Opportunities in Cooperation Between Indian and Chinese Chemical Companies

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As the two by far the most populous countries in the world located on the same continent, chemical trade and cooperation between India and China should be substantial. Indeed, China is the second largest export destination of Indian chemicals, and India is the second largest destination of Chinese chemical exports. Occasionally, these trade links become more visible than usual – for example, the tightened environmental regulation in China has led to some drastic price increases of chemicals such as specific dyes in India. However, overall the linkage between the two countries has largely been limited to trade of chemicals rather than direct business activities of Indian or Chinese chemical companies in the other country (see Tab. 1 for trade in chemicals between China and India).

As the data shows, there is quite a large number of chemical categories for which the two countries are important trading partners, with at least 10% of exports of one country being directed at the other one. Even in sum, with about 8% of Chinese chemical exports

Tab. 1: Chemical trade between China and India in 2017 (source: UNCTAD)

Chemical category according to UNCTAD*	India share of global Chinese exports	China share of global Indian exports
Hydrocarbons, n.e.s., & halogenated, nitr. derivative	10.4%	32.5%
Alcohols, phenols, halogenat., sulfonat., nitrat. der.	11.5%	21.8%
Carboxylic acids, anhydrides, halides, per.; derivati.	10.5%	3.8%
Nitrogen-function compounds	14.1%	7.1%
Organo-inorganic, heterocycl. compounds, nucl. acids	14.4%	3.8%
Other organic chemicals	11.2%	7.5%
Dyeing & tanning extracts, synth. tanning materials	16.9%	22.3%
Medicinal and pharmaceutical products, excluding 542	11.3%	4.1%
Essential oils, perfume & flavour materials	6.0%	10.0%
Fertilizers (other than those of group 272)	16.9%	0.1%
Polymers of ethylene, in primary forms	2.7%	50.5%
Polymers of vinyl chloride or halogenated olefins	16.3%	6.3%
Other plastics, in primary forms	8.5%	10.8%
Prepared addit. for miner. oils; lubricat., de-icing	1.7%	10.3%
Total**	**8.1%**	**6.4%**

*Only those categories shown for which India or China accounts for at least 10% of the exports by the other country
**Total is for all 33 chemical categories covered by UNCTAD, not just for the categories shown here

going to India and more than 6% of Indian chemical exports going to China, the two countries do have substantial links with regard to chemical trade.

However, recently there has been increasing interest in even more direct engagement of Chinese chemical companies in India, and of Indian chemical companies in China. What are the reasons for this interest in going beyond chemical trade?

Let us look at Chinese companies first. As for the multinationals, India represents an important business opportunity for them due to its growth rate and potential future size. In addition, the Indian chemicals market may to some extent be more suitable for export of Chinese chemicals than more developed markets, as the products required need to be optimized more for cost performance than for quality. The tightened environmental regulation in China should be another reason for Chinese chemical companies to develop an interest in India, particularly in shifting the production of certain chemicals to India. Rising labor costs in China as well as the threat of a trade war with the US should also make Chinese chemical companies consider such a shift. Finally, as China`s economy becomes more mature, some labor-intensive customer segments of the chemical industry such as textile will increasingly move away from China and to India, giving Chinese suppliers of chemicals to these industries an additional incentive to follow their customers to India.

Similarly, interest of Indian chemical companies in the Chinese chemical industry has been on the rise. As for any chemical company, part of the attraction is in the huge size of the Chinese market for chemicals in combination with its still high growth rates. According to CEFIC, India accounted for 2.9% of the global chemical market in 2017 while China accounted for 37.2%.

According to a CEP paper, India's petrochemical capacity is currently where China's stood about 15 years ago, and even if India's consumption rises at the expected pace of about 1.2 to 1.5 times GDP, its petrochemical industry will still only be about a quarter of China's in 2025.

Consequently, Indian chemicals producers wanting to achieve economies of scale have to be export oriented, which is not an absolute necessity for Chinese producers due to the much larger size of their domestic market. Frequently, the production capacity of a Chinese producer of a specific chemical is sufficient to supply the complete annual Indian demand. Apart from this, Indian chemical companies also see opportunities in cooperating with Chinese chemical companies and helping them set up production in India. Beside offering the advantages listed above, Indian companies may also provide complementary skills, e.g., in communicating with global clients in English or in being more experienced in regulatory issues (in the pharma and agrochemical segments).

Thus, there is a strong rationale for increased cooperation between Chinese and Indian chemical companies. What shape could such cooperation take? Options include

- Indian companies producing chemicals for the Indian market at a Chinese large-scale capacity producer (these often have overcapacity), thus realizing economies of scale
- Chinese companies shifting some chemicals production suffering from particularly tight environmental regulation in China to India
- Alternatively, Chinese companies being forced to relocated to a chemical park in China from an outside location instead move production completely to India
- Acquisition of an Indian company by Chinese players in order to gain a foothold in the Indian market, and to better utilize the opportunities outlined in this paper
- Acquisition of a Chinese chemical company by Indian players in order to gain market access
- Establishment of a JV between an Indian and a Chinese chemical company. If established in India, such a JV would not be affected by possible trade restrictions on importing Chinese

chemicals into the US

• Cooperation in preparing joint offerings to third parties, so that a customer can get the same chemicals or formulations in India and in China

• Shift of production plants in specific segments from China to India, e.g., in segments where the customer industries are also shifting

Though few, some such cooperation is already happening. For example, Chinese plastics compounder Kingfa bought the Indian Hydro S&S in 2013 and used it as a platform to establish their plastics compounding business in India. Chinese state-owned Sinochem has an Indian subsidiary, Sinochem India Company Private Limited. In private communications, several Chinese chemical companies have stated a strong interest in expanding their presence in India. And several Indian companies including Atul have set up representative offices in China and charged them with the task of identifying opportunities in the Chinese market.

Of course, any cross-border business activity is potentially complex and needs to be well prepared. A first step should be to clearly define the expectations for a cooperation in the other country. This needs to be based on the company`s strategy, but also take into account the value the company can bring to the partner on the other side. A second step is to gather in-depth market knowledge about the relevant chemical sectors – this is a step that we currently see gather increased attention by chemical companies both in China and in India. Depending on the depth of own resources, gathering such information may require the assistance of third-party service providers.

The outcome of combining the own expectations and the gathered market knowledge should be a list of potential opportunities. These could be plans for acquisitions, buildup of capacity, establishment of JVs with different partners etc. Subsequently, these opportunities need to be prioritized based not only on the attractiveness of each opportunity, but also the likeliness of success and the resources each of them requires.

Highly prioritized opportunities then need to be developed into more detail before deciding on pursuing one or several of them. At this point, it will also be absolutely necessary to get an impression of the opportunity at its exact location – i.e., it will require a trip to China or India. This will allow a face-to-face evaluation of potential partnerships and hopefully then develop into a fruitful cross-border chemical business. ■