

DUTCH INVESTMENT IN BANGLADESH

Q&A with Martine van Hoogstraaten

The Netherlands have long been a front-runner in the field of international co-operation, with a reputation as advocates for coherent development policies and donor co-ordination. They have been actively involved in these fields with Bangladesh since independence, an involvement that has primarily been on an official, government-to-government level. Over the past few years the Dutch private sector has also become increasingly interested and involved in some business sectors of Bangladesh. Bangladesh Business sat down with Martine van Hoogstraaten, Deputy Head of Mission and Head of Economic Affairs and Development Cooperation of the Embassy of the Kingdom of Netherlands in Dhaka to talk about the matter, about Dutch perceptions of the investment and business climates in Bangladesh, and how Dutch business groups view the Bangladeshi market.

Below are excerpts from the conversation.

BB: Netherlands is one of the top five investors in Bangladesh and in recent years that investment has doubled. Could you brief us on the areas covered by Dutch investment and the reasons for this recent surge in investment? Do you think this growth in investment will continue in the future?

MH: Trade relations between the Netherlands and Bangladesh range from agricultural products and services to industrial products and services. Sectors such as shipbuilding, agriculture and IT have been the driving force for Dutch foreign direct investment in Bangladesh. Almost 85 percent of Bangladesh's exports to the Netherlands are in the textile and readymade apparel sectors. Bangladesh is not yet a prime destination for the Dutch business community, with issues ranging from geographical market distance to the perceived ease of doing business with Bangladesh being possible contributing factors. In keeping with general trade patterns between Bangladesh and the EU, RMG and frozen food are Bangladesh's largest export to the Netherlands. The volume and direction of bilateral trade between the two



countries in the future will depend much on how well Bangladesh retains its export competitiveness in this post-Multi-Fiber Arrangements (MFA) era. Equally importantly, it depends on how well Bangladesh can position itself to attract Dutch exports and investment.

Looking ahead, I believe the biggest obstacle for Bangladesh presently is ensuring investors' trust. Let me rephrase. It's the Dutch private sector who believes this and I agree. A strong business environment is the starting point for sustainable growth. Throughout this past year political instability has had a considerable impact on investors' trust. We have found it much more difficult to interest

Dutch businesses in trade missions, for example. At the same time, any business willing to take higher risks has the opportunity to become a frontrunner in Bangladesh. Challenges and obstacles certainly exist; however, once a business overcomes these it has the potential for great success. This justifies the work my team and I do here. We want to help our private sector overcome these hurdles by supporting activities that promote responsible trade and investment.

BB: How do you compare market opportunities in Bangladesh with other regional countries?

MH: The emerging Asian economies, with three times the European growth rate, are becoming increasingly important in the global economy. Previously regarded as a region where cheap, low-tech bulk was produced, this region is now an important market for Western products. Following the large multinationals, more and more SMEs are now coming to Asian markets. Specifically speaking, specialized machinery, raw materials and chemicals are the product categories that do well on the Asian market and establish a good industrial basis for their growing economies.

Bangladesh is an attractive Asian destination with its competitive market, business-friendly environment and cost structure, which can give foreign investors the best returns compared to other countries in the region. Its strategic location, with access to international sea and air routes, in the vicinity of India and China, is ideal for global trade. There is an abundant supply of disciplined, easily trainable and low-cost workers suitable for most labor-intensive industries. The country is investing in developing a skilled workforce. English is widely spoken, making communication relatively easy. Most Bangladeshi products enjoy complete duty and quota-free access in EU, Japan, USA, Australia, and other developed countries. Bangladesh offers, in theory, the most liberal foreign direct investment (FDI) regime in South Asia, allowing 100 percent foreign equity with unrestricted exit policy, easy remittance of royalty, and repatriation of profits and incomes. Although financial markets are still underdeveloped, forecasts assume a steady increase in the size over the coming ten years, with higher availability of credit, stronger capital markets and further extension of

micro-financing schemes. Bangladesh's business environment indicator is nearing that of India, and both infrastructure ratings are comparable.

BB: What are the three main challenges faced by Dutch investors that are critical to address? Do you have any suggestions on how these challenges can be mitigated?

MH: The aim of the Netherlands Embassy is to work on many of the challenges faced in different sectors. Together with the Bangladesh government and the private sector we look for possibilities where the Netherlands can add value in supporting the country to achieve its goals.

To give you an example, the water sector is in need of structural reform, where logistical weaknesses (a commonly heard obstacle for foreign investors) are a big challenge for Bangladesh. We are therefore looking to co-design a master plan which will enable, amongst others, increased transport of goods via waterways. If anything, Bangladesh has plenty of water, something to which we in the Netherlands can relate. Our Rotterdam port alone, the third largest harbor in the world, demonstrates our capabilities in the field of water logistics. As such we believe we can add value by working with Bangladesh to achieve similar success. In terms of infrastructural challenges the development of a deep sea port is another example. We would gladly work with the Bangladeshi government to get this started.

Other obstacles are lack of energy and urban development. Foreign investors, for instance, look for effective transportation systems to ensure cost-efficient supply chains. It is no secret that moving around Dhaka is somewhat difficult. Not only that, the city is congested with buildings that offer little to no parking space. Investors value such details; failing to provide them with these facilities demotivate them. It is fair to say that much needs to be done in this field.

Skilled labor is scarce. Of the estimated 4 million people who work in the garment industry many lack the required skills to increase its competitiveness on a global scale. A lesser-known impediment, for example, is the population structure of Bangladesh. If you consider that most of the people building and sustaining the country are between the ages of 25 and 35, then there will be a huge portion of the nation retiring simultaneously in need of a social safety net. There must be a system in place to pay for that. As of yet, there is no

indication of such a support mechanism.

What I am trying to say is that in addition to the above identified challenges which pose short-term problems, there are many hurdles which may seem distant at this moment, but will become problematic for the country in days to come. Good governance, macroeconomic stability, strong infrastructure (both physical and technological), social equity and environmental reform are all factors that can positively contribute, and must be addressed now, to ensure sustainable and responsible growth for Bangladesh.

BB: What support do you provide to Dutch investors/businesses wishing to enter Bangladesh market?

MH: The Netherlands has been a development partner of Bangladesh since its independence in 1971. Traditionally our focus has been on subjects such as water, governance, education and health. Now more than ever, growth indicators demonstrate that Bangladesh is heading towards becoming a middle-income country. About two years back, our Embassy team formulated a multi-annual strategic plan aiming to gradually transition our relationship with Bangladesh from traditional aid to responsible trade and investment partner. In

women participation in the workforce, in reducing environmental risks and ecological scarcities—are co-financed from the beginning by private sector players. Private and public sectors should work closely together to achieve sustainable progress.

The Embassy constantly looks for possibilities where the Netherlands can add value by bringing in Dutch companies, sharing their knowledge and expertise, and identifying investment and trade opportunities for the Dutch and Bangladesh business community alike. Through proactively targeting the Dutch business community and identifying opportunities in Bangladesh on behalf of companies who are not necessarily looking towards the Bangladeshi market, the Embassy has developed a mechanism to link companies with development. Five consecutive trade missions (three trade missions in 2014) in four priority sectors—water, agro-food, IT and logistics—have been organized in the past two years. A total of 66 Dutch and Bangladeshi companies were brought in direct contact with, on average, eight potential business partners each. The majority of companies reported successful matchmaking and voiced their intentions to consolidate identified leads. Over the course of 2013 and 2014, 24 Dutch companies have set up business with or invested in Bangladesh with direct support or advice from the Embassy, in fields such as relevant and filtered network, a clear understanding of good business practices (OECD guidelines and the Business & Human Rights Action Plan) and what this means for doing business in Bangladesh.

The foundation of our approach lies in the realization that business can contribute to development through its core activities: the way it manages its employees, its operations and supply chain, its products and services, and social investment in the communities and regions in which it operates. Focus on CSR remains central in all activities. Dutch companies and entrepreneurs are being thoroughly informed about the (corruption) risks of doing business in Bangladesh in line with the OECD guidelines on CSR/ Ruggie Framework/Business and Human Rights Action Plan, using tools such as the CSR Passport.

BB: Do you engage with the existing Dutch businesses operating in Bangladesh, and if so,

“The bilateral ties between Bangladesh and the Netherlands are becoming more business oriented.”

other words, the bilateral ties between Bangladesh and the Netherlands are becoming more business-oriented. To illustrate, we were one of the top five investors in Bangladesh in 2013.

At the same time we believe that if you do business with someone, you must share responsibility for all aspects affecting the community you do business with. We make sure that activities we undertake—in improved human well-being and social equity, including occupational health and safety standards and

in what ways?

MH: The Embassy's economic objective is to support sustainable and pro-poor economic growth through creating new, and supporting existing, trade relations and bilateral new investments. Trade between nations creates jobs and prosperity. It drives down prices and increases choice, ultimately enhancing the business climate and creating new opportunities. Facilitating trade and investment in Bangladesh is however a long-term project and we do not approach the task lightly. We pay attention to inclusiveness and sustainability, to move existing Dutch businesses towards collective awareness and to supporting them in managing their resilience to further their economic activities in Bangladesh.

As such, economic diplomacy, with which we position Dutch companies in Bangladesh, is a significant component in our work. We meet

have added value.

- continuously brokering Dutch commercial interests and Holland branding.
- effectively promoting products and expertise from the Netherlands.
- setting up user-friendly communication and information systems to support Dutch companies who seek to obtain contracts tendered by international financial institutes. This informs the Dutch business community on a timely basis on upcoming tenders, providing context and lobbying on the local level.
- organizing networking events to offer different platforms to share knowledge and exchange information.

In our diplomatic service a crown is a prestigious Embassy prize. Our Embassy in Dhaka last January was awarded one for our work and service delivery to Dutch companies. Every two years the private sector in the Netherlands votes on the quality of economic services provided by Dutch Embassies worldwide. This year our service delivery to Dutch companies was recognized as the best of all embassies.

“We meet with investors regularly to exchange knowledge and experience.”

with investors regularly to exchange knowledge and experience as well as to discuss trade-related barriers experienced by them. We intensify contacts with different chambers of commerce, other branch organizations and established development agencies. In this regard a Memorandum of Understanding (MoU) was extended with the Chittagong Chamber of Commerce for Dutch companies interested in opportunities in the maritime and logistics sector. Dutch private sector development instruments (including direct financing of both Dutch and Bangladeshi companies looking to grow their business activities) will continue to be facilitated. The Dutch Embassy provides support by:

- proactively providing information about business opportunities in targeted sectors and serving as a matchmaker to bring companies together.
- executing market scans where we identify 'quick wins' in a number of growth sectors where Dutch entrepreneurs potentially

BB: What is your advice to Bangladesh to enhance its competitive position to become a better investment attractive location?

MH: To enhance its competitiveness, Bangladesh needs to increase FDI inflow, to create jobs, reduce poverty and facilitate the transfer of technology. From a regional perspective, the amount of FDI flow to Bangladesh has increased as compared to other South Asian countries like India and Pakistan, but flow to those countries in absolute terms is larger. In Bangladesh, soaring land prices and hassles in land acquisition impact adversely the inflow of foreign investment and the expansion of local businesses as well. This has made development challenges more critical as Bangladesh faces two other major ones—upgrading its infrastructure and ensuring the availability of a large but skilled workforce. In order to attract more FDI, Bangladesh needs to tackle several growth-related factors like governance, tax evasion, a high population density and the associated scarcity of land and natural resources.

BB: Thank you for your time.

MH: Thank you. **BB**