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 allowed the region's countries to rediscover their strengths to sustain growth either individually or as a part of the collective grouping of the 10-member ASEAN (Association of Southeast Asian Nation), which comprises 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.

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 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.

Vietnam's relatively nascent plastics industry had an average annual growth of 16-18 % between 2010 and 2015. Packaging accounts for 37.4 %, followed by consumer goods (27 %), construction (18 %) and technical products (15 %). Yet, the industry is still at the "low end and of low value", according to Vietnam Plastics Association (VPA), 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, with a population of over 250 million, Indonesia's government has increased efforts to industrialise and develop the nation towards becoming the world's seventh largest economy by 2030. Its rising middle class, to double to 141 million people within the next five years, will drive plastics consumption. According to the Indonesian Packaging Association, food packaging accounts for 70 % of plastic consumption sales. The Aromatic, Olefin and Plastic Industry Association (Inaplas) has set a 6 % growth in domestic demand for the plastics sector, sustained by an improving GDP of 5.3 % in 2016 and upbeat food and beverage and agribusiness sectors.

One of ASEAN's top exporters of plastic products, Malaysia has over 1,500 plastic production companies that export to Europe, China, Singapore, Japan, and Thailand. The packaging sector accounts for 45 % of the total plastic consumption market, followed by electronics (26 %), automotive (10 %) and construction industry (8 %). However, 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.

Thailand's plastic consumption is led by packaging (48 %), electronics (15 %), construction (14 %), and automotive (8 %). Its automotive sector attracts manufacturing opportunities, although itsoverall 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 has also invested US$ 60 million into bioplastics development over the past seven years, with the government pumping in 80 % of this investment.

Export-oriented Philippines 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 industries account for the majority of the country's exports. 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 by allowing less or no duties on exports to the EU.

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

Around 95 companies are represented on Singapore's Jurong Island, attracting investments in excess of S$ 35 billion, according to the Economic Development Board. Providing a plug-and-play environment, the island allows companies to quickly ramp up their operations, helping growth in both upstream and downstream sectors. Presently, companies like BASF, ExxonMobil Chemical, Lanxess, Mitsui Chemicals, Shell and Sumitomo Chemicals have plants. However, BMI Research expects Singapore to face an uphill climb in 2016, in the face of a Chinese downturn and regional oversupply. Thus, the country 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).

Pushing further the region's plastics industry, initiatives are being laid out by plastics trade associations, including 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). The associations are working in tandem with international-scale trade agreement blocs, including the ASEAN Economic Community (AEC), the US-led Trans Pacific Partnership Agreement (TPPA), and the China-backed Regional Comprehensive Economic Partnership (RCEP).

The AEC, which was effected 1 January, features liberalisation of goods, investments and services and will enable plastic producing countries like Thailand, Malaysia and Singapore to lower duties on finished plastic products, machines and moulds to other member countries like Vietnam, which buys about 80 % of its plastic materials requirements from Thailand and Malaysia.

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

The US-led 12-nation TPPA will liberalise trade regulations between the member countries and also eliminate tariffs as high as 25 %. The easier access to overseas markets also post benefits for the countries.

The RCEP, made up of ASEAN members, China, Japan, South Korea, India, Australia and New Zealand, aims to consolidate the existing ASEAN FTAs and tie-ups with the other six partner economies. It will impose a 65 % tariff cut, with the percentage likely to increase to 80 % within a decade. The RCEP could also usher into the Asia Pacific Economic Cooperation (APEC)'s long-time prospect of creating a Free Trade Area in the Asia Pacific (FTAAP).

With these optimistic developments taking place, the ASEAN plastics industry will witness an expansion. In the ASEAN Business Outlook Survey 2014, by the American Chamber of Commerce Singapore and US Chamber of Commerce, Indonesia ranked as the most attractive country for new business expansion, followed by Vietnam, Thailand, and Myanmar. Availability of low-cost labour in countries such as Cambodia, Indonesia, Laos, Myanmar, and Vietnam, renders a competitive advantage. Overall, ASEAN's growing consumer bases, broadening of plastic import and export markets, and expanding foreign trading powers offers foreign investors significant opportunities.

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