

CHAPTER III

THE WORLD'S MAJOR FURNITURE IMPORTING COUNTRIES

The United States of America

The U.S. furniture market is the world's largest single market furniture importer, and a target for more than 120 exporting countries (Florence, 1990). U.S. furniture imports have been increasing over the years. Today, imported furniture plays a very significant role in the U.S. furniture market, where imports exceed exports by ten times, as compared to 1978, when imports accounted for only 6.6% of U.S. furniture consumption (Smith and West, 1992). Table 1 shows U.S. wooden household furniture imports by region and leading importers from 1989 to 1992 (U.S Dept of Commerce, 1995). This table shows changes of the major players in this market, with increasing imports from the regions of Asia, North America, and South America (West and Hansen, 1996). Only Europe has shown a decline in market share (West and Hansen, 1996).

In 1989, the United States was the eighth among world exporters, accounting for 4.5 percent of world exports (Smith and West, 1994). During the same year, furniture imports into the United States accounted for nearly one-quarter of all OECD imports, the largest among all the member countries. The value of the U.S. furniture exports in 1989 was \$467 million while total furniture imports were valued at \$2.78 billion. During that year, the major suppliers were Taiwan, Italy, Canada, Mexico, and Yugoslavia (Florence, 1990).

Wood furniture accounted for 60 percent of all household furniture imports in 1993 (Anon, 1994a). Imports increased by 9.7%, from \$4.1 billion in 1994 to \$4.5

billion in 1995, while exports decreased about 1%, from \$1.008 billion to \$1.003 billion (Adams, 1996). The U.S. wood furniture trade deficit rose to 13.3% in 1995, and for the second year the deficit reached \$3 billion. During the same year, more than half of the U.S. furniture exports went to Canada (\$478 million) and Mexico (\$63.5 million). Although the U.S. trade deficit with these two countries rose as compared to the previous year, export to Canada, the U.S. leading trade partner increased by 11.8 %. Exports to Mexico, however, dropped by 57% for the same period. Japan is the largest Asian market for U.S. furniture, with the value of export to this market registering \$74 million (Adams, 1996).

Importation of furniture into the United States accounted for 25-30% of U.S. furniture consumption in 1989 (West and Hansen, 1996). Imported furniture plays an increasing role in the domestic furniture market. Major suppliers of the U.S. furniture in 1995 were Canada (\$899 million), Italy (\$575 million), China (\$555 million), Taiwan (\$544 million), Malaysia (\$333 million) and Mexico (\$258 million) (Adams, 1996). In 1995, the Pacific Rim countries-Taiwan, Indonesia, Malaysia, Thailand, South Korea, the Philippines, Singapore, and China-sent more than \$2.03 billion worth of furniture to the United States (Adams, 1996). Although exports by Pacific Rim countries increased, the Pacific Rim's market share in the United States decreased from 48% to 44% between 1994 and 1996 (Adams, 1996). For several years, Taiwan has maintained the dominant position as leading furniture exporter to the United States; however, Canada and Mexico has emerged lately as important furniture exporters. In 1995, Canada surpassed Taiwan as the leading furniture exporter to the United States. China has also emerged as one of the important furniture suppliers to the United States, with furniture imports value at

\$555 million in 1995. This represents growth of 55% compared to the value recorded in 1994. Other furniture producing countries that experienced growth in this market were Malaysia; (6%), Indonesia; (19%), and the Philippines (7%). Italy is the only European country with significant market share in the United States furniture market (13%), and is presently the main supplier of foreign-made upholstered furniture (Adams, 1996).

The furniture industry in the United States is characterized by a large number of small firms using labor-intensive operations. The 1992 U.S. Census of Manufacturers reported that there were 2,634 companies manufacturing wood household furniture in the United States, employing 121,100 people (West and Hansen, 1996). The average furniture manufacturing establishment employs 40 to 50 workers which is quite small by U.S. manufacturing standards (West and Hansen, 1996). However the largest 5% of the U.S. furniture companies employs 60% of the employees in the industry. These larger establishments account for 60% of the shipments, while the smaller account for 64% of furniture production companies. These smaller units contributed less than 4% of the value of industry shipments (West and Hansen, 1996).

West identified four major determinant areas of competitive advantage that are related to the U.S. furniture industry (West and Smith, 1992). The four major factors are production, marketing, related and supplying industries, and demand. The United States has long term availability of raw material and an excellent transportation infrastructure. It also has high labor and capital competitive advantages, although it lacks comparable access to no-cost loan advantages that are available in many developing countries (West and Smith, 1992). Many manufacturers have taken advantage of the latest technology and have invested in manufacturing research and development (West and Smith, 1992). The

U.S. market has greater advantage over other producers in terms of marketing, and their furniture producers have established a good relationship and efficient distribution system with retailers. The related industries are also very efficient, supplying, not only U.S. furniture producers but also foreign markets as well. North America possesses the largest and most sophisticated market in the world (West and Smith, 1992). The size and variable nature of this market has made it a target of most furniture producing countries and has put pressure on local furniture producers to compete with foreign suppliers. Recent surveys reveal that secondary wood product manufactures identify government regulations as one of the major concerns that need to be addressed in this industry (Miller, 1992).

With the emergence of new players in this market, it is anticipated that during the next few years Taiwan will be moving to higher priced furniture to maintain its market share due to increasing production costs (Raymond, 1992). More moderately priced furniture and parts will come from low wage countries such as Indonesia, Malaysia, and Mexico. In addition, East European countries, such as the former Yugoslavia, may become competitors again due to their strong woodworking tradition and low labor costs (Raymond, 1992).

Japan

Japan is another major furniture market, second to the United States. Analysis of its furniture trade trends generally reflects it as another net furniture importer (West and Smith, 1992). In 1989, only about 5% of wood furniture consumption was imported and

only about 2% of production was exported, which reveals that its market was largely served by its domestic industry (West and Smith, 1992).

In 1993, the value of furniture imports (CIF of wooden, metal and other materials) into Japan was valued at 168,143 million Yen (U.S. \$1.68 billion at 100Yen/U.S. \$1) (Japan Furniture Trade, 1998). This is a reduction of 7.2% from the previous year. Japanese furniture imports from the United States decreased by 11% between 1992 and 1993 (Japan Furniture Trade, 1998). The decrease of furniture imports was primarily due to the economic recession. In 1993, the largest importer of Japanese furniture was Taiwan, followed by the United States (Japan Furniture Trade, 1998).

U.S. furniture is popular in Japan due to the quality, value, and variety of products. Two furniture products from the United States that are growing in popularity are ready-to-assemble furniture, known as “kit furniture” and “home office furniture” (Japan Furniture Trade, 1998). Kit furniture is very attractive to housewives. Home office furniture is being promoted by the U.S. furniture suppliers in association with the growing sophistication of communication systems that make it possible for the Japanese to work from home (Japan Furniture Trade, 1998).

Thailand, Indonesia, Korea, and Malaysia were the next largest furniture exporters into the Japanese market after the United States. Table 2 shows the top ten countries supplying Japan. These Asian countries, except Korea, enjoyed an increasing value of furniture, reflecting the popularity of their products, which combine quality and low cost to create value. Export of Italian furniture into Japan market has been reduced considerably due to greater competition from Asian furniture producers. China, which

was the next largest country after Italy, has shown tremendous performance as a furniture supplier into this market with a 35% increase in value of imports between 1992 and 1993.

It is important to note that there is no tariff imposed on the majority of furniture products imported into Japan. Only a few products, such as furniture using leather, have import duties ranging from 3.87% to 4.6% and some wooden furniture products up to 5% (Anon, 1994b). This is important to Malaysia because it will reduce the import price of Malaysian furniture.

Japanese furniture manufacturers use primarily local species of wood. Imported species include the popular of the U.S. furniture species such as alder and oak, as well as some tropical species such as mahogany, teak and rubberwood. Japan's furniture industry is at a poor competitive position in terms of production factors such as raw material and labor cost. This furniture industry has made tremendous efforts to improve through manufacturing technology by modernizing plants and subsequently decreasing cost. Its strategy is to produce high quality furniture for the high-end domestic market and simultaneously to enhance the competitiveness of Japanese furniture firms in international markets (Smith and West, 1992).