

CHAPTER IV

ASIA'S MAJOR FURNITURE EXPORTING COUNTRIES

Taiwan

Taiwan became one of the world's largest furniture producing countries, establishing a blueprint for success for other developing Asian countries. Taiwan faces many challenges, such as appreciation of the New Taiwan Dollar, competition from other Southeast Asia countries, rising domestic labor costs, and a shortage of raw materials such as wood, cane, and rattan (Industry Reports, 1998). In view of these challenges, some Taiwanese manufacturers have moved their production to Southeast Asian countries, while others have opted to stay in Taiwan. Most Taiwanese manufacturers have invested substantially in their production line and facilities, and in hiring experts to help with the design and production technology (Industry Reports, 1998).

In 1995, the total export value of Taiwanese wooden furniture was \$609 million. The United States and Japan were Taiwan's largest markets. Taiwan's top ten furniture markets in 1994 and 1995 are shown in Table 3. In recent years there has been a major change in shipments of Taiwanese furniture. Shipments to less developed countries have fallen while shipments to developed nations have increased. This reflects Taiwan's strategy to move to higher-end markets with an improvement in product quality and also in its ability to deliver products in a timely manner.

To overcome the problem of raw material shortages, Taiwan manufacturers import logs and lumber, especially oak, from the United States. These firms produce

wood furniture and components and ship finished wood products back to the United States consumers (Hoff et al., 1997).

Wooden furniture, which is Taiwan's major type of furniture, is giving way to metal furniture, the fastest growing category of furniture with export value reaching \$81.1 million in 1995 (Industry Reports, 1998). The change of this leading category of furniture was due primarily to the shortage of raw materials for wooden furniture and the maturation of their metal furniture industry. Wooden furniture is still an important category of furniture with an export value of \$609 million in 1995 (Industry Reports, 1998). It consists of items such as office, kitchen, bedroom, and dining room furniture. More than 56% of this value was made up by wooden office furniture. The latest trend for wooden furniture is to produce furniture made from the combination of wood and metal and also composite panels. Cane and rattan furniture, although faced with supply problem, has grown 10.2% to \$46.52 million in 1995.

Indonesia

Indonesia's tropical forests are the most extensive in Southeast Asia. In view of the rapid growth of its wood processing industries such as furniture, wood-based panels, and wood composite products, it is estimated that the importation of forestry and woodworking equipment will grow by an average of 4% annually for the next three years (Anon, 1996). Wood-based industries were Indonesia's second biggest non-oil and gas export earner in 1993 (Anon, 1994c). Indonesia's total forest area is 144 million hectares, where 49 million hectares are protected; 30 million hectares are designated for

conversion to wood plantation and, 64 million are for forest concessions for timber companies (Anon, 1994c).

Indonesia banned raw log exports in 1980 in a successful bid to persuade wood processors in Taiwan and Korea to shift their plants nearer to their source of supply (Atsbury, 1993). Due to this ban, many countries that depend upon Indonesian raw material-such as Japan, Korea, and Taiwan-immediately sought new suppliers, such as Malaysia and New Guinea (Schreuder and Vlosky, 1985). The Indonesian timber industry has benefited from the log ban. Timber export earnings in 1993 reached \$6.5 billion, consisting of plywood, \$5.63 billion, sawn timber, \$789 million, wood furniture, \$955 million and rattan furniture, \$330 million (Anon, 1994c). In 1993, it controlled 90-95% of the world's tropical plywood market, compared with 70% in 1989 (Anon, 1994c). Indonesia is the largest tropical plywood producer in the world and supplies more than two thirds of the U.S. tropical timber imports (Schwarz et al., 1992).

The Indonesian government also imposed an export ban on unprocessed rattan in 1980 specifically to force industry to move toward downstream processing. The ban, however, was lifted some time ago as it was found that the ban depressed the price of raw timber and acted as a subsidy to a relatively young plywood industry. Most plywood plants in Indonesia operate at only 60 percent of capacity, which some relate to insufficient log supply (Anon, 1994c).

In response to government policies and initiatives, business conditions for private sectors have generally improved during the past five years (Krutilla, 1988). The government also has instituted reforms with the purpose of streamlining the licensing and monitoring process for domestic and foreign investment, and to reduce the cost and time

delays associated with customs requirements, shipping regulations, and merchandise handling and storage at the port. In addition to that, the tax structure has been revised to decrease marginal tax rates, reduce the number of tax brackets, and standardize the treatment of taxable income (Krutilla, 1998).

Export regulations were streamlined in the year 1985 to help exporters deal with financial and credit term matters (Price Waterhouse, 1986). The rules regarding importing are more restrictive than for exporting (Price Waterhouse, 1986). Local importers (Indonesian) can have a five year extendable license or a two year temporary license, while a foreigner is given limited license to import materials and machines for the company's own production process.

The furniture industry in Indonesia has been expanding since the early 80s at an annual growth rate of 7% (Krutilla, 1988). In 1982, there were 150 plants with employment of 20 or more workers. Only four of these plants produced for export markets (Krutilla, 1988). Capital requirements for furniture and wood working enterprises often are lower than for the primary wood-based processors and cheap labor is available. The production cost for furniture factories however, has been high due to transportation cost from Sumatra and Kalimantan (Krutilla, 1988).

Thailand

Thailand's furniture industry has developed using domestic sources of popular furniture species such as teak and rosewood (Yates, 1986). Major furniture export markets for Thailand in 1987 were the United States, Japan, and France, representing 60% of the total value of furniture exports (International Trade Report, 1988). Singapore

and Hong Kong both played important roles as re-exporters (Yates, 1986). Thailand's exports of furniture to OECD countries increased between 1987 and 1989 by 89% to \$265 million. (U.S Dept. of Commerce, 1989). By 1989, Thailand was the number four supplier of furniture exports from developing countries (West and Smith, 1992).

Deforestation in Thailand has made it increasingly difficult for the Thai processing industry to obtain raw materials. Currently, Thailand is the largest importer of tropical sawn timber from Malaysia (MTIB, 1995). With its booming furniture industry, Thailand is facing short supplies of tropical hardwoods and may possibly look for temperate hardwoods such as oak, ash and maple (Anon, 1993a). In 1961, about 53% of Thailand's total land area was covered by forest. Today however, only 28% of their land is covered by forest. A study by the Thai forestry sector master plan estimated that by 2010, the forest area will decline to 24% of total land area (Anon, 1993a).

To feed its furniture processing industry, Thailand uses temperate hardwood species imported from the United States such as white oak, white ash, and white hard maple. Currently, there are over 350 wood furniture factories. These firms have at times faced difficulties in getting supplies for certain specifications and in small lots (Anon, 1993a).

The rubberwood processing industry is experiencing rapid development in Thailand, which is attributable to both the shortage of teak and the heavy promotion by the government (Anon, 1993b). They also face a rubberwood shortage to feed their furniture industry, which was supplying in the low to medium end export market (West and Smith, 1992).

Thailand's government provides investment incentives to both new and existing investors and organizations involved in the development of the rubberwood industry (Anon, 1993b). Most of

the supplies come from smallholdings without much problem of access to the locations. Besides this, a well-developed national infrastructure exists to support the growth of the industry.