

Opportunities for US Building Materials Markets in China Identified

In 2005, China imported \$450 million in wood-based building materials from the US. China is now the fourth leading export destination for US wood products and the third leading importer in the world. Over the past 10 years, wood products exports from the US to China have increased an average of 30% per year.

While raw materials, such as logs and lumber used in China's furniture factories will likely remain China's leading wood imports, demand for value-added wood products is rising. Locally produced building materials dominate the regionally fragmented and price-sensitive market, yet US building materials are making inroads. To determine where the opportunities are and identify how US companies can access these niches, researchers from the Center for International Trade in Forest Products conducted interviews with Chinese developers, distributors, home center representatives, and association representatives. The findings of this research are available in *Working Paper 102: Distribution Systems for Value-added Wood Products in China*.

Privatized Housing Stimulates Demand

China is experiencing a demographic transition of historic proportions. Smaller and more affluent households created by China's declining birth rate, the waning tradition of multiple generations living together, a rise in the number of seniors, and migration of workers to urban areas have had significant impacts on China's economy and these changes are shaping the types of goods and services demanded.

The government's decision to privatize the housing industry had a profound impact on China's economy. Faced with the need to boost the economy and lessen the economic drain that came with providing and maintaining public housing, in 1997 the central government began to phase in privately owned housing.

Since then homeownership has skyrocketed. Seventy percent of all housing today is privately owned. From 1990-2005, 48 million m² (516 million ft²) of new residential floor space was built (Figure 1). China's home improvement market is one of the most promising in the world. Sales in 2005 totaled \$50 million and they are growing at 12% a year.

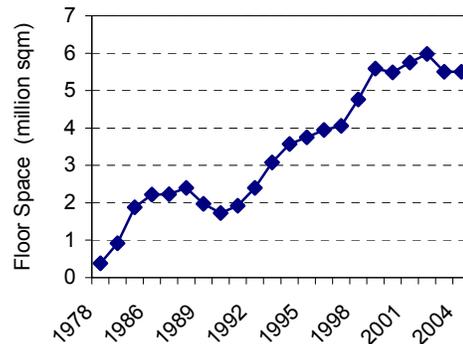


Figure 1. Annual urban residential housing construction by floor area, 1978-2004 (*China Statistical Yearbook 2005*).

Rising Demand Creates Domestic Supply Shortfall

China has been unable to meet the rising demand for wood products. China's forests were left severely depleted by the Cultural Revolution and by farmers clearing land for agricultural use. Since 1998, the central government has initiated several logging bans and programs to increase the forest cover and ideally become self sufficient by 2015. Even if logging bans and plantations are successful, China primarily produces poplar, Chinese fir, and eucalyptus used for pulping and plywood manufacturing. Therefore, China will continue to be reliant on imports to fill the demand for high quality wood used in furniture and building component manufacturing.

US hardwoods and select softwoods have found easy access into China's furniture manufacturing sector, yet suppliers of imported building materials have had to overcome more obstacles: primarily price, understanding the business environment and China's distribution system, and finding adequate local representatives. While China remains a challenging market for higher priced imported building materials, the luxury housing market appears to be the most promising niche for imported building materials. China has 200 luxury golf course developments and 500-1,000 more are planned. Other luxury developments are sprouting up across the country and a new trend in custom homes is emerging. Energy shortages and new government initiatives are also creating demand for energy efficient building

materials. Rising competition between developers is also stimulating demand for energy efficient and innovative building materials. However, while developers say they want luxury building materials, price is still paramount. Developers also said that long lead times required with imported products were also a hindrance.

Russia and Canada dominate China's softwood lumber market, yet there are exceptions. Significant volumes of Cedar, Ponderosa pine, Southern Yellow Pine are exported from the US to China. The Chinese building code suggests that the penetration of the treatment chemical to a certain required depth means that Southern Yellow Pine, with its absorbent properties, is the gold standard.

Although imports of US building materials are still limited, they have increased dramatically in just a few years. As shown in Figure 2, imports of

manufactured goods such as wood windows, joinery, and doors are on the rise. Products that have advanced technologies or energy efficiency features appear to be in particular demand. As the Chinese government promotes energy-efficiency in buildings and building materials, local windows manufacturers face rising costs and higher market-entry standards for better window technology, quality and performance. The current market for wood windows is high-end villa projects. However, in the future, rapid urbanization is likely to provide new opportunities in second tier cities.

The most critical business decision facing US manufacturers and exporters of value-added wood products is identifying the proper distribution strategy. For most small to medium-sized companies, with limited resources in terms of capital and managerial capability, that means choosing the right distributor to represent their product. While there are a number of distribution channels that vary by product such as trading companies, sales offices, and traditional timber and building materials markets, most US building materials suppliers find it most effective to use agents or distributors. Most of these distributors have offices in one or more regions where they employ a number of employees to network with architects, developers, and government employees to find out the details of new projects. China is very regionally fragmented, which makes a regional as opposed to country-wide strategy, vital.

Understanding government policy and directions of investments is critical for firms with long-term resource commitments in China. Although the Chinese government readily embraces the capitalist ideology, a number of housing developments are controlled by local government agencies and China has yet to develop an open exchange of information. Therefore, good relations with government officials and large real estate companies are extremely helpful for firms in obtaining project and bidding information.

Distribution Systems for Value-added Wood Products in China (WP 102) addresses the issues covered above as well as: distribution channels for building materials; regional differences in China's building materials market, information about selling to Chinese developers; information about successful distributors' sales approaches; and domestic and foreign competition. The report also includes detailed information about niche-market opportunities for hardwood lumber, hardwood veneer, windows, engineered roof truss systems, glulam bridges, treated lumber and naturally durable species, and high-end fine furniture from the US.

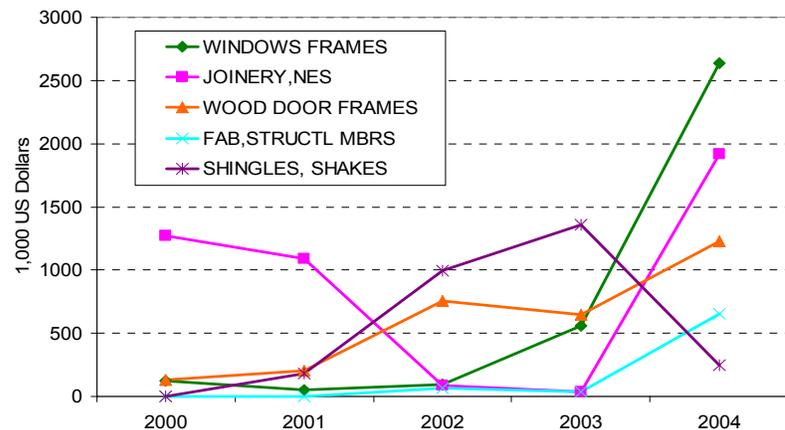


Figure 2. US building material exports to China, 2000-2004
(*Global Trade Atlas 2005*).