

Will India Become the New Growth Driver for South East Asian MDF Producers?

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As an MDF producer, we are constantly looking for new markets and opportunities for growth. This task has become even more critical in recent years due to the current challenges the industry faces which include; Over Capacity, Raw Material Shortages, US vs China Trade Dispute, Middle East Conflicts and Trade Protectionism. My main focus as ever, will be with the specific challenges faced by South East Asian producers of MDF.

In recent years we have faced three main challenges: -

Raw material shortages. This will continue to be a problem as the commercial viability of plantation Rubber Trees becomes less profitable than other agricultural cash crops such as Oil Palm. The overall decline in the planted area of Rubber Trees especially in Malaysia, will result in the short supply of our traditional source of raw materials. This will result in increasing costs the manufacture of MDF.

Trade Protectionism. An increasingly worrying trend even before the trade dispute between the US and China. The South Koreans started anti-dumping on MDF decades ago and have more recently applied dumping duties on plywood. India followed with dumping duties on MDF. More recently Vietnam has indicated its intention of instigating an Anti-Dumping Petition against Thai and Malaysian MDF. Trade disputes like these only distort the market and protect a favoured few industrialists with powerful lobbies. The ultimate losers are the consumers that pay higher prices. At best, protectionist duties will only delay the inevitable demise of inefficient industries.

Over Capacity. The subject of my article published in the Mar / Apr 2019 edition of this magazine. In summary, it is estimated that the production capacity of MDF in South East Asia is approximately 6.5 million cubic meters per annum, consumption within this region is estimated as being less than 3 million cubic meters. Even as more furniture production relocates from China to Vietnam, Malaysia and Indonesia, the rate of increase in consumption will take many years to attain the volumes of the current capacity. This means South East Asian producers continue to be dependent on the export market. Traditionally, South East Asian producers relied on the Middle East export market including Iran. Recently, we have seen the demand in this key market dropping due to geopolitical issues.

I personally have been fascinated by the diverse, exotic, resourceful and 'Incredible India' since childhood and as a company, we have been fortunate enough to have been doing business in this country for very many years. As a businessman, I am often amazed but at the same time, frustrated and disappointed with this market. As traditional export markets become more challenging, I, like other entrepreneurs, are looking for the 'next growth' market, and India should in theory fit that criteria. With this in mind, I decided to probe a bit deeper and to start to analyse the wood panel business in India.

Key Indian statistics include: -

- The 3rd largest economy by Purchasing Power Parity (PPP).
- The 7th largest economy by nominal Gross Domestic Product (GDP).
- The fastest growing major economy with reported GDP growth of 7%, surpassing even China.
- Population of 1.34 billion people still growing at 1.13% annually.
- Demographically more than 50% of the population is below the age of 25.

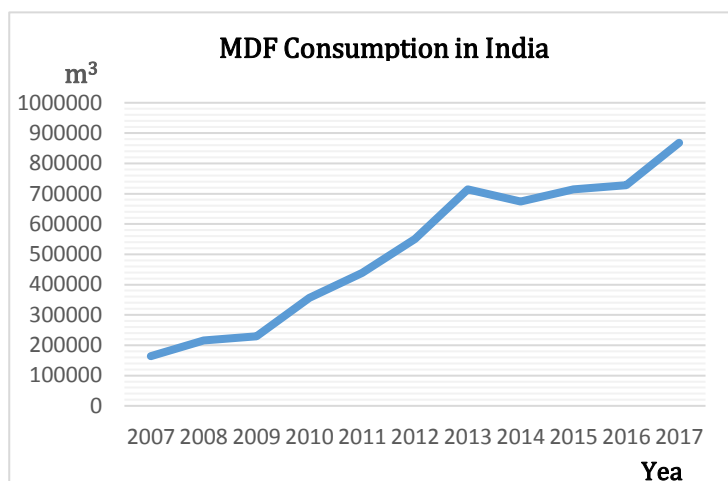
Based on the above figures one would be forgiven to think that the Indian MDF market would be equally impressive. I, for one, was very intrigued to find out the facts. It was very challenging to extract accurate data and the most recent figures I could find were for 2017.

To my absolute surprise, the annual consumption of MDF for the whole of India reported in 2017 was only 868,000 cubic meters. This, compared to the annual consumption of MDF in China for the comparable period of 2017, being 55million cubic meters, the latter is a staggering sixty-three times more.

My next task was to try and ascertain why there was such a huge difference in the usage of MDF in China and India where both countries have very large populations and a rapidly developing Gross Domestic Product (GDP).

I am not an economic expert and the opinions expressed here are purely my personal observations on this matter. When analysing the details, I found the following indications; -

- Prior to the imposition of Anti-Dumping duties, the growth of MDF consumption was averaging about 30% per annum and the market share was equally held between domestic producers and imported MDF. Once Anti-Dumping duties were imposed the growth in consumption dropped to about 5% per annum and the market share of domestic suppliers increased to 70% and the imported MDF share dropped to 30%.
- More surprisingly, if we analyse the Market Value of MDF during this same period, prior to the Anti-Dumping, the revenue increased year on year by 27% which is very close to the volume growth. After the duties were imposed, this USD value dropped to only a 1.4% increase year on year. This demonstrated a far lower increase in the value of MDF traded than the growth in volume.
- From the data source, the reported Actual Production of domestic MDF in India has only increased by approximately 100,000 cubic meters in the years between 2013 and 2017. As new capacity greater than this was installed during this period, it would indicate that 'other' factors are limiting actual production. Those other limiting factors could include issues associated with infrastructure (electricity) and raw material availability. The author also notes that significant 'new' capacities have been installed since 2017 and continues to be installed by MDF producers in India. It would be interesting to know how Actual Production compares to Installed Capacity for Indian manufacturers of MDF?



India has other challenges and its economy is essentially an inward looking economy epitomised by the "Make In India" slogan. The new government has many challenges that need to be addressed. I think on a whole it has made huge strides in making those improvements, but still has some way to go. For example; -

- Per capita GDP is only USD7,874 which is ranked 119th globally.
- Literacy rates are only 74% with agriculture employing 59% of the workforce and manufacturing only 22%. The unemployment rate is still considered high.
- Only 61% of the registered roads are paved leading to inefficiencies and high logistical costs.
- India's balance of payment is Negative with the largest imports being Crude Oil 37%, Electronics 7% and Gold 6%.
- A recent Harvard University study has claimed that India's GDP has been miscalculated and real GDP growth has only been about 4% p.a.

If we analyse the current (2013 to 2017) imports of MDF into India, we see that Vietnam dominates at 53% which is probably not surprising as until recently, it was excluded from the Anti-Dumping duties. Other major importers included Thailand 17%, Indonesia 15%, Malaysia 9% and Sri Lanka 6%. Indian exports of MDF were not significant but included Sri Lanka, Iran, Nepal and Tanzania.

In conclusion, India will not become the new growth market for South East Asian MDF producers in the short term. Demand for construction and consumer items will ultimately depend on how successfully India will implement its "Housing For All" initiative which includes the planning for 100 Smart Cities and allowing Foreign Direct Investment for township development.

India will ultimately need much more MDF and Particleboard. The production and procurement of raw materials for the traditionally preferred Plywood will become more and more challenging and costly both in dollar terms and in terms of environmental degradation. It is estimated that the current plywood consumption which accounts for 90% of the wooden panel market, could be further threatened by new regulations as the tax structure is squeezing out the 'unorganised players' that account for a significant production volume. When furniture giants such as Ikea and Pepperfry enter the Indian retail space – does India want to import expensive furniture? Or does it want to develop its furniture industry and become an efficient producer in its own right. The creation of a vibrant furniture industry would be far more valuable than any protectionism on Indian panel imports. I still believe that the Indian market for MDF could be significantly larger than the current market allows – just look at the usage comparison between India and China! To realise India's potential, it must abandon its protectionist and closed market policies. India will need to abolish its Anti-Dumping duties, reduce its general import duties for intermediate products such as MDF. The Indian economy will only benefit by allowing Indian manufacturers and businesses to concentrate on value addition production of products like furniture, joinery and construction materials. If this is allowed to happen within a short period of time, business efficiencies will improve and manufacturers will become globally competitive, which would bode very well for a positive balance of payments in the future.