The future of the malaysian rubber industry

The Malaysian rubber industry was one of the major source of income of the country in past decades. Later on, the production of rubber has been declining and some investors even labeled rubber industry as a sunset industry. Somehow it is still early to predict the future of Malaysia rubber industry. However, currently the rubber industry is in its positive trend and there are some other positive signs of the future. Therefore, we believe that the future of Malaysian rubber industry is bright.

Malaysia is now the largest consumer of latex concentrate in the world. Besides, our country is also the world’s largest supplier of medical rubber gloves and also the world’s largest supplier of latex thread and cord. According to Malaysian Export Promotion Council, many countries often choose Malaysia to import rubber to their countries because the rubber produced in Malaysia has high quality and the rubber price and the rubber product is competitive in the international market. (Source: Malaysian Rubber Export Promotion Council)

Regardless of competition from Thailand and Indonesia, and recently China, Malaysia is expected to remain as one of the major supplier of glove due to the dynamic and farsighted glove manufacturers. Malaysia has the advantage in term of lower cost source of energy such as natural gas and local productivity. Malaysia also exceeds China in raw material supply as the third largest natural rubber supplier after our neighbouring countries Thailand and Indonesia. On the other hand, Malaysian glove manufacturers are advanced in terms of technological manufacture of examination and medical grade gloves where their quality requirements are becoming more strict and stringent. (Source: Bursa Malaysia News, August 26, 2009)

Moreover, Malaysia is currently the third largest producer of natural rubber in the world. Even though the consumption of natural rubber has been increasing, Malaysia has been able to produce more than one million tonnes of natural rubber to be exported since 2004 as shown in table 1. Therefore, the consumers of natural rubber can still expecting Malaysia as a supplier of natural rubber.

Table 1: Rubber Production, Export and Consumption of Malaysia (Tonnes), 2000 – 2009

2000

2001

2002

2003

2004

2005

2006

2007

2008

2009

Production of NR1

927, 608

882, 067

889, 832

985, 647

1, 168, 735

1, 126, 023

1, 283, 632

1, 199, 553

1, 072, 365

857, 019

Export of NR1

977, 975

858, 993

927, 919

1, 646, 708

1, 369, 428

1, 322, 165

1, 184, 396

1, 018, 052

916, 599

703, 051

Consumption of NR1

363, 715

400, 888

407, 884

420, 775

402, 769

386, 472

383, 324

450, 246

468, 894

468, 706

Consumption of SR2

95, 000

96, 000

90, 000

90, 000

86, 500

96, 400

112, 400

122, 800

124, 500

129, 500

Source: Department of Statistics, Malaysia (DOS) and International Rubber Study Group (IRSG) Adopted from Malaysian Rubber Export Promotion Council

Furthermore, there are more than 160 countries in the world which import rubber products from Malaysia. For instance, USA and China are the two biggest export destination of Malaysian rubber products following by Germany, Japan and United Kingdom. Malaysian rubber products are famous for its high quality and the competitive price. The rubber product manufacturers include local and foreign small and medium sized enterprises which have the capabilities of supplying the downstream products such as automotive components, medical gloves, hoses and belting. (Source: Malaysian Rubber Export Promotion Council)

Malaysia is the top supplier of examination and surgical gloves which fulfilling almost half of the world’s demand. For instance, the examination gloves are mostly utilized by the medical and health care facilities. Next, Malaysia is also the world’s top supplier of Foley catheters and also the second largest supplier of condoms and latex threads. Basically, latex thread is usually in the clothing industry as elastic bands and supports. Some other examples of important latex products which are produced in Malaysia include finger stalls, balloons and others. Besides, Malaysia has a production comprises a wide range of industrial rubber products such as beltings, wires, hoses and cables for the international market. This is shown in table 2.

Table 2: Malaysia’s Export of Selected Rubber Products, 2005 – 2009

Rubber Product	2005	Value (RM Million)	2006	Value (RM Million)	2007	Value (RM Million)	2008	Value (RM Million)	2009	Value (RM Million)
Gloves, other than surgical gloves										

3, 793. 23

4, 624. 52

5, 095. 24

5, 991. 92

6, 279. 86

Surgical gloves

706. 87

758. 39

780. 41

916. 34

866. 21

Catheters

647. 71

469. 92

670. 02

285. 22

96. 87

Vulcanized rubber thread and cord

574. 20

745. 66

720. 86

615. 48

707. 60

Wire, cable and other electrical conductors

60. 96

86. 74

103. 04

22. 84

20. 16

Piping and tubing

216. 72

223. 08

307. 60

338. 31

218. 39

Sheath contraceptives

115. 78

143. 75

151. 71

212. 50

233. 65

Belting

55. 22

57. 92

62. 15

59. 31

45. 05

Balloons

33. 69

33. 51

38. 89

10. 88

8. 65

Precured tread of non-cellular rubber

32. 26

32. 18

19. 17

26. 95

54. 19

Cellular rubber lined with textile fabric on one side

24. 94

17. 23

13. 40

6. 56

13. 99

Finger stalls

9. 51

9. 85

8. 67

4. 46

3. 34

Teats & soothers

9. 30

12. 32

17. 36

14. 14

11. 76

Pipe seal rings of unhardened vulcanized rubber

3. 43

2. 38

1. 53

0. 50

5. 19

Source: Department of Statistics, Malaysia

Adopted from Malaysian Export Promotion Council

The other reason why future of rubber industry is said to be bright is because of the recovery of the automation sector. This is because rubber is one of the major materials needed in automobile manufacturing such as tyres, piping and tubing. With this, Malaysia’s natural rubber for 2010 is expected to increase by 16 percent to one million tonnes beared by higher prices compare with 900, 000 tonnes in 2009. The Director General of the Malaysian Rubber Board, Dr Salmiah Ahmad, said that the position of natural rubber for 2010 is believed to be positive because of the recovery and the growing demand in the global automotive sector. She also claimed that the higher production of rubber estimated this year would be due to the more attractive price of natural rubber which would probably encourage smallholders to tap for more latex. Besides, she added that during the first quarter of 2010, the normal price of Standard Malaysian Rubber (SMR20), which is the major rubber grade utilised in the manufacturing tyre has increased more than twice to RM10, 140 per tonne from RM 4, 990 per tonne recorded in the first quarter of 2009. (Source: The Star Online, April 13, 2010)

The increase in rubber price nowadays which has benefited all rubber small holders is due to several reasons. Firstly, with the increasing demand from China due to its rapid economic growth in that particular country increase the demand for natural rubber. Secondly, the increase in petroleum price which subsequently increase that price of synthetic rubber, which means the increase in price of competitors of natural rubber. Thirdly, the wintering seasons in the major country which produces rubber causes the tightness in rubber supply. Next, the cooperation and agreement between three major

producer countries, Indonesia, Malaysia and Thailand named “ Tripartite Rubber Cooperation” has balanced the world’s demand and supply of rubber and continue to provide positive outlook toward the rubber market. The last factor which causes the increase in rubber price is the instability in South Thailand which affects the production of rubber in that region to decrease. However, the increase in the rubber price has made this industry attractive and this encourages small holders to tap more rubber. In addition, according to economists which predict that the world economics will turn better especially due to the recovery of automobile industry in China and India which would increase the demand of natural rubber production. It was given that in year 1990, the price of SMR20 is 214. 00 sen/kg. The price of SMR 20 has surged to 631. 50 sen/kg. (Source: Ministry of Plantation Industries and Commodities Malaysia, 2010). In short, the increase in the rubber price will make this industry more attractive to get involved in this sector. The table below shows the recent price of SMR20 in several states in Malaysia.

Table 3: Daily SMR20 Price from different states in Malaysia

Date

States

Skrap price (sen/kg)*

1 day

3 days

26/10/2010

Kelantan

541

563

26/10/2010

Terengganu

544

565

26/10/2010

Pahang

541

563

26/10/2010

Johor

536

557

26/10/2010

Negeri Sembilan

544

565

26/10/2010

Melaka

539

560

26/10/2010

Selangor

539

560

26/10/2010

Perak

539

560

26/10/2010

Kedah

536

557

26/10/2010

Perlis

536

557

26/10/2010

Pulau Pinang

536

557

Source: Rubber Industry Smallholders Development Authority

Next, the Economic Transformation Programme (ETP) is a programme to transform Malaysia into a high income economy by year 2020 by the Malaysian government. ETP will bring back Malaysia’s position as the major producer of natural rubber and reinforce its competitive exporter status in the international market. Under ETP, Malaysian rubber sector can maintain its hectarage at one million hectares. In addition, there will be additional zone of one million hectares by exploiting appropriate land bank in Sabah and Sarawak. There are also replanting activities which increased to 40, 000ha every year year from 20, 000ha. Indeed, the ETP has three entry point projects (EPPs) for rubber, which including rubber area or yield improvement,

focusing and speeding up in downstream products and produce new products aimed by 2020.(Source: The Star Online, September 28, 2010).

In conclusion, rubber industry is an important part of agriculture sector that should not be neglected. The related authorities should focus on the research and development activities in the upstream sector of rubber in order to relieve the problem faced by the industry which is tightness in the rubber supply. Research and development activities should also concentrate on issues faced by the producer such as improving the planting material, the need to increase land and labour productivity and also improving the adoption of labour-saving technologies to reduce the labour shortage problem. The Malaysian Rubber Research and Development Board (MRRDB) owned a UK based research and development center named Tun Abdul Razak Research Center (TARRC) in the UK which has a research laboratory to operate in R&D related to product end-uses and potential markets. In the other hand, rubber industry should continue focus on the downstream products and maintain its current position as the top supplier of examination and surgical glove in the world.

Policy Implication

There are several institution to help in the development of rubber industry such as Malaysian Rubber Research Development Board (MRRDB). This is a government organization which conducts overall control of the research, technical development and promotional work in support of the Malaysian natural rubber industry. The main purpose of MRRDB is to assist in achieving the modernization of the rubber industry with objective to cooperate and

interact with all other national agencies and responsible for research, extension, provision of agricultural credits, processing and marketing of rubber

Next, the Rubber Industry Smallholders' Development Authority (RISDA) is a institution which aim at the modernization of rubber smallholdings. RISDA is responsible for group processing development and established processing centres in Malaysia. RISDA also provides smallholders with facilities to process their raw materials. The functions of RISDA include managing the Rubber Industry (Replanting) Fund, control and operate approved projects and schemes and implement all innovations from research that are appropriate to the smallholder sector;

Malaysian Rubber Development Corporation Berhad (MARDEC) is another institution which engaged in the processing and marketing of rubber of smallholders. MARDEC aims at improving the quality of rubber and obtain premium prices for their production. The objectives of MARDEC are to maximize the income of the rubber smallholders through the provision of improved processing and marketing facilities and also to upgrade the quality of rubber produced by smallholders into technically specified rubber.