CHAPTER VII
MALAYSIAN FURNITURE INDUSTRY

Structure of Malaysian Furniture Industry

In 1995, there were about 2,965 furniture plants in Malaysia, with 2,630 in Peninsular Malaysia, 120 in Sabah and 215 in Sarawak, as listed in Table 4. It is estimated that 70% were small scale plants such as workshops and backyard factories using low level production technology and catering to domestic markets (MTIB, 1995). The remaining 30% were large and medium sized furniture plants which have penetrated the export markets (MTIB, 1995). In terms of ownership, it is estimated that more than 75% of the furniture companies are either wholly or majority Malaysia owned (MIER, 1996).

Generally the Malaysian furniture manufacturers can be categorized into four categories:

- Small and medium scale industries established and operating in the furniture village
- Small scale industries established and operating outside the furniture village
- Medium and Large manufacturing companies-local owned
- Large manufacturing companies-joint venture and foreign owned

Large furniture manufacturing plants are categorized as the plants that have paid-up capital above RM9 million, medium plants are between RM2.5 million to RM9 million while the small plants have paid-up capital below RM2.5 million.\(^1\)
Classification according to MTIB standard

In 1995, there were 1,183 Malaysian furniture exporters, 575 were furniture exporters with manufacturing plants, the remaining 608 being trading exporters (MTIB, 1995). Wooden furniture accounts for the majority category, which comprises 87% of these furniture exporters (MTIB, 1995). About 90% of total furniture exports were accounted for by locally owned larger companies and companies with foreign investment (MIER, 1996).

Generally the furniture mills in Peninsular Malaysia are more developed and most of these mills are located on the West Coast (MIER, 1996). The highest number of furniture exporters manufacturing plants are in the state of Johor (232), followed by Selangor (171), Perak, (37) and Kedah (27) (MTIB, 1997). In Johor, the highest concentration and most productive manufacturing plants are in Muar, while in Selangor they are in the Klang Valley area. The location of furniture establishments in these states are greatly influenced by proximity to the supply, distance to the export exit points, access to labors, and the availability of good infrastructure, supporting industries, and facilities.

In this section, information of some of the furniture companies profiles as contained in the Furniture Directory published by MTIB will be reviewed. This directory is the official publication that contains basic information on all the furniture companies who are members of the Malaysian Furniture Council. Table 10, which lists these furniture companies, is based on the availability of information including number of workers, factory size, sales turnover and markets (MTIB and MFIC 1997). In addition to

\footnote{Classification according to MTIB standard}
this, information of the companies located in the furniture villages is also compiled, which is shown in Table 11.

Table 10 shows furniture manufacturers composition, comprising medium and large companies with the individual company’s annual sales ranging from RM3 million to RM70 million. The number of workers employed by these plants ranges from 30 to 1,300 workers with 70% of factories employing between 100 to 200 workers. The size of these mills ranges from 1,000 to 130,000 square meters. The majority of these companies have established their business in the export markets.

Compilation of furniture plants as shown in Table 11 of the appendix is based on the companies established in the second phase of the furniture villages project. This was funded under the sixth Malaysia Plan (1990 to 1995). Under the first phase of the furniture villages project, 14 furniture mills have started their operation and 23 have been completely constructed (MTIB, 1995). Under the second phase of the furniture villages project, there are only nine furniture plants that have started their operations. These small units of production employ between 15 and 60 workers, with paid-up capital less than RM1 million. Most of these furniture plants are catering to domestic markets and have not sold their products for export markets. Therefore their contribution to the country's furniture export market is very insignificant.

Malaysian Furniture Market

Furniture of both wood and rattan are the stars of the timber sector. Under the concerted efforts of the various development agencies, exports of furniture have increased tremendously from RM17.26 million in 1982 to RM 171.3 million in 1989.
This occurred after the launching of the IMP. Table 12 shows the export performance of Malaysian furniture from 1982 to 1997. Exports of furniture continue to increase where in 1997, exports of furniture reached to RM 2.6 billion. Wooden furniture comprised the bulk of total furniture exports, ranging from 63 percent to 97 percent during this time period. Although the proportion of rattan furniture exports has been shrinking, the export value in 1997 was higher than in 1988 when rattan furniture accounted for 37 percent of total export value. In 1997 wooden furniture captured 97 percent of export, with an export value of RM2,531 million. The balance was rattan, amounting to RM91.48 million. Figure 6 shows the major markets for Malaysian furniture in 1996. Figure 6 illustrates that the United States is the major market followed by Japan and Singapore. For rattan furniture, Japan appears as the most important market, followed by the United States and the United Kingdom.

The United States represents the largest single market for Malaysian furniture. Furniture exports from Malaysia to the United States have been increasing rapidly from RM82.1 million in 1990 to reach a total of RM837.97 million in 1996 as shown in Table 13. In 1996, the United States accounted for 38% of Malaysian furniture exports. The U.S. imports from Malaysia consisted mainly of wooden chairs and miscellaneous wooden furniture, dining tables, and furniture parts.

Japan is the second largest wood furniture importing country after the United States, which accounted for 22% of Malaysian furniture markets in 1994. In 1994, Malaysia controlled 7% of Japanese furniture market, share and ranked seventh after Taiwan, Thailand, the United States, Indonesia, China, and Italy. Exports of Malaysia’s
wooden furniture to Japan increased by an average 50% annually between 1991 to 1995 (Othman, 1996).

The European furniture market is the largest in terms of consumption and value in the world. However, the European Union remains a difficult market for Malaysian furniture exporters to penetrate. The United Kingdom and the Netherlands are the two largest markets for Malaysian furniture. Exports to these two countries show an increasing trend over the last five years (Othman, 1996).

Other major markets are Singapore and Taiwan. Currently, most of the furniture is segmented for the medium and lower end market. Rubberwood is a primary raw material used for Malaysian furniture, making up about 80% of wooden furniture exported to all markets (Tong, 1995).

Rapid development of the furniture industry in Malaysia and a focus on exports has increased the production capability and product quality. This has enabled the industry to meet a growing demand for furniture. Net exports grew by more than 10 times from 1980 to 1990 and have grown by 8 times in 1996 as shown in Table 14 of the appendix. This export surplus has increased because domestic production has been able to meet the growing domestic demand from households and business institutions, as well as, expanding exports.

**Factors Affecting the Export of Furniture**

Factors affecting the export of furniture from a country can be divided into domestic and international trade factors. The domestic factors that will be covered in this section are the supply of raw materials from both domestic log productions and import
sources, and the export levy and quota rules. International trade factors selected are the currency exchange rates and import price indexes. The selection of the above factors was based on most of the discussion about the furniture development and market. Raw material supply and government factors have been identified in most of the literatures related to this topic, while the import price indexes were included to study the effect of the exchange rate on export trends in view of the financial crisis that occurred in Asia last year.

i.) The Supply and Demand Situation of Rubberwood

Rubberwood (*Hevea Brasiliensis*) is the most important timber for the Malaysian furniture industry. It makes up approximately 80% of wooden furniture produced by Malaysia (Tong, 1995). Other species of timber used for furniture include kembang semangkok (*Scaphium* spp.), nyatoh (*Sapotaceae* and *Palaquim* spp.), sepetir (*Sindora* spp.), ramin (*Gonystylus* spp) and dark red meranti (*Shorea* spp). The natural whitish cream color and uniform texture of rubberwood has made it a valuable timber for the manufacture of furniture and furniture components, joinery items, household items, and panel products (Nordin, 1995). Rubberwood has been classified as a timber that has good working properties. Its strength and machining (mechanical) properties are comparable to those of some popular local timber traditionally used for furniture. The success of rubberwood as a raw material for furniture was prompted by the success of treatments that managed to overcome the major problem of this timber. It is easily attacked by borers and fungi. Another important factor, which makes rubberwood a very popular timber used by the furniture manufacturers, is the fact that it is a plantation species and is
considered an environmental friendly timber. Thus, this timber will not be subjected to the proposed environmental certification generally imposed on tropical timber.

Today, Rubberwood is the species demanded most not only by the furniture manufacturers, but also by MDF and panel product manufacturers. Table 15 shows number of plants according to the type of processing that utilize rubberwood as their main raw material.

A study conducted by MTIB and the Malaysia Timber Council (MTC), projected availability of rubberwood supply as estimated in Table 16. The estimation of logs available for primary processing was based on the assumption that 20% of rubberwood logs are available for use in primary processing industries and another 34% for the fiber. Of the amount of logs diverted for primary processing, 80% is consumed by the sawmills and the remainder by the plywood industries. Production of sawn timber and plywood were estimated using the recovery rates of sawn timber, and plywood which are 36% and 30% respectively.

The demand for rubberwood sawn timber is more complex. There are many external factors that affect its demand. Sawn timber is used extensively in the furniture and moulding/joinery sectors. It is estimated that 60% of the rubberwood sawn goes into furniture plants and the rest are consumed by moulding/joinery factories or exported (Tong, 1995). Table 16 also indicates total sawn timber requirements by furniture, joinery and molding sectors based on the projected annual growth of sawn timber consumption averages from 11% in 1995 to 15% in 2000 (MTC, 1995 and MTIB, 1993).

This table indicates that demand for the rubberwood sawn timber will increase and will exceed supply. Based on these projections, these sectors will face an acute
shortage of sawn timber by the year 2000. The situation will be worsened due to the latest development that some rubberwood smallholders are unable to carry out the replantation program due to the insufficient grant available to them. Because smallholders contribute about 60% of the supply of logs (Rani, 1995), this could adversely affect the performance of furniture industry.

ii.) Importation of Timber

In order to supplement domestic raw materials resources for the processing activities, Peninsular Malaysia has to import its timber supply from other countries and from the two states of eastern Malaysia, Sabah and Sarawak. Total imports of timber products have been increasing over the few years in response to the increasing demand in downstream processing activities. Table 17 shows the importation of timber products in 1996 and 1997.

Total imports have increased from RM287 million to RM469 million in terms of value and from 12.7 million cubic meters to 68.4 million cubic meters in terms of volume (Statistics Department, 1998). The increasing importation of timber products reflected increasing demand required for the processing activities. Indonesia has been the major supplier of logs and sawn timber to Peninsular Malaysia. The supply from Indonesia is irregular, and the quality of timber is inconsistent. To supplement the declining log resources facing Peninsular Malaysia, imports of logs from Papua New Guinea and Myanmar have increased (MTIB, 1998b). Lately, the importation of logs from South Africa has also been increasing rapidly (Statistics Department, 1998). Peninsular Malaysia also imports logs and sawn timber from Sarawak, the popular species being
dark red meranti, meranti bakau, keruing, ramin, kapur, kempas, and teak (MTIB, 1998b).

iii.) **Imposition of Export Levy and Quota Rules**

The very important step taken by the Government of Malaysia towards achieving the objectives specified under the Industrial Master Plan was the implementation of export levy and quota rules. These rules were imposed on selected species of sawn timber and timber products from Peninsular Malaysia starting on 1 June 1990. Since then, the rules have been revised twice on 1 September 1993 and 1 June 1996 to further meet current market conditions and to enhance their effectiveness. The current export levy and quota structures, effective from June 1, 1996 (MTIB, 1996b), are given in Table 18.

The main objective of imposing a levy (and quota) on the export of sawn timber from Peninsular Malaysia is to retain the raw material in the country at reasonable prices so that the manufacturing industry will remain competitive (Ministry of Primary Industries, 1996). The levy rates imposed range from RM40 to RM250, and rubberwood is the only species, that is subject to an export quota in addition to the export levy. The Ministry of Primary Industries issued the export quota to rubberwood sawn timber exporters based on the companies' previous performance and considering demand from the domestic market.

iv.) **Devaluation of Malaysian Ringgit**
Currency instability presents one of the central challenges to any firm in setting its price in international markets (Terpstra, 1997). The monetary exchange's devaluation of the Malaysia Ringgit (RM) against the U.S. Dollar is a very recent issue, having affected the Malaysian economy since July 1997. By the end of 1997, the Malaysia Ringgit has dropped to 53% when compared to its stable level exchange rate, 2.526, in the beginning of the year 1997 (Berita Harian, 1998a).

This serious currency crisis hit many Asian countries beginning in June 1997. The most affected Asian countries besides Malaysia were South Korea, Indonesia, Thailand, and the Philippines. By the end of 1997, the Indonesian Rupiah was devaluated by 135%, the Thailand Baht by 81.6% and the Philippine Peso by 54% (Star, 1997). The crisis has resulted in drops in imports, drops in domestic demand, and a lack of credit. Although the local currency has dropped against foreign currencies, this should make manufactured products produced by these nations more competitive. Ironically the crisis has also hampered exports (Globe and Mail Times, 1998). This is because Asian nations need trade to finance the manufacturing operations and to buy raw materials and intermediate goods. The crisis has also pushed up the interest rates, and many credit facilities have been restricted. Asia's financial crisis has also destroyed a total of $201 billion in market value of Asian stocks (Business Week, 1998). The difficulty has forced these countries to resort to rescue packages of loans provided by the International Monetary Fund.

The effect of this devaluation is significant for the sectors that depend on imported products for the processing activities. The furniture manufacturers are experiencing price increases on raw materials used in furniture manufacturing such as
fittings, fixtures, and finishing materials as most of these items' prices are quoted in the U.S. Dollar. In addition to this, importers are subject to higher import duties, which are based on import value of the products in the Malaysian Ringgit. Generally, Ringgit depreciation has caused a total price increase of raw material in this region of 5% (MTIB, 1998b). The manufacturers are in the difficult financial position if they are selling their products in the domestic market. Therefore, they have to pass on additional costs to the consumers to absorb the price increase during importation of these raw materials.

The exporters, however, are at an advantaged position since their products now become cheaper and more competitive in the world market. In view that almost all of the existing overseas sales contracts particularly furniture quotes prices in U.S. Dollars, the exporters get a higher return in Malaysian Ringgits. To these exporters, increases of selling prices in the export market can offset increases in raw material prices (MTIB, 1998b).

v) Import Price Indexes

A price index such as Import and Export Price Index is a statistical tool used to measure price changes over time (Bureau of Labor Statistics, 1998). The simplest index of price change is a percentage, which shows how a price occurring in one time period differs from a standard or base period price (Bureau of Labor Statistics, 1998). Since the United States accounts for almost 40 percent of the market of Malaysian furniture exports, the Import Price Indexes of furniture in the United States has been selected as one of the factors studied. As the price of furniture per unit volume is difficult to obtain, index prices can be used to study long term price trends of the product and are directly related to the exchange rates factor.