

PERSPECTIVE

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Singapore | 30 September 2015

Malaysia Ramping up in Africa

By Robert MacPherson¹

EXECUTIVE SUMMARY

- Malaysia is building partnerships in Africa as part of its vision to achieve greater resiliency on the global stage through political and economic diversification.
- With an increasingly heavy investment footprint spanning the length and breadth of the African continent, it is establishing itself as an important actor in the emerging ASEAN-Africa nexus.
- Investment from Malaysia to Africa has been increasing, surpassing China and India in 2011 with FDI worth \$19.3 billion that year. On the rise are also African student enrolments at Malaysian universities.
- Malaysia currently manages a comparatively robust network of diplomatic missions and trade offices across the African continent and has an agenda to further broaden this existing coverage and improve efforts to reduce entry barriers for Malaysian firms exploring and engaging with African trade and investment opportunities.
- The article specifically highlights the growing relationship between Malaysia and South Africa and opportunities across the African continent for Malaysian propositions related to infrastructure construction, halal concepts and Islamic Finance.



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AN EXPANDING SOUTH-SOUTH COOPERATION FRAMEWORK

Ahead of the Bandung Asian-African Summit in Indonesia this past April, statements from Malaysian Prime Minister Najib Razak's office suggests a long-range view for enhancing relationships on the continent. Driven by "commitment in strengthening cooperation" and achieving "prosperity through South-South cooperation," Malaysia is expressing great enthusiasm in exploring opportunities across Africa.²

Indeed, the continent could find itself playing a central role as part of Malaysia's effort to develop a latticework of political and trade relationships with developing nations. Since the 1990s, Singapore's northern neighbour has undertaken a sustained effort to build partnerships across the developing world as part of its vision to achieve greater resiliency on the global stage through political and economic diversification.³ The Malaysian Technical Cooperation Programme has featured strongly as a mechanism to deepen bilateral relationships with developing countries, welcoming more than 20,000 participants from 138 countries since launching in 1978.⁴ In the wake of the recent financial crisis, this commitment to South-South cooperation has certainly been renewed.

MALAYSIA'S 2011 FDI ECLIPSE OF CHINA AND INDIA

Taking note of Africa's burgeoning investment opportunities, which have delivered some of the highest returns globally in recent years, Malaysia has responded with ever larger amounts of foreign direct investment that blazed a trajectory of consistent 20%+ year-on-year growth over the past decade. These FDI flows culminated at a whopping \$19.3 billion in 2011, or 24% of Malaysia's total FDI outflows that year,⁵ eclipsing those of both China and India on the continent, and following behind only the United States and France as the third largest international investor that year.⁶

According to World Bank and UN Trade Statistics for the same year, imports from sub-Saharan Africa reached nearly \$1.8 billion, while exports totalled \$4.2 billion. Imports have since dropped to around \$1.2 billion in 2013,⁷ while export levels have roughly stayed constant,⁸ indicating that Malaysia's interests are less extractive and more focused on

² Ministry of Foreign Affairs, Malaysia (19 April 2015), *Press Release on the Working Visit of Yab Prime Minister of Malaysia to Bandung, Indonesia*: http://www.kln.gov.my/web/guest/press-release/-/asset_publisher/t3pS/content/press-release-on-the-working-visit-of-yab-prime-minister-of-malaysia-to-bandung-indonesia-siaran-akhbar-lawatan-kerja-yab-perdana-menteri-ke-bandung-indonesia?redirect=%2Fweb%2Fguest%2Fpress-release

³ Malaysia Prime Minister's Department (10 May 2005), *South-South Cooperation – The Way Forward*: <http://www.epu.gov.my/documents/10124/3ed0f961-70ff-49b2-b927-4dcb3e29f962>

⁴ Ministry of Foreign Affairs, Malaysia, *Malaysian Technical Cooperation Programme (MTCP)*: <http://www.kln.gov.my/web/guest/malaysian-technical-cooperation-programme>

⁵ Reuters (25 March 2013), *Malaysia, not China, is Asia's top investor in Africa*: <http://www.reuters.com/article/2013/03/25/malaysia-africa-idUSL5N0CH2QY20130325>

⁶ United Nations, Conference on Trade and Development (2013), *World Investment Report 2013*: http://unctad.org/en/PublicationsLibrary/wir2013_en.pdf

⁷ World Bank via Trading Economics Portal (2013), *Merchandise imports from developing economies in Sub-Saharan Africa in Malaysia*: <http://www.tradingeconomics.com/malaysia/merchandise-imports-from-developing-economies-in-sub-saharan-africa-percent-of-total-merchandise-imports-wb-data.html>

⁸ United Nations Statistics Division (July 2014), *World Exports by provenance and destination*: <http://unstats.un.org/unsd/trade/imts/tables/Table41-2014-Jul.xls>

identifying markets for Malaysian goods. In terms of total Malaysian trade for 2013, however, African imports amount to less than 1%⁹ of Malaysia's total, while exports to Africa are at a mere 1.6% of the total,¹⁰ indicating yet still substantial room for growth. Firms can now be found operating in a wide range of sectors across the continent, from hotel and leisure, shopping, mining, financial services, etc.. The diversity of undertakings reflect Malaysia's own recent transformation into a more multi-sectored and dynamic economy and indicate appetite in the private sector to establish meaningful in-roads into frontier markets well beyond the ASEAN region.

Economic activity with South Africa has been particularly significant, with bilateral trade relations between the two countries growing by 42% over the 2008-2012 period, reaching 19.7 billion rand (about US\$2.5 billion) in 2012. During this past February at the second session of the South Africa-Malaysia Business Forum held in Kuala Lumpur, President Jacob Zuma re-affirmed plans to intensify cooperation and highlighted bilateral progress over the past 20 years which "has grown rapidly in many fields and solidified into a multi-faceted relationship."¹¹

Apart from South Africa, major trade partners for the export of Malaysia goods in 2014 included Kenya at \$737 million, Angola at \$585 million and Nigeria at \$389 million. The largest trade partners for the import of Africa goods, on the other hand, are concentrated in West Africa, with the highest ranking being Cote d'Ivoire at \$355 million, Ghana at \$346 million and Algeria at \$310 million.¹²

TECHNOLOGY AND KNOWLEDGE TRANSFERS

Elsewhere on the continent, Malaysian company Probase Manufacturing Sdn. Bhd. completed its first road development project in Kenya this past June which leveraged new soil technology to cut the expected price tag of such a project by more than half, while in the process peeking the interests of Rwanda and Swaziland to undertake similar pilot projects worth \$3 million each in their countries.¹³ Other companies, like Pacific Inter-Link, are already long established with a well-entrenched presence on the continent with regional offices in markets like Ethiopia, Nigeria and Ghana, among others, that are engaged in manufacturing and commodities trading.¹⁴

⁹ World Bank (Accessed 29 August 2015), *Imports of goods and services (BoP, current US\$)*: <http://data.worldbank.org/indicator/BM.GSR.GNFS.CD>

¹⁰ World Bank (Accessed 29 August 2015), *Exports of goods and services (BoP, current US\$)*: <http://data.worldbank.org/indicator/BX.GSR.GNFS.CD>

¹¹ The Presidency of the Republic of South Africa (26 August 2013): *Statement by President Zuma, at the Joint Press Conference following the Bilateral Meeting with Prime Minister of the Federation of Malaysia, Dato' Sri Najib Tun Razak, in Putrajaya*: <http://www.thepresidency.gov.za/pebble.asp?relid=15974&t=79>

¹² Trade Map (Accessed 29 August 2015), *List of importing markets for the product exported by Malaysia in 2014 / List of supplying markets for the product imported by Malaysia in 2014*: http://www.trademap.org/Country_SelProductCountry.aspx

¹³ High Commission of Malaysia in Nairobi (2015), *Meru International Investment Conference and Official Opening of Kanjai-Miathene-Mikinduri Road*: http://www.kln.gov.my/web/ken_nairobi/n2015/-/asset_publisher/ME2g/blog/meru-international-investment-conference-and-official-opening-of-kanjai-miathene-mikinduri-road?redirect=%2Fweb%2Fken_nairobi%2Fn2015

¹⁴ Pacific Inter-Link Corporate Website (July 2015): <http://www.pacificinter-link.com.my/contact.html>

While Africa may not be reciprocating in similar levels of FDI, the relationship is nonetheless a two-way street of growing awareness and integration. Preceding the 2011 investment surge, 2010 was marked by an equally rapid increase in the number of African students enrolling into Malaysian universities. According to official UNESCO figures, Malaysia welcomed 120% more African student enrolments in 2010, reaching 11,825 from 5,373 in the prior year. Malaysia is a top-five education destination for a number of African countries and for that year ranked second for out-bound students in Botswana, third for Nigeria and fifth for South Africa.¹⁵ The total number of enrolments has only continued to rise thereafter, drawn by easier access to student visas, as compared to countries like the United States, more affordable tuition fees and the multiracial context of the society.¹⁶

GROWING POLITICAL ENGAGEMENT

Political engagement has also been two-way, with the Malaysian agenda driven by a robust network of diplomatic missions on the continent that is comparatively larger than many of its ASEAN counterparts. Moreover, the Malaysia External Trade Development Corporation has offices in Johannesburg, Nairobi, Cairo and Lagos and there are a number of business councils set-up to guide and promote economic activity in Egypt, Algeria and South Africa.¹⁷ The Malaysian mission to Egypt has been particularly proactive in cultivating pan-African opportunities, especially with explorations into opportunities related to palm oil across West Africa. Head of State visits, on the other hand, have been less frequent with only a few notable bilaterals in recent years, the most significant from Malaysia's side being Prime Minister Razak's 2012 South Africa visit.¹⁸

Nevertheless, the Ministry of Foreign affairs views the continent as a potential "source of political support for Malaysia in the international fora" and of "strategic importance [for forging] well developed relations and links with African nations." Stating that Malaysia would be at an "advantage should it expand its bilateral political and economic relationships with most if not all countries on that continent," their foreign affairs posture seems to drive towards establishing a greater presence of diplomatic missions that would increase coverage and assistance for investment and trade related activities.¹⁹ Addis Ababa, the capital of Africa's fastest growing country, likely ranks as a high priority for deepening relationships, especially since Malaysia has not yet reciprocated to Ethiopia's Consulate General Office already established in Kuala Lumpur.

¹⁵ UNESCO (2012), *Opportunities lost: The impact of grade repetition and early school leaving*:
<http://www.uis.unesco.org/Education/Documents/ged-2012-en.pdf>

¹⁶ US-China Education Review, *An Exploration of African Students in Malaysia*:
<http://files.eric.ed.gov/fulltext/ED529386.pdf>

¹⁷ United Nations Office of Special Adviser on Africa (2013) *Infrastructure Development Within the Context of Africa's Cooperation with New and Emerging Development Partners*:
<http://www.nepad.org/sites/default/files/Role%20of%20Emerging%20Partners%20in%20Infrastructure%20Development.pdf>

¹⁸ Ministry of Foreign Affairs, Malaysia (6 January 2012), Press Release Working Visit to South Africa by Y.A.B. Dato' Sri Mohd Najib Tun Abdul Razak Prime Minister, 7-8 January 2012:
<https://www.kln.gov.my/archive/content.php?t=3&articleId=1880852>

¹⁹ Ministry of Foreign Affairs, Malaysia (2015), *Bilateral Diplomacy Africa*:
<http://www.kln.gov.my/web/guest/bd-africa-bd>

THE NEXT WAVE OF OPPORTUNITY: ISLAMIC FINANCE

This current rhythm of engagement is priming the Malaysia-Africa corridor to take advantage of the next wave of opportunity. According to the Malaysia International Islamic Financial Centre, there are increasingly attractive and feasible possibilities for linking Kuala Lumpur's bustling Islamic finance community to those sponsors who struggle against substantial funding gaps for critical African infrastructure projects. Several African nations have already successfully turned to the global sukuk market for funding in 2014, such as Senegal's raise of \$208 million Islamic bond and even a \$500 million five-year bond by South Africa, a country with less than a 2% Muslim population. Niger has also signed up for a sukuk programme worth \$260 million, while Nigeria and Ivory Coast are actively exploring options with the Islamic Corporation for the Development of the Private Sector.²⁰

A 2014 study by the Dubai Chamber of Commerce and Industry indicated that Gulf entities have provided \$30 billion worth of funding towards African infrastructure over the past 10 years. However, it has not been enough in addressing constraints caused by the non-existent or decrepit infrastructure widely attributed to being a key bottleneck for accelerating growth. Experts estimate an ongoing USD\$31 billion per year funding gap for infrastructure on the continent, an opportunity for Malaysian underwriting to play a relevant and much needed role in advancing the continent's broader development agenda. Already the central banks of Nigeria and Mauritius are shareholders in the Malaysia-based International Islamic Liquidity Management Corp,²¹ but with Africa currently accounting for less than 3% of global Islamic banking assets, the continent remains the next frontier for Islamic finance.²²

THE NEXT WAVE OF OPPORTUNITY: THE HALAL INDUSTRY

Similarly, the halal industry presents Malaysia with excellent opportunities for joint entries into Africa with regional partners in ASEAN such as Singapore and Indonesia. Halal players in food, travel and lifestyle products should begin incorporating Africa into their global expansion strategy, if they have not already, with a view to tap into the fastest growing middle class in the world, dense urban centres and a nearly 30% Muslim population. Indonesia's Ministry of Foreign Affairs in particular has been hands-on in stimulating more Africa-bound halal exports, hosting a discussion this past July squarely focused on distribution channels on the continent and providing the over 200 industry attendees with contact information on 550 African importers of halal products.²³ Through smart partnerships among ASEAN neighbours who can share relationships and combine propositions, the risk and complexity associated with first market entry could be reduced, enabling companies to increase the probability of success in securing a strategic foothold while Africa's competition barriers are still low.

²⁰ Reuters (17 March 2015), *Africa builds an appetite for Islamic Finance, says IDB Unit*: <http://www.reuters.com/article/2015/03/17/sukuk-africa-idUSL6N0WJ25B20150317>

²¹ Financial Times (21 May 2014), *Islamic finance to get Africa boost*: <http://blogs.ft.com/beyond-brics/2014/05/21/islamic-finance-to-get-africa-boost-with-new-bond-issues/>

²² Malaysia International Islamic Finance Centre (11 February 2015), *Africa the next frontier for Islamic Finance*: <http://www.mifc.com/index.php?ch=28&pg=72&ac=112&bb=uploadpdf>

²³ Antara News (7 July 2015), *Ministry encourages Indonesian halal products to enter Aspasaf market*: <http://www.antaranews.com/en/news/99439/ministry-encourages-indonesian-halal-products-to-enter-aspasaf-market>

As the largest exporter of halal goods in the world already, with exports reaching to around \$11 billion in 2013,²⁴ Malaysia is well positioned to lead such a charge into Africa. The global halal market is rapidly expanding beyond the traditional confines of the food and beverage space, to include products such as cosmetics, tourism and health products, becoming a more holistic concept. Although Africa currently represents only 15% of this global market, or \$153.4 billion in 2010,²⁵ projections for population growth and the expansion of the Islamic faith indicate highly favourable growth drivers ahead for halal and opportunities. The domestic Malaysian halal market is comparatively small at \$6 billion in 2010, suggesting that the country will continue to undertake an export-oriented strategy with Africa likely to be one of its most rapidly growing customers going forward.

Over the next few decades, high fertility rates will cause the population of sub-Saharan Africa to grow at a faster rate than any other region globally. The population is expected to double to about 1.9 billion by 2050, representing a staggeringly disproportionate increase of 12% to 20% share of the world's total population. Moreover, during the course of this population boom, Muslim communities are expected to expand at a rate of 170%, outpacing Christianity at 115%, with Muslim followers increasing from about 248 million to 670 million.²⁶

Halal exporters are aware of these trends and are eager to make inroads into Africa and reap the benefits from riding this pending wave of growth ahead. As Malaysian firms evaluate options for the most ideal points of access into the broader market, the United Arab Emirates is increasingly being viewed as a gateway with immediate access to the Middle East and North Africa. The Halal Industry Development Industry Corporation of Malaysia's CEO Dato Seri Jamil Bidin remarked last year that "it was natural to look at strategic collaboration with the UAE," with Malaysia's role being "a sourcing country... where the product can come certified from Malaysia and then [is] re-exported to countries in Europe and North Africa," adding "the UAE is strong in trading and we want to leverage that."²⁷

While Egypt is the largest halal market in North Africa with more than 70 million Muslims, Nigeria is also a key target market with the region's largest population and consumer base. Nigeria also provides convenient access to several neighbouring West African countries, including Niger, Burkina Faso, Mali, Senegal and Guinea, all of which are classified as Muslim-majority and continue to present demand for halal foodstuffs.²⁸

²⁴ Ankush Chibber (24 February 2014), Malaysia to use UAE as gateway to halal markets in Africa, Europe: <http://www.foodnavigator.com/Regions/Middle-East/Malaysia-to-use-UAE-as-gateway-to-halal-markets-in-Africa-Europe>

²⁵ Edbiz Consulting (2013), *Global Islamic Report 2013*: http://www.gifr.net/gifr2013/ch_13.PDF

²⁶ Pew Research Centre (2 April 2015), The Future of World Religions: Population Growth Projections, 2010-2050. <http://www.pewforum.org/2015/04/02/sub-saharan-africa/>

²⁷ Ankush Chibber (24 February 2014), Malaysia to use UAE as gateway to halal markets in Africa, Europe: <http://www.foodnavigator.com/Regions/Middle-East/Malaysia-to-use-UAE-as-gateway-to-halal-markets-in-Africa-Europe>

²⁸ The Government of Canada (2011), The Global Halal Food Market: <http://www.agr.gc.ca/eng/industry-markets-and-trade/statistics-and-market-information/by-region/global/global-halal-food-market/?id=1410083148808>

THE NEXT WAVE OF OPPORTUNITY: OVERCOMING ENTRY BARRIERS WITH SOUTH AFRICA AS A GATEWAY

On a fully pan-Africa basis, however, it is difficult to paint the opportunity with a broad brush. It remains a fragmented market, with varying sects of Islam bringing their own unique definitions of what it means to be halal, compounded further by differences in income levels, awareness levels, and ethnicities. Several foreign halal players have failed in recent years to establish traction caused by inadequate preparation in adapting and localizing products and packaging. But, this is where Malaysia enjoys a particularly strong competitive advantage by leveraging on its status as a global centre of halal excellence and symbol of quality assurance – a reputation reinforced every time it hosts global industry gatherings such as the MIHAS Expo and World Halal Forum.

Despite the challenges and fragmentation, the common denominators threaded through Africa's predominantly Muslim communities are rising per capita incomes and import-dependency for food, critical elements of success for Malaysia's exports. Moving ahead, however, there are signals that this landscape will shift towards a greater presence of local producers in Africa. Although South Africa has a small minority Muslim population representing only 2% of the whole, the country has already emerged as the regional halal industry leader and now also as one of the largest producers worldwide.²⁹

Indeed, with several halal certification bodies, strong pan-Africa distribution capabilities, and a growing bilateral relationships with ASEAN, South Africa presents interesting acquisition and strategic partnership opportunities for Malaysia and its neighbours looking for a local production capability and new sales channels. According to the Trade Commissioner Norhaliza Halid of MATRADE Johannesburg last year, "Consumer preference towards halal products from both Muslim and non-Muslim consumers in the country provides good opportunities for Malaysian manufacturers," adding that despite the minority Muslim population "60% of all products sold at retail outlets in South Africa are halal certified." Illustrating the point, twelve Malaysian companies participated last year at South Africa's 12th Africa's Big Seven event, the continent's largest food and beverages industry trade exhibition, and generated RM 21.9 million worth of sales.³⁰ Already a lucrative opportunity for food and beverage players, the opportunity will be even more appealing to Malaysia once greater convergence occurs with the Islamic financial services industry, perhaps if incentives are given to halal manufacturers to maintain a Shari'a compliance balance sheet.

CONCLUSION

While the ASEAN-Africa nexus is still in nascent stages, Malaysia stands out as a trail-blazer into new markets and industries. At times Africa can be perceived as a more complicated option when compared to other immediate opportunities within Asia Pacific markets where

29 Islam Today (30 July 2012), South Africa Emerges as Halal Industry Leader:

<http://en.islamtoday.net/artshow-233-4501.htm>

30 MATRADE Johannesburg (8 July 2014), Sales Worth RM21.9 Million Register at Trade Expo in South Africa:

<http://mymatrade.dev.skali.net/documents/12582/16102/Halal+Industry+in+South+Africa.pdf/f9294e4d-63e2-45c5-a187-f70a1c97283c>

Malaysia has greater general awareness. Nevertheless, Africa’s upside potential is becoming too great for many to ignore. Africa is rising and its nations are turning to Asia for partners in development, successfully appealing to those who appreciate the value in undertaking patient and long-term expansion strategies in the world’s fastest growing region. With Malaysia aiming to achieve first-world status by 2020, it is not only a growing source of investment, but a development showcase as well for what the once mislabelled “hopeless” continent is now set out to achieve in its own right in the coming decades.

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