



Government Encouragement of Foreign Investment in China's Chemical Industry: Which Chemical Products and Segments Are Affected?

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On July 31, 2020, the National Development and Reform Commission and the Ministry of Commerce published a draft of the "Catalogue of Industries Encouraging Foreign Investment (2020 Edition)" and asked for comments until Aug 30, 2020. The catalogue includes 34 categories related to the chemical industry. What are these categories, why are they included, and what does it mean for potential foreign investors?

The draft groups the 34 categories into 4 segments:

Petroleum processing, coking and nuclear fuel processing (1 category)

Chemical raw materials and products (23 categories)

Chemical fibers (5 categories)

Rubber and plastics (5 categories)

The first segment, "petroleum processing" etc., covers some methods of oil processing and

is of less interest to the downstream chemical industry.

The second segment, "chemical raw materials and products" is by far the biggest segment, accounting for two thirds of all chemical categories.

A strong focus within this segment is on innovative materials with properties superior to the existing ones. Examples include the categories



High-performance fluorine resins	New catalysts	PEN, production of functional polyesters (e.g.,
High-performance coatings	Another important thrust is to reduce China's	biodegradable, low-melting, non-crystalline,
New fertilizers	dependency on imports of chemical materials,	flame retardant, antibacterial).
New forestry chemicals	most of which are at the higher end of the value	The fourth segment, "rubber and plastics",
New pesticides	scale. Categories for which this applies include	is strongly focused on environmental aspects
New catalysts and other fine chemicals	Production of engineering plastics (e.g., PBT,	of these products. Relevant categories
Organic polymer materials (e.g., aircraft	PA, LC)	include the development of biodegradable
skin coatings, lithium ion battery separator,	Production of high-purity electronic grade	plastics, the recycling of waste plastics, and
nanocoating materials, self-repairing surface	hydrofluoric acid and hydrogen fluoride	environmentally friendly agricultural films.
treatment etc.)	Production of high-end polyolefins (while	The innovation aspect is covered in a category
This partly overlaps with materials with	China has increasing capacity for standard	promoting new technologies for flexible
superior environmental properties and	polyolefins, the country still imports many of	packaging.
materials improving the environmental	the more sophisticated grades)	How does the 2020 draft catalogue compare
impact of chemical processes, as indicated by	Specialty rubbers	with the 2019 version? In fact, the differences
categories such as	Production of high-purity industrial gases	are relatively small. Most categories have
Biological pesticides	including electronic gases	remained unchanged, none have been
Membranes for environmental protection	Production of fiber raw materials such as	removed, and two have been added. These
Low-volatility inks	nylon 66 salt and 1,3-propanediol	are "Production of Polyethylene Polyamine
High-solid coatings	The third segment, "chemical fibers",	Products" in the chemical raw materials
Propylene oxide by hydrogen peroxide	primarily contains categories that similarly	section and "Development, Production and
oxidation	focus on innovation, sustainability and high-	Application of Silicone Products" in the rubber
Utilization and treatment of waste gas and	performance materials. Examples include	section. Polyethylene polyamines are primarily
liquid	the production of high-performance fibers	used as hardeners in epoxy resins but also in
Hydrogen fuel production	(e.g., carbon fiber, aramid, UHMWPE, PPS),	the production of ion exchange resins, as crude
The catalogue also promotes the	the use of renewable resources to produce	oil demulsifier, additive for drilling fluids,
development of a stronger fine and specialty	biomass fibers (e.g., Lyocell, PLA, PHA) and	and as a raw material for corrosion inhibitors,
chemicals segment in China. Categories	the production of new polyamides such as	amino resins, varnishes, disinfectants and
include	the different nylon varieties nylon 11, nylon	detergents. Presumably this broad application
Production of natural and synthetic	12, nylon 1414, high-temperature nylon.	spectrum merits their inclusion in the 2020
fragrances	Innovative polyesters and their applications	version of the catalogue. Similarly, silicone
Fine chemicals including paper chemicals,	play a prominent role in this segment, e.g.,	rubber is used in a large variety of applications
adhesives, sealants, oilfield additives	production of new polyesters such as PTT and	such as automotive, cooking products, apparel,



sportswear, electronics and life science applications (including respiratory masks, which presumably due to Covid-19 feature much more prominently in people's thinking).

The limited number of changes in the catalogue is consistent with its representation of a long-term government strategy of shaping the chemical industry. Setting up capacities in each of the categories is a process that will take several years or even decades – any massive shifts from year to year would therefore be counterproductive. This also means that investors can expect the currently promoted industries to stay in favor at least in the medium term, if not longer.

In summary, China's catalogue of promoted areas for foreign chemical investment is in line with China's broader industrial policy of phasing out backwards, heavily polluting industries, and promoting investment in high-tech areas that move China up in the global value chain. In addition, self-sufficiency is regarded as a goal on its own. In the chemical

area, this results in four basic subjects for investment promotion:

Chemicals and production processes with improved environmental balance

Chemicals and materials with improved functional properties

Chemicals for which China currently strongly depends on imports

Chemicals which are associated with higher value creation (this of course partly overlaps with some of the other areas, but may also be a goal on its own, e.g., in fragrances)

What does the catalogue mean for foreign chemical investors in China? Investment in the areas listed in the catalogue is supported by a variety of incentives. These incentives include customs duty exemptions for imported self-use equipment and preferential land transfer fees (no lower than 70% of the corresponding lowest national standard price for industrial-used land). Local governments may also offer tax incentives and streamlined approval procedures. In addition, inclusion in the list of promoted

categories may be vital to secure space in a high-quality chemical park. For example, Shanghai's chemical industry park (SCIP) has become extremely selective in choosing new tenants but allowed Invista to build an adiponitrile plant in the park, likely because adiponitrile is among the chemicals listed in the catalogue (with a minimum production capacity of 50 kt, which is easily surpassed by Invista's capacity of 400 kt).

Foreign investors may therefore want to familiarize themselves with the catalogue and try to match it with their company strategy. Any China investment aligned with the policy outlined in the catalogue will certainly find a warm response by Chinese authorities. And while the catalogue is focused on greenfield investments in China, it may also have an impact on M&A activity. Foreign companies acquiring domestic players in the areas listed in the catalogue with the promise of upgrading the technology and portfolio of their targets will have a powerful argument in their favor. ■

