TEXT of SPEECH

Global Economic Backdrop & FDI in Bangladesh

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In January 2009, Lutfey Siddiqi was awarded the title of Commercially Important Person (CIP) by the Government of Bangladesh.

Good afternoon Ladies & Gentlemen,

At the outset, I need to disclaim that I am here in a personal capacity and all of the views that I will express today are my own – not that of my employer or any other organization that I'm affiliated with.

Having said that, my role as an international banker, as a personal investor in Bangladesh and as a post-graduate lecturer in Finance at the National University of Singapore probably gives me a unique perspective on things.

In contrast with my fellow speakers, my perspective on FDI starts from outside, looking in.

The question for me is : if I am looking down from outer space with a 100-dollar bill in my hand, would I be attracted to Bangladesh over and above alternative destinations that I could go to?

Attraction is about chemistry.

When human beings are attracted to each other, it's not just because of the physical characteristics of symmetry, height, complexion, sharpness of features etc. They are also drawn towards unquantifiable qualities such as charisma, sensitivity, eloquence, grace, sense of humour and so on.

We should think about the attractiveness of a country's investment climate in the same way. When we use general terms such as "an enabling environment" or "good governance", we actually refer to individual behaviour at a human, interpersonal level.

It's more than policies or tax incentives – most countries in Asia are identical in those terms. On the margin, what makes one country more attractive is the confidence that is inspired by the intangibles, the soft issues, the little things.

It's about an instinctive feeling and a personal sense of comfort that I should feel from the time I land at the airport and every time I deal with somebody from the Board of Investment, the embassy, the central bank or other parts of the civil service.

I read a book by one of your professors, Dr. Wahiduddin Mahmud, in which he talks about the theory of signalling – how a peacock needs to carry a cumbersome tail on its back (even though it is functionally futile) only to stand out in the crowd and communicate the message that "I am strong".

Is Bangladesh doing that little bit extra to stand out?

Let's come back to that. But first, let's see what else is going on in the world around us:

<u>The Global Backdrop</u>

Over the past 18 months or so, we've witnessed a dramatic collapse in the value of a wide range of assets. The US stockmarket has been set back by 10 years and the Japanese market hit its lowest value in 26 years. Imagine that – 26 years of wealth reset to zero!

A tremendous wealth-destruction has been suffered by individuals, banks (who have written off close to a trillion dollars of assets) and institutional investors such as pension funds, insurance companies, hedge funds and private equity funds.

The theme now is that of "de-leveraging", "risk aversion", "liquidity preference" and funding crunch"".

What we are witnessing is a period of excessively conservative and defensive behaviour on the part of investors which is not unexpected given the aggressive risk-taking of the past 10 years. Every country trying to attract FDI right now will be fighting for a diminished pool of funds.

Where is Bangladesh on this global backdrop?

As the Governor Dr. Salehuddin said in his inauguration speech, the financial services industry here has not been noticeably affected by the first thrust of the crisis. And one has to be impressed by his Governorship over our banking system!

In terms of foreign currency income, we are generally providers of low-cost products and low-skilled manpower, so the impact may not be felt immediately.

However, the impact will be felt for sure.

It's always wise to hope for the best but plan for the worst. The worst can be quite bad – if we don't anticipate it.

Already, some of our exporters have seen cancellation of orders for their garments. It's not enough to say that the American consumer will always need 2 T-shirts per year, so there will always be demand for my product. The fact is, business projections are based on *growth* and we were expecting the American consumer to buy 4, 6 or 12 T-shirts next year in order to keep up with the cost of financing. As inventory levels rise, our export revenues will suffer.

Not just in readymade garments, I'm told that we're seeing cancellations even in the capital-intense ship-building sector right now.

Also, remember that this problem started as a banking crisis – a heightened sense of counterparty risk and a sudden lack of trust between dealers. There is an urgent requirement to preserve bank capital.

This may make it difficult for Bangladeshi counterparties to get international lines of credit. One of the palmoil exporters in a South-East Asian country told me that palmoil prices collapsed not because of a lack of demand, but because the people with demand were unable to open LCs because of the credit crunch.

Another chunk of our income comes from remittances. The employability of our workers in the Middle East is directly related to the price of oil. Oil went up to $140 per barrel, then down to $40 now. Property prices in Dubai have fallen, constructions have halted – this cannot be good for one of our largest sources of foreign currency income.

Have you noticed the value of the British pound lately? That has dropped over a third in value which means that the house in baridhara is now 30% more costly for the British NRB buyer….

Finally, the fiscal situation in many western countries (who are trying to spend their way out of recession) will likely put pressure on their aid budgets. So that's a gloomy possibility all 'round.

But the relevant question for our FDI is this:

When the gravy train was travelling through much of the world in the past several years and the world was booming, why did we do so poorly in attracting investment to Bangladesh?

The scary question is: **if we failed to make hay while the sun was shining, what chance do we have now that the clouds have emerged?**

Money is being withdrawn from places like Korea, India, Indonesia right now not necessarily because of country-specific problems, but because many investors were hurt elsewhere and they simply want to take risk off the table.

While I have no doubt that things have improved in recent months – Dhaka airport looks very nice and I like the progressive language of our new government – competition for foreign capital will become extremely intense and we have to dramatically upgrade our efforts if we are to stand a chance.

So, what should our response be? I spoke at the Dhaka Chamber of Commerce last November and I listed several steps that I think need to be taken. Let me touch on some of them.

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1. The world is a stage, a beauty parade

Firstly, we need to acknowledge that the world is a beauty parade. It's not enough to be pretty, you need to be more attractive than others on the stage. As Prof. Barkat says, investment is demand-driven and requires an attitude of customer service.

Let's also remember that attracting investment is very different from promoting trade and export.

For export promotion, you have to attract a middle-ranking buying officer in Wal-Mart. By contrast, "Investment" is strategic, long-term and requires buy-in from the board.

The people you need to cultivate relationships with and convince are more senior. They are used to first-class service, they are much more demanding and are extremely time-constrained. Chances are, they already have a date with other suitors! – so the courtship is all the more daunting.

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2. Begin with the end in mind.

Secondly, We need a sense of direction and a roadmap. Where are we going?

As the adage goes, "If you fail to plan, you plan to fail". It should also be possible to communicate the essence of the vision in very simple terms – maybe a one-page laminate that I can memorise.

If we can't articulate our own vision, what will we market to outside investors? "Shonar bangla" is not quite substantive enough….

To paraphrase Professor Yunus, we should first write our "science fiction" – a story about how we want to see ourselves in 10, 20, 50 years' time. Then work backwards.

Which takes me to my next point:

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3. Convert Liabilities into Assets

We could write a science fiction about our people, our human capital.

It's been noted several times today that we have excellent demographics in this country – a large young population (two-thirds of our people are younger than me).

By contrast, 1 in 5 people in Japan is a pensioner. By 2050, the working age population of Europe will fall by 50%.

How can we take advantage of that?

We need to harness our human capital correctly. They need vocational training, language training, managerial know-how, negotiating skills in the international context so that they are adding value, not simply providing the cheapest labour in the world.

My employer goes to the Indian Institutes of Technology and the Institutes of Management every year for recruitment. These Institutes have built a huge brand for themselves without expending a lot of money and there is fierce competition for those students from global multinationals.

We must have some of the best talent in the world purely by the statistical law of large numbers. We need a mechanism to uncover them.

Don't you think it's absurd that this country of 150 million is struggling to produce 11 cricketers that can consistently beat New Zealand which has a population of 5 million (two-thirds the size of Dhaka city)!

4. Pragmatism not Ideology: Focus on "what works".

A common thread in all of the East Asian Tiger economies – even in those where corruption is a problem - is their ability to be pragmatic in the pursuit of national objectives. Don't let pride or ideology get in the way of delivering results.

In our case, we carry a lot of historical baggage. To paraphrase Tom Friedman, *we have more memories than dreams* and what we need are more dreams than memories. I wish we'd observe 16th December not just as a commemoration but as a milestone. Every year, we should look back and look at our report card for that year.

Another piece of historical baggage is the paranoid sense of nationalism or insecurity that we feel about India.

4.1 What is our India Strategy?

We have a self-flattering paranoia that they are out to get us!

We drag our feet when Tata wants to make a $3bn investment when so many others are courting them actively.

Tata Steel acquired British Steel for $12 billion last year. Tata Motors acquired Land Rover and Jaguar for $2 billion.

Some of these companies have foreign currency flows that are larger than the entire trade flows of Bangladesh. I really don't think that these guys have time to think about conspiracies against Bangladesh!

Incidentally, if you look at Prof. Barkat's paper, you will find a list of several large FDI approaches in Bangladesh that were aborted in the past few years for one reason or another….

EACH one of them would've been larger than the total sum of FDI ever seen by Bangladesh in any 3-year period since independence. It looks like a bit of a waste to me.

Just to finish off on India - India will become the third largest economy in the world by 2030 and we cannot have a vision for Bangladesh unless we have a strategy for being part of that supply-chain.

4.2 What is our China Strategy?

Similarly, we should look at China and ask two questions:

1. How can we join them, plug into that supply-chain and its backward linkages? How can we feed off China's growth? How much would they pay us for access to Chittagong port?

2. What's so special about their policies versus ours? What can we replicate? Is it possible that we have more of a socialistic hangover, more pride and more historical baggage than China does?

The recent nobel prize winner Paul Krugman talks about the *importance of geography* in economic development. We are really lucky with ours if we choose to see it that way.

5. Look Across

We need to stop believing that our challenges are unique and we're doing the best that is possible under the circumstances.

Let's actively look across and copy the successes of others. That's the beauty of being late in the queue - we can learn from the successes and failures of others if we have the humility to do so. Someone in some Ministry should be accountable for spotting copy-cat opportunities.

I get criticised for asking people to learn from Singapore. I insist that the fact that Singapore is a small country is irrelevant.

It is an excellent crucible for the kind of survival instinct, pragmatism and principled governance that is required when you are squeezed between large neighbours, without inherent natural resources. The implementation of their FDI policy, manpower policy and education policy is worth looking at.

Some time ago, I spoke to Professor Neo Boon Song of the National University of Singapore. He is a consultant on Public Policy but used to be Dean of the Business School in the past – an interesting mix of expertise!

He looks at competitiveness of countries as if they were companies and has written a wonderful book called *Dynamic Governance*.

He says that Singapore acquired a self-perception (articulated top-down by their leaders) as follows: It is a man-made country, contrived to fit the needs of the modern world and it has to be amended all the time as the needs of the world change.

The island was divorced against its will from Malaysia, the British were withdrawing their military base and there were no jobs to go around. They had no intrinsic resources and their survival was questionable.

This message was internalised by the Economic Development Board (equivalent to our Board of Investment). Civil servants picked up the phone and made cold-calls to CEOs of multinationals, begging them to move their oil refining or ship repairing or electronics operation to Singapore. "We were willing to accept any investment that we could get – the labels of high-tech or low-tech never entered our vocabulary, we were happy with "any tech" that could provide young school-leavers with jobs".

The oil company Shell was the first company to arrive. My father-in-law was a direct beneficiary – he got a scholarship from Shell followed by employment there as an engineer[1]. Remarkably, the government of Singapore adopted the same Staff Appraisal System that Shell used for its Human Resources management in the civil service!

After Shell came General Electric.

Then came National Semiconductor. What is now legendary is that the National Semiconductor factory started operating and exporting semi-conductors within three months of the date of the CEO's first visit to Singapore.

Shortly afterwards came Texas Instruments, Hewlett Packard, FairChild etc. – Singapore soon became an electronics cluster mainly due to the word of mouth generated!

We should not underestimate the importance of positive word of mouth, goodwill and the benefit of a bandwagon effect – the softer issues of chemistry that I mentioned earlier.

Between 1972 and 1982, net investment surged nine times in Singapore.

Notice three things here:
1. the complete abandonment of pride in the face of economic reality,
2. a focus on getting things done (i.e substance over form) and
3. the emphasis on building goodwill or image.

Goodwill can be a "tipping point" – it can spread like a virus very quickly. Conversely, tiny things that are detrimental to our image can cause disproportionate harm.

Goodwill is built through consistency and uniformity of actions and messages.
Singapore's objective of attracting foreign investment was in tune with its education policy and its manpower policy. This is relevant for us – I have already mentioned our healthy population makeup. If you think about it, it does make sense to marry the strategies for financial capital, physical capital and human capital.

The EDB in Singapore helped companies setup facilities to train personnel for their needs (demand-driven) and to help meet the manpower needs of the industry.

In 1972, the Tata Training Centre was setup for precision engineering. The Philips Training Centre was setup in 1975. In 1982, the Japan-Singapore Institute of Software Technology was setup to produce the anticipated number of computer software specialists required. Glaxo put in $50m to start a scholarship programme, Exxon-Mobile put in $20m and so on. When you have a clear business plan and credible people marketing it, funding is not usually a problem.
Here is another story: Phillip Yeo became Permanent Secretary at the age of 33. In 1986, when he became Chairman of the EDB, he released a memorable advertisement titled "Who would be mad enough to invest in Singapore in a recession?". This was followed by the words "We Are" and under-signed by the CEOs of Apple, National SemiConductor and Motorola.

And if you really want to be fuelled by nationalism, take a look at how Singapore has invested in innovation and overcome its dependence on Malaysia for its water needs.....

http://www.thedailystar.net/suppliments/2007/december/bangladesh_singapore_rtable/index.htm

Some of these lessons may or may not be relevant for us. And it doesn't have to be Singapore. Pick any country – Korea, Taiwan, Indonesia, Ireland, Turkey,

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Malaysia, Philippines – but please, let's look across and see what we can learn from their experience.

6. Implementation: Do what you said you will do

We have policies, we have visions but we are weak in follow-through.

I read that Dr. Akbar Ali Khan was unable to implement 60% of the reforms proposed by his Commission in 2008 because the Board Of Investment behaves, "more like a regulatory body than a catalyst". If you believe (as Tom Friedman does) that there is no longer a first world and a third world, *only a fast world and a slow world,* we really can't afford to be slow. We'll be left behind at an exponential rate.

7. Perception is Reality and Experience is Evidence

We need to tackle the real perception-deficit that we suffer from.

One of the publications of Bangladesh Bank says the following:

"In spite of *Bangladesh's comparative advantage in labour-intensive manufacturing, adoption of investment-friendly policies and regulations, and establishments of EPZs in different suitable locations and other privileges,* ***FDI flows have failed to accelerate****".*

To me, this is like saying: "In spite of offering an exceptional amount of dowry, no-one wants to marry me. Am I really that unattractive?"

The answer is No. We're not that unattractive – we're just terrible makeup artists.

There is a quantifiable price of perception in the same way that there is a quantifiable cost of corruption.

Country Branding and Public Sector Branding is extremely important and there is ample precedence in several countries for this.

> The hollywood movie "Lord of the Rings" was shot in New Zealand. As a result of the film's success, the New Zealand government created a cabinet-level position – Minister for Middle Earth - to help the country piggyback on the film's success and attract more tourists and filmmakers!

Perception is reality and we simply can't get emotional about outsiders undervaluing us. Instead of acquiring a victim mentality, our answer should be active brand management with the use of professional firms.

8. Privatise parts of the Civil Service?

Which brings me to my final point:

If I had to put my finger on ONE factor that has the most significant impact on the success or failure of Investment, it is the machinery of government – the civil service.

Both my father and grandfather were bureaucrats. They don't agree with me but I think that our secretariat is a black hole.

It is a complex organism with a life of its own, an entanglement of processes and practices that makes it excruciatingly inefficient. There are no timelines and there is no accountability or appeal.

In fact, the Bangla word for civil service does not have the word "service" in it…..

If you ignore morality for a second – predictable corruption wouldn't be too bad if it contributed to the effective delivery of results. It would simply be factored into the cost of a project as a separate line-item.

However, it is the slothful, unpredictable inaction and indifference that does the most damage.

People *within* the civil service are equally frustrated. It's not necessarily the individuals, the problem is the system.

I know of some excellent individuals who work for the government – diplomats who have trained for years to become fluent in Chinese or who are doing evening MBAs to enhance their skills…. Many of our bureaucrats have received postgraduate scholarships from the topmost universities in the world. Yet, not very many of them feel empowered to make real changes when they return.

I am a firm believer in state-directed capitalism, at least in the early developmental stage of a country. In that context, ineffective machinery of government can be a tremendous drag.

It's only half-jokingly that I've suggested privatising the civil service. I do think we need some breakthrough reform in the civil service. Let's look at public-private partnership in all external-facing functions of government – especially the Foreign Service and the Board Of Investment.

The good news is that it's entirely within our capacity to tackle virtually all of the issues listed above. Unambiguous political leadership, some straightforward directives and attentive implementation could take us a long way forward.

Let's get going.