China's *wood furniture* industry

By Meiqi Xu, Xiaozhi Cao, Eric Hansen

Wood furniture industry is going global. Industrialising countries, such as China, Malaysia, Indonesia and Mexico where their manufacturing sectors play supporting roles in the national economies, are taking advantage of the vast pools of cheap labor, account for a large per cent of the wood furniture production in the world. The United States and Canada, the European Union, and Japan constitute the major wood furniture market.

China's story exemplifies the success of low-cost strategy in wood furniture industry. With 20 years of rapid development, China has become one of the world's top furniture producers with about one quarter of its annual output is for export. In 2002, the total furniture turnover reached USD 19.88 billion, including USD 5.417 billion for the overseas market.

Domestic demand is the engine driving the growth in China's furniture industry (while export is another pillar). Unlike other export-oriented industries in other countries, the Chinese industry is less susceptible to global economic fluctuations and has kept a double-digit annual growth rate ever since the 1990s. This can be attributed to the huge domestic market and booming economy, which consumes most of the industry's output and presents a soft landing during global market shrinkage or economic recession. Cheap labour and raw materials make up the country's competitive advantage in both the marketplaces and in attracting foreign investment. Quite a number of world-class companies have chosen China for their new production facilities. There are also signs that big American retailers have been moving their buying offices to major Chinese cities such as Beijing, Shanghai and Guangzhou.

China is also emerging as a big importer of timber as well. Over the last two years, imported timber has made up more than 50 per cent of the total Chinese commercial consumption. The State Administration of Forestry in Beijing reports that the annual consumption by China's timber and processing sector is growing at about 4 per cent per year. Domestic commercial timber production was about 45.52 million m^3 in 2001. Imported timber and imported products (logs, sawn timber, wooden-based panels, paper and paper pulp) amounted to 77 million m^3 (2001). The shortfall of more than 20 million m^3 was from unplanned timber harvests. Russia and Malaysia are the largest suppliers of softwood and hardwood, respectively. Africa and South America are also major sources. Its dependence on timber imports, raw material supplies and price trend could be the most uncertain factors for the future of the Chinese wood furniture industry.

Value of wood furniture imports from China to United States

The United States is the world's biggest consumer of furniture products. According to data provided by the American Furniture Manufacturers Association, imports accounted for 31.3 per cent of all household furniture sold in the country in 2001. The market value of wooden furniture in 2002 was USD 11.3 billion, half of which was for low priced foreign imports, especially those from Asian countries.

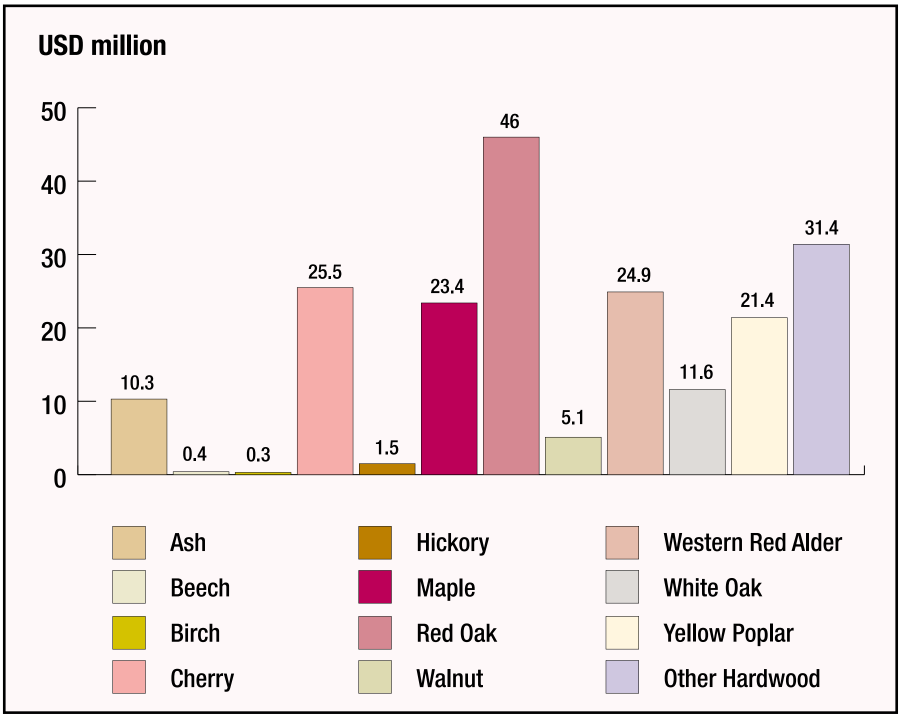
Since 2000, China has taken the place of Canada to be the number one furniture exporter to the United States. In 2001, China exported USD 1.9 billion worth of solid wood furniture to the United States, accounting for 30 per cent of the total imports in the category. Statistics reported that total Chinese furniture exports in 2002 reached USD 5.417 billion, up 30 per cent over 2001. Exports to United States increased by 40 per cent compared with the same period of the previous year, reaching USD 2.5 billion. Wood furniture is the fastest growing sector and is estimated to make up 80 per cent of the export volume.

At the same time, more and more United States woodworking machinery and furniture manufacturers are targeting China as a marketplace for their products. Exports of wood furniture to China grew from a mere USD 811 000 in 1989 to USD 10.8 million in 1998.

Value of United States wood used in Chinese manufactured furniture

China's huge timber consumption in furniture making and construction sectors presents a good opportunity for the United States. The global demand for US hardwood is shifting from Western European and Mexico markets to Chinese and Southeast Asian markets. According to the American Hardwood Export Council (AHEC), the total value of US hardwood products exported to Greater China (mainland China, Hong Kong and Taiwan) in 2001 was USD 212 million, an increase by 9.3 per cent over the previous year. Two of the main value-added US hardwood products – lumber and veneer reached USD 72.8 million in 2001 in their exports to the Greater China area (up 18.9 per cent over that of 2000). The most popular species in Chinese markets are oak and western red alder.

U.S. Hardwood Products (Lumber and Veneer) Exports to Greater China by Species 2001



(Source: the American Hardwood Export Council, June 2002)

Industry resources indicate that a dominant proportion of imported US hardwoods go to high-end furniture and interior sectors, of which a large percentage of them would return to the US market in the form of value-added products. Chinese furniture makers have accumulated enough experience in making western style furniture using oak, cherry and beech, which are very much sought after in the US and European markets. This in turn adds to the industry's strength in export.

The use of US softwood in furniture manufacturing is growing too. According to the FAS trade statistics, exports of US softwood to China soared from USD 2.3 million in 2000 to USD 12.6 million in 2001 with an impressive 548 per cent gain, despite an overall shrinking export market. Based on the Softwood Export Council (USA) recent marketing reports, the top five US softwood species exported to China by value are: (1) other cedars (incense and aromatic); (2) Ponderosa Pine; (3) South Yellow Pine (4) Alaskan Yellow Cedar; and (5) Sitka Spruce. Most of these species are for non-construction purposes. However, as softwood furniture products is still not widely accepted by Chinese consumers, furniture manufacturers are reluctant to use the high priced US softwoods for the domestic market.

United States ownership of furniture companies in China

The ominous flooding of cheap non-European furniture imports into the US markets have driven many US manufacturers to go overseas to seek cost advantages. Most of these manufactures take the contract-manufacturing approach by outsourcing in a country such as China, instead of setting up their own facilities there. They buy semi-finished components or whole piece from local manufacturers known as the Original Equipment Manufacturer (OEM), and finish them to high US market standards, which is a high value-adding procedure. By doing so, US companies not only lower production costs and stay profitable, but also lower the risks from the changing political and business climates in foreign countries. Industry experts estimate that 90 per cent of Chinese exports to US are from OEMs, who normally don't have their own brands and trade through US importers or middlemen.

Recent trends show that US companies are no longer satisfied with keeping their domestic market shares. Instead, they are actively marching into Chinese market. Tapping into China's booming domestic market requires an established marketing presence. As early as mid 1990s, world's top office furniture companies Haworth & Steelcase have stepped into high-end Chinese market. Haworth now is operating a manufacturing and assembly branch, and a showroom in Shanghai, a sales office in Beijing, and a trade company in Hong Kong. Another US office furniture manufacturer, Hickory Business Furniture, together with its Australian partner, Svoboda, has also established its company in Guangdong Province and a showroom in Beijing.

The opening of the first Ethan Allan store in China features a new marketing approach taken by US furniture companies. Located in Tianjin in north China, the store is part of an agreement with Markor Furniture International Ltd, one of the leading Chinese solid wood furniture manufacturers to develop a chain of Ethan Allen retail stores in China. The showroom displays innovative styles for both the casual and the classic lifestyle – similar to the company's US stores. The combination of Ethan Allan's unique marketing concept and its quality and stylish products and Markor's logistics and infrastructure as well as its access to the Chinese customers makes for a strong partnership.

Relevance to the rest of the world

Besides US market, which takes up more than 50 per cent of Chinese annual furniture exports, the other main export targets of Chinese furniture products in 2001 were Hong Kong (13.7 per cent – USD 0.54 billion, most of them are re-exported), European Union (12.1 per cent – USD 0.48 billion) and Japan (10.8 per cent – USD 0.43 billion). The Middle East is another fast growing marketplace. Chinese furniture sold to the Saudi Arab and the United Arab Emirates combined reached USD 21.1 million, consisting of 1 per cent of the total furniture export volume in 2001, which reflects a gain of 26.3 per cent and 71.47 per cent, respectively, over the previous years.

For furnished furniture, China is also a growing market. At present, imports represented only 1 per cent of domestic sales, and growth has been uneven. Sweden, Italy, Germany, Spain and the US are all striving to increase their furniture exports to China. IKEA has succeeded in establishing a foothold, not only by bringing in new style but by providing a wide range of choices for the Chinese customers. The amount of the furniture imports in China was USD 150 million in 2001, and USD 142 million in 2002.

Timber industry representatives from Southeast Asian countries, Europe, New Zealand and the US have managed to establish marketing presence in China. Imported wood species include European beech, Southeast Asian rubber wood, Russian oak, Australian eucalyptus, South American rosewood and New Zealand radiata pine. Use of softwood in furniture production remains relatively low, though there are signs that this is changing.

Conclusion

In recent years, the furniture exportation from China has been blooming to which is paid so much attention by international furniture industries that someone considers that the Chinese furniture industry will become "the World Factory". Although possessing with the larger scale in Chinese furniture industry, it has not been strong enough to be the leader in the international furniture industries from the view of the development mode of the industry, technical level, innovative ability, the brand and so on. In order to be the main furniture manufacturing base in the world, Chinese furniture industry must make efforts for 10 to 20 years by development with strides. We give an overall introduction of China's wood furniture industry and its latest development, by viewing China as more of a strategic partner to US industry and the Asian timber industry and to be developing a win-win alliance. AT

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History of the Chinese furniture industry

China is the world's most populous country (1.3 billion) and the fourth largest country in area (9.6 million km^2), with a continuous culture stretching back nearly 5000 years. The Chinese wood furniture history is as long as its culture and reached its peak during the late Ming (1369–1644 AD) and early Qing dynasties (1644–1911 AD). During this period, furniture of minimal classical style was abundantly produced in durable tropical hardwood shipped from Southeast Asia, especially after the ban on imports was lifted in 1567. Many of them are still well preserved in large museums all around the world, as masterpieces of handicrafts.

The history of China's modern furniture industry began in the early 1980s, after the "Reform and Open Door Policy" was adopted by the government. During the following two decades, it assumed a double-digit annual growth and rapidly took the leading position as an international furniture manufacturer, taking up 10 per cent of the global market share. Domestically, the furniture industry

is the nation's eighth largest industry, contributing about 1.6 per cent of GDP in 2002, about 2 per cent of the export value in the same year. The wood sector is its largest sector (70 per cent) and metal furniture (15 per cent) followed by upholstered furniture, rattan furniture and plastic furniture.

Wood furniture enterprises in China are mainly distributed in South China, East China, Northeast China, where China's four key markets are located– Guangdong province, Shanghai, Beijing and Danlian. Private and foreign invested or solely owned companies are the most common types of ownership with small to medium sizes. Both the industry and marketplaces reveal distinctive regional characteristics.

Today, there has been a significant increase in the awareness of branding and marketing within the industry. Total Quality Management (TQM) has been widely accepted by the Chinese manufacturers. The various furniture trading places in the country occupy over 2 million m^2 and are still expanding, though the general distribution channels are still immature.

China's accession to the World Trade Organization should facilitate continued growth of the industry. It is predicted that the industry will undergo qualitative changes within the next ten years through consolidation, merges and specialisation.

Facts *and* figures

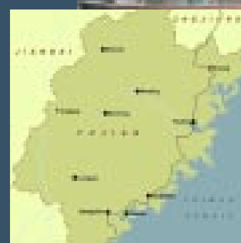
1. Size based on sales, number of companies, volume of wood used

There are more than 50,000 furniture enterprises with total of over 5 million employees in Mainland China. Most of the companies are small-scaled. In 2001, the overall domestic furniture sales value reached USD 11.7 billion. It is estimated that about 16.7 per cent of China's total wood use goes towards furniture production. Base on this rate, around 24 million m^3 of timber will be needed by the furniture sector every year.

2. Geographical concentration of Chinese furniture industry

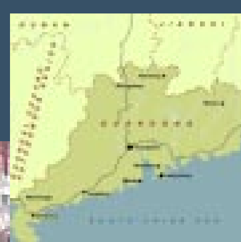
There are four major furniture making clusters, which are located in the south, east, north and northeast parts of China. Most of the furniture production and industry suppliers are concentrated in the coastal areas, particularly in South China's Zhu Jiang Delta, where Guangdong province is located. Embracing more than 6,000 furniture enterprises, Guangdong carries 30 per cent (by price) of the country's overall furniture production, reaching USD 4.4 billion in 2001. Its exports took up an even higher percentage of 50.5 per cent of the nation's total export value, at USD 2.2 billion.

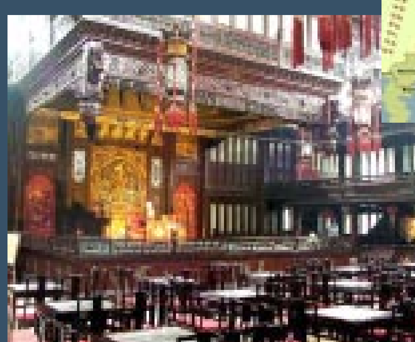
Guangdong took full advantage of China's Opening and Reform policy and favorable geological position for international trading. As one of the first places to introduce market economy in mainland China two decades ago, it has benefited much from the government's supporting subsidies and attracted foreign funds, which greatly boosted the growth of manufacturing industries, with about half of the production for export purposes.



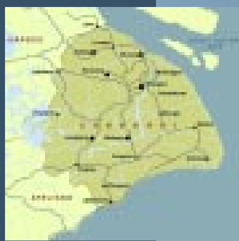
Shenzhen, Dongguan and Zhongshan have become the world's manufacturing centers for furniture, textile and athletic shoes. Industry suppliers also keep track of manufacture migration and concentration from outside of China. To improve exports, the local government has launched a series of policies such as tax countervailing on imports, to encourage the development of the industry.

Fujian province is another major furniture making force in South China, which hosts more than 3,000 manufacturers, featuring office furniture, metal furniture and upholstered furniture products. In 2001, furniture output generated in Fujian reached USD 0.98 billion, of which USD 0.4 billion was contributed by exports.





Shanghai and its neighboring provinces of Zhejiang and Jiangsu are one of the main engines driving the national economic growth. It has become possibly the largest domestic marketplace for furnishing products due to the fast speed of urbanisation and the booming housing industry. Furniture enterprises in this region contribute to 22.5 per cent (by price) of the overall production across the country, while the export value accounted for 20.3 per cent of the total.



Accounting for 4 per cent and 4.54 per cent of China's total production output and export value in 2001, respectively, the northeastern furniture industry is distributed throughout the provinces of Liaoning, Jilin and Heilongjiang, centered on cities of Dalian, Shenyang and Harbin. With easy access to China's major wood source of Greater and Lesser Xing-an Mountains, and Siberian forest zone in Russia, northeastern manufacturers have the advantage in producing solid wood furniture using local species, such as Chinese elm, ash, oak and white pine.