

Malaysia



Malaysia

Malaysia's geography can be divided into two demographic and economic regions. They is West Malaysia – also referred to as Peninsular Malaysia

along the Straits of Malacca – and East Malaysia, which consists of two states on the Island of Borneo.

ECONOMIC OVERVIEW

The Malaysian economy has demonstrated strong resilience in the face of external uncertainties. Economic growth continues to be broad-based with all sectors registering higher output. Growth will continue to be driven by the services and manufacturing sectors, and by the prospect of global economic growth.

GDP AND CPI

Malaysia's GDP registered stronger-than-expected growth of 5.2% in 2003, well ahead of the 4.1% growth recorded in 2002.

The private sector makes up the bulk of the Malaysian economy, with private consumption accounting for nearly half (46.3%) of GDP.

Key economic indicators	1999	2000	2001	2002	2003
GDP growth (%)	6.1	8.5	0.3	4.1	5.2
CPI (%)	2.8	1.6	1.4	1.8	1.1

Source: Bank Negara Malaysia

Malaysia's inflation has remained subdued over the years despite an expansionary fiscal regime and liberal monetary policy aimed at revitalizing the economy. The CPI peaked at 5.3% in 1998 at the height of the Asian financial crisis, before easing back down to 2.8% in 1999 and then narrowing to 1.1% in 2003.



Area ('000 sq km): 329.8
(US 9,600 – EMU 2,500 – World 133,700)

Capital: Kuala Lumpur

Population (million): 25.0
(US 288.4 – EMU 305.5 – World 6,200)

GDP (USD billion): 94.9
(US 10,400 – EMU 6,600 – World 32,300)

GNI per capita (USD): 3,540.0
(US 35,400 – EMU 20,320 – World 5,120)

Currency: Ringgit (MYR)

Languages: Bahasa Melayu, English, Chinese dialects, Tamil, Telugu, Malayalam, Punjabi, Thai

Main religions: Muslim, Buddhist, Taoist, Christian, Hindu

Government type: Constitutional monarchy

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UNEMPLOYMENT

Despite slower economic growth in 2003, unemployment was at 3.5%, or almost full employment. The improved labor market conditions led to a significant decline in the number of retrenched workers and higher demand for labor during the course of the year.

ECONOMIC FORECASTS

Bank Negara Malaysia (BNM), the central bank, expects the Malaysian economy to grow by between 6.0% and 6.5% in 2004. All sectors of the economy are expected to enjoy growth, with the manufacturing and services sectors leading the way. The Malaysian Institute of Economic Research (MIER), an independent research institute, is optimistic that the Malaysian economy will grow at a brisk pace of 6.7% in 2004.

Malaysia's buoyant economic outlook is largely driven by the strong rebound in the private sector, which is taking the lead role as the country's engine of growth. Private consumption is expected to rise by 8.1% this year, compared with 5.1% in 2003. Meanwhile, private

investment is forecast to grow by 11.5%, significantly higher than the 1.1% registered last year. The projections for 2004 are also based on stronger global economic growth led by a synchronized recovery across all regions, an upturn in global electronics' prices, and firm prices for crude palm oil and crude oil.

Despite the recovery in household consumption over the last few years, inflation has remained very subdued. The impact of rising oil prices on inflation is expected to be limited since the prices of petroleum and petroleum-related products are controlled by the government and petrol only makes up 5% of total CPI. Inflation is expected to remain low at 1.5% in 2004. Adequate capacity, increasing competition and low inflation abroad are expected to keep domestic inflation benign.

In line with the stronger GDP growth in 2004, overall growth in employment is also expected to strengthen by 1.9% to 10.5 million in 2004, with encouraging growth in new job opportunities. Consequently the unemployment rate is expected to improve to about 3.4% in 2004.

REGULATORY ENVIRONMENT

FOREIGN DIRECT INVESTMENT

Despite global uncertainties and greater competition for FDI in new emerging economies, FDI inflows into Malaysia have stabilized in recent years. A notable development has been the changing nature of FDI flows. These flows have become more broad-based with a higher share of new flows shifting towards higher value-added activities in the services and the manufacturing sectors.

Malaysia's government continues to focus on attracting foreign direct investments (FDI) and has adopted a pro-business environment policy to create a harmonious place for businesses to operate. For 2003, gross inflows of FDI improved 6.3% year-on-year to MYR21.8 billion.

WHOLESALE AND RETAIL REGULATIONS

The supervision of the wholesale and retail sector falls under the supervision of the Ministry of Domestic Trade and Consumer Affairs (MDTCA) through the Committee on Wholesale and Retail Trade. The

Committee was set up in 1995 to regulate and supervise the industry, including foreign participation in the sector. Approval from the Committee is needed for foreign companies wanting to set up wholesale or retail operations locally and for the opening and relocation of branches.

The Government has recently reviewed Foreign Investment Committee (FIC) guidelines to provide further flexibility on foreign equity participation in local companies. In the case of acquisitions, foreigners can own up to 70%, as long as the 30% (minimum) "Bumiputra" (indigenous Malays and other ethnic groups) condition is met.

FIC and MDTCA are generally flexible on the shareholder structure. However, exceptions are examined on a case-by-case basis. Other conditions placed on foreign investment in the industry include:

- Incorporation of their wholesale and retail operations locally;
- Minimum capital requirements of MYR1 million for specialty outlets, MYR5 million for supermarkets, MYR10 million for department stores and MYR50 million for hypermarkets; and

- FIC guidelines on purchase of property by Malaysians and foreign interests.

Guidelines for new hypermarkets

Effective from April 2002, the government has approved a new set of guidelines for applications to open new hypermarkets in Malaysia:

- The minimum capital requirement has increased from MYR10 million to MYR50 million;
- Applications to build outlets should be submitted two years in advance;
- New hypermarkets cannot be built within a 3.5 kilometer radius of a housing area or a city center;
- Operations should be free-standing, which means hypermarkets must operate in their own buildings and not as part of any other complexes;
- A socio-economic impact study has to be conducted by the local authorities in the proposed

area before any application is considered. The cost of the study would be borne by the applicants;

- Applications will only be considered for locations with a population of 350,000 or higher;
- Floor space should not be less than 8,000 square meters and a counter must be set up in every 1,000 square meters;
- Applicants should provide a business centre for interested traders with reasonable rentals.
- With effect from January 1, 2004 to January 1, 2008, the government has declared that it will disallow any new foreign-owned hypermarket development and construction in Klang Valley, Johor Baru and Penang; and
- From April 2004, the Government has standardized operating hours for all hypermarkets – 10am to 10pm on weekdays and 10am to midnight or 1am on weekends.

DEMOGRAPHICS AND CONSUMER BEHAVIOR

POPULATION

Population evolution

Year	1999	2000	2001	2002	2003
Population (million)	22.7	23.3	24.0	24.5	25.0
Population growth (%)	2.3	2.6	3.0	2.1	2.0

Source: Economic Reports

In 2003 Malaysia's total population stood at 25.0 million with a population density of 75.8 persons per square kilometer. The nation's capital, Kuala Lumpur, has a population of around 1.5 million and a much higher density of 6,180 persons per square kilometer. Although East Malaysia makes up 60% of Malaysia's landmass, it only accounts for 20.3% of the country's population, with a total of 5.1 million inhabitants in 2003.

Over the last 11 years, Malaysia's population has been growing at a steady rate of 3.0% per annum. The country is experiencing an increase in rural to urban migration. The average age of the Malaysian

population is young at 25.8 years old and average life expectancy stands at over 70 years.

Population by age group

2003	Total (in million)	%
0 – 19	10.7	43.0
20 – 49	10.8	43.4
Above 50	3.4	13.6

Source: Social Statistical Bulletin 2003, Department of Statistics, Malaysia

INCOME / BUYING POWER

Malaysia is classified as an upper-middle income country, and considered as one of the most developed of the developing countries. The proportion of middle-income households, defined as those earning between MYR1,200 and MYR3,499 per month, has increased from 47.7% in 1999 to 47.9% in 2002. Mean monthly gross income per household increased from MYR2,472 in 1999 to MYR3,011 in 2002, denoting average growth of 6.8% per annum.

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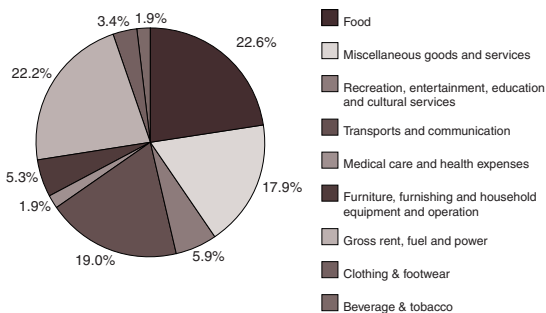
On average, households living in urban areas spent 1.5 times more than households living in rural areas. Average consumer spending stands at MYR1,943 per month in the urban areas and MYR1,270 per month in the rural areas.

Private consumption increased at a faster pace of 5.1% year-on-year in 2003, underpinned by improved consumer confidence. The propensity to consume is likely to be further enhanced by firm commodities prices, higher export profits, low interest rates, a stable job market and the positive wealth effect of the buoyant stock market. At the same time, rural incomes are likely to be higher due to the large multiplier impact induced by higher commodity prices.

CONSUMER BEHAVIOR

Average household spending patterns

Composition of Household Expenditure: 1998-1999



* Based on the average monthly household expenditure of MYR1,631

Source: Malaysia Household Expenditure Survey Report 1998/99, Department of Statistics, Malaysia

Malaysians spend a high percentage of their household income on food, groceries and personal care items, ranking third out of the ten major economies in the Asia-Pacific region (excl. Japan). According to ACNielsen, Malaysians on average spent MYR505 per month on

food and groceries, with just under half of that on fresh food like meat, fruits and vegetables.

Lifestyles / Shopping habits

Malaysia's consumer lifestyle has been evolving and changing due in part to rising affluence and education levels. High profile international retailers and the global mass media have also played a hand in shaping consumer-buying behavior. Malaysians are becoming more westernized, sophisticated and cosmopolitan.

Malaysians also have an open demand for foreign brands. It is easy to find products marketed by Procter & Gamble, Unilever and Nestlé on the retail scene. Preference is not only limited to consumer goods, but also to durable goods, such as motor vehicles.

Since the emergence of the foreign-owned hypermarkets, Malaysians who live in urban areas have become accustomed to shopping for groceries at hypermarkets and supermarkets. Meanwhile rural people continue to purchase from traditional grocers, convenience stores and mini-marts.

As far as eating-out is concerned, Malaysia is one of the countries in the world where a family can afford to eat out almost every day of the week. Depending on one's budget, the choice of eating places can range from posh hotels and chic sidewalk cafés to fast-food joints and hawker stalls. The variety of international and local cuisines available in almost all major commercial centers has influenced consumers' desires, tastes and preferences.

High and middle-income households spend most of their money at hypermarkets, followed by supermarkets and traditional grocery stores. The high-income group has household income of more than MYR3,500 per month.

RETAIL & CONSUMER SECTOR PERFORMANCE

MAJOR CONSUMER GOODS PLAYERS

Below are some of the major players in consumer packaged goods (CPG), household electrical products, food and beverages, household and personal care products in Malaysia, ranked by sales.

Ranking	Company name	Core business	Net sales 2002	Net sales 2003	2002-2003 Growth (%)
1	OYL Industries Bhd	Manufacture and sale of household electrical products (including air-conditioning systems)	1,140	1,185	3.9
2	British American Tobacco	Manufacture, import and sale of tobacco and luxury consumer products	809	842	4.1
3	Nestlé Malaysia	Production, distribution and export of local F&B products and distribution of imported F&B products	653	699	7.0
4	Fraser & Neave	Beverage company with strong links to Coca-Cola	401	424	5.7
5	Carlsberg Brewery	Manufacture and distribution of beer, stout and non-alcoholic beverages	221	231	4.5
6	Guinness Anchor	Manufacture and distribution of stout and beer	185	191	3.2
7	Unilever Malaysia	Production of edible fats, fats and other household products	132	156	18.2
8	Leong Hup Holdings	Poultry processing and retailing	152	132	-13.2
9	Ayamas Food Corporation	Poultry processing, retailing and wholesaling	116	126	8.6
10	Yeo Hiap Seng	Production and distribution of food and beverage products	118	108	- 8.5
11	Unza Holdings	Manufacture and distribution of toiletries, personal care and other household products	100	103	3.0
12	Dutch Lady Milk Industries	Dairy processing	87	94	8.0

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Ranking	Company name	Core business	Net sales 2002	Net sales 2003	2002-2003 Growth (%)
13	Procter & Gamble Malaysia	Marketing and distribution of beauty care products, haircare and personal care products (including diapers)	74	75	1.3

Source: Company's annual reports

MAJOR RETAIL PLAYERS

Retail sales

According to Retail Group Malaysia, estimated retail sales reached MYR47.6 billion (USD12.5 billion) in 2003. This is expected to grow by 6.0% in 2004 thanks to rising exports and higher consumer spending.

The table below gives an indication of the total size of the retail sector over the past six years, covering food and non-food sales, but excluding wet market, morning market, night market and other non-permanent retail facilities.

Total retail market size

	Retail sales (USD billion)	Growth sales (%)
1999	10.5	7.4
2000	11.6	10.4
2001	11.7	1.7
2002	12.1	3.0
2003	12.6	3.6
2004(f)	13.5	7.5

Source: Retail Group Malaysia

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Major retailers

Ranking	Group name	Ownership	Retail formats	Number of stores	2003 Net sales (USD million)
1	Dairy Farm Giant Retail	Dairy Farm International, Hong Kong*	Supermarket/ superstores (42) and hypermarkets (12)	54	487
2	Jaya Jusco	Jaya Jusco Stores Bhd; Aeon Group, Japan	Superstore chain and shopping center operation	11	361
3	The Store Corporation	The Store Corp	Department stores-cum-supermarkets (36), hypermarkets (2)	38	297
4	Carrefour	Magnificent Diagraph, France	Hypermarket	7	234
5	Tesco	70:30 JV between Tesco, UK and Sime Darby Bhd, Malaysia	Hypermarket	5	226
6	Makro Cash & Carry Distribution	SHV, the Netherlands	Hypermarket	8	195
7	Parkson Retail Group	Parkson Corporation, retailing arm of Lion Diversified	Department store (26), hypermarket (5)	31	161
8	Courts Mammoth	Courts Plc; United Kingdom	Retailer of furniture and electrical goods	79	131
9	Metrojaya	Metrojaya Bhd	Department store	4	75
10	Ngiu Kee Corporation	TKN Enterprise	Supermarkets & department Store	5	41
11	Ikea	Ikano Corporation Sdn Bhd; Sweden	Retailer of home furnishing products	1	34
12	Ocean Capital	Ocean Capital	Department store, supermarket	17	21

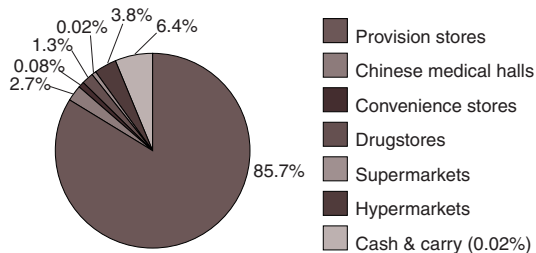
* Note: Dairy Farm International has over 170 outlets in Malaysia where it operates Giant hypermarkets, Cold Storage supermarkets and Guardian pharmacy outlets.

Source: Company's annual reports

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Retail channels

Types of stores in Peninsular Malaysia (2002 Census)*



* Based on the total number of 32,623 stores
Source: ACNielsen

Hypermarkets, Supermarkets and Department stores

Major retail outlets have seen tremendous growth since the 1980s. There are around 400 such outlets in Malaysia. Big players include Dairy Farm Giant Retail, Jaya Jusco, Makro, Parkson, Carrefour and new entrant Tesco.

After making their debut in the 1990s, foreign-owned hypermarkets are fast gaining popularity in Malaysia, attracting customers with their "one-stop" and "all-under-one-roof" concepts. Since their arrival, foreign retailers have been expanding rapidly; as at December 31, 2003, there were 32 foreign-owned hypermarket outlets in Malaysia.

With tighter regulations on hypermarket expansion, leading hypermarkets are focusing on other markets such as the east coast of Peninsular Malaysia and East Malaysia (Sabah and Sarawak) for new store openings. Prior to the latest ruling, Tesco and Giant obtained approvals to open between three and five new stores in the three restricted zones within the next 2 years.

Other store expansion plans announced by foreign retailers include:

- Tesco is looking into opening at least three new stores a year over the next three years.
- Magnificent Diagraph (100% owned by Carrefour) will be opening its eighth outlet in Putrajaya in September 2004 and another to be located at Fortune Square, Kepong in 2005.

- Dairy Farm Giant Retail plans to open four more new hypermarkets in 2004 and 2005. It has over 170 outlets in Malaysia, where it operates Giant (hypermarkets), Cold Storage (supermarkets) and Guardian (pharmacies). The group has set aside MYR24 million (USD6 million) in 2004 to absorb some of the cost of its products to be able to provide "everyday low prices" for its customers.
- Jaya Jusco has two outlets scheduled for opening in 2005, one to be located in Cheras (Jalan Balakong), Kuala Lumpur and another in Taman Desa Tebrau, Johor. Jusco will continue to concentrate on outlet openings in the west coast of Peninsular Malaysia until 2009. Jusco is not affected by the latest ruling on new foreign-owned hypermarkets in the next five years as it is a supermarket-cum-department store.
- Makro plans to open two more stores in Malaysia. New locations like Kuching, Alor Star and Kuala Terengganu are on the proposed list. The wholesaler is also working with the Malaysian government to assist small- and medium-sized enterprises.
- Courts Mammoth Bhd, a leading retailer of affordable furniture and electrical goods with 79 outlets nationwide, plans to open five to six more outlets this year. The company hopes to have 100 stores in Malaysia in the next four to five years, but the pace of expansion will depend on the availability of suitable locations.

Although hypermarkets, supermarkets and department stores have market dominance in the urban areas, local retailers and small operators still account for 57% of the local market in terms of sales turnover. Hypermarkets alone make up some 10% of total retail sales.

Convenience stores and petrol station stores

Convenience stores and petrol station stores remain a new store concept in Malaysia. These stores represent around 9.0% of total retail sales and are mainly located in major urban centers. Trade sources estimate that there are around 120 convenience stores and some 500 petrol station stores nationwide.

Key growth drivers for the Malaysian retail industry include the gradual liberalization of the market, declining domestic production, increasing reliance on food imports and increasing tourist inflows. The food

service sectors are also expected to register strong growth alongside the rising demand for convenient, healthy and international cuisine.

E-commerce

According to a recent study carried out by IDC, the number of Internet users in Malaysia reached 8.6 million at end of 2003, representing almost 35% of the

nation's total population. At least one-third of Internet users have purchased items online and the bulk of this spending went to consumer goods such as books, CDs, clothing and flowers (45%); computing products (18%); and travel products (7%).

Internet shopping has gained popularity from 24% of Internet users as a percentage of the Malaysian population in 2002 to 28% in 2003.

RETAIL & CONSUMER SECTOR CHALLENGES, OPPORTUNITIES AND EMERGING TRENDS

CHALLENGES

Intense competition

The Malaysian retail scene is gearing up for intense competition with more new players and expansion plans undertaken by foreign players. Some retailers have managed to address the competition by focusing on locations (e.g. suburban residential areas) and targeting certain segments (middle-income groups).

With the freeze on foreign hypermarket expansion in the medium term for Klang Valley, Penang and Johor, foreign players are expected to turn to the major east coast towns of Peninsula Malaysia such as Kuantan, Kuala Terengganu and Kota Baru. Nonetheless, with the minimum population requirement of 350,000 persons, only Ipoh and Kuching can qualify for new hypermarket openings.

As consumers become more cautious with their spending, retailers have had to become extremely price-competitive. The ongoing price war among major retailers continues to have an adverse effect on the small retailers, who may not be able to compete at lower prices. However, the intense competition posed by foreign players will provide additional impetus for local retailers to leverage on retail technology to better understand consumer purchasing behavior, streamline operational procedures and to enhance efficiency.

OPPORTUNITIES

Development of mega malls

Shopping malls are constantly being upgraded to cater to the increasingly fast-paced and cosmopolitan lifestyle of the Malaysian people. Among the shopping malls recently completed in Klang Valley are Berjaya Times Square (with the largest indoor children's theme park), Ikano Power Centre (key anchor tenants like IKEA, Harvey Norman) and South City Plaza. The Curve and KL Sentral are among the others that are expected to be completed within the next three years. Furthermore, the top three largest malls in Malaysia, namely Mid-Valley Megamall, Sunway Pyramid and 1-Utama are all developing expansion plans.

EMERGING TRENDS

Privileged facing of local products

As part of the effort to promote locally made products, the Government may impose a quota on goods displayed on supermarket shelves to ensure reasonable shelf space is given to Malaysian manufacturers.

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Continued dominance of multinational operators

With increasing globalization, local retailers find themselves having to compete with large foreign players by targeting niche markets. The rapid expansion of foreign-owned hypermarkets like Giant, Carrefour, Tesco, Ikea and Courts Mammoth may see the retail landscape dominated by three or four large players by the end of this decade.

Besides hypermarket, department store and supermarket operators, furniture, electrical and electronics retailers are also expected to enjoy good sales in 2004 with the completion of more housing projects throughout the country.

Emerging retail players

Emerging retail trends include the development of electronic hypermarkets. This includes the opening of Malaysia's largest electronic hypermarket located at Cheras in November 2003. e-Mall, owned and operated by Hyper-E Mall Electronic Sdn Bhd (a subsidiary of Actop International Group of Companies), which has a built-up area of 61,000 square feet, offers a wide range of electronic and electrical products. The company invested MYR10 million (USD2.6 million) to set up the Cheras outlet and plans to open up to five more outlets in the Klang Valley, Penang and Johor Bahru.

Further consolidation in the retail sector

Despite a recovering economy, the continued pressure from intense price competition and foreign retailers with aggressive store expansion plans is likely to trigger further industry consolidation, including mergers and acquisitions, especially in the department store category.

Recent merger and acquisition deals include:

- Dairy Farm International's Giant acquisition of Royal Ahold's Tops supermarket chain in Malaysia,
- The acquisition of Aktif Lifestyle Stores from Aktif Lifestyle Corp by Lion Diversified for MYR1. The acquisition includes five department stores and

three supermarkets, as well as bakery and electrical outlets,

- Acquisition of one Aktif Lifestyle Supermarket from Lion Diversified by Dairy Farm Giant Retail. Dairy Farm group intends to acquire two more Aktif supermarkets.

Domestic and tourism growth to buoy retail sector

In view of the young customer base in Malaysia – forty-two percent of the total population is aged between 10 and 34 and the average age stands at 25.8 years – the demand for lifestyle products is very high. Over the last two years, some local retailers have been offering interest-free installment plans for expensive purchases. This will encourage consumer spending thus boosting retail sales.

Retailers will also benefit from growth in the tourism sector which has seen the arrival of foreign tourists grew by 176% y-o-y in April 2004. Furthermore, the government has allocated more funds to advertising and promoting, with efforts like the recent aggressive promotional campaigns in niche markets such as West Asia aimed at making Malaysia a preferred shopping destination. Favorable exchange rates (ringgit versus other currencies) have also made Malaysia a more attractive country for tourists to shop.

Shoppingtainment

Malaysian shopping malls have become not only shopping havens but also entertainment hubs with mini-cinemas, ice-skating rinks, bowling alleys, indoor theme parks, 3-D theatres etc. The five most popular shopping malls in the Klang Valley: Mid-Valley Megamall, Suria KLCC, Sungei Wang Plaza, Sunway Pyramid and 1-Utama, all have inbuilt entertainment elements. These shopping malls capture the meaning of the latest buzzword "shoppingtainment".

The continued development of massive shopping centers and malls will mean that the major retail chains are likely to continue to operate under one roof, rather than take on separate high street sites.

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