



Southeast Asia Chemicals 2023

This report has been produced by Global Business Reports. Research conducted by Lorena P. Stancu, Carola Gómez Prisco and Salma Khaila. For more information, please visit gbreports.com, or contact info@gbreports.com. Cover photo courtesy of Kuantan Port.

OVERCOMING SOUTHEAST ASIA'S FRAGMENTATION

Understanding the differences

There is no doubt that the Asia Pacific (APAC) region, with its huge population and rapid economic development, is the most important market for the global chemicals industry. But even after taking India and China's multi-billion populations out of the mix, one is left with a slice of great significance: The Southeast Asia (SEA) region, home to 600 million people spread across 11 countries, and with an aggregate economy growing faster than most others over the last 10 years. However, this grand SEA population, the fourth largest trade bloc in the world after China, India, and Europe, is also one of the most diverse – the idiosyncrasies of language, culture, religion, geography, politics, and economy leaving the region fragmented and struggling to present itself as one. Broken up into individual countries, the region diminishes its global significance, as well as its collective force to attract investment.

Besides Indonesia's sizeable 273 million population, the other 10 SEA countries form a contrasting palette of differences; some of the world's richest countries, like Singapore, and some of the poorest, like Myanmar, belong to the same group; one of the smallest states in the world (Brunei, with less than 500,000 people) is put in the same box with one of the biggest (Indonesia has the world's fourth largest population). This diversity is matched by a deep level of market fragmentation, characterized by varying consumer preferences and spending behaviors.

At the country level, local economies are highly fragmented and dominated by SMEs. For example, the Malaysian chemical industry constitutes of over 900 SMEs and 100 multinationals (MNCs), according to the Chemical Industries Council of Malaysia, the main association representing the industry. In Indonesia, there are about 300 crop protection producers, according to Salim Agro, a formulator and active ingredient producer of crop protection chemicals. Momentive, an American silicone producer, serves about 4,000 customers in SEA. Despite efforts from the Association of Southeast Asian Nations (ASEAN), the recently ratified Regional Comprehensive Economic Partnership (RCEP), and a free trade agreement (FTA) between 15 countries, trade in the region is not harmonized, with a web of

bilateral and multilateral regulations overlapping each other.

MNCs are well aware of the opportunities of scale that the region presents. And so are governments. With FDI in SEA reaching a record high in 2021 at US\$174 billion, based on S&P data, countries in the region are keen to seize the opportunity: "We are promoting Malaysia as a competitive manufacturing and distribution hub," said Datuk Wira Arham Abdul Rahman, CEO at the Malaysian Investment Development Authority (MIDA), the government investment promotions agency.



Datuk Wira Arham Abdul Rahman, CEO, Malaysian Investment Development Authority (MIDA)

Malaysia, Thailand, Indonesia, Vietnam, and The Philippines are all competing for foreign direct investment (FDI) in the chemicals sector. While Indonesia flaunts its large domestic market and the second-fastest growing middle class in the world after China, Vietnam emphasizes its export-oriented economy, boosted recently by the EU-Vietnam FTA, which has already made the country into one of the favorite recipients of FDI in recent years. Malaysia has long been the cost-friendly alternative to neighboring Singapore, with good infrastructure, rich natural resources, and a well-developed ecosystem of skills and services. Before making a final investment decision for a new facility, companies look at all of these credentials. In deciding the best location for its second specialty silicones plant in the region, Momentive considered Vietnam and Indonesia, before zeroing in on Thailand: "Thailand has both a sizeable population and excellent export capabilities to supply into the entire region," said Pawan Sherpuri, responsible for Momentive Performance Materials in Southeast Asia.

Investments in the region are determined by such compare-and-contrast, pros-and-cons exercises, based on which American, European, Japanese, and Korean MNCs chose their preferred SEA location. For instance, Malay-

sia is home to the largest investment outside of Tokyo headquarters for Kaneka Corporation, as well as for Seoul-based Lotte Corporation. German polycarbonate producer, Covestro, runs the APAC business from Bangkok. TotalEnergies Corbion also chose Thailand to make its renewable polylactic acid (PLA). Dutch paints and coatings leader AkzoNobel has four manufacturing sites in Vietnam.

Ouray, an emergency response service provider from the United States, set up its office in Singapore five years ago, after following its multinational customers in the region – mostly in Thailand, Indonesia, Vietnam, Japan, Australia, and other markets, rather than Singapore itself, where the government is looking after emergency response within the country. Now operative in over 100 countries and with a solid network of customers in APAC, Ouray expects further growth from the region, as it extends its client base; the vast majority of its clients are global specialty chemical producers operating hazardous materials: "We feel very confident in the future of Southeast Asia and we are excited about the opportunities it provides for further investment from global entities. Ouray stands ready to work with them and be an advocate for them in their growth," said Aaron Montgomery, the company's CEO.



Aaron Montgomery, President and CEO, Ouray

POSITION FOR COOPERATION, NOT COMPETITION

However, no matter where they produce from, MNCs' end goal is always to serve the region rather than any individual country, something that SEA nations seem to lose sight of in their competition with each other. We argue in this article that the region would become more competitive to international investors if it learned to act more as one – for instance, by developing upstream-to-downstream regional value chains and by focusing on complementary differentiating points, rather than competing ones. A Malaysia-versus-Thailand-versus-Indonesia-versus-Vietnam-and even versus Singapore approach only makes sense to the extent it highlights unique differentiators best matched to investors' interests. For example, an investor interested in the semiconductors business might find Penang's (a Malaysian state) buzzing electronics industry to be a winning investment choice, while an investor whose main goal is to produce inexpensively will find a good fit in Vietnam. Either of these investors will benefit from importing raw materials from the region and exporting their products to the entire region. For this, they need a well-integrated and self-serving market.

A Malaysia-plus-Thailand-plus-Indonesia-plus-Vietnam-plus-Singapore approach has a multiplier effect on the unique advantages of each country, while it offsets the disadvantages of either individual country. Investments in any ASEAN nation can benefit the entire region if these are guided to an equal extent by considerations of differentiation and integration. This would lead to the development of a complete and self-sustaining regional ecosystem.

Looking at recent government development plans, the chemical sector is prioritized in each of the economies mentioned. Indonesia has recently made public its intention to become the largest petrochemical producer in ASEAN, with investments of US\$31 billion dollars by



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Jaya Martapa, CEO, PT Petro Oxo Nusantara

2030. The government's focus is to become completely self-sufficient and no longer import petrochemicals after the superhub at the North Kalimantan complex is complete. Currently, Indonesia imports chemical products valued at US\$22.9 billion and exports US\$11.2 billion worth of chemicals, according to the Observatory of Economic Complexity (OEC). Private investments are also focusing on closing the upstream gap in imports. South Korean company Lotte Chemical Titan, one of the largest olefin and polyolefin producers in the region, is investing US\$3.95 billion in a new integrated ethylene project (the LINE project), which will consist of 1 million tonnes per year (t/y) naphtha cracker, and added capacity in both ethylene and propylene. The company has three existing standalone polyethylene (PE) plants in the same area as the LINE project, so the new upstream capacity will feed into the downstream production of PE.

Indonesia has a refining capacity of 1.1 million barrels per day (b/d), the third largest in the region after Singapore and Thailand, according to BP Statistical Review of World Energy 2022. Malaysia, on the other hand, with a refining capacity of 955,000 b/d, has been mostly concerned with the development of its downstream sector, according to Akbar Thayoob, president at the Malaysian Petrochemicals Association (MPA) and head of strategic planning and venture at Petronas, the state-owned integrated petrochemical company.

The Malaysian chemical sector began developing in the 1980s with basic petrochemicals like ammonia, ethylene, propylene, aromatics, and polymers, and it has swiftly pushed into higher-value products, culminating with the RAPID integrated project in the southern state of Johor, right at the border with Singapore. Including a petrochemical refinery, an isononanol plant, a steam cracker, three sulfur recovery units, a liquid sulfur storage unit, and a sulfur solidification unit, RAPID is part of Petronas' largest downstream greenfield

investment, called the Pengerang Integrated Complex (PIC) and worth US\$27 billion. The inauguration of the project, overdue since 2021, has been stalled by a fire that took place in 2020.

Investments in value chain integration, both backward and forward, are not always aligned with the principles of competitiveness. For example, 2-ethyl hexanol (2-EH) Indonesian producer PT Petro Oxo Nusantara (PT PON) sources propylene, a gas used as raw material for 2-EH, mostly from its main shareholder, the state-owned oil and gas company Pertamina; but outside of its contract with its mother company, it also imports this raw material from suppliers like Petronas or PTT Chemicals, the state-owned petrochemical companies of Malaysia and Thailand, respectively. Meanwhile, for natural gas, the other essential feedstock of 2-EH, PT PON buys it at a discounted price from Pertamina. At the current rate, the 2-EH producer cannot sustain growth: "At the current rates, we risk being rendered uncompetitive in five or 10 years; we must first source cheaper propylene for 2-EH, and then transform our portfolio so that 2-EH only represents 30-40% of our production, while the rest constitutes downstream chemicals," commented Jaya Martapa, the CEO.

A FRAGMENTED MARKET IS WEAKER IN A GLOBALLY FRAGMENTING WORLD

With the crisis in Ukraine ongoing, a continually sour relationship between China and the US, and the pandemic all disrupting global supply chains that were once thought unbreakable, the world has become a riskier place for globalized investment. Manufacturers are looking to safeguard their supply chains by producing regionally, and, ideally, away from any political spats. Southeast Asia has long been recognized as a politically neutral and stable region, on top of being cost-competitive. This has made it a logical choice for the shift to "in the region, for the region" manufacturing.

Covestro has made multiple investments at its Map Ta Phut site in Thailand in the last few years, having recently completed the first Naphthalene-Diisocyanate (NDI) plant outside of Europe, and is currently pursuing two main expansions: double-digit investment to increase capacity in engineering plastics, including the capability of recycling of polycarbonate, and, announced this year, to expand specialty films production, which will be the most advanced specialty film facility of Covestro in Asia. "Thailand has been sitting in

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Timo Slawinski, Managing Director, Covestro Thailand

the sweet spot over the past few years, in between the energy crisis, geopolitical issues in Europe, and strict Covid measures in China,” said Timo Slawinski, managing director at Covestro Thailand.

“In the region, for the region” investments are expected to continue. Japanese company AGC recently announced its largest-ever investment in new soda ash capacity in Thailand. Tremco Construction Products Group (CPG), a leader in construction-related products like sealants and coatings, is investing in a second



Lee Jia Zhang, CEO, KLK Oleochemicals

factory in Kuala Lumpur, Malaysia, from where it will supply to APAC and beyond. To protect this advantage of being seen as a location of regionalized production, Southeast Asian countries must direct their policies towards collaboration for mutual benefits; there is a risk that, by looking inward at the development of secure domestic supply chains, countries in the region end up being seen as protectionist and insulating themselves. To provide a refuge against the trend of global fragmentation, Southeast Asia itself must become more consolidated.

THE DOUBLE OPPORTUNITY OF BACKWARD INTEGRATION AND REGIONAL DISTRIBUTION

SEA benefits from being seen as a single yet diverse market which brings two crucial opportunities: The first is the opportunity of backwards integration. For example, through JVs like the BASF Petronas Chemicals (BPC), Malaysia’s upstream resources were married with BASF’s product capability and global markets, to create a competitive producer of acrylic monomers, oxo alcohols, and aroma ingredients. Malaysia and Indonesia bring opportunities not only to integrate into the classic petrochemical value chain but also in oleochemicals, the two nations accounting for over 80% of palm oil production globally. Thailand also brings a bio-feedstock advantage through the sugar-to-ethanol and sugar-to-polymers value chain, as the world’s third biggest sugar producer after Brazil and India.

Besides obvious cost and supply chain advantages, backward integration comes with the added benefit of supply chain transparency, as KLK OLEO, the division under the Kuala Lumpur Kepong Bhd (KLK), one of the largest plantation companies in Malaysia, explained: “From a purely commercial perspective, our vertical integrated model is less important because we procure raw materials at market prices, but from a sustainability perspective, being able to provide end-to-end traceability is an indisputable advantage,” said Lee Jia Zhang, CEO at KLK Oleochemicals.

But the biggest opportunity that SEA brings is to supply the entire region. This can only be realized by establishing robust logistics and distribution channels. Singapore has proven how, with a very small local market, a country can become one of the top petrochemical centers as long as it is well-connected to its export markets. Singapore is the biggest transshipment hub in the world, utilizing to the most its geographical positioning, trade relations, and port capabilities. But Malaysia shares these assets too, and its largest port, Port Klang, does not lag far behind Singapore, as the second largest port in the region and the 12th largest in the world, with a container throughput of 13.7 million TEUs in 2021. On the East side of Malaysia, Kuantan Port also enjoys strategic positioning within the fastest shipping route to China through the South China Sea.

Logistics companies are seizing the opportunity of regional distribution from Malaysia. Three German players - Steinweg Logistics, Leschaco, and Talke Logistics - have invested in local facilities in the country. ■

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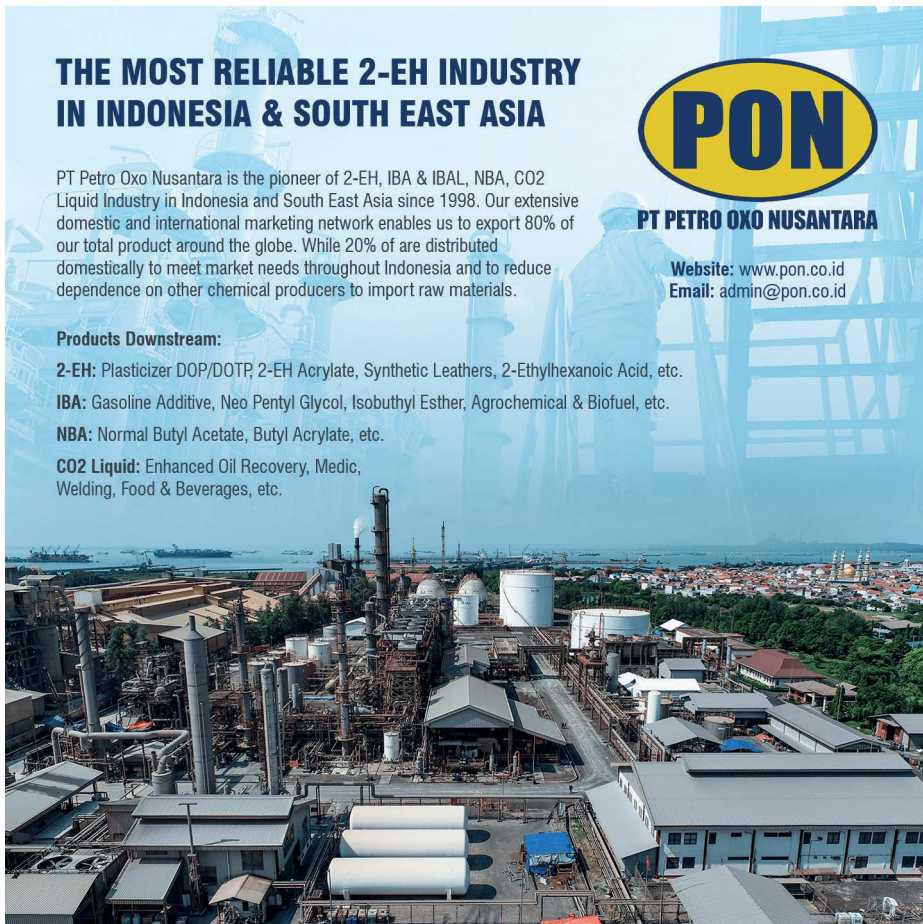
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SUSTAINABILITY

From bio-based feedstocks to bio-waste feedstocks

The availability of bio-based feedstocks like palm oil, but also sugar, in the region, has attracted investors wanting to develop greener alternatives in the plastics, food, and personal care markets. Turkish multinational Evyap Sabun moved its manufacturing to Malaysia almost 10 years ago, after shifting from tal-low to palm oil as a feedstock for its products – especially soaps. The global bio-based personal care market is expected to grow at 5.67% CAGR between 2021-2031, reaching US\$7.75 billion by 2031, according to Straits Research.

By comparison, for the bioplastics market, valued at US\$7.6 billion, some reports project accelerated growth of over 10% per year within this decade. “We call bioplastics those polymers that are 100% renewable-based and/or biodegradable,” said Thomas Philipon, the CEO of TotalEnergies Corbion, a JV between energy and petroleum French company TotalEnergies and food ingredients Dutch company, Corbion.

Just as personal care ingredient players chose Malaysia or Indonesia as a manufacturing base for their palm oil-derived products, TotalEnergies Corbion decided to produce its 100% bio-based, recyclable, and compostable polylactic acid (PLA) in Thailand owing to the availability of sugar, its raw material. With the current bioplastics industry only accounting for 1% of the global plastics industry, there is plenty of room to grow and “no time to waste,” as Philipon put it: “The bioplastic market is believed to grow at 10 to 15% each year, and the engine of this growth is the replacement of petrochemical-based plastics. Based on our internal analysis, one kg of PLA saves 75% of CO₂ emissions generated by one kg of either PT, PE, or PS.”

Other producers in the polymers space are making investments to change the feedstock of their current products with a lower-carbon, waste-based raw material. German specialty chemicals leader Evonik announced it will replace the sand used to make precipitated silica at its Rayong site in Thailand with rice husk ash (RHA), a waste product. By replacing the sand with RHA, Evonik can skip the power-intensive melting stage, reducing GHG emissions by 30%.

As Evonik illustrates, the next level of innovation in bio-based platforms comes from the conversion of waste, as well as products with no defined use and whose removal does not have a negative impact or has a positive impact on the surrounding ecosystem, into new products. For example, in the feed-to-food value chain,



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Dirk Lorenz-Meyer, Chairman, Behn Meyer Group

Behn Meyer Group, one of the largest food ingredients and chemical distributors in South-east Asia, has recently proven a new technology to upcycle food waste into a commercial supermarket product, through its newly created company, the Thai-based Nutrivo Ingredients, a producer of plant-based fiber proteins. Moreover, the company also invested in a Norwegian producer of renewable-based solutions from marine deposits of calcified algae. “By harvesting replenishable marine minerals from the ocean floor, we are bringing to the feed, food, and cosmetics industries a completely sustainable, chemical-free, natural ingredient,” said Dirk Lorenz-Meyer, chairman at the 180-years-plus company.

Interestingly, whereas most companies have focused on palm oil as a feedstock, Behn Meyer found an opportunity in palm oil waste. This organic waste can be treated with enzymes to produce natural fertilizers. Growth in the bio-fertilizer markets beats both the bioplastics and biocosmetics markets, with a growth rate projected at almost 15% between 2022 and 2027, according to Research & Markets.

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STUCK IN THE ENERGY TRILEMMA

In 2021, Indorama Ventures (IVL), became the largest issuer of sustainability-linked bonds (SLB) in Thailand. The Bangkok-headquartered PET producer also obtained US\$300 from the International Finance Corporation (IFC) to recycle 50 billion PET bottles every year by 2025. This marked the first-ever “blue loan” – a financial instrument to fund the sustainable use of ocean resources - to be awarded to a plastic manufacturer. The investment community is clearly rewarding chemical companies, includ-



Peih Yoke Hoo, Managing Director, Linde Malaysia

ing plastic producers, for their sustainability efforts. In fact, a study by McKinsey found a correlation between improved shareholder returns and improved sustainability profiles. At the same time, investors can also castigate companies that do not show strong ESG credentials.

“Soon, businesses may not be able to access financial assistance unless ESG checklists are complied with. Whilst the world is unified in its sustainability intent, I firmly believe that each country must be allowed to develop its climate plans to meet the set targets within its own scope of resources rather than imposing other countries’ templates,” commented Sharifah Zaida Nurlisha Syed Ibrahim, CEO at MMC Oil and Gas Engineering, a contractor in the oil and gas sector in Malaysia.

Malaysia, as well as Indonesia, Thailand, and Singapore, continue to depend on fossil fuels within their energy mix. In Malaysia, petroleum, gas, and coal make up the bulk of the country’s energy source, with renewable energy accounting for just 6% of the total consumption. Indonesia’s energy supply comes in majority from oil (35%), coal (37%), and gas (18%), with the remaining consecrated to hydropower, geothermal, biofuel, and renewable sources. Thailand’s energy scene is dominated by gas (63%), followed by coal (21%), and the rest being green. According to a report by the International Energy Association, the region’s import needs will only accelerate as demand for energy grows.

But besides securing its energy needs, the region will also need to make sure its energy is clean and affordable. The so-called “energy trilemma” – or how to reconcile reliability, with affordability, and sustainability – is a challenging one for Southeast Asia.

Concurrent with the issues of energy affordability and security, it cannot be forgotten that SEA has been identified by the Intergovernmental Panel on Climate Change (IPCC) as one of the most vulnerable regions to climate change; typhoons, floods, and draughts have



Ts. Sharifah Zaida Nurlisha Syed Ibrahim, CEO, MMC Oil and Gas Engineering

become more frequent and more violent in recent years. In the Vietnamese Mekong Delta, the ocean’s seawater has been flowing into the freshwater delta at unprecedented levels due to climate change. “Many fruit and rice growers have stopped producing due to high salinity levels,” said Dirk Lorenz-Meyer, chairman at the Behn Meyer Group, which is currently working on solutions for more salt-tolerant seeds and crops.

Perhaps the one factor that reconciles the need for sustainability with that of profitability is consumer preference for greener products. Taking this trend into account, a country’s competitiveness is starting to be measured not only in the cost per unit produced but also in the CO2 footprint released. Large chemical companies like Covestro, which produces polycarbonates, specialty films, and elastomers in Thailand, see the country’s lack of a carbon reduction framework as a disadvantage: “Thailand is still on its way to providing infrastructure to use green energy or the frameworks to buy carbon credits, as other countries do (...) This aspect can render us uncompetitive unless we can switch to greener energy sources in line with our customers’ climate goals,” said Timo Slawinski, the managing director.

Consumer preferences are not effective without a reinforcing government policy, Peih Yoke Hoo, Malaysia’s managing director for Linde, the leader in industrial gases, including hydrogen: “The central issue lies in the uneven distribution and availability of clean power, forcing many companies to pay a premium on green energy or technology to meet their decarbonization targets.”

Singapore is the only country in Southeast Asia to have introduced a carbon policy in the form of a carbon tax. However, at COP26, Indonesia signed the regulation to introduce a carbon cap-and-tax system to facilitate international carbon trading. ■

NAVIGATING THE CURRENT ECONOMIC AND SUPPLY CYCLE

Petrochemical markets face more capacity additions

Outrageously high profits reported by big oil companies like ExxonMobil, BP, Shell, Chevron, or TotalEnergies for 2022 created a roar of disapproval from politicians, President Biden controversially commenting that ExxonMobil, which posted an industry-record profit of US\$59 billion for the full year, “is making more money than God.” Southeast Asia’s homegrown giants were not far behind. Petronas, one of the largest in the region, doubled its revenue from RM50 billion (bn) in FY 2021 to RM101.62 bn in FY 2022.

However, while gains in the upstream caused O&G players to be disdainfully compared to deities, downstream businesses, especially in the polymers space, took losses. Lotte Chemical Titan, a large polyolefin and olefin producer

listed on the Malaysian Stock Exchange (Bursa Malaysia), wrapped up the year with a net loss of RM714.64 million, against the RM1.04 billion posted in FY2021. Chandra Asri, Indonesia’s largest petrochemical company, saw a revenue drop of 7.6% year-on-year (y-o-y); except for its olefin business, which grew by 15.7%, its polyolefin, styrene monomers, and butadiene segments registered big revenue losses.

This discrepancy is explained by the fact that the price of raw materials (oil and gas), which represents about 60-70% of the total cost of petrochemical producers, stayed relatively high, whereas the price of basic chemicals flattened out, squeezing margins.

The outlook for the rest of the year remains generally downbeat, especially in Asia, where multiple crackers and derivative units are coming online. According to ChemOrbis, China will add over 8 million t/y of polypropylene (PP). PolymerUpdate, a market intelligence company, informs there are multiple paraxylene (PX) commissioned in China; this new supply will meet an already saturated purified terephthalic acid (PTA) downstream market. Between 2023 and 2024, more than 26 million t/y of PTA will flood the market from 10 plants. The styrene monomer (SM) market buckles up for a similar deluge, even as demand sags.

SURVIVAL OF THE FITTEST

Prima facie, these huge investments might not make sense in an overflowing market, but the fact that billions are poured into petrochemicals is a bellwether of anticipated growth in the longer term. The Statista Research Department suggests the global petrochemical market is to double from US\$584.5 billion in 2022 to over US\$1 trillion by 2030. It is this continuous growth that makes companies unyielding in the face of uncertainty. “Having been in this industry for more than 30 years, I have witnessed many economic cycles, but the underlying trend has been of accelerated growth, spearheaded by South-east Asia, which has motivated massive investments in polyolefins by the petrochemical industry,” commented Park Hyun Chul, president and CEO of Lotte Chemical Titan.

Lotte is investing US\$3.95 billion in the LINE project (an acronym for Lotte Chemical Indonesia New Ethylene), an integrated petrochemical facility that will produce 1,000 kilo tons per annum (KTA) of ethylene and 520 KTA of propylene, boosting the company’s total capacity by 65% once the expansion is complete in 2025. Also expected to be ready in 2025, AGC’s capacity expansions at its two caustic soda plants



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**Park Hyun Chul, President and CEO,
Lotte Chemical Titan**

in Thailand represent the Japanese company's largest-ever investment, estimated at US\$770 million.

Oversupply in polyethylene terephthalate (PET), the most common thermoplastic polymer, is not deterring Indorama Ventures, the world's largest PET producer, to invest in the US\$2.4 billion PTA-PET facility in Texas – the Corpus Christi Polymers Plant is touted as the largest vertically integrated PTA-PET plant in the Americas, and it will bring 1.1 million t/y of PET and 1.3 million t/y of PTA to the market in 2025. Global Data forecasts that the new PET capacity additions in Asia will amount to 4.68 million t/y by 2026, with Asia representing 58% of the newly added supply. Zhejiang Petrochemical Daishan Polyethylene Terephthalate Plant 2 will add 2 million t/y when it comes onstream in 2026.

Even in a surplus market, there is still room for growth in PET. The largest PET producer, Indorama Ventures, only captures 1% of an incredibly fragmented global market. Aloke Lohia, the founder and CEO of US\$18.7 bil-



**Aloke Lohia, Founder and Group CEO,
Indorama Ventures**

lion Indorama Ventures (IVL), said: "Based on the principle that it is not the strongest of the species that will survive, but the most agile, success to me is not about having the largest market cap, but the most agile operation".

In this survival-of-the-fittest competition, the battle is mainly fought in the cost arena. In this sense, SEA brings an important advantage, for all the reasons discussed so far. Starting operations in 1995, Thailand, Indorama was one of the first PET producers in the region, and has grown today to 146 manufacturing sites around the world.

In 2022, Indorama registered a 28% Y-o-Y growth, in defiance of current macroeconomic challenges.

CHINA'S REOPENING USHERS IN A WAVE OF DELAYED DEMAND

Described by The Economist newspaper as "the biggest economic event of 2023," China's reopening at the beginning of this year is expected to send a super-wave of demand for



Vino Kumar, CEO, Kuantan Port

goods and services, which will power growth in the chemicals sector. After three years of lockdowns and draconian zero-covid policies that have cost individual liberties for the greater good of containing the virus, China's 1.4 billion inhabitants can move again – and are moving. On the 27th of December, bookings on Trip.com rose by 250% compared to the previous day, wrote the newspaper. The government expects 2 billion trips this year.

At the end of the first quarter, the much-anticipated reopening of the US\$19 trillion economy did not disappoint, with GDP growth reaching 4% according to the most recent survey by Reuters. The same source estimates this figure to jump to 5.4% for the full year. A stronger Chinese economy sends ripple effects across the world. But not all are good. Analysts at Goldman Sachs projected that Chinese demand could push the Brent crude prices to US\$100 a barrel, beefing up inflation. More competition for LNG imports could lead to shortages in Europe, warned the International Energy Agency (IEA).

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However, for SEA, the rebound in the Chinese economy is mostly good news. Thanks to the region's geographical and trade proximity, SEA is bound to profit from the influx of tourists and uncorked demand. 11 million Chinese traveled to Thailand for tourism before the pandemic, which is 27% of the country's total tourist pool. China is the main export destination for all chemical exporters in the region – Singapore, Malaysia, Indonesia, Thailand, and Vietnam – and by a considerable margin. As Vino Kumar, the CEO of Kuantan Port, one of the biggest ports in Malaysia, said: “When China sneezes, we catch a cold.”

SPECIALTY CHEMICAL PRODUCERS CHASE ANOTHER REBOUND

Generally, the global specialty market, led by APAC in terms of revenue share, is healthy, and expected to average a growth rate above 5% between 2022-2032, as the use of advanced chemicals in construction, automotives, electronics, packaging, pharmaceuticals, personal care, and agriculture continues to rise. Many global specialty chemical manufacturers posted record profits in 2022, but their full-year results conceal a difference between the first (H1) and



Hiroyuki Nishimoto, Managing Director, Kaneka Malaysia

the second half (H2) of the year: profits skyrocketed on the back of demand build-ups and very high prices in the first two quarters of the year, before correcting sharply in H2.

This year, the industry hopes that 2023 will be a mirror of 2022, with a weak H1 and a buoyant H2, largely driven by the rebound in China: “If the first half of 2022 still carried the lagging effects of the pandemic, manifesting through a high demand for medical suppliers, for instance, the second half of the year was marked by a more sluggish economy, with the

sharp rises in energy prices and growing interest rates putting a break on growth in most countries,” said Hiroyuki Nishimoto, managing director at Kaneka Malaysia, a large chemical company headquartered in Japan.

Traditionally more active in the basic chemicals, most native SEA producers have taken steps towards the downstream, investing more in intermediates, derivatives, as well as more complex formulations, where the margins are higher. After closing its butanediol (BDO) and derivatives line in 2020, BASF Petronas Chemicals (BPC), the 60:40 JV company announced last year a plant expansion for 2-Ethylhexanoic Acid (2-EHAcid), a chemical intermediate used in the production of synthetic lubricants and oil additives, among other uses. The second line of production will double the annual capacity of the producer. “The decision to close the BDO plant is a result of significant overcapacities in the region due to recent investments into new coal-based BDO production sites. We plan all our future investments – and divestments – through a sustainability lens. Looking ahead, we are optimistic the economy will gradually recover in the second half of 2023, once China reopens its borders and consumer spending returns,” Marko Murtonen, the managing director of BASF Petronas Chemicals told GBR. ■

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