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The booming furniture industry in China

The high level of growth of China's furniture industry has attracted the attention of the international trade and domestic analysts. The production of furniture in China has maintained a very high growth rate for more than 20 years and furniture exports have also increased every year.

The value of China's furniture industry production (including nonwooden furniture) in 1978 was just \$157 million but by 2000, after more than 20 years of development, it had reached \$12.7 billion. By 2001 the output value had risen to over \$16.9 billion representing an average annual growth rate of almost 23% since 1978. During the same period the number of furniture enterprises grew to more than 50 000 different types of enterprises (predominantly small and medium sized) with a total of nearly 5 million employees throughout China. The rapid development of the furniture industry in China over the past years has been due largely to foreign investment (mainly from US, Taiwan Province of China and other Asian countries) and joint ventures increasingly attracted by the increased domestic demand accompanying economic growth, low wages, sufficient raw materials, competitive export tariffs and other incentives for production and exports. With China's entry to the World Trade Organization (WTO) in 2002, foreign investment in the furniture industry is expected to maintain its fast growth and play a bigger role in development.

The pace of trade growth in China

The upward trend in furniture production has been driven by a strong growth in both furniture exports and domestic consumption. Figure 1 shows that, from 1995 to 2001, the total value of furniture exports have increased almost four-fold from \$1.1 billion to \$3.96 billion at an average annual growth rate of 24%. Wooden furniture exports, in turn, more than doubled from \$932 million to \$2.4 billion in the same period, at an average annual growth rate of 17%. China's furniture is exported mainly to the United States (around half of Chinese exports), Japan and Taiwan Province of China (P.o.C.) with substantial re-exports from Hong Kong Special Administrative Region (S.A.R.) Markets are gradually being developed in Middle East, Africa, Europe, Southeast Asia and South America. Manufacturers based in China have been successful in penetrating high value markets such as Japan and, particularly, the US (the world's largest furniture market) with their furniture. China has developed a special ability to provide products well suited to the changing fashion in the US at highly competitive prices. US imports of Chinese wooden furniture have increased more than three-fold since 1992. China now competes fiercely with Canada for dominance of the huge US furniture market. Figure 2 shows the world's largest exporters of wooden furniture. In 2000, China overtook Germany as the third largest exporter globally and now competes with Canada for the second spot, with Italy being by far

the world's largest supplier of wooden furniture. The impact of China on the US domestic industry is being seen in the closing or restructuring of furniture plants and, over the next few years, many US furniture companies will likely shift their production to the Far East and focus on marketing and distribution at home. From the point of view of major exporting developing countries such as Indonesia, Malaysia and Thailand, China is a major competitor in their main export outlets. In fact, China overtook Thailand in 2000 as Japan's largest supplier of furniture.

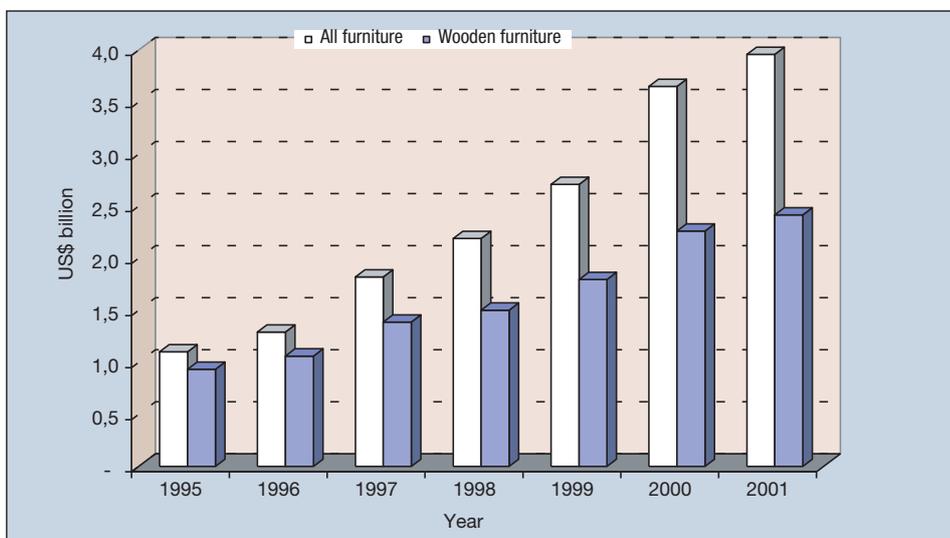


Figure 1.

China's exports of all furniture and wooden furniture (US\$ billion).
Source: COMTRADE (2003); ITTO MIS (2002).

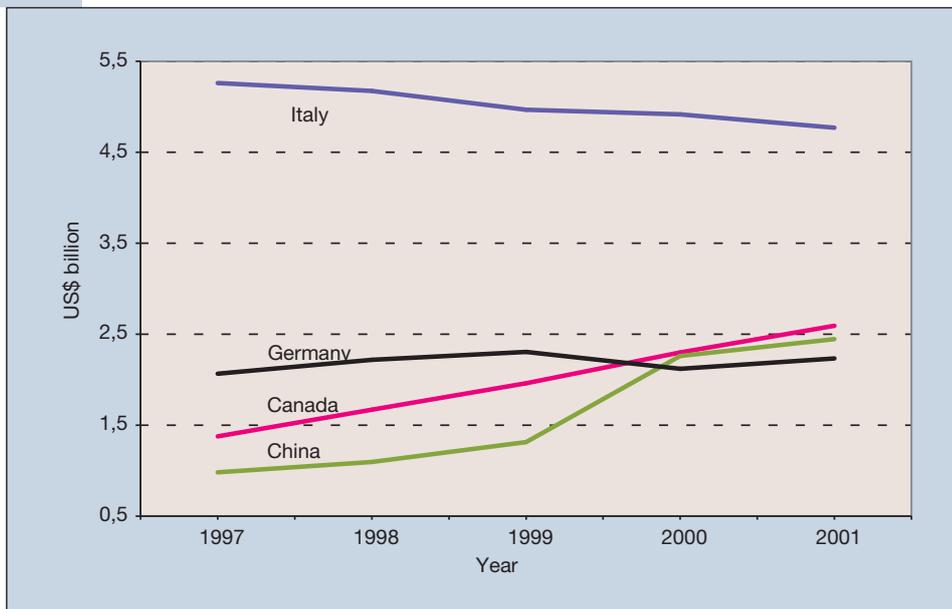


Figure 2.
World major exporters of wooden furniture (US\$ billion).
Source: COMTRADE (2003); ITTO MIS (2002).

Domestic consumption leads the growth

Despite the booming of the furniture export industry, domestic demand is the engine driving growth in China's furniture industry. Together with higher disposal income and improved living standards, one of the

China's furniture export regions

China's furniture export industry is mainly concentrated in the southern province of Guangdong, located on the Pearl River delta, and the northeast provinces of Beijing, Heilongjiang and Liaoning. The development of the furniture export industry has taken place mainly in the southern coastal area of China due to its proximity to large consumer markets and good trade infrastructure. Guangdong alone, a Special Economic Zone (SEZ), accounts for more than half of China's furniture exports and has progressed from being the leader in China to become the largest furniture production and export base in the Asia-Pacific region. With total furniture exports estimated at \$1.25 billion in 2001, Guangdong looks set to eclipse former regional leaders Malaysia (\$1.3 billion) and Indonesia (\$1.1 billion). The cities of Dongguan and Shenzhen accounted for virtually all of Guangdong's furniture exports. Rapid developments have been seen in the furniture export industry of these cities in recent years because they greatly benefit from commercial and political privileges received under the SEZ framework; they are closely connected to Hong Kong and Macao S.A.R.s and Taiwan P.O.C.; and they have well established international marketing network and business ties.

Despite the dominance of Guangdong, wooden furniture exports are also flourishing in other areas of China. In Hainan Province, an island in southeastern China, rubberwood is grown extensively in 330 000 ha of plantations and is being increasingly used for furniture manufacture for export, earning considerable foreign exchange for the Province (around \$27.6 million in 2001). Hainan's rubberwood furniture exports go mainly to France, Germany, Italy, United Kingdom, United States, Japan and Hong Kong.

key factors in this growth is housing reform, which seeks to gradually scrap the systems of state- and workplace-distributed housing in favour of private ownership with easier access to housing loans. Chinese have recently been allowed to own their homes for the first time in 50 years. Figure 3 shows that the domestic consumption of furniture has grown accordingly, almost doubling from \$5.8 billion in 1995 to \$9.2 billion in 2000, equivalent to about three-quarters of China's total furniture output. This rapid growth in consumption has created unparalleled business opportunities for China's furniture industry. Shanghai, for instance, has more than 2 500 high-rise buildings recently completed or under construction. Furniture demand in Shanghai's urban area amounted to \$1.2 billion in 2000 and has been growing at an annual average rate of 20% in the last few years. By the end of 2001, the per capita housing area for China's urban residents had jumped to 21 m² from 12 m² in 1989, approaching the level of moderate-income families in some developed countries. With expanded living space and improved housing quality, China's urban residents are spending more on home interior decoration and improvement.

Other factors affecting the medium-term consumption of furniture and timber products in general are large-scale infrastructure projects such as the construction of the Three Gorges Dam in Hubei Province (the world's largest) and the building of stadiums, gymnasiums, halls, hotels and other facilities for the 2008 Olympic Games. The building of the Dam, to divert the water of the Yangtze River from south to north, will require the flooding of thousands of villages and hundreds of towns and cities by 2009 and the resettlement of over one million people. These infrastructure projects will have associated increases in construction activity and demand for furniture.

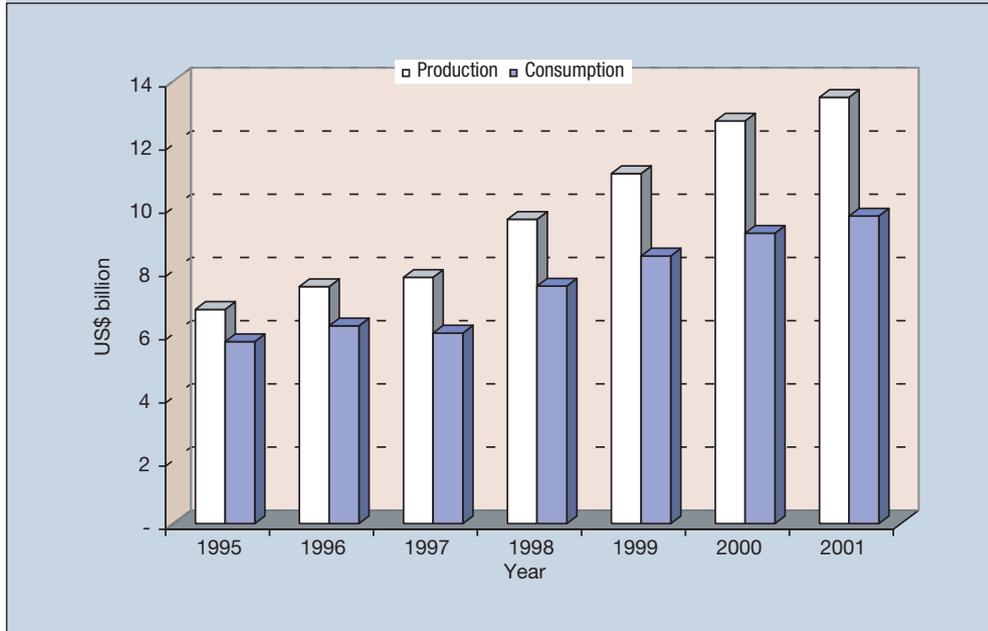


Figure 3.

China's production and consumption of all type of furniture (US\$ billion).

Source: COMTRADE (2003); ITTO MIS (2002).

* Estimated value for consumption in 2001.

China's development goals

China's National Furniture Association has bold development goals over the mid and long-term. It considers that the value of China's furniture production can reach about \$20.6 billion by 2005 and \$36.3 billion or so by 2015 at an average annual growth rate of 5-6%. The Association also forecasts a stable growth in exports, which may reach \$6 billion by 2005 and exceed \$10 billion by 2015, accounting for an estimated 20% of the world's trade. These figures correspond to 52 and 153% increases compared with 2001 export levels. To achieve these ambitious goals, the Association stresses the need to optimize the structure of export products and increase the production of high-value furniture. This will involve increasing the proportion of metal and highvalue furniture and changing from the current focus on low- and medium-priced furniture.

With China's accession to the WTO, import tariffs are scheduled to fall from the current average of 11% down to between 4 and 7.5% by 2005. As a result of this, imports of furniture are expected to gradually rise from the current level of 1% of domestic sales. Foreign and local companies will compete fiercely for the domestic market, which will likely bring about structural changes in the furniture industry including further development and specialization as well as the disappearance of less efficient enterprises.

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