



Middle East
strategy shift
INTELLIGENCE P10

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A new strategy for globalisation

Chemical companies need to focus on solutions and services to drive demand and employment in mature economies

The global chemical sector needs to stimulate demand for innovative products and services in mature economies so that the benefits of globalisation are felt by people who have been left behind, a leading consultant says.

Globalisation is a very efficient method of production, but it shifts manufacturing to low-cost areas, leaving workers in mature economies at risk of under-employment. The chemical sector should adopt more service- and solution-oriented business models, which will boost demand and employment in high-cost regions, says International eChem chairman Paul Hodges.

This innovative approach is particularly important for a country like the US, where the election of Donald Trump has highlighted anger among voters about falling incomes and hostility to the effects of globalisation. The UK's Brexit vote was driven by similar concerns.

“We need smaller, more flexible, cheaper production with units located next to customers”

PAUL HODGES

Chairman, International eChem

On 21 November, Trump confirmed that he plans to exit the proposed Trans-Pacific Partnership as soon as he is inaugurated. This indicates he does intend to follow through with a protectionist agenda which could result in higher tariffs against US-made chemicals and polymers if a trade war develops. Hodges says the US industry can harness unmet domestic polymer demand to help swallow up the wave of new shale-based capacity due onstream over the next two or three years.

“It's highly likely that all the new capacity will come onstream at a time when the US is pushing towards protectionism. This makes

it critical for the US industry to move away from wishful thinking about selling all the new PE capacity into Asia and other foreign markets. They will have to refocus on creating domestic demand.”

Hodges believes it is critical to look at new opportunities in areas

such as water and food; otherwise the industry will not be able to sell these new volumes. “Companies will move towards being designers of materials and solutions. There are opportunities as well as threats for people who can revise their business models. It's critical for

people to take decisions now.”

He highlights the example of California, which has been in drought for the last five years. “Why not sell more PE pipes, as we know that 40% of water is lost before it reaches the consumer. Why waste capital on new reservoirs when you are going to lose 40%?”

He also suggests developing materials for intelligent packaging to tell people when food is really out of date, because 35% of food is currently thrown away.

“There must be a big focus on being efficient: these are enormous markets and the industry needs to become more demand-focused. Some of the new [wave of ethane-based] plants will struggle but in principle there is a lot of new demand that could be generated by taking a demand-orientated approach.” Looking globally, a new political and trading power block will develop as a result of China's “One Belt One Road” policy, which includes countries representing 40% of global GDP, says Hodges. This strategy aims to boost cooperation and trade between China and around 60 countries including Russia, much of eastern Europe, Asia including India and Indonesia, and parts of North Africa and the Middle East.

Hodges also believes the chemical industry should adopt the use of smaller, leaner and more efficient manufacturing systems. “In an uncertain world the biggest risk is that you can't sell product: this was always the risk before and it is today. We need smaller, more flexible, cheaper production with units located next to customers.”

He says you can take the view that the current changes in the global economy are driven by a demographic transition to an older population which does not spend much money. ■

Paul Hodges writes the Chemicals and the Economy
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Donald Trump's victory and Brexit signal a need for change