

China Wood and Building Materials Market

CINTRAFOR, in partnership with the Evergreen Building Product Association and the US-China Build program, is currently developing the “China Wood and Building Materials Market Sourcebook,” a resource for potential exporters of wood and building materials exploring marketing opportunities for their products in China. The Sourcebook, to be completed and made available this fall, provides a background to the Chinese market and potential export opportunities, cultural context, data on the country’s imports of wood products, information on domestic resources and constraints, as well as specific information on the four target urban markets of Shanghai, Beijing, Guangzhou and Chengdu.

China’s rapid economic development over the past twenty or so years has lifted millions out of severe poverty, and propelled many into extraordinary wealth. China has emerged from virtual isolation to become the seventh largest trading nation — and the sixth largest economy — in the world. As its population increases, it is also becoming further urbanized: as of 2000, 40 of China’s 663 cities already had populations over one million. Although China still has a large peasant population, it is expected that urbanization rates could reach as high as 55% by 2030. The country’s growing middle class, of whom five or six million individuals are estimated to have savings worth more than US \$100,000, is creating a growing market for new forms of consumption and a need for increased housing resources, and for accompanying interior decoration. If the country’s major cities are able to maintain their projected 9-11% per annum growth in per capita income, by 2010 there could be a population larger than that of the United States earning at least US \$6,000 per year.

City	Population (in millions)	GDP (2001)	Per Capita GDP (2001)	Projected Per Capita GDP (2010)
Guangzhou	9.94	\$28 billion	\$4,600	\$10,847
Shanghai	16.74	\$60 billion	\$4,500	\$10,611
Beijing	13.82	\$34 billion	\$3,000	\$7,074
Chengdu	10.20	\$18 billion	\$1,680	\$3,961

Housing Reform Stimulates New Construction

Under the Communist Party’s leadership, housing was traditionally provided as a non-market benefit to employees of urban state-owned enterprises. By the 1970s, it was clear that the housing system had become an unaffordable burden for both the government and enterprises. Housing reforms initiated in the early 1980s have resulted in policies encouraging private home ownership, in turn leading to consumer demand for increased living space and higher quality living facilities. Important impacts of the reforms include:

- Between 1980 and 2000, urban per capita living space increased from less than four square meters to ten square meters; by 2005, the government hopes to increase that figure to 23 square meters, making average household living space approximately 74 square meters.
- In order to realize this goal, the government expects to construct at least 1.5 billion square meters of residential building space in urban areas during the five-year period 2001 – 2005. Annual housing starts for the next several years could range from approximately four to ten million, depending on the rate at which increases in per capita and household living space are achieved.

Market for Wood Frame Construction Aided by New Building Codes

In order to finance home purchases, banks began issuing consumption loans several years ago. Chinese homebuyers now have access to several means of financing the purchase of their own homes. Most homes in urban areas fall within the category “economical” homes, in apartment buildings built on public land owned by the government. China also has a rapidly growing upper income class, who desire western-style wood frame construction (WFC) homes. Just a few years ago, developers did not have the capacity or demand to build WFC homes; today, an annual 11,000 or so WFC homes are built in or near major cities, including Beijing, Shanghai, Guangzhou and Chengdu. In order to ensure higher quality construction

projects, the government recently issued residential building codes for WFC, which are available in bookstores across the country; fire codes are also in the process of being developed. While WFC homes are gaining in popularity, they are generally not affordable to the greater Chinese public and will continue to occupy less than a one percent share of new housing starts for the next several years.



Orient Garden: a wood frame construction villa

New Policies Encourage Imports, Environmental Awareness

With a per capita demand for wood products of just .12 cubic meters, China has only one fifth the global average, but the sheer size of the country's population made it one of the largest consumers of wood products and the largest importer of wood products last year. From 1990 to 2001, solid wood imports increased in value from \$800 million to \$3.5 billion. China's top five top trading partners in wood

products are Russia, Indonesia, Malaysia, the United States and Germany. Major US exports to China are hardwood lumber, logs and veneer, followed by softwood lumber and logs.

A legacy of exploitation and mismanagement has left the country's domestic resources severely constrained. The Chinese government is making strides to increase its forest coverage and volume through the following policies:

- A logging ban, imposed in 1998, is expected to protect more than 56 million hectares of forestland and result in the overall increase of forestland by almost 23 million hectares.
- For the Five-Year Plan 2001-2005, the Chinese government approved an annual logging quota of 223.1 million cubic meters, a decrease of almost 25% from the previous Five-Year Plan; this will mean that domestic supply will fall short of the estimated 250 million cubic meters China's consumers will demand in 2002 alone.

Further increasing the need for imported wood products is a growing call for a substitute for the recently banned brick, which has traditionally served as the country's primary residential building material. Because of the highly polluting production processes involved in making clay bricks, the government has nominally banned the use of brick as a construction material in large cities.

In addition to the growing housing stock and limited domestic resources, China's accession to the WTO will enable exporters to better take advantage of China's ever-growing middle class. The tariff reductions, to be fully implemented by January 2004, will lower tariffs on wood and wood products from an average of 10.6 percent to 3.8 percent. In turn, this will make imports of both structural and non-structural wood products much more affordable to a greater number of Chinese consumers. In addition to tariff reductions, China has agreed to open its distribution and direct selling processes, which will allow firms better access to the Chinese market.

Exporters of wood products have a tremendous opportunity to develop their trade with China. The combination of decreased domestic logging quotas, increasing incomes, reduced tariffs and a general preference for American products makes China a bright prospect for trade.