



Aditya Gahlaut

Bangladesh's export needs to diversify to mid-tech sectors

Says top HSBC official in an interview with *The Daily Star*

AHSAN HABIB

Bangladesh should widen its export base within and beyond the ready-made garment industry by moving into mid-tier technology sectors, said Aditya Gahlaut, head of Asia for Global Trade Services at HSBC.

In an interview with *The Daily Star* during his recent visit to Dhaka, he said exports are vital to the economy, not only for the foreign currencies but also for employment.

He said the country now remains heavily dependent on cotton garments, while global demand is shifting towards man-made fibres.

"There is obviously a need to diversify within the ready-made garment space, and there are markets which are unexplored, whether it is Southeast Asia or the Middle East," Gahlaut said.

He argued that Bangladesh, like many other Asian economies, must look beyond garments and develop low to mid-tech industries. "Because, firstly, you have a comparative advantage in this sector and secondly, it generates employment."

Sectors such as footwear, toys, machine tools, agricultural products and bicycles, he noted, can provide

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both jobs and export growth if given proper attention.

As the region's largest trade bank, HSBC helps clients diversify their businesses. But Gahlaut pointed out high import tariffs, which he said had long stifled innovation in South Asia.

"If you have a high import tariff and you protect domestic industry, what also happens is you prevent domestic industries from becoming efficient from innovating because they know they have some sort of protection."

He said tariffs are an important source of government revenue, yet lowering them will ultimately make local firms more competitive.

He pointed to China as an example.

TAKEAWAYS FROM INTERVIEW

Export diversification	Trade policy	Global trade trends
<p>Bangladesh must expand beyond garments</p> <p>World demand is shifting from cotton to man-made fibres</p> <p>Country remains heavily dependent on cotton garments</p> <p>Big export opportunities lie in Southeast Asia and the Middle East</p>	<p>High import tariffs are hurting innovation and efficiency</p> <p>Free trade agreements are crucial as LDC graduation looms</p>	<p>Supply chains now prioritise resilience and sustainability alongside cost</p> <p>'China Plus One' strategy opens big opportunities for Bangladesh</p> <p>Services trade is growing twice as fast as goods trade, driven by digital use</p>

"If you look at how China grew its manufacturing, it first focused on backwards participation, where producers import intermediate inputs and then use them to produce the final goods and then export."

Over time, Chinese companies mastered the technology to make those inputs themselves and shifted towards forward participation, focusing on intermediate goods while final assembly moved abroad.

Turning to Bangladesh's upcoming graduation from the least developed country club next year, he said free trade agreements are essential if the nation hopes to sustain growth, especially in garments.

On the global outlook, Gahlaut said tariffs have become central to short-term economic discussions. "We are now at a position where we see the dust settling a bit with multiple countries' reciprocal rates already announced."

Although uncertainty remains high since not all sectoral tariffs have been disclosed, he said. "When there is uncertainty, the one thing businesses do not do or corporates do not do is invest."

But he argued that shifts in world trade had begun long before US reciprocal tariffs came into play.

"Twenty years back, a corporation's decision to purchase from somewhere was based on one parameter, which was cost. It has changed during the

last five years; supply chain decisions are made based on three parameters now. Efficiency is still one of them. Resilience is the second thing. The third thing is sustainability from a different lens."

He said supply chains are also being reshaped by the "China Plus One" strategy, where firms reduce reliance on China by expanding into other countries. "That is a big opportunity for corporations in a lot of markets, including Bangladesh."

Another change, he said, is demand-side resilience, as companies try to position themselves closer to consumers. This, in turn, will fuel growth in partnerships, joint ventures and contract manufacturing.

He also mentioned the rapid expansion of trade in services, which has been growing twice as fast as goods trade.

"As people are converting a good, a physical product, into a service offering. It is just how people now have started to consume things."

For instance, Gahlaut said people are not buying CDs anymore, but they subscribe to Apple Music, Spotify, etc. Ten years from now, people will consume a car instead of buying it. That is how the younger generation operates.

While tariffs might dominate the headlines, long-term trends such as digitisation, consumer behaviour and sustainability would continue to drive

change, he added.

Once uncertainty clears, companies will have to diversify into new markets and build new relationships. European and US firms want to remain linked to Asian supply chains, while Asian companies themselves are looking outward, Gahlaut said.

"In this situation, our ability to support them is much higher."

HSBC, he said, operates in 18 Asian countries and accounts for 90 percent of their trade flows. It is the region's largest trade bank, more than twice the size of its nearest competitor.

"We are pretty strong in trade, and for us this is actually playing in our hands."

Banks, he said, have an important role to play in helping clients navigate uncertainty. Demand for receivable finance is already rising as companies seek to protect themselves against buyer risk.

HSBC has also invested heavily in digital solutions, with most transactions now processed online. Tools such as HSBC TradePay and Supply Chain Finance cut paperwork and speed up funding.

Digital lending based on e-commerce data is another area the bank has expanded, making cross-border trade faster, safer and more inclusive, he said.

HSBC's profit in Bangladesh rose almost 9 percent year-on-year to Tk 1,086 crore in 2024.

When credit goes wrong

MAMUN RASHID

My first real exposure to credit came when I joined ANZ Grindlays corporate banking in the early nineties. Later, as head of restructuring and recovery at Standard Chartered during the Asian financial crisis, I faced the reality of what happens when loans turn sour. At Citibank, where I became a senior credit officer, I learned that no amount of training replaces the discipline of sound assessment, monitoring and timely action.

Those years across Asia and Africa taught me one enduring truth: credit fails for the same reasons, time and again. Now, with the large loan restructuring committee formed by the central bank, I am seeing newer issues such as repression of businessmen during the previous regime, high interest rates, exchange rate volatility and the energy crisis. I was surprised to see how many large businessmen were tied to politics.

One of the most damaging patterns has been the restructuring of letters of credit into forced loans. In Bangladesh and elsewhere, this has often become a tool for embezzling money abroad rather than supporting trade. Once misused, these facilities are rarely recovered, leaving banks weakened. Political influence compounds the problem. I have seen loans in Pakistan collapse under the weight of name lending, and Bangladesh has suffered the same fate as politically connected borrowers take funds without accountability. When connections replace fundamentals, defaults are inevitable.

Foreign exchange risk is another recurring culprit. In Indonesia, I saw loans in dollars encashed quickly, only for the rupiah collapse to make repayment impossible. In Bangladesh, the taka devaluation has created the same distress, with obligations multiplying while repayment capacity shrinks. Add to this the absence of succession planning in many businesses. Too often, enterprises built entirely around one individual collapse after the owner dies or steps aside.

But the most basic failure remains poor need assessment. If a project needs Tk 30 and a bank provides Tk 3,000, the excess will be wasted or diverted. I often compare it to toothpaste: once squeezed out, you cannot push it back in. Lending should align precisely with the borrower's trade cycle and genuine requirements, not with misplaced optimism or pressure to disburse.

Other failures, though less visible, are just as destructive. In East Africa, I saw borrowers exploit poorly structured facilities to funnel funds into unrelated ventures. In Bangladesh, industrial loans were diverted to the stock market with disastrous consequences. Across India and Taiwan, tenor mismatches and fierce competition led banks to ignore collateral gaps and cashflow weaknesses. In every case, weak internal cash generation, officer corruption or a failure to enforce collateral turned risks into losses.

Compliance oversights also ruin businesses. In India, projects were shut down because of environmental violations or faulty land titles, making plants unviable and loans unrecoverable. These lessons are just as relevant in Bangladesh.

Not all is bleak. Regulators and reform projects, especially those supported by the World Bank, have improved monitoring, differentiated risk-based pricing and strengthened risk management guidelines. Yet much more is needed. If banks insist on lending to weaker segments, pricing must reflect inherent risk, or governments must step in with subsidies to keep credit flowing responsibly.

I have seen enough crises to know that learning from mistakes is the only way forward. Bangladesh must commit to rigorous need assessments, freedom from political interference, and stricter monitoring of foreign exchange exposure, collateral and compliance. Credit must serve real businesses, not inflated egos or political favours.

As for whether to reconstruct weaker credit to keep firms afloat, even if this frustrates sound borrowers, my view is that it depends. It depends on how distressed businesses plan to recover, their projected cash generation, ability to provide additional security, willingness to shed loss-making units and, above all, their capacity to manage the company professionally.

And we must also ask openly: why do so many businessmen want to enter politics?

The writer is a former banker.



India says US trade talks are still going on

REUTERS

India's foreign minister said on Saturday that trade negotiations with Washington are continuing but there are lines that New Delhi needs to defend, just days before hefty additional US tariffs are due to hit.

Indian goods face additional US tariffs of up to 50 percent, among the highest imposed by Washington, due to its increased purchases of Russian oil. A 25 percent tariff has already come into effect, while the remaining 25 percent is set to be enforced from August 27. A planned visit by US trade negotiators to New Delhi from August 25-29 has been called off, dashing hopes that the levies may be lowered or postponed.

"We have some redlines in the negotiations, to be maintained and defended," Indian Foreign Minister Subrahmanyam Jaishankar said at an Economic Times forum event in New Delhi, singling out the interests of the country's farmers and small producers.

India-US trade talks collapsed earlier this year due to India not agreeing to open its vast agricultural and dairy sectors. Bilateral trade between the world's largest and fifth largest economy is worth over \$190 billion.

"It is our right to make decisions in our national interest," Jaishankar said.

Analysts at Capital Economics said on Friday that if the full US tariffs come into force and stick, the hit to India's economic growth would be 0.8 percentage points both this year and next.

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Weaponising US economic might will weaken it



REUTERS, New York

American trade warriors may be keen to claim early victory. Tariff revenue has surged, 131 percent year-over-year to reach \$127 billion by July. The trade deficit shrank in June to its smallest margin since late 2023. On Thursday, Washington and Brussels clarified new terms on everything from duties on cars, and pharmaceuticals to major purchase pledges. The gambit is that the might of US consumption is too tantalizing for governments and corporations abroad to ignore. Levies, investment promises, and an edge for homegrown industry are the fruits of this leverage. The fiscal reality of President Donald Trump's hard-nosed approach, though, will sap Uncle Sam's strength.

The United States is an economic colossus, accounting for roughly 30 percent of global consumption, an estimate derived from Bureau of Economic Analysis, and World Bank. A yawning trade deficit in goods - about \$86 billion in June - is the flipside, an enormous opportunity for exporters worldwide. Tariffs and bespoke, country-by-country investment deals effectively weaponize this dynamic: pay your way, or

lose access.

An oddball patchwork of duties and pledges, like the European Union's declared intention to buy \$750 billion of US energy products and \$40 billion of artificial intelligence chips, is the tenuous result. The administration claims \$5.1 trillion in total promised inflows, says PolitiFact, with heavy caveats. To boot, it is attacking regulations that are bugbears of corporate America, extracting a promise of "flexibilities" from Europe

on its planned tax on carbon-intensive imports and nudging Canada to drop a digital services fee.

This aggressive strategy comes at a price. The average effective tariff rate stands at a level last seen in 1933, while the total customs-duty take could reach 2.6 percent of gross domestic product, according to Yale's budget lab. This is, effectively, a tax that will dampen consumption, raising prices and trimming near-term growth, Yale reckons.



Forklifts move shipping containers at PortMiami in Miami, Florida. The United States is an economic colossus, accounting for roughly 30 percent of global consumption.

For now, US corporations seem fine. The blended net profit margin of S&P 500 Index constituents reached 12.8 percent in the second quarter, topping the five-year average, according to FactSet. But seven industries, including energy and real estate, posted year-over-year declines.

Consumer spending is already softening, flat year-over-year on an inflation-adjusted basis in June, per BEA data. That may restrain attempts to pass on rising costs, even as the Institute of Supply Management's manufacturing price index notched among its highest readings of the past three years in July.

When consumers are too stretched for companies to raise prices without losing sales, earnings will suffer. It's no accident that open trade has undergirded Uncle Sam's economic strength. A turn away from it could even backfire: European business activity hit, a 14-month high in July as firms hedge against US uncertainty. Tariffs might yet prove a tax on the engine of American exceptionalism.

The US and European Union released a joint statement on August 21 detailing the framework for their recently struck trade deal. The allies committed to applying the higher of either the Most Favored Nation rate or a 15 percent tariff on goods originating from the EU, while the US agreed to caps on additional tariffs implemented under Section 232 for industries such as lumber, semiconductors, and pharmaceuticals.

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