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ECONOMIC LETTER OF BANGLADESH

A LETTER FROM THE ECONOMIC DEPARTMENT OF THE EMBASSY OF FRANCE IN DHAKA

N° 2 – April 2023

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Editorial

Bangladesh is due to graduate from the Least Developed Country (LDC) category in 2026. As a consequence, the country will lose the duty-free access to the EU market under the Everything but Arms (EBA) scheme by 2029. This is likely to impact our bilateral trade, as France is one of the main importers with EUR 4.7bn in 2022 according to the French customs. This second edition of the Economic letter of Bangladesh is providing some insights on this matter. Yet, the new scheme is still under discussion at the EU level and Bangladesh is still working on the implementation of the National Action Plan, hence the access to a preferential regime after 2029 remains unsure.

What is however sure is that Bangladesh will have to increase value-addition as well as diversify its export basket in order to mitigate risks and avoid the middle-income trap. To achieve it, increasing Foreign Direct Investments and attracting more foreign companies will be needed to ensure a sustainable development.

Not only French companies can provide state-of-the-art technologies and quality equipment and goods, they also come in Bangladesh with a strong focus on Corporate Social Responsibility (CSR). This letter will shed light on the activities of some French companies in the Rohingyas camps.

Happy reading!

Julien Deur
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A. FRANCE-BANGLADESH NEWS

First "working breakfast"

The Embassy of France in Bangladesh started this month to organize monthly breakfast at the French Résidence, in order to gather the French business community and discuss current issues, initiatives related to Bangladesh and the France-Bangladesh trade and investment situation.
At this occasion, a wide range of topic has been tackled, from energy (gas exploration, renewables) to industry (textile, agro-processing).

Visit of the French MEP Valérie Hayer to Bangladesh

From April 8th to April 13th, the French Member of European Parliament Valérie Hayer visited Bangladesh to discuss about her project of fair border tax. The tax would be levied by the European Union on all imported manufactured goods that have been produced by workers paid below the poverty line (in Bangladesh, USD 3.65 per day). She met workers, factory owners, Bangladesh authorities, civil society and diplomats. She also visited an RMG and an electronic goods companies.

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B. ACTIONS OF FRENCH COMPANIES IN THE ROHINGYAS CAMPS

Since 25 August 2017, over 723,000 Rohingyas have sought refuge in Bangladesh, in addition to the previous waves. In total, the Cox's Bazar camps in Bangladesh are now home to nearly a million Rohingya refugees. Multiple French companies are involved in projects to respond to the humanitarian needs, through their Corporate Social Responsibility (CSR) actions or by working with UN or other donors.

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POWER

Under a DFID-GIZ project, **Schneider Electric** supplied 36.096 portable solar lighting devices to the Rohingya Refugees, in order to provide safe, reliable & clean lighting for home activities as well as safety at night and mobile charging facilities. Schneider Electric was also involved in an initiative financed by UNHCR and the French EDF Group Foundation to set up a solar-powered minigrid to provide electricity to a hospital, road lighting and refugee shelters.

LIGHTNING PROTECTION

The French SME **INDELEC** has supplied to the Local Government Engineering Department (LGED) lightning protection systems for Rohingya refugee camps, located in a natural disaster-prone area, under the World Bank project "Emergency Multi-Sector Rohingya Crisis Response Project (EMCRP)". They provided and installed 107 lightning arresters and flash counters with their partner Iconic Engineering and Trading Company. The equipment covers more than 133.000 persons.

ENERGY

On the energy side, **Premier LP Gas Ltd (TotalEnergies Bangladesh)** supplies LPG cylinders to the Rohingyas camps since 2018 under the SAFE plus program of the Food and Agriculture Organization, International Organization for Migration and World Food Program. This project aims to replace the firewood used for cooking by LPG in order to prevent deforestation, loss of biodiversity and soil erosion that enhance the risk of landslides and floods.

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C. FRESH NEWS FROM BANGLADESH

This section provides a brief overview of economic and business-related news from Bangladesh

--------------------- **PROJECTS** ---------------------

Inauguration of a 200MW solar park, the largest in the country

With an installed capacity of 200MW, this plant far surpasses a 100MW PV plant being built in Mongla in late 2021 and nearly doubles the country's total solar generation capacity from just 261MW. Located in Sundarganj, in northwestern Bangladesh, the project was implemented at a total cost of Tk18bn (about USD 170m) and is 80% owned by Bangladeshi conglomerate Beximco and 20% by a Chinese company (TBEA Xinjiang Sunoasis). The electricity will be sold to Bangladesh Power Development Board (BPDB) for Tk13.9/kWh over a 20-year period according to the contract signed in 2017.

Renewable energy investment announcements are certainly on the rise, as highlighted by the acceleration of project deliveries (15MW in 2019, 50MW in 2020, 141MW in 2021) and the good outlook (656MW in 2023). This acceleration is in line with the goal of reaching 40% of electricity from renewable sources by 2041. Nevertheless, the growth of solar energy is limited by the difficulties of acquiring land, a resource that is both scarce and fragmented.

The French company Total Eren is present in Bangladesh, notably on a 50MW project in Mymensigh (north of the country).

The public shipping company BSC wants to acquire 6 container ships for USD 360 million

Bangladesh is heavily dependent on foreign shipping companies, primarily Maersk and CMA-CGM. In order to expand its activities, the state-owned Bangladesh Shipping Corporation (BSC) has sent a proposal to the Planning Commission for the purchase of 6 new container ships (cellular vessels). If accepted, the project will then be submitted to Economic Relations Division (ERD) to identify a potential source of external financing. The cost is estimated at Tk38 billion or USD 360 million and the project is expected to generate about USD 120 million per year by operating 600,000 twenty-foot equivalent containers between Chittagong and Singapore.
At the same time, BSC has obtained validation of its project to purchase 4 oil tankers for Tk 26 billion (USD 245 million) with Chinese financing. This will increase capacity by a total of 388,000 tons. To facilitate the unloading of cargoes, Bangladesh Petroleum Corporation has launched a project called "Installation of Single Point Mooring (SPM) with Double Pipeline", to transfer oil directly from the ocean to the depots through tankers.

Signature of a USD 230M project with the Asian Development Bank for flood management

The Asian Development Bank will lend USD 230 million to the Government of Bangladesh for a project to assist with rehabilitation and reconstruction efforts in the northeastern region of the country affected by devastating floods in June 2022. According to the United Nations, more than 7 million people were affected.
The project proposes a comprehensive approach: infrastructure to limit future flooding, resilience of irrigation networks, reconstruction of secondary roads, railroads, dykes and wells. It will also promote the use of solar pumps for irrigation.

--------------- MACROECONOMICS ---------------

IMF supervision mission in Dhaka between 25 April and 2nd May

An IMF supervision mission is in Dhaka to discuss with the Bangladeshi authorities the progress of the implementation of the program signed in January 2023. This is an intermediate step before the next mission in September which will decide on the disbursement of the second tranche (USD 476 million).
The second installment is conditional on the achievement of several objectives by September, including the adoption of a corridor for interest rates, the introduction of a floating exchange rate, and the submission to Parliament of a new regulatory framework for the banking sector (Bank Companies Act).
The focus is on two issues in particular: on the one hand, the level of net foreign exchange reserves, which has to reach USD 24.5 billion in June and USD 25.3 billion in September, compared to just over USD 20 billion currently. The government hopes to recover close to USD 1.3 billion from bilateral (Japan, South Korea) and multilateral (World Bank, AIIB) donors by June and is looking to reduce the size of its dollar fund to support exporters (Export Development Fund). On the other hand, the Ministry of Finance is expected to propose a budget in June that will raise the tax-to-GDP ratio by 0.5%, which means that an additional USD 2.8 billion in revenue will be needed.

Inflation at seven-month high of 9.33% amid Ramadan

After improving slightly in January 2023 to 8.57%, inflation rose again in March to 9.33% y/y. This increase was mainly due to higher food prices in the run-up to Ramadan, which began at the end of the month, while prices of non-food goods were stable. Restrictions on the opening of letters of credit have certainly played a role, since many basic commodities (sugar, edible oil) are imported.
Inflation in Bangladesh peaked at 9.5 percent in August 2022 amid the war in Ukraine. This inflation is driven by rising energy prices, while it has historically been successfully kept below 6 percent.

---------------- MONETARY POLICY ---------------

Bangladesh eyeing trade in yuan and rupee

Negotiations have been underway since late 2022 between Bangladesh and India to promote currencies other than the dollar for trade between the two countries. For example, at a trade ministerial meeting in December 2022, India proposed introducing the rupee as a currency of exchange for both countries.

Banking operations in taka and rupee will initially be carried out by Sonali Bank and Eastern Bank on the Bangladeshi side and State Bank of India and ICICI Bank on the Indian side, once the agreements of the respective central banks are given. These operations could represent up to nearly USD 2 billion annually, which corresponds to the level of Bangladeshi exports to India. The rest of New Delhi's imports to Dhaka (a total of USD 13.7 billion in 2021-22) would remain in dollars.

At the same time, Bangladesh is considering using the yuan to pay for its imports and to repay some loans. According to press reports, the sanctions taken to limit Russia's access to SWIFT prevented the repayment of three installments (USD 320 million) on the Russian-financed Roopur nuclear power plant project. Under the new agreement, which has yet to be approved by the Prime Minister's Office, Bangladesh would make the payments in yuan through a Chinese bank. The Russian beneficiaries will receive them through the Chinese Cross-Border Interbank Payment System (CIPS).

------------------- EMPLOYMENT ------------------

Formation of a committee to revise minimum wages in the textile sector

The Ministry of Labor has just announced the formation of a committee to review minimum wages in ready-made garment factories, composed of representatives of the factory owners, employees and experts.

Minimum wages in the textile sector are revised every 5 years. The one for an unskilled worker had been raised to BDT 8000 (EUR 70) as of January 1, 2019, a 51% increase from the previous wage (BDT 5300 since 2013). The minimum wage is BDT 18257 for the highest grade.

Currently, 42 sectors of the formal economy have a minimum monthly wage set by the Minimum Wage Board under the Bangladesh Labour Act 2006. These 42 sectors cover only 10% of Bangladeshi workers, leaving most workers outside of the scheme.

62% of the population is of working age, a dividend to be used by 2035

The Bangladesh Bureau of Statistics (BBS) has released preliminary results of the 2022 population census. The last census was conducted in 2011.

These results underscore that Bangladesh is still enjoying a demographic dividend, with the country's working-age population increasing from 58% of the population in 2011 to 62% in 2022. Family planning policies implemented since the 1970s have reduced the population growth rate from 2.8% per year in 1981 to 1.22% in 2022. Thus, the population is aging: the median age has risen from about 23 to 27 years in ten years and the population over 60 years old now represents 9.3% compared to 7.5% in 2011.

Bangladesh has reached the third and final phase of the demographic transition, with low mortality and fertility rates. According to the median scenario of the United Nations, the population of Bangladesh should continue to grow until 2050 to reach about 190M inhabitants. It would then be the 10th most populous country in the world, behind Pakistan (340M, 5th) and India (1.64M, 1st). In 2020, Bangladesh ranked 8th with 165M inhabitants.

The demographic dividend could, according to the IMF, peak in the mid-30s ((i.e. when the ratio working-age population over non-working-age population is highest); that is, several years before 2041, when Bangladesh aims to become a high-income country.

Record number of expatriates leaving in 2022, but they are less skilled

In the year 2022, a record number of nearly 1.1 million Bangladeshi workers migrated from Bangladesh. The country benefited from the dynamic opportunities in Oman and Saudi Arabia, the top destination countries, and the reopening of the United Arab Emirates and Malaysia. These four countries represent 83% of total departures in 2022.

According to data from the *Bureau of Manpower, Employment and Training* (BMET), the country was on track to meet its target of 50% qualified expatriates by 2021. But COVID seems to have had a lasting impact on the profile of expatriates: the share of unskilled profiles increases from 28% in 2019 to 79% in 2022.

Expatriate remittances reached USD 21 billion in 2021-22, an amount that is among the best years but the ratio remittances-GDP dropped significantly: from 10% on average over 2012-2017 and now stable around 5%. By way of comparison, international aid in 2021-22 amounted to USD 11.0 billion, exports to USD 52.0 billion and FDI inflows to USD 4.6 billion (net to USD 3.4 billion). Net exports from the textile sector, i.e., after subtracting imports of raw materials, reached USD 23 billion. Remittances (USD 21 billion) are therefore at least as important a source of dollars as the textile sector (USD 23 billion).

---------------- MISCELLANOUS ----------------

Poverty rate reaches 18.7% in 2022, down 5.6% in 5 years

The Bangladesh Bureau of Statistics (BBS) released its report on household income and expenditure. It estimates the poverty rate at 18.7 percent, compared to 24.3 percent in 2016, when the BBS published its previous report. The COVID crisis and the high inflation experienced over the past year have delayed the achievement of the government's objectives. The government was aiming for a poverty rate of 18.6% in 2020, 14.4% in 2025 and 9.7% in 2030, as part of the Sustainable Development Goals (SDG1).

10 years after the Rana Plaza disaster

Ten years ago, on April 24, 2013, the Rana Plaza, a building housing several ready-made garment factories in the west of Dhaka, collapsed, killing more than 1,100 workers and injuring thousands more. This event, which received worldwide media coverage, brought to the forefront the failings of factory owners. Beyond that, it has contributed to a growing awareness on the part of brands, Bangladeshi authorities and industrialists, of the importance of improving safety for workers.

Ten years after this tragedy, safety in factories has improved significantly thanks to the initiatives of brands, through the Accord and Alliance schemes, and the International Labour Organization (ILO). According to some experts, factories dedicated to exporting to Western countries have become among the safest within RMG producing countries. Moreover, Bangladesh regularly emphasizes its 189 "green" factories, placing it in first place worldwide.

While these successes should be recognized, there is still room for improvement in workers' working conditions, and the government wants to continue its efforts to sustain the initiatives and extend them to other industrial sectors, including RMG factories that do not export to western markets. These initiatives will be critical to Bangladesh's eligibility for the EU's GSP+ scheme, after the loss of the Everything But Arms (EBA) in 2029.

The number of international passengers at airports exceeds 2019 level

According to data from the Civil Aviation Authority of Bangladesh (CAAB), the number of international passengers at Bangladeshi airports reached 9.1M in 2022, up from the pre-pandemic level of 8.6M in 2019. COVID had severely affected the country's air traffic, limiting the number of passengers to 2.5M in 2020 and 3.9M in 2021.

The sector has benefited in particular from the reopening of borders, especially for expatriate workers. Indeed, data from the Bureau of Manpower Employment and Training indicates that 1.1M new expatriates migrated in 2022, a level never before seen in Bangladesh's history. Over the last decade, the average number of departures was 0.6M people a year.

About 30 airlines serve Bangladesh from abroad, including 3 Bangladeshi companies: the national company Biman and two private companies US-Bangla and Novo Air.

D. UPDATE ON THE GRADUATION FROM LDC CATEGORY

Summary : Bangladesh will lose its duty-free access to EU market under Everything but Arms (EBA) by November 2029. To secure a new favourable tariff regime (GSP+), Bangladesh will have to implement labour reforms. Yet, the GSP+ framework for 2024-2034 is under review by the EU and this is not yet clear i) whether Bangladesh could be eligible to GSP+ and ii) whether the RMG sector could be included within the GSP+.

Description of the Least Developed Country (LDC) graduation process

The graduation from the LDC category is the responsibility of the United Nations Economic and Social Council, which reviews the list every three years. In order to be removed from the list, a country must meet the following requirements in two successive triennial reviews by the Committee for Development Policy:

- Gross per capita income above USD 1230;
- A human capital index, taking into account health and education, higher than 66 ;
- An economic vulnerability index (industrialization, diversification) below 32.

Bangladesh met these criteria in 2018 and 2021 and, because of Covid, was granted a five-year transition period instead of the usual three years. The country will thus officially graduate from the LDC category in 2026. LDC status should not be confused with other categories defined by the World Bank based solely on GDP per capita: low-income country, lower-middle-income country (LMIC), upper-middle-income country (UMIC), and high-income country. From this perspective, Bangladesh has been classified as a lower-middle-income country since 2015 and is aiming to be reclassified as a UMIC by 2031.

What will be the new EU tariff regime after 2029?

A preferential system that Bangladesh has used to develop its textile industry: The country has benefited from the Everything but Arms (EBA) regime since its inception in 2001, allowing it to enjoy duty-free and quota-free access to the EU market. This regime has greatly contributed to the development of the textile sector: Bangladesh accounted for only 6% of the EU's RMG imports in 2001, while it now supplies 20%. Between 2001 and 2021, Bangladesh exports to the EU rose from USD 2 billion to more than USD 23 billion, 90% of which was in the textile sector. A derogation from the Rules of Origin decided by the EU in 2011 removed the double processing requirement for the RMG sectors of LDC countries. This change has been a key element in the development of woven garment exports in particular.

Uncertainties about the preference system after November 2029: After graduation from the LDC category in 2026, Bangladesh will benefit from duty-free and quota-free treatment under the Everything but Arms (EBA) scheme for a transitional period of three years, until November 2029. From that date, Bangladesh will be subject to the Generalized System of Preferences (GSP) scheme for the period 2024-2034. This framework is still being updated, at the stage of discussions in trilogue format (Commission, Parliament and Council).

After 2029, Bangladesh would benefit from the standard GSP, with favoured access conditions but significantly more restrictive than the EBA. Under these conditions, ready-made garment exports would be subject to a 9.6% duty. The impact on exports could be a loss of USD 1.6 billion, a 2018 estimate. The loss of market share is likely to be much more significant, particularly due to the signing of a free trade agreement between Vietnam, the third largest producer of RMG, and the EU in August 2020. This agreement gradually reduces Vietnamese RMG tariffs from 9.6% in 2020 to 0% in 2028, a year before Bangladesh loses its access to EBA.

Countries graduating from the LDC category can apply for access to GSP+, an intermediate version between EBA and standard GSP, which allows for exemptions on 66% of customs lines, including ready-made garments. Under the previous GSP framework, which expires at the end of 2023, Bangladesh was automatically disqualified from GSP+ because of the vulnerability criterion. Indeed, its share of GSP+-covered imports would have been more than the authorized ceiling of 6.5% (it is 17% according to an EU study) of the GSP+-covered imports of all GSP+ beneficiary countries. This criterion has been removed from the new 2024-2034 round, allowing Bangladesh to be an eligible candidate.

The GSP+ is also conditional on the signing and implementation of 32 international conventions. On this point, Bangladesh has ratified all 32 and has established a National Action Plan (NAP) on the Labour Sector of Bangladesh (2021-2026) to ensure the implementation of reforms, following an EU-Bangladesh bilateral meeting in October 2019 that focused on workers' rights.

If the implementation of the National Action Plan is satisfactory, Bangladesh could benefit from GSP+ as early as the end of 2029. However, under the proposed new GSP framework, two provisions will limit GSP+ access for ready-made garments. On the one hand, an RMG-specific safeguard would exclude ready-made garment exports from the GSP+, because Bangladeshi products would represent more than the 6% threshold of European RMG imports. In this case, Bangladesh would benefit from GSP+ except for RMG, which accounts for a large share of the country's exports. On the other hand, the GSP+ requires a double transformation of RMG products. This rule of origin will mainly impact the woven garment industry, which still relies heavily on imported fabrics. Finally, all exports will now have to reach at least 50% value added, compared to 30% as an LDC, which could be a challenge for the diversification of the country's economy.

A delegation from Bangladesh went to Brussels in March 2023 to ask the EU for an extension of the transitional period from 3 to 6 years (until 2032) and the removal of the RMG-specific safeguard clause the inclusion of the sector in the GSP+ for Bangladesh.

To go further: [Towards A Transformed and Revitalized Trade and Economic Partnership with the EU, RAPID-FES, August 2022]

The French Treasury is present in more than 100 countries through its Economic Departments. To learn more about its missions and network: **https://www.tresor.economie.gouv.fr/Institutionnel/our-international-network**

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