

## **PERSPECTIVES ON ANTI-DUMPING**

Proposed article for Furniture Today by Art DeFehr - 2003

Anti-dumping has emerged from nowhere to the center of our collective radar screens. It will join a long list of time-honored issues that prevent cocktail parties from becoming boring. These include 800 number discounters in Carolina, copying of designs, direct importing by retailers, focus on price in advertising, the Las Vegas market, plant closures, food and parking in High Point and the latest 'Can you believe it' price point by some Big Box. Your view on the subject depends on whether it is your ox being gored – and many of us have animals on both sides of the fence.

Anti-dumping seems unreasonable if your business is threatened, but is simply one among many laws and programs that distort trade. Every nation distorts trade – there are no innocents around so we need to ask the question from other perspectives.

However, it may be helpful to be reminded how compromised we all are. We decry the CAP (Common Agricultural Program) in Europe that subsidizes every cow every day at a rate that is more than a Chinese worker is paid to produce our furniture. The US complains because its subsidies are only about half as rich while the agricultural producers in the 'Cairns Group', Canada, Australia, Brazil etc subsidize at about a third of the rate of the US. Nevertheless, the US attacks Canada because our subsidies are different – we tend to have Marketing Boards that keep prices high in the domestic market while the US tends to grossly subsidize water and exports. Europe keeps out certain bananas, America makes it tough on many Mexican agricultural products and Japan is in a league by itself.

Industrial and consumer products are regulated by tariff regimes but every country finds a thousand ways to discourage trade. Think steel in America and genetically modified foods in Europe for starters. (Every country has a similar list but the examples have been selected based on issues the reader might be familiar with). But not all industries play by the same rules. The pharmaceutical, entertainment and software industries benefit unbelievably from the protection of intellectual property and are valiantly defended by our Governments. What if our industry enjoyed the same protection? All comers would be welcome to compete – they simply would need to create products that are unique enough to qualify for some kind of design protection. Ours would be a very different industry, the retail floors would have great variety and retailers would advertise product and features rather than price. The Chinese and others should be equally welcome under those circumstances but would need to contribute to creativity.

History is sometimes instructive. We are not the first or the last to experience this kind of competitive pressure. I lived in Bangladesh immediately after their devastating civil war of 1971. Henry Kissinger famously labeled Bangladesh as the 'basket case of the world' and gratuitously suggested they should learn to compete. They took him up on that suggestion and decided that the manufacture of apparel was the industry in which they were most competitive. Within several years there were over 400 garment factories operating in Bangladesh. They enjoyed great international success and employed tens of thousands of people. Then some well-connected oxen felt gored and suddenly very tough quotas were slapped on products from Bangladesh. The industry wilted and Kissinger was proved right.

This was not the first time for Bangladesh. At the height of the Industrial Revolution in Britain, driven in large part by the textile industry, a cotton fabric known as 'Dacca Muslin' and based on

a very fine-textured cotton grown in the Gangetic delta became famous as the ‘finest cotton in the world’. The price was also great. Britain put restrictions on its production and export – and to assure the success of its program reportedly cut off one hand of each of the textile workers (I hope that story is apocryphal).

Many poor countries would rather have trade than AID. It is estimated that open borders on basic products such as shoes, textiles, apparel and agricultural products – items where these countries tend to have some advantage – would have a positive impact equal to 300% plus of the total international value of AID.

Trade restrictions are seldom rational, usually distort trade, have unpredictable outcomes and are never fair. Nevertheless, they have been part of life since the grain control programs of the Egyptians as reported in the Bible. As our industry faces the challenge of trade action – what do we learn from history and what should our perspective be?

1. Industries, firms and individuals have the right to protection under the law. We may not like the law – but do not deny others the protection they are legally entitled to.
2. China and by extension VietNam are vulnerable to anti-dumping action precisely because they operate in a manner that results in unfair advantages to their exporters. The yuan is grossly undervalued – if they operated according to market principles they would have a currency with a higher value and would be somewhat less competitive. Paying income taxes, respecting environmental laws and other practices would also level the playing field.
3. Retailers should be cautious as to their response. They have several potential concerns.
  - Financial – lower price points do not necessarily equate with greater profitability. As long as all retailers are in the same boat they should be neutral on the matter.
  - Ethical – We enjoy the great prices but really do not want to know what lies behind them. I recently visited a factory (it looked great) that supplies some of the best brands in our industry. The employees work 10 hours per day, 7 days per week and receive 2 days off per month – that is before overtime. We visited a tannery that would not meet any standards anywhere. Which retailer would like to put a tag on their furniture that describes the social and environmental conditions of the whole supply chain from which they benefit?
  - Consistency – Many of our retailers have taken umbrage that Carolina discounters benefited from a mere 7% tax advantage. Think about your domestic suppliers who compete against an advantage that may be 30-40% based on artificial exchange rates, the absence of taxes and –oh yes – a little saving in labor.
4. Taking the other side – we should promote open trade because we also want access for industries where we have an advantage based on our geography or our superior products. Developing countries need and deserve access to markets when they are genuinely better producers.

In the long term water will flow downhill and trade will adjust to patterns that reflect the underlying economics. As an industry we would be well served by understanding where our long term interests lie and promoting policies that take us there. One of the problems with the current import situation is that the rate of change (increase in exports) is artificial because the policies of a large competitor are artificial. We should promote action that requires all competitors to play more or less by the same rules. Some suggestions:

1. Exporting countries should have open markets. This implies an exchange rate based on their success in trade and other appropriate policies.
2. Environmental requirements should be respected.

3. Income taxes – why should we compete against companies that do not pay taxes? The developing countries need the revenue at least as much as our countries.
4. Intellectual property – Our industry would be well served if design became valuable because it could not be copied. We would see greater innovation and consumers would have a reason to shop. If we all agreed as an industry – what would prevent us from establishing the right legal framework?

Deng Xiaopeng used the quote that the ‘nail that sticks up is struck down’. The Chinese industry does not need my gratuitous advice, but if they would grow their industry with more deliberation they would not now be attacked for their visibility. They might be much better off if they grew their exports at 15% per year rather than 50%.

Anti-dumping is not a scalpel. Its impact is more like a dull axe and we may all feel some of the pain. Dramatic changes often produce equally dramatic responses. Some members of the industry and many American employees have paid a high price for the first shock, the second shock may well be spread around a little differently. We can be sure of one thing. If there is success in wood bedroom, other parts of the house will not be far behind. Write your floor plans and flight schedules in pencil for a while.