CHAPTER XI
CONCLUSIONS AND RECOMMENDATIONS

Conclusions

In this study several factors that affect the export performance of furniture from Malaysia have been identified and discussed. These factors are raw material supply, government policy, exchange rate and economic indicators of importing countries, which is an import price index.

Other factors that have been covered briefly are technology, labor, and marketing. It is important to maintain a low cost of labor and raw material as Malaysian furniture competitiveness depends on these two factors. An increase in the average wage of workers, which exceeds the rate of increase in labor productivity, will lead to an increase in unit labor cost (Ministry of Finance, 1996). The increase in unit labor cost could subsequently affect the competitiveness of Malaysian furniture in international market. In this regard, trained and skilled workers should also be provided to the industry particularly in the area of production technology and finishing.

Although the Malaysian furniture industry has made tremendous progress in the world market, it still can be considered a commodity business. The exporters are competing in the segment where the profit margin per unit of furniture is low and gained is obtained by selling at higher volume. Rubberwood furniture was popular due to its low price when compared to other solid wood furniture. Therefore, in order for Malaysia to increase its market share in the global market, it needs to strive to improve performance in the high-end market segment. Different species of timber could be explored to
produce different kinds of products to cater to different and selective market segments. However as Malaysian furniture strength lies on its competitive price, this low-end segment has to be maintained as well. Furthermore, analysis of the largest single market for Malaysian furniture, the United States, shows that in the future baby boomers, which represent the majority of buyers will reach the retirement age, suggesting that their requirements for furniture could tend toward moderate and lower priced furniture.

Marketing is one of the very important factors and should be utilized efficiently to promote sales to other markets as well. Over dependence on one single largest market is a risk. Market promotions could be explored in new markets such as newly independent countries in Central Asian Republics, Russia and the Ukraine. These countries are now in the process of building more public facilities to replace those that were demolished during war. Therefore the low and medium end furniture will be suitable to furnish these facilities. Other markets for furniture such as Western Asia which are currently importing sawn timber and plywood, could also be promoted. Malaysian exports to this market in 1997 were very insignificant at less than 3 percent (MTIB, 1998d and Statistics Department, 1998).

The Malaysian government and its agencies played a very crucial role in promoting the downstream processing industries, as has occurred in most other developing countries. The shift in the direction can be seen with the launching of the Industrial Master Plan in 1985. Several projects and policies have been embarked on to support the objectives specified under this Plan. The furniture village project was initiated to integrate the role of small scale industries in export activities. Investment policies and incentives have been revised to make Malaysia a more attractive place to set
up manufacturing facilities. Export rules, regulations and tax structures have been formulated and reviewed to encourage the import of raw materials and export of finished products from the country. For example, export quota and levy rules aimed at retaining raw material in the country at a reasonable price.

In this study, a model has been developed to quantify the relationship between the dependent variable, export of furniture, and independent variables, supply and prices. In this export model, the export of furniture was greatly influenced by the Index Prices conversion variable where the elasticity is 7.32 followed by supply variable of raw material, with an elasticity of 1.31. The supply of raw material, which is comprised of sawn timber production and import volume, has been transformed to take into account the export volume of rubberwood sawn timber which is subject to export levy and quota rules. Earlier, the export levy rules variable was regressed in the regression analysis as a dummy variable and found not significant. This study has projected that the export of furniture will increase in year 1998 to RM2.86 billion and year 1999 to RM5.136 billion. Increase of exports in 1998 was due largely to the projection of depreciation of the Malaysia Ringgit to the U.S. Dollar, while for 1999 the increase was due to increases in the production of rubberwood and also to the weakening of the Malaysian Ringgit. The export of furniture in year 2000 is projected to decline to RM4.35 billion due largely to a projection that the Ringgit will be strengthen by 3% over its level in 1999.

The model implies that the economic factor of the importing countries is the most influential factor, as compared to the raw material supply factor. This has a similarity with the export performance of sawn timber, plywood and veneer to the European market, which declined due largely to the economic downturn of this traditional market.
of sawn timber. This has forced Malaysia to look for other alternative markets and since then the Asian region has emerged as a major market for Malaysian sawn timber, plywood, and veneer.

The export of furniture since 1984 has been increasing, which seems not to be affected very much by the fluctuating nature of the rubberwood supply. Imports have been on an increasing trend and the highest level of timber importation was recorded in 1997. This has greatly supplemented the supply of raw material in the country. The export of sawn timber is decreasing, due to the effect of levy and quota rules. Exports for last year recorded the lowest level, and it is anticipated that for this year and next year there will be not much reduction in view of the current economic situation. Recently, the government has suspended the levy on other species of sawn timber with the purpose of encouraging the export of timber products. This new ruling was effective from 7 May 1998.

**Recommendations**

In order to enhance the competitive position of Malaysian furniture industry in the global market, it is suggested that these measures be taken:

1. Embark on proper and systematic planning of raw material supply to sustain long term viability of the furniture industry.

2. Maintain the status-quo of export levy and quota rules on the main species for furniture, particularly the rubberwood sawn timber, to cater for the need of downstream timber processing by the furniture industry.
3. Improve the recovery rate and production efficiency of rubberwood processing by utilizing better cutting techniques and minimizing waste. Increasing usage of finger jointing and glue lamination technology can further improve the utilization of rubberwood. In addition to this, employing new technology for automation and product diversification can help to achieve higher productivity.

4. Carry out a systematic rubberwood cutting schedule so that supply can be made more consistent to fulfill the needs of downstream industry. Arrange for greater collaboration between rubberwood small holders and estate management. The states Forestry Department could play this role as a coordinator not only in the harvesting program but also in the replantation of rubberwood trees.

5. Initiate intra-movement of rubberwood sawn timber from Sabah and Sarawak and import from newly producing rubberwood countries, such as Vietnam and Cambodia. However, this should be a temporary measure as eventually these countries will develop their own downstream processing industries.

6. Intensify export promotion and other marketing programs in the existing furniture market and diversify to new emerging markets. This could be done through active participation in international major furniture trade shows such as in Cologne, Germany, High Point in the United States and Tokyo in Japan. Active participation in these furniture fairs and trade shows can increase the impact of Malaysia's presence in this market. The Malaysian International Furniture Fair which takes place in Kuala Lumpur, Malaysia should also be organized annually and in a grand way to attract bigger participation by visitors. This fair has shown very positive development towards promoting the Malaysian furniture.
7. Improve existing marketing networks and distribution systems so that the Malaysian exporter can have better role in marketing. It is generally known that Malaysian firms are heavily dependent on middlemen in few key markets. Direct involvement in the marketing can enhance profit margins and also understanding of market requirements and of relationships with existing and future customers.

8. Increase participation from small-scale industries in export activities. Although higher in terms of number these small-scale industries currently play a very small role in export activities. Effective participation by these small units can contribute higher productivity to the industry and socio-economic benefits to the community.

9. Intensify training programs to provide sufficient skilled labor at supervisory and operator levels in line with the intention to produce furniture for the higher end market.

10. Regularly review policies to create a better environment for manufacturing and business in order to stimulate healthy growth of the industry.