CHAPTER X
DISCUSSION

During the period of time under study, the highest annual growth rate of wooden furniture exports was shown in the year of 1987 at 121 percent. Furniture exports started to show a positive growth rate in 1985, the year when the first Industrial Master Plan (IMP) was launched. The export of furniture has increased further with the implementation of export levy in 1990 with growth rates ranging from 18 percent to 87 percent. The export value reached more than RM2 billion in the year 1996. This level actually exceeded the projected figure in the IMP, which was RM400 million in the year 1996.

The projection of Malaysian furniture exports was made based on estimated value of independent variables as mentioned below. For log production figures in 1998, 1999, and 2000, data from the Malaysian Timber Council and Malaysian Timber Industry Board study conducted in 1993, as in Table16, was used. For imports of logs and sawn timber, it is projected that the supply will increase by 10% in 1998, increase a further 10% in 1999, and level off in the year 2000. The export of rubberwood sawn timber will remain subject to export levy and quota rules. However it is expected that rubberwood exports will decrease very marginally to 15,000 cubic meters in 1998, 14,000 cubic meters in 1999, and level off at 14,000 cubic meters in 2000.

The Malaysian Ringgit is expected to depreciate further in 1998 from the 1997 level exchange rate of 2.785 to 2.85. The financial crisis will probably continue in 1999 and push the exchange rate of the Ringgit to 3.0. However, it is anticipated that the
Malaysian economy could improve slightly by the year 2000, which will slightly improve the exchange rate to 2.9.

The Import Price Index for 1998 is forecasted to follow the first four months of the year. Data provided by the BLS for the months of January to April 1998 shows the average Index is 103. The Index trend from 1993 to 1997 shows an increase in the range of 0.55 to 1.85 percent per year. For the year 1999, it is anticipated that the index will increase by 0.97 percent to 104, and by the year 2000 to 105. These assumptions are made due to lack of projection data for import of logs and sawn timber, export of rubberwood sawn timber, exchange rates, and IPI.

Considering the above scenarios, the projection of Malaysian furniture exports, as tabulated in Table 23, for years 1998, 1999 and 2000 is RM2.86 billion, RM5.13 billion and RM4.35 billion respectively. Projection for year 1998 shows that there will be an increase of 13 percent in total export value; and the projection for year 1999 is an increase of 79 percent from the year before. However, projection for the year 2000 shows a decrease of 15 percent from the year 1999. The decrease in this projection figure is due mainly to projection that the Ringgit will get stronger from the 1999 level. As the price variable is very elastic, the impact on export value can be substantial.

A study commissioned by the Malaysian Timber Council projected that by the year 2000, Malaysia’s export furniture earnings are expected to reach RM4.8 billion (MTC, 1997b) while the second Industrial Master Plan envisions that the export of furniture would achieve RM6 billion by the year 2000 (MTIB and MFIC, 1996). The export is forecasted to grow between 10-15% from 1996 to year 2005 (MTIB and MFIC, 1996). Therefore, this projection seems to be very reasonable, considering that the export
of rattan furniture should accordingly increase to higher than RM82.5 million, which is the 1997 export level. The major limitation in developing a good regression model to forecast the export performance of furniture is the fact that it was based on a relatively small number of observations. However, since the production of rubberwood for the export market was relatively new (started in early 80s), there was almost no possibility to increase the sample size. This has greatly limited the number of independent variables to be tested in the regression analysis.

Among all independent variables tested, the price ratio is the most significant and shows the highest degree of elasticity with export value. Although Malaysian market share in the United States furniture market is relatively small, about 7.6% of furniture imports in 1995, the United States is the single largest market for Malaysian furniture, currently representing 38 percent of the Malaysian market. As the United States is the world's largest market for furniture, increase in IPI has indirectly reflected an increase of furniture prices from all over the world. Therefore, the index price has a strong influence on the export value of Malaysian furniture not only to the United States but also to other markets as well.

The effect of the Malaysian currency exchange rate alone is insignificant. Due to the stability of the Malaysian Ringgit in the past, the impact of Ringgit depreciation on the export performance cannot be tested in this analysis. The recent financial crisis, which hit Malaysia in the middle of 1997, brought down the rate to the lowest annual level observed in the period of study.

The IPI is a very significant independent variable in this model. An increase in IPI reflects an increase in the price of import furniture in percentage terms. By
multiplying the IPI with the corresponding exchange rate, the price indexed can be translated into equivalent Ringgits. The result of the price conversion is very strong on the export value of furniture as reflected by the elasticity value of 7.32. As IPI increases, the export value increases; similarly, as the Malaysian Ringgit gets weaker, the export value increases. Ringgit depreciation against the U.S. Dollar makes Malaysian furniture more competitive in the world market and this should boost export value. Because most of the payment terms in international business transactions are quoted in U.S. dollars, fluctuations of the Malaysian Ringgit against the U.S. Dollar have major impacts not only in the United States market but also in other major markets. Although the percentage of Malaysian furniture exported to the United States from year 1990 to 1996 is relatively constant, the export value increased by 24 percent in 1996, compared to the year before. As Index Prices depend on several factors such as the economy of the country, the export performance is very much dependent on the economic condition of the importing countries.

The other variable is log total supply; and the relationship between this variable export value is also elastic. However, the degree of elasticity is not as high as compared to log prices. Three components of this variable have been regressed individually against the dependent variable, where it was found that only import variable is significant at the 0.05 level. However, since supply for local downstream processing not only depends on log production and import sources, the independent variable of supply has been transformed to take into account the export volumes as well.

The supply of rubberwood is very much determined by the replantation program, as the trees were planted for latex. These replantation activities are seasonal in nature,
which makes the rubberwood supply not available at all times of the year. Furthermore, the rubberwood sawmillers have to compete with fiber mills which are utilizing rubberwood for medium density fiberboard. This calls for better rationalization of rubberwood supply so that the requirements of both sectors can be fulfilled. For example, since the rubberwood logs for MDF production will be processed into chips, the MDF manufacturers can utilize smaller logs while larger diameter rubberwood logs can be cut into sawn timber, thereby increasing the recovery rate.

A study carried out by the Malaysian Timber Council and the Malaysian Timber Industry Board has projected that the existing shortage of rubberwood supply is expected to continue in years 1999 and 2000. This is due mainly to fewer replanting projects that will be carried out within the next two years. In view of this situation, it is logical to increase the raw material supply domestically by restricting the export of sawn timber and exploring import from other rubberwood producing countries, provided the price and quality is acceptable.

The supply situations are expected to worsen in years to come due to insufficient funds from government to the smallholders to carry out the replantation program (Berita Harian Online, 1998b). For example, allocation under the Seventh Malaysia Plan is only RM633 million; therefore only a small proportion of the desired replantation can be entertained. To overcome the problem of rubberwood shortages, large scale planting and replanting areas have been planned which are aimed at ensuring the continuity of the rubberwood supply. To augment the supply of rubberwood, the rubberwood processing industry in Sabah and Sarawak should be initiated. However, these can take place only if major problems in logistics, infrastructure and facilities are overcome.
The export levy and quota rules are being implemented to retain the raw material for local downstream processing industries by restricting the export of rubberwood sawn timber. Judging from rubberwood sawn timber export data, the export levy rules have been found very effective in restricting the volume of sawn timber exports.

However, it is difficult to determine whether these measures have supplemented the raw material supply to the local processing industries, since so far, the supplies to the domestic processing have not been measured directly. Related to this, another objective of levy implementation is to maintain the price of raw material at a reasonable level, so that production cost can be minimized. Analysis of price trends on the ex-mill price of rubberwood logs shows that the price is increasing, but only gradually. For domestic prices of rubberwood sawn timber from 1991 to 1997, prices have fluctuated very marginally, in the region of 2 to 6 percent (MTIB, 1998a). These gradual movements of prices have in a way reflected the successful implementation of export levy and quota rules.

However, the export levy and quota rules have resulted in several cases of levy and quota evasion by some exporters. The Enforcement Unit of the Board has been working very hard to detect these cases of smuggling and inaccurate declaration on export documents at all timber exit points in the country. This obstacles in enforcing export trade policies, if it is not prevented, could jeopardize the planning of raw material supplies for the domestic processing industries.

Another component of supply comes from the import source. Since the supply of timber is declining, there is a tendency that import activities will take place more regularly. However, as the Ringgit is depreciating against the U.S. Dollar, it is more
likely that imports from the stronger currency's country will drop. In this regard, Malaysia has to find other alternative markets to supplement the raw material supply feeding its domestic processing industries.

Analyzing the tax or duty structure with regard to the import and export policy, it is clear that the structure aims at encouraging the import of raw material and discouraging importation of higher value added products. For example, importation of mouldings, particleboard, and blockboard are subject to import duty from 25 to 35 percent of the value, while import of furniture is subject to import duty ranging from 25 to 40 percent. The local furniture industry can be considered an industry which is protected by the government. This is necessary to protect the local furniture market during its growing stage. However, the policy could be reviewed as deemed necessary and timely so that the industry can be exposed to the world's furniture product line. A healthy competitive atmosphere should be created for local furniture industries to expand and develop on a par with the world's furniture trends. According to Kennen (1989), it is important for the government subsidies or protection to always be temporary in nature. Otherwise they will invariably result in inefficient industries (Kennen, 1989).

Besides the factors or variables studied above, there are other factors which are equally important to furniture exports such as market promotion and investment policies. The Malaysian Timber Industry Board is the export promotion agency for timber products. Although the country is now facing financial crisis, it is felt that the export promotions need to be carried out on a systematic and regular basis. In the past, Malaysian manufacturers have been actively participating in several leading international furniture fairs organized throughout the world. As the United States is Malaysia's largest
single market, participation in furniture fairs and exhibitions organized in this region could maintain, if not increase the Malaysian market share.

Investment has been one of the areas given attention by the government. The Malaysian Industrial Development Authority is the agency responsible for formulating the investment policy and to create an environment conducive for investors to inject capital in the country. The furniture industry has been one of the areas that received a lot of investment from foreign investors and this is a very positive development to the industry not only in terms of capital but also in encouraging the transfer of technology.

Malaysia's market share in a global wood-based market of downstream products is still small. In 1993, Malaysia's market share for furniture was only 1.4 percent (MIER, 1996). In order to increase its market share, Malaysian furniture should capture the higher end market (MIER, 1996), while maintaining the rubberwood market for the medium end. Malaysia has been recognized as a producing country that has successfully invented the technology of rubberwood processing in terms of maintaining the quality and utilizing the lamination and finger jointing technique, which makes the wood well accepted by the buyer. Many more efforts have been taken to increase the value of rubberwood furniture, for example by combining it with high quality veneer, such as cherry and oak. This combination of rubberwood with imported veneer has been well accepted by the overseas buyers who prefer the lighter color of timber. Another possibility is to manufacture rubberwood furniture in combination with other materials, such as particleboard, rattan, and bamboo. This will not only increase the value of furniture but will also help to reduce the use of solid rubberwood sawn timber, of which there is now a temporary shortage. In the effort to position the furniture sector in the
higher end market, it is felt that the production of furniture using other commercially established species such as nyatoh, ramin, and dark red meranti, should be intensified. By positioning the export of Malaysian furniture to higher end market segments, higher raw material and production costs can be offset.

In order to increase the market share, the Malaysian furniture manufacturers must have the capability of producing substantial quantity with consistent quality within a specified time. As stated above, the larger companies, whether local, foreign owned or joint ventures, are producing most of the furniture that goes into the export market. Therefore, there should be better coordination and collaboration to step-up the role of smaller and medium furniture plants in the export market. Greater participation from these smaller units can contribute towards higher productivity and efficiency. This can be done by carrying out outsourcing or subcontracting activities of these smaller plants under the supervision of the vendor companies. Apparently, this concept has been adopted in some of the furniture villages, whereby several new plants have been put under the supervision of the vendor companies. These vendor companies are giving the necessary assistance in terms of production, management and marketing, so that the small new companies will survive in the international market. However, more efforts are required for these villages to be successful in producing furniture that will meet the export standards.
Among the suggestions made by the industry were to create the villages more market driven by identifying markets and producing products that meet the needs of those markets.