

## Investment Climate in Bangladesh: An Emerging Tiger

With consistent economic growth figures of 5 to 6% annually and a rapid export growth Bangladesh can be considered as an emerging market offering business opportunities to Dutch and other firms. The way it has coped with the global financial crisis is impressive, and it is increasingly benefiting from economic relations with the nearby giant economies of India and China. In addition, Bangladesh offers a huge domestic market with a population of around 160 million and a growing middle class.

The image of a country suffering from frequent natural disasters and dominated by poverty and corruption has in recent years been countered by prominent international assessments of potential and dynamics as well as by enhanced political stability. The main challenges remain in the areas of road, rail and water infrastructure and energy and water provision (which in turn offer business opportunities), as well as in areas of governance.

### Market and Hinterland

Bangladesh offers a **huge potential domestic market of 160 million people**. Although about 40% of Bangladeshis live below the poverty line, the size of the middle class is increasing and it shows impressive absolute numbers (latest estimates indicate 31 million or over one-fifth of the population).

The **geographic location** of the country is suitable for global trade, with convenient access to international sea and air routes. The improvement in the relations with neighbouring **India** is expected to result in positive consequences for trade relations: India has provided a soft loan of 1 billion US\$ in particular for infrastructural works, and it has lifted the ban on export of cotton to Bangladesh in November 2010.

#### *Bangladesh Statistics:*

*Population: 160 million.  
Economic growth: 5-6%.  
GNI p.cap.: 520 US\$.  
Doing Business Rank: 107.  
Human Dev. Index: 129.*

### Export Competitiveness

*Bangladesh's exports  
have grown with 36% in  
the second half of 2010*

From July to November 2010 the Bangladeshi export with a total value of US\$ 8.27 billion has grown with 36% compared to the same period one year earlier. The main export earners are knitwear and woven exports, together accounting for 77% of the exports. Their growth was caused to a large extent by a shift of international buyers from China to Bangladesh because of rising the production costs in China.

Bangladesh enjoys **tariff-free access** to the EU, Canada, Australia and Japan. From the 1st of January 2011 the new EU policy dealing with the Generalised System of Preferences (GSP), and in particular the Rules of Origin, will be implemented, which will amount to an important extra advantage for Bangladesh's exports. This access to the global market is further helped by the fact that Bangladesh's policy regime for **FDI** is the most liberal in South Asia (with no prior approval requirements or limits on equity participation and repatriation of profits and income in most sectors).

*Impressive economic growth of 6% at a time of global crisis*

## Stability

Since the 1990's overall **macro-economic stability** has been maintained in Bangladesh (stable domestic debt, interest, and exchange rates, albeit with increasing levels of inflation); **economic growth** has been robust and in recent years annual growth rates of **5 to 6%** have been reached. In

2008 the GNI per capita was 520 US\$ and the PPP-GNI was 1,440 US\$ (cf. WDR 2010).

Bangladesh has been weathering the **global financial crisis** quite well, and has in fact been able to capitalize on its comparative advantage in the market for low-cost products.

Since the start of the Caretaker Government in January 2007 **political stability** has returned to Bangladesh, and it is maintained after the elections in December 2008 and the landslide victory of the Awami League led Grand Alliance.

The Government of Bangladesh aspires to become a **Middle Income Country** by 2016 and halve its poverty by 2021 (requiring growth rates of at least 8 % annually). Bangladesh is on track in achieving several of the **MDG targets** by 2015. On UNDP's 2010 Human Development Index (HDI) Bangladesh ranks 129th compared to India's 119<sup>th</sup> position (out of 169 countries).

## International Statistics

Some important global institutions have made positive assessments of the prospects of doing business in Bangladesh (see Box).

### *International ratings:*

- *WB Doing Business Rank 2011: Bangladesh occupies the 107<sup>th</sup> rank among 183 countries; it not only improves its ranking but it also leaves countries like India and Indonesia behind. Of the nine indicators Bangladesh ranks highest on 'protecting investors' (20<sup>th</sup>) and lowest on 'enforcing contracts' (179<sup>th</sup>); the most improvement was made in 'starting a business'.*
- *Goldman Sachs' s Next 11: Bangladesh was indicated as one of eleven emerging markets in 2005 indicating its potential of becoming one the world's larger economies.*
- *JP Morgan' s Frontier Five: Bangladesh was listed in 2007, just as Vietnam, as one of five countries with impressive economic and investment potential.*
- *Standard & Poor's and Moody's sovereign credit ratings: Bangladesh received its credit ratings (BB- and Ba3) in 2010. Moody's rating puts Bangladesh on par with Vietnam.*

## Labour and Communication

Labour costs are low, and are among the lowest in the South and South-East Asia regions.

Although Bengali (Bangla) is the official language, English is generally used as a second language.

Bangladesh has a high **mobile phone coverage** with over 60 million subscribers (July 2010), and this extensive communication network is increasingly used for transactions, including payments within the country and for remittance payments from outside. This is one element of the Government's programme aiming for a 'Digital Bangladesh' by 2021.

## Drivers of growth and (potential) niche markets

The private sector is **dynamic** and has been the engine for growth in Bangladesh; the private sector on average invests five times as much as the public sector. The **manufacturing** sector shows robust growth which goes beyond 10% in certain years. The most important industrial sector is the **garment** sector (knitwear and woven garments) responsible for over three-quarters of export. Other growing sectors are shipbuilding and pharmaceuticals.

The second most important foreign exchange earner after the Textile sector consist of the **remittances** from Bangladeshi overseas workers, mostly unskilled.

## New Industrial Policy

The New Industrial Policy approved by the Cabinet in September 2010 poses new opportunities:

- 1) 21 Priority Sectors are identified for special attention in order to enhance economic growth;<sup>1</sup>
- 2) Special attention is given to Small and Medium Enterprises (SMEs) and to Micro industries;
- 3) Enhanced incentives to attract local and foreign investments;
- 4) Strengthening State-Owned Enterprises (SOE) as well as Public-Private Partnerships (PPP);
- 5) Priority for Special Economic Zones (SEZ), e.g. for highly potential industries like pharmaceuticals.

## Risks of Doing Business in Bangladesh

The main challenges for the country remain in the areas of energy, transport infrastructure, and governance. More specific risks include the recent increases in food prices, possible disruptions of Chittagong port and the maintenance of general industrial harmony. However, the three most important constraints are related to energy, transport infrastructure and governance.

Bangladesh is currently confronted with an **energy** crisis, especially due to a shortage of gas for electricity generation; load shedding could affect business and investment decisions. However, the government has declared power supply as a priority: it is closing contracts related to rental power supply infrastructure to relieve short-term shortages, and has started the process to enhance longer term expansion of capacity.

The **transport infrastructure** of the country requires improvements in different areas, which in turn can be translated into increasing business opportunities. Cases in point are the supervision and construction of the Padma Bridge, the Dhaka Elevated highway (the contract was awarded in December 2010 to an Italian-Thai consortium), the Dhaka – Chittagong Highway, the Dhaka Mymensing Highway, and the plans to upgrade railroads and inland waterways. This shows that the Government is committed to tackle these constraints with priority.

In terms of **Governance** it is significant to mention that Bangladesh has gradually improved its ranking on the Corruption Perceptions Index (CPI) composed by Transparency International from the very bottom of the list in 2005 (158<sup>th</sup>, jointly with Chad) to the 134<sup>th</sup> place out of 178 countries in 2010. In addition, Bangladesh's ranking is on par with the Philippines (same rank), higher than Pakistan (143), but lower than Vietnam (116) and Indonesia (110). Corruption can sometimes be a barrier for doing business in Bangladesh, and although the Anti-Corruption Commission, installed by the Caretaker Government, started its task with high profile cases (e.g. jailing the two leaders of the two main political parties), its relevance is diminishing.

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<sup>1</sup> These are: Agro-based/food processing industry, Human resource export, Shipbuilding, Solar power, Tourism, ICT products and services, Readymade garments, Herbal medicine, Jute products, Leather and leather products, Hospitals & clinics, Light engineering industry, Plastic industry, Furniture, Handicraft industry, Energy efficient appliances, Frozen fish industry, Tea industry, Home textiles, Ceramics, and Cosmetics and toiletries