



Country Profile
Market Opportunities Report
Foreign Agricultural Service
Horticultural and Tropical Products Division

Malaysia



Figure 2 - Kuala Lumpur boasts the tallest building in the world, the Petronas Towers.

Malaysia is the third wealthiest country in Southeast Asia, with a reported GDP per capita in 1999 of US\$10,700. Malaysia has a population of around 22.2 million people, with about 61 percent of its population in the middle to upper income group of consumers. Interestingly, about 36 percent of its people are aged 15 years and below, which represents a sizeable pool of future consumers who will be an important driver for increased consumption of higher value foods. Unlike the other large Southeast Asian nations, Malaysia has a nationwide consumer base which encompasses both urban and rural areas.

The Malaysian economy has a firm foundation comprised of strong manufacturing, service and agricultural sectors. Like most countries in Asia, it was adversely affected by the regional economic downturn in 1998. However, despite some predictions that Malaysia would not recover as quickly due to the government's capital control policies, latest government forecasts for economic performance in 2000 suggest an upturn of about 5.8%.

Trade:

U.S. exports of consumer-oriented agricultural products fell 36 percent from its all time high of \$118 million in 1997 to \$75.6 million in 1998 due to economic turmoil. Within this sector, US horticultural exports fell 31 percent from \$62.2 million in 1997 to \$42.7 million in 1998. Most of this drop was due to falling fresh exports, especially apples and table grapes.

US horticultural exports recovered mildly in 1999, increasing 15 percent to \$49.1 million, with most of the recovery coming from processed fruits and juices, primarily mixed fruit juices and potato chips. Overall, the recovery in 1999 horticultural exports was tempered by a sharp drop in orange exports due to the freeze in California, and only a modest rise in US table grape exports.

Unfortunately, US exports in the first six months of 2000 have not kept pace with the same period in 1999, actually falling 14 percent. While most sectors are up, fruit juice exports fell 92 percent, and apple exports are down sharply, falling 55 percent. Bucking the trend, US orange sales for the first six months of 2000 are up 39 percent, but this is mostly a recovery from the poor exports which resulted from the 1999 freeze in California.

Overall, the US has lost some market share to other Asian suppliers. For instance, the US market share for all fruit fell from 26 percent in 1998 to 18 percent in 1999, and the US market share for nuts fell from 33 percent in 1998 to 27 percent in 1999.

The following table shows import share for key U.S. exports:

Major Supply Countries and Their Import Market Shares (1999)	
Citrus	China (38%), Australia (24%), United States (24%)
Apples	China (30%), United States (26%), Australia (13%)
Pears (Non-Asian)	Australia (53%), S. Africa (21%), Chile (16%), US (4%)
Grapes	United States (49%), Australia (21%), Chile (18%)
Almonds	Australia (58%), United States (41%)
Source: World Trade Atlas	

China significantly increased its presence in the Malaysian market in 1999. In 1998, the U.S. held 36 percent of the apple import market, but has now fallen to second. Australia also lost share, dropping from 20 percent of the market in 1998 to 13 percent as noted above. The citrus situation is similar but is primarily due to the short U.S. crop. Grapes continue to hold a large percentage of the market, although competition is getting keener, especially from Chile and South Africa, which have eroded Australia's market share. The dark horse is China, which now holds a 2% market share, up from nothing just five years ago.

The Market:

Malaysia has one of the more dynamic retail sectors in Asia. Fruits and vegetables are primarily sold through wet markets but about 20 percent are distributed through the retail sector. Fueled by foreign investors such as Royal Ahold (Tops), and Carrefour Modern, retail venues have experienced the fastest growth of any food distribution system. Trade sources comment that the

top five supermarkets and hypermarkets are Tops, Giant, Wellsave, The Store and Carrefour. Exports of key US products sold to Malaysia, oranges, apples, grapes, and french fries are expected to grow, but most traders indicated that reaching pre-1998 levels will take some time. This is because Malaysians are increasingly price sensitive and the under-valued ringgit (pegged at MR\$3.8 to the US dollar) makes imports more expensive. However, this does not mean Malaysia will not be a dynamic market. American products are seen as having high quality and good value, and many are willing to pay for that quality assurance. New products and varieties are easily introduced into the market and can provide opportunities for greater sales.

There are also some other key changes that make Malaysia a market for the future. Well-targeted infrastructure improvements, such as the recently completed Port of Tanjung Pelepas (PTP) provides a modern deep water facility in Johor Baru, the Southern most state on the Malay peninsula. Maersk Sealand, the largest shipping company in Singapore, will be moving to PTP in December 2000, bringing with it an estimated 2 million twenty foot equivalents in 2001. Not only will this help better serve the primary Malaysian markets, but is expected to reduce port costs by 30%, and should generate more competition among area ports. Also, the newly developed high tech Westport at Port Klang, the primary entry point for Kuala Lumpur, has further enhanced Malaysia as a shipping destination.

Rapid urbanization and changing lifestyles have brought changes to local eating habits. Demand for instant and convenience foods is on the rise as working women have little time to prepare their family meals. Malaysian consumers, particularly those in the 20-40 age group who can afford and are willing to pay for the price of convenience, have a preference for semi-prepared foods and/or takeaway meals. However, whether or not this trend will expand the fresh cut sector remains to be seen. So far, most importers do not see fresh cut growing quickly.

However, one area that this convenience trend is affecting is in fast food. Besides the usual hawker stalls / food stalls located in residential and urban areas, Western fast food chains like McDonald's, Kentucky Fried Chicken, Burger King, Pizza Hut, etc are located strategically in large shopping malls all over Malaysia. Local franchised chains such as Marrybrown, Sugar Bun and Dave's Deli, which offer similar menus as the KFC and McDonald's outlets, are also expanding rapidly. Competition among these quick service restaurants (QSRs) is intensive with QSRs outdoing each other by offering promotions. Seventy percent of customers who patronize quick service restaurants are students in the "teen" market.

It is expected that the fast food sector will experience the fastest growth of between 20% to 30% per annum. More outlets will open over the next three years to cater to growing demands for convenience of eating out. Full service restaurants will see good growth of between 10% and 30% over the next three years.

Tariffs:

In general tariffs are fairly low, ranging from 0-20%. Effective October 29, 1999, the import duty on apples, pears and cherries was reduced to 5% ad valorem. However, in addition to the duty, there is a 5% sales tax on fresh fruit imports. Fresh vegetables and unprocessed nuts such as asparagus, cauliflower, broccoli, carrots, potatoes, and walnuts to name a few, are exempted from import duties. Import duties on prepared foods ready for immediate consumption vary from 10% to 20% ad valorem plus 5% sales tax which is collected at the point of entry.

Challenges and Opportunities:

While Malaysia is a relatively small nation with about 23 million people, it is also one of the fastest growing economies in the world.

As in the rest of Asia, third country competition is also a challenge that will need to be met by US exporters. China is becoming a major player, shipping Fuji apples and various pear varieties. Quality is expected to be good, and improving, especially as China develops its controlled atmosphere capabilities. Furthermore, citrus from Australia, Pakistan and South Africa has become more popular. While Malaysia is a producer of tropical fruits and fresh vegetables, it also imports these items from Thailand and Indonesia to meet the demand of Malaysian households.

One small but significant opportunity may be in the organic area. One small importer reports that they import approximately 1.5 tons of organic products each week, primarily from Australia and the US. The target market is small specialty shops where upper income Malaysians and expatriates shop. Top products include carrots, celery, and apples. One importer reported that many people suffering from medical conditions, such as cancer, believe that organic products are cleansing, and will help them recover.

Conclusion:

The key to the Malaysian market is stability, which has been brought on to a certain extent by the capital controls established during the crisis, including locking in the exchange rate at 3.80 Malaysian ringgit to the US dollar. Also, Malaysians are more receptive to imported fruits as incomes begin to rise with the economic recovery. Some analysts are predicting that the total fresh fruit market could expand 7-10 percent in the next few years.

While more direct shipments, keen restaurant competition, and a stronger retail sector should contribute to growing the Malaysia market for key horticultural products such as fresh fruits, processed fruits and nuts, grassroots promotion and handling education is critical to maintaining the excellent image that US products now enjoy.

Given currency fluctuations and a tenuous economic situation, exporters interested in Malaysia should consider using credit programs available through FAS. FAS has an active GSM-102, GSM-103, and of most interest to fresh food exporters, a Supplier Credit Guarantee Program. To learn more about these credit programs, please refer to: <http://www.fas.usda.gov/export.html>

Many non-profit trade associations use FAS' Market Access Program (MAP) to generically promote US horticultural products in Malaysia. Furthermore, FAS works with State Regional Groups to allocate branded MAP funds for Malaysia and other countries. To learn more about MAP, please visit: <http://www.fas.usda.gov/mos/programs/mapprog.html>. If you are a producer or exporter and want to participate, contact a trade association that represents your specific product. If no trade association exists, contact one of the four State regional trade groups:

- Eastern US Ag & Food Export Council (EUSAFEC), website: <http://www.foodexportusa.org>
- Mid-America International Agri-Trade Council (MIATCO), website: <http://www.miatco.org>
- Southern US Trade Association (SUSTA), website: <http://www.susta.org>
- Western US Agricultural Trade Association (WUSATA), website: <http://www.wusata.org>.

For more information on the Malaysian market for US Horticultural Products, contact:

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