



2016 Top Markets Report **Cold Chain** Country Case Study

Malaysia

Malaysia’s Competitiveness Index puts the country near the top in all categories. Concerns over transparency and protectionist measures may cast a shadow on its future growth potential.

Overall Rank

8

**Upper-Middle
Category
Ranking**

1

Malaysia has an estimated GDP of \$338 billion. Exports of goods from the U.S. amounted to \$13 billion, but U.S. services export data is unavailable. U.S. majority owned foreign affiliate sales in Malaysia were \$51.1 billion, and distribution services accounted for more than \$4.6 billion in 2013, though retail data is unavailable.¹ All trade figures are down from their peak in 2011, but Malaysia is the United States 19th largest trading partner.

The population of Malaysia is considered upper middle income, with a per capita income of about \$24,770 (PPP) per year. Unemployment has dropped to 2 percent, and inflation was 3.1 percent in 2014.²

The organized food retail sector accounts for less than half of grocery sales in Malaysia. Food spending is expected to grow more than 8 percent annually to reach \$45.6 billion by 2020,³ boosted by rising incomes and awareness of the health benefits of fresh foods.

The franchise sector in Malaysia is seeing steady growth. U.S. franchisors are 39 percent of all foreign operating franchise establishments in Malaysia. The food and beverage sector is the largest single sector of the franchise industry in Malaysia, comprising 36 percent of all approved franchises.

E-commerce in Malaysia has grown substantially. Nearly 70 percent of the population, or more than 21 million people, have adopted e-commerce. It is

Figure 1:

Competitiveness Index	Score
Government/Regulatory	5.2
Labor Force	5.4
Infrastructure	5.5
Demand	5.3
Industry Interest	3.0

World Economic Forum and Global Cold Chain Alliance

Economic Statistics

Population	30.3 Million
Cold Storage Capacity	N/A
Pharmaceutical Sales	\$2 Billion
Food Spending	\$29.5 Billion
Food Spending per Capita	\$974
Agribusiness Market	\$28 Billion
Agriculture Imports	\$1.3 Billion
Agriculture Exports	\$4.4 Billion

BMI and Global Cold Chain Alliance

anticipated that this growth will continue through at least 2020 due in part to the government’s push to promote the use of the Internet to connect to global economies. Across Asian nations, there has been a trend toward purchasing groceries and food products online. Although these grocery sales are primarily non-refrigerated products now, this may represent a great opportunity for cold chain service providers in the long-term, as the emergence of online shopping for groceries should create additional demand for refrigerated trucks and warehouses near major population centers.

Pharmaceutical sales in Malaysia are estimated at \$2 billion in 2015 and are anticipated to increase at a compound annual growth of 9.5 percent to reach

around 3.2 billion by 2020. Malaysia represents an attractive opportunity for refrigerated logistics service providers to serve the growing pharmaceutical industry. The Government of Malaysia has announced that it will invest in the biotech sector to boost production capabilities.⁴

Malaysia's agri-business is estimated at \$28 billion and is expected to rise to \$38 billion by 2020.⁵ In 2013, the United States exported \$181 million of dairy products to Malaysia, comprising 16 percent of imports. Fresh fruits amounted to \$77 million, increasing at a rate of 10 percent annually.

Malaysia ranked 18th in the World Bank's 2016 Ease of Doing Business Rankings, a drop of one place since 2015, when the survey was recalculated. Prior to the methodology changes, Malaysia ranked as high as sixth place in 2014.

Figure 2: World Bank Doing Business Ranking

Country	Ranking (2016)	GDP Per Capita (PPP, 2014)
Malaysia	18	\$13,956
Russia	51	\$25,635
China	84	\$13,206
Brazil	116	\$15,838
India	130	\$5,701

Malaysia is ranked 52nd out of 124 countries in the World Economic Forum's Human Capital index 2015. The population has a median age of 26 and a labor participation rate of 57.5 percent. More than 13 percent of the population is tertiary educated, and the country is ranked fourth in ease of finding skilled employees.⁶

Malaysia has a high potential for cold chain sector growth in the ASEAN region. Quality products and the potential for trade within the ASEAN region make Malaysia an attractive market for U.S. service providers. Cold chain logistics companies currently in the market include CCN, IGLO, Kotena National, Integrated Cold Chain, MAFC, Haisan, MISC, IMC, Gerimis, Gold Coin, Vesco, NCB, Bifrost, LTS and Actionpack. The expected annual increases of 7 percent in consumer spending and a growing middle class over the next several years represent a good

opportunity for retail growth and imports from the United States.

More than 60 percent of Malaysia's population is Muslim, and Malaysia is a forerunner in the halal food production industry. This can represent an opportunity for refrigerated logistics services. Given the demand for halal food products in Malaysia, cold chain logistics providers interested in entering this market should consider getting certified to appeal to all consumer segments.

The Malaysian government expects the country to become a global hub for halal products with its extensive product lines, halal distribution centers and government promoted certification process for halal production, processing and distribution.⁷ MS1500:2400 is Malaysia's proprietary halal standard. The certification process is stricter than that of other countries, including Saudi Arabia. The Department of Islamic Development, or JAKIM, is Malaysia's halal certifying authority.

The additional requirements necessary for certification can often increase the cost of production for U.S. companies and producers. While many consumers support halal logistics it requires the entire supply chain to adhere to certain principles; if one partner in a supply chain does not adhere to these principles, the product cannot be labeled as halal. In the case of Malaysia, a partner in the supply chain that has been certified halal by a different authority (such as Saudi Arabia) will not automatically receive certification by Malaysia's halal standards. Several U.S. producers that have been approved by Saudi halal authorities have not been approved by Malaysia.

Malaysia's quality of transport infrastructure is ranked 10th out of 140 countries in the World Economic Forum Global Competitiveness index. With the exception of air transport, all categories of transportation have improved since 2011.⁸ It is worth noting that the Government of Malaysia has been a strong supporter of port development. The Malaysian government has been proactive in promoting infrastructure, and opportunity exists for cold chain services to conduct business in this region.

Researchers have found that lack of regulatory forms to facilitate the logistics industry and lack of information sharing with regard to expansion and

development of the logistics industry are constraints for industry.⁹ Companies intending to undertake cold chain logistics and related services are required to:

- Incorporate a company under the Companies Act of 1965
- Obtain the appropriate licenses, e.g., for operating public/private bonded warehouses and commercial vehicles and haulage (Class A license).

Malaysia ranked 25th out of 160 countries in the World Bank's 2014 Logistics Performance Index (LPI). The LPI is an indicator of key dimensions of a country's logistics performance, including Customs, Infrastructure, International Shipments, Competence, Tracking and Tracing, and Timeliness. Overall, the country has remained virtually unchanged in almost every category of the Index from 2007, though the category of Ease of International Shipments has shown marked improvement.¹⁰

In late 2015, Malaysia launched a Logistics Masterplan outlining the following:

- Strengthening the institutional and regulatory framework;
- Improving trade facilitation mechanisms;
- Developing infrastructure and freight demand;

Resources:

U.S. Commercial Service:

<http://www.export.gov/malaysia>

Country Commercial Guide:

<http://export.gov/ccg/malaysia>

Halal certification information:

<http://www.halal.gov.my/index.php>

- Strengthening technological and human resource development; and
- Internationalization of logistics services.

The objective of the masterplan is to strengthen the position of Malaysia as the preferred logistics gateway to Asia.

Malaysia currently has labor regulations that can be very challenging to comply with, especially for SMEs. The regulations make it difficult to hire expatriate employees and instead promote hiring ethnic Malay groups as opposed to other ethnic groups.

Malaysia is a party to the recently negotiated Trans-Pacific Partnership (TPP). Upon ratification, U.S. businesses may find increased potential for growth and more opportunities to participate in trade. The agreement will eliminate tariffs, lower service barriers and increase transparency while also increasing competitiveness by instituting stronger intellectual property rights protection and establishing enforceable labor and environmental obligations.

The TPP will promote fairness by ensuring non-discriminatory treatment of U.S. goods and services, establishing rules for fair competition with State-owned enterprises and providing the same rights and protections for U.S. investors that foreign investors currently enjoy in the United States while protecting the inherent right of governments to regulate.

Industry's Take:

Malaysia is a very attractive market because of economic growth, quality of products and the potential for trade in the ASEAN region. There is a need to gather more specific information about the cold chain industry that is currently lacking.

Richard Tracy, Global Cold Chain Alliance

¹ Bureau of Economic Analysis; <http://bea.gov/international/factsheet/factsheet.cfm?Area=617>.

² The World Bank; <http://worldbank.org>.

³ Business Monitor Online; <http://bmo.bmiresearch.com>.

⁴ Pharmaceutical & Healthcare Report, 2015: Malaysia. Business Monitor Online

⁵ Business Monitor Online; <http://bmo.bmiresearch.com>.

⁶ World Economic Forum; "Human Capital Report 2015"; http://www3.weforum.org/docs/WEF_Human_Capital_Report_2015.pdf.

⁷ Factors Influencing ICT Adoption in Halal Transportation. International Journal of Computer Science Issues. January, 2012

⁸ World Economic Forum 2015; "Global Competitiveness Report 2015-2016"; http://www3.weforum.org/docs/gcr/2015-2016/Global_Competitiveness_Report_2015-2016.pdf.

⁹ Logistics Development in Malaysia East Coast Region. International Journal of Trade, Economics and Finance, October, 2013

¹⁰ World Bank 2014; "Connecting to Compete: Trade Logistics in the Global Economy"; http://lpi.worldbank.org/sites/default/files/LPI_Report_2014.pdf.