China's plywood industry takes off

China is reducing plywood imports as its domestic industry booms

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AN old Chinese saying that translates roughly to 'it is safer to foretell the distant future than to say what will happen tomorrow' sums up the recent history of China's plywood trade. Who would have thought even four years ago that China would become a net exporter of plywood *(Figure 1)* by 2001?

China's plywood trade has developed at a frantic pace. Imports plunged from around 1.7 million m^3 in 1998 (they were as high as 2.3 million m^3 in 1993) to just 650 000 m^3 in 2001. In contrast, exports leapt from less than 200 000 m^3 in 1998 to almost 1 million m^3 in 2001. According to 2001 customs data, Chinese-made plywood was exported to the following main markets: Republic of Korea, 206 000 m^3 (21.3% of total exports), Hong Kong, 169 000 m^3 (17.5%), Japan, 121 000 m^3 (12.5%), the United States, 92 000 m^3 (9.5%) and Taiwan Province of China, 85 000 m^3 (8.8%). New data for 2002 show that imports of plywood continue to fall; in the first quarter, plywood imports amounted to 124 000 m^3, compared to 194 000 m^3 for the same period last year. Meanwhile, the volume of 2002 first-quarter plywood exports were 31% higher than for the corresponding period last year.

A sector transformed

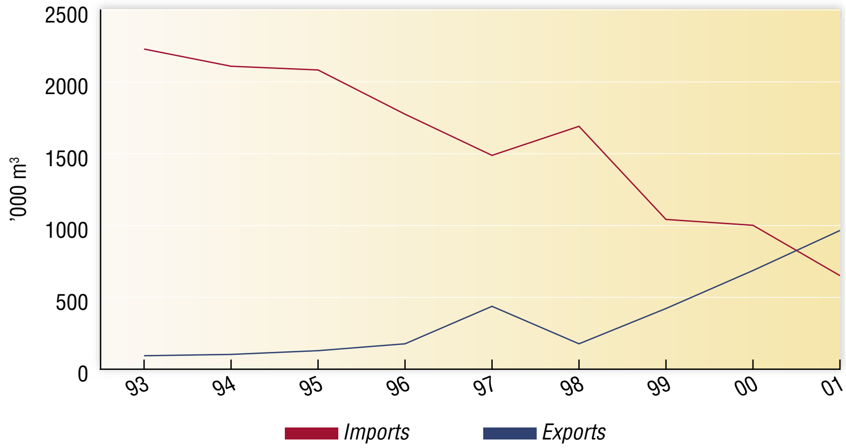
1998 was clearly a watershed for Chinese imports of logs and plywood *(Figure 2)*. A slow decline in log imports suddenly became a rapid escalation; within three years the volume of tropical log imports had more than doubled.

This shift was triggered by a reduction to zero of log import tariffs. Prior to 1998, plywood dominated tropical timber imports, but the low-cost plywood from Indonesia and Malaysia had seriously undermined the competitive position of Chinese manufacturers. Many mills were forced to cut production, sack workers and even close down.

Chinese authorities reacted by removing log import tariffs and cracking down on plywood smuggling. With no tariffs on logs, local manufacturers used imported logs to not only fill a gap in log supplies (created by drastic cuts in domestic natural forest harvests made as part of the country's new forest protection regulations), but also to start exporting significant quantities of cheap plywood.

Cross-ply

Figure 1: China's export and import of plywood, 1993–2001



More to the story

Until recently, many domestic plywood manufacturers could not compete with foreign plywood imports, even with the tariff reductions. This was especially true for the state-enterprise plants, which commonly are small-scale, have very basic technology and equipment and produce low-quality plywood.

Over the past five to ten years, with the arrival of numerous foreign enterprises and the creation of many joint ventures, China's plywood industry has taken on new life. Stiff competition and consumer demands for quality plywood have driven many of the old mills out of business, but a number of small-scale plywood enterprises, such as those grouped in Nanhai city, Guangdong, Jiashan county, Linyi city, Shandong and Wenan counties, and Hebei, have merged into sizeable and competitive mills. Accurate statistics on the country's plywood production are difficult to come by, but according to State Forestry Administration data it amounted to almost 10 million m^3 in 2000.

Zhejiang Province

In particular, the timber industries in Zhejiang Province have developed rapidly in recent years. A number of contributing factors can be identified: skilled labour, good geographical location, good ports and transport infrastructure, access to resources and nearby markets, and the adoption of modern management and technology. The timber sector in this province ranks first in China for installed production capacity (for plywood, fibreboard and mouldings), market share, quality/grade of products, and economic efficiency. Industrial capacity has expanded rapidly; the province's annual production of plywood, fibreboard and other timber products now exceeds 37 billion yuan. The plywood sector, centred in the city of Jiashan, has more than 200 enterprises, which together have an annual production capacity of over 3 million m^3, or about a third of the country's total plywood production capacity.

Foreign investment

Over the past few years, as admittance to the World Trade Organization drew closer, inflows of foreign direct investment (FDI) were running at around US$15–20 billion per year, but this has increased spectacularly since 2000. In the first eight months of 2001, for example, utilised FDI in China grew 20.4% year-on-year to US$27.44 billion; FDI is predicted by some to reach US$60–70 billion per year in the medium term. Most of this investment will be directed to the manufacturing and services sectors.

Already there has been substantial additional investment in the wood-processing sectors. The high costs of local labour, land and raw materials and the limited domestic markets have encouraged plywood enterprises in Taiwan Province of China, Hong Kong, Singapore and other countries to invest in and relocate to mainland China. Advanced processing plants have been established to take advantage of China's highly educable, low-cost workforce, abundant and competitively priced commercial land, and a huge domestic consumer market.

China's plywood production costs have fallen dramatically in recent years, largely as a result of improved productivity based on skilled labour. For example, the average wholesale price of domestically manufactured plywood in 2001 was US$250 per m³, while the average CIF price for imported plywood was as high as US$390 per m³. The introduction of modern equipment, tight quality control, the rapid development of the adhesives industry and constant improvements in technology mean that Chinese plywood now meets international market quality standards.

Logs from where?

Future development of the wood-based panel industries in China will be very much dictated by log and other fibre (eg bamboo) supplies. The plywood industry is most productive when it uses large-diameter cylindrical logs, hence the past dependence on large-sized domestic logs and tropical logs from Southeast Asia, the Pacific Islands and Africa (okoumé from Gabon is favoured for its high yield of face veneer).

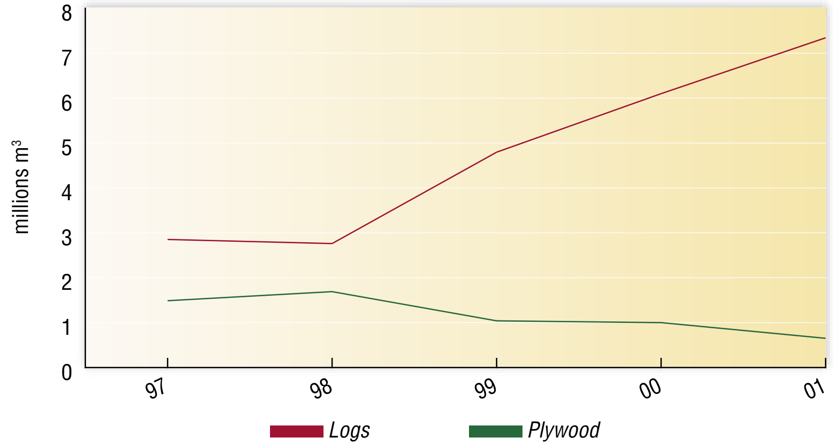
In 1997 China began a natural forest protection program (NFPP) that significantly altered the flow of mill logs. Commercial logging in natural forests has stopped in 13 provinces in the upper reaches of the Yangtze River and middle and upper reaches of the Yellow River; some 78 million hectares of mountain forests have been closed to logging and protected. In addition, the major forest regions in northeast China and the Inner-Mongolia Autonomous Region, for example, have reduced timber production from 18 million m³ to around 12 million m³. In total, Chinese authorities have invested a reported 20 billion yuan in its NFPP. To supplement domestic log supplies, around 1.2 million hectares of new tree plantations have been established.

The reduction in log harvest from the natural forest has had a big impact on the timber industry. Nearly a thousand wood-processing mills and 38 timber markets in Chongqing, the catchment of the upper reaches of Yangtze River, and the Three Gorges Reservoir region have closed because of reduced domestic log harvests. More positively, say domestic observers, illegal logging has been virtually eliminated as forest resources have been put under strict protection.

China's domestic log production in 2001 was about 51 million m³, up by 8% over 2000. This increase was due entirely to increasing timber production in plantations, which in 2001 amounted to around 31 million m³ or some 60% of the national planned production of timber. The indications are that production from plantations will be even higher this year. The successful cultivation of fast-grown plantations such as poplars is now providing substantial volumes of core raw material for the plywood and blockboard industries. This development, along with increased imports of Russian logs, will affect the trade flows for logs in southern and eastern Asia. In the last few years, tropical log exporters have benefited from China's booming plywood industry, but this may not last. Particularly at risk from competition from low-cost logs are tropical suppliers of small-diameter logs and logs for core veneer production.

Logs lift off

Figure 2: Volume of Chinese tropical log and tropical plywood imports, 1997–2001



New tariffs increase competition

Yet another recent development could have a major impact on China's plywood industry. On 1 January 2002, China's import duties on plywood were cut from 15% to around 10% and those for veneer lowered from 8% to about 4%; import duties on logs remain at zero. Lower duties on imported plywood will force domestic manufacturers to become even more competitive and the lower duties on veneer will help them do so; the net result should be yet more exports.

In-depth studies need to be carried out into China's competitive advantages in plywood exports compared to tropical timber producer countries. This could improve understanding of the factors that must be taken into account if a country is to achieve success in plywood exports.

Business people in Shanghai believe that the skilled labour working in local plywood factories is playing an increasingly important role in promoting the Chinese industry. For example, Mr Yao Jiangang, Vice-president of Shanghai Xin Gao Chao Group Co Ltd, the second-largest plywood producer in Zhejiang Province, reckons that low-cost skilled labour "can compensate for the high costs of imported logs from Papua New Guinea and provide competitive prices for the exports of Chinese plywood".

With plywood exports running at around 1 million m³, China has become a serious competitor in the global plywood market, especially in East Asia. Notwithstanding the folly of making predictions in such a dynamic market, it seems inevitable that tropical plywood producers will see more of their traditional markets under attack, and under attack from plywood manufactured in part from imported tropical logs or tropical veneer.