

Zero subsidies for sugar and flour in malaysia



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For Sugar and Flour, the Future of International Business for food industry in Malaysia. Introduction At the end of 2009 , Malaysia government had announced that there would be zero subsidies for sugar and flour. As a result of that, teh tarik, roti canai and roti bakar are set to cost more next year when the government ceases to subsidise general purpose flour , fine and coarse sugar , and standard loaf bread. Domestic Trade and Consumer Affairs Ministry secretary-general Datuk Mohd Zain Mohd Dom said subsidies for these items will be removed by the end of the year, opening them up to market forces .

The retail price for flour is RM1. 35/kg, coarse sugar RM1. 45/kg, fine sugar RM1. 55/kg, and bread RM2.

10/400g. Without government subsidy, flour would cost RM2/kg, sugar RM2. 05/kg, and bread RM2. 42/400g. These include costs for production, manufacturing , distribution , wholesale and retailing.

What will International Business Facing in Malaysia 2010 Some of the production , manufacturing , distribution factories will end up with the shutting down of the factories. Some of the factories not able to afford the increase of cost in manufacturing and producing items.

When the cost becomes higher , they couldn't earn enough profit to run their business. The maintenance for machine, wages, and mischeallonous costs are burdening them.

Factories such as GARDENIA BAKERIES and HIGH 5 will facing the troubles above. In order to control profits, maybe they will have to remove price

control or increase the price. If they choose to increase the price, demand for the bread will reduce. Due to cost increased and lower profits made, multinational companies like BREADSTORY SDN. BHD will have to close some outlets in Malaysia and invest more in other countries like Indonesia, Sydney and Kuwait at the upcoming season.

Currently, BREADSTORY SDN. BHD has 21 outlets in Malaysia, 2 in Kuwait, 8 in Indonesia and 2 in Sydney, Australia. The next roaring chapter of BreadStory is set to unfold in Pakistan, Bangladesh, United Kingdom and hopefully United States. Competitive disadvantage . After the government decide to remove the subsidy of sugar and flour, the local international food industry MASCELLENT RESOURCES Sdn Bhd was trouble in competition's disadvantage due to cannot extend the market with the lower prices.

At the same time, the company are also facing the downward of endogeneous export due to disadvantage of cost .

The majority of food industry will be losing the edge over a bigger rival in bidding competition in globalization. The local food industry not only will losing the competition in international position, but also will losing the advantage in the domestic market. These two biggest food industry company , the GARDENIA and STANSON BAKERIES are competing to lead the bread market. This has resulted in frequent prices and volumes of bread fluctuation . While one company charges 20 cents cheaper, the other company offers an extra 20% of bread.

Hence, we can say that the bread industrialists are alert all the time. Their current move in conquering more of the market share is to strive towards <https://assignbuster.com/zero-subsidies-for-sugar-and-flour-in-malaysia/>

offer a cheaper prices . In past few years , the government had grant subsidies to local food industry to help them enhance their trade position and ability of competition in international business status . Without subsidies , the local food industry cant have the cost advantage to allow them to market their product at prices lower than their actual cost or profit consideration .

And subsidies as a form of protectionism or trade barrier by making local good and services artificially competitive against import and export for extend their international market shares.

Growth Potential For Fast Food (Food Industries) In Malaysia. After Government retained subsidies for flour, bread and sugar. “ Fast Food industries” still can provide the meals at the same price and some set meals to consumer compare with other food stalls. So that consumer will prefer spend their meals at fast food restaurants. Example: Offered as one of KFC’s popular “ Jom Jimat” value for money meals together with a regular carbonated drink at RM5.

90 only.) Beside that, the group has plans to open more new restaurants in untapped areas, particularly in East Malaysia and small townships like Kelantan and Terengganu given that outlet rentals are lower on the East Coast making KFC fast food restaurants there more profitable. KFC is looking to have more “ drive-through” Outlets as this would generate better store sales growth of about 25 per cent compared with the present 15 per cent growth.

Price export will increase. Without the subsidies from government for flour and sugar, cost for produce food especially bread will definitely become more higher than before. Therefore, price export will increase.

Producer has to increase the price of bread in order to maintain their profits and cost to operate the production line. These costs include wages, raw materials, rentals, fees of transportation and miscellaneous expense. For example, gardenia increase price of its products since the government stop to subsidy on flour and sugar.

Market share for the bread industry will declined as a result of the zero subsidies. For example, a bread factory in Malaysia, the Stanson Bakeries, has 250 trucks plying the peninsula's North-South expressway 24 hours a day, to reach their outlets overnight, on a daily basis.

Their strong distribution network has enabled the company to supply more than 8000 retail outlets throughout the country (Dhesi, 2004). The North-South expressway, spanning 890 km connecting the Thai and Singapore borders, opened in 1994, has help to shorten the travelling time by half.

Through the situation that we'll be facing, transaction between these 2 countries will be jeopardize when the price is overwhelmed and consumers choose to take other substitute for bread for the staple diet in Asia and thus making the market share for bread drop rapidly. Malaysian government has withdraw the sugar subsidy due to the increase diabetes among Malaysian people but politically it means that the government is trying to fill up their pocket by increasing the price of the sugar. Robert Kuok, the billionaire who

holds the biggest share in state-agriculture has made tremendous amount of 1. billion profit and is made to be the suspect of this zero subsidy in sugar.

Malaysian Indian Provision Shop Owners' Association secretary M

Thiagarajan said that " Abolishing the subsidy is like suddenly pulling out the rug from the floor. It would lead to price increase for more than 100, 000 grocery items, at least. In the nutshells, market share for the export that involves sugar will rose steeply and thus making the market share goes down and international trade will be in jeopardize too.