

China Experience From Those Who Know

The ECMSA event on March 15th in Brussels, “**Pros, Cons and Experiences of the China Investment Boom**” provided a significant industry audience with genuine insight into the issues facing European chemical suppliers when engaging with the Chinese market. Told by those with hands on experience of working in China, there was sound advice on the options and key components of a successful strategy, balanced against the every day obstacles encountered in developing participation. The speakers also offered perspective on the myths that have developed around the Chinese experience, most notably around the competitive threat presented by Chinese manufacturing and the future prognosis for market growth and profitability.

René van Sloten, Director of International Trade and Competitiveness at CEFIC took a pragmatic approach to the rise of China as a chemical manufacturing heavyweight. Competition was in itself beneficial and China will only become a threat if European producers fail to compete on their terms, with innovation stressed as key to a winning strategy. In the rush to participate, there is also a danger that European producers will fail to see that “hyperactivity” around China may blind them to better opportunities in other low cost countries. **Dr Udo Jung and Ralf Spettmann of Boston Consulting Group** gave a compelling argument for an in-depth understanding of value chains and cost competitiveness before making investment decisions – the results can sometimes be surprising! This point was emphasised when **Dr Ulrich Koemm** gave concrete examples of LANXESS own experience of developing specialty chemicals businesses in China, showing a variety of business models for each market, but with each under-pinned by a proven case for profitability as a pre-requisite to going ahead.

We can learn a great deal from the experience of our customers and there were accounts from both ends of the scale. **Johannes Wyrwoll from Volkswagen Group China** described its long and successful history in the Chinese automotive sector, but there were also some lessons for upstream suppliers. Recent events point to a slowing of growth and the early signs of cyclicity in China. Yet more sobering, over-capacity in the sector is leading to falling prices for car manufacturers, with cost pressure already being passed back down the value chain. The honeymoon – if there ever was one? – is officially over. **Andreas Peter, Managing Director of Peter Lacke**, a German paint manufacturer then gave an inspiring example of how small enterprises (Peter Lacke has sales of just €30 million) can successfully and quite rapidly rise to the challenge of supplying and then producing in China. Dr Peter gave sound and practical advice on how to tackle market entry and shared much what worked well and less well. By contrast, **Dr Bernd Blumenberg, President of the BASF-YPC Joint Venture** in Nanjing gave an extensive overview of BASF’s road to building an integrated petrochemicals site from ground zero with good choice of partners and a patient approach being the key lessons. BASF feels that it has exploded the myth that a “European-style” plant cannot be built quickly and efficiently in China.

There is no substitute for hands on experience and three contrasting speakers added more of this flavour. **Dr Björn Etgen, head of Beiten Burkhardt’s China Practice** gave a succinct appraisal of the legal background to trade and investment conditions in China. As well as insight on recent changes in the law, the importance of protecting intellectual property and the issues around setting up local R&D facilities

were presented. Although **Philippe Vigoreaux, Senior Partner with DistriConsult** dealt principally with the complexities of distribution options for chemicals and polymers in China, his paper was spiced with visual examples of life on the streets. Few will forget his video of a drum of toxic chemicals being transported through a crowded thorough-fare on the back of a push-bike, showing the current environment of “anything goes”. Last, but not least, **Hans-Werner Seidel of IKB Deutsche Industriebank AG** provided a witty overview of the “human” side of doing business in China, giving sound advice on how Chinese business works. There was good advice on how to tackle live sea urchins at a business banquet, but not least it reminded us that, in the end, we are dealing with people as much as with global market concepts.