Regional Focus

What can slow the great rise of China

China’s plan to move 250 million rural residents into new urban areas over the next few years means that pumps used in the power generation and water & wastewater treatment sectors will be in high demand. But, asks Preston Reine, what might slow the rise and rise of the Chinese pump market?

Overview

The Chinese pump market is already indisputably massive. In terms of centrifugal pump unit shipments, China accounted for over 25% of the global market and over 60% of the Asia Pacific market in 2012 (Figure 1). With shipments expected to grow at a Compound Annual Growth Rate (CAGR) of 6% from 2012 until 2017, the Chinese market will reach nearly 13.5 million units sold annually by 2017.

This would increase the aforementioned shipment percentages for the world and Asia Pacific markets to 28% and 65%, respectively (Figure 2). Because of the positive long-term growth forecasts for the Chinese economy, many pump suppliers are growing confident in their ability to open new facilities in the country in order to compete with local manufacturers.

Still, immediate growth is not necessarily imminent. The Chinese government’s focus on financial stability rather than short-term growth could cause a delay in this expected surge. Remaining prepared for the trends of the future will ensure that international companies can maintain a competitive edge in such a complex market.

The main drivers of demand for pumps in China are modernisation and urbanisation. The mass migration of rural citizens into major urban centres, along with the continued development of rural areas, will create a colossal demand for pumps.
involved with water infrastructure, power generation, and other basic needs for growing populations.

Specifically, the Chinese government is targeting urban wastewater infrastructure investments totalling $60bn by 2015. Because the high demand exists, it is easy to visualise rapid and immediate pump market growth. However, the Chinese government has sent mixed signals in both its approach and timeframe for accomplishing these goals depending on the performance of the overall Chinese economy. For example, the first quarter of 2013 saw Chinese GDP growth projections for 2013 revised downwards. Since then there have been signs of stabilisation that point to an improved second half of the year which would lead to a stronger 2013 outlook.

The construction sector, a large driver of the pump market, performed rather horribly in 2011 and 2012, though fast growth is expected from 2013 to 2017. Construction projects are largely funded by the Chinese government, and halting these government incentives caused a steep drop in pump sales to the construction sector. Furthermore, a decline in government subsidy programs geared towards the use of energy-efficient water pumps could prolong the delay in the growth of the pump market once funding ends.

The vulnerability of China’s desire to encourage the use of energy-efficient pumping machinery in the near future to overall economic performance continues to be a major concern for all pump suppliers in this region. All of these issues could delay the swift growth that pump suppliers in China were hoping to realise in 2013. While many suppliers may enjoy higher-than-expected revenues this fiscal year, both international and local manufacturers should remain wary of these potential headwinds.

Construction: difficult to predict

The construction market in China represents the greatest opportunity for future pump market growth. However, it is also the single largest threat to delaying this growth.

China’s construction sector expects to grow to 2017.
Currently, the construction market is one of the major uncertainties that the pump market faces in China. After total pump sales to this sector were down considerably in 2012, most suppliers were expecting a rebound in 2013. Based on current indicators this is far from guaranteed. Over the past few years federal subsidies have aided countless new construction projects, but this government funding has slowed down. In previous years residential construction benefitted from a high flow of credit that acted as a major boon to pump sales into this sector. However, administrative measures have recently been taken to curb speculation and cool the rapidly rising prices that have fuelled the housing market. This is expected to prolong the resurgence of pump sales into the residential construction sector. Similarly, pump sales into HVACR/plumbing and water & wastewater applications are heavily dependent upon the performance of the construction industry. If the slowdown in this sector continues, it will hinder the growth of these related industries. In particular, sales of submersible pumps, which made up an estimated 25% of sales volume in China in 2012, could slow down considerably due to their prevalence in these applications.

About the Author:
Preston Reine is an analyst within IHS’s Industrial Automation group, particularly the Motors & Mechanical Power Transmission Group. IHS has recently branched into the end-equipment sector which culminated in the publishing of his study, The World Market for Centrifugal Pumps, last year. His aim in writing this report is to provide companies that are interested in the world market for centrifugal pumps with detailed information on its present status and future development within various segmentations.

Energy-efficiency policies
On the surface it appears that this is a great time for pump suppliers to focus on expanding in the Chinese market because of a recent government subsidy programme that encourages and incentivises the use of energy-efficient water pumps.

The programme, which also includes subsidies for energy-efficient air conditioners, fans, desktop computers, transformers, and compressors manufactured in mainland China, has encouraged many international companies to open new facilities in mainland China. The programme began in 2012 and is expected to have increase sales of various energy-saving products by more than $25bn by the time it is scheduled to end in November of 2013.

This is a rather optimistic and dubious target, however. On average, pumps made in China are only 80% as efficient as pumps produced in other developed regions of the world. This is due to a larger emphasis on initial pump cost rather than its long-term energy savings potential. As can be seen in the North American market, there is relatively little focus on energy savings by end-users unless an actual government mandate to use these products goes into full effect.

In other words, simply suggesting that more expensive energy-efficient products be utilised is not enough to change market dynamics and customer buying habits. For instance, “smart pumps”, which are pumps with integrated components that regulate their performance, were introduced in the United States more than five years ago. However, these energy-efficient “smart pumps” still make up less than 10% of the market in the United States. If the Chinese government is using this subsidy as a trial-run to prepare suppliers for actual regulations that will be coming out in the near future, it will bode well for the suppliers that have operations in China.

Nevertheless, if there is no intention to implement energy-saving regulations in the future, the local suppliers who produce less expensive (and much less efficient) pumps are going to be poised to further increase their market share of the Chinese market.

Competitive Landscape
Energy-efficiency mandates introduced in the pump market will ultimately benefit large international companies such as Wilo, Sulzer, Grundfos, and KSB. These companies have established manufacturing facilities in China and have the economies of scale and technical capabilities to produce superior products compared to the more basic pumps sold by traditional Chinese suppliers.

The leading Chinese pump suppliers are reacting to this encroachment on their traditional markets by focusing their business on exports. Several leading pump
suppliers in China have noted that a majority of their business is made up of exports into areas like Australia, Southeast Asia, India and Eastern Europe. Pump suppliers have found that distributors in other developed regions outside of China have been able to make their payments much quicker than the distributors in China. This credit disparity is a key cause for suppliers’ recent focus on exporting out of China.

With the top Chinese suppliers focusing their business ventures outside of China, there is now a void for the smaller local players to fill.

It is quite apparent that the competitive landscape in the Chinese pump market is changing quickly. With so many unknowns regarding the influence of the Chinese government, it is easy for suppliers to be wary of the short-term future. Regardless of the uncertainty that exists relating to the Chinese pump market’s future performance, the potential for rapid growth undoubtedly exists.

Major infrastructure investments will be required because urbanisation and modernisation of infrastructure will drive demand substantially over the next decade. The demand is prevalent, but it is not yet known for certain when such rapid growth will occur. Essentially, it is more of a question of “when?” rather than “if?”.

Happy times ahead? China can fulfil its promised growth due to future demand.