

VDMA Building Material Plants Day, March 7, 2018
Summary of presentation given by Mr. Björn Conrad, Sinolytics
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The Chinese building material plant industry is changing: “You need to move faster”
German building material plant manufacturers in China need to lay the groundwork today to ensure that they can also compete in the market after 2020. After this date, Chinese industrial policy will bring about fundamental change, said China expert Björn Conrad, Sinolytics, at the VDMA Building Material Plants Day in Frankfurt on March 7. Well-prepared companies can profit from this trend. Here is a summary of his talk.

The market will be more challenging from 2021

China is standing at the crossroads of a new era. It will not necessarily be worse than the previous phase, but will be a significantly more challenging one for German building material plant manufacturers who should now begin preparing for the time after the expiration of the current five-year plan in 2020. His hypothesis is as follows: The political pressure on building material plant manufacturers will be greater from 2021. It is considered a certainty that a state-regulated industrial policy will favor Chinese companies and push foreign manufacturers out of the market. All in all, the Germans need to move quicker and utilize their chances. Conrad sees opportunities primarily in specialization and in environmental technologies.

China wants to eliminate overcapacities

Today, the Chinese building material market is characterized by enormous overcapacities. In 2017, the capacity utilization rate in the country's cement plants was just 60 percent and falling. China no longer wants to tolerate this in the future and is forcing more efficiency with a series of programs. As such, the state imposed production stops lasting for months. Furthermore, manufacturers may only create new capacities when old capacities are removed at a ratio of 1:1. This artificial tightening of supply keeps prices high.

Environmental campaigns roll through the land

Capacities down, environmental protection up is the motto of the Chinese government: Extreme intensification of environmental measures is already the order of the day. As a part of this policy, the government is imposing harsh punishments on polluters in the form of fines and custodial sentences. Environmental campaigns are rolling through the country with the aim of rooting out such companies. The government has announced a new wave from 2019. This is already having an effect today and is putting manufacturers and their customers under pressure. Furthermore, with a new regulation that came into effect on January 1, 2018, the tax system is offering new incentives for clean production.

Chinese technology is catching up

There is still a technological gap between Chinese and foreign manufacturers. As such, Chinese providers can still be found in the low and middle price segments and core components are imported. However, the Chinese industry has started to catch up. Several champions, such as the state-driven merger of the Simona/LNBM group or Pengfei, are already on the offensive in the building material plants sector. In the future there will be more of these giant corporations on the same technological level and they will also provide serious competition on the international stage. China has specified the objectives of its ambitious technological progress in its industrial policy roadmap for 2025, including topics such as integrated production or smart manufacturing.

Although these visions will not all be realized by 2025, the effect is noticeable even today and the dynamic tangible.

Benefiting from precast concrete drive and silk road projects

From 2020, the general trend in the Chinese building material sector points toward cooldown. However, with regards to environmental protection and technological change there are also opportunities for German building material plant manufacturers. As they are not yet the focus of political interest, they have time to prepare and put sensible measures in place for the forthcoming change. In addition, China currently cannot cover the new demand for technologically high-quality building material plants locally. Moreover, as a politically determined measure, 20 percent of construction services will soon consist of precast elements. By 2026, the proportion of prefabricated houses made from precast concrete parts is to rise to a massive 30 percent. This presents enormous potential for the German precast concrete industry as a technology leader. And the Chinese expansion to form a “new silk road” also harbors business opportunities: Chinese corporations are already transferring huge capacities toward Central Asia, with 100 new cement plants to be set up here alone. New infrastructure projects are being added to the list on an almost daily basis.