CHALLENGES AND CONSTRAINTS TOWARDS COMPETITIVENESS OF THE FOOD PROCESSING INDUSTRIES

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Introduction

The Malaysian food processing industry is characterised by a number of problems including: inefficiency and low productivities, shortage of local raw materials, state of human resource capacity, financial, lack off research and development, marketing, and quality issues. This project attempts to delve into three major aspects, i.e. inefficiency and productivity issues, raw material and small scale industries. UPM’s research cover three major objectives: to determine various competitive indicators using secondary data including calculations and analysis of partial and total factor productivities, intensities in the use of factor of production capital, labour and material.; to carry out firm-level analysis of competitive foundations through a survey of food processing companies and case studies of benchmark industries.

Materials and Methods

Calculations and analysis of partial and total factor productivities, intensities in the use of factor of production capital, labour and material.; to carry out firm-level analysis of competitive foundations through a survey of food processing companies and case studies of benchmark industries.

Results and Discussion

Output growth was positive for most food processing industries during 1970 – 93. Only meat processing and coconut oil manufacturing registered negative growth. Contribution of capital output was positive especially in fish processing, fruits and vegetable canning industries. Contributions of labour input were much slower especially in fruit and vegetable canning and grain milling. Contribution of TFPG was positive. However 11 out of 28 industries showed negative TFPG growth. Highest TPFS was in oil palm manufacturing and fruits and vegetable industries. Labour productivity growth was mainly negative with only 10 out of 28 industries showing positive growth. Highest labour productivity growth was in palm oil manufacturing. Capital deepening occurred in meat processing, animal oils and fats biscuits and coffee manufacturing, and dairy products industries and palm oil manufacturing (biggest capital deepening). Between 1980-86, capital deepening in food processing was negative, mainly because capital injections occurred mainly into priority industries, heavy industries under the First Industrial Master Plan. Large multinational and local companies such as NESTLE and GOLDEN HOPE found Malaysia an attractive location to invest. Companies such as NESTLE do not find any problems except for port congestion and some delays in export-import procedures. NESTLE products were competitive in local as well as 37 export markets. Lack of local raw materials is not considered detrimental to the company’s competitiveness. In fact, it was much more efficient to import raw materials such as tomato puree from California, chilli from Vietnam, corn from Philippines etc. With correct pricing of their goods under MAGGI label, and with the production of high quality products, increased costs of raw materials are negated. NESTLE plans to double productivity by year 2000 and to make Malaysia the rich for export of Halal food products. Smaller local companies, such as FIMA INSTANCO and AYAMMAS face a number of challenges in almost all the competitive foundations. The major problem was marketing. These companies depend very much on captive markets either through alliance with government institutions such as supplying the Malaysian army and hospitals by FIMA INSTANCO found it very difficult to obtain supermarket and freezer spaces for their products locally. Export inquiries for their products often could not be met because of inability to secure consistent and quality raw materials.

Conclusions

Productivity and performance have shown improvement during 1970-93. Labour productivity and output growth have shown positive contribution to TFPG. However, it was mainly output growth rather than improvements of factor input, which has contributed to TFPG.