

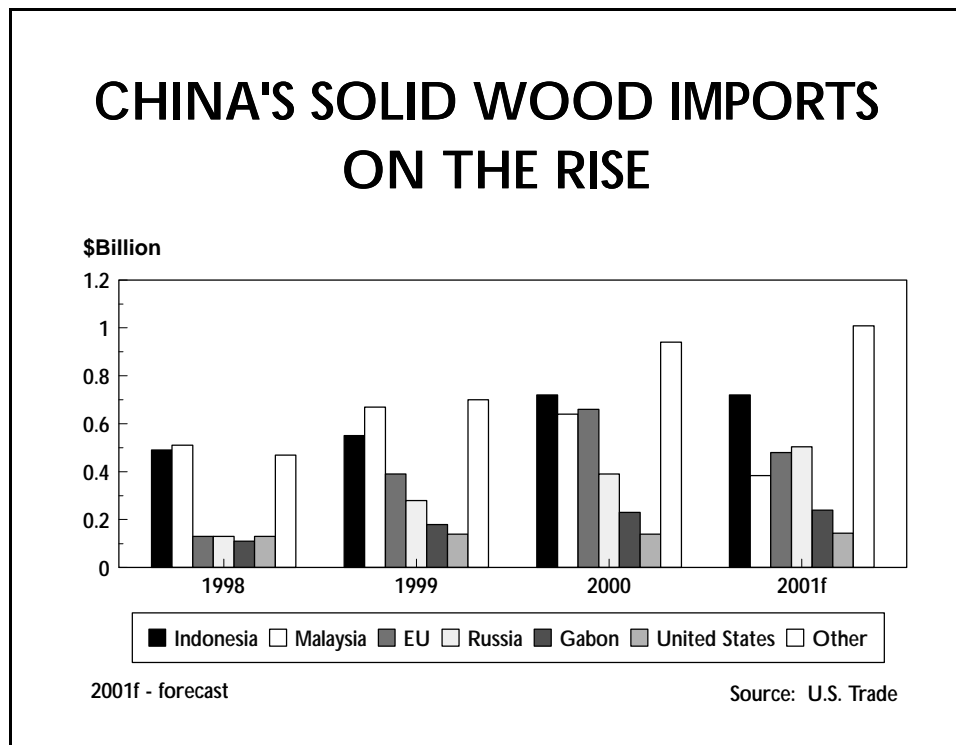
CHINA SOLID WOOD PRODUCTS MARKET UPDATE

By Tony Halstead, Agricultural Economist

China's solid wood product imports have grown steadily from \$800 million in 1990 to \$3.7 billion in 2000, stimulated by the political and economic changes that have recently occurred in China. China's hoped for entry into the World Trade Organization (WTO) will loosen many of the restrictions on imports and further increase imports.

increasingly concerned about the structural integrity of their home. As part of the government's 10-year revision of building codes, increased attention has been given to wood frame construction. Currently, local codes are based on traditional Chinese farmhouse-style construction and do not account for modern materials and methods. Successful inclusion of wood frame construction in China's fire and building codes would increase demand for solid wood product imports.

On the supply side, the State Forestry



In 2000, over one-half of urban residents owned their own home as a result of the Chinese government's effort to replace the workplace-distributed housing system with a privatized housing market. This has caused urban residents to become more aware of the quality of their home and has stimulated a new remodeling industry.

Homeowners are also becoming

Bureau announced a 10-year campaign to crack down on illegal logging. The program will involve 17 provinces, autonomous regions, and municipalities along the Yellow and Yangtze Rivers where illegal logging has caused soil erosion, desertification, and flooding. Industry sources believe that the real timber harvest number is almost double official levels.

China has turned to Indonesia, the EU, Malaysia, Russia, and Gabon, as well as the United States, to satisfy its demand for wood products. The Chinese industry prefers to import logs, which account for 45 percent of the value of total solid wood product imports for further processing. Logs from Russia and Malaysia dominate this trade.

In July 2001, trade was complicated by the Chinese requirement that all log imports be accompanied with a pest-free certificate. A majority of China's logs enter through border trade with Russia, making the quarantine process at the border more difficult to monitor than for logs arriving at ports.

Although China has adopted policies to decrease logging at a time of rising domestic demand, plywood production and exports have grown based on imported Russian logs to support the growth. In the past, the Chinese plywood industry was dominated by low-grade plywood production. Today, private ownership has turned the previously state-owned plants into efficient businesses sensitive to market demands.

The industry now aims to increase production of higher-grade plywood in response to growing consumer demand. Oriented strand board production is also expected to grow quickly. In 2000, production of wood-based panels increased 33 percent to total 20 million cubic meters. Although imports of plywood decreased 12 percent for the second year in a row, imports of high-quality plywood and veneers for interior decoration are likely to grow.

Increased furniture demand will help to support the continued growth of China's wood-based panel industry. In 2000, total furniture output reached \$14.5 billion and

demand is expected to grow by 10 to 15 percent over the next few years.

With a growing number of homeowners in China, the amount of money being invested in high quality interiors and furniture is growing rapidly. The average replacement period for furniture is forecast to drop from the current 7-8 years to 4-5 years by 2005. The total value of China's interior decoration market was over \$30 billion in 2000, up 25 percent from 1999. China's entry into the WTO will push the furniture industry to restructure itself and increase competitiveness.

For more information about the forest products market in China, please read the FAS Attache report AGR number CH1032 on the FAS web site at:
<http://www.fas.usda.gov/scriptsw/attacherep/default.asp>

Source: USDA/FAS/Beijing