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Foreign Direct Investment and the Shipbuilding Industry: A Bangladesh Perspective

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Abstract

Traditionally, Bangladesh has been a shipbuilding country. Bangladesh had exported ships even in the seventeenth and eighteenth century. The modern shipbuilding industry started since the period in Bangladesh in mid 1950s, and has made some progress since then and also attracted foreign buyers. It took a number of years before the country could register its name as an ocean-going shipbuilder. The Bangladesh Shipbuilding Industry got a spurt in 2008 when a 2,900 DWT ocean-going ship was exported from Bangladesh. Bangladesh created a new history for the export sectors of the nation. Almost exclusively, the Ready Made Garment (RMG) has been the largest export sector in Bangladesh. There is both a necessity and opportunity for expansion to other sectors and to widen the export base. Shipbuilding is an opportunity, which can grow into a billion-dollar industry in a single decade. Analyzing the micro economic factors, present study describes the segment of the market where Bangladesh enjoys the highest advantage and to draw out a strategy for exploitation of the potential. The present study also identifies that attracting Foreign Direct Investment (FDI) is a necessity for exposure to market, infusing management as well as technology and much needed finance.

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1. Introduction

Bangladesh being a maritime country owns a long tradition of shipbuilding not only for the domestic market but also for foreign countries. With more than 200 rivers and a sea area of around 166,000 square km, the maritime cluster of the country possesses a multi-dimensional associate. The shipbuilding industry has been considered a prime component of the cluster. However, the industry has been mostly focused on the ships for domestic market basically serving in the inland and coastal trade which numbers more than 10,000. More than 200 shipyards located in different location of the country are involved in this tonnage generation of which some are of international standard having the capacity to export ships. A baseline study conducted by the Danish Embassy, Dhaka in September 2009 [1] identified

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that there are four shipyards in the country having a capacity to build class ship of small size of 10,000 DWT, whereas six more yards are in expansion process of accommodating such facilities. The same study also identified there are 13 yards who have postponed the expansion due to recession.

The shipbuilding history of Bangladesh is quite long. It is found that in the fourteenth century the famous tourist Ibne Batuta came to Bangladesh and in his way back he used a wooden ship built in Sonargaon near Dhaka, Bangladesh. There are several instances in history where it can be found that shipbuilding in Bangladesh has been an exporting industry for several centuries. Modern shipbuilding industry started in mid 1950s and made some progress. It took several decades before the nation could register its name as an ocean-going shipbuilder and attract foreign buyers. Bangladesh shipbuilding industry got a spurt in 2008 when a 2,900 DWT ocean-going ship was exported from Bangladesh. It created a new history for the export sectors of the nation.

Bangladesh is currently dependent almost exclusively upon Ready Made Garment (RMG) for export. There is both necessity and opportunities for expansions to other sectors and widen the export base. Shipbuilding is an opportunity, which can expand, to few billion dollars in a single decade. There is a need to identify the segment of the market where Bangladesh enjoys the highest advantage and to draw out a strategy for exploitation of the potential. In order to identify such area macro economic factor analysis have been conducted in this paper. Among other measures, attracting Foreign Direct Investment (FDI) is a necessity for exposure to market, infusing management as well as technology and much needed finance.

2. International Shipbuilding Market and Bangladesh

According to the United Nations Conference on Trade and Development [2], after passing a declining scenario in new shipbuilding order since the peak in 2008/09, for the first time the customer orders book have increased but very slightly during 2013. The excessive orders received during the booming period created a disproportionate (over) supply of tonnage and this might need some more years to adjust even as the world economy seems to recover to some extent. However, whatever the economic scenario of the world, the shipping world needs to replace its old tonnage with a new one. Around 53% of the total world fleet is showing an average age of more than 20 years among which the general cargo ship is covering the largest share. 57% of general cargo ship are more than 20 years old. Moreover the average size of this 20 years old group is 6330 Dead Weight (DWT) of which the general cargo ship is showing even lowest average DWT, which is 2917[2]. Therefore, there is a huge upcoming demand of small size general cargo or multipurpose ship. It is true that the containerization and port specialization is declining the demand of general cargo ship, however, 4.6%[2] of world tonnage share still shows its significance in world trade.

On the other hand, considering the four stages of shipping market cycle that are the trough, recovery, peak and collapse, the market is now lying somewhere in the trough stage as the freight market is still showing a very low mark in all segment of the shipping[2]. The ship building cycle analyzed by Stopford[3] shows the average duration is 9.6 years from a peak to another peak and the standard deviation is 6.4 years. It is almost eight years now since the last recession started in 2008 therefore, there may be cyclic recovery as well as boom in the coming years. This is a very general assumption but the time series data show that there will be a change in the cycle sooner or later. As soon as the recession is over, a rush of orders is expected. Actually, huge orders are expected even if there is no expansion of the economies and goods transportation does not increase. The expansion of economies, usually experienced after recessions, will put a further pressure. However, if Bangladesh has to utilize the opportunity, it is imperative to make necessary preparation.

Jon[4] stated shipbuilding as an attractive development tool in newly industrialized country and mentioned three points behind this. The first point is that shipbuilding is a medium technology industry, which helps the emerging country to utilize the cost advantage from its cheap labour and other inputs. The second point is the international aspects of shipbuilding. Since it is an export-oriented industry, the country could earn huge foreign currencies, which might strengthen its economy. The last point is the multiplier impact of this industry as it has a strong linkage with other emerging industries. Burns[5] observed nine key points that creates the competitive advantage over the other examining the world shipbuilding history. These nine elements are innovation and modernization, investment, production management, low cost covering labour, resource management and utilization, domestic steel industry, cheap currency, upstream and downstream linkages, government support and subsidies and regulatory framework. However, Burns[5] also highlighted that among other the low cost labour and government policy, cheap currency has a significant impact in attracting ship building. The evolution of world ship building analyzed by Stopford[3],

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