

# Petrochemicals: Asian producers are the most vulnerable to unrest in the Middle East

Coface

The geopolitical upheaval in the Middle East threatens a quiet pillar of global industry: the petrochemical sector. Highly dependent on naphtha, liquefied petroleum gas (LPG) and methanol from the Gulf, Asia is feeling the initial shockwaves, with low stocks on the one hand and sharply rising prices on the other.

The crisis is no longer confined to energy: it is spreading up the entire industrial chain. With 60 to 70% of Asian naphtha<sup>1</sup> passing through Hormuz, a prolonged disruption could redefine flows, costs and, perhaps, the very geography of the global petrochemical industry.

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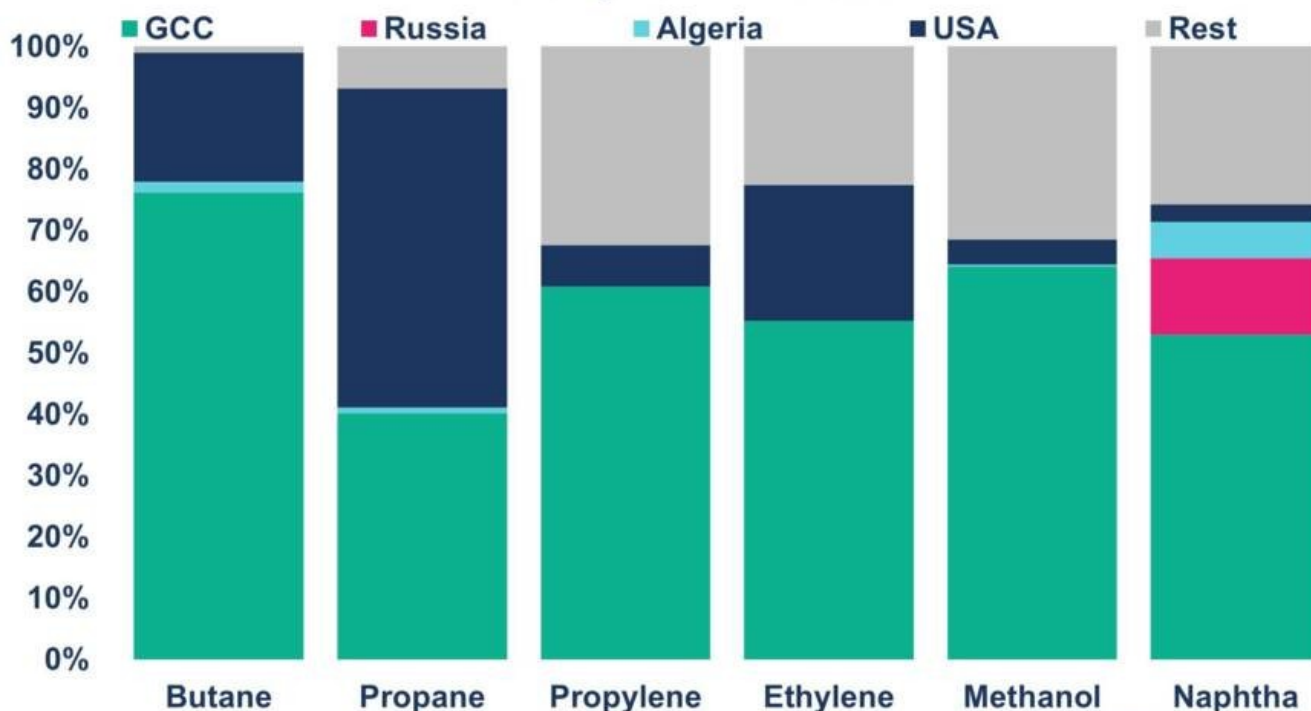
## Petrochemicals: Asia on the front line of the geopolitical shock

Escalating tensions in the Middle East and disruptions around the Strait of Hormuz have sent volatility soaring in the [energy](#) and [chemicals markets](#). The region supplies a large proportion of the sector's essential raw materials: crude oil, naphtha, LPG, methanol and other key inputs.

For Asian producers, this dependence is structural: 60 to 70% of their naphtha and 45% of their LPG come from the Middle East. As a result, Asia is the first region to absorb the shock, even as supplies tighten and prices rise rapidly.

### Dependence of Asian countries on Middle Eastern raw materials

% of import volumes in 2025



Source: ICIS, BACI, Coface

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[Data for graph in .xlsx format](#)

The current tensions are occurring against a backdrop of weak demand — in construction and the automotive sector — and persistent Chinese overcapacity. Furthermore, Asian producers (e.g. South Korean and Japanese) structurally operate with low stocks of naphtha and LPG, sufficient to cover only a few weeks of production. The result: naphtha inventories are depleting rapidly, forcing producers to cut back on output.

## The Gulf: an essential upstream link in the global chemical chain

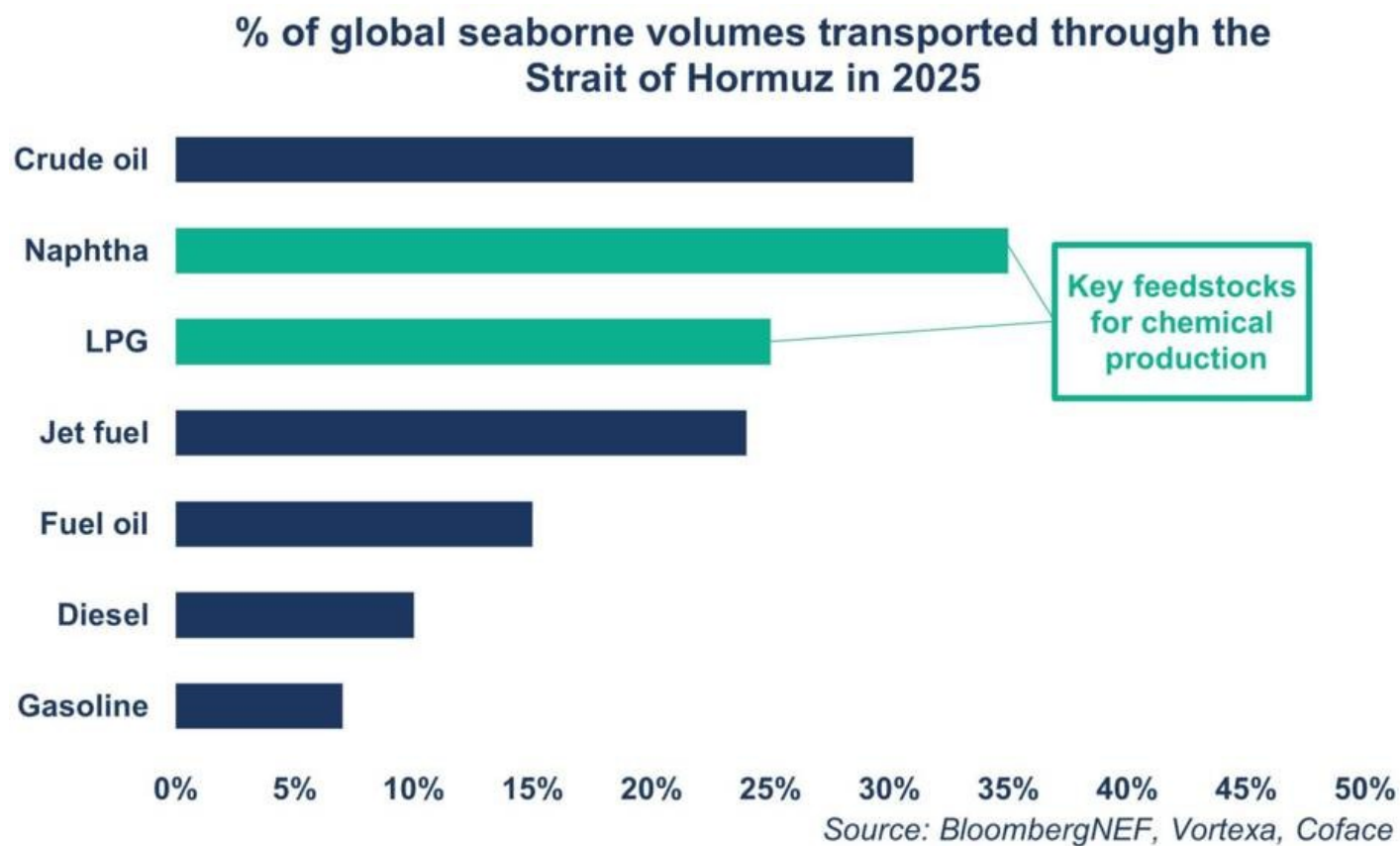
The Middle East plays a critical role upstream in the petrochemical chain. Beyond oil, the Gulf exports vast quantities of naphtha and LPG, two products essential to Asian cracking units, which feed a vast chain of derivatives — plastics, composite materials, solvents, synthetic textiles and cosmetics. The Strait of Hormuz channels the bulk of these flows to hubs such as [China](#), [South Korea](#), [Japan](#) and [Thailand](#).

Methanol plays an equally central role: [Iran](#) and the GCC countries<sup>2</sup> supply the bulk of the volumes used by China for its MTO (methanol-to-olefins) units, which account for 20% of its olefin production. Olefins (ethylene, propylene, butadiene) are the “building blocks” of the global chemical industry. To offset these losses, China is already beginning to increase its coal-based methanol production.

## Initial fallout: pressure on margins and production halts

The first signs of disruption are already emerging. Several Asian refiners are reducing their throughput, whilst major producers — Yeochun NCC (Korea), PCS ([Singapore](#)) — have invoked force majeure, citing circumstances that are disrupting their operations and preventing them from maintaining normal business, particularly in fulfilling their commitments to customers.

Orders for polyethylene and polypropylene have been suspended in several markets, signaling a rapid contraction in supply. Even in the event of a short-lived crisis, restarting petrochemical units after reducing output is difficult and costly, which could prolong the impact well beyond the period of hostilities.



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[Data for graph in .xlsx format](#)

## A possible reshuffling of the sector: winners, losers, new equilibria

If the crisis persists, the sector’s landscape could shift.

- [United States](#): potential winners thanks to very low ethylene costs, which could enable them to increase exports to Asia.
- China: diversified, it can turn to coal. This allows it to produce chemicals directly (CTO) but is a major source of CO<sub>2</sub> emissions. Coal can also enable it to produce methanol. This fuels its MTO (Methanol to Olefins) units but currently comes mainly from the Middle East — where prices are soaring.
- Europe: in a vulnerable position, hampered by higher energy costs and limited ability to pass on price rises.

- [India](#): a potential positive surprise, if it manages to produce more from Russian crude, with a geographical advantage in serving Asian markets.

1 Naphtha is a liquid mixture of light hydrocarbons, i.e. molecules consisting of carbon and hydrogen atoms (in small numbers). It is mainly produced through the refining of crude oil and serves as a raw material for the petrochemical industry.

2 The Gulf Cooperation Council (GCC) is a political and economic alliance formed between six countries, or Arab Gulf states: Saudi Arabia, the United Arab Emirates (UAE), Kuwait, Qatar, Bahrain and Oman.