

# Unlocking a world of potential: the Bangladesh journey



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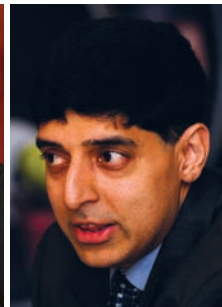
Lutfe M Ayub



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# Unlocking a world of potential: the Bangladesh journey

## HSBC/FinanceAsia roundtable discussion, Dhaka, Bangladesh



### INTRODUCTION BY DR ATIUR RAHMAN, GOVERNOR, BANGLADESH BANK

The Bangladesh story is a well kept secret. Most of all, it is a story of entrepreneurship. In the early 1970s, there was very little expectation that we would become such a big exporter, or that, in effect, every Bangladeshi would become an entrepreneur. In fact, Bangladesh is the only country in the region that has grown consistently over the past decade, despite political upheavals and natural calamities. The poverty level has halved during the past two decades and income inequality is declining, as shown by the falling GINI coefficient. Other social indices are also improving: immunisation and nutrition is better than India's, for example. Meanwhile, exports are going from strength to strength, and include apparels, leather, shipbuilding (four ships were exported to Germany in the last few months), pharmaceuticals, software and jute. There is also geographic diversification for the destination of those exports, with new markets found in Japan, Russia and all around the world. Bangladesh is one of the lowest cost countries, despite recent inflationary pressures. A flexible exchange rate also helps our exporters. However, there is room for further export growth, which is now gaining 3% share of GDP every year, and a per capita income of \$800 means the country has massive potential for increased affluence. Bangladesh is also providing for facilities to be an offshore centre for Outsourcing. Today, 50% of our economy is driven by the service sector, so financial intermediation plays a vital role. We, at the Central Bank, have taken the initiative by improving automation, while commercial banks such as HSBC can bridge the gap between local and international activities. Bangladesh certainly welcomes foreign investors – and it's worth bearing in mind that

foreigners have always enjoyed a stable operating environment here despite challenges of a developing nations. The strategic geographical position of Bangladesh, as a gateway to India and the Middle East, is also important. Finally, looking ahead, perhaps the key to further progress is to elevate the branding of Bangladesh. Meetings such as this one, sponsored by HSBC and FinanceAsia, can do a lot to help this process.

### What are the prospects for Bangladesh's principal exports of apparels and textiles?

*Dr Zahur Ahmed:* Although the US and Europe are important export markets, we have diversified during the past two years, in particular to China, Russia, Australia, UAE and South Africa. India is likely to be next. The recession in the US and Europe will have just a short-term effect. No other country can support the \$300 billion global apparel industry like Bangladesh can, so the prospects look healthy. However, energy costs are getting too high, and we will need to aim towards product diversification.

*Lutfe M Ayub:* I have been in the business for 20 years, and I still see tremendous opportunities. The global recession is temporary. More important are Bangladesh's low costs, flexibility and entrepreneurial spirit. In 2010, we exported \$12 billion worth of goods; in the first 10 months of this year we have already exported \$16 billion, finding new markets in Australia, Japan and Africa, and should achieve an average growth rate of 20% a year - so will soon reach \$40 billion. But, there are socio-economic consequences of this progress. We need to improve the country's physical infrastructure, focus on branding, and enhance our partnership and understanding with the Government. Nevertheless, apparels will be a continued success story.

### PARTICIPANTS

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**Md Mahbub-ur-Rahman**  
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*Paul Hollins:* We have been sourcing from Bangladesh for a number of years, but increased the level significantly during the past three to four years, and have even started manufacturing in the country. Bangladesh enjoys critical mass that is found nowhere else. On the other



hand, it needs better logistics and infrastructure.

**Md Mahbub-ur-Rahman:** It is important to stress the dynamics of the garment trade. Take this pair of trousers that I brought with me for demonstration. The material was sourced from China, made into the final product in Bangladesh for a Japanese retailer and then sold in Shanghai. Trade between developing nation, specially inter Asia trade, is growing at a much faster pace compared to global growth in trade. This new silk route or really the Asian trade corridor is likely to become much more important for the world economy in the future. HSBC has a role to play facilitating this international trade process, and it is a rapidly developing part of our business. We have a leading position in export and import out of Bangladesh, over 8% of country's international trade is facilitated by us. We are also able to support inter-Asia trade from end to end, linking importer / exporter in Bangladesh with their counterparts in, say China or India, within a seamless global platform.

**Sanjay Prakash:** In fact, one in 10 pairs of jeans in the world is manufactured in Bangladesh, and one in seven sold in the US is made here. Speed and connectivity are HSBC's strengths in this industry, and 40% of the banks' lending in Bangladesh is to the apparel sector.

**Dr Atiur Rahman:** It's also worth noting that the Central Bank has recently opened a window for foreign exchange transactions in Renminbi, and also introduced other incentives for the growing trade with China.

**Dr Syed Ferhat Anwar:** In my view, key challenges are to enhance product branding and improve labour productivity. The government can help with the former, by funding research and development for design, while companies need to look outside

Bangladesh for alternative manufacturing bases where the cost of land is lower.

### **How much traction do other export industries enjoy?**

**Mahmudul Huq:** The jute industry has enjoyed considerable growth in the past 10 years. Bangladesh is the world's biggest exporter of both raw and manufactured jute, and exports 85% to 90% of its raw fibre - India consumes most of its own. Our main export markets are India, Pakistan and China. Indeed, we exported 100,000 tonnes to China last year, compared with 30,000 imports eight years ago. That's a phenomenal growth. The rest of the world takes 20% of the country's jute exports, and they are in effect captive customers. Meanwhile, the market in weaving products has stabilised after contracting over 30 years, with exports to India growing during the past five years. This has happened simply through refurbishing old factories, and without help from banks or the government. Yarn for the carpet industry has also posted spectacular growth. Bangladesh was exporting 15,000 to 20,000 tonnes in 1980; now the figure is 400,000 tonnes. Carpets can be made faster and cheaper, but manufacturers still need jute yarn, because it adds weight and volume at the cheapest cost. A further trend is a shift towards exporting spun yarn to China, and eventually we will be exporting the finished product.

**Ahsan Khan Chowdhury:** Bangladeshis can export anything to anywhere. Our company, for example, trades in difficult markets such as Papua New Guinea, South Sudan and Somalia. Bangladeshi entrepreneurs go to tough markets, and we thrive. That is the beauty of Bangladesh. We learn from experience at home, and then enter new countries gradually, and we will eventually develop global brands. In fact, Pran is already a global brand. Bangladesh's

demography and location are also advantageous, and I expect that north-east India will be a big market for us soon. Other features are improving levels of education, resilience against set-backs, high aspirations, and adaptability.

**Nazim Farhan Choudhury:** We started our graphic design outsourcing company five years ago, and now employ over 200 people in every continent except Latin America – although that will change soon – and expect to have 400 staff by the end of next year. We design print and on-line graphics for leading global brands from around the world.

**Mahfuz Anam:** Bangladesh actually has one of the freest media in the world. There are over a hundred good newspapers in Dhaka, 10 private TV stations and several radio stations. And this is healthy for the country. I'd also like to emphasise our country's achievement despite awesome challenges. We have a population of 150 million constrained in a landmass of 144 thousand square kilometres, yet we are successful at feeding and educating that population within a democratic framework. It is like an experiment. However, we also need to raise worldwide media attention, diverting its focus from the periodic natural disasters or political unrest. Instead, it should be more aware of our entrepreneurs and our successful human social development, which is happening more often than not. At the foremost, we and our Government need to be convinced of Bangladesh's future. There is a great story here, and we should be grateful to HSBC and FinanceAsia for promoting it.

**Dr Atiur Rahman:** I agree; ours is a story that should be told more frequently in more places. The non-resident Bangladeshis, who supply \$12 billion worth of remittances each year, is another dimension. They are widely



Dr Atiur Rahman



Lutfe M Ayub



Mahfuz Anam

recognised as hard working, loyal, ambitious and entrepreneurial, setting up small businesses throughout the world. We all should celebrate and encourage this aspect of Bangladeshi culture. In fact, the Central Bank, as regulator, can and does encourage and nurture these aspirations through dedicated policies and incentives.

**Should Bangladesh's companies get bigger, or will the future remain with SMEs?**

*Dr Syed Ferhat Anwar:* Here's an interesting fact - if the world's population were placed in the US, the population concentration would still be less than in Bangladesh. So we and our entrepreneurs should expect to face challenges. Most of them are in the services sector; the country has the greatest concentration of retail outlets - nine per square kilometre. Is this good? Yes for today, but perhaps not for tomorrow. Around 63% of the country's population is young, and they are getting better educated. Many will want to seek improved opportunities, maybe travelling abroad. So, we need to rethink our strategy: too many small enterprises will not necessarily be productive.

*Ahsan Khan Chowdhury:* Starting small is a good place to learn from, but we are likely to graduate to bigger size, despite recent problems such as high gas prices and the global financial crisis acting as short-term constraints.

*Lutfe M Ayub:* I'd highlight two things - a shortage of natural resources and high population density are significant impediments to other types of industries on a large scale. Hence, the services sector is essential to Bangladesh; no other industry is as suitable, and as capable of providing employment and as less capital intensive. The second point is important - the cost of borrowing money is high in Bangladesh. Indeed, I'd argue that banks need to be more competitive and offer cheaper rates, comparable to the rates that foreign investors can access.

*Md Mahbub-ur-Rahman:* I sympathise with that point, HSBC continually thinks about alternative ways to help its customers, taking a broad perspective, and using its international connectivity. That means we are willing and able to use our offshore banking book - the largest in Bangladesh - to provide

foreign currency support to local firms, bringing competitiveness to local enterprises in international operations. Our experience is very pleasant with Bangladeshi exporters and their business acumen and proficiency. We however, need to be aware that while foreign currency exposure is fine for exporters with a natural hedge, the dynamics are more complex for purely domestic firms. We also need to determine, which is the more important driver, availability or the cost of finance. Deposit rates need to encourage savings, which leads to higher lending rates in Bangladesh. Otherwise, the availability of financing will be low. Real effective lending interest rates, adjusted for inflation, are not bad in the overall context. We have exchange control regulations in place, which presents certain operational challenges, but overall it also protects the local economy from a number of challenges. We are happy to find a very supportive Central Bank and the Board of Investment for local companies accessing internationally competitive financing markets.

*Lutfi M Ayub:* I agree there are other problems, although one - the surge in the price of natural gas - is less of an issue for us as we have moved to alternative fuels. The main concern is lagging productivity due to inadequate mid-level education and lack of targeted training among the workforce.

*Dr Zahur Ahmed:* We too have adapted to alternative and more efficient fuels, and introduced power-saving practices. I agree that labour productivity needs to improve. Many employees arrive straight out of their protective rural communities. Entrepreneurs need to adopt a patient approach, and try to understand people better. This approach is successful, and efficiency at my plants is now at around 60% compared with about half that a few years ago.

*Ahsan Khan Chowdhury:* Banks such as HSBC have a positive role to play in financing Bangladeshi companies. Lending at global rates of interest would undoubtedly help us. Not just lending, international footprint is also important.

**What are the constraints to developing business and entrepreneurial skills?**



Md Mahbub-ur-Rahman



Dr Zahur Ahmed



Dr Syed Ferhat Anwar



Mahmudul Huq



Paul Hollins



Sanjay Prakash

*Sanjay Prakash:* A core job for us at HSBC across the globe is to finance and facilitate entrepreneurship. In fact, we run a regional “HSBC Young Entrepreneur Awards” programme in Asia Pacific. And it is worth noting, that Bangladeshi teams have finished within

the top three for each of the six years the awards have been organised here. Our next step is to help put these ideas into practice. Another issue is the development of local capital markets. These are essential to attract foreign investment and funding for local

enterprises; but the corollary is improved corporate governance, shared profits and capital restructuring.

*Nazim Farhan Choudhury:* One failing is that we don’t enhance entrepreneurial skills sufficiently in our education system, in order to prepare the million people entering the workforce every year. The challenge is to teach these skills and techniques on a mass scale, not just at business schools. Also, female entrepreneurship is very important, particularly supported by microfinance, and fostered by support groups. I see more and more female entrepreneurs in my advertising business.

*Mahmudul Huq:* But, our success in meeting the challenges of educating, employing and feeding a population that has doubled in size since independence is due to our entrepreneurs. And we still feel confident about the future.

*Nazim Farhan Choudhury:* It’s possible that we have inherent entrepreneurial skill sets. But, bear in mind, as Bengalis we have only been in business for a short time. Before independence, most businesses were run by the West Pakistanis, and Bengalis merely concentrated on trading. The first generation of Bengali businessmen learned from their mistakes, and sent the next generation overseas to study; and they are bringing about a new dimension.

*Paul Hollins:* The education of management at all levels, especially mid- and senior-level is essential, so it can organise the labour force and inputs more effectively, allowing entrepreneurs to deliver the final product. At our company, foreign managers train locals who will eventually replace them.

*Dr Syed Ferhat Anwar:* Most large businesses in Bangladesh conduct in-house training. But, we still lack some of the formal skills, although NGOs have helped.

*Ahsan Khan Chowdhury:* The private sector has had a crucial role in all aspects of society – education, transport, telecoms and hospitals. Also, the transition from SMEs to larger companies is taking place.

**How important is foreign investment for the country’s future?**

*Paul Hollins:* As a foreign company operating and sourcing here, we believe that Bangladesh has a sustainable future for us, even as the country becomes richer. There is no alternative to the mass of people in the workforce.

*Dr Syed Ferhat Anwar:* Foreign direct investment (FDI) is essential especially for infrastructure development. However, the private sector is sceptical about foreign companies, so joint ventures are the best way to start. For example, take the pharmaceutical industry. Local companies dominate the sector, after multinational corporations came in with generic ideas that were inappropriate for Bangladesh - and they failed.

*Sanjay Prakash:* The impact of the Government is important - especially a political system that ensures stability. Bangladesh is one of the 11 new frontier countries, and there is interest among international fund managers. The key to attracting them is having the right returns, liquidity and transparency. Entrepreneurs have to 'show themselves', that is, be willing to change capital structures, implement good audits, improve governance and share profits.

*Dr Syed Ferhat Anwar:* We can build up efficiency through training, but corporate governance here needs to have a local dimension that reflects Bangladesh's uniqueness. This is especially true for small firms.

*Md Mahub-ur-Rahman:* The international markets need to be aware of Bangladesh's improved performance, particularly since being rated by S&P and Moody's. We feel the time is ripe for Bangladesh to access international bond markets as a sovereign. The current low yields and credit concerns in Europe has actually driven up the attractiveness of emerging market sovereign bonds, and we are receiving queries from fund managers on when Bangladesh will issue its first bonds. If Bangladesh goes to market with arrangers having extensive experience in managing Asian sovereign issues like us, we are confident of a successful issue at an acceptable pricing. But more important than the pricing, it will open up new avenue of funding for the government for strategic investments. In the process we will get to tell our



Ahsan Khan Chowdhury



Nazim Farhan Choudhury

growth story to the world's leading investors, which always has a positive impact in line with what we were talking before. Building credibility in small steps is probably one of the best branding possible for us. This will also set the right benchmark for corporates to access the same market.

*Sanjay Prakash:* HSBC advised Bangladesh Bank in its negotiations with S&P to gain a BB- rating. The country is likely to take a step-by-step approach to issuing a sovereign bond.

**How important is recognition, such as that achieved by the HSBC Export Excellence Awards?**

*Sanjay Prakash:* This is the second year that we've run the awards. We felt that it was a way to recognise the value of Bangladeshi exporters, showcase them, and promote trade and competition. The awards have credibility, not least because we appoint high calibre, independent jurors.

*Md Mahub-ur-Rahman:* It is a humble

way of recognising exporters' strength, stressing our own connectivity and bringing entrepreneurs together.

*Nazim Farhan Choudhury:* Speaking as a recipient of an award, I'd say that several benefits are that it gets people talking, encourages competition and helps us attract talent that might otherwise go to multinationals. Perhaps more needs to be done to promote the winners of the awards.

*Dr Syed Ferhat Anwar:* Awards motivate people to achieve better standards. So they have a positive contribution, although maybe some equally deserving companies have missed out in the process. Also, what happens next?

*Sanjay Prakash:* One of the challenges we faced was to spread the net wider to include other banks' customers. So, it is not exclusively an HSBC award - it is for exporters in general. I also appreciate that we need to promote the award-winners more effectively. ■



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\*Source: HSBC 'The world in 2050'

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