

**CHAPTER II**  
**INTERNATIONAL FURNITURE TRADE AND POLICY**  
**DEVELOPMENT**

**International Furniture Trade**

The international market for furniture increased significantly from the mid-1970s to 1988. Growth proceeded at a slower rate in the later 1980s and early 1990s due to a general economic downturn, particularly in Europe (West and Smith, 1992).

The majority of the furniture trade involves member countries of the Organization of Economic Cooperation and Development (OECD) particularly import trade. Worldwide exports to OECD countries grew from \$1.2 billion to \$8 billion from 1972 to 1982 (Smith and Ma, 1990). In 1983 imports totaled \$8.4 billion and increased further to \$21.9 billion in 1989 (Anon, 1990). The total trade balance in furniture products for all OECD countries in 1986 recorded an overall deficit of \$2.1 billion (Smith and Ma, 1990). Total furniture imports into the markets more than doubled between 1983 and 1987, increasing from \$8.4 billion to almost \$18.4 billion. The largest furniture importer is the United States and the second largest is Germany (Alabaladejo, 1989). Imports from developing countries, that is non-OECD members, have increased 168% between 1983 to 1987 (Alabaladejo, 1989).

In 1989 the largest furniture importer was the United States, accounting for nearly one quarter of all OECD imports. The combined European Community (EC) accounted for nearly half of all OECD imports. These imports were led by West Germany and France (Smith and West, 1994). Japan, which ranked seventh, is the largest furniture importer in Asia, represented 5.6% of the OECD import total in 1989 (Smith and West,

1994). During this year, the largest supplier of furniture was Italy, with exports valued at \$4.5 billion, owning 20% of the international market share. Italy was followed by West Germany, Taiwan, France, and Canada, with export values of \$3.7 billion, \$1.9 billion, \$1.3 billion and \$1.3 billion respectively (Smith and West, 1994). Among developing countries, Taiwan was the largest furniture supplier with exports valued at \$1,897 million followed by Mexico, \$535 million and China, \$312 million. (Smith and West, 1992). Thailand was in the fourth position in this developing country list with exports valued at \$265 million. Its emergence in the international furniture market was very dramatic with 89% furniture export growth within a two-year period (1987 to 1989) (West and Smith, 1992).

In 1990, Japan was the largest wooden furniture importing country in Asia, where the import value totaled \$352 million (Hansen, 1991). Asia was the leading supplying region at 55% of value of imports led by Taiwan, Korea and Thailand (Smith and West, 1994). Europe supplied another 37%, primarily from Italy, while the U.S. supplied the remaining 6.2% (Smith and West, 1994). During the 1990s, Asian furniture exporters continue to be led by Taiwan; however, other emerging manufacturing nations such as Malaysia, Indonesia, and China were becoming increasingly important (Smith and West, 1992).

One of the success factors used by these new leading exporters entering the international market was a ready-to-assemble or knock down packaging system for furniture which saves transportation and shipping costs (Florence, 1990). In addition, these companies implemented new technologies in furniture production and adopted aggressive marketing strategies. Strong industry motivations and government programs

in the form of export assistance and technology training have also contributed to the success of these countries in the international furniture market (Florence, 1990). Government regulations coupled with lower labor rates and an attitude towards longer terms of profit, have contributed to the success of these companies in marketing their products abroad (Florence, 1990).

In the expanding international market for wooden household furniture, developing countries in Asia have been able to compete favorably (Alabaladejo, 1989). These countries have a strong competitive position because of an abundance of raw materials for furniture construction and relatively low labor costs (Alabaladejo, 1989).

In global furniture trade, Smith and West (1994) have identified six factors that affect competitive advantage of furniture industries: raw material supply, production or technology, design and marketing, related/supplying industries, home country demand, and government influence on trade. However, the government role may be more important as it can influence the other five factors identified in addition to providing political stability to create a conducive business environment (Smith and West, 1994).

### **International Policy Development**

Porter (1990) believes the proper role of government is to stimulate a high degree of dynamism within an industry through continuous innovation and improvement. Government involvement has been a key element for many developing countries which depend on export activities as the primary source of foreign exchange earnings. The levels of government involvement vary from export assistance to formulating regulations favoring export industries. Most of the time, the government can formulate policy to

enhance access to and competition for raw materials in a way that favors local downstream processing industries (Smith and West, 1994).

Government policies related to economic growth can take several forms such as trade policy, taxation, government intervention, monetary policy, capital flows and foreign investment, banking, wage and price control, property rights, regulation, and the black market (Barth, 1998). Government can directly influence trade through taxes or regulations on imports and exports if these products are needed to support domestic industry growth. Trade measures can be discriminatory, as in specific tariffs, or indiscriminate, as in general antidumping duties (Charnovitz, 1996).

Based on his study of Georgia firms, Ogram (1982) reported that government regulations were perceived as significant barriers to exporting by both exporters and non-exporters. Government regulations may relate to tariff and non-tariff barriers, customs requirements, import limitations, and foreign exchange restrictions (Rabino, 1980).

Regulations may cause difficulties to the exporters and make the export opportunities unattractive. Lack of knowledge on exporting or export procedures has been identified by some researches as a barrier to exporting (Alexandriedes, 1981; Pavord and Bogart, 1975; Ogram, 1982). These have caused major concern to firms entering the export market or intending to increase export activity. In order to carry out export activities, it is important for the firm to acquire the knowledge and skill to deal with unique problems that they may encounter during the process (Kedia and Chokkar, 1986).

A key development incentive provided by the governments of developed countries to developing countries is the Most Favored Nation status such as the General

Scheme of Preference (GSP). The purpose of this status is to facilitate the economic growth of Most Favored Nations by exempting their products from import duties or applying lower duty rates than apply to other nations, which makes the products more competitive in the buyer's market. The U.S. government has recently decided that 130 developing countries, including Malaysia, will no longer be given this status. In the case of Malaysia, termination of designation as a beneficiary developing country for the purpose of the GSP was effective on January 1, 1997 (Clinton, 1996). This means that the import duty will rise to regular rates of 2% to 7% for most furniture (Socher, 1995). Any increase of price, if not absorbed by importers, will likely affect sales, particularly for the medium and low-end prices of furniture.

It is now generally agreed that exports have the potential to play a major role in the economic development process of developing countries (Bhagwati, 1978; Kruger 1983). It can be said that much of the progress made by the developing countries toward positioning themselves as important suppliers in international trade is due to government assistance and incentives. There is a wide variety of measures that can encourage exports, such as export promotion strategies (Sedjo, 1986), concessionary transport rates, duty free import of intermediate inputs, which are used for export goods, and industrial policy design (Westphal and Kim, 1977). All of these incentives might compensate for the various barriers that exist (Sedjo, 1986). From the development point of view, however, excessive export inducing incentives may result in industries with less competitive advantages (Sedjo, 1986).