

Need to Reinvent Food Processing Industry in Malaysia

The food industry is generally the least vulnerable to economic changes in the world. Food markets are constantly evolving, driven not only by changes in consumer preferences, but also by technology, linkages between members of the food supply chains, prevailing policies and business environments. Food processing involves any type of value addition to agricultural or horticultural produce. The food processing industry provides vital linkages and synergies between industry and agriculture. Understanding the competitive nature of the global food industry means understanding changing consumer preferences and the food industry's efforts to meet these demands.

Consumer demand for processed food continues to grow globally. It is estimated that the present global retail sales in food products are worth US\$3.5 trillion and are expected to grow at an annual rate of 4.8 per cent to US\$6.4 trillion in 2020. In Malaysia, the food processing industry accounts for one-tenth of domestic manufacturing output. During the period of the Second Industrial Master Plan (IMP2) 1996-2005, the contribution of the industry to the total manufacturing output had increased from 6.1 per cent in 1996 to 9.9 per cent in 2005.

In terms of numbers, small and medium-sized firms dominate the food industry in Malaysia. Based on the findings of the Annual survey of Manufacturing Industries 2003 by the Department of Statistics (DOS), there were more than 2,000 establishments involved in the food processing industry. SMEs comprised more than 80 per cent of the total number of establishments.

Recognising the importance of developing an efficient and modern food industry, the government, through the various agencies, has formulated an integrated approach to develop the small-scale food industries. The type of assistance given can be classified generally as technical services, training and extension services,

financial assistance, and advisory and consultancy services, including the outline of the “halal” concept.

While the government continues to provide the necessary incentives and facilities to the industry, greater initiatives and positive response from the private sector are also needed to realise the goal of making Malaysia a recognised international hub for not only halal food, but also for all processed foods.

The MS1500:2004 standard, which covers the guidelines of food safety principle (MS1514), Hazard Analysis Critical Control Point (HACCP-MS1480), as well as guidelines for good cleaning practice for small and medium food industries towards a HACCP, was introduced in April 2004. This means that the small and medium firms need to upgrade their technologies to ensure that the quality of their products is reliable, consistent and of a high standard, since the quality aspects are essential in the competitive global market.

SMEs should realise that the economy and business are shifting towards a new world configuration of digital information and knowledge-based network. SME owners need to take on this challenge seriously and find out how business intelligence and knowledge management solutions as well as the new economy related assistance schemes offered by the government can assist them. If the food manufacturers remain stationary in their traditional tide, they will eventually be engulfed by the globalisation wave.

A related issue is lack of the supply of raw material and its sourcing. A current issue is whether to provide for it indigenously or sources it from overseas. In some areas, the raw materials required for processing are imported due to domestic lack of comparative advantage in production. This usually affects the production flow and the marketing set-up. Since Malaysia is not even self-sufficient in many

food products, there is an obvious need to either focus more on value-adding or relocate food manufacturing activities to lower-cost centers overseas.

In a food industry driven by consumers' retail pull, food manufacturers have to continuously reorient themselves to remain competitive. Firms that respond to market signals are better able to adjust and maintain their positions in the industry. Flexible organisational structures that enable firms to make adjustments at various stages of the production process, in response to consumer demand, are better suited for the industry.

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