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Chemical’s contradictory trends

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Despite an increasing contribution to exports, Pakistan’s nascent chemical sector is on a downturn. A small part of the economy, with a weight of 1.7 in the LSM, the chemical sector has been on a declining trend with a decrease of 2.4 percent in growth in FY17 and a further decline of 0.4 percent this year, as per SBP’s latest quarterly report.

Multiple factors constrain the growth of the chemical sector, most of which are endemic for the economy as the whole. Influx of cheap imported products, dependence on imported raw materials and high cost of doing business are some of the challenges which the sector faces.

Within the chemical sector, Pakistan is self-sufficient in basic commodity chemicals soda ash and caustic soda. Given the low value nature of these products, they face little competition from imports and suffer more from a stagnated market. In the past surplus produced was exported, but regional dynamics have created a glut leaving them with little room in the global market.

In terms of value, petrochemicals have the largest share with PET, PTA and PSF the main chemicals that are produced. While Pakistan exports PET, PTA and PSF require protectionist measures and are frequently criticized for it by the textile sector. (Read “Textile and chemical conflicts - PTA & PSF” published on March 13, 2018 and “Textiles: paying for polyester protection” published on July 13, 2018).

A large share of Pakistan’s plastic exports consist of PET which have faced challenges in the international market due to anti-dumping duties levied on them by various countries (Read PET exports – win some, lose some,” published May 18, 2018). The removal of anti-dumping duties by EU after Pakistan’s victory in the WTO court has helped plastics exports achieve a healthy growth of 14 percent YoY.

Baring plastic exports, other chemical exports amounting to over a half a billion dollars are myriad of products, from paints, varnishes and soap to polymers of propylene, styrene, and vinyl chloride. Clubbed together under chemical exports, individually these products do not amount to more than a few million dollars but together added to about $100 million in exports so far this year.

Together, plastics and other chemical exports clocked in at nearly a billion dollars for 11MFY18, almost a jump of 20 percent from last year. This too at a time when the sector’s contribution towards growth is declining. Contradictory trends within the subset industries are allowing some sectors to do better than others.

Protectionist measures have not promoted the growth of the sectors, as evidenced by the clamouring of the textile sector.

Those who have managed to fare better have done so while facing competition and improving efficiency. While the continued absence of the naphtha cracker remains a major hurdle for sustainable growth of the sector, improvements in plastics and other chemical exports testifies to their ability of withstanding competition, domestic and global.