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Signature :

Name of Supervisor : DR. ISMI RAJIANI

Date :

Signature :

Name of Panel : PROFESOR DR. SALLEH BIN YAHYA

Date :

*Cut if not applicable

THE ECONOMIC STABILITY, PRODUCTIVITY AND SUSTAINABILITY TOWARD
MALAYSIA FOOD INDUSTRY DUE TO THE OIL FUEL PRICE UPSURGE

SARAH NADIRAH BINTI MOHAMMAD KAMAL

A project report submitted in Fulfilment of the requirement for the award of
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DECLARATION

'I declare that thesis entitle 'The Effectiveness of Brand Awareness in Purchasing Product of Ariani' is the result of my own research except as cited in the references'

Signature :

Name :SARAH NADIRAH BINTI MOHAMMAD
KAMAL

Date :

DEDICATION

Special for Mom YASMIN ABSDULLAH

And

Dad MOHAMMAD KAMAL BIN CHE SALIM,

Friends and Family,

Lecturers of FPTT, UTEM

Especially

MADAM SITI NORBAYA BINTI YAHAYA AND FAMILY

My Personal Advisor

MISS NURUL ZARIRAH BINTI NIZAM

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ABSTRACT

This research is the implication of economic stability, productivity, and sustainability towards Malaysia food industry due to the oil fuel price increased. The objective of this study is to analyse the economic stability, productivity and sustainability of Malaysia's Food Industry due oil fuel price upsurge. As the oil fuel price be announced increase by the Malaysia Price Minister on 2nd September 2013, the industry n foremost food industry might be affected directly and indirectly in term of the production and also the company earning. This also will give impact towards the sustainability of food industry in Malaysia. The quantitative research method by using primary and secondary resource been use in term to get the clear view about this research and get. The barriers such as the deficient of funding, the lack of knowledge and the scarcity in support structure must be overcome. Besides, the limitation of time be one the barrier in this research. As the conclusion, the Productivity and also sustainability of Malaysia food industry show the positive relationship with the oil price upsurge. The uncertainty of the oil price will give at least a bit impact to the Malaysia industries and especially the food industry. Recommendations will be made at the end of this research.

Keywords: Oil Price increased, Economic Stability, Productivity, Sustainability, Food Industry

ABSTRAK

Kajian ini adalah mengenai implikasi kestabilan ekonomi, produktiviti, dan kemampanan terhadap industri makanan Malaysia berikutan harga bahan api minyak yang meningkat. Objektif kajian ini adalah untuk menganalisis kestabilan ekonomi, produktiviti dan kemampanan Industri Makanan Malaysia kerana harga bahan api minyak yang meningkat. Ini kerana harga bahan api dan minyak petrol diumumkan meningkat oleh Perdana Menteri Dato' Sri Haji Mohammad Najib bin Tun Haji Abdul Razak, pada 2 September 2013, industri di Malaysia terutamanya industri makanan mungkin terjejas secara langsung dan tidak langsung dari segi pengeluaran dan juga pendapatan syarikat. Ini juga akan memberikan kesan ke arah kemampanan industri makanan di Malaysia. Kaedah kajian kuantitatif dengan menggunakan sumber pertama dan kedua telah digunakan untuk mendapatkan pandangan yang jelas mengenai penyelidikan ini dan mendapatkan. Halangan-halangan seperti kekurangan dana, kekurangan pengetahuan dan kekurangan dalam struktur sokongan perlu diatasi. Selain itu, batasan masa menjadi salah satu halangan dalam kajian ini. Sebagai kesimpulan, Produktiviti dan juga kemampanan industri makanan Malaysia menunjukkan hubungan positif dengan kenaikan harga minyak. Ketidaktentuan harga minyak akan memberi sekurang-kurangnya sedikit kesan kepada industri Malaysia dan terutamanya industri makanan. Cadangan akan dibuat pada akhir kajian ini.

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ABBREVIATIONS

CBL	Central Bank Lesotho
FAO	Food and Agriculture Organization of the United Nations
IFPRI	International Food Policy Research Institute
MIFB	Malaysia International Food and Beverage Organisation For Economic Co-Operation and Development
OECD	Organisation For Economic Co-Operation and Development
SPSS	Software Package Used For Statistical Analysis

CHAPTER 1

INTRODUCTION

1.1 Background Study

The crude oil price and the petrol fees have been increasing over the years since 1970s in the world market. There are so many reasons of this issue; one of the reasons is the destabilization of the Middle East situation, economy demand and supply trends in the global market, the triad country (Japan, United States, and European Union) and the quad countries (the triad country and Canada) also seem to be affected which nowadays the world market trend is more focus to Asian country. This reason keeps the price of the oil in fluctuation trends.

The global market also plays its main role in determining the price trends. The demand and supply powers are anticipated to play a significant role in crude oil price trends. The fluctuations in demand and supply can arise due to political, natural and economic factors (CBL economic review, 2011). According to Ken Koyama (2005) the issue of supply-demand trends and structural changes in the world oil market also one of the gigantic concerns.

In Malaysia, the oil price had been set and be control of the government. The government has played the main role in determining the price and it's been under government subsidize since 1970 which the global oil price been face fluctuation situations (Norasibah Abd Jalil, 2009). The Petrol price issue that keeps increasing

nowadays, which also has been occurring in Malaysia recently. Due to the soaring global market oil price, the government has been enduring high government bill. This issue pressuring the government to study back the policies and it subsidies and finally decide to implement the rising oil price in the local market.

This issue had been affecting most all the industries in Malaysia. Due to the petrol fees issue, the other costs expected to be increased even the material cost which gives impact in the sustainability, productivity and economic stability of the industry. Hence, the Malaysia Food and Beverage still maintain as the demand is still sustain and keep rising as the population of Malaysia increasing by years.

The Malaysia also has a more urban population where is more women are being employs which is the primary reason of larger demand for Malaysia Food and Beverage which is packaged food, and mostly sold at supermarkets. A combination of high and rising fuel prices coupled with legislative mandates to increase production of biofuels has established a firm link between petroleum prices and food prices (C. Peter Timmer, 2008).

The objective of this research is to study basically how the oil price upsurge gives impact to the Malaysia economy in term of sustainability, productivity or economic stability. As a primary product, the upsurge of oil price no matter in international or in the local market will give the impact to other product and services. This is because the oil price will lead the transportation or logistic, material, cost of goods sold, and other cost increase as the oil price increase.

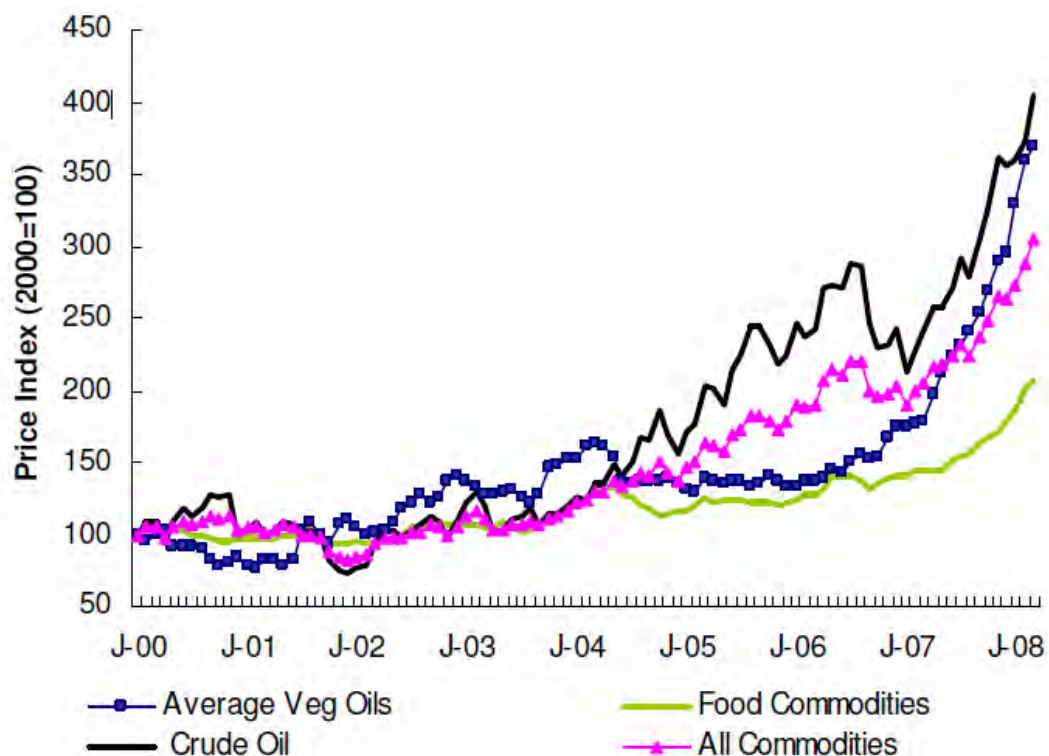
1.2 Problem Statement

The Petrol fees issue that keeps increasing nowadays, which also has been occurring in Malaysia recently. This is because, in Malaysia, the Oil price or petrol fees been controlled and set by the government due to the oil price policy and subsidy policy.

Nowadays, world market was facing the fluctuation of oil price which also give an impact to Malaysia. Due to this issue, the Malaysia government been studied back their policies and subsidies and finalize to increase the oil price in the local market to reduce the government bills and stable back the Malaysia financial state.

Figure 1.1: Price Indices of Different Commodities (Jan 2000- March 2008)

Source: Amna Awad Abdel Hameed and Fatimah Mohamed Arshad (2008).



The Figure 1.1 which shows the price indices of the different commodities from January 2000 until March 2008. The graphs shows the gradually increase of the item average veg oils, food commodities, crude oil and also all commodities, and there are similar pattern between this item.

This issue could be affecting most all the industries in Malaysia, especially food and beverage industry. Due to the petrol fees issue, the others costs will be increase which give impact to the food and beverage industry in term of economic stability, productivity and sustainability.

The oil price in Malaysia is being set or control of the government as the oil price been given some subsidies as to reduce the citizen or people daily cost. Nowadays, the government having faced the high bill as the global market oil price increase. Therefore, the decrease of the subsidies of oil price given, which is increasing the oil price in the local market.

Due to this situation, most all of industry and even the citizen has been affected as the transportation seem to be people need nowadays. The food and beverage industry also been affected as most of the cost rising as the upsurge of oil price in the local market. From the report of OECD (2008), The high growth relative to price-insensitive demand for biofuels all coincided to create the price increases exceptional. The productivity of the company or even the industry itself will be changed too. There are also implication to the sustainability of the industry and the stability itself.

The OCD report 2008, also describe that the oil and energy prices more generally, is a critically essential contributing factor to the rise in production costs of agricultural commodities and also food, as well as ultimately in the market prices for these goods. Price projections been reflecting the widely held speculation that the oil price increases are as long-lasting, which lifting future prices to higher average levels.

Beside the OECD report also describe that, The feedstock demand for biofuel production is estimated to increase further, even though at a deliberate rate than in the last three years, and below current policy settings appears to represent a permanent factor in price formation. While, the IFPRI report in 2008, described Demand for agricultural commodities for food, feed, and fuel are likely to continue to escalate. The climate change risks and rising energy demand could re-accelerate food prices in the future too.

Biofuel demands which are driven by political mandates and the price of petroleum will give impact to (i) Direct demand for maize and vegetable oils and also (ii) Ripple effects on other commodities (C. Peter Timmer, 2008). Although

there is a strong correlation between food price levels and oil price levels, this is not the only forceful relationship (International Food Policy Institute, 2008).

Therefore, the upsurge oil price have been influenced another relative cost such as transportation cost, material cost and pass well as production cost which will give implication to the food industry sustainability, productivity and the economic stability.

1.3 Research Question

1. How the food industry in Malaysia economic stability in term of the economy and earning due to the global rises of oil price and as the government reduce the subsidies and raised the price in the local market?
2. How the productivity and the sustainability if the production and cost of Malaysia food Industry reflect to the oil price issue?

1.4 Research Objective

1. To determine the economic stability of Malaysia's Food Industry due to the upsurge oil price.
2. To describe the productivity of Malaysia's Food Industry due to the rose of oil price.
3. To analyse the sustainability of Malaysia's Food Industry due to the rising of oil price issue.
4. To confirm the most influential between economic stability, productivity and sustainability due to the oil fuel price upsurge.

1.5 Scope Of The Study

The scope of the study is basically focused on the economy area and also the business management or business strategy in term of controlling the uncertainty oil price in the global market. The business strategy for each industry is different as their perspective and main activity is different. However, the company in the same industry could use the same strategy to be more competitive and sustain in the market.

1.6 Limitation And Key Assumption Of The Study

1.6.1 Limitation

There are several limitations in this study that need to be faced. Firstly, related and relevant reference or guideline is limited. Hardly to be find the data from the previous case study or article about the issue in the local market. Most of article or references are basically discussing about the global market instead of a local market. The local market itself has a different situation where the few items been controlled by government, such as the oil and gas price itself which also involved some policies or subsidy. Moreover, there are also limitations in term of other resources mostly in financial resource. By having more funds, the study can find more relevant data in gathering data process.

Last but not least, the time constraints also one of the limitation that need to be faced. Through the difficulties in finding the relevant reference and article as a guideline, the time been use are long as the data are limited. The proposal has been created in a short time within 12 weeks. In this short time, and also lack of experience in term of finding relevant data had delayed some of the primary plan before.

1.6.2 Key Assumption Of The Study

The key assumption of this study is in determining the impact of the uncertainty of oil price in the global market in the food industry in the local market or in Malaysia Market in term of sustainability, productivity, and economy stability. The upsurge of oil price gives a big impact to both markets neither global nor locally. Malaysia also has own their uniqueness in controlling the economy

As some of the item have been control or under government subsidy policies including the oil and gas prices been determined from government before been announced in the local market. The price in the local market is still in relevant level and among the lowest price listed. The upsurge of oil price still gives impact to the industry, mostly to the food and beverage industry.

Due to this issue, the main point in conducting this study is to find out the impact upsurge of oil price in the local market and how it gives impact to the food and beverage industry's sustainability, productivity and also economic stability.

1.7 Significant Of The Study

The significant in this study will be applied to researchers, entrepreneurs or people involve in Malaysia's market and industry, especially from Food and Beverage Industry and also consumers or Malaysia citizen which to give better understanding the global economy condition which been recently affected the local economy.

By significant the uncertainty, the industry can prepare, the better business strategy in controlling or avoid from the situation. The company in this industry also can calculate the risk or the expected loss due to the uncertainty oil price crisis. The

details on how this significant study applied to the parties is shown as bellow: 1. Researchers: This research significant to researchers as a guide or reference for researchers on this related topic of the study in the future situation neither in local market nor in the global market.

2. Entrepreneurs: This study significant to the entrepreneurs, mostly in Food and Beverage Industry as a guideline and parameter to understand more about current situation is happening in the local and global market. By knowing the real situation happen, they can find a better business strategy in term to cope with the situation and the risk itself. 3. Consumer: This study significant to consumers as this study can be as the guideline to consumer in understanding the real situation happened in the global market and how its effect to the local market.

1.8 Summary

The first chapter is briefly determined the development of the theoretical framework of the research as the main guideline for this process. This chapter consists of background of study, problem statement, including the food and beverage industry issue, research question, objective of research, hypothesis, and scope of study, limitation and key assumption of study, and the significance of study.

Recently, the upsurge of oil price in global market due to many reason have given impact to Malaysia market or local market. Due to this issue, this research main objective is to find out how the oil price uncertainty and upsurge give impact to the food and beverage industry economy stability, productivity and also sustainability.

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

The upsurge oil globally, is not recent issue as it rose up accordingly since 1970's. The demand and supply powers are anticipated to play a significant role in crude oil price trends. The fluctuations in demand and supply can arise due to political, natural and economics factors (CBL economic review, 2011). According to Norasibah (2009), the other factor of upsurge in oil supply also particularly from emerging industry in third world nations like China and India and political instability in oil producing countries as main causes.

The oil price had been in unstable trend since 1970s in global market including the sharp rise on first oil crisis, second oil crisis, hilly rises on Persian Gulf crisis, a decline trend on the Asian economic crisis and upsurge sharply in 2000s due to the Iraq war or Middle East destabilised and also changes in supply-demand fundamentals (Ken Koyama, 2005).

Malaysia have the oil price is set by the government. It is under government subsidy since 1970's as the oil price make first rose up due to the first oil crisis (Norasibah, 2009). Even though the fact that Malaysia is exporting oil, Malaysia also imports oil from other countries. The surplus of exporting rate is above the importing

rate makes Malaysia as a net oil exporting country. Therefore, the price still supposed to be increase in the local market to as the import value can cope the export value.

As the price increase in the local market as the global market increase, the Malaysia government bear high fuel subsidy bill. Recently, On September 2013, Malaysia's Prime Minister Datuk Seri Najib Tun Razak been announced the Government's decision to raise the price of RON95 and diesel by 20 sen or cent to RM2.10 and RM2 per litre, respectively, effective next day which is 3rd September 2013, as one of government measures to rationalise subsidies (Intan Farhana Zainul, Business news, 2013).

The government expects to save RM1.1bil in 2013 from September to December and RM3.3bil per year in subsidy bills from the application, by helping to overcome the fiscal deficit. The Government also has aimed to lessen the budget deficit to 4% this year, 3.5% in 2014 and 3% by 2015(Intan Farhana Zainul, Business news, 2013).

From the producer's side, the higher oil price will influence higher input price. The high growth comparatively to price-insensitive demand for biofuels all coincided to create the price and increases exceptional (OECD, 2008). The manufacture at higher cost will not only can effect reduction in quantity of output been produced and also drive the price of output sold in the market will be higher than before. There are also implication to the sustainability to the industry and the stability itself.

The oil and energy prices more generally, is a important essential contributing factor to the rise in production costs for agricultural commodities and also food, as well as ultimately in the market prices for these goods(OECD,2008). From IFPRI report, Demand for agricultural commodities for food, feed, and fuel are likely to continue to escalate (Klaus, Heidi, nestorova, yoHannes, 2008). . Pressure is mounting for local retailers to maintain competitive prices and carry a good variety of products in order to keep up with the international players in the local market (Malaysia watch, 2012).