

# Thai investment drive struggles with long-term uncertainties

The Eastern Economic Corridor (EEC) offers the downstream a much-needed shot at expansion, but Sam Imphet finds the project's long-term investment appeal remains at risk

## COMMENTARY

### WHAT:

Thailand intends to attract US\$44 billion worth investment in the corridor which will stretch from Bangkok to the border with Cambodia.

### WHY:

The project wants foreign and domestic spending in 10 key industries to stimulate the ailing economy.

### WHAT NEXT:

Long-term political uncertainty in the country will limit the appeal of the project to foreign players.

AFTER a series of cost-cutting efforts to cope with the global oil price collapse, Thailand's state-owned PTT and its downstream subsidiaries are now being urged by Bangkok to raise their five-year capital expenditure budgets.

The about-turn is down to the government's need to guarantee domestic investment in its Eastern Economic Corridor (EEC) project to boost an economy that has been adrift for several years.

PTT is now expected to spend billions of dollars in the EEC, in which the government hopes to attract more than US\$40 billion of mostly foreign investment in 10 key industries over the next five years. The targeted industries range from biofuels and biochemicals to next-generation cars and robotics.

Thai Oil is predicted to expand its refining capacity by 45% to 400,000 bpd, and petrochemicals specialist IRPC is likely to build a 1 million tpy paraxylene (PX) plant as well as expand its ethylene cracker production capacity by 50%. These projects alone would cost US\$5.2 billion, local media have reported.

In addition, PTT's subsidiary Global Green Chemicals is tipped to invest almost US\$300 million in a new biochemicals plant.

But rather than being a financial burden these investments could amount to a catch-up opportunity for Thailand's downstream sector, which for years has been stymied by stringent environmental control rules imposed on the country's main petrochemicals centre at Map ta Phut, south of Bangkok, by Thailand's highest court. This followed a 2008 health study that revealed high cancer clusters in the local population.

### Downstream driver

The creation of the EEC will provide the sector with an opportunity to revive development plans shelved by these restrictions, the head of PCI Wood Mackenzie's chemicals consulting business, Steve Jenkins, told *NewsBase Intelligence (NBI)*.

"This came at a time when the PTT group of companies was moving to invest following on from the economic crash of 2008, and was eyeing growth opportunities across Asia for its products," Jenkins said. "The court order effectively halted a good part of PTT's petchems strategy in its tracks."

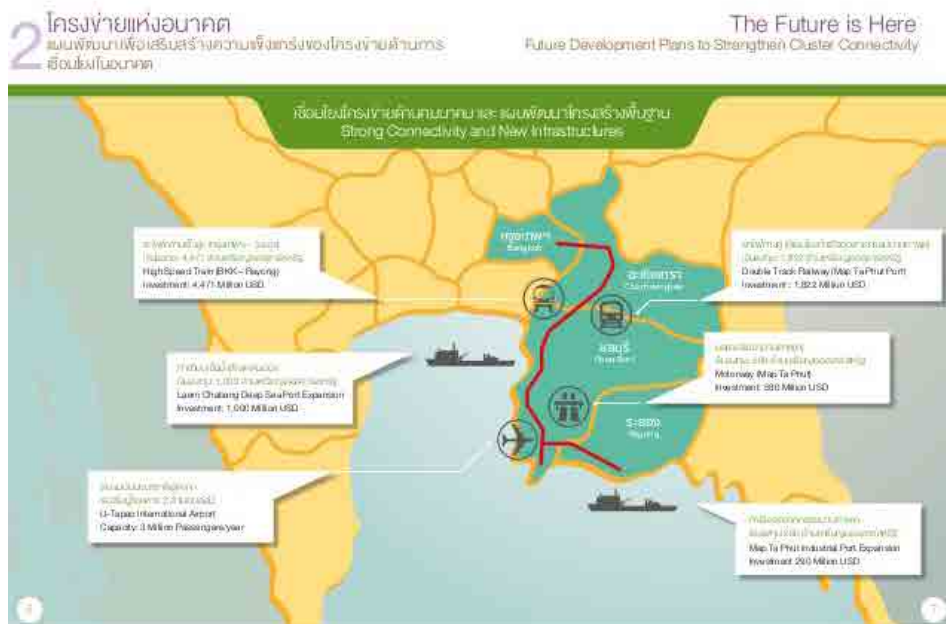
The rise in olefins prices in the last two years has been a lost opportunity for IRPC and PTT Global Chemical (PTTGC) in particular because of missed ethylene and propylene expansions post-2010, he said.

But the EEC is an opportunity for Thailand's downstream to bring home projects and plans that had not worked effectively abroad, Jenkins said, referring to PTT's unsuccessful efforts to establish refining joint ventures in Indonesia and Vietnam, as well as a shale gas cracker facility in the US.

He added: "Government support for these belated [EEC] investments is likely to be welcomed by companies such as PTTGC as it looks to re-engage with its Southeast Asian customer base and establish itself ahead of regional rivals in Indonesia and Vietnam through projects such as the Olefins Reconfiguration Project, which will see PTTGC expand ethylene capacity by 500,000 tpy and propylene capacity by 261,000 tpy by 2020."

The EEC will also embrace PTT's plans to expand LNG import facilities and associated





The Thai government hopes to attract US\$44 billion in investment in the EEC.  
Image: Thailand Board of Investment North America

- business on the coast at Rayong south of Bangkok, as well as still to be announced projects.

In a stock exchange announcement on June 16, PTT said it was raising its 2017 capex by US\$300 million to US\$2.76 billion, mainly for “opportunistic investment in the LNG value chain”. On June 23, the company announced the establishment of a new subsidiary, PTT Global LNG, to be owned jointly by PTT and its upstream unit PTT Exploration & Production (PTTEP).

In the meantime, CEO Tevin Vongvanich told the Bangkok Post the company and its subsidiaries were reviewing their five-year capex budgets to take account of the new EEC. At the end of 2016 the 2017-21 combined capex budget for the PTT group was set at 1.6-1.9 trillion baht (US\$47.1-55.92 billion).

### Attracting investors

The EEC is meant to cover an area stretching from Bangkok through three provinces along the northern edge of the Gulf of Thailand to the border with Cambodia.

The government intends to attract foreign investment with a variety of tax holidays and the suspension of rules on foreign access to land as well as easing business regulations. The objective is to encourage about US\$44 billion worth investment over five years, Industry Minister Uttama Savanayana told Bloomberg on June 22. Around 80% of this will come from the private sector and the rest from the state.

This year is all about communicating with potential investors and 2018 will be about pursuing foreign investment, Uttama told Bloomberg.

Japan will likely be among those interested as well as the richer countries from the 10-member Association of Southeast Asian Nations (ASEAN) such as Singapore. However, Singapore-based business consultancy Consulus’

CEO, Lawrence Chong, believes that China will be one of the EEC’s most enthusiastic backers.

“Singapore certainly has an interest but more importantly, Thailand is counting on its neighbour to the north to trigger an economic boom through the EEC,” Chong told *NBI*. To this end the Thai government has invoked the controversial Article 44 in the new military-promoted constitution to push forward a new fast railway that will link the EEC with China, he said. Article 44 allows suspension of normal regulations.

Fast-tracking the railway “is a clear indication who will be the key stakeholder for the EEC”, which is potentially a game-changer for Thailand and the region, Chong said.

### What next

But there are concerns that the whole EEC project may face an uncertain future once the current military government – in power since a coup in 2014 – allows Thailand to hold free elections again. These have been postponed twice and are now promised for the first quarter of 2018.

Industry Minister Uttama told Bloomberg the EEC project would be enshrined in a law being prepared by the army-dominated National Assembly and future governments would not be able to change things.

But while the country may expect a near-term cyclical economic upswing driven by strong government support, the longer term remains unclear.

In its latest risk assessment of the country, BMI said: “Changes over the past nine months have seen the country shift more in line with the region’s authoritarian regimes, where short-term political stability, afforded by the lack of democracy, is likely to come at the cost of long-term uncertainty.”

These are not encouraging signs for a US\$44 billion project so dependent on foreign investors. ❖