

CHINESE PHENOMENON

By Alexander Sazonov

When evaluating the situation on any of our (Russian) markets, including plastic pipes market, we often compare them with the West – either Western Europe or America (USA or whole Northern America, including Canada and rarely Mexico). We somehow ignored China, our Eastern neighbour, still automatically thinking it is a source of consumer goods and cheap imitations.

However, China is not only the country with the largest population (1.365 billion people as per August 2013) but also the largest producer and consumer of plastic pipes in the world. The data on Chinese market in different sources are not consistent, but this inconsistency is not great enough to distort its scale and dynamics.

According to China Plastic Piping Association – CPPA, production of plastic pipes in 2013 was 12.1 million tonnes, which 2 times more than total volume of both Western Europe and Northern America!

The dynamics of Chinese market is even more impressive: not so long ago, in 2005 its capacity was 5 times lower – 2.2 mln tonnes (pic. 1). This indicator is quite big if compared to the gross figures of other countries, however, consumption of plastic pipes per capita will be more significant for evaluation of the development level. The dynamics is simply stunning – it has grown from 1.6 kg to 8.9 kg within 9 years surpassing Russia and reaching Europe and America – with the population over 1.3 billion people!

It should be noted that more than half (55%) of these volumes made by PVC pipes (pic. 2) mainly due to low prices for acetylene PVC in China. Although, until recently its quality was quite poor but today this matter is being successfully solved. In the last few years the share of PVC pipes in total market volume is reducing, giving way to other polymers like PE and PP.

The growth of Chinese plastic pipes market in 2013 was 10%. According to CPPA experts, the market will continue to

grow over the next 3–5 years at a slower pace – together with general slowdown of Chinese economy. Nevertheless, plastic pipes market continues to keep big and long-term development potential.

Urbanisation remains one of the major driving force behind the plastic pipes market. According to CPPA evaluation, the number of people moving from countryside to cities will reach 80 million by 2020 (i.e. roughly the population of Germany), and therefore, urbanisation and expansion of utility infrastructure – water supply and disposal systems, gas and heat supply – will continue. The other powerful market stimulating factor is development of the Western regions of China – which are behind the social and economic evolution of Western and Central regions – and investments for development of industrial and social infrastructure. Moreover, consumption of plastic pipes in agriculture, industry, telecommunication is growing and the possibility of their application in mining, oil and gas is being considered. All this ensures wide prospects for future growth of Chinese plastic pipes market.

However, these prospects don't mean trouble-free development. The industry has some serious problems. First of all, significant overcapacity growing from year to year. According to CPPA, existing production capacity were half loaded in 2013 with the output growth of 10%. Low production capacity does not only increase competition but also reduces production profitability, which can't be sustained by small producers and leads them into bankruptcy. Moreover, overcapacity is mainly related to production of ordinary pipes made of unplasticised PVC. China is currently behind in production of modern plastic pipes like PVC-M, PVC-O, PVC-C and others – in raw materials, technology, quality of the products and the problem of misbalance between overcapacity and oversupply of cheap low quality produce along with increasing deficit of high quality and innovative produce is becoming ever so big.

According to different estimates, there are currently from 6,000 to 10,000 companies engaged in the production of plastic pipes in China [1]. Vast majority of them are small and medium companies with old technologies producing low quality products. Just a few of them have capacity over 10,000 tonnes per year and 15 largest of them make 25% of the whole Chinese production output

Top 10 Chinese producers of plastic pipes in 2013:

- CHINA LESSO Group Holdings Limited (former China Liansu Group Holdings Limited);
- Fujian ATON New Material Technology Co., Ltd;
- Hebei Bosoar Pipe Co., Ltd;
- Yonggao Co., Ltd;
- Nanya Plastics (Xiamen) Co., Ltd;
- Hubei Kaile Science and Technology Co., Ltd;
- GOODY TECHNOLOGY CO., Ltd;
- Chengdu CHUANLU Group;
- Chinaust Group;
- Anhui Guotong Pipe Co., Ltd.

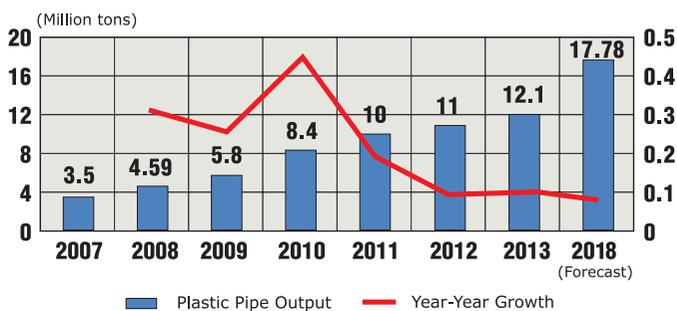
Some of these companies are very powerful with yearly output of hundreds of thousands tonnes. In the situation of Chinese market (overcapacity, fierce competition, deficit of innovative and high quality product), they have more advantages than small and medium producers in getting credit resources, production diversification, deployment of new technologies and new products. As the result of this, larger companies continue to develop showing bigger growth compared to average market figures. For example, Lesso Group Holdings Ltd. saw production capacity growing by 17% and 20% in revenue growth. Meanwhile, small and medium companies are forced to slow down and slide into bankruptcy.

Chinese market of plastic pipes will inevitably consolidate – growth and advanced development of the major players will lead to merger or displacement of small and medium companies. In the condition of disbalance between excess supply and unsatisfied demand for high quality produce, we can expect this process, similar to other markets, will lead to technical level improvement and reduction of counterfeit and low quality produce.

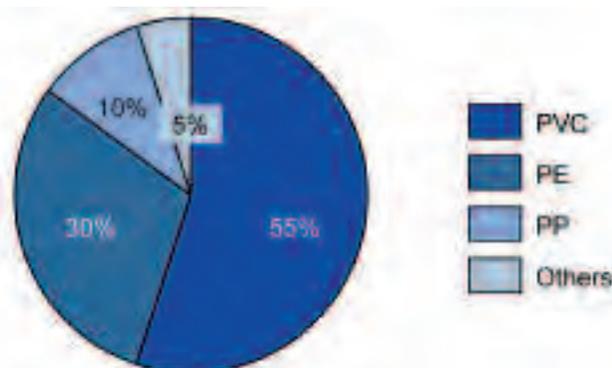
Chinese plastic pipes products at the moment don't make a serious competition to Russian producers if we don't consider supplier of counterfeit pipes made of natural grades of PE. As per the quality products, supply from China to Russia is not cost effective due to high costs of transport and import duties. The activity of Chinese producers is mainly directed at satisfaction of very high local demand.

"East is East and West is West". China is the world's largest superpower with enormous population and practically unlimited material and technical resources, that always lead and is leading its own way. They don't hesitate to copy technologies and foreign experience always choosing its own development strategy. Then fact that China has made a huge breakthrough in the development of plastic pipes market within a few years, from almost zero to reaching Europe and America, once again shows that plastic pipelines are

Pic. 1 Output growth of China plastic pipe



Pic. 2. Plastic Pipe Market Share



important part of modern construction and infrastructure modernisation. And if we search for examples to follow in the West and the East, we will see the same thing and it doesn't really matter anymore who we need to catch up with...

Sources:

1. www.pimchina.com
2. Toloken S. Chinese plastic pipe production grows 10 per cent. – www.plasticnews.com

