



FRST 497: China's Export of
Wooden Furniture of a kind
used in offices (HS Codes:
940330)

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China's Export of Wooden Furniture of a Kind Used in Offices (HS Codes: 940330)

Abstract: This is a literature research on the present status of China's exports of Wooden Furniture of a kind used in offices, as well as some major opportunities and challenges that are about to influence its future development. Based on the survey, the world trade of office wooden furniture has presented a positive trend when the whole market of wooden furniture is shrinking. This has granted China-the most significant exporter of wooden products in the world, a great chance to lift its position in global trade.

Nevertheless, neither global circumstances nor domestic environment of wood office furniture market is perfect. China is under a situation where profound industrial structural readjustment for office wooden furniture industry is urgent, for the purpose of sustaining China's position in this world market. This article will also give an overview of wood office furniture market, which is very closely tied to the overview of the entire wood furniture industry.

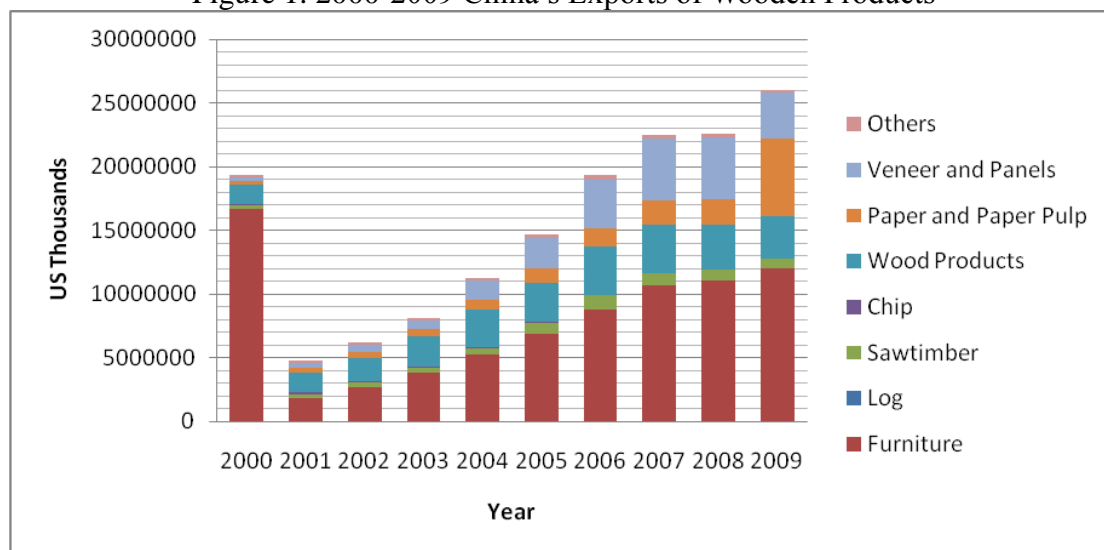
Key words: global, trade, market, industrial, structure, readjustment, Vietnam, Germany, Italy, shrink, home-office, antidumping, ODM, OEM, OBM, FSC, COC,FM.

Introduction

Evidences show that there is a strong GDP growth in China, and this growth is to be continued to at least year 2020 (A.G.Raymond&Company, 2006). This indicates positive domestic economic circumstances. Because of the development of market diversification, China is now promoting its economic development in many aspects (Yingyi, 2000). The Chinese wood industry is one of the most significant contributors of the economy of China (Chinese Forestry Development Report, 2009).

Historically, China has been better off other countries in exporting wood products due to its comparative advantages of low production operation cost, labour cost and material cost (Chinese Forestry Development Report, 2011). Wood furniture accounts for the largest proportion of all the exported wood products, as we can see from the Figure 1 below (2010 China's Forestry Development Report). Of all exported wood furniture, wood office furniture used to rank third following wood bedroom furniture and wood kitchen furniture (Han, 2009).

Figure 1. 2000-2009 China's Exports of Wooden Products



According to the latest database, wood office furniture has 4.31% of total Chinese export of wooden furniture, while wood bedroom furniture has 17.43% and wood kitchen furniture has 5.10%. This means that exports of wood bedroom furniture and wood kitchen furniture are still larger than that of wood office furniture. However, export of wood office furniture has shown a growing trend and formed an emerging market (Chinese Forestry Development Report, 2010).

The emerging market also attracts other countries, especially low-income countries like Vietnam, who have been competing with China in global trade of wood office furniture. Moreover, domestic market of office wooden furniture has hit barriers, such as lagging manufacturing technology and lack of innovation. Additionally, global issues like environmental protection are imposing China to abandon the use of illegally logging wood, which will affect the production of wood office furniture (Han, 2009).

To conquer the problems above, China has started taking some measures. For instance, many wooden furniture producers are gradually changing their producing patterns so as not to lose global market share to traditional wood furniture manufacturers in Germany and Italy. Besides, China has adopted chain-of-custody certification (CoC) programs and forest management (FM) certification programs, which are used to verify that wood products are environmentally friendly (Eastin, 2011). Hence the office wooden furniture industry has to keep up in order to have a brilliant prospect in the world trade.

The essay starts with an overview of China's global position of wooden furniture export. Following this, it is a more detailed analysis of the current and future situation of China's export of wood office furniture. At the end, the essay gives a conclusion, as

well as some recommendations to solve the problems that China is facing in the wooden office furniture industry.

Wooden Furniture Export in China – A Global Perspective

During the last 20 years, China has surpassed other countries as the largest exporter of value-added wood products. Besides wood flooring, wood furniture is the other primary contributor of China's export of wood products (Eastin, 2011). As the export of wooden furniture is increasing, export of office wooden furniture has showed an upward trend as shown by Figure 2 (UN comtrade).



Distribution of the wood furniture industry in China is fragmented. There are more than 50,000 furniture manufacturers sizing from small to large. Most of them located in the east coast provinces. Over half of the wood furniture is produced by the top five provinces: Guangdong, Fujian, Shanghai, Zhejiang, and Liaoning (ITC, 2009). Therefore, development of wood furniture industry has regional differences, so does the development of office wooden furniture industry.

According to Figure 3 shown below (2010 China's Forestry Development Report), China is also importing wood furniture, though the import is much smaller than its export. China has been exporting medium to low-end wooden furniture, however the wood furniture imported by China is high-end furniture produced by European countries like Germany. This is because China's furniture design and manufacturing technologies cannot match those European countries (Han, 2009).

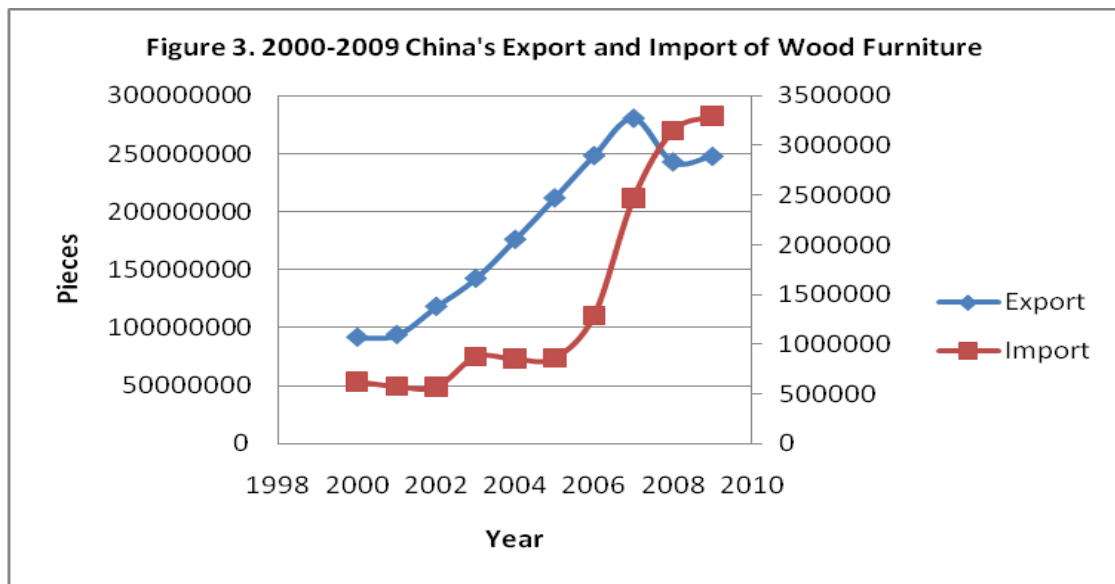


Figure 3 also shows an upward trend of China's import of wooden furniture. According to the growing GDP in China, Chinese now have better purchasing ability, which has promoted the import of high-end wooden furniture (2010 China's Forestry Development Report). There are other reasons for the growing domestic demand for high-end wood furniture. For example, the development of real estate and tourism in China has increased the demand for wood furniture of a kind used in residences and hotels (ITC, 2009).

Apart from competitions with traditional European countries, China is also competing with developing countries like Malaysia and Vietnam, who have emerged as important exporters of wooden furniture (Business-in-Asia, 2009). So far, China's

export of wood furniture has been increasing except for a single decline in 2001 as shown in Figure 4 (2010 China's Forestry Development Report), which is due to the worst global recessions in 80 years. However China may risk losing market share to those developing countries that are similar to China (Han, 2009).



China's wood furniture is currently targeting at medium to low-end products. Nevertheless, there is an upward demand for high-end wood furniture (Han, 2009). If China doesn't come up with corresponding strategies to adjust the manufacturing patten in the industry, the global performance of Chinese wooden furniture will level off. At this moment, wood furniture manufacturers in China are improving themselves to sustain their market positions (Han, 2009).

Over the past two decades, lower global trade barriers such as the growing export rebate rate have benefited Chinese export of wooden furniture. However at the same time, an increasing number of foreign entrants have been competing with China (Wayne, 2011). Besides, because of the minimum wage legislation (2008.01.01), the labour cost in China will be raised, which means China is losing one of its comparative advantages (National People's Congress, 2007). In other words, Chinese

export of wooden furniture is facing with intensifying global competition, and its competitiveness is decreasing (Han, 2009).

In spite of global competition, China is facing with some market barriers that obstacle the development of wood furniture industry. These barriers include unfavorable macroeconomic circumstances, shrinking international demand, a technology gap and emerging trade barriers. These have become major restrictions for China to sustain its position as the largest exporter of wooden furniture (ITC, 2010). They are challenging China to upgrade the entire industry in each single aspect through innovative steps, in order to be better off in export of wooden furniture (Han, 2009).

Current Chinese Export of Office Wooden Furniture

Production by Types within the Wooden Furniture Industry

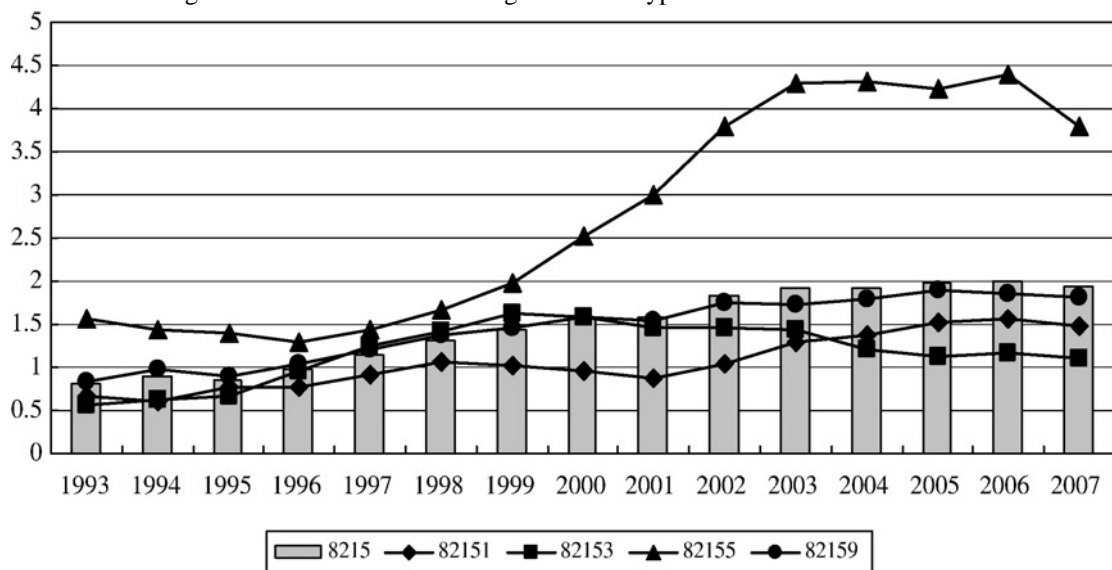
Different types of wooden furniture position differently in the industry. Accordingly, wooden furniture is categorized into 4 major groups: wood office furniture, wood kitchen furniture, wood bedroom furniture, and other wood furniture. Of these four wood furniture types, wood bedroom furniture ranks first, followed by wood kitchen furniture and then wood office furniture. Other wood furniture ranks last (Han, 2009). In spite of the variation in market share of various wood furniture types, the entire wood furniture export has been growing since the early 1990s (CSL, 2008).

According to Figure 5, wood office furniture export has been growing since 1997. Literature researches indicate that wood office furniture had the lowest Revealed Comparative Advantage' (RCA) Average compared with other wood furniture products. RCA is "an index that compares the export share of a given commodity or sector in a country with the export share of that commodity or sector in the world

market" (Han, 2009). Hence a lower RCA illustrates weaker global competitiveness or fiercer international competition of a product (Han, 2009).

Apparently, China's export of wooden office furniture is growing prior to that of other wooden furniture products. So there is an increase of its RCA from 0.66 in 1993 to 1.49 in 2007 as shown in the Figure 5 below (Han, 2009). This is primarily driven by the transformation of wood office furniture from common products to multifunctional, ergonomically designed products. There are many reasons that have lead to this evolution in wood office furniture, even in the whole wood furniture industry (Reference for Business).

Figure 5. 1993-2007 RCA Changes of Four Types of Wooden Furniture



Source: Calculated from UN Comtrade database SITC Rev.3.

Note: 8215: wood furniture;

82151: office wood furniture; 82153: kitchen wood furniture;

82155: bedroom wood furniture; 82159: other wood furniture.

For example, multifunctional wood office furniture capable of different uses is welcomed by office workers who are supposed to be adjustable for their jobs. Besides, ergonomically designed wood office furniture such as motorized chairs whose sizes can be adjusted to fit different body shapes have made them appeal to consumers,

especially consumers with job-related disabilities. Last but not the least, flexible and innovative wood office furniture is very suitable for people who are working from home, with limited space for home offices (Reference for Business).

Wooden Furniture Industry Landscape in China

Production of wood furniture requires many resources, intensive labor, but has relatively low entry boundaries. Therefore, it is a segment of the wood furniture industry which has only a few very large companies and many small firms. However, market share of the top four largest companies in the industry is only 6.62% (Jin, 2007), which usually described as four-firm concentration ratio.

A small market share of largest companies means that the wood furniture industry is not very consolidated and indicates attractive market competition circumstances (OCN, 2007). This is mostly due to the structure of the industry: 83.56% of surveyed manufacturers are collective enterprises, followed by joint ventures and state-owned manufacturers with a percentage of 7.12 and 6.79, respectively (Stock Exchange Executive Council, 2003).

Hence, most of the manufactures in the wooden furniture industry are neck and neck in competitiveness. However, as mentioned above, this industry has regional differences (Han, 2009). Companies located in the east coastal region of China may have higher competitiveness given the prosperity in that region. Apart from regional differences, there are also other aspects within a firm that can affect its position at the wood furniture industry (Reference for Business).

For example, the wooden furniture type is one of the aspects (Reference for Business). Currently, wood furniture of a kind used in bedroom, kitchen and other uses rank

ahead of office wooden furniture in the entire Chinese export of wood furniture (Han, 2009). Whereas considering trend of growing wood office furniture exports, its production can be expected to increase in the future. Eventually, it may facilitate the readjustment of the wooden furniture industrial structure. (Han, 2009)

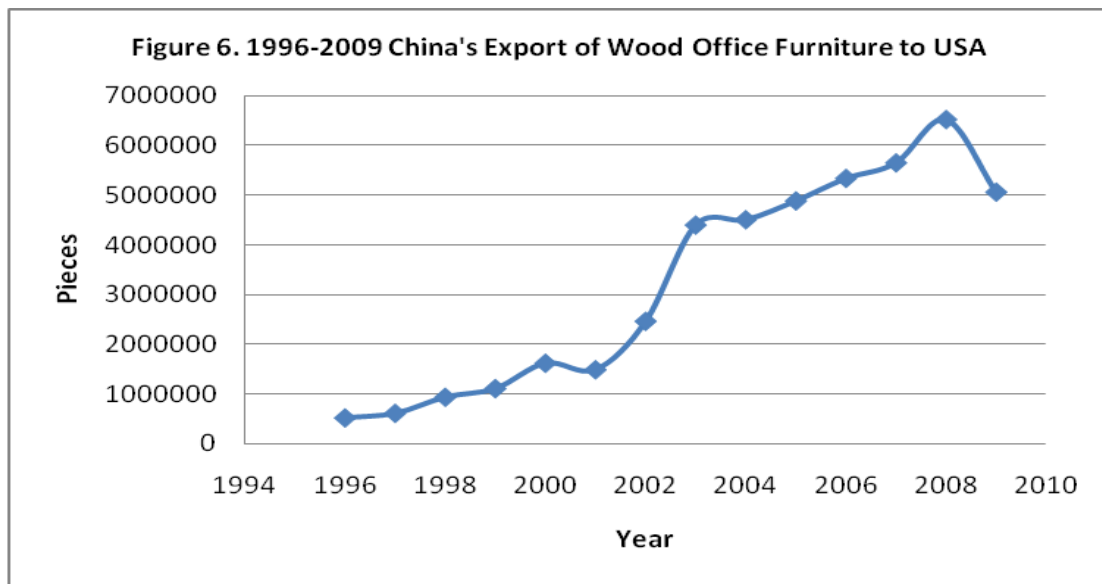
Import and Export of Office Wooden Furniture in China

Despite the huge import of raw materials, primarily logs and lumber, China is also importing wood furniture even though it is regarded as the leading exporter of wooden furniture (Eastin, 2011). Nevertheless, this position depends on the export value and amount, which does not necessarily mean that China is overtaking the entire global wood furniture trade. In fact, China has been in competition with traditional European manufacturers - Germany and Italy, for a long time (Han, 2009).

China cannot match those two European companies in producing high-end wood furniture (Han, 2009). This is the reason why China imports middle to high-end wooden furniture, while exporting low to medium-end products. If new strategies are not taken, China will lose its relative economic advantages as the largest exporter in wood furniture industry.

Wood office furniture, as a type of wooden furniture, didn't emerge into the market until 19th century. Dating back to that time, the US industry stepped into an innovative era with the invention of technological products such as telephone that enable more people to work in offices (Wood Office Furniture, 2011). Since then, growth of wood office furniture increased in the early 1980s, mainly because the industry started incorporating metal in their production (Reference for Business).

The US has been the largest importer of Chinese wooden furniture since 2007, and accounts for over 80% of the total wooden furniture exports from China (Eastin, 2011). Hence as wood office furniture became more popular in the US, China's export of wood office furniture to US has been increasing as well (Wood Office Furniture, 2011). According to the Figure 2 below (UN comtrade), US import of Chinese wood office furniture has been increasing since 1996.



Export versus Domestic Consumption of Chinese Office Wooden Furniture

Given the great increase of global furniture trade from US\$42 billion in 1997 to US\$97 billion in 2007, there is a huge demand for wooden furniture much of it supplied from China (Han, 2009). The demand consists of domestic and international demand. Domestically, due to the increasing industry plants built in China, as well as booming development of diversifying industries, there will be considerable demand for wooden furniture for residential and office uses (Reference for Business). According to Figure 4, we can infer that world demand for Chinese wooden furniture is increasing.

More specifically, because a considerable amount of companies started emerging into China's market, more wood office furniture will be consumed. Since the cost to build an office building in China has increased, new companies have to seek a way to reduce the area of their offices (ITC 2009). The multifunctional and ergonomically designed wood office furniture will satisfy their needs. Especially for small enterprises, it is very significant for them to save office spaces so as to reduce operational cost. Hence domestic consumption of office wooden furniture is going to increase (Wood Office Furniture, 2011).

There is a growing trend of people working from home, especially among aging people and those who have retired early but intended to do some jobs. These people have become major drive of the growing need for office wooden furniture with a wide range of capabilities (Reference for Business). This has been a worldwide phenomenon, promoting the growth of export and domestic consumptions of Chinese wood office furniture. Additionally, as with China, other places in the world also have more and more companies being set up. Chinese office wooden furniture may be needed in those places, which suggests the increase of furniture export (Wood Office Furniture, 2011).

Future Chinese Export of Office Wooden Furniture

Supply and Demand of Chinese Office Wooden Furniture

China's market share of world wooden furniture trade is increasing and it is predicted to increase forward to 2019 (A.G.Raymond&Company, 2006). However, the distribution of market share has shifted from European countries to Asian countries. There are two major reasons for this result: one is the influence of global financial

crisis decreased the demand from European market; the other is the raise of export rebate rate of wood furniture accelerated the furniture export to Asian market (2010 China's Forestry Development Report).

According to Microeconomics, supply always keeps up with demand. Hence, as demand for wooden furniture grows, supply of wooden furniture should also increase. However, due to the latest Chinese policies under "Forestry Law of the People's Republic of China" about protecting natural forest, a gap has been formed between the demand and supply. Since sources of raw wood will reduce, the profitability of Chinese wood industry will decrease because of either increased cost or declined export (Eastin, 2011).

World Trend in Consumption of Chinese Office Wooden Furniture

Data show that there was a 15% increase of China's market share of global wooden furniture trade from 1997 to 2006, which demonstrated an upward trend of world consumption of Chinese wooden furniture (CSIL, 2008). Nevertheless, China now has bad reputation for importing illegally harvested logs to manufacture its wood products (Eastin, 2010). Illegal logging has been reported as one of the major killers for global rainforests, especially in Indonesia and Malaysia. It will eventually result in further global desertification (Forest, 2004).

As China becomes the largest importer of illegally harvested logs, its wood product manufacturers are criticized for either ignorance or unawareness of environment problems. Therefore, importing nations like US have started adopting environmental procurement policies to avoid wood products made of illegally harvested log. Such policies may cut down the consumption for Chinese wooden furniture (Eastin, 2010).

Meanwhile, those importing nations also developed tactics such as international certification standards, legality verification requirements and eco-labeled wood certificate to verify whether the imported wood products are environmentally friendly (Eastin, 2011). Under the pressure of reduced sources of raw material, the consumption of Chinese wood furniture may decline. Accordingly, in order to sustain China's global market share of wood products, it has to come up with strategies to deal with illegally logged wood.

Apart from illegally harvested logs, world consumption of Chinese wood furniture is also affected by economical and technical impacts. For example, there are antidumping duties on Chinese bedroom wooden furniture producers and exporters. (U.S. Department of Commerce, 2004). It is used to raise the export barriers of Chinese wood furniture and protect domestic industries in US. Such economical restrictions reduce China's export of wood furniture, and may eventually affect the world consumption

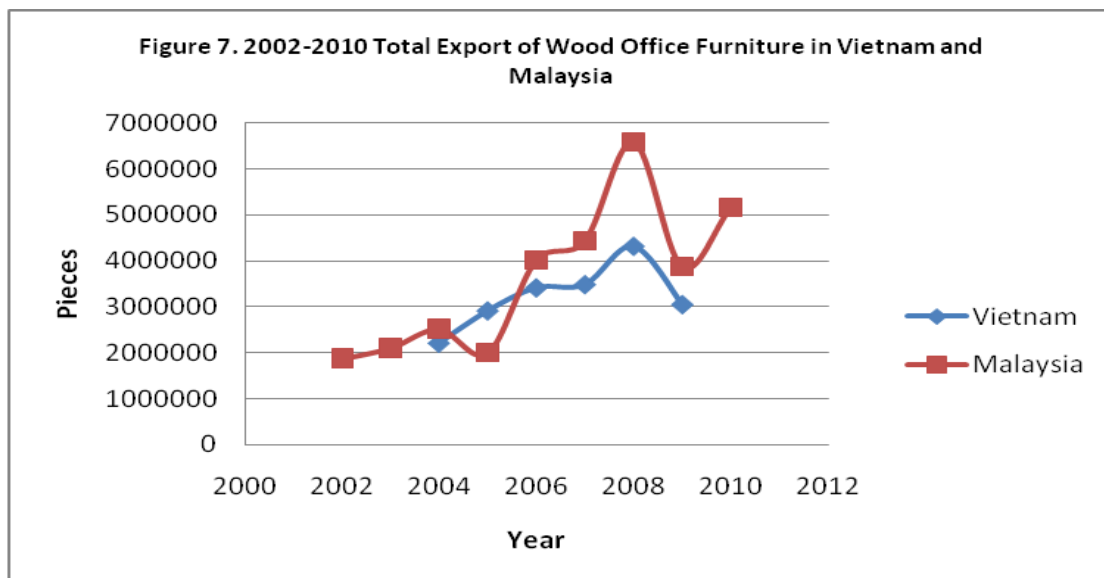
Technical impacts mean the different levels of wood furniture manufacturing technology in different countries. As mentioned before, traditional European countries have the largest market share in terms of high-end wood office furniture (References for Business). Even though China is the largest exporter of wood office furniture, its exported wood office furniture is mostly low to medium-end (UN comtrade). Therefore, technology is another significant factor that will affect world consumption of Chinese office wooden furniture.

New Competition of Chinese Export of Office Wooden Furniture Industry

China's export of wooden furniture has been playing a significant role in global production and export value of forest products as China becomes the leading exporter

of wood products. This is accelerated by a series of factors like rapid development of Chinese domestic economy, abundant overseas investment, promising export business, etc... (Han, 2009). The five main importers of Chinese wooden furniture are North America, the European Union, Japan, Hong Kong, and US, which together have occupied about 75% of China's total export in 2006 (Han, 2009).

Due to the current zero tariff, China is in a fierce competition with firms from Italian, German, Swedish and US in the world trade of wooden furniture. Eventually, profitability of Chinese wooded furniture industry may reduce (Han, 2009). There is also competition from lower-income countries, primarily Vietnam and Malaysia. For example, Exports of wood office furniture from Vietnam and Malaysia have been increasing in recent years as we can see from Figure 7 (UN comtrade), which suggests the loss of Chinese wood office furniture exports. Moreover, Mexico and Poland are also major competitors of China due to their proximity as developing countries (References for Business).



Overall, China's export of wood furniture is facing with international competition from both developed countries and developing countries. Compared with developed

countries like Italy and Germany, China cannot match them in reputation of wood furniture quality. Hence the major task for China is to establish a globally well known brand in order to win the competition (ITC, 2009).

Market Barriers of Office Wooden Furniture Industry in China

During the past decades, China has overtaken other wood furniture exporters with highly competitive prices (Han, 2010). Back at that time, marketing strategies of wood furniture manufacturers are mostly about reducing cost and increasing sales. For example, many companies built their industry plants in Chinese mainland because of cheaper operational cost (ITC, 2009).

Nevertheless, when it comes to the world market, there are more challenges. For example, development of office wooden furniture in Germany and Italy is more mature and well-managed than that in China. Because the wooden furniture industry in China is lack of skilled staff, experienced market management, and advanced technologies (Wood Office Furniture, 2011). Overall, current Chinese office wooden furniture industry is more facilities based, partly because of relatively small size of the firm and limited investment (Sagren, 2003).

Conclusions and Recommendations

Over the past two decades, as a low-income country with cheap labour and raw materials, China has achieved the biggest market share in world trade of wood office furniture (Wood Office Furniture, 2011). Analysis of China's forestry development points out that the growing GDP, thriving tourism, spreading real estate projects, and a tendency of "working from home", have all promoted exports of office wooden

furniture (Han, 2009). According to Figure 5, China's export of wood office furniture has been increasing except for a decline from 1997 to 1998.

Nevertheless, Chinese wood office furniture industry needs some adjustments to sustain its market position. First, it is important to be aware of the global competitive circumstances and strength, the new challenges and opportunities, as well as the current position of industry. As mentioned above, various income standards and geological locations can have significant influences on competitive strength of an industry. Hence, China's wood office furniture manufacturers should make their development strategies correspondingly. Besides, the strategies should be consistent with individual characteristics of each enterprise (Han, 2009).

Historically, Chinese wood products producers focused on cutting down costs and improving sales through management and market strategies, to make the industry more profitable. But the same tactic is no longer as effective as in the past. Because there are more challenges than before ever since China participated into World Trade Organization (References for Business).

Therefore, apart from reducing cost and improving sales, China's wood office furniture industry needs to introduce innovative design perspectives, upgrade product quality and feasibility, and readjust internal structure, as well as comply with the environmental harmony (ITC, 2009). In one word, the industrial structure of wood office furniture has to be improved. Otherwise the industry might risk at losing comparative advantages to lower-income countries like Vietnam and Poland gradually (Han, 2009).

For example, ready-to assemble and knock-down furniture is currently the two most important innovations of packing and shipping methods. In combination with the

lower entry barriers and increased openness of the market, perspectives like ready-to assemble and knock-down have predominantly contributed to the rapid growth of wooden furniture demand (Han, 2009). Besides, applications of several Forest Certification Programs and Eco-labeling have enhanced the attractiveness of Chinese wood products in the world (Eastin, 2011).

Furthermore, as a political perspective, government, wood office furniture industry association and enterprises should work together to accelerate the transformation from original equipment manufacturers (OEM) into original design manufacturers (ODM), further into original brand manufacturers (OBM) (Han, 2009). Meanwhile, it is time to promote forestry certification for Chinese wood products, so that the industry development will comply with the international tactic on protecting natural resources. Essentially, international certification standards for green wood products aim at avoiding trade of products manufactured with any illegal resources, which have potential harm to the global environment (Eastin, 2011).

However, there are many uncertainties that may obstacle the sustainable development of wood office furniture industry such as variable price trend and currency exchange rate (Xu et al., 2003). For example, decline in US dollar would weaken the competitiveness of exporters of US (World Bank, 2008), because of the dependence on the North American market. But overall, the future of China's export of wood office furniture is promising, as long as re-adjustments of the industrial structure can be achieved within the timeframe.

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