

# Trend of Timber Products Export in Malaysia

Zubaidah Harun, Pakhriazad Hassan Zaki, Mohd Hasmadi Ismail, and Mohd Khairil Wahidin Awang

**Abstract**—Certified timber product is a market-linked tool to address the need for sustainable forest management and support market access. Malaysia has the world's largest area of certified tropical forest (5.79 mil.ha). As a result, there is increasing demand for Malaysia certified timber products in the United States, the European Union (EU) and Australia. Good support by government policy, timber industry became one of a major socio-economic contribution to the nation. In 2010 exports of saw logs and sawn timber amounted to RM5.4 billion mainly to Thailand, the Netherlands, People's Republic of China, Japan and Republic of Singapore. Malaysia wood products classification can be divided into 10 subsectors of which three are of special importance such as plywood, sawn timber and wooden furniture. The further categories are logs, medium density fiber board (MDF), builder's joinery and carpentry (BJC), mouldings, veneer and others. The industry provides employment for 140,000 workers. This paper is presented the trend of timber products export in Malaysia. Two approaches were used in data collections which were direct interview and the review of the official documents. The study covers the analysis of logs production and export for a period of ten years from 2003 to 2012. The data were analyzed based on meter cubic (m<sup>3</sup>) of timber product export. The analyses include the trend of production and export. Results showed that from the period of 2003 to 2012, the export of Malaysian timber products is not much different. The trend was variant but stable and the demands of timber products are high.

**Keywords**—Timber certification, timber products, government policy, timber industry, export trend.

## I. INTRODUCTION

**P**RESENTLY, Malaysia is among the world's largest exporter of tropical logs, plywood, sawn-timber and furniture to international markets. In ASEAN Malaysia and Indonesia are major exporter of lumber, plywood, veneer, mouldings, and flooring. Malaysia had certified timber products endorsed by Malaysian Timber Certification Scheme (MTCS).

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MTCS was recognized internationally become the first tropical timber certification scheme in the Asia Pacific region by the Programme for the Endorsement of Forest Certification schemes (PEFC). Malaysia has the world's largest area of certified tropical forest with 5.79 million hectares. Malaysia is the world's largest exporter of hardwood lumber such as non-coniferous species and the second largest exporter of behind China. According to Deanna et al., (2008) Malaysia, Indonesia, and Thailand are also significant exporters of wooden furniture and furniture components

The Malaysian timber industry is one of the major contributors to the Malaysian economy. Malaysia is one of the world's largest exporters of tropical timber and timber products and the 10 largest exporter of furniture (second in Asia) with over 183 export destinations. Malaysia has also established itself as a major producer and exporter of sawn timber, panel products (plywood, medium density fiberboard (MDF) and particleboard), flooring, doors and other joinery products [2].

Apart from sawn timber, plywood, mouldings, veneer, laminated finger-jointed timber, finger-jointed dressed timber, furniture and furniture components, door and window components, and laminated scantlings, the range of certified timber products exported also expanded to include paper-based products.

Saudi Arabia, Pakistan, Bahrain, Finland, China, Jordan, Sweden, Oman, Qatar and Kuwait became the latest destinations of timber export. The existing list of 23 countries comprising The Netherlands, Belgium, Germany, the United Kingdom, France, Australia, Greece, Denmark, Poland, Italy, Norway, Indonesia, South Africa, South Korea, United States of America, Japan, the United Arab Emirates (UAE), Mauritius, New Zealand, Albania, Ireland, Singapore and the Philippine [3].

The wood-based industry in Malaysia was divided into two main sectors which are the solid wood industry as traditional industry and bio-composite industry sector whereas the utilization of renewable organic matters by using new technology in producing new wood-based product used in the manufacturing of value-added eco-products. The demand of these products is encouraging because the product is come from certified forest harvest practice.

Therefore, this paper is presented the trend of timber products export in Malaysia. Two approaches were used in data collections which were direct interview and the review of the official documents. The study covers the analysis of logs production and export for a period of ten years from 2003 to

2012.

## II. THE DEVELOPMENT OF WOOD-BASED INDUSTRY IN MALAYSIA

The Malaysian wood-based industry became one of the most important socio-economic sectors in the country since last two decades. Starting with First Master Plan 1986, followed by the second in 1996 and the on-going third the industry was made very profitable with massive growth rates. Year by year the wood-based manufactures were established. About 80 percent are Small or Medium Enterprises (SME) status and the rest is big companies status [4].

In general, the wood-based industry in Malaysia was divided into two main sectors which are the solid wood industry and bio-composite industry. Figure 1 illustrates the main sectors of Malaysia's wood-based industry.

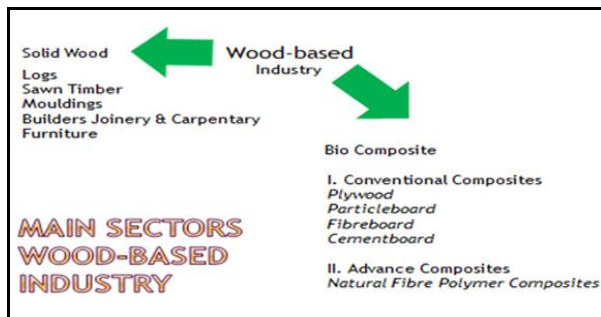


Fig. 1 Main sectors of wood-based industry in Malaysia

Since East Malaysia (Sabah and Sarawak) have huge of tropical wood species for production of sawn timber, most of the large sawmill which is more than 45 percent of plywood mills and 60 percent of mouldings factory, veneer and plywood factories are located in these two states.

The Malaysia government always concern on the development of wood-based industry to be more competitive edge locally and globally. Thus, a few initiatives were created and established to assist and encourage the wood-based industry more successful in future for better production and high quality of product. Those initiatives are:-

### A. Promotion of Investment Act 1986

This act is to make provision for promoting by way of relief from income tax the establishment and development in Malaysia of industrial, agricultural and other commercial enterprises, for the promotions of exports and for incidental and related purposes. The Promoted Products under this act was revised and effective from March 2012 involve of new promoted products for the wood-based industry namely design, development and production of wooden furniture, engineered wood products excluding plywood, agricultural waste or agricultural by products, and kenaf-based products such as kenaf particle or fibre, reconstituted panel board (particleboard and MDF) and moulded product.

### B. National Timber Industry Policy (NATIP) 2009-2020

Establishment of NATIP 2009-2020 is Malaysia's efforts to strengthen the timber industry to remain dynamic and progressive. NATIP is the direction of the National Comprehensive timber industry until 2020 that targets the production of better quality products with high value-added and branded for high-end markets around the world. It also targets exports to RM53 billion by 2020, with the contribution of the upstream and downstream industry ratio of 60:40. NATIP has outlines programs and activities to encourage and continuously support the industry in areas of innovation and technology; marketing and promotion; human capital; funding and incentives as well as develop bumiputra entrepreneurs at all levels to improve their capability in management, production skills and marketing strategy.

### C. Free Trade Agreement (FTA)

FTA is an agreement made between two or more countries under which countries involved are given preferential market access. An Agreement covering trade in industrial and agricultural goods, trade in services, investment, rules of origin, customs procedures, standards and conformance, intellectual property, competition policy, enhancement of business environment, safeguard measures and dispute settlement.

Since the establishment of the Association of Southeast Asian Nations Free Trade Area (AFTA) in 1993, Malaysia has decided to deal bilateral trade for twelve Free Trade Agreement (FTA) with among ASEAN countries as ASEAN Free Trade Area (AFTA), Malaysia-Japan Economic Partnership Agreement (MJEPA), ASEAN-China Free Trade Area (ACFTA), Trans-Pacific Partnership (TPP) involving eleven countries, Australia, Brunei, Canada, Chile, Malaysia, Mexico, New Zealand, Peru, Singapore, United States and Viet Nam [5].

Among the benefits enjoy by Malaysia from the FTAs include (i) improving market access for Malaysian goods through preferential tariff and other trade facilitation measures, (ii) creating market access opportunities for Malaysian service suppliers through liberalization and facilitation measures, (iii) Enhancing Malaysia's attractiveness as an investment destination and production hub to serve the regional and global markets (iv) opening-up investment opportunities in the partner countries for Malaysian businesses, (v) providing a platform to address health, sanitary and technical restrictions; and (vi) building domestic capacity through economic and technical cooperation and collaboration.

### D. Bilateral and Regional Economic Agreement

Bilateral and regional economic agreements were initiated or reviewed to enhance trade, avoidance of double taxation and investment guarantee flows. The bilateral agreements on trade that was signed by Malaysia are as following agreements, (i) ASEAN Comprehensive Investment Agreement (ACIA) on 26 February 2009, (ii) ASEAN Trade in Goods Agreement (ATIGA) on 26 February 2009, (iii) ASEAN-Australia-New Zealand FTA (AANZFTA) Agreement on 27 February 2009,

- (iv) ASEAN-Korea Investment Agreement on 2 June 2009, (v) ASEAN-China Investment Agreement on 15 August 2009; and
- (vi) Bilateral FTA with New Zealand on 26 October 2009.

### III. METHODOLOGY

The collection of the data on the export of wood-based products is based on period of ten years from 2003 to 2012. Data were reviewed and extracted from Department of Statistic Malaysia (DOS), Malaysia Timber Industry Board (MTIB) Annual Reports as well as from Malaysia International Trade and Industry (MITI) Annual Report. Opinions and point of view from MTIB and Ministry of International Trade and Industry Malaysia (MITI) as a responsible agencies and authorities were carried out by interviews session. The interviews focus on the export trend, trend of top five export destination countries relates to current situation of wood-based production in Malaysia. The trend of export of wood-based products was analyzed using regression model and times series.

For this study the analyses of trend exports of seven types of products were determined based on high demand from five export destination countries, which are Japan, USA, China, Singapore and Thailand, respectively.

### IV. RESULTS AND DISCUSSION

Results of the analysis on the trend of timber product's export were created for 10 years from 2003 to 2012. This followed by analysis on type of timber products that were exported for this duration and analyses on the trend of exports timber products to five major destination countries. Generally, an international demand on timber products showed a slightly declined but steady and stable demand in volume for the past 10 years.

Fig. 2 presents the prominent total export of timber products in year 2004, 2007 at 677 million cubic meters (m<sup>3</sup>), and 700 million m<sup>3</sup> respectively.

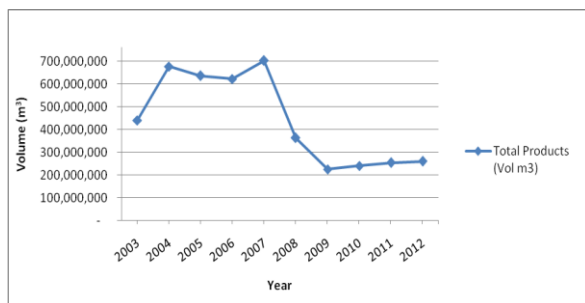


Fig. 2 Export trend of Malaysia's timber products from 2003 to 2012

This is due to encouraging demand for plywood, and builders' joinery and carpentry. Export furniture and component also increased in 2004 by 16.5 percent compare to previous year. An increased exports to major markets such as USA, the UK, Japan, Taiwan and China for wooden bedroom furniture, office furniture and seats of wooden frame effected by upgrading the production of higher value-added furniture, incorporating indigenous design and better finishing (MITI

Report 2004,2005). In 2007 showed the peak total volume export of timber products at 47% for period of 10 years. The particleboard contributed the highest demand for the total export at 481.8 million m<sup>3</sup>. Due to the global economic downturn happened since the fourth quarter of 2008, in year 2009 had shown a decline in the volume of exports.

However, it slightly increased in next three consequence years (2010, 2011 and 2012). In 2010, export of Malaysian timber products registered a growth of 24 percent with total volume exports of 5.38 billion m<sup>3</sup> compared with 224.9 million m<sup>3</sup> in 2009. The surge of exports was contributed to the positive performance. Plywood and MDF and particleboard which accounted for 25.1 percent, 16.3 percent and 15.4 percent of total timber exports respectively. A slow demand from key markets such as the United States, Japan and the EU is causing the timber product exports decreased [6].

Fig. 3 shows an export trend by product types. Seven major timber products were selected like particleboard, BJC, wooden furniture, veneer, mouldings, fiberboard and plywood/veneer panel/laminated wood to be analyzed it export trend. From the result, all type of product revealed inconsistent trend. Though, from year 2003 to 2007, an international market demand for particleboard was increased consequently from 233.7 million m<sup>3</sup> to 481.7 million m<sup>3</sup> respectively.

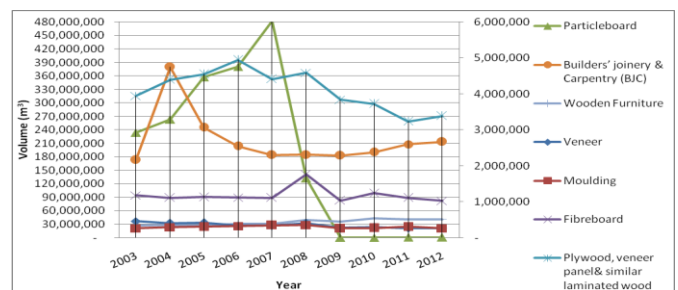


Fig. 3 Export trend by type of product from 2002 to 2012 (vol m<sup>3</sup>)

It was caused of strong demand from Japan, USA, UK and Korea. However, started 2008 to 2012 the export trend showed obviously reduced due to global economy crisis that effected to key market such as the USA, Japan and EU [6].

Wooden furniture and mouldings remained steady increase trend of export for last 10 years. US remained Malaysia's top furniture export market, followed by Japan. Due to its quality improvements, Malaysia has gained prominence as an attractive import destination for furniture products among Japanese importers [7]. The strong demand on plywood in recent years due to Malaysian plywood has achieved international standards such as Japan Agricultural Standards (JAS), British Standards (BS) and International Hardwood Products Association Standards (IHPA) for the US market and Harmonized European Standards (EN) for Europe market [8]. Overall, the trend of each product had shown steady demand for export market in last 10 years.

Fig. 4 shows the trend of timber products export for the period of 2003 to 2012. Malaysia's top five export destinations are Japan, USA, Singapore, China and Thailand. This accounted about 51.2 percent of total exports over 2003 to

2012 [9]. The United States, Japan and Singapore remained as the top three export markets for Malaysia's timber products. In initial three years over of 10 years (2003 to 2005) the trend was good before global economy recession. The demand from Japan's market was stable for over 10 years. This steady trend resulted from Free Trade Agreement Malaysia and Japan by given preferential market access for Malaysian products through preferential tariff by enjoy cost savings from elimination or reduction of customs duties. As traditional market, USA was notable as the major destination countries among 5 export countries. The largest single market for Malaysian wooden furniture is the USA, whereas Japan represents the second largest importer with an upward tendency. The third importer was Singapore with maintain demand on timber products especially on particleboard and BJC at 30.2 million m<sup>3</sup> and 134.7 million m<sup>3</sup> respectively for over 10 years.

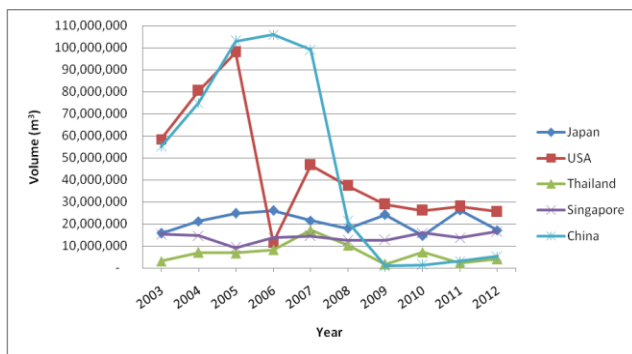


Fig. 4 Export trend for 10 years of timber products by destination countries (vol m<sup>3</sup>)

China was the largest importer of Malaysia's timber product in three consequent years 2005 at 102.8 million m<sup>3</sup>, 2006 at 105.8 million m<sup>3</sup> and in 2007 at 99.1 million m<sup>3</sup>. However, a significant decline in demand by China occurred in 2008 and 2009. The demand was recovered increased in next following year in 2010 after the economic recession. Increase in imports of BJC by China has shown folded in volume of 2.7 million m<sup>3</sup> in 2011 to 4.68 million m<sup>3</sup> in 2012.

An export trend in last two years (2011 and 2012) showed Malaysia's exports timber products increased in 2012 compared to previous year. Export timber products were increased at 3% due to high demand to wooden furniture and plywood. The demand of wooden furniture from USA, China, Japan and UK increased 15% compare to 2011 at 9.4%. Meanwhile the import volume of plywood was increased from Japan on the reason of reconstruction activities of pascatsunami [9].

Overall, among 5 major destination countries, the trend of timber products exports for 3 countries which are Japan, USA and Singapore showed at a stable bend since 2003 to 2013. Despite a significant decline occurred in 2006 due to the economic crisis badly from beginning that year, and its effects spill over until today. Lack of diversification within the region was the contributed to the decrease of volume in recent years.

Since the competitors around the Eastern Pacific Rim region has been increasing [3].

## V. CONCLUSION

The analysis of the export of Malaysia's timber products for the period of past 10 years (from 2003 to 2012) depicted the variation trends from import countries. However, in general it shown stable trend and high demand of timber products in recent years. This trend impacted from the Malaysian government has set up initiatives to increase the production of value added products, moving away from the primary and commodity products. The development of the wood-based industry in Malaysia was extended to value added downstream products in integrated manner by combining manufacturing activities and research and development (R&D) on product design and market promotion. The industry has moved into the production of engineered wood products from other materials such as bamboo, rattan and fibers such as palm biomass (oil palm trunks, empty fruit bunches, kernels), kenaf and other agricultural materials (saw dust, rice husks and coconut trunk fibers) for the production of particleboard, fiberboard pellets, briquettes and other composite products toward friendly to environment. The government continues gained access to the markets in New Zealand, South America, Middle East, Africa and Russia by opening new markets through trade agreements. To ensure Malaysian companies derive maximum benefit from the global economic recovery in 2010, Malaysia External Trade Development Corporation (MATRADE) will continue to undertake over 200 programs in the areas of Exporters Development and Export Promotion.

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