MALAYSIA

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Macroeconomic Situation and Outlook

Recovery of the Malaysian economy gained momentum in 2002, with GDP growth of 4.2% (0.4% in 2001), amidst a more challenging external environment. All sectors of the economy expanded, with the main impetus to growth from the service (4.5%) and manufacturing (4.1%) sectors. Inflationary pressures remained subdued during the year. While the CPI increased at a faster rate of 1.8% in 2002 (compared to 1.4% in 2001), core inflation, a measure of demand-related price pressures, rose modestly by 0.4%. The low inflation is consistent with the significant output gap, estimated at 5.1% of the potential output level. The labour market mirrored the improved market conditions with the unemployment rate falling to 3.5%.

In an environment of uncertainty in the global economy, on the external front, the downside risks from potential shocks have heightened, although the domestic economic fundamentals have improved. Thus in 2003 and 2004, the growth forecast in the domestic economy would be mainly domestically driven, supported by a modest growth in external demand. In this environment, monetary policy is implemented in a supportive manner, within a framework of low interest rates and improved access to finance facilities, to support the fundamental shift from public sector-led to private sector-led economic growth. Thus the approach is to maintain a broader growth strategy that will increasingly rely on the private sector as the engine of domestic demand and on greater regional trade as the foundations for growth.

With the impact of SARS, especially on the hospitality and tourism sectors, which contributes about 7-8% to the GDP, growth in 2003 was revised downward to 3.7%. The economy, however, is anticipated to regain momentum in 2004, with projected growth of 4.5%. This projection is based on a modest world economic growth, some pick-up in the global electronics industry, and further expansion in intra-regional trade. *(The government is still in the process of formulating measures to cushion the impacts of SARS on the economy. These measures, which will be announced by the end of the month, may include soft loans, tax breaks, and waivers on HRD fund contributions to enterprises whose businesses are linked to the hospitality and tourism sectors).*

Food Consumption Costs

Food prices moderated at 0.7% in 2002, as growth in the prices of food taken at home softened to 0.2% (compared to 0.4% in 2001) due to favorable weather conditions. The overall inflation rate in 2003 is expected to moderate to 1.5% (it was 1.8% in 2002), mainly because of the lower impact of the one-off price increase for selected services. However, with firmer prices expected for agricultural commodities, food prices are anticipated to grow moderately at 0.8% in 2003 and 0.7% in 2004.

Food Processing and Marketing

Malaysia is positioning to be the halal hub food center in the Asian region, and is in the process of incorporating halal regulations in the HACCP food quality system. Herbs and ingredients that have "nutraceutical" functions are becoming popular due to consumers' concerns about the health benefit of foods. A recycling program for food packaging has been successful. A promotion on the nutritional labeling requirement is being carried out as it will be gazetted in June 2003, and will be made mandatory for some food products. The Food Hygiene Regulation has been approved, and was adopted by all food industries in Malaysia.

Agricultural Production and Trade

In 2002, the agricultural sector benefited significantly from sharp improvements in the global prices of major commodities. Despite the high prices and strong external demand, value added for the sector only increased marginally by 0.3%, constrained by supply factors due largely to transitional lower biological yields of palm oil.

The agricultural sector is expected to improve in 2003 to record a growth of 1.5% due primarily to higher production of palm oil. The change in the biological yield cycle as well as the increase in newly matured areas coming into production is expected to contribute to a higher output of palm oil during the year. Meanwhile, continuous efforts by the government to improve domestic food production are expected to result in higher production of livestock, fish, fruits, and vegetables.

Commodity prices are expected to be firmer in 2003. This would raise export proceeds from the agricultural sector by 10.9%. While export volume is forecast to rise slightly, the higher export receipts would reflect primarily higher average prices of all major agricultural commodities. With the government effort to increase food production, food imports were reduced by RM100 million in 2002, and exports increased by RM900 million. This trend is expected to continue, and it is the government's goal to achieve balanced trade by 2010.

As a member of the Organisation of the Islamic Conference, Malaysia is working closely with other member countries to promote halal foods worldwide. The global market for halal food is expanding, and the demand for halal food is estimated to be worth more than US$52.6 billion per year. Thus Malaysia is planning to establish an International Halal Food Centre (IHFC) to enable it to be not only the world halal food producer, but a centre for marketing, certifications, and references. Apart from formulating halal food policies and procedures, the IHFC will function as a one-stop centre for marketing and a platform for other activities related to halal food. These activities encompass legislations, inspection and certification, enforcement, research and development, analysis, sampling and laboratory facilities, and consumerism. It is also intended to function as a reference or net-

working centre at which trade negotiations could be held, both at national and international levels.

Food and Agricultural Policy

Malaysia's positions on various issues related to food and agriculture are guided by the need to maintain outward-looking policies for growth and the various national sensitivities that are attached to certain food and agricultural enterprises for reasons of food security, rural development and poverty alleviation, social security and stability, as well as balanced sectoral development. On the whole, the only subsector in food that is mostly protected is the rice industry. On the other hand, Malaysia has a competitive palm oil industry. Thus promoting protectionist policies in negotiations would not be in the best interests of the Malaysian palm oil, the largest contributor to agricultural GDP. On the other hand, promoting too much reform will hurt the rice subsector and food sector. Hence, the most effective position for Malaysia to adopt is one that balances both sides, that is, a cautious liberalized outlook to ensure fairer trade and better market access opportunities, while at the same time not sacrificing the social and political importance of the sensitive sectors. Malaysia hoped to protect its interests in the sensitive sectors through the special and differential treatment (S&D) provisions for developing countries. At the national level, initiatives are underway to transform these sectors for greater competitiveness in the long run.

In general, the effective duty rates on imported agricultural products are low by international standards. Over the years, and especially during the 1990s, tariffs have been reduced on a broad range of products. The number of tariff lines under the 0-5% category has increased from 318 lines to 866 lines in 1997 or from 50.9% to almost 70% of all tariffs lines. This is both to meet Malaysia's obligations to international and regional trade agreements, and also to achieve voluntary cuts to ensure the competitiveness of agricultural subsectors in the long term. In addition, these cuts have been made on food products especially to ensure that food prices remain reasonable alongside the government's efforts to control inflation. With the implementation of the ASEAN Free Trade Area, there appeared to be significant increases in Malaysia's intra-ASEAN trade in food and agricultural products. Average intra-ASEAN exports increased from US$4,153.8 million to US$5,533.2 million. Malaysia's intra-ASEAN exports increased from US$1026.0 million to US$1,378.5 million. Malaysia's intra-ASEAN imports also increased from US$583.6 million to US$942.1 million.

In facing the challenges of agricultural trade liberalization that were brought about not only by the AFTA but also the World Trade Organization's Agreement on Agriculture (AoA), the government has formulated the Third National Agricultural Policy (NAP3), 1998-2010. Among the objectives of the NAP3 are to increase productivity and competitiveness of the sector and to create new sources of growth. One of the major strategies employed to realize the objectives of NAP3 is to lay a stronger economic foundation to enable greater improvements in the efficiency, productivity, and competitiveness of

Malaysian agriculture. In this regard, the government is committed to further development of the key elements of the economic foundation, including human resources, technology, the physical infrastructure, finance and incentives, and industries and institutions that support the agricultural sector. Budgetary outlays are being enhanced to effect such development. Agricultural production would also be geared towards niche markets where quality rather than price is the primary influence on consumers' purchasing decisions. Towards this end, facilities and capabilities for food inspection and quality control are to be expanded and upgraded. In addition, programs for creating awareness among producers on the importance of, and adherence to, the proposed health and safety standards are also underway.

Role of Demographics in the Food System

Trends in Malaysian food consumption are typical of those of developing countries, where structural changes in dietary habits can be categorized into the following stages: an initial increase in the consumption of traditional staple foods (such as rice), followed by an increase in the consumption of non-traditional staple foods (such as wheat and secondary products derived from traditional staple materials), diversification in consumption habits including the time and place of consumption, and finally, an increase in the consumption of a greater variety and volume of higher value and higher protein foods (such as meat, fish, and milk). The latter is likely to be at the expense of traditional sources of lower quality protein (such as cereals) rather than the sources of traditional higher quality protein. Hence, in Malaysia, it is generally observed that the demand for meat, fish, dairy products, and food eaten away from home has increased considerably, while the importance of rice as a staple food is decreasing steadily. From 1985–2000, per capita rice consumption declined by 16.1%, from 102.2 to 85.7 kg, and it is forecasted to decline further to 80.4 kg in 2010. Wheat consumption, a substitute for rice, has increased by 8.7%, from 29.9 to 32.5 kg over the same period. Consumption of beef and chicken has increased by 120.8% and 141.7%, respectively. Their consumption is expected to increase by the annual average rates of 4.7% for beef and 0.4% for chicken until 2010. Pork consumption did not change. Fruit, vegetable, and fish consumption have doubled. Fruit and vegetable consumption are projected to grow by 2%, and fish by 1.6%, over the next 10 years. Thus the substitution of calories obtained from non-staple for staple food sources has been substantial. Typically, economists explain such changes in food consumption patterns primarily as a result of increasing income and changes in food prices. However, in a country that is undergoing rapid structural transformation and urbanization, changes in tastes and lifestyles, market development, and occupation also may be important influences on food demand. This observation is supported by Alias (2001), which indicates that Malaysian consumers are moving towards high-value and superior food as per capita income increases and the level of affluence of Malaysian society rises.

FOOD EXPENDITURE PATTERN: In terms of changes in the food expenditure pattern, the proportion of total expenditure accounted for by food consumption fell drastically from 45.1% in 1973, to 35.4% in 1980, 35.2% in 1994, and 22.6% in 1999. The proportion remained stable at around 35% in the 1980s, implying that food expenditure rose in conjunction with total household expenditure. Contrary to Engel's law, the reason that the proportion did not fall with the rapid economic growth of the 1980s is that a decrease in the proportion expended on at-home food was almost cancelled out by an increase in that of expenditure for away-from-home food. This means that the share of food consumed away from home increased at the expense of at-home food consumption. The proportion of food consumed away from home increased from 7.1% in 1980 to 12.5% in 1994, while the proportion of at-home food declined from 28.4% to 22.7% over the same period. This implies that although the proportion spent on at-home food to total expenditure decreased 5.7%, the expenditure on food consumed away from home increased 5.4% from 1980 to 1999.

EXPENDITURE WITHIN FOOD GROUPS: Consistent with the changes in per capita food consumption, in both 1973 and 1980, the highest proportion within food expenditure was spent on rice, bread, and other cereals, whereas in 1994 and 1999, this subgroup was ranked third and fourth, respectively. In 1999, out of total food expenditure, the proportion spent on rice was 10.6%; bread and other cereals, 11.4%; meat, 13.6%; fish, 20.1%; and fruits and vegetables, 20.4%.

EXPENDITURE AND CONSUMPTION PATTERN BY STRATUM: The proportion of urban population had increased to 60.4% in 2002, compared to 50.7% in 1990. Looking at the urban-rural dichotomy, distinct consumption patterns emerged. The priority placed on food expenditure was relatively higher for rural households. In 1999, rural households spent 28.8% of their budget on food compared to 19% by urban household. Out of total expenditure, food ranked first in importance for rural households, while it ranked second for urban households.

On the other hand, expenditure on away-from-home food was higher for urban households: it was 12% compared to 7% of the budget for rural households. The increasing popularity of taking meals away from the home in the urban areas is probably partly out of preference and partly out of practical necessity.

EXPENDITURE PATTERNS BY ETHNIC GROUP: The three major ethnic groups of Malaysia are Bumiputra (65.1%), Chinese (26%), and Indian (7.7%). Bumiputra households spent 16% less on food in 1994 compared to 1973. In 1973, Bumiputra households spent around 41% of their household budgets on food. This amount was reduced to 30% in 1980, and though food was still the most important component of the household budget, it made up only 25% of the total expenditure in 1994. The component of away-from-home food is gaining importance in the Bumiputra's expenditure pattern, reflecting the growing popularity of eating out. In 1973, only 4% of the budget was devoted to this category. There was an increase of 1% in

1980, and in 1994, there was a noticeable increase of almost 9%.

Chinese and Indian households showed similar trends in their food consumption patterns. The proportion spent on food showed a marked decline from 34% in 1973, to 26% in 1980, and 20% in 1994. However, the budget spent on food consumed away from home by Chinese households reflects a different pattern compared to the Bumiputra. In 1980, there was a drop of 1% in this component over the 1973 figure, but it rose substantially to 14% in 1994. Thus, generally, Chinese households allocate a smaller percentage on food compared to Bumiputra households; the reverse is noticed in the food-away-from-home item. Indian households also spent relatively less on food in 1994 compared to 1973 and 1980. The figures were 34% in 1973, 29% in 1980, and 23% in 1994.

It can be observed that Bumiputra households spent relatively more on food compared to Chinese and Indian. For both Bumiputra and Indian households, food expenditure ranked first, while for the Chinese households, it is third in importance.

CONSUMPTION BY AGE GROUP: In general, the mean energy intakes were found to decline with age. For the elderly (those more than 60 years old), mean energy intakes for both sexes were lower than the Malaysian Recommended Dietary Allowances. The percentage of carbohydrate from total calories is higher compared to fat and protein. As people grew older, there was a decline in the intake of protein, fat, and carbohydrate. Significantly lower carbohydrate intake was noted in cohort group above 80 years. In terms of per capita consumption, in general, the consumption of rice and wheat tends to increase until the mid-40s, and decline thereafter. The consumption of meat, fish, and fruits, however, tends to increase until the mid-60s, and decline afterwards.

POLICY IMPLICATIONS: Having presented the structural changes in food consumption over time, there are several concerns that need to be addressed. One is the price of some foods that have been on the rise recently, like meat and fish. This has been major point of contention among consumers, and efforts to regulate or even control their prices have not been fully successful. The price increases are impediments to economic access by consumers. There are greater concerns related to aspects of availability and stability. Past experience has shown the prevalence of a supply-demand mismatch for many food products, including fish, poultry, and other meats and vegetables and fruits, and this mismatch causes shortages at certain periods and places.

The discernible shift in food demand from rice to wheat-based products like bread and various convenient and instant foods is in line with Malaysia's rising affluence. The reduction in the household consumption of rice (income elasticity is –0.240), which is compensated by an increased intake of wheat-based food items (cross-price elasticity is 0.106) and prepared foods, has a beneficial effect of reducing the pressure on domestic rice production and the need to attain a very high self-sufficiency level in rice. This corresponds with the government policy of maintaining only 65% rice self-sufficiency given the

cost of rice production in the country.

While rice still contributes the bulk of the calorie intake in the Malaysian diet, the rapid development of the country's economy is encouraging a shift from rice to higher value and higher proteins foods such as those derived from meats and fish. The future demand for live-stock products is thus an important concern for policymakers because of its impact on self-sufficiency, food prices, and the nation's trade balance.

Urbanization has been shown to have a significant effect on food consumption in terms of dietary habits and food preferences. Since urbanization is expected to proceed rapidly in a number of developing countries, including Malaysia, over the coming decades, projections of future global food supply and demand balances need to take such structural changes into account. Domestically, this has placed an increasing pressure on existing food production systems, food imports, as well as food quality and safety from plough to plate.

From the above analysis, the food supply chain is increasingly market-led, with the end consumer being one of the main drivers for change. Demographic factors seem to be among the most significant variables that generate changes, and understanding the changes that occur will probably provide one of the best bases for adding value to the supply chain to meet consumer needs and formulate appropriate policies. Thus investment in tomorrow's food sector will only be meaningful if the relationships in the supply chain are recognised and responded to in Malaysia, as elsewhere. One area that needs a special focus is the goal of greater integration between food producers and downstream sectors. While the lack of market integration in the food sector has not deprived producers of high returns, it does lead to bot-tlenecks in the supply and distribution of products to consumers. Restructuring of the food market and marketing system has to be undertaken to ensure more remunerative returns to producers. Concomitantly, integration between food producers and final markets, including super and hypermarkets, restaurants, and hotels as well as the tourism industry should be encouraged.

	Units	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
FOOD CONSUMPTION PATTERNS *a*												
Per-capita caloric intake	Cal/day	2786	2807	2813	2818	2822	2834	2842	2850	2858	2860	2868
From animal products	Cal/day	507	516	524	533	539	549	557	565	573	573	574
From vegetable products	Cal/day	2279	2291	2289	2285	2283	2280	2277	2278	2277	2277	2278
Protein (percent of calories)	%	8.0	8.0	7.9	7.9	7.8	7.8	7.8	7.8	7.8	7.8	7.7
Fat (percent of calories)	%	33.2	33.4	33.4	32.5	33.6	33.6	33.7	33.8	33.9	33.9	33.8
Carbohydrates (percent of calories)	%	58.8	58.6	58.7	58.6	58.6	58.6	58.5	58.5	58.5	58.5	58.6
INCOME AND FOOD PRICE *b*												
Per-capita income	US$/capita	3432	4011	4446	4377	3093	3238	3516	3584	3814	4031	4310
% disposible income, total food	%	34.9	34.9	34.9	34.9	34.9	34.9	33.8	33.8	33.8	33.8	33.8
% disp. income, food away from home	%	9.8	9.8	9.8	9.8	9.8	9.8	9.7	9.7	9.7	9.7	9.7
Food price index	1990 = 100	120.3	126.2	133.5	138.9	151.3	158.3	161.3	162.5	163.6	164.9	166.0
General price index (CPI)	1990 = 100	117.4	121.4	125.6	129.0	135.8	139.6	141.8	143.8	146.4	148.6	151.1
Food price index	%	5.3	4.4	5.3	3.5	8.6	4.6	1.9	0.7	0.7	0.8	0.7
General price index (CPI)	%	3.7	3.4	3.5	2.6	5.2	2.8	1.6	1.4	1.8	1.5	1.7
POPULATION *b, c, d*												
Total population	Million	20.1	20.7	21.2	21.7	22.2	22.7	23.3	24.0	24.5	25.0	25.6
Urban	%	54.1	54.7	55.6	56.5	57.3	58.1	58.8	59.6	60.4	61.2	62.1
Nonurban	%	45.9	45.3	44.4	43.5	42.7	41.9	41.2	40.4	39.6	38.8	37.9
Share of population in the following age groups												
0-4 years	%	12.5	12.3	12.0	11.8	11.7	11.6	11.5	11.6	11.5	11.3	11.2
5-14 years	%	23.5	23.2	23.0	22.7	22.5	22.4	22	21.4	21.1	20.7	20.3
15-19 years	%	9.9	9.9	10.0	10.0	10.1	10.1	10.2	10.1	10.1	10.2	10.2
20-44 years	%	38.2	38.5	38.6	38.8	38.7	38.9	39	39.2	39.3	39.5	39.7
45-64 years	%	12.3	12.5	12.7	13.0	13.2	13.2	13.5	13.8	14.1	14.3	14.6
65-79 years	%	3.1	3.1	3.1	3.1	3.2	3.2	3.2	3.3	3.3	3.4	3.4
80 years and over	%	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Median age of population	Years	21.7	22.0	22.2	22.5	22.8	23.0	23.4	23.7	24.0	24.2	24.5
Female labor force participation *c, e*	%	na	44.3	45.8	44.9	43.8	43.8	44.5	44.3	45.5	44.3	44.4
LIFE EXPECTANCY *d, e*												
Males	Years	69.3	69.5	69.6	69.7	69.7	69.9	70.1	70.3	70.4	70.6	70.8
Females	Years	74.0	74.1	74.1	74.5	74.7	74.8	75.0	75.2	75.3	75.5	75.7
FOOD INFRASTRUCTURE												
Trade capacity												
Grain exports *f, g*	1000 Tons	171	243	253	251	316	224	243	263	286	315	354
Grain imports *f, g*	1000 Tons	3509	3946	3930	4392	3569	4145	4321	4504	4695	4883	4986
Total food and agricultural trade	Million US$	10421	13514	14118	13240	12286	11827	10674	10844	11021	12278	12471
Total food and agricultural exports *h, i, j*	Million US$	6788	8943	8703	8312	8386	7691	6449	6460	6471	6471	7494
Perishable products *k*	Million US$	313	324	349	347	275	325	344	352	360	374	381
Fishery exports h, *i*	Million US$	314	329	320	330	301	295	344	350	357	359	361
Total food and agriculture import *i, j, l*	Million US$	3633	4571	5415	4928	3900	4136	4225	4384	4550	4550	4679
Perishable products *k*	Million US$	771	980	1078	1040	761	864	931	975	1020	1062	1072
Fishery imports *i, l*	Million US$	285	308	331	326	221	253	293	299	305	317	317
Port capacity *c*	Million tons	na	174	174	174	257	300	344	384	423	465	485
Road access *e*	Kms	na	61207	62436	63748	64949	65091	65141	65345	66064	66593	66993
Rail access *e*	Kms	na	2227	2227	2227	2262	2265	2279	2311	2325	2325	2325
Telecommunications *e*	Lines/100 person	na	19.5	24.2	28.5	29.3	31.4	35.2	38.3	41.5	42.5	43.5
Power generation *m*	Gigawatts	40160	46634	52819	58674	60471	62553	66506	72413	78845	79790	83654
Percent of population with refrigerators	%	na	92	92	92	93	93	93	95	95	95	95
FOREIGN INVESTMENT IN THE FOOD SECTOR												
Inward FDI in the food sector, total *n*	Million US$	77.2	47.6	50.8	61.9	93.1	72.8	70.6	72.5	180.9	77.4	74.4
From other PECC economies *o*	Million US$	57.3	38.3	40.6	43.6	75.1	50.2	29.9	28.8	31.8	29.4	28.2
ROLE OF AGRICULTURE AND TRADE IN THE ECONOMY *b, c, f*												
Agriculture as a share of GDP	%	14.6	10.3	9.8	9.2	9.6	9.4	8.7	8.3	8.0	7.6	7.3
Self-sufficiency in grain	%	39.7	36.9	35.8	32.8	38.0	31.0	30.6	30.2	29.7	29.5	27.8
Self-sufficiency in rice	%	77.4	76.3	75.2	74.2	73.1	72.1	71.1	71.2	71.4	71.6	71.8
Self-sufficiency in horticultural products	%	94.7	87.0	78.1	79.0	83.7	74.7	72.0	69.2	66.5	68.6	68.4
MACROECONOMIC INDICATORS *b*												
GDP growth	%	9.2	9.5	8.6	7.7	-7.4	5.8	8.5	0.4	4.2	3.7	4.5
Interest rate *p, q*	%	6.8	8.0	9.2	10.3	8.0	6.8	6.8	4.0	3.0	3.0	3.3
Exchange rate	Ringgit/US$	2.62	2.51	2.52	2.81	3.92	3.80	3.80	3.80	3.80	3.80	3.80

Sources:
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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. 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 agriculture 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, 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