

# Chapter 1

## Introduction

### 1. The Plastic Industry – A Brief Introduction

The plastics industry in Malaysia was started in the early 1950s as a cottage industry. It was characterised by a few small-sized establishments involved in the manufacturing of common household products and packaging materials, catering to the needs of the local markets.

The plastic industry went through difficult periods during the oil crisis in 1970 and recession in 1985. From 1987 to 1997, the industry grew by 6.55 times or 20.7% per year and recorded sales of RM 5.9 billion in 1997. This is equivalent to 2.4% of the country's GDP.

In 1997, it was estimated that there were about 1300 companies involved in the manufacturing of plastics in Malaysia, providing job opportunities to 80,000 workers. There were about 390 injection moulding companies in Malaysia, which is the biggest plastic sector. The rest of the companies were mainly involved in different types of plastic processes e.g. blow film, extrusion, blow moulding etc. In Selangor, there were about 90 injection moulding companies providing job opportunities to about 9000 workers.

In the late 1980s, the increasing foreign direct investment in electrical & electronic and the establishment of national car industry expanded the business opportunities for plastic industry. Today, the plastics industry play an important role in being one of the major supporting industry for electrical & electronic and automotive industries.

Despite the current regional economic crisis and overall shrinkage of direct foreign investments (FDIs) worldwide, Malaysia continue to receive a good share of investments. The Ministry of International Trade and Industry (Miti) approved 296 projects with a total investment of RM12.46bil. During this period, it also received additional 212 applications for total investments worth RM4.02bil, which are pending for approval. Of this, RM2.2bil investments are from foreign applications while RM1.8bil investments were domestic.

Last year, MITI had approved 759 projects in the manufacturing sector for investments totalling RM25.821bil. Of this, foreign investments totalled RM11.4bil while domestic ones made up RM14.3bil. According to our MITI, despite the economic turmoil, Asean countries would keep to its schedule under the common effective preferential tariff (Cept) and honour its commitments under the World Trade Organisation (WTO).

Bank Negara's policy has a direct impact on the local money market and hence an indirect impact on the financial cost and liquidity of the injection moulding companies. Under current economic environment, Bank Negara recognised that inflationary pressures need to be contained so as to preserve the domestic purchasing power especially for the medium and lower income groups. Containing inflationary pressures and promoting exchange rate stability are also necessary to rebuild market confidence and maintain international competitiveness. In the second quarter of 1998, the lending rate was 12-16%. Under the 1998 Lending Guidelines, the greater objective would be to ensure that small and medium business borrowers have access to credit, especially SMI that provide linkages to a vast number of industries, including export oriented industries.

In May 98, Bank Negara announced that the first quarter GDP was negative 1.8%. Short-term economic outlook is not promising. The industry should take a moment to analyse the current situation and decide a strategic move for the future.

## **2. Objectives of The Study**

The objectives of the study are to carry out a strategic analysis on the plastic industry with special focus at the plastic injection moulding sector to identified its strategic role for the industry sector and to make recommendations to enhance the value of plastic injection moulding business in the society.

## **3. Significant of The Study**

Thermoplastic Injection moulding business is one of the typical Small and Medium Industry which has strong local participation. Before the financial crisis broke out in July/ Aug 1997, there were already signs that some Multinational companies in the electrical & electronic sector had planned to shift their operation to other countries like China, Indonesia and Mexico whereby the production cost is lower. After the financial crisis, the domestic and the regional economy had slowed down. Plastic injection moulders suffered under capacity utilization. This led to severe competition in the industry. This study focuses on the industry sector as a whole to view the big picture of the business networks and to identify area for adding value. The prospects & challenges of the industry are discussed as well.

## **4. Organization of This Study**

This study focuses on the thermoplastic injection moulding sector in Selangor. For the purpose of this study, the companies are subdivided into 2 main groups namely, custom moulders and own product manufacturers. Value chain analysis and competitive analysis was used for this study. Prospects and challenges were introduced to examined additional elements in the injection moulding sectors. Development at the up-stream petrochemical industry was included in the study to show that Malaysia has high commitment in the plastic industry.

Chapter 1 covers the introduction, general economic environment and Bank Negara's policy.

Chapter 2 discusses the development of petrochemical industry in Malaysia and the structure of plastic injection moulding sector in Selangor.

Chapter 3 focuses on the value chain analysis with an introduction to the thermoplastics and injection moulding process.

Chapter 4 analyses the Porter's 5 forces and relative power of stakeholders in the industry.

Chapter 5 considers the prospect, challenges and potential of injection moulding business.

Chapter 6 concludes the research finding and recommendations.