

Selected Indonesian Products in the Penang and Malaysia Markets: A Comparative Advantage Analysis



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A Comparative
Advantage Analysis

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By

PENANG
I N S T I T U T E
making ideas work

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FOREWORD I



Dear Readers,

First of all, I would like to thank God Almighty for the graces and blessings of health and wisdom that allowed the Consulate General of the Republic of Indonesia in Penang to produce a study entitled *Selected Indonesian Products in the Penang and Malaysia Markets: A Comparative Advantage Analysis*

The purpose of the research is to attain Market Intelligence on certain Indonesian export products in the current Malaysian market climate, concentrating on Penang. The results are broadly beneficial to policy formulation related to the promotion of Indonesian exports. Indonesian readers will find useful insights here for developing suitable business strategies prior to entering the Malaysian market.

It has been widely acknowledged that Penang is a Malaysian State that promises huge potential for cooperation with Indonesia. Geographical proximity to Indonesia, particularly North Sumatra Province, a common language, and similarity of culture provide great opportunities for entrepreneurs of both countries to increase trade interaction.

In addition to that, the economic strength of Penang and Indonesia, as well as existing bilateral and subregional cooperation platforms can be utilized to explore many untapped potentials.

This research was produced in collaboration with Penang Institute. It provides a highly relevant strategic analysis that directly touches on the main theme. I believe the results of this research will be very useful to relevant stakeholders both in Indonesia and Penang, and I am certain that it will promote further mutually beneficial cooperation.

I would like to express my deepest gratitude and highest appreciation to Penang Institute, and I hope that the collaboration between the Indonesian Consulate General in Penang and Penang Institute will continue to flourish.

Thank you.

Bambang Suharto

Consul General

Consulate General of the Republic of Indonesia Penang, Malaysia

FOREWORD II

Reviving Economic Ties in Penang's Immediate Vicinity

Before Malaysia was formed, Penang functioned as a port of call for ships sailing up and down the Straits of Melaka. It easily became an entrepot, a place where goods were imported, repackaged, value-added and re-exported. This allowed for a whole economic system to appear which stretched geographically in all directions—into the Malay peninsula to the east, into southern Thailand and Burma to the north, down towards Melaka and Singapore to the south, and into Aceh and Medan in northern Sumatra. And beyond.

With national borders, Penang went from being an international trading hub and a free port, into a peripheral secondary city in a national economy centred around the Klang Valley. But by becoming an industrial manufacturing hub for international multinationals in the 1970s, Penang's economy was able to transform itself into an internationally relevant player in the globalizing world built around the dozens of new nations that now came into being. Today, its role as part of multiple global supply chains is legendary.

Beyond and Below the National

The governments of the Association of Southeast Asian Nations (ASEAN), originally formed in 1967 for security purposes during the Cold War, realized by the turn of the century, that its future role lies in regional economic development rather than mere security reassurance. And so, of the three pillars of the organisation's community building, it is the ASEAN Economic Community (AEC) that has become most promising by far.



Alongside this encouraging paradigm aimed at connecting productively the disparate post-colonial economies of Southeast Asia are other subregional and cross-border initiatives, such as the Indonesia-Malaysia-Thailand Growth Triangle (IMT-GT). This effort, more than the ASC, concerns Penang more in that it connects it to its historical roots of being networked to the territories surrounding the Andaman Sea and the northern Straits of Melaka.

In this important sense, the limitations that national boundaries, however necessary they may have been or are, put onto pre-nation-state cities and settlements such as Penang, are being felt—and challenged.

This present study, in providing details on trading activities across the modern national divide between the Malay Peninsula and northern Sumatra, and in concretely suggesting how economic ties between Penang/Malaysia and Indonesia can be enhanced and deepened, shifts our tired perspective away from the narrowly national to the more excitingly sub-regional and the subnational.

With that, it is hoped that the study will contribute to future research on how ASEAN integration can best be realized at the concrete level where individuals and companies, producers and purchasers, and importers and exporters, operate and strategize as a matter of routine.

Dato' Dr Ooi Kee Beng

Executive Director

Penang Institute

EXECUTIVE SUMMARY

- Indonesia and Malaysia have a long-standing bilateral trade relationship, given the factors such as similarities in language, culture, and religion, as well as both being part of IMT-GT and AEC, and having sister city relationships. Among ASEAN countries, Indonesia is the second largest supplier of imports, and fourth largest export destination of Malaysia.
- In 2020, half of Malaysia's imports from Indonesia consisted of mineral fuels, lubricants, manufactured goods, and animal and vegetable oils and fats.
- Imported fast-moving consumer goods (FMCG) from Indonesia were dominated by fixed vegetable oils and fats, crude, refined or fractionated (43.6%), and coffee, tea, cocoa, spices, and manufactures thereof (15.5%).
- Vegetable oils and fats, cocoa beans and products, food products (processed or preserved), fish and shellfish, coffee, fruits, and footwear, are among the products that have the highest export potential from Indonesia to Malaysia. Textiles and clothing, however, have shown a gradual decrease in comparative advantage value from 2015 to 2019.
- The Penang-Indonesia trade relationship cuts across various industries, such as the FMCG sector, timber, rubber latex and stainless steel industries. Continued positive responses from Penang businesses reveal that great potential remains for partnerships to enter or expand on the Malaysian market, especially in products in which Indonesian companies enjoy good comparative advantage.
- However, penetrating the Penang and Malaysian market might entail some initial challenges, including certification requirements, non-tariff barriers, price competitiveness against local products, market size, and familiarity/association with certain brands.

- Malaysian consumer behaviour shows that branding and country-of-origin have the highest influence on purchasing decisions, particularly in FMCG and clothing and footwear markets, with products from developed countries being more preferable.
- In order to penetrate the Malaysia/Penang market, Indonesian firms and industry bodies should focus on three main approaches, i.e. participation in relevant and strategic trade fairs in Penang/Malaysia; participation in trade mission(s) and delegation(s), and; establishment of an overseas office in Malaysia.
- Indonesia-Malaysia trade co-operation can be strengthened through the platforms of sister cities (Penang-Medan) and through greater collaboration with the office of the Penang State EXCO for Trade, Industry and Entrepreneurial Development. Larger companies with a stable record of sales in Malaysia may also consider geographic expansion into industrial parks in Penang, making use of the incentive packages offered to investors, in addition to tapping on Malaysia as an entrance point to certain export destinations in Southeast Asia.

Chapter 1:

Malaysia-Indonesia trade relations

This chapter describes Malaysia-Indonesia trade relations with a focus on fast-moving consumer goods (FMCG), and textile and footwear products. Malaysia has always been importing more from, than exporting to Indonesia over the years, except in 2013-2014. Imported goods from Indonesia have primarily been mineral fuels, lubricants, etc., manufactured goods, and animal and vegetable oils and fats. These make up about 56% of Malaysia's total import from Indonesia.

Being ranked as 15th largest trading partner in Penang's trade, Penang's exports to Indonesia have been larger than its imports from Indonesia, leading to a trade surplus for Penang. This chapter also discusses the promotion of Penang-Indonesia trade through the Indonesia-Malaysia-Thailand Growth Triangle (IMT-GT) where Indonesian agricultural products enjoy comparative advantages in the form of strong supply that caters to market demand in the subregions of IMT economies.

Last but not least, the chapter discusses how Indonesia can increase its competitiveness as part of the ASEAN Economic Community (AEC). One suggestion is for substantial investments to be made in digital infrastructure to increase productivity.

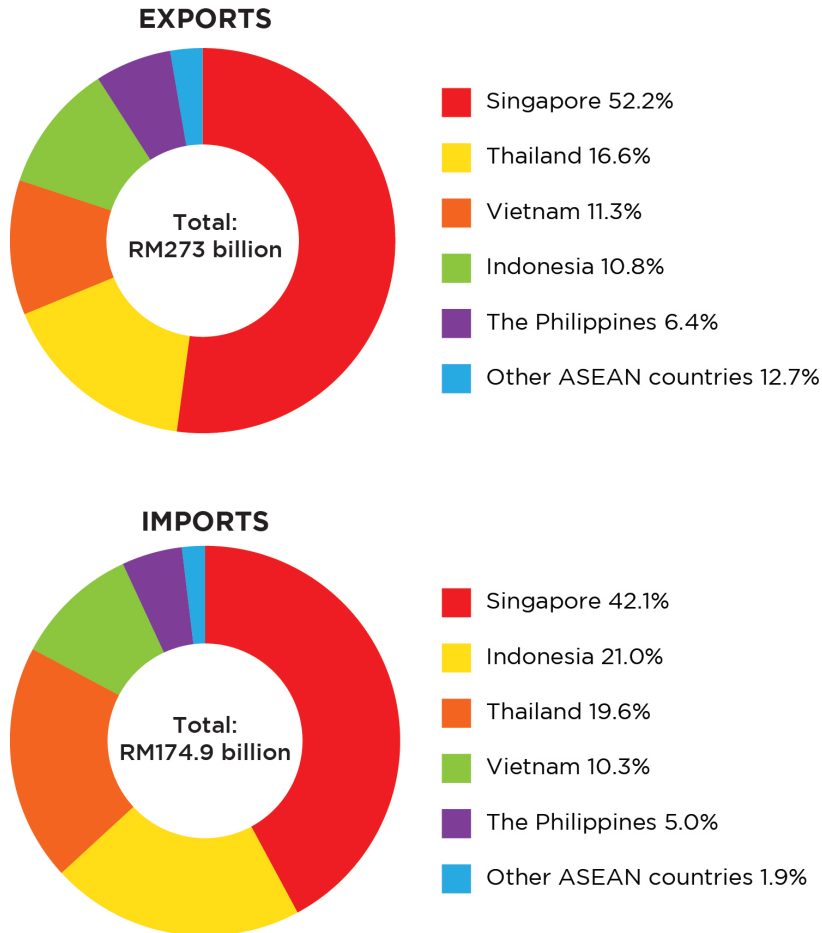
1.1 Malaysia-Indonesia trade relations

Indonesia and Malaysia have a long-standing bilateral trade relationship, and share multiple commonalities that have facilitated that relationship. Geographic proximity, including the sharing of land and maritime borders, have helped to strengthen economic ties.

In 2020, Indonesia emerged as Malaysia's third largest trading partner in the ASEAN region, after Singapore and Thailand (Figure 1.1). Among ASEAN countries, Indonesia is the second largest supplier of imports and fourth largest export destination for Malaysia. Despite fluctuations,

the total trade in goods (exports and imports) with Indonesia increased from RM47.5 billion in 2010 to RM66.3 billion in 2020 – a jump of nearly 40% (Figure 1.2).

Figure 1.1: Malaysia’s trade with ASEAN countries, 2020



Source: Department of Statistics, Malaysia.

Over the past decade, a negative trade balance with Indonesia has been recorded for Malaysia, except for 2013-2014. However, this narrowed to RM7.1 billion in 2020, down from RM11.3 billion in 2010. For 2020, the trade deficit with Indonesia dropped by 6.1%, compared to 2019.

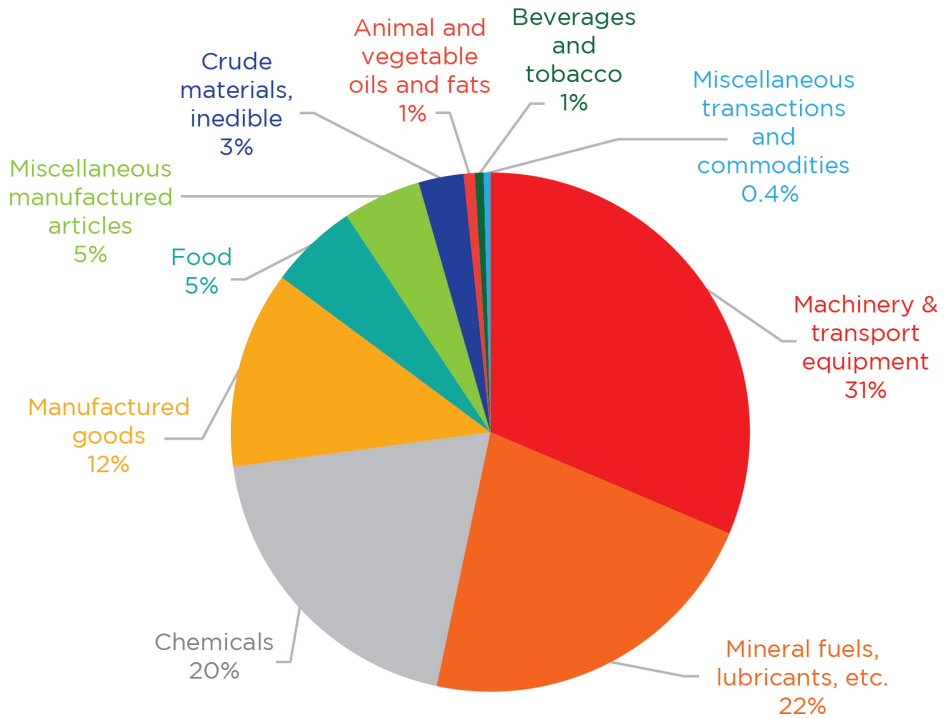
Figure 1.2: Malaysia's trade with Indonesia, 2010 - 2020

Source: *Malaysia External Trade Statistics Online, Department of Statistics, Malaysia.*

1.1.1 Malaysia's exports from Indonesia

Over the last decade, Malaysia's exports of goods to Indonesia grew annually by an average of about 6%. Total exports to Indonesia went down by 5.6%, from RM31.3 billion in 2019 to RM29.6 billion in 2020. This may be mainly due to trade restrictions imposed during the Covid-19 pandemic, which affected both exports and imports in 2020. Malaysia's five primary exports to Indonesia are: machinery and transport equipment; mineral fuels; lubricants, etc.; chemicals; manufactured goods; and food (Figure 1.3).

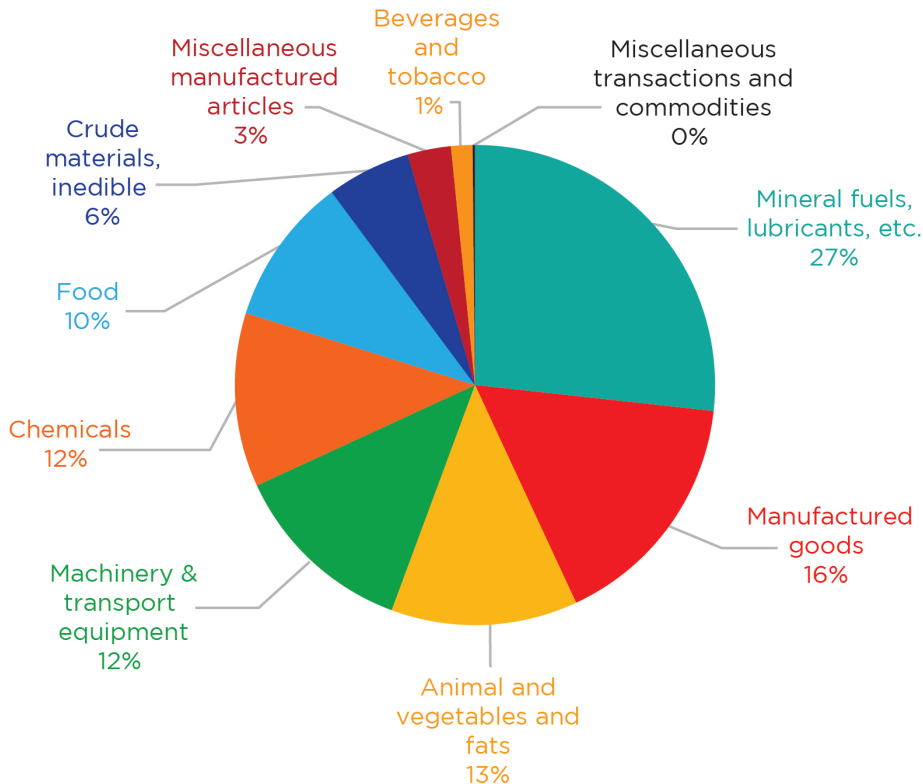
Figure 1.3: Exports from Malaysia to Indonesia by product group, 2020



Source: Malaysia External Trade Statistics Online, Department of Statistics, Malaysia.

1.1.2 Malaysia's imports from Indonesia

Over the last decade, Malaysia's imports of goods from Indonesia recorded an average annual growth rate of 3%. The volume of import, however, declined by about 5.7% in 2020 compared to 2019, amidst the Covid-19 pandemic, and was dominated by mineral fuels, lubricants, etc. (27%), followed by manufactured goods (16%), and animal and vegetable oils and fats (13%) (Figure 1.4).

Figure 1.4: Imports from Indonesia to Malaysia, 2020

Source: *Malaysia External Trade Statistics Online, Department of Statistics, Malaysia.*

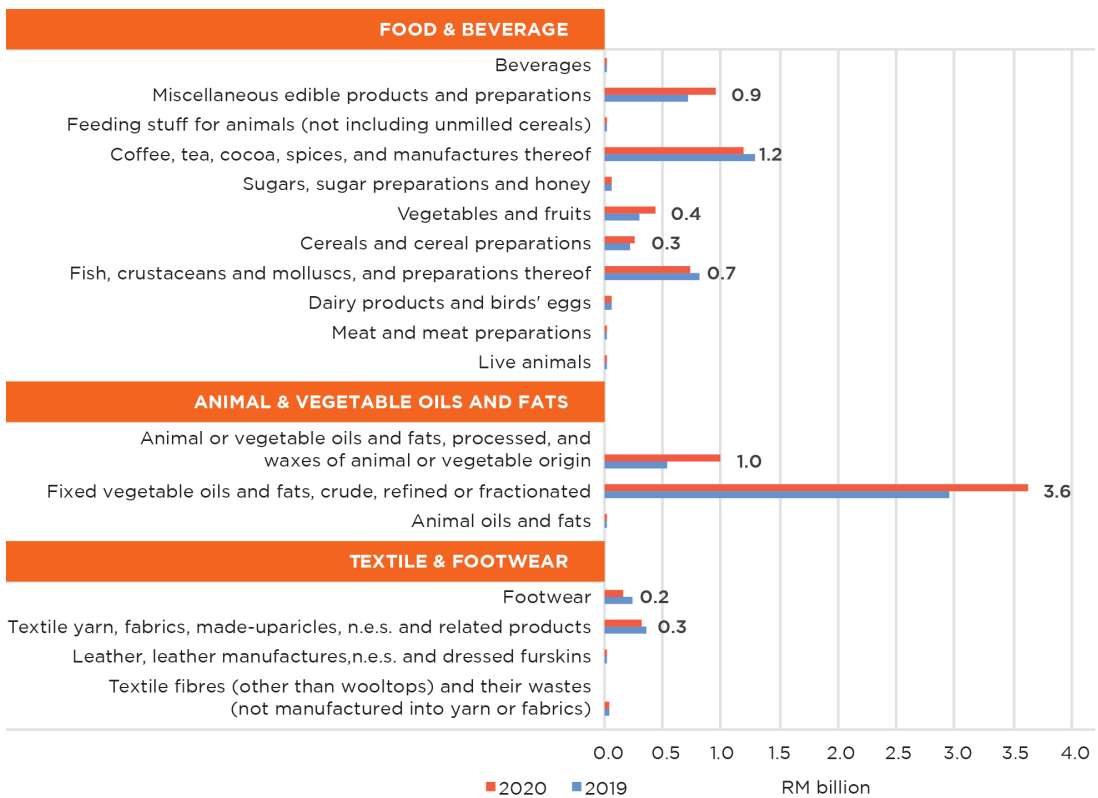
The Fast Moving Consumer Goods (FMCG) sector is an important economic growth engine in Malaysia. It comprises products such as food and beverages, palm oil (see Box 1 on Penang’s downstream involvement in Malaysia-Indonesia palm oil cooperation), toiletries, grocery items as well as consumer electronics. The import of selected FMCG products, including food and beverages, and animal and vegetable oils and fats products, saw a growth of about 19% in 2020 as compared to 2019. Malaysia’s import of fixed vegetable oils and fats, crude, refined or fractionated from Indonesia in 2020 alone was worth RM3.6 billion. This is close to 10% of Malaysia’s total import from Indonesia (Figure 1.5).

The total import value of food commodities from Indonesia increased by nearly 6% in 2020 as compared to 2019, with imports of live animals (193%) being the highest. Imports of food from Indonesia are dominated

by cocoa (16.7%), followed by fish (fresh, chilled or frozen) (15.8%) and coffee and coffee substitutes (11.8%). Moreover, the total imports of beverages dropped significantly by about 20% in 2020 compared to 2019, especially alcoholic beverages (38.6%).

Malaysia’s total imports of textile products from Indonesia totalled RM374.7 million in 2020, down 8.4% from 2019. Meanwhile, the import value of textile fibres (other than wool tops) and their wastes (not manufactured into yarn or fabrics) increased by about 20.4%, while the import value of textile yarn, fabrics, make-up articles and related products, as well as leather, leather manufactures and dressed fur-skins dropped by 11.8% and 3.9%, respectively. Furthermore, total imports of footwear products from Indonesia dropped significantly from RM234.3 million in 2019 to RM162.4 million in 2020, a 30.7% decrease.

Figure 1.5: Import value of selected Indonesian FMCG, textile and footwear products in Malaysia, 2019-2020



Note: For more details, please see Table A1 in the Appendix.

Source: Department of Statistics, Malaysia.

Box 1: Penang's downstream involvement in Malaysia-Indonesia palm oil cooperation

The Council of Palm Oil Producing Countries (CPOPC), formed on 21 November 2015, is an intergovernmental organization for palm oil-producing countries. The founding members as well as the current members are Indonesia and Malaysia¹, the world's largest palm oil producers. The palm oil sector, upstream and downstream, and related supporting industries are important to these countries as they generate export revenue, raise the income level of smallholders, address poverty, and also create employment and business opportunities.

Due to Penang's land area size, it is not a key palm oil-producing state in Malaysia. However, Penang still does have involvement downstream, such as in the oleochemicals sub-sector. In 2020, the manufacturing of petroleum, chemicals (including oleochemicals), rubber and plastic products contributed to 8.7% of Penang's share of GDP manufacturing contribution of RM41.7 billion. The goods that pass through Penang Port also include palm oil and palm oil products.

Among the major oleochemicals companies in Penang are IOI Oleochemicals and Kao Oleochemicals. IOI Oleochemicals has reported that they are working to complete a new plant capable of producing 110,000 metric tonnes per year in Prai, Penang by the end of 2021. The company is also upgrading and modernising its warehouses in Prai, with orbital racking and full automation functionalities (IOI Bhd, 2020). In turn, Kao Oleochemicals is a subsidiary of Kao Corporation Japan. According to MIDA (n.d.), Kao and IOI Oleochemicals also have a joint-venture company called Fatty Chemicals (M) Sdn. Bhd. in Prai to produce fatty alcohols using palm kernel oil as raw materials. According to Kao Corporation, apart from Fatty Chemicals, Kao Penang consists of three

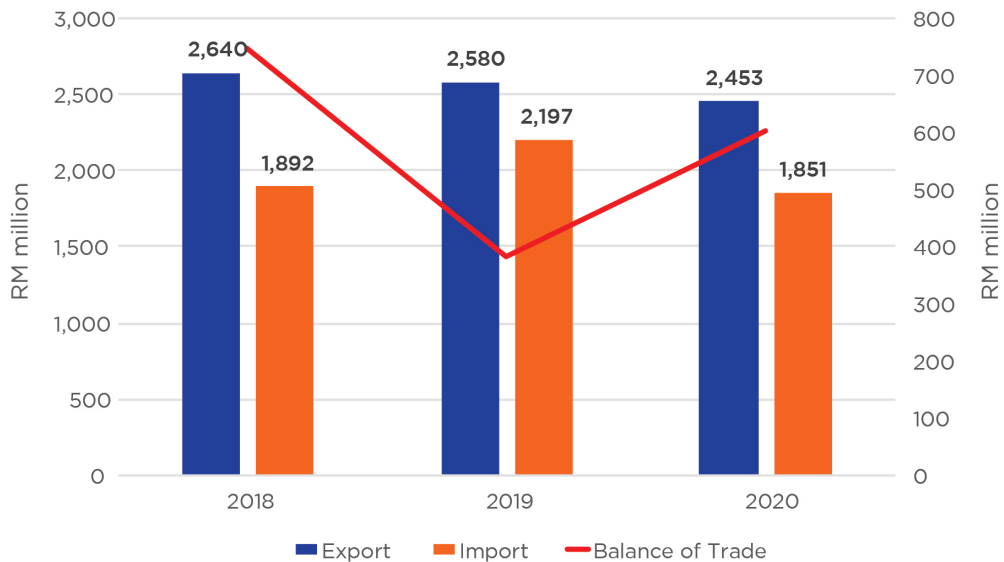
¹ According to Plantation Industries and Commodities Minister Datuk Zuraida Kamaruddin, Colombia, Ghana, Honduras and Papua New Guinea are set to join the council soon, but no specific details have been given yet (Bernama, 6 December 2021).

other companies—Kao Oleochemical (M) Sdn. Bhd., Kao Plasticizer (M) Sdn. Bhd., Kao Soap (M) Sdn. Bhd.

Penang's manufacturing experience, good infrastructure and seaport connectivity, and workforce with industrial experience are factors advancing Penang's participation in high-value palm oil downstream opportunities for CPOPC countries.

1.1.3 Penang-Indonesia trade relations

In 2020, China was Penang's largest two-way merchandise trading partner, accounting for 21% of total trade. The United States (12.8%) was the second largest, followed by Singapore (11.6%), Taiwan (11.1%) and Hong Kong (10.5%). Indonesia was ranked Penang's 15th largest trading partner, accounting for about RM4.3 billion worth of imports and exports. A positive trade balance with Indonesia was recorded for Penang from 2018 to 2020. In 2020, Penang exported RM2.5 billion in goods to Indonesia; accounting for only 0.8% of its total exports. In fact, Penang's exports to Indonesia dropped slightly by about 4.9% that year, compared to the previous year. Penang imported about RM1.9 billion worth of goods from Indonesia that year, which made up 1% of its total imports. In fact, Penang's imports from Indonesia saw a significant decline of nearly 16% in 2020 compared to 2019 (Figure 1.6).

Figure 1.6: Penang's trade with Indonesia, 2018 - 2020

Source: Department of Statistics, Malaysia.

1.2 Promoting Penang-Indonesia trade through the growth triangle

The Indonesia-Malaysia-Thailand Growth Triangle (IMT-GT), formed across provinces and states of Indonesia, Malaysia and Thailand, is a subregional initiative that aims to accelerate economic transformation in less developed areas of these countries, moving them towards becoming an integrated, innovative, inclusive and sustainable subregion by 2036. This shared strategy was concluded at the IMT-GT Summit in October 2021 (IMT-GT, 2021a). The vision to enhance connectivity, streamline production and trade movement, and promote industrial clusters and a cross-border production network will continue to be strengthened on top of the strategies targeted in Vision 2036. The three subregional priority goals for IMT-GT in Vision 2036 are the creation of:

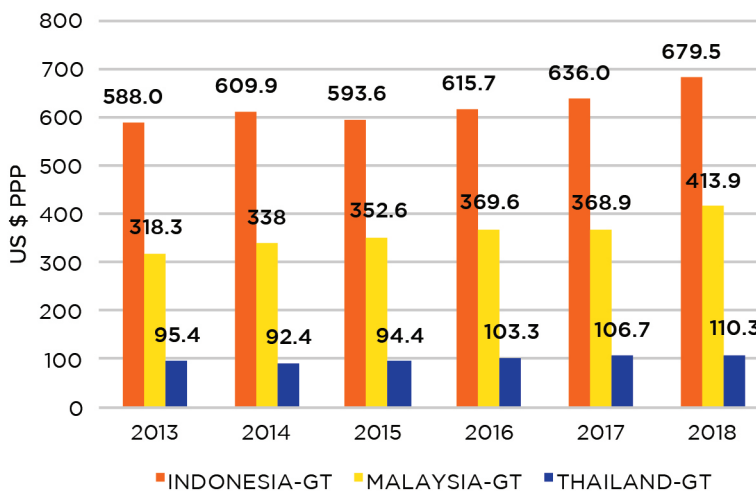
- a. A sustainable, inclusive and innovative agriculture sector;
- b. A competitive, innovative and advanced industrial base; and
- c. Sustainable, inclusive and competitive advantages for the subregion.

The IMT-GT comprises 10 provinces of Sumatra, Indonesia (Indonesia-GT); eight states in Peninsular Malaysia (Malaysia-GT); and 14 provinces in the southern region of Thailand (Thailand-GT). According to the respective statistics departments of Indonesia, Malaysia and Thailand, IMT-GT is home to about 85 million people inhabiting land areas of about 618,594 square kilometres. The population density of IMT-GT has been increasing, from 132 persons per square kilometre in 2015 to 138 persons per square kilometre in 2020.

The IMT-GT's GDP grew by 3.7% annually to US\$1.2 trillion in 2018 from US\$1 trillion in 2013. This constituted 23% of GDP in the entire IMT. Indonesia-GT contributed the largest GDP share in the growth triangle, accounting for about 56% of the total GDP of the growth triangle, followed by Malaysia-GT (34%) and Thailand-GT (9%) (Figure 1.7). Malaysia benefitted highly from this growth initiative, as the growth triangle's productivity contributed up to 46.5% of the country's GDP in 2018 (Figure 1.8).

This may be attributed to the fact that more international companies select Malaysia, especially the northern region (which includes Penang) as their preferred location for trade and investment.

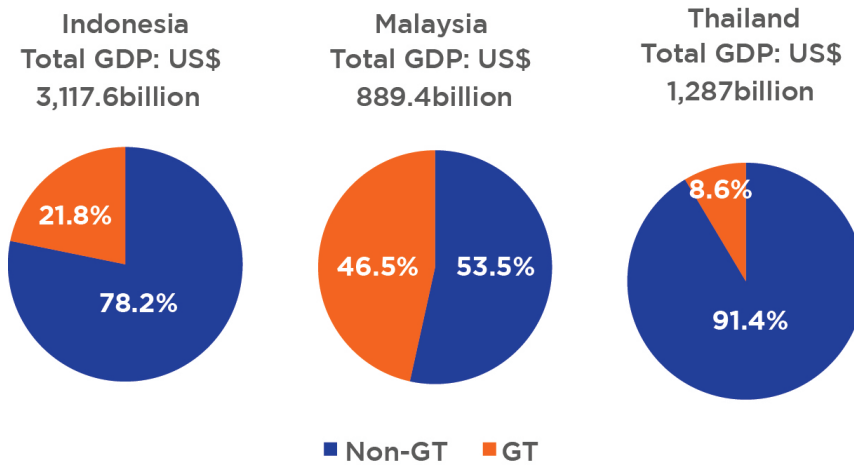
Figure 1.7: GDP at current purchasing power parity (PPP) in IMT-GT 2013-2018 (US\$ billion)



Note: Latest available data is up to 2018.

Source: Indonesia-Malaysia-Thailand Growth Triangle (IMT-GT) official website.

Figure 1.8: The GDP contribution by the growth triangle to the national GDP of Indonesia, Malaysia and Thailand, in 2018



Note: Latest available data is up to 2018.

Source: IMT-GT Statistics, IMT-GT Official Website.

In terms of external trade, IMT-GT has also experienced resilient growth, registering a trade surplus of US\$37.7 billion in 2018 – an increase of 26.4% annually from 2013 to 2018. Specifically, Indonesian agricultural products recorded a trade surplus with Malaysia, where Indonesian exports of agricultural products to Malaysia were greater than its imports of agricultural products from Malaysia. In contrast, Indonesia experienced a trade deficit in agricultural products with Thailand (Adi and Wella, 2019).

In response to the market demand for agricultural products, the Review of the IMT-GT Implementation Blueprint 2017-2021 has identified the resources available in the subregions to accommodate demand within the agro industry. Rubber, palm oil and fishery are the strengths of IMT-GT subregions. These strategically enable the food and ingredient supply chains, and promote them through environmental sustainable cross-border agriculture value chains, high value and knowledge intensive agricultural products and improved agro-logistics across borders.

The Special Economic Zones established along with economic corridors are meant to encourage active participation of local micro, small & medium-sized enterprises (MSMEs) in the IMT-GT initiatives (see Appendix: Table A2). The idea is to ensure that MSMEs are not left behind, and can instead benefit from the job, business and technology transfer opportunities created by the larger firms. Specifically, e-commerce

adoption among the MSMEs is the main focus area in the IMT-GT; this is to empower and equip MSMEs with adequate market information.

IMT-GT is a platform for addressing major challenges faced by the subregions. The lowering of technical, administrative and regulatory barriers for trading in goods and services and investment is part of the effort to overcome the relatively high business transaction costs and supply chain challenges found in cross-border procedures. This also requires improvements in land and air logistics services that help in supply and value chains connectivity; ultimately, these spur intra- and inter-IMT-GT trade and investment promotion activities.

As the main growth driver in the subregion, trade value is the key measure for the success of subregional cooperation. Under the IMT-GT Implementation Blueprint 2017-2021, Intra-IMT-GT trade was targeted to increase to 11.5% of the total IMT trade in 2021, compared to 9.2% in 2015 (IMT-GT, 2021b). On the whole, concerted efforts to achieve the targets are crucial in all aspects including the agriculture and agro-based industry, halal products and services, trade and investment, transport and ICT connectivity, tourism, environment and human resource development, education and culture.

1.3 Indonesian roles in ASEAN Economic Community (AEC)

Established in 2015, the ASEAN Economic Community (AEC) is a significant breakthrough in regional economic integration among ASEAN member states. ASEAN is the world's fifth-largest economy (with a total combined GDP of US\$3.2 trillion in 2019), and the strengthening of collaboration between ASEAN economies in trade, investment, skilled labour and connectivity is aimed at achieving four interrelated and mutually-reinforcing pillars, as follows:

- a. A single market and production base;
- b. A highly competitive economic region;
- c. A region of equitable economic development, and;
- d. A region fully integrated into the global economy.

1.3.1 Advancing opportunities for the Indonesian economy, via AEC

By 2025, the AEC is anticipated to attain highly integrated, competitive and borderless cooperation, with enhanced social inclusiveness and integration with the global economy (Peter and Agoes, 2019). It promotes *a single market and production base* through free movement of goods, services, investment, skilled labour and the elimination of cross-border tariffs. In a more liberalised market and seamless trading environment, this agenda allows ASEAN businesses to seize market opportunities that reach over 656 million people in the region at good trading costs. In terms of Indonesia's trade with Malaysia, the positioning is at a favourable spot, as the average tariff rates in the ASEAN original member states (Indonesia, Malaysia, the Philippines, Brunei, Singapore, and Thailand) have been at zero (Tonby et al., 2014) since 2010.

Given China's increasing labour costs, the ASEAN region becomes increasingly attractive to potential investors. ASEAN as an economic grouping encourages more investments from outside the ASEAN countries. This is not only able to provide employment opportunities to the nations, but also taps on the considerably large size of the ASEAN market, particularly with Indonesia being the largest population in ASEAN.

In ASEAN, Indonesia has the largest population (with 270 million people) in 2020, followed by the Philippines (110 million people) and Vietnam (97 million people). Besides, Indonesia's GDP is also the highest, at US\$1.1 trillion, followed by Thailand with US\$544 billion. Other than having the largest population and the highest GDP, Indonesia has abundance in natural resources and has huge potential in agriculture and fisheries. As stated by the Ministry of Trade, Indonesia's mainstay commodities include textiles and textile products, electronic components, rubber and its derivatives, palm oil and its derivatives, forest products, footwear, automotive vehicles, prawn, cocoa and coffee (Haryo and Audrey, 2016). Indonesia is one of the world's largest suppliers for cocoa, coffee and natural rubber. Indonesia is well-positioned to gain more benefits from AEC compared to other ASEAN countries.

However, the Indonesian economy's recent strong performance will not necessarily be sustained, and it is not certain that it will the obstacles that come with a dynamic global environment, let alone those that come

with the AEC's implementation. First and foremost, the global economic situation is expected to continue slowly. Second, the commodities boom and capital influx from OECD countries seeking greater yields as a result of the US Quantitative Easing (QE) policies have underpinned the country's recent reasonably decent performance. The commodities boom has also come to an end, and the QE policies will soon be phased out. Third, and perhaps most importantly, various metrics of international competitiveness indicate low performance by Indonesia.

The recent decline in Indonesia's competitiveness can be attributed to a number of factors. To begin with, amid commodity booms in the past few decades, Indonesia expanded its terms of trade. An increase in its terms of trade leads to the real effective exchange rate (REER) rising as the nominal exchange rate increases; this is followed by an increase in inflation in Indonesia relative to that of its trading partners. As previously stated, Indonesia has been receiving capital inflows from OECD countries looking for higher yields. The rupiah has appreciated in real terms as a result of increased capital influx into the country. The rupiah had suffered a significant decline near the end of the 1998 crisis. However, Indonesia's high inflation at the time negated the benefit of the devaluation to its competitiveness.

Second, due to a failure to implement post-Asian Financial Crisis (AFC) regulatory reform, Indonesia's competitiveness has weakened. When falling oil prices caused an economic crisis in the mid-1980s, Indonesia implemented large-scale reforms. These resulted in a healthier and more diversified economy that showed less reliance on the oil and gas sector and that had more private sector engagement. In the early 1990s, deregulation weariness set in, resulting in the 1998 economic catastrophe. Subsequent large-scale economic and political reforms managed to restore growth.

The third fundamental cause of Indonesia's diminished competitiveness is that, while it is gaining new competitors which have lower labour costs such as Vietnam and Bangladesh, it has yet to increase the technological sophistication of its industry in comparison to other countries, like those in BRICS. Post-AFC employment policies have been more pro-labour, and this legislative shift has an impact on production costs, particularly in labour-intensive industries. From 2000 to 2014, the average wage grew much more rapidly than labour productivity. As a result, unit labour costs

increased 3.5-fold. The highest wage growth occurred in early 2000, as a reasonable adjustment to the high inflation experienced during the 1998 crisis. Wages soared again in 2012-2014, while labour productivity showed no significant change. Luckily, Indonesia is not the only country where wages have risen dramatically. Wage inflation was also extremely high in neighbouring countries such as Malaysia and Thailand. As a result, Indonesia's unit labour cost remained competitive until 2012.

Low infrastructural investment, as well as regulatory impediments, also posed logistical challenges in Indonesia. Following the AFC, Indonesia's infrastructure investment-to-GDP ratio was half that of the Soeharto era. The poor performance of the logistics sector was aggravated by regulations that did not stimulate competition. In contrast to the deregulation of air transportation and which resulted in that sector's fast growth, the marine transportation industry has become increasingly restrictive. The cabotage principle was reinforced by the 2008 Shipping Law, which prioritised shipping in Indonesian waters for domestically owned vessels. Although the government continues to increase its commitment to infrastructure development, it is still unclear whether it will be able to remove critical barriers in the logistics sector, such as the lack of coordination between central and local governments, and the ambiguous policy environment.

1.3.2 ASEAN 4.0: The way forward

Industry 4.0 is a vital contribution to productivity and safe and quality operations. It can improve service quality and ensure product delivery in the FMCG sector. To achieve efficient supply chain management, new technologies such as sensors, 3D printing, IoT-based packaging and robots are used, while Logistic 4.0, a fully integrated supplier-customer system, reduces cost of handling and increases delivery accuracy (Manjurul, 2020). Specifically, Lim et al. (2021) identified potential development gaps in the palm oil industry where the adaptation of the Fourth Industrial Revolution technologies such as Internet-of-Things sensors, cloud computing, blockchain and smart imaging processing are critical for achieving sustainable production.

The development of a regional business-friendly and innovation-friendly environment through digital technology is important in the long run. This can be accomplished through streamlining various shared frameworks, standards, and mutual cooperation in a variety of fields, including agricultural and financial services, as well as competition policy, intellectual property rights and consumer protection. Advancement in transportation connectivity and other infrastructure networks have facilitated cross-border transit and helped lower total business costs, while allowing individuals and businesses to trade more efficiently.

Many ASEAN governments have taken proactive transformative responses to the Fourth Industrial Revolution (4IR). Thailand and Singapore were one of the earliest countries, introducing Thailand 4.0 and Smart Nation initiatives, respectively (Menon and Fink, 2019). These initiatives are important in shaping regional economic integration in a digital environment. Access to services that are better than in home countries, especially in the area of healthcare (e.g. telemedicine), education (virtual classrooms) and financial services, has contributed to new forms of economic growth. Consumers now have a greater range of choices in the region to import products and services at lower costs. These have been further accelerated by the Covid-19 pandemic.

A balanced and sustained development is required for achieving an *equitable economic development* in ASEAN. SMEs being the backbone of ASEAN economies, such companies should be empowered to build a competitive edge in supporting multinational and local large companies. Many SMEs in ASEAN are still limited in resources to grow and innovate, leading to constrained access to markets abroad. SMEs need to be encouraged to take a proactive role in regional and global value chains, through embracing digital marketplaces and online services to increase the competitiveness and visibility of the organisations locally and regionally. This offers opportunities for less developed member states to leverage on the strengths that other member states have.

Given the fourth pillar calling for ASEAN's complete inclusion with the global economy, coordinated and consistent economic collaborations externally are necessary to sustain free trade zones and comprehensive economic partnership agreements, as well as increased participation in global supply chains. For example, ASEAN signed the Regional Cooperation Economic Partnership (RCEP) with its five Free Trade

Agreement (FTA) partners in November 2020. This is expected to increase FDI in the economic bloc which is responsible for about 15% of global FDI stock and more than 33% of global FDI flows in 2020 (ASEAN, 2021). The ASEAN Investment Report 2020-2021 launched in September 2021, suggests that ASEAN countries should invest in areas such as digital infrastructure (i.e. 5G, data centres and cloud facilities), industrial automation and robots, additive manufacturing and digitalisation of manufacturing (i.e. industrial internet of things, smart factories and digital twins), in order to foster economic integration globally.

In summary, to fully benefit from the AEC, Indonesia must improve its competitiveness in the production and distribution of goods and services. First, through its appreciating impact on the real exchange rate, the well-known Dutch Disease effect of a commodity boom contributed to a loss in Indonesia's competitiveness. Exchange rate regulations proved to be a very successful instrument in managing adjustments to big external shocks in the 1960s, mid-1980s and 1998. However, if productivity does not improve, the country is forced to depreciate its currency on a frequent basis in order to remain competitive. Furthermore, currency depreciation reduces real incomes in international pricing, which counters the developing goal of rapidly upgrading the economy to higher middle-income status.

Second, if the current trend of high pay increases, particularly in the manufacturing sector, continues without a corresponding gain in productivity, Indonesia will lose the labour cost advantage that it has over other ASEAN countries. The government will need to make changes to its labour policy, restore the minimum wage legislation to its proper position as a safety net, and give enterprise bargaining based on individual productivity a larger role. Competition, freer mobility of products, services, and factors of production, and bureaucratic reform are the keys to increasing productivity. One of the most important vehicles for achieving such results is the AEC.

Finally, a worldwide manufacturing network necessitates sufficient infrastructure, effective logistics, and effective production and trade support services. In this regard, Indonesia has certainly fallen behind, and must therefore strengthen its infrastructure investment and remove the various legislative barriers that obstruct the growth of efficient logistics.

Chapter 2:

Consumer trends concerning Indonesian products in the Malaysian and Penang market

This chapter presents information on the participation of Indonesian firms in Malaysian-based trade fairs as well as patterns of consumer behaviour in Malaysia. A study of trade fairs organised in Malaysia indicates that the featuring and participation of Indonesian firms seem to be the most prominent in Malaysian International Halal Showcase (MIHAS). Although the importance of accessing the Penang market has been recognised by Indonesian firms, the market for FMCG, textile and footwear products in Penang is relatively small as compared to that in other neighbouring countries such as Singapore. Market size is indeed a crucial factor in determining export market destination.

Another factor that plays a significant role in identifying export market destination is consumer behaviour. The pattern of Malaysian consumer behaviour shows that branding and country-of-origin have the highest influence on the purchasing decisions of consumers in Malaysia, particularly in FMCG and clothing and footwear markets, with products from developed countries being more preferred. It indicates that products from local markets and developing countries have a major disadvantage in competing against international brands in attracting Malaysian consumers.

2.1 Past participation by Indonesian firms in Malaysia-based trade fairs

Indonesian firms have recognised the importance of penetrating the Malaysian (including Penang) market, given the close distance between the two countries and relative similarities in demographics which hold appeal in terms of product consumption. In this study, key trade fairs and exhibitions examined show a significant presence by Indonesian-headquartered firms. These fairs and exhibitions include, but are not

limited to Malaysian International Halal Showcase (MIHAS), Penang International Halal Exposition and Conference (PIHEC) and a recent International Inspirasi Khadijah Virtual (IIKV) event.

Based on the hundreds of the Penang State Assembly, Indonesian firms have participated in PIHEC since 2012, especially as the fair has also been listed as a major annual halal expo within IMT-GT. Even as the Penang Halal International (PHI, formerly known as Penang International Halal Hub) did not organise a physical exhibition for PIHEC in 2020, Indonesian-headquartered firms still did participate in the IIKV organised by PHI (see brief facts of PIHEC and IIKV in Table 2.1).

Table 2.1: Brief facts about PIHEC and IIKV

	PIHEC	IIKV
First year of event	2010	2020
Participation from foreign countries (exhibitors)	Indonesia, Thailand and Japan	N/A
Major industries involved	Food and beverage, pharmaceuticals and cosmetics, logistics, technology, e-commerce service, banking and Islamic finance.	Halal products, fashion, women-centric products, wholesale and retail products

Source: Penang Halal International

In Penang, the Penang Development Corporation (PDC) has organised numerous trade missions and activities to promote trade activities through trade networking and business matching, locally and internationally. According to the latest annual report by PDC, a total of 175 events were held in Penang in 2019, and these were facilitated through the state government's EXCO Committee for Domestic and International Trade.

Notably, trade events held together with Indonesian counterparts include the yearly programme entitled North Sumatra Annual Fair or Medan

Fair. This programme encourages Penang entrepreneurs to promote products and penetrate into the sizable Indonesian market as part of the efforts to maintaining close ties between Penang and the North Sumatra entrepreneurs.

For a wider community, PDC also organised business-matching events together with the Penang state government; these saw participation by 32 Penang entrepreneurs and 22 Indonesia entrepreneurs in 2019, fostering ties and creating trade opportunities between Penang entrepreneurs and entrepreneurs from West Sumatra, North Sumatra and Aceh.

Other trade fairs that are held in Malaysia periodically include:

1. Muslim World Biz
 - a) This is organised by the Islamic Centre for Development of Trade (ICDT), providing networking opportunities, business-matching prospects, investment opportunities and access to more than 50 countries in the Muslim World market.
 - b) Penang entrepreneurs which have participated in this event are:
 - i. Sun City Sdn Bhd;
 - ii. Shashas Beauty & Health;
 - iii. Amipro; and
 - iv. Botany Food Sdn Bhd.
2. JAKIM Fiesta Halal Program (JAKIM HALFEST)²

This event was organised by the Department of Islamic Religious Development Malaysia (JAKIM).

A study of trade fairs organised in Malaysia outside Penang shows that the featuring and participation of Indonesian firms seem to be most prominent in MIHAS. Understandably, Indonesian firms are not only seeking to penetrate or increase exports to Malaysia via these trade fairs but also to gain international exposure, since there are many international companies participating there. At the same time, the exposure increases visibility for their products in reputable international and halal-themed settings. In 2015-2021, Indonesian firms made up around 7.4%-7.8% of the total participating firms in MIHAS (Table 2.2).

² Exhibitors consist of business owners, suppliers and trade visitors from all over Malaysia.

Table 2.2: Key facts of firms' participation in MIHAS, 2015-2019 & 2021

Year	2015	2016	2017	2018	2019	2021
Number of companies that participated (total booths)	549 companies (590 booths)	539 companies (604 booths)	576 companies (612 booths)	778 companies (976 booths)	1,002 companies	574 companies
Number of countries of origin that firms participated	20 countries N/A	28 countries Bangladesh Brazil Brunei Bulgaria China Egypt India Indonesia Iran Japan Lebanon Malaysia The Netherlands New Zealand Pakistan Palestine Romania Saudi Arabia Singapore South Africa Sri Lanka Taiwan Thailand Tunisia Turkey U.A.E U.S.A Vietnam	33 countries Australia Austria Bangladesh Belgium Brazil Chile China Egypt Finland Indonesia Iran Italy Japan Malaysia New Zealand Oman Palestine The Philippines Russia Saudi Arabia Singapore South Africa South Korea Spain Sri Lanka Taiwan Thailand Tunisia Turkey U.A.E U.K U.S.A Vietnam	34 countries Azerbaijan Bangladesh Belgium Bulgaria Cambodia Canada China Egypt France Hong Kong India Indonesia Iran Japan Malaysia Morocco New Zealand Oman Pakistan Palestine The Philippines Saudi Arabia Singapore South Africa South Korea Syria Taiwan Thailand Tunisia Turkey U.A.E U.S.A Uzbekistan Vietnam	43 countries Australia Azerbaijan Bangladesh Bosnia Cambodia Canada China Denmark Egypt France Hong Kong India Indonesia Japan Kazakhstan Kuwait Malaysia Morocco The Netherlands New Zealand Nigeria Pakistan Palestine The Philippines Portugal Qatar Saudi Arabia Singapore South Africa South Korea Sri Lanka Switzerland Taiwan Thailand Tunisia U.A.E U.S.A	47 countries Argentina Australia Bangladesh Bosnia & Herzegovina Brazil Brunei Canada Chile China Chinese Taipei China Colombia France Germany Guatemala Hong Kong China Hungary India Indonesia Iran Italy Japan Kazakhstan Kosovo Malaysia Mexico Morocco Myanmar The Netherlands Pakistan The Philippines Poland Russia Saudi Arabia Singapore

					Uganda Ukraine U.K Uzbekistan Vietnam Yemen	South Africa South Korea Spain Sweden Thailand Trinidad & Tobago Tunisia Turkey U.A.E U.S.A U.K Uzbekistan Vietnam
Number of Indonesian firms that participated	Second largest number of total companies from a single country (specific number N/A)	40 companies, 28 booths	Second largest number of total companies from a single country (specific number N/A)	60 booths	N/A	45 companies

Indonesian-headquartered firms that participated in MIHAS from 2015 to 2021 have mainly dealt in food-based and food products, cosmetic products, e-commerce players and pharmaceutical products (Table 2.3). The major food products showcased include processed food (instant noodles, spices, seasoning), food preparation (flour), premix, coffee and other packaged drinks, and agri-food products companies. The firms comprise a mix of large companies and small and medium enterprises, and trade groups sent by government agencies and regional agencies from Indonesia. Several key major players that have consistently participated in MIHAS are Nutrifood, Bamboe, Indofood and JAFPA.

Table 2.3: Key selected exhibitors by products from Indonesia at MIHAS, 2015-2019 & 2021

Year	2015	2016	2017	2018	2019	2021
Food industries	Nutrifood Bamboe Indonesia PT. Pondan Pangan Makmur Indonesia *Tahu Petis Yudhistira *Rendang Cap Tungku	Nutrifood Bamboe Indonesia, Esprecielo * Sambal Pecel Bu Jayus *Bakpiapia, *Rendang Cucu Hj. Machniar *Dapur Cempaka *Carica *Aneka Camilan Khas *Kopi Kamu	PT Suprama	Tokusen Wagyu Beef, JAPFA Comfeed Indonesia	PT Indofood Sukses Makmur Tbk. JAPFA Comfeed Indonesia Tbk (Note: Founded in Indonesia, currently headquartered in Singapore)	Pawon Narasa CV. Seribu Satu PT. Darya Padma Enoes - TEHDIA PT. Rabana Sejahtera Indonesia - Palmute Imuno Booster Dan Bee Polis Hofland CV. Abon Cap Koki Seboa Geprania Indomaumor - Jamu Delicious KRIKEN Mones Karya Javalejanum, CV. CV. Muda Kopi Indonesia Pempek Nabil CV. Nomnom Indonesia (PUFF) UD. Donita CV. Mitra Niaga Rumah Mocaf Tiara Global Coffee Bawadi Coffee Ketakasi Coffee Narata

Chapter 2: Consumer trends concerning Indonesian products in the Malaysian and Penang market

						Panda Food Jenang Mubarak PT. Kemfarm Indonesia (Warasa) Katuju PT. Sasa Inti
Cosmetic products		*Kosmetik Gamat dari IMC dan Rhizoma	Wardah Cosmetics	Wardah Cosmetics		PT. Hadir Mengharumkan Nusantara (HMNS)
E-commerce		Karta	PT Indonesia Halal Lifestyle			PT. Lima Event Indonesia
Pharmaceutical			PT Soka Cipta Niaga			Sagarayasa Silmaa Tenun Kerabat Store Arktiv Gesyal Roemah Kebaya Vielga Sakinah By Thiffa Qaisty Ir & Ir By Songket Deli Al Warits Batik Aromatherapy Pala Nusantara Daun Agel Roro Kenes Fatih Indonesia My Daily Hijab Shiroshima
Fashion						PT. Bumi Oma Hensin - Imago Raw Honey Alfkhahza Herbal

i. MIHAS was not organised in 2020 due to Covid-19 (see MATRADE, 2020).

*ii. * refers to SME companies.*

Where the colours are concerned, red refers to food industries companies, orange to cosmetic companies, green to e-commerce companies, purple to pharmaceutical companies and blue to fashion companies.

Source: MIHAS post-event reports (various years), media reports, and individual companies' announcements

2.2 Pattern of consumer behaviour in Malaysia and Penang

Over the past decade, consumer behaviour across Asia has largely focused on health and safety, convenience and happiness. When it comes to FMCG products, health and safety become the top priority, especially during the Covid-19 pandemic. In Asia, consumers particularly in top tier or urban cities are often looking for non-additive, high quality, immune-boosting, organic or plant-based ingredients in food or beverages. Yet, this behaviour highly depends on consumers' lifestyle and life stage needs. Moreover, convenience is another important factor, especially when time becomes more valuable than money. For instance, younger people prefer easy-to-use, purposeful products and packaging that can accommodate their needs. Foods that require minimal preparations such as cereal, instant noodles and instant rice, as well as convenient cooking aids such as sauces and meal makers are the products achieving growth. Finally, shopping is sometimes about satisfaction and feeling good mentally. Brands need to cater to consumers' different needs arising from various occasions and purposes and give them a compelling reason to choose a certain product over others (KANTAR, 2019).

With an increase in competition, branding has become an important factor in targeting markets and customers. The FMCG sector is highly benefited by branding strategies. Among FMCG brands, Nestlé's Maggi is the most chosen brand among consumers in Malaysia, with about 91.2% of Malaysian households having bought a product from Maggi at least once in 2020. Nestlé's Milo is ranked number two, with 85.6% of Malaysian households having picked up the brand in 2020. Local brands, Prai and Adabi, ranked in 3rd and 4th place, respectively. Malaysia's leading dairy and beverage company, Dutch Lady, ranked as the 5th most chosen brand in the FMCG market as a whole in Malaysia (Table 2.4).

Table 2.4: Top 10 most chosen FMCG brands in Malaysia, 2020

Rank	Brand	Country of origin	CRPs* (million times)	Penetration (%)
1	Maggi	Switzerland	56	91.2
2	Milo	Switzerland	38	85.6
3	Prai	Malaysia	32	70.9
4	Adabi	Malaysia	27	61.4
5	Dutch Lady	The Netherlands	26	66.5
6	Ayam	Singapore	23	65.8
7	Saji	Malaysia	22	56.6
8	Marigold	Malaysia	22	64.5
9	Munchys ³	The Philippines	20	69.1
10	Babas	Malaysia	17	47.4

*Note: *Consumer Reach Point (CRP) is the exclusive measure to rank the most successful brands by the number of times shoppers chose them.*

Source: KANTAR, retrieved from: <https://www.kantar.com/campaigns/brand-footprint/explore-the-data>.

In terms of clothing and footwear products, country-of-origin has the highest influence on purchasing decisions of consumers in Malaysia (Tee et al., 2013). Although local brands are gradually becoming premium, most consumers are influenced by the perception that international brands have better quality than local ones. This poses a big challenge for local businesses (Suki and Suki, 2020). This is also because western brands are perceived to have better attributes, particularly among Generation Y. Therefore, clothing and footwear products from local markets and

³ On 26 November 2021, Universal Robina Corporation (URC), one of the largest food and beverage companies in the Philippines and with a presence in ASEAN, announced acquisition of Munchy's for RM1.925 billion (URC, 26 November 2021).

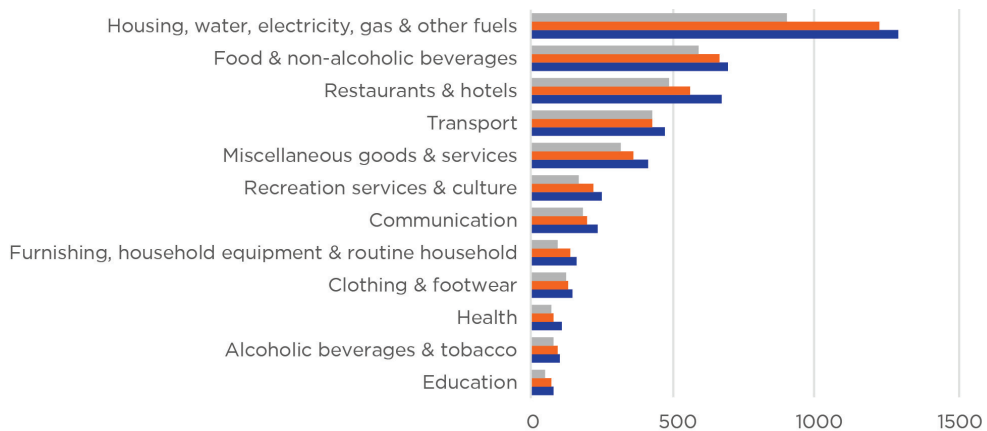
developing countries might suffer a major disadvantage in competing against international brands.

In fact, consumers today have a wider range of product choices than ever before. Understanding consumers' behaviours, lifestyles and tastes is essential in any marketing strategy today.

2.2.1 The trend in Penang consumer expenditure

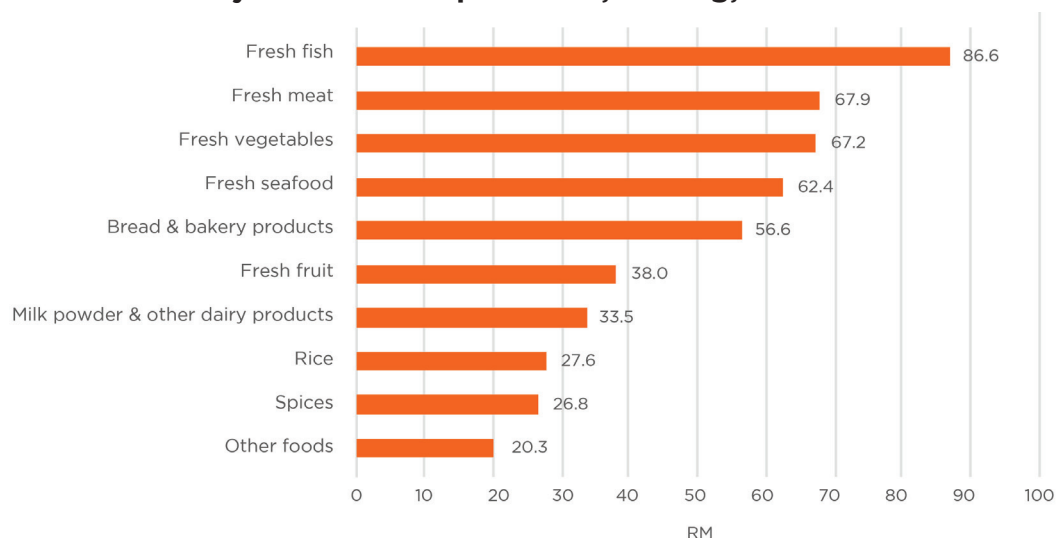
Consumer expenditure patterns can be affected by a number of factors. Generally, consumer expenditure is dominated by basic necessities. In 2019, Penang consumers spent the most on housing, water, electricity, gas, and other fuels (28%). Food and non-alcoholic beverages accounted for the second-biggest percentage of overall spending (15%) (Figure 2.1). Even though consumer spending on food and non-alcoholic beverages increased by 4.3% in 2019 as compared to 2016, its composition decreased by about 5.7% for the same period. In 2019, within this group, the most was spent on fresh fish (12.4%), followed by fresh meat (9.7%) and fresh vegetables (9.6%) (Figure 2.2).

Figure 2.1: Mean monthly household consumption expenditure, Penang, 2014-2019



Source: Department of Statistics, Malaysia.

Figure 2.2: Top ten food and non-alcoholic beverages items of mean monthly household expenditure, Penang, 2019



Source: Department of Statistics, Malaysia.

Clothing and footwear amounted to only 3.2% of total expenditure in 2019, an increase of about 14% compared to 2016. Within this group, the most was spent on garments (67.6%), followed by shoes and other footwear (23.4%).

Overall, Penang's market size for FMCG, textile and footwear products is relatively small as compared to other places such as Singapore. For example, in 2017/2018, spending on food contributed to about one fifth (20.3%) of monthly Singaporean household expenditure (Department of Statistics Singapore, 2019). This means that there may be better export market opportunities for food products in Singapore than Penang. In a competitive market, market size plays an important role in determining export market destination.

Chapter 3:

The comparative advantages of Indonesian products in Penang/Malaysia

This chapter discusses the comparative advantages benefitting Indonesian exports to Penang and Malaysia. Two major indicators are used, namely the revealed comparative advantage (RCA) and the export potential which shows the untapped potential of Indonesia's exports to Malaysia. These analyses are important for identifying focus areas and products, and for targeting the employment of resources to areas that would potentially yield optimal outcomes.

3.1 Revealed comparative advantage

Revealed Comparative Advantage (RCA) is used to measure the relative advantage of a country's products which have higher potential to export. It is calculated using the ratio of the share of a country's total exports of the commodity of interest in its total exports divided by the share of world exports of the same commodity in total world exports, as presented in Box 2. This section evaluates the RCA of selected products exported from Indonesia to Malaysia. The RCA allows an overall view of selected product categories which promises higher potential to focus on.

Box 2: Formula of RCA

According to the United Nations Conference on Trade and Development (UNCTAD), the formula for RCA is as follows:

$$RCA_{Ai} = \frac{\frac{X_{Ai}}{\sum_{j \in P} X_{Aj}}}{\frac{X_{wi}}{\sum_{j \in P} X_{wj}}}$$

where

P is the set of all products (with $i \in P$),

X_{Ai} is the country A 's exports of product i ,

X_{wi} is the world's exports of product i ,

$\sum_{j \in P} X_{Aj}$ is the country A 's total exports (of all products j in P), and

$\sum_{j \in P} X_{wj}$ is the world's total exports (of all products j in P).

In this study, the country 'A' refers to Indonesia.

If the RCA for a product category is greater than 1, it means that the country has a **comparative advantage** for that product category. Conversely, if the RCA is less than 1, the country has a **comparative disadvantage** in the commodity or industry. Table 3.1 shows the RCA for selected Indonesian product categories exported to Malaysia in the period of 2015-2019.

The study shows that Indonesia has a comparative advantage in raw materials and intermediate exports to Malaysia in the five-year period. Meanwhile, in terms of consumer goods, the RCA dropped below 1,

indicating comparative disadvantage, although with comparative advantage in previous years. For the specific categories, exports of Indonesian food products and footwear show a consistent comparative advantage. Textiles and clothing, on the other hand, had shown a gradual decrease in RCA value, plunging from 1.27 in 2015 to 1.06 in 2018, then dropping below RCA of 1 in 2019, turning the product into comparative disadvantage.

Table 3.1: Indonesia’s RCA for selected product categories exported to Malaysia, 2015-2019

Product Group	2015	2016	2017	2018	2019
All Products	1.00	1.00	1.00	1.00	1.00
Raw materials	2.26	2.39	2.81	2.94	2.23
Capital goods	0.28	0.26	0.24	0.24	0.28
Consumer goods	1.33	1.34	1.21	1.04	0.94
Intermediate goods	1.52	1.58	1.54	1.51	1.70
Chemicals					
Chemicals	0.71	0.80	0.85	0.84	0.99
Food Products					
Food Products	2.60	2.67	2.16	2.27	2.08
Footwear					
Footwear	1.56	1.79	1.97	1.79	1.89
Hides and Skins					
Hides and Skins	0.40	0.41	0.28	0.30	0.27
Mach and Elec					
Mach and Elec	0.28	0.28	0.25	0.24	0.26
Plastic or Rubber					
Plastic or Rubber	0.62	0.68	0.70	0.58	0.50
Textiles and Clothing					
Textiles and Clothing	1.27	1.25	1.06	1.06	0.97

Note: Values above 1 indicating comparative advantage are in green.

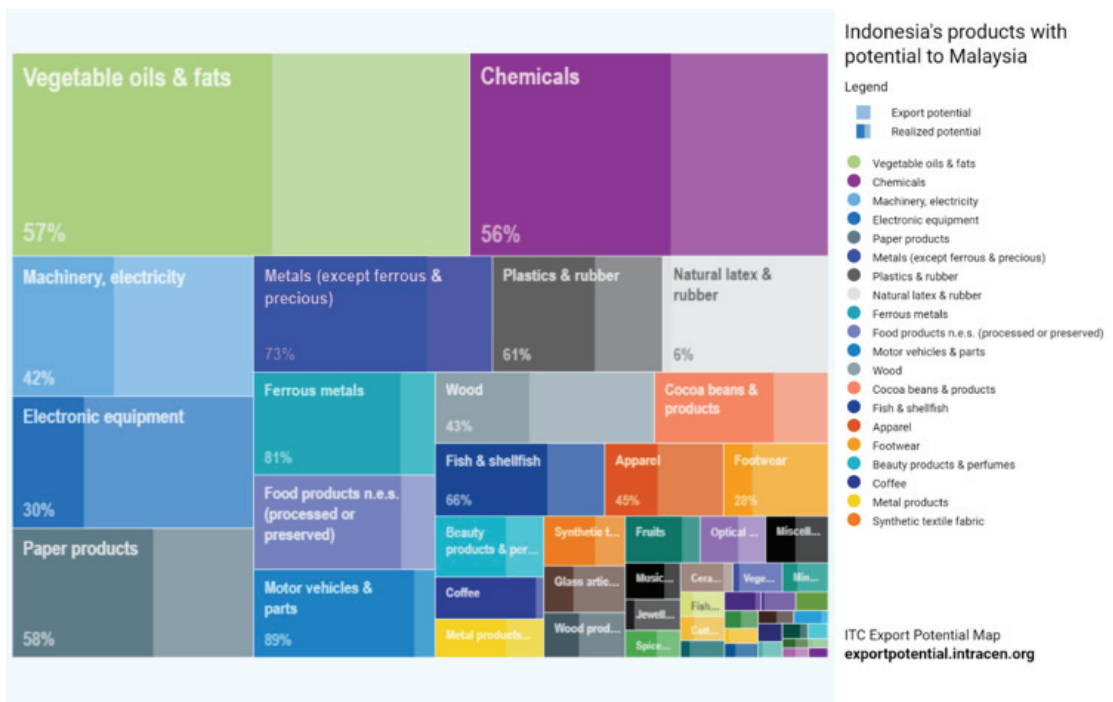
Source: World Integrated Trade Statistics, World Bank

3.2 Export potential

According to the International Trade Centre (ITC), the Export Potential Map (EPM) predicts the expected value of trade between two countries, taking into account supply performance, demand for the selected product, and the relative strength of the trade relationship between the exporting and importing country. This section employs the EPM as a tool to achieve an indicative benchmark of an “optimal” allocation of trade flows from Indonesia to Malaysia.

Figure 3.1 shows Indonesian products with potential for export to Malaysia. In line with the RCA shown above, vegetable oils and fats, cocoa beans and products, food products (processed or preserved), fish and shellfish, coffee⁴ and fruits (food products), apparel and footwear (footwear and textile and clothing), are among the products with the highest export potential from Indonesia to Malaysia. Figure 3.2 and Table 3.2 show specific sub-product groups, and their specific export potential values.

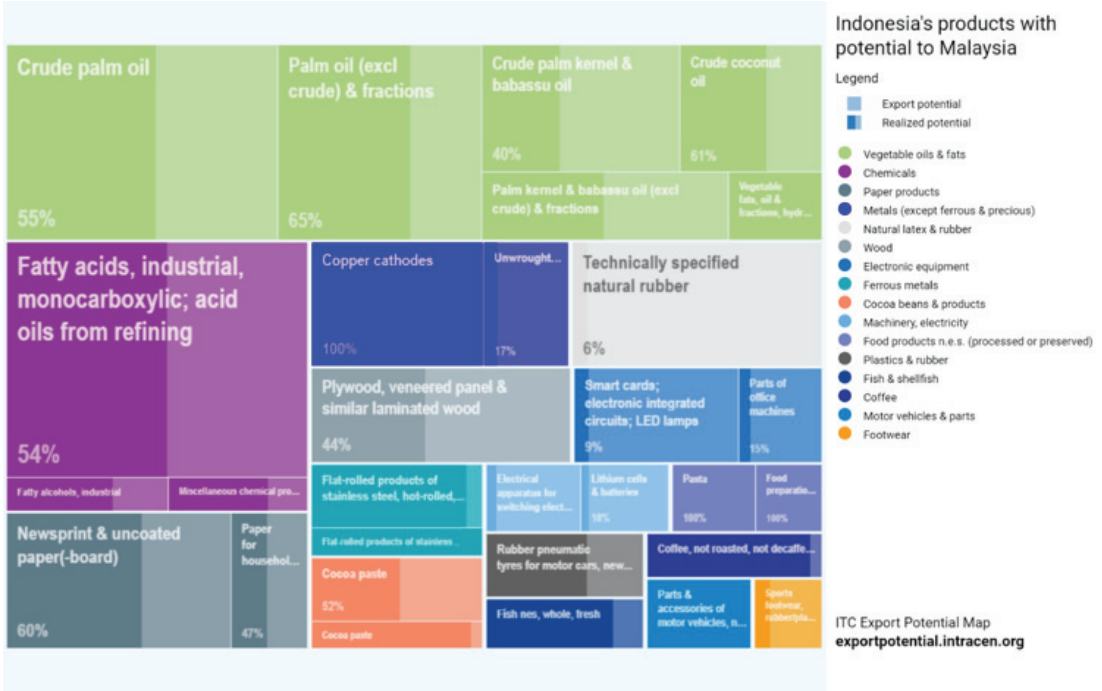
Figure 3.1: Indonesia’s products with potential for export to Malaysia, top 50 sub-products



Source: Derived from International Trade Centre (Export Potential Map)

4 This is unsurprising as Indonesia is among the world’s largest exporter of coffee along with Brazil, Vietnam and Colombia (Atmadji, 2018).

Figure 3.2: Indonesia’s products with potential for export to Malaysia, top 50 groups



Source: Derived from International Trade Centre (Export Potential Map)

In the Malaysian context, the main export potential for Indonesian products are palm oil and palm oil products. Specifically, vegetable oils and fats with five main sub-product groups (all related to palm oil and palm oil products) have an untapped export potential (export potential minus actual exports) of US\$593.5 million (see final section in Table 3.2). Besides that, chemicals that are related to the palm oil industry have an untapped potential of US\$ 329.6 million to Malaysia. Given the availability of chemical-processing industries in the downstream sectors in Penang (see Box 1), efforts may be intensified for such exports to Penang.

Besides that, cocoa beans also show an untapped potential of US\$51.6 million while coffee (not roasted, not caffeinated) has an untapped export potential of US\$4.7 million. In terms of fresh fish, there is an untapped potential worth US\$14 million. Meanwhile, footwear shows an untapped potential of export from Indonesia to Malaysia of US\$35.5 million.

Table 3.2: Indonesia’s products with potential to Malaysia, top 80 groups with export values reported

Product group	Product sub-group	Weighted export 2015-2019 to Malaysia (US\$ mil) ¹	Potential exports to Malaysia (US\$ mil) ²
Chemicals	Fatty acids, industrial, monocarboxylic, acid oils from refining	346.1	646.7
	Fatty alcohols, industrial	32.7	49.6
	Miscellaneous chemical products	30.9	43.0
Cocoa beans & products	Cocoa paste, wholly/partly defatted	53.3	102.2
	Cocoa paste, not defatted	39.9	42.6
Coffee	Coffee, not roasted, not decaffeinated	68.5	73.2
Fish & shellfish	Fish nes, whole, fresh	60.5	74.5
Food products n.e.s.	Pasta	68.6	52.6
	Food preparations	56.5	42.6
Footwear	Sports footwear, rubber/plastic soles & textile uppers	10.7	45.2
Vegetable oils & fats	Crude palm oil	265.3	480.9
	Palm oil (excl crude) & fractions	234.5	360.9
	Crude palm kernel & babassu oil	90.9	229.0
	Crude coconut oil	100.2	163.3
	Palm kernel & babassu oil (excl crude) & fractions	75.8	152.9
	Vegetable fats, oil & fractions, hydrogenated, inter-esterified, etc	85.1	58.3

Note:

¹ According to ITC, the weightage in recent years is higher.

² Potential exports up to 2025.

For more details, see Table A3 in Appendix. Table A4 in Appendix provides indication of Penang’s imports for selected products, while Table A5 in Appendix shows Penang’s trade with other ASEAN partners.

Source: Derived from International Trade Centre (Export Potential Map)

Looking into food products, Table 3.3 shows a total of US\$51.5million worth of untapped export potential from Indonesia to Malaysia. The sub-categories with untapped potential above US\$1 million include sweet biscuits (US\$12.4 million), coffee preparations (US\$8.4 million), waffles & wafers (US\$ 7.9million), preparations for sauces & prepared sauces (US\$6.6 million), edible mixtures of fats, oil & fractions, chemically modified n.e.s. (8.6 million), and sugar confectionery not containing cocoa lac; natural gums (excl gum arabic), resins, balsams, etc. (US\$1.2 million). There are also other food products in major segments of fruits and vegetables, flour and powder, cereals and prepared foods (with lower export potential below US\$1 million for each sub-segment) (Table 3.4).

Table 3.3: The breakdown of food products with positive untapped potential above US\$1 million

Product sub-group	Weighted export 2015-2019 to Malaysia (US\$ mil)¹	Potential exports to Malaysia (US\$ mil)²
Sweet biscuits	19.3	31.7
Coffee preparations	15.4	23.8
Waffles & wafers	13.3	21.2
Preparations for sauces & prepared sauces	8.6	15.2
Edible mixtures of fats, oil & fractions, chemically modified nes	6.1	14.7
Sugar confectionery not containing cocoa	9.1	10.5
Lac; natural gums (excl gum arabic), resins, balsams, etc	1.6	2.8

Note:

¹ According to ITC, the weightage in recent years is higher.

² Potential exports up to 2025.

Source: Derived from International Trade Centre (Export Potential Map)

Table 3.4: The breakdown of food products with positive untapped potential below US\$1 million

Product sub-group	Weighted export 2015-2019 to Malaysia (US\$ mil) ¹	Potential exports to Malaysia (US\$ mil) ²
Pineapples, prepared or preserved, n.e.s.	0.6	1.6
Agar-agar	0.5	1.5
Uncooked pasta	0.4	1.1
Flour, meal & powder of sago, roots or tubers	0.5	0.9
Flour, meal & powder of edible fruit & nuts	0.5	0.8
Tapioca	0.3	0.6
Mushrooms, prepared	0	0.4
Prepared foods from roasting cereals	0	0.43
Mixtures of edible parts of plants, prepared or preserved, n.e.s.	0.03	0.34
Manioc starch	0.02	0.2
Edible parts of plants preserved by sugar	0.009	0.07
Vegetables & mixtures of, unsuitable for immediate consumption	0.006	0.01
Uncooked pasta	0.007	0.009
Protein concentrates & textured protein substances	0.003	0.007
Soups & broths & preparations therefor	0	0.007
Vegetables preserved by vinegar or acetic acid	0.003	0.006
Prepared baking powder	0	0.005
Inactive yeast	0.002	0.005

Note:

1 According to ITC, the weightage in recent years is higher.

2 Potential exports up to 2025.

Source: Derived from International Trade Centre (Export Potential Map)

Chapter 4:

Tapping the Penang supply chain

This chapter discusses some actionable strategies in export penetration and expansion into the Penang market and to the broader Malaysian market. First, this section analyses cooperation with Indonesian companies from the perspective of Penang's businesses. This is followed by suggestions of linkages with Penang companies and indication of some potential partners in related sectors. In addition, specific suggestions for export promotion through participation in trade fairs, in trade missions and in the establishment of overseas offices are discussed.

In order to have better outcomes, the supply chain in Penang and Malaysia is also mapped out in this chapter. Notwithstanding the expectation on exports into the Malaysian market, some challenges facing entry in to the market are also discussed.

Last but not least, this chapter discusses the possible synergistic investments from interested Indonesian companies who may wish to benefit from incentives offered for investing in Penang.

4.1 Cooperating with Indonesian companies: Penang businesses' perspective

Businesses in Penang have long established business relationships with companies in Indonesia given factors such as being part of IMT-GT and AEC, having sister city relationships, and having broad-based similarities in language and culture (see Chapter 1).

The Penang-Indonesia trade relationship cuts across different economic sectors. Penang companies interviewed state that they have business relationships with Indonesian partners in areas such as FMCG products, timber, rubber latex and stainless steel industries. In particular, the Malaysian government implemented anti-dumping import duties on

steel from China, South Korea and Vietnam⁵ which eventually promoted the attractiveness of steel from Indonesia. Besides that, in the services sector, Penang-Medan seven-flights per week pre-Covid contributed strongly to the tourism and medical tourism relationship as well.

Penang-based businesses generally welcome partnerships with Indonesian business partners that can bring mutual benefits to both parties either in exporting to Penang/Malaysia, increasing market share in Indonesia, or both. Other than that, joint ventures are being suggested by Penang-based companies especially in manufacturing and trading. The positive responses from Penang businesses indicate that there is huge potential for partnerships with Indonesian companies, through which the latter can enter or expand into the Malaysian market, especially in products for which Indonesian companies hold comparative advantage (see Chapter 3).

Trade associations/business chambers in Penang that Indonesian businesses can make initial connections with and network with are as follows:

- Dewan Perniagaan Melayu Malaysia Pulau Pinang
- Penang Chinese Chamber of Commerce
- Malaysian Indian Chamber of Commerce and Industry (MICCI), Penang
- Malaysia International Chamber of Commerce and Industries, Northern Branch
- Penang Importers & Exporters Association
- Persatuan Pedagang dan Pengusaha Melayu Malaysia (PERDASAMA) Cawangan Pulau Pinang
- Malaysia Retail Chain Association (MRCA) Northern Region Chapter

However, Penang-based companies have also highlighted that in their efforts to strengthen trade relationships, apart from those concerning Indonesian exports into Penang/Malaysia, they also hope for more business-friendly import procedures for Penang-based companies to access the Indonesian market, especially for small and medium enterprises (SMEs). Penang companies hope for stronger mutual recognition of

⁵ See Notice of Affirmative Final Determination of Administrative Review of Anti-Dumping Duty with Regard to Imports of Cold Rolled Coils of Alloy and Non-Alloy Steel Originating or Exported from the People's Republic of China, the Republic of Korea and the Socialist Republic of Viet Nam (Attorney-General Chambers, 2021).

products and easing of trade barriers, including non-trade barriers to enhance the total trade between both countries.

4.2 Linkages with Penang companies in related sectors

Indonesian companies are likely to find it easier to penetrate or expand into Penang and Malaysia by partnering with companies (or getting local retailers/purchasers) in Penang related to the main industries as specified in Chapter 2. The main industry partners are in vegetable oils and fats, chemicals, food and beverages (such as cocoa, fish, prepared and packaged food, fruits and vegetables, flour and powder, cereals and prepared foods), and footwear.

Some of the sub-industries under Food and Beverages (Table 4.1) are (a) Fruit and Vegetable Preserving and Specialty Food Manufacturing, (b) Beverage Manufacturing and (c) Grain and Oilseed Milling Manufacturing. Some potential major partners under the respective sub-industries are as follows:

- a. Fruit and Vegetable Preserving and Specialty Food Manufacturing: Clairine's Topica Sdn. Bhd., Everbest Vege Sdn. Bhd., Fourseason Foodstuff Industries (M) Sdn. Bhd., JeenHuat Foodstuffs Industries Sdn. Bhd., Rex Trading Sdn. Bhd. and Tung Hai Fishing Sdn. Bhd.;
- b. Beverage Manufacturing: JeenHuat Foodstuffs Industries Sdn. Bhd.;
- c. Grain and Oilseed Milling Manufacturing: Family Cereal Sdn Bhd., Fourseason Foodstuff Industries (M) Sdn. Bhd., Ghee Hiang Manufacturing Co. Sdn. Bhd., Gold Choice Food Industries Sdn. Bhd., Seberang Flour Mill Sdn. Bhd., Soon Soon Group of Co, and Wilmar Holdings Sdn. Bhd.; and
- d. Other food manufacturing: United Malayan Flour Sdn. Bhd., Texchem Food Sdn. Bhd., Kumpulan Barkath Sdn. Bhd., and Evercrisp Snack Product (M) Sdn. Bhd.

Table 4.1: Selected food and beverage companies based in Penang

Sub-industry: Fruit and Vegetable Preserving and Specialty Food Manufacturing	
<ul style="list-style-type: none"> • Behs Food Industries Sdn. Bhd. • Canco Food Industry Enterprise • Clairine Paris Sdn. Bhd. • Clairine Tropica Sdn. Bhd. • Everbest Vege Sdn. Bhd. • Fourseason Foodstuff Industries (M) Sdn. Bhd. • Grand Dynasty Corp.(M) Sdn. Bhd. • Jeenuat Foodstuffs Industries Sdn. Bhd. 	<ul style="list-style-type: none"> • Keko Marketing (M) Sdn. Bhd. • Lucky Food Processing Sdn. Bhd. • NT Sun Foods Sdn. Bhd. • Phee Brothers Food Product Sdn. Bhd. • QT Enterprise • Rex Trading Sdn. Bhd. • Tung Hai Fishing Sdn. Bhd.
Sub-industry: Beverage Manufacturing	
<ul style="list-style-type: none"> • 55H2O Networks and Marketing Sdn. Bhd. • C H Ice Tube Sdn. Bhd. • Dnglab Associate (M) Sdn. Bhd. • Dynalab Associate • Ee Sheng Distributors Sdn. Bhd. • Fullhouse Victory Sdn. Bhd. • Grand Berryl (M) Sdn. Bhd. • Heng Ting Choon & Sons Sdn. Bhd. • Igloo Ice Sdn. Bhd. • Integra Water Asia Sdn. Bhd. • Jeenuat Foodstuffs Industries Sdn. Bhd. • Jice Sdn. Bhd. • Joo Shang Hang Sdn. Bhd. 	<ul style="list-style-type: none"> • KS Goods Trading Sdn. Bhd. • Lao Ba Cha Holding Sdn. Bhd. • LGS Wines & Spirits (M) Sdn. Bhd. • Metaklin Sdn. Bhd. • Mr Bean Industry (Malaysia) Sdn. Bhd. • Precious Gains Sdn. Bhd. • Regionway Marketing Sdn. Bhd. • Sbn Healthcare Manufacturer Sdn. Bhd. • Sit Sian Aik Sdn.Bhd. • Sun Technologies Venture Sdn. Bhd. • Tokai Marine & Trading Sdn.Bhd. • Wemlife Sdn. Bhd. • Yatz Destiny (M) Sdn. Bhd.

Sub-industry: Grain and Oilseed Milling Manufacturing	
<ul style="list-style-type: none"> • A.K. Seenivasagam Bros Sdn. Bhd. • Agro First (M) Sdn. Bhd. • Alfred H. Knight (Malaysia) Sdn. Bhd. • Arah Karbon Sdn. Bhd. • Arun Grinding Mill Sdn. Bhd. • Ban Chin Hong Rice & Coconut Oil Millers Co. Sdn. Bhd. • Berkat Pemborong Beras Sdn.Bhd. • Cahaya Wahyu Sdn. Bhd. • Cereal Products (M) Sdn Bhd • Chang Wen Estate Sdn. Bhd. • Chin Hin Brothers Rice Mill Sdn. Bhd. • Chuah Teong Pong & Sons Sdn. Behd. • Cold Choice Food Industries Sdn. Bhd. • Efb Resources Sdn. Bhd. • Eng Heap Seng Rice Mill Sdn. Bhd. • Eng Huat Oil and Rice Mill Company Sdn. Bhd. • Enviro Palmtech Solutions Sdn. Bhd. • Evergreen Rice Mill (M) Sdn. Bhd. • Family Cereal Sdn. Bhd. • Fourseason Foodstuff Industries (M) Sdn. Bhd. • Ga Goss Sdn. Bhd. • Ghee Hiang Manufacturing Co. Sdn. Bhd. • Ghee Seng Hong Rice Mill Sdn. Bhd. • Ghoniyyun Sdn. Bhd. • Gold Choice Food Industries Sdn. Bhd. • Golden Star Nature Sdn. Bhd. • Hai Yi Plantation Sdn. Bhd. • Hk Fibre Sdn. Bhd. • Hk Palm Fibre Manufacturer Sdn. Bhd. • Hong Giap Plantation Sdn. Bhd. • Honseng Rice Mill Sdn. Bhd. • Hup Hin Chan Rice Mill Sdn. Berhad • Iliasco Engineering & Construction Sdn. Bhd. • Jamanis Sdn. Bhd. • Juara Pakatan Sdn. Bhd. • Jvjr Palmaa Sdn. Bhd. 	<ul style="list-style-type: none"> • K-Mart Enterprise • Kelang Beras Hai Hin Sdn. Bhd. • Khong Guan Vegetable Oil Refinery Sdn. Bhd. • Kilang Beras Leong Guan Sdn. Bhd. • Kilang Beras Lim Chai Huat Sdn. Bhd. • Kilang Beras Seng Wor Sdn. Bhd. • Kilang Beras Setia Jaya Sdn. Bhd. • Kim Thye Leong Rice Mill Sdn. Bhd. • Lam Guan Rubber Estate Sdn. Bhd. • Li Huat Oil Mill Sdn. Bhd. • Lian Seng Hung Rice Mill Sdn. Bhd. • Liang Teak Huat Trading Sdn. Bhd. • Lumut Edible Oils Industries Sdn Bhd • Mahar Trade Sdn. Bhd. • Malaysian Palm Board Industry Sdn. Bhd. • Mohamed Meera Sahib (Penang) Sdn. Bhd. • Mukah Kilang Kelapa Sawit Sdn. Bhd. • Pacific Palm Oil Mill Sdn. Bhd. • Palmco Oil Mill Sdn. Bhd. • Rexon Edible Oil (M) Sdn. Bhd. • Rifetra Sdn. Bhd. • Seberang Flour Mill Sdn. Bhd. • Sin Guan Hup Oil & Rice Mill Sdn. Bhd. • Sin Guan Thye Rice Mill (Kedah) Sdn. Bhd. • Sin Heap Moh Sawmill Sdn. Bhd. • Skt Soon Trading Sdn. Bhd. • Sokor Gemilang Ladang Sdn. Bhd. • Soon Bee Chan Rice Mill Sdn. Bhd. • Soon Soon Group of Co • Soon Soon Oilmills Sdn. Bhd. • Tamon Bio Industries Sdn. Bhd. • Tan Teng Yew Rice Mill Sdn. Bhd. • Tanjung Panjang Palm Oil Mill Sdn. Bhd. • Teong Lee Plantations Sdn. Bhd. • U.O.P. Properties Sdn. Bhd. • United Malayan Flour (1996) Sdn. Bhd. • Villa Vino Sdn. Bhd. • Wilmar Holdings Sdn Bhd

Sub-industry: Other food manufacturing	
<ul style="list-style-type: none"> • Mondelez Malaysia Sdn. Bhd. • Raviraj Sdn. Bhd. • Tan Choi Hin Sdn. Bhd. • Hunza Consolidation Bhd. • Gaban Spice Manufacturing (M) Sdn. Bhd. • Texchem Food Sdn. Bhd. • Kumpulan Barkath Sdn Bhd • Sea Master Products Sdn. Bhd. • Maestro Swiss Cocoa Sdn Bhd • Maju Aik Sdn Bhd • Premier Frozen Desserts Sdn Bhd • Fishergold Cold Storage Sdn. Bhd. • Hock Chuan Shing Trading Sdn. Bhd. • Tm Biotech Sdn. Bhd. • Liang Weng Sdn. Bhd. • Perternakan Hong Lee Sdn. Bhd. • Yeong Cherng Sdn. Bhd. • Aaa Biotech Sdn. Bhd. • Sys Enterprise Sdn. Bhd. • Ni-On Marketing System Sdn. Bhd. • Sun Renewables Sdn. Bhd. • Hoe Hin Agriculture Supplies Sdn. Bhd. • Tonshen Holding Sdn. Bhd. • Protigam Food Industries Sdn. Bhd. • Kilang Abd. Rahman Yaacob Sdn. Bhd. • Easy Brew Sdn. Bhd. • Gold Choice Biotech Sdn. Bhd. • Brukopi Venture Sdn. Bhd. • Sunshine Coffee Roasting Sdn. Bhd. • Mitra Food Industries Sdn. Bhd. • Ritz Manufacturing (M) Sdn. Bhd. • Akar 7 Sdn. Bhd. • Dua Badak Industries (M) Sdn. Bhd. • Terang Bulan F & B Sdn. Bhd. 	<ul style="list-style-type: none"> • You Yuan Fen Restaurant Sdn. Bhd. • Tan Hwa Hong Frozen Food Sdn. Bhd. • Rompin Pacific Sdn. Bhd. • My Ayahbonda Holding Sdn. Bhd. • Ra Wawasan Sdn. Bhd. • My Freedom Life (M) Sdn. Bhd. • Brix Cakes & Pastries Sdn. Bhd. • Tropical Five Style Sdn. Bhd. • Abadi Utama Food Industries Sdn. Bhd. • Nz Hot Stone Sdn. Bhd. • Chong Lee Frozen Food Sdn. Bhd. • Nores Industries Sdn. Bhd. • P.L. Marine Products Sdn Bhd • A.K. Seenivasagam Bros Sdn Bhd • Integrated Poultry Industry Sdn Bhd • Evercrisp Snack Product (M) Sdn Bhd • Khong Guan Vegetable Oil Refinery Sdn Bhd • Ban Chin Hong Rice & Coconut Oil Millers Co. Sdn. Bhd. • Juara Pakatan Sdn. Bhd. • Berkat Pemborong Beras Sdn.Bhd. • Cahaya Pyramid (M) Sdn. Bhd. • Hong San Frozen Foods Sdn Bhd • Fika Foods Corporation Sdn. Bhd. • Gold Leaf Manufacturing Sdn. Bhd. • Ga Goss Sdn Bhd • Rakyat Harmoni Sdn. Bhd. • Padu Has Sdn.Bhd. • Chiong Seng Company Sdn Bhd • Hong Giap Plantation Sdn. Bhd. • Jvjr Palmaa Sdn. Bhd. • Chuah Teong Pong & Sons Sdn. Berhad • Ladang Tapis Sdn Bhd • Yizer Jaya Sdn. Bhd.

Note: Name of companies are tracked based on the company registration details.

Source: Authors' compilation based on data from Dun & Bradstreet

Sub-industries under Textile (Table 4.2) include (a) Fabric Mills Industry, (b) Textile and Fabric Finishing and Fabric Coating Mills, (c) Other Textile Product Mills. Some potential major partners under the respective sub-industries are as follows:

- a. Fabric Mills Industry: Chiyoda Integre Co. (Penang) Sdn. Bhd., Far East Cotton Industries (M) Sdn. Bhd. Kanebo Malaysia Spinning Mills Sdn. Bhd., Oriental Garment Sdn. Bhd., Pentex Sdn. Bhd., and Terryprai Sdn. Bhd.; and
- b. Textile and Fabric Finishing and Fabric Coating Mills: Penfabric Sdn. Bhd..

Table 4.2: Selected textile and clothing Penang-based companies

Sub-industry: Fabric Mills Industry	
<ul style="list-style-type: none"> • A.B. Champ Marketing Sdn. Bhd. • Chiyoda Integre Co. (Penang) Sdn. Bhd. • Double Grade Non-Woven Industries Sdn. Bhd. • Elba Holdings Bhd. • Eternal Cotton Sdn. Bhd. • Fancy Labels (M) Sdn. Bhd. (Dowell Trading Co) • Far East Cotton Industries (M) Sdn. Bhd. • Heng Lee Composite Engineering Sdn. Bhd. • Jn Fabrics Sdn. Bhd. • Kanebo Malaysia Spinning Mills Sdn. Bhd. • Luck-Ky Knitting Sdn. Bhd. 	<ul style="list-style-type: none"> • Million Tracks Sdn. Bhd. • Oriental Garment Sdn. Bhd. • Oriental Penway Sdn. Bhd. • Pentex Sdn. Bhd. • Perusahaan Impian Maju Sdn. Bhd. • Sugarsista Sdn. Bhd. • Terryprai Sdn. Bhd. • The Eastern Knitters Mfg Co Sdn. Bhd. • Union Pile (Penang) Sdn. Bhd. • Wangsaga Industries Sdn. Bhd.

Sub-industry: Textile and Fabric Finishing and Fabric Coating Mills	
<ul style="list-style-type: none"> • Ayesha Traders Sdn. Bhd. • Ayesha Zara Trading Sdn. Bhd. • Britt Sports (M) Sdn. Bhd. • Bun Kong Printing Trading Sdn. Bhd. • Camerlin Enterprise • Chuan Distribution Sdn. Bhd. • Craft Batik Sdn. Bhd. • Deksar Sdn. Bhd. • Eik Wong Enterprise Sdn. Bhd. • Elegant Apparel Marketing Sdn. Bhd. • Engseen Bleaching & Dyeing Sdn. Bhd. • Exquisite Textile Industries Sdn. Bhd. • Fabric Asia Trading Sdn. Bhd. • Faizah Textile Sdn. Bhd. • Fasprint Textile Printing Sdn. Bhd. • Fidelio Sdn. Bhd. • Gene Martino Apparel Sdn. Bhd. • Golden Name Trading Sdn. Bhd. • Heng Ee Textile Sdn. Bhd. • Hock Teong Enterprise Sdn. Bhd. • Huishing Enterprise Sdn. Bhd. • Ideal Uniforms Sdn. Bhd. • Janar Textiles Sdn. Bhd. • Jb Uniform Sdn. Bhd. • Junjung Maju Industry (M) Sdn. Bhd. • Kroh Impex Sdn. Bhd. • L. B. Trading Sendirian Berhad • L. C. Textile Co. Sdn. Bhd. • Lever Marketing Sdn. Bhd. • Majestic Amigo Sdn. Bhd. • Makini Enterprise Sdn. Bhd. • Milltex Print Sdn. Bhd. • O.G. Textile Sdn. Bhd. 	<ul style="list-style-type: none"> • Offset Resources And Services Sdn. Bhd. • Okuni Seiko Industry (M) Sdn. Bhd. • Pen'ads Asia Pacific Sdn. Bhd. • Penang Batik Factory Sdn. Bhd. • Penfabric Sdn. Bhd. • Penfield Corporation Sdn. Bhd. • Perniagaan Tacsin Sdn. Bhd. • Pinang Garment Sdn. Bhd. • Polysilk Enterprise Sdn. Bhd. • Print Vision Industries Sdn. Bhd. • Pulau Mutiara Spinning Sdn. Bhd. • Purcoat International (M) Sdn. Bhd. • Qualitex Sdn. Bhd. • Rags Marketing (M) Sdn. Bhd. • Saibe Textile Sdn. Bhd. • Seen Yan Fart Sdn. Bhd. • Sharikat Eastern Powder Sdn Bhd • Shibar Color Pigment Sdn. Bhd. • Sin Yen Fatt Enterprise Sdn. Bhd. • Sk Textile Printing Sdn. Bhd. • Sowind Sdn. Bhd. • Strillion Fibre Sdn. Bhd. • Tandee Enterprise • Tasek Dyeing & Finishing Sdn. Bhd. • Tasek Fibre Sdn. Bhd. • Unifabrication Industries (Pg) Sdn. Bhd. • Utex Print Sdn. Bhd. • Vin Hua Dyeing & Finishing Sdn. Bhd. • Wei Ching Trading Sdn. Bhd. • Wynn Wholesale Sdn. Bhd. • Z Sheng Trading Sdn. Bhd. • Zenith Otto Asia Trading Sdn. Bhd.

Sub-industry: Other Textile Product Mills	
<ul style="list-style-type: none"> • Access Automation Sdn. Bhd. • Benyo Trading Sdn. Bhd. • Blc Industries Sdn. Bhd. • Bun Kong Printing Trading Sdn. Bhd. • Duckback (M) Sdn. Bhd. • F S Fishgear Sdn. Bhd. • G A Blue Corporation Sdn. Bhd. 	<ul style="list-style-type: none"> Home Safety Asia Sdn. Bhd. Milltex Print Sdn. Bhd. Shade Structure Sdn. Bhd. Teik Tatt Holding Co. (1979) Sdn. Bhd. Wei Siong Canvas Trading Sdn. Bhd. Yobo Enterprise (M) Sdn. Bhd.

Sub-industry: Textile and Fabric Finishing and Fabric Coating Mills	
<ul style="list-style-type: none"> • Ayesha Traders Sdn. Bhd. • Ayesha Zara Trading Sdn. Bhd. • Britt Sports (M) Sdn. Bhd. • Bun Kong Printing Trading Sdn. Bhd. • Camerlin Enterprise • Chuan Distribution Sdn. Bhd. • Craft Batik Sdn. Berhad • Deksar Sdn. Bhd. • Eik Wong Enterprise Sdn. Bhd. • Elegant Apparel Marketing Sdn. Bhd. • Engseen Bleaching & Dyeing Sdn Bhd • Exquisite Textile Industries Sdn. Bhd. • Fabric Asia Trading Sdn. Bhd. • Faizah Textile Sdn. Bhd. • Fasprint Textile Printing Sdn. Bhd. • Fidelio Sdn. Bhd. • Gene Martino Apparel Sdn. Bhd. • Golden Name Trading Sdn. Bhd. • Heng Ee Textile Sdn. Bhd. • Hock Teong Enterprise Sdn. Bhd. • Huishing Enterprise Sdn. Bhd. • Ideal Uniforms Sdn. Bhd. • Janar Textiles Sdn. Bhd. • Jb Uniform Sdn. Bhd. • Junjung Maju Industry (M) Sdn. Bhd. • Kroh Impex Sdn. Bhd. • L. B. Trading Sendirian Berhad • L. C. Textile Co. Sdn. Bhd. • Lever Marketing Sdn. Bhd. • Majestic Amigo Sdn. Bhd. • Makini Enterprise Sdn Bhd • Milltex Print Sdn Bhd • O.G. Textile Sdn. Bhd. 	<ul style="list-style-type: none"> • Offset Resources and Services Sdn. Bhd. • Okuni Seiko Industry (M) Sdn. Bhd. • Pen'ads Asia Pacific Sdn. Bhd. • Penang Batik Factory Sendirian Berhad • Penfabric Sdn. Berhad • Penfield Corporation Sdn. Bhd. • Perniagaan Tacsin Sdn. Bhd. • Pinang Garment Sdn. Bhd. • Polysilk Enterprise Sdn. Bhd. • Print Vision Industries Sdn. Bhd. • Pulau Mutiara Spinning Sdn. Bhd. • Purcoat International (M) Sdn Bhd • Qualitex Sendirian Berhad • Rags Marketing (M) Sdn. Bhd. • Saibe Textile Sdn. Bhd. • Seen Yan Fart Sdn. Bhd. • Sharikat Eastern Powder Sdn Bhd • Shibar Color Pigment Sdn. Bhd. • Sin Yen Fatt Enterprise Sdn. Bhd. • Sk Textile Printing Sdn. Bhd. • Sowind Sdn. Bhd. • Strillion Fibre Sdn. Bhd. • Tandee Enterprise • Tasek Dyeing & Finishing Sdn Bhd • Tasek Fibre Sdn Bhd • Unifabrication Industries (Pg) Sdn. Bhd. • Utex Print Sdn.Bhd. • Vin Hua Dyeing & Finishing Sdn. Bhd. • Wei Ching Trading Sdn. Bhd. • Wynn Wholesale Sdn. Bhd. • Z Sheng Trading Sdn. Bhd. • Zenith Otto Asia Trading Sdn. Bhd.

Source: Authors' compilation based on data from Dun & Bradstreet

Meanwhile, a potential major partner in the Footwear industry is: International Footwear (Penang), while other potential partner companies listed in Table 4.3 have smaller scale operations.

Table 4.3: Selected footwear companies based in Penang

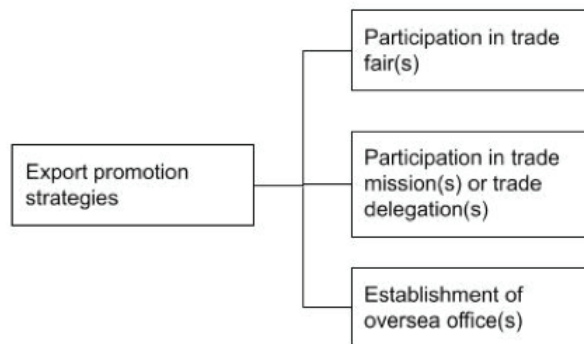
Sub-industry: Footwear Manufacturing Industry	
<ul style="list-style-type: none"> • Auric Rubber Sdn. Bhd. • Easy Apex Sdn. Bhd. • Elma Rubber Components Manufacturers Sdn. Bhd. • International Footwear (Penang) Sdn. Bhd. • LKB Shoes Sdn. Bhd. 	<ul style="list-style-type: none"> • Pen Island Footwear (M) Sdn. Bhd. • Statcon Technology (M) Sdn. Bhd. • Vertino Shoes (Pg) Sdn. Bhd. • Yon Far Enterprise (M) Sdn. Bhd. • Yumi Shoe Industries Sdn. Bhd.

Source: Authors' compilation based on data from Dun & Bradstreet

4.3 Export promotion strategies into Penang and Malaysia

Broadly, literature on export promotion focuses on three strategies in terms of participation in trade fair(s), participation in trade mission(s) and delegation(s), establishment of oversea office(s) to achieve the main objectives of market penetration and/or increasing exports (Figure 4.1).

Figure 4.1: Overview of export promotion strategies



Source: Authors' compilation

Primarily, it is suggested that firms and industry bodies focus on trade fairs participation to penetrate the Malaysian market and/or increase exports. At the individual level, trade fairs provide benefits to firms to sell products and gain knowledge (Wilkinson and Brouthers, 2000). The data compiled in Chapter 2 also show that there are already many

Indonesian firms that are employing this strategy and it is suggested that participation in relevant and strategic fairs should be supported in the following ways:

- a. Promote pavilion or umbrella booth participation which may be more cost effective and which provides overall higher impact and presence;
- b. Promote incentives to Indonesian exporters to participate in relevant trade fairs;
- c. Participate in opportunities of incoming buyers mission (IBM) offered by Malaysian government agencies (such as by MATRADE); and
- d. Secure speaking slots in conferences organised in conjunction with trade fair(s) to increase presence and promotion impact.

Given the importance of participation in trade fairs, some relevant and potential trade fairs for participation are suggested in Table 4.4, which include Penang International Halal Expo and Conference (PIHEC) and Malaysia International Halal Showcase (MIHAS).

Table 4.4: Selected trade fairs/exhibitions in Malaysia of interest to Indonesian companies

Trade fair	Information
Penang International Halal Expo and Conference (PIHEC) <i>(Frequency: Annual)</i>	<ul style="list-style-type: none"> • Held in Penang Island. • Hosted and organised by Penang State Government under its halal facilitation agency, Penang Halal International • PIHEC is an ideal platform and converging point for exhibitors and trade clients to promote and market a wide array of halal consumable and non-consumable products. • PHI with the sole aim of facilitating the sourcing and selling of quality local and international halal consumables, products and services, this annual trade fair serves as a convenient and effective one-stop centre for Halal exporters and importers sourcing out domestic and international products from northern Malaysia and the IMT-GT region.
Malaysia International Halal Showcase (MIHAS) <i>(Frequency: Annual)</i>	<ul style="list-style-type: none"> • Held in Kuala Lumpur. • Hosted by the Ministry of International Trade and Industry (MITI), Malaysia, and organised by Malaysia External Trade Development Corporation (MATRADE) in association with Halal Development Corporation Berhad (HDC) and Department of Islamic Development Malaysia (JAKIM). • MIHAS is a robust marketplace for both international and local players to seize opportunities beyond Halal food including Halal pharmaceuticals, medical devices, finance, modest fashion, personal care and cosmetics, green technologies and even Muslim-friendly tourism. • MIHAS is not limited to ASEAN region alone but is also supported internationally by the enthusiastic participation of International Pavilions from countries across the globe, from trade commissions to various Government agencies and from industry players to market leaders.

Source: Authors' compilation based on individual trade fairs websites

Other than attending trade fairs in Penang/Malaysia, Indonesian companies can also establish connections with Penang/Malaysian companies in trade fairs and events held in Indonesia with the regular participation of Penang/Malaysian companies (Table 4.5). Since these events are held in Indonesia, companies may require lower spending to build connections with Penang/Malaysian companies and hold initial negotiations before establishing longer term goals and plans for export and business expansions. However, for companies in Sumatera such as those based in Medan, it may be easier for them to travel to Malaysia than to attend most of the major trade exhibitions/fairs usually held in Jakarta.

Table 4.5: Selected trade fairs/exhibitions in Indonesia attended by Penang/Malaysian companies

Trade fair	Information
SIAL InterFOOD Indonesia	<ul style="list-style-type: none"> • Held in Jakarta annually • Malaysian exhibitors are among top foreign exhibitors in this trade exhibition • Mainly focused on food and beverages business segments
Indonesia AgroFood Expo	<ul style="list-style-type: none"> • Held in Jakarta annually • Mainly focused on agriculture, food corps, processed food & beverage, fishery, livestock, and agriculture technology
Halal Indonesia Expo	<ul style="list-style-type: none"> • Held in Jakarta annually • The expo is focused on halal business opportunities in the halal industry in Indonesia. • Some key business segments are food, cosmetics and personal hygiene, halal manufacturers, ports & harbours, banking/financial services, and travel. • Malaysian exhibitors were among exhibitors from ASEAN countries in 2019 other than exhibitors from host country and Singapore
ALLPACK Indonesia	<ul style="list-style-type: none"> • Held in Jakarta annually • The exhibition is focused on processing, packaging, automation, handling of food & beverage, pharmaceuticals and cosmetics. • Malaysian exhibitors were among exhibitors from ASEAN countries in 2019, other than exhibitors from host country, Thailand, and Singapore

Source: Authors' compilation based on individual trade fairs websites

In terms of trade mission(s) and trade delegation(s)⁶, it is proposed that the Indonesian government, through the Indonesian Embassy in Malaysia and the Indonesian Consulate-General in Penang, or through business groups and associations, organise focused trade missions to specific business cities in Malaysia such as Kuala Lumpur, Penang and Johor. Given the sister cities relationship between Medan and Penang, trade missions from Medan-based businesses to Penang would be effective undertakings. Such sister cities trade mission(s) to Penang were previously organised by other sister cities such as Adelaide. Specific focus industries (such as those highlighted in Chapter 2) may also employ trade missions/delegations to identify suitable Penang and Malaysian partners.

Thirdly, an overseas office in Malaysia may provide another platform to be employed by Indonesian companies to penetrate the market or increase exports to Penang/Malaysia. This strategy may be a direct investment into establishing a local office or a joint-venture with a local partner. Depending on the type and scale of investments, businesses from Indonesia may also apply for investment incentives from the Malaysian Investment Development Authority (MIDA).

4.3.1 Export promotion roles by the government

The three strategies of participation in trade fair(s), participation in trade mission(s) and delegation(s), and establishment of overseas office(s) can be driven by the private companies. At the same time, facilitation from the government would further enhance the impact of export promotion.

Studies from the USA, Spain and South Korea show that well-planned government spending on export promotion mainly based on the three strategies above yield favourable export and trade results, and to a certain extent also support investment promotion objectives (Table 4.6). A recent study by Ajija et al. (2021) also provides evidence that the opening of the Indonesian Trade Promotion Center (ITPC) was positive and significant in increasing Indonesia's exports. In countries without specialised ITPC such as Malaysia, this study suggests for some roles of ITPC to be played by the diplomatic mission (see recommendations in Chapter 5). This is in line with the findings from Rose (2007) which show that diplomatic missions are able to promote higher exports.

⁶ Past literature such as Cassey (2007) have indicated the positive effects of trade mission(s) to increase exports.

Table 4.6: Past studies indicating the role and impact of embassies/consulates and trade promotion agencies in facilitating exports

Country	Impact	Literature
USA's exports to multi-countries	Each foreign mission (embassy or consulate) is linked to higher exports, estimated at 6-10%. The first foreign mission has a larger effect compared to subsequent missions, and the creation of an embassy has a larger effect than a consulate.	The foreign service and foreign trade: embassies as export promotion (Rose, 2007)
Spain's exports to multi-countries	Regional export promotion agencies (17 states in Spain) increase trade; their impact is larger than the impact of Spanish embassies and consulates (which are more focused on bilateral affairs.) In this study, it is highlighted that trade promotion agencies can focus exclusively to increase trade, and investments at the same time.	Measuring the impact of regional export promotion: The Spanish case (Gil et al., 2008)
South Korea's exports to multi-countries	Korea Trade-Investment Promotion Agency (KOTRA) is significant in increasing exports, whereby a 10% increase in the EPA budget increases exports by 2.45%-6.34%.	Overseas network of export promotion agency and export performance: The Korean case (Kang, 2011)

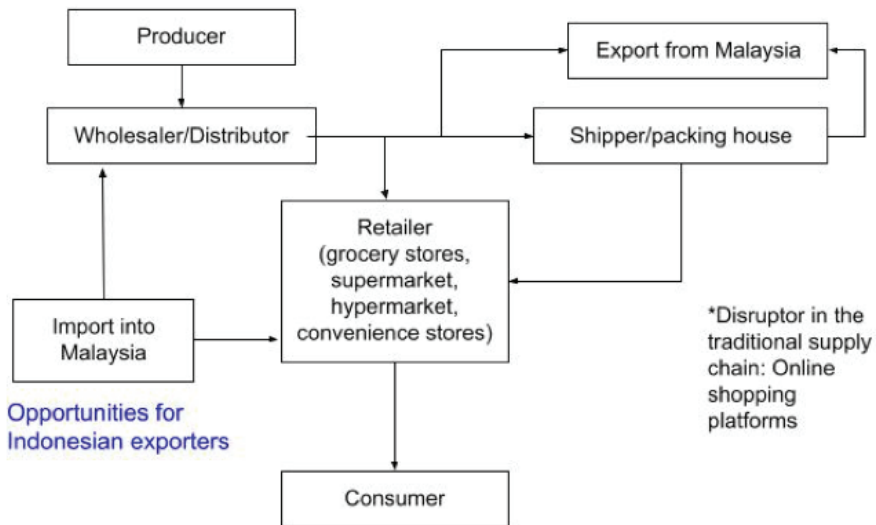
Source: Authors' compilation based on the literature listed

On a final note, other areas to look into include driving incentives favourable to exports, autonomous organisations, proper export demand planning, funding, staffing and eventually monitoring and evaluation of export promotion bodies.

4.4 Supply chain in Penang and Malaysia

The general supply chain for the selected sectors of FMCG, textile, and footwear in Penang and Malaysia is shown in Figure 4.2. Supplies to the market are generally produced by local producers or through imports followed by wholesalers in the supply chain and/or directly to retailers to be sold to consumers. For partners suggested by wholesalers and producer-wholesalers, some Penang-based companies are already listed in Section 4.2.

Figure 4.2: Supply chain for selected sectors in Penang and Malaysia



Source: Authors' mapping, adapted from Smith Zander (2016), Ngumbang (2018), Mohammed Arshad (2012), and Ganesan (2020)

Companies interested in exporting into the Penang market may work with potential retail trade partners in Penang (see Table 4.7). Specialised stores recorded the highest total sales at RM6.3 billion in 2018, with a 27.5% share of total retail sales in Penang. Exporters can work with stores specialised in clothing and textile, and footwear in penetrating or expanding into the Penang market. This can be followed by sales in non-specialised stores such as supermarkets, hypermarkets, departmental

stores, which recorded 21.3% of retail sales share in Penang in 2018, with total sales amounting to RM4.8 billion.

Depending on products, companies may also work with specialised stores in relevant categories rather than non-specialised stores. Some suggested retailer brands in Penang and Malaysia are listed in Table 4.8. Other than these modern establishments, traditional stores still play an important role in the distributive trade in Penang, but the ownership pattern is fragmented.

Depending on the retailer, different purchasing agents' methods are employed. The common purchasing agents are:

- Direct sourcing with a number of preferred agents,
- Group sourcing directly from suppliers,
- Sources directly from local and overseas suppliers; and
- Local sourcing only (see Ngumbang, 2018)

Table 4.7: Distribution of retail trade sales in Penang by establishments and revenue, 2018

Type	Number of establishments	Sales of goods and services (RM billion)	Share of retail sales (%)
Retail sale of non-specialised stores (<i>Sales in provision stores, supermarket, mini market, convenience stores, department stores</i>)	3,126	4.8	21.3
Retail sale of food, beverages and tobacco in specialised stores	3,212	1.2	5.2
Retail sale of other household equipment in specialised stores	3,621	3.6	16.0
Retail sale of cultural and recreation goods in specialised stores	1,576	1.3	5.7
Retail sale of other goods in specialised stores (Retail sale of clothing, footwear and leather articles in specialised stores, pharmaceutical and medical goods, cosmetic and toilet articles in specialised stores, etc.)	4,970	6.2	27.5

Chapter 4: Tapping the Penang supply chain

Note: Total does not equal 100% as only selected categories relevant to the study are included in this table.

Source: Wholesale & Retail Trade Census 2019, Pulau Pinang, DOSM.

Smaller businesses with smaller export capacities may form consortiums for export of products in bulk. This move is envisaged to reduce average fixed costs in exporting and to make logistics costs more competitive. Trade associations for businesses in similar products would be a suitable promoter in this move. The Malaysian Consortium of Rubber Products (MALCORP) is a possible model. MALCORP works with 14 companies to produce and manufacture different quality rubber products, and pools their resources for export and distribution to key target markets. The strategy in employing a consortium model would expand the reach of smaller companies to penetrate export markets.

As discussed in Chapter 2, large Indonesian firms may also acquire leading or preferred companies in Malaysia to capture market share and pool of existing customers. This strategy was employed by URC in the acquisition of Munchys. The stickiness of customer loyalty to some preferred brands and products may help if this strategy is employed, in addition to this having a more immediate easing impact on the need to have a considerably huge capital.

Table 4.8: Selected retailer brands in Penang and Malaysia

Full grocery	Grocery convenience	Retail convenience stores
<ul style="list-style-type: none"> • Tesco • Cold Storage • Giant (same group of companies as Cold Storage) • AEON • Econsave • Mydin • Suiwah • Sam's Grocer (same group of companies as Mydin) • Jaya Grocer • Billion • C-Mart • TF-Value Mart 	<ul style="list-style-type: none"> • 7-Eleven • MyNews • Happy Mart 	<ul style="list-style-type: none"> • 99 Speed Mart • KK Supermart & Superstore

Note: Non-exhaustive, retailers with presence in Malaysia but not in Penang are not listed

Source: Authors' compilation based on Smith Zander (2016), Ngumbang (2018), Mohammed Arshad (2012), and Ganesan (2020)

4.5 Challenges to market entry

Penetrating the Penang and Malaysian market entails some initial challenges, although the extent of difficulty would differ between companies. The main challenges are highlighted in Table 4.9.

Table 4.9: Challenges to entry into the Penang and Malaysian market

Challenges	Elaboration
Certifications required	<p>Depending on the type of products, exporters must be aware of the regulations and policies pertaining to their products in Malaysia, and the import permits required.</p> <p>Examples include the following:</p> <ul style="list-style-type: none"> • Malaysia's Food Act 1983 and the Food Regulations of 1985 provide key regulations for food import and export regulations/procedures. Of particular note are Malaysia's halal certification and dairy facility registration requirements. • Halal Certification. The Islamic Development Foundation of Malaysia (JAKIM) is the authorized entity issuing halal certification. The recognised certification body for JAKIM halal certification in Indonesia is the Indonesian Council of Ulama (MUI).
Non-tariff barriers	<p>Malaysia also has various non-tariff barriers (NTB) for imports, which may increase difficulty or costs when importing.</p> <p>The NTB coverage ratio⁷ and NTB frequency ratio⁸ for selected imports into Malaysia are reported in Table A6 in Appendix.</p>
Price competitiveness against local products	<p>It should be noted that as an export-orientated country, Malaysia's local products are also competitively-priced and imported products without key unique selling points/differentiation may face challenges at being widely accepted in the Penang/Malaysia market.</p>
Market size	<p>The population of Malaysia is about 32 million whilst that of Penang is about 1.7 million. Relatively, this is not a big market, but despite that, it can be a good platform to tap into in order to grow into other ASEAN markets. Companies are advised to prepare marketing budgets that are suitable to the market size of Malaysia (See Section 2.3).</p>
Familiarity/association with certain brands	<p>Some Malaysian customers may already have a sense of familiarity with certain brands either in food products, textile and clothing or footwear. New entrants may need to invest more resources in establishing their presence/convince local partners on the acceptance of their products.</p>

⁷ The coverage ratio is calculated by determining the value of imports of each commodity subject to NTMs, aggregating by applicable HS commodity group, and expressing the value of imports covered as a percentage of total imports in the HS commodity group.

⁸ The frequency ratio accounts for the presence or absence of a NTB, and indicates the percentage of traded products to which one or more NTBs are applied.

4.6 Synergising Indonesian investment in the industrial parks in Penang

As the land development agency in Penang, the Penang Development Corporation (PDC) presently focuses over the next decade on land development in the Southern Corridor of Penang mainland. Foreign direct investment (FDI) is expected to flourish through the expansion of the provision and sale of industrial and non-industrial land, as deliberated in the PDC Strategic Plan 2019-2023. The southern region of the Penang mainland will be the next focus for industry development, job creation and public infrastructure and facilities elevation along with greater development momentum in the Penang mainland as a whole. The specific development areas are North and South Penang Science Park, East Batu Kawan, Bandar Cassia and Byram.

Concerning FMCG products, the industrial development at the Penang Science Park North (PSPN) targets food manufacturing businesses and other food-related industries (logistics). Part of the industrial land in PSPN has been sold to local and foreign companies involved in industrial plumbing, manufacturing of animal antibiotics, recycling of engine oil and lubricant and engineering.

To spur the growth of the state's economic development, the state has also planned to expand its medical tourism horizon to the Southern Corridor of Penang mainland in Bandar Cassia through the Medical and Health Hub Development Project. In addition, the Eco-Tourism Development Project will also be the key catalyst agenda in the Southern Corridor. These initiatives are part of the state's plan for balanced development in every district of Penang, as earmarked in Penang2030.

The PHI is the Penang state halal facilitation agency that works closely with the PDC and Invest Penang to attract domestic and foreign halal investment into the Food Zone in the North Penang Science Park. Investors are offered a competitive price in leasing industrial land from PDC for a period of 60 years. Besides this, PHI also provides halal park players with special incentives in the form of tax exemption. The details of this for halal park players and halal logistics operations are summarized in Table 4.10.

Table 4.10: Incentives by PHI for halal park players and halal logistics operations

Halal Park Players	Halal Logistics Operations
<ul style="list-style-type: none"> • Full income tax exemption on capital expenditure for 10 years or income tax exemption on export sales for five years • Exemption on import duty and sales tax on the raw material used for the development and production of halal promoted products • Double tax deduction on expenses incurred for international quality standards such as Hazard Analysis and Critical Control Point (HACCP), Good Manufacturing Practice (GMP), Codex Alimentarius (food guidelines by FOA & WHO), Sanitation Standard Operating Procedures regulations on compliance on export markets such as food and traceability from farm to fork. 	<ul style="list-style-type: none"> • Full income tax exemption for 5 years or 100 percent income tax exemption on capital expenditure for a period of 5 years. • Exemption on import duty and sales tax on equipment, components and machinery used directly in Cold Room Operations in accordance with prevailing policies.

Source: Penang Halal International Sdn. Bhd.

Greater infrastructure connectivity strengthens the upstream and downstream value chains of Halal food industries nested in the North Penang Science Park. Penang Halal Industrial Park Phase 1, Prai Industrial Estate and the Juru Autocity commercial and business hub are located within a 15-minute drive from Penang Science Park.

Penang Port Container Terminal, Penang International Airport and the second link connecting Penang Island and the mainland are the main connectivity systems enhancing regional trade and logistics. Additionally, PHI also seeks to facilitate fast-track approval for halal certification.

Indonesian companies are suggested to tap into the halal food manufacturing ecosystem in Penang. Given the strategic entry point and established industrial park development journey, the available supply chains in the northern region of Peninsular Malaysia should be capitalised upon by the Indonesian companies who are interested to expand their operations into halal food manufacturing in Penang. The existing companies that had chosen the Food Zone @ North Penang Science Park to expand their halal businesses include Federal Oats Mills Sdn. Bhd. – under the popular brand of Captain Oats, exporting to more than 35 countries; Ghee Hiang Manufacturing Co. Sdn. Bhd., Street's Food Products Sdn. Bhd., Unique Frozen Food Sdn. Bhd., etc.

As the central region of the IMT-GT, Penang's halal industrial park provides greater market opportunities and accessibility to raw materials due to its close proximity to Penang's industrial parks and connectivity to the southern part of Thailand. For instance, the rail services in Butterworth that handle freight cargo docking at the North Butterworth Container Terminal (NBCT) are directly connected to the Padang Besar Container Terminal – the Thailand entry point. As Malaysia's palm oil has an export market globally, investors can consider leveraging the palm oil in the country as raw materials for palm oil products such as margarine, confectionery and non-dairy products.

Chapter 5:

Trade expansion and the way forward

5.1 Summary and SWOT analysis

The previous chapters discussed the comparative advantages of Indonesian trade in FMCG, textile and footwear products, and the supply chain and linkages of Indonesian FMCG products in Penang and Malaysia. These are summarised in Table 5.1 through the analysis of strengths, weaknesses, opportunities and threats (SWOT). This chapter ends with some succinct thoughts on the way forward, especially in the short- and medium-term.

Figure 5.1: SWOT Analysis

Strengths	Weaknesses
<ul style="list-style-type: none"> • Successful acceptance of some products from Indonesia which already form a major part of Malaysians' lives such as Indomie products. • Zero tariff for products coming in from Indonesia under the ASEAN FTA. • Exports of Indonesian food products and footwear into Malaysia show consistent good comparative advantage (see Section 3.1). • Vegetable oils and fats, cocoa beans and products, food products (processed or preserved), fish and shellfish, coffee, and fruits (food products) are among the products with the highest export potential from Indonesia to Malaysia (see Section 3.2). 	<ul style="list-style-type: none"> • Malaysia's local products are also competitively-priced and products without key unique selling points/differentiation may face challenges in being widely accepted in the Penang/Malaysia market. • Penang companies hope for more mutual recognition of products and easing of trade barriers, including non-trade barriers, which would increase total trade for both countries (see Section 4.1). • Private sector players need to be incentivised to use IMT-GT as a platform to expand business interests. There is clear underutilisation of this platform.

Opportunities	Threats
<ul style="list-style-type: none">• Penang Halal Industrial Park is designated to house local and foreign companies specialising in niche, value-added and high-technology halal products. Industrial land at the Food Zone @ North Penang Science Park is available to purchase at a competitive price along with tax exemption incentives.• Penang businesses generally welcome opportunities for partnerships with Indonesian companies.	<ul style="list-style-type: none">• A relatively small market size for Indonesian products in Penang.• Competition from exporters from other countries looking to penetrate/increase their market share into the Malaysian market.

5.2 Conclusion and the way forward

This report has presented key analyses and recommended action plans that can be undertaken by Indonesian businesses to realise the comparative advantages possessed by Indonesian FMCG, textile and garments and footwear products in Penang and Malaysia. Amid the backdrop of many shared language, cultural and historical elements, Indonesian businesses would find a sense of familiarity in export penetration and/or market share expansion in Penang and Malaysia. This is also supported by the broad regional economic cooperation within the ASEAN Economic Community and IMT-GT, and the continued calls within ASEAN for greater intra-ASEAN trade.

Besides the earlier individual recommendations for business associations and private companies, this sub-section presents some final medium-term and long-term considerations for further unleashing the potential for trade and other areas of economic co-operation and mutual benefit.

In the medium term, it is suggested that the Indonesian Embassy in Malaysia and/or the Indonesian Consulate-General in Penang establish a business centre in Penang. This business centre can serve as an initial advisory instance for interested Indonesian businesses to gather market information and connect with potential partners; it can serve as a meeting point for incoming business to work on business and trade deals. The

cumulative business intelligence can become a compendium of business information to tap into, on the Malaysian and Indonesian markets.

Besides that, the Indonesian diplomatic missions in Malaysia can enhance export promotion roles especially in facilitating and supporting trade fairs participation, trade delegations and missions, and establishment of overseas offices in Malaysia (this was earlier discussed in section 4.3). Apart from the goal of export penetration/market expansion, there should be strengthened economic and trade cooperation using the platforms of sister cities (Penang-Medan) and greater collaborations with the office of the Penang State EXCO for Trade, Industry and Entrepreneurial Development. Larger companies with a stable record of sales in Malaysia should also consider geographic expansion into industrial parks in Penang (or the Penang Halal Industrial Park) utilising the incentive packages offered to investors, and furthermore, tapping on Malaysia as entrance into other export destinations in Southeast Asia or even the Asia Pacific region.

Recent developments show that Malaysia looks forward to enhancing more synergistic partnerships with Indonesia, some at the subnational level. For example, Sabah-Kalimantan co-operation, given Indonesia's move of its capital from Jakarta, was a key point in the agenda during the Malaysia's Prime Minister Dato' Sri Ismail Sabri Yaakob's meeting with Indonesia's President Joko Widodo in November 2020 (Malay Mail, 5 Nov 2021). Meanwhile, Johor also wishes to be included in the IMT-GT bloc to increase co-operation with IMT-GT countries, which includes Indonesia (Yee, 2021). As such, Penang should also increase efforts to continue connecting and increasing linkages with Indonesia, and take advantage of the platforms and channels available.

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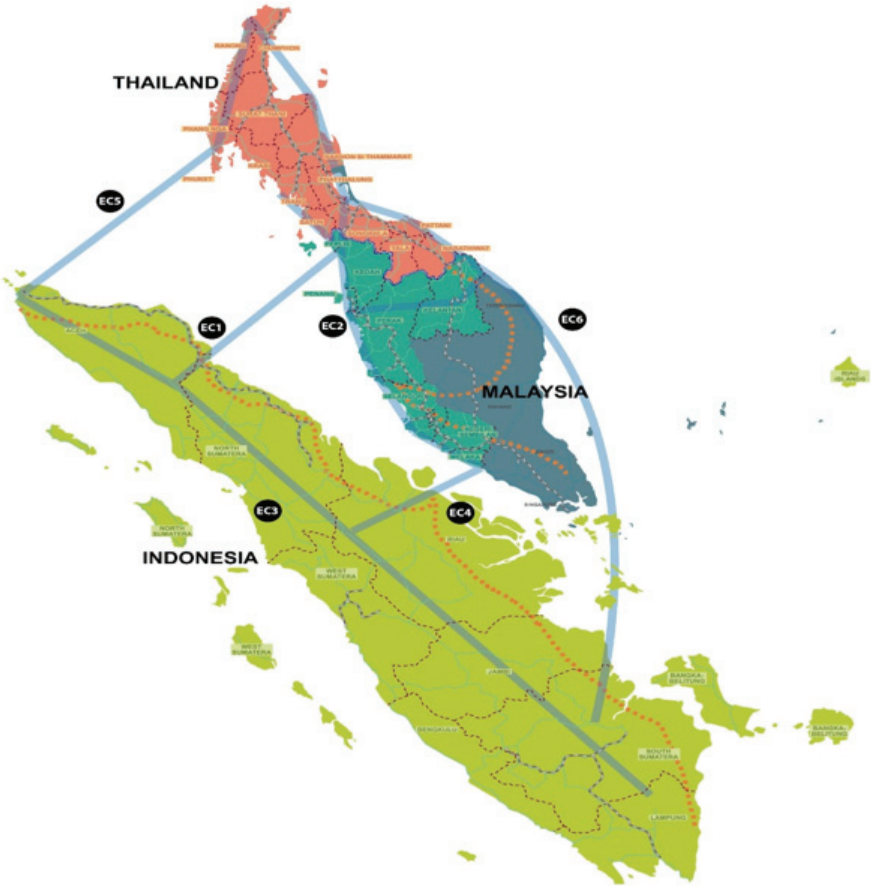
APPENDIX

Table A1: Import value of selected Indonesian FMCG, textile and footwear products in Malaysia, 2019-2020 (RM billion)

Commodities	Commodity Divisions	2019	2020
Food & beverage	Live animals	0.001	0.002
	Meat and meat preparations	0.001	0.002
	Dairy products and birds' eggs	0.059	0.050
	Fish, crustaceans and molluscs, and preparations thereof	0.817	0.735
	Cereals and cereal preparations	0.224	0.259
	Vegetables and fruits	0.303	0.427
	Sugars, sugar preparations and honey	0.058	0.055
	Coffee, tea, cocoa, spices, and manufactures thereof	1.280	1.182
	Feeding stuff for animals (not including unmilled cereals)	0.007	0.008
	Miscellaneous edible products and preparations	0.714	0.944
	Beverages	0.015	0.012
Animal & vegetable oils and fats	Animal oils and fats	0.001	0.006
	Fixed vegetable oils and fats, crude, refined or fractionated	2.950	3.615
	Animal or vegetable oils and fats, processed, and waxes of animal or vegetable origin	0.543	0.990
Textile & Footwear	Textile fibres (other than wool tops) and their wastes (not manufactured into yarn or fabrics)	0.040	0.048
	Leather, leather manufactures, n.e.s. and dressed furskins	0.015	0.015
	Textile yarn, fabrics, made-up articles, n.e.s. and related products	0.354	0.312
	Footwear	0.234	0.162

Source: Department of Statistics, Malaysia.

Map A1: IMT-GT Economic Corridors



Source: Review of Implementation Blueprint 2017-2021, IMT-GT Official Website

Table A2: The description of IMT-GT Economic Corridors

IMT-GT Corridor	Key Characteristics
1. Extended Songkhla-Penang-Medan Corridor (EC1)	EC1 hosts some of the most agriculture-rich provinces in Southern Thailand that trade with Malaysia, Sumatra and Singapore and plays an important role in the supply chain of traded goods outside the subregion. EC1 covers several provinces in the border areas of these two countries and will serve as the anchor for clustering major economic activities through the development of industrial hubs and special economic zones.
2. Straits of Melaka Corridor (Trang-Satun-Perlis-Penang Port Klang-Melaka) (EC2)	Due to the proximity of this corridor to Sumatera, there is considerable potential to complement the various stages of the production chain with this province, especially if a series of economic and industrial zones are established at strategic points along the corridor. This corridor has the potential to serve as a food hub, especially for halal, since a number of food terminals and integrated food centres are being planned within the corridor.
3. Banda Aceh-Medan Pekanbaru-Palembang Economic Corridor (EC3)	This corridor, which is part of ASEAN Highway Network, is of critical importance for developing Sumatera, as well as an important building block for further enhancing connectivity within the IMT-GT subregion. Its development is closely linked with that of the other three corridors.
4. Melaka-Dumai Economic Corridor (EC4)	This maritime corridor has a long tradition of freight and passenger traffic between Sumatra and Malaysia. Dumai is the gateway port of Riau Province, one of the richest provinces of Indonesia with abundant palm oil plantations and on-shore oil and gas resources. Dumai is principally a palm oil-related export port with general cargo, fertiliser, cement and rice being the main import traffic.
5. Ranong-Phuket-Aceh Corridor (EC5)	The Ranong Phuket-Aceh Corridor is envisaged to enhance the connectivity between Sumatera and Southern Thailand primarily through the development of facilities in key ports in Sumatera.

Source: Review of Implementation Blueprint 2017-2021, IMT-GT Official Website

Table A3: Indonesia's products with potential to Malaysia, top 70 groups with export values

Product group	Product sub-group	Weighted export 2015-2019 to Malaysia (US\$ mil)	Potential exports (in US\$ mil)
Chemicals	Fatty acids, industrial, monocarboxylic; acid oils from refining	346.1	646.7
	Fatty alcohols, industrial	32.7	49.6
	Miscellaneous chemical products	30.9	43.0
Cocoa beans & products	Cocoa paste	53.3	102.2
	Cocoa paste	39.3	42.6
Coffee	Coffee, not roasted, not decaffeinated	68.5	73.2
Electronic equipment	Smart cards; electronic integrated circuits; LED lamps	13.2	143.0
	Parts of office machines	10.6	72.2
Ferrous metals	Flat-rolled products of stainless steel, hot-rolled, in coils	91.6	101.2
	Flat-rolled products of stainless steel, hot-rolled, in coils	54.0	45.5
Fish & shellfish	Fish n.e.s., whole, fresh	60.5	74.5
Food products n.e.s.	Pasta	68.6	52.6
	Food preparations	56.5	42.6
Footwear	Sports footwear, rubber/plastic soles & textile uppers	10.7	45.2
Machinery, electricity	Electrical apparatus for switching electrical circuits	6.7	60.4
	Lithium cells & batteries	5.6	55.8
Metals	Copper cathodes	364.9	197.9
	Unwrought tin, not alloyed	16.2	97.6
Motor vehicles & parts	Parts & accessories of motor vehicles, n.e.s.	145.7	68.1
Natural latex & rubber	Technically specified natural rubber	17.6	287.6
Paper products	Newsprint & uncoated paper (-board)	169.1	279.9
	Paper for household/sanitary purposes, cellulose wadding/webs	44.9	94.8

Plastics & rubber	Rubber pneumatic tyres for motor cars, new	60.4	93.7
Vegetable oils & fats	Crude palm oil	265.3	480.9
	Palm oil (excl crude) & fractions	234.5	360.9
	Crude palm kernel & babassu oil	90.9	229.0
	Crude coconut oil	100.2	163.3
	Palm kernel & babassu oil (excl crude) & fractions	75.8	152.9
	Vegetable fats, oil & fractions, hydrogenated, inter-esterified, etc.	85.1	58.3
Wood	Plywood, veneered panel & similar laminated wood	98.9	224.7

Source: Derived from International Trade Centre (Export Potential Map)

Table A4: Penang's major imports by major products groups, 2015-2020

	2015	2016	2017	2018	2019	2020
	RM million					
Total merchandise imports	135,411	144,021	177,936	185,654	177,795	187,990
Electronic integrated circuits	34,160	36,668	53,881	60,498	52,548	61,632
Piezo-electric crystals & parts	19,587	20,294	24,141	22,525	27,297	26,553
Other electrical and electronic products	9,691	10,877	13,122	14,104	13,554	14,294
Electrical apparatus & parts	7,435	7,939	8,645	9,904	10,108	12,035
Measuring, checking, analysing and controlling instruments and apparatus	4,657	5,378	5,679	5,375	5,760	6,377
Telecommunication equipment, parts and accessories	4,536	5,395	5,042	4,519	5,100	5,505
Parts and accessories for office machines and automatic data processing equipment	4,274	3,974	4,034	4,753	4,824	5,032
Gold, non-monetary	6,509	6,671	9,197	7,628	6,127	4,552
Other valves and tubes, photocells, etc.	3,214	3,217	3,699	3,874	2,577	2,904
Refined petroleum products	2,183	1,948	2,222	1,874	2,431	2,694

Machinery & equipment specialized for particular industries & parts	1,815	2,174	3,177	2,714	2,480	2,502
Manufactures of base metal, n.e.s.	1,340	1,488	1,658	1,654	1,874	2,026
Tin ores and concentrates	302	355	482	1,161	1,438	1,338
Raw beet and cane sugar	1,410	1,578	1,941	703	615	1,162
Articles of plastics, n.e.s.	924	870	913	980	957	1,099
Other imports commodities	33,373	35,194	40,105	43,387	40,106	38,286
	Percentage share (%)					
Total merchandise imports	100.0	100.0	100.0	100.0	100.0	100.0
Electronic integrated circuits	25.2	25.5	30.3	32.6	29.6	32.8
Piezo-electric crystals & parts	14.5	14.1	13.6	12.1	15.4	14.1
Other electrical and electronic products	7.2	7.6	7.4	7.6	7.6	7.6
Electrical apparatus & parts	5.5	5.5	4.9	5.3	5.7	6.4
Measuring, checking, analysing and controlling instruments and apparatus	3.4	3.7	3.2	2.9	3.2	3.4
Telecommunication equipment, parts and accessories	3.3	3.7	2.8	2.4	2.9	2.9
Parts and accessories for office machines and automatic data processing equipment	3.2	2.8	2.3	2.6	2.7	2.7
Gold, non-monetary	4.8	4.6	5.2	4.1	3.4	2.4
Other valves and tubes, photocells, etc.	2.4	2.2	2.1	2.1	1.4	1.5
Refined petroleum products	1.6	1.4	1.2	1.0	1.4	1.4
Machinery & equipment specialized for particular industries & parts	1.3	1.5	1.8	1.5	1.4	1.3
Manufactures of base metal, n.e.s.	1.0	1.0	0.9	0.9	1.1	1.1
Tin ores and concentrates	0.2	0.2	0.3	0.6	0.8	0.7
Raw beet and cane sugar	1.0	1.1	1.1	0.4	0.3	0.6
Articles of plastics, n.e.s.	0.7	0.6	0.5	0.5	0.5	0.6
Other imports commodities	24.6	24.4	22.5	23.4	22.6	20.4

Source: Calculations by author based on data from Department of Statistics, Malaysia

Table A5: Penang's top ASEAN trading partners, 2020

ASEAN country	Exports		Imports		Net Exports	Total Trade		
	RM million	Percentage share (%)	RM million	Percentage share (%)	RM million	RM million	Percentage share (%)	Rank
Singapore	37,365	12.0	20,837	11.1	16,528	58,201	11.6	3
Thailand	16,678	5.3	6,015	3.2	10,663	22,693	4.5	7
Vietnam	6,441	2.1	4,436	2.4	2,005	10,877	2.2	10
Indonesia	2,453	0.8	1,851	1.0	602	4,305	0.9	15

Source: Calculations by author based on data from Department of Statistics, Malaysia

Table A6: NTB coverage ratio and NTB frequency ratio for selected imports into Malaysia

Sector	NTB Coverage ratio	NTB Frequency ratio
Food Products	99.31	99.04
Footwear	25.04	31.91
Textiles and Clothing	14.01	11.86
Plastic or Rubber	0.22	0.95
All Import Products	54.96	36.60

Source: World Bank

This study of the comparative advantages enjoyed by selected Indonesia FMCG, textile and footwear products on the Malaysian market discusses the untapped export potential of these products as well as their linkages to Penang's supply chains. It details the trade flows between Indonesia and Penang/Malaysia against the background of Penang-Indonesia trade promotion through the growth triangle and the ASEAN Economic

Community (AEC). The study also explores in some detail the participation of Indonesian firms in Malaysia-based trade fairs, and how that connects to Malaysian consumer behaviour vis-à-vis FMCG products.

Prepared by Penang Institute's Socioeconomics and Statistics Programme for the Consulate General of the Republic of Indonesia in Penang, this report is a pioneering collaborative effort.



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