

# C I N T R A F O R

## Working Paper 38

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## The Development of the Japanese Wood Trade: Historical Perspective and Current Trends

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### Abstract

This paper examines Japanese forest products production, consumption and net trade trends, and the factors that have influenced these trends, from 1879 to the present. Prior to 1964, only industrial wood products are considered. After 1964, sawnwood and plywood are included. The reasons for the development of Japan's dependence on foreign forest resources are explained. Domestic wholesale and imported industrial wood prices are considered key factors. Rapidly rising prices following World War I and during the 1950's led to the promotion of imports. During the 1960's, Japan's economy outgrew the potential of its forest resource supply. Foreign competition and high domestic costs caused Japan's domestic production to stagnate during the 1970's and 1980's. Japan's major trading partners are also outlined.

### Executive Summary

#### Historical Background

##### Early Developments: 1879-1921

Japan entered the global forest products market as a net exporter of industrial wood during the 1860's. The introduction of modern pulp and paper technology during the 1890's caused domestic wood prices to rise. As a result, many tree plantations were established at the turn of the

By 1907, net exports of industrial wood reached a peak of 1.0 million cubic meters. Japan's rapid economic development placed a constantly increasing demand on the nation's forest resources. New sources of energy allowed fuelwood production to decline, while industrial wood production increased. Until World War I, prices remained stable as net exports declined.

##### Earthquakes: 1921-1930

During World War I, domestic industrial wood prices increased significantly. In 1920, a large earthquake hit Tokyo. This increased the demand for wood and added further upward pressure on prices. In 1921, the Japanese government responded by lowering the tariffs levied on imported wood and Japan became a net importer of industrial wood for the first time. In 1923, the Kanto Earthquake and Fire devastated the Tokyo-Yokohama region. So much wood flowed into the Tokyo port that by 1924 Japan was importing 29 percent of the wood it consumed. The price of imported wood was falling as a result of the increased supply, causing domestic production to stagnate. In response, the Japanese government raised the import duty on imported timber five times between 1926 and 1933.

##### The Depression and Recovery: 1931-1939

During the 1930's, Japanese production of industrial wood reached new peak levels. By 1938, Japan was again a net exporter. Throughout this time Japanese colonial expansion increased its forest resource base. In 1940, production reached a peak of 34.0 million cm

##### The War Era: 1940-1954

As a result of World War II, Japan lost its colonial resources and a significant portion of its wood processing capacity. In addition, the lack of foreign exchange forced Japan to depend entirely on its own forests during the first ten years of reconstruction. Thus, by the mid-1950's Japan's forests were degraded and prices were rising. At this time many tree plantations were established. In order to help generate foreign currency at this time, Japan began importing logs from the Philippines and manufacturing plywood to be exported to the United States.

### **Era of Increased Trade: 1955-1973**

By 1961 Japan's economy was demanding more wood than domestic resources could supply. In response, the government adopted a policy of promoting imports. Throughout the 1960's, Japan's GNP grew 10 percent per year on average. The volume of imported wood grew substantially as a result. Domestic production of industrial wood grew steadily until reaching a peak of 51.8 million cm in 1967. By this time Japan's forests had been exhausted.

In 1973, imports accounted for 58 percent of consumption which reached a peak level of 99.6 million cm. Fuelwood and other industrial wood production was reduced to the 1.0 million cm level in favor of producing pulpwood and sawlogs. Sawlogs and wood chips accounted for most of the imports. With these resources, Japan produced almost all of the lumber, plywood and pulp it consumed during this period.

The increased consumption of imported wood stabilized prices, while the costs associated with forest management in Japan increased. As a result, the annual area of forested land has declined since 1960. The most noticeable drops in afforestation occurred between 1970 and 1975.

### **Post Oil Crisis Stagnation: 1974-1990**

The Oil Crisis in 1973 brought about a global recession. By 1975, Japanese forest production had declined to 34.2 million cm. Although the Japanese economy recovered from 1976 to 1979, domestic production remained practically constant while imports increased to meet consumption. In 1979, imports accounted for 64 percent of Japan's industrial roundwood consumption. In fact, Japanese industrial roundwood production has remained consistently near the 33 million dm level since 1975. Therefore, it appears that Japanese forest production is comparatively insensitive to market fluctuations.

Following a recession during the early 1980's the Japanese economy resumed expansion. Housing starts peaked in 1990 at 1.7 million units. Forest products imports increased as well, however the import profile has shown signs of change during this period. Imports of manufactured products such as conifer sawnwood and plywood have increased significantly. On the other hand, hardwood sawlog imports declined and softwood sawlog imports increased only slightly. Thus, Japan has increased its imports of value-added products. The primary factors influencing this change have been supply constraints within exporting nations and the stagnation of Japan's forest sector.

### **Foreign Suppliers**

Japan has imported most of its conifer wood from the United States, Canada and the Soviet Union. The U.S. and USSR have supplied most of the imported sawlogs since the 1960's. Recently, U.S. exports have remained stable, while

Soviet exports have declined. Canada has historically banned most log exports. Japan has imported most of its conifer lumber from Canada and the U.S., with Canada holding the largest market share.

Japan's hardwood imports have come from Indonesia, Malaysia and the Philippines. By the mid-1970's Philippine exports dropped significantly as resources were reduced. Through the 1970's Indonesia supplied about half of Japan's hardwood imports. However, by the 1980's Indonesia had successfully banned log exports. As a result, Malaysia has held more than a 90 percent share of the hardwood import market since the early 1980's.

### **Conclusion**

Recent trends are likely to continue. During the 1990's many Japanese houses, that were poorly built 20 to 30 years ago, are expected to be rebuilt with higher quality materials and more wood. Thus, demand is expected to remain stable.

Foreign log supplies are expected to remain tight, although New Zealand and Chile have increased exports recently. Producers in supplying countries are likely to continue competing for larger shares in the Japanese lumber and plywood markets. Wood chip demand is also expected to remain strong. Given the current state of the Japanese economy, forestry costs will remain high. Unless prices rise substantially, Japan's forests will remain uneconomic to harvest. Therefore, Japan's foreign dependence on forest products is not likely to change.

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