

Bangladesh – a happy story amidst the global crisis

It's still on track for strong economic growth, with the ready-made garment sector that drives exports getting a boost

By M SHAHIDUL ISLAM

AFTER bursting the housing bubble and disarranging the banking sector, the financial crisis is now hurting the real economies across the world. Surprisingly, the Bangladeshi economy, which is moderately integrated with the rest of the world, is left largely unhurt by the financial tsunami, at least for now.

The Bangladesh economy grew 6.2 per cent in 2008. The Bangladesh Bank, the country's central bank, has projected 6.5 per cent gross domestic product (GDP) growth in the second half of the current fiscal year (January-June 2009). However, the World Bank, the Economist Intelligence Unit and the Asian Development Bank (ADB) expect growth to be in the region of 4.8 to 5.8 per cent.

Apart from GDP growth, the country's other key macroeconomic variables have shown minimal fluctuations in recent months.

Moreover, with a newly elected government in place, South Asia's third largest economy promises to be the new hotspot for growth, due to its extremely cheap labour. The financial crisis has raised demand for labour-intensive, low-end products as consumers are forced to cut spending.

In some ways, the financial crisis has been a boon for the Bangladeshi economy. Following the crisis, the fall in actual demand and market speculations have lowered oil and other commodity prices. As a result, imported inflation has been declining in Bangladesh, and this is a huge relief for its low-income population.

The external shocks generally emanate through equity markets instantly and trade channels with a lag. As foreign equity investment accounts for barely 5 per cent of market capitalisation, the shocks through the stock markets in Bangladesh have been limited. Share prices on the Dhaka Stock Exchange fell by a mere 7 per cent when most Asian bourses witnessed an over 50 per cent plunge.

This is an indication that local investors are upbeat about the country's growth potential.

Bangladeshi banks and other financial institutions have had limited exposure to banks and investment firms in the United States and Europe. As a result, the country's banking sector has been largely insulated from the financial woes in the West. However, this also shows that Bangladesh's financial sector is still highly autarkic.

Bangladesh's external sector has seen positive growth in the recent past. Imports and exports expanded by 9.31 and 13.37 per cent respectively in November 2008, compared to the corresponding period in 2007.

The textile and ready-made garment (RMG) sector which drives the country's exports has not, to date, been affected by the recession in the US and Europe. It is expected that demand for the Bangladeshi RMG sec-



Competitive advantage: South Asian garments on sale in New York. With under US\$50 a month salaries, Bangladesh can produce quality textile items at least 20-30% cheaper than China. BLOOMBERG

tor's output is unlikely to fall during this downturn period, owing to the "Wal-Mart effect". The current economic crisis has increased the demand for Wal-Mart or similar retailers' products as consumers switch from high-end fashion to low-end apparel.

Wage earners' remittances, which are the second-most important foreign exchange earner in Bangladesh, registered 19.31 per cent growth in December 2008, compared to the corresponding period in 2007. The major downside risk concerning remittance flows is the growth outlook in the Middle East, which accounts for 80 per cent of the country's remittances inflows. Moreover, a deep and protracted recession in the US and Europe is expected to markedly reduce remittances from these regions.

The pressure on the external sector is generally reflected in an economy's foreign exchange reserves and exchange rate. According to the Bangladesh Bank, the country's forex reserves stood at US\$5.5 billion as at

Jan 27, 2009, which is higher than the corresponding period in 2008, when it stood at US\$5.3 billion.

The Bangladeshi taka, the country's currency, faces virtually no pressure, unlike many of its South Asian neighbours. It has, in fact, experienced modest to significant appreciations vis-à-vis some major currencies, including the euro, the pound sterling and the Singapore dollar.

According to the ADB, Bangladesh's current account is expected to post a modest surplus of 0.8 per cent of GDP in FY2009, owing to a mixed bag of results – namely, a fall in oil and other commodity prices, lower remittances flows, and growth both in the export and import sectors.

As the global financial crisis deepens, it is expected that the slower pace of inward remittances and export fall in non-RMG items could adversely affect the Bangladesh economy. However, the country's near-term growth outlook still looks good; its economy is likely to grow around 5-6 per cent, if not 6.5 per cent, with moderate inflation.

This can be largely attributed to moderate growth in the manufacturing and service sectors, a bright outlook in the agriculture sector, a fall in oil and other commodity prices in global markets, and easy credit and liquidity conditions in the domestic market.

Moreover, with a 150 million population, the country has room to grow internally through fiscal stimulus if the external environment deteriorates further.

Opportunity in the crisis

Bangladesh could potentially seize on its cheap labour advantage as consumers across the world are forced to cut spending in the face of the global financial crisis. Ikea, the Sweden-based international home products retailer, and Uniqlo, one of the largest Japanese retail chains, for example, plan to raise their purchases, mainly textiles, from Bangladesh.

Moreover, since mid-2008, Bangladesh has been exporting RMG products to new destinations, notably Mexico and Brazil.

The huge interest from global investors and buyers in Bangladesh's apparel and footwear products indicates that the country could become a major hub for low-end manufacturing products. With less than US\$50 a month salaries, Bangladesh can produce quality textile items at least 20-30 per cent cheaper than China.

In recent months, the economy witnessed significant foreign investments in the RMG sector and more investments are in the pipeline. The Bangladeshi authorities are now running out of plots for export processing zones as global interest surges in Bangladesh's RMG, footwear and other low-end manufacturing products.

Germany-based Multiline Ltd, for example, is building one of the world's largest textile units in Bangladesh with an investment of US\$200 million. The economy expects to see textile exports doubling to US\$22 billion by 2011. Similarly, some of the Taiwanese investors who played a key role in China's growth story are reportedly making inroads into Bangladesh.

Pao Chen, a Taiwanese firm, plans to build the world's largest footwear factory in Bangladesh.

The economy is also expected to draw foreign investments in the infrastructure and energy sectors, among others.

In order for Bangladesh to fulfil its potential, it needs to improve its basic infrastructure and to ease bureaucratic hurdles, among other things. More importantly, the ability to attract foreign investment largely hinges on the country's political stability.

As the political risk decreases, to some extent, with the ruling party's overwhelming majority in the recent parliamentary elections and with local and foreign investors looking for new opportunities in Bangladesh, the country seems well poised to successfully ride out the global financial crisis.

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