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## **JAPAN-BANGLADESH ECONOMIC RELATIONS: CHALLENGES AND OPTIONS**

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### **Abstract**

The core of Japan-Bangladesh economic relations is built on Overseas Development Assistance (ODA) and trade, and, to some extent, on Foreign Direct Investment (FDI). Japan, since 1992, has become the largest ODA provider to Bangladesh. The ODA is still the most significant part of Japan-Bangladesh economic relations. Even during the 1970s, the total volume of trade between the two countries has been remarkable. However, there has not been any significant rise in the volume of trade in real terms. A similar trend could be observed in Japanese investment in Bangladesh. While Japanese investment in Bangladesh is already considerable, no FDI from Japan has been recorded since 2001. Some adverse factors are also likely to gradually reduce Japanese economic assistance to Bangladesh. The challenges facing Japan-Bangladesh economic relations are inefficient utilisation of Japanese assistance, lack of competent organisational framework and weak project implementation process on the part of Bangladesh government. These are compounded by global economic recession, lessening of Japanese interest in South Asia, curtailment in Japanese ODA disbursement and other factors. While Japan's aid has been of high quantity, Bangladesh's capacity of aid utilisation needs substantial improvement. Besides, increasing exports to Japan and creating FDI friendly environment are important tasks. It is in this context

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that the present paper attempts to analyse the current Japan-Bangladesh economic relations.

## 1. Introduction

The transformation of Japan from a war torn economy to the world's second largest economy is literally spectacular. Japan has become the largest donor of Overseas Development Assistance (ODA) and the largest creditor to the world. It has also got the largest pool of financial and investment fund. With its spectacular growth in industry and technology, Japan has been sharing a major portion of global trade. All these contributed to the emergence of Japan as one of the significant development partners of the developing nations, including Bangladesh. In fact, Japan occupies an increasing importance in Bangladesh's foreign policy, especially in its external economic relations.<sup>1</sup> Ever since the recognition of Bangladesh by Japan on February 10, 1972, both countries have consistently maintained friendly relations and mutually beneficial economic cooperation.

The core of Japan-Bangladesh relations is built mainly on economic assistance and trade, and, to some extent, investment. Being the largest aid donor and a leading economic partner of Bangladesh, the impact of Japanese assistance is profound on almost all aspects of the country's development and social transformation. Japan, since 1992, has become the largest ODA provider to Bangladesh and it is still maintaining that position by extending all-out cooperation in infrastructure and socio-economic development. Sectors such as power, fertiliser and telecommunication have received considerable assistance from Japan. It is important to note that roughly 13 per cent of national power generating capacity, 67 per cent of the fertiliser production capacity of the country and nearly 50 per cent of telephone capacity in greater Dhaka area are installed through utilising Japanese assistance.<sup>2</sup>

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<sup>1</sup> A. K. M. Abdus Sabur, "Foreign Policy of Bangladesh: Challenges in the 1990s", *BIISS Journal*, Vol.12, No.4, 1991, p. 483.

<sup>2</sup> Outline of Japan's ODA to Bangladesh, available at: [http://www.mofa.go.jp/policy/oda/region/sw\\_asia/bangla\\_0.pdf](http://www.mofa.go.jp/policy/oda/region/sw_asia/bangla_0.pdf), accessed on September 25, 2007.

Some challenging factors, however, are likely to gradually reduce economic support from Japan, which can influence the overall economy of Bangladesh. The challenging factors are inefficient utilisation of Japanese assistance, lack of competent organisational framework, weak project implementation process, world economic recession, curtailment in Japanese ODA disbursement, and any possible reduction in Japanese interest in South Asia. While Japan's aid has been of high quantity, Bangladesh's capacity of aid utilisation needs substantial improvement in the future. Besides, increasing exports to Japan and attracting Foreign Direct Investment (FDI) from the Japanese investors are also of crucial importance.

It is in this context that the present paper attempts to analyse the current Japan-Bangladesh economic relations with a focus on the challenges faced by and options available to the country. The paper consists of five successive sections. The ongoing introduction constitutes the first section. The second section attempts to find out the imperatives for Japan-Bangladesh economic relations. Existing economic relations between Japan and Bangladesh are discussed in the third section. The fourth section explores a set of challenges faced by the Japan-Bangladesh economic relations and various options to meet these challenges. Finally, an attempt would be made to indicate some outlook for the future.

## **2. Imperatives for Japan-Bangladesh Economic Relations: An Overview**

In international relations, inter-state behaviour may manifest itself in three types of relations, namely, conflict, competition and cooperation. While conflictive and competitive behaviours are caused by a complex web of factors, the one of cooperation simply flows from the economic commitments of the states to cooperate with each other in an atmosphere of mutual trust and understanding. The factor that catapults cooperative relations is the expectation for tangible gains out of constructive interaction. Keeping this in mind, one can ask: what are the expected gains for both Japan and Bangladesh out of their mutual cooperation? The following account makes an attempt to address this question.

As already mentioned, the economy of Japan grew significantly in the post-World War II period. To maintain its spectacular growth, Japan requires raw materials and manpower. However, as a resource starved and labour scarce country with a higher proportion of old people in its population, Japan depends on external sources for these. In this regard, this Asia Pacific country needs cooperation with its neighbours of Asia. Although Bangladesh, as a distant neighbour of Japan, is not in a position to fulfil the Japanese demand for raw materials, it could export manpower from its vast pool of surplus workforce to Japan. In addition, Japan can take the advantage of cheap workforce of Bangladesh. One way of doing this could be relocation of selective Japanese labour-intensive industrial units to Bangladesh. Another way could be outsourcing of selective labour-intensive jobs to Bangladesh. Apart from this, Bangladesh is already an attractive market for Japanese exports with a balance of trade that is constantly favourable to Japan. Also another compelling factor prompts Japan to seek economic cooperation with developing nation like Bangladesh. As protectionism grows significantly in European and the US markets, sustained economic growth of Japan is likely to depend on a prosperous neighbourhood.<sup>3</sup> Hence, with its liberal investment policy, Bangladesh has become a destination of Japanese investment.

In contrast, Bangladesh, soon after its birth, needed economic assistance from the developed countries to rebuild its war-ravaged economy. In this regard, Japan emerged as one of the countries that rendered significant assistance to Bangladesh. In course of time, with considerable aid and grants, Japan turned into a leading development partner of Bangladesh. Also, Bangladesh can tap the potential by exporting its products to the Japanese market, which is vast in terms of purchasing power. At the same time, for Bangladesh, Japan is also a source of learning and inspiration. Furthermore, technologically highly developed, Japan provides Bangladesh with technical expertise.

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<sup>3</sup> A. K. M. Abdus Sabur, *op. cit.*, p. 484.

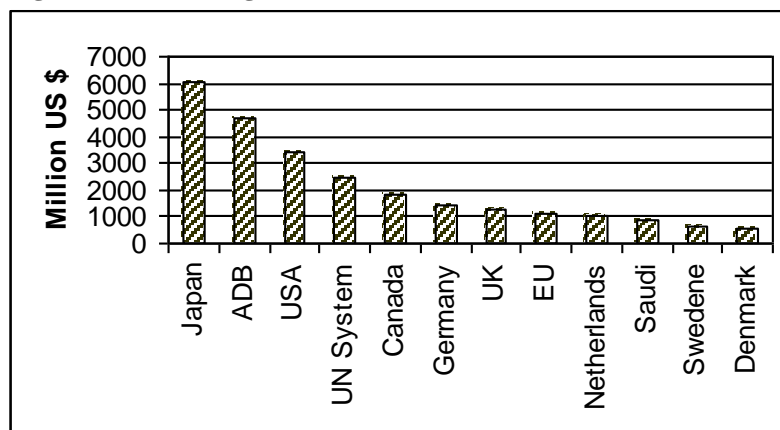
### **3. Existing Economic Relations between Japan and Bangladesh**

The bilateral economic relations between Japan and Bangladesh started in 1972. The components of existing economic relations between the two countries are Overseas Development Assistance (ODA), trade and Foreign Direct Investment (FDI). Apart from these three components, employment opportunities for the Bangladeshi expatriates to Japan remain a significant potential component of economic relations between the two countries.

#### ***Overseas Development Assistance***

ODA is the most important component of the Japan-Bangladesh economic relations. Since 1972, Japan has been providing the ODA to Bangladesh. Over the three decades (1972 to 2002), Japan has been the top ODA provider to Bangladesh among the DAC (Development Assistance Committee) countries. Moreover, Japan even provided more ODA to Bangladesh than some multilateral organisations like Asian Development Bank (ADB) and European Union (EU) (see Chart 1). In the forms of loan assistance, grant aid and technical assistance, Japan has been disbursing the ODA (see Table 1) to increase economic growth and social development of Bangladesh. Thus, Japan has always been an important development partner of Bangladesh.

**Chart 1: Net Disbursement of ODA of the DAC Countries/Multilateral Organizations to Bangladesh (1972-2002)**



Source: *Weekly Market Review*. No.166 (April), 2007, Dhaka: Asset and Investment Management Services of Bangladesh.

**Table 1: Japan's ODA to Bangladesh (1995 to 2004)**

Year	(In US \$ million)		
	Loan Assistance	Grant Aid	Technical Assistance
1995	195.5	190.1	12.3
1996	0	192.5	14.9
1997	141.5	220.8	17.3
1998	0	183.1	17.3
1999	152.2	270.1	19.3
2000	148.5	213.6	22.4
2001	0	194.0	36.8
2002	85.4	228.2	33.3
2003	0	12.8	24.4
2004	105.2	19.6	20.9
Cumulative amount	5314.8	4198.0	431.9

Source: Loan assistance and grant aid is aggregated on the basis of the date of the Exchange of Notes (E/N). Technical assistance is JICA-disbursement based.

During 1995-2004, out of the total Japanese ODA to Bangladesh, loan assistance comprised 52 per cent.<sup>4</sup> Japan has been

<sup>4</sup> Outline of Japan's ODA to Bangladesh, *op.cit.*

providing loans to Bangladesh on concessional terms. The interest rate is 1 per cent with a repayment period of 40 years. Japan has been extending loans mainly in the areas of infrastructure, electricity and power sector.<sup>5</sup> On the other hand, Japan has been providing grant aid in the areas of agriculture, medical services and disaster management. The policy of grant aid is guided by the following considerations: the demand for resources in the country, the capacity to absorb aid and the ability to service the debt.<sup>6</sup> Under these considerations, Bangladesh has received the largest amount of Japan's grant aid (roughly 55 per cent) in the form of debt relief.<sup>7</sup> Apart from loan assistance and grant aid, Japan has been extending technical assistance in the form of technical program. Japan has trained 4,722 trainees and has dispatched 1,089 experts to Bangladesh under the program of Japan Overseas Cooperation Volunteers (JOCV).<sup>8</sup> Besides, Japan has consistently emphasised on Human Resources Development (HRD) of Bangladesh. In effect, mid-level government and non-government officials and students of Bangladesh have been getting scope of training in different fields in Japan.

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<sup>5</sup> Japan has already completed the feasibility study for the construction of the Padma Bridge and assured to assist US \$120 million jointly with the International Monetary Fund and the World Bank. In addition to this, Japan has been examining the necessity of a deep-sea port and construction of subway or monorail to improve the public transportation of Dhaka city. Japan recently has approved US \$ 324 million as loan assistance for the development of New Haripur power plant (360 mw), Dhaka-Chittagong railway and small-scale water resources projects. See, "\$324m Japanese loan aid for three projects", *The Daily Star*, December 11, 2007.

<sup>6</sup> Country Assistance Program in Bangladesh, *Embassy of Japan in Bangladesh*, May 2006, available at: <http://www.bd.emb-japan.go.jp/en/assistance/assistanceProgram.html>, accessed on December 21, 2007.

<sup>7</sup> Monir Hossain Moni, "Japan-Bangladesh Economic Partnership: Focus on Aid, Trade and Investments", available at: <http://isq.sagepub.com/cgi/content/refs/43/4/395>, accessed on November 25, 2007.

<sup>8</sup> *Ibid.*

### Trade

Bilateral trade relations between Japan and Bangladesh started with a set of export and import items. The major export items of Bangladesh are fruits and vegetables, textile and textile articles, raw skin and hide, and footwear. On the other hand, vehicles and transport equipments, steel and metal, and chemicals are the major import items of Bangladesh (see Table 2).

**Table 2: Bangladesh's Major Items Traded with Japan in 2004**

Export of Bangladesh to Japan	Fish and crustaceans	Raw hides and skin	Textile and textile article	Footwear
	Value = \$18,806	Value = \$17,703	Value = \$14,355	Value = \$5732
	Share = 3.57%	Share = 3.36%	Share = 2.72%	Share = 1.07%
Import by Bangladesh from Japan	Vehicles and transport equipment	Base metals and articles of base metal	Product of chemical or allied industries	
	Value = \$210.64m	Value = \$99.72m	Value = \$18.90m	
	Share = 38.27%	Share = 18.93%	Share = 3.59%	

**Source:** Extracted from Import Payments and Export Receipts, *Bangladesh Bank*, 2006.

In 1977, Bangladesh's export to and import from Japan were US\$12 million and US\$80 million respectively.<sup>9</sup> In 2007, Bangladesh's export to Japan is US\$147.47 million, whereas its import from Japan is US\$752.16 million.<sup>10</sup> Although the volume of export to and import from Japan has been far ahead compared to that of the initial stage of trade relations, trade basket has been one-way traffic in favour of Japan (see Chart 2). Despite having GSP (Generalised System of Preferences) facilities that allow duty free

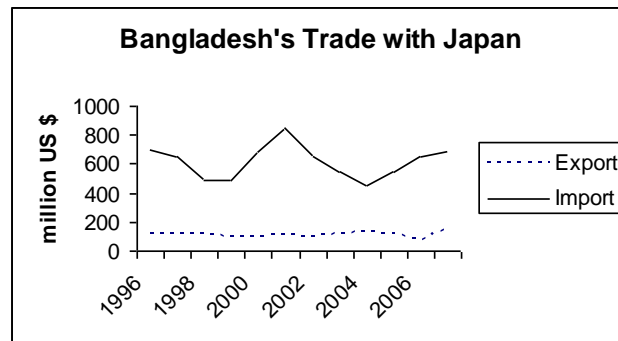
<sup>9</sup> Raisul Awal Mahmood and Anup Chowdhury, "Emerging Pattern of Bangladesh's Economic Relations with Japan", *BISS Journal*, Vol. 15, No. 1, 1994, p. 17.

<sup>10</sup> Direction of Trade Statistics Yearbook, 2007.



access of most Bangladeshi products to Japan, there has not been any significant rise in the trade volume of Bangladesh.<sup>11</sup> Even after that, Japan has become an important export destination for the Bangladeshi commodities.

**Chart 2: Bangladesh's Trade with Japan (1996-2006)**



**Source:** Author's calculation based on collected data from Export Receipts, *Bangladesh Bank*, 2007.

#### ***Foreign Direct Investment***

Japanese Foreign Direct Investment (FDI) to Bangladesh started in 1977 and reached a significant proportion only in the late 1990s. During the period of 1997 to 2004, the cumulative amount of Japanese FDI to Bangladesh is US\$18 million but no FDI from Japan has been recorded since 2001(see Chart 3).<sup>12</sup> This reflects that the total inflow of Japanese annual private foreign investment to Bangladesh has been meagre amount with an average of US\$0.5 million.<sup>13</sup>

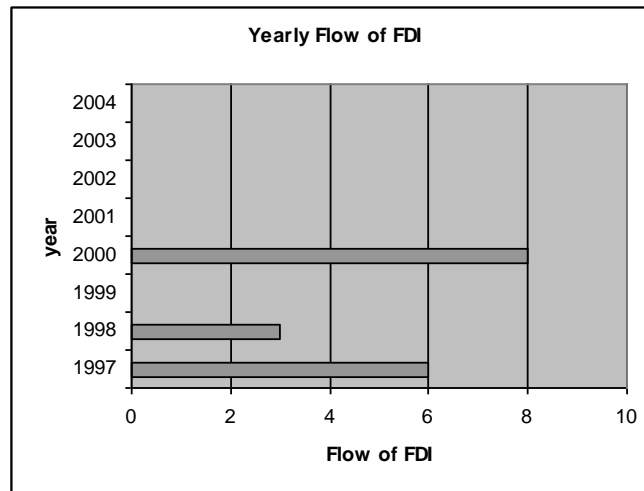
<sup>11</sup> Dr. Abul Kalam, "Japan-Bangladesh Ties: An Analytical Study", *Regional Studies*, Vol. XII, No. 4, Autumn 1994, p. 65.

<sup>12</sup> Available at <http://www.mof.go.jp/english/elc008.htm>, accessed on September 29, 2007.

<sup>13</sup> *Ibid.*

**Chart 3: Japan's Onward FDI to Bangladesh**

(In US \$ million)



**Source:** Available at: <http://www.mof.go.jp/english/elc008.htm>, accessed on September 29, 2007.

The main area of Japanese investment to Bangladesh is the Export Processing Zones (EPZs). More than 21 Japanese private companies inside the EPZs and 40 outside the EPZs are presently operating in Bangladesh.<sup>14</sup> The largest Japanese investing company, YKK, has been working at the Dhaka EPZ. The company has already started its production. Apart from the EPZs, Japan has invested in chemical fertiliser, shrimp hatchery, knit fabric, automobile parts, leather and leather goods on a small scale. Recently the Japanese investors have also expressed their interest to invest in the development of Bangladesh's gas and coal sectors.

### ***Employment Opportunities***

Japan has emerged as one of the attractive destinations of Bangladeshi expatriate workers. Better job opportunities and high

<sup>14</sup> A. K. M. Atiqur Rahman, "BIMSTEC-Japan Cooperation in Trade and Investment: Bangladesh Perspective", in Abdur Rob Khan (ed.), *Towards BIMSTEC-Japan Comprehensive Economic Cooperation Bangladesh Perspective*, Bookwell, New Delhi, 2007, p. 33.

level of income in Japan in contrast with unemployment and underemployment at home have encouraged thousands of young and educated Bangladeshis to migrate to Japan for employment. Based on Japan Immigration Association, *Statistics on Immigration Control*, 2006, there were about 451 Bangladeshis living in Japan in 1985 and 7774 in 1990. Although the number of expatriate Bangladeshi workers in Japan is quite modest, the remittances from Japan have been increasing steadily. Until 2000, the remittances stood at about US \$335.62 million.<sup>15</sup> The Bangladeshis living in Japan work in various sectors, such as, Small and Medium size Enterprises (SMEs), industry, construction and services.

#### **4. Japan-Bangladesh Economic Relations: Challenges and Options**

Apart from a few business houses that have recently shown interest in South Asia, neither the Japanese government nor the intellectual circles in Japan have demonstrated any significant interest in the region.<sup>16</sup> Although Japan occupies an increasing importance in Bangladesh's foreign policy, the insufficient attention from the government of Japan could reduce its ODA budget for Bangladesh. It is particularly due to the fact that Japan has decided to curtail its ODA budget by 4 per cent for the developing countries.<sup>17</sup>

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<sup>15</sup> Bureau of Manpower, Employment and Training, Bangladesh (BMET), 2001.

<sup>16</sup> Purnendra C. Jain, *Distant Asian Neighbours: Japan and South Asia*, Sterling Publishers, New Delhi, 1996, p. 39.

<sup>17</sup> A 4 percent drop in ODA budget would bring the total allocation to around \$ 6.2 billion, a far cry from the period when the amount reached almost \$15 billion. Some of the recent studies suggest that Japan will likely to drop to sixth place amongst the ODA donor nations in 2010 if this country reduces the ODA disbursement. The Development Assistance Committee (DAC) at the Organisation for Economic Cooperation for Development (OECD) in its forecast has ranked Japan at sixth in ODA spending by 2010, behind the United States, Germany, Britain, France and Italy. The DAC has made the forecast by reviewing the past ODA figures, including their numerical targets for increased spending and other statistics for each of the 22 members. According to DAC's estimation, Japan's ODA is expected to stand at \$10.09 billion by 2010 as opposed to \$8.99 billion in 2006. Japan's ratio of ODA to Gross Domestic Products (GDP) could also

This could result in a reduction of Japanese ODA to Bangladesh, which in turn, could influence the economic relations between Japan and Bangladesh in a highly adverse way.

### ***ODA Issues***

Japan's ODA policies towards Bangladesh are often criticised on the ground that the Japanese aid deals with mega-scale infrastructure development projects, whereas aid from other donors mainly concentrates on promoting a pro-poor policy and self-help grassroots assistance programmes.<sup>18</sup> Japan should realise that Bangladesh not only needs more aid but also better aid. With regards to rural development and agricultural growth, Japanese ODA could emphasise on productive activities to improve rural incomes and create jobs for the rural poor, particularly for the landless farmers. Economic assistance could also support rural institution building, local participation in social development and to build social infrastructure in collaboration with local Non-Government Organizations (NGOs). The Japanese aid could focus further on improving the food self-sufficiency rate by conserving farmland, spreading agricultural technology and conducting agricultural research.

A unique and continuing feature of Japan's aid to Bangladesh is the high proportion of loans (roughly 50 per cent). There exists a problem on Japan's intention to extend loans to Bangladesh. Bangladesh has continuously received debt relief by having loans *de facto* transformed into grant aid *ex post*.<sup>19</sup> This indicates that

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decrease to 0.21 per cent in 2010, from 0.25 per cent in 2006. It will be a blow to reach an important target of the Millennium Development Goals (MDGs), although to reach the goals of MDGs, the donor countries are obliged to increase their ODA allocations to 0.7 percent of GDP by the year 2015. Manzurul Huq, "ODA decline marks Japan's dwindling influence", *The Daily Star*, December 25, 2007.

<sup>18</sup> Toru Yanagihara, "Japan's Foreign Aid to Bangladesh: Challenges and Dependency Syndrome", in Bruce M. Koppel and Robert M. Orr, Jr. (eds.), *Japan's Foreign Aid Power and Policy in a New Era*, Westview Press, Colorado, 1993, p. 189.

<sup>19</sup> Matsushiro Horiguchi, 'A Perspective on Japan-Bangladesh Relations', speech delivered at the memorable occasion on Golden Jubilee of the

Bangladesh does not have sufficient debt-servicing capacity and it might not be eligible for loans.<sup>20</sup> This is a matter of concern for Bangladesh.

The practice of co-financing with multilateral agencies poses problem to Japan. Japan does not agree with policy prescriptions of multilateral institutions.<sup>21</sup> But Bangladesh has been maintaining formal agreements with the IMF and the WB regarding structural adjustment lending. By involving with the co-financing arrangements, Japan unwillingly endorses the policy conditionalities attached to the multilateral loans. When Japan raises concerns about the prescriptions, the multilateral agencies as well as other donors complain that Japan is working against the donor community's effort. In the late 1980s, a concern was created that Japan is reluctant to share the commitment to market-oriented economic reforms.<sup>22</sup> Such complain has contributed to the chorus of allegations from other donors that Japan's ODA is principally mercantile.<sup>23</sup> Since Japan's intention is to expand its economy and Bangladesh's prime goal is to earn aid, both the countries need to look at cooperative relationship from economic perspective. If too much donor involvement complicates aid efforts, economic diplomacy and corporate interests may pave the way for cohesion and national interests.<sup>24</sup>

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National Press Club, Dhaka , April 20, 2004, available at: <http://www.bd.emb-japan.go.jp/jbrelation-e.pdf> , accessed on September 20, 2007.

<sup>20</sup> The total debt service payment of Bangladesh in fiscal year 2004 is 13.72 per cent of country's merchandise export, 8.77 per cent of exports of goods and services and 1.8 per cent of GDP.

<sup>21</sup> Monir Hossain Moni, *op.cit.*

<sup>22</sup> For example, at aid policy dialogues between the United States and Japan, the US has raised concerns about whether Japan's aid programming in Bangladesh was undermining the efforts of other donors to support economic policy reform initiatives by the Bangladesh government. See, Bruce Koppel and Seiji Naya, *Honolulu I: ODA Management and Asia's Economic Development* (Honolulu: East-West Centre, 1988); Bruce Koppel, *Honolulu II: ODA Management and Asia's Economic Development* (Honolulu: East-West Centre, 1989).

<sup>23</sup> *Ibid.*

<sup>24</sup> Economic diplomacy can be generally described as formulation and advancing policies relating to production, movement or exchange of goods,

### *Trade Issues*

Bangladesh accounts for 26 per cent of all exports from the LDCs to the Japanese market and holds the second largest position.<sup>25</sup> Even after that there has always been a huge trade deficit between the two countries. In 2007, Bangladesh's export to Japan was US\$147.47 million, while import from Japan was US\$690.36 million which left Bangladesh with a trade deficit of US\$542.89 million.<sup>26</sup> The previous years also depict a similar trend (see Table 4). Bangladesh has been trying to attract the Japanese buyers but with very little success. Even the most important Bangladesh product to the Western market, readymade garments (RMG), is far from making any inroad into the Japanese market.

**Table 4: Bangladesh's Trade Deficit with Japan (1996-2006)**

(In US \$ million)	
Fiscal Year	Trade Deficit
1996	574.69
1997	533.09
1998	370.86
1999	401.17
2000	587.51
2001	738.45
2002	558.95
2003	434
2004	320
2005	426.33
2006	597.5
2007	542.89

**Source:** Export Receipts and Import Payments, *Bangladesh Bank*, 2007.

Imports from Bangladesh have not been substantial because Bangladeshi goods by and large are not competitive in Japan in comparison with those from East and Southeast Asian countries. For

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services, labour and investment with other countries. See, Nicholas Byrne and Stephen Woolcock, *The New Economic Diplomacy*, Ashgate Publishing House, England (G-8 and Global Government Series), 2003.

<sup>25</sup> Matsushiro Horiguchi, *op.cit.*

<sup>26</sup> Extracted from Export Receipts and Import Payments, *Bangladesh Bank*, 2007.

an example, Bangladesh's RMG export to Japan has not been voluminous due to perceived poor quality. It may be noted here that China currently accounts for approximately 80 per cent of Japan's total RMG market owing to its geographical proximity, higher productivity and competitive pricing.<sup>27</sup> On the other hand, with an ever increasing middle class in Bangladesh, the import of products like automobiles from Japan is likely to grow in the future. The increasing demand, attributable to people's mobility, changes in lifestyle, accumulation of savings as well as the development of transportation and communication infrastructure, points to a sizable Japanese automobile market in Bangladesh in the coming years. As a result, the volume of Japanese export to Bangladesh has been larger than the volume of Bangladeshi export to Japan. Consequently the trade gap between the two countries has been increasing. While roughly 80 per cent of Bangladesh's export is directed to industrial countries, only 20 per cent of its import is sourced from the same.<sup>28</sup> As a result, Bangladesh enjoys trade surplus with the USA and the EU. But, the scenario is quite opposite in relations to trade relations with Japan (see Table 5).

**Table 5: Bangladesh's Global Trade Relationships (2006)**

<b>Bangladesh's Major Export Destinations</b>	<b>Position</b>	<b>%</b>	<b>Bangladesh's Major Import Sources</b>	<b>Position</b>	<b>%</b>
USA	1	27.7	China	1	13.90
Germany	2	16.7	India	2	12.55
UK	3	10.4	Singapore	3	6.8
France	4	7.1	Kuwait	4	5.75
Italy	5	4.4	Hong Kong	5	4.24
Spain	6	4.1	Japan	6	4.13

**Source:** Import Payments and Export Receipts, *Bangladesh Bank*, 2007.

Bangladesh's export to Japan constitutes only 0.76 per cent of its global exports whereas the country's import from Japan constitutes 4.13 per cent of its global imports.<sup>29</sup> Notwithstanding such an uneven situation in trade between Japan and Bangladesh, the two countries

<sup>27</sup> Monir Hossain Moni, *op.cit.*

<sup>28</sup> A. K. M. Atiqur Rahman, *op. cit.*, p. 36.

<sup>29</sup> *Ibid.*, p. 35.

are far from initiating any effective measures that could reduce the huge trade deficit in favour of Japan. Taking the bilateral trade gap into consideration, both Japan and Bangladesh need to take initiatives. Since Japan has allowed almost all industrial goods under zero tariff facilities, Bangladesh needs to produce high quality products with competitive price to enter the Japanese market. The country also needs to conduct substantial research on Japanese market and diversify its export basket accordingly. In this regard, Japanese enterprises or the joint venture ones in Bangladesh specialising on products for Japanese market could play an important role. As Japan focuses on producing new patent projected drugs and the Japanese companies produce only five per cent of generic products of its total requirement, Bangladesh also have potentials to export generic drugs and non-prescribed medicines to Japan.<sup>30</sup> To explore the RMG market of Japan, products from Bangladesh have to be at least *at par* with the Chinese ones in terms of quality and also competitive in terms of price. In this regard, it is important to pay attention to the issue of transferring Japanese technology to the export oriented industries in Bangladesh. Promotion of awareness through exhibition on Bangladeshi garments products in Japan could also be an important step.

Besides, Japan can be a potential market for Bangladeshi workers. As the population of Japan grew older, the need for expatriate workers is increasing. Bangladesh can be a good source of workers for Japan. In this regard, it is an imperative for Bangladesh to introduce training programmes in order to enhance skills to make its labour force suitable for Japan. Bangladesh, with its large manpower in the IT sector, may also set eyes on the vast Japanese software market for the employment opportunities.

### ***FDI Issues***

The Japanese investment in Bangladesh ranks fourth among the foreign investing countries, after the USA (about 27.5 per cent), the UK (about 12.5 per cent) and Malaysia. Nonetheless, the amount of Japanese investment in Bangladesh remains small in terms of

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<sup>30</sup> Jasim Uddin Khan, "Japan beckons local medicine makers", *The Daily Star*, January 7, 2008.



Bangladesh's requirements in FDI not to speak about Japan's potential in this regard.<sup>31</sup> The Japanese investors express lack of interest in Bangladesh due to the following reasons: poor governance, political instability, inefficient utilisation of foreign capital and technology, absence of efficient state-owned enterprises, government's restrictions on private enterprises, poor infrastructure facilities, absence of public-private sector collaboration, lack of quick re-investment opportunities, discontinuity of undertaken policies and lack of investment-facilitating factors, such as, high corporate tax, perceived limited size of the market, and high cost of doing business.<sup>32</sup> In the circumstances, Bangladesh has not emerged as an attractive destination of Japanese investment. Taking the adverse factors mentioned above into consideration, Bangladesh needs to ensure good governance and strengthen investment-facilitating factors to attract the Japanese investment.<sup>33</sup>

In this regard, the most important factor is to identify the areas, which could be suitable for the Japanese investors. With easy access to international sea and air routes, Bangladesh can serve as the ideal springboard for the manufacturers to launch into the growing markets of the world. It could be advantageous for Japan to invest in both service and manufacturing sectors of Bangladesh due to availability of skilled and semi-skilled manpower at the most competitive rates, cheap price of land and utilities, as well as the ever-improving infrastructure of the country. The Japanese private investors may take keen interest to invest in gas-based value added

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<sup>31</sup> The Japanese investment in Bangladesh ranks fourth among the foreign investing countries, after the USA (about 27.5 percent), the UK (about 12.5 per cent) and Malaysia. See, "Bangladesh-Japan Trade and Investment", *Dhaka Courier*, March 26, 2004.

<sup>32</sup> According to *Investment Climate Survey (ICS)* of the World Bank (WB), tax rate of 35.8 per cent is a constraint to investment in Bangladesh. It is one of the highest in Asia. Again, in terms of ease of doing business index, Bangladesh in 2005 ranked 65. See, A. K. M. Atiqur Rahman, *op. cit.*, p. 37.

<sup>33</sup> Strengthening investment-facilitating factors mean reducing government various restrictions on private investments, more liberalisations of economic policies, removing complicated laws applying to foreign investments and collaborations, reducing corporate tax, reducing risk and cost of doing business, etc.

products like the development of compressed gas as well as its marketing in Bangladesh. With regards to the transport sector, there exists ample scope for the Japanese investments to expand and develop transport facilities. There are also enormous potentials to the growth of RMG industries in Bangladesh. To explore these potentials, the Japanese entrepreneurs need to come up with more investment proposals.<sup>34</sup>

It has been learnt that Japan is trying to relocate its 'sunset industry', *i.e.*, the SMEs because of higher labour cost that makes the current subcontracting *keiretsu* framework almost non-viable.<sup>35</sup> Since the big companies are being compelled to import spare parts, most of the SMEs in Japan are now in low spirits. It is observed in recent years that at least 70 per cent of the Japanese SMEs have been looking for outside partners simply for the sake of their survival.<sup>36</sup> Bangladesh, with its cheaper labour force, can exploit this opportunity and could be an ideal place for the Japanese investors.

## 5. Concluding Remarks

Bangladesh and Japan are maintaining friendly relations and mutually beneficial economic cooperation since the recognition of Bangladesh by Japan in early 1972. While bilateral trade relations between the two countries and Japanese FDI to Bangladesh have not been substantial, the disbursement of ODA to the recipient country has been of high quantity. However, recent Japanese decision to curtail the disbursement of its ODA to the developing countries due to ongoing economic recession in the country is contributing to the decline in the volume of Japanese aid to Bangladesh. On the other hand, the total amount of bilateral trade between the two countries has been tilted in favour of Japan and the flow of FDI to Bangladesh has been decreasing. At this critical juncture, Bangladesh needs to strengthen friendly relations with Japan to ensure the flow of ODA, while Japan as well may need to continue the disbursement of ODA

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<sup>34</sup> Considering economic and strategic significance, Japanese investments is now determined by the geographical distance between home and host countries in Asia. In this respect, Japan prefers China, India, Vietnam, etc. for investment. See, Monir Hossain Moni, *op.cit.*

<sup>35</sup> Tokyo-Dhaka cooperation, *The New Nation*, July 17, 2005.

<sup>36</sup> *Daily Yomiuri*, November 28, 2004.

to promote pro-poor policy and 'self-help' assistance program for the economic development of Bangladesh. In case of trade relations, the top most priority is to bridge the trade gap as much and as fast as possible. For this, Bangladesh has to reform its trade policy to reduce the cost of doing business and to attain price competitiveness, while Japan needs to open its vast market widely for the Bangladeshi products. The two countries may consider a trade agreement to exploit the full potentials of bilateral trade. In case of FDI, Bangladesh has to ensure investment-facilitating services to attract Japanese investment. It is also necessary to identify the areas, such as, manufacturing sectors, gas-based value added products, transport sector and SMEs, that could be suitable for Japanese investment. In this regard, the Japanese investors need to come to Bangladesh with an open mind and take the responsibility of contributing to sustainable socio-economic development in Bangladesh.