5. Corporate Operations

5-1. Corporate Development Process

Although Thailand has been manufacturing furniture for many years, this sector has centered around small companies using manual labor. Most of the existing export-oriented wooden furniture manufacturers have been established since the 1970s. Furthermore, it has only been in the past 10 years or so, along with the increase in exports, that wooden furniture manufacturers have set themselves up for mass production. This move has been due to changes in the production environment such as the use of parawood in furniture starting about ten years ago and the prohibition of raw lumber exports in 1977.

Almost all of the 22 wooden furniture manufacturers surveyed were making attempts to export their products. As shown in Table III-5-1, the great majority of these firms have begun production of wooden furniture since the 1970s, with particular growth seen during the 1980s.

Table III-5-1. Start of Furniture Production at Companies Visited

Start of furniture production	High degree of processing	Low degree of processing	Hand processing	Total
~ 1969	1	-	1	2
1970 ~ 1974	2	-	-	2
1975 ~ 1979	2	-	-	2
1980 ~ 1984	4	1	1	4
1985 ~	-	9	-	9
Unknown	-	2	2	8
Total	9	12	4	25

The wooden furniture manufacturers of Thailand may be roughly classified into the following three categories according to the degree of processing and the use (or non-use) of mass production systems:

a) Manufacturers mass-producing products with a low degree of processing. These firms produce color box-type products and parts for furniture. Due to the low degree of processing, little machinery and production technology are needed.

b) Manufacturers mass-producing furniture with a high degree of processing. These firms have set up for mass production through the introduction of various specialized machines.

c) Manufacturers with a high ratio of processing by hand. These firms are generally small in size and have not adopted mass production systems.

As a rule, surveyed manufacturers producing furniture with a low degree of processing began production later than those producing furniture with a high degree of processing, that is, almost all after 1985. This is a reflection of the fact that manufacturers tend to begin with production of relatively simple products and then gradually improve their lines. Time is required to set up lines for mass production of furniture with a high degree of processing.

5-2. Corporate Operations

5-2-1. Equity Structure

The equity structures of 25 manufacturers visited in this survey are tabulated in Table III-5-2. In so far as these manufacturers are viewed, most of Thailand's wooden furniture manufacturers are local capital operations, there being few joint ventures or foreign affiliates. Of the 25 companies visited, four had foreign equity participation.

Table III-5-2. Equity Structure of Companies Visited

Classification of company	No. of companies
100% local capital firms	21
Joint ventures with foreign capital	3
100% foreign capital firms	1
Total	25

Introduction of technology and capital by attracting investment from foreign companies could be an effective means for expanding mass production systems in Thailand's wooden furniture industry. Furthermore, this would probably accelerate the increase in the number of manufacturers capable of mass-producing highly processed furniture with high added value.

However, foreign companies considering production of wooden furniture in Thailand place heavy emphasis on processing cost competitiveness, the cost and ease of material procurement, and the stability of the business and social environments. In addition, since foreign investment includes both capital investment and technology provision, most foreign corporations tend to consider it as a relatively long-term business venture. However, there are apprehensions concerning the stable future supply of furniture materials in Thailand, and this may prove a handicap to the nation in attracting foreign investment.

5-2-2. Lines of Business

Fully half of the companies and corporate groups surveyed produced not only wooden furniture but plywood, particle board, flooring, houseware, folkcrafts, and other processed wood products as well. In many cases, the companies had been making such products before embarking on the production of wooden furniture. This situation is summarized in Table III-5-3.

Firms operating processed wood product plants before beginning production of furniture either continued simultaneous production of both lines or established separate, specialized companies for the production of wooden furniture. Relatively large companies tended to opt for the latter course. As a rule, this phenomenon (i.e., that of wood product firms moving into the wooden furniture field) is a recent one. Of the nine firms, shown in Table III-5-3 with a (*1), which were operating plants for the production of processed wood products before embarking on furniture production, five began production of furniture in or after 1985.

Table III-5-3. Lines of Business of Companies Visited

	Production of wooden furniture and processed wood products	Production of wooden furniture only
Manufacture of processed wood products before furniture production	9 (*1)	-
Manufacture of wood furniture from time of company establishment	3	12
Unknown	1	-
Total	13	12

5-2-3. Production Mode

Production at Thai furniture export manufacturers is generally based on received orders, with the customer being responsible for product planning and design.

Almost all of the manufacturers visited were operating on the basis of production on order, as shown in Table III-5-4. Three of the 25 manufacturers were engaged in forecast-based production as well, but these products were destined for the domestic market. All production for export is based on received orders.

Table III-5-4. Production Modes at Companies Visited

Companies visited	Order-based production	Order- and forecast-based production	Forecast-based production
Manufacturers dominated by export production (*1)	18	1	-
Manufacturers covering export and domestic markets	3	2	-
Unknown	1	-	-
Total	22	3	-

(*1) Signifies an export ratio of at least 95%

Table III-5-5 indicates whether the manufacturers visited rely on their customers to supply product designs or develop designs on their own. In so far as the surveyed companies show, most Thai manufacturers exporting wooden furniture are supplied with product specifications and designs by their customers and produce products based on the same. Buyers look for manufacturers offering low processing costs, and Thai manufacturers exporting wooden furniture seem to tailor their operations to suit them.

Seven of the 25 firms were producing furniture based on original designs. These manufacturers fell into two categories: large firms producing upmarket furniture (two); and firms producing hand-made furniture (five). One large manufacturer employed six designers from Europe and was planning and developing its own products for export, mainly to the U.S. market. 95% of all production at this firm was based on original designs, and 98% was destined for overseas markets. It should be noted, however, that this firm is considered something of an exception among Thai wooden furniture manufacturers.

Table III-5-5. Product Planning and Design at Companies Visited

	Customer design	Customer/ original design	Original design	Un-known
Manufacturers producing mainly for export(*1)	13	3	-	3
Manufacturings producing for export and domestic market(*2)	1	3	1	-
Unknown	-	-	-	1
Total	14	6	1	4

(*1). Signifies an export ratio of 95% or more

(*2.) Signifies an export ratio of less than 60%

5-2-4. Sales Channels

Table III-5-6 provides a summary of which markets wooden furniture is sold to based on the results of personal interviews with the manufacturers. Responses concerning customers were obtained from 17 companies.

Among the manufacturers with a low degree of processing, as shown in Table III-5-6, there was a clear split between those exporting primarily to the U.S. market and those exporting primarily to the Japanese market. No manufacturer placed equal weight on sales to both.

Three companies, A, B, and C, produced products only for the U.S. and did not ship to any other markets. Three other companies, D, E, and F, dealt with the U.S. for 60% to 90% of their exports. These are considerably high figures compared with the 10% of products sold to Japan. Further, these six companies primarily produced color box-type products, dining chairs, and dining tables.

On the other hand, companies I and J had policies emphasizing the Japanese market and sent 90% and 100% of their exports, respectively, to Japan. The two companies were engaged in the supply of table and chair legs and other furniture parts to Japanese furniture manufacturers. Recently, in order to maintain price competitiveness, Japanese furniture manufacturers are attempting to take advantage of the strong yen by procuring legs and other furniture parts overseas, and there are signs that Thai firms are responding. One method for penetrating the quality-emphasizing Japanese market might be to start by making such furniture parts and gradually shift the weight of production to items with a higher degree of processing.

Table III-5-6. Customers of Companies Visited

Manufacturers with a low degree of processing (Unit: %)

Manufacturer	U.S.A.	Japan	Others	Domestic	No. of employees
A	100	-	-	-	500
B	100	-	-	-	1,000
C	100	-	-	-	180
D	90	10	-	-	150
E	75	10	15	-	540
F	60	10	30	-	200
G	42	12	6	40	830
H	-	30	70	-	40
I	10	90	-	-	300
J	-	100	-	-	Unknown

Table III-5-7. Customers of Companies Visited

Manufacturers with a high degree of processing

Manufacturer	U.S.A.	Japan	Others	Domestic	No. of employees
K	78	10	10	2	500
L	50	30	20	-	600
M	50	40	10	-	200
N	20	20	20	60	80
O	25	70	5	-	1,050
P	-	100	-	-	500
Q	-	100	-	-	300

Some of the manufacturers with a high degree of processing, including companies L, M, and N, were pouring effort into both the U.S. and Japanese markets. These firms appear to place equal weight on sales to the two nations and are also trying to penetrate the markets of Europe and other areas.

Company K is operating primarily on the basis of exports to the U.S., but began working on exports to Japan about two years ago. The company now deals with Japan for about 10% of all its exports, and is raising this figure by 25% a year.

Some manufacturers produce solely for the Japanese market. Companies P and Q, for example, sold primarily to Japanese furniture manufacturers. Sales to retailers were slight.

One of the reasons for this split between the U.S. and Japanese markets is believed to be a lack of quality control capabilities. According to one manufacturer, Thailand has little experience in the mass production of furniture, and it has neither the ability to properly control its production lines nor a level of worker skills allowing mass production with separate control of quality for products destined for the U.S. and Japan.

Wooden furniture manufacturers operating primarily on the basis of exports to Japan had the following characteristics:

a) They served as production plants for Japanese furniture manufacturers. Japanese firms are looking overseas for production bases enabling them to take advantage of low processing costs and the strong yen, and some Thai manufacturers are responding positively.

b) Receipt of technical advice from Japanese manufacturers regarding methods of meeting up to Japanese quality standards. Further, these firms employ personnel capable of judging whether products are suitable for sale in Japan.

5-3. Problems and Countermeasures

In order for Thai wooden furniture manufacturers to secure competitiveness in the export market given the difficulty of procuring materials within Thailand, they must take advantage of low labor costs to mass-produce high-quality products with a high degree of processing. Making use of processing cost superiority in this way is expected to become increasingly important in the future.

When attempting to mass-produce wooden furniture that is internationally competitive, Thai firms must make aggressive use of mechanical power. In Japan, the history of mass production of wooden furniture is relatively long, and workers have accumulated wide-ranging skills. As a result, even when the range of available machines is limited, mass production is made possible by using a single machine for a variety of uses. In the case of Thailand, however, mass production of wooden furniture is a relatively recent phenomenon, and worker skills are not yet sufficient. Mass production in this type of environment may require the introduction of specialized equipment for specific processing steps, thereby supplementing the lack of worker skills with machinery.

In addition, since some of the ASEAN wooden furniture exporting nations can offer lower labor costs, Thailand must balance the equation with higher productivity. In this respect as well, the aggressive incorporation of specialized equipment into the production process should prove effective.

In efforts to promote mass production of higher quality products with a higher degree of processing, the focus should be placed on existing small and medium-sized furniture manufacturers for the following reasons:

a) At relatively large manufacturers which are mass-producing furniture with a high degree of processing, a wide variety of specialized equipment has already been introduced, and production lines are well-controlled.

b) At small and medium-sized manufacturers, there is still room for the improvement of specialized equipment and the expansion of mass production systems incorporating such equipment.

c) All Thai manufacturers producing highly processed furniture have been in operation for at least five years. This is an indication of the time required to set up a system for mass production of furniture with a high degree of processing. As a result, giving priority to the expansion of existing small and medium-sized furniture manufacturers would enable quick export promotion results.

d) The introduction of mass production technology for furniture with a high degree of processing by the attraction of overseas furniture manufacturers is unlikely. At present, it appears that foreign furniture manufacturers do not consider Thailand to be a particularly attractive candidate for an overseas production base. This is because there are other wooden furniture producing nations in the ASEAN region which can offer lower labor costs together with a wider and more plentiful selection of woods.

Given this situation, the quickest means of enlarging Thai export capacity would be an increase in the production capacity of existing small and medium-sized firms. Furthermore, an environment facilitating the introduction of specialized equipment for the various processing steps should be prepared and systems for instruction on mass production management technologies reinforced in order to help these companies to mass-produce more products of higher quality with a higher degree of processing.

6. Current State of Industries of Competing Nations

6-1. Malaysia's Wooden Furniture Industry

6-1-1. Current State of Industry

(1) Summary

The Malaysian furniture industry, according to the 1985 Industrial Survey, includes 324 companies, including those in Sabah and Sarawak, produces M$257.38 million worth of furniture, and employs a total of 9,345 workers. (Table III-6-1)

Table III-6-1. Furniture and Fixture Statistics

(Unit: M$1,000)

	No. of companies	Output	Input goods	Added value	No. of emploees (end of 1985)	Wages	Fixed assets (end of 1985)
Peninsular Malaysia	189	209,642	130,716	78,926	7,306	41,339	100,385
Sabah	66	25,125	14,666	10,460	1,034	7,263	6,962
Sarawak	69	22,616	12,154	10,462	1,005	4,818	13,872
Total	324	257,383	157,536	99,848	9,345	53,420	121,219

Source: Industrial Survey 1985, Department of Statistics

As of 1985, the furniture industry accounted for only 0.1 percent of the output of industry as a whole, 0.8 percent of the added value, and 2 percent of the number of workers.

Table III-6-2 shows the trends in the added value of the furniture and fixture industry from 1979 to 1985. The added value of the furniture industry accounts for a very small percentage of that in the manufacturing industries as a whole. In Malaysia, therefore, the furniture industry is a minor industry.

The number of companies as grasped by official statistics is small, but it is estimated that there are close to 2000 companies in the field, including cottage industries. Of these, almost all have 10 or less employees.

The furniture factories are primarily located on the west coast of Peninsular Malaysia, in particular concentrating in Selangor.

Table III-6-2. Trends in Added Value of Furniture and Fixture Industry

(Unit: M$ million)

	1979	1981	1982	1983	1984	1985
Added value of furniture and fixtures	51.5	72.5	89.8	75.0	80.5	99.8
Added value of manufacturing industries as a whole	7,051.4	8,731.3	9,382.4	10,586.6	12,301.3	12,155.4
Percentage of furniture and fixtures in whole	0.7	0.8	0.96	0.7	0.65	0.8

Source: Quarterly Bulletin, March-June 1988, Bank Negara Malaysia

(2) Production

Most of the lumber processing mills with high degrees of added value are located in Peninsular Malaysia. There are 105 factories with drying facilities. Of these, 81 use steam drying, 21 electric drying, and three direct drying by gas.

Of the 105 drying factories, 30 percent provide service to just their own companies, 50 percent provide services to their own companies and outside customers, and 20 percent services to outside customers.

Malaysia has 193 lumber storage facilities, 39 of which are in Pahang, 33 in Selangor, and 26 in Johore.

The storage facilities in Peninsular Malaysia use the vacuum pressure immersion method and the nonpressure method. For treatment of lumber for construction use and general use, use is made of copper chrome arsenic.

For parawood, there are factories using the vacuum pressure immersion method utilizing borax and boric acid.

Furniture production technology is considerably low overall, but there are some export manufacturers with fairly high level processing machinery and equipment. No systematic approach is being taken to product development and there is not much awareness of the correlation among design, standardization, cost reductions, and QC.

(3) Supply of materials

Malaysia is rich in forest resources. As of 1987, it had 203,260 square kilometers of forests (Table III-6-3), equivalent to 61 percent of its national land area. The forest resources stretch across Peninsular Malaysia, Saba, and Sarawak. There are 2,500 species of trees, but of these only 100 or so are being actually used commercially. The species of trees being used for furniture are Sepetir (Leguminosae Sindora), Nyatoh (Sapataceae Chrysophllum or Palaquim), Red Meranti (Diptercapaceae Shorea), and parawood for export use and White Meranti for domestic use.

Due to the rich forest resources, Malaysia is gradually moving to production of plywood and veneer. (Table III-6-4)

6-1-2. Exports

Table III-6-5 shows the trends in the past 10 years of exports of four main types of wooden furniture by Malaysia. Large export values were recorded by "chairs" (SITC 82111000) and "other furniture of wood" (SITC 82192900), with exports growing three-fold for the former and six-fold for the latter in the period from 1985 to 1987. While low in export value, "chair parts" (SITC 82119000) have also been growing remarkably in exports in recent years. On the other hand, exports of "wooden furniture" (SITC 82192100) have been stagnant.

The FOB prices per unit of main export product were, for chairs, M$31 in 1985, M$27 in 1986, and M$26 for 1987. The prices for "other furniture of wood" and "wooden furniture" are unknown as export volumes have never been announced.

Looking at the key export destinations in 1987 by product on the basis of value, the main markets for "chairs" are the U.S. (accounting for a 22 percent share of the whole), Singapore (18 percent), and the U.K. (16 percent). For "chair parts", Singapore accounts for close to a 50 percent share. For "other furniture of wood", the main export markets are Singapore (32 percent) and the U.S. (31 percent), while for "wooden furniture" for office use, the main markets are Singapore (45 percent) and Hong Kong (39 percent). An overall feature is the position of Singapore as the main export destination. This, however, results from the large percentage of products shipped to Singapore for reexport.

It is not possible to calculate the export price of "wooden furniture" from the export statistics, but industry sources estimate the export price of wooden dining sets (set of table and six chairs) to be from M$300 to M$500, depending on the quality. However, the price has dropped about 25 percent due to a business recession from 1984 to 1986.

Table III-6-3. Trends in Forest Area and Log and Lumber Production

	Year	Forest (km^2) (a)	Production (1000 m^3)	
			Logs	Lumber
Total	1980	211,620	27,916	6,233
	1984	203,975	31,088	5,851
	1985	203,963	30,956	5,425
	1986	203,260	30,052	5,154
	1987P	203,260	35,110	6,022
Peninsular Malaysia	1980	63,731	10,453	5,339
	1984	63,532	9,182	4,608
	1985	63,532	7,914	4,047
	1986	62,829	7,824	4,073
	1987P	62,829	10,280	4,826
Sabah	1980	53,574	9,064	542
	1984	46,047	10,505	894
	1985	46,047	10,757	1,024
	1986	46,047	10,757	728
	1987P	46,047	12,174	830
Sarawak	1980	94,315	8,399	352
	1984	94,396	11,401	349
	1985	94,384	12,285	348
	1986	94,384	11,471	371
	1987P	94,384	13,656	366

Note: (a) Natural protected forests, including national forests.

Source: Yearbook of Statistics 1987, Department of Statistics

Table III-6-4. Production of Plywood and Veneer Sheets

(Unit: m^3)

	1983	1984	1985	1986	1987
Veneer sheets	130,370	138,589	128,376	160,871	247,745
Plywood	619,657	530,103	497,033	502,996	599,330

Source: Yearbook of Statistics 1987, Department of Statistics

Table III-6-5. Trends in Export of Wooden Furniture

(Unit: M$10,000)

	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
Office furniture of wood (Commodity code: (SITC 82192100 BTN 9403210)	358.6	1,448.1	999.1	294.9	204.8	224.3	132.9	198.3	211.8	297.2
Other furniture of wood (Commodity code: (SITC 82192900 BTN 9403290)	8,060.0	1,658.4	13,525.0	13,899.8	4,213.9	2,801.1	2,566.6	3,099.7	6,402.7	18,609.4
Chairs and other seats (Commodity code: (SITC 82111000 BTN 9401100)	643.0	369.8	14,654.1	15,596.2	10,372.1	7,168.2	7,267.0	8,115.4	12,568.2	24,261.3
Parts of chairs and other seats (Commodity code: (SITC 82119000 BTN 9401900)	0.5	55.2	387.3	576.1	288.9	459.3	521.4	1,084.6	1,227.8	2,104.8

6-1-3. Profile of Main Companies

(1) G.H. Co.

Established:	1964
Capital:	M$45.4 million (100 percent local equity)
No. of employees:	300
Monthly sales:	M$1.6 million
Main products:	Beds, doors, molding, furniture
Sales and export markets:	Almost all production exported. Main markets are Japan, U.K., Denmark, F.R. Germany, South Korea, New Zealand, Norway, and U.S.
Materials:	Company owns lumbering rights to 15,000 hectares of forests and has secure supplies from Indonesia as well, so there are no problems. (Domestic supplies from Perak and Kelantan)
Others:	Company is Malaysia's largest furniture related manufacturer. Is only company in furniture related industry listed on Kuala Lumpur stock market. Manufacturing is handled by subsidiary G.L.W. Co. Company frequently participates in overseas trade fairs to promote exports. Aside from furniture, deals in lumbering and real estate. Company is noted by MTIB.

(2) P.D. Co.

Established:	1975
Capital:	US$5 million (previously joint venture with Japanese affiliated companies, but 100 percent local equity since 1984)
No. of employees:	150
Domestic market:	Annual sales of M$500,000 to M$600,000. Primarily to government sector. • Company has budgeted annual MS200,000 for sales promotion and is also planning entry into nongovernment sector. • Strong connections with government. Given preferential treatment as Bhumiputra company.

Exports:	Exports started in 1980 • Engaged in manufacture of sewing machines with Singer and succeeded in negotiations for sale of dining and lounge sets in U.S. under Singer brand name. Expects orders of M$16 million in 1988.
Related companies:	Subsidiary of K.P.S. Co. (company invested in by Selangor State)
Others:	• Contract with Allied International Designers, U.K. consultant company • One of five largest wooden furniture manufacturers in country • Has potential and nature enabling leap to top in future

(3) M.C. Co.

Established:	1972
Capital:	M$7.5 million
Annual sales:	M$8 million (1986), M$9 million (1987), 10 to 20 percent rise expected in 1988
Products:	Furniture parts
Materials:	Uses waste material from lumber processing process. Has afforestation company in group and has no problem with procurement of materials at all.
Sales destinations:	60 to 65 percent domestic 35 to 40 percent export (Singapore, Thailand, Hong Kong, Japan, and Taiwan)
Related companies:	Company is part of B.R.D. group. Group is part of Malaysian Chinese Association.
Others:	Annual production of 28,000 cubic meters of wood, in full operation. Leader in furniture parts industry. In good regard for waste utilization technology.

(4) S.H. Co.

Established:	1987
Capital:	M$3 million (joint venture with Korean company)
Factory area:	10,000 square meters
No. of employees:	160 (scheduled to be expanded to 300)

Annual sales:	M$7 million (1988). Targeted at M$11 million annual sales by 1990
Others:	Full utilization of incentives of Industrialization Master Plan of government. Malaysian investor has large afforestation area. Korean investor has dispatched five technical experts.

(5) U.I Co.

Capital:	M$680,000
Factory area:	23,225 square meters (Temerloh), 6.07 hectares (Pahang)
No. of employees:	700
Monthly sales:	MS140,000 (production capacity of M$3 million)
Materials:	Has contracts with good quality domestic suppliers. Has lumbering rights to 5,000 hectares of land in Indonesia.
Business:	Furniture manufacture
Exports:	Almost all production exported to U.S. Participates in government dispatched missions and overseas furniture trade fairs. Interested in exporting to Australia and Europe.
Others:	Good reputation for production system and quality of work techniques

6-2. Taiwan's Wooden Furniture Industry

6-2-1. Current State of Industry

(1) Summary

In the Taiwanese wooden furniture industry, the majority of the companies are so-called "cottage industries". According to a survey by the Ministry of Economics, of the 2,032 companies in the industry as of the middle of 1988, only 600 had registered their factories. In other words, the remaining unregistered factories were either small sized village factories or family factories.

Of all the wooden furniture factories, only 15 are large ones with more than 200 employees. Only 314 are members of the Taiwan Furniture Manufacturers Association (TFMA).

The registered factories are primarily those of export manufacturers, while the unregistered ones are either of subcontractors for export manufacturers or else furniture stores for the domestic market.

In 1987, Taiwan produced NT$16,905.01 million worth of wooden furniture. In the past five years, production has grown by an average annual 16.7 percent. In 1988 (January to September), however, production dropped 6.6 percent compared with the same period of the preceding year. The furniture industry (excluding metal furniture) employed 30,785 workers (17,584 men and 13,201 women) as of September 1988.

Sales of wooden furniture have grown each year with the exception of 1988. The rate of growth was an average annual 16.7 percent, the same as that of production. In 1988 (January to September), however, sales dropped 12.7 percent compared with the same period of the preceding year.

Most of the wooden furniture is exported. Taking 1987 as an example, 95.2 percent of the production was exported and only 4.8 percent was sold domestically (Table III-6-6).

Table III-6-6. Trends in Production and Sales of Wooden Furniture in Recent Years

(Unit: NT$ million)

Year	Production	Exports	Domestic sale	Total
1983	9,394	8,650	712	9,362
1984	10,439	9,459	1,033	10,492
1985	11,125	10,333	739	11,072
1986	13,868	13,070	852	13,922
1987	16,905	16,162	812	16,974
1987 (Jan.-Sept.)	12,631	12,113	579	12,692
1988 (Jan.-Sept.)	11,793	10,140	942	11,082

Source: Industrial Department of Ministry of Economic Affairs

(2) Production

Starting in 1956, economic development became the main policy of the government. The population grew rapidly, furniture demand increased, production technology was improved, and large amounts of furniture came to be produced. Taiwan has numerous types of wood, but there are restrictions in the area of supply which make mass production difficult. Starting around 1980, large sized factories began to appear due to the development of export markets and thus started importing wood to make up for domestic shortages. Taiwan began importing the wood required for wooden furniture from Southeast Asia and promoted its wooden furniture on the international market. Furniture using high quality materials such as rosewood and ebony also began to be produced, with large quantities of these being particularly exported to Japan. Even today there are many furniture manufacturers using such high quality materials in the Hsinchu county. These produce mainly for export to the Japanese market.

Exports began to grow by large amounts starting around 1976 when European style combination type furniture was exported to the U.S., Canada, and Europe. In accordance with western preferences, Taiwan also began producing furniture made of rubberwood, maple, and cherry - importing large quantities of logs and boards of these woods from the U.S., Canada, and Japan. In recent years, Indonesia, the Philippines, and other Southeast Asian nations have placed restrictions on the export of wood, but Taiwan has managed to continue its growth by making use of its furniture manufacturing expertise and relying on imports for only part of its materials.

The small sized businesses act as processing agents using simple woodworking machines - producing parts of furniture and delivering them to the large sized businesses. Businesses with integrated production systems are equipped with lumbering facilities, drying facilities, painting facilities, packaging facilities, etc. in addition to woodworking machines.

Taiwan has many small sized businesses and many factories not registered with the government, so there are no statistics available on the facilities of the industry as a whole. Businesses are unwilling to make massive investments in automation of production and use only specialized machines which are cheaper in price and fast in production speed. This is because wooden furniture is subject to fashion and changes often. Even the large sized manufacturers have stopped with only semiautomated machinery.

Most of the production facilities in the industry is of domestic make - 80 percent or so in fact. Taiwan only imports machinery with special performance requirements or for which there are no domestic makes. It imports much machinery from Japan.

(3) Labor

Most of the workers employed in the wooden furniture industry are skilled male workers and earn wages ranked fairly high in the manufacturing industries. This is a distinctive feature of this industry.

The industry is labor intensive. According to statistics of the Accounting and Statistics of the Executive Yuan, as of September 1988, the furniture industry, not including manufacturers of metal furniture, employed a total of 30,785 workers, corresponding to only 1.35 percent of the total number of workers in the manufacturing industries. The industry is therefore small in size.

Further, there are large numbers of male workers in the industry - 57.1 percent. Female workers account for only 42.9 percent of the work force. Of the male workers, 28.2 percent are white collar and 71.8 percent blue collar. Only 4.1 percent of the female workers are white collar. Note that 90.2 percent of the white collar workers are male and only 9.8 percent female. There is only a small difference in sexes in the blue collar workers, with 49.9 percent being male and 50.1 percent being female.

According to statistics of the Accounting and Statistics of the Executive Yuan, the average salary of workers in the manufacturing industries as of September 1988 was NT$16,689 (monthly) and that of those in the furniture industry (excluding metal furniture, same below) was NT$17,077 - 2.3 percent higher than the average for the manufacturing industries. The furniture industry was forced like the rest of the industries to give large raises in 1988. Specifically, wages rose by an average 12.5 percent in September 1988 compared with September 1987. Male workers received 16.3 percent raises, far higher than the 9.0 percent for female workers.

(4) Supply of materials

Regarding the materials of wooden furniture, the appearance of combination furniture led to the use of particleboard, fiberboard, thin sheets of natural wood, etc. Aside from the wood, there was an increase in secondary materials such as paint, glue, and metal parts.

Taiwan suffers from a shortage of natural resources and relies on imports for a high 88 percent of its materials. Therefore, it waives tariffs for imports of logs and imposes low tariffs on imports of semifinished wood products. This is part of the government policy to raise the added value of exports of wooden furniture.

The places of origin of imports of various materials are as follows:

Coniferous wood:	North America (U.S., Canada), Oceania
Hardwood:	North America (U.S., Canada), Southeast Asia, Latin America, Africa
Lumber:	North America, Southeast Asia, Latin America, Africa, Oceania
Particleboard:	North America, Africa, Oceania
Fiberboard:	North America, Oceania
Paint:	Europe, North America
Glue:	Europe, North America
Metal parts:	North America, Europe

The main area from which logs are imported is Southeast Asia, but the recent restrictions on exports of logs have prompted Taiwanese businesses to develop other sources. In recent years, North America has become an important source.

As to import prices, businesses suffered a temporary shock due to the appreciation of the NT$, but have lowered prices and now prices are fairly stable. In 1988, the price of lauan wood 12 feet by 1.8 inch by 1.0 inch was NT$64 to 68. The price of lauan logs in the first half of the year was US$150 to 160 CIF per cubic meter and in the second half about US$170 to 180.

Businesses are trying to maintain growth through establishment of overseas factories so as to overcome difficulties in importing wood. They produce semifinished products at these overseas factories, import the semifinished goods, and then fabricate finished products, thereby resolving the difficulties in acquiring wood and and the same time lowering costs. Further, they are striving to reduce dependence on logs from Southeast Asia by investment in the U.S. and have taken a forward-looking stance with regard to investment in the U.S.

According to statistics of the Investment Council of the Ministry of Economic Affairs, from 1980 to September 1988, there were a total of five investment projects formally approved by the Council for the manufacture of wood, bamboo, rattan, and willow products. This is very low, however, compared with the 227 investment projects for all industries during the same period.

(5) Production technology

There are no national standards for wooden furniture. The export furniture is produced based on specifications presented by the buyers. Even furniture produced by the manufacturers on their own require the approval of the buyers.

Up until now, Taiwan has been stressing low price products, but in recent years the improvement of production techniques and introduction of the latest equipment have led to the production of high quality products. Another factor in the technical advances made by Taiwanese furniture manufacturers has been the transfer of production technology by the U.S., the main destination for Taiwanese furniture, in accordance with the demand of U.S. consumers.

The biggest rival of Taiwanese wooden furniture manufacturers is Italy. Italian products are higher than Taiwanese products in design, quality, and price. The competition with Italian furniture has improved the quality of Taiwanese furniture.

Taiwanese businesses are in the process of shifting from production of low class items to medium and high class items and are aiming at improvement of designs and fabrication techniques in the process. They are also striving to improvement factory control, diversify materials, improve quality, establish their own brands, train designers, and improve their export expertise.

6-2-2. State of Exports

According to statistics of the Taiwan Furniture Manufacturers Association (TFMA), exports of tables, chairs, sofas, beds, and other furniture and their parts totaled US$934.5 million in 1987, a growth of 16.8 percent from 1986 (1986 representing in turn a growth of 61.8 percent from 1985). "Other furniture" accounted for 32.6 percent to take top place, followed by cabinets at 24.0 percent, tables at 18.8 percent, and chairs at 12.3 percent, the four items accounting for 87.7 percent of the total. The exports in 1988 were almost the same as those in 1987 in content, but there was minus growth in the total value of exports. Exports in the January to August period fell 7.9 percent compared with the same period of the previous year. This was due mainly to the appreciation of the NT$. (Table III-6-7)

Table III-6-7. Trends in Exports of Wooden Furniture in Recent Years

(Unit: US$1,000)

Item	1985	1986	1987	1987 (Jan.-Aug.)	1988 (Jan.-Aug.)
Chairs	58,083	93,124	114,954	75,575	63,446
Sofas	12,652	18,233	20,212	14,575	12,191
Tables	86,370	140,828	175,570	115,628	98,363
Cabinets	125,108	200,251	224,100	153,002	135,441
Beds and other bedroom items	10,708	11,600	17,358	10,488	15,257
Furniture parts	59,880	86,342	77,297	47,934	52,751
Other furniture	141,339	249,622	305,006	203,045	193,881
Total	494,473	799,999	934,497	620,247	571,330

Source: TFMA

The main export destination is the U.S., followed by Japan. Taiwan also exports to Canada, the EC, Australia, and the Middle East. The state of exports of furniture by destination from 1984 to 1987 is shown in Table III-6-8.

Table III-6-8. State of Exports of Furniture by Destination

(Unit: U$1,000)

Region / Area	1984 Value	1984 Share (%)	1985 Value	1985 Share (%)	1986 Value	1986 Share (%)	1987 Value	1987 Share (%)
1. Asia	370,724	29.36	242,353	18.97	365,267	19.16	540,804	21.81
[1] Japan	246,492	19.53	171,071	13.39	275,328	14.44	442,282	17.84
[2] Saudi Arabia	38,544	3.05	16,247	1.27	21,036	1.11	21,641	0.87
[3] Middle East	30,137	2.39	13,623	1.07	21,374	1.12	18,413	0.74
[4] Others	54,551	4.39	41,411	3.24	47,529	2.49	58,469	2.36
2. Occania	58,352	4.62	48,873	3.83	55,758	2.93	62,128	2.51
[1] Australia	45,834	3.63	42,987	3.37	46,677	2.45	53,048	2.14
[2] Pacific Islands	12,518	0.99	5,887	0.46	9,081	0.48	9,080	0.37
3. America	605,527	47.96	897,316	70.24	1,358,718	71.28	1,671,404	67.40
[1] U.S.	528,693	41.87	842,633	65.96	1,280,974	67.20	1,589,601	64.10
[2] Canada	33,901	2.69	46,729	3.66	63,922	3.35	75,635	3.05
[3] Latin America	29,685	2.35	7,464	0.58	11,743	0.62	5,231	0.21
[4] South America	13,248	1.05	491	0.04	2,079	0.11	937	0.04
4. Europe	202,852	16.07	83,717	6.55	114,485	6.00	194,528	7.85
[1] U.K.	53,856	4.28	36,094	2.83	43,836	2.30	69,347	2.80
[2] Netherlands	26,842	2.13	6,218	0.48	10,603	0.56	19,903	0.80
[3] F.R. Germany	38,491	3.05	13,883	1.09	19,887	1.04	36,792	1.49
[4] Others	83,633	6.62	27,523	2.15	40,159	2.10	68,487	2.76
5. Africa	25,141	1.99	5,155	0.40	11,946	0.63	10,764	0.43
[1] South Africa	11,758	0.93	2,734	0.21	4,166	0.22	6,355	0.26
[2] Egypt	-	-	-	-	1,628	0.89	811	0.03
[3] Others	13,383	1.06	2,421	0.19	6,152	0.32	3,598	0.14
Total	1,262,597	100	1,277,414	100	1,906,174	100	2,479,629	100

Source: TFMA

The state of exports of wooden furniture to the main markets in recent years has been as follows:

a) U.S.

The U.S. represents the biggest export market for Taiwanese wooden furniture. In 1987, exports of furniture to the U.S. accounted for 64.1 percent of all furniture exports. In the past, the furniture exported to the U.S. was low in quality and price, but in recent years improvements in production technology and the demands, guidance, and technical transfers of purchasing managers on Taiwanese products in the U.S. have led to a major improvement in quality. Further, demand for everything from general furniture to multipurpose furniture and small furniture has been growing. Demand for KD furniture has also been growing considerably and is proving advantageous to Taiwanese businesses in developing their markets. Note that the large furniture manufacturers and trading companies have been establishing sales pipelines, offices, and warehouses in the U.S. and as a result exports of Taiwanese furniture to the U.S. have grown over 2 percent a year. About one-quarter of all U.S. furniture is reportedly of Taiwan make.

b) Japan

Japan is the second largest export market for Taiwanese furniture. In 1987, exports to Japan accounted for 17.8 percent of all exports. Further, about 90 percent of the exports of rattan furniture was for Japan and about 51 percent of the fancy wood furniture went to Japan.

c) Canada

About 3 percent of Taiwan's exports of furniture go to Canada. Taiwan holds about a 10 percent share of the Canadian furniture market. Since Canada is next to the U.S., the types of furniture are influenced by the U.S., but the standard of living is higher than in Japan and thus there is strong potential in the furniture market.

d) Australia

Exports to Australia account for 2 to 3 percent of all exports. Taiwan holds about a 17 percent share of that country's market. It had previously exported only high quality items and low quality items, but in recent years has been exporting medium quality items as well. The furniture is mostly of European type.

e) Europe

Europe accounts for about 7 percent of all exports. Most exports are to the U.K. In recent years, businesses have not been making sufficient effort and there has been competition from Denmark, Sweden, etc., resulting in a slump in exports.

f) Middle East

The Middle East market suffers from uncertainty in orders, which hinders export development. Traditional style furniture from Taiwan, however, is found pleasing there and deserves development.

The prices of export furniture differ considerably depending on the materials used and the specifications. Teak materials are higher in price.

6-2-3. Marketing

(1) Forms of export

Almost all exports of Taiwanese furniture are of finished products. For the convenience of transport, however, a large percentage is of the self-assembly type wherein the consumer assembles the furniture based on an instruction manual.

According to statistics of the TFMA, parts of wooden furniture account for only 8 to 9 percent of the total value of exports of wooden furniture. This figure shows the predominance of exports of finished goods. (Table III-6-7)

(2) Export channels

While some large businesses have established sales centers overseas, almost all other manufacturers export by the OEM method and in effect do not have their own brands.

The following manufacturers have sales centers in the U.S.:

S.P. Co.:	Established Fairmont Designs branch in U.S. and has assembly plants in California and Tennessee
H.K. Co.:	Spent five years establishing sales network in U.S.
S.Y. Co.:	Established Bentley Designs branch and on-shipment warehouse in U.S.
W.C. Co.:	Established Wonder Crafts branch and on-shipment warehouse in U.S.
D.R. Co.:	Established branch in North Carolina.

Businesses other than the above produce in Taiwan on an OEM basis and leave exports to other companies in the field or to trading companies.

The Taiwanese furniture manufacturers have strong production capacities, but lack design and sales capabilities. Only five companies had their own brands and none of them were internationally famous.

(3) Product development and design

Almost all manufacturers produce based on specifications presented by the buyers, so do not have any design capabilities for all intents and purposes. This poor design capability is a weak point of Taiwanese furniture businesses. There are businesses which have sent staff to Europe to strengthen their design capabilities, but with the exception of a few of the larger corporations, businesses cannot design and develop their own new products. The best way to train designers would seemingly be to engage designers from other countries. Recently, some businesses have engaged Japanese designers to develop Japanese style furniture to enable them to develop their Japanese market.

(4) Overseas market development

Many of the furniture manufacturers in Taiwan are small or medium in size and lack the ability to develop markets, so rely to a large extent on trading companies, but the larger manufacturers are becoming stronger in their own sales capabilities. The number of businesses establishing branches, factories, and on-shipment warehouses in the U.S., Taiwan's biggest market, has been increasing. In particular, the S.P. Co. has been fast to develop - establishing a wide sales network in the U.S., making major improvements in its facilities, and using its manpower well to boost company performance. It is recording 2 to 5 percent growth a year as a result.

Aside from the few companies touched upon in (2), however, all companies are engaged in OEM production and leaving sales to other parties so may be said to be completely lacking in the ability to develop overseas markets.

The industry is planning the establishment of new factories and a system of satellite factories as a means for developing overseas markets. The plan basically calls for four to five medium sized businesses to join together in operation or for a large manufacturer to serve as a parent factory and consign out production of some products (articles) to satellite factories (small and medium sized companies) after receiving orders and then to do the final assembly and export the finished goods.

(5) Product inspections

There are no official export product inspections since in OEM production the products are made based on the specifications presented by the buyers or a company's own products merely have to satisfy the buyer. The only product inspections are those by the buyers themselves.

6-3. South Korea's Wooden Furniture Industry

6-3-1. Current State of Industry

(1) Summary

Wooden furniture constitutes the main part of furniture produced in South Korea and comes in a very large variety and forms. In recent yaers, however, South Korea has diversified in the materials used for its furniture, making use of metal or plastic parts for its wooden furniture, so it is difficult to define just what should be considered "wooden furniture".

In this section, "wooden furniture" is defined as furniture produced using wood as its main material. About 80 percent of overall furniture production, which includes production of metallic furniture, is wooden furniture (Table III-6-9).

Furniture began to be produced on a corporate basis back around 1960. Representative of this were the furniture of Dongil Furniture (Korean Autique Furniture) fabricated for the purpose of market sale. After that, western style furniture gradually made inroads into the lives of Koreans. Today, western style furniture accounts for the major portion of production and consumption.

However, the South Korean furniture industry has still to grow out of its infancy. The majority of its production is copies. At the same time, the traditions and features of Korean antique furniture are being lost.

General household furniture accounts for a large proportion of western style furniture. In the past, this was limited to chests, but changes in lifestyle resulted in a diversification of this. Office furniture is used in companies and government and public offices etc. Recently, there has been a spread in use of more diverse office furniture along with office automation.

In regard to materials, household furniture is mostly made of wood, while office furniture is mostly made of metal. Recently, however, a trend has been observed for the use of wood for much high quality office furniture and the use of special metals for the manufacture of household furniture.

Furniture demand is largely governed by population and income levels. If the emphasis is only on practicality in furniture, then complicated production processes are not necessarily required and so production can be easily handled. Therefore, modern corporate organizations are not necessary for furniture production and small sized companies can survive in this field.

Table III-6-9. Trends in Production of Furniture

(Unit: million won)

Class	1970	1975	1978	1980	1981	1982	1983	1984	1985
Wooden furniture	4,333	16,909	88,100	171,289	158,025	216,596	312,888	398,796	431,169
	(63.3)	(70.0)	(80.9)	(84.0)	(79.9)	(79.8)	(76.4)	(80.1)	(79.8)
General wooden furniture	3,993	10,428	60,393	141,645	141,960	169,604	296,380	370,450	358,983
	(58.3)	(43.2)	(55.5)	(69.5)	(71.8)	(62.5)	(71.2)	(74.4)	(66.4)
Others	340	6,481	27,707	29,644	16,069	46,992	21,508	28,338	72,186
	(52.0)	(26.8)	(25.4)	(14.6)	(8.1)	(17.3)	(5.2)	(5.7)	(13.4)
Metal furniture	2,517	7,241	20,791	32,531	39,848	54,886	96,459	99,244	109,356
	(36.7)	(30.0)	(19.1)	(16.0)	(20.1)	(20.2)	(23.6)	(19.9)	(20.2)
Total	6,850	24,150	108,891	203,820	197,873	271,482	409,347	498,040	540,525
	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)

Source: Economic Planning Agency, "Report on Survey of Industrial Statistics" for each year
Note: Figures in parentheses are percentages of total production value

The number of wooden furniture manufacturers (companies with five or more employees) increased from 595 companies in 1976 to 1,154 in 1986. The number of workers in the field rose just under three-fold in that time from 10,371 to 31,011.

A look at the size of the 1,154 wooden furniture manufacturers of 1986 shows that there were only 16 (1.4 percent of total) large companies with over 200 workers. There were also only 23 medium sized companies, 2.0 percent, with 100 to 199 workers.

From this, it may be understood that small sized companies account for the overwhelming proportion of companies. (Table III-6-10) Note that the top 16 companies account for 55.0 percent of total production.

(2) Production items

Up until 1960, most of the wooden furniture produced by South Korea was chests. Subsequent changes in lifestyle and changes in the housing situation (mass construction of apartment houses) and the rise in income levels resulted in diversification of furniture demand and mass production of tables, chairs, sofas, cabinets, etc., in particular interior design furniture.

In the 1980s, improvements to the kitchen led to the start of production of kitchen furniture. Wooden furniture became even more diversified and varied items, large and small in size and inexpensive and expensive in cost, began to be produced.

At the same time, liberalization of trade in recent years has led to the appearance of furniture imported from abroad and to greater activity in exports. Furniture is showing increasingly fashionability. Production is growing of furniture with unique features of design, color, and finish.

Table III-6-10. Wooden Furniture

(Unit: million won)

No. of employees	No. of companies	Total no. of employees	Shipment value (million won)	Production value (million won)	Percent of production (%)
5~9	576	3,917	29,018	29,372	6.1
10~19	357	4,763	39,272	39,770	8.2
20~49	143	4,080	42,213	42,759	8.9
50~99	38	2,627	34,835	34,706	7.2
100~199	16	2,078	31,164	31,697	6.4
200~299	7	1,866	36,085	39,676	8.2
300~499	6	2,271	65,575	67,552	13.9
500~	10	9,409	198,983	198,985	41.1
Total	1,154	31,011	477,145	484,514	100.0

Source: Economic Planning Agency

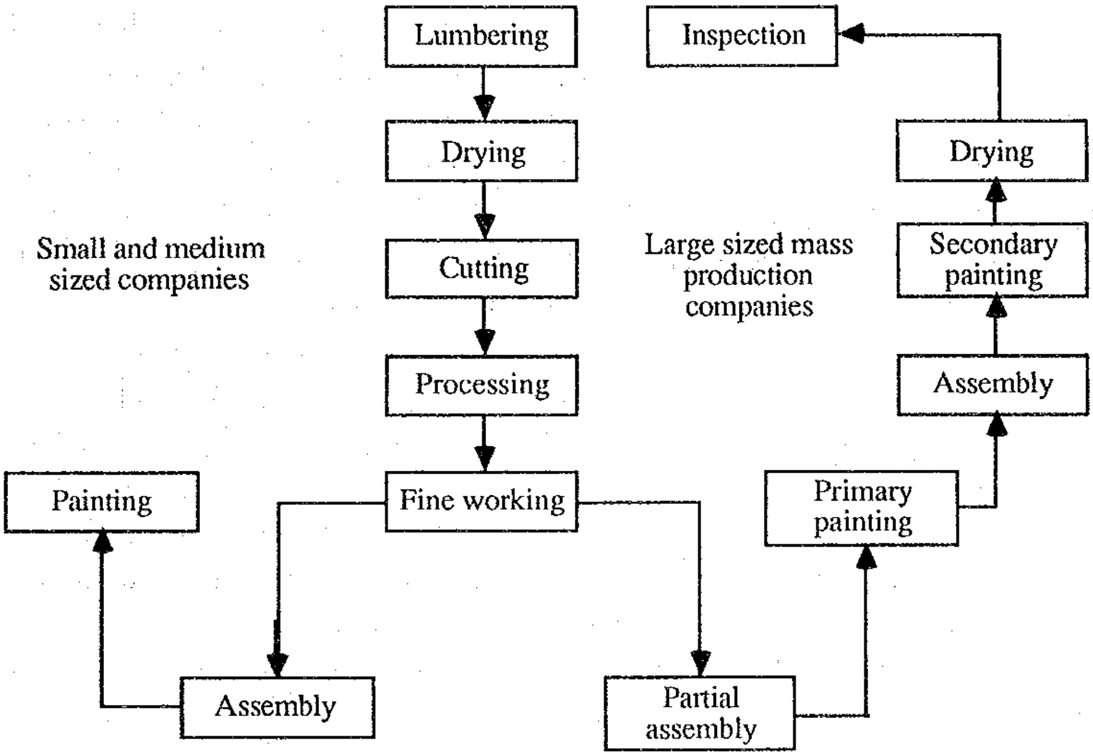
(3) Production system

The domestic wooden furniture industry features remarkable differences in production processes depending on the size of the manufacturers.

The production processes of small sized and cottage enterprises generally consist of cutting -> processing -> fine working -> assembly -> painting. Among these processes, the fine working , assembly, and painting processes are largely dependent on manual labor. In the case of the mass production systems of the large corporations, which produce large volumes of products in short periods, these production processes are broken down further and mechanization is used for the drying -> cutting -> processing -> primary painting -> secondary painting -> drying -> inspection processes.

The production processes of wooden furniture are illustrated below. (Fig. III-6-1)

Fig. III-6-1. Production Processes of Wooden Furniture



Source: Small and Medium Enterprise Bank

On the other hand, a look at the main machinery and equipment of wooden furniture manufacturers shows that manufacturers are equipped with dryers, automatic saws, automatic planers, boring machines, compressors, polishers, and adherers. Of this machinery and equipment, dryers are essential for securing quality wood with moisture contents of less than 12 percent, but the degree of distribution domestically is low, with only 11 of the 16 large corporations and seven to eight of the 23 medium sized companies being equipped with them. Further, even those companies with their own lumber processing factories and other drying facilities mostly use the steam drying method, which is dependent on experience. Recently, two companies have introduced high frequency dryers, but they are still in the initial stage of operation.

Note that of the domestic wooden furniture manufacturers, the large mass production manufacturers have high rates of mechanization of their production processes. A large part of the production facilities are foreign makes with low rates of breakdown and high degrees of precision.

The large corporations have been bolstered by good export performance since 1987 and recently have been exerting effort in capital investment and investment in technical development. The small and medum sized companies, however, have not been doing much in particular due to the shortage in funds arising from the supply excess in the domestic demand market.

(4) Problems of workers with technology

The furniture industry is a traditionally labor intensive industry and even if it were automated there would be limits to what could be done in view of the characteristics of the products. Further, furniture must be both practical and decorative at the same time and further must be superior in not only technology, but also aesthetic sense, so workers cannot learn on the job. In the case of South Korea, further, there is a shortage of skilled personnel in the furniture industry, which is acting as a major obstacle to improvement of furniture quality. That is, the majority of the cottage industries pay their workers on a daily basis and, as a result, have a high percentage of unskilled workers. The large corporations have to drastically increase or cut the number of employees along with changes in the business situation and thus have a large percentage of workers with only a few years of service behind them. Therefore, most of the workers have not sufficiently learned skills which require long years of practice to master.

At the present time, there are no in-house training centers or public facilities for training the skilled workers required by the companies.

On the other hand, some medium sized companies have secured workers who majored in industrial arts in college and a limited number of their own designers. The large corporations hire foreign engineers to take charge of design development and fabrication of models in some cases, but this is not the general practice.

In this way, due to the shortage of specialized engineers for design development, experienced engineers or skilled workers are sometimes scouted by other manufacturers during business booms.

Recently, the industry and government have been deliberating over the establishment of a furniture job training center. As a preliminary step, it has been decided to establish a furniture design course and seek students for the same at an industrial college (Seoul) in 1989.

(5) Supply of materials

South Korea suffers from an absolute shortage in its domestic supply capacity of wood. Further, the wood from the species of trees there is not suited for furniture manufacture. As a result, it relies on imports for the majority of its wood. The main sources of supply are the Philippines, Malaysia, Indonesia, Thailand, and North America.

Recently, however, Indonesia, the Philippines, and other main producing nations in Southeast Asia have been restricting their exports of logs, so the furniture industry is facing an uncertain future in the procurement of wood.

Particleboard and fiberboard have been developed as alternatives to lumber. These were initially used for construction purposes, but the diversification of adhesives and improvement of quality have led to their use recently for furniture as well. In particular, demand for fiberboard for furniture use has been soaring due to its light weight, stronger bonding between fibers than even particleboard, and easy finishing. The two materials are still in the initial stage of development in South Korea and the quality is poorer than products of the advanced nations, so the majority of the boards used for export furniture is being imported from the U.S. etc.

Among secondary materials for wooden furniture, the majority of the demand for teak veneer sheets, used for decorative board, is being handled domestically, but the domestic paints are inferior in adhesiveness and color compared with international levels.

The price of imported wood peaked in 1987 and dropped slightly in 1988. The price of boards has been rising as a general trend. (Table III-6-11 to III-6-12)

Table III-6-11. Trends in Prices of Imported Logs

(Unit: $\$/m^3$)

	1984	1985	1986	1987	1988 June
Lauan	145	138	145	148	169
Teak	850	910	1,115	1,334	1,231
Ebony	1,815	1,760	2,730	2,867	2,824

Note: Prices are average unit prices of imports.

Table III-6-12. Trends in Prices of Imported Boards

(Unit: $M.S.F.)

	1984	1985	1986	1987	1988	Notes
Particleboard	150	165	165	205	250	15mm x 4' x 8'
Fiberboard	450	470	460	540	550	25mm x 4' x 8'

Source: Korean Federation of Furniture Industry Cooperatives

(6) Standards

The Korean Industrial Standard (KS) was established in 1962 with 300 standards. Since then, the number of standards has been rising with each year. As of 1987, there were a total of 7,833 standards.

As of February 1988, there were 42 standards set for the furniture industry.

The Office of Industrial Advancement Administration, which has jurisdiction over the Korean Industrial Standard, examines the manufacturing facilities, inspection facilities, inspection methods, quality control methods, and other production conditions of manufacturers of industrial products desiring to obtain approval of use of the "KS" mark based on these standards. Furniture manufacturers are exempted from the following inspections for products receiving "KS" mark approval:

[1] Inspection of quality based on Industrial Product Quality Control Law

[2] Inspection of standards prescribed under Small and Medium Sized Company Cooperative Association Law

Furniture had previously been mostly manufactured by cottage industries. Further, the varieties are large and the preferences of the demanders are diverse. This made it difficult in practice to establish and apply the standards. Products displaying the "KS" mark enjoy an improved product image, of course, and further such advantages as preferential purchasing by government and public organizations, financial support, etc., but there are not that many "KS" products in generally marketed furniture. Some large manufacturers have undergone "KS" inspections for furniture (for example, school desks) for government and other public organizations and are producing products based on the "KS" standards.

South Korea is currently in the initial stages of establishment of industrial standards for the furniture industry.

(7) Investment in research and development

Investment in research and development in the wooden furniture industry is considerably lower than the average in the manufacturing industries. Research and development investment in this sector corresponds to only 0.06 percent of sales.

(8) Shifting of production bases etc. overseas

The increase in domestic demand and the good export performance have increased the funding capabilities of the furniture industry and have led to positive overseas investment for construction of factories and warehouses overseas and establishment and operation of branches and exhibition centers.

The wood accounts for 30 to 50 percent of the prime product costs and South Korea relies on imports for over 90 percent of its wood demand. Starting in the early 1980's, the South Korean furniture industry began shifting its production bases overseas so as to achieve a stable supply of logs and secure inexpensive labor.

For example, the first case was when H.W. Co. established a factory in Dallas, Texas in 1982. The rest of the wooden furniture industry followed suit and invested overseas. As of 1987, the S.P. Co. invested in a joint venture with H.W. Co. for a furniture factory in Malaysia, B.M. Co. established a local affiliate and exhibition center in Hong Kong and established an assembly plant in Los Angeles, California of the U.S., and H.S. Co. invested in the U.S. for assembly production. In 1988, the B.M. Co. established an exhibition center at the Harumi Distribution Center of Japan and set up a local affiliate. Further, the S.Y. Co. established a branch in Los Angeles. Six small and medium sized furniture manufacturers have entered the joint exhibition center of the Harumi Distribution Center.

In 1989 too, the M.T. Co. is constructing a furniture factory in Indonesia as a joint venture and further the B.M. Co. is planning to establishment of a 680 *tsubo* (one *tsubo* = 3.3 square meters) exhibition center in the central Shinjuku district of Tokyo in April 1989 and will be investing in a joint venture in Los Angeles as well.

6-3-2. Exports

(1) Trends in exports

According to statistics of the Korean Federation of Furniture Industry Cooperatives, exports of wooden furniture soared starting in 1986. Exports of chairs (821112), beds (821921), and other furniture (821929) grew tremendously to about US$35 million in 1985 and US$88 million in 1987 (January to November) (Table III-6-13).

It may be pointed out that the grow in exports since 1986 has been due to the start of exports to Japan and reflects the yen appreciation. There was a diversification in the export markets during that period and, in terms of the method of exports, an increase in exports under companies' own brands in addition to the conventional OEM exports.

(2) Modes of export

Most exports of wooden furniture are of finished products. There are almost no exports in the form of semifinished goods or parts. Recently, however, some companies have been trying to export KD sets of tables, cabinets, chairs, and other simple products. This method of export cuts down on the volume of cargo and slashes freight and packing costs and further makes handling more convenient. In addition to these advantages, it sharply reduces damage during shipment. The assembly workers at the arrival point of the products, however, do not always assemble the furniture as well as intended by the manufacturers and thus there are problems in ensuring the quality and performance of the products. As a result, KD exports have not shown much growth up to now. At the present time, the industry estimates that KD sets account for 5 to 10 percent of exports.

6-3-3. Marketing

(1) Export channels

Seventy percent of South Korea's exports of furniture go to the U.S. and Japan. Of this, 70 to 80 percent of this is OEM.

In the case of the U.S., the majority of orders are from department stores and other mass merchandisers and dealers with ties to specialized furniture stores. A feature of the furniture order is a relatively large size. A preference is shown to simple designs and strong construction rather than special designs. Use of high quality wood materials is requested, even if the price is somewhat higher.

On the other hand, in the case of Japan, most orders are from mass merchandisers or specialized manufacturers with sales outlets around the country. There are also some orders from local small and medium size companies. OEM exports to Japan are small in lot size and diverse in variety. The majority of the products are small in size and unique in design. Thoroughgoing examination is made of the quality and price.

Along with the recent strength of domestic demand and exports of wooden furniture, the lage export companies and other specialized export companies have been exporting under their own brands (for example, "Bif" for the B.M. Co.) Further, some companies have obtained famous foreign brands and are selling furniture under it domestically and overseas.

For example, the K.L. Co. has acquired a U.S. trademark and is attaching that brand to furniture sold on the domestic market and export goods. The K.B. Co. is negotiating with Denmark's B&W Co. for licensing of its trademarks.

(2) Export price

Due to the endless changes in materials and designs, prices of wooden furniture products fluctuate wildly. According to industry sources, export prices remain stable in 1985 and 1986, but rose by an average of 5 percent in 1987 and further rose by an average 10 percent in 1988. The price hikes were particularly conspicuous in luxury goods rather than low quality goods. These price rises are considered to have been due to the appreciation of the won, the rise in labor costs, and other factors pushing up prime costs. In particular, the fierce labor-management strife starting in the second half of 1987 resulted in an average 18 percent rise in wages in 1987 and an average 14 percent rise in 1988, making hikes in export prices inevitable. The following table shows the unit export prices for dining tables - one of the South Korea types of wooden furniture with relatively large export volumes.

Table III-6-13. Trends in Exports of Wooden Furniture

(Unit: $1,000)

	1979	1980	1981	1982	1983	1984	1985	1986	1987 (Jan.-Nov.)
Chairs									
821112	4,216	1,559	2,279	2,137	2,347	4,617	4,573	6,252	13,773
Beds									
821921	406	510	443	887	1,390	1,437	2,334	3,599	4,949
Other furniture									
821929	10,748	13,703	29,071	23,435	31,727	32,466	28,011	43,237	69,018
Total	15,370	15,772	31,793	26,459	31,464	38,520	34,918	35,088	87,690

Source: Korean Federation of Furniture Industry Cooperatives

Table III-6-14. Unit Export Prices of Dining Tables

(Unit: US$/pc)

	1985	1986	1987	1987	1988	1989 (Jan.)
Dining tables	105	107	112	121	123	123

Notes:
1. Dining tables covered are medium quality types rectangular in shape with dimensions of 160 cm x 100 cm x 73 cm and with particleboard tops.
2. Prices are FOB
3. Unit prices for each year are average for each year.
4. Chairs are not included.

Source: Survey by Company B

(3) Product development and design

South Korea's wooden furniture exports may be roughly divided into exports of western style furniture and of Korean antique furniture. Of these, western style furniture are mostly reproductions or copies rather than new products, while the Korean antique furniture are primarily modifications of traditional furniture. In the past, wooden furniture are primarily for domestic consumption and therefore there was not that much interest in developing new products or designs. Manufacturers were mostly contented with copying the furniture of the advanced nations. Reflecting the yen appreciation since 1986, however, there has been a boom in both exports and domestic demand for wooden furniture. Bolstered by this, the large corporations etc. have found it increasingly necessary to develop new products and new designs.

At the present time, however, there is insufficient training of specialized technical personnel and with such a state of affairs, this problem cannot be easily resolved. As a result, most exports are forced to be of the OEM type. In this case, the design, materials used, etc. are specified by the buyer, so the only things which the exporters have to study and negotiate over are the unit export prices and delivery dates. Recently, however, some large manufacturers etc. have been exerting effort in exports and striving to secure specialized technical personnel for their own product development and improvement of designs.

For example, there has been a noticeable trend for companies to engage designers from Italy, Switzerland, Sweden, etc. for development of new products and models and for employment of domestic industrial design experts.

(4) Development of overseas markets

The overseas market development activities of the wooden furniture industry can be roughly divided into (1) establishment and promotion of export targets for specific markets (regions), (2) collection of information on overseas markets, and (3) strengthening of overseas sales activities.

First, the method of establishment of export targets for different markets and the encouragement of the industry and individual companies to meet them has been used by the government in the past when strongly pushing export growth, but since 1986, South Korea has shifted to a surplus on its international balance of payments and it is now time for self restraint and not for such strong measures by the industry or government.

For overseas market information, South Korea is participating in overseas furniture trade fairs and dispatching industrial missions overseas. Further, use is being made of the market information provided by KOTRA and the South Korea Trade Association.

In terms of overseas sales activities, some large corporations have established overseas exhibition centers, are dispatching salemen overseas, and are producing and distributing catalogs, but they are not engaged in PR activities over the mass media of other countries or sponsoring their own furniture shows. Note that the Korean Federation of Furniture Industry Cooperatives is planning to participate in the following overseas furniture fairs in 1989 (Table 15):

Table III-6-15. Plans for Participation in Overseas Furniture Exhibitions and Dispatch of Missions

Name of exhibition	Host	Date	
International Exposition	F.R. Germany	Jan. 1989	30-man mission dispatched
International Furniture Fair	France	Jan. 1989	
Furniture Exposition	U.S.	Aug. 1989	20-man mission to be dispatched
Taiwan International Furniture Trade Fair	Taiwan	Nov. 1989	Two companies to participate, 20-man mission to be dispatched
Tokyo International Furniture Exhibition	Japan	Nov. 1989	10 companies to participate, 30-man mission to be dispatched

Source: Korean Federation of Furniture Industry Cooperatives

(5) Competitive relationship in overseas markets

The main wooden furniture exports of South Korea are dining tables (including chairs) and chests, sideboards, tables, and beds. These export products are relatively well received in the overseas markets, the industry points out. Japanese products, which once accounted for a major share in the overseas markets, have fallen in price competitiveness due to the yen appreciation, placing South Korea in an advantageous position and allowing it to swallow up Japan's share. At the present time, the main competitor on the overseas markets is Taiwan. Taiwan's furniture industry has close to a 20 year history and exports 80 percent of its domestic furniture production. It is well entrenched as an export industry.

(6) Product inspection

There is no obligation for inspection of furniture under the Export Inspection Law and there are no independent inspection organizations or inspection systems of industrial organizations etc. The only inspections being performed are independent ones by furniture manufacturers of their own products or checks by buyers.

6-4. Policies for Furniture Industry

6-4-1. Malaysia

(1) Industrial Promotion Measures

The wood processing industry is one of the industries taken up by the Industrialization Master Plan (IMP) formulated in 1986 and is being targeted for improvement through increased added value.

Malaysia encourages the establishment of export-oriented companies and offers the following investment incentives:

1) Investment incentives

The wood processing industry enjoys the advantages of applicability of [1] pioneer certificates and [2] investment tax allowances.

[1] Pioneer certificates

Companies with pioneer status are eligible for tax allowances. Deduction of 40 percent of the corporate taxes and 5 percent of the development taxes, including excess profit taxes, may be claimed for five years from the start of production.

[2] Investment tax allowance

Companies investing in promoted activities or the manufacture of promoted products may claim deductions of up to 100 percent of their capital expenditures for five years after the approval of the projects.

If the factory is located in a promoted industrial region, a 5 percent reduction of the adjusted income earned from the manufacturing operations may be claimed for a minimum of five years.

2) Preferential measures for research and development

The expenses involved in scientific surveys by companies may be claimed as deductions. Buildings, factories, and machinery for R&D purposes may also be deducted.

3) Incentives for job training

Two types of incentives are offered for improvement of technology and productivity:

[1] Industrial building allowance (IBA)

An IBA is allocated for the cost of constructing facilities used for approved industrial training.

[2] Double deductions of operating expenses

A double deduction may be made of operating expenses involved in approved industrial training.

4) Development of industrial estate for furniture industry

Malaysia has constructed an industrial estate for the furniture industry in Banting, Selangor with the aim of reducing costs through joint utilization of facilities and slashing of operating expenses etc. and of thus fostering the furniture industry as an export industry able to compete on the world market. The estate is 80 hectares in size and is expected to serve 6,000 workers.

There are 62 plots, all of which have been contracted for. Joint utilization of drying facilities is possible. Further, the estate is also expected to engage in mass procurement of materials and consolidated production, so it is expected that the principle of the economy of scale will come into play.

The large corporations will be able to contract out large orders from its customers to nearby subcontractors and merely assemble and export the results, so will be able to concentrate on designs and marketing. On the other hand, small companies will be able to specialize in individual products.

Compared to the situation where subcontractors are scattered all throughout the country, the estate will be advantageous also in quality control and transport costs. Further, foreign buyers and exporters will no longer find it necessary to travel around to factories scattered around the country, so the estate will be convenient to them.

To prepare for the anticipated future shortage in skilled woodworking workers in the furniture estate, the Malaysia Industrial Development Authority (MIDA) is planning to establish carpentry and woodworking courses there with the cooperation of the Italian woodworking machinery and tool association.

The lumber industry is pushing for the establishment of similar furniture estates in other states as well.

(2) Export Promotion Measures

1) Export credit refinancing scheme

This scheme makes available financing at preferential interest rates (current rate of 4%). The refinancing period for shipping is a maximum four months. The limit is M$5 million per company.

2) Deduction of adjusted income for exports

The equivalent of 50 percent of the value of export sales in the sales account or the equivalent of 5 percent of the price of Malaysian materials included in the exported product may be deducted.

However, this privilege is not applicable to pioneer companies or companies receiving investment tax allowances.

3) Double deductions of export credit insurance premiums

A double deduction of export credit insurance premiums by companies authorized by the Ministry of Finance is allowed so as to encourage entry into new markets.

4) Double deduction for export promotion

A double deduction in calculating taxable income is allowed for the following export promotion activities: advertisement activities outside of Malaysia, overseas mailing of free samples to foreign customers, export-import market surveys, entertainment expenses related to exports, provision of technical information to foreign customers, exhibition and participation costs in trade or industrial fairs designated by the Minister of Trade & Industry, travel expenses for overseas business, expenses of overseas sales offices, etc.

5) Tax exemptions

[1] Materials and parts

The level of tax exemptions is determined by whether or not the final product is exported. When the materials and parts are not produced domestically, or when they are produced domestically but cannot be used due to price or quality, consideration is given to full exemption of import tariffs and additional taxes.

Further, the 1977 Consumption Tax Law (Tax Refund Law) allows one to claim a refund of taxes when an export product uses an item for which a development tax is assessed.

[2] Machinery and equipment

Machinery and equipment not produced domestically and used directly for manufacture are not subject to import duties, development tax, or sales taxes. Quantitative control over imported machinery has also been scrapped. Even machinery and equipment covered by import duties may be exempted if certain conditions are met.

6-4-2. South Korea's Industrial Promotion Measures and Export Promotion Measures

(1) Outline

While the volume of exports of wooden furniture has risen rapidly in recent years, the value of exports has grown only slightly.

South Korea has experienced rapid growth in exports since the 1960s. This may be said to have resulted from the effects of the positive government support in financing, taxation, etc.

South Korea depends highly on the U.S. for its exports and its trade surplus with the U.S. has grown tremendously. Along with this, the U.S. and other advanced nations have been increasingly pressuring South Korea to open its own markets.

In response to this pressure to open its markets, the South Korean government has taken measures to liberalize imports and measures to sharply reduce various forms of export aid in an effort to achieve equilibrium in its international balance of payments.

In this way, South Korea has reached the point where its government is changing its trade policies. The furniture industry has achieved good export performance during this period. Therefore, there is almost no government support at this time.

(2) Self-Help on Part of Industrial Organizations

As mentioned above, changes in the government's industrial policies and export promotion policies have prompted the wooden furniture industry to come up with various self-help measures so as to overcome problems in opening up export markets. These may be summarized as follows:

1) It is stressing the following two basic targets:

Target exports for 1992:	US$ 500 million
Share of world exports:	Within top 10

2) Specifically, it is proceeding with the following policies: stress on export-oriented production systems and exports of high class goods, development and expansion of exports of own brands, promotion of exports of small and medium sized companies.

3) To achieve these goals, it is working on the following four points:

a) Facilitation of supply of materials

Direct development of log producing areas through promotion of joint ventures and investment, construction of on-site lumber mills, joint purchasing of lumber and plywood at site, etc.

Pressure on the government (Ministry of Finance) for reduction of prices of logs and lumber through reduction of the current 5 to 20 percent import duties to 0 to 10 percent and simultaneously demands on related authorities for streamlining of import procedures.

b) Improvement of quality and promotion of technical development

To raise the level of wood drying technology, the Forest Testing Center is currently formulating a program under the supervision of the government. On the other hand, export-oriented small and medium sized companies are pushing forward with the construction of joint wood drying factories.

Funding aid is also made available to small and medium sized companies for improvement of painting facilities.

To improve new product development capabilities, development of new materials is being promoted. Each year, 50 engineers (250 in five years) are being dispatched to the U.S., Japan, Italy, Denmark, etc. so as to train experts in aesthetic and industrial design (1987 to 1991).

c) Development of overseas markets

To train the export staff of small and medium sized companies, training is provided on trade practices. As part of the strengthened marketing activities for overseas markets, overseas exhibitions etc. are being positively participated in. Further, overseas information is being collected through overseas legations, KOTRA, etc. for use by the industrial organization.

d) Promotion of specialization and affiliations in production systems

A cooperative industrial estate is being created for primarily the small and medium sized members of the furniture industry. The main activities are as follows:

Specialization of production system

Joint use of facilities

Production facilities: 8,000 *tsubo* (one *tsubo* = 3.3 square meters)

Wood drying facilities (1,000 *tsubo*)

Lumber mill (1,500 *tsubo*)

Log yard (3,500 tsubo)

Dust collection facilities and boiler facilities (500 tsubo)

Joint warehouse (1,500 *tsubo*)

General facilities: 2000 *tsubo*

Joint operations of job training center, permanent exhibition hall, other facilities

Collection of overseas information, attraction of overseas buyers, joint purchases of materials

Promotion of corporate affiliations

Formation of business affiliations between large corporations and small and medium sized companies is being promoted. first, 10 small and medium sized companies each were selected for the two large corporations B.M and H.P. Production items were selected between the large corporations and small and medium sized companies and among the small and medium sized companies and technical guidance provided. Exports, in particular, are handled through the large corporations.

Similar business affiliations are being promoted for other large corporations and small and medium sized companies.

6-4-3. Taiwan-Region's Industrial Promotion Measures and Export Promotion Measures

The authority does not provide any special guidance or offer any incentives for the wooden furniture industry. This is because the share of the wooden furniture industry in the Taiwanese economy is small and the industry is not one of the "key policy industries" promoted by the government in recent years. Further, there has been a shift in the government policy of encouraging exports to one stressing imports as well. It is only natural therefore that the government has not taken any steps to encourage the export-oriented wooden furniture industry.

Taiwan's industrial promotion measures derive from the "Investment Promotion Articles", in whose designated industries the wooden furniture industry is not included. The industry is covered by general incentives, however. For example, on July 1, 1985, Taiwan promulgated a law allowing deductions in investment taxes in the case of introduction of machinery and equipment by private enterprises and this applies to the furniture industry. Many businesses have replaced or increased their production facilities using the provisions of the law. According to statistics of the Industrial Bureau of the Ministry of Economy, the furniture industry applied for a total of NT$2,074.58 million in deductions of investment taxes from July 1, 1985 to December 31, 1986.

Wooden furniture is also one of the small businesses covered by the Small and Medium Enterprise Promotion Law.

According to the Taiwan Furniture Manufacturers Association, while the government does not provide any assistance to the furniture industry, the association can obtain a certain amount of subsidization for its expenses if it submits plans and obtains approval for the same ("plans" meaning plans for lectures, training of technical personnel, training of management personnel, etc.)

While there are few direct privileges accorded the furniture industry, there is considerable indirect assistance. The authorities also positively cooperate in development of furniture exports and in participation in or hosting of exhibitions.

6-4-4. Japan's Industrial Promotion Measures

Japan does not take any specific measures for promotion of the furniture industry per se, but the vast majority of the companies in the industry are small or medium in size and therefore the furniture industry is covered by the series of measures for promotion of small business.

An outline of the measures for promotion of small businesses is shown in the following charts:

Measures for Small and Medium Enterprises

(1) **Modernization and Structural Upgrading**

Business Integration	Law on Extraordinary Measures for Promotion of New Field Development by Integrating Knowledge of Small and Medium Business Operators * Provision of subsidy, low-interest financing, preferential treatment in taxation and credit guarantee
Business Integration	Law on Extraordinary Measures for Business Conversion of Small and Medium Enterprises * Subsidizing the development of new technologies and products by cooperatives, low-interest financing (loan system for dealing with international economic situations for smaller enterprises), preferential treatment in credit guarantee
Regional Small and Medium Enterprise Promotion	Law on Extraordinary Measures for Regional Small and Medium Enterprises Located Together in Specific Areas * Subsidizing efforts to revitalize specific regional economies and to develop new technologies and products by cooperatives, low-interest financing (special region-specific loans), preferential treatment in credit guarantee
	Loan System for regional industrial restructuring * Low-interest financing
	Promotional measures for local industries ("jiba" industries)
Promotion of Subcontracting Enterprises	Measures for restructuring of subcontracting smaller enterprises * Subsidizing efforts at technological development by subcontracting enterprises, referral services for subcontracting enterprises, low-interest financing (loan system for smooth operation of subcontracting enterprises), Subcontracting Enterprises Promotion Association
Internationalization	Facilitation of direct overseas investment * Consultation by Japan Small Business Corporation, information, low-interest financing, preferential treatment in credit guarantee, etc.

(2) **Management Infrastructure**

o Basic measures

Small business finance	Loans by three government-affiliated financial institutions (i.e., Small Business Finance Corporation, National Finance Corporation and Central Bank for Commercial and Industrial Cooperatives)
	Loan system for the structuring strengthening activities of smaller enterprises by Japan Small Business Corporation
Credit Supplement	Supplementation of small and medium enterprises' credit and collateral by Small Business Credit Insurance Corporation and Credit Guarantee Association * Increasing the amount of insurance, creation of insurance programs of new types
Small business Taxation	Reduced corporate taxes, various preferential tax treatments, etc. * 30% tax rate for smaller businesses as opposed to 42% for ordinary corporations, etc. * Extension of preferential tax treatment for deemed corporations * Creation of tax systems for promoting integration of small and medium enterprises * Extension of the current taxation on small enterprises in the mechatronics industry, etc.
Cooperatives	Law on the Organization of Small Business Associations, Law on Cooperatives of Small Business Associations
Analysis and Guidance	Small and Medium Enterprises Guidance Law * Subsidizing prefectural governments' efforts at business analysis and guidance for small and medium enterprises

o Upgrading Management Resources

Personnel Training	Institute of the Japan Small Business Corporation, subsidizing personnel training programs by prefectural governments, etc., improvement of regional campuses of the Institute of the Japan Small Business Corporation
Information Collection and Dissemination	Offering of information and technical know-how for developing information systems, etc. by Japan Small Business Corporation, Small and Medium Enterprise Regional Information Center, etc.
Technological Development	Subsidizing research and development by small and medium enterprises, etc.
	Subsidizing technical training by the Institute of the Japan Small Business Corporation, prefectural government, etc.
	Technical assistance by prefectural and other public research institutions

o Others

Promotion of Sub-contracting Enterprises	Law on the Prevention of Delay in the Payment of Subcontracting Charges and Related Matters
Bankruptcy Prevention	Establishment of the Special Counseling Office for Bankruptcy Prevention
	Bankruptcy Prevention Mutural Relief System
Business Opportunities in Governmental and Other Public Sectors	Law Concerning Small and Medium Enterprises on Procurement the Government and Other Public Agencies

Source: "Outline of the Small and Medium Enterprise Policies of the Japanese Government" March, 1989

(3) Tax incentives for promotion of modernization and structural improvement of small and medium sized companies

In the current Japanese tax system, lower tax rates and various deductions are applied to small and medium sized companies as part of the basic income tax, corporate tax, and other tax systems. In addition to these general measures, special measures of abatement of taxation and deferral of taxation are taken from the viewpoint of industrial policies aimed at the promotion of modernization and structural improvement of small and medium sized companies.

Below, a list is given of the tax measures established for the promotion of modernization and structural improvement of small and medium sized companies in fiscal 1988:

1) Special depreciation rates for machinery and equipment of small and medium sized companies etc.
2) Tax system for promotion of establishment of new technology by small and medium sized companies
3) Tax system for strengthening standing of small and medium sized companies etc.
4) Tax system for strengthening technological standing of small and medium sized companies
5) Deduction of incremental research and development expenses
6) Tax system for promotion of research and development of basic technology
7) Special depreciation of specific research and development assets
8) Measures related to the Law on Extraordinary Measures for Promotion of Technological Development by Small and Medium Enterprises
9) Small and medium enterprise structural improvement reserves
10) Small and medium enterprise subcontractor promotion reserves
11) Traditional handicraft industry promotion reserves
12) Small and medium enterprise knowledge integration and development reserves
13) Measures for upgrading projects for small and medium sized companies. Special deduction of income in land transfers involved in formation of industrial estates, reduced value entry upon purchases, etc.
14) Measures related to Small and Medium Enterprise Modernization Promotion Law such as accelerated depreciation, tax deductions, and reduced value entry for plant and equipment
15) Measures related to the Law on Extraordinary Measures for Business Conversion by Small and Medium Enterprises
16) Measures related to the Law on Temporary Measures for Small and Medium Enterprises in Specified Areas to Specific Industries

17) Measures for projects for structure improvements in textile industry
18) Measures related to the Law on Temporary Measures to Facilitate the Development of New Fields Through Tieups Among Small Businesses in Different Fields
19) Measures for promotion of information orientation of small and medium enterprises
20) Special depreciation for income related to overseas transactions of technology etc.
21) Small and medium enterprise overseas market development reserves
22) Other measures
    - Special depreciation rates for pollution prevention facilities etc.
    - Special depreciation rates for facilities for conversion to industrial water supplies etc.
    - Special depreciation rates for facilities for recycling treatment of waste
    - Tax system for strengthening and promotion of economic and social energy base
    - Counting of small and medium enterprise bankruptcy prevention mutual relief system payments as losses and other special measures

7. Trends in Key Markets

7-1. Scale of the Furniture Market

7-1-1. The Furniture Market in the U.S.

(1) Summary

In 1988, the value of U.S. shipments of wooden furniture rose just 0.5 percent from the previous year to US$6.2 billion. The forecast for shipments in 1989 is for a decline in production, reflecting the continuation of sluggish consumption by the consumer from 1988 (Table III-7-1-1).

Table III-7-1-1. Trends and Forecasts: Household Furniture

(Unit: $ million)

	1985	1986	1987	1988E	1989F
Value of shipment (1982$)	14,002	14,883	15,553	15,675	15,360
Wooden furniture (Houshold)	5,556	5,823	6,230	6,260	6,135
Upholstered furniture (House)	3,952	4,261	4,640	4,710	4,615
Metal furniture (Household)	1,753	1,762	1,822	1,805	1,750
Matteresses & bedsprings	2,051	2,098	2,100	2,140	2,120

Source: U.S. Dept. of Commerce

E, F: Estimates and Forecasts by ITA

In the past one or two years, there have been worrying signs of a business recession, but analysts generally are of the opinion that in the long term, the maturation of the demography of the U.S. will have a beneficial effect on the growth of the furniture.

The U.S. wooden furniture industry is currently structured as follows. The industry may be roughly divided into U.S. manufacturers and importers.

In terms of the demography of the U.S. consumer market, the U.S. is entering a period of maximum consumption forecasted in the early 1980's, i.e., the gradual maturation of the 25 to 40 age strata and a shift to a 35 to 55 age strata.

Along with this, consumption in the furniture market is entering a turbulent period of change. In addition to this, many U.S. furniture manufacturers, in particular small and medium sized manufacturers, lack the leeway in funds for new modernization and rationalization and are being squeezed by the low price competitiveness of importers and the rough wave of mergers and acquisitions (M&A) of large U.S. manufacturers. The U.S. manufacturers are in a period of consolidation of companies. Due to this trend, (1) the market for low and medium retail price products is being left to imports and (2) medium and high class furniture is being strengthened.

Of course, (3) the retreat of manufacturers from the low and medium price market means the market is being abandoned, which in turn has placed it in the spotlight as a growth market for imports. In particular, Thai products are superior due to the low price even compared with other Asian products, so it is necessary to aggressively seek to expand Thai's market share through picking up this abandoned share.

Consumption is tending to orient to quality furniture of easy purchase prices, so the ready-to-assemble (RTA) market is coming under attention as one of the growth fields of the wooden furniture market and is beginning to grow.

(2) Trends in imports and imports from Asia

The total value of imports of wood household furniture by the U.S. in 1987 rose 11.7 percent from the previous year to US$2.3 billion.

Imports have shown steady growth overall, but a look at the growth rates for each year shows a 35.9 percent increase in 1984 from the previous year, 35.5 percent in 1985, 17.5 percent in 1986, and 11.7 percent in 1987. The growth rate of imports has therefore been dropping since peaking in 1985 (Table III-7-1-2).

Next, a look at the countries of origin of imports of wooden furniture in 1987 by value shows Taiwan accounting for 32.3 percent of the same, an overwhelmingly large share, followed by Canada at 12.3 percent, Italy at 8.8 percent, Denmark at 7 percent, Yugoslavia at 6.9 percent, and then Western Europe.

In Southeast Asia, Singapore ranks at 9th place with 2.4 percent, South Korea at 10th place with 2.4 percent, and Thailand at 11th place with 1.9 percent, with about US$43.7 million (Table III-7-1-3).

Table III-7-1-2. U.S. Imports of Wooden Household Furniture & Parts

(Value: $1,000)

	1983	1984	1985	1986	1987	'88(1-10)
of Wood:						
Bent-wood furniture	16,137	17,730	15,254	12,316	11,803	7,084
Chairs						
Director's Chairs, folding	10,037	11,267	8,149	7,220	5,874	4,539
Other Folding chairs	11,509	14,039	15,270	14,921	12,759	8,484
Chairs, of Teak Wood	15,544	22,290	25,775	14,591	21,349	14,788
Other Chairs	195,191	249,133	305,599	340,741	422,983	355,813
Other than Chairs						
Convertible Sofas, etc.	1,845	3,605	8,695	15,102	19,541	16,926
Desks & Desk Extensions	--	58,528	84,547	101,088	110,017	74,249
Dining Tables	--	40,052	63,589	81,177	94,485	77,366
Other Tables	--	138,304	221,442	302,211	377,948	280,168
Bed & Head-boards	--	38,849	60,430	81,372	95,517	72,679
Bedroom Furniture	--	56,674	87,824	123,027	146,815	107,329
Wall Systems Book Cases China Closets Other Cabinet	--	268,943	427,735	496,663	530,073	388,468
Shelving	--	6,794	9,238	8,652	12,597	9,796
Other Funiture	610,053	232,499	244,571	275,124	296,584	219,629
TOTAL	860,316	1,158,707	1,578,118	1,884,205	2,158,345	1,637,318
Furniture Parts	92,180	135,342	175,634	177,125	144,869	116,978
GRAND TOTAL:	952,496	1,294,049	1,753,752	2,061,330	2,303,241	1,754,296

Source: U.S. Dept. of Commerce

Table III-7-1-3. 1987 Imports of Wooden Furniture (Household) by Country/Region of Origin

(Unit: $ million)

Rank	Country/Region	Value of Imports	%
1	Taiwan	$743.8	32.3
2	Canada	283.3	12.3
3	Italy	202.1	8.8
4	Denmark	161.5	7.0
5	Yugoslavia	158.9	6.9
6	FR Germany	102.8	4.5
7	Mexico	77.3	3.4
8	United Kingdom	66.3	2.9
9	Singapore	56.3	2.4
10	Korea	54.6	2.4
11	Thailand	43.7	1.9
12	Sweden	33.8	1.5
13	Romania	33.4	1.5
14	Spain	23.0	1.0
15	Brazil	21.6	0.9
16	Hong Kong	21.1	0.9
17	France	18.8	0.8
18	China	16.3	0.7
19	Japan	16.0	0.7
20	Israel	13.0	0.6
21	Belgium	11.2	0.5
22	New Zealand	9.4	0.4
23	Philippine	9.2	0.4
24	Finland	5.1	0.2
25	Malaysia	3.9	0.2
26	Norway	3.8	0.2
27	Poland	3.6	0.2
28	Indonesia	2.8	0.1
29	Chile	1.8	0.1
30	Czechoslovakia	1.5	0.1
	Total:	$2,303.2	100.0

Source: U.S. Dept. of Commerce

Table III-7-1-4 to Table III-7-1-5 summarize the import wooden household furniture (1987) from East Asia and Southeast Asia.

First, Taiwan showed overwhelming strength, accounting for over three-fourths of the total imports from these countries. Thailand came in fourth place among the Asian nations with 4.5 percent.

A look at the wooden furniture imported from the Asian countries shows "other tables" (TSUSA #727.3535) to be the most numerous at 28.8 percent, followed by "other chairs" (#727.2900) at 18.9 percent, "wall systems" (#727.3555) at 17.7 percent, and "other furniture" (#727.3590) at 11.5 percent.

Next, a look at the items imported from Thailand shows "other tables" (#727.3535) most numerous at 33.6 percent, followed by "other chairs" (#727.2900), "other furniture" (#727.3590), "wall systems" (#727.3555), and "teak chairs" (#727.2700).

Table III-7-1-4. Rank of Imports from East Asia and Southeast Asia by Country/Region in 1987

Rank	Country/Region	1987 Value ($ Mill)	%
1	Taiwan	743.8	76.9
2	Singapore	56.3	5.8
3	Korea	54.6	5.6
4	Thailand	43.7	4.5
5	Hong Kong	21.1	2.2
6	China	16.3	1.7
7	Japan	16.0	1.6
8	New Zealand	9.4	0.9
9	Philippines	9.2	1.0
10	Malaysia	3.9	0.4
11	Indonesia	2.8	0.3
	Total	967.7	100.0

Source: U.S. Dept. of Commerce

Table III-7-1-5. Breakdown of Wooden Furniture Imported by U.S. from East Asia and Southeast Asia

Rank	Wood Furniture	1987 Value ($ Mill)	%
1	Tables, NSPF (#727.3535)	281.4	28.8
2	Other Chairs (#727.2900)	184.3	18.9
3	Wall Systems, Book Cases Shelf Units, Credenzas, Buffets, Servers, China Closets and Other Cabinets (#727.3555)	172.6	17.7
4	Furniture, NSPF (#727.3590)	112.3	11.5
5	Dining Tables (#727.3530)	60.7	6.2
6	Furniture Parts, NSPF (#727.3900,4040,4140)	51.6	5.3
7	Desk & Desk Extensions (#727.3525)	42.5	4.3
8	Bedroom Furniture (#727.3550)	24.7	2.5
9	Beds & Headboards (#727.3545)	22.6	2.3
10	Chairs of Teak Wood (#727.2700)	6.4	0.7
11	Folding Chairs (#727.2500)	6.0	0.6
12	Director's Chairs (#727.2300)	5.2	0.5
13	Shelving (#727.3560)	3.0	0.3
14	Bent-Wood Furniture (#727.1500)	2.0	0.2
15	Convertible Sofas, Sofa-beds, and Similar Dual-Purpose Furniture (#727.3520)	1.8	0.2
	Total*	$977.1	100.0

* Total includes $940,000 imported from New Zealand.

Source: U.S.Dept. of Commerce

Table III-7-1-6. Breakdown of Wooden Furniture Imported by U.S. from Thailand

Rank	Wood Furniture	1987 Value ($ Mill)	%
1	Tables, NSPF (#727.3535)	14.8	33.6
2	Other Chairs (#727.2900)	5.8	13.3
3	Furniture, NSPF (#727.3590)	5.1	11.7
4	Wall Systems, Book Cases Shelf Units, Credenzas, Buffets, Servers, China Closets and Other Cabinets (#727.3555)	3.9	8.9
5	Chairs of Teak Wood (#727.2700)	3.6	8.2
6	Furniture Parts, NSPF (#727.3900,4040,4140)	3.0	6.9
7	Dining Tables (#727.3530)	2.7	6.2
8	Director's Chairs (#727.2300)	2.0	4.6
9	Folding Chairs (#727.2500)	1.0	2.3
10	Desk & Desk Extensions (#727.3525)	1.0	2.3
11	Bedroom Furniture (#727.3550)	0.3	0.7
12	Beds & Headboards (#727.3545)	0.2	0.5
13	Shelving (#727.3560)	0.2	0.5
14	Convertible Sofas, Sofa-beds, and Similar Dual-Purpose Furniture (#727.3520)	0.1	0.3
	Total	$43.7	100.0

Source: U.S.Dept. of Commerce

(3) Competitiveness of Thai Products Distributed in U.S.

The Thai wooden furniture imported into the U.S. market are as shown in Table III-7-6. Out of these, the following three products were selected and then a look was taken at their price competitiveness with products of other Asian nations in the U.S. import market:

(a) Other tables (#727.3535)

(b) Other chairs (#727.2900)

(c) Dining tables (#727.3530)

By determining superiority or inferiority in price competition, it is possible to obtain a proportional evaluation even in the low and medium price consumption market. If superior in price, the import growth index may be forecasted to increase in its rise in the future.

The three products are advantageous to Thailand and an expansion in imports is being shown.

1) Other tables (#727.3535)

This product is the most important in U.S. imports from Thailand in terms of value (US$14.8 million) and is one of the most promising markets.

In particular, Thai products have the lowest unit prices among imports from Asia and prices of Taiwanese and Singaporean products are increasingly rising.

Therefore, insofar as we view this item, Thai products are superior in price compared with products of other Asian regions. Reflecting this, while products from Taiwan and Singapore have been experiencing low growth in their import growth indexes, Thai products have continued to experience high growth and should enjoy a strong market in the future as well.

Table III-7-1-7. (a) Unit Price ($/No.)

	1984	1985	1986	1987	1988
Taiwan	$19.0	$26.0	$29.0	$34.1	$33.9
Singapore	79.2	68.3	65.5	77.2	81.9
Thailand	32.2	19.7	11.1	17.0	16.2

Table III-7-1-7. (b) Import Growth Index (1984=100)

	1984	1985	1986	1987	1988
Taiwan	100.0	175.0	270.8	360.0	254.3
Singapore	100.0	222.2	260.8	302.8	266.4
Thailand	100.0	242.1	476.9	1,585.1	1,760.7

2) Other chairs (#727.2900)

This product (other chairs) is the second most important in U.S. imports from Thailand in terms of value (US$5.8 million) and is another of the most promising markets.

Thai products had a unit price of US$20.9 in 1986, higher than Taiwanese products, but the unit price dropped from 1987 and now stands at the lowest position among products imported from Asia. Starting from that point of time, the import growth index grew at an overwhelmingly fast rate compared with those of other countries. Further growth may be expected in the future.

Table III-7-1-8. (a) Unit Price ($/No.)

	1984	1985	1986	1987	1988
Taiwan	$19.1	$17.4	$16.5	$19.9	$17.6
Thailand	13.0	17.4	20.9	13.4	13.3
Singapore	22.7	25.0	23.6	25.9	23.7
Korea	39.9	41.9	38.8	35.9	44.6

Table III-7-1-8. (b) Import Growth Index (1984=100)

	1984	1985	1986	1987	1988
Taiwan	100.0	87.0	127.4	199.9	138.8
Thailand	100.0	168.2	280.9	723.4	1,192.0
Singapore	100.0	108.2	75.3	92.7	92.3
Korea	100.0	117.0	176.6	258.7	243.5

3) Dining tables (#727.3530)

This product (dining tables) is the seventh most important in U.S. imports from Thailand in terms of value (US$2.7 million) and is yet another of the most promising markets.

These Thai products have the lowest unit price (US$45.7) among products of the Asian nations. The rival countries of South Korea and Singapore are in general trying to raise their prices. Therefore, these Thai products are the most superior in products of the Asian nations in terms of price.

Reflecting these low price levels, the import growth index has been rapidly rising. The market prospects for these Thai products are therefore bright.

Table III-7-1-9. (a) Unit Price ($/No.)

	1984	1985	1986	1987	1988
Thailand	$118.3	$80.7	$44.6	$54.7	$45.7
Taiwan	90.3	77.7	56.5	61.8	56.7
Singapore	118.0	108.2	87.8	118.0	114.1
Korea	64.4	70.8	68.7	100.5	94.8
Hong Kong	343.3	409.7	303.7	309.8	394.3

Table III-7-1-9. (b) Import Growth Index (1984=100)

	1984	1985	1986	1987	1988
Thailand	100.0	227.3	200.8	754.4	2,059.2
Taiwan	100.0	189.8	362.4	431.6	329.0
Singapore	100.0	128.8	113.4	130.9	131.2
Korea	100.0	133.5	83.9	189.6	115.8
Hong Kong	100.0	119.3	117.9	150.4	114.9

7-1-2. The Furniture Market in France

France's furniture and chair industry and related industries are a heterogeneous group, except for bedding, in terms of both scale and form. It is difficult to obtain an accurate grasp of the growth of the industry through figures, but it is believed that real production, on a volume base, is growing by an average annual 8%. This is believed to be due to the shift from production by skilled craftsmen to factory production and to the improvement of the productivity through technical innovations etc. Table III-7-1-10 shows the production in 1984 to 1987.

Table III-7-1-10. Production of Furniture in France

(Value: FF million)

	1984	1985	1986	1987
HOUSEHOLD FURNITURE	6,428	6,189	6,397	5,887
Dining room furniture	2,922	2,948	3,034	2,579
Bedroom furniture	2,665	2,385	2,432	2,213
Accessory furniture	841	855	930	1094
SEATS	3,967	3,957	4,106	4,098
Sofas, armchairs	3,080	3,178	3,289	3,290
Chairs	887	779	817	808
KITCHEN & WHITE WOOD	4,913	5,357	5,985	6,338
White wood furniture	139	139	166	172
Kitchen furniture units	3,093	3,386	3,780	4,044
Kitchen tables and chairs	209	338	351	360
Wooden bathroom furniture	326	329	359	383
Garden furniture	966	1,008	1,179	1,232
BEDDING	4,057	4,248	4,765	4,860
OFFICE FURNITURE	463	527	590	614
OTHER ITEMS	2,072	2,232	2,484	2,628
Rattan furniture	117	119	136	144
Other furniture and seats	1,955	2,114	2,348	2,484
TOTAL	21,901	21,135	24,327	24,424

The furniture industry is comprised of large numbers of small sized companies, with companies having over 200 employees accounting for only 33% of total production. Even the largest companies only account for 10% of production in the market. In fact, large companies meet more difficulties than smaller ones. This is related with the fact that products have to be more specific all the time and manufacturers have to specialize in small gaps in order to remain competitive in their unique field which demands specific skills and technologies. It is therefore very difficult to regroup different production lines under the same roof.

The furniture manufacturing companies can be classified roughly into the following two groups:

a) Group mass producing medium and low class items

The leaders of this group are PARISOT, DUMESTE, GAUTIER, CAPELLE, WALLE FRANCE. These companies adopt the strategy of selling low price goods. For example, PARISOT employs 2,900 workers and achieved exports of 254 MFF. in 1987.These companies maintain close cooperative relations with retailers engaged in mass discount sales like CONFORAMA, BUT, MOBIS... Product policies are now elaborated in common.

b) Group producing medium and high class items

Except for GRANGE and MOREUX, the manufacturers in this group are all small or medium in size with less than 200 workers. These medium and high class furniture manufacturers have their own sales policies and deliberately limit the number of retailers so as to promote the image of high class furniture.

(2) Scale of demand

Household purchases represent 85% of furniture purchases, only 15% being purchased by companies. Furniture's main object is house furnishing. Therefore, demand is closely linked with supply and demand trends in the housing trade, both quantitative and qualitative.

French domestic demand for furniture was rather stagnant from 1984 to 1987 at around FF28 billion. In 1987, it represented FF28.2 France produces FF24 billion worth of furniture, so if one considers exports has to make up for the difference with imports (Table III-7-1-11).

Table III-7-1-11. Share of Imports in Furniture Market

(Value: FF million)

		1984	1985	1986	1987
PRODUCTION	(a)	23,737	23,122	23,273	23,571
IMPORTS	(b)	7,459	7,368	7,478	7,702
EXPORTS	(c)	2,683	2,801	2,924	3,056
HOME MARKET	(a)+(b)-(c)=(d)	28,513	27,689	27,827	28,217
PENETRATION RATE	(b)/(d)	26.2%	26.6%	26.9%	27.3%

On the other hand, a look at the furniture demand by product shows household furniture (dining room sets, accessories, bedroom furniture) accounting for the largest share, 32.1%, folowed by kitchen furniture at 24.5% and seats at 22.6%.

A recent trend has been a decline in demand for household furniture, but demand for television stands, low tables, and other accessory type furniture has been increasing.

(3) Import trends and imports from Asia

In 1987, France represented 6% of the international furniture market.

In general, the French furniture trade is structurally in deficit and the situation tends to worsen. According to the Annual bulletin of the Banque de France, the growth of the French furniture market (7% in 1987) mainly was due to an increase in imports and the deficit of the trade balance grew by 14.8% (33% in 1986) to reach MFF7,700. Imports rose by 12.2% in 1987 instead of 17.5% in 1986 (Table III-7-1-12).

The main suppliers are Italy, Belgium and W. Germany which supply three quarters of France's furniture imports.

In general, the increase in imports is in low price products made possible by low labor costs and mass production. On the other hand, 80% of the contemporary furniture sold in France is of Italian make. The creativity of Italian furniture has been rising remarkably.

Table III-7-1-12. Trends in Imports of Furniture

(Unit: FF million)

	1984	(Δ%)	1985	(Δ%)	1986	(Δ%)	1987	(Δ%)
SEATS	3,725	+10.7	4,172	+12	4,847	+16	5,403	+11.5
HOUSEHOLD FURN	5,304	+3	5,561	+4.9	6,547	+17.7	7,322	+11.8
BEDDING	351	+30	421	+20	547	+30	625	+14.3
TOTAL	9,466	+7	10,253	+8.3	12,052	+17.6	13,527	+12.2

Source: French Customs

The W.Germany and Belgian furniture industries are further along in the process of modernizing their tools and facilities than France. The products imported from these countries are mass production products and therefore are medium or low in class and price competitive (Table III-6-13 ~ Table III-6-15).

Table III-7-1-13. Imports of Furniture by Country

(Unit: FF million)

COUNTRY	1984	%	1985	%	1986	%	1987	%
ITALY	3,818	40.71	3,978	39.18	4,786	40.08	5,249	39.18
BELG-LUXBG	1,695	18.07	1,829	18.01	2,023	16.94	2,102	15.69
W.GERMANY	1,408	15.01	1,602	15.78	1,997	16.73	2,336	17.44
SPAIN	538	5.74	669	6.59	728	6.10	874	6.52
RUMANIA	356	3.80	368	3.62	436	3.65	421	3.14
SWEDEN	190	2.03	185	1.82	260	2.18	287	2.14
UK	171	1.82	169	1.66	225	1.88	231	1.72
E.GERMANY	162	1.73	157	1.55	191	1.60	193	1.44
NETHERLANDS	155	1.65	131	1.29	248	2.08	301	2.25
YUGOSLAVIA	136	1.45	152	1.50	150	1.26	148	1.10
DENMARK	110	1.17	108	1.06	171	1.43	219	1.63
THAILAND	108	1.15	100	0.98	129	1.08	153	1.14
OTHERS	532	5.67	805	7.93	596	4.99	884	6.60
TOTAL	9,379	100	10,153	100	11,940	100	13,378	100

Source: French Customs

Table III-7-1-14. Imports of Seats

(Unit: FF million)

COUNTRY	1984	%	1985	%	1986	%	1987	%
ITALY	2,010	53.97	2,073	49.70	2,488	51.33	2,703	50.03
BELG-LUXBG	575	15.44	667	15.99	739	15.25	748	13.84
W.GERMANY	480	12.89	594	14.24	766	15.80	899	16.64
SPAIN	196	5.26	198	4.75	261	5.38	271	5.02
RUMANIA	82	2.20	73	1.75	82	1.69	83	1.54
TOTAL	3,724	100	4,171	100	4,847	100	5,403	100

Source: French Customs

Table III-7-1-15. Household Furniture Imports

(Unit: FF million)

COUNTRY	1984	%	1985	%	1986	%	1987	%
ITALY	1,782	33.60	1,880	33.81	2,269	34.66	2,516	34.37
BELG-LUXBG	910	17.16	928	16.69	1,017	15.54	1,047	14.30
W.GERMANY	893	16.84	951	17.10	1,143	17.46	1,296	17.70
SPAIN	335	6.32	359	6.46	424	6.48	505	6.90
RUMANIA	275	5.19	294	5.29	354	5.41	337	4.60
TOTAL	5,303	100	5,561	100	6,546	100	7,321	100

Source: French Customs

The main countries/regions in Asia which France imports from are Thailand, Taiwan, and the Philippines. Imports from S. Korea are not that great.

Asian countries only account for a tiny part of furniture imports in France with a total of approximately 2.3% for seats, and 2.4% for household furniture in imported value in 1987. But nevertheless, imports from these countries have increased a lot since 1985, mainly because most of their products being light, freight costs are smaller.

Most furniture imports coming from Asia are rattan furniture. Taiwan is the only exception with only 9% of its furniture exports in rattan. Taiwan carried out a diversification policy in the furniture trade. As far as Taiwanese products sold in France are concerned, this diversification shows by the large number of raw products used, from plain wood to plastic including rattan and metal, as well as the diversity of offered ranges.Following the strengthening of their currency (Taiwanese $) and the increase in labor costs, many companies decided to start producing upper-range furniture. They developed new products, improved finishing, and caused color changes with adoption of chrome plating etc. Taiwanese furniture is now able to compete with Italian furniture on the French contemporary furniture market. (Tables III-7-1-16 and III-7-1-17)

Table III-7-1-16. Seat Imports from Asia

(Unit: FF thousand)

	1983	1984	(Δ%)	1985	(Δ%)	1986	(Δ%)	1987	(Δ%)
Thailand	43,932	45,880	4.4	44,387	-3.2	56,612	27.5	70,540	24.6
Philippines	12,249	10,161	-17	10,639	4.7	8,482	-20.3	14,630	72.5
Taiwan	8,478	16,072	89.6	9,545	-40.6	17,021	78	27,711	62.8
Hong Kong	2,250	2,025	-1.2	1,613	-20.3	1,607	-0.4	1,614	0.4
Indonesia	534	524	0	0		664		5,237	282

Source: French Customs

Table III-7-1-17. Household Furniture Imports from Asia

(Unit: FF thousand)

	1983	1984	(Δ%)	1985	(Δ%)	1986	(Δ%)	1987	(Δ%)
Taiwan	85,043	62,384	-26.6	56,087	-10	50,928	-9.2	79,293	56
Thailand	39,400	40,517	2.84	39,410	-2.7	48,972	24	58,639	20
Philippines	12,623	11,028	-12.6	12,098	9.7	13,409	11	21,565	61
Indonesia	0	696	-	1,735	149.3	2,693	55	6,116	90
S.Korea	1,082	429	-60.3	435	1.4	7,851	1700	7,884	0.5

Source: French Customs

Philippine furniture sold on the French market is very specific: first, they are exclusively in rattan; then they are meant for the upper-range and are mainly distributed by specialists like ROCHE-BOBOIS or UN JARDIN EN PLUS. They benefit from a good image based on the quality of raw products used (Buri) and the great care taken for the finish. French experts reckon that the Philippines have been able to instore a proper quality policy in collaboration with their clients, the importers.

7-2. Evaluation of Thai Products and Problems Therein

7-2-1. Evaluation in U.S.

(1) Distribution System

Interviews were used to throw light on the distribution routes of Thai products. These routes are diverse in nature.

Regarding retail sales channels, Sears, Roebuck & Co., a major mass merchandiser, has a purchasing office in Thailand and therefore buys directly in Thailand.

On the other hand, Nigel Import Inc., a San Francisco based concern, operates seven stores in California and purchases quality wooden furniture directly from Thailand to supply those stores.

Pilliod Cabinet Co. (High Point, NC) imports directly to the U.S. through a joint venture with Thai, Taiwanese, and Mexican companies and wholesales to furniture outlets.

In addition, discount stores, department stores, home centers, and the like are considered able to import directly. A direct approach to them will be important in the future.

(2) Evaluation of Thai Products

An attempt was made to interview large numbers of businesses to obtain an evaluation of Thai products, but most businesses were importing from places other than Thailand.

Further, among these businesses, many stated they were not familiar with products from Thailand. At the same time, however, the majority of the businesses answered "yes" to the question "Would you consider Thai products if sent catalogs and lists of manufacturers?"

In other words, the businesses are interested, but have not had the chance to do business with Thailand in the past or don't know where to inquire in Thailand to obtain such materials.

Businesses handling Thai products evaluated Thai furniture highly.

Quality presents no problems and thus is satisfactory. Prices are considered competitive and should allow continued business in the future, so also are satisfactory. Deliveries are also not a problem. Designs are flexible, altered depending on application and purpose. For example, furniture is manufactured based on designs presented from the U.S. or designs of the Thai side.

Regarding terms of payment, L/C's (letters of credit) are used in the case of Sears, but sometimes purchases are made at the factories inside Thailand. The terms differ depending on the company.

(3) Evaluation of businesses importing wooden furniture

A selection was made of several businesses importing wooden furniture and interviews held with the same. The regions covered were Illinois, California, and North Carolina.

1) Company: Sears, Roebuck & Co., Sears Tower, Chicago, IL
Interviewed: Mr. Dick Smith, Import Manager

a) Comment

Sears, Roebuck is the largest retailer in the U.S. and in its product purchasing uses individual managers for individual items, even in furniture. Mr. Dick Smith, the interviewee, is the import manager in charge of dining tables.

b) Imports from Thailand

At the present time, Sears imports dining tables and chairs from Thailand. Sears has an office in Thailand, so business is conducted through that agent. Purchases are made from various select manufacturers.

c) Evaluation of Thai furniture

Quality: The quality is very good and Sears is satisfied with it.

Price: The price is competitive and Sears will continue doing business with Thailand in the future.

Delivery: Products are delivered as promised and thus there are no problems.

d) Competitiveness with other Asian nations

Sears is doing business with Taiwan as well, but the products differ from those of Thailand. There is no competition between the two countries and thus no problem with competitiveness.

e) Imported products

Dining tables and chairs are imported as finished products and differ from RTA (ready-to-assemble) furniture. RTA furniture is handled by a separate division.

f) Designs

In 50 percent of the cases, Sears designates the designs to be used for production when ordering furniture and the other 50 percent of the cases uses Thai designs.

g) Future business

Sears is doing business with select manufacturers in Thailand at the present time, but plans to expand its business ties in the future.

2) Company: Torben Frederiksen Enterprises Co., 1281 Andersen Drive, San Rafael, CA 94901

Interviewed: Mr. Hans Rix, Executive Vice President

a) Comment

The interview was held with Mr. Hans Rix, vice president of the company.

b) Imports

The company is an import wholesaler and does business with Western Europe and Southeast Asia - Indonesia, Singapore, and Taiwan.

The company did business with Thailand in the past, but does not do business with it at the present time. The reason is that the company it dealt with was closed down. If there is a good company in Thailand, it would like to do business with that country again.

c) Requests to Thailand

The company would like to do business with Thailand in wooden furniture, but first would like to be able to obtain the following materials:

- List of names and addresses of wood furniture manufacturers and list of product specifications, catalogs, and other material enabling understanding of the actual products

- Address of Thai wood furniture association. If there is an agent or office of the same in the U.S., the address of the same.

d) Products handled

The company gave for reference the following products as those it was importing: dining chairs and wall systems of teakwood

e) Sales price range

The company handles wood furniture of the good quality, medium price range. Most of the furniture is of the RTA (ready-to-assemble) type.

f) Distribution and sales channels

The company primarily wholesales its furniture to furniture outlets and mass merchandisers handling medium price range products.

3) Company: Chatham County Furniture Industries, Inc. Division of U.S. Furniture Industries, P.O. Box 2127, High Point, NC 27261

Interviewed: Ms. Becky Chlodfelter, Import Manager

a) Comment

The company manufactures and imports furniture. The interview was held with Ms. Chlodfelter, the import manager.

b) State of imports

At the present time, the company does business with Taiwan, Malaysia, and Singapore. It imports furniture parts and assembles them in the U.S. In addition, the company imports from Yugoslavia, but unfortunately it does not do business with Thailand.

c) Distribution

The company has six assembly plants around the country. Imported parts are sent there for storage. The furniture is wholesaled to wholesalers.

d) Interest in Thailand

At the present time, the company does not know the furniture situation in Thailand. It is interested and if it received catalogs etc., it would study them fully.

e) Price range handled

The wooden furniture the company handles is of the low to moderate price range.

f) Products handled

The company does not handle RTA furniture. It handles dining tables and chairs, living room sets, and all other furniture.

(4) Evaluation of Thai Products by U.S. Manufacturers

Direct interviews were held with large U.S. furniture manufacturers to obtain comments on Thai products.

First, the thing learned through the interviews as a whole was that U.S. companies have a strong desire to learn more about Thai furniture.

For example, the companies would ask if the Thai furniture association had an office in the U.S. or if the interviewers knew where the companies could inquire further. In other words, most U.S. manufacturers were not handling Thai products, but the majority of them had insufficient information about Thai furniture.

Below, a summary is given of the interviews with three typical companies.

1) Company: LADD Furniture Inc., One Plaza Center, High Point, NC 27261

Interviewed: Mr. Oliver Etheridge, Import Manager

a) Comment

The company is a large manufacturer of wooden furniture and handles a variety of furniture in the low, moderate, and high price ranges. The interview was held with Mr. Etheridge, the import manager.

b) Imports from Thailand

The company has been importing wooden furniture directly from Thailand through Bangkok for three or four years now.

The main products imported from Thailand are as follows: dining tables, dining chairs, and dining parts.

c) Evaluation of Thai products

Quality: The company is satisfied with the quality of the Thai furniture currently being handled and finds no problems in them.

Price: At the present stage, the company finds no problems with Thai prices. These are in a range allowing continued business in the future.

However, the price of Thai furniture is continuing to rise due to fluctuations in the dollar exchange rate in terms of products. Prices have risen 20 to 30 percent in the past three or four years. Even so, the prices are lower than U.S. made furniture, so the company is continuing to purchase the products.

If the Thai side cannot adjust its prices accordingly, however, the company may find itself having to switch over to U.S. made furniture in the future.

At the present time, however, Thai prices are still lower than U.S. ones, so the company will continue to import Thai products.

Delivery: Thailand is somewhat late in deliveries. The reasons are that the scale of production is still small, the manufacturers do not yet have a sufficient production capacity to handle various types of furniture, and the production capacity of furniture parts is low. For these reasons, the company has partially withdrawn from production in Thailand and shifted to production in Taiwan.

d) Future apprehensions and requests regarding production in Thailand

At the present time, the company is importing from various Southeast Asian countries. The quality and price of Thai furniture are competitive, so there are no problems regarding competition.

As mentioned above, the production situation of furniture parts etc. is poor. Therefore, the company would like Thailand to resolve this problem and establish a system enabling expansion of its production capacity.

The company produces and handles all sorts of furniture, so once this problem is resolved would increase its orders to Thailand. It looks forward to resolution of the problem.

e) Retail price range of Thai products

The retail price range of Thai furniture is of the low to moderate range.

f) Design of Thai furniture

The company finds no problem with designs since it presents its own designs to the Thai manufacturer and has it produce the furniture based on the same. The Thai side does not make its own designs.

g) Distribution and sales channels

The company wholesales to the furniture outlet "Levitz" and the mass merchandisers Sears and J.C. Penney.

2) INTERCO Inc., 101 South Hanley Road, St. Louis, Missouri 63105

Interviewed: Mr. Dan H. Tucker, Executive Vice President (Lane Co.)

a) Comment

The interview was held with Mr. Tucker, executive vice president of Lane Co., a subsidiary of INTERCO, one of the top five furniture manufacturers in the U.S.

b) State of imports

The company manufactures wooden furniture of the low and moderate price range. At the present time, it imports from the Philippines and Taiwan. It does not import from Thailand.

c) Interest in Thailand

The company presently does not import furniture from Thailand, but would pass on any reference materials sent to it (product catalogs etc.) to the suitable manager.

The company produces all types of furniture, so would like to know in detail what the Thai side would like to offer.

d) Method of import

The company purchases and imports parts for assembly in the U.S., but mostly imports finished products.

e) Distribution and sales channels

The company wholesales its wooden furniture products to wholesalers and distributors which then resale the products to dealers.

3) Company: Broyhill Co., Subsidiary of INTERCO Inc., 101 South Hanley Road, St. Louis, MO 63105

Interviewed: Mr. Lee Goble, International Purchasing Executive (Broyhill Co., NC)

a) Comment

The interview was held with Mr. Goble, international purchasing executive of Broyhill Co. (North Carolina), a subsidiary of INTERCO Inc., one of the top five U.S. furniture manufacturers.

b) Imports from Thailand

The company currently imports wicker parts from Thailand for assembly at its U.S. factories. However, the volume of the imports is small, so the company is not in a position to make any evaluations or comments.

c) Interest in Thailand

The company is presently doing business with a Thai company called Hawaii Thai. It would welcome very much any catalogs on Thai wooden furniture, manufacturer lists, or specific examples showing that production of such products is possible. It would immediately study the same.

The materials of the furniture offered by Thailand could be wood produced in Thailand. The company handles the following types of wooden furniture, so *would appreciate offers on Thai furniture of these types: bedroom furniture,* diningroom furniture, occasional tables, and wall units

4) Company: Regency House Inc., Fairgrow Church Road, P.O. Box 2544, Hickory, NC 28603

Interviewed: Mr. Edward A. Arditti, President

a) Comment

The company manufactures furniture, but also imports from the Far East. The interview was held with Mr. Arditti, president of the company.

b) Transactions with Thailand

The company does business with Taiwan in Asia. It does not do business with Thailand, but would consider such business if sent materials.

Though the company deals in all types of furniture, it would be interested in offers from Thailand on the following items: occasional tables (coffee tables etc.) and dining tables

7-2-2. Evaluation in France

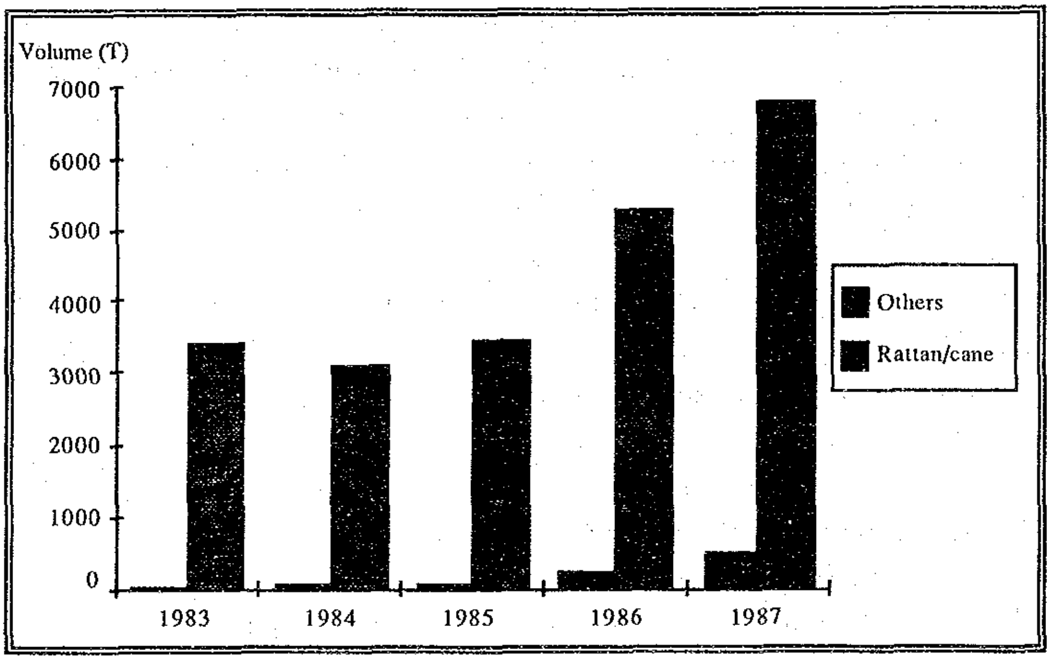
(1) Market summary

According to practically all experts in France, "Thai furniture" is synonomous with "rattan furniture". Ninety percent of the furniture imported from Thailand is rattan, so it is only natural that this image has arisen. Thai furniture made of teak or other woods is almost completely unknown in France.

The French rattan furniture market is not fully developed compared with the U.S. due to such furniture not being that well known. The market is limited to Paris and the south of France.

Rattan accounts for only a small share of the French furniture market - 2.5% in 1988. Considering the undeveloped demand, there is a possibility of expansion of this share in the future.

Fig. III-7-2-1. Distribution Rattan/Other Materials for Thai Furniture Imports



(2) General evaluation of Thai furniture

First, according to almost all the experts interviewed, Thai furniture, whether it be in rattan or plain wood, suffers from a poor reputation. Not only is this poor reputation true in comparison with European products (Spanish, Italian or French), it is also true when compared with Philippine products. This is due to two factors:

a) The low quality of the raw products used. There are in fact 40 different types of cane. According to all the importers, cane used by Thai manufacturers is one of the poorest. Philippine cane for instance is finer, more beautiful. The

Philippines use more Buri and the rattan marrow is worked more delicately than in Thailand.

b) The low quality of the finish. There again, most experts criticize the Thais for their poor standards. The varnish and the paints used must be better adapted to French tastes and more varied: the dark brown color typical of Thai furniture is liked by French consumers.

In the words of the furniture department manager at the GALERIES LAFAYETTES, "the difference between a Thai armchair and a Philippine armchair is obvious: erratic weaving, no varnish, poor quality of the rattan compared to a perfect *finish*".

Consequently, the Thai rattan furniture is a lower-range product exclusively and important distributors specialized in the upper-range like ROCHE BOBOIS prefer Philippine products although they are more expensive. Independents like LE ROTIN D'AUJOURD'HUI hesitate to sell Thai furniture because of their standing.

In any case the main criticisms made come from upper-range specialists, whereas Thai furniture is indeniably a popular product. The main motivations of a rattan furniture purchaser are its price and its function: a rattan chair is above all a cheap chair. Nine tenths of interviewed distributors say that rattan furniture is very cheap, seven tenths believe that the lightness and small size are a major advantage.

In fact, 75% of Thai furniture consumers are young people (i.e young newly-wed couples) aged 20—30 The second major share of the market is made by older people (40—50) who now want to furnish their garden or their second home.

There is no accurate data on the distribution channels for rattan furniture, but the IPEA, which prepares data concerning the furniture market, estimates the following:

a) Because of their low range, 70% of Thai furniture are distributed by non-specialists or multi-specialists.

b) Specialists account only for a minor share in the distribution of Thai furniture. The Table III-7-2-1 shows the evaluation of experts of Thai furniture.

Table III-7-2-1. Evaluation of Thai Furniture
(1=expensive/unsturdy to 5=cheap/sturdy)

	RICE	STURDINESS	BEAUTY	COMFORT	FUNCTION	RANGE
CONFORAMA	5	3	3	1	2	4
PIER IMPORT 1	5	1	3	3	3	4
PIER IMPORT 2	5	2	4	3	4	4
LE ROTIN D'AUJOURD'	5	2	3	2	4	2
PACIFIC COMPANY	3	2	3	1	4	1
DECOUVERTE	3	2	3	1	4	1
GALERIES LAFAYETTE	5	1	2	3	3	4
PRINTEMPS	5	1	1	3	4	1
AVERAGE	4.75	1.63	2.63	2.5	3.38	2.75

Source: IPEA

7-2-3. Future Problems

(1) Advice from U.S.

Numerous businesses were interviewed on Thai furniture (wooden furniture). As a result, consideration should be given to the following to increase sales in the future:

1) Importance of PR and sales promotion

As can be understood from viewing the state of imports of wooden furniture by the U.S., Taiwanese products account for an overwhelmingly large share of those imports. In the industry interviews too, most businesses indicated they were importing from Taiwan, but at the same time similarly large numbers of businesses stated that they had no connections with Thai companies and were not familiar with the situation there.

As clear from the interviews, most of these businesses, whether U.S. manufacturers, retailers, or importers, were interested in import transactions with Thailand.

a) First, it is necessary to devise some means for informing the U.S. market about Thai furniture.

b) The simplist method would be to establish an industry channel for providing information about Thai furniture in the U.S., which would make it easier for U.S. businesses to make inquiries.

c) A Thai industrial association could exhibit products in a U.S. trade show.

d) Catalogs of Thai products could be prepared and direct mailed to U.S. companies, but it would be more effective for an industrial organization to establish an office and contact the managers or presidents of individual companies directly and hand them the catalogs.

e) Further, now is a good time for Thailand to enter the U.S. market. The reason is that it is now superior to other Asian countries in terms of price. The U.S. is now entering the era of the "home" and "home furnishings" and the market can be expected to expand.

2) Quality and design

The quality of Thai products was reported as excellent by all businesses. The designs include those ordered from the U.S. and traditional Thai designs and differ each time.

3) Price

The growth in Thai products reflects in major part the price factor. Thai products have increased in imports into the U.S. due to their low prices.

Even so, fluctuations in exchange rates have resulted in a 20 to 30 percent dollar-based price rise in the past, so it will be important in the future to consider maintaining the low prices by rationalization and price adjustments.

4) Productivity

The factory facilities in Thailand cannot handle mass production of furniture parts etc., so some companies have switched over to Taiwan. It will be important in the future to establish a production system sufficient to handle exports to the U.S. The reason is that the volumes of products ordered to Thailand may be expected to increase in the future.

(2) Advice from France

The European leaders on the French market are Spain and Italy. The Asian leaders which are in fact competing with them are the Philippines, Taiwan and recently Indonesia. Up until now, European and Asian products were totally different and belonged to different range levels: the exoticism of Asian products differed from the more traditional European products.

Much more than in quantity, it is in quality, that the rattan market is about to increase: the lower-range will stagnate in favor of a general increase in range and an increase in medium-upper-range sales.

The Thai rattan furniture is deeply implanted on the French market: it represents 40% of imports in this sector. But Thai furniture is exclusively a lower-range product and suffers from a poor image. It is frequently complained about by customers. Its recent successes can only be explained by its very low prices even compared with other Asian products.

But demand in general is moving toward the medium and higher quality items, so Thai furniture sales are seen as weakening in growth in the future. . In 1987 already, the growth of Philippine furniture items was stronger than that of Thai products. Competition intensifies and Asian manufacturers (Indonesian, Philippine, Taiwanese) seem to take into account the evolution of the market, modify their structures and start quality policies in cooperation with their French partners.

Consequently, there is a risk for Thai producers to see their market shares decrease. Most French importers are moving in the direction of using subcontractors to finsh Thai products up to French standards. This would mean a loss in the added value on the Thai side.

The main criticisms made concerning Thai suppliers are the following:

a) Lack of flexibility as far as manufacturing French designs is concerned.

b) Product standards too low, so the products are not suited to the demand sector desiring high quality regardless of the price. The Thais seemingly make no difference between the tourists' demand and the European experts' demand.

c) Lack of creativity in the designs.

d) Lack of diversity in the colors as well as in the shapes

e) Lack of stability and continuity in production. For example, production stops for religious events.

f) Thai manufacturers are on the lookout for quick profit and lack long-term outlooks. The practice of selling to anyone if a quick profit can be gained is not a good one. When a product sells well, all manufacturers start making it, resulting in an immediate flooding of the market by that product. This lowers the general image of Thai products.Orderly marketing is a must.

This lack of order in trade also explains why there are no joint-ventures between Thai manufacturers and Europeans: there's the suspicion and sceptimism of the Europeans on one side and the will of the Thais to remain completely independent and be able to sell to anyone they desire.

Whatever the case, considering the current state of the market, Thai suppliers will be pressed to change and accept technical cooperation from European dealers. Joint ventures will then follow naturally. If this does not happen, Thai products will probably be eliminated from the market by competition from Philippine or Indonesia products or European products. The Philippines with the Manilla exhibition, Taiwan with better-adapted products and Indonesia are encouraging collaboration with French industrials, so the future environment for Thai companies would seem to be severe.

8. Setting of Export Targets and Requirements for Achievement of Targets

8-1. Setting of Export Targets

The state of global trade in furniture was reviewed using the UN Yearbook of International Trade Statistics. The yearbook carried the following five types of furniture:

8211	Chairs, seats, and their parts
82111	Chairs and other seats
8219	Furniture and their parts
82191	Metal furniture
82192	Wooden furniture

Of the above, 82111 gives internal figures of 8211 and 82191 and 82192 internal figures for 8219, so a look was taken at the growth in imports in the past nine years by the world and key importing countries (U.S., West Germany, France, the U.K., and Japan) for 8211 and 8219 (Table III-8-1).

Global furniture imports from 1978 to 1986 grew by an average annual rate of 7.5%.

Imports by the key importing countries during the same period rose by an average of from 12.5% (France) to 35.8% (U.S.), growing at a speed far faster than the global average.

Next, a look was taken at the state of exports of the same items from 1978 to 1986 by Thailand and competing countries (South Korea) (Table III-8-2). Thai's exports during this period rose by an average annual 39.2% or so, growing at about double the speed of the 19.5% of South Korea.

On the other hand, if one looks at just wooden furniture (82192), the value of Thailand's exports has not grown much since 1981 and has remain in the range of US$15 to 16 million. In contrast to this, the value of South Korea's exports is at 1.5 to 2 times the level of Thailand and is growing as a general trend. A look at the average annual growth of exports shows Thailand at 21.8%, considerably lower than the 29.1% of South Korea.

Thailand's exports of wooden furniture as seen from the UN yearbook grew rapidly from 1978 to 1981 and then stagnated somewhat. In contrast to this, in South Korea's case, exports have fluctuated tremendously with each year, but have been increasing as a general trend.

Insofar as the above two tables show, Thailand's exports of furniture have increased at a speed far faster than the growth in global imports. Further, an increase in

Thailand's exports of furniture may be expected from the trends in the U.S. and France examined previously.

The statistics of the UN yearbook are defective because corrections are made with each year. Further, Thailand has been exporting furniture for only a short time and it is impossible to obtain long term statistics, so it is extremely difficult to make projections on future exports based on such figures. However, from the above two statistics, so long as there are no great changes in the market environment, Thailand should be able to continue to increase in exports in the future depending on its competitive relationships with Taiwan and South Korea.

8-2. Requirements for Achievement of Targets

In the past, Thailand had plentiful teakwood and other wood resources, but at the present time the government has come out with limitations on harvesting of wood except for rubberwood. The supply of wood as raw materials for the wooden furniture industry will therefore govern to a large extent the future of the industry. In this regard, Thailand would come close to the positions of South Korea and Taiwan, which rely to large extents on imports for their supply of wood. Thailand, however, has artificially renewable resources of rubberwood and therefore is in a correspondingly superior position.

Therefore, to promote Thailand's wooden furniture industry and encourage its exports, it will become extremely important to promote more effective utilization of limited resources.

The main market, the U.S., is diverse in nature and an increase in imports of Thai products can be expected even with matters as they now stand, but there are suggestions that demand is shifting to furniture of the medium level class and up. In contrast to this, France evaluates Thai products as inexpensive items and so the necessity of upgrading the quality and improving the finish has been pointed out. In the case of France, it is necessary to note that the customers are looking for medium and high class furniture.

Expansion of exports requires an increase in the volume of production, but with there now being limitations on the supplies of materials, greater emphasis must be placed on raising the added value of the products.

Table III-8-1 shows the imports of the key markets. The imports have fluctuated widely with each country and each year. Dependence on any specific country for exports would therefore lay an exporter open to a tremendous shock should imports by that country ever plummet, so diversification of markets is important in maintaining stable exports.

Next, U.S. industry has mentioned a lack of information about Thai furniture, suggesting the need for more aggressive marketing activities. For example, participation in trade fairs in the export destinations would be a good means for providing information on Thai furniture. Not only that, it would be a good opportunity for obtaining information on the other markets and to learn about the products of other participants and competitors and their technical level.

The French industry advised that quality might be improved by technical tieups with dealers of the importing countries, for example. Technical tieups would not be merely for obtaining information on how to creating "things", but would provide an opportunity for collecting information on markets through personnel exchanges between the companies.

At the present time, wood resources, the main materials for wooden furniture, are drying up throughout the world. Seen in the long term, even if global demand for wooden furniture does not increase, the supply of wood is expected to become tight. Therefore, Thailand will be in an advantageous position in that it has resources (rubberwood) enabling domestic supply, so the task facing Thai's furniture production for the time being will be the improvement of the level of technology, including the technology for processing materials.

Table III-8-1. Trends in Imports of Furniture in the World and Key Markets (Growth Rate)

(Unit: %)

	1978	1979	1980	1981	1982	1983	1984	1985	1986	Average
World	31.6	Δ4.9	50.0	Δ4.6	Δ1.5	3.2	7.7	Δ26.5	12.9	7.5
U.S.	152.3	14.9	8.2	6.7	4.0	26.2	38.2	N.A.	N.A.	35.8
West Germany	33.3	23.2	21.3	Δ17.4	Δ12.9	4.3	Δ4.6	Δ0.7	41.7	13.3
France	24.1	30.3	18.8	Δ8.8	5.6	Δ7.5	Δ7.6	5.2	52.7	12.5
U.K.	54.9	43.5	23.0	6.9	Δ0.2	6.3	6.9	7.3	33.7	20.3
Japan	46.0	57.4	Δ3.6	Δ5.1	10.9	Δ0.2	11.2	8.4	42.0	18.6

Note: 8211(chairs, seats, and their parts) and 8219 (furniture and its parts)
Source: UN Yearbook of International Statistics

Table III-8-2. Trends in Exports of Furniture from Thailand and Competing Country (South Korea)

(Unit :US$million)

	1978	1979	1980	1981	1982	1983	1984	1985	1986	Average annual growth (%)
Thailand (8211.8219)	9.9	18.5	28.1	32.5	34.5	42.7	43.1	46.4	64.8	-
Growth rate (%)	86.7	86.9	51.9	15.7	6.2	23.8	9.4	7.7	39.7	39.2
(82192: Wooden furniture)	4.9	9.3	14.4	16.3	14.3	15.6	15.2	22.7	16.5	-
Growth rate (%)	-	89.8	54.8	13.2	Δ12.3	9.1	Δ2.6	49.3	Δ27.3	21.8
South Korea (8211. 8219)	34.2	28.4	24.7	43.4	37.5	50.2	53.6	48.7	77.0	-
Growth rate (%)	29.5	Δ17.0	Δ13.0	75.7	Δ13.6	33.9	6.8	Δ9.1	58.1	19.5
(82192: Wooden furniture)	13.0	11.1	14.2	29.5	24.3	23.1	33.9	30.4	46.8	-
Growth rate (%)	73.3	Δ14.6	27.9	107.7	Δ17.6	Δ4.9	46.8	Δ10.3	53.9	29.1

Source: Same as Table III-8-1.

9. Policies and Regulations

9-1. Policies for the Furniture Industry and Problems

9-1-1. Policy Organizations and Basic Policies

There is no special policy organization for examining and discussing policies related to the furniture industry, as there is in the case of the textile industry where there is the TIDC. Policies relating to the furniture industry are dealt with by the Industrial Policy Committee which was mentioned in II-9-1-1.

As of the end of March 1989 there was no sign that the IPC had held any special discussions on the topic of policies relating to the furniture industry.

While the MOI has put out a plan for the further fostering of the wooden furniture industry as an export industry, the prohibition of timber felling adds a new element to the promotion of this policy.

9-1-2. Investment Promotion By the BOI

"Rubber tree products" is listed in category 5.9 in the BOI's "List of Activities Eligible for Promotion", meaning that furniture made from rubber wood is, as a rule, eligible to receive promotion.

Privileges vary according to location, export ratio, type of industry, annual acquisition of foreign currency and savings ratio, and number of employees, etc. For instance, companies located even in the Number One Investment Promotion Zone (which includes the 6 districts of Bangkok, Nakhon Pathon, Nonthaburi, Pathum Thani, Sumut Sakhon, and Samut Prakan) and which export more than 80% of output, and companies located in a BOI-promoted industrial estate (however, as there are no vacant lots in such estates in Zone-1 at the present time it is not possible to move into one) receive two types of privileges: (1) tax exemption for imported machinery; and (2) corporate tax exemption for a three-year period.

Furniture made from other types of wood which fall under category 5.49 "Production Primarily for Export" (projects which export more than 50% of their total sales during the first 2 years after establishment and more than 80% after the third year) are also eligible for incentives. The same incentives as outlined above apply here too.

9-1-3. Technical Guidance By the ISD

The ISD (Industrial Service Division) is affiliated to the DIP (Department of Industrial Promotion) and holds the same rank as the TID (Textile Industry Division). (The ISD is usually called the ISI, a leftover from the days when it was the Industrial Service Institute.)

The ISD is a public service organization which carries out guidance in production technology, research and development, testing and inspection, and the development of design and packaging technology. Contained within the ISD is the Furniture Industry Development Center (FIDC). The FIDC is in charge of carrying out technical guidance and training, research and development, testing and inspection, and the development of design for the furniture industry.

The FIDC is mainly concerned with medium and small-scale furniture manufacturers located in Bangkok and its environs. But as its equipment for carrying out testing and inspections is old it is having difficulty in meeting the requests which have recently come from the private sector.

Also, as for its staff, it suffers from a lack of production management engineers (the FIDC was not originally equipped with a function to provide guidance in production management) and also of chemists, who are in charge of chemical technology related to chemical treatment of the interior of rubber wood, etc. It is desired by FIDC that its staff undergo training in coloring, fashion and production design, and production technology.

9-1-4. Refund System for Duties

In addition to BOI incentives, this system is implemented by the Ministry of Finance.

For the furniture industry, which will have to rely on imported materials as a result of the suspension in the supply of domestic materials, from which rubber trees have been exempted, the system of refunds or rebates for duties and business taxes levied on imported materials will assume even greater importance in maintaining its international competitiveness.

9-1-5. Measures Relating to Raw Materials

Ever since 1874 various forms of legislation have been enacted in order to protect the nation's forestry resources. But despite these attempts there has been a marked decrease in timber resources. Taking the opportunity provided by the flood damage suffered in the southern region in 1988, the cabinet decided to ban all tree felling, with the exception of rubber trees, in December of that same year.

With the flow of domestic supply of timber being cut off for some time to come the government has lowered the import tariff for logs from 7% to 1%, and has also lowered the duty imposed on sawn wood from 12% to 2%. With these moves the import of raw materials has more or less been completely liberalized.

However, one has to suppose that in the future controls on the export of timber and sawn wood from Southeast Asian countries will be tightened. Viewed from a long-term perspective, it is difficult to believe that all problems will be solved with the lowering of import tariff rates.

In regard to rubber wood, measures aimed at stabilizing supply which include replanting, export controls or an export ban, and measures for stabilizing price will have to be implemented.

9-1-6. Delays In the Modernization of Equipment

In the future, upgrading the quality of products, increased productivity, and cost reductions other than the Foreign Exchange policy will become prerequisites for maintaining competitiveness. Seen in this light, there are many problems as a large proportion of present equipment is old.

Also, it is essential that certain types of machinery and equipment, such as timber drying machines, be introduced.

9-2. Dealing With Problems

9-2-1. Basic Policies

With the suspension in the supply of domestic raw materials the IPC will have to re-examine its policies for fostering the wooden furniture industry as an export industry.

Having lost the advantage it held concerning raw materials, the only relative advantage it holds now, except that derived from the current foreign exchange rate, is low labor cost. It can be expected that Thailand's appraisal of the industry as an export processing base will face close scrutiny in the future.

In a response to export controls placed on timber by timber exporting countries the Taiwan wooden furniture industry has, along with the Japanese furniture industry, started to make moves into timber producing nations in a bid to secure timber resources. Until recently Thailand has been one such country.

If it is to be more and more difficult to secure the supply of timber and if the industry's price competitiveness is to sooner or later reach its upper limit as a result of increased national wages, Thailand as a furniture processing base is bound to be given a worse rating as far as its industry staying in the price competitive range. In the long term, the Thai furniture industry itself may well have to move its production somewhere else if it is to maintain its export markets.

There will be no way that the Thai furniture industry can stay in business, unless it manages to gradually enter the medium or upper grade markets by making itself more technologically sophisticated and by producing higher grade products or speciality products.

Currently, increased exports of Thai wooden furniture are being achieved mainly through a quantitative rise of medium and low-priced products.

It is a policy issue whether the future export increase should rely on a quantitative rise or on higher prices through the improvement of quality. Considering the current restraints on the supply of raw materials, it appears unavoidable that the improvement of product quality will be necessary. As for exports to the Unites States market, for instance, it is a necessary condition that receipt of orders for products with higher value added become possible.

In the meantime, the urgent tasks facing the industry would be the tasks of raising technology levels, upgrading products, raising productivity, and strengthening its marketing activities in order to enter the higher grade markets.

9-2-2. Procurement of Raw Materials

It is possible that imports of wood or lumber in the future may have to be assured through the advance of firms into wood-producing countries or other means.

Measures for ensuring reforestation of rubber trees, and restrictions on the export of sawn rubber wood, or a ban on such exports, are required in order to ensure a stable supply and a stabilization in prices for rubber timber. Research and development must be speeded up to solve the remaining technological problems with the chemical treatment of rubber wood for the prevention of blight and mold.

9-2-3. Improving Technical Guidance

In the case of furniture, there is a limit to how much reliance can be placed on mechanization to raise technical levels. The accumulation of the accompanying technical knowhow of artisans is of extreme importance.

In this sense, a wide-ranging expansion of the FIDC's system for providing technical guidance is desirable. Also, any gaps that may exist in the FIDC's machinery and equipment should be filled as soon as possible.

9-2-4. Promotion of the Modernization of Equipment

Some form of special measures are required in order to promote the modernization of equipment within the furniture industry. Furthermore, measures providing assistance for the introduction of essential equipment, such as timber drying machines, are also required.

APPENDIX-I
TEXTILE/GARMENT

APPENDIX-I. TEXTILE/GARMENT

I-1. Results of the Survey Carried Out in Japan

I-1-1. Questionnaire - A Survey of Japanese Companies Concerning Plans for Operations in Thailand

The questionnaire has been divided into two parts; sections 2-6 which are related toThailand-based operations, and section 7 which deals with imports of Thai-made products. Please read the whole of the questionnaire as there are some parts where questions are directed at companies which have neither Thailand-based operations nor import Thai-made products.

1. Outline of your company

(1) Company name (   )

(2) Type of business (please circle the appropriate answers)

* Textile manufacture
* Spinning
* Weaving and knitting
* Dyeing
* Apparel
* Manufacture of textile products
* Trading company
* Department store
* Mass sales store
* Specialist store
* Other- please specify (   )

(3) Main items in which your company deals (only those related to textiles)

2. If you currently have production bases overseas please specify in what country/ies and the main products produced there.

3. Thailand-based operations (please circle the appropriate answer(s). Multpile answers are acceptable)

A- already in operation
B- currently being planned and should be established within the next 2-3 years
C- no intention
D- operations have been established by a subsidiary or an associated company
E- are planning to have a subsidiary or associated company establish operations

If you have circled only A or C please proceed to the next section.
If you have circled B please proceed to section 5.
If you have circled C please proceed to section 6.
If you have circled D please write the name of the company below, and then proceed to section 4.
If you have circled E please write the name of the company below, and then proceed to section 5.

* Company name
* Address
* Name of department/ person in charge

4. Companies which have already established operations in Thailand

(1) Type of company which has been established (please fill in or circle one of the following answers)

A- 100% investment (part of your company's organization, part of your subsidiary or an affiliated company, 100% subsidiary)

B- Partial investment (party to joint venture company: local capital, Japanese company) (investment ratio %)

C- No investment

* Business carried out by making a local company an affiliated company
* Business carried out by providing technical assistance or technical guidance

(2) Type of business (please circle)

* Textile manufacture
* Spinning
* Weaving and knitting
* Dyeing
* Apparel
* Manufacture of textile products
* Distribution
* Retail
* Other ( )

(3) Main items dealt with (only those related to textiles) and output

(4) Supply of raw materials (supplied by your company? supplied locally?)

(5) Shipment of products (dealt with by your company, sold on the Thai domestic market, exported)

(6) Reason for establishing operations

* What was the initial objective? (supply/price of raw materials, labor/labor costs, local market)

* What is your present objective?

(7) Please state any problems you may be having and any requests you may have of the Thai government.

(8) If you plan to expand or decrease the size of your operations please give details and explain the reason(s).

(9) What is the future outlook for your industry? (for regions such as Thailand, Japan, the US, Europe where you have operations)

(10) What is your impression of Thailand? (your impression of the investment environment and industries etc in which you are investing compared to those in South Korea, Taiwan or ASEAN countries)

5. Please state the desired conditions for the local company(ies) you are currently planning to establish, or which you are considering.

(1) Type of company (please write in or circle the appropriate answer)

A- 100% investment (part of your company's organization, part of your subsidiary or an affiliated company, 100% subsidiary)

B- Partial investment (party to joint venture company: local capital, Japanese company) (investment ratio %)

C- No investment

* Business carried out by making a local company an affilated company
* Business carried out by providing technical assistance or technical guidance

(2) Type of business (please circle)

* Textile manufacture
* Spinning
* Weaving and knitting
* Dyeing
* Apparel
* Manufacture of textile products
* Distribution
* Retail
* Other ( )

(3) Main items dealt with (only those related to textiles) and output

(4) Supply of raw materials (supplied by your company? supplied locally?)

(5) Shipment of products (dealt with by your company, sold on the Thai domestic market, exported)

(6) Reason for establishing operations
* What is your objective? (e.g. supply/price of raw materials, labor/labor costs, local market, third-country trade)

(7) Please state what, if any, obstacles you are facing in establishing operations. (In Japan and in Thailand)

(8) Do you have any requests to make of the Thai government in regard to establishing operations in that country? (e.g. supply of land, securing labor, special finance, tax incentives)

(9) What is the type of information you require most of all at the present time? How are you able to obtain that information? (e.g. survey conducted by your own company, carried out by a survey organizations, other)

(10) What is the future outlook for your industry? (for regions such as Thailand, Japan, the US, Europe where you have operations)

(11) What is your impression of Thailand? (your impression of the investment environment and industries, etc in which you are investing compared to those in South Korea, Taiwan or ASEAN countries)

6. This section is to be answered by companies which have no intention of establishing operations in Thailand

(1) What is your reason for not establishing operations in Thailand?

A- Completely unnecessary

B- Would consider the matter if conditions were suitable, but at present they are unsuitable

Conditions in Thailand (please circle appropriate answer)

* Problems associated with the exchange rate
* Problems related to business partner
* Labor, labor costs
* Distribution, market
* Political situation
* Land
* Manufacturing costs, product price
* Other
* Reasons related to funds
* Problems with raw materials
* Technology, quality

Conditions related to your company

* Reasons related to funds
* Market conditions
* Problems with raw materials
* Manufacturing cost conditions
* Other

7. In this section we would like to ask you about your sales of products manufactured in Thailand (applies to trading company, department store, mass sales store, specialist store) or your use of such products as materials (applies to manufacturing industries).

(1) Do you handle textile products made in Thailand? (Please circle one of the following)

A- import directly

B- handle goods imported by another company

C- carry out consigned production in Thailand/ local self-sufficiency

D- do not handle Thai-made products

If you have circled D please proceed to (9)

(2) What are the main products/materials you receive, and their annual volume?

(3) Exporter in Thailand (please circle the appropriate answer)

* Manufacturer (Thai company, Japanese company, joint venture company)
* Distributor (Thai company, Japanese company, joint venture company)
* Your own company (branch office, sub-branch office, other)

(4) What are the advantages of dealing with Thai-made products?
   * Purchase price or processing cost (what is the difference compared to products supplied locally in Japan?)
   * Quality
   * Design
   * Other (   )

(5) What are you doing about quality guarantees?
   * Inspection upon arrival in Japan (own company, distributor's guarantee, other)
   * Inspection in Thailand before shipment (manufacturer, distributor, inspection organization, other)

(6) Do you provide technical guidance? (technical expert permanently in Thailand, only at the beginning, in areas where there are problems, other)

(7) If you plan to expand business in the future please provide us with some details.

(8) Please describe any obstacles you may be facing (in Thailand or in Japan) and state any requests you may have of the Thai government.

(9) This question is asked of companies which do not yet have any dealings with textile products made in Thailand but which may consider dealing with such products should conditions be suitable.

   What sorts of conditions are involved?

   Conditions in Thailand
   * Exchange rate
   * Political situation
   * Reasons related to funds
   * Technical & quality-related problems
   * Other (   )

   Conditions relating to your company or in Japan
   * Preferential duties
   * Import quotas
   * Market-related problems
   * Reasons related to funds
   * Other (   )

Please provide details on the above conditions if possible.

Thank you very much for your cooperation.

Please provide details of who filled out this questionnaire.

Name of department:

Name of person:

Address:

Telephone number:

I-1-2. Results of Questionnaire (Industries surveyed: textile, apparel)

(1) Response to Questionnaire

Number sent out:	Number returned:	Percentage returned (%):	Number not returned:	Percentage not returned (%)	Number returned because address unknown:	Percentage of address unknown:
112	48	42.9	64	57.1	0	0

(2) Establishing Overseas Operations

Item / Type of Business	Already Established		Presently in Planning Stages		Total	
		(%)		(%)		(%)
Textile manufacturing	3				3	
Spinning						
Weaving and knitting						
Dyeing	1				1	
Apparel making			1		1	
Textile products manufacturing	1		5		6	
Trading company	4		2		6	
Department store	3		2		5	
Mass sales store	3		1		4	
Specialist store						
Other	1				1	
Total	16*	100%	11**	100%	27	100%

* The operations of one company which responded include textile manufacturing, trading and one other industry

** The operations of one company which responded include apparel making, manufacture of textile products and trading

I-1-3. Japanese Companies With Operations or With Plans to Establish Operations in Thailand (a)

Type of Business	Company	(A) Already established (B) Planned	(C) 100% Investment (D) Joint venture (E) No investment (technical cooperation, consigned production)	* Main reason for establishing operation	Production base Yes / No	Operations in countries other than Thailand	Location of Head Office
Mass sales store	1. Tobu Store	(B)	(C)	(N)	No	Hong Kong	Tokyo
Trading company	2. Shinkyo Sangyo	(A)	(D)	(J),(N)	Yes	-	Osaka city
Textile manufacturer	3. Teijin	(A)	(D)	(F)	Yes	Indonesia	Osaka city
Textile manufacturer	4. Toray	(A)	(D)	(N)	Yes	Malaysia	Tokyo
Trading company	5. C. Itoh & Co.	(A)	(D)	(F),(J),(K)	Yes	Taiwan, Hong Kong, Indonesia, Brazil	Osaka city
Textile manufacturer	6. Nihon Seima	(A)	(E)	(J),(K)	Yes	-	Kobe city
Dyeing	7. Tokai Senko	(A)	(D)	(J),(N)	Yes	U.S.A.	Nagoya city
Textile products manufacturer	8. Wacoal	(A)	(D)	(F),(J),(K)	Yes	South Korea	Kyoto city
Mass sales store	9. Jusco	(A)	(D)	(N)	Yes	Hong Kong, Malaysia	Tokyo
Mass sales store	10. Daiei	(A)	(C)	-	No	9 countries (unknown)	Kobe city
Department Store	11. Daimaru	(A)	(D)	(F)	No	-	Osaka city

* (F) Expansion of sales channels to local market
(G) Expansion of sales channels to third-country market
(H) Exports to Japan
(I) Countermeasure to strong yen
(J) Use of local labor force
(K) Ease of obtaining raw materials
(L) Request from technology provision agreement partner or export destination
(M) Foreign investment by Japanese parent firm
(N) Other

Japanese Companies With Operations or With Plans to Establish Operations in Thailand (b)

Type of Business	Company	(A) Already established (B) Planned	(C) 100% Investment (D) Joint venture (E) No investment (technical cooperation, consigned production)	* Main reason for establishing operation	Production base Yes / No	Operations in countries other than Thailand	Location of Head Office
Trading Company	12.Mitsubishi Corporation	(B)	(D)	(J)	No	China, Hong Kong, Malaysia	Tokyo
Textile products manufacturer	13. Orbex	(B)	(E)	(N)	No	-	Tokyo
Textile products manufacturer	14. Goldwin	(B)	(E)	(J)	No	Taiwan, China, Hong Kong	Tokyo
Trading Company	15. Mitsui & Co.	(A)	(D)	(F)	Yes	Indonesia, Thai, Malaysia	Tokyo
Textile products manufacturer	16. Kosugi Sangyo	(B)	(C)	(G),(J),(K),(N)	No	Hong Kong, Taiwan, S. Korea, Singapore	Tokyo
Textile products manufacturer	17. Tomiya Apparel	(B)	(E)	-	No	-	Osaka pref.
Department store	18. Tokyu Department Store	(A)	(D)	(F)	Yes	-	Tokyo
Department store	19. Meitetsu Department Store	(B)	(C)	(F)	No	-	Nagoya City
Textile products manufacturer	20. Renown	(B)	(E)	(J)	No	South Korea	Tokyo
Department store	21. Isetan	(B)	(D)	(F)	No	-	Tokyo

* (F) Expansion of sales channels to local market
(G) Expansion of sales channels to third-country market
(H) Exports to Japan
(I) Countermeasure to strong yen
(J) Use of local labor force
(K) Ease of obtaining raw materials
(L) Request from technology provision agreement partner or export destination
(M) Foreign investment by Japanese parent firm
(N) Other