Chapter 8

Promoted Growth Sectors

The successful transformation and growth of the economy require SMEs to utilise on existing resources and leverage on new market opportunities. Globalisation has increased the level of competition in the international market. With this in mind the Malaysian Government, under the 9MP and IMP3, has identified several areas of focus to be promoted as important sources of export earnings. The concerted development of these sectors is part of the national development strategy to venture into new growth areas and broaden the economic base whilst providing the basis for sustained rapid growth of the economy. This chapter will highlight the two areas of focus, namely Agriculture and Services, highlighted in 9MP and IMP3 as key potential growth areas.

1. The Agriculture Sector - Third Engine of Growth

Agriculture has been traditionally the mainstay of the Malaysian economy, contributing 38% to the economy in 1960, but by 2006, had declined to 7.9%. Recognising the importance of the sector as a provider of food, the Government has given more focus in recent years to develop the agriculture sector, heralding it as the third engine of growth, as outlined in the 9MP.

Food For Thought

The resurgence in agriculture as an important sector can be attributed to several factors, mainly increasing costs of production, high prices of food imports and the most pressing, being an increasing worldwide shortage on food. Rising oil prices, growing populations and severe climate change has led to record world prices for most staple foods. According to the Food and Agriculture Organisation of the United Nation (FAO), global food reserves are at their lowest in 25 years and that prices will remain high for years.

Resource constraints and rapid changes in the global trading and investment environment necessitate the development of a resilient agricultural sector and the enhancement of its global competitiveness. Furthermore, the concern over the stability of food supply requires the nation to strengthen its competitive capabilities in food production. These challenges require new strategic approaches and policies to enhance the economic contribution and growth of the agricultural sector.

The Malaysian Advantage

The rising global demand for food, mean that Malaysia, with her large inherent strengths in the agriculture sector, particularly in tree crop agriculture and management of large scale production of industrial crops like palm oil, rubber, livestock, selected crops and fisheries enterprises, is well placed to reap big rewards.

Based on the Census of Establishments and Enterprises 2005, there are 34,188 SMEs in the agriculture sector and 93.1% (31,838) consist of micro establishments. SMEs contribute 42.1% (RM8.7 billion) to total output of the industry. Allocated RM11.4 billion by the Government under the 9MP, agriculture is expected to grow at 4.1% per annum and agriculture and agro-based industry is expected to grow at 5.2% during the period.

With these challenges in mind the Government, under the 9MP, is putting in place a strategy to steer the economy up the value chain to enable SMEs to compete successfully in a challenging global market through the 9MP's 'New Agriculture Programme' promoting greater orientation towards more modern and commercial scale production and producing value added agro-based products utilising ICT and exploiting the full potential of biotechnology. The ultimate aim is to be a net exporter of food by 2010.

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The agricultural sector will be supported and developed during the 9MP term, through five guiding principles:

- Increase farming yields whilst extracting new sources of growth and increasing participation from the private sector;
- Expand processing activities in farming and other related products;
- Increase earnings of micro-farming, farmers and fishermen;
- Strengthen marketing and global network; and
- Improve access to information and infrastructure.

To achieve the various targets set, five high impact projects have been initiated namely:

- **Permanent Food Production Park (*Taman Kekal Pengeluaran Makanan, TKPM*)**
  Through cooperation between the State and Federal Government, various TKPM areas for permanent food production, were established to aid small holding farmers in food production. The TKPM areas are gazetted by the government and will be rented to entrepreneurs for commercial planting of fruits and vegetables. With a minimum of 30 hectares set aside for vegetables and a minimum of 50 hectares allocated for fruit trees planting, the project aims to produce agripreneurs with monthly incomes of more than RM3,000. 30 TKPMs were developed during the 8MP period and for the 9MP, 30 TKPMs amounting to 3,338 hectares in size, will be developed to benefit 834 participants. This project aims to produce 161,300 metric tonnes with a value of RM 172.5 million.

  In 2007, 15 new TKPMs were developed bringing the total to 45. To date, this project has involved 584 participants with an annual production of 14,570 metric tonnes amounting to RM16.6 million.

- **Aquaculture Industry Zone (*Zon Industri Akuakultur,* ZIA).**
  As wild fish capture rates peaked, supply could not meet the demands of a rising human population making commercial aquaculture an important option for the supply of fish proteins. In order to develop the aquaculture industry in a comprehensive and systematic way, a total of 49 areas will be gazetted as Aquaculture Industry Zones. Launched by the Prime Minister in January 2007, the Sungai Como Terengganu ZIA focuses on commodities such as prawn, shellfish, fresh water fish, ornamental fish, and aquatic plants. Through a smart partnership between the Government and the private sector, the ZIA project aims to produce 507,000 metric tonnes of aquaculture produce with a value of RM5 billion in 2010.

- **The National Feedlot Centre - (*Pusat Fidlot Nasional, PFN*)**
  To meet the rising demand for meat, the development of the beef industry will be implemented through the establishment of the National Feedlot Centre. Based in Gemas, the National Feedlot Centre is a joint project between Negeri Sembilan and the Federal Government through the Ministry of Agriculture and Agro-based Industry (MOA) and is expected to be instrumental in attaining the targeted 28% self-sufficiency level for beef production by 2010.

  Mandated as an integrator for the project, National Feedlot Corporation Sdn Bhd is owned by Agroscience Industries Sdn Bhd with participation from the Government of Malaysia. Its commercial interest is the development of a planned, integrated and sustainable Malaysian beef industry through the development of the fully integrated livestock farming and beef production facility that manages the import of livestock, feedlotting, slaughtering, processing, packing and marketing of beef in Malaysia. The 310 existing livestock smallholders would act as satellite farms to provide cattle to the centre. This project is expected to establish a feedlot livestock farming system whilst also promoting commercial activities throughout the value chain.

- **Developing Agripreneurs**
  In order to increase agriculture production, the ministry has taken steps to develop agripreneurs to improve production yields. As part of these efforts focus will be on developing human capital in order to increase production abilities, improving quality of products whilst expanding product variety, branding, promotion and marketing. The project aims to develop 10,000 agripreneurs with a monthly income of RM2,000 by 2010. Concurrently, a minimum target of 20% has been set for agripreneurs to increase their product quality to a level that meets international standards and certification.

  To date, 7,860 agripreneurs have been developed with 836 agripreneurs already achieving the targeted monthly net income of RM2,000. Further progress has seen 220 agripreneurs awarded with various levels of certification.

- **Contract Farming**

  Contract Farming which involves farmers cultivating specific crops under a buy-back agreement with a company or agency is to match production with market demand. The Contract Farming model is an effective mechanism for the development of commercially oriented and long term partnerships with Malaysia's agribusinesses. Such ventures will provide producers with clear definitions of expectations for the supply of fresh and safe produce in terms of quality, quantity, type, variety, packaging and grading. Under the 9MP, 35,925 hectares were set aside for this project and expected to benefit 22,243 agripreneurs. Agricultural production is targeted to reach RM4.3 billion.

  To date, 9,073 hectares has been developed and a further 8,726 hectares targeted under Contract Farming projects involving 3,870 agripreneurs.

Dedicated teams for these high impact projects have been tasked by MOA to ensure the coordination and successful implementation of these targets. Success of the programmes is closely monitored by the *Badan Bertindak Pelaksanaan Negara*, which is chaired by the Prime Minister. The achievements of the projects are then published through annual reports.

Agriculture is Business

The new focus on agriculture and agro-based products has placed stronger emphasis on a more commercial approach to agriculture in order to enable those involved to earn higher incomes. Producing agricultural products efficiently is important but equally so is the marketing of these products. It is pivotal for SMEs to exploit the expanding demand, domestically as well as internationally, for high quality, Halal and safe food products.

The Federal Agriculture Marketing Authority (FAMA), a marketing agency established by MOA, acts as the Government's marketing arm for agricultural products. FAMA is responsible for various marketing activities of agricultural products, namely to set targets and product standards, monitor performance, as well as develop and coordinate marketing strategies for Malaysian agricultural products.

FAMA's current involvement in export activities of agricultural and food products is worth RM500,000 and consists mainly of trade shipments to new buyers in various destinations. This figure is expected to rise with efforts to open up new markets to increase the accessibility of Malaysian food. Through FAMA and under the patronage of the MOA and MATRADE, two Agriculture Investment Missions and 10 overseas market promotion activities, including those under the Bumiputera Commercial and Industrial Community (BCIC) programmes, were organised. The programmes benefitted 33 anchor marketers and 126 agripreneurs with direct sales of RM7.4 million within the regional markets of Singapore, Brunei Darussalam, Vietnam and Indonesia.

Nationally, FAMA and its agencies organised 112 promotional activities to expand SME products and encourage consumption of local food products. These activities which include sales carnivals and *Pasar Tani* benefitted a total of 2,240 agripreneurs.

Other initiatives by FAMA include:

Promoting Malaysian Brands

To encourage and aid food-processing to small farmers, agricultural products are marketed under FAMA brands such as AgroMas, Olemas and Malaysia's Best promising quality products. Whilst Malaysia's Best is for fresh produce, AgroMas and OleMas are processed foods using produce from local farmers which are processed by factories owned by FAMA. In 2007, 33 farms have been certified to use the Malaysia's Best endorsement brand for quality and safety. In addition a total of 11 products were eligible for certification and 78 Stock Keeping Unit (SKU) eligible for branding under Agromas, Olemas and other FAMA brands.

The National Food Terminal - TEMAN

Planned as a modern food supply centre linking production and consumption in a single complex, each TEMAN consists of a central trade area for collecting and redistributing agriculture products to satisfy national food demand. TEMAN will manage wholesaling activities, associated pre-packaging, assembly and distribution in an integrated and systematic environment.

Through the use of technology and with relevant infrastructure in place, TEMAN will be linked closely to farmers and markets throughout the country as well as with international markets. FAMA has also outlined plans to increase agricultural produce supplier contracts, especially with wholesalers, hypermarkets/supermarkets, hotels and holiday resorts. For this year, FAMA has been allocated RM20 million to carry out projects like field collection and wholesale centres.

The construction of two TEMAN complexes in Gopeng, Perak and Kota Bharu, Kelantan has commenced and is expected to be completed by end of 2009 and 2010 respectively.

FamaXchange

A supply and demand virtual exchange, FamaXchange is the first of its kind, where agripreneurs are able to source market information and to conduct food production business on line. Research works, market potential and market related studies are also available at www.famaxchange.org.

Increasing the Nation's Rice Bowl

The rising price of rice in the global market has prompted discussions on food security and the need to grow more paddy. Several strategies and programmes have been put in place to encourage farmers to take advantage of the global increase in rice prices to step up paddy production. MOA has allocated RM14 million for rehabilitation of paddy land which came under the jurisdiction of the Kemubu Agriculture Development Authority (KADA). This is part of the Government's plan to step up rice production by 20% towards self-sufficiency. The Ladang Merdeka programme, through KADA, is one such strategy to increase the number and yields of the nation's paddy fields. To date, the Agency has created 17 Ladang Merdeka, totalling 750 hectares with the participation of 2,600 farmers. The last harvest generated RM900 per hectare for each participant. KADA plans to provide additional fertiliser subsidies to farmers, estimated at between RM3 million and RM4 million.

2008 will see a campaign to persuade owners of paddy fields to start planting again or alternatively hand them over to KADA to be managed under a mini-estate programme. Some small paddy fields are left idle as their size prevents economies of scale for commercial paddy planting. The mini-estate scheme will take over management from owners who will be given shares as well as the option to work the fields for a daily wage.

The MOA, as part of efforts to increase paddy production, has designated several hectares of land around the country as 'rice bowls'. In Kemaman, Terengganu the state government planned to open 3,200 hectares for triple cropping of paddy to help increase the supply of rice in the country. A total allocation of RM100 million will be earmarked to undertake the project.

Similar allocations are also planned in 2008 to include developing new paddy farming areas in states like Pahang, Sabah and Sarawak, and increasing the agriculture infrastructure, including irrigation systems.

2. The Services Sector - Malaysian Hospitality

Representing the lion's share of the SME sector with 87%, the services sector has been identified as one of the key drivers of economic growth besides agriculture over the next 10 years. Developing the services sector is part of the national development strategy to broaden the economic base.

Services Sector as the Main Driver of Growth

The services sector has grown steadily over the recent decades at an average rate of about 9% per annum during the 1970s, close to 7% in the 1980's and 8.5% during the recent decade. The services sector's contribution to economic growth has grown in importance turn about 37% of GDP in 1970 to 43% in 1980, 47% in 1990 and 53% in 2007.

This figure is expected to rise exponentially with initial projections of the economy for Vision 2020 indicating that by the year 2020, contribution of the services sector to GDP is expected to increase to 60%.

Policies and Strategies

With these compelling figures in mind the Government has put aside programmes and plan of action to develop SMEs in this sector guided by five broad strategies, namely:

- Strengthening domestic capacity and capability in the services sub-sectors and niche areas where there are competitive advantage;
- Venturing into new services activities with growth potential, which will be a spin-off from initiatives to move into value-added activities along the manufacturing value chain and the development of a knowledge based economy;
- Taking full advantage of liberalisation of trade in services under the General Agreement on Trade in Services (GATS) where Malaysia will continue to selectively open up several sectors as well as participate in market openings in other economies;
- Promoting the private sector to participate and invest more aggressively in services activities with growth potential while improving productivity and efficiency levels. Foreign investment will continue to be promoted particularly in areas that involve high knowledge and technology intensity; and
- Focusing on human resource development to meet the requirements of a modern and competitive services sector.

A key service sub-sector being promoted is tourism.

Malaysia - A Tourist Destination

With miles of beautiful beaches, wide variety of wildlife, fauna and flora, an exotic mix of cultures, centuries-old rainforests and a culinary variety that regional neighbours describe with envy, tourism is the one advantage Malaysia truly has over its Asian competitors. Tourism is an important industry for the country and has been designated as a priority sector by the Government in the 9MP. Tourism had been Malaysia's second largest foreign exchange earner since 2000 with RM17.3 billion and increased to RM46.1 billion in 2007. Besides being a foreign exchange earner, the increase in tourism activities will generate multiplier effects in other sectors of the economy such as the hotel industry, retail businesses, restaurants and transportation. Tourism receipts as a percentage of GDP in 2007 was 7.4%. With a plethora of natural attractions, Malaysia is poised to tap into ASEAN's burgeoning middle class in a population of 530 million.

To increase the country's penetration in this sector, several strategies have been formulated, namely:

- Placing emphasis on sustainable tourism development. This is crucial as the physical environment and cultural heritage are core attractions of tourism products and are assets that must be carefully conserved. Sustainable tourism development will be the key strategy that will provide the necessary balance among economic, social, cultural and environmental needs in all tourism planning and implementation;

- Taking a holistic and integrated approach to tourism development. This involves improvement of coordination and collaboration among all relevant parties to boost the performance of the tourism industry and to project Malaysia as a fascinating destination with year-round events filled with a carnival atmosphere. A well-planned tourism calendar with thematic events will continue to be drawn up that highlights interesting events such as Merdeka Celebration, Colours of Malaysia, Malaysian Formula One Grand Prix, World Formula One Powerboat Race and Mega Sales Carnivals; and

- Developing human resources, essential in ensuring the competitiveness of the tourism industry. In this regard, the National Tourism Human Resource Development Council (NTHRDC) has an increasingly important role to supervise and coordinate training in the tourism industry.

Picture Perfect - The Malaysian Promise

Tourist arrivals started to increase significantly particularly after 1990. Tourist arrivals increased at a rate of 7.5 % per annum on average from 7.5 million in 1995 to 21 million in 2007. Concurrently tourism receipts increased by more than 500% to RM47.4 billion in 2007.

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Whilst neighbouring Singapore and Thailand made up the bulk of visitors in terms of receipts and average spending per person per day, tourists from Saudi Arabia and United Arab Emirates (U.A.E) top the list with a daily average expenditure of RM789 and RM676 respectively, the highest among tourists by country of residence. These figures are set to rise as the Malaysian government increases efforts to promote Malaysia as a Halal destination.

Based on the 9MP, the tourism industry is expected to grow at an average rate of 8.4% p.a. from now till 2010. Furthermore, total tourist arrivals are expected to increase from 21 million in 2007 to 24.6 million by 2010, with average tourism receipts rising by 13.9% p.a. to RM54.9 billion and generating around 520,700 jobs. Under the 9MP, the Government will spend some RM1.85 billion to drive Malaysia's global tourism appeal. Of that 56% of the budget will be dedicated to upgrading and maintaining tourism-related facilities and amenities.

Tapping the Tourist Dollar

As part of efforts to ensure these targets are met the Government promoted 2007 as "Visit Malaysia Year" coinciding with the country's 50th anniversary post independence. A total of RM1.85 billion was allocated to enhance Malaysia's global appeal as a major tourist destination with extensive advertising overseas and incentives (such as reimbursements or subsidies) to travel operators for promoting the country as a preferred tourist destination. The result was an increase of 19.5% in tourist arrivals (21 million) in 2007 compared to 2006. In total, RM46.1 billion in tourist receipts was recorded in 2007, placing tourism as the second largest foreign exchange earner. The spillover effect of tourist expenditure is expected to filter through to the broad economy with tourists spending mostly on accommodation (31%), shopping (27%), food & beverage (18%) and transportation (10%).

To further increase the country's attraction as a major tourist destination RM858 million is allocated for the implementation of various programmes including the provision and upgrading of tourism facilities and diversification of tourism products.

To enhance the distinct appeal of Malaysian products and services the Government has renewed its focus to promote the country's traditional attractions namely its cultural and natural heritage. Other tourism products include shopping, leisure, sports-related activities and business related events.

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Tourism products help promote new investments in the country while providing increased employment opportunities. The growth of Malaysian tourism will contribute positively to the country's economic development and quality of life. In addition, tourism also plays an important role in improving the livelihood of low-income groups through involvement in tourism-related activities, such as rural homestay programmes, eco and agro-tourism, tour guide activities and handicraft industries.

Under the 9MP, a total of RM40 million was allocated to upgrade amenities and relevant infrastructure in villages under the Homestay programme benefiting more than 2,000 participants. As of June 2008, there are a total of 2,611 registered Homestay operators from 138 villages nationwide. The Homestay Programme, launched in 1995 in Temerloh, Pahang is a unique concept of accommodation that involves tourists staying with selected families. By interacting with the family tourists will experience first hand the uniqueness of Malaysian culture through the daily life of these families. This programme is provided under the Rural Tourism Master Plan aimed at boosting the participation of rural communities in the tourism sector.

SME Success Story

Banghuris Homestay - The Kampung Getaway

Banghuris Homestay, made up of three villages - Bukit Bangkong, Hulu Chuchoh and Ulu Teris - has been part of the Homestay programme since 1997. Starting with 14 participating houses, the Banghuris Homestay now boasts 68 houses and over 80 bedrooms.

It all started simply enough with the *Kampung Terbaik* (Best Village) award in 1993. The accolade garnered a lot of attention with frequent visits from domestic and international tourists. The interest from outsiders gave Tuan Haji Basir bin Wagiman, the Village Headman, the idea of translating visits into a viable business concern which has now taken root translating into 6,000 paying visitors in 2007 within 10 years. Through the homestay programme visitors are given a glimpse into the cultural and daily lives of a Malaysian village while staying with 'adopted families'. As part of 'stay' activities, visitors can opt for several packages which include cultural shows, like traditional martial arts *silat* and music, cooking programmes, visits to rubber and palm oil plantations, fruit orchards and cottage industries producing local ingredients to produce snacks like tapioca chips and curry puffs.

The homestay received a variety of assistance from the Ministry of Tourism (MOTOUR) and the Homestay Association. The participants received training from the outset, on the rudiments of hospitality - from types of service to hygiene standards for cooking and cleaning. Promotional help was also given with free promotional brochures advertising the homestay and assistance with building infrastructure for the village. 4.86 hectares of land was given in 2004 by the Selangor State Government to create a recreational and activity park. Funds were also provided to build a multi-purpose hall that can accommodate 800 people for the park. Banghuris has also participated in various marketing fairs organised by MOTOUR.

The villagers were initially reluctant to join the programme, worried about cultural and language barriers. As the main initiator of the programme Tuan Haji Basir had to convince the villagers that these could be overcome and that the programme would bring monetary rewards. Citing unity and mutual cooperation as the main contributing factor to its success, the Homestay programme has involved the active participation of all the inhabitants of the three villages. By successfully utilising on resources and attractions already present locally, such as agricultural land, local produce and talent, the tourism dollar is filtered down throughout the village.

This was definitely the case for Puan Hajah Shamsiah Jurain, and her frozen food business, now in its 5th successful year. Hajah Shamsiah began operations with the help of *Jawatankuasa Kemajuan dan Keselamatan Kampung* (JKKK) who provided her with premises and machinery to start her business. Her frozen snacks, such as curry puffs, *roti canai*, sausage rolls and various *kueh*, now supply homestay houses in the villages, supplementing her other commercial sales. In addition to this, she provides cooking courses for tourists interested in learning more about local delicacies. Her cottage industry business grew and now generates employment to housewives and single mothers who are able to make a monthly income of up to RM2,000.

Hajah Shamsiah is one of many who have benefited from the homestay programme. The change in the villages since the programme commenced has been tremendous. The once poor farming community has been transformed into a relatively affluent one with homes equipped with TVs and cars. The programme has also produced a more harmonious and neighbourly atmosphere with inhabitants united towards communal economic betterment. The programmes has been so successful that courses are now being offered to other villages wanting to join the Homestay programme.

Future plans to improve the Banghuris Homestay include further facilities upgrades, such as installation of air-conditioning units in all homes and additional bathrooms to increase the comforts of visiting tourists. With these initiatives Banghuris hopes to increase tourist arrivals and improve revenue collections.

Other programmes focusing on countryside tourism, specifically Homestay, include:

- **Homestay Awareness Courses**
  - The course aims to raise public awareness about the Homestay concept and the opportunities that arise from it, with the objective of attracting more participation;

- **Homestay Basic Courses**
  - The course is conducted by the Rural Training Institute under the Ministry of Rural and Regional Development (MRRD) and the Ministry of Tourism (MOTOUR) aimed at training registered Homestay participants on ways to receive and treat guests, and to manage and organise activities for tourists staying at the Homestay houses;

- **Homestay Seminars**
  - The aim of the seminars is to disseminate updates on the development and progress of the tourism industry, tourist preferences and marketing techniques to participants of the Homestay programme; and

- **National Homestay Gatherings**
  - The gatherings provide opportunities for Homestay participants to interact with the patron and the other members of the association, besides getting information on training opportunities and new incentives introduced by the Government to help participants of this programme.

(More information is available by logging onto http://www.motour.gov.my)

Ecotourism is another avenue being promoted by the Government, showcasing Malaysia's numerous natural attractions such as diversity in flora and fauna, exotic marine life, dense rainforests, and the world's oldest and largest caves. The development of ecotourism projects plays big role in generating income for rural communities in the surrounding areas such as the *Orang Asli*.

Funds available for SMEs in the Tourism sector includes the Tourism Special Fund benefiting all existing and new enterprises carrying out or planning to carry out tourism projects. Applicants must be registered under the Companies Act 1965, Companies Commission of Malaysia Act 2002 or/and Companies of Cooperative Act 1970 or Cooperative Societies Act 1993 with a paid up capital not exceeding RM10 million. The minimum loan amount is RM50,000 with a lending rate of 5.5% per annum and a loan tenure of up to 20 years. For more information, please log onto http://www.motour.gov.my.

With a dynamic economy, a stable government and a colourful multicultural society, Malaysia is well placed for a tourism boom. With key programmes in place the tourism industry will continue to be a major source of growth and a key driver in the development of the services sector during the 9MP period.

Services and Agriculture are growing sectors acknowledged worldwide as crucial components for sustained economic growth. As such, competition is increasing in these sectors the world over. Malaysia's abundance in natural resources and key supporting infrastructure provides SMEs in the highlighted sectors an immediate competitive advantage. The Government realises that the competitive edge is now increasingly dependant on non-price factors such as quality, customisation as well as delivery time. This has been taken into account by the various programmes and incentives provided. It is now left to the SMEs to fully capitalise on them for greater leverage globally.