

Investment Opportunity – Major Sectors in Bangladesh

Textile:

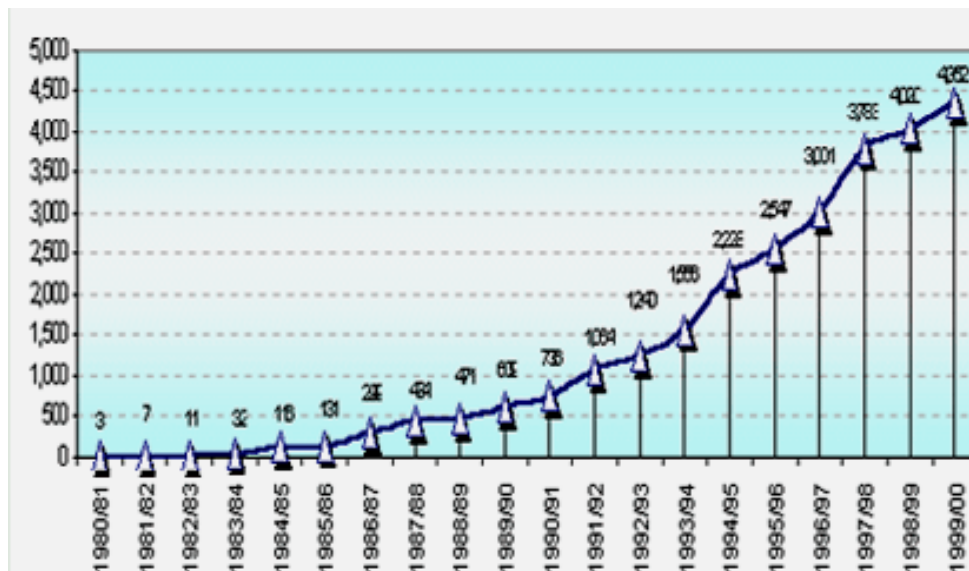
Sector Highlights:

- The fastest growing industry in Bangladesh with RMG accounting for more than 75% of total exports.
- Bangladesh is best placed in the region for textiles and garments because of cheap labor and trade status with the EU.
- Government incentives for the spinning and weaving industries include a 15% cash subsidy of the fabric cost to exporters sourcing fabrics locally.
- There is a huge fabric demand supply gap in the RMG industry which is being met by imports. Thus the potential for backward linkage industry is enormous.

RMG and Backward Linkage:

The phenomenal growth in RMG was experienced in the last decade. With about 2,600 factories and a workforce of 1.4 million, RMG jointly with knitwear accounted for more than 70% of total investments in the manufacturing sector during the first half of the 1990's.

Exhibit: Growth of RMG Exports from Bangladesh (1980-81 to 1999-2000)
In million US\$



The growing trend in textile sector presents itself particularly appealing to the foreign investors.

Electronics:

- a. Semi-Conductor
- b. Cell Phone Assembly
- c. Other Electronics

Sector Highlights

1. Manufacturing of semi-conductors could be established as a potential cottage industry.
2. Bangladesh is going to be the largest cell-phone market in South Asia.

Industry Outlook

Bangladesh's experience in basic electronics spans over two decades. In recent years, European and Asian electronic firms have established technical collaboration with their Bangladeshi counterparts to produce some electronic goods at competitive prices. This has tremendous potentiality for expansion.

The Government of Bangladesh has adopted National Telecommunication Policy, 1998. Investment is encouraged through BLT-BOT/BOO/BTO and other joint venture schemes which by greatly increasing the capacity, quality and type of services, will create improved efficiencies in other sectors such as transportation energy and the textile industry.

To meet the telecommunication requirements of the country the government has been developing and expanding the systems and services of BTTB. Private sector operations in the rural telecommunication, paging, cellular telephones and riverine radio trunking have already been allowed. At present 7 private operators are providing their services to about 100,000 customers. Government has allowed expanding 300,000 digital telephone in Dhaka by private sector participation through open tendering.

In accordance with overall national policy, liberalization of the telecommunications sector will continue. However, the government retains the sale authority to determine the number of competitions that are economically viable for certain services. The strategy is to provide equal and rational opportunities to all competitors.

Information Technology:

- a. Data Processing
- b. Software Development

Sector Highlights

1. Investment is mostly confined to information processing.
2. Bangladesh has a cheaper and rapidly growing IT workforce.
3. Government is keen in establishing IT related infrastructure for the development of the industry.

Industry Outlook

Availability of substantial number of qualified and experienced young people in various branches of engineering, science and technologies have opened up the scope of profitable investment in these sectors. Comparatively short training period and low investment have made such ventures highly profitable.

A number of Bangladeshi IT firms are interested in finding international investors or collaborators in various sub-sectors.

Natural Gas-based Industries:

1. Electricity
2. Fertilizer
3. Petro-chemicals

Sector Highlights

1. Bangladesh has a substantial gas reserve of about 20 trillion cubic feet (tcf)
2. There is a huge demand for fertilizer in Bangladesh as the agriculture is the principal sector of the economy.

Industry Outlook

The private sector power generation policy announced in 1996 under which private power companies are exempt from income tax for 15 years. Several barge-mounted power plants are in operation. But an extensive demand gap for electricity is crucial.

Opportunities exist in developing new plants (barge-mounted and other, large, small and mini), constructing transmission and distribution system, rehabilitating or upgrading existing plants and supplying a variety of support services. Investment opportunities are available on a build-operate-transfer (BOT) basis.

Frozen Foods:

Sector Highlights:

1. Government is promoting semi-intensive shrimp farming.
2. Fish and prawn exports grew at an average 20% in the past decade.

3. Shrimp processing and export industry is largely dominated by the smaller unorganized sector.

Industry Outlook

The frozen foods export is the second largest export sector of the country. The average annual growth rate is about 28%. This export-oriented industry includes the following sub-sectors, which need proper attention for augmentation of production and export earnings.

- Hatcheries
- Sustainable aqua-culture technology
- Feed meals plants
- Processing unit for value-added products.

Investment in frozen food sector with new technology and equipment has a vast potential for growth.

Leather:

- a. Finished Leather
- b. Leather Goods

Sector Highlights:

1. The labor-intensive leather industry is well suited to Bangladesh having cheap and abundant labor.
2. Bangladesh has a domestic supply of good quality raw material, as hides and skins are a by-product of large livestock industry.
3. Adequate government support in the form of tax holidays, duty free imports of raw materials and machinery for export-oriented leather market
4. The industry lacks domestic technology and expertise and local support industries such as chemicals are still under-developed.

Investment Incentive:

1. Present Government is in the process of setting up of separate Leather Zone relocating the existing industry sites to an well-organized place.
2. New FDI inflow is highly encouraged and foreign investors are welcome to have the opportunity.

Industry Outlook:

There is already a substantial domestic leather industry, mostly export-oriented. The leather includes some ready-made garments, although that aspect is continued mainly to a small export-trade in "Italian-make" garments for the US market. Footwear is more important in

terms of value addition. This is the fast growing sector for leather products. Presently Bangladesh produces between 2 and 3 percent of the world's leather market. Most of the livestock base for this production is domestic which is estimated as comprising 1.8 percent of the world's cattle stock and 3.7 percent of the goat stock. The hides and skins (average annual output is 150 million sq.ft.) have a good international reputation. Foreign direct investment in this sector along with the production of tanning chemicals appears to be highly rewarding.

Having the basic raw materials for leather goods as well as for the production of leather shoe, a large pool of low cost but trainable labour force together with tariff concession facility to major importing countries under GSP coverage, Bangladesh can be a potential off shore location for leather and leather products manufacturing with low cost but high quality.

Ceramic:

- Tableware
- Sanitaryware
- Insulator

Sector Highlights

1. Bangladesh has a skilled manpower in ceramic industry.
2. Historically, tableware industry is labor-intensive.
3. The clean gas reserve required for firing is a great competitive advantage for Bangladesh.

Industry Outlook

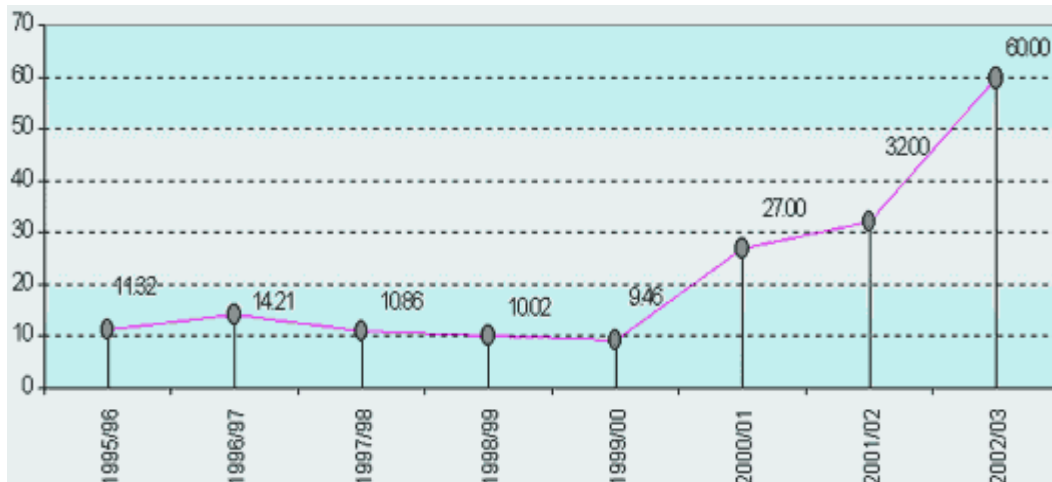
Global ceramic tableware industry is currently going through a phase of acquisition and consolidation as smaller industries in the developed countries are becoming incompetent and bankrupt. As a result, the big names like Noritake, Wedgewood, Lenox, Villeroy & Boch and Royal Doulton are all individually becoming billion-dollar operations.

Historically, tableware industry is labor-intensive and even after spending billions of dollars on automation; developed countries could not reduce the number of workforce according to their expectations. As a result, the cost of production will always remain extremely high in developed countries and the premium brands are only surviving because they are charging huge price to the consumers for their brand equity.

Bangladesh, being a gas-rich and low-labor-cost economy, offers to be a strategic partners in production and supply of ceramic products. Investment interests in this sector are strongly welcomed.

Exhibit: Growth and projection of Ceramic Tableware Exports from Bangladesh
(1995-96 to 2002-2003)

In million US\$



Light Engineering:

1. Machinery Parts
2. Consumer Items

Sector Highlights

1. A growing and increasingly affluent middle class indicates demand for consumer durables.
2. There is a significant sector of cottage industries engaged in simple electronic goods.
3. Export-oriented production in light industries has gained momentum in the past few years.

Industry Outlook

Light industries in Bangladesh produce a multitude of labour intensive goods including toys, consumer items, small tools and paper products for the domestic market. Further development for these industries offers various investment opportunities. Export-oriented production in light industries has gained momentum in the past few years. Entrepreneurs from Hong Kong, Japan and Korea have taken advantage of Bangladesh's cheap and easily trainable labour and its infrastructure facilities to manufacture products for the export market.

Agro-based Industry:

1. Canned Juice / Fruit
2. Dairy and Poultry

Sector Highlights

1. Bangladesh has a huge supply of raw materials for the agro-based industry.
2. Fruits and vegetable production has increased significantly in recent years.
3. Government and NGOs have been conducting regular training programs in developing a skilled manpower for this industry.
4. There is a substantial demand supply gap in the agro-based industry.

Industry Outlook

Bangladesh has the basic attributes for successful agro-based industries, namely, rich alluvial soil, a year-round frost-free environment, an adequate water supply and an abundance of cheap labour. Increased cultivation of vegetables, spices and tropical fruits now grown in Bangladesh could supply raw materials to local agro-processing industries for both domestic and export markets.

Progressive agricultural practices, improved marketing technique and modern processing facilities would enable the agro-processing industry to improve its quality and expand production levels significantly.

Investment interests in agro-based industries are highly encouraged.

Ref: BOI, BD