Press

From challenges to opportunities: favourable climate for the plastics industry

The plastics industry in ASEAN remains unperturbed by global developments that are also impacting the growth path of key industries. With K 2016, the world's largest trade fair for plastics and rubber, coming up in Düsseldorf, Germany, from 19 to 26 October, we take a closer look at this market.

The new norm of economic growths and trends such as oil prices, variable supply and demand, and weakening of most Asian currencies against the US dollar, have presented opportunities for Southeast Asia's plastics industry. The latter factors have allowed the region's countries to rediscover their strengths to sustain growth, either individually or as a part of the collective grouping of ASEAN (Association of Southeast Asian Nation).

The ten member states making up ASEAN include Indonesia, Malaysia, Philippines, Singapore, Thailand, Brunei, Vietnam, Laos, Myanmar and Cambodia. ASEAN's fertile consumer base with a combined population of over 600 million and a combined GDP of US$ 2.6 trillion, as well as presence in the global market, enables the region to tap the right opportunities, hinging on the region's rising middle class sector and substantial consumer base.
One of ASEAN's top export sectors by value is plastics and plastic products earning US$ 39.3 billion in export revenues in 2013, the International Trade Statistics reported.

The sector's production rates have witnessed a steady average growth over the recent years, especially in the ASEAN-6: Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam, which account for more than 95 % of regional GDP, according to McKinsey & Company. Countries like Cambodia and Myanmar are growing strongly, with increased economic liberalisation and development, but will still contribute only a small percentage of manufacturing foreign direct investment (FDI) in the coming years.

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Countries at the forefront

Vietnam is on the highway to becoming an industrialised country. Though the country's plastics industry is relatively young, it is one of the fastest growing industries in Vietnam, sustaining an average annual growth of 16-18 % between 2010 and 2015, according to the Vietnam Plastics Association (VPA). Backed by a population of 90 million, VPA expects growth to be supported by continuous demand in the domestic market. Plastics production output per capita increased sharply to 41 kg per year/person last year, from a little less than 4 kg per year in 1990. Of the sector types, packaging accounts for 37.4 %, followed by consumer (27 %), construction (18 %) and technical products (15 %). However, VPA laments that the industry is still at the "low end and of low value", with a majority of exports being plastic bags to Japan. It also relies heavily on imported raw materials, like polypropylene (PP) and polyethylene (PE) resins, importing an average of 4 million tonnes of raw materials while domestic production totals 1 million tonnes.

Meanwhile, Indonesia, with a population of over 250 million and increased governmental efforts to industrialise the nation, to develop into the world's seventh largest economy by 2030, is making headway in its plastics industry. In 2014, Indonesia's per capita plastic consumption averaged 17 kg, compared o around 35 kg/person in Malaysia and 40 kg in Thailand, according to the Indonesian Olefin, Aromatic and Plastic Association (Inaplas). However, Indonesia's middle class is expected to double to 141 million people within the next five years, and plastic consumption is anticipated to grow in tandem with the development of a larger consumer market and increased demand for packaged goods. According to the Indonesian Packaging Association, food packaging accounts for 70 % of plastic consumption. Meanwhile, Inaplas has set a 6 % growth in domestic demand for the plastics sector, in the wake of an improving GDP, pegged at 5.3 % in 2016, and backed by the upbeat food and beverage and agribusiness sectors.

While Indonesia seeks to promote its domestic plastic consumption market, Malaysia continues to serve as one of ASEAN's top exporters of plastic products. With over 1,500 plastic production companies, Malaysia's primary export destinations include Europe, China, Singapore, Japan, and Thailand. Comprising approximately 45 % is the packaging sector, followed by electronics (26 %), automotive (10 %) and construction industry (8 %) of the total plastic consumption market. Due to a rise in Malaysia's minimum wage to US$ 214 per month, plastic production costs have increased within the country by approximately 10 % over the course of 2015. While labour costs went up by 40 %, electricity tariffs increased by 17 % to add on to the total production costs, thus encroaching into the industry's competitiveness.

Similar to Vietnam, Thailand's plastic production industry has grown rapidly in recent years and currently boasts over 5,000 operating companies. However, unlike many of its ASEAN neighbouring countries, over 60 % of the companies are relatively small with a maximum of 30 employees. Packaging accounts for 48 % of Thailand's plastic consumption, followed by electronics (15 %), construction (14 %), and automotive (8 %). Thailand has been best positioned to capture the opportunity and attract manufacturing for its automotive sector, even though its overall cost index (for example, energy, labour, and property) is 20 to 25 % higher than Indonesia, Vietnam and the Philippines, largely because of a high quality and mature automotive manufacturing ecosystem, including tiered suppliers of automotive components. The country's automotive industry accounted for 42 % of its FDI from 2009 to 2013. In fact, green-field investment in tyre manufacturing generated most of the FDIs in Thailand's rubber and plastics industry. It has built a thriving ecosystem of manufacturers and assemblers, including BMW, Ford, Honda, Mazda, Mitsubishi, Nissan, and Toyota.

Thailand has also invested US$ 60 million into bioplastics development over the past seven years, with the government pumping in 80 % of this investment.

The Philippines, another export-oriented Southeast Asian country, has witnessed weak exports performance, down by 5.8 % in the previous year, because of low demand from its top buyers: the US, China and Japan. The semiconductor and electronics industry accounts for the majority of the country's exports, led by large foreign investors such as Amkor, Canon, Samsung, Sunpower, and Texas Instruments. Various measures are being instituted to boost exports, such as the Generalised Scheme of Preferences (GSP) of the European Union (EU) that is offering export opportunities to the Philippines in the EU market. The GSP allows exporters in developing countries to pay less or no duties on their exports to the EU.

Singapore, will petrochemicals pay off?

For the third consecutive year, Singapore has been voted the world's most expensive city for expatriates, according to the Economist Intelligence Unit (EIU). But yet the country is a global chemicals hub. The country offsets its high costs by offering strong connectivity through shipping routes, developed infrastructure, manpower capabilities and ease of doing business.

Jurong Island plays host to most of the largest petrochemical companies in the world, with around 95 companies represented on the island, attracting investments in excess of S$35 billion, according to the Economic Development Board. Presently, companies like BASF, ExxonMobil Chemical, Lanxess, Mitsui Chemicals, Shell and Sumitomo Chemicals have plants.

Jurong Island provides companies with a plug-and-play environment where companies can quickly ramp up their operations, helping growth in both upstream and downstream sectors.

Shell's debottlenecking of its ethylene unit, which was completed last quarter, has raised its ethylene output by 20 % to 960,000 tonnes/year. This paves the way for the opening of new downstream units in 2016 with a high-purity ethylene oxide (HPEO) purification plant with an initial capacity of 140,000 tonnes/year and two world-scale ethoxylation units with a combined capacity of 140,000 tonnes/year. Other expansions include SK Global Chemical's joint venture with SABIC to establish a 230,000 tonnes/year metallocene linear low density polyethylene (mLLDPE) plant, which will serve the packaging sector, and *ExxonMobil Chemical's* new facilities for manufacturing premium halobutyl rubber and hydrogenated hydrocarbon resin.

However, BMI Research expects Singapore to face an uphill climb in 2016 in the face of a Chinese downturn and regional oversupply, which is undermining export growth and reducing margins.

Already, the Jurong Aromatics Company (JAC) complex, one of the world's largest aromatics complexes, is in receivership following its shutdown in December 2014, after just four months of operation. The complex consists of a condensate splitter and plants with capacity for 800,000 tonnes/year of

PX, 200,000 tonnes/year of OX and 450,000 tonnes/year of benzene using UOP technology. It can also produce 2.5 million tonnes/year of fuels, including jet fuel and kerosene. Receivers will seek a debt resolution that could see it back in operation in 2016.

The JAC shutdown and sluggish markets meant that the Singapore petrochemicals index grew by an average of just 0.2 % year-on-year in the first three quarters of 2015, compared to 13.3 % growth in 2014, says BMI. While JAC's problems have not affected other petrochemicals operations in Singapore, they do underline the country’s vulnerability to China's economic woes.

However, recovery is expected in the medium term as producers diversify markets, with India and Indonesia likely to compensate for losses in exports to China.

Furthermore, Singapore is banking on the speciality chemical sector as the next growth area, according to the Economic Survey of Singapore by the Ministry of Trade and Industry (MTI). New production capacity has been coming on stream. For instance, Belgium-based chemicals firm Solvay has opened its S$ 50 million speciality surfactants plant as has British speciality chemicals manufacturer Croda International that has completed an S$ 38 million expansion of its Jurong Island plant to double its production capacity, and expand its product range to allow for greater customisation.

Impact of China’s economic slump

China’s economic slowdown is deemed to eclipse the plastics industry, since the country recently cut its growth target to 6.5-7 %.

Gearing up for reforms to allow for recovery, the country is faced with weak export demands and some manufacturers shifting production bases.

The slowdown presents a two-pronged effect. While it affects export demand in the region, it also opens up FDI opportunities for Southeast Asia. McKinsey & Company notes that even with China’s immense influence in the manufacturing sphere as the “goliath of global manufacturing”, foreign investors are also looking at market potentials of the ASEAN.

The Organisation for Economic Cooperation and Development (OECD) in its report, *2016 Economic Outlook for Southeast Asia, China and India,* acknowledges that China's situation can impact growth prospects in the region, unless it hedges itself from potential external and internal risks to sustain its growth momentum.

Looking beyond China, another hotspot for plastics is India, which is forecast to double its plastics use by 2020 to 20 million tonnes. The Plastindia Foundation estimates per capita consumption to reach 16 kg in 2016.

New trade pacts to boost plastics

On the local and regional level, flagship plastics trade associations such as the ASEAN Federation of Plastics Industries (AFPI), the Malaysian Plastics Manufacturers Association (MPMA), the Thai Plastic industries Association (TPIA), and the Philippines Plastics Industry Association (PPIA), to name a few, are continually uplifting the plastics sector in their respective accords.

International-scale trade agreement blocs are expected to propel the industry on a wider magnitude.

First to foster economic cooperation amongst the ASEAN members is the ten-nation ASEAN Economic Community (AEC), which came into force on 1 January. The pact features liberalisation of goods, investments and services, to be implemented in phases, and thus enabling plastic producing countries like Thailand, Malaysia and Singapore to lower duties on finished plastic products, machines and moulds to other member countries like Vietnam. This should bode well for the latter country since it buys about 80 % of its plastic materials requirements from Thailand and Malaysia, as well as non-AEC countries of South Korea, Taiwan, Saudi Arabia, and Japan.

Indonesia also imports more than 40 % of its plastics requirements from Malaysia, Thailand, Singapore, Europe, and the US.

Meanwhile, MPMA says Malaysia can benefit from AEC's human resources development, due to its lack of skilled and unskilled labour.

McKinsey & Company's *Understanding ASEAN: the manufacturing opportunity* report counts the AEC as an essential development, together with application of data and mobile internet, and disruptive technologies, to stimulate substantial growth in the manufacturing sector, thus promoting intra-regional and global trade.

In the meantime, are the US-led 12-nation Trans Pacific Partnership Agreement (TPPA), and the forthcoming China-backed Regional Comprehensive Economic Partnership (RCEP), made up of the ten members of the ASEAN, China, Japan, South Korea, India, Australia and New Zealand.

TPPA member-countries are important markets for the US, specifically for its plastics industry. According to the US Department of Commerce-International Trade Administration, the agreement will eliminate tariffs as high as 25 %, and thus, US plastics producers can gain duty-free access into the TPPA countries.

Under the TPPA, trade regulations between the member countries will be liberalised in order to strengthen economic relations.

In PricewaterhouseCoopers studies: *National Interest Analysis by the Institute of Strategic and International Studies*, and *Study on Potential Economic Impact of TPPA on the Malaysian Economy and Selected Key Economic Sectors*, it said the TPPA could increase Malaysia's petroleum, chemical, rubber and plastic products output by firstly, enabling the country's plastics industry to tap into markets overseas.

Vietnam, which under the TPPA has to eliminate almost all of its tariffs on plastics within four years or less, will also look forward toan exports boost via the TPPA. It also intends to bank on free trade opportunities as it builds its parts and materials industry to cater to various companies including automotive makers, apparel and electronics manufacturers.

TPPA's counterpart, the RCEP aims to consolidate the existing ASEAN FTAs and tie-ups with the other six partner economies. Under the RCEP, a 65 % tariff cut has been agreed on, with the percentage likely to increase to 80 % within a decade.

According to the Manila-based Makati Business Club (MBC), the RCEP will cater to the Asia Pacific Economic Cooperation (APEC)'s long-time prospect of creating a Free Trade Area in the Asia-Pacific (FTAAP). Other countries that are also part of the TPPA, like Australia, Japan, Malaysia, New Zealand, Singapore, Vietnam and Brunei, are also taking part in the RCEP negotiations.

Conclusion

ASEAN's plastics industry is anticipated to expand in the coming years and is likely to present significant opportunities for foreign investors.

In the ASEAN Business Outlook Survey 2014, by the American Chamber of Commerce Singapore and US Chamber of Commerce, it was revealed that 19 % of ASEAN businesses themselves plan to shift investment or business from China into their own region. Respondents also identified Indonesia as the most attractive country for new business expansion, followed by Vietnam, Thailand, and Myanmar. The availability of low-cost labour in countries such as Cambodia, Indonesia, Laos, Myanmar, and Vietnam could be a competitive advantage.

With the growth of ASEAN countries' consumer bases, broadening of plastic import and export markets, and expanding foreign trading powers, ASEAN's plastics industry offers foreign investors significant opportunities.

In this promising ASEAN region, Messe Düsseldorf offers export-oriented companies of the plastics and rubber industries customised events with its Global Portfolio Plastics & Rubber: the indoplas in Jakarta, the Plastics and Rubber Vietnam in Ho-Chi-Minh City and the T-PLAS in Bangkok. For more information, please visit:

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