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THE CHEMICALS INDUSTRY OF THE PEOPLE'S REPUBLIC OF CHINA: IT IS BOOMING !

Today, about 25 percent of the world's production of chemical fibres – known more popularly as man-made fibres in North America – is produced in the People's Republic of China (PRC).

Asia produces more than 50 percent of the world's supply of chemical fibres, having displacing the large US and European manufacturers of such fibres.

And the Asian industry is set to continue to boom because natural fibres, such as cotton, wool, etc., cannot meet the growing demand, both domestically and internationally.

The rate of growth in this sphere of activity in the PRC has, to a great extent, gone unnoticed by many people because, by and large, the PRC produces its chemical fibres for its own use.

Going along with the boom in the production of chemical fibres is the PRC's production of synthetic dyes.

The PRC is the world's largest manufacturer of synthetic dyes, producing at about 600,000 tonnes, annually.

The above are but 2 examples of the PRC's chemicals industry, which is on a roll – and is likely to stay on a roll for the next decade, at least, all things being equal.

Pharmaceuticals

In the field of pharmaceuticals, it is quite likely that the PRC will, soon, be the largest producer of vitamins in the world because it, already, has gobbled up about 20 percent of the world market.

In the production of penicillin, the PRC has, of late, increased its worldwide share to about 10 percent.

And this has been accomplished under the very noses of the major players in this field, from Switzerland to the US.

The chemicals industry of the PRC is booming for a number of reasons, but one of the most important of these reasons is the low entry level in the development of drugs.

In the US and Europe, the cost of the development of a new drug is estimated to be about $US800 million (about $HK6.21 billion); in the PRC, it is about $US120 million (about $HK931.20 million).

Also, in the US, it takes between 8 years and 10 years for a new drug to be approved, that is from the drawing board to the time that it reaches the consumer.

In the PRC, the development of a new drug, on average, takes between 5 years and 8 years.

The shorter period in the development of a new drug in the PRC is worth tens of millions of dollars to just about any pharmaceutical company, anywhere in the world.

The reason that drug development in the PRC is shorter than in the US and Europe is not because the PRC Government's authority in this respect is less stringent than its counterparts in the US and Europe, but because new products can be tested quickly in the PRC due to the fact that there are more patients with specific disease patterns, permitting faster testing of a product, leading to approval or disapproval.

In addition, the PRC is producing about 170,000 graduates per year in the field of pharmacology.

This compares, for instance, with only an annual pool of 25,000 graduates of pharmacology in Germany.

Although the PRC is, now, the world's fourth largest manufacturer of chemical products, domestic production continues to be unable to meet demand in all segments, necessitating imports of certain chemicals.

According to the official, PRC Government records, the cost of chemical imports in 2004 was about 44 billion euros (about $HK401.08 billion).

That figure compared with the cost of similar imports in 1995 when the cost was about 19.30 billion euros (about $HK180 billion).

What has become very apparent is that the PRC has become an important importer of chemicals as well as being an important supplier of chemicals to the world.

The reasons: There is a very strong demand for chemicals in the PRC and there are extraordinary cost advantages to producing chemicals, domestically, as opposed to their importation from the West.

Consumption

The consumption of chemicals in the PRC has been growing, over the past decade, at the rate of about 12 percent per annum, while, in the **E**uropean **U**nion (EU), the consumption of chemicals has been growing at the rate of about 4 percent.

Because of the many advantages to producing chemicals in the PRC, a great number of the chemicals companies of the industrialised countries of the West are shifting part, or all, of their production to the PRC.

The lower cost of labour in the PRC, of course, is a drawing card for the West to set up shop in the PRC.

In the PRC, the average labour cost in the chemicals industry is less than $HK9 per hour whereas, the comparable labour cost is 5 times greater in Poland and 20 times greater in Germany.

Another advantage to setting up a chemicals production plant in the PRC is that construction costs are considerably cheaper than in most other parts of the world.

Licensing procedures, also, take much less time in the PRC than in the US and the EU.

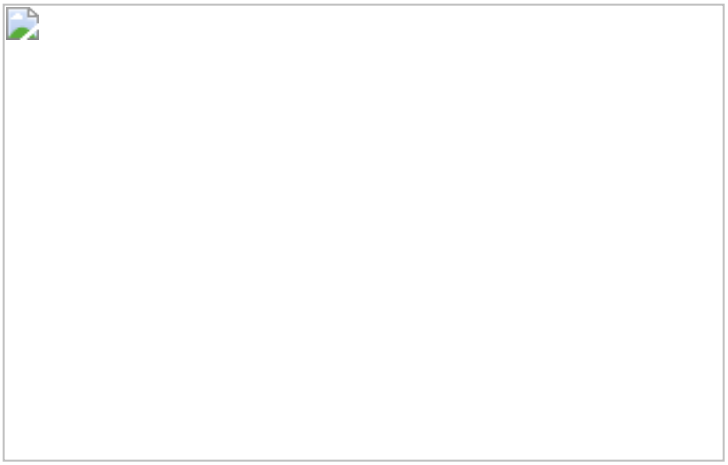
The chemicals turnover in the PRC is, today, about $HK1,276.84 billion, making the PRC, the fourth largest chemicals manufacturer in the world.

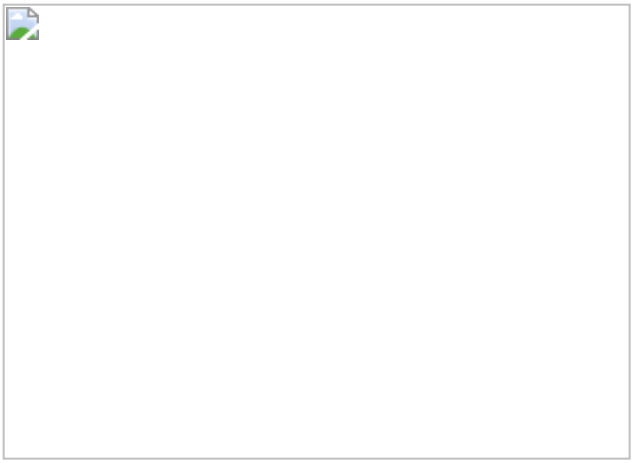
To put this figure of $HK1,276.84 billion into perspective, in terms of the largest exporter of the world – Germany – it represents more than 97 percent of the chemicals turnover of that European giant.

Only 10 years ago, the chemicals turnover in the PRC, as a percentage of the world's turnover, was only 3.50 percent.

According to The National Bureau of Statistics, a branch of the PRC Government, the chemicals industry's contribution to the country's GDP (**G**ross **D**omestic **P**roduct) rose from about 40 percent to 50 percent, during the period, 1994 to 2004.

The National Bureau Statistics has forecast that the country's chemicals industry will, most likely, rise even further, but at the expense of the agriculture sector.





Growing Chemicals Consumption (euro Billion)				
	PRC	Germany	EU-25	World
1994	50	90	343	1,147
1995	58	93	363	1,190
1996	67	89	366	1,219
1997	81	93	389	1,382
1998	81	95	394	1,344
1999	93	100	409	1,453
2000	129	111	467	1,788
2001	139	110	479	1,802
2002	149	109	480	1,786
2003	157	109	486	1,697
2004	162	110	514	1,766

Basic Chemicals Dominant in the PRC Market share 2004, percentage	
Organic and inorganic feedstocks	13.9
Agrochemicals	3.8
Polymers	47.6
Pharmaceuticals	3.5
Paints and lacquers	23.2
Detergents and body care products	1.1
Other chemicals	6.9

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