

CHINA FOCUS

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Cracking the Chinese Plastics Market

The plastics market in China is not only one of the most established but also one of the biggest. From the days when China was still considered the “Workshop of the World” to today’s “New Normal”, it has developed into being technologically advanced and increasingly high-end. In line with the 12th Five Year Plan, the Chinese government invested heavily in upgrading the manufacturing sector, which benefited the plastics industry

significantly. Hence, we have dedicated this issue of China Focus to give you detailed insight into current opportunities and risks in the plastics market. We also outline one of our recent success stories of a leading plastics company’s expansion into China and Asia and lastly, the most important trends for the future.



In this Issue:

- Moulding the Future
- Compound Growth in China
- Plastics! Plastics! Plastics!

Moulding the Future

For decades, Fiducia has advised clients in the plastics sector along the entire value chain: from machinery makers, to manufacturers and recyclers, we have built up a strong knowledge base on how the industry works and on understanding the nuances of the market, which we share with you here.

In the 12th Five Year Plan released in 2011, the Chinese government vowed to advance the domestic plastics industry not only in the development of new materials, but also in increasing efficiency and reducing energy consumption. This, coupled with the rapid growth of domestic consumers and dramatic improvement in infrastructure, has resulted in a strong demand for both primary and modified plastics. Modified plastics, for example, have experienced solid and steady growth of on average 20% since 2013. In fact, only 10 years ago most modified plastics were still imported into China, while today close to 90% are produced locally.

While the plastics industry is by no means new in China, there are a number of important, recent trends that will influence how this sector develops in the next years. In this article, we will walk you through these trends and what opportunities they present for foreign companies planning to enter the Chinese market.

Status Quo

Plastics were among the first industrial sectors to develop in China. Hence, it is unsurprisingly



already relatively advanced with a large number of international players firmly established for over half a century. As plastics technology is R&D-heavy, international companies always had the upper-hand, especially in the high-end segment, where they hold 90% market share. In contrast, the low-end market is heavily saturated by local players competing for a piece of the pie. But as the middle class continues to grow in China and domestic demand for better quality plastics that are environmentally friendly increases, there is much opportunity to be found in the mid-end segment.

Modern Manufacturing

After joining the WTO in 2001, China rapidly developed to be a competitive global trading partner by developing new technologies, materials, and equipment. As a result of

government directives, an accelerated upgrading of the manufacturing sector, including plastics processing, took place to keep up with international trends and procedures. After a decade of rapid growth, China had already caught up with its global counterparts. Now, the government is investing resources to move towards higher quality materials and more efficient production to cope with overcapacity.

As China makes a targeted effort to move away from being the “Workshop of the World”, there is much opportunity for international companies with more sophisticated technology and know-how. Skilled labour, improved infrastructure, and advanced supply chain capabilities have contributed to creating a favourable business and production environment.

Automotive Snapshot

+ 12%

Market Growth Forecast
(2015 - 2020)

+100%

Number of vehicles /
1,000 people (2008 - 2014)

+14

Planned Plants
(2014 - 2018)

How Fiducia Can Help



Are you looking to invest or expand your activities into China? We can help! Plastics is one of our core industries in which we have built up substantial know-how and experience. Fiducia can support you in:

- ▶ Market analysis covering customer demand, locations, and competitors
- ▶ Company set-up and registration
- ▶ Finance & Accounting and taxation advice and support
- ▶ Logistics and supply chain coordination
- ▶ Talent search in Greater China and Asia

For questions on realising your growth strategy in Greater China, email us at contact@fiducia-china.com.

Industries

In addition to the overall growth in the Chinese plastics market, certain industries have been major drivers for development. For example, modified plastics for the automotive sector saw a 180% increase in sales volume from 2008 to 2012 and are expected to continue to grow by 17% annually until 2017. Several trends contributed to this strong growth: for one, the number of vehicles per 1,000 people in China increased from 37 in 2008 to 81 in 2014, a number that will continue to grow by 12% in the next two years. Additionally, 14 new automotive assembly plants of leading Chinese and international car manufacturers will be or have opened in China between 2014 and 2018. Lastly, the rise of e-vehicles, not only as a result of government directives but also due to changes in people's mindsets, is creating sizeable demand for lightweight plastics, usable for interior and exterior applications.

Modified plastics for electrical- and home appliances have also played a role in the growth of the plastics industry in China. The purchasing power of the average consumer in China has increased significantly: more people can afford electrical- and home appliances and as the consumers' focus shifts to brand awareness and higher-end products, there is also a need for higher quality materials. 98 out of 100 urban households in China now own a refrigerator and in the future, these households are expected to look for energy efficient and higher capacity replacements, with less price-sensitivity. In addition, with the improvement and expansion of infrastructure and electrical networks in China, even rural consumers have access to these products, albeit at a lower price point.

Opportunities

We have identified three major trends that we expect will influence the future of the plastics industry in China:

1. Technology Improvement: As we have outlined above, China is experiencing a significant rise in demand for high-end and higher quality materials for more specialised applications. This, in combination with the government's investment into R&D for new materials and the aim to upgrade the plastics market in general, is a perfect opportunity for international companies with a technological edge.

2. Go West, Go Central: As the Chinese government is developing the coastal areas into R&D and service hubs, it is offering incentives for new plants and production sites to be built in the Central and Western provinces of the country. For primary plastics

processing companies, this is beneficial due to the proximity to raw materials. Indeed, many automotive assembly plants (e.g. FAW, VW, GM, Hyundai, and more) are moving to these areas, as well.

3. Environmental Friendliness: Currently, the amount of recycled plastics is low, especially compared to China's annual plastics products output. This is mainly due to outdated technology, but also lack of government incentives to drive recycling initiatives. However, this is changing, as public sentiment is increasingly favouring the reduction of waste and pollution from production. The government is backing this by offering tax policy support.

Risks

Companies investing in the Chinese plastics market should also be aware of a number of risks that could affect their business:

1. Overcapacity: China continues to produce but is there enough demand for all of these products? With the lack of recycling options, overcapacity especially has become a problem, which could eventually lead to dramatic over-supply, with few options for removal. Not only is this a problem for businesses and the government, but the already suffering environment will pay a significant toll. Assessing the demand for your product in advance will certainly help circumvent this problem.

2. Competition: While local plastics manufactures are primarily concentrated in the low-end segment, there are a number who are expanding into the mid- and high-range. With the government's increasing efforts to encourage local R&D, domestic players are becoming more competitive in their know-how and materials. While we are still at the early stage of this development, we certainly encourage all companies wanting to enter or expand in the Chinese market to do a thorough competitor analysis.

3. Rising Prices: Increasing labour costs, a stronger RMB, more stringent government manufacturing requirements, and a general shortage of resources have driven up production costs, making financial planning even more important.

Despite these risks, we expect continued growth potential going into the next Five Year Plan and beyond. With increasing environmental awareness, limited availability of raw materials, and the introduction of mass digitalisation, we foresee great technological advancements in the future - and with this, many opportunities for foreign companies. ☘

Compound Growth in China and Beyond

For the past years, Fiducia has accompanied ALBIS PLASTIC in their China expansion: from market analysis to company set-up and executive search, we have worked together closely, bridging family ownership generations, to achieve joint success. Find out what strategies we devised to build the perfect integrated business structure for ALBIS in China and beyond, reflecting their company values and meeting their very specialised demands.

Company

ALBIS PLASTIC is one of the global operating companies in the distribution and compounding of technical thermoplastics. In addition to the product portfolio of well-known plastic manufacturers, ALBIS offers the plastic processing industry a diverse product range of high performance plastics, compound solutions and masterbatches. With 17 subsidiaries, the Hamburg-based company is represented in many European countries as well as in North Africa, the Far East and North America. ALBIS manufactures plastic compounds and masterbatches at three locations in Europe – Hamburg and Zülpich in Germany and Manchester in the UK, as well as in the new production site at Changshu, China.

Industry Applications

As a global player, ALBIS serves clients from North America to China with the entire range of thermoplastic materials. The company's products can be found in a wide spectrum of different applications, from automotive to electrical & electronic equipment. ALBIS materials are especially suitable for applications that require reducing weight or light diffusion, light guiding or light blocking technologies. The packaging, pharmaceutical, and healthcare industries also benefit from ALBIS' innovative solutions.

China Expansion

ALBIS PLASTIC opened their first Asian sales office in 1971 in Hong Kong. Today, they have grown to 4 offices in Greater China, located in Guangzhou, Hong Kong, Tianjin, and Shanghai. ALBIS expanded most recently in 2013 with a new production site in Changshu. Fiducia supported the company with an in-depth screening and analysis project to assess



potential site locations for this plant. Part of the long list of criteria, identified jointly in advance, were customer and supplier proximity, and the availability of building and labour, among others. Within the 5 week time-frame requested by ALBIS, we completed a thorough analysis of several locations in China and identified Changshu as an ideal site for plant set-up.

Changshu is located near Suzhou in Jiangsu province on the East Coast of China. In terms of plastics output, Jiangsu ranks at the top of all provinces in China, with 11 million tons in 2014. Many automotive and component suppliers, as well as precision machinery manufacturers are located here. As part of the Jiangsu Development Zone, Changshu is particularly attractive due to the proximity to customers, availability of existing buildings, facilities and land, affordable rental fees, and easy access to logistics channels. This was a perfect fit for ALBIS Far East, as said by Managing Director Philip Krahn: "Our corporate target is to win and supply local Chinese Original Equipment Manufacturers as well as Tier 1 and Tier 2 suppliers, using local production from the ALBIS plant in Changshu, as well as providing goods and services from various regional distribution offices."

Asia Expansion

Regarding the importance of having a sales office on the ground in China, Philip Krahn explained: "We can offer custom tailored solutions and provide support to our customers directly on site – thanks to our support teams in China and Asia. Moreover, we are expanding our field of action to also ensure support for our customers in the Asian Pacific Area." For this purpose, ALBIS Far East engaged Fiducia in the search of a qualified Business Development & Sales Manager for the APAC region. After a detailed competitor analysis in Malaysia and a talent pool analysis, we evaluated around 60 potential candidates as a result of our direct search approach. After assessing their technical expertise and personality, we found an ideal candidate: an industry expert with over 10 years of injection moulding and plastics engineering experience. According to Philip Krahn, "ALBIS will continue to invest personnel and resources in this region, allowing us to align our efforts for specific, concrete development and growth opportunities." ❀

Profile

Philip Krahn
Managing Director
ALBIS Far East



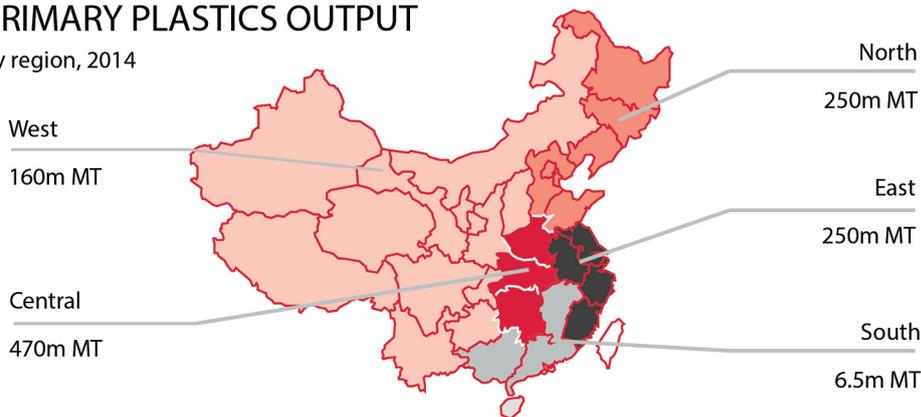
Philip Krahn took over as Managing Director of ALBIS Far East in 2014 and is now in charge of all operations in the Asia Pacific region. He has been working for ALBIS PLASTIC for over 5 years first in Hamburg and then in the UK.

Where is the Plastics market in China going?

PLASTICS! PLASTICS! PLASTICS!

PRIMARY PLASTICS OUTPUT

by region, 2014



HR Trends in Plastics



Based on Fiducia research, you can count on the following trends when looking for qualified personnel in the plastics industry:

- ▶ Most difficult positions to fill: management, R&D, and sales
- ▶ Easiest positions to fill: blue-collar workers, HR, and purchasing/logistics
- ▶ Average time for filling blue - and white collar positions: 1 - 3 months
- ▶ Most used channels for finding talent: headhunting, job fairs, local recruitment platforms

Through our industry knowledge and network of contacts, we know how to find the **best people to meet your business needs**. Email us today for more information: contact@fiducia-china.com

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contact@fiducia-china.com

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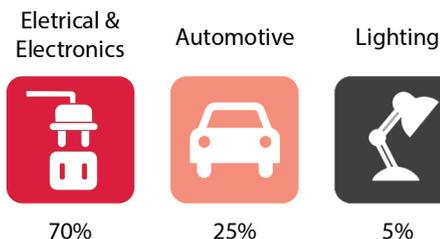
TOP 5 USAGES

in 2014

- 67% Packaging & Parts
- 17% Plastic Films
- 8% Daily Articles
- 5% Synthetic Leather
- 3% Foams

TOP APPLICATIONS

of modified plastics by volume



MANUFACTURERS

Domestic

- < 3k MT/yr capacity
- Low-end
- Limited R&D spending
- Looking for new technology

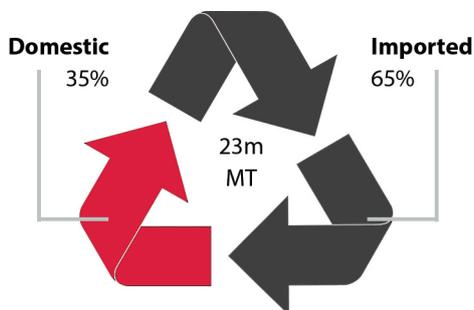


International

- > 1m MT/yr capacity
- High-end
- Substantial R&D funding
- Looking for JVs and plants

RECYCLABLE PLASTIC

2014



OPERATION "GREEN FENCE"

In 2013 the government launched an initiative that has substantially curbed illegal reprocessing of:

- ☠ Electrical and Electronic Equipment Waste
- ☠ Medical Waste
- ☠ Chemical Contamination
- ☠ Contamination with non-plastics materials
- ☠ Organic Contamination

Sources: Fiducia Analysis, Statistical Year Book, NBS

Hong Kong Office:

15/F OTB Building,
 160 Gloucester Road,
 Wanchai, Hong Kong
 China

Tel: +852 2523 2171

Shanghai Office:

Unit 2107-2110, Central Plaza,
 227 Huangpi North Road,
 Shanghai 200003
 China

Tel: +86 21 6327 9118

Shenzhen Office:

1308 Di Wang Commercial Centre
 5002 Shen Nan Dong Road
 Shenzhen 518008
 China

Tel: +86 755 8329 2303

www.fiducia-china.com

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 Management Consultants