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THE RELATIVE DECLINE OF MALAYSIA FOREST PRODUCTS EXPORT REVENUE: CALL FOR NEW STRATEGIES

ISSUE
While the world trade of forest products during the 1996–2009 period has globally increased, mainly powered by the expansion of Chinese market, competition between exporters has increased too. In the same period, the position of Malaysia in world forest product trade has declined both in absolute and relative values.

PROBLEM OPPORTUNITY
For raw wood and intermediate products, Malaysia was the fourth exporter in 1996 (US$4.8 billion—8% of world market share) (Figure 1). In 2009 Malaysia was the ninth exporter (US$3.7 billion—3%) (Figure 2).

For wooden furniture Malaysia was the fifth exporter in 1996 (US$0.45 billion—4% of the world market share) (Figure 3). In 2009, Malaysia became number eight exporter (US$0.69 billion—2%) (Figure 4).

Malaysia’s good performance is seen in the expansion of export of added value products (wooden furniture) from 9.2% in 1996 to 18.5% in 2009, due to an increase in wooden furniture sales by 65%.

Overall sales have been decreasing by US$0.87 billion in the absolute value. In relative value, Malaysia lost in market share.

For the raw material and intermediate products, the countries that surpassed Malaysia were China, Germany, Sweden, Austria and EU. Chinese competitiveness is not a big surprise, but Sweden, Austria and Germany are not known to have more forest assets than Malaysia.

For the wooden furniture, the countries which surpass Malaysia are China, EU, Indonesia and France. Other countries like Poland, Italy and Germany keep their competitiveness ahead of Malaysia.

Low labour cost did not seem to be the unique key to competitiveness because high labour cost country appears more competitive than Malaysia. Nor was mechanisation and technology, as China and Indonesia were ahead of Malaysia in wooden furniture exports.
If size matters first, why would Austria’s exports surpass Malaysia’s? If raw material matters first, why would the European countries and Italy keep their competitive positions?

We see that Malaysia’s policy on promoting value added products resulted in positive outcomes for wooden furniture industry, but it failed to prevent decline in the exports of the entire forest product sector from US$0.9 billion.

Exchange rate might be an important factor for the relative decline of Malaysia, but then, how to explain that Malaysia, following US exchange rate, did lose proportionately more export of raw wood and intermediate products than USA, and did increase proportionately much less in export of wooden furniture?

The debate arguing that more added value products can balance the lack of revenue by intermediate products is not backed up by the evidence since the debate implying the revenue of added value products would match the decline of intermediate products is not supported by the data.

OPTIONS
There is no simple answer and strategy to prevent this apparent decline and to increase the competitiveness of Malaysian forest products in the international arena.

At least since Porter’s theorisation of international competitiveness, we know that the balance between all the components of a production system matters more than the performance of one peculiar component. We need to research more on complex factors such as the integration of domestic and export industries; the comparative efforts of national policies on the different sectors; the mix between individual entrepreneurship and government policy and the complexity of the industrial development plans. Obviously exports of added value products did not increase enough because of some unknown competitiveness bottlenecks. It may be due to factors such as not enough imports of raw materials, or to any other factors.

To find out what are the critical factors of Malaysia’s competitiveness and its bottlenecks will be the real challenge.

FURTHER INFORMATION
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1. FRIM won the consolation prize for the organisation category in its first venture into the National Intellectual Property Awards 2011
2. Four gold medals and one silver were won at the 22nd International Invention, Innovation and Technology Exhibition (ITEX) held in Kuala Lumpur
3. The BrandLaureate Awards 2010-2011 awarded to FRIM for the Best Brand in Forestry–Environment Conservation