ECONOMIC OUTLOOK FOR ASIA'S PULP AND PAPER INDUSTRY*

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THE STATE OF THE MARKET IN ASIA HEAVILY INFLUENCES THE GLOBAL PULP AND PAPER INDUSTRY. CAPACITY, CURRENCY REFORM, ETC., PLAY ESPECIALLY IMPORTANT ROLES

AS A SCIENTIST, I HAVE DIFFICULTY qualifying as an expert on Asia and its complex affairs as they exist today. Comprehending the many events happening in Asia and specific nations is difficult. Interpreting the actions of politicians or the lack of national policies is also difficult. Because I recently returned from six months in Japan, I may have some insight. I will therefore provide a short introduction to the pulp and paper industry in Asia before the economic crisis of today and then go to comments about the crisis on the industry with remarks specific to each country. I will also try to predict what the future will bring. The status of the pulp and paper industry is easy to discuss because data and information are available to provide an understanding about what has been happening. History is obviously much simpler than predicting the future.

Many people have considered Asia as the economic miracle region of the world in the past 10 years. Since pulp and paper relate closely to gross national products, they have paralleled the economic growth and have developed very rapidly. Three major regions of the world produce paper. Pulp and paper in North America is a mature industry. Growth between 1995 and 1996 was low and steady at 2.6%. Europe is a second region. Its growth from 1975 to 1981 was 1.6%. The small number is due to Russia. Its production has been deteriorating. In 1996, the country only produced 40% of their capacity. Considering only western Europe, growth is probably 3%. Growth in the third region, Asia, from 1991 to 1996 was 7.1% annual gross for paper and paperboard. Pulp was higher at 8.5%. Excluding Japan—the second largest producer in the world—the average annual growth is 13.2% for paper and paperboard and 15.9% for pulp. In 1996 for the first time, Asia pulp and paper production finally exceeded that of Europe. By 2000 or 2002, Asia will exceed North America as the largest producer in the world.

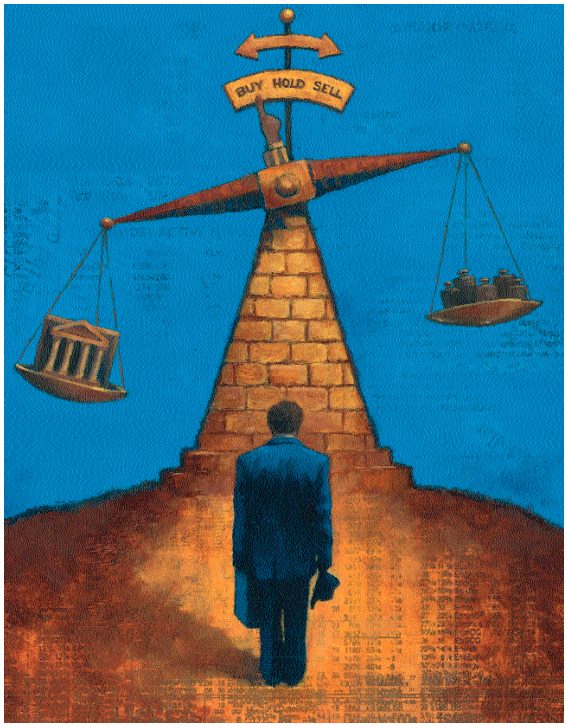
This article is based on Chang's keynote address at the 1998 TAPPI Engineering Conference.

PREDICTIONS

Predictions are that Asia will continue to grow. Except Japan, almost every country in Asia has been enjoying an extremely successful economic growth. Korea, China, Malaysia, the Philippines and most other Asian areas are in the 6%–10% range. The worst performer in Asia is Japan. Consequently, the Food and Agriculture Organization (FAO) of the United Nations has predicted that the Far East will grow at 5% from 1991 to 2020. Looking at the population for Asia, the per

capita consumption is very low compared with North America and Western Europe especially when excluding Japan. Growth in per capita consumption is very high over the past five years for the 3.3 billion population. Every kilogram increase means 3.3 million tons of paper production. This will require about 30 modern mills to accommodate such growth.

Asia obviously should provide growth in the future. The projected growth in production shows that consumption will be almost 110 million tons by 2000. Asia will be a net importer of paper and paper products. Even with expansion and very rapid growth, the consumption will outpace the production until at least the year 2000. Japan produces about 30 million tons of paper, and China follows with 26 million tons using 1996 data. Korea is ninth at 7.7 million tons followed by Indonesia. All the countries of the Asian region are very strong in paper production. Except Indonesia and Korea, they are all net importers of paper. Japan, China especially, and even Taiwan consume more than they produce. They are therefore mass producers. The same is true for pulp. Asia is a major importer of recycled paper.



EXPORTERS AND IMPORTERS

Considering the major exporters and importers in 1995 and 1996 Asia, Taiwan, China, Japan, and South Korea are major importers of pulp. This is due to the short supply of pulp in Asia for many years. Indonesia will soon become a member of the top ten pulp exporters. For paper, the numbers are even more striking. China was importing 2.5 million tons in 1995 and 4.3 million tons in 1996. Including Hong Kong that is now part of China, China is obviously the largest importer of paper in the world. The actual number provided by China for 1996 is 4.5 million tons, and the estimation for 1997 is 5.5 million tons. This was with six months of economic crisis. China still has a production increase requiring 2.5 million tons. All this occurred before the second half of 1997 and the economic crisis in Asia. The Asia Pacific region before the economic crisis was the leader in gross domestic product growth in the world. It was 6%–10% per year especially in China. In the previous five years, the area has enjoyed more than 10% growth before 1996. China is also the leader in the growth of paper demand and the leader in pulp and paper production for printing and writing paper alone. China had a 7.5% annual growth during the 1990's. As a result, many massive expansion plans occurred in Asia. Until 2000, the Asians will still be net importers of paper because the production will not meet the demand.

ECONOMIC CRISIS

How does the present economic crisis in the industry really affect Asian countries? For the entire region, many negative results have occurred. Many projects have been canceled or postponed. Many countries now have weak currencies. This translates to weak buying power from overseas. The countries who require raw materials and spare parts cannot purchase them. This results in shrinkage in the regional market and overcapacity. The banking system in Asia also puts additional pressure on the industry because they will not accept certain currencies. Companies cannot obtain credit or purchase items with a letter of credit. Many foreign investors are becoming involved in the failing industry.

Japan is probably the country that will have the hardest time. Japanese export is limited except high-grade, wood-free printing and coating printing papers that they export to Asian countries. Their pulp and paper products are primarily for domestic use. Japan must import raw material including pulp and chips. From 1995 to 1997, Japanese industry expanded very substantially. This resulted in an overcapacity in the country. The weak domestic demand and very high cost due to devaluation of Japanese currency or weakening of the Japanese yen makes buying pulp and chips from outside much more costly. They will have a difficult time competing with an overcapacity in the region. Dumping is occurring all over Asia. This also makes competition difficult. I think the Japanese pulp and paper industry will experience considerable difficulty in the next few years. The industry will be unable to make any money. Its maturity will allow it to survive.

Korea has even more overcapacity because they are export-oriented. That means many box and paper packaging grades are for export. When that market decreases, the paper market demand also decreases. Korea must import pulp, waste paper, and chips. With the very weak currency today, they cannot buy materials from outside. Their industry has been expanding very rapidly with high leverage. They therefore really require a large infusion of capital. This has already happened with foreign companies taking over.

Indonesia is quite different. They have abundant wood resources. They must export because the domestic market is almost nil. Since the regional market is also shrinking, the main problem for Indonesian industry is not production but capital. They are dumping all over. They can not buy raw material and spare parts for those small mills that rely on imported waste paper. Although they will be hurt, the major companies will probably survive. The political instability and uncertainty in that country will prevent foreign investment. This will cause a major problem requiring postponement of Indonesia's expansion plan.

CHINA

China is really the only exception today. In 1997, China still enjoyed 8.8% national growth in domestic product. Growth in paper production was 4.4%, and the growth in consumption was 7.1%. They also have about US$140 billion in foreign exchange reserves. This puts them in very good shape compared with all Asia. The prediction for 1998 was that they would have about 4%-8% growth in GNP, depending on whom you believe. The Chinese government said 8%, but Time Magazine said 4%. Most people believe it will end up be about 6%-7%. Paper consumption should therefore be somewhere around that range. Production will lag because they must close many mills due to pollution problems. China also has raw material problems. Again, I think production will lag causing an increase in their imports. China now is a dumping ground for the region because of their strong currency. They enjoy purchasing considerable cheap paper today. Their domestic growth in paper production is very weak, and they have a huge domestic market. We should be thankful that China is doing well. Otherwise, we would be feeling considerable more pressure from Asia in North America.



FUTURE

Predicting the future is difficult. Many people agree that the key factors affecting the Asia Pacific area will be Japan's economic reform and recovery and China's continuing economic growth. Japan will probably not recover very quickly. From my visit there, I feel they are dragging their feet. Unless the Japanese people become very impatient in the next election, the situation will probably not change. Japan is not going to be an important factor. The important factor will be China. If China's economic growth continues. Asia will survive.

Since demand in 1997 was 33.1 million tons and production was 27 million tons, imports would be about 5.5 million tons. This is the projection for China until 2010. China should reach 48 million tons in production by 2010. The production estimated by the Chinese themselves is more conservative. They estimate 40–45 million tons in the future with demand of 50–60 million tons. These numbers mean China will continue to be the largest importer of paper in the world. I personally do not see how the production can meet demand if the economic growth continues. Especially now, they are enjoying very inexpensive paper going into China. Recovery will probably take at least 2–3 years and maybe longer. Since China will be the largest importer of paper for the future, the region will continue to have excess capacity. Two or more years after the economic crisis is over will be necessary to absorb all the capacity. **TJ**

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