Complementary Capabilities? Opportunities for Chemicals Trade between China and India

By Dr. Kai Pflug, Management Consulting – Chemicals, Shanghai/Hong Kong (kai.pflug@mc-chemicals.com),
Dhanpat Raj Dhariwal, Founder & CEO – "Vision 2025-Outlook Change",
Jaipur, Rajasthan, India (drdhariwal@rediffmail.com)

It has already been pointed out in an earlier paper (CCR Issue 23 of 2014) that India represents an opportunity for Chinese chemical companies. However, this is not a one-way street. China-based users of chemicals also increasingly seek to source specific chemicals in India. In addition, only some out of the many chemicals and chemicals segments will offer potential for value creation by trade between the two countries. Therefore a more specific segment analysis based on competitive advantages of both countries is required.

At first sight, the picture seems to be deceptively clear. According to CEFIC (2013) India has a 2% share of the global chemicals market while China's is 33%. This imbalance persists even after taking into account the GDP difference between both countries. India's share of the global chemicals market is only about 35% of its share of global GDP while China's is 200%. As a result, much more attention has been paid to Chinese exports of chemicals to India than in the other direction.

Indeed, there are several chemical segments in which Chinese exports play a substantial role in the Indian market. Some examples:

* India is consistently among the top 10 export destinations for pesticides from China, with key products including Cartap, Carbendazim, Triazophos, Pretilachlor, Imidacloprid, Buprofezin, Atrazine, Acetamiprid, Carbofuran and Diuron (maybe add some rationale why China is superior or why India cannot/does not produce these chemicals).

* India also receives inorganic pigments such as titanium dioxide from China. While China's titanium dioxide industry is not yet fully on the leading global quality level, there is overcapacity for lower grades and thus pressure on Chinese producers to export these materials at low prices. Similarly, iron oxide pigments are also exported to India in substantial quantities.

* For organic color pigments, China is also by far the most important exporter to India, accounting for more than 40% of India's total imports.

* China is an important exporter of phosphate fertilizer to India, which is the largest global import market. China has just reduced the tax burden on phosphate fertilizer exports, which will presumably lead to a further increase in exports to India.

* Currently, India imports over 80%-85% of active pharmaceutical ingredients (APIs) from China. Though India used to be a major source of low-cost, good quality APIs, China created huge capacities and now globally dominates the market. Landed prices of APIs imported from China are 15%-20% lower than those produced in India. Interestingly, however, India overall is a huge net exporter of pharmaceuticals (the cost of APIs only accounts for about 10% of the total Indian pharma market).

* In addition, there are some specialty chemicals segments in which by now most of the global production is being done in China, e.g., vitamins. Naturally, China's global exports in such areas include exports to India.

However, as pointed out initially, we also increasingly hear about Chinese chemicals companies seeking to import chemicals from India. Often the main driver is the low price for some of these chemicals in India, though in segments such as pharmaceutical active ingredients other reasons also play a role. Examples for such products and segments:

* India exports many essential oils and aroma chemicals to China – materials that are mostly based on natural resources. Menthol and castor oil are chemicals for which India is particularly strong.

* Lubricant additives are also produced in India (partly in plants of global players such as Lubrizol and Afton) and exported to India.

* Dyes are an interesting case. About half of India's imported dyestuff comes from China – India is a net exporter of reactive dyes but relies on China for imports of disperse dyes. Similarly, in leather chemicals, there is substantial overlap in import and export between both countries, with individual companies targeting highly specific niches.

In summary, China's more developed chemical industry focuses on large-scale synthetic production of chemicals primarily defined by specification. In contrast, India has an edge in some naturally sourced chemicals as well as in some smaller and more formulation oriented segments. This second group may become larger in the future as some of the key customer industries using such formulations (e.g., the textile industry) will probably seek to shift at least part of their production from China to India and other countries with lower labor costs.

In addition, opportunities do not only arise for companies producing chemicals in China or India, but also for those companies that can facilitate the trade. Currently, this can be time consuming and costly due to the amount of paperwork required and customs duties imposed. Therefore companies with limited experience and/or limited focus on the respective other country leave the organization of the trade to their customers, which severely limits the extent to which they can penetrate the foreign market, though it obviously reduces internal complexity. The most dedicated solution obviously is to open an office abroad; however, this is expensive and does not in itself guarantee understanding the foreign market. A better solution may be the use of free trade zones. For example, Indian logistics provider Seaways runs such a free trade zone in Chennai, allowing Chinese chemical companies to store their goods in India but only having to pay import duties once the goods leave from the free trade zone.

Opportunities also arise for third parties such as consultancies. They can help chemical companies in both countries close the current knowledge gaps related to competitive situation, specific market opportunities and business practices – a severe problem particularly for smaller producers.

It is to be expected that the popularity of such services in both countries will increase as cooperation and trade in chemicals between China and India intensifies. It could even lead to work split on a much broader scale based on specific qualifications in each country – for example, a Chinese chemical company with a global reach could well locate lower-level sales and support functions in India, where the level of spoken English presumably will remain superior.

In the longer term, the growing importance of both countries for the global economy and thus for each other will certainly merit more direct engagement of chemical companies. Steps to be considered at this stage include the opening sales offices and provision of technical service in the other country, direct investment (for example in local production capacity) and possibly even locally adapted product development. It is a fairly safe prediction that in a decade, no Indian or Chinese chemical company with the claim of having a global presence will still have the luxury of not having a full presence in the respective other country. ■

AkzoNobel Decorative Paints Launches JD.com Self-Operated Services for Dulux

On June 10, AkzoNobel Decorative Paints announced the launch of JD.com self-operated services for Dulux. It would enable AkzoNobel Deco China to further optimize e-commerce services for a better online shopping experience.

The cooperation with JD.com to provide self-operated services for Dulux improves the delivery speed of Dulux products on JD.com substantially, ensuring both high-quality goods and quick delivery service.

"We are facing significant challenges and opportunities in e-commerce channels and committed to adjusting the pace of development. The close collaboration with JD.com to optimize consumers' shopping experience and to introduce a unique series of products will boost the e-commerce business of AkzoNobel Decorative Paints. We are all well-prepared to lead and promote the sustainable development of the paints and coating industry in e-commerce," stated George King, Emerging Channels Director of AkzoNobel Decorative Paints China.

"Our Human Cities initiative is advocating urban development with a human perspective while meeting the requirements of infrastructure and functionality. As e-commerce plays an important role in the new form of urbanization to accelerate the transformation of industrial and economic upgrading, AkzoNobel would keep up with the development trend of e-commerce to build a best e-commerce service system to comply with urbanization," said Dr. Lin Liangqi, President of AkzoNobel China and Managing Director of Decorative Paints China and North Asia. ■