

Boosting Plastic Exports from Bangladesh

Summary

The plastic industry is one of the most prominent emerging manufacturing sectors in Bangladesh. Buoyed by strong domestic demand, it has experienced rapid growth in recent times. The sector is widely perceived to have huge export potential although its actual performance has so far fallen far short of expectations. Against the average annual growth of overall exports above 7 per cent during the past five years, exports of plastic products, marked by wide fluctuations in yearly receipts, expanded at around 3 per cent only. The growth rates of plastic exports for the most recent past five consecutive years (i.e. from 2013–14 to 2017–18) are 1 per cent, 17 per cent, -12 per cent, 31 per cent and -16 per cent. Thus, export volatility around a feeble growth trend has been an unfavourable development facing the plastics industry.

In 2017–18, direct exports of plastic products stood at US\$98 million. Indirect or deemed exports, i.e. plastics used within the content of other exports, e.g. as packaging materials for readymade garments amongst others, were worth about \$500 million. Combining direct and indirect exports, Bangladesh's share in the global export market of \$600 billion is thus a paltry 0.1 per cent.

To help boost export response, the plastic sector was considered amongst 'highest-priority' sectors in the Export Policy of 2015–2018 with the hope of its contributing to export

diversification. Despite its less-than-impressive record, the industry's export potential is widely recognized.

The sector's contribution to the economy

It is difficult to assess the plastic sector's significance in the national economy. According to official statistics provided by the Bangladesh Bureau of Statistics, the industry's output – measured in value-added terms – was estimated at BDT 16 billion in 2016-17. This appears to be grossly underestimated with other sources suggesting the total domestic production could be as high as BDT 250 billion (\$ 3 billion), accounting for more than 1 per cent of GDP. Bangladesh imports around \$2 billion worth of plastic products and raw materials.

Information provided by the Bangladesh Plastic Goods Manufacturers and Exporters Association (BPGMEA) shows that around 5,000 plastics manufacturing units of different sizes are operating in the country. While the national Labour Force Survey reports somewhat a subdued contribution of the sector in total employment, BPGMEA sources provide an estimate of 1.23 million people employed in plastic production.

Global plastic production and exports

The global production of plastics expanded steadily to reach more than 400 million tons in 2018. On the other hand, with an impressive growth of 8 per cent per annum since the early 2000s, the world export market of plastic products grew to above \$600 billion in 2018. The leading exporters include, among others, China (\$70 billion), Germany (\$64 billion), the United States (\$62 billion), Republic of Korea (\$31 billion) and Belgium (\$30 billion). The major importing countries are China (\$ 69 billion), the United States (\$55 billion), Germany (\$44 billion), France (\$24 billion) and Mexico (\$23 billion). Apart from China, among developing countries, Thailand, India, Malaysia, the UAE and Vietnam are prominent exporters. The

composition of global plastic exports has transformed significantly during the past two decades or so. While the share of packaging and plastic sheets declined, household items, as well as a wide variety of other products, experienced rapid expansion. Bangladesh's plastic export basket is concentrated in plastic packaging (29%) and household items (22%).

Bangladesh's plastic export markets

Direct exports of plastic products have grown slowly from \$39 million in 2005 to close to \$100 million in 2018, with considerable yearly fluctuations in export earnings. During the same period, indirect or deemed exports are reported to have registered an almost five-fold increase to reach about \$500 million.

The main export items are sacks and bags of polymers of ethylene (29%), household and toilet articles (20%), waste parings and scrap of plastics (15%), acrylic polymers in primary forms (6%), articles of apparels and clothing accessories (6%) and other polymers of ethylene in primary forms (5%). The export destinations of Bangladesh's plastic items are India (24%), Germany (8%), China (7%), the United States (6%) and Canada (3%).

Bangladesh suffered a setback in plastic exports in FY2018 largely because of a sharp decline in exports to China following a ban imposed on plastic waste imports into that market. On the other hand, some plastic items made in Bangladesh have recently done well in India, the EU, the U.S., showing potential for further expansion.

Bangladesh's plastic exports are concentrated in limited destination markets. It exported 54 items (at HS 6-digit level) in a maximum of 79 destination markets compared to 116 plastic items in 137 markets by Vietnam; and 126 plastic items in 188 and 201 destination markets by China and India, respectively.

Although some firms are producing relatively high value-added products, on average, Bangladesh receives relatively lower unit value prices for its export goods compared to those of China, Thailand and Vietnam. This would indicate the need for product quality upgradation.

Boosting Plastic Exports: Major policy suggestions

Considering the perceived potential of the sector, an export target of \$4 billion from the plastic industry by 2020 was set for Bangladesh several years back. In comparison, the exports of just about \$100 million in 2018 show the magnitude of unrealized potential. In a vast world market of several hundreds of billions of dollars, Bangladesh should be able to expand its exports by many folds as some other Asian countries such as India, Malaysia, and Vietnam – let alone China – have been able to do so. A more focused approach to the sector backed by deepened policy support is needed to deal with supply-side constraints and transform it into a dynamic export industry.

- Bangladesh plastic sector is critically dependent on imported raw materials. Currently, there is no petrochemical and polyolefin plant in Bangladesh. Many small and medium enterprises (SMEs) find it very difficult to procure raw materials from abroad and hence rely on locally available inputs including recycled items. Satisfying demands for high-quality products in the export market based on these raw materials alone is not possible. Establishment of a petrochemical plant can greatly help tackle the problem of sourcing intermediate inputs, often involving high transportation costs. All major exporting countries have strong domestic linkages supporting the industry.
- Lack of state-of-the-art technologies is also an important impediment for the plastic industry. Most SMEs use very old and reconditioned machinery that result in frequent breakdowns and excessive wear and tear expenses, generating lower productivity. Many comparator countries have undertaken elaborate measures to help their firms with technological upgradation. Supporting industrial upgradation (including the

adoption of green technologies) with a view to building supply-side capacities and promoting export competitiveness, therefore, comprises a policy priority.

- The availability of good quality moulds is also important for high-value export orders. The supply-side capacity in this respect is limited. Therefore, the implementation of the 'Tool Institute' project initiated by the Bangladesh Industrial Technical Assistance Centre (BITAC) to produce moulds for the plastic industry should be fast-tracked.
- The industry faces a serious shortage of skilled workers. While the Bangladesh Institute of Plastic Engineering and Technology (BIPET) offers various training courses, its capacity remains very modest. Setting up its permanent campus within a shortest possible time should be given due consideration so that modern training facilities can be developed. Offering apprentice programmes and providing on-the-job training by large firms can also lessen the severity of skill-shortage.
- The World Bank has started implementing a \$100-million major project titled Export Competitiveness for Jobs, which is expected to benefit four sectors: leather, footwear, plastic and light engineering. Among others, the project will help address the shortage of skills development as well as provide support for infrastructural and technological capacity building. Upon successful completion of the project in 2023, more than 90,000 additional jobs are likely to be created. It is essential that the plastic industry gets involved in the effective implementation of this project in addressing some of its critical constraints.
- Improving product quality through ensuring product standardisation, upgradation and certification are increasingly becoming more important for enhanced external competitiveness. Currently, there is no testing laboratory dedicated to plastic products. The Bangladesh Standards and Testing Institution (BSTI) certifies the plastic products with its limited capacity. BSTI lacks manpower having expertise on polymer science and technology as well as modern testing equipment. As a result, there is the

need for establishing a plastic testing laboratory to accredit the products maintaining international standards.

- Expansion of production and exports can be aided through the formulation and implementation of a set of sector-specific policies. Taking lessons from countries like India and Vietnam, Bangladesh should formulate a plastic sector national policy covering such issues as the relocation of plastic firms, measures for environmental sustainability including post-use plastic recycling, support for industrial upgrading, and promoting export competitiveness.
- Spatial fragmentation of manufacturing activities is one of the unfavourable features of the plastic industry. As the manufacturing firms are scattered over many different locations, they are faced with some common difficulties such as the lack of adequate, effective and well-functioning infrastructure, limited access to finance, weak transportation facilities, limited services of technicians and other skilled workers, etc. Clustering of firms can ease some of these constraints. Special economic zones dedicated to the plastic sector are going to be established in Sonakanda, (Keraniganj district), and Gazaria (Munshigan district). Moreover, a plastic industrial park is planned to be established in Sirajdikhan (Munshiganj district). Early implementation of these industrial areas will be an extremely helpful step.
- Environmental degradation due to widespread improper and poor management of post-use plastic products is now a global concern. Production and recycling practices in source countries could soon become a major determinant of export success. Recycling facilities are limited in Bangladesh and will require serious attention as the per capita consumption of plastic items is bound to rise many folds. The Bangladesh Petrochemical Company Limited (BPCL) has started recycling plastic products on a small scale. Its capacity should be expanded. Enforcing strict measures and providing incentives for recycling should be core policy components as an integral part of an export development strategy. Support for developing and adapting biodegradable plastic products can ensure a competitive edge in the export market. In fact, making

plastic products in an environment-friendly manner must be a part of a branding strategy for export sales.

- Like in many other sectors where a sizeable and growing domestic market exists, plastic export expansion is constrained by the so-called anti-export bias. This phenomenon of domestic market-orientation gets intensified by the trade policy stance of the country. Rising domestic demand along with high-level of tariff protection means sales in the local market are likely to be much more lucrative than those targeted for overseas markets. Overcoming this problem will require making exporting more profitable. This can be achieved by deepening incentives for export-oriented firms, tackling excessive costs of doing business, and by rationalizing the tariff structure.
- Strengthening direct policy support like cash assistance to export-oriented plastic manufacturing firms should be an important policy consideration. Currently, exporters can receive 10 per cent cash assistance on FOB export value if they are not using bonded warehouse facilities. Its significance is very small considering the duties paid on raw materials, existing policy-induced disincentives like anti-export bias due to the protected domestic market and mounting real exchange rate appreciations. The provision of cash assistance can be increased to 25 per cent as it was for the readymade garment sector in the 1990s. Given the current size of the plastic export volume, it should not create any significant pressure on the public exchequer. It is also possible to design a scheme in which only the additional exports (e.g. the incremental receipts over the last years' export earnings) will benefit from higher incentives.
- While some plastic exporters are using bonded warehouses, as a matter of policy such facilities should be automatically extended to all exporting firms. Whether accessing duty drawbacks or bonded warehouse facilities, should not be any consideration in providing cash assistance as an export incentive. This is because the duty-free import of intermediate inputs for exporting firms is no privilege or incentive at all. Rather, this is a mere necessity for becoming globally competitive as all comparator countries

allow their exporters procuring raw materials free from import duties. A policy of export incentive should be in addition to such usual practice.

- In considering policy incentives, it also needs to be pointed out that Bangladesh is going to graduate out of the group of the least developed countries (LDCs) in 2024, after which some of the existing policy flexibilities and trade preferences will either be lost or will be significantly reduced. For example, post-graduation export support measures like cash assistance schemes are most unlikely to be possible to continue with given the rules and provisions of the World Trade Organisation (WTO). Therefore, it is high time to make use of the current policy space and consider reinvigorated and deepened policy support with the objective of expanding export base before Bangladesh loses its LDC preferences and privileges.
- Impediments in accessing finance such as high cost of borrowing, large collaterals, limited access to trade finance etc. are also major challenges of export-oriented firms. Although firms can avail working capital loans under the Export Development Fund (EDF), the loan amounts are inadequate. Along with improved access to finance, there is a need for a careful review as regards how the EDF and the Export Credit Guarantee Scheme (ECGS) can be proactively used to help expand plastic exports.
- Bangladesh must proactively explore new market opportunities and at the same time aim to increase the product range in each market. Establishing new export relationships in new markets can be quite challenging. Strengthened export promotional support measures for regular hosting of and participation in international plastic fairs, exhibitions, expos etc. are thus important.
- One key priority is to attract foreign direct investments for export-oriented firms. FDI inflows into such an environmentally sensitive sector will likely to bring in modern green technology and management practices from which local entrepreneurs will also be able to benefit. Currently, Bangladesh offers a range of attractive incentives to attract FDI inflows. However, the implementation of special economic zones for the

plastic sector and the enhancement of cash incentives for export production should further boost the attractiveness of the investment regime.

Finally, sustained development efforts in the overall economy are critically important for export success. Bangladesh lags its comparators in major competitiveness and ease-of-doing-business indicators as compiled by the World Economic Forum and World Bank. There are considerable opportunities for improvements in each of these areas, exerting enhanced competitiveness for any export sector including the plastic industry.