

# ISAS Special Report

No. 56 – 12 July 2018

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## Bangladesh: Challenges and Opportunities

*The Institute of South Asian Studies and the COSMOS Foundation of Dhaka, Bangladesh, organised a panel discussion on “Bangladesh: Challenges and Opportunities” in Singapore on 5 March 2018. The event provided the Singapore audience insights into the political, economic and social landscapes in Bangladesh. The panel featured Bangladeshi experts in the field of public policy, entrepreneurship, development and women empowerment from both the government and the private sector. The panel discussion highlighted the progress made by Bangladesh and the various economic opportunities offered by the country. At the same time, it highlighted some key challenges that Bangladesh needs to tackle so as to move to the next level of development.*

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### Introduction

On 5 March 2018, the Institute of South Asian Studies (ISAS) at the National University of Singapore and the COSMOS Foundation of Dhaka, Bangladesh, organised a panel discussion on ‘Bangladesh: Challenges and Opportunities’. The event examined Bangladesh’s current political, economic and social landscapes as well as the path ahead for the country. The all-

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Bangladeshi panel featured experts in the field of public policy, entrepreneurship, development and women empowerment from both the government and the private sector.

The panellists for the half-day session were Dr Mashiur Rahman, Economic Adviser to the Prime Minister, Government of Bangladesh; Mr Md Abdul Halim, Director General of the Governance and Innovation Unit, Government of Bangladesh; Mr Md Aziz Khan, Chairman, Summit Group; Ms Rubana Huq, Managing Director, Mohammadi Group; and Ms Samanta Farahnaz, Consultant, Bangladesh Investment and Development Authority (BIDA). Dr Iftekhar Ahmed Chowdhury, Principal Research Fellow at ISAS and former Foreign Minister of Bangladesh, chaired the panel discussion. The event also witnessed the participation of HE Mr Md Mustafizur Rahman, High Commissioner of Bangladesh to Singapore; ISAS Director Professor Subrata K Mitra, as well as of the Chairmen of the two host organisations – Ambassador Gopinath Pillai from ISAS and Mr Enayetullah Khan from the COSMOS Foundation.

## **Opening Speeches**

Ambassador Pillai delivered the opening remarks for the event. He observed that Bangladesh has made remarkable progress despite numerous challenges. These included the 1943 famine, which killed millions of people and disrupted agriculture and transportation, and the violent partition from West Pakistan in 1971. Bangladesh was later called a “basket case” by the then-United States Secretary of State Henry Kissinger, a label which negatively affected the perceptions of tourists and investors. Despite these challenges, the country has stood up, although it still faces the enduring challenge of empowering, feeding, educating and employing its population.

Ambassador Pillai then spoke about Bangladesh’s potential as an attractive destination for foreign investments. He stated that the business community in Singapore has started looking at Bangladesh with some curiosity. He stated that skilled labour force and the ease of doing business, if achieved, would make the country’s assets sustainable in time.

Mr Rahman thanked ISAS and the COSMOS Foundation for organising the event. He described Bangladesh as a country which was politically stable, economic sound, and socially thriving. It has transformed significantly in the last two decades, experiencing economic growth, increased employment, improvements in infrastructure and access to health and education. In terms of mortality rate and sanitation, for example, he stated that Bangladesh has performed better than many of its neighbours. The High Commissioner added that the country's trajectory is not without obstacles. The size of the territory versus that of its population, resources constraint and exposure to natural disasters represented some long-term challenges. In addition, Bangladesh was faced with new issues such as extremism, a refugee crisis and the proximity to two nuclear powers and economic giants, India and China. With regard to the Rohingya crisis, Mr Rahman commented that, if not repatriated, the refugees would create great instability which would be detrimental to the host country. On the relationship with India and China, he stated that Bangladesh needed to turn the challenge of proximity into an asset and to its advantage.

The High Commissioner then spoke about the forthcoming graduation of Bangladesh from the group of least developed countries (LDC) to the status of low middle-income country (LMIC) – a source of great pride for the nation. The graduation, however, implied the loss of important benefits. According to Mr Rahman, the way ahead for Bangladesh was to transform human resources into capital, generating employment opportunities and attracting foreign direct investment (FDI), while diversifying its exports beyond garments to include other sectors such as pharmaceuticals and information and communication technology (ICT). Within this scenario, Singapore could play a fundamental role as a potential source of investment for Bangladesh.

During his address, Mr Enayetullah Khan thanked ISAS for partnering the COSMOS Foundation in the organisation of the event. He stated that Bangladesh could play an important role in Asia as a bridge between India and China. Enayetullah Khan added that, due to his business activities, he has had a long association with Singapore, which was widely admired as a knowledge hub. He expressed his wish that the joint ISAS-COSMOS panel discussion might work as an ice-breaker of sorts for Bangladesh as an investment destination, and as a testimony of what could be achieved together through collaboration.

## Panel Discussion

Dr Chowdhury introduced the panellists and offered some remarks to set the tone for the session. He contrasted the difficult beginnings of Bangladesh with its remarkable achievements. He stated that, in 1971, the country started with a war-battled economy and faced innumerable challenges. However, it was able to overcome its challenges. Its success formula, according to Dr Chowdhury, consisted of the skilful use of foreign aid and a socialist mode of policy, developed in consonance with the imperatives of globalisation and perceived domestic needs. In this way, the country transformed from a mainly agricultural to a manufacturing economy, supported by a vibrant diaspora. Dr Chowdhury also highlighted some of the persistent challenges, such as skills development and employment generation. He also mentioned the ongoing refugee crisis, commenting that the country welcomed millions of people from Myanmar due to the humanitarian spirit of the nation and the generosity of its prime minister. He concluded his remarks by defining Bangladesh as a country anxious to move forward, drawing from Bengali wisdom that teaches: “Should you wish to cross the sea, do not just stand at his edge and simply stare at waters”.

In the first presentation on the panel, Dr Mashiur Rahman spoke about the status of the Bangladesh economy, offering an overview of some macroeconomic indicators and a contextualised interpretation of the same. He stated that the strength of the Bangladesh economy is its sustained growth, which has accelerated from six to seven per cent, remaining consistent between savings and investments. Remittances have supported domestic savings in Bangladesh. The remittances from the Middle Eastern countries have been fairly stable. The employment rate of Bangladeshi citizens in the Middle East region is expected to remain stable. On inflation, Dr Rahman commented that it has been under control, varying between six and seven per cent, with the structural rate of inflation being between six and eight per cent.

On the assessment of the country’s growth and gross domestic product (GDP) ratio, Dr Rahman observed that this needed to take into consideration the structure of the economy. In Bangladesh, about 47 per cent of the economy was informal, while 15 per cent was represented by the agricultural sector, which was hard to beat for taxation purposes. As a consequence, the formal sector targeted by taxation was only half of the total economy. In

addition, Bangladesh offered various tax concessions for exports and domestic production, and for different types of industries.

Dr Rahman then examined the exchange rate and reserve indicators for the country. He commented that Bangladesh could count on a considerable reserve (approximately US\$30 billion [S\$39.97 billion]), to which remittances contributed substantially. The exchange rate had also been stable, an important thing for Bangladesh given its dependence on the import of fuel, fertiliser and wheat.

Dr Rahman also stated that although the global environment had not been conducive for their growth, Bangladeshi exports did not decrease significantly. The ratio the external sector to GDP was around 46 to 50 per cent, and in the last couple of years, the ratio of trade to GDP increased from 35 per cent to almost 50 per cent. Exports were important to Bangladesh because, besides providing access to foreign currency, they allowed local entrepreneurs expand. As Bangladesh was small, entrepreneurs might wish to opt for diversification and enlargement of outputs by accessing larger markets. The country's interest rate stability and exchange rate stability did allow investors to plan for the medium term.

Dr Rahman added that the Bangladesh government succeeded in not exceeding the deficit expenditure to beyond five per cent. With regard to the financing of the deficit, he commented that it was partly aid funded. However, the importance of aid, as a proportion of GDP, was reducing steadily. The government borrowed mainly from the central bank, which prevented it from affecting the money supply. Dr Rahman also mentioned that the government was currently implementing a large number of so-called 'mega-projects', also known as 'transformative projects', to remove the infrastructure inadequacies and prepare the country for the expected growth of the domestic market and exports.

From the point of view of demographics, Dr Rahman stated Bangladesh was going through a transition – by 2040-2050, the population was projected to start declining. However, before that occurs, a large working age population was in need of training and employment. To this end, the government was investing in skills development. On the other hand, mechanisation posed serious challenges for job creation. As a consequence, Dr Rahman concluded, sustainability and skills were a priority for Bangladesh.

The second panellist, Mr Md Aziz Khan, spoke on capacity building and sustainability in Bangladesh's energy sector. He stated there was lot to learn from Bangladesh's economic trajectory as well as from its humanitarian will to host the Rohingya refugees. Mr Md Aziz Khan observed that sustainability is a characteristic rooted in the very nature of the country. Bangladesh was a democracy and it had opened its markets – these features provided the foundation of sustainability. The country was faced with the challenge of generative employment for its huge population. Success in such an endeavour required a strong foundation in infrastructure.

Mr Md Aziz Khan offered an overview of the energy sector in Bangladesh. He observed that almost 50 per cent of Bangladesh's electricity was provided by the private sector. This represented a great achievement for Bangladesh as, in this field, it had performed better than its neighbours, India and Pakistan. The government had provided some important incentives through its Private Sector Power Generation Policy, Bankable Contracts, and Speedy Supply of Power and Energy Act. In 2003, the Bangladesh Energy Regulatory Commission was established with the objective of increasing the transparency of operations and tariffs of electricity, domestic natural gas, and gasoline and diesel. Compared to fossil fuels, electrical power was more environment-friendly. As such, 'LNG to power' projects presented lots of advantages.

Mr Md Aziz Khan then presented the Summit Group as a case study. The Group focused on the generation of electricity, fibre optics and naval and ports development. At present, the Group was generating 13 to 15 per cent of the country's current capacity. The Group also laid out approximately 40 per cent of the country's fibre optics. These results, Mr Md Aziz Khan said, were a matter of great pride because telecommunications had a direct policy impact, enhancing cooperation and speeding up decision-making. Telecommunications was, therefore, playing a central role in the transformation of the global economy in general and in the economic growth of Bangladesh in particular. On port development, Mr Md Aziz Khan stated that the Summit provided 15 per cent of containerised exports and five per cent of Bangladesh's imports. The Summit also intended to move on to the ports currently under construction by the government at Maheshkhali in the Matarbari area. Mr Md Aziz Khan concluded his presentation by declaring his confidence in Bangladesh's ability to meet the target of sustainable growth and ushering an era of 'Golden Bengal' for the generations to come.

Ms Rubana Huq, the third panellist, spoke about women and entrepreneurship in Bangladesh, with a specific focus on the garment sector. Adding to what was shared by the earlier panellists, she commented that, in Bangladesh, the transformative projects must include the construction of social capital. She then noted that only 10 per cent of Bangladeshi entrepreneurs are women, while in advanced market economies, businesswomen own 25 per cent of the sector.

Ms Huq then turned to the case of the ready-made garment sector in Bangladesh. She provided an overview of the garment sector in Bangladesh, tracing its history from the 1974 Multi-Fibre Arrangement to present day. Bangladesh was the second largest garments exporter after China. Ms Huq commented that, after the Rana Plaza disaster, which occurred in 2013, both the trade unions and the workers' welfare received a boost. The ready-made garments sector, however, remained a "case sandwich", that saw manufacturers "sandwiched" between the need for more competitive prices on the one hand and compliance pressures on the other. According to Ms Huq, image deficit was one of the current challenges for Bangladeshi-made garments. This was due to the fact that consumers had become conscious. Therefore, the emphasis on compliance for firms active in the sector remained high. Other challenges included smaller runs, quickly changing fashion, smaller and lead times and automation. Ms Huq shared a number of ways in which industrialists could support their workers. These included providing schooling for the workers' children, housing and university education. She also proposed the creation of cooperatives, aimed at transferring ownership to female workers. Such an initiative would be instrumental to the development of female entrepreneurship from both sides – among the employers and the workers. According to Ms Huq, both groups faced various challenges. For the workers, these included low literacy, a lack of motivation and the difficulty in accessing finance. On the employers' side, scalability and formalisation were the main challenges.

Ms Huq stated that a rise in the participation of women in the labour force by 10 per cent in the next five years would play a pivotal role in growing the country's GDP by another one per cent. This proved the centrality of female empowerment to the development process undertaken by the country. As a step towards an effective promotion of female entrepreneurship, Ms Huq launched the idea of an "Asian Institute for Female Entrepreneurship". She expressed the hope that the idea might find fertile ground in the

partnership between the COSMOS Foundation and ISAS, and might be pushed forward beyond the event.

The fourth panellist, Mr Halim, spoke on government and innovation. He defined governance as rule of law, access to justice, participation, and accountability. Innovation, on the other hand, consists in addressing a problem or an opportunity by bringing changes in processes or products, and benefits to government/users in terms of hassle or costs. Good governance, therefore, must to be effective, accountable, and transparent.

Mr Halim introduced some of the tools of good governance used by the Bangladesh government. In terms of accountability, Bangladesh could count on a number of institutions, including the Parliamentary Standing Committees; National Human Rights Commission; Comptroller and Auditor General; GRA; National Integrative Strategy (NIS); and the Citizen's Charter (CC). The CC is a document which specified and publicised the service-related commitments of an organisation to the citizens. The NIS was adopted by the government in 2012. It aimed to facilitate positive behavioural change through honesty and integrity at all levels of administration. The NIS informed the citizens on where they could go to have their concerns heard and addressed through "a comprehensive organisational arrangement and an action plan for ensuring good governance".

With regard to effectiveness, Mr Halim stated that the instruments included the Ministry Budget Framework (MBF), the Performance Audit and the Annual Performance Agreement (APA). The APA was introduced in 2014 and comprised a paradigm shift from input orientation to outcome orientation – its produced annual planning based on long term targets, internal competition and encourages actions for further improvements.

Mr Halim stated that transparency was pursued through institutions and initiatives such as the Right to Information; e-governance and the abovementioned CC, NIS and APA. The National Governance Assessment Framework aimed to develop country-contextual governance indicators, strengthen the alignment with Sustainable Development Goals (SDG 16) and provide policy inputs based on evidence.

Mr Halim then presented the case of child marriage restraint as an example of successful innovation. From a governance point of view, child marriage presented a number of



detrimental consequences – it reduced the participation of women in the economy and decision-making processes. In addition to this, from a rule of law perspective, it prompted an increase in violence against women. Lastly, in terms of effectiveness, it contributed to high mortality and high child mortality rates. In the past, different methods had been adopted in an attempt to restrain child marriage. These included mobile courts, extensive awareness programmes and nominal monitoring of marriage registrars. Empirical observation, however, highlighted that the agents central to the performance and perpetuation of the practice were figures such as the marriage registrar, the *imam* (Muslim religious leader) the *purohit* (Hindu priest), the *guru* (a religious teacher or a spiritual guide), the father, elderly persons, the *madrasa*<sup>2</sup> teachers and the *vhikhu ojha* (Buddhist monk or Buddhist religious teacher) – all these intermediaries were involved in the solemnization of the marriage. Thus, the policy was amended accordingly to target these stakeholders, resulting in a reduction of the practice of child marriage.

Concluding his presentation, Mr Halim shared some good practices to create sustainable innovation, such as learning from experience, involving people from every area of the organization and modifying the organisational structure to enable it to sustain change.

The last panellist, Ms Farahnaz, spoke on behalf of BIDA on the opportunities the country presents to foreign investors. With a population of 159 million, she stated that Bangladesh had a large domestic market. It could also count on a diversified economy and a remarkable demographic dividend – over 50 per cent of its population comprised young, dynamic and an educated workforce below the age of 25 years. Furthermore, the country was in the midst of infrastructure development. It was politically stable and led by a pro-business government. Ms Farahnaz stated that, although growth had ups and down, overall, it followed an upward trend. Prospective investors could also count on stable inflation rates. In 2015, the World Bank announced that Bangladesh was no longer a LDC but a LMIC. The country now aimed to acquire an upper middle-income status by 2021. Ms Farahnaz stressed that investment played a fundamental role for the country to reach this target – a 24-per cent rate of investment to GDP and US\$9 billion (S\$12 billion) in FDI are needed for the purpose.

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<sup>2</sup> *Madrasa* (pl. *madaris*) is a school where Islamic teachings are imparted. The word usually designates a religious (Muslim) educational institution, as opposed to secular educational institutions. Because Madrasa education is significantly cheaper than general education, *madaris* usually cater to the educational needs of low-income population.

Ms Farahnaz presented some of the incentives and guarantees that Bangladesh provided to investors. In the country, foreign investments were secured by law against nationalisation and there was no form of discrimination between local or foreign investments. The risk was minimum and negative economic growth had not been recorded in the last 30 years. The Bangladesh government also provided attractive incentives of fiscal, non-fiscal and cash nature. In terms of utility cost, it offered competitive rates for water, electricity, wages and salaries. Figures proved that FDI inflow had been on an upward trend since 2009. Similarly, the amount of reinvested earnings highlighted the confidence of the investors who had already set up their activity in the country. Bangladesh did not impose restrictions with regard to the modes of investments. Almost all sectors of the economy were opened to FDI, including energy and infrastructure, ICT and electronics, textile and clothing, agribusiness and food processing, pharmaceuticals and chemicals, healthcare and reserved sectors (such as arms, nuclear power, security printing and minting, afforestation, etc.). Regulated sectors (such as infrastructure, bank and finance) also presented many opportunities for investments. The fact that the Prime Minister's Office directly oversaw the investment promotion agencies – with BIDA being the apex agency – proved the positive disposition of the government with regard to business. Ms Farahnaz ended her presentation with a look at the Bangladesh-Singapore investment relations. She noted that Singapore's FDI inflow to Bangladesh had been increasing. However, when compared to Singapore's total FDI outflow, its results were not very significant. She concluded with the hope that, based on what was presented, Singapore investors would increase their presence in the country.

The event continued with an interactive discussion session between the panellists and the more than 80 participants, who represented the public and private sectors, academic and research fraternity and the civil society.

## **Closing Remarks**

At the end of the session, Professor Mitra delivered the closing remarks for the event. He focused specifically on the 'takeaways' from the workshop. He enthusiastically welcomed Ms Huq's proposed Asian Institute for Female Entrepreneurship. In doing so, he stressed that Bangladesh's achievements in terms of female empowerment were a model for South Asia.

Echoing Mr Enayetullah Khan's words, he concluded that Bangladesh could indeed be a bridge, bringing together all of Asia. The country is placed at the crossroads of South, Southeast and East Asia, and the Belt and Road Initiative promoted by the Chinese government has further increased the relevance of its position. Thus, Bangladesh's potential and role would also remain one of the foci of ISAS' research.

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