

**AN INVESTIGATION OF FACTORS LEADING TO ESTABLISHING
DOWNSTREAM TIMBER PROCESSING IN MALAYSIA**

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(ABSTRACT)

The Malaysian timber industry has made tremendous progress towards making this sector one of the country's important foreign exchange earners. From a major exporter of tropical logs, it shifted to become a reliable exporter of high quality sawn timber during the 1980s. Realizing the need to maintain long availability of its raw material supply and with the intention of achieving higher value from its timber resource, Malaysia has decided the direction and future of its timber sector. The first Industrial Master Plan (IMP) was launched in 1985 with the objective of making Malaysia a highly visible and reputable center for furniture, joinery, and molding. Therefore, this study is intended to assess factors leading towards promoting the use of timber in downstream processing furniture manufacturing.

This study had four objectives. Firstly, to identify and describe factors that affect the export performance of furniture. Secondly, this study described trade policies, incentives, and government efforts that supported the development of the furniture industry in Malaysia. Thirdly, a regression model was used to quantify the relationships among these factors in order to predict the export of wooden furniture from Malaysia.

Lastly, this study suggests measures that could be taken to enhance the position of the Malaysian furniture industry in the global market.

In understanding the position of Malaysia's furniture market, this study began with a review of international furniture trade and policy development. Two of the world's major markets for furniture, the United States and Japan, were examined to understand their furniture industries, requirements, and market trends. In addition, brief profiles were presented of furniture and related industries and markets of three significant furniture suppliers from Asia: Taiwan, Indonesia, and Thailand.

The structure of Malaysia's furniture industry was examined and reviewed, in order to have a better understanding of its size and export potential. The Malaysian furniture industry is comprised of small units of factories, particularly the factories located in the furniture villages and accounting for 70% of the numbers. Seventy five percent of these medium and large factories are locally owned and the remaining are either joint ventures or foreign owned.

To help expedite the objective as specified under the IMP, the Malaysian government and its agencies have formulated several measures, with the purpose to provide an industrial and business environment conducive to the industry. In this study, important factors which influenced the development of this sector were examined. The supply of raw materials has been an important factor that could affect the establishment of the processing industry and its competitiveness. In addition to this, the current issue of Malaysian Ringgit depreciation has been taken into account. The Malaysian exchange rate to the U.S. Dollar was linked to the United States import price indexes to see their impact on the export performance of Malaysian furniture. The supply and price variables

were found significant and elastic to the export of furniture from Malaysia. The export predictions were made for three-year periods. Due to the financial crisis that hit Asia last July, there are many uncertainties on these independent variables that could affect the accuracy of the export predictions. Nevertheless, the model developed should be useful and reliable once revised projections of these variables are made available.

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