

Navigator

Now, next and how for business

Bangladesh report

Bangladesh

Diversification key for long-term trade prosperity

Bangladesh’s export mix is dominated by the large ready-made garments and textile industry. However, there are encouraging signs that firms are seeking to diversify into new markets and new products. Broadening the export mix will be vital to mitigate risks around an over-reliance on one sector and ensure a more sustainable growth trajectory. A comparative advantage in business-to-business (B2B) services provides one source of diversification, with the potential to achieve strong growth in services exports in the future.

Short-Term Snapshot

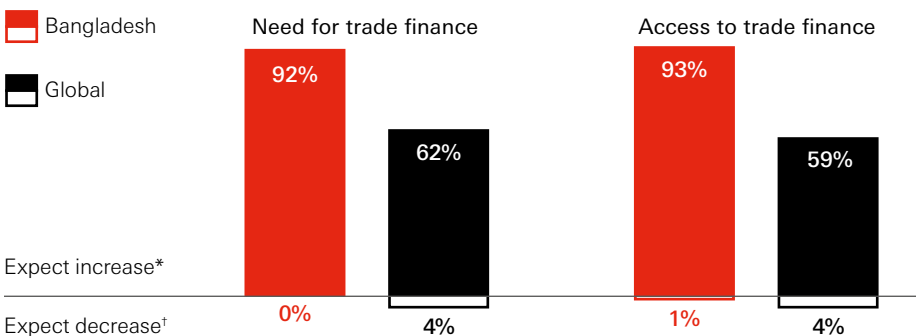
On the back of two consecutive years of record growth, the Bangladesh economy is entering 2018 on a positive note. Growth surged to a record high in financial year 2017, underpinned by a strong rise in domestic demand. Steady infrastructure spending and accommodative economic policy should again support growth this year. However, the lingering effects of flash flooding in mid-2017 and weak worker remittances are expected to constrain consumer spending, while upcoming elections in 2018 may increase uncertainty around the outlook for private investment. Export growth should recover after a poor year for the important textiles sector, although the B2B and ICT services sectors continue to thrive.

The recent strong performance of the Bangladeshi economy has left local firms in a very optimistic mood. According to our latest survey, Bangladesh is the most optimistic market covered by the report, with nearly all respondents (96%) expecting trade volumes to increase over the next 12 months. The favourable economic environment was quoted by over half (51%) of firms as one of the top three factors contributing to trade growth, while a stable political environment is also noted as a key contributing factor. However, Bangladesh has a history of political instability, and as previously noted the upcoming elections in 2018 may undermine the current level of stability.

Action points for business

- ◆ Businesses need to capitalise on the favourable economic and political outlook by diversifying into new markets and new products.
- ◆ Easy access to credit will be an important enabler of growth in the short term – ensure you optimise supply chain and trade finance.

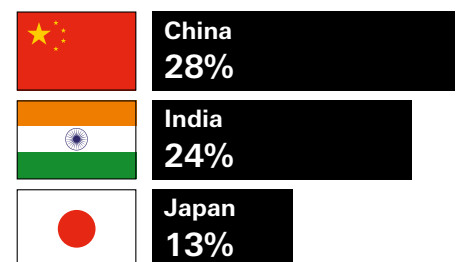
Outlook for trade finance need and access in the next 12 months



*Expect increase = Increase significantly + Increase slightly
 †Expect decrease = Decrease significantly + Decrease slightly

Source: TNS Kantar

Which are the top 3 markets where your business will look to expand in the next 3-5 years?



Source: TNS Kantar

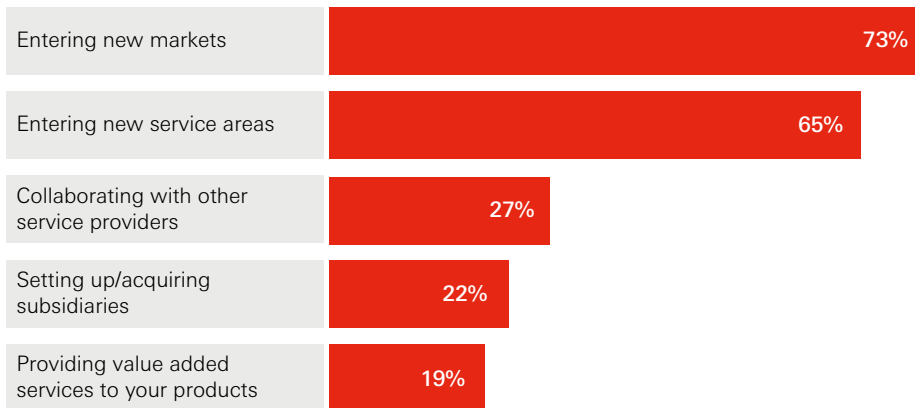
The survey reveals that respondents most frequently identified China (28%) and India (24%) – already the largest trade partners for Bangladeshi firms –as having the best opportunities for export growth over the next year.

In addition to the favourable economic and political environment, businesses are encouraged by the availability of capital to support trade growth. Nine in every ten firms expect an increase in the need for trade finance in 2018, with the same ratio of firms expecting no issues in receiving this support.

Services exports retain a relatively small share of total exports - around 10% - with the large textiles sector dominating Bangladesh’s export offering. However, while textiles exports have performed poorly in recent times, the services sector continues to thrive, led by the B2B and other services sector, as well as ICT and tourism. Bangladesh can draw upon a relatively high-skilled yet low-cost pool of labour, providing a competitive advantage in areas such as business process outsourcing. As such, the majority of firms (91%) surveyed expect the volume of services exports to increase this year, citing plans to expand into new markets and new service areas.

Bangladeshi firms are the most optimistic for future trade growth of the markets covered in the survey, with 96% expecting an increase in trade volumes this year.

How do you plan to grow your services business?



Source: TNS Kantar



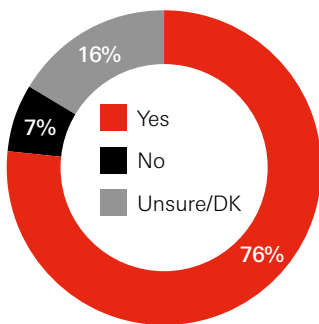
Trade Policy Developments

Bangladesh is not party to any recent trade developments, and as such, businesses expect a limited impact on their operations from initiatives such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), China’s Belt and Road initiative or even the changing US regulatory landscape. However, Vietnam’s presence in the CPTPP poses a threat to Bangladesh’s future growth in the production of ready-made garments – a fact that is probably under-appreciated by survey respondents, with only 12% of businesses anticipating a negative impact on their business following CPTPP implementation.

Action points for business

- ◆ Firms should not rest on their laurels, as Bangladesh risks getting left behind following the signing of the CPTPP.
- ◆ Pressure needs to be put on the authorities to secure preferential trade access to key markets in the future.

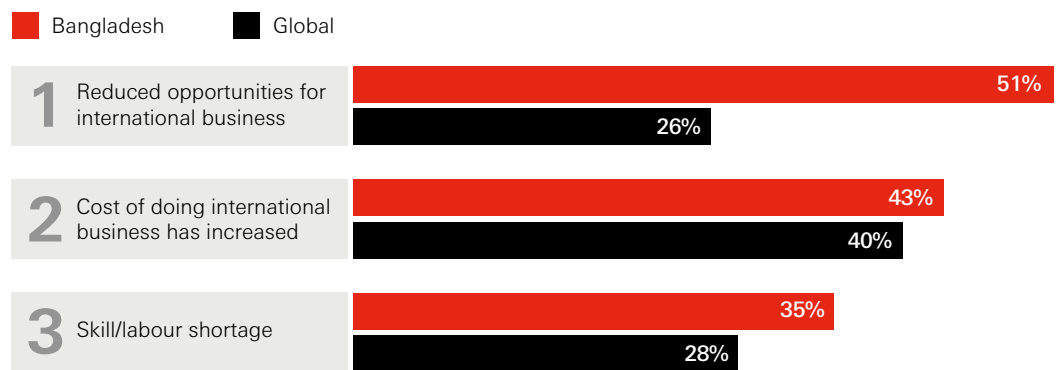
Are governments becoming more protective of their domestic business?



Note: may not total 100% due to rounding

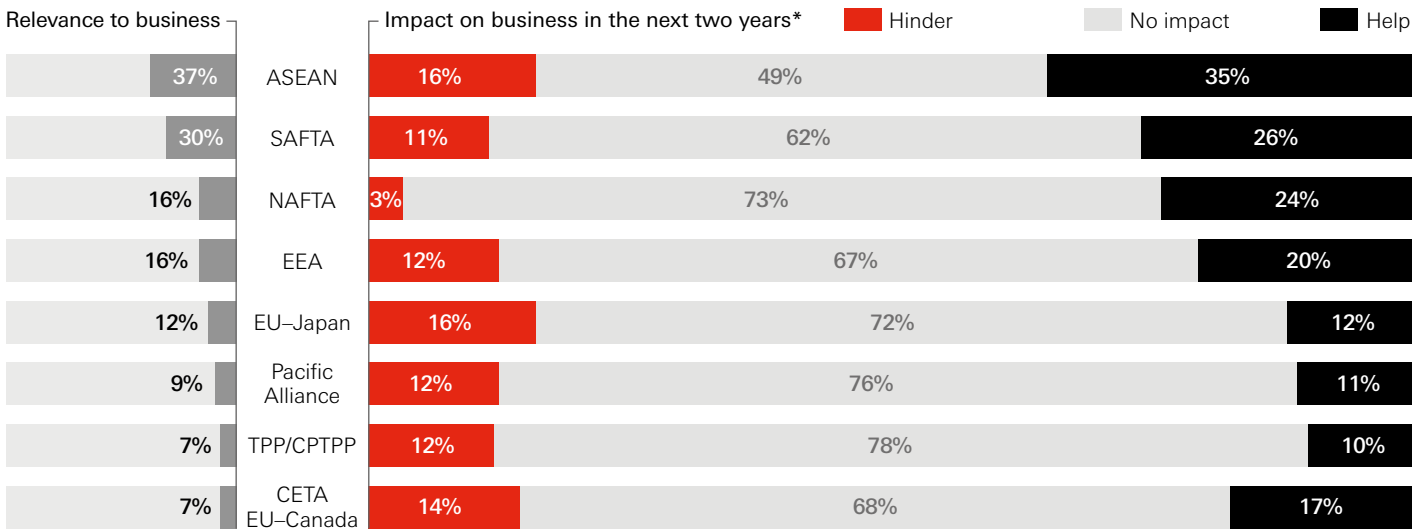
Source: TNS Kantar

Top 3 impacts of protective policies on my business



Source: TNS Kantar

Relevance and impact of trade agreements



Source: TNS Kantar

*May not total 100% due to rounding

Although generally expecting little impact from recent trade agreements, Bangladeshi firms do feel that on the whole governments are becoming more protective of their domestic industries. Over three-quarters of survey respondents feel that protectionism is on the rise, citing concerns over the impact it will have on opportunities for international business and the cost of doing business abroad.

Businesses probably under-estimate the potential negative impacts of being outside CPTPP in the long term.

Long-Term Outlook for Trade

The large textiles industry will continue to dominate the trade picture over the long term. But the government has recognised the need to diversify and is taking steps to encourage growth in other manufacturing sectors. This process will take time, however, and even by 2030 our projections indicate that shipments of ready-made clothing and apparel will remain the primary source of Bangladeshi export receipts. The traditional export base of developed markets in North America and Europe will gradually give way to faster growing emerging markets, particularly in Asia, with India and China providing the most opportunities for long term growth.

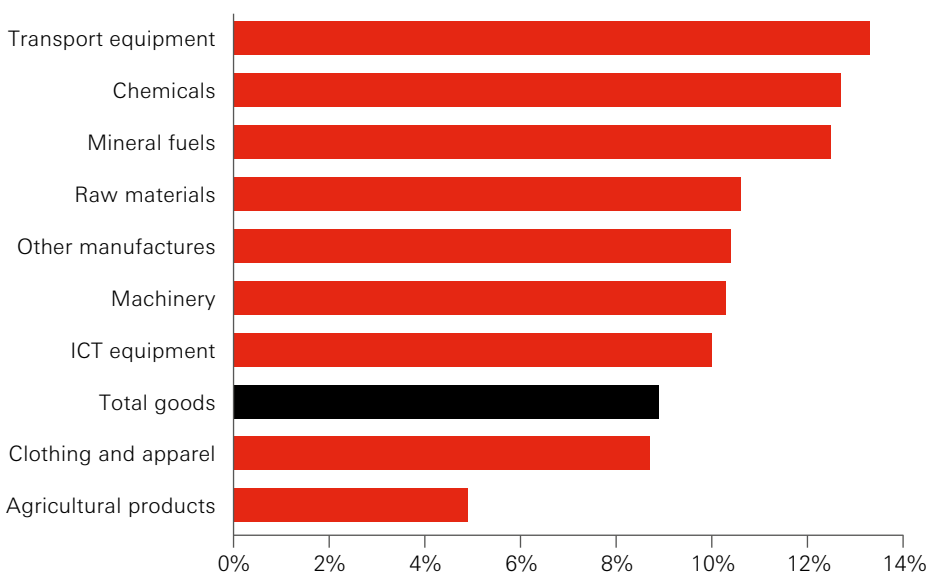
The service sector will be led by B2B and other services, such as Business Process Outsourcing, but future growth is contingent on the supply of skilled professionals keeping up with demand. The tourism sector remains a relatively untapped resource, but the risk of renewed bouts of political instability could undermine the attractiveness of Bangladesh to foreign tourists.

Diversification key to ensure long term export success

Clothing & Apparel overwhelmingly remains the dominant goods export sector in Bangladesh. In 2017, over 80% of total receipts from goods exports originated via shipments of ready-made garments. And the clothing & apparel sector is expected to grow by nearly 9% per annum over 2017-2030, contributing over 80% of total growth in exports over the long term.

However, such dependence on just one sector makes Bangladesh susceptible to fluctuations in demand, as was the case in 2017 when total export volumes declined despite the wider pick-up in global trade. And it also leaves the outlook for exports vulnerable to the emergence of low cost competitors, such as producers in Cambodia and Ethiopia. This is recognised by the government, which is working with the World Bank to help diversify the country’s export offering – recent initiatives include the Export Competitiveness for Jobs project, aiming to create 100,000 jobs outside the textiles industry in the next six years. As such, although from a relatively small base, growth in other manufacturing sectors such as transport equipment, chemicals, machinery and ICT equipment, are all expected to outperform aggregate goods exports over the long term, achieving double-digit annual growth rates over the years to 2030.

Exports of goods by sector, 2017-30 (average annual growth)



Source: Oxford Economics

Action points for business

- ◆ Firms should capitalise on government initiatives to boost activity in non-traditional sectors, with an aim of selling to rising middle classes in India and China.
- ◆ Attracting investment is key, as highlighted by the under-developed but high potential tourism sector.
- ◆ Businesses should examine potential downside risks associated with the recent CPTPP agreement - especially in cost-sensitive markets such as clothing, Bangladesh’s largest export market by some margin.

Clothing & apparel will continue to drive export growth despite efforts to diversify towards other manufacturing.

Top 5 Hotlist destinations of goods exports

Rank	2016	2030
1	USA	Germany
2	Germany	USA
3	UK	UK
4	France	France
5	Canada	China

Note: Ranking among the 24 trade partners covered in the forecast

Source: Oxford Economics

Developed countries are forecast to continue as the major markets for Bangladeshi made goods, with the USA, Germany, UK and France retaining positions within the top four export destinations in 2030. However, the greatest growth potential lies in faster growing emerging markets, with India, China and Malaysia expected to be the fastest growing markets over this period. Indeed, projected growth of around 13% per annum will catapult China into fifth in the list of top five export destinations by 2030. This underscores the need for firms in Bangladesh to diversify into new markets over the long term, something well recognised by business leaders in our latest survey results.

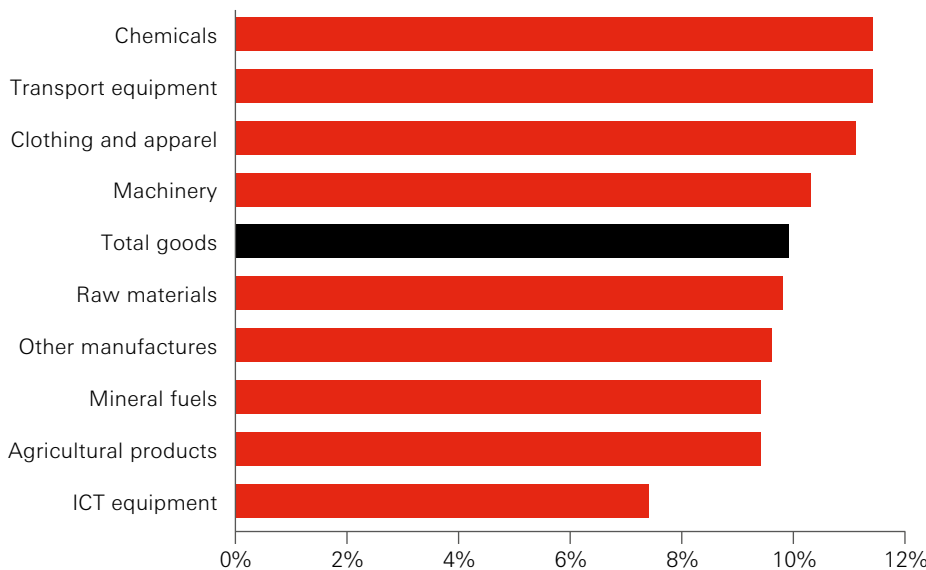
Infrastructure investment driving strong machinery and equipment imports

The largest import sector is also textiles, reflecting the need for intermediate goods to support the large clothing assembly operation in Bangladesh. This is expected to remain so over the long term. Diversification will be a gradual process and so the clothing & apparel sector will remain a dominant force in shaping future trade flows.

Elsewhere, infrastructure spending remains key to the country’s long-term growth outlook, including ambitions of securing middle-income status by 2021. However, Bangladesh typically performs poorly in terms of the quality of its infrastructure when compared with international peers, and recent performance has been patchy. The government has fallen short of a target to complete three large-scale projects by the end of its five-year term, with only the Padma Bridge expected to be operational in time. Nevertheless, infrastructure spending will continue to play an important role in driving economic growth in the future, supporting strong demand for industrial machinery and transport equipment over the period to 2030.

Infrastructure spending to underpin strong growth in imports of industrial machinery and transport equipment.

Imports of goods by sector, 2017-30 (average annual growth)



Source: Oxford Economics

Top 5 Hotlist origins of goods imports

Rank	2016	2030
1	China	China
2	India	India
3	Singapore	Singapore
4	Japan	Indonesia
5	HK	Malaysia

Note: Ranking among the 24 trade partners covered in the forecast

Source: Oxford Economics

Bangladesh’s primary trade partners are largely based in Asia. Of the 24 trade partners covered by this report, China, India and Singapore are the most important import origins, in that order. This is expected to remain the same over the long term. In the decade 2021-2030, imports from China and India are expected to grow by an estimated 12% per annum; this is topped only by Vietnam, which is expected to achieve 13% average annual growth over the same period, albeit from a low base.

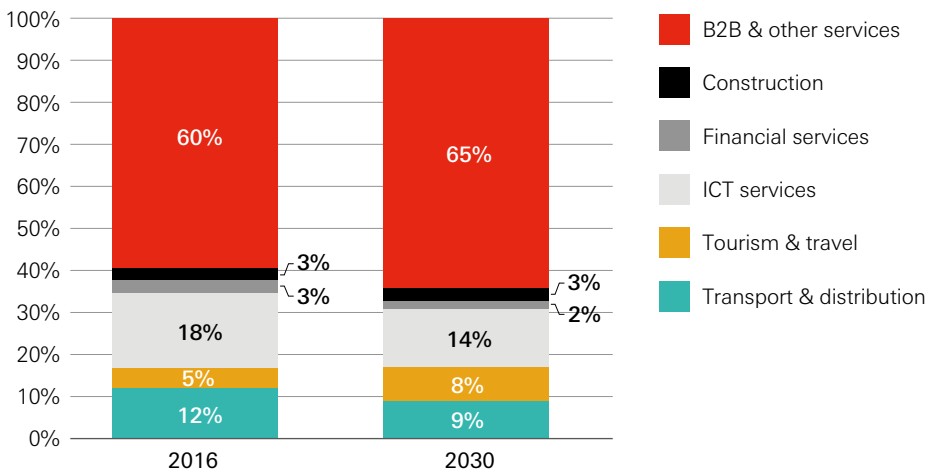
B2B service sector driving rising service exports over long term

Services exports are expected to grow at a healthy clip over the long term. B2B and other services is the dominant service sector in Bangladesh, accounting for 60% of services exports in 2016. This share is expected to rise to 65% by 2030, underpinned by growth of over 9% per annum over this period. However, there is a growing skills shortage that could erode the competitive advantage of Bangladesh in this area, although this is recognised by the government, who is instigating training programs with the objective of improving the IT literacy of recent graduates.

The relatively immature tourism sector is also expected to experience rapid growth over the long term, and the government is looking to attract foreign investment to ensure the quality of infrastructure can keep pace with demand. The propensity to lapse into political turmoil represents a significant downside risk for the tourism sector, and it is hoped that the 2018 elections will be an uneventful and peaceful affair.

B2B and other services will contribute two-thirds of growth in services exports in 2021-2030.

Sectoral shares in total services exports



Source: Oxford Economics

Top 5 Hotlist destinations of services exports

Rank	2016	2030
1	USA	USA
2	Germany	Germany
3	UK	UK
4	Canada	India
5	France	China

Note: Ranking among the 23 trade partners covered in the forecast

Source: Oxford Economics

Developed markets are expected to remain the most important export destinations for services over the long term, with Bangladesh retaining an advantage in attracting business processing outsourcing activities from companies seeking to reduce costs by moving these operations to low cost production centres. The US is the most important market in this regard, with Germany and the UK also important export destinations.

However, diversification will be key to achieving strong growth over the long term, with India, Indonesia and China expected to attract double digit annual growth in services exports from Bangladesh over the years to 2030.

About the HSBC Navigator

The HSBC Navigator presents a blend of survey evidence, policy analysis, and economic modelling to generate unique and timely insights into the changing landscape for global trade.

The business survey is a quantitative indicator of the short-term outlook for global trade. The survey, which is the largest of its kind, is conducted on behalf of HSBC by Kantar TNS. It is compiled from responses by decision-makers at over 6,000 businesses – from small and mid-market to large corporations – across a broad range of industry sectors in 26 markets. Interviewees were polled on a range of questions including expectations around future growth in trade, trade finance needs, attitudes toward trade policy developments and strategic business plans.

The survey represents a timely source of information on the fast-evolving trade environment. And it can provide a useful contextual setting for interpreting developments in official data. In this way, economists at Oxford Economics are able to blend insights from the survey with their own analysis and modelling of developments in trade.

Oxford Economics has tailored a unique service for HSBC which forecasts bilateral trade in goods and services, in part based on HSBC's own analysis and forecasts of the world economy. A top-down approach is employed, with Oxford Economics' suite of models used to ensure consistency between HSBC's forecasts for economic growth and exchange rates in key countries and the more granular projections for bilateral trade flows presented here.

Oxford Economics employs a global modelling framework, with headline bilateral trade forecasts constructed as a function of demand in the destination market and the exporter's competitiveness (as measured by unit labour costs in nominal USD terms). Exports, imports and trade balances are identified, with both historical estimates and forecasts for the periods 2017-20 and 2021-30.

These headline bilateral trade forecasts for goods and services are also disaggregated by sector, using Oxford Economics' Industry forecasts to inform future production trends and taking into account the historic relationship between output and exports in each sector, by market:

- ◆ For trade in goods, sectors are classified according to the UN's Standard International Trade Classifications (SITC) system at the two-digit level and grouped into 30 sector headings.
- ◆ For trade in services, we identify five broad sectors: B2B and other services, tourism & travel, transport & distribution, financial services, ICT services and construction.

Drawing on the Kantar TNS survey results and Oxford Economics' long-term forecasts, Oxford Economics produces in consultation with HSBC a global report and specific reports on the following 23 markets: Argentina, Australia, Bangladesh, Canada, China, Egypt, France, Germany, Hong Kong, India, Indonesia, Ireland, Japan, Malaysia, Mexico, Poland, Saudi Arabia, Singapore, Turkey, UAE, UK, USA and Vietnam. The analysis of trade in goods also includes trade with Brazil and Korea for a total sample of 25 key trading markets; for trade in services the analysis also includes Korea for a total sample of 24 key trading markets.

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