

Executive Summary

Background

Estimated at around US\$ 160 billion in 2018-19, the services sector comprises just over 51 per cent of the gross domestic product (GDP). The sector employs 23.7 million people which is 39 per cent of the national employment.

Services can also be an important source of export earnings. Bangladesh is already a major manpower exporting country, but there is further potential for increasing exports from this sector along with expanded exports of other services. Increased services exports can also help with export diversification. This paper highlights the potential for export expansion in three areas, namely, ICT, travels, and tourism and migrant workers' services, and discusses various policy and practical support measures necessary for realizing the potential.

Exports of services from Bangladesh

Bangladesh's services exports rose to \$6.22 billion in 2018-19 from less than \$1 billion in 1999-2000. The growth in 2018-19 was a staggering 46 per cent while the average annual growth rate over the past decade was about 12 per cent. The share of Bangladesh in world services exports is just 0.07 per cent in comparison with the combined share of least developed countries of 0.75 per cent.

Government goods and services, which includes the supply of goods and services by embassies and consulates, military units and agencies, diplomats, etc., is the largest source of services exports. It is followed by other business services and transportation with shares of 15.8 per cent and 10.7 per cent, respectively.

The United States is the largest destination of Bangladesh's services exports, accounting for about 16 per cent of export earnings, followed by China (9.9%), Singapore (9.3%), Hong Kong (8.8%), India (8.6%), and Japan (4.3%).

Notwithstanding the significant rise in services exports in recent times, the share of services trade in GDP remains low in Bangladesh, 5.2 per cent, in comparison with the world average of 28.3 per cent. Similarly, Bangladesh's services export-GDP ratio is just 1.5 per cent compared to 15.5 per cent for the world. While for such comparator countries as India, the Philippines and Sri Lanka, services exports are around 40 per cent of their respective total exports, the corresponding figure for Bangladesh is just above 10 per cent.

Sectoral analysis

The ICT sector

The ICT sector has started to flourish as Bangladesh is placed at 21st position in global outsourcing destination ranking. The government set an export target of \$5 billion from the ICT sector by 2021. The estimated exports from this sector in 2017 was \$800 million. According to industry sources, more than 250 enterprises are in exporting activities with clients from around 60 countries.

Among others within the sector, the telecommunication sub-sector has grown at a rapid pace, especially the mobile cellular phone. Since 2004, the number of mobile phone subscribers has grown at an annual average rate of 45 per cent. Out of every 100 inhabitants, more than 91 now have access to a cellular phone - a dramatic rise from just 2 even as late as in 2004. This development can partly be attributed to the government's policy of lowering subscription fees of mobile phones.

The size of the IT sector is estimated at \$120 million including exports. Currently, more than 300,000 professionals are working in 4,500 registered IT companies. Software development occupies 47 per cent of the IT sector in Bangladesh, whereas IT-enabled services constitute 11 per cent, Business Process Outsourcing (BPO) (5%) and e-commerce (3%), and other multifunction (34%) of the IT sector.

In order to expand ICT export, the Government of Bangladesh has devised several policies and made significant progress in developing the required infrastructure. The Bangladesh Hi-Tech Park Authority (BHTPA) has established six IT parks. There have been policy initiatives to build IT training and incubation centres in seven different places. For new ICT firms, a tax waiver scheme of up to seven years and provisions of tax rebates on IT-sector investments are in operation. Furthermore, a 10 per cent cash incentive scheme for the ICT sector export is boosting the supply-side response.

Travel and tourism

The contribution of travel and tourism to GDP is estimated at around 4.5 per cent. The sector contributes to about 4 per cent in total employment. Recreation tourism constitutes 78 per cent of all travel and tourism activities, followed by education related tourism (13%) and health and religious tourism (about 9%). Between 2014 and 2018, the number of tourists visiting Bangladesh increased from 0.16 to 0.27 million. The top export destination of recreation-related tourism is the United States followed by India and the United Kingdom.

To facilitate tourism-related activities, the government has taken several initiatives targeting various activities. Among others, the Parjatan Corporation offers short courses and a two-year diploma programme in hotel and tourism management to support human resource development for the industry. The Bangladesh Tourism Board has been established to further strengthen the tourism sector development programmes. The National Tourism Policy 2010 had several innovative features including eco-tourism for environment-sensitive tourism spots.

Exports of labour services

Since the record began in the 1970s, more than 12 million Bangladeshi workers migrated worldwide with the average annual outmigration has been about 500,000 over the past two decades. In 2018-19, about 675 thousand people migrated from Bangladesh. The remittances sent by migrant workers stood at \$16.4 billion in FY19. Since 2000, remittances have risen by 8 folds with an average annual growth rate of 12 per cent.

The major destinations of Bangladeshi migrant workers are the Middle Eastern countries: almost 78 per cent of all migrants since 1970s. The corresponding shares for Malaysia and Singapore are 7.5 and 6.2 per cent, respectively. The Kingdom of Saudi Arabia is the largest source of remittances, contributing to about 19 per cent of all money sent by Bangladeshi workers in 2018-19. This is followed by the United Arab Emirates (15.5%), the United States (11.2%), Kuwait (8.9%), Malaysia (7.3%), and the United Kingdom (7.2%). Bangladeshi migrant workers are mostly in semi-skilled and less skilled categories (constituting more than 50% of migrant workers).

Policy recommendations

Although the current services export base is small, there is a huge potential for making further gains from this sector. Along with promoting such sectors as ICT, the importance of creating employment opportunities in large numbers means exports of labour services will be a serious subject matter of policy consideration. This paper suggests several important policy options which can effectively contribute to the expansion of services exports. The policies are both generic – applicable for all services subsectors – and sector specific. A summary of major recommendations is given below:

- Mainstreaming services policies in national development strategies can help promote competitiveness in various services activities. Given the significance of the sector, it is important to develop an overall services sector development strategy, which will either directly or indirectly promote exports and export-competitiveness. The services sector under the Export Policy is covered in a limited manner. Exports of labour services should be brought under core policy attention to facilitate exports of diverse services rather than only less-skilled workers. An effective services sector policy is becoming an increasingly important determinant of the development process. Besides, Bangladesh should consider developing comprehensive sectoral policy regimes to support various services sectors.
- In recent times, Bangladesh has been proactively seeking for foreign direct investment and attracting it in the services sector can help expand exports and diversification. Building hi-tech Parks and special economic zones (SEZs) can lead to activities that would promote the overall services industry.
- There is some evidence in the academic and empirical analyses that lowering the trade restrictiveness can attract foreign investment and enhance productivity of manufacturing industries that use services as inputs in the production process. However, services liberalisation policies undertaken by developing countries show varying impacts on services exports. Bangladesh should make a careful assessment of the areas where policy adjustments can be helpful.

- Shortage of skilled workers is a major challenge in Bangladesh including in the export-oriented services sector. Training of potential migrant workers can help them look for job opportunities with prospects of higher earnings, which can also help increase remittance inflows into Bangladesh. Sector-specific skill development as well as training in foreign languages can help diversify the country's overseas labour markets. It can also help migrant workers to look for employment opportunities in the sectors where labour shortages are more acute. Therefore, skill development for both domestic and migrant workers should be a priority for promoting services exports. There exist several government initiatives in this regard and these need to be strengthened further.
- The ICT sector is confronted with severe skills shortages. Reducing skills miss-match in the IT sector can help enterprises hire workers and professionals with the right academic preparation which would improve the industry export competitiveness. There is a need for a new and regularly updated curriculum for the engineering Institutes and IT training centres matching the skill types that the industry requires. While various training programmes are currently available, their effectiveness needs to be assessed with the objective of revamping their quality. A national-level monitoring mechanism can be established to monitor the quality of these training programmes.
- The ICT sector has massive export potential and it deserves enhanced policy support. After LDC graduation, it may not be possible for Bangladesh to continue with direct export support (e.g. cash assistance) targeting any particular sector. There is thus a window of opportunity for the next few years to boost the cash assistance support by increasing the rate from the current level of 10 per cent of export receipts to 20 per cent.
- Helping the IT sector professionals settle financial transactions online can encourage cross-border exports of professional services. Settling transactions using internationally recognized payment gateways is currently a challenge given the apprehension of money laundering. It may be possible to develop a local payment gateway for transferring funds that can be monitored thereby keeping a check on possible misuse.
- Developing high quality tourism facilities and infrastructure, including accommodation and other services, should be considered as a precondition for expanding the tourism exports. Investments from the private sector should be attracted to facilitate this. Attracting FDI for the eco-tourism parks and related tourist facilities should be considered a priority in this respect.
- More effective tourism promotional activities are required. Hosting carefully designed dynamic online platforms/websites containing all the necessary information can be helpful in this regard. Timely completion of large infrastructural development projects (including roads and highways) can be helpful in promoting tourism activities.
- Developing a proper roadmap in promoting export of migrant workers' services in the backdrop of a rising unemployment pressure should be a priority. This roadmap should

include strategies for diversification to move away from the labour markets currently characterised by less-skill intensive and lowly paid jobs to one with more skill-intensive and more remunerative employment. Amongst others, Bangladesh should be investing in developing skilled manpower in health workers and professionals for the country's own need in the domestic economy as well as for exporting migrant workers' services.

- There is the need for considering proactive policies to prepare Bangladesh's labour force according to the new trends and industry demands in international markets. Particularly, the demand for health-related professionals, e.g. nurses, is going to rise significantly because of the ageing populations in most of the global regions. To take advantage of this kind of unfolding circumstances, the capacity constraints to develop skilled workers must be addressed effectively. There is also a need for investing more in vocational and technical training programmes. Besides, securing international accreditation of Bangladeshi degrees could help our professionals seek employment opportunities abroad.