

## Country Market Profile: Malaysia

Euromonitor reports that Malaysia's economy contracted in 2020, due to the COVID-19 pandemic, which led to supply and demand shocks, and a drop in oil prices. The economy is projected to bounce back over 2021-2022, driven by strong fiscal and monetary support, recovering global demand, and the easing of containment measures. Sound economic policies and a focus on high value-added activities will help to maintain sustainable economic growth in the long term, but weak productivity growth and political instability pose risks. The Gross Domestic Product (GDP) declined 5.6% in 2020 and is expected to grow 5.2% in 2021.

- Malaysia's economy is projected to expand by an average annual real rate of 3.9% over 2021-2040, supported by macroeconomic stimulus packages and the economy's shift towards high value-added activities.
- Inflation declined sharply over 2020, but is projected to increase gradually and settle around 2.5% through to 2025.
- Exports are projected to pick up over the medium term, supported by recovering domestic activity and external demand from major trading partners, including China, Singapore and the U.S.
- Foreign investment is set to recover gradually over the medium term, driven by business-friendly regulations and generous incentive packages aimed to attract investment in the hi-tech and knowledge-intensive sectors.
- Public debt soared from 57.2% in 2019 to 67.6% of GDP in 2020 and is anticipated to remain at high levels over 2021-2022, due to fiscal stimulus measures.

Malaysia is one of the most open economies in the world and is highly dependent on international trade. Openness to trade and investment plays a significant role in employment creation and income growth. As Malaysia shifts towards higher value-added activities, it aims to become a leading exporter of electrical and electronic products and components.

In November 2020, Malaysia signed the Regional Comprehensive Economic Partnership (RCEP), the world's largest trade agreement, together with other nine Southeast Asian countries, China, Japan, South Korea, Australia and New Zealand, generating nearly a third of global GDP. The pact is anticipated to enhance intra-regional trade and investment, strengthen regional value chains, as well as promote transparency and harmonization of technical regulations and standards. Additionally, Malaysia and the United Kingdom (U.K.) set up a Joint Committee on Bilateral Trade and Investment Cooperation (JCBTIC) in 2020 to strengthen bilateral trade and investment ties.

During 2021 Malaysia population is projected to increase by 494,259 people and reach 33,140,178 in the beginning of 2022. The natural increase is expected to be positive, as the number of births will exceed the number of deaths by 393,710. If external migration will remain on the previous year level, the population will be increased by 100,549 due to the migration reasons. It means that the number of people who move into Malaysia (to which they are not native) in order to settle there as permanent residents (immigrants)

will prevail over the number of people who leave the country to settle permanently in another country (emigrants).

The USDA Office of Agricultural Affairs, OAA, in Kuala Lumpur, hereinafter referred to as “Post” reports Malaysia is politically and economically stable and open to foreign trade. Transportation, communications, banking and health services are modern and efficient. It is one of the most developed nations in Southeast Asia. Over 60% of its population falls into the middle to upper income group of consumers; with 2019 GDP per capita income of US\$28,364 on a Purchasing Power Parity (PPP) basis.

The Malaysian food and beverage market is very developed and sophisticated and is supplied by both local and imported products. Urban consumers are relatively brand conscious and prefer to shop in stores, which offer convenience and good product selections. Hypermarkets/large format stores are the dominant format in urban/metropolitan areas in Malaysia with about 50% to 60% of urban household shoppers using them as the main outlet for the majority of their packaged groceries. Traditional markets are losing ground, but are still important outlets for fresh fruits and vegetables.

#### Advantages & Challenges for U.S. Exporters

##### Advantages

- U.S. food and agricultural products are trusted and perceived to be of high quality.
- An expanding Malaysian economy and rapidly growing HRI sector require a wide range of imported food products and ingredients.
- Most imported food and beverage products have low import and customs duties (except for alcoholic drinks).
- A large number of U.S.-style restaurants and cafés operate in major cities, enabling new to-market U.S. products easier market acceptance.
- The high-end HRI segment maintains high standards of quality and hygiene, which is very positive for U.S. food and beverage prospects.

##### Challenges

- Many U.S. products need to be halal certified in the Malaysian market, which can be a complicated process.
- Consumer purchasing power may be hindered by rising inflation.
- Australia and New Zealand both have free trade agreements with Malaysia and have a strong presence in the country’s consumer-oriented food and beverage market.
- In addition to Australia and New Zealand, products from China and other ASEAN countries are gaining market share.
- The majority of Malaysian consumers only dine at high-end restaurants for special occasions.

U.S. exports of agricultural products to Malaysia declined 8% to US\$1 billion in 2020. U.S. exports of consumer ready products increased 4% to US\$506.7 million, or about just over half of the agricultural total. Malaysia is the 5th largest market in Southeast Asia for the export of U.S. processed food products, totaling US\$461.4 million in 2020, growth of 5% and a record high. Top 2020 processed food exports from the U.S. to Malaysia included:

- Food Preparations & Ingredients
- Processed/Prepared Dairy Products
- Processed Vegetables & Pulses
- Non-Alcoholic Beverages
- Canned, Dried & Frozen Fruit
- Snack Foods
- Dog & Cat Food
- Fats & Oils

With a Muslim population of over 61%, the demand for halal foods by Malaysian consumers has increased over the years. The expectation of halal standard in food products have extended from meat and meat products to non-meat based products such snacks, confectionery, dairy, bakery, etc. Almost all food and ingredients destined for the food service sector must be certified halal. Halal is fast becoming recognized as a new benchmark for quality, hygiene and safety. Food products and ingredients that have halal certificates have added marketing value in Malaysia. Hence, most retailers, foodservice operators and food manufacturers are inclined to ask for halal certificates for non-meat based food products and ingredients.

#### Retail Sector Highlights:

According to Euromonitor, retail sales in the packaged food market in Malaysia had been estimated to reach nearly US\$7.7 billion in 2020. That represents a growth rate of 24.7% or US\$1.5 billion since 2016. The forecast for growth in this market is also promising. By the year 2025, the retail sales in the packaged food market in Malaysia is expected to reach US\$9.5 billion, a growth rate of 18.7%, or another US\$1.5 billion. High growth categories in the forecast include:

- Pet Food
- Cheese
- Sweet Biscuits, Snack Bars & Fruit Snacks
- Dairy (Ex. Cheese)
- Ice Cream & Frozen Desserts
- Sauces, Dressings & Condiments
- Rice Pasta And Noodles
- Savory Snacks

Post reports that the Malaysia food retail sector continues to rapidly develop, and premium grocery stores and convenience outlets are increasingly popular. The country's

food retailers reached US\$26 billion USD in sales in 2019. Industry analysts report the sector is dominated by five key players: Dairy Farm Group, Mydin Mohamed Holdings, Trendcell, Village Grocer Holdings, and AEON Group.

The Dairy Farm Group is Malaysia's largest food retailer (supermarkets and hypermarkets). Their retail format includes Giant, Cold Storage, Mercato, Jason's Place and G Ekspres supermarkets/hypermarkets. They procure from consolidators, distributors, local importers, and direct from exporters. Mydin Mohamed Holdings is a top retail chain in Malaysia (supermarkets). Their retail format includes Mydin supermarkets. They procure from consolidators, distributors, local importers, and direct from exporters.

Trendcell Sdn Bhd is the fastest growing premium food retailer in Malaysia. Their retail format includes Jaya Grocer supermarkets. They procure from consolidators, distributors, local importers, and direct from exporters. Village Grocer Holdings is a top retail chain in Malaysia (supermarkets). Their retail Format includes Village Grocer and Ben's Independent Grocer supermarkets. They procure from consolidators, distributors, and local importers, and direct from exporters. AEON Group is a top retail chain in Malaysia (supermarkets). Their retail format includes AEON, AEON Big, and AEON MaxValu supermarkets/hypermarkets. Procures from distributors, local importers, and direct from exporters

According to industry analysts, Malaysian consumers are starting to shift preference to smaller convenience stores as opposed to large supermarkets and hypermarkets in order to reduce time spent on grocery shopping. Health and wellness trends will continue to be prevalent in 2020. A growing e-commerce marketplace has resulted in major supermarkets offering online services as a convenience to their customers. Mobile phone payment utilization in the food retail sector is growing. Many Malaysian supermarkets are now offering in-store dining facilities where customers have the option to purchase products from the store and have them prepared and served on-site. Secondary cities in Malaysia have seen growth in demand for imported food & beverage products.

Euromonitor reports that during 2020, the onset of COVID-19 and government measures to halt the spread of the virus led to a significant slowdown in the convenience stores category. Growth dropped from steady double digits to single digits as consumers reduced the frequency of their visits to stores or shopped online. Moreover, due to restrictions on operating hours, convenience stores were no longer allowed to operate 24/7. As such, brands including KK, Family Mart and 7-Eleven lost significant sales and witnessed a considerable reduction in footfall. They are forecast to recover as post pandemic normalization takes effect.

#### Best Prospects:

Best product prospects for U.S. suppliers include those in the market with good sales potential. They are dairy, processed and fresh fruit, seafood, wine and beer, pork and products and beef and products.

## Food Service Sector Highlights:

Post reports that prior to the COVID-19 pandemic, Malaysia's hotel, restaurant and institutional (HRI) industry was one of the fastest growing sectors in the country's economy. However, because of the pandemic and the ensuing movement control orders, the HRI sector has experienced a major drop in business with national hotel occupancy rates in a range of 12%-20% as of July 2020. Despite these headwinds, Malaysian demand for foreign consumer-oriented food and beverage products continues to be robust with imports of these products through July 2020 up 5% (compared to the same time the previous year) at US\$4.1 billion USD.

Although the overall industry is struggling, some components of the HRI sector have recovered quickly. For example, 5-star hotel restaurants in Kuala Lumpur are reportedly now enjoying robust business. According to Euromonitor, due to the government-imposed COVID-19 safe-distancing precautionary measures, third-party food delivery services have dramatically increased in use in urban areas. Malaysia's food service industry is one of the most diverse in the world with a broad range of Asian and Western cuisine widely available in dining formats ranging from food stalls to fullservice restaurants.

A rapidly growing and highly urbanized population is demanding fast and convenient food choices. Additionally, healthy and organic products are becoming very popular. Malaysia's relatively young and educated population traditionally enjoys eating out. To attract local and international Muslim tourism, the majority of hotels in the country (including international chains) maintain halal certification (please see the Halal Certification section below). American chain restaurants dominate Western cuisine options in Malaysia with at least 18 U.S. franchises in operation. Rapid expansion of the HRI industry throughout the country is expected to support steady growth in demand for imported high quality food and beverage products for the next several years.

Post advises that restaurants, bakeries, caterers, and airline food service providers are the main end-users in this sector, and a select number of importers specialize in providing raw materials and foods to these end-users. As the end-users often prefer to source most of their supplies, ingredients, and food from a small number of importers, U.S. exporters wishing to serve the HRI market should focus on these importers. Equally important, U.S. exporters should ensure that their products are halal certified. The end users' premises are themselves halal certified, so they will only handle products that are likewise halal certified.

## Best Product Prospects:

Post advises that Malaysia has a dynamic hotel and restaurant industry, and changing lifestyles and growing middle class underpins demand. Key U.S. prospects for the HRI sector include dairy products, frozen potatoes, powdered milk, whey, sauce, citrus Fruit, almonds, cheese, chocolates, frozen chicken cuts, bread pastry and cakes and apple

juices. Halal certification is essential. Halal and other technical barriers hinder meat and poultry export opportunities.

#### Food Processing Sector Highlights:

Post reports that although Malaysia's multibillion-dollar food processing industry has been significantly disrupted in the short-term by the COVID-19 pandemic, the sector is fairly robust and has been identified by the Malaysian Government as a crucial component of future national economic growth. The Malaysian food processing industry includes several multinational corporation facilities and the main products produced are beverages, canned seafood, canned fruits, canned vegetables, confectionery, dairy products, noodles and bakery products. According to the Malaysian Investment Development Authority (MIDA), there are more than 8,000 establishments within the local food processing industry, ranging from small and medium-sized enterprises to major multinational corporation facilities.

The Malaysian food processing industry represents 12% of the country's manufacturing output and is growing at a pace of roughly 3% per year. Several multi-nationals have regional production facilities in and around Kuala Lumpur and the Government of Malaysia have identified the food processing industry as a critical sector for future economic growth. Although the country's halal requirements complicate trade for certain products, Malaysia's trade and regulatory policies are relatively open and provide opportunities for a broad range of ingredient products. Malaysia's total agricultural product imports in 2019 reached nearly US\$18.3 billion, roughly 7% of which was sourced from the United States.

Both Malaysian and multinational companies are active in the sector. 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.

For some key food processing ingredients (wheat, soybeans, potatoes, dairy products, dried fruit, nuts), U.S. exporters face minimal competition from local producers as there is no local production. However, U.S. exporters face strong competition from Thailand, China, Australia, and New Zealand. Their products are competitively priced, and their proximity to Malaysia compared to the United States gives these countries 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.

#### Best Product Prospects:

Top prospective U.S. food processing ingredient products for the Malaysian market include dairy, frozen potatoes, tree nuts and processed fruits. Other key imported materials for the food processing sector include basic commodities such as processed fish and fish products, chocolate products and sugar confectionery, protein concentrates, yeast, sugar derivatives and syrup as well as sugar.