CHAPTER VI
THE MALAYSIAN GOVERNMENT’S ROLES IN DEVELOPING
THE FURNITURE INDUSTRY

Industrial Master Plan

The Industrial Master Plan (IMP) is a blueprint to guide Malaysia's maturation as an industrial nation (Star, 1998a). The first IMP was launched by the Malaysian government in 1986, covering a ten year period from 1986 to 1995. One of the central objectives of the IMP for the wood based industry was to shift the export sector from low value raw materials to high value-added products such as furniture, paper products, moldings/joinery, and specialty products (MIER, 1996). Table 7 shows the export performance of timber products before and at the end of the period of the first IMP.

The wood-based sector has been one of the best performers since the first IMP was launched. The export of further processed timber products continued to increase. Following the success of the first IMP, the second IMP has been launched which covers the period from 1996 to 2005. This plan proposes a new strategy known as manufacturing ++ (Star, 1997). This plan intends to further boost the development of an integrated industry-wide vision, embracing both manufacturing and business support services. It also calls for greater involvement of small and medium industries (SMIs) to play an important role in the economy and to be integrated into the mainstream of industrial and technological development (Star, 1998a). It is expected that by 2005, the value added in the manufacturing sector will reach 98.9 percent compared with the current level of 76 percent (Star, 1997).
Incentives

The Malaysian government has provided several investment incentives with the objective to stimulate and support the manufacturing sector. The principal incentives listed in the Promotion of Investment Act (PIA) of 1986 and the Income Tax Act of 1967 are as follows (MIDA, 1998b):

2. Double deduction of Credit Export Insurance Premiums
3. Double deduction of Promotion for Export
4. Industrial Building Allowance
5. Incentives for Research and Development
6. Incentives for Training
7. Remittance Abroad
8. Employment of Expatriate Personnel
9. Drawback of Custom Duty
10. Exemption from Custom Duty on Machinery
11. Incentives for Forest Plantation Project
12. Incentives for Restructuring
13. Infrastructure Allowance
14. Double Deduction for Freight Charges
15. Incentives for high technology
Generally, incentives have been designed to make the cost of doing business in Malaysia internationally competitive. The investments incentives have been formulated especially to attract foreign investments in order to gain access to new technology, thus creating job opportunities, earning export income, and developing an industrial base for economic growth (Barjoyai, 1989). The incentives provided include those for manufacturing, exporting, research and development, and training (MTIB, 1990).

One of the most common incentives is the pioneer status. A company that is given this status is eligible for partial exemption from the payment of income tax. This means that a company located along the western corridor of Peninsular Malaysia would have to pay tax on only 30 percent of their statutory income during the exemption's five years period. As an incentive, companies located in the States of Sabah and Sarawak, the Federal Territory of Labuan and the designated "Eastern Corridor" of Peninsular Malaysia will have to pay tax on only 15% of their statutory income (MIDA, 1998a).

Particularly to encourage export, a plan known as Export Credit Refinancing has been implemented to promote the exports of manufactured goods (MIDA, 1998a). This plan enables the Malaysian exporters to apply for short term credit financing at preferential rates of interest. Financing is normally arranged through commercial banks; however the central bank can also refer the commercial bank to eligible exporters. In addition, another program known as double deduction for promotion of exports has also been introduced (MIDA, 1998a). Under this program, resident companies can apply for double deduction of expenses incurred to market their product overseas. Examples of expenses are overseas advertising, supply of free samples to buyers, and technical information abroad.
Training has been recognized as an important tool to upgrade skills and improve productivity (MIDA, 1998a). Training incentives are given to companies that provide technical or training building, machinery, equipment and material used for training purpose and other expansion training capabilities. Companies which send their employees for training programs conducted by approved training institutions are eligible for reimbursement of expenses under these incentives.

Under the IMP2, these incentives were launched to achieve private investment valued at RM250 billion with roughly 60% from local sector investors and 40% from foreign investors (Star, 1997). Table 8 shows the number of projects approved from 1982 to 1997 by the Malaysian Industrial Development Authority. The highest number of projects approved was in 1990, with 47 projects approved, and after this peak it stabilized. However, in terms of total capital investment, the highest total capital investments were recorded in 1997, where the local investment exceeded foreign by 365 percent. During this year, local equity share in the industry was twice the foreign equity share. In terms of creating job opportunities, the total capital investment was the highest in 1997, but it did not create more job opportunities than in the year 1995 with 8,000 jobs. This could suggest substitution of technology for labor.

Offshore investments

Arising from insufficient timber supply problems in a country, Malaysian industrialists have started to invest in other countries such as in Papua New Guinea (Friedland, 1989), which allow for foreign participation in the development of forest
resources. These companies are normally timber-integrated plants and need continuous and assured raw material for their manufacturing plant activities.

**Trade Policies and Practices**

The resource and marketing environment facing Malaysia’s timber industry has changed greatly over the past decades. The demand on the tropical timber industry is increasing, while the supplies of logs are decreasing. Anticipating a reduction in log supply, the timber industry has ventured into more value-added processing activities. The government has made every effort to promote downstream processing, especially in the manufacture of furniture in order to meet the demand from overseas as well as the domestic market. Appropriate policies and measures have been designed to accelerate the development of the furniture industry in order to conserve timber resources as well as to encourage greater downstream processing. The rules and regulations were formulated to regulate and control the trade. These measures have taken place with the purpose to co-ordinate activities and gather information and records of all relevant matters pertaining to the timber industries.

In 1983, The Malaysian government banned the export of 27 species of logs from Peninsular Malaysia, which were in most demand by the local downstream processing industries. The ban also included all species with diameters exceeding 30cm. The ban was very effective in restricting popular species from being exported. Since the year 1985, there have been no logs exported from Peninsular Malaysia.

In line with the government’s aspirations to encourage more downstream processing activities, incentives are given to encourage the importation of logs and sawn
timber to augment the supply of raw material. Since 1988, under the Customs Duties (Exemption) Order, 1988, the importer can claim exemption from payment of customs duty that is 15% of import values. The tax structure has been implemented, effective on 1\textsuperscript{st} January 1988, as shown in Table 9. The export of higher value-added products are exempted from duty while the importation of these products subject to duty between 25-35% of the import value. In addition to this, procedures for the import of logs and sawn timber have also been relaxed.

**Export Rules and Regulations**

As stipulated under the MTIB Act Incorporated, (1973), any person or persons who want to export timber products listed in Schedule I of the Act are required to register with the Malaysian Timber Industry Board (MTIB). This exercise is required by the Board to enable it to gather information and maintain records of all furniture exporting companies. This will assist the Board to carry out activities that are relevant to the furniture industry such as market promotion, technical assistance, and training, advisory, and consultancy services to the furniture industry. Schedule I of the Act covers almost all wood products produced in the country such as logs, sawn timber, plywood, mouldings, joinery and carpentry and furniture. Depending on the degree of processing of the products and the government’s export policy, the exportation of these timber products are subject to different conditions and rules. There are five types of activities that require registration with MTIB, which include: timber supplier, timber exporter, timber processor, timber grader and jetty operator.
MTIB has been delegated power by the Royal Customs of Malaysia to issue export and import licenses for timber and timber products. The Custom's Order (Export Prohibition) of 1988 listed timber products that require an export license. Therefore the issuance of export and import licenses for these timber products, including the inspection of timber consignments, come under the responsibility of MTIB. MTIB is also empowered to issue directives or rulings effecting changes in grading criteria and procedures and to take disciplinary actions.

The export of all secondary timber products such as sawn timber, plywood, and mouldings are subject to registration with MTIB. Under the quality control system of sawn timber, grading has been made compulsory for sawn timber exported to the countries classified as specified countries under Appendix III of Malaysian Grading Rules for Sawn Hardwood. The rules have been implemented for many years and have been proven very useful in safeguarding the quality of sawn timber exported from the country and to protect the good image of the country as a supplier of high quality sawn timber. The rules have been revised twice, that is in 1968 and 1984, to further suit the prevailing market conditions. For moulding and plywood there is no national rule enforced with regard to the exports but each mill that carries out export activities will have their own in-house quality standard or will go according to the buyer’s requirement.

Furniture manufacturing is subject to a minimum set of procedures and regulations in line with government’s intentions of encouraging further down stream activities, and moving towards deregulation. Particularly for the products and activities which are being promoted, the policies have been formulated and implemented to encourage the manufacturing of higher value-added items. MTIB is currently proposing
that the Customs Department delegate the authority to issue export license for furniture. This requirement would help MTIB to gather information on the industry. This is important to help it with planning a suitable program for the industry. At this moment no government agency keeps records on these furniture plants, since company registration has not been made compulsory. Timber trade associations have agreed to the proposal of registration, but the reactions by the furniture manufacturing companies are mixed.

**Establishment of Furniture Villages**

In 1996, the export of furniture reached RM2.2 billion; however the contribution from the indigenous people was only 4.1%. In terms of number, in Peninsular Malaysia the indigenous people account for only 26% of furniture manufacturing companies and 4% of furniture exporters. Realizing these imbalances situations, the Malaysian government has embarked on various programs and strategies to increase the participation and level of development of indigenous people in the furniture industry. In this regard the Malaysian government has established six furniture villages aimed at promoting downstream processing activities by small-scale industries and at involving them in the export market.

Each furniture village is equipped with common facilities required for the manufacturing of furniture, such as machinery and material supplies, kiln drying plants, finishing centers, furniture showrooms and marketing support. Various government agencies such as the Malaysian Timber Industry Board, Forest Research Institute of Malaysia and National Productivity Center participate in this project. The assistance of the government will help expedite technology transfer, decrease production costs, and
stimulate export efforts among the small and medium-sized companies. Each village gets an allocation of RM3.5 to RM5 million from the federal government for construction of infrastructure and common facilities, while the state government provides land of at least 50 acres at very low premium rates to the projects (MTIB, 1997).

The construction of these five furniture villages has been completed, while one more village is still in the planning stage. Currently only nine factories have started their manufacturing operations, 27 factories have been completely constructed, 8 are still in construction stage, and 31 more factories are planned (MTIB, 1997).