

## The Private Sector: The Engine of Growth of the Bangladesh Economy

By: Mr. Sohail Rahman, Beximco Textile, Bangladesh

[Greeting]

There is a popular misconception about Bangladesh that it is an under-developed country with not much going for it. That it is yet to graduate from the “basket case” status a term used famously by Dr. Henry Kissinger 40 years ago. Indeed, I am constantly surprised when friends, including Bangladeshi expatriates living abroad, commiserate with me about how bad things must be for us living, working and investing in Bangladesh.

The reason for this negative image is two-fold: First, the media plays up the bad news because that sells. Second, there have been very few serious studies done about what Bangladesh has achieved and how this has been achieved. The studies that have been made which have shown the considerable progress achieved by Bangladesh have not been well-disseminated.

In my presentation today, I will attempt to highlight the significant and considerable economic progress and social development made by Bangladesh. At the outset, I should admit that this presentation is not the result of rigorous study but rather it is the result of my personal experiences and thoughts. I am the head of the largest private-sector corporate in Bangladesh. We employ 60,000 people, have over 300,000 shareholders and through our activities touch almost every family in Bangladesh. I mention this not to show-off, but to say I speak from experience.

This presentation will also demonstrate that the main driver of progress has been the Bangladesh private sector. Again, there is a widespread misconception about our private sector, that it is weak and inefficient. In fact, many people are unaware that a significant private sector even exists. The reason for this is also understandable. Bangladeshis were not known to be entrepreneurial. Traditionally Bangladeshis prefer to take up a profession: lawyer, teacher, doctor etc or join the government. Thus there was a very small entrepreneurial class in 1971 when Bangladesh became independent. But since then much has changed. There is now a strong dynamic growing private business class and much of the progress that Bangladesh has made has to be attributed to the efforts of this group. This is all the more surprising as most of the group, including myself, are first-generation business people.

Apart from the misconception of the Bangladesh Private Sector, there is a great mistrust of Private Enterprise itself and its ability to deliver good to society. So therefore, when one thinks about the development of a developing country such as Bangladesh one rarely thinks that the private business sector can do much for the development of a country. However, this view has been strongly debated and many do not accept it. One of them is the eminent thinker Michael Porter who has emphasized “The Private economic sector should be the leading economic sector in the economic development”.

For the above two reasons, the role of the private sector in the development of Bangladesh has not been properly understood or acknowledged.

I will now provide some information and data in support of the premise that the private sector has been the engine of growth of the Bangladesh economy.

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Presentation by  
**ASF Rahman**  
Chairman, Beximco

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# Economic Growth and Social Development of Bangladesh

**At the time of Independence in 1971, Bangladesh was**

- Heavily dependent on imported food
- Highly vulnerable to national disasters and external shocks
- 85% of the development budget consisted of international aid
- Jute, tea and shrimp were the main sources of export earnings
- Total export earnings were \$0.4 billion in 1976

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# Economic Growth and Social Development of Bangladesh

## Today

- Bangladesh is self-sufficient in food
- Only 2% of the national budget is based on international aid (source: Daily Star March 26 2010)
- Third biggest exporter of garments/textiles in the world (source: Vikas Bajaj, New York Times, July 17 2010)
- Total export earnings were US\$ 23 billion in 2010-11



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# Economic Growth and Social Development of Bangladesh

## Today

- Gross Savings (% of GDP): 39% (compared to India 35%, Pakistan 22%, Sri Lanka 24%) (source: World Bank)
- Total Reserves: US\$ 10.3 billion in 2009
- Annual remittances from Bangladeshis working abroad: US\$ 12 billion
- Income Distribution Inequality GINI Index: Bangladesh 33% (compared to India 37%, Singapore 48%) (source: CIA Factbook)

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# Economic Growth and Social Development of Bangladesh

## Bangladesh's progress is accelerating

- Poverty has declined from 57% of the population in 1990 to 31.5% in 2010 (source: World Bank Bangladesh Country Overview 2010)
- Bangladesh is on track to meet the Millennium Development Goal of halving extreme poverty by 2015
- Total fertility rates have dropped by 50% from the mid-1970s (source: World Bank Bangladesh Country Overview 2010)
- 80% of teenage girls complete primary school (compared to 20% in the 1970s) (source: World Bank Bangladesh Country Overview 2010)

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# Economic Growth and Social Development of Bangladesh

## Bangladesh's progress is accelerating

- Under-five mortality rate has declined from 144 per thousand live births in 1990 to 52 in 2009 (compared to 66 in India and 87 in Pakistan) (source: World Bank)
- Average GDP growth over the last six years was over 6% (source: World Bank Bangladesh Country Overview 2010)
- Current Account Balance: US\$ 3.4 billion surplus

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# Economic Growth and Social Development of Bangladesh

## Bangladesh's progress is accelerating

- Goldman Sachs has named Bangladesh one of the “Next Eleven” having the potential (after the BRICs) to become one of the world's largest economies in the 21<sup>st</sup> Century
- JPMorgan has named Bangladesh one of the “Frontier Five” along with Vietnam, Nigeria etc. as an extremely attractive investment destination based on macro-economic and demographic trends

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# Drivers of Growth: Garment Manufacturing and Export

The Garment Industry is one of the key drivers of Bangladesh's growth:

- The Garment industry is totally owned and managed by the private sector
- Garment exports account for approximately 80% of Bangladesh's total export earnings (source: Bangladesh EPB)



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# Drivers of Growth: Garment Manufacturing and Export

The Garment Industry is one of the key drivers of Bangladesh's growth:

- Garment and Textile exports rose to US\$ 18 billion in FY 2010-11 out of total exports of US\$ 23 billion (source: Bangladesh EPB)



# Drivers of Growth: Garment Manufacturing and Export

The Garment Industry is one of the key drivers of Bangladesh's growth:

- Garment exports growing at 30-40% per year
- The RMG/Textile industry employs more than 4 million people, 90% of them women (compared to China 20 million)



# Drivers of Growth: Garment Manufacturing and Export

The Garment Industry is one of the key drivers of Bangladesh's growth:

- More than 10 million livelihoods depend on the garment industry directly or indirectly (source: Asia Fashion Clothing website)
- The Garment industry accounts for 45% of all industrial employment in Bangladesh (source: Textile World Asia News, Jan/Feb 2006)



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# Drivers of Growth: Garment Manufacturing and Export

**The Garment Industry is changing the role of women in Bangladeshi society**

A note from Jeffrey Sachs (excerpt from "The End of Poverty: Economic Possibilities for Our Time")

*For these young women, these factories offer not only opportunities for personal freedom, but also the first rung on the ladder of rising skills and income for themselves, and within a few years, for their children...*

*Not only is the garment sector fueling Bangladesh's economic growth of more than 5 percent per year in recent years, but it is also raising the consciousness and power of women in a society that was long brazenly biased against women's chances in life.*

Sachs, Jeffrey. The End of Poverty: Economic Possibilities for Our Time. New York: The Penguin Press, 2005. Pages 12-13

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# Drivers of Growth: Banking

- The financial sector is a key driver of the economy. The first private sector bank was established in Bangladesh in 1982. At that time, there were four state-owned banks. Today there are 43 private sector banks and their total assets are equivalent US\$ 44 billion which is 61% of the total banking assets.
- Total deposits of the private sector banks are equivalent US\$ 33 billion which is 63% of the total deposits in the banking sector and 34% of the countries GDP.
- These private sector banks have clearly played a crucial role in mobilizing savings and developing the real sector of the economy specially the garment sector.



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# Drivers of Growth: Telecom

- Almost the entire telecommunications sector is today privately owned.
- The private sector has changed the telecommunication landscape of the country.
- This has brought about a revolution in the socio-economic behavior of the country as has been the case worldwide.
- Today there are 76 million telecom users compared to 1985 when there were only 750,000 landline users.



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# Drivers of Growth : Pharmaceuticals

## After independence in 1971

- Bangladesh was solely dependent on imports for pharmaceuticals

## Now

- Almost self-sufficient in formulation products
- 96% demand met by local manufacturing
- One of the fastest growing sectors in Bangladesh
- Total market size (IMS MAT 12/10) : US\$ 1 billion
- Historically good growth maintained (c.15%)
- 2<sup>nd</sup> highest contributor to national exchequer
- Largest white collar labor intensive employment sector



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# Drivers of Growth : Pharmaceuticals

Video showing Bangladeshi Drugs being prescribed in Singapore and other countries



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# Potential Sectors of Growth : Shoe Manufacturing and Export

- In 1971 Bangladesh exported only raw hides and skins.
- Today Bangladesh is an importer of wet-blue leather from countries as far away as Brazil and an exporter of finished leather and footwear.
- This year Bangladesh exported US\$ 600 million of finished leather and footwear
- It is expected to be another success story like the readymade garment sector



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# Potential Sectors of Growth :

## Shipbuilding

- Bangladesh is now building ocean going vessels for countries who have traditionally been ship-building nations
- Creating world class vessels for Sweden, Germany, Japan, Denmark and Pakistan
- Building E3 ice-class vessels
- Aimed at adding 3-4 % to national GDP by 2015



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# Conclusion

**The Private Sector is also driving innovation and growth in many other sectors which have traditionally been dominated by Government Institutions**

- Education
- Power Generation
- Airlines
- Healthcare
- Television
- Infrastructure



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**Thank You**