

# Slowdown in China – a threat for Southeast Asian tissue markets?



# Is the slowdown in China a threat for the Southeast Asian tissue market?

The Southeast Asian region is among the fastest growing tissue markets worldwide, but tissue production in the region grows even faster

## THE ASEAN TISSUE MARKET - A GROWTH REGION

The tissue market in the Association of East Asian Nations (ASEAN) totals some 760,000 tonnes per annum (t/a), a figure which reaches over 1 million t/a when you add Taiwan and Hong Kong. Indonesia is the largest individual tissue market at some 230,000 t/a, followed by Malaysia, Thailand and Vietnam. The Taiwanese market, often considered a de facto Southeast Asian market, is a little larger than the Indonesian market at 240,000 t/a.

Tissue demand in the ASEAN countries has grown at an average of 6.5%, putting it on a par with China as among the fastest growth regions in the world. Vietnam and Indonesia account for the fastest growth rates in the region, while Taiwan and Hong Kong are more mature and are growing at a slower rate.

Tissue consumption per capita is still low: 1-2 kg/capita in Indonesia, Vietnam, and Thailand, around 5-6 kg/capita in Malaysia and 10 kg/capita in Taiwan. These statistics are below what one would expect given ASEAN GDP per capita levels. GDP growth in many of the Southeast Asian countries is strong at 6-7% p/a. Growth in tissue demand follows the economic growth patterns, but has even stronger growth potential, due to expanding supply and greater availability of products, coupled with the currently very low per capita consumption base.

REGIONAL DEMAND & PRODUCTION



Indonesia exports almost 400,000 t/a tissue to neighboring Southeast Asian countries. Exports are mainly in the form of Jumbo Reels, but finished products are also exported. Indonesia competes with Chinese exports to the region.

Within Southeast Asia the biggest tissue importers from China are Hong Kong, Taiwan, Philippines and Singapore. In Hong Kong where there is no local paper production, Chinese imports account for almost 90% of the market. Imports here are mainly finished products. In other Southeast Asian markets imports from China are only marginal.

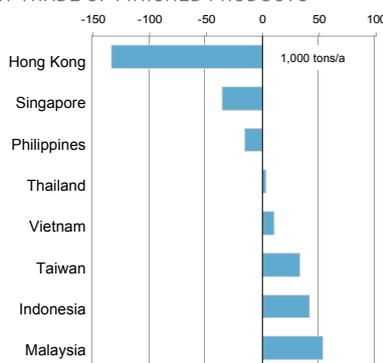
## THE CHINA TISSUE MARKET – SLOWER GROWTH AND THE ‘NEW NORMAL’

China's tissue market has grown at 8% p/a over the last decade and China has become the second largest tissue market in the world

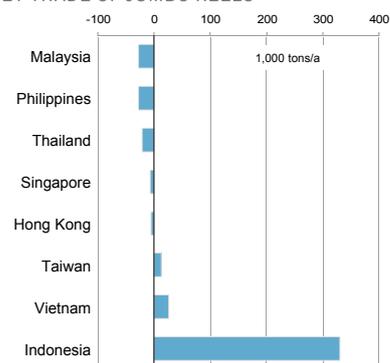
after North America. Following brisk market growth China has increased capacity rapidly. Tissue capacity doubled from 2008 to 2014, as tissue became a hot investment item.

All indications suggest that the Chinese economy is heading for a protracted period of slower growth. After decades of double-digit growth, the economy has been slowing in recent years and grew at 7% during the first half of 2015. In August China reported that it's Purchasing Managers' Index (PMI), an indicator of manufacturing activity and a key measure of economic health, fell to 47%, a six-year low. Recent data suggests the country may not meet its 7% per cent growth target for this year. While the Chinese economy is unlikely to crash anytime soon, critics state that the country faces the prospect of being the next major power to suffer an economic collapse.

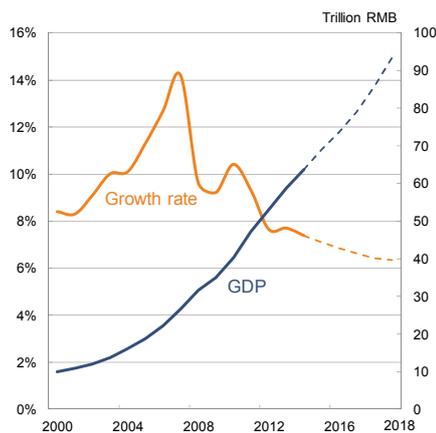
NET TRADE OF FINISHED PRODUCTS



NET TRADE OF JUMBO REELS



CHINA GDP DEVELOPMENT



The government argues however, that the country's current situation, which it has termed the 'new normal' is a natural result of its transition from an export and investment-led economic model, to one based on domestic consumption and the services industry. In the words of China's president, Xi Jinping, China has moved from "speed-based growth to quality-based growth." If China successfully manages this transition, China bulls argue, the country will reach the next stage of development and avoid the much-dreaded middle income trap.

Production has increased wildly due to the vicious competition between local governments. In order to achieve high GDP growth, local governments have tried to attract new manufacturing facilities by offering financial subsidies such as tax holidays and rent-free use of government land. Furthermore, local governments help firms to obtain cheap loans from state-owned banks. As a result industrial overcapacity has become a time bomb that threatens the Chinese economy because it has led companies to take on debt to repay loans.

Overcapacity is a serious problem in the tissue industry. The combination of economic slowdown, excess production in manufacturing and rising debts at the macroeconomic level may cause a massive wave of closures and bad loans.



This is slowing down the tissue growth rate, which is expected to total 5.6% p/a by 2020.

In the longer term China's capex plans are still ambitious, triggering the closure of old and uncompetitive capacity, and increasing exports. Consequently the tissue capacity in China is moving inland from the coast and the largest companies now focus on exports.

#### THE SLOWDOWN IN CHINA IS ONLY A TEMPORARY THREAT

The slowdown in the Chinese economy will undoubtedly cause at least temporary pressure on the Southeast Asian tissues markets, as overcapacity spills out of the country. The impact however is likely to be greater in some countries than others, particularly in Indonesia which competes with Chinese exports to the region.

The main importing markets are likely to be less affected. Hong Kong and Singapore, for example, do not have local tissue production and are therefore large net importers. In the Philippines also, local production is weak in relation to the size of the market.

However, in the long-term the Chinese economic transition away from investment and towards domestic consumption and "quality based growth" may on the contrary ease the overcapacity situation in the region.

As Chinese consumers' purchasing power increases, the Chinese economic turmoil is not expected to impact the Southeast Asian tissue market too greatly. The trade flows are towards rather than from China, especially in the case of Indonesia. The export pressure is expected to be short term and the threat of investing in overcapacity is mitigated by the slowdown and delay to planned investments.

In addition, China has prepared a production capacity cooperation mechanism with the ASEAN Economic Community (AEC) through the "Maritime Silk Road" initiative. This initiative is part of President Xi Jinping's "One Belt, One Road" policy, which aims to develop new trading routes and strengthen economic, cultural and political ties with the 65 countries along the entire Silk Road (both the land and maritime routes). The initiative is likely to improve distribution and transportation systems, to the benefit of the region's tissue markets.

To paraphrase Mark Twain therefore, the reports of China's death have been greatly exaggerated. While a slowdown is inevitable, a full economic collapse is unlikely. For Southeast Asian tissue markets, the transition to a more balanced Chinese economic model and the continued rise of the middle class are likely to prove beneficial.

# About the Pöyry Point of View

Staying on top of your game means keeping up with the latest thinking, trends and developments. We know that this can sometimes be tough as the pace of change continues...

At Pöyry, we encourage our global network of experts to actively contribute to the debate - generating fresh insight and challenging the status quo. The Pöyry Point of View is our practical, accessible and issues-based approach to sharing our latest thinking.

We invite you to take a look – please let us know your thoughts.

Pöyry has a global office network - please visit [www.poyry.com/contacts](http://www.poyry.com/contacts) for your nearest office.

#### Disclaimer

Pöyry reserves all rights to this publication. No part of this publication may be reproduced or used in any form without the prior written consent of Pöyry. This publication is partly based on information that is not within Pöyry's control. Pöyry does not make any representation or warranty, expressed or implied, as to the accuracy or completeness of the information contained in this publication. Pöyry expressly disclaims any and all liability arising out of or relating to the use of this publication.

This publication may contain projections which are based on assumptions subjected to uncertainties and contingencies. Because of the subjective judgments and inherent uncertainties of projections, and because events frequently do not occur as expected, there can be no assurance that the projections contained herein will be realized and actual results may be different from projected results. Hence the projections supplied are not to be regarded as firm predictions of the future, but rather as illustrations of what might happen.

[www.poyry.com](http://www.poyry.com)

Pöyry is an international consulting and engineering company. We serve clients globally across the energy and industrial sectors and provide local services in our core markets. We deliver management consulting and engineering services, underpinned by strong project implementation capability and expertise. Our focus sectors are power generation, transmission & distribution, forest industry, chemicals & biorefining, mining & metals, transportation and water. Pöyry has an extensive local office network employing about 6,000 experts.

## Join the debate

[www.linkedin.com/  
company/Poyry](http://www.linkedin.com/company/Poyry)



[www.youtube.com/  
PoyryPlc](http://www.youtube.com/PoyryPlc)



[@PoyryPlc](https://twitter.com/PoyryPlc)  
[#PoyryPOV](https://twitter.com/PoyryPOV)



[www.facebook.com/  
PoyryPlc](http://www.facebook.com/PoyryPlc)

