

An Assessment of the Malaysian Value-Added Wood Products

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Abstract

This paper attempts to analyze the market of Malaysia's value added market. Malaysia's value added market was booming strongly before the recession but has since shown signs of recovery. The recovery has been attributed to the promotion from the furniture promotion council. The main component in Malaysia's value added sector is rubber board. Rubber board plans a large part in MDF and furniture manufacturing and the increase of price in recent years has decreased the profit. The trade data is often the source to explain growth and trends of wood manufacturing sector. Malaysia is not the only country that has moved away from primary to value added production. China has emerged as a major competitor in the area for secondary and tertiary production.

Key Words: Malaysia, Value Added Wood Products, Rubber Board

Table of Content

Abstract	i
Table of Content	ii
Table of Figures	iii
Introduction	1
The Wood Industry – World Wide	2
The Wood Industry – Malaysia	3
Malaysia Value Added Products – Overview	5
Rubber Wood and Rubber Wood Products	7
Malaysian Furniture Industry	8
China – The Largest Competitor	11
Challenges to Malaysia’s Furniture Industry	12
Conclusion	13
References	14

List of Figures

Figure 1 Malaysian sawn log exports from 2005 to 2009 (FAO)	4
Figure 2 Total Malaysian Forest Exports (FAO)	4
Figure 3 Malaysian MDF Export 1999-2009 (FAO)	6
Figure 4: Standard Malaysian Rubber board (SMR) trading prices from 1996 to 2009	8
Figure 5: Top Malaysian Furniture Export Destinations 2009	9

Introduction

Wood is a commodity product that has been harvested as early as man began life on earth. The natural forests have provided mankind with shelter and a source of fuel. Wood uses now range extensively as we have developed its uses beyond shelter. Wood products have developed into an important commodity groups and are traded internationally. The United Nations Economic Commission for Europe (UNECE) and the Food and Agriculture Organization of the United Nations (FAO) started recording and tracking the statistics on forest products since the 1940's (UNECE/FAO, 2009). Since it is a commodity product, the price of logs and raw timber is considered low value. The solution to increase the product value of wood is to reprocess, changing and adding value into the raw material.

“Value-added wood products are those wood products that have been processed further or have undergone secondary processing into higher value products, including profiled woods, builders’ joinery and carpentry, furniture and engineered wood product.” (UNECE/FAO, 2009) Malaysia has suffered since the economic recession of 2008 but is currently on the rebound. Leading the Malaysia forest sector is rubber wood production. The main product of Malaysia’s Value added production is furniture production. Malaysian furniture export, although labour intensive, is the leading furniture exporter in the region. (Ratnasingam, 2005)

Malaysia’s movement towards value added products started in the early 1990s, moving away from the primary wood sector and developing its secondary and tertiary sectors. The government has played a large role in promoting its products and aiding growth. The most prominent product from Malaysia’s development is their furniture products. The backbone of furniture industry is the rubber wood market. The rubber wood products have high value and high demands. The

other value added products have also grown tremendously in the last decade but has fallen in recent years.

This paper examines the Malaysia value-added wood products sector. First, the current trends of the global wood industry are discussed, followed by Malaysia's wood market. The Rubber wood value added market will be the main focus but other products, such as fabricated homes, profiled and engineered wood will also be examined. The paper will end with the outlook for the region's VA wood market.

The Wood Industry - World Wide

The export numbers for year 2000 amounted to 145 Billion US for primary wood products. The raw materials such as sawn wood and wood based products only amounting to one quarter of the total primary wood products export. The value added wood products export brought a total of 200 Billion. (Peck, 2002) Also in Peck's report, the major import and exporters were categorized into 7 country groups. The "Other Asian-Pacific" group, which includes Malaysia produces and exports over 85 percent of the world's value-added wood products. Europe, North America, and East Asia amount for 85 percent of the total import figure.

Globally, the furniture manufacturing places eighteenth among the 2001 traded manufacturing product groups. The percentage increase from 1988's gross export of \$22 Billion to 2001's \$61 Billion is 169 percent. This trend is attributed to the growing import of North America and growing export numbers from developing countries. Although the gross export numbers have

increased, countries in the EU had decreased in furniture imports by 14% from 1988 to 2001. (Kaplinsky, 2005)

The United States are the largest importer of wood products in the world (Peck, 2002). The most recent recession was lead by the crash of the US housing market. According to the Department of Labour Statistics' report, the United States have increased import by 7 percent from 2010. Broken down by month, the trend shows that there is steady increase of import within the last year. The increase of imports is important as they are Malaysia's top importer of furniture products. The recovery of the US will boost the recovery of Malaysia's economy.

The Wood Industry - Malaysia

The Malaysia Wood industry is classified into four major groups: sawn timber, panel/veneer products, moldings and BJC, and carpentry. There are roughly 1200 mills in operation and exported \$659 million sawn wood (NC) in 2009. This number has dropped from the 2008 \$900 million, possibly due to the recession. (FAO) The moulding and BJC market includes doors, rails, and wooden flooring. Although this group includes a lot of different products, the export in 2008 is only \$745.2 million RM (\$246.5 million US). (MIDA)

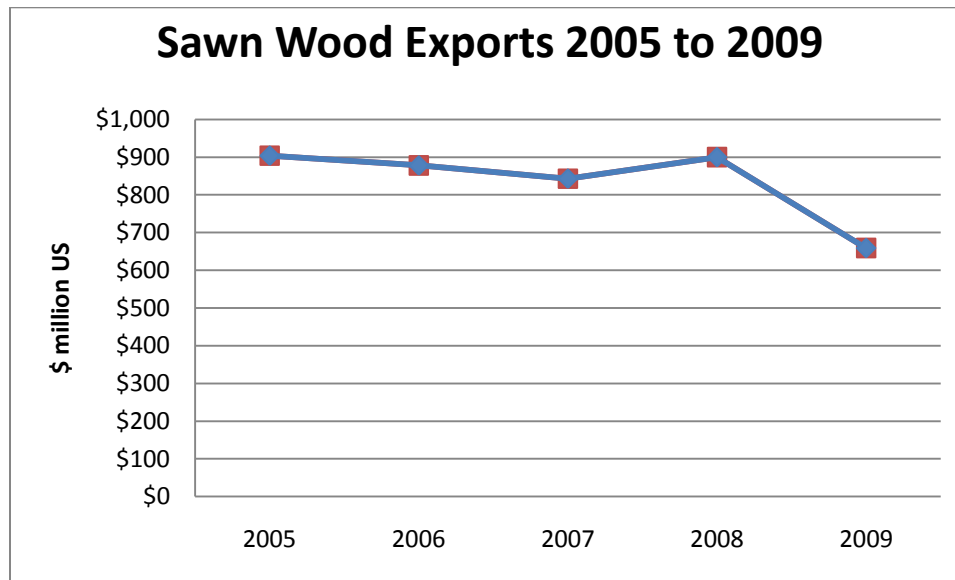


Figure 1 Malaysian sawn log exports from 2005 to 2009 (FAO)

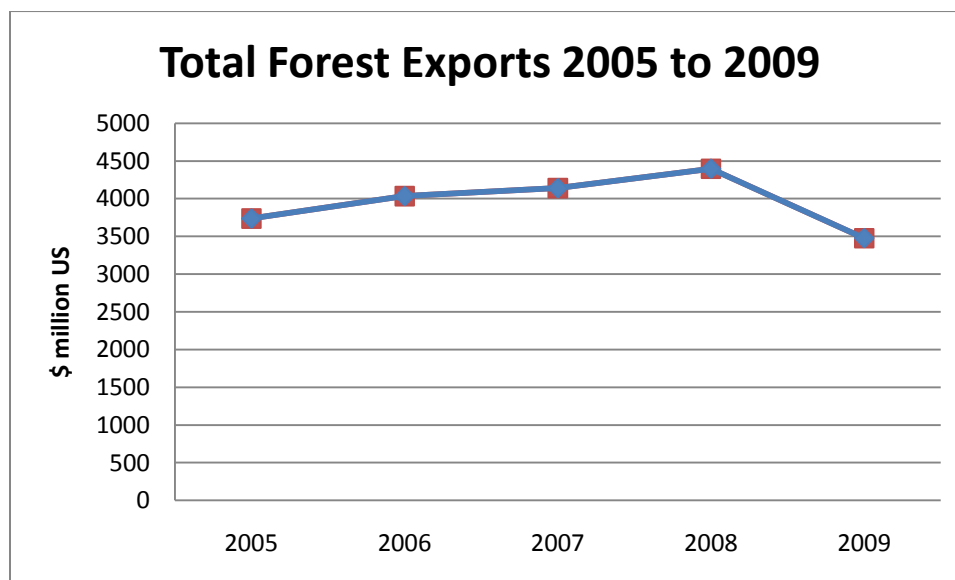


Figure 2 Total Malaysian Forest Exports (FAO)

According to the Malaysian Industrial Development Authority, the competition has forced Malaysia to move from its primary wood sector into the secondary sector. MIDA has been actively promoting the value added products as well as researching new product design. The competitor's in the region is deemed to have the upper hand in lower costs and being more

“research-rich”. (MIDA) Being forced out of the primary wood sector, Malaysia has since moved into a VA production. The main promoted products are reconstituted wood based products, and furniture. MIDA also states that it does promotions for “all wood products except sawn timber, veneer, and plain plywood”. The minister of International trade has also stated that promotions are the key to recovering from the recession.

As of January 1st, 2010, Malaysia is now part of the Association of South East Asian Nations (ASEAN) free trade grouping. The group currently consists of Malaysia, Brunei, Indonesia, Philippines, Singapore, and Thailand. The joining of ASEAN will hopefully bring about new opportunities for Malaysia’s VA products. The current numbers as of February 2011 showed that there has been little impact on log and sawn wood products.

The Malaysian government has realized its need to step away from low value primary forest products and move towards the more valuable value-added products. The government has set up initiatives to increase the production of value added products, moving away from the primary sector. In 1991 the second outline perspective plan helped set up small scale plants in rural areas.

Malaysian VA Products - Overview

It has been the government’s objective to make Malaysia into a major producer in secondary and tertiary wood products. The promotion of Malaysia value added products is active and outlined in their Second Industrial Master Plan in 1996-2005. (FAO) The transition has rapidly moved Malaysia into a producer of high value products on the global market. The panel and veneer products include MDF, Particle board, LVL, plywood, and veneer. In particular, Malaysian MDF

was the world's third largest exporter according to Malaysian Industrial Development Authority (MIDA) according to 2008's export numbers. But since the recession, the numbers have fallen sharply. The gross export of MDF in 2007 is \$2.8 billion, 2008 is \$1.8 billion, and \$1.6 billion in 2009. Another reason for the drop for the Malaysian MDF market is because of SMR. The traditional MDF of Malaysia is composed of 100 percent rubber board but since the availability of SMR has dropped and pricing of SMR has gone up. Malaysian MDF has converted to a 40 percent Acacia, 60 percent SMR and 20 percent mixed hardwood composite. (Othman, 2009) The mixture of different woods into MDF increases the production cost and decreasing profit. Figure 3 shows the export volume in the last decade (1999-2009). The trend shows a steady incline from 2003 until the 2008 when numbers plummeted. Some reports show that the MDF market has started to rise since 2009 but the export figures for 2010 have not been released. Plywood has also suffered a similar fate in decline. The export figures dropped from \$2.0 billion in 2007 to \$1.4 billion in 2009.

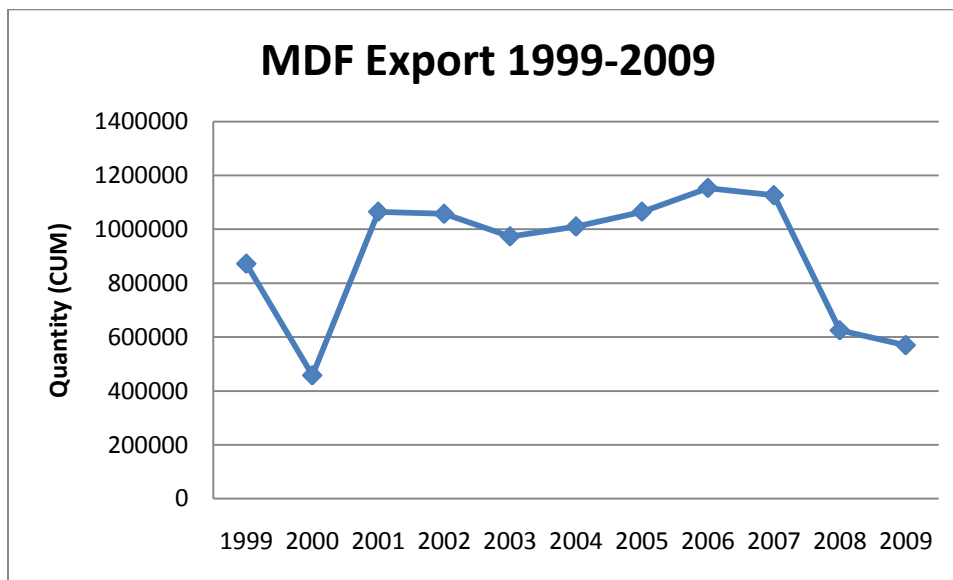


Figure 3 Malaysian MDF Export 1999-2009 (FAO)

In a recent report, all of Malaysia's wood products have been on the increase. In September 2009, the lowest price for MDF during the recession was \$281 per m³ and is currently at \$297 per m³ as of February 2011. This figure is actually higher than before recession pricing (\$290 per m³). (ITTO) The rankings for regional and global trade have not been compiled at the moment for analysis. Although most of Malaysia's value-added products have suffered in recent years, the most stable of Malaysia's value added products have been its furniture industry. The most prominent of Malaysia's furniture is its rubber wood products. The distribution of the rubber board has changed to provide the furniture industry and it is reflected in its pricing and quality.

Rubber Wood and Rubber Wood Products

Malaysia has been a major exporter of wood products in the Asia region since the recession. The price of Rubber board has significantly increased and other countries in the region has also taken up the rubber board and value added market but Malaysia has separated from the competition and made rubber board furniture and other VA rubber board products it's trademark. Within Vancouver, Canada, most furniture stores carry Malaysian made rubber wood coffee tables. Rubber wood furniture makes up 85% of furniture exports. (MFPC)

To highlight the importance of rubber wood in Malaysia's economy, International Tropical Timber Organization's (ITTO) statistics for furniture import and export has a specific section just for rubber wood products. The Tokyo stock exchange priced Rubber wood at \$6.44 US per Kg. (GlobalWood.org, 2011) Figure 4 shows the price of rubber wood from 1996 to 2009. Rubber

wood pricing is predicted to continue its increase.

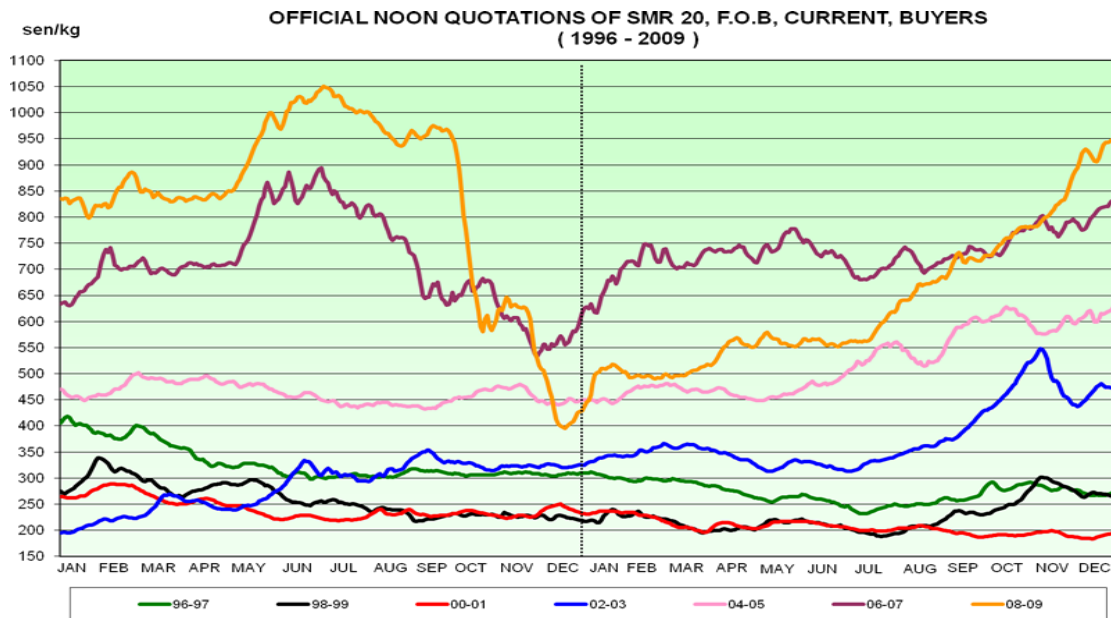


Figure 4: Standard Malaysian Rubber board (SMR) trading prices from 1996 to 2009

Furniture Industry

The Malaysian furniture industry is highly dependent on export. The ITTO's February 2011 reports that 85 percent of furniture produced in Malaysia is destined for export. Within the group, 81 percent of furniture exported is of wood products. Most of the companies in this sector are small to medium firms. Smaller firms are less flexible as there is less room to stock pile or fill larger orders. The advantages of the smaller firms are that they can change and adapt their products easily, and quickly. Larger firms have capital but are often geared towards a single product or line.

Top 10 Malaysian Furniture Export Destinations 2009		
Rank	Destination	RM Million
1	USA	2,169.7
2	JAPAN	808.3
3	UK	584.0
4	AUSTRALIA	514.6
5	SINGAPORE	509.3
6	CANADA	252.1
7	UAE	230.4
8	INDIA	168.5
9	SAUDI ARABIA	137.7
10	NETHERLANDS	131.4

Source : MATRADE

Figure 5: Top Malaysian Furniture Export Destinations 2009

Figure 5 shows the Top export destinations for 2009. USA and Japan top the charts with \$2169.7 million RM and \$808.3 million RM, respectively. Canada placed 5th with \$252.1 million RM. The 2010 statistics showed a similar trend, with US at \$ 1980 million RM and Japan at \$573 million RM. The economic recession has attributed as the reason for the slowdown, which had been on the increase since 2001. Canada remained on the top 10 list of export destinations but there were no current figures available. The minister of international trade and industry had stated that the ASEAN free trade agreement will help the industry recover. He also stated that the industry is showing signs of recovery as companies have begun to hire workers. (GlobalWood.org, 2009) The pending process of China joining the ASEAN may become more of an obstacle for the Malaysian industry. The ASEAN free trade agreement has been in talks with china to open up and lessen the restrictions on trade. The joining of China into ASEAN so far has been viewed as a great market for Malaysian furniture but the results however, are still pending. (GlobalWood.org, 2009)

According to Ratnasingam, the main factors in furniture sector growth are 40 percent capital, 22 percent technology, 18 percent labour, 14 percent raw material, and 6 percent human capital. (Ratnasingam, 2005) Although the technology to produce high quality products is readily available, the capital investment into better technology is often neglected. Manufacturers often sacrifice research and development of higher quality products to reduce costs to produce greater income. The major advantage that China has is a large capital and lower labour cost.

The price of raw material such as rubber wood furniture has been steady despite the recession and volume decrease. This is due to the large increase of rubber wood pricing and that has kept Malaysia's furniture export numbers high. The trend for 2011 is that the price of rubber wood will increase. The market for Malaysian furniture has been on the increase of late, and will continue the trend.

The Malaysian Furniture Promotions Council (MFPC) has increased its campaign in recent years to gain foreign capital and promote products. However, a report from 2005 showed that the fairs have not been doing as well as expected. Despite growth in the sector, the furniture fairs have more than tripled the exhibition space from 1996 to 2002 but visitor have held steady around 5000 from 1999 to 2001. The main concern for visitor to these furniture fairs have been for price bargaining. In Ratnasingam's report on the Asian furniture industry, He mentions that the international fairs in Malaysia, Indonesia, Thailand, and Singapore have similar content. There is not much difference in products for investors to choose. The furniture industry is mostly run on perceived value. The product's cost is valued at how special the product is. The lack of diversification within the region has also been attributed to the volume decrease during recent years. Since the competitors around the Eastern Pacific Rim region has been increasing, it is very important to diversify products. As there is a lowered demand in primary products, the move onto secondary products is natural for countries within the region and will become major

competitors. China in particular has been showing significant growth and transition into the value added wood products sector.

China – The Largest Competitor

China has been the fastest growing country in the Asia region, recording positive growth even during the economic recession. The 2010 export of forest products increased to \$96.3 Billion US. That is a 37 percent gain from 2009 numbers. The total imports to china also increased to \$47.5 Billion US. China's main import product is for timber. The Fujian province recorded a 149 percent increase in the value of timber imported, totaling \$59.8 million US. This increase is lead by China's growing furniture industry. The furniture export numbers increased 34 percent in value to \$16.16 Billion US. (GlobalWood.org, 2011)

After the economic recession, china has shown a great increase of increase in imports of raw material. Total imports of sawn wood increased to \$12Billion in 2009, from \$8.9 Billion in 2008. (FAO) The increase is 134% is accompanied by a close to even export. This trend could mean that china has increased its value adding capacity , increasing china's market share of the value added wood industry and decreasing china's need for import for those products.

According to some analysts, China's challenges in the wood industry include a manufacturer's limited capacity to break international trade barriers, a lack of diversification in the wood sector and a slowdown of capital after the financial recession. (GlobalWood.org, 2011) The shift from a primary exporter and high quality value added exporter has already started taking place. The higher primary import and secondary export shows that there is a significant market and china

plans to be a major player. The foreign capital investment into China's forest sector amounted to 10 billion US in 2010. The bulk of the investment is towards forest products and afforestation. (GlobalWood.org, 2011) With the possibility of diversifying its wood products, there is a huge potential in future growth.

Challenges to Malaysia's Furniture Industry

In 2010, the Malaysian Plantation Industries and Commodities Minister addressed the oncoming challenges for Malaysia's furniture industry. The largest problems that they face are a shrinking demand and increasing competition within the area. Smaller issues include the appreciation of the ringgit and increase of freight and fuel costs. (Asiawoodweb.com, 2010) The MFPC and Malaysian government is the front line in facing the challenges. The promotion of Malaysian furniture and opening of different markets should take precedence over the other issues. The appreciation of the ringgit against the US dollar may be affecting the exports to the US but can be an opportunity for Malaysia to open different markets while waiting for the US to recover. The government has also recommended subsidies to combat the increase of fuel costs. Since fuel costs affect not only Malaysia, the same problem should be present in neighboring countries.

Conclusion

Malaysia is an export dependant country. The recession has affected Malaysia's forest export market greatly but a recovery can be seen in recent data. The main destination for export has been the United States and Japan and both countries are on verge of recovery. The housing market of the United States has shown a recovery but it will take a lot of time before US reaches the same levels as of before recession. The recent Japanese earthquake will decline their imports for a short period but increase in the long run. The damage caused by the tsunami to homes can be viewed as an opportunity for new exports to Japan. The outlook for the value added industry is bright as Malaysia has set up promotions and joined a free trade agreement. The competition in the region has been building as China has increased its production capacities and possesses the capital to develop its secondary sectors. Does Malaysia have the capacity to stay on top is yet to be seen. The main obstacle for the wood industry is a lack of diversity in products. As Malaysia has moved away from the primary and commodity products, there is a lack of innovation in the design of value added products. Malaysia's main furniture export is also dependant on the design trends and has stayed onto because of that. The rubber wood price has returned to a high price after the recession and raw material costs will naturally follow.

Despite the negatives, there are high hopes for Malaysia to stay on top on the region and the world as a leading supplier of furniture products. The government continues to promote its products by opening new markets through trade agreements. The International furniture fairs, although has been steady in visitors, have increased in volume. The implications are that the visitors will increase following the recovery of Japan and US.

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