

PERSPECTIVE

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Malaysia's Rubber Glove Industry – A Silver Lining Amidst Dark Clouds

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EXECUTIVE SUMMARY

- As with many countries, Malaysia is suffering from the economic fallout of COVID-19, with its economy expected to contract 3.5–5 per cent in 2020. However, while resorts and other tourist facilities are empty and restaurants struggle to survive, the rubber glove sector is booming.
- Long a producer of rubber, Malaysia has capitalised on this asset base and innovated production techniques to emerge as the world's leading manufacturer of rubber gloves. The country has ridden on increasing demand and its know-how to consistently produce more gloves every year for the past 20 years.
- In response to COVID-19, Malaysia produced the same number of gloves in the first six months of this year as all of 2019. Making the most of this unprecedented demand, the sector is enjoying record profits and the stocks of leading firms are on a tear.
- In response, established and second-tier glove makers are now expanding production capacity, and are joined by new entrants also seeking to ride the wave.
- Past experience shows that demand will eventually subside. Indeed, increased production from established and new players in Malaysia, as well as other producer countries may lead to a glut.
- In addition, industry leaders are now facing calls to share some of the benefits of the boom more widely – most notably with upstream producers such as small-holder rubber producers. Meanwhile, calls for a 'windfall tax' on the sector have been persistently heard.
- Nonetheless, in these grim times, the rubber glove sector offers positive news, and may provide a ray of hope to urban job seekers as well as firms seeking to diversify to survive.

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INTRODUCTION

Most industries in Malaysia continue to reel under the impact of the COVID-19 pandemic. According to Bank Negara Malaysia (BNM), the country's economy is expected to contract by 3.5–5 per cent in 2020, and the last round of restrictions is likely to exacerbate the downturn.¹

However, the dark economic panorama is brightened by one outperforming sector – rubber gloves. Driven by increased demand for personal protective gear in response to COVID-19, the industry has scaled to dizzying heights. These days, the grim tone of business news is enlivened with success stories of both established players and new entrants to the rubber glove sector.

For much of the 20th century, Malaysia was the foremost producer and exporter of natural rubber. However, by 2015, the country was only the sixth-most important producer of the commodity. Thus, Malaysia built on its initial access to rubber to then focus on manufacturing rubber-based products.

The country's first exposure to spiralling demand for rubber gloves was in the late 1980s, when responses to the HIV/AIDS epidemic led to the widespread adoption of medical gloves. The resultant surge in global demand, combined with Malaysia's asset base of natural rubber latex concentrate – the key raw material for gloves – accelerated this growth.²

During the industry's formative years, local players modelled their facilities on Taiwanese production lines. These were primarily designed for making plastic gloves. Then, based on their own experience, local producers modified production techniques in line with their specific needs. These in-house engineering solutions included tweaking production line design, improving the stripping, leaching and vulcanisation processes, and developing a reliable quality management system. Through these innovations, Malaysian glove manufacturers were able to increase their output from 3,000 gloves per hour in 1988 to around 45,000 gloves per hour today.³

Drawing on this expertise, Malaysia has been the world leader in rubber glove production for over two decades. Last year, the country controlled 63 per cent of the global supply – more than the combined output of its three closest competitors, Thailand (18 per cent), China (10 per cent), and Indonesia (3 per cent).⁴

Yet, despite Malaysia's dominant position, no one could have predicted the growth the sector has witnessed over the past few months. In its 2019 report, the Malaysian Rubber Glove Manufacturers Association (MARGMA) projected that the global demand for rubber gloves would grow at a modest 12 per cent in 2020, reaching a total of 300 billion glove pieces by the end of the year. Of these, Malaysian companies were gearing up to produce 188 billion.⁵

However, as the COVID pandemic struck numerous large countries, MARGMA revised its estimates. As per the latest figures, the global demand for rubber gloves is expected to jump to 330 billion pieces this year – an additional 10 per cent, pushing the 2020 annual growth

rate to around 20 per cent. Indeed, according to the industry body, no less than 10,500 gloves are used every second.⁶

Of the total demand, Malaysia aims to supply about 67 per cent, or 220 billion gloves.⁷ The top three export destinations for Malaysian rubber gloves are the United States, China and Germany, respectively. Brazil, Spain, Canada and the UK are also key markets.⁸

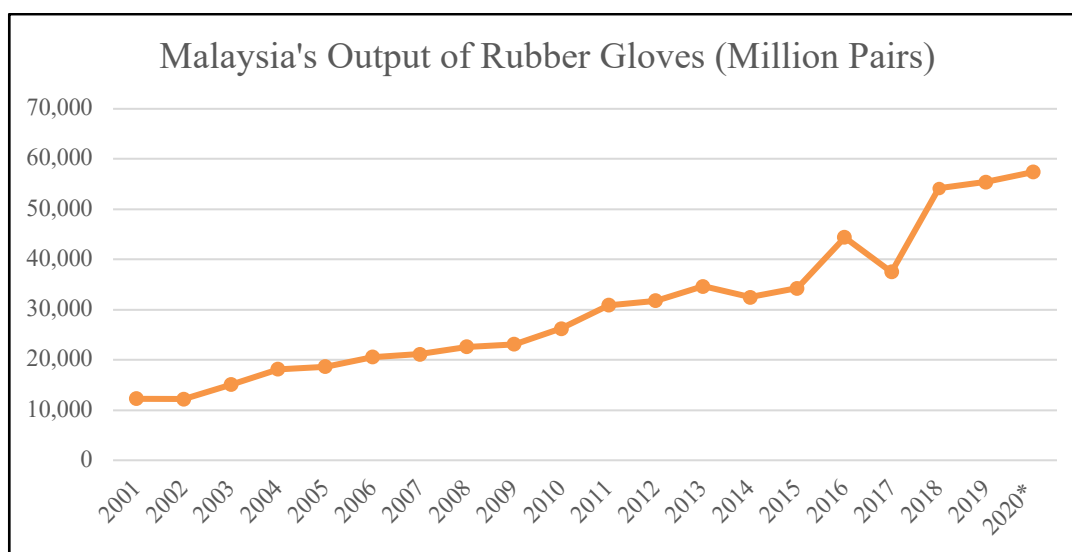
According to MARGMA’s estimates, Malaysia’s rubber glove industry employed around 71,800 individuals in 2019, with citizens accounting for 39 per cent of the workforce (28,000) and foreigners forming the remaining 61 per cent (43,800). Given the increased demand, an additional 25,000 workers are urgently needed in the sector.

THE BOOM

In the past, the rubber glove sector had successfully responded to the HIV/AIDS epidemic, Sars, H1N1 influenza and Ebola through scaling-up production by 12–15 per cent.⁹ However, the peculiar nature of the current crisis has encouraged the Malaysian Rubber Council (MRC) to shift the target even further, to around 20 per cent. The novel coronavirus is less virulent but more infectious than other viruses, making it easier to spread across multiple geographies rather than remaining concentrated in isolated pockets. To meet the resultant global demand, not just established glove-making firms but newer players, too, have been rapidly enhancing their production capacity throughout Malaysia.

The supply of rubber gloves has been consistently rising since the start of the millennium. Growing demand, in addition to an increase in natural rubber imports and new production techniques, has generated steadily increasing output, as seen in Figure 1. The COVID pandemic has led to the production of the same quantity of gloves in the first six months of this year as all of 2019.

Figure 1: Malaysia’s Rubber Glove Production (2001–2020*)



Note: *January to June 2020

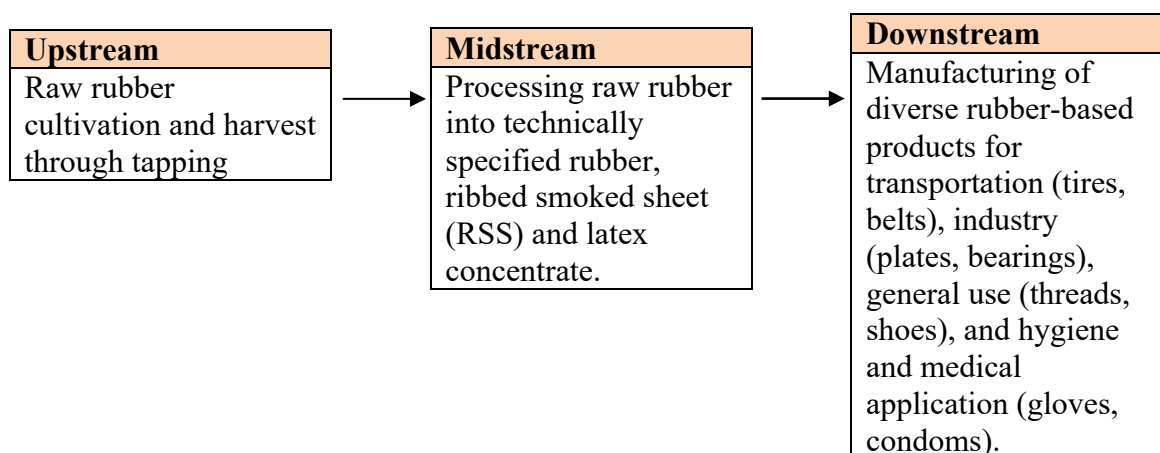
Source: Department of Statistics, Malaysia.

This has resulted in an exponential growth in earnings of the country’s glove manufacturers. In addition to massive hikes in sales volumes, jumps in average selling prices, low material costs, availability of cheap labour and better production efficiency are the notable contributory factors. Together, these have even helped churn multiple new ultra-rich individuals in Malaysia. According to the Bloomberg Billionaire Index, the ballooning earnings of glove industry leaders have propelled the net worth of the founders of Malaysia’s *Big Four* glove companies beyond the billion-dollar mark. This was despite a decline in the wealth of the nation’s 50 richest people in 2020.¹⁰

THE SECTOR AND PLAYERS

In order to better understand the growth of Malaysia’s rubber glove industry, it is worthwhile to look at the value chain of the rubber sector. The complete range of activities – from production to delivery, along with supporting activities – can be categorised into three segments: upstream, midstream and downstream, as illustrated in Figure 2.

Figure 2: Rubber Sector Value Chain



Source: Authors’ illustration based on Kawano M. (2019).¹¹

Ideally, all three segments work in perfect synchronisation. This, however, is not the case in the country today. In recent years, and particularly in 2020, the gap between the upstream and downstream sectors has widened considerably, with rubber cultivators – 95 per cent of whom are unorganised smallholders – struggling to keep up latex production while glove manufacturers make supernormal profits. This disconnect is further exacerbated by the steady increase in natural rubber imported to Malaysia and the growing popularity of nitrile gloves which are based on synthetic rubber, as opposed to latex gloves.¹²

Among the downstream players, the nation’s *Big Four* glove makers – each with a (now) billionaire CEO – are Top Glove Corp Bhd, Hartalega Holdings Bhd, Kossan Rubber Industries Bhd and Supermax Corp Bhd. Table 1 in the Appendix summarises their key performance indicators.

So far, all four flagship firms have enjoyed unparalleled COVID-induced success. Top Glove’s latest quarterly profit soared 1,646 per cent year-on-year. In its fourth quarter ending on 31 August, the company posted a record net profit of RM1.29 billion compared

to RM74.2 million a year ago. Likewise, Hartalega's net profit jumped five times to a record high of RM544.96 million in its second quarter ending on 30 September, from RM103.87 million a year ago. Kossan's net profit for its third quarter ending 30 September surged 609 per cent to RM348.74 million from RM49.18 million in the previous corresponding quarter. Supermax reported a bumper quarterly net profit of RM789.52 million in its first quarter ending on 30 September, up almost 32 times from RM24.75 million a year ago – all thanks to the thriving demand for rubber gloves.

Moreover, the *Big Four* have announced additional plans to meet the still rising global demand. Top Glove has been on an expansionary path over the past couple of years, growing its capacity from 60.5 billion glove pieces in August 2018 to 70.1 billion pieces in November 2019. It now plans to increase annual capacity by 30 per cent by the end of 2021 to 91.4 billion pieces. Mirroring this trend, the company's chief rivals are on a land-buying spree. Hartalega, for instance, recently announced that it was purchasing new land in Labu, Sepang for RM158.3 million to build additional manufacturing facilities to expand its glove production by 19 billion pieces. Similarly, Kossan bought a new plot of land in Kapar, Selangor for RM40 million, while Supermax announced the acquisition of new land in Klang for RM21.78 million.

Relatively smaller firms involved in downstream activities have also seen their profits reach dizzying heights. For example, Singapore-listed cleanroom glove producer Riverstone Holdings posted a net profit of RM178.6 million for its third quarter ending on 30 September – a 400 per cent jump from RM35.6 million in 2019. As a result, the company's co-founder emerged as the fifth billionaire in Malaysia from manufacturing gloves. Listed on the LEAP Market, Taiping-based cleanroom glove supplier CE Technology Bhd added RM212.9 million to its market capitalisation and unveiled a proposal to invest RM50 million towards capacity expansion. Similarly, HLT Global Bhd, a company specialising in manufacturing glove dipping lines, after gaining RM981.3 million in market capitalisation, plans to raise RM324.68 million in order to buy additional land and construct a new rubber glove plant. Comfort Gloves Bhd has also secured RM2.3 billion worth of market capitalisation and bought two pieces of agricultural land in Perak for RM1.9 million for expansion purposes. With additional capitalisation of RM2.1 billion, Careplus Group Bhd has purchased not only a new plot of land in Senawang for RM5.6 million but also a 90 per cent stake in property development firm Centro Heights for another RM3.42 million to convert the latter's hotels and shops into accommodation facilities for workers.

So lucrative are the prospects of the glove market that even firms from unrelated businesses are getting on the bandwagon. Titijaya Land Bhd, a prominent local property developer recently announced that it was diversifying into rubber gloves. IT solution provider Inix Technologies is investing RM22.75 million to form a joint venture to acquire a factory in Negeri Sembilan for medical glove production. AT Systematization Bhd, an integrated designer and manufacturer of industrial automation systems and precision engineering solutions, is embarking on a RM 36.15 million expansion plan to install multiple glove dipping lines. Kanger International Bhd, an investment holding company, reported that it had received a formal expression of interest from Constellation Holdings Ltd, a procurement agent for PPE and medical equipment to UAE's Ministry of Health and Prevention, to set up a medical examination gloves operation in Malaysia.

As a result of these developments, maintaining Malaysia’s top global position in glove production has become a top priority for the government. The Ministry of Plantation Industries and Commodities (MPIC) recently stated that the MRC was in the process of drafting and implementing short-, medium- and long-term plans to promote the stature of local manufacturers overseas. Target markets would be the US, China, India, Indonesia, Vietnam, Brazil, Russia and populous counties in Europe. Outreach activities could include participating in international trade exhibitions with industry players; organising trade missions and educational seminars, business matching; and advertising in international media. Through such strategies, the Ministry hopes to boost foreign investments and improve the competitiveness and value of rubber glove exports from Malaysia.

FOR HOW LONG?

While the sector is riding a wave of growth, the boom in the rubber glove industry could reverse. An early sign of the instability of the profits of the sector is the rapidity with which the share prices of all major listed players plummet every time any news of a viable vaccine is reported. This was seen when the UK shared positive news on the initial trials of its Oxford/AstraZeneca vaccine (July 2020), when Russian media published data on successful trails of its Sputnik V vaccine (August 2020), and when China’s Sinovac Biotech Ltd announced its target to begin commercial production in six months (August 2020). The drop was even more sustained when American companies Pfizer and Moderna reported 90 and 94.5 per cent efficacy of their respective vaccines (November 2020).

The share price volatility of Top Glove perfectly encapsulates the inverse relationship between vaccine development and rise of Malaysia’s glove industry (Figure 3).

Figure 3: Top Glove’s Share Price Fluctuations (1 July – 12 November 2020)



Note: Triangles mark the days on which major vaccine/treatment-related news broke.

Source: Authors’ illustration based on Singapore Exchange Limited (SGX) data.

Dips in share prices were also observed when rumours of a so-called ‘windfall tax’ on glove maker earnings began. With profits reaching astronomical levels, a number of media outlets reported that government agencies were considering a new levy on the *Big Four* firms. The worries were, however, unfounded – at least for the time being – as the companies were spared such a tax in Malaysia’s recently unveiled 2021 budget. Instead, the companies will now jointly contribute RM400 million to bear some of the costs of vaccine(s) and health equipment (*The Malaysian Reserve*, 9 November 2020).¹³

OUTLOOK AND CHALLENGES

Today’s market conditions have boosted the fortunes of Malaysia’s rubber glove sector. Going forward, whether the sector continues to reach new heights, plateaus at the current level, or nosedives depends essentially on how soon and effectively the health crisis can be brought under control.

At the time of writing, many countries – including some that had managed to ‘flatten the curve’ when the crisis first broke out, such as the UK, Italy, Germany, Spain, Hong Kong, Japan and the US – are experiencing recurring waves of COVID-19, a gloomy prospect for the world economy but a boon for glove makers. However, the development of multiple vaccine candidates and subsequent implementation of sweeping vaccination programmes will end the frenzied demand for medical gloves.

Moreover, as stated above, the pandemic is worsening Malaysia’s already distorted rubber value chain. Much like commodity booms in the past, over-capacity and rapid drops in supply are all too possible. Thus, the sector’s boom days will certainly be finite, and it is incumbent on industry leaders to increase efficiency, innovate, and even diversify to ensure their long-term survival.

In addition, the sector also faces a range of structural issues, including the shortage of skilled workers (both local and foreign), government regulations, trade barriers and the volatility of the Ringgit. There are the allegations of labour abuse in the industry, a topic that will be explored in the second Perspective on the rubber glove sector. Moving upstream, small-scale rubber producers are hampered by the vagaries of commodity prices, as well as falling demand for latex.

In fact, unable to meet the heightened demand for rubber gloves through domestic latex production, downstream glove makers are already being forced to source latex from neighbouring economies – China, Thailand and Vietnam – that themselves are ramping up glove production. Relying on foreign countries for the key raw material needed to produce a highly profitable commodity runs the risk of Malaysia losing some control over the profit margins, especially if the external supplies are tightened.

Notwithstanding the above, as the owners and shareholders of the *Big Four* will attest, the rubber glove sector provides an all-too-rare glimmer of hope in these trying times.

APPENDIX
Table 1: Comparison of Malaysia's *Big Four* Glove Makers

Top Glove Corp Bhd	Hartalega Holdings Bhd
Founded: 1991 Headquarters: Malaysia Number of employees: 21,000 Market capitalisation: RM59.01 billion Single-handedly accounts for a quarter of the world's glove output Forty-seven factories across Malaysia, Thailand, Vietnam and China	Founded: 2006 Headquarters: Malaysia Number of employees: 7,800 Market capitalisation: RM58.96 billion Largest producer of nitrile gloves in the world Twelve dedicated manufacturing facilities across Malaysia
Kossan Rubber Industries Bhd	Supermax Corp Bhd
Founded: 1979 Headquarters: Malaysia Number of employees: 6,000 Market capitalisation: RM17.6 billion Twenty plants in Malaysia and China	Founded: 1987 Headquarters: Malaysia Number of employees: 1,033 Market capitalisation: RM25.05 billion

Sources: Official websites (accessed 15 November 2020)

ENDNOTES

¹ Bank Negara Malaysia, *Economic and Financial Developments in Malaysia in the Second Quarter of 2020* https://www.bnm.gov.my/files/publication/qb/2020/Q2/Q2_en.pdf (accessed 20 October 2020).

² Kawano M. (2019) Changing Resource-Based Manufacturing Industry: The Case of the Rubber Industry in Malaysia and Thailand. In: *Tsunekawa K., Todo Y. (eds) Emerging States at Crossroads. Emerging-Economy State and International Policy Studies*. Springer, Singapore https://doi.org/10.1007/978-981-13-2859-6_7

³ Ibid.

⁴ Malaysian Investment Development Authority, MIDA <https://www.mida.gov.my/home/8598/news/global-rubber-glove-demand-to-hit-300-billion-in-2019-63-pct-supplied-by-malaysia/> (accessed 1 October 2020).

⁵ Ibid.

⁶ Malaysian Rubber Glove Manufacturers Association (MARGMA) *MARGMA Industry Brief 2020 on the Rubber Glove Industry*.

⁷ Ministry of International Trade and Industry, MITI (quoted in *Malay Mail*, 9 September 2020) <https://www.malaymail.com/news/money/2020/09/09/miti-rubber-gloves-export-rose-to-rm15b-for-jan-july-period/1901685> (accessed 15 October 2020).

⁸ Department of Statistics Malaysia, DOSM *Malaysia Economic Statistics Review (MESR), Volume 6/2020* https://www.dosm.gov.my/v1/index.php?r=column/cthemByCat&cat=481&bul_id=OUN0YlpDMGQxSUhod1Q2S0NrcFpwQT09&menu_id=azJjRWpYL0VBVYU90TVhpc1ByWjdMQT09 (accessed 1 November 2020).

⁹ *Malaysiakini*, 8 February 2020 <https://www.malaysiakini.com/news/510053> (accessed 2 October 2020).

¹⁰ *Bloomberg*, 15 June 2020 <https://www.bloomberg.com/news/articles/2020-06-15/gloves-boom-during-virus-spawns-new-billionaires-in-malaysia> (accessed 2 October 2020).

¹¹ See Endnotes 2 and 3.

¹² It is important to note the distinction between latex and nitrile gloves. Latex comes directly from rubber trees whereas nitrile is a synthetic rubber compound derived from petroleum content. Although latex gloves were traditionally the more popular disposable glove option in Malaysia for almost two decades given the massive domestic supply and low price of latex, the market share of nitrile gloves has now taken the lead. Today, nitrile gloves make up 60 per cent of the production in the country because 1) local latex production has successively declined, 2) manufacturing nitrile has become more affordable due to falling oil prices, and 3) nitrile gloves offer higher puncture and chemical resistance than latex and vinyl gloves.

¹³ *The Malaysian Reserve*, 9 November 2020 <https://themalaysianreserve.com/2020/11/09/rm400m-is-one-off-donation-not-a-windfall-tax-substitution/> (accessed 10 November 2020).

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