.

### **Dairy**

The main products of the Malaysian dairy industry are milk powder and sweetened condensed milk, which are both exported, pasteurised liquid milk, ice cream, yoghurt, and other fermented products. Most of the industry is dependent on imports of fresh milk, mainly from Australia and New Zealand.

### **Fish and seafood**

This is an export-oriented segment of the food industry in Malaysia; main products are frozen and canned prawns, fish and surimi products. In 2018, the segment exported approximately US\$ 700 million worth of goods.

### **Chocolate and sugar confectionaries**

Malaysia is the eighth largest cocoa processing country worldwide, and a net exporter of processed cocoa products, including chocolates. Export is diversified and Malaysian products reach more than 90 countries. The cocoa grinding capacity in 2018 was around 250,000 tonnes, which supplies raw material for downstream processing.

### **Cereal products and flour-based products**

This subsector is well established in Malaysia, despite being very much dependent on imported raw materials. The main products for export are biscuits, bakery items and noodles, snacks and frozen pastries.

### **Pepper and pepper products**

Pepper and pepper products are an important part of Malaysia's food export, with speciality pepper, processed products like spice mixes and seasonings being the most sought-after goods.

### **Fruits and vegetables**

As Malaysia is located in the equatorial climate zone, it offers a wide variety of fruits, which are used for downstream processing including as purees, juices, snacks, pickles, and jams, which are made of pineapple, rambutan, mango, roselle, durian, soursop, jackfruit. Vegetables are mostly eaten fresh, or as sauces and pickles.

### **Palm-oil**

The largest exporter, and second-largest producer worldwide, Malaysia is trading with China, India, Pakistan, and the EU. It is not only the refined, bleached and deodorised (RBD) palm oil that is supplied, but other processed products also create market opportunities for Malaysian companies for palm olein and stearin, cocoa butter substitutes, margarines. Although there is a global green campaign against the usage of palm oil, 75% of the fat used for cooking in China and India is Malaysian or Indonesian refined palm oil.

### **Beverages**

From 2015 to 2018, beverages production grew by 23% in Malaysia, thanks to the increasing demand for natural fruit juices, and other fruit-based drinks. Although Malaysia is an Islamic country, beer is produced in the country, and the import wine market is growing.

## Halal industry

The Malaysian government has set the goal of becoming the global hub for the halal food industry. Malaysia's Muslim majority, and the already booming local halal industry could serve as a base for this strategic goal. The global halal market is estimated to worth US\$ 2.3 trillion. The Malaysian food industry is trying to provide – besides processing – branding, marketing, and trading services and market access to investors in the halal segment. The concept and regulations of halal is widely associated with high-quality, cleanliness and sanitation, so it can be a choice for even the non-religious.

The Department of Islamic Development Malaysia (JAKIM) is the organisation responsible for certification. Most important certifications can be found on [www.islam.gov.my](http://www.islam.gov.my), such as MS 1500:2009 on the Halal Food Production, Preparation, Handling and Storage, and MS 2565:2014 on Halal Packaging general guidelines.

Except for pork, all meat products should be halal certified for import, which in practice can be seen as a non-tariff measure for foreign exporters. JAKIM requires a credible foreign halal certification, issued by a body that complies with the Malaysian procedures and guidelines. The scope of requirements include raw materials and ingredients, processing, equipment and processing aids, hygiene and sanitation, workers, packaging and storage. Even though it is not a quick and easy process, it is worth applying for a Malaysian halal certification, as Malaysia's Halal logo is highly respected, not only locally, but also by the global Muslim food market, and associated with high level of technical and health standards.

## Food Service Industry

There are nearly 2000 hotels and resorts registered in Malaysia, with more than 200,000 rooms available. The country has an extremely wide variety of dining establishments, from full-service restaurants to street-food stalls and hawker centres. Rapid urbanisation and more women in the workplaces have changed the eating habits and boosted the food service sector, with consumers seeking convenience through dining outside the home. Dining out is therefore part of the Malaysian identity, and a common habit for all social classes. Most restaurants provide Asian cuisine, and while there is a slight Chinese domination in the mid- and high-end segments, Malay, Indian, Japanese, and Thai restaurants can be easily found throughout the country.



# Regulations

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## General regulations

The Malaysian legal environment is generally based on the English common law system, but acts and other pieces of legislation describe the most important areas of regulation. Food and food safety are certainly well regulated, with the Food Act 1983 being the core of the legal system, with more rules in Food Regulations 1985 and Food Hygiene Regulations 2009. Food manufacturers, as well as traders should be aware of these legal instruments. Some important aspects of the food regulations, especially for traders include labelling:

- Any food contained in a package must bear a label containing all the particulars required under Food Regulations 1985.
- If the package bears a label containing anything that is prohibited, the preparation or advertising for sale of this food is not allowed.
- In case the food was prepared, produced, or packaged in Malaysia, the label should be in Bahasa Malaysia, while imported food labels shall be in Bahasa or English - in practice, this means it only needs to be in English.
- Where the food contains beef or pork, or its derivatives, or lard, a statement should be in the form of "CONTAINS ....".
- Where the food contains added alcohol, a statement as to the presence of alcohol in that food, in capital bold-faced lettering of a non-serif character in the form of "CONTAINS ALCOHOL".
- Where the food contains food additives, a statement as to the presence of such should be present on the labelling.
- A statement of the minimum net weight or volume or number of the content should be on the package.
- In the case of imported food, the name and business address of the manufacturer, or the agent of any of them, and the name and business address of the importer in Malaysia and the name of the country of origin of the food should be on the label.
- In the case that food and food ingredients are composed of, or contain genetically modified organisms, the words "genetically modified" shall appear on the label.
- Only food additives permitted by and which comply with the standards prescribed in the Regulations are allowed; food additive includes any preservative, colouring substance, flavouring enhancer, antioxidant, and food conditioner, but does not include added nutrient, incidental constituent or salt.



## Tariffs

Malaysia uses the Customs Duties Order to classify imported goods. Customs Duties Order are 10-digit numbers and applicable tariff rates, and other regulations can be found by using this code: <http://tariff.customs.gov.my>. Customs Duties Order are used for ASEAN and non-ASEAN transactions. Malaysia applies an average 6.1% tariff - most of the cases are between 0 and 10%, following ad valorem rates. The actual payable duty or tariff is based on the assessed value of the item, not the price in the contract between the trading parties. There are some categories, especially alcohol, wine, poultry and port, for which Malaysia charges extremely high specific duties, either for religious reasons, or to protect local production.

Malaysia has signed several free trade agreements bilaterally, with countries like Pakistan, Turkey and Chile, and as a member of ASEAN, regional FTAs are applicable for traders from Australia, China, India, Japan and Korea. In order to benefit from these agreements, traders must provide a Certificate of Origin (PCO). To apply for a PCO, traders must go through Dagang Net, Malaysia's single window clearing system. Useful information on the ePCO and Dagang Net can be found [here](#).

In 2018, the former Goods and Service Tax (GST) was replaced by Sales and Service Tax (SST), which is chargeable at the rate of 5-10% or other specific rate on imported taxable goods.

The Royal Malaysian Customs Department (RMCD) can be contacted via [www.customs.gov.my/en](http://www.customs.gov.my/en) or by e-mail [ccc@customs.gov.my](mailto:ccc@customs.gov.my)

## Non-Tariff Measures

As Malaysia's food sector is import intensive, non-tariff measures regulating trade are a commonly used instrument by the Malaysian government. The most often used NTMs are quality-based measures such as technical barriers to trade, and sanitary and phytosanitary measures.

Specific NTM is the import regulation for meat-based products, including poultry, that all must be halal certified by the recognised Foreign Halal Certification Bodies. Also, the production plants must be inspected and approved also by JAKIM and the Department of Veterinary Services (DVS), which shall be in compliance with the Malaysian Protocol for Halal Meat and Poultry Productions and the relevant standard MS 1500:2009. Non-tariff measure regulations can be found in the Malaysia National Trade Repository.



## Food Import

Malaysia is becoming more and more dependent on food imports, and the government recently, even before the pandemic, made several strategic statements that the country should focus on self-sufficiency in more products. In terms of many staples, including rice and most meat products, only imports can fulfil domestic demand. Food imports usually account around 8-10% of the total imports.

The main sourcing countries are Brazil, China, Indonesia, New Zealand, Australia, Thailand, USA, Netherlands and even Ireland is part of the top 10. This list viewed over a longer time frame shows the growing importance of intra-ASEAN trade in food products.

The most important products imported to Malaysia are processed seafood, cereals and flour preparations, processed meat, dairy products, margarine and shortening, non-alcoholic beverages, alcoholic beverages, preserved fruits and vegetables, and sugar and confectionary.

## Sales Channels

The majority of Malaysian consumers are price conscious, tend to choose traditional food items and are becoming more health conscious. In the last 5 years, there was a removal from subsidies from edible oils, sugar, and flour, so the average cost of living increased.

Traditional and modern food retailers cohabit the Malaysian food and beverages market. As could be clearly seen in the first days of the lockdown in March 2020, people queued in their accustomed wet markets, but on the same day they could choose from the abundant online groceries and food delivery services.

Rapid urbanisation, and the growing wealthier middle-class has changed consumption behaviour in Malaysia. As society became more globally connected, the demand for imported food items grew at a fast pace. Supermarkets and hypermarkets are rising quickly, but small retailers can survive in rural areas and as a convenience option in a country where stockpiling and planned shopping is not practiced.

The largest retail chains are Giant, Jaya Jusco, Tesco and Carrefour, while other chains with smaller shops and limited product range are also popular like 7-Eleven, 24 Happy Mart. The smaller shops are usually open 24/24, seven days a week. Both types of retail chains are connected to local food distributors, and usually buy a wide assortment of imported products, often from different countries. More information can be found at the Malaysia Retailer Association's website.

Some major supermarket chains may buy products directly from the supplier to minimise costs, and usually only for large volumes. The 2nd tier chains, and local convenience stores are nearly exclusively buying through importers or distributors, as they lack warehousing and logistic capacities. Most food service companies, hotels, restaurants, and fast-food operators also prefer not to import directly.

The Malaysian market is more mature in terms of e-commerce, than any other ASEAN countries except Singapore, and the market volume is expected to grow to more than US\$ 2,600 million by 2022. The annual growth rate was 17,6% from 2015 to 2018. The Malaysian population has extremely high rates of mobile cellular penetration, and smartphones are the most common device to access the internet. According to the Malaysian Communications and Multimedia Commission, 75% of consumers buy locally only. Cross-border online shopping is mainly from the USA, China, Hong Kong and Singapore.

## Business Networking

There is a simple method for foreign exporters to enter the Malaysian market.

Firstly, to analyse market opportunities, prices, and applicable regulations, then participate in regional trade shows, missions and fairs to gain personal contacts and experience, develop links to distributors, local food and beverages manufacturers, and only after these steps is it advisable to appoint a local distributor as a representative. Marketing and promotion would follow this essential process.

A successful market entry should focus on finding the most competent local distributor or other business partner. The distributor can be channelled into one or several retail chains, or in the HORECA sector. It is very unlikely that a foreign company can establish a sustainable business operation without a distributor, or investing large amount of capital into establishing a Malaysian company branch. Distributors usually ask for cooperation in the promotion efforts at the market entry phase, that can be solved by providing free items for tasting and other marketing events. Online marketing campaigns and direct cash incentives are often required from the importer.

Establishing a business network in Malaysia is not difficult, though requires time and personal involvement. Businessmen follow the Chinese way of building partnerships, using personal meetings, and mutually beneficial agreements, and joint marketing efforts should be negotiated. There are several channels where the first contacts can be made:

- MATRADE: This government body is the official trade promotion agency in Malaysia ([www.matrade.gov.my](http://www.matrade.gov.my)), and offers one of the best services in the ASEAN region. On their website there is a Malaysia Product Directory and Services Directory, and resident advisors can organise personal b2b meetings with their clients. MATRADE also hosts trade fairs, such as MIHAS (Malaysia International Halal Showcase, the largest fair of halal products) held yearly in Kuala Lumpur.
- Chambers of Commerce and Industry: In Malaysia, each ethnic group (Malays, Indians and Chinese) has its own chamber of commerce:
  - The Associated Chinese Chamber of Commerce and Industry (ACCCIM) prides itself on the largest number of members, 600.000 different sized companies are involved in their activities ([www.accim.org.my](http://www.accim.org.my)).
  - The Malay Chamber of Commerce Malaysia, (Dewan Perniaga) besides traditional services, like issuing certificates of origin, offers business matchmaking services and organises overseas trade missions ([www.dpmm.org.my](http://www.dpmm.org.my)).
  - The Malaysian Associated Indian Chamber of Commerce and Industry (MAICCI) is the least influential umbrella organisation, but the otherwise closed Indian business community would appreciate foreign traders who turn to MAICCI ([www.maicci.org.my](http://www.maicci.org.my)).
- The largest F&B trade fair would have been Food and Hotel Malaysia this year, now planned to postpone it to September, 2021. [www.foodandhotel.com](http://www.foodandhotel.com)

# Recommendations and Trends



Post-COVID-19 pandemic, Malaysia's food and beverage industry is expected to continue on its expected growth trajectory:

- The COVID-19 pandemic has altered previous trends and consumer behaviour:
  - Consumers are stockpiling certain basic items such as flour, rice and canned fish
  - Consumers are choosing products with long shelf-life products and frozen products
  - Luxury food sales is decreasing
  - Domestically produced goods are chosen over imported goods.
  - Imported goods are chosen less times when domestic substitution is available
- Malaysian consumers are starting to shift preference to smaller convenience stores instead of large hypermarkets, mainly to reduce time spent on grocery shopping.
- Food delivery and other food services will grow and become more popular, especially among the younger generations. It is not a new trend caused by COVID-19; the volume of this segment has grown by a two-digit percentage per annum since 2015.
- It is expected that the Malaysian government will actively subsidise domestic manufacturing in forms of direct cash incentives to investments, tax holidays and promotion campaigns targeting consumers.
- There are two important segments of food production, where global trends will not change post-COVID-19. Import and export of both health and functional foods, including low calorie, nutrient/fibre enriched products, fruit and herbal juices will grow. New brands, using Malaysia's traditional herbs and resources, are being developed for the ASEAN and global markets. The convenience food segment is focusing on food that can be prepared in a minute, locally; this includes frozen fish and chicken, instant soups, and powered juices. As Malaysia is in an excellent position to produce ethnic recipes for nearly all Asian countries, and has the technological capability, this segment has the potential to become a successful export branch.
- Malaysia already occupies a strong position on the field of food ingredients, such as flavours, additives, colouring, seasoning and palm-oil based products. Malaysian companies are present on the most developed markets in the world, from the USA to Japan, and it can be expected that the government will subsidise this subsector to gain further export opportunities.

In the next decade, Malaysia's food and beverages sector will continue to evolve, innovative new products will arise and new segments, including functional and convenience food, and food ingredients, will be developed further.