



AGRICULTURE SECTOR BRIEF

MALAYSIA



Economic Overview



Malaysia is a democratic parliamentary monarchy country 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 sits in Putrajaya.

In the last 50 years, Malaysia has had one of the fastest economic growth rates in the world, with an average 6.5% GDP growth per annum. Initially, the economy was driven by utilising the country's abundant natural resources from oil to hardwood, but Malaysia was able to transform its economy to a higher value-added manufacturing model, and is now stepping forward to an innovation-driven high-tech industrial phase towards industry 4.0.

Economic growth slumped to a ten-year low in the Q4 2019 as the U.S.-China trade war and anaemic tech demand battered Malaysia's exports, which shaved nearly one percentage point off GDP growth. Robust household spending, however, somewhat cushioned the deceleration in Q4.

The large-scale disruptions caused by measures to fight against the COVID-19 pandemic are of course, impairing the economy. The lockdown is still restraining domestic economic activity, and manufacturing output is contracting. A recession cannot be avoided, and most experts' forecasts estimate around -1.6% in 2020, with the hope that the Malaysian economy will be able to get back on track and grow by 5.7% in 2021. The government has announced a massive fiscal package to avert a deeper economic collapse.

Food manufacturing and international trade is not facing the worst scenario, but there are fears and expectations that some companies, especially exporters, will be seriously hit by the crisis.



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

Sector Overview



In Malaysia, agriculture consists mainly of industrial commodities such as palm oil, rubber or cocoa and agrifood products, such as rice, fruits, vegetables, fisheries and livestock. Large-scale commercial plantation owners dominate the landscape in respect of industrial commodities, while smallholders are concentrated mainly in the agrifood industry.

Agriculture's contribution to Malaysia's GDP was 7.1% in 2019. The major share of this contribution came from the oil palm industry (37.7%), while crops provided 28.8%, livestock 15.3% %, fishing 12.0% %, and forestry and logging was responsible for another 6.3%.

Roughly 1.5 million people are employed in the agricultural sector, three-quarters of them are male, and it is also worth mentioning during the COVID-19 lockdown, that almost 500,000 non-citizens are employed by agricultural companies and farms.

Malaysia has a positive trade balance in agriculture, with a value of RM24.1 billion in 2018. Both exports and imports decreased by 14.2% and 5.4%, respectively. Despite the gradual growth rate in the export of food over the years, Malaysia is still a net importer of food and agricultural produce, with an increasing deficit in the food trade balance, primarily because of heavy demand for animal feed, sugars and honey, meat and meat products, and vegetables to meet the country's agrifood requirements.

The recent decline in agriculture sector performance was mainly due to the decreased demand for palm oil and forestry products. Livestock is slowly on the rise, and some smaller segments, like nuts or tea showed positive figures in recent years.

The COVID-19 crisis immediately started debates on food security in Malaysia, and government policy initiations have started to increase food-sufficiency, import source diversification and speed-up local agri-innovations.

Regulation and Good Agricultural Practices (MyGAP)

The Ministry of Agri-food Industry (MAFI), formerly known as Agriculture and Agro-based Industry (MOA) is responsible for agriculture in the central public administration of Malaysia. MOA's most important departments are Dep. of Agriculture, Dep. of Veterinary Services, Dep. of Fisheries, and, among many others, the Federal Agricultural Marketing Authority (www.mafi.gov.my).

Important commodities such as palm oil, pepper, pineapple or rubber are supervised or regulated by specific bodies, for example the Malaysian Palm Oil Board or the Malaysian Rubber Board. These institutions have the power to regulate imports and exports, processing, sale and distribution and storage conditions.

Other non-governmental bodies, like the Malaysian Palm Oil Council or the Federation of Livestock Farmers Associations in Malaysia, represent different subsectors or group of producers, and can be very influential in shaping new regulations.

Under the Eleventh Malaysia Plan (2016-2020), the government aimed to transform the agrifood sector to a modern, technology-driven industry, supporting R&D activities, strengthening institutional support, implementing new food security and safety measures and boosting productivity.

MyGAP (Malaysian Good Agricultural Practices) is a rebranding exercise of Malaysian Farm Certification Scheme for Good Agricultural Practices (SALM), Livestock Farm Practices Scheme (SALT), and Malaysian Aquaculture Farm Certification Scheme (SPLAM). MyGAP is a comprehensive certification scheme for the agricultural, aquaculture and livestock sectors. Good Agricultural Practice (GAP) is an agricultural practice which emphasises environmental, economic and social aspects to ensure that produce is safe and of good quality.

In the MyGAP scheme, farms/farmers will be certified if they follow good practices in four areas:

- Understanding the farm situation, to determine its potential performance and guidelines
- Planning the ways to improve current practices
- Implementing the plan according to standard procedures
- Monitoring the effectiveness of plan implementation.

Most important products and segments - crops

Rice

Rice is a staple food in Malaysia, and its importance can be seen in the way rice defines Malaysian culture. Latest statistics from 2018 showed that 76.5 kg is the average yearly consumption per person, accounting for about 26% of the total caloric intake per day. A total of 2.7million MTs of rice was consumed in 2018, 67% of which was produced locally, while the rest was imported, primarily from Thailand and Viet Nam.

Paddy farmers are among the people earning the lowest monthly income. Without subsidies, the cost of production is too high. Incentives often cover rental fees and machinery, which is a key element for long term sustainability.

Paddy production lacks standardisation and does not have Good Agricultural Practice (GAP) or HACCP certification. Often unregistered pesticides are used, leaving chemical residuals. Thus, food safety and traceability are issues.

Palm-oil

Palm oil trees were introduced to the Malaysian Peninsula by the British in early 1870s, interestingly as an ornament plant. The first commercial palm oil cultivation was done in Selangor in 1917 at the Tennamaram Estate. In the early stage of development, palm oil was a tool to reduce Malaysia's dependency on rubber and tin-mining.

Most important statistic data of the palm-oil industry (2019):

Volume of crude palm oil produced in Malaysia	19.86 million MT
Share of palm oil plantations of total geographical area in Peninsular Malaysia	46.9%
Size of palm oil plantations (mature plants, Malaysia)	5.22 million ha
Plantation area, certified as sustainable	3.64 million ha
Contribution to GPD (2019)	2.7% (for upstream)

Recent years were shadowed by several economic and political issues for the palm oil industry:

- There is a decline in demand globally, so Malaysia is trying to consume more domestically as part of the national biodiesel programme. The B10 programme for the transport sector has been implemented as mandatory since February 2019, while the B7 programme for industrial sector took effect in July 2019.
- The EU sees palm oil cultivation as the main driver of excessive deforestation, and its use in transport fuel should be phased out by 2030. The Malaysian government reacted as though this were the first step in a trade war.
- India, as a reaction to the Malaysian PMs criticism of the new citizenship law in India, has imposed restrictions on imports of refined palm oil from Malaysia.

There are some initiatives to transform the palm oil industry to a more sustainable industry. The Malaysian Sustainable Palm Oil (MSPO) certification scheme is one such initiative, and Malaysia is in fact committed to produce palm oil in accordance with sustainable principles and criteria under the MSPO certification scheme.

Rubber

Malaysia is still the world's 7th largest producer of rubber. Neighbouring Thailand and Indonesia took the lead, followed by Viet Nam, Cote Ivoire, China and India. Almost the diametric opposite of the situation in the palm oil industry, rubber production is almost entirely in the hands of 442,000 smallholders. Recently, demand from Chinese industry was weak, resulting in a fall in the price of rubber, and therefore reduced profitability for farmers. The Malaysian Rubber Board provided Rubber Production Incentives (IPG) to the smallholders, to encourage them to continue tapping the trees, even when the prices are unattractive, in order to ensure a continuous supply of raw materials to processing and manufacturing industries.

The COVID-19 pandemic hit the rubber industry even before the lockdown in Malaysia, due to the halt in Chinese industry some months earlier, and in February 2020, natural rubber production decreased by 29.2 %. Ironically, in the first months of 2020, exports increased by 12.8%. Behind China, the largest importers of Malaysian rubber are Germany, Iran, United States and Finland. Intra-ASEAN trade is not significant.

Vegetables and fruits

Vegetables represent a significant group of food crops supplying important sources of vitamins and minerals in the daily diet of Malaysians. Vegetable and fruit production produce 40% and 66% of the nation's needs respectively. Production is gradually increasing with an impetus of new younger farmers, who are trying to make businesses out of their farms. Vegetables are generally consumed fresh, although processed vegetables are also popular among Malaysians of Chinese origin. A wide range of temperate and tropical vegetables are cultivated in Malaysia and many native and wild plants are also collected and used as vegetables or salads.

Other cash crops (tea, cocoa)

Other agricultural activities include cocoa production, which in the 1980s looked promising before most plantations were wiped out by disease. Although production is still weak, some entrepreneurs are producing boutique beans and developing downstream niche chocolate production.

Tea has a long history in Malaysia, which is both a tea producing and a tea consuming country. As early as the 15th Century, Chinese Admiral Cheng Ho brought tea to Malaysia, during his seven voyages. Today, Malaysia produces about 3.6 million kg of black tea annually from its remaining three major tea estates, Boh Plantations (Cameron Highlands), Bharat Tea Plantations (Cameron Highlands) and Sabah Tea (Mount Kinabalu). Exports of tea from Malaysia are minimal. Malaysia has had a noticeable increase in tea consumption with the annual intake now at about 29 million kg (2017), against 18 million kg in 2007. Per capita consumption is steadily standing at approximately 910 grams. To make up the market demand, Malaysia imports from major tea producing countries like Indonesia, Viet Nam, China, Sri Lanka, India and Papua New-Guinea.

Most important products and segments - livestock

Malaysia currently only produces around 20–25% of its beef, goat and mutton requirements. Despite many previous government initiatives to bolster meat production, there is a chronic shortage of grazing land on the peninsula. Likewise, dairies supply only a fraction of local demand. In contrast, the privately developed and operated poultry industry has been developed as a successful state of the art, fully integrated industry, not only producing all of Malaysia's poultry needs, but Singapore's as well. According to the Department of Statistics, in 2018–2019 most of the segments of the livestock industry were stagnating, while only the number of ducks and chicken grew significantly. The total production of poultry meat in 2019 was 1.72 million tonnes, rising from 1.65 million tonnes in 2018.

Fisheries

Malaysian people eat a lot of marine fish and seafood, and as well as some species of freshwater fish. Marine fish landings in 2018 produced 1,453 thousand tonnes, a slight increase from the previous year, and freshwater aquaculture also showed an increase of 3,1% on year-to-year basis. The fragile results clearly show the decade-long missing management skills and R&D activities. The MOA administers incentive schemes and provides development funds to fishermen, such as the Lembaga Kemajuan Ikan Malaysia (LKIM). These funds are made available to finance activities closely related to fisheries, aquaculture and processing activities, and to increase fishermen's productivity – including purchase or replacement of boats, engines, nets and equipment, emergency loans – and provision of capital for the Fishermen's Association marketing projects.

Constraints and challenges

The soaring industrial development in the last three decades cast a shadow over Malaysian agriculture, and the once leading sector is falling behind Thailand, Korea, Taiwan, and even ASEAN-fellow Indonesia and Viet Nam in terms of innovation, technology, knowhow and product/value-chain management.

The narrow focus on plantation crops caused serious challenges at political and economic levels – despite its importance in employing 1.5 million workers, or 10% of the total workforce. Problems have included:

- Neglecting crop diversification
- Development efforts went to the plantations, favouring it over the livestock sector – most of the plantation sector is operated by government-linked companies
- Environmental, and therefore international political debates over palm oil production and usage, especially with EU-Malaysia relations.





Regulations of the agricultural sector, labelling and packaging

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 is using the HTS (Harmonized Tariff Schedule) or HS Codes, and AHTN (ASEAN Harmonised Tariff Nomenclature) to classify imported goods. HS Codes are 6-digit numbers and applicable tariff rates and other regulations can be found by using this code. (<http://tariff.customs.gov.my>) AHTN is used for intra-ASEAN transactions, HS in case of trade from non-ASEAN countries.

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 or by e-mail 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. This NTM increases import costs significantly, plus adds a diplomacy level to the trade regulation, and main exporter countries are negotiating actively on this inspection rule.

DVS's inspection applies for other products such as eggs and egg products as well. In practice, DVS often restricts import of chicken parts through this NTM, especially when local poultry producers face low market prices. This practice shows that the main goal of the non-tariff measures is often trade defence tools.

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.

The rapid urbanisation, and 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), 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).
 - 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).
 - 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).

Recommendations and Trends



Policy experts and analysts agreed even in the first months of the COVID-19, that Malaysia should put more effort on improving food security and safety:

- In April 2020, there was a project to transport vegetables from Borneo to Peninsular Malaysia to ease the shortage there.
- Almost all the produces in shortage had local production, just simply not in the former volume
- Innovation and advanced production technology would be needed to achieve higher yields.

Besides food sourcing issues, Malaysian agriculture could be developed by:

- Providing incentives for farmers that diversify their production, including new plants, new animal species, etc.
- Environmentally sustainable production should be a practice supported by incentives and state-initiated marketing.
- Malaysian agricultural products are often neither competitive in price, nor quality, but an ASEAN-level marketing campaign should be carried out to make Malaysian products more widely known in the export target countries.