

# Why Source From Malaysia?

Malaysia is a global player in the export of high quality, competitively priced rubber and rubber products to the international market.

Malaysia enjoys several distinctions in the rubber industry. It is the worlds:

- **#1 Consumer of Latex Concentrate**
- **#1 Supplier of Medical Rubber Gloves**
- **#1 Supplier of Foley Catheters**
- **#1 Supplier of Latex Thread and Cord**
- **3<sup>rd</sup> Largest Producer of Natural Rubber**
- **4<sup>th</sup> Largest Exporter of Natural Rubber**
- **5<sup>th</sup> Largest Consumer of Natural Rubber**
- **9<sup>th</sup> Largest Consumer of All Rubber**

# **“Market Watch 2009”**

## **The Rubber Sector in Malaysia Malaysian Market General Overview**

Today, Malaysia is the 18th largest export nation worldwide. The country is ranked 29th out of 118 countries by the “Global Enabling Trade Report 2008”, published by the World Economic Forum.

Malaysia’s total trade in 2007 surpassed the RM 1 trillion mark at M1.11 trillion, which was an increase of 3.7 per cent compared to 2006. In the first six months of 2008, total trade reached RM698.67 billion, an increase of 13.5 per cent compared to the corresponding period of the previous year. Exports in 2007 expanded by 2.7 per cent to RM605.1billion, while total imports grew by 4.9 per cent to RM504.57 billion. Trade surplus for 2007 summed up to RM100.53 billion. Major export countries for Malaysian goods were China, Japan, Singapore, Australia, Indonesia, the United Arab Emirates as well as India, Pakistan and Germany among others. Malaysia’s largest export revenue earner was the electrical and electronics products sector (44%), followed by palm oil & palm oil-based products, crude petroleum, liquefied natural gas (LNG), timber & timber-based products and petroleum products. Malaysia’s top five trading partners were the United States of America, the Republic of Singapore, the European Union, Japan and the People’s Republic of China. The Foreign Direct Investment (FDI) in 2007 reached RM35 billion and in the first half of 2008 the FDI have already accounted for RM32.5 billion.

Major sources of foreign investments were the Iran, Japan and the USA.

## Rubber Sector Overview

World production and consumption of rubber continued to increase in 2007. The production of rubber increased by 2.46 per cent, from 22.44 million tonnes in 2006 to 22.99 million tonnes in 2007. Natural rubber (NR) comprised 42.12 per cent of total rubber production in 2007. Consumption of rubber in 2007 also rose by 5.73 per cent to 22.90 million tonnes.

**Exhibit 1: World Rubber Production and Consumption ('000 Tonnes) 2000 - 2007**

	2000	2001	2002	2003	2004	2005	2006	2007
<b>Natural Rubber</b>								
Production	6,762	7,328	7,332	8,033	8,748	8,882	9,680	9,685
Consumption	7,340	7,333	7,628	8,033	8,715	9,082	9,216	9,715
Balance	- 578	-5	-296	0	33	-200	464	-30
<b>Synthetic Rubber</b>								
Production	10,870	10,483	10,882	11,390	12,019	12,155	12,762	13,310
Consumption	10,830	10,253	10,692	11,371	11,839	11,895	12,446	13,188
Balance	40	230	190	19	180	260	316	122
<b>All Rubber</b>								
Production	17,632	17,811	18,214	19,423	20,767	21,037	22,442	22,995
Consumption	18,170	17,586	18,320	19,404	20,554	20,977	21,662	22,903
Balance	-538	225	-106	19	213	60	780	92

Source: International Rubber Study Group (IRSG)

In Malaysia, the major sub-sectors under the rubber products industry are latex products, tyres and tyre-related products and industrial and general rubber products. Currently, there are 510 manufacturers in operation in this industry employing more than 68,700 persons. According to the Department of Statistics Malaysia, the production of natural rubber in 2007 was estimated at 1.2 million tonnes, with the small holding sector contributing 95 per cent to total production while the estate sector contributed the remaining 5 per cent. About 573,164 tonnes of NR were imported for domestic consumption in 2007, mainly for ASEAN countries (97%). The main type of rubber imported was latex concentrated which accounted for 61 per cent of total imports. The rubber products industry consumed 120,826 tonnes (22%) of synthetic rubber.

The Malaysian Industrial Development Authorities have reported latex products being the largest sub-sector within the rubber products industry in Malaysia with the highest consumption of 423,482 tonnes (Exhibit 2). Latex products sub-sector comprises of 163 manufacturers producing medical, household and industrial gloves, catheters, latex threads, balloons, finger stalls and foam products. This sub-sector accounted for 72 per cent of the total value of exports, largely contributed by gloves, catheters and latex threads.

**Exhibit 2: Malaysia's Rubber Consumption by Product Sector (Tonnes)**

Year	Product Sector					Industry Total
	Tyre	Footwear	Latex Products	GRG**	IRG***	
1996	59,150	4,795	268,733	46,315	28,459	407,452
1997	65,365	5,617	265,678	46,830	25,556	409,045
1998	48,723	3,379	273,864	35,457	15,196	376,619
1999	51,690	4,343	270,943	55,131	19,927	402,034
2000	55,909	5,712	289,865	51,446	16,391	419,323
2001	49,049	2,643	343,811	48,398	14,687	458,587
2002	54,084	3,046	348,907	52,429	12,568	471,034
2003	54,094	2,218	367,080	52,029	12,812	488,233
2004	76,259	846	338,617	58,618	12,665	487,005
2005	74,470	1,017	342,699	52,020	12,683	482,889
2006	71,626	1,115	357,401	51,053	14,514	495,709
2007	87,139	1,142	423,482	52,180	15,305	579,248
2008*	23,299	259	113,214	12,671	4,042	153,485

Note: \* January - March  
 \*\* GRG: General rubber goods  
 \*\*\* IRG: Industrial rubber goods  
 Source: Department of Statistics, Malaysia

Malaysia continued to maintain its position as the world's leading producer and exporter of catheters, latex threads and natural rubber medical gloves, supplying more than 80 per cent of the world market for catheters, 70 per cent for latex threads and 60 per cent for rubber gloves. There are currently 126 companies in the tyres and tyre-related products sub-sector comprising nine tyre producers while the remaining companies produce retreads, tyre treads for retreading, valves and other accessories. There are three major tyre producers producing passenger car

tyres, commercial vehicle tyres and earthmover tyres, and another six manufacturing other types of tyres. Exports value of rubber tyres, flaps and inner tubes in 2007 amounted to RM891.6 million.

The industrial and general rubber products sub-sector comprises 194 companies producing a wide range of rubber products such as mountings, beltings, hoses, tubings, seals, and sheetings for the automotive, electrical & electronics, machinery & equipment and construction industries, largely for the domestic market.

## Rubber Production

Malaysia is the world's third largest producer of NR. Despite an increase in the consumption of NR, Malaysia has been able to export more than one million tonnes of NR since 2004 (Exhibit 3).

**Exhibit 3: Malaysia's Rubber Production, Export and Consumption (Tonnes), 2000 - 2007**

	2000	2001	2002	2003	2004	2005	2006	2007
Production of NR1	927,608	882,067	889,832	985,647	1,168,735	1,126,023	1,283,632	1,199,553
Export of NR1	977,975	858,993	927,919	1,646,708	1,369,428	1,322,165	1,184,396	1,018,650
Consumption of NR1	363,715	400,888	407,884	420,775	402,769	386,472	383,324	450,246
Consumption of SR2	95,000	96,000	90,000	90,000	86,500	96,400	112,400	122,800

Source: Department of Statistics, Malaysia (DOS) and International Rubber Study Group

Thus, consumers of NR can still look towards Malaysia as a source of supply for quality raw rubber of SMR (Standard Malaysian Rubber) grades, specialty rubber such as ENR, DPNR and TPENR and latex concentrate products such as Low Protein Latex.

## Rubber Consumption

The Malaysian rubber-based industry has performed well in the last two decades. Malaysia is currently the world's ninth largest consumer of all rubber, following China, the USA, Japan, India, Germany, France, South Korea then Russia and also the fifth largest consumer of NR behind China, the USA, Japan and India.

Exhibit 4 below shows the Malaysian Rubber Consumption by Type: Natural Rubber & Rynthetic Rubber. It shows that the NR consumption in 2007 was 450,246 tonnes, an increase from 2006, which amounted to only 383,324 tonnes. Total consumption of rubber had increase by 0.2 per cent from 2006 to 2007.

**Exhibit 4: Malaysia's Rubber Consumption by Type (Tonnes)**

	Natural Rubber		Synthetic Rubber		Total Rubber		
	Tonnes	% of World	Tonnes	% of World	Tonnes	NR:SR Ratio	% of World
2004	402,769	4.88	84,236	0.73	487,005	82.7:17.3	2.5
2005	386,472	4.42	96,417	0.81	482,889	80.0:20.0	2.4
2006	383,324	4.32	112,385	0.91	495,709	77.1:22.9	2.3
2007	450,246	4.62	129,002	0.98	579,248	77.7:22.3	2.5
2008*	119,589	-	33,896	-	153,485	77.9:22.1	-

Note\*: January-March Source: Department of Statistics

## Exports

The rubber product industry contributed 1.7 per cent of Malaysia's total export earnings. The total revenue from the export of rubber products amounted to RM7.1 billion in January-November 2007, which is 48 per cent of the total turnover of the rubber products industry.

Malaysian rubber products are exported to more than 160 countries in the world. The USA remains the biggest market for Malaysian rubber products, accounting for more than 30% of Malaysia's market and an export value of RM 2.3 billion in 2006. The export of rubber products registered a growth of 11 per cent for January-November 2007. The major export destinations were Europe, the USA and ASEAN.

**Exhibit 5: Major Destination of Malaysia's Rubber Product Exports (Million RM)**

Country	January - June 2008	January - June 2007	% Change	% Share (2008)
EU - 27	,686,016	1,596,480	5.6	31.8
USA	1,307,837	1,237,386	5.7	24.6
ASEAN	442,079	436,257	1.3	8.3
Japan	257,438	282,720	-8.9	4.8
Hong Kong, S.A.R	193,324	180,939	6.8	3.6
Australia	172,598	147,347	17.1	3.3
Brazil	177,290	122,600	44.6	3.3
China, P.R.	133,015	118,817	11.9	2.5
Canada	91,888	84,799	8.4	1.7
South Korea	67,860	68,298	-0.6	1.3
Taiwan	51,366	50,153	2.4	1.0
Turkey	59,392	64,752	-8.3	1.1
Subtotal	4,640,103	4,390,548	5.7	87.3
World Total	5,309,275	5,002,745	6.1	100

Source: Department of Statistics, Malaysia

Malaysia exported RM 10,583.1 million worth of rubber products in 2007, compared to RM 9,332.7million in 2006 (Exhibit 6). Other important markets include the People's Republic of China, Germany, Japan and the U.K.



**Exhibit 6: Malaysia's Export of Rubber Products (Million RM), 2000 - 2006**

Product	2007 (RM million)	Change (%)	2006 (RM million)
Total	10,583.1	13.4	9,332.7
Rubber gloves	5,876.2	9.2	5,383.2
Industrial rubber goods	2,876.5	14.0	2,524.1
Tyres and tyre-related products	891.6	64.1	543.2
Articles of rubber	679.1	4.5	650.0
Synthetic rubber	259.7	11.8	232.2

Source: Ministry of Trade and Industry in Malaysia

Malaysia enjoys several distinctions in the rubber industry and is a global player in the export of quality rubber. Malaysia is the world's largest consumer of latex concentrate, the largest supplier of medical rubber gloves, catheters, latex threads and cords. The latex sub-sector was the largest contributor to the export earnings of rubber products amounting to RM4.9 billion million (68%) for the period January-November 2007. Furthermore the country is the third largest producer of natural rubber, third largest exporter of NR, the fifth largest consumer of natural rubber and the ninth largest consumer of rubber.

Exports of rubber gloves (surgical and non-surgical), the largest component of rubber products, grew by 9.2 per cent in 2007. Rubber gloves (surgical and non-surgical) contributed 55.5 per cent to the export earnings of rubber products, valued at RM5.88 billion compared with RM5.38 billion in 2006. Other major contributors to rubber exports were compounded and unvulcanised rubber, 15.3 per cent share, valued at RM1.62 billion, followed by vulcanised rubber thread plasters, sheets of unhardened vulcanised rubber (9.4 per cent share, RM993.5 million), rubber tyres, flaps and inner tubes (8.4 per cent, RM891.6 million) and hard articles of rubber (3.8 per cent, RM402.6 million).

## Imports

Imports of rubber products increased by 9 percent to RM 2.9 billion in 2007. These products contributed 0.7 per cent of Malaysia's total manufactured imports and 0.6 per cent of Malaysia's total imports.

Japan remained the largest source of imports of rubber products, with a value of RM674.9 million. Other major sources of imports were Thailand, valued at RM 576.9 million, with a 19.8 per cent share, the USA (RM236.7 million, 8.1 per cent share), Taiwan (RM181.2 million, 6.2 per cent) and the PRC (RM169.4 million, 5.8 per cent). These five major import sources contributed 63 per cent of rubber product imports.

Imports of major rubber products comprised of tyre and tyre-related products (50%), industrial and general rubber products (43%) and latex products (7%). The largest subsector in the rubber products industry is the latex products sub-sector. Germany has investments worth USD 65 million with 18 projects in the rubber industry in Malaysia. Germany has as at 31 December, 2007, total investments worth USD 22 million, conducted by Continental Sime Tyre AS Sdn. Bhd, invested in products such as truck tyres, light truck tyres, car tyres, motorcycle tyres & scooter tyres. Continental Sime Tyre Sdn Bhd (CST), is a joint venture between Continental AG and Sime Darby Berhad, with two manufacturing facilities; Continental Sime Tyre PJ Sdn Bhd (PJ) and Continental Sime Tyre

AS Sdn Bhd. Continental AG is the fourth largest tyre manufacturer worldwide and one of the world's leading suppliers to the automotive industry for tyre and brake technology, vehicle dynamic control, as well as electronic and sensor systems. The tyre manufacturing activity is carried out by its two manufacturing facilities; Continental Sime Tyre PJ Sdn Bhd (CST PJ) with its factory located in Petaling Jaya, and Continental Sime Tyre AS Sdn Bhd (CST AS) located in Alor Star. The tyre brands include Continental, Dunlop, Barum, Sime Tyres and

Simex. Continental Sime Tyre Technology Centre's laboratories are accredited with ISO/IEC 17025 certifications.

## Projects Approved in 2007

In 2007, a total of 23 projects with investments of RM353.2 million were approved in the rubber products industry, compared with 23 projects with investments of RM 562 million in 2006. Of 23 projects, 17 were new projects and six were expansion/diversification projects. Projects approved were:

- A new project by Dunlop Latex Foam (Malaysia) Sdn Bhd, a foreign owned company, to produce talalay latex foam products with a total investment of RM106.5 million. The company is one of only three companies in the world that manufacture latex foam products in accordance with the; 'talalay' process which produces superior foam products. The project will be located in Shah Alam, Selangor;
- A new project by Euroma Rubber Industries Sdn Bhd to produce rubber compound with a total investment of RM34.8 million. The company plans to export 100 per cent of its products. The project will be located in Kulim, Kedah;
- A new project by Nissohatsu Elastomer (M) Sdn Bhd to produce engineering rubber products such as bridge bearings and flow joints, rubber compounds and rubber moulded products. Total investment in this project was RM 6.5 million. The project will be located at Pasir Gudand, Johor and Klang, Selangor; and
- An expansion/diversification project by Continental Sime Tyre AS Sdn Bhd to produce calendered textile with an additional investment of RM 20.7 million. This product is one of the components needed to produce tyres. The project will be located in Alor Setar, Kedah.

## Conclusion

The rubber products industry will need to diversify further, emphasizing on high value added and high technology rubber products, such as products for engineering, construction and marine applications. As outlined in the IMP3, more R&D efforts need to be undertaken in product development and downstream activities. New areas for promotion would include the extraction of biochemical products from latex using biotechnology. These efforts will ensure the continuous improvement in the products quality to maintain competitiveness in the export market.

The government continues to promote the development of Malaysia's resource-based industries to diversify the country's sources of growth. In addition to fiscal incentives which are currently available for promoted products and activities, the government has further fine-tuned the incentives to promote specific activities among which is the rubber products industry. To further encourage investments in resource-based industries, local companies in the rubber industry that reinvest to expand their projects are eligible for Pioneer Status or Investment Tax Allowance.

With the availability of quality raw materials, a strong and stable government, good infrastructure, underpinned by the R&D advances of the Rubber Research Institute of Malaysia (RRIM) and the Tun Abdul Razak Research Centre (TARRC) (associated with the Malaysian Rubber Board (MRB)), Malaysia is well placed to continue to be a global player to supply the global market with a wide range of rubber products.

Emerging economies like China and India pose a challenge to the Malaysian rubber products industry, as they are low cost producers. Imports from China and India for the period January- November 2007 increased by 15 per cent and 36 percent respectively. However, Malaysia rubber manufacturers have also benefited from the ASEAN-China Free Trade Agreement as they can gain market access to China. Malaysian rubber product manufacturers have to maintain the quality of their products, enhance productivity and promote wider application of ICT in their business to compete effectively in the global market.

## Malaysia during the current Economic Recession

The current economic downturn and financial crisis affect Malaysia as well. Malaysian banks, however, has not been involved with the U.S. and western financial markets to a large extent, and therefore not affected by the crisis in this respect.

On the contrary, the financial turmoil has created an upward trend in the Islamic Banking Industry when the country is trying to be a world hub in "Islamic Banking". Furthermore, Malaysia is a very young nation with an average age of less than 24 years (Germany: about 42 years), and this drives the consumption. Malaysia's wealth of raw materials for example oil & gas, natural rubber, palm oil, etc. contributes largely to the state and private revenues; likewise these revenues promise future income. Malaysia's central role in the prosperous ASEAN region with its 570 million people serves further as a regional home market. The Electronics & Electrical (E & E) is the only highly affected sector by the crisis resulting from its strong dependence on the U.S. and the rest of the world.

Malaysia's government takes stern measurements and introduces government-driven on 10th of March 2009, the government stimulus packages to support the economy. Introduced a second economic package for the year 2009. Further to this, an additional "mini budget" amounting to 60 billion RM (about 13 billion Euros) shall be disbursed between 2009 and 2010.

Malaysia's stimulus package is in the same league of some mega-programmes by the United States, China or Singapore, if it is set in relation with the nominal economic performance amounting to 740 billion RM in 2008. It contains aids to accelerate implementation of infrastructure projects, a car-scrap bonus, and guarantees working credits and funds for labor market. The Ministry of Finance and other economic cycle analysts expect the Malaysian economy will contract at a range of -1 to -5% in 2009.



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