A personal view on China

From March 20 to April 5 this year, I was fortunate enough to visit China as part of a forestry cooperation agreement held between the Chinese and New Zealand Ministries of Forestry. Also on the trip were three Forest Research Institute scientists and a representative from the Ministry of Forestry’s Market Development Group. The purpose of the visit was to exchange information and technology on the processing of fast-growing softwoods, particularly with reference to timber grading, drying and processing plants. We spent time in Shanghai, Nanjing and Beijing and were able to meet some importers of New Zealand radiata pine as well as see a number of processing facilities and research institutes.

The Chinese Economy

When visiting China there are many obvious signs of growth. In Shanghai, the whole city appears to be being rebuilt with numerous piles of rubble spewing from demolished buildings as new housing and public works are constructed. Some of our group commented that it looked like Dresden post bombing and now being rebuilt. The growth rate of China's economy is estimated to be more than four times larger than previously measured (increasing from $US400 billion to $US1700 billion). This makes China the world’s third-largest economy (previously tenth) behind the United States and Japan. The IMF also estimates that the combined economies of China, Hong Kong and Taiwan will be larger than that of the United States in less than 10 years, and predicts that China could well be the world’s largest economy by 2010.

Foreign Investment

Investment by foreigners, wanting a share of this phenomenal growth, is very obvious. Travelling into the city centre from Shanghai airport the Siemens factory (a German company specialising in home appliances and mobile telephones) is very conspicuous. The dominant cars are Volkswagen and Audi who have set up joint ventures in China. The numerous taxis are very obviously of Daihatsu origin. Benneton and Stefanel (both comparatively expensive worldwide clothing chains) are present in both Shanghai and Beijing. It is worth noting that a Benneton store opened in Wellington a number of years ago but subsequently closed. A flashy pink department store in Shanghai’s Nanjing road is a joint venture between a Hong Kong company and the Chinese. We also consumed wine on a number of occasions that was the product of a joint venture with a French company. Chinese are apparently embracing the opportunity of making money, as evidenced by the crowds constantly outside the recently opened Shanghai stock exchange, which has reportedly produced many “overnight” millionaires.

All Chinese seem extremely enthusiastic about the idea of joint ventures with foreign partners. Usually, after exchang-

Gerard P. Horgan
NZ FRI, Rotorua

Tiananmen Square, Beijing.
ing pleasantries, it was not long before the possibility of a joint venture was mentioned. This is seen as a means of not only obtaining foreign exchange but, possibly more importantly from the Chinese point of view, as a way of acquiring technology and expertise.

All this is in stark contrast to the reported situation in the former Soviet Union, which does not seem to have embraced the free market philosophy so wholeheartedly. An important difference between the CIS and China is that there are many wealthy expatriate Chinese, particularly in Taiwan and Hong Kong, who have a vested interest in China becoming an economic power. Despite almost 45 years of a planned economy, many mainland Chinese are welcoming the opportunity to make money.

Some New Zealand companies are also investing there. Lion Breweries will soon be entering joint venture agreements with up to three Chinese breweries. With increasing incomes, the 1.2 billion Chinese are consuming up to 30 per cent more beer each year, and are already the world’s third-largest beer market behind the USA and Germany. The New Zealand Wool and Dairy Boards have also invested considerably and effort in China.

However, where the potential is possibly the greatest for New Zealand, in forestry, the marketing effort has been limited. Just one company has had a representative based permanently in China, and it is currently pursuing the possibility of a joint venture.

As Lindsay Watt pointed out in his recent book, “China New Zealand Towards 2000” Fletcher Challenge has seven of its eight largest markets in Asia and yet has no significant investment there.

Forestry Potential

It has long been recognised that China faces an impending wood shortage. The Chinese Ministry of Forestry predicts that there will be a shortage of 50 million cubic metres per annum between the years 1995 and 2000. They hope to reduce this problem by: increasing utilisation rates both at harvesting and during processing, increasing the use of wood preservatives, finding alternative fuel sources, improving technology to better utilise lower quality wood and wood residues, and increasing the area of fast-growing plantations. However, even they admit that timber imports will be necessary and optimistically predict a rate of 10-15 million cubic metres per annum. World Bank estimates put the figure at 39 million cubic metres.

Supplies from those countries where China has historically sourced its timber are also becoming constrained. Supplies from North America are diminishing and are being increasingly constrained by environmental legislation, South East Asian hardwoods are decreasing and Russian sources are currently viewed as being too unreliable.

Along with dwindling supplies both in China and from traditional sources China’s consumption of timber is likely to increase dramatically as incomes rise, and the population increases. A recent FAO study predicted that sawn timber consumption will increase from the 1990 level of 23.8 million cubic metres to 78.1 million cubic metres in 2010. Likewise, consumption of wood-based panels will increase from 4.4 million cubic metres to 15.0 million cubic metres. This would require an additional 124.6 million cubic metres of round wood.1

New Zealand Forestry Trade

New Zealand’s Forestry Trade with China has increased at a dramatic rate in the last year. The table and graph summarise the situation.

Forestry trade with China is dominated by logs, with significant quantities of wood pulp also being exported. In recent years small quantities of sawn timber and fibreboard have also been exported. It has commonly been believed that sawn timber tariffs were high to China – in the order of 30-40 per cent. However, in reality the rate is just 7.5 per cent. The rate for fibreboard is 30 per cent. Despite the high tariff, it has been possible for some fibreboard to be exported from New Zealand, due to being better quality than the Chinese product.

---

1 Lyons M., May 1993.
Asia Pacific Forest Industries.

---
Future Marketing Prospects

Price is a major factor influencing purchasing decisions for the Chinese. Consequently the bulk of the log trade with China consists of poor quality logs from the upper part of the tree. These tend to be small logs with large knots and high proportions of juvenile, low density wood. For the New Zealand industry China, therefore, provides a useful complement to higher value markets such as Japan.

However, in the medium to long term this could be to the detriment of future marketing of radiata pine in China. Currently there is a perception amongst the Chinese that radiata pine is a poor-quality species with low strength, large knots and prone to sapstain and decay. It is therefore generally only used for packaging. The Forest Owners’ Association and a number of individual companies have run seminars and workshops in an attempt to improve radiata’s image and increase its higher-value end uses. However, because of the poor quality of logs imported by China, and the lack of adequate grading, drying and preservation facilities, radiata has often performed badly. One company who had admitted importing mostly top logs had trialled radiata as door frames. They claimed it had distorted badly, had poor strength and was prone to severe discoloration (sapstain). On further discussion it was established that they had just air dried the timber and had not tested the moisture content. It also appears that the timber was not graded and was most likely from low density top logs. It is not surprising that the performance was less than adequate.

Complaints about the quality of radiata pine were common amongst the importers and processors visited. To a certain extent this is likely to be the Chinese trying to “talk down the price” (the recent increase in log prices was a problem often discussed) though there is definitely a perception that radiata pine is not as good as other softwood species from China or North America or even Russia. Once such opinions have become entrenched it will take some time and effort for them to change (as New Zealand has found in the Japanese market over the last 20 years). Significant opportunities will have been lost if and when China becomes the dominant market in Asia and possibly the world.

High-value Strategy

One New Zealand company is attempting to promote radiata pine by considering a joint venture with a Chinese corporation. The joint venture will aim mostly at transferring technology to maximise the value gained from radiata pine, at the same time as securing a market for New Zealand wood.

If New Zealand is to gain the best possible price for our exports it is important that the Chinese are able to use it in the highest possible value applications. Diminishing supplies from traditional sources such as North America, South East Asia and China itself mean that to a certain extent China is a seller’s market, but it is important that radiata’s potential is realised. If radiata pine is regarded as merely suitable for packaging, alternative sources will be sought and preferred, such as larch from the CIS and, for example, rubberwood from Malaysia, or non-wood alternatives such as steel or concrete. In China we saw pallets manufactured from a combination of concrete and sawdust, and a major timber processor we visited was also a retailer of steel window frames. If New Zealand is to be well positioned in this booming market it is important that poor impressions are not gained at this stage.

If end users are targeted carefully it may be possible to establish a market for sawn timber. Appropriately graded, dried and possibly treated timber could then be remanufactured in China. Sapstain problems associated with the log trade would also be reduced. Currently sawn timber faces severe competition from subsidised Canadian timber entering the market. The Chinese also have a strong desire for self-sufficiency; to produce everything domestically. This partly stems from the belief that they cannot afford to pay international prices and can manufacture products more cheaply in China. However, as the economy is reshaped, and market forces start to have greater influence, the true cost of producing everything in China will be realised. Currently industries are heavily subsidised and in general efficiencies could be greatly improved. A western diplomat is quoted in ‘Time, International’: “The overall view of China seems so positive, and yet every time you look closely at something it’s a mess. There must be some missing link”. Although the price of labour is apparently low, there are many hidden costs. Factories normally supply food, housing and a pension to their employees till the day they die, besides their nominal salaries. It is also common to see four people doing a single person’s job. Industries are also protected by a system of import licences and quotas. However, for sawn timber and plywood, these are due to be removed in 1994.

At present a relatively high tariff of 30 per cent is imposed on fibreboard imports, which precludes significant quantities of MDF being exported from New Zealand. Despite this, small quantities have entered the market since 1991. The market for MDF is likely to increase in the future. Although Chinese domestic production is increasing, the nature of the raw material is such that the MDF produced is of comparatively poor quality. There is often a high bark component, resulting in a dark
colour. New Zealand MDF by comparison is much lighter and better quality.

Alternatively, if it is difficult for processed New Zealand products to penetrate the Chinese market, it should be possible to invest in China itself, and share in some of the impressive growth. A New Zealand contribution via a joint venture could predominantly consist of supplying technology and expertise in processing and marketing. It seems to be a widely held view that China will be a lucrative investment destination; foreign companies invested $US3 billion in China during the first three months of 1993. This was a 167 per cent increase over the same period in 1992. A further $US25 billion was committed by foreign firms for 17,500 separate projects during the first quarter of this year.

The risk of investment in China may seem high. Deng Xiaoping is old and frail and is the key to current political stability. Political moods in China are notoriously volatile. However, most China experts agree that economic reforms have reached a stage that it would be difficult to go back, particularly in the south of China where the economy is becoming increasingly interlinked with those of both Taiwan and Hong Kong.

It could be said that although the risks and effort required in China are significant, the potential rewards are immense.

**André Neumann**

André Neumann works for International Policy, Ministry of Forestry, and recently returned from China.

---

**New Zealand Forestry**

invites you to submit material for inclusion in this publication

We accept:

- articles on a wide variety of forestry topics;
- comment on forestry or Institute of Forestry affairs;
- items on current events;
- letters to the editor;
- items from local sections;
- advertising.

Comments, letters, news items, and Institute news need to be with the Editor at the beginning of the month prior to publication.

---

**RECENT EVENTS**

New Commerce Degree in Forestry at Lincoln University

From next year Lincoln University will offer a three-year B.Comm (For) degree. This degree will be one of a suit of specialised commerce degrees offered at Lincoln – others are already offered in the areas of agriculture, horticulture, tourism and transport. In most commerce degrees students take about 25 to 30% of their subjects outside the commerce area. To obtain this new degree they will take these papers in the area of forestry.

**Complementary**

This course will complement the forestry degrees currently offered in New Zealand in that it will not produce foresters but business graduates with a good understanding of forestry. It is anticipated that there will be a good demand for such people in the rapidly expanding industry and with groups servicing the sector.

Professor Tony Zwart noted that “these are primarily commerce or business graduates, who may or may not end up directly using their forestry background once they enter the workforce”. As an example he noted that the new head of Treasury has a B.Comm (Ag) degree.

To get this degree students will take an introductory forestry subject in their first year, three forestry subjects in their second year and at least two more in their third year. Some of these papers are already being taught; others will be new offerings. At Lincoln students take eight subjects each year.

Lincoln University is currently looking for a new staff member to assist in teach-