

## 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%, which has stimulated demand for both primary and secondary processed wood products. Industry experts expect that China's growing demand for forest products, although somewhat unpredictable, 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. Research conducted by the University of Washington's Center for International Trade in Forest Products (CINTRAFOR) evaluated this growing Chinese market and its relationship to China's economic reforms.

China's forest products market, like many other sectors of the Chinese 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. Several drivers caused this increased consumption. China's GDP has increased annually by about 9% over the past decade, China's 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 such demand 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 have decreased radically and now average about 10% 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)

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

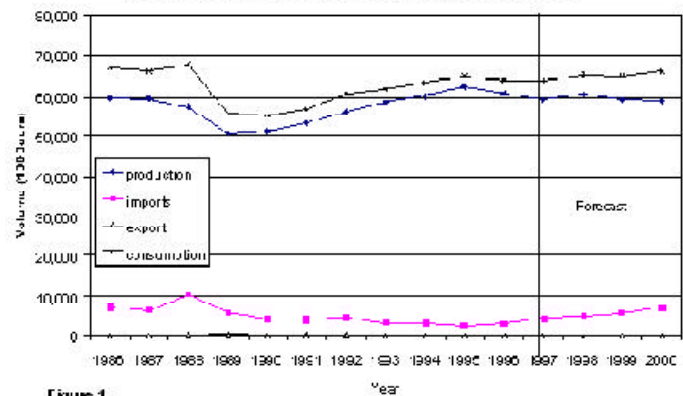


Figure 1.

Figure 1. Forecast of China's Total Industrial Roundwood Production, Trade and Consumption to 2000

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.

Policy reforms and changes in the market have contributed to the recent decline in imports of secondary and manufactured wood products. Prior to 1989, widespread speculative investment, including an increase in construction, 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,

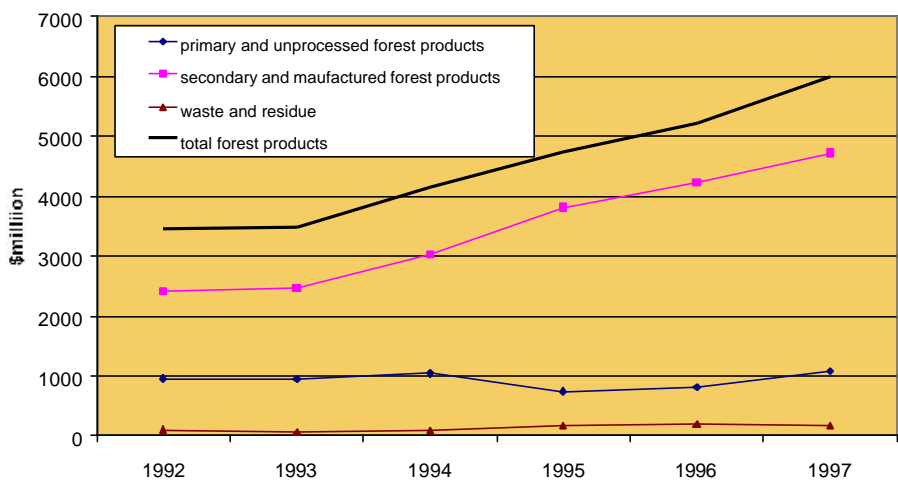


Figure 2. China's Total Imports of Total Secondary and Manufactured Forest Products

while the market for lower cost wood substitutes developed quickly.

Housing reforms and the 1998 logging ban 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 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. Most important was a proposed nationwide logging ban for harvesting in the remaining natural forests. As China depletes its current surplus of timber and wood products, a growing timber shortage over the next several decades should provide long-term opportunities for greater wood product imports.

As shown in Figure 1, log imports to China may again approach 10 million cubic meters as the logging ban limits domestic harvest in the near term, while most plantations, which are expected to yield significant volumes in the future, remain immature in the short term. In the interim, it is expected that China will increase imports of processed forest products.

**Contact:**

CINTRAFOR  
 University of Washington, College of Forest Resources  
 Box 352100  
 Seattle, Washington 98195-2100  
 Phone: (206) 543-8685; Fax (206) 685-0790  
<http://www.cintrafor.org>