



GOI TRADING - Market Dynamics

\*\*\*\*\*

# Feeling the strain



by Tariq Malik on March 2018

New year, fresh set of opportunities and challenges for the styrene industry and beyond. While many are as before – volatile pricing, supply bottlenecks, political uncertainty – there’s a new difficulty that may be coming into view.

After China started an investigation last year into styrene imports from the US, Taiwan and South Korea, the jury’s out on whether the world’s second-largest economy will impose tariffs – a development that may have far-reaching consequences.

At GOI Trading we serve multinational companies in Europe and focus on global supply networks, so issues affecting international trade such as that get our special attention. In June 2017 China’s Ministry of Commerce announced a year-long investigation into styrene monomer imports from those three nations, which between them account for 60 percent of imports, ICIS reported on 4 Jan.

## **Feeling the strain**

The Anti-Dumping Duty (ADD) probe comes at a time of already frosty relations between Washington and Beijing. U.S. President Donald Trump, elected on a promise to “Make America Great Again,” has recast foreign policy while seeking to promote job creation at home and cutting the U.S. budget deficit.

Let’s imagine for a moment that China does impose tariffs on imported styrene – ranging from 5 percent to 10.7 percent, Global Trade Review said in a 22 Feb article. If the U.S. then exports more styrene to Europe, a region with ageing chemical industry infrastructure and political uncertainty around Brexit, for one, this may well put pressure on pricing. With challenges also come opportunities... In this case, a growing appetite for local production might prompt increased investment in chemical plants. The tussle between globalisation on the one hand and national interests on the other may be nothing new, but it’s a tension that has scope to build on all sides.

After all it was only in January that the U.S. imposed tariffs on the import of solar panels and washing machines. While the Trump administration deliberately applied the duties to products from around the world, those industries are dominated by Chinese and South Korean companies, The New York Times reported.

## **German exports**

Styrene industry or not, China is impossible to ignore for companies worldwide. Last year the Asian nation was the biggest trading partner of Germany, for one, with exports of 86 billion euros. BASF, for instance, invested 140 million euros in a new automotive coatings plant in Shanghai, the chemicals conglomerate said in December. Houston-based LyondellBasell, too, opened a new polypropylene compounds plant in China in the third quarter.

Still, China ranks as among the world’s most restrictive markets for foreign investment, National Public Radio, in a Nov 2017 article, cites the 35-member Organisation for Economic Co-operation and Development as saying.

Whatever the challenges of doing business in China, it’s no surprise that world leaders of all stripes have been courting Beijing recently. French President Emmanuel Macron, in a variation of so-called panda diplomacy, presented Chinese President Xi Jinping with a horse called Vesuvius at the start of a state visit in January.

As the UK negotiates to leave the European Union, Macron chose to start his state visit in

Xi'an, the ancient Silk Road hub, in symbolic backing to Xi's \$900 billion Belt and Road project, The Guardian reported at the time. That's a project so vast it encompasses 29 percent of global GDP, lender HSBC says.

After Macron returned to France, the UK Prime Minister headed to China later the same month. Theresa May, while given the affectionate nickname of "Auntie May" by state-run media during her visit, was less comfortable on the global stage than her Twitter-friendly counterpart across the English Channel, a Politico article contends.

### **Growth continues**

Whatever the difference in leadership style, or the outcome of Brexit talks, China will continue to be a force to be reckoned with. While economic growth may have cooled, a survey of 70 economists by Reuters puts expansion this year at 6.5 percent.

No choice but to be there, although international companies are losing market share in China, management consulting firm McKinsey said in a July report entitled "A game plan for international specialty-chemical companies in China". The market for speciality chemicals is set for sustained growth, not least as China's consumption of speciality chemicals is one third that of developed economies, according to McKinsey.

As for styrene monomer, the building block of the plastics industry, China has growth ambitions of its own.

The Asian powerhouse plans to increase styrene production by more than a third to 12.5 million tonnes by 2021, whereas demand is forecast to reach 11 million tonnes a few years after that. What that potential imbalance between supply and demand means for China and the wider styrene market remains to be seen.

The contest between national interests and globalisation is, inevitably, not a clear-cut tussle given the complex webs of global trade. Take the example of U.S. soybeans, with imports to China falling by 14 percent in January from a year earlier as Brazil's produce, lower in price and richer in protein, made inroads, Reuters reported on 24 Feb. In Jan 2016 U.S. beans accounted for almost 90 percent of imports, Reuters said, giving China leverage if a trade war goes tit for tat.

Say solar panels and washing machines in Washington, respond sorghum in Beijing. China started a probe into the import of U.S. sorghum, used to feed livestock, earlier in Feb, the Reuters article adds. Styrene, then, may be no exception in a trade spat.

About a third of styrene demand in China is met through imports, a proportion that may change as the country increases domestic product, ICIS reported on 21 Feb.

“Engagement — long accepted as the path to a safer world and a freer China — has been replaced with a chillier sense of strategic competition,” The Washington Post said in a 31 Jan article after Trump’s State of the Union address.

Earlier in the month, the U.S. government blocked the purchase of money-transfer firm MoneyGram in January by China’s Ant Financial on national security grounds.

“Frosty US welcome awaits top China official,” ran a headline in the Financial Times on 27 Feb as a politburo member headed to Washington with promises of accelerating economic reforms. The Trump administration is “laying the groundwork for a trade crackdown on China,” according to the same article.

### **Green appetite**

Environmental concerns are increasing in China, where the state’s battle against pollution, by forcing energy users to switch from coal to natural gas, is already delivering results, Bloomberg News reported on 11 Jan.

China, under pressure from an increasingly affluent middle class to address the environmental impact of rapid economic growth, as a 21 Feb Politico article puts it, also imposed strict limits on the import of foreign waste material at the end of last year.

Economists and trade experts disagree on how much of a problem the US trade deficit poses, the Council on Foreign Relations think tank said in an Oct 2017 backgrounder article. Debatable or not, it’s arguably set to be a recurrent theme in Trump’s presidency.

Trade spats, along with politics and issues specific to the styrene industry, are among the many issues that we monitor closely at GOI Trading. We’ll be happy to guide you by drawing on our flexibility combined with a deep knowledge of the market as you manage the risks and explore the opportunities in 2018 and beyond.

[READ MORE ON OUR WEBSITE](#)

