

China: Growing Market for Forest Products Given Economic Reforms

Under China's economic reform program, domestic consumption of forest products has increased dramatically from 1986 to the present. China's GDP has increased at an average annual rate of about 9 percent, which has stimulated demand for both primary and secondary processed wood products. While somewhat unpredictable, industry experts predict that China's growing demand for forest products will continue. A major stimulus is a recently announced logging ban, which will potentially stimulate the demand for imports. However, competition from international suppliers entering the Chinese market is also increasing.

China's forest products market, like many other sectors of the economy, is changing rapidly under economic reforms. From 1980 to 1997, China's growing construction activity and economic development significantly increased the consumption of forest products. There are several drivers for China's increased consumption of forest products. China's GDP has increased annually by about 9 percent over the past decade, the population is one of the largest in the world with 1.3 billion people, and the Chinese government has lowered tariffs on many imports, including forest products. Housing reforms are also stimulating the demand for wood products. While demand for wood products has increased, and is expected to continue to increase rapidly, China's domestic timber production is constrained by limited available forest areas and increased forest protection concerns.

China is a net importer of forest products. Logs, used for domestic processing, have been the leading import. While log imports peaked in 1988 at about 10 million cubic meters, they decreased radically and now average about 10 percent of consumption (figure 1):

As the economy continues to develop, demand for secondary and manufactured forest products is

increasing. Expenditures on primary, secondary, and manufactured forest product imports (solid wood, pulp, and paper) almost doubled, from \$3.5 billion in 1992, to \$6 billion in 1997 (figure 2). Imports of unprocessed, or primary, forest products are relatively constant at about \$1 billion. Rising consumption and declining domestic timber production will likely mean greater demand for imported secondary processed wood products.

Forecast of China's Total Industrial Roundwood Production, Trade and Consumption to 2000

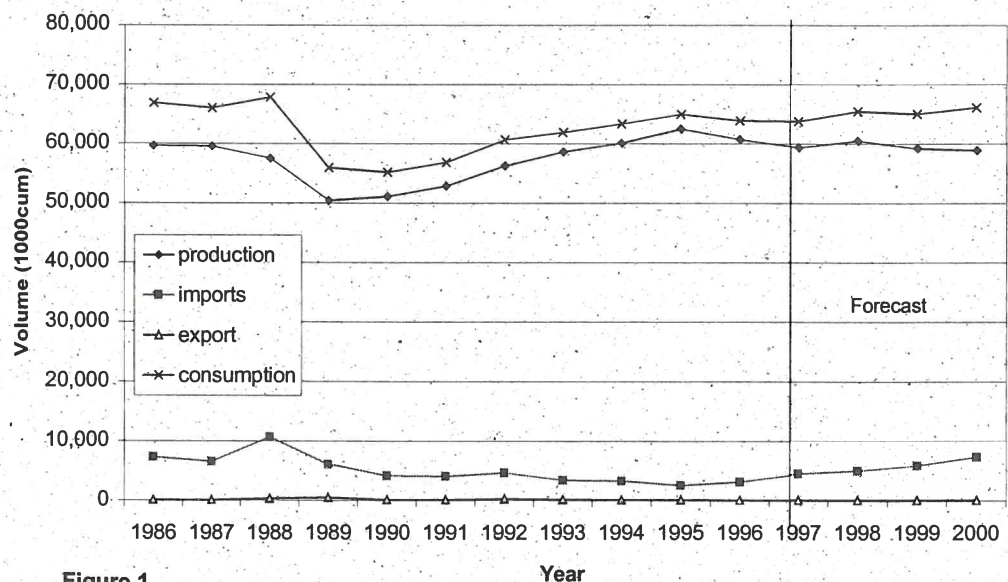


Figure 1.

Policy reforms and changes in the market have contributed to the recent decline in imports of secondary and manufactured wood products. Prior to 1989, wide spread speculative investment, including an increase in construction activity, resulted in many non-performing loans and threatened to weaken China's economy. In 1989, China instituted conservative fiscal policies, tightened the wide availability of credit and slowed the entire Chinese economy. Previous rapid growth in the construction industry and wood products markets declined. Meanwhile, the market for lower cost wood substitutes developed quickly.

Housing reforms and the 1998 logging ban, however, are expected to stimulate wood products markets, with probable higher prices and increased imports. Imports of value added secondary and manufactured forest products could increase in the next five years, assuming continued rapid domestic economic development.

In 1993, China launched its Affordable Housing project, which brought rental prices for government housing closer to market prices. The project has also encouraged people to buy their own houses and will likely drive economic growth in the housing market over the next three to five years. An

China's Total Imports of Total Secondary and Manufactured Forest Products

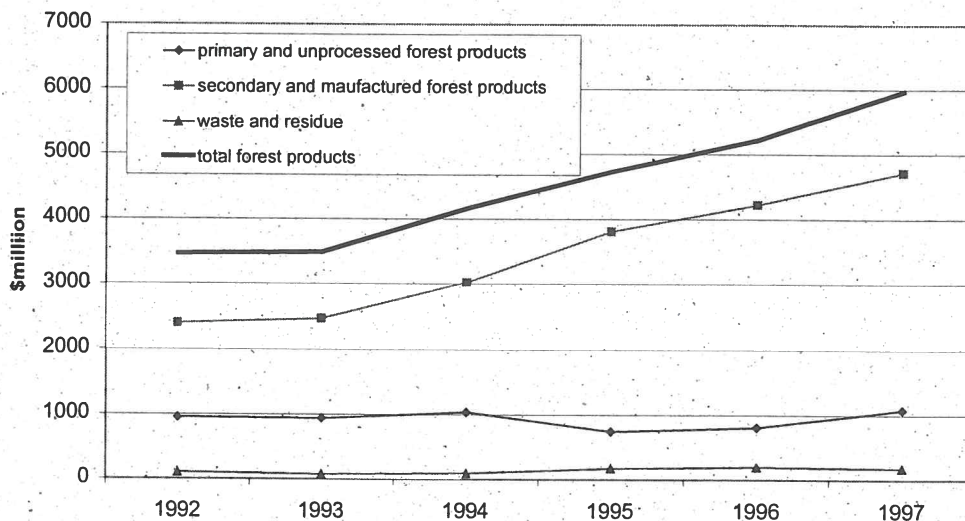


Figure 2.

important market segment for materials for interior remodeling and decoration is now emerging in major urban centers. Investment in new housing will also have a "multiplier" effect on associated industries, especially wood for construction, furniture, and interior use. Housing reform is a major national undertaking, which will, however, only gradually bring new opportunities for foreign firms that export secondary and manufactured products to China.

In order to preserve forests threatened by floods, especially the serious flooding that took place during the summer of 1998 the Chinese government announced efforts to limit deforestation. The most important action taken is a proposed nationwide logging ban for harvesting in the remaining natural forests. The demand for imported wood should increase as China depletes its current surplus of timber and wood products. This will likely create a growing timber shortage over the next several decades and should provide long-term opportunities for greater wood product imports.

As shown in figure 1, log imports may again approach 10 million cubic meters as the domestic harvest is limited by the logging ban in the near-term, while most of China's plantations, which are expected to yield significant volumes in the future remain immature in the short term. It is apparent that China will import more processed forest products in the interim.