

Macroeconomic Situation and Outlook

Economic activity in Malaysia expanded strongly in 2000 under the stimulus of robust export growth and rising domestic expenditure. GDP expanded by 8.5 percent, above the 5.8 percent of 1999. This growth was due to a significant increase in output in the manufacturing (21 percent) and service (4.7 percent) sectors. As a result, per-capita income increased by 8.6 percent to RM13,361 (US\$3,516). During the year, the government maintained an expansionary fiscal policy to stimulate domestic demand and an accommodative monetary policy, with low interest rates. Inflationary pressures in 2000 were contained at 1.6 percent, despite higher oil prices, strong aggregate demand, and better employment conditions. The PPI rose moderately, by 3.1 percent in 2000. The labor market situation improved in 2000 with the unemployment rate at 3.1 percent.

Prospects for world growth in 2001 depend on the magnitude and duration of the slowdown in the US economy. Thus, the main impetus to growth in Malaysia is expected to come from the strength of domestic demand. GDP growth is projected to slow down to 4 percent in 2001 and strengthen to 6 percent in 2002. The growth projection is based on the assumption that external demand will moderate due to the slowdown in the US economy, the still-fragile Japanese economy, and the moderating demand for electronics due to the build-up in global inventory in the second half of 2000.

The expected impact of a slowdown in the US economy has been built into the fiscal and monetary stimulus package. These measures include an additional RM3 billion (US\$0.79 billion) allocated for infrastructure projects; reduction of employees' contribution to the Employee Provident Fund from 11 percent to 9 percent; assurance that financial institutions will achieve an annual loan growth rate of 8 percent; pegging of the ringgit to the US dollar to remain at 3.8; and increasing the Fund for Food (3F) to RM1.3 billion (US\$0.34 billion). The pegged exchange rate is consistent with the fundamentals of the Malaysian economy, with strong current account surplus, high level of international reserves, and low and stable inflation rate. It has always been Malaysia's policy to maintain international competitiveness through efficiency and productivity gains, and not to rely on the exchange rate. The latter would only provide temporary gains in export performance and would do so at the expense of significant cost to the economy, including higher inflation and higher debt servicing costs.

Food Prices and Consumption

Inflation rose moderately, at 1.6 percent in 2000. Contributory factors included low inflation abroad, excess capacity, and lower commodity prices. Non-food inflation was at 1.3 percent, while inflation for food, with a weight of 34.9 percent of CPI, was at 1.9 percent. Abundant food supplies throughout the year, given the favorable weather conditions, contributed to the more moderate rate of increase in the prices

of food items in 2000. Nevertheless, price pressures arising from cyclical and seasonal shortages of certain food items remained a concern, particularly with regard to their impact on the lower income group.

Despite the narrowing domestic output gap, in an environment of slower growth and mild inflation globally, the inflation rate is expected to remain subdued. In 2001 and 2002, inflation is forecast to remain low at around 1.5 percent and 1.7 percent, respectively.

Prices for food, particularly rice and animal and vegetable oils, are expected to increase at a slower pace, barring cyclical shortages due to weather conditions. Food prices are also expected to benefit from the incentives given to companies providing facilities and services for food products. The official figures indicate that the CPI for food is anticipated to be around 1.6 percent in 2001 and 2 percent in 2002.

Food Processing and Marketing

Technology related to convenience food products processing is widely used; many of these products are traditional foods. These include meat products, ready-to-use gravy, spice mixes, and snacks. Most of the food products are vacuum packed, frozen, or chilled to ensure a long shelf life and product safety. Minimally processed foods such as cut vegetables and salad are also very popular. Functional foods are receiving considerable attention from the government, industry, and customers. The requirement for nutritional labelling has been introduced to food manufacturers; however, labelling for functional foods, including claims, is still under study by the Ministry of Health. Many products containing herbal, botanical extracts or probiotics are available in the market. The ministry has officially released five guidelines related to Hazard Analysis and Critical Control Points (HACCP) certification to be used by industries, and the National Food Safety Council was established in 2000.

In marketing, the Federal Agricultural Marketing Authority (FAMA) is taking the necessary measures to improve the marketing system through the expansion and modernization of Farmers Markets, the establishment of wholesale/distribution centers, and branding, labelling, and export promotion. Market information and dissemination are being enhanced through the setting up of e-commerce and market networks.

Agricultural Production and Trade

In 2000, the pace of expansion in the agricultural sector slowed down to 0.4 percent, due primarily to slower growth in the production of crude palm oil (2.7 percent); the pace of expansion actually declined in the output of rubber (-19.9 percent) and cocoa (-16 percent). The prices of these commodities were low, primarily reflecting excess global supply. Meanwhile, the year saw a further increase in the production of livestock (3.9 percent) and fishery (5.7 percent). In 2001 and 2002, agricultural output is expected to increase by 1.1 percent and 3 per-

cent, respectively, due mainly to the higher production of crude palm oil following an expansion in mature areas and improved commodity prices. The contribution of the agricultural sector to Malaysian economic growth in 2001 and 2002 is projected to be 8.3 percent and 8 percent, respectively.

The government has just launched the Eighth Malaysia Plan, which covers the period from 2001 to 2005. In the plan, food production will be expanded substantially to cater to the growing demand in the domestic market and to reduce imports. Value added in the food production subsector is expected to grow, mainly due to the increase in production of major food commodities, namely: fishery (4.2 percent), beef (7.5 percent), mutton (5.9 percent), pork (4 percent), poultry (4.8 percent), eggs (3.9 percent), dairy (5.5 percent), and rice (4.7 percent), as well as fruits (7.6 percent) and vegetables (6.4 percent). The increase in output will be achieved through new hectareage, greater land intensity, and improvement in productivity. With these rates of growth, in the year 2005, self-sufficiency in food is projected to be: rice (72 percent), fruits (98.6 percent), vegetables (95.6 percent), fishery (90 percent), beef (23.2 percent), mutton (7.1 percent), pork (76.1 percent), poultry (143.2 percent), eggs (152.5 percent), and dairy (4.5 percent).

Export proceeds from agricultural products were lower in 2000 due to sharply low receipts from palm oil, which suffered low prices because of global oversupplies of vegetable oils. Higher import duties imposed by traditional markets, India and Pakistan, also affected export volume.

Malaysia's trade policy on food items remained liberal to overcome domestic supply constraints via imports. The country has almost the lowest average tariffs among the ASEAN countries. Excluding palm oil, the average annual trade deficit in food items is about RM5 billion (US\$1.32 billion). However the major items contributing to the trade deficit are those that are not agroclimatically suitable for production in Malaysia such as wheat, soybeans, sugar, and temperate produce.

It is expected that, with the implementation of AFTA and AIA, the investment and marketing network of the multinational corporations in the ASEAN region will be further consolidated through increased intra-firm transactions and trade flows. The regionalization of agriculture through AFTA and AIA will certainly bring about increased integration through intra-firm and industry trade, economies of scale from industry rationalization, and the merging of national defined corporate interests into regional ones.

Food and Agricultural Policy

The growth strategy for the year 2001 and beyond will essentially be directed at promoting the development of a broad-based economy. With regard to agriculture, the thrust of the policy is to transform the food and agricultural sector into a modern, dynamic, and competitive sector. Traditional plantation crops will remain the major contributors to the growth of the sector. The non-traditional agricultural subsector, comprising mainly vegetables, fruits, live-

stock, and aquaculture, is targeted to increase its contribution in line with efforts to increase domestic food production. For 2001, a total of 18,400 hectares of Permanent Food Production parks will be developed, and RM1.3 billion (US\$0.34 billion) will be allocated to boost food production.

The main strategies for food and agricultural development during the Eighth Malaysia Plan (2001-2005), in line with the Third National Agricultural Policy (1999-2010), include:

- Expanding food production
- Increasing hectareage under cultivation and promoting greater land intensity and use of new technology.
- Promoting private sector participation in medium- and large-scale commercial food production through the establishment of more permanent food production areas.
- Intensifying aquaculture development
- Establishing more production areas and expanding the participation of the private sector.
- Intensifying land use
- Integrating food production with plantation crops.
- Enhancing competitiveness
- Promoting labor-saving technologies and accelerating downstream processing.
- Intensifying research and development
- Developing entrepreneurship among farmers

Water Resource Issues

Lying within the humid tropics, Malaysia has an average annual rainfall of about 3,000 millimeters. There is considerable spatial and temporal variation in rainfall influenced by topography and the monsoons. A mountain range separates east and west Peninsular Malaysia. The interior of Sabah is criss-crossed by a series of mountain ranges, while Sarawak's mountain range borders with that of Indonesia. The southwest and northeast monsoons blow from May to September and October to March, respectively. The lowest rainfall is about 1,750 millimeters, while the highest is over 5,000 millimeters. Sabah and Sarawak have more rainfall (3,000-4,000 millimeters) than Peninsular Malaysia (2,420 millimeters).

The average temperature is fairly stable at 26°C (32°C during the day and 21°C at night). The average open water evaporation ranges from 1,600 to 1,800 millimeters per year. The relative humidity is high, at about 80 percent.

It is estimated that of the total rainfall, 57 percent appears as surface runoff, 36 percent is lost to evapotranspiration, and the remaining 7 percent contributes to groundwater recharge. The total internal water resources of Malaysia are estimated to be 580 km³ per annum.

Water Supply

Although a National Water Resources Council (NWRC) was formed in June 1998 to coordinate and integrate water resources planning and

management, the supply of water comes under the jurisdiction of the state governments according to the constitution of Malaysia.

Currently there are 69 dams in operation, with a total capacity of 29.9 billion cubic meters. These have been developed for domestic and industrial use (35), multipurpose uses (16), and irrigation and hydropower (18). In line with the government's policy of reducing the size of the public sector, improving efficiency and productivity, and restructuring the economy, several water projects have been privatized.

Water Demand

Overall water demand is estimated to be between 2 and 4 percent of annual runoff. Of the total withdrawal of 15.2 billion cubic meters in 2000, the largest withdrawal was for agricultural use (76.6 percent). This is followed by industrial (12.9 percent) and domestic (10.5 percent) uses. With a population of 23.8 million, the total annual withdrawal per inhabitant is around 639 m³.

Total water demand is estimated to grow at about 4 percent per year. In 1995 total withdrawal was 12.7 billion cubic meters, compared to 8.7 billion cubic meters in 1980. Total withdrawal was 15.2 billion cubic meters in 2000, and is estimated to be 20 billion cubic meters by 2020.

About 97 percent of total water used comes from surface water, while the remainder comes from groundwater. Most of the groundwater (60 percent) is used for domestic purposes, with 35 percent for industry and 5 percent for irrigation.

Agricultural Use

Agricultural use of water is primarily for irrigation, which is mainly confined to rice production. Until the early sixties, the emphasis in irrigation had been on supplementing rainfall for mono cropping of rice. The introduction of double cropping in the sixties and seventies necessitated the development of major irrigation schemes.

In the mid-nineties, about 310,000 hectare of rice were irrigated, with 240,000 hectare (77.43 percent) under double cropping. Although irrigated rice involves 932 schemes (in rice growing areas) covering 340,633 hectare, rice is concentrated in eight double-cropped granary areas totaling 210,000 hectare, and 74 mini-granary areas (29,500 hectare), with a cropping intensity of 150 percent. The 850 non-granary schemes (100,633 hectare) account for the remainder. The average yield for irrigated rice is four tons per hectare. The current irrigation efficiency is around 35-45 percent, with a water productivity index for rice of around 0.2 kilograms/cubic meter.

Based on 1990 figures, the per-capita withdrawal for irrigation use was 361 cubic meters. The main policy affecting rice production is the self-sufficiency level, which currently stands at 70 percent.

Domestic and Industrial Use

Water for domestic and industrial uses is supplied by both government agencies and privatized water companies. In 1995 the total production capacity was 9,476 million liter per day (mld). The actual quantity supplied was 7,623 mld, representing about 80 percent of capacity. It is important to note that about 39 percent of the water supplied does not generate any revenue to the agencies. The non-revenue water may be due to leakage in the distribution system, under-registration of water meters, failure to read all meters, or illegal tapping of water.

Based on 1990 figures, the per-capita withdrawal for domestic and industrial water use was 230 cubic meters and 177 cubic meters, respectively. In terms of coverage, 96 percent and 82 percent of urban and rural population are, respectively, supplied with piped water.

Water Resource Management

Although agriculture will remain the largest user of water, the importance of the domestic and industrial sectors will continue to rise. In 1980, domestic and industrial use accounted for 14.94 percent of total water use. In 1990 and 2000, the percentages rose to 22.4 percent and 31.6 percent, respectively. Demand for domestic and industrial use is expected to increase by 5.4 percent per year.

Privatization of the water supply will be stepped up as pressure to improve efficiency increases. Water tariffs will undoubtedly increase as current rates do not cover the costs of production. Increased revenues will be needed to improve maintenance and prevent losses from non-revenue water.

Although on the whole water resources are adequate, water stresses are likely to occur in certain regions as exemplified by the water crisis in 1998 in the Klang Valley. Interbasin and interstate transfer of water like the Pahang-Selangor Raw Water Transfer scheme will become more common. More dams will definitely have to be built.

The need for more integrated national planning and development of water resource projects (which include watershed planning and land use policies) is more apparent under these circumstances. Monitoring and surveillance of dams will have to be improved.

MALAYSIA

	Units	1997	1998	1999	2000	2001 ^E	2002 ^F
FOOD CONSUMPTION PATTERNS ^a							
Per capita caloric intake	Cal/day	2,818	2,822	2,834	2,842	2,850	2,858
From animal products	Cal/day	533	539	549	557	565	573
From vegetable products	Cal/day	2,285	2,283	2,280	2,277	2,278	2,277
Protein (% of calories)	%	7.9	7.8	7.8	7.8	7.8	7.8
Fat (% of calories)	%	32.5	33.6	33.6	33.7	33.8	33.9
Carbohydrates (% of calories)	%	58.6	58.6	58.6	58.5	58.5	58.5
INCOME AND FOOD PRICES ^b							
Per capita income	US\$/capita	4,377	3,093	3,238	3,516	3,584	3,646
% of disposable income spent on food	%	34.9	34.9	34.9	33.8	33.8	33.8
% spent eating out	%	9.8	9.8	9.8	9.7	9.7	9.7
Food price index	1990=100	138.9	151.3	158.3	161.3	164.2	167.5
General price index (CPI)	1990=100	129.0	135.8	139.6	141.8	143.9	146.3
POPULATION ^{b,c,d}							
Total population	Million	21.7	22.2	22.7	23.3	23.8	24.4
Urban	%	56.5	57.3	58.1	58.8	59.6	60.4
Nonurban	%	43.5	42.7	41.9	41.2	40.4	39.6
Share of population in the following age groups							
0-4 years	%	11.8	11.6	11.5	11.6	11.5	11.3
5-14 years	%	22.7	22.4	22.0	21.4	21.1	20.7
15-19 years	%	10.0	10.1	10.2	10.1	10.1	10.2
20-44 years	%	38.8	38.9	39.0	39.2	39.4	39.5
45-64 years	%	13.0	13.2	13.5	13.8	14.1	14.3
65-79 years	%	3.1	3.2	3.2	3.3	3.3	3.4
80-over years	%	0.6	0.6	0.6	0.6	0.6	0.6
Median age of population	Years	22.5	22.8	23.0	23.4	23.7	24.0
Female labor force participation	%	44.9	43.8	43.8	43.8	43.9	43.9
LIFE EXPECTANCY ^{d,e}							
Males	Years	69.7	69.7	69.8	70.0	70.1	70.2
Females	Years	74.4	74.7	74.8	74.9	75.1	75.2
FOOD INFRASTRUCTURE							
Trade capacity							
Grain exports	1,000 Tons	251	316	224	243	263	286
Grain imports	1,000 Tons	4,392	3,569	4,145	4,321	4,504	4,695
Total food and agricultural trade	Million US\$	13,240	12,286	11,827	10,674	10,844	11,021
Total food and agricultural exports	Million US\$	8,312	8,386	7,691	6,449	6,460	6,471
Perishable products	Million US\$	347	275	325	344	352	360
Fishery exports	Million US\$	330	301	295	344	350	357
Total food and agricultural imports	Million US\$	4,928	3,900	4,136	4,225	4,384	4,550
Perishable products	Million US\$	1,040	761	864	931	975	1,020
Fishery imports	Million US\$	326	221	253	293	299	305
Port capacity	Million Tons	174	257	300	344	384	423
Road access	Kms	63,748	64,949	65,091	65,141	65,345	66,064
Rail access	Kms	2,227	2,262	2,265	2,279	2,311	2,325
Telecommunications	Lines/100 People	28.5	29.3	31.4	35.2	38.3	41.5
Power generation	Gigawatts	58,674	60,471	62,553	66,506	72,413	78,845
Percent of population with refrigerators	%	92.0	93.0	93.0	93.0	95.0	95.0
FOREIGN INVESTMENT IN THE FOOD SECTOR							
Inward FDI in the food sector, total	Million US\$	61.9	93.1	72.8	70.6	72.5	74.4
From other PECC economies	Million US\$	43.6	75.1	50.2	29.9	28.8	27.8
ROLE OF AGRICULTURE AND TRADE IN THE ECONOMY ^{b,c,f}							
Agriculture as a share of GDP	%	9.2	9.6	9.4	8.7	8.3	8.0
Self sufficiency in grains	%	32.8	38.0	31.0	30.6	30.2	29.7
Self sufficiency in horticultural products	%	79.0	83.7	74.7	72.0	69.2	66.5
MACROECONOMICS INDICATORS ^b							
GDP growth	%	7.7	-7.4	5.8	8.5	4.0	6.0
Interest rate	%	10.3	8.0	6.8	6.8	6.8	6.8
Exchange rate	Ringgit/US\$	2.81	3.92	3.80	3.80	3.80	3.80

na = not available E = estimate F = forecast

Sources:

- a. Food and Agriculture Organization (FAO), "FAO Yearbook Production", various issues.
- b. Bank Negara Malaysia, "Annual Report", various issues.
- c. Malaysia, "Eight Malaysia Plan 2001-2005".
- d. Department of Statistics Malaysia, "Yearbook of Statistics", various issues.
- e. Prime Minister's Department, "The Malaysian Economy in Figures", various issues.
- f. Food and Agriculture Organization (FAO), Statistical Database, <http://apps.fao.org/>.
- g. Cereals and cereal preparations.
- h. Department of Statistics Malaysia, "Export Malaysia", various issues.
- i. Department of Statistics Malaysia, "Monthly External Trade Statistics, December 2000".
- j. Excludes agricultural requisites, forestry and fishery products.
- k. Fresh and frozen fruits, vegetables, meats and poultry, dairy products and eggs.
- l. Department of Statistics Malaysia, "Import Malaysia", various issues.
- m. Department of Statistics Malaysia, "Monthly Statistical Bulletin, March 2001".
- n. Ministry of Finance Malaysia, "Economic Report", various issues.
- o. Includes Australia, Hong Kong, Indonesia, Japan, Philippines, Singapore, South Korea, Taiwan and United States.
- p. http://www.bnm.gov.my/pub/msb/latest/v_01.pdf
- q. Average base lending rates at end-period.