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International trade after intervention: The case of bedroom furniture

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ABSTRACT

The global trade volume of wooden bedroom furniture has reached US\$8.33 billion in 2012. China has been the largest exporter and the United States has been the largest importer in this increasingly globalized market. After the trade dispute and intervention between China and the United States in 2005, China has continued to export more wooden bedroom furniture to the world. In this study, the impact of economic factors and trade intervention on the import demand of wooden bedroom furniture was analyzed for leading exporters in four selected individual markets (i.e., the United States, the United Kingdom, Australia, and Japan). Main findings were that the antidumping duty against China in the United States generated a negative depression effect on China's exports to the United States and positive diversion effect on the exports from other countries. Furthermore, China has expanded its exports to other markets, especially to the United Kingdom and Australia, and maintained strong trade growth in wooden bedroom furniture worldwide. These results revealed that trade intervention in one market against an individual country could generate worldwide impacts.

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1. Introduction

Globalization has greatly accelerated in recent several decades. One indicator is the rapidly rising commodity trade volume worldwide, which is also true for lumber, furniture, and paper products trade. In particular, wooden bedroom furniture has experienced fast growth in recent years (Kaplinsky et al., 2003). Mass-producing furniture has become a viable manufacturing strategy with the advent of ready-to-assemble packing technology. This product innovation has allowed firms to design, manufacture, and ship products in large quantities for export markets. More specifically, the total world trade of wooden bedroom furniture was US\$2.91 billion in 1997 only but reached \$8.33 billion in 2012 (UN Comtrade, 2013). China has become the leading exporter of wooden bedroom furniture in recent years. Total exports from China were \$0.12 billion, and its market share in the world trade was 4% in 1997 but increased to \$3.02 billion (36%) in 2012. The United States has been the largest importer, with an import value of \$0.76 billion (26%) in 1997 and \$3.23 billion (39%) in 2012.

Along with the rising trade volume, increasing trade frictions and interventions have been observed worldwide. Protection pressure attributable to international competition has shown up as antidumping, anti-subsidy, or safeguard tariffs (Bown, 2011). The number of trade disputes has increased dramatically, especially in the United States and European countries. In particular, in the global wooden bedroom furniture market, there has been an intense dispute between the leading importer and exporter (i.e., the United States versus China).

The large exports from China have resulted in strong reaction from domestic manufacturers in the United States. In October 2003, a group of American furniture firms and labor unions filed a petition with the International Trade Commission (ITC) and Department of Commerce in the United States (U.S. ITC, 2004). The petitioners alleged that wooden bedroom furniture from China has been dumped in the United States at less than fair value. The investigation started with the petition in October 2003 and the affirmative decision for the preliminary less-than-fair-value determination in July 2004. In the end, it was concluded that the furniture industry was materially injured by wooden bedroom furniture imports from China. Final antidumping duties ranging from 0.83% to 198.08% have been imposed on individual Chinese firms since 2005. In 2010, a five-year review concluded that revocation of the antidumping duty order on wooden bedroom furniture from China would be likely to lead to continuation or recurrence of material injury to the industry in the United States within a foreseeable time (U.S. ITC, 2010). Thus, the antidumping duties have been retained as the same.

The evolving global market of wooden bedroom furniture and the trade dispute between China and the United States have been analyzed in several studies. Drayse (2008) concluded that global production and marketing networks established by large manufacturers and retailers have contributed to the rapid globalization of furniture manufacturing. The globalization has also been facilitated by technological innovations and reduction of trade and investment barriers. Han et al. (2009) analyzed the competitiveness of Chinese wooden furniture industry through a comparative advantage index. China showed a strong position in the labor-intensive industry but fell behind traditional competitors (e.g., Italy) in terms of quality. Wan et al. (2010a) assessed the import demand of wooden beds in the United States over 2001–2008

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through a demand system and found that the 2004 antidumping investigation on China had some temporary trade depression effect on China, but trade diversion occurred to Vietnam, Indonesia, Canada, and Brazil. Wan et al. (2010b) used intervention analysis to examine the imports of several furniture commodities over 1997–2008 in the United States. Significant trade investigation effects were identified and the antidumping action generated a positive diversion effect to other countries. More recently, Sun (2011) used threshold cointegration to analyze the price dynamics between China and Vietnam in the United States. China was found to be the price leader of the market, and its price has been evolving more independently. Overall, these studies have provided insights into the competition among major participants in the import market of the United States. The interaction of China, Vietnam, and additional supplying countries in other import markets, however, has been largely unaddressed. As the total exports of wooden bedroom furniture from China and Vietnam have continued to grow, there has been a need to evaluate the international competition and growth of this sector after the large trade dispute between China and the United States and the consequential trade intervention in 2005.

The overall objective of this study was to evaluate the international trade competition of wooden bedroom furniture between January 1997 and April 2013. More specifically, this study sought to analyze the impact of economic factors and trade intervention on the import demand of wooden bedroom furniture in selected markets among leading exporters worldwide. The trade intervention considered in this study was the antidumping investigation against China's wooden bedroom furniture by the United States in 2003 and the resulting duty imposition since 2005. The impact of the global financial crisis and economic recession since 2008 was also incorporated into the analysis. Four import markets were included in the analyses: the United States, the United Kingdom, Australia, and Japan. The main suppliers of wooden bedroom furniture over the study period were the following nine countries: China, Vietnam, Indonesia, Malaysia, Brazil, Thailand, Canada, Italy, and Germany. The model used was static and dynamic Almost Ideal Demand System (AIDS) models (Deaton and Muellbauer, 1980; Karagiannis et al., 2000). The two-step approach by Engle and Granger (1987) was adopted in evaluating the cointegration and long-run equilibrium among imports from supplying countries in each selected market.

This study will make contributions in several areas. From the perspective of supplying countries, the antidumping investigation against China by the United States and the consequential duty imposition are expected to generate negative depression effect on imports by the United States from China and positive diversion effect on imports from other countries. Since the duty was imposed in 2005, 8 years have passed so a more reliable and solid conclusion about the impact of antidumping action can be reached. The empirical evidence of the effectiveness of U.S. trade policy for wooden bedroom furniture should be helpful to the domestic furniture industry and governmental agencies in dealing with similar situations in the future (e.g., rising imports from Vietnam). In addition, from the perspective of China as the leading exporter in the global market, it has expanded its exports to other markets (e.g., the United Kingdom and Australia) and maintained strong trade growth in this industry. The simultaneous analyses of four selected import markets will allow a better understanding of China's export strategies. The degree of substitute or complement relationship between the major suppliers will be analyzed through demand elasticities. These elasticity estimates will be valuable to both marketers confronting global competition and policymakers facing the need to protect domestic industries.

2. Methods

There are various methods to evaluate international trade competition for a specific commodity. The global trade of wooden bedroom furniture has become increasingly sophisticated as a large number of

importing and exporting countries have been involved over time. Given this complicated network and relation, an import demand model was used to assess the import competition among a set of major supplying countries in each of the selected import markets in this study. The advantage of this method is that each import market is well defined and the analysis can provide a thorough analysis of the competition within the selected market. Furthermore, when the outcomes from individual import markets are combined, overall trade patterns and competition can be revealed at the aggregate level because these countries are representative of the global market. In the literature, this method has been widely used to examine the global or regional trade issues, such as the import demand of malt in selected import markets (Satyanarayana et al., 1999), the regional demand of meat products from the United States (Henneberry and Mutondo, 2009), and Hong Kong's competitiveness as a tourist destination in the world (Li et al., 2013). In this study, a total of nine supplying countries of wooden bedroom furniture, including China and Vietnam, were considered. The four selected import markets were the United States, the United Kingdom, Australia, and Japan.

For each import market, the AIDS model was utilized to assess the import demand competition among major supplying countries. Originally introduced by Deaton and Muellbauer (1980), this demand model examines how consumers make decisions among a bundle of goods to maximize utility under budget constraints. Thus, it is consistent with consumer theory, and theoretical properties can be tested

Table 1
Summary statistics of monthly import price, quantity, value, and share for four import markets from January 1997 to April 2013.

Supplier	Price (\$/unit)		Quantity (10 ³ unit)		Value (10 ⁶ \$)		Share (%)	
	Mean	SD	Mean	SD	Mean	SD	Mean	SD
United States								
Total	336.3	53.4	594.2	257.1	188.3	67.2	100.0	0.0
China	322.9	73.0	181.1	100.2	62.1	40.0	29.5	13.9
Canada	740.8	135.0	29.7	13.8	21.9	10.2	15.4	11.8
Vietnam	303.4	70.2	126.5	127.5	33.2	34.2	14.4	14.9
Indonesia	270.4	91.1	48.9	10.8	13.2	5.0	7.1	1.2
Italy	756.4	359.4	13.8	7.3	8.8	4.4	6.0	4.3
Malaysia	208.2	44.2	61.9	47.1	12.8	9.5	5.9	3.8
ROW	291.1	63.9	132.1	40.4	36.3	7.1	21.9	7.8
United Kingdom								
Total	2478.3	559.8	19.3	18.9	40.6	18.6	100.0	0.0
China	2626.5	539.1	3.2	2.8	9.1	8.4	17.3	13.7
Brazil	2097.0	305.6	1.6	0.5	3.3	1.0	9.4	3.6
Germany	2583.3	610.8	1.5	1.0	3.5	1.8	9.0	3.3
Malaysia	2151.1	293.4	1.4	1.1	3.0	2.5	6.3	3.7
Italy	3908.9	1306.4	0.7	0.6	2.4	1.4	5.9	2.6
Vietnam	2607.0	491.4	1.0	1.0	2.6	2.4	5.1	4.0
ROW	2508.9	666.4	9.9	17.5	16.7	6.3	47.0	16.1
Australia								
Total	70.0	13.0	140.5	95.9	10.1	7.7	100.0	0.0
China	62.6	14.5	75.1	63.8	5.3	5.0	39.1	20.7
Malaysia	62.4	13.4	31.3	20.1	2.0	1.5	21.8	5.2
Italy	210.9	83.2	1.9	1.0	0.4	0.1	8.5	8.8
Indonesia	67.0	24.0	6.3	2.2	0.4	0.1	7.8	6.7
Vietnam	77.4	15.1	10.8	8.6	0.9	0.8	7.5	2.8
ROW	77.1	24.2	15.0	8.1	1.1	0.6	15.3	6.9
Japan								
Total	92.1	11.1	132.3	49.5	11.8	3.9	100.0	0.0
China	87.5	12.2	63.0	40.8	5.2	3.2	39.5	16.9
Indonesia	105.3	13.1	15.8	12.2	1.6	1.3	18.0	17.4
Vietnam	79.2	12.5	22.6	13.9	1.9	1.3	13.9	7.0
Malaysia	86.1	14.0	18.3	8.0	1.5	0.7	13.1	3.7
Thailand	124.9	24.8	5.9	3.4	0.7	0.3	6.2	3.0
ROW	154.7	46.8	6.8	3.6	1.0	0.4	9.3	5.6

Note: ROW is the rest of world. The unit of quantity is ton for the United Kingdom and piece for the United States, Australia, and Japan. The unit of value is US dollar (\$). SD is standard deviation.

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