China's Belt and Road Initiative (BRI) and the Chemical Industry

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The Belt and Road Initiative (BRI), also called the One Belt, One Road policy (OBOR), is an initiative launched by the Chinese government in 2013. The core idea is to improve infrastructure, cooperation and trade between China and countries in Asia, Africa and Europe. This is to happen along two major corridors – one on land which essentially follows old silk trading routes (the "Belt"), and one across the sea following old Chinese maritime trading routes (the "Road", in a somewhat confusing term).

As with any such initiative, the first question to ask may be whether it is just a slogan or has some real relevance. So far, the massive investment of China into the BRI (about US$150 billion per year over a five-year period) and the high emphasis placed on the initiative in China's policy indicate that BRI is indeed an initiative with a substantial impact on the real world.

The massively increased rail links between China and Europe – with new connections started almost every month – point in the same direction. For example, the number of trains between Chongqing (China) and Duisburg (Germany) has increased from 3 per week in 2014 to 25 per week in 2017, and recently added destinations in Europe include Hamburg (Germany) and Amsterdam (Netherlands). Train transportation is much cheaper than air freight and much faster than shipping, allowing more intensive long-distance cooperation.

Next, the question is what impact BRI may have for the chemical industry:

- The initiative may shift patterns of chemical trade, increasing trade among those countries included in the infrastructure corridors. This may be particularly relevant at a time when trade between China and the US is already under threat from growing protectionism, thus further boosting trade within Eurasia. As a consequence, chemical companies based either in China or Eurasia may to some extent benefit from BRI.
- Another differentiator will be whether companies are Chinese or foreign-owned. According to the Economist, 86% of BRI projects have Chinese contractors, 27% have ones from the specific project location and only 18% have contractors of foreign origin (Economist). So Chinese chemical companies are likely to benefit more than foreign ones.
- Different chemical segments will be affected to a different extent. Given the focus of the BRI on infrastructure creation and taking into account that most of the countries covered in the initiative are not yet highly developed, segments such as basic commodity chemicals and chemicals required for construction are likely to benefit more from the BRI than specialty chemicals.
- In particular, the initiative may lead to increased cooperation between petrochemical and chemical companies in China and in the Middle East. For petrochemical products that are not particularly high-end, the combination of raw materials from the Middle East and the production capacity and consumer markets of China may be sufficient, with less involvement of Western chemical companies as their traditional role as providers of knowledge and innovation matters less for this type of chemicals.

A fairly large number of major Chinese chemical companies is already working on BRI-related projects. Most of them – as already observed above – are in the area of petrochemicals and commodity plastics.

In March 2017, Sinopec and SABIC agreed on studying joint projects in Saudi Arabia and China. Such a cooperation may include a joint venture with Chinese investment in Saudi Arabia, which would add a new dimension to the existing joint venture in Tianjin and strengthen cooperation within the area covered by the BRI. In November 2017, a further step towards realization of such an investment was made with the signing of an MOU between Sinochem and SABIC to develop a fully integrated crude oil to chemicals site in Saudi Arabia. Planned annual production capacity is 9 million tons of chemicals and base oils, with operations expected to start in 2025.

Local competitor PetroChina has indicated a similar preference for investment in areas covered by the BRI initiative. In March 2018, PetroChina chairman Wang Yilin stated "We will focus more on acquisition opportunities in nations covered by the initiative as part of our globalization strategy", and indeed PetroChina has just won a bid for 10% stakes in two projects off the coast of Abu Dhabi, an investment of more than US$1 billion.

Sinochem also intends to leverage the BRI in its pursuit of internationalization. In a statement to the South China Morning Post, chairman Ning Gaoning stated that "In the future, we will stick to internationalization and strive to become a multinational company which is competitive in the world market, taking advantage of the Belt and Road Initiative". Sinochem thus continues along the lines of past activities in areas such as natural rubber, in which the company has established a strong footprint with presence in natural rubber planting, production, processing, marketing, and distribution not only in China but also in South East Asia and Africa. In fact, due to these activities Sinochem claims a leading role in the BRI, stating on their website that the Sinochem rubber business makes the company the pioneer in the BRI of the central government.

Wanhua also started expansion towards Europe early, acquiring the Hungarian chemical company Borsod in 2011. The development of this plant is partly financed by a multimillion dollar credit line provided by China Development Bank, indicating government support. However, currently the company seems to focus its investment more on the US – with an MDI plant planned in Louisiana – than on the BRI area, indicating that internationalization in general may be the main motive, rather than a specific promotion of the BRI area.

ChemChina has pursued a policy of buying chemical and related companies particularly in Europe, culminating in the massive acquisition of Syngenta. This indicates that while improving infrastructural ties with Asia are a major objective of the BRI, the final objective of the initiative may be to strengthen cooperation between China and Europe. Other BRI-related activities of ChemChina in Europe – e.g., in France (takeover of IPBB sulfur terminal in Bayonne), Germany (acquisition of plastics and rubber machinery producer KraussMaffei) and Norway (opening of new Elkem plant) – also indicate Europe as an important target of the BRI, though ChemChina has also made investments in numerous other countries in the BRI area, e.g., in Vietnam, Israel, Bangladesh, Singapore, Saudi Arabia and Russia.

The BRI may also lead to a shift of chemical production within China. At the 2017 Chinaplas, there was discussion of polymer resin production moving from eastern China to inland provinces. And indeed China's largest plastics compounder Kingfa has announced plans to build a new plant in Chengdu, Sichuan while competitor China XD already has a plant in Nanchong, Sichuan. Both companies also have already invested in BRI areas outside of China, e.g., in Dubai (China XD) and in India (Kingfa).

Multinational chemical companies also see opportunities in projects related to the BRI.

BASF invested in a major MDI production plant in Chongqing, Sichuan. Admittedly, approval for this plant was already given in 2011, long before the BRI was announced. However, at that point the plant was aligned with another government policy, the “Go West” policy which promoted investment in China's central and western provinces. It is obvious that the BRI is both a continuation and an expansion of this earlier policy.

Dow is also anticipating a production shift towards inland China and has therefore built a new coatings plant in Chengdu, which should start production in 2018. The company seems quite positive about the BRI initiative, as indicated by a statement of Jim McIlvenny, president of Dow Asia-Pacific (to China Daily): "Belt and Road is extremely exciting. It will open up new markets… And I think it will bring tremendous innovation, tremendous growth to the western part of China."

In pursuing BRI opportunities, Honeywell went as far as forming a dedicated team called “East to Rest” that manages sales and marketing to Chinese firms expanding abroad. The company also feels that the BRI can bring huge opportunities to Honeywell. Possibly in order to enhance its local credentials, Honeywell formed a partnership with a leading domestic chemical service provider, Wison Engineering. The aim of the JV is to particularly target customers in regions covered by the BRI initiative.

Covestro sees great potential for its materials in the planned infrastructure projects, giving the example of working with Chinese companies on waterborne polyurethane coatings solutions for urban rail and freight trains. Covestro also explicitly states that the company benefits from the improved transportation links that are a part of the BRI. Using rail transportation and temperature-controlled containers, the company has managed to reduce the transportation time of their cold-sensitive materials from 2-3 months to 20 days.

This overview shows that indeed the BRI seems relevant for many chemical companies, though of course it is possible to argue that many of the projects described would have made economic sense in any case. However, it is certainly easier to execute such projects in the favorable political environment created by the BRI.

What can chemical companies with activities in China do to maximize the benefit derived from BRI? For local companies, ensuring good information on current projects covered by the initiative may be sufficient. Foreign companies may have to partner with local players for a meaningful participation in BRI projects as they are not likely to be the main contractors in major projects. Overall, the author's opinion is that BRI may be a bit less exciting as a business opportunity for foreign chemical companies as it may seem at first glance – primarily because the Chinese project leadership and the focus on infrastructure and construction projects limit the chances of multinationals. Still, the initiative indicates that China is supportive of global trade at a point in time when the US seems to take a step in a different direction. ■