
Chairman's Statement

“Bangladesh will fall behind if it stands still, stay even if it jogs, and must sprint if it wants to get ahead.”

This Asia Society Trade and Investment Report, “Enhancing Investment Relations between the United States and Bangladesh,” is intended to assist the Bangladesh government in its efforts to meet Prime Minister Sheikh Hasina’s Vision 2021 targets, which seek to make Bangladesh a middle-income country. This is an ambitious goal, and in order to achieve it, Bangladesh will require significant increases in economic growth, trade, and foreign investment.

In this effort, the U.S. government can play an important role by helping to improve bilateral trade and investment relations with Bangladesh and by raising awareness among U.S. corporations about the growing investment and trade opportunities in Bangladesh.

The direction of this report has been guided by a 13-member Advisory Committee composed of representatives from Bangladesh’s government, private sector, and nongovernmental organizations, along with U.S. and other private-sector, nonprofit, and academic professionals, all of whom have extensive experience working with Bangladesh and other emerging-market countries. The Advisory Committee members are acutely aware of the country’s substantial achievements in recent years, as well as the significant economic and social challenges that currently face the Bangladesh government. Nevertheless, the Advisory Committee representatives unanimously believe that there is now a critical window of opportunity for Bangladesh to make major economic progress through the rapid growth of trade, investment, and employment.

Although this report draws substantially on previous documents submitted to the Bangladesh government in recent years, it focuses on key issues and draws attention to Bangladesh’s investment and trade opportunities and challenges. It is also intended to give policy makers a range of regional comparisons, not only to show where Bangladesh currently ranks, but also, and more importantly, to emphasize what other countries have been able to achieve by implementing policy and institutional improvements in their trade and investment regime.

This Trade and Investment Report was directed by Jack Garrity, executive director of the Asia Society in Washington, D.C., and the center’s economic research staff, who have worked for one year reviewing detailed reports published by the International Finance Corporation (especially the Bangladesh Investment Climate Fund), the World Bank, the International Monetary Fund, the

Asian Development Bank, and a number of international organizations, in addition to Bangladesh government and private-sector data. The director also spent two weeks in Bangladesh meeting with government officials, international aid organizations, policy institutes, chamber of commerce officials, Bangladesh companies, and U.S. multinational corporations. These meetings and discussions were supplemented by numerous seminars and briefings with U.S. government officials, Bangladesh embassy representatives, and corporate leaders in Washington and New York.

Bangladesh has come a long way after being ravaged by natural calamities and by political instability and social turmoil. While the country attained freedom and political autonomy in 1971, political power has changed hands from a parliamentary democracy, to a temporary military regime, to a socialist party, and then a caretaker government in 2007 and 2008, until the country returned to democracy when the Awami League won the parliamentary elections in December 2008 and Her Excellency Sheikh Hasina became prime minister.

Not only have the latest round of democratic elections brought much-needed political stability to the country, but also Bangladesh has matured as a nation, with steady social progress in the areas of education, health, poverty reduction, and improved means of communications. This has been accomplished with the support of growth in gross domestic product (GDP) that has averaged 6% in recent years, a result of a major expansion in the manufacturing sector, especially in garment exports. Worker remittances from abroad also have increased, reaching approximately US\$11 billion for fiscal year 2010.

The strong economic growth achieved by Bangladesh has been extremely important, as the country's growing labor force has increased to almost 80 million workers. Employment generation remains one of the most important and pressing challenges that Bangladesh faces, and the situation will become even more critical in the future, as the country's labor force is expected to increase to 125 million by 2050.

Vision 2021 calls for a significant increase in GDP growth, from 6% to 8% by 2013 and to 10% in 2017. Obviously, increasing growth will not be easy and will require large amounts of investment capital. Currently, only India and China are achieving sustainable growth rates greater than 8%. It is clear that in order to achieve these ambitious targets, Bangladesh must significantly increase the amount of revenue received from exports, overseas remittances, and domestic and foreign investment. In particular, raising foreign investment from its current level of less than US\$1 billion per year to the required level of around US\$4 billion per year will be a major challenge.

Remittances play an increasingly important role in Bangladesh's economy, representing about 12% of GDP in 2010. Insufficient job opportunities in the domestic economy and the promise of higher wages abroad have led to an exodus of Bangladeshi workers overseas. In 2010, Bangladesh ranked seventh in the world with US\$11 billion in global remittances, behind India (US\$55 billion), China (US\$51 billion), and the Philippines (US\$20 billion). However, on a per capita basis, Bangladeshi workers remitted US\$2,000 annually, far lower than the levels achieved by the country's Asian competitors. Experience in Bangladesh shows that remittances would be much higher if workers received basic training courses before they were sent overseas.

In terms of exports, Bangladesh's revenues increased from US\$6.5 billion in 2001 to US\$ 16.2 billion in fiscal year 2010, with readymade garments composing the vast majority of exports. De-

spite this progress, Bangladesh's export volumes are far lower than other countries in the region, such as Malaysia, India and Thailand. Exports from Bangladesh have been boosted by duty-free access to the European Union, Canada, Australia, Japan, Norway, and China. The United States does not provide duty-free access to Bangladesh exports, and only a few goods qualify under the U.S. Generalized System of Preferences.

There is an urgent need and a great opportunity to significantly increase Bangladesh's export revenue and, by extension, employment in the coming years. There are a number of ways that Bangladesh can achieve this goal. Although Bangladesh ranks fourth in the world in garment exports, behind China, the European Union, and Turkey, it can expand its garment exports significantly by moving up the value chain in the textile sector and by pushing for duty-free access to the U.S. market.

At present, 96% of Bangladesh's exports to the United States consist of readymade garments and textile products, which are bought by retail giants such as Walmart, Gap, and Target. The country's exports to the United States are a major source of livelihood for many Bangladeshis, especially women, who make up 80% of the 3 million workers in the garment and textile sector. Although Bangladesh can apply for preferential tariffs for some products under the U.S. Generalized System of Preferences, currently, only 0.62% of the country's goods exported to the United States qualify under this system. As a result, import duties on Bangladesh exports to the United States amount to more than US\$500 million per year. This is a huge sum, and dwarfs the foreign aid that Bangladesh receives from the United States.

Related to this, the United States has expressed an interest in establishing a platform for mutual cooperation and regular high-level dialogue in which both sides can raise issues related to bilateral trade and investments. Although the Bangladesh government has expressed reservations over the inclusion of labor rights, environmental protection regulations, and intellectual property rights clauses in the agreement, an institutional framework that is satisfactory to both sides should be established.

Another avenue for Bangladesh to increase export revenue is through the diversification of its manufactured exports. There is an immediate opportunity to achieve this, as many labor-intensive industries in China will be looking to relocate their low-end products to countries in Southeast Asia. An opportunity close to home is the rapid expansion of trade with the country's large and fast-growing neighbor, India. The potential for a major export expansion between the two countries is massive, and eventually could be similar to the very large border trade between the United States and Mexico.

Bangladesh is favorably situated in the middle of the world's three highest-growth areas—India, China, and Southeast Asia. Therefore, Bangladesh should no longer consider itself in South Asia, but instead in the center of Asia. It is imperative that Bangladesh develop the necessary economic environment and connecting transport infrastructure to enhance its trade relations with its neighboring countries, and this, in turn, will provide numerous economic advantages and opportunities for Bangladesh.

Although Bangladesh is becoming an attractive investment destination, the country still lags far behind its Asian neighbors in both foreign direct investment, which has stagnated over the last

five years, and foreign portfolio investment, which has been negligible. In contrast, these foreign investment flows have helped drive economic growth in surrounding countries, such as China, India, Vietnam, Thailand, and Malaysia. There is no doubt that Bangladesh needs to take advantage of these foreign investment flows if it wants to achieve its Vision 2021 goals. At present, the country's investment climate is not very attractive. Underlying this problem is the fact that there is an internal lack of appreciation of the economic benefits of foreign direct investment, which may explain the inertia on the part of many people in the government to take significant, tangible steps to facilitate and promote foreign investment. In addition, a sprawling bureaucracy and corruption result in unnecessary delays and frustrations for investors trying to obtain the required approvals and permits. Among other major concerns identified by investors are the shortage of power and energy and inadequate transport facilities and other infrastructure.

The government is aware of the severity of these problems and has taken steps to improve the situation, but much more has to be done and at a much faster pace. A key element in this process is the rapid launch of a new public–private partnership program, which has been implemented successfully in a number of Asian countries. With such a program in place, needed infrastructure investments in energy, coal, power plants, transportation, and telecommunications can be initiated. There are also opportunities to attract low-end manufacturing investments, especially those currently located in China, including textiles, footwear, electronics assembly, and other labor-intensive activities.

In recent years, the Bangladesh government has instituted a number of policy and institutional changes to help promote both exports and foreign investment, but these have been carried out by a wide number of ministries and agencies, and often in an uncoordinated and fragmented manner. This has resulted in much lower achievements in trade as well as in foreign investment, than should be expected from a rapidly growing country.

In contrast, the government successfully has established clearly defined agendas for the country's health and education sectors and has set up comprehensive policy guidelines, along with focused and coordinated administrative institutional structures and delivery mechanisms to implement its policies. This has led to significant progress in these two sectors. To date, however, no such comprehensive government agenda has been established in the area of trade and investment. As a result, there is neither a clearly articulated comprehensive and integrated government trade and investment agenda, nor any institutional focal point for implementing government policy.

Government policies related to trade and investment are implemented by a number of agencies, including the Board of Investment, Bangladesh Export Processing Zones Authority, Ministry of Commerce, Export Promotion Board, Ministry of Finance, Ministry of Industry, Privatization Commission, Public–Private Partnership, and the new Special Economic Zones. The Board of Investment is the premier agency that processes, facilitates, and promotes foreign direct investment in Bangladesh. The Bangladesh Export Processing Zones Authority is responsible for Export Processing Zone investments. It is not clear which agency will have authority for the new Special Economic Zones. Likewise, the home of the important Public–Private Partnership program has bounced between the Board of Investment and the Ministry of Finance. On the export side, the Export Promotion Board and the Ministry of Commerce have overseen this area. Finally, the Ministry of Industry and the Privatization Commission have been responsible for the state-owned enterprise sector.

As a result of this policy and institutional fragmentation, Bangladesh's trade and investment policies, including the Public–Private Partnership program, are not, and will not be, as successful as the government expects. The lack of a focused agenda in this sector has resulted in suboptimal results compared to Bangladesh's Asian neighbors, and has unnecessarily complicated the investment process for many exporters and foreign investors, and hindered the government's efforts to install greater administrative transparency.

A key first step in establishing the agenda should be to appoint a senior advisor for trade and investment who would report directly to the prime minister. The senior advisor should oversee and coordinate the trade and investment activities undertaken by government ministries and agencies. In this way, the senior advisor could take a comprehensive view of the sector and assess the progress of the individual agencies in implementing the government's goals.

An important part of the agenda is the formation of a coordinating board made up of the heads of the government ministries and agencies involved in trade and investment. The coordinating board should be chaired by the senior advisor for trade and investment and should meet monthly to discuss a range of issues, particularly Bangladesh's up-to-date export and investment achievements and measures that could be taken to improve these results.

A key element for implementing the government's trade and investment agenda is the establishment of the Bangladesh Trade and Investment Center (BTIC), which should be located in the modern business section of Dhaka. The BTIC would be a "one-stop shop" storefront that could be managed by donor-funded experts in trade and investment with staff seconded from relevant government agencies. The BTIC would become the primary interface and conduit for domestic and foreign exporters and foreign investors seeking to work with any of the trade and investment agencies. Along with the BICF management and seconded government staff, the BTIC facility should also house coordinating representatives from the Board of Investment, Bangladesh Export Processing Zones Authority, Special Economic Zones, Public–Private Partnership, and Export Promotion Board, which would be able to assist with inquiries and coordinate necessary follow-up actions.

Under the government's trade and investment agenda, it should establish a new public–private dialogue as another step to improve government relations with businessmen in Bangladesh. Such public–private dialogue councils and partnerships have been established in more than 30 emerging-market countries, and in most cases have proved very effective. This will be particularly useful because of the government's recently announced Public–Private Partnership for joint infrastructure development, as well as the newly passed legislation establishing Special Economic Zones.

A new Public–Private Business Council could include senior members of government, heads of trade and investment agencies, representatives from the chambers of commerce, business associations, foreign companies, and multilateral financial institutions. Other members could be added as warranted. To enhance cooperation, all committees should be co-chaired by one member from government and one representative from the private sector. It also will be critical that the Public–Private Business Council meet in plenary session twice a year, and at one of these sessions, the prime minister should address the council.

Bangladesh suffers from a generally poor image overseas. This is not always deserved, but Bangladesh has done little or nothing to overcome this problem. As part of the government's trade and

investment agenda, this perception must be changed, particularly in the country's logical constituencies in Asia, Europe, and North America, where most of its trading partners, foreign investors, financial institution partners, potential foreign institutional investors, as well as influential media outlets are located.

It is critical to reach all of these constituencies on a regular basis with economic policy, business, trade and investment, and stock market news from Bangladesh. If the government does not let the world know about the good things that are happening in Bangladesh, who will? For example, in recent months, the Supreme Court reinstated Bangladesh to its founding status as a secular state; Parliament passed legislation to establish Special Economic Zones; and U.S. president Barack Obama congratulated Prime Minister Sheikh Hasina on Bangladesh winning a United Nations Millennium Development Goal award. Yet not one word was seen in the U.S. press, never mind a photo, about these important and positive events about Bangladesh.

Other countries in Asia do a much better job with international communications, and most engage professional public relations and communication firms to assist them. Bangladesh needs to do the same, but should start in a moderate way and then gradually expand the activity over the next few years. Whichever firm is engaged, it should have a presence in Hong Kong, Singapore, London, and New York or Washington. Over time, this will prove to be money well spent, and it certainly will help improve the image of Bangladesh in the medium term.

In the 1990s, there was a formal U.S.–Bangladesh Business Council under the aegis of the U.S. Chamber of Commerce, with 35 active members. Its membership consisted primarily of U.S. oil, gas, and power companies, but it disbanded in 2000 when the Bangladesh government did not proceed with planned investment programs. A reconstituted U.S.–Bangladesh Business Council could be an important and effective body for both Bangladesh and the United States. It should be revived to become a more active forum for U.S. corporations trading with, and investing in, Bangladesh. This forum would offer a number of opportunities for both countries and would provide a platform in the United States to discuss issues and opportunities in Bangladesh and to host visiting Bangladeshi officials when they come to Washington.

In conclusion, the Advisory Committee members recognize that Bangladesh has come a long way since independence, but the reality is that it still has a long way to go for the country to move from least developed country status to become a middle-income country. Bangladesh's most pressing economic challenge is to generate jobs for the country's approximately 80 million labor force, which will swell to 125 million by 2050. Based on the experience of other Asian countries, such massive job creation can only come from a major effort to significantly increase its manufacturing base. As shown by the country's rapid development in the garment industry, this can be done. However, it needs concerted and coordinated government and private-sector action and a major increase in foreign investment. Bangladesh has a window of opportunity, but it must move fast to take advantage of its opportunities.

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Relations between the United States and Bangladesh