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The Impact of Foreign Currency Manipulation on U.S. Manufacturers

Before the House Committee on Small Business

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Mr. Chairman, Ranking Member Velazquez, and Members of the Committee:

Thank you for the opportunity to testify on behalf of Century Furniture, its management, and skilled workforce, on the impact of the under valuation of Asian currency, particularly the Chinese Yuan, on domestic manufacturers like us. I am Edward M. Tashjian, Vice President of Marketing for Century Furniture Industries Inc, which is headquartered in Hickory, North Carolina.

Let me make clear from the outset that I am not an economist, and I am not an expert in world trade or international monetary policy. I am here before you today as an advocate for the 156,000 men and women who make up America's residential furniture manufacturing industry, to present a human view of the impact of currency manipulation, and to ask you to use your common sense and good judgment to do what is in the best interest of our country.

This hearing couldn't come at a more opportune time. Thanks to the perseverance of Chairman Manzullo and other lawmakers, both on and off this committee, who care about domestic manufacturing, the issue of currency manipulation is now receiving the attention it warrants. We were pleased to hear Secretary Snow's comments last week in support of a more fairly valued Yuan, and his belief that China is prepared to move in that direction. The ability of U.S. manufacturers to compete with our counterparts in China hinges on such an outcome, so I urge you to keep the spotlight on this matter.

Clearly, this is a complex issue both technically and ideologically, and there are no easy answers. But, at the end of my testimony, I hope you will conclude that "fair trade" means the enforcement of U.S. laws and international trading rules, and that the continued loss of furniture manufacturing jobs to the Far East does not serve the best interests of the United States.

Century Furniture Industries

I am privileged to work for one of the most respected privately owned manufacturers of residential furniture. Century is recognized in the industry as a design leader, ranked in the forefront for its expertise in finishing and the many details of fine craftsmanship.

Almost all of the products we sell are manufactured by us in Hickory, North Carolina. Less than ten percent of our finished product line is imported. We operate eight factories covering approximately 1.6 million square feet of manufacturing, finishing, and distribution space.

Century goes to great lengths to ensure that these facilities are safe and pleasant workplaces. We are very proud of the fact that in our chair plant, we have successfully achieved 1 million man-hours without a lost time accident. That is the equivalent of a person working for nearly 500 years!

Every full-time Century Furniture employee receives a comprehensive health care plan, which is a significant part of his or her compensation. This expense has doubled in cost over the last 5 years and you may be surprised to learn that last year we spent more on health care than on lumber, fabric or leather.

Many things make our company special, but two stand out. First, we make extraordinary products. From our beginning in 1947, we have been committed to the ideal of creating furniture of such impeccable quality that it brings joy not only to the people who own it, but also to the craftsmen who build it and the professionals who sell and deliver it. This is much more than a platitude. It is part of our corporate culture.

Related to that, as an ESOP (Employee Stock Ownership Plan), every employee owns a stake in our company. Each of us is dedicated to building on this tradition of excellence, because each of us shares in the growth, or materially suffers from the decline of the company. We must grow and stay profitable to support all of the employees and their families who depend on our success. Last week, our company's shareholders met to review our progress and the challenges ahead.

Looking into the eyes of these dedicated, hard working and skilled people who have made a commitment to our success is both humbling and energizing. We must do our level best to protect their interests.

The State of the Industry

It is no secret that the last few years have been the most challenging in the history of the U.S. furniture industry. Since April 2000, more than 47,000 residential furniture production workers have lost their jobs.[1] Overall, nearly 1/4 of the work force has been eliminated, but case goods workers, those who build wood furniture products, have been particularly hard hit, with a loss of 32,500 jobs or a 28.5% decline in just 3 years.

Residential Furniture Production Workers

	2000	2003	Var	% Var
Upholstery	89,300	74,300	-15,000	-16.8%
Wood	114,000	81,500	-32,500	-28.5%
Total	203,300	155,800	-47,500	-23.4%

[1] Bureau of Labor Statistics **Series Id:** CEU3133712103 & CEU3133712203 Not Seasonally Adjusted, **Super Sector:** Manufacturing, **Industry:** Upholstered household furniture & Non-upholstered wood household furniture, **Data Type:** Production Workers.

As devastating as these statistics are, this figure understates the magnitude of the impact of these losses on communities like Hickory because declines in furniture production also hurt firms that supply textiles, hardware and services to the industry. Several factory closings have been announced in just the last few weeks. There is nothing more disheartening to me than to pick up a local newspaper and read about another plant closing.

Part of this unfortunate situation is attributable to the economic downturn. Furniture represents a relatively big-ticket purchase that consumers are apt to postpone during uncertain times. Manufacturers have also been hurt in recent years by the bankruptcy of major retail chains like Montgomery Wards and Heilig-Meyers.

The regulatory burdens imposed on U.S. manufacturers also impact our competitiveness. On top of already complying with numerous federal regulations – including OSHA and EPA – our industry faces the prospect of being hit with a significant and costly new federal emissions standard that could require us to install expensive controls on our wood-fired boilers. Many furniture manufacturers operate wood-fired boilers that burn scrap wood leftover from the production process as a fuel source, either to heat their facilities or to kiln-dry hardwoods before they are used in the manufacturing process.

If excessive or unrealistic emissions rules are imposed on the industry, it could force us to spend upwards of $1 million per boiler to install the proper control devices, or pay to have the materials sent off-site to a landfill, which would have little environmental value. Without modification, this proposal could impose a devastating cost on the industry. At a time when case goods plants are struggling to remain competitive, this is sure to drive additional jobs offshore.

Tax policies are also important. In order to offset the enormous advantage that Pacific Rim manufacturers have in low-cost labor, domestic plants must automate and innovate. Computer-controlled equipment allows us to handle materials, cut fabrics, and mill, bore and sand hardwoods much more efficiently. Because such state-of-the-art machinery can cost as much as a million dollars per machine, we are pleased that Congress has provided additional tax incentives to make business investment in new plant and equipment more affordable for smaller and medium-sized businesses.

The Impact of Imports

Undoubtedly, though, the most significant factor shaping our industry today is the tidal wave of imports from low-wage nations of the Pacific Rim. The driving force is China, where the combination of two-dollar-a-day labor, lower environmental and workplace health and safety standards, less stringent protection of intellectual property rights, and artificial exchange rates has made that country the dominant producer of wood furniture in the world. Approximately half of all case goods sold in the U.S. are manufactured overseas.

I cannot stand before you today and say that all U.S. furniture manufacturers are in agreement on the nature of the problem or the appropriate solutions. Among the members of our national trade association, the American Furniture Manufacturers Association (AFMA), there is a great diversity of business models, and an equal diversity of opinion about pro's and con's of sourcing from overseas.

I'm sure you are aware that many U.S. companies are themselves bringing in product from the Pacific Rim. This is not something that they relish doing. It is done simply to keep their companies viable and to preserve as much of their domestic operations as they can. The alternative to this so-called "blended strategy" is to surrender the market to Asian-based manufacturers and to retailers who are already importing container loads of furniture directly from the Pacific Rim.

One thing I believe we can all agree on is that foreign producers should adhere to the law and to international trading norms. Below-cost selling (i.e. dumping), subsidies and design piracy do not represent free trade or fair trade. And along with those unfair practices, I would group currency manipulation.

The Currency Issue

Much attention has been directed recently toward the strength of the dollar relative to the currencies of our trading partners. Some analysts have recently suggested that the problem has mitigated, citing the 17 percent depreciation of the dollar against "major" currencies of the world—those that are traded on exchanges outside of their own countries. But those countries account for only 56 percent of U.S. trade. The other 44 percent reflects trade with countries whose currencies are not freely traded, such as China.[2]

China's currency has remained fixed at about 8.3 Yuan to the dollar since 1994. The stability of this currency over that period is completely at odds with economic fundamentals. China's emergence as both an export powerhouse, and a destination for foreign direct investment, should tend to exert upward pressure on the Yuan. This has been the pattern for emerging economies across the globe, and one of the factors that over time equalizes the competitive balance between trading partners.

The failure of this process to occur in China is in all likelihood due to intervention by its central banks. Essentially, the profits from China's booming manufacturing sector are used to buy and hold dollars and euros, rather than to purchase foreign goods and services. In the last few years, China has accumulated $300 billion in foreign exchange reserves – $100 billion last year alone.

Certainly, central banks enter the currency market for many legitimate reasons. However, the consistent, long-term purchase of dollars and euros can only be understood as a means of artificially depressing the Yuan. According to the International Monetary Fund (IMF), such a pattern of "protracted large-scale intervention in one direction in the exchange market" is a principal indicator of prohibited currency manipulation.[3]

As a result, there is consensus that the Yuan is substantially undervalued. Analysts at Goldman Sachs estimate the undervaluation at 15 percent, while David Gilmore of Foreign Exchange Analytics believes that allowing the Yuan to freely float could cause it to increase up to 50 percent in value.

This undervaluation contributes measurably to the trade deficit between the U.S. and China, and is a substantial factor in the competitive challenges faced by U.S. furniture producers. Domestic furniture producers are in the position of a sprinter whose opponent regularly gets a 30-50 yard head start.

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[2] Joel Popkin, *Securing America's Future: The Case for a Strong Manufacturing Base*, Council of Manufacturing Associations, 2003.

[3] International Monetary Fund, *Surveillance Fact Sheet*, April 2003.

An undervalued currency doesn't serve the interests of the Chinese people either. Their buying power and access to foreign goods are diminished. And they are blocked from the path to higher living standards that formerly low-wage nations like Japan and Korea have taken.

Where the Buck Stops

Let me trace the impact of currency issues and other trade factors down to level of the retail floor. The table below shows the retail selling prices of the same number of items to furnish two rooms.

Century Furniture designed both of these collections. One, Matilda Bay, is made in Hickory, the other, Chatham Glen, is made in China. The consumer pays one third as much at retail for the bedroom made in China, and one half as much for dining room. These are sold in the same channels of distribution. And while there are differences in scale and finish, the price variance is enormous. These are real numbers. These products sell at these prices in dealers across America everyday.

	Matilda Bay Collection Made in Hickory	**Chatham Glen Collection Made in China**	**Variance**
Bedroom King Bed, Dresser, 2 Nightstands, Mirror, Armoire	$22,755	$7,070	-$15,685 -69%
Dining Room Table, 2 arms, 4 sides, Buffet.	$12,126	$5,988	-$6,138 -51%

As a result, dealers sell a few more units, but at a much lower price. It costs them just as much to sell and deliver these items, regardless of where they were manufactured, because it costs the same for rent, utilities, training, insurance, and transportation, regardless of the base cost of the furniture.

But, because the selling price is so much lower, they make a much lower dollar margin on the Chinese manufactured goods. This is further exacerbated by the nature of durable goods. Unlike toothpaste or laundry detergent, which is consumed and repurchased several times a year, a consumer generally buys only one high-end dining room in her lifetime. If a manufacturer misses that purchase, he must wait several years until the consumer buys a second home, or her tastes or needs change, or possibly never sell to her again. If the retailer doesn't offer the cheaper products, his competitor across the street will, and will capture the entire margin.

This enormous price variance has so far been largely confined to case goods, but all indications are that it will spread to upholstery, a move that is sure to send new shockwaves through the domestic furniture manufacturing industry.

Recommendations

Adherence to global trading norms was the *quid pro quo* for China's accession into the World Trade Organization (WTO), and ultimately, access to the lucrative consumer markets of the U.S. and Western Europe. Both IMF and WTO rules proscribe currency manipulation for the purpose of obtaining a competitive advantage or to interfere with the working of trade liberalization.

Article IV of the IMF Agreement, for example, requires member nations to "avoid manipulating exchange rates to gain an unfair competitive advantage."

U.S. trade authorities must monitor and enforce China's obligations in this area, and ensure that the timetables for action embodied in the WTO agreement are met. We were very encouraged to hear Secretary Snow voice his support for more market-based exchange rates, and his belief that China was agreeable to moving in that direction. Early indications are that the announcement itself moved the value of the Yuan upwards on the currency exchanges. Therefore, it is vital that

U.S. policymakers stand firm in pursuit of fair valuation. We appreciate all that this committee has done to raise and highlight the importance of this issue, and we hope you will remain engaged.

Witness Disclosure

Finally, pursuant to House Rule XI, clause 2(g)(4), I am obligated to report to the Committee that Century Furniture has done business with the U.S. Department of State in the total amount of $589,378.16 since October 1999, which was substantially less than 1 percent of our total business in any fiscal year. Attached to my written statement is a completed witness disclosure form identifying those contracts for the past two years.

Thank you. I would be pleased to answer your questions.

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Edward M. Tashjian is currently Vice President of Marketing for Century Furniture and has responsibilities for branding, advertising, public relations, photography cataloging and price lists. Prior to joining Century, he was Vice President of Marketing for Expressions Custom Furniture, which was acquired by Century in 1997. He has a classic packaged goods marketing and advertising background, and was an Adjunct Professor of Marketing at USC in Southern California, with a specialty in geo-demographic market segmentation. He holds an MBA in Marketing from the University of Minnesota (1977) and an Undergraduate degree in Psychology from St. Olaf College (1975).