

Bangladesh Development Outlook: Alternative strategy to bring Japanese investment

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Background

The Bangladesh economy has certain comparative advantages, such as a huge population of 150 million of which 40% are below 30 years of age. The natural advantages are also there in terms of tropical climate, with bright sunshine almost 10 months in a year. It is a delta with fertile soil with Bay of Bengal in the south, along with long sea beaches in Cox's Bazar and Kuakata. Jamuna, Padma, and Meghna are large rivers flowing through the country originating from the Himalays. The people are hardworking and they adopt technologies readily. About a million of them are employed outside the country, mostly in the Middle Eastern countries.

The agriculture sector is diversified into major crops, vegetables, fruits, and flowers grown around the year. It also has a growing SME sector along with the exporting RMG industry, leather, food processing, light engineering, etc. In economic terms, all these comparative advantages results in low costs of manpower and other cheap, locally produced goods and services. For the last two decades, GDP growth at 5-6% has also increased demand for goods and services produced locally as well as from abroad. Japanese cars and electronics are sold here in large numbers.

Recently, a World Bank report has identified infrastructure deficits in energy and transport sectors as impediments to higher rate of growth in GDP. Massive investment would be required for developments of the infrastructure which works as the backbone of an economy. Many mega projects have been identified for development. (Source: The World Bank Development Outlook for Bangladesh October, 2014).

Japan is a highly developed country with surplus investment fund and an ageing population, now faced with falling demand for goods and services

produced in Japan. Japanese companies have invested heavily in South East Asian countries and China. Recently, the Japanese Prime Minister, Mr. Shinzo Abe, visited Bangladesh and India with a large delegation of businessmen to increase Japanese investment in Bangladesh and India under the China plus policy given the rising cost of production in China.

So far, Japanese government investment in Bangladesh has been through the government of Bangladesh and other multilateral agencies like ADB and the World Bank. The government agencies in Bangladesh lack administrative and technical capacity in planning as well as implementation of major projects causing long delays and cost over runs (as for example, the Metrorail projects in Dhaka and the Padma Multipurpose Bridge were delayed by five years). Annual utilization of foreign development assistance is 18% only of the fund from the funds that is in the pipeline. The cumulative balance has grown to U.S \$ 20.0 billion. We must look for alternative ways of bringing Japanese investment into Bangladesh through private business to business linkages and through chambers of commerce and industries.

In this paper, we have tried to identify a few such opportunities based on the comparative advantages mentioned above and quick investment from Japan, so that both the countries derive benefits faster besides the traditional mega projects under government to government process.

1. Health sector

Recently Dr. Osamu Otsubo, Ph.D., Chairman of Bangladesh Japan Society and Chairman of one of the large hospital groups in Japan visited Dhaka. He came with the Prime minister of Japan and visited Northern University Bangladesh. He showed interest in setting up Nursing and Radiology imaging training institutes. He may also be interested in joint venture in medical education and specialized hospital with NUB and NIMCH. These projects will reduce drainage of huge foreign exchange spent by wealthy Bangladeshis for medical

treatment abroad. Trained nurses and technicians can be employed here and in Japan.

2. Residence for senior citizens in the coastal areas

The retired and aged people of Japan need personal care in suitably designed facilities in warm, sunny locations. It is known that a few thousand such families have been settled on the coastal area in Vancouver, a western most city in Canada. Bangladesh can offer such opportunities in Cox's Bazar through the private sector investors. Fully serviced small apartments can be built for either renting or sale to the retired people from Japan as an exclusive tourist zone. Many such apartments have already been built by the private sector realtors in Kalatola area in Cox's Bazar. For that purpose the Cox's Bazar airport has to be expanded under Public Private Partnership (PPP). Such facilities can also attract tourists from Europe. Rich parents of Bangladesh expatriates in North America and UK can also be resettled in those apartments in healthy environments. Bangladesh is expecting to be a middle income country by 2021, provided all identified mega projects in infrastructure are undertaken soon and completed within the next 5-7 years. In that case, and under a stable governance system, many Bangladeshis who got their second homes abroad would like to have second homes within the country in coastal belts in Cox's Bazar and Kuakata if given the right incentives. Bangladeshis have a strong sense of family bondage and love for this country that got independence in 1971 after 3 million lives were lost in the war of liberation.

3. Japanese Economic Zone

Similar to the Korean Export Processing Zone in Raozan, Chittagong Japanese investors should have an Export Processing Zone (EPZ) for relocating some of their production facilities (electronics in particular) from China to Bangladesh. As reported in the press, such

an EPZ will be established in Maheskhali area, where a large power plant will be set up with Japanese assistance.

4. Cold Chain in Agriculture

Agriculture is still a major sector in the Bangladesh economy. This sector is now growing @ 3% p.a. only because of the use of low level technology and small holdings by six million farm families. It has reached limits to rise in productivity under the existing system of production, inventory, and transportation from rural to major urban areas. Low growth in the agriculture sector (except fisheries exports) is due to very low prices obtained by the growers, sometimes not even covering cost of production due to lack of Cold-Chain facility in the supply chain. At the same time, consumers in the metropolitan areas pay exorbitant prices (almost ten times higher) than what farmers get. Urgent investment in the Cold Chain network (warehousing and transportation) can increase production and productivity in this large and diversified agricultural sector that still employ 60% of the labour force.

5. Agro-processing industries

Organization of farms into larger units and mechanization can be major investment for Japanese investors with high rates of return. Some local firms have established themselves (eg, PRAN, Aftab, Kazi farm, Bengal Meat, Arang, etc.). PRAN and Bengal Meat have already got their products into international markets. Japanese business firms in the agro-processing sector can join these groups to expand production with quality for local and export markets. The private sector can operate trains with refrigerated containers on the existing rail lines which remain under utilized. It is a PPP project that will increase growth of the agriculture sector to at least 5% p.a. and increase productivity of labour and capital. To increase exports of fresh agro-products it is essential to develop an international airport in the Northern part of the country.

6. The Tea industry

It is to be noted that Bangladesh has had a large tea growing and manufacturing industry since the British period. These tea producers are exporting dried bulk and small tea packages alongside the growing domestic market. There is very little change in the industry in terms of product diversification, such as cold tea in bottles as substitute for soft drinks like coca-cola and pepsi. The carbonated beverage industry here is making huge profits which are being transferred to foreign investors. They employ a small number of workforce and use large quantities of water from underground source and thus putting down the water table year after year without any action to hold surface water. On the other hand, the tea gardens employ large number of traditional aboriginal labour mostly women with very low wages as they are captives in those localities. More value added final tea products and organized tea shops like the “Chai shops” being established in India under the patronage of a Harvard University professor similar to “Star-bucks coffee shops” can be started. In Dhaka we see thousands of mobile tea vendors who sell tea and biscuits using thermos flasks. Encouraging the people to drink more tea (hot & cold) will help improve the health of the people and avoid harmful effects of carbonated drinks besides saving underground water for use in agriculture and drinking by common people.

7. The Leather industry

This industry has linkage with agriculture. Leather goods processing and export of finished leather and leather goods are third largest export earnings for Bangladesh. This industry is currently faced with a crisis of transshipment to a location outside the Hazaribagh area

within Dhaka City Corporation. This move to shift from the current location has been going on for years. The Government of Bangladesh has given them an area in Savar outside of Dhaka City Corporation to avoid the pollution that is associated with leather processing. Lack of finance perhaps is hindering their shifting as bank loan interest is too high in Bangladesh. It is possible for Japanese investors to provide equity capital and relocate these prioritized industries with tremendous potential for export to Japan and Europe with much higher value added to the local farmers and tanners.

8. The Small and Medium Enterprise (SME) sector

The SME sector in manufacturing has widespread diversity in its output mix. This vibrant sector provides 30% of value added in manufacturing and employs large number (60%) of semi-skilled and skilled workers. For example, more than 400 product variants in the RMG industry exist. In agro and food processing, 20 different varieties are produced starting from rice milling to puffed rice and bread. In these industries gross profit as percentage of sales ranges between 25% and 30% while weighted average gross profits on sales accounted at 25% in 2010.

Net profit as percentage of sales on a sample of firms in 20 sub-sectors was estimated at 22% on average. A comparison with Indian firms in SME manufacturing sector was estimated at 12% only (Chandra).

Of these SMEs, light engineering has concentration in Dhaka and Bogra. A survey on these sectors revealed the shortage of capital as the main constraint to expansion. It is known that interest rates on bank loan in Bangladesh are very high at 15-18%. Furthermore, these SMEs cannot get loans because they do not have adequate collateral securities for obtaining loans from commercial banks. They need

equity capital from joint venture partners from Japan. Most of the SME sub-sectors have good trade bodies, such as associations and chambers. (Source: Towards an Evidence Base for Efficient Proactive and Inclusive SME Development, SME SDP Project SME Cell Ministry of Industries, June 2010).

9. Restoring rivers around Dhaka and making Dhaka a livable city

Water pollution in the four rivers surrounding Dhaka city is proving to be very hazardous for marine life and the people. Government of Bangladesh has a plan to dredge these rivers and keep the water clean and use the rivers for transporting goods and people. This project to save the rivers can be undertaken as PPP and investment with return from revenues to be earned from marine vehicles transporting goods and people. When the river banks are protected and built with scenic trees and gardens, purpose built markets and entertainment centres can be set up around the outskirts of the city and also on the other sides of the rivers. A huge volume of economic activities can be generated if these river banks are taken back from illegal land grabbers. Just like it is used in Kolkata city, cleaned water from these rivers can also be pumped to some areas in the city for washing and bathing by common people, which can improve hygiene and health and reduce medical costs. Dhaka city had many natural canals for water to flow through. These canals can be stored to their original paths to make use for boats to carry goods, people and thus make the city a better place for living for the future generations. Similar projects can be undertaken for Chittagong, the second largest city in Bangladesh. It has been reported that Japan has very good knowledge and technology to manage large cities efficiently. (Source: Sadiq Ahmad). Dhaka has already been identified as an unlivable city due to its unplanned growth.

10. The pharmaceutical industry

Bangladesh has a vibrant and modern pharmaceutical industry producing medicines of high quality for domestic and international markets. This industry can benefit from Japanese investors in two ways. Firstly some Japanese pharmaceutical companies can be partners of the top companies in Bangladesh and increase their production and distribution capacities. Secondly there is a government plan/ project to build an API near Dhaka for which land has already been acquired. To expedite this project on PPP basis, Japanese chemical firms can be invited to invest in this basic industry within a short period. Time is of essence in the case of Bangladesh.

11. Construction industry

Construction industry has made a strong presence in Bangladesh along with linkage industries such as cement, steel, tiles and fittings. Recently the RMG, pharmaceutical and others are demanding fabricated steel structure for quicker construction. The old ship breaking industry in the coastal belt in Chittagong is providing the base metals for the steel structure buildings. Japan also uses pre-fabricated structures in its buildings. There is scope for joint-venture in the steel structure fabrication industry as it would be less costly to make them here and ship to Japan and other South East Asian countries.

12. Insurance for loss of life and income

In the services sector one Japanese company has started a joint venture to set up a life insurance company with Summit Corporation, a large conglomerate in power, shipping lines, refinery and the communication sector. A vast area of business and agriculture remain outside the ambit of insurance coverage. Many small NGO's are engaged in providing micro-insurance in some areas in a limited scale. There is scope for Japanese insurance companies to get involved in this business. The Rana Plaza collapse and death of over

1,100 RMG workers has raised the issue of providing insurance protection for the loss of lives of the workers. It is quite possible to devise a scheme to provide insurance for loss of earnings due to accidents for the 4 million workers (80% women) in the RMG industry by contribution from the employees, employers, donors and Government of Bangladesh. It is a vital sector in terms of earning foreign exchange for Bangladesh and it is expected to grow @ 10% per year for at least 10 more years. Low cost of labour is the comparative advantage that we must maintain by providing suitable insurance protection against loss of lives and earnings. This will increase productivity in RMG industry along with training for higher quality products.

Northern University Bangladesh has a Centre for Management Development and Research (CMDR) in the Faculty of Business. Under CMDR we can provide necessary initial support for facilitating Japanese companies to get started in the investment opportunities mentioned above. This is a limited exercise in this area of cooperation between Japan and Bangladesh. There are scopes to conduct more exhaustive collection of information, analyses and reports.

Thank you.