

Introduction

The history of indigenous shipbuilding in Bangladesh goes back a long way. It is one of the early industries developed in Bengal based on its old business of building boats and sea vessels. Bangladesh has a strong background in building ships since ancient times. Many countries of Asia and Europe regularly bought ships built in Chittagong. Bangladesh has a strong background in building ships since ancient times. It is quite natural in that Bangladesh has more than 200 rivers with a total length of about 22,155km plus a long coast line on the Bay of Bengal. It is little known today that Bangladesh was the center of building ocean-going vessels in Asia between the 15th and 17th century. In the early 19th century, the shipyards of Chittagong built many commercial ships of up to 1,000 tons and also British navy vessels that participated in the battle of Trafalgar in 1805. Due to this historic prosperous background and also a natural geographical advantage, there are presently more than 200 shipbuilding and ship-repair yards in Bangladesh.



Ship Building Industry in Bangladesh

Prospect of Shipping Industry in Bangladesh

The sea borne cargo growth is increasing 6-8% per year and demand of new shipbuilding is increasing at the rate of 3-4% per year (Khan, 2013). But the existing ship building industries are not in a position to handle this additional pressure. At the same time traditional ship building nations are burdened and as the rate of demand is increasing day by day, they have become selective in building new ships. They are not interested to build small ships of 25,000 DWT or less. So the ship owners, who are interested to build small ships of less than 25,000 DWT, had to look for alternative markets. For these reason, Bangladesh is a prospective market for international community. Considering the world market and internal market, it is assumed that Bangladesh has a bright future to elevate herself as a shipbuilding nation in the world market and surely that factor should encourage more Bangladeshi entrepreneurs to come forward in this business. The shipbuilding indus-

try here hopes that if the global economy recovers, then it offers tremendous potential. Experts say more than 50% of the world's ships are more than 20 years old and need replacing. More importantly, they say countries such as Japan, South Korea and China are building very big, specialized and hi-tech ships, and they are not interested in constructing smaller vessels. Globally, this small and medium-sized ship market is worth around \$200 Billion. If Bangladesh can get 1% of this market, then it amounts to \$2 Billion. Even though several problems are involved, with the convenient geographical advantage together with availability of less expensive technical personnel, abundance of skilled and semi-skilled workforce and long past heritage, Bangladesh has a very good opportunity to become a shipbuilding nation by 2016. In Bangladesh, the long coastline and mouths of rivers falling to the sea offer excellent geographical endowment for development of shipyards and shipbuilding zones. For these reason Japanese shipyard companies have huge opportunities to business in Bangladesh. Bangladesh's shipbuilding sector is deemed competitive because of a favorable business environment.

Existing Situation

Bangladesh's domestic steel production is insufficient to meet national demand, which is estimated at 5 million tons a year. The country has approximately 250 to 300 rolling mills currently in operation. Their production—essentially Bangladesh's domestic steel output—is estimated at around 2.2 million tons a year, with sales valued at \$1.2 billion. Current construction consumption of bars and rods is 2 million to 2.5 million tons per year. The SBRI output in Bangladesh, either plate or melting scrap, mainly feeds the smaller operators who produce perhaps 70 percent of re-rolling mill output in the form of lower-quality 40-grade rod. These smaller mills are principally located in Chittagong and Dhaka. Using recent annual average of 1–1.25 million tons of scrap output from Chittagong's ship breaking yards, it estimated that Bangladesh's SBRI contributes significantly to the country's steel production – perhaps up to 50 percent, This downstream demand for steel scrap has been a major driving force in the growth of the SBRI in Bangladesh. The summary of the Bangladesh's shipbuilding industry is below:

● Number of Companies	:	130
● Active player	:	18
● Number of Yards	:	79
● Active Yards	:	61
● Under Construction	:	08
● Closed	:	09
● Proposed	:	01

Source: Bangladesh Shipbuilding Association, 2013

Industry Structure, Market Demand, and Performance

At the present time some 40 ship breaking and recycling yards are in operation in Bangladesh. In the past decade, the number of ship recyclers has typically fluctuated between 30 and 40. Some 8-10 of

these are larger, diversified companies, which are integrated upstream into oxygen plants and downstream into re rolling mills. Ship breaking yards are in close proximity to both larger and smaller re-rolling mills that produce steel rods, bars, angles, and channels, principally for use the construction industry. In addition, other goods from ships from furniture to electrical generators are recycled and used intensively in Bangladesh, perhaps to a greater degree than in the other south Asian countries. Table 1 shows year-wise contract for number of vessels in world shipbuilding market and the share received by some major shipbuilding countries and Bangladesh during 2001 to 2008. The table shows how China and

Korea takeover Japan after 2004. Bangladesh got a jump in receiving orders in 2007 and got a little slack afterwards due to the world recession. Very recently few Bangladeshi shipyards have received orders from the foreign ships' buyers. Ananda Shipyard exported her first ship to a Danish company on May 2008. And with this great event, Bangladesh has successfully exported her first ocean going ship to a high end market like Denmark competing with giant competitors like Chinese and Vietnamese ship builders. In December 2008 Ananda Shipyard exported six classed ferries and boats, including three aluminum catamaran passenger vessels, securing orders through international tender under World Bank. Ananda Shipyard has also signed contract with Germany, Denmark and Mozambique to build more than a dozen ships with the value of US\$ 300 million.

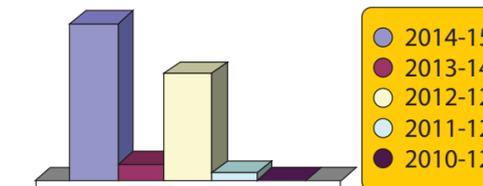
On the other hand, few more quality shipyards like, Western Marine and HighSpeed have also received orders to build dozens of ships from Germany, Netherlands, Japan, Denmark and Finland costing approximately US\$ 300 million. There is a strong opportunity to attract considerable foreign investment on shipbuilding by way of utilizing skilled and low wage workers. As world ship owners are slowly but surely entering into Bangladesh with this prospect, it is expected that more qualitative shipyards will be surfaced in Bangladesh.

Market Analysis

Traditional market leaders of world shipbuilding industry are over-booked mainly for construction of large ships and they are not interested in building small scale ships leaving a golden opportunity for countries like Bangladesh which can make ships up to 12,000 DWT (dead weight tonnage). High speed Shipbuilding and Engineering Company Ltd, the country's oldest shipbuilder, has already signed the deal with Groningen-based Hollander Scholtens (HS) to build 9,000 tones capacity eight ships by April 2012. High speed Shipbuilding and Engineering Company Ltd. the country's oldest shipbuilder specialized in building small riverine cargo and passenger vessels was will be the third company to join the boom in ocean-going shipbuilding industry.

Ananda Shipyard and Slipways Limited based at Meghnaghat and Western Marine in Chittagong have already bagged export orders worth \$280 million since the country emerged as a new global destination of shipbuilding last year. The latest export order came, as Bangladesh has become a new destination for construction of small sea vessels, with an annual market of \$400 billion, as traditional shipbuilding nations such as South Korea, Japan and China now focus on large vessels. An expert said the latest order proves that the country is very much on the path to become a major ship-builder.

Export Trend of Ship Building Industry



Government Policy

Government policy in Bangladesh is to encourage and attract foreign investments. Bangladesh has a quite well defined FDI (Foreign Direct Investment) attracting policy. All benefit available for a national entrepreneur is equally available to foreign investors. Bangladesh is looking forward to having investment from abroad side by side to that of national private sector investments. Diversifications of exports and expansion of export basket is an integral part of the long term adopted industrial and economic policy. Bangladesh government is keen to support a fast healthy growth of shipbuilding industries. Shipbuilding has been declared as a "Thrust Sector". Green channel port clearance system of imports of raw materials for export shipbuilding has been accorded. Bangladesh government is already keenly initiating various action plans to overcome the aforementioned weaknesses. To compete with other Asian shipbuilding giants in the sector, Govt. may allow Bangladesh ships exporters a subsidy to the tune of 20%. Subsidy will help to get a foothold in the international market. Bangladesh is willing to extend all necessary supports. In this regard.



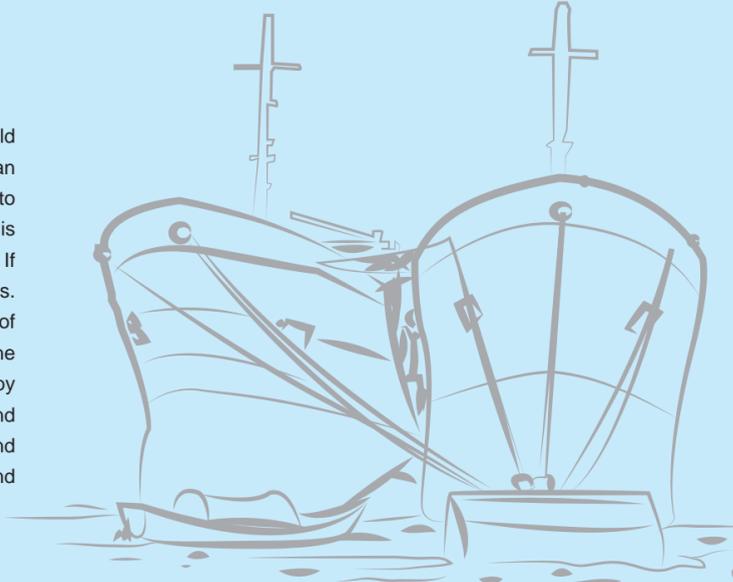
Challenges to be overcome

Bangladesh is a very new entrant in the international shipbuilding. There are weaknesses which must be overcome by appropriate steps to meet challenges and be competitive. A glimpse of the weaknesses is pictured below:

- Scarcity of capital
- High financing cost
- Backwardness in technology
- Inadequate electric supply
- Weak diplomacy
- Inadequate management pool for expanding shipbuilding industries
- Lack of basic design abilities
- Longer lead time in material mobilization
- Lack of comprehensive skill development in various shipbuilding traders
- No policy body for advising government on shipbuilding
- Subsidies/ support in various shipbuilding countries

A number of shipyards in Bangladesh have the capacity to build vessels for international markets. At the moment, they can produce ships of about 10,000 tons and they are working to expand their facilities to build bigger vessels. The industry is aiming to win orders of more than \$2 billion in the next five years. If that happens, it is expected to create many thousands of jobs. Bangladesh has more than 100 shipbuilding yards, with most of them serving the domestic market. Experts say nearly 70% of the country's cargo and 90% of total oil products are transported by small ships, cargo vessels and tugs through its coastal and inland waterways. Hundreds of thousands of people use ferries and steamers to travel from one part of Bangladesh to another, and most of these vessels are built in the country.

Before becoming a ship building nation, there are four mandatory conditions in order to produce ocean-going vessels: international standard shipbuilding practice, quality management system, coastal and riverine country, and infrastructure with proper sheds and skilled manpower. Bangladesh scores full marks on all these counts. With global shipbuilding orders of very large vessels increasing everyday, a market is emerging in Bangladesh for shipbuilding yards that can concentrate on producing smaller sea-going vessels as the industry leaders like China, South Korea and Vietnam go for the larger container ships, bulkers and tankers. According to shipbuilding experts in this country and abroad, Bangladesh can emerge a surprise competitor in the small to medium ocean-going vessels market. This particularly applies to shipyards that until now were best known for scrapping and breaking ships, and not building them.



Why Bangladesh

- Bangladesh offers the most liberal FDI regime in South Asia. There is no limit on equity participation and repatriation of profits and income.
- Tax holidays and accelerated depreciation is also allowed.
- Businesses exporting at least 80% of goods or services qualify for duty free import of machineries and spares and bonded warehouse facility.
- Cash incentives for selected products.
- Equal treatment for local and foreign investors.
- Foreign investment is protected from expropriation and nationalisation by the 'Foreign Private Investment (Promotion & Protection) Act 1980'.
- Complete duty and quota free access to EU, Japan, Canada, Australia and most other developed countries.
- Investors can repatriate dividend and capital at exit.
- Young and energetic work force, nearly 60% of the total population is economically active and almost a million graduates enter the workforce annually.
- Bangladesh is a signatory to ICSID, UNCITRAL, OPIC, MIGA, WAIPA, WIPO and WTO.

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