

Malaysia Timber Industry - The Way Forward

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I have previously commented and continued to draw the parallels between the Malaysian MDF Industry, the Malaysian Wood Based Industry and the Malaysian Economy. The successes, failures, achievements and challenges are shared and are common across these sectors.

When one thinks about Malaysia, the iconic Twin Towers will symbolise the country and Petronas is probably the best known brand internationally. In the timber industry, Malaysia is renowned for tropical timbers and plywood, and more recently for its high quality Rubberwood Furniture and MDF.

Malaysia should rightfully be proud of its past achievements, but it must also be very clear and focused on what it wants to achieve for the future. I have been in Malaysia long enough to have witnessed many campaigns with the goal of achieving 'Developed Nation Status'. The first campaign set the target of achieving this by 2020 under 'Wawasan 2020'. To be fair to the current government, this target has now been extended to 2025. What does 'High Income Developed Nation' status mean? Under the United Nations (U.N.) definition, this means achieving a Gross National per Capita Income (GNI) of USD12,376, a Human Development Index (HDI) of greater than >0.80, and significant industrialisation in the tertiary and quaternary sectors (High Value and Innovative companies).

So how well does Malaysia and in particular the Timber industry perform within these areas?

Gross National Income (GNI)

In the latest 2018 Malaysian GNI per capita figures, it was reported as being USD10,460. Falling just USD1,915 short of the U. N. target of USD12,376. Looking at these figures in isolation, we certainly hope that Malaysia will achieve this target by 2025. However, when we look at the historical figures, we see that the Malaysian GNI actually peaked at USD11,140 in the year 2014 and has fallen short over the past couple of years. As a result, Malaysia has been stuck in what is referred to as the Middle Income Trap.

The GNI calculation is based on Value Creation in USD terms divided by the mid-year population. It is, in effect, a measure of the country's productivity. In comparison, the GNI of Thailand, Indonesia and Vietnam increased, all be it from a lower base during the same time period (Thailand USD5,760 to USD6,610 a 13% increase, Indonesia USD3,620 to USD3,840 a 6% increase and Vietnam USD1,880 to USD2,400 a 22% increase).

Human Development Index (HDI)

The HDI is calculated based on Life Expectancy, Years of Schooling and Income per Capita. In this respect Malaysia scores quite high and is officially classified as having a high Human Development Index of 0.802 in 2018. Malaysia is globally ranked #57, slightly behind Kuwait, Uruguay and Belarus. In comparison, the HDI figures for Thailand, Indonesia and Vietnam were 0.755, 0.694 and 0.694 respectively. The highest scoring ASEAN country is Singapore globally ranked #9 with a score of 0.932.

Unfortunately, the weaknesses of using only the HDI figure in isolation is that it does not take into effect the quality of education nor inequality in gender and race. For example, a recent study of the average 15-year-old students' mathematics ability score has ranked Malaysia as being lower than Thailand and Vietnam and only marginally higher than Indonesia. The PISA study gave the highest Asian scores to China (Shanghai) followed by Singapore, Taiwan, Korea and Japan. In a statistical HDI update from the United Nations, it commented that the Human Development Index variation between males and females in Malaysia was one of the highest in the region, with the index being 0.810 for males and 0.791 for females, this also needs to be addressed.

Significant Industrialisation

As a reminder, Primary Industries are considered those that produce commodity based raw materials. A good example in the timber industry is logging and saw milling.

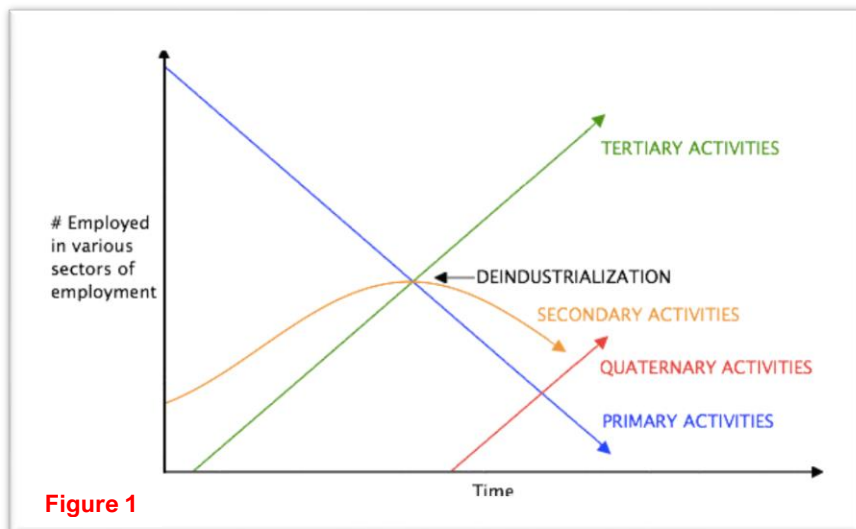
Secondary Industries are defined as Manufacturing based companies and would include the production of plywood, MDF and OEM furniture.

Tertiary businesses would mainly be Service Sector related, but includes the creation of international brands and companies with high automation and complex manufacturing such as automotive, aerospace and electronics. A successful wood related Tertiary business would be IKEA.

The quaternary sector would be defined as Knowledge Based such as cutting edge research & development, global leadership in information technology, pharmaceuticals, biotech and media.

The transition to a Developed High Income Nation can best be summed up by the below graphical representation. (figure 1.)

In a paper published by Bank Negara Malaysia earlier this year, it warned that Malaysia has the potential problem of 'Premature Deindustrialisation', this means that established secondary industries are closing down due to regional competition from assurgent new middle income nations such as Vietnam, Indonesia and Thailand. The development of new tertiary and quaternary businesses in Malaysia to replace the losses in the Secondary Businesses is not occurring at a fast enough pace. The potential consequences are very worrying as it could lead to high unemployment and lower gross domestic production. In the report, data shows that between 2000-2018, manufacturing employment dropped by -6.1%, this in itself is not the main concern but what is of concern is that during the same period, manufacturing productivity also dropped by -7.8%. In comparison, during the same period, South Korean manufacturing workforce dropped by -4% but productivity rose by more than +7%. In Vietnam, manufacturing employment increased by 6% and productivity rose by 13.2%. South Korea, Taiwan and Singapore are amongst the few Asian countries that have reached High Income Developed Nation Status.



How does all this relate to the Timber Industry?

Historical data shows that in the 1970s, the Timber Related Industries contributed more than 15% of Malaysian Exports, by the 1990s, this had dropped to just 3%. For the nation, this was probably a positive sign as Malaysia exported less primary raw material, and exported more secondary manufactured based goods. Malaysia became a Middle Income economy. It was during this time that the electronics assembly factories and the oil and gas industries flourished. The timber related businesses moved downstream from logging and sawn timber to furniture and engineered wooden panels production like Plywood, MDF and Particleboard.

In 2018, the timber industry contributed only 2% to the total export earnings of Malaysia, valued at RM22 billion. The target for 2020 has been set at RM25 billion. The question is whether this is achievable and if so, how can we increase this figure sustainably in the future?

Challenges Facing the Timber Industry

When you ask the majority of the current industrial player; - What are the greatest challenges the industry faces? The answers have been pretty much the same for the past 10 years;

- Lack of raw materials, meaning that the local supply of Tropical Timbers and Rubberwood used for supplying the saw milling and timber processing plants has become unsustainable.
- Shortage of manpower, primarily a shortage of low cost unskilled foreign labour to work in logging camps, CM (Contract Manufacturers) or OEM (Original Equipment Manufacturer) companies.
- No access to financing. Timber related industries in Malaysia continue to find it hard to obtain financing as this industry is considered 'Sunset' by the banking sector.

If our aim in Malaysia is to maintain the status quo and we are happy to remain as a Middle Income Nation, then the above issues can be addressed in the usual ways. Past solutions have included granting more foreign worker permits, allowing more unsustainable deforestation and the granting of unqualified subsidies and grants. However, this will not be enough to lift the industry out of the Middle Income Trap, at best it will only maintain the 'Status Quo'.

I would argue, that Malaysia should try to do better and follow through with its goal of becoming a High Income Developed Nation and likewise the timber industry should take up this challenge. To transform our business, we will also need to transform

our mind-set and focus on a new set of goals and issues. These new issues are related to existing problems but solved in a cutting edge and contemporary way;

- **Sustainability through Innovation;** existing natural forests and timber plantations should be sustainably managed and land owners should be encouraged to better use marginal land through community planting. Innovation should be promoted for the more efficient and higher value use of existing resources and the development of new sustainable materials such as Oil Palm biomass.
- **Human Capital development, through a more effective Education System and Industrial Training;** this is probably the most important factor not just for the timber industry but for the nation. We need to quickly move up the value chain and the only way to do this is to improve the capability of the workforce through education and training. Malaysia should not need armies of cheap foreign workers to keep the wheels of commerce turning but instead be operating highly automated 'Industry 4.0' factories. The idea would be to develop more ODM (Original Design Manufacturers). To support these industries, we need other soft skills which are essential for a High Income Nation, such as designers, technicians, marketeers, retail specialists, educators, trainers, logistics experts, and the list goes on. We could in parallel develop and nurture the business of producing very high quality 'artisan' and handmade items revitalising rural areas and starting smaller enterprises that develop into successful SME's (Small and Medium Enterprises).
- **Investment through transparency;** resources whether they are financial, incentivised or grants must be transparent, awarded on merit and focused on the long term goals of the industry. Any grants or incentives should support and complement the national interests. Such national projects should have clear KPI's (Key Performance Indicators) which are regularly reviewed and are based on merit and results. With this transparent and result based policy, successful and commercially viable partnership between the government and private sector would flourish.

The Timber and Wood Based Industries are not 'Sunset' and can most definitely contribute to Malaysia becoming a High Income Developed Nation, but we must recognise that we have serious challenges to solve and problems to overcome. By looking at what other nations do well, perhaps we can be guided as to how we need to plan out our future.

Forestry Management, look at Finland. Malaysia should aim to be the global model for the supply of certifiable and sustainable Tropical Timbers.

Secondary Manufacturing, look at S. Korean productivity and German advanced engineering.

Tertiary Industries, look at Italian designers and Japanese high technology.

Quaternary Business, look at the Singapore education system and the U.S.'s Silicon Valley or China's Pearl River Delta creativity.

Malaysia has become a Middle Income Nation, with the significant contribution of the Timber Industry. Other countries such as Thailand, Indonesia and Vietnam are catching up and as they do, they become lower cost, higher productivity competitors to Malaysia traditional industries and businesses. We are already seeing this in the MDF, Particleboard, Plywood and Furniture industries.

Our most important challenge is to power Malaysia into a High Income Developed Nation and to join the likes of South Korea, Taiwan, Singapore and Japan. The Malaysian Tiger needs to roar once more!