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Abstract	The wood-based industry (WBI) has long been an important segment of Malaysia's dynamic manufacturing sector, the main driver of economic growth for the country. The industry has also played a significant role as an export earner. The industry has undergone major changes over the years, with downstream activities becoming increasingly important. Malaysia is no longer an exporter of unprocessed wood. Malaysia has emerged as a major exporter of wood furniture, panel boards (plywood, fibreboard, chipboard), flooring, etc.

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Wood-based industry deserves more attention

The wood-based industry (WBI) has long been an important segment of Malaysia's dynamic manufacturing sector, the main driver of economic growth for the country. The industry has also played a significant role as an export earner. The industry has undergone major changes over the years, with downstream activities becoming increasingly important. Malaysia is no longer an exporter of unprocessed wood. Malaysia has emerged as a major exporter of wood furniture, panel boards (plywood, fibreboard, chipboard), flooring, etc.

The Malaysian furniture industry is an important component of the country's manufacturing sector. Although this industry accounts for less than 3 per cent of total manufactured exports, it has strong industrial linkages integrating about 750 small and medium enterprises (SMEs) with another 1,500 smaller production units. What is more, this sector is one of the few successful industry clusters under the Second Industrial Master Plan (1996-2005). Today, Malaysia is the 10th largest exporter of furniture with over 60 export destinations. Interestingly, rubberwood products account for roughly 80 per cent of wood furniture manufactured in the country.

Historically, Malaysia has been rich in timber resources, now declining somewhat. Given the abundance of natural resources, Malaysia's potential comparative advantage in resource-based industries (RBIs) is readily obvious. However, resource-based manufactures account for a relatively small proportion of total manufactured output and exports. Electronics and electrical (E&E) products account for roughly 55 per cent of total exports, due mainly to the heavy presence of large E&E multinational corporations (MNCs), which use Malaysia as an offshore base in their global production networks. While the importance of E&E to the Malaysian economy cannot be denied or ignored, the fact remains that domestic value-added in such activities is relatively small, as the import content of these manufactures is very large.

The RBIs are conspicuously different from E&E in that nearly everything about their manufactures is domestic in nature, with domestic value-added representing the whole, with little or no import content. This is especially the case with the WBI. What is more, the wood-based industry is largely domestic-owned, with hardly any profit repatriation. The majority of earnings are kept within the country, as there is relatively little “leakage” in the form of imports of intermediate inputs or foreign labour.

Another major strength of the industry is that it shares the center stage within the SME category, which the Government has identified as the cornerstone of the Malaysian manufacturing sector, poised to play a critical role under the Third Industrial Master Plan (2006-2020). The wood-based industry’s performance has thus far been exemplary, setting the pace for other SMEs to follow. The Malaysian wood furniture exports have been growing at creditable rates in recent years, with a strong Malaysian identity in foreign markets. The industry has the potential to be transformed into an intensively knowledge-based industry by harnessing the advances in information technology, wood science and design technology.

To be sure, the world demand for wood products is growing and this trend is expected to continue in the years to come. Seen in these terms, the prospects for Malaysia’s wood product exports are undoubtedly bright, despite the protectionist hurdles in the export markets, which are by no means insurmountable. The challenges the industry will face on the supply side of the equation are far more formidable and worrisome. The industry is painfully aware that future shortages of raw material, if left unattended, will curtail the great potential for further growth of the WBI, which remains proactive in addressing the issue ahead of time. The easy phase of expansion, with plentiful supply of domestic raw material for the industry, is definitely over.

The industry is heading towards a looming shortage of wood, especially rubberwood, which has been the main driver in the spectacular growth of the Malaysian furniture and panelboard industries. Gone are the days when Malaysia

was best known internationally for natural rubber. It is now better known for rubberwood products, especially furniture and panelboards. The Malaysian WBI is poised for continued expansion, with both existing and new players ready to invest, but the potential for such growth will be constrained by future shortages of raw material.

There was a time when rubberwood was mostly discarded or burned as a waste product of rubber plantations, although some of it was also used as industrial fuel. The Malaysian wood industry was innovative and creative enough to find and develop the means to convert wastes into profitable business by putting the rubberwood to good use for making a variety of products, including furniture, panelboards and flooring. However, due to the slow demise of the rubber industry in Malaysia, the supply is declining while the demand is increasing due to the tremendous expansion of the WBI.

To offset the decline in rubberwood supply and the lack of viable alternative wood sources, in order to support the ongoing development of the WBI, possible solutions include the importation of logs from abroad and the development of plantation forests at home. Importing logs faces problems of log bans from neighbouring countries and high transport cost. Plantation forests within the country are thought to be a more viable option. Several countries have successfully adopted this approach, which has stimulated the development of substantial downstream industries in forest products. This, in turn, has led to the growth of clusters of ancillary industries. While the Malaysian WBI is predominantly rubberwood-based now, other species including *Acacia*, *Sesendok*, *Albizia*, may well prove equally suitable in future.

Development of plantation forests will require substantial land banks. Plantation forests will compete for land with other plantation industries such as oil palm and rubber. However, the latter will win out economically, especially when commodity prices are high, as is indeed the case right now. The only way out is to utilize “marginal” land for establishing plantation forests. By “marginal land” is

meant unproductive land lying idle without better alternatives. Such land will have to be identified and allocated for growing suitable wood species.

As global competition in the wood-based product market intensifies, there will be shifts in the industry's needs. Support policies must respond to the changing needs of the industry. To date, the Government has meted out an array of policies to support, develop and promote the industry. These include the establishment of the Malaysian Timber Industry Board (MTIB) to regulate the timber industry, the Forest Department to oversee the timber resources, and the National Timber Certification Council (NTCC) to develop a national timber certification scheme. In addition to holding the annual Malaysian Furniture Fair to promote the local manufacturers, Malaysia has become a member of the International Tropical Timber Organisation (ITTO). The National Forest Policy (NPF) 1978 (revised 1992) lays the foundation for the development of the Malaysian forestry sector through the establishment of Permanent Forest Estate (PFE) and the scaling down of annual allowable cut in Peninsular Malaysia over the various five-year development plan periods.

Procedures are also in place to meet the increasingly high business standards in terms of price-cutting, quality and material properties. A periodic review of the existing policies is warranted to ensure that the industry stays competitive. However, the pressing problem the industry faces lies in the management of land utilisation, given the scarcity of readily available land for the cultivation of plantation forests. There is a need to step up research and development (R&D) for introducing not only new products and new processes that will augment the industry's competitiveness, but also new technology that will reduce the land-intensity of rubber tree growing, i.e. clones with shorter gestation and richer wood.

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