

# **CHAPTER I**

## **INTRODUCTION**

### **Scope of the Study**

This paper presents a general overview of the development of the global furniture industry, the development of furniture manufacturing in selected countries, and the role of the U.S. and Japanese furniture markets as key demand drivers. The primary focus of this paper is the development of the Malaysian furniture industry. Important factors that affect the development of this industry will be examined. The relationship of these factors to the performance of furniture exports from Malaysia will also be studied. This study focuses on the Peninsular Malaysia furniture industry since almost all exports of furniture come from the Peninsular region. There also exists a different set of policies and timber supply situations for Sabah and Sarawak.

### **Problem Statement and Justification**

Malaysia has been one of the largest exporters of high quality tropical timber to the world market. It has achieved this position through adherence to a strict quality control system and an effective marketing strategy for sawn timber. As the timber industry matures, it needs to establish an industry which can provide a country with long-term earnings, fuller utilization of its natural resources, and greater socio-economic benefits for its people. The furniture industry has been identified by the Malaysian government as one of the industries

which can meet these objectives through exports. Therefore, it is in the interest of the government to carry out programs and formulate policies that could steer the further development of the industry. In order to carry out these tasks, it is important to understand not only the furniture industry and its markets in Malaysia, but also its relative position in international markets. Review of the United States and Japan, as well as major competitors in the ASEAN regions, will help Malaysian policy makers and furniture promoters to understand the market better and position the industry to achieve long term competitiveness.

The Malaysian furniture industry has made impressive progress, as the timber sector has moved towards downstream processing activities. The contribution from the furniture industry to the timber sector export earnings has increased from 3% in 1990 to 18% in 1997. Within a relatively short time, Malaysia has emerged as one of the major suppliers in the world furniture market. Its success is due largely to intensive research and development and expertise in utilizing rubberwood as the predominant raw material for furniture production. Rubberwood is used as a solid raw material and as a fiber source for medium density fiberboard.

Malaysia's achievement in the world furniture market has been achieved with competitive advantages in raw material resources and labor, strong government support, and economic stability. However, changes have occurred recently in these factors. Competition for labor and wood resources has reduced these advantages. Other mechanisms for competitive advantage must be explored to ensure the future of Malaysia's furniture industry. Information on the

relationships between the key economic and government policy factors and furniture industry development in Malaysia will be important to Malaysia's continued success in the global furniture market. This paper provides policy makers, industrialists, and marketers with information on trends in and directions of the furniture market. It also provides information on the relationship between key economic, supply, and government factors and furniture export performance. This information can help them in planning and formulating appropriate strategies for the future. This study will also suggest a forecasting model for furniture exports from Malaysia. This paper will conclude by making some suggestions to enhance the competitiveness of Malaysian furniture and to increase the Malaysian market share in the global furniture market.

### **Objectives**

Based on the needs expressed, the objectives for this study are as follows:

1. identify and describe factors that affect the development and export performance of the furniture industry in Malaysia;
2. describe the trade policies, practices and government efforts that have supported the development of the furniture industry in Malaysia;
3. develop a model that quantifies the relationship between important economic, supply, and government factors, and Malaysian furniture export performance and;
4. suggest measures that could be taken to enhance the competitive position of the Malaysian furniture industry in the global market.

## **Outline**

Chapters II to IV provide the background to an understanding of the Malaysian furniture industry development. These chapters describe generally the international flow of trade the key players in the Asian furniture industry, and the major importing countries of Asian furniture. Chapters V and VII identify and discuss factors that affecting the development and export performance of the furniture industry within Malaysia. The Malaysian Government's roles in the form of trade policies, practices and initiatives are described and discussed in Chapter VI. The model that quantifies the relationship between two independent variables and furniture export is developed in Chapter VIII. The application of this model for projecting furniture exports is discussed in Chapter IX and X. This paper is concluded by suggesting measures as in Chapter XI which could be taken to enhance the competitive position of the Malaysian furniture industry.