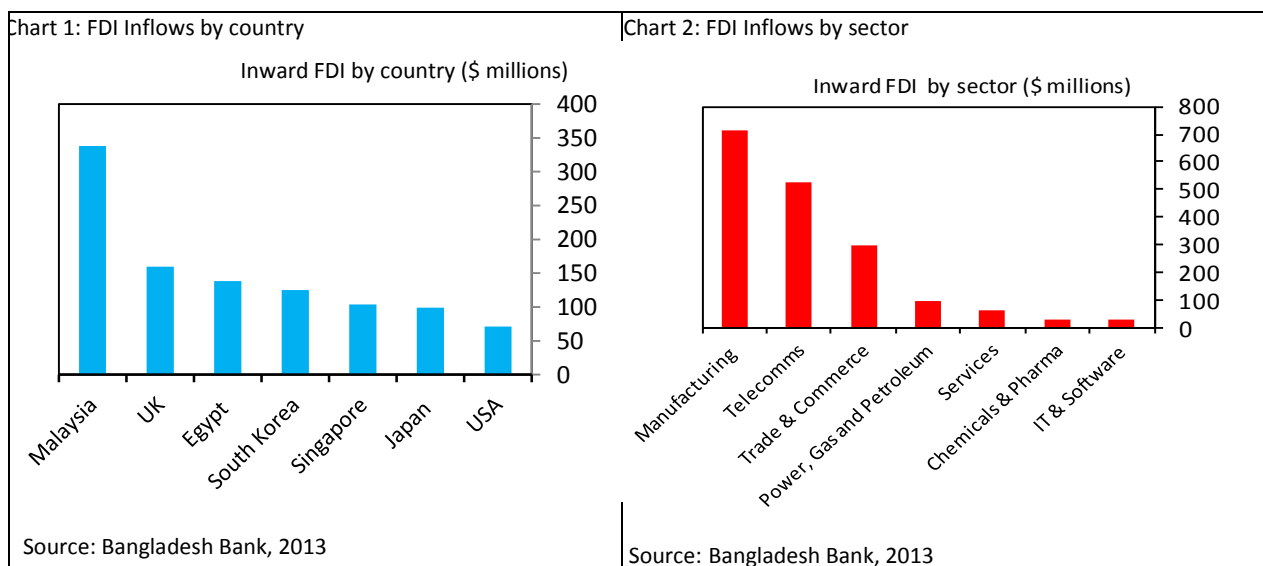


Bangladesh's Path to Prosperity: Persistence Paramount

In an area smaller than England and Wales, Bangladesh is a land of rivers and home to over 160 million people. Bangladesh has high potential (a Goldman Sachs "Next Eleven" country) and poised to reach middle-income status by 2021. Through a strong diaspora, aid, and cultural links, the UK is well placed to become Bangladesh's business partner of choice. This could allow us to grow our exports in manufactured goods, and invest in sectors such as IT and pharmaceuticals. In the long-run, this huge consumer market could benefit our businesses and our education sector – in a country at the hub of Asia's markets. But with plenty of barriers to business in Bangladesh, persistence will be paramount.

Growth

1. **UK exports to Bangladesh**, despite a dip in 2012 – perhaps linked to Bangladesh's election cycle - have been increasing steadily since 2007, rising to £141m in 2013, up 36% in a year. In 2013, metals accounted for £31m; pharmaceuticals performed strongly at £16m. Despite rising year-on-year, the UK's total exports to Bangladesh still lag behind Germany's, particularly in manufactured goods.
2. **UK investment in Bangladesh** rose 25% between 2012 and 2013 to nearly \$160 million (Chart 1). This is made up of small-scale FDI and reinvestment by large multinationals like Standard Chartered, BAT and HSBC. FDI has brought prosperity to Bangladesh, creating a virtuous cycle of growth. But Malaysia, the US and Japan are moving fast in this increasingly international economy.
3. **As of July 2013, Malaysia was the largest investor in Bangladesh** – mainly investing in power stations and the telecoms infrastructure. Meanwhile, US Astra Oil & Excelerate Energy Consortium have submitted a final proposal for a floating storage and re-gasification unit at Cox's Bazaar and Japan is becoming a prominent business partner in Bangladesh's young shipbuilding industry. By sector, manufacturing leads the way in FDI (largely due to the Ready Made Garments (RMG) sector) followed by the telecommunications sector - which has surged in recent years, following liberalisation of the industry (Chart 2). Egypt and Singapore are major investors in the telecoms sector – the Egyptian company, now named Banglalink, entered the market in 2004 and is the country's second-largest service provider after Grameenphone.



4. China and India, and to a lesser extent RoK and Japan, are vying for investment and influence. Bangladesh's relationship with its Asian neighbours is crucially important, if not always smooth. The UK is a well-regarded and influential presence in the country – the largest aid donor and source of almost \$990m of remittances each year from the one of the largest Bangladeshi diasporas in the world. The UK's

Bangladeshi community can be a vital link between our countries and businesses as Bangladesh seeks trusted business partners.

Way Ahead for UK PLC

5. **Bangladesh's imports** have been on a steep upwards path (Chart 3). With the potential for demand to almost double between 2013 and 2018, the UK can capitalise on increasing demand, and market size, for our products.

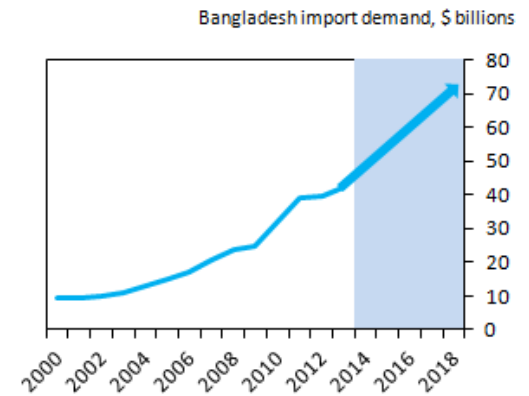
6. **Manufactured Goods & Machinery:** Development of Bangladesh's heavy industry, including shipbuilding, can allow the UK to exploit its strength in existing export sectors. Increasing our presence in heavy-industry supply chains could help the UK reach its £1 trillion export target by 2020. Our experience and expertise in these sectors could provide opportunities for UK services and consultancies. Further down the development path, the UK may look to increase its automotive exports to Bangladesh where car registrations in Dhaka alone are said to be increasing by 3000 per month. GoB-supported Enterprise Processing Zones (EPZs) offer businesses infrastructure and agglomeration benefits, access to tax and duty breaks and permit 100% foreign ownership.

7. **Telecoms & IT:** A large and growing sector for FDI, the telecoms sector has experienced rapid success in Bangladesh. The country now has at least 100 million active mobile phone users – and nearly 95% of internet use is through phones. UK firms may seek to capture some of this large and growing market, but there are also ample opportunities for UK businesses to exploit the use of telecoms in education, shopping, service provision and e-commerce. One well informed observer believes that IT-Enabled Services, and Business Process Outsourcing, will overtake exports from the RMG sector by 2021. Denmark has been investing in this emerging sector since 2003 and 25 Bangladeshi IT companies are now in partnership with Danish firms. With this high-profile backer, together with Dhaka's new IT City and a growing supply of computing graduates, Bangladesh could gain some Indian ground in the IT sector. But road, energy and technological infrastructure require immediate investment to build the capacity needed to make gains in this area.

8. **Pharmaceuticals:** UK companies like Reckitt Benckiser and GSK are in situ in Bangladesh. But the world's consumer-class (those spending \$10+ per day) is set to double by 2030 - and disproportionately so in developing Asia. Under World Bank proposed changes to the global poverty line, headcount poverty in Bangladesh looks set to fall to 40%. With this decline, demand will grow for healthcare and health products - and Bangladesh is already a growing player in the manufacturing of generic drugs. Whilst there is likely to be FDI competition from Indian firms in this sector, our leading role in R&D, and the value placed on trusted and established western brands, may give us a competitive edge in expanding our pharma sales and manufacturing in Bangladesh.

9. **Education sector:** 45% of Bangladeshis are under-15. This will create a huge bulge in the student-age population in the coming decade. With rising incomes and expectations, the UK may look to promote its renowned education sector– or establish stronger bilateral links with Bangladeshi universities and academic institutions. The British Council promotes some collaboration in this sector but any radical changes are likely to require reviews of student visa provision. In the private sector, ACCA (the UK accounting body) is using its links with education institutions and local and foreign firms to promote professional standards and the rules-based international economic system in Bangladesh.

Chart 3: Bangladesh Import Projections



Source: IMF WEO 2013

Bumps in the road?

10. **Corruption & Governance:** Corruption and political uncertainty cost businesses, and individuals, and hold back investment. Bangladesh ranks 136 out of 177 countries in Transparency International's 2013 Corruption Perceptions Index, and corruption is one of the factors holding back necessary long-term capital investment. Despite controversial elections, the Awami League look set to govern for another five-year term, with no credible opposition in parliament
11. **Structural Bottlenecks:** Dhaka is one of the world's most populous and least liveable cities. Infrastructure and energy security are key concerns for businesses. More foreign investment in infrastructure will be vital to establishing Bangladesh's import and export prosperity. EPZs have addressed some of the structural issues facing exporters, with plans for more across the country

Persistence and the Long View

12. Bangladesh is a secular, Muslim-majority nation with a democratic political system and a stable, prospering economy. Strategically sandwiched between South and South-East Asia, Bangladesh has the potential to be a regional economic hub with good market access to the world's largest economies. The UK can be Bangladesh's partner of choice and reap huge benefits in the long-run. But to create the right conditions for growth and UK businesses, persistence will be paramount.

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