CHAPTER 5: PROSPECTS OF SHRIMP TRADE

5.1 Future Supply

From the results of the study, it is evident that although Malaysia is a small exporter, its shrimp products in the Japanese market are very competitive among the ASEAN exporters. But can Malaysia increase or at least maintain its market share in the Japanese market in the future despite having the competitive edge? The answer to this question lies on two key factors; the likely future shrimp production in Malaysia and the supply situation of its close competitors.

Like most of the countries, Malaysia’s only hope to increase shrimp production is from the aquaculture sector since wild shrimp resources in this country have been fully exploited. In fact, shrimp landings from the sea have shown a declining trend since the early nineties. Although aquaculture is becoming an increasingly important economic sector, it is also besieged with a number of problems. The favourable potential for sustainable aquaculture development is threatened by increasing land use and environmental problems as well as serious outbreaks of disease, which have exacted heavy economic losses on shrimp farms in recent years. Even though the Malaysian shrimp culture history goes back to the seventies, its contribution to total shrimp production remains insignificant. At present, cultured shrimp production accounted for less than 20 percent of the country’s total shrimp production.
Malaysia has the perfect climatic condition and suitable areas for the culture of shrimp. Some 110,000 hectares of coastal area throughout the country, particularly those in Sabah and Sarawak, can be developed for shrimp farming. At present, only about 6,000 hectares of coastal area are being used for shrimp culture. The collapse of the Taiwanese shrimp industry in 1989 and the Chinese industry in 1993 serves as a valuable lesson for Malaysia to ensure that the development of shrimp farming be conducted in a proper manner with little repercussion to the environment. This is mainly to prevent the outbreak of disease and to ensure the sustainability of the industry. Thus, under the Third National Agricultural Policy (NAP3), sustainable management and utilization of resources will be the guiding principle in pursuing the development of shrimp farming in Malaysia. Rules and regulations will be strengthened to encourage farmers to adopt environment-friendly management practices and to minimise the negative impact of these activities on the environment. As the cost of production is on the rise due to higher labour and raw material costs, farmers will be encouraged to mechanise and automate their culture systems and adopt the latest culture technologies to achieve higher productivity and increase competitiveness. To ensure the development of this industry, the Malaysian government is providing various incentives and tax rebates as well as upgrading several services and facilities to support the industry. By the end of the NAP3 period in 2010, the shrimp farming sector is expected to achieve a production of about 150,000 tonnes with productivity averaging around 10 tonnes per hectare.
Though Thailand is the biggest supplier of shrimp in the world's market, it occupies only the fourth position in the Japanese market. From the results of the study, it is clear that the prices of Thai shrimps were relatively high and were not as competitive as the other three ASEAN countries in the Japanese market. Unlike the other ASEAN countries whose main market are in Japan, Thai shrimps are mainly exported to the US market. The amount of shrimps it exports to the US market is about 5 to 6 times the amount to Japan. With problems in the US related to the TED-embargo and stringent import regulations imposed by the western markets, Thai exporters may be forced to concentrate more in the Japanese market in the future. Competition will be more intense and this will adversely affect the exports of the other competitors, particularly for small exporters like Malaysia. This is exacerbated by the recent slowdown in the Japanese economy that saw overall shrimp imports into Japan declining over the past few years. This indicates that the Japanese market may not grow further or may even shrink slightly in the near future. The long slowdown in the Japanese economy has hampered any further development of the market. With the size of the Japanese market being the same or maybe smaller, competition among exporters will be even stronger.

5.2 Market Potential

The saturated Japanese market and the increasing restrictions on imports in the US and EU markets will force many Malaysian exporters to concentrate on other Asian markets and to develop the domestic market. High economic growth, the
expansion of the middle class, abolition of import restrictions and duty-free access to certain markets have encouraged the consumption of shrimp in Asia. While the intake of shrimp in the Japanese market has almost reached a plateau, it is on the rise in the other Southeast Asian and Far East markets.

There is a strong growth for shrimp in Far East markets like Hong Kong, Taiwan, South Korea and China. Hong Kong, which is the second largest shrimp importer in Asia, has been increasing its shrimp imports from ASEAN countries when supply from mainland China do not fully recover from its drastic decline in 1993 due to shrimp disease which wiped out almost 80 percent of China’s cultured shrimp. Taiwan, which was once a major producer, started importing shrimp when the domestic shrimp farming industry collapsed during the late eighties. Subsequent import liberalisation has led to a significant increase in shrimp imports in the Taiwanese market. South Korea’s shrimp imports have also been rising since the abolition of its restrictions on shrimp imports in 1994. The history of shrimp imports into China can be traced back to its crop failure in 1993. Almost 80 percent of China’s farmed shrimp were wiped out due to disease-related problems in that year. Although domestic production has recovered to some extent, shrimp imports into the country have been increasing. This might partly be due to the introduction of trade liberalisation policies in China during the mid-nineties. Judging by its vast potential, China is likely to be one of the focal markets for shrimp in the future.
Shrimp trade among ASEAN countries has been brisk. This is mainly due to the liberalisation of trade in ASEAN with the implementation of the AFTA-CEPT scheme in 1993. This scheme is a cooperative arrangement among ASEAN countries that would reduce intra-regional tariffs and remove non-tariff barriers over a 10-year period. ASEAN is one of the fastest growing economies in the world, where the consumer sector is just opening up. Many ASEAN countries are expected to import more shrimp to cater to the growing domestic markets and the processing industries. Therefore, it is equally important for Malaysian exporters to focus on the development of the markets in this region. Malaysian shrimps have to be very competitive in order to stay in the ASEAN markets since most of the ASEAN countries are major producers of shrimp. Among the ASEAN countries, Singapore is the most lucrative market as it has high per capita shrimp consumption and pays very attractive prices for shrimps. In fact, Malaysia’s number one ASEAN importer is Singapore, whose main shrimp imports from Malaysia comprise both live and frozen forms. Singapore imports shrimps for domestic consumption as well as for re-export.

Malaysian exporters should also concentrate on the development of the domestic market as the Malaysian market for seafood is growing. Malaysian per capita consumption of seafood is one of the highest in Asia at around 45 kilogram per annum. In fact, Malaysia is one of the major importers of shrimps in Asia. Although Malaysia’s annual shrimp production is more than 50,000 tonnes, the country is still a net importer of shrimps in volume. The present supply of shrimp
from domestic sources is not sufficient to meet the increasing demand of the local population and the processing industries. Therefore, the gap between supply and demand of shrimp in the country will have to be met by imports. Imports of fresh and frozen shrimp into Malaysia totalled 22,432 tonnes valued at US$41.2 million in 1998. Though Malaysia is a net importer of shrimp by volume, it is a net exporter in terms of value. This is because the bulk of Malaysia’s shrimp exports comprises high-value shrimps in frozen forms while its imports are mainly low-value peeled shrimps. In 1998, Malaysia exported some 19,730 tonnes of fresh and frozen shrimps valued at US$133.8 million, giving a trade surplus of US$92.6 million for shrimp in 1998. In fact, among all the fishery products, shrimp is Malaysia’s biggest foreign exchange earner, accounting for more than 40 percent of the country’s total fishery export value. Besides catering for local consumption, imported shrimps are also processed into value-added products for re-exporting. With a growing population and an increasing number of shrimp processors, Malaysia is expected to import more shrimps in the future. The liberalisation of trade in the ASEAN region through lower tariffs, removal of quotas and other trade liberalisation policies will encourage more shrimps to flow into Malaysia from the other ASEAN countries. Thus, Malaysian farmers will have to face an even stronger competition from their counterparts in the other ASEAN countries in the future. Unless local farmers increase their efficiency, otherwise they will be in a bad spot especially when the shrimps are imported from cheaper producing countries such as Indonesia and Thailand.
5.3 Factors for Success in Shrimp Trade

Besides ensuring affordability and price-competitiveness of its products, the Malaysian shrimp industry should also take into account other factors to secure success in the international markets. The followings are some of the factors that will help to ensure marketing success.

i. Quality Improvement

To safeguard consumers’ health from sub-quality products, many international markets, particularly those from the west, are enforcing stringent health regulations with regard to quality control and assurance on imported seafood. The introduction of mandatory HACCP regulations makes the producer fully responsible for the quality of his products. The imported seafood product will be denied entry if it is not processed under conditions that are required. Therefore, the Malaysian shrimp industry must upgrade its facilities to meet the requirements of these markets by ensuring quality products through proper grading, improved packaging, quality raw materials and good processing. By exporting quality products, an exporter will also be able to command premium prices in the international markets.

ii. Product Development

Due to growing affluence and the present working lifestyle, the demand for value-added products and convenient foods in the international markets is expected to rise in the future. As the female employment increases, especially in the newly
industrialised Asian countries, there will be a growing preference and demand for easy-to-cook convenient foods from the households. Therefore, Malaysian shrimp exporters must gear towards exporting more of these products to remain competitive and earn more from the export trade. After all responsiveness to consumers' needs is the key to marketing success.

iii. Strong Foreign Investment

More foreign investment should be encouraged to accelerate the development of the country’s shrimp industry. Foreign investors, particularly those from major importing countries, should be encouraged to invest both in the production and processing sectors. This will not only increase local production but will help to ensure a ready market for the products. These investors will export most of the products back to their home countries as they have better link with their local buyers. Foreign investment will also expedite the transfer of expertise and technology and thus increase the productivity and efficiency of the industry. To encourage foreign investment, incentives in the forms of pioneer status, investment tax allowance and reinvestment allowance should be granted.

iv. Product Positioning

Malaysian shrimp exporters should establish better ties with foreign importers in order to strongly position their products in the international markets. In order to forge better ties with foreign importers, exporters should provide good marketing services and ensure consistent supply of quality products to their importers. With
better ties and trust, importers will continue their trades and might even pay higher prices for the products.

v. Direct Marketing

Exporters should try as far as possible to export their products to consuming countries without going through third countries. Thus, more downstream processing should be developed to produce products in the forms that are needed by the consuming countries. By exporting value-added products directly to the consuming countries, exporters will gain more from the export trade.

5.4 Demand and Price Outlook

Shrimp is a luxury food item. Its consumption is closely related to the economic conditions of the consuming countries. The strong growth for shrimp in the Japanese and other Asian markets was adversely affected in the last few years as a result of the slowdown in the Japanese economy and the Asian financial crisis. However, the crisis may represent an opportunity for some shrimp producers, particularly for those who are financially well founded, to acquire new production facilities and expand their production base. Others may see the potential for offering new and improved products and services during this period. Though there is general decline in shrimp prices during the past few years, the long-term outlook for prices is still very good. In general, capture fisheries are stagnating, and aquaculture production has also shown signs of decline in the last few years. At the same time, the demand for shrimp has been rising with the increasing
population. All these factors point in the direction of an increasing price level for shrimp. Hence, Malaysia will have a bright prospect in this industry if it can increase and sustain its production, particularly in the aquaculture sector.