



UNIVERSITI PUTRA MALAYSIA

**CHARACTERISTICS OF AND FACTORS AFFECTING FOREIGN
DIRECT INVESTMENT IN THE MALAYSIAN FURNITURE INDUSTRY**

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FH 2007 2



**CHARACTERISTICS OF AND FACTORS AFFECTING FOREIGN DIRECT
INVESTMENT IN THE MALAYSIAN FURNITURE INDUSTRY**

By

NORZANALIA SAADUN

**Thesis Submitted to the School of Graduate Studies, Universiti Putra Malaysia,
in Fulfilment of the Requirement for the Degree of Master Science**

February 2007



DEDICATION

This thesis is dedicated to my beloved family



Abstract of thesis presented to the Senate of Universiti Putra Malaysia in fulfilment
of the requirement for the degree of Master of Science

**CHARACTERISTICS OF AND FACTORS AFFECTING FOREIGN DIRECT
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February 2007

Chairman: Jegatheswaran Ratnasingam, PhD

Faculty: Forestry

This study was undertaken to assess the characteristics of foreign direct investment (FDI) in the Malaysian furniture industry. This study answered three specific objectives namely, to evaluate the characteristics of FDI in the Malaysian furniture industry from 1985-2004, to compare the characteristics of FDI in the Malaysian furniture industry during first Industrial Master Plan (IMP) (1986-1995) and second IMP (1996-2004), and lastly to determine the factors affecting FDI in the Malaysian furniture industry.

Secondary published data on furniture investments were collected from the Malaysian Industrial Development Authority (MIDA). The value of investments were deflated by the Malaysian consumer price index (CPI) obtained from the International Financial Statistics (IFS, 64), published by the International Monetary Fund (IMF), whereby the year 2000 was treated as the base year (2000=100). Descriptive analyses were employed in order to analyse the trend of investment according to the period of study identified in the research objectives. The study was



then followed by questionnaire survey and open-ended interviews of identified foreign manufacturing companies. Rank order analysis was applied to rank the locational factors affecting the decision of FDI in the Malaysian furniture industry.

The results showed that from 1985 to 2004, investment in the Malaysian furniture manufacturing had mixed performance from both domestic and foreign sources of investment. Of the 661 projects approved for establishment, 340 projects or 51 percent were accounted from foreign investment. Throughout the period of study, the capital ownership was controlled by domestic investment with 63 percent share of the total real equity. On the other hand, in terms of ownership equity, the foreign investment had better control, having 53 percent of total real equity. With respect to fixed assets investment, the domestic investors were much more aggressive in purchasing and acquiring fixed assets. In terms of employment opportunities, foreign projects had provided 50,219 employments or 53 percent share of the total 91,019 employments in the furniture manufacturing projects. Over the period of study, furniture manufacturing projects have been found to be more capital-intensive and less labour-intensive as shown by the increased of capital investment per employee (CIPE) ratio. The major sources of FDI in the Malaysian furniture industry, for the past 20 years were from Taiwan, Singapore and Japan.

The results on the comparison of the investment in the Malaysian furniture industry between two IMP periods showed a declining trend of foreign investment during the second IMP period. The domestic investment in the furniture manufacturing however continued to be on a positive trend. This suggested that the foreign furniture manufacturer is in the stage of consolidation. In terms of CIPE ratio,



although there had been an increasing trend during the second IMP period, however the foreign furniture projects were still below the RM55,000 threshold set by the government. This indicates that foreign furniture projects was still labour-intensive in nature. Despite of decreased value of investment from the major sources of FDI in the Malaysian furniture industry during the second IMP period, however new sources of investment from other country during the second IMP showed that the Malaysian furniture industry is still attractive for foreign investors. Hence, the new structured policy must provide competitiveness in terms of cost, as new locations in Southeast Asia are available.

The survey analysis concluded that the stability of the government, investment guarantee agreement with the country, freedom to remit earning and interest royalties, freedom to repatriate capital, availability of skilled labour force, prevalence of peaceful industrial relations, reliable supply of power, water and gas, transportation and communication facilities, support of banking and insurance services, external demand and export market potential, tariff and trade protection, tax incentives, efficiency of public sector, economic stability and exchange rate stability are the most important factors affecting FDI in the Malaysian furniture industry. The analysis on traditional economic determinants of FDI such as low cost labour and availability of raw material had showed that these factors were less important while skilled labour was decisive in affecting FDI in the Malaysian furniture industry. Therefore, effective training especially from local training institutions has to be intensified in order to produce a well-educated and skilled work-force for the industry.

Abstrak tesis yang dikemukakan kepada Senat Universiti Putra Malaysia sebagai memenuhi keperluan untuk ijazah Master Sains

**CIRI-CIRI DAN FAKTOR-FAKTOR YANG MEMPENGARUHI
PELABURAN LANGSUNG ASING DI DALAM INDUSTRI PERABOT
MALAYSIA**

Oleh

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Kajian ini dijalankan untuk menilai ciri-ciri pelaburan langsung asing (PLA) di dalam industri perabot Malaysia. Secara umumnya, kajian ini menjawab tiga objektif khusus iaitu menilai ciri-ciri PLA di dalam industri perabot Malaysia dari 1985 hingga 2004, membandingkan ciri-ciri PLA di dalam industri perabot Malaysia semasa Pelan Induk Perindustrian (PIP) pertama (1986-1995) dan PIP kedua (1996-2004), dan akhir sekali menentukan faktor-faktor yang mempengaruhi PLA di dalam industri perabot Malaysia.

Data sekunder berkaitan pelaburan di dalam industri perabot diperolehi daripada Lembaga Kemajuan Perindustrian Malaysia (MIDA). Indeks Harga Pengguna (IHP) yang diperolehi daripada "International Financial Statistics" (IFS, 64), yang diterbitkan oleh "International Monetary Fund" (IMF) dengan tahun asas 2000 (2000=100) telah digunakan sebagai pendeflasi untuk mendapatkan nilai pelaburan sebenar. Analisis secara diskriptif telah digunakan untuk menganalisa arah pelaburan berdasarkan tempoh kajian yang telah dikenal pasti di dalam objektif



penyelidikan. Seterusnya, kajian diikuti dengan survei menggunakan borang soal-selidik serta temu ramah dengan pengusaha syarikat pembuatan perabot asing yang telah dikenal pasti. Analisis mengikut susunan kedudukan telah digunakan untuk menyusun faktor-faktor lokasi yang mempengaruhi keputusan PLA di dalam industri perabot Malaysia.

Keputusan kajian menunjukkan bahawa dari tahun 1985 hingga 2004, pelaburan dalam sektor pembuatan perabot daripada pelabur tempatan dan asing telah menunjukkan prestasi yang bercampur aduk. Daripada 661 projek yang telah diluluskan, 340 projek atau 51 peratus pegangan adalah dimiliki oleh pelabur asing. Sepanjang tempoh kajian, pemilikan modal telah dikuasai oleh pelabur tempatan dengan 63 peratus pegangan daripada jumlah keseluruhan modal sebenar. Walau bagaimanapun, dari segi pemilikan ekuiti, pelabur asing mempunyai kawalan yang lebih baik iaitu dengan menguasai 53 peratus daripada jumlah keseluruhan ekuiti sebenar. Berhubung dengan pelaburan dalam aset tetap, didapati pelabur tempatan lebih agresif dalam membeli dan memiliki aset tetap. Berkaitan dengan peluang pekerjaan, projek asing telah menyumbang sebanyak 50,219 peluang pekerjaan atau 53 peratus daripada 91,019 jumlah keseluruhan peluang pekerjaan untuk projek pembuatan perabot. Sepanjang tempoh kajian, projek pembuatan perabot didapati semakin berintensifkan modal dan semakin kurang berintensifkan buruh seperti yang ditunjukkan oleh peningkatan nisbah pelaburan modal berbanding jumlah pekerja. Negara asing yang telah menjadi penyumbang utama kepada PLA di dalam industri perabot negara sepanjang 20 tahun yang lalu adalah dari Taiwan, Singapura dan Jepun.



Keputusan kajian berkaitan dengan perbandingan pelaburan di dalam industri perabot diantara dua tempoh masa PIP menunjukkan penyusutan pelaburan daripada pelabur asing sepanjang tempoh PIP yang kedua. Walau bagaimanapun, arah pelaburan daripada pelabur tempatan terus menunjukkan peningkatan yang positif. Ini menunjukkan bahawa pelaburan asing dalam sektor pembuatan perabot sedang dalam tahap pengukuhan. Dari segi nisbah pelaburan modal berbanding jumlah pekerja, walaupun terdapat peningkatan semasa PIP yang kedua, namun begitu projek daripada pelabur asing masih dibawah paras RM55,000 yang ditetapkan oleh kerajaan. Oleh yang demikian, projek daripada pelabur asing masih boleh disifatkan sebagai projek yang berintensifkan buruh. Selain itu, walaupun terdapat penyusutan dari segi nilai pelaburan dari negara-negara pelabur utama di dalam industri perabot Malaysia di dalam tempoh PIP yang kedua, namun begitu, dengan adanya palaburan baru dari negara lain yang sebelum ini tidak pernah menjadi pelabur di dalam industri ini semasa tempoh PIP yang kedua menunjukkan bahawa industri ini masih dapat menarik minat pelabur asing untuk melabur. Oleh itu, polisi baru yang bakal dirangka haruslah lebih berdaya saing terutamanya dari segi kos ekoran lokasi lain yang sedia ada di rantau Asia Tenggara.

Analisis survei merumuskan bahawa kestabilan kerajaan, perjanjian jaminan pelaburan dengan negara anda, kebebasan membawa pulang pendapatan dan faedah royalti, kebebasanpengiriman semula untung dan royalti ke negara asal, tenaga buruh yang berkemahiran, perhubungan perindustrian yang aman, bekalan, tenaga, air, gas, pengangkutan dan kemudahan komunikasi yang boleh diharapkan, kecekapan perkhidmatan perbankan dan insurans, permintaan luaran dan potensi pasaran eksport, tariff dan perlindungan perdagangan, insentif cukai, kelicinan



sektor awam, kestabilan ekonomi dan pertukaran mata wang adalah merupakan faktor yang paling mempengaruhi PLA dalam industri perabot Malaysia. Analisis keatas penentu PLA dari segi faktor ekonomi tradisional seperti kos buruh yang rendah dan ketersediaan bahan mentah telah menunjukkan bahawa faktor-faktor ini kurang penting manakala tenaga buruh yang berkemahiran adalah merupakan faktor penentu yang amat mempengaruhi PLA di dalam industri perabot Malaysia. Oleh itu, latihan yang efektif daripada institusi latihan tempatan harus dipergiat supaya dapat menghasilkan tenaga kerja yang berpengetahuan dan berkemahiran untuk industri ini.



ACKNOWLEDGEMENTS

First and foremost, all my thanks are due to Allah, The Most Gracious, Most Merciful; His Grace and guidance have brought this work to fruition. I would like to thank the Universiti Putra Malaysia (UPM) for giving me scholarship and opportunity to proceed in the degree of Master of Science.

Given the opportunity alone, I may not be able to complete the thesis without proper guidance by those involved. Therefore, I would like to express my sincere gratitude to my dissertation chairman, Associate Professor Dr. Jegatheswaran Ratnasingam, and members of the supervisory committee Associate Professor Mohd. Zin Jusoh and Dr. Khamuruddin Mohd Noor, for their invaluable support, assistance, and constant encouragement during the completion of this endeavor.

My warmest thanks are extended to Malaysian Industrial Development Authority (MIDA) and Malaysian Timber Industry Board (MTIB), Department of Statistics Malaysia (DOS), and supportive respondents for providing me the required data and contributions during the data collection stage. Thanks are also due to all my friends for their stimulating suggestions and warm friendship.

Finally my special and deepest thanks go to my family for their love, sacrifice, patience and support throughout the years of my study.



I certify that an Examination Committee has met on 14 February 2007 to conduct the final examination of Norzanalina binti Saadun on her Master of Science thesis entitled “Characteristics of and Factors Affecting Foreign Direct Investment in the Malaysian Furniture Industry” in accordance with Universiti Pertanian Malaysia (Higher Degree) Act 1980 and Universiti Pertanian Malaysia (Higher Degree) Regulations 1981. The Committee recommends that the student be awarded the degree of Master of Science.

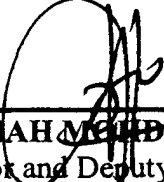
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DECLARATION

I declare that the thesis is my original work except for quotations and citations which have been duly acknowledged. I also declare that it has not been previously, and is not concurrently, submitted for any other degree at Universiti Putra Malaysia or at any other institution.



NORZANALIA SAADUN

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LIST OF ABBREVIATIONS

ASEAN	Association of Southeast Asian Nations
CIPE	Capital Investment per Employee
CPI	Consumer Price Index
DOS	Department of Statistics Malaysia
EU	European Union
FDI	Foreign Direct Investment
FTZ	Free Trade Zone
IFS	International Financial Statistics
IGA	Investment Guarantee Agreement
IMF	International Monetary Fund
IMP	Industrial Master Plan
ITA	Investment Tax Allowance
MIC	Malaysian Industrial Classification
MIDA	Malaysian Industrial Development Authority
MIER	Malaysian Institute of Economic Research
MIGA	Multilateral Investment Guarantee Agency
MITI	Ministry of International Trade and Industry
MNCs	Multinational Corporations
MNEs	Multinational Enterprises
MTC	Malaysian Timber Council
MTIB	Malaysian Timber Industry Board
NEP	New Economic Policy
R&D	Research and development
RM	Ringgit Malaysia



SMIDEC	Small and Medium Industries Development Corporation
TNC	Transnational Corporation
UK	United Kingdom
UNCTAD	United Nations Conference on Trade and Development
US	United States



CHAPTER 1

INTRODUCTION

1.1 Research Background

Furniture industry forms part of the downstream activities of the larger Malaysian wood-based products industry, which comprises of sawn timber, paper and paper products, moulding and joinery, and panel products. Of the total furniture exports, wooden furniture has emerged as the pillar of the country's furniture exports. The past three decades have seen the transformation of the industry from a backyard cottage industry to large manufacturing plants equipped with the latest technology and expertise (Ratnasingam, 2002).

Malaysia's furniture exports contributed RM5.4 billion or 27.7 percent of the total wood-based products exports in 2004 from just over 2 percent back in the 1980s (Anon 2005). In 2001, Malaysia was the 10th largest exporters of furniture and ranked as the third in Asia after China and Indonesia, with exports to more than 160 countries (MTIB, 2005). In essence, the furniture industry is the star performer within the wood-based products industry and has risen to become an important socio-economic sector of the country.

The success story of the Malaysian furniture industry a once meagre small cottage industry to become the most encouraging sectors in the Malaysian economy can be traced back during the implementation of the first Industrial Master Plan (IMP) in

