

## Highlights



Bangladesh and Japan both have significant untapped potential for export of many products to each other's markets.



Japanese foreign direct investment in Bangladesh has the potential to become a vehicle for technology transfer.



Japan's expertise may be useful for Bangladesh for harnessing technology to accomplish development goals during the Fourth Industrial Revolution.



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## Strengthening Bangladesh-Japan Partnership Through Enhanced Trade, Investment, and Technological Collaboration

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### 1. Introduction

Bangladesh and Japan formally established diplomatic ties on 10 February 1972 (Embassy of Japan in Bangladesh, 2021), although friendly relations between these two countries existed even prior to Bangladesh's independence. As Bangladesh's largest bilateral development partner, Japan has worked hand-in-hand with Bangladesh for building infrastructure, supporting industrialisation, increasing access to health and education, and reducing vulnerabilities (JICA, 2019). Bangladesh is presently undergoing a dual graduation: graduation from low-income country (LIC) to lower middle-income country (LMIC), and graduation from a least developed country (LDC) to a developing country. In the midst of the dual graduation, Bangladesh is also facing an uncertain future owing to its low level of preparedness to deal with the disruptions caused due to the Fourth Industrial Revolution (4IR).

On the occasion of the 50-year anniversary of the diplomatic ties between Bangladesh and Japan, the Centre for Policy Dialogue (CPD) undertook a research study titled "*Bangladesh-Japan Partnership for The Next Development Journey*". The aim of the research was to discuss how Japan may support Bangladesh in its next phase of growth during the 4IR and beyond its LDC graduation. This policy brief is based on the key findings of the aforementioned study.

### 2. Bangladesh's Trading Relationship with Japan

Japan is one of Bangladesh's top trading partners, besides the United States of America (USA) and the European Union (EU). Both import and export volumes between the two countries have increased over the years due to

the existence of the Generalised System of Preferences (GSP) and other trade facilities. Bangladesh is one of the biggest exporters of readymade garment (RMG) and textile products in the world. Bangladesh's RMG and textile exports started entering the Japanese market since 1972.

Although Bangladesh does not have considerable service exports to Japan at present, there is prospect of increasing Bangladesh's service exports to Japan, especially if Japan is willing to provide preferential market access to Bangladesh. Japan has a relatively large elderly population, as 47.4 per cent of Japan's total population belonged to the age group of 50 years and above in 2020 (UNDESA Population Division, 2019). On the other hand, Bangladesh has a relatively large young population, as 45.5 per cent of Bangladesh's total population belonged to the age group of 24 years and below in 2020 (UNDESA Population Division, 2019). The increase in the elderly population of Japan has induced a demand for caregivers and nurses in Japan. Therefore, there is scope for sending young Bangladeshi people to Japan to perform nursing and caregiving services. Such an initiative would be mutually beneficial for both countries.

There is a significant level of untapped potential for export of Bangladeshi goods to the Japanese market in the categories of knit-wear RMG and textile items, as well as shrimps and frozen items (ITC EPM, 2022). Similarly, Japan also has untapped potential for export of many products to Bangladesh such as diesel-powered trucks, compression-ignition internal engine, waste and scrape of iron and steel, and other machinery items (ITC EPM, 2022).

As Bangladesh is a member of the World Trade Organization (WTO), it will face most favoured nation (MFN) tariffs on its exported goods to Japan after its LDC graduation. All WTO members who have not signed any preferential agreement, must commit to MFN tariffs for importing from each other. Since Japan is currently providing GSP preferences, Bangladesh can enjoy preferential tariff treatments

under its GSP schemes. Most of the products exported from Bangladesh to Japan are subject to around 0 to 3 per cent effectively applied tariff under GSP preference. After LDC graduation, Bangladesh will face MFN tariff in the Japanese market, provided that no Free Trade Agreement (FTA) is signed between the two countries before that time. MFN tariff rates will range between 7 to 12 per cent for most products except fisheries, articles of leather, rice, and sugar.

### 3. Japanese Development Assistance to Bangladesh

Bangladesh has been facing a number of challenges and obstacles in its development journey since its independence in 1971. In order to address its difficult socio-economic concerns in the aftermath of the liberation war, the country relied on aid and assistance from the industrialised economies. Japan, as one of the first countries to recognise Bangladesh, has emerged as an important development partner for Bangladesh in terms of foreign aid. Japan's interests towards Bangladesh stems from various reasons. Japan seeks peace and stability in South Asia, and is striving to establish a strong set of bilateral relationships, especially after the Second World War. Bangladesh is in a strategic location, which is suitable for both the procurement of raw materials to Japan and as a valuable market for manufactured products from Japan. Japan provides preferential market access to Bangladesh and continues to access the Bangladeshi market for its finished goods. This allows the industrialised economy of Japan to export considerably at affordable prices due to the low cost of production in Bangladesh. Moreover, foreign aid enables Japan to achieve its diplomatic objectives in Bangladesh, as from the Japanese perspective, aid is a practical, accessible and effective diplomatic tool. For Japan, foreign aid is a mechanism for non-military power to contribute to international harmony (Rahman, 2005).

Japan has been a significant participant in the development journey of Bangladesh through consistent provision of official development

assistance (ODA) to the country over several years. Japan supports Bangladesh's aspirations to build a just, egalitarian, and affluent society that is less reliant on foreign aid through economic, technological, or altruistic assistance. Japan's ODA to Bangladesh mostly concentrates around development of transportation, communication, energy and power-plants, and disaster relief. Using Japanese aid and assistance, Bangladesh is investing in many development projects, one of which is the Bay of Bengal Industrial Growth-Belt (BIG-B). The BIG-B programme aims to boost agglomeration of industries in the Dhaka-Chittagong-Cox's Bazar region and beyond, by strengthening economic infrastructure, supplying power and energy to industries, enhancing the investment climate, and encouraging connectivity (JICA, 2016).

#### 4. Japanese Foreign Direct Investment in Bangladesh

Foreign direct investment (FDI) promotes economic development of the recipient countries as it facilitates transfer of technologies, capital resources, and managerial competency, which are essential for economic growth (Urata & Kawai, 2000). This is usually true for the economic development of an LDC like Bangladesh. FDI inflows to Bangladesh increased exponentially since 1980s after policy reforms had taken place (Alam, 2012). In 1980, the government legislated the 'Foreign Investment Promotion and Protection Act, which enabled most sectors excluding railways, minting and security printing, nuclear energy, defence equipment, and forestry in the reserved forest area, to be accessible to FDI (Kafi et al., 2007).

The Government of Bangladesh (GoB) employs various incentives to attract more FDI from Japan, including providing tax holidays, tax exemptions, accelerated depreciation, reduced tariff on imported capital machinery, and other incentives (BIDA, n.d.). In conjunction with creating an amicable environment for investments through infrastructure development, Bangladesh has also initiated

establishment of a special economic zone (SEZ) exclusively for Japan which is expected to invite greater FDI. The pre-feasibility study of the Japanese Economic Zone (JEZ) has estimated the number of years that may be required for industries to occupy the land provided as part of the JEZ, under three different scenarios. In the most optimistic scenario, when economic activities are considered to be at their peak performance, the JEZ may be fully occupied by 128 industrial units as early as 2034 and produce 61,330 direct jobs (PwC, 2021).

#### 5. Bangladesh-Japan Cooperation for Leveraging the 4IR

The terms "4IR" and "Industry 4.0" were first coined in Germany in 2013 and quickly disseminated all over the world. The ideologies and innovations of 4IR have been built on the basis of the third industrial revolution and are mainly characterised by the integration of information technology (IT) with physical machineries in order to build a cyber-physical system (CPS) that connects the virtual world with the real world. CPS is the foundation for the 4IR as it is a collection of diverse technologies that combine to create a self-contained, intercom-enabled, and intelligent mechanism that can permit integration between diverse and physically separated individuals. Data production and collection, processing, aggregation, and finally data-driven decision-making are all possible with this system. The elements of CPS include big data, cybersecurity, automated robots, cloud computing, three-dimensional (3D) printing, vertical and horizontal integration technology, simulation systems, and augmented reality (Petrillo et al., 2018). For Bangladesh, 4IR presents immeasurable opportunities that have the potential to allow the economy to leapfrog into the next stage of development. With the introduction of 3D printing, automation, artificial intelligence (AI), cloud computing, and internet of things (IoT), along with other components of 4IR, the production capacity for the domestic market in Bangladesh can be increased greatly while also ensuring standardisation and quality of products, improving livelihoods, and

providing the economy with a competitive edge among other economies.

The number of new patent applications in Bangladesh skyrocketed in the early nineties during the take-off period of the Bangladesh economy, which was characterised by widespread privatisation and liberalisation. However, the increase in the total number of new patent applications in Bangladesh has been driven mainly by foreign applications, whereas local applications have been largely stagnant over the years (DPDT, 2022). This indicates that FDI inflows into Bangladesh may have facilitated technology transfer and innovation. Hence, it is anticipated that when the JEZ becomes operational in Bangladesh, it may bring new technologies and new innovations to Bangladesh.

## 6. The Way Forward

The Bangladesh-Japan diplomatic relationship can be taken forward using foreign policy instruments and adopting bilateral trade agreements like FTA. Such bilateral trade agreements will increase the share of duty-free quota-free (DFQF) export for Bangladesh. Using Japanese aid and assistance, Bangladesh is investing in many development projects, one of which is BIG-B. The adoption of BIG-B will facilitate and strengthen trade and development which will yield long-term benefits for both Bangladesh and Japan. The development of the JEZ Araihasar, in Narayanganj will attract more investment from Japanese investors, which will eventually accelerate bilateral trade between Bangladesh and Japan. After the completion of the JEZ, many industries including agro-food, light engineering, chemicals, pharmaceutical, automobile assembly, power, and energy will be set up in that region. This will expand Bangladesh's basket of potential export items Japan. There will be huge opportunities for Japan in Bangladesh, in wide ranging sectors with high turnover including RMG, technology, power, and energy (Rahman, 2021).

Moreover, Bangladesh is a vital source for indispensable raw materials required for Japanese

products and has a big marketplace to sell Japanese finished goods. Since Japanese consumers prefer high quality imported goods, Bangladesh must manufacture products with good quality raw materials and high precision to attract and retain Japanese customers. For example, Grameen Uniqlo in Bangladesh is currently a major brand exporting clothing to Japan using high quality imported materials from foreign countries including Japan. The local Bangladeshi market should have the 'know how', precision, technology and management to reap benefits from Japan and attract Japanese investment. Hence attracting Japanese investors in the local market to produce locally by training local people and maintaining Japanese quality and standards will gradually help Bangladesh to satisfy Japanese buyers and strengthen Bangladesh's export potential to Japan.

The most appropriate way to popularise Bangladeshi products in Japan is by attracting Japanese investment in Bangladesh. Bangladesh's low labour cost and emerging market should be properly portrayed as lucrative to Japanese investors in order encourage them to set up their production plants in Bangladesh. Following the long-term Japanese investments and Bangladesh's graduation from the LDC group, Japanese investors will benefit if successful negotiation of bilateral trade agreements can be made between Bangladesh and Japan. The Bangladesh-Japan relationship may not achieve its full potential if an FTA or PTA (preferential trade agreement) is not signed in the future, especially after LDC graduation of Bangladesh (Rahman, 2021). To build a strong partnership with Japan, Bangladesh needs to adopt the Japanese way of conducting business, understand Japanese culture and language, upgrade technology in line with Japanese business requirements, train more people, and adopt business models used in Japan.

There exists substantial complementarity between Bangladesh and Japan in at least four aspects: i) demography; ii) investment; iii) trade; and iv) technology. As mentioned earlier, nearly half of the population of Japan are above the age of 50 years whereas nearly half

of the population of Bangladesh are below the age of 25 years. As a result, there is strong demographic complementarity between Bangladesh and Japan which may be utilised by sending nurses and care-givers from Bangladesh to aid the elderly in Japan.

Bangladesh provides an ideal platform for Japanese businesses which are looking forward to expanding their international operations through diversifying their production bases and exploring new markets. Bangladesh's large domestic market, close proximity to even larger markets in the South Asian and the South East Asian region, as well as friendly relations with the countries of the Middle-East, make it an ideal investment spot for the Japanese companies. As discussed earlier, the Japanese FDI in Bangladesh will be beneficial for both countries, as Japan will be able to enter new markets and Bangladesh will be able to create new jobs and access new technology. Hence, there is a strong investment complementarity between Bangladesh and Japan which may be utilised if Japanese companies fully capitalise on the platform for investments offered by Bangladesh.

As is well known, Bangladesh is a labour abundant country which specialises in the production and export of labour-intensive goods, whereas Japan is a capital abundant country which specialises in the production and export of capital-intensive goods. Therefore, there is strong trade complementarity between Bangladesh and Japan which may be utilised if both countries take advantage of the enormous untapped export potential in each other's markets.

Japan is one of the most technologically advanced countries of the world. On the other hand, Bangladesh is far behind Japan in terms of technological advancement, and is currently in urgent need of empowering a vast pool of young workers with appropriate technical skills. Thus, there is a strong technological complementarity between Bangladesh and Japan which may be utilised by increasing the sharing of knowledge between the two countries.

## 7. Conclusions and Recommendations

### 7.1 Conclusions

The Bangladesh-Japan friendship has been a mutually beneficial and a win-win partnership over the past five decades. Bangladesh will need to diversify its economy, improve the skills of its workers, and enhance the efficiency of its production after LDC graduation. To be more efficient and competitive, Bangladesh will need to accelerate technology adaptation and adoption. Japan can partner with Bangladesh in its smooth transition beyond LDC graduation by increasing investment in technology, physical and soft infrastructure, and improving trade and financial integration. It is anticipated that Japan will continue to be an important and strategic partner for Bangladesh in its next development journey during 4IR and beyond LDC graduation.

The findings from this study show that Bangladesh has significant untapped potential for export of many products to Japan, including articles of RMG and textile items, frozen fish, shrimps, and footwear items. Japan also has untapped potential in items such as diesel-powered trucks, compression-ignition internal engine, iron and steel, and other machinery items, which can be exported to Bangladesh. . Japanese FDI in Bangladesh has the potential to become a vehicle for technology transfer. The JEZ has good prospects of employment generation in Bangladesh. Japan's knowledge and skills as one of the world's most technologically sophisticated countries may be valuable in laying out a roadmap for Bangladesh so that it may successfully harness technology to accomplish its development goals during the 4IR.

In light of the findings of this study, the following recommendations are made for the policymakers, private sector representatives, and other relevant stakeholders from Bangladesh and Japan:

## 7.2 Recommendations

In light of the findings of this study, the following recommendations are made for the policymakers, private sector representatives, and other relevant stakeholders from Bangladesh and Japan:

### ❑ Trade:

- Bangladeshi manufacturers should strive to meet Japanese standards, since there is substantial opportunity for increasing Bangladesh's exports to Japan.
- In consideration of the economic slowdown due to the COVID-19 pandemic, Bangladesh may consider negotiating for a 3-year smooth transition period from 2026 to 2029, during which Japan may continue to offer LDC-specific support measures to Bangladesh.
- Bangladesh should conduct trade talks and negotiate the terms and conditions of trade agreement with Japan, and expeditiously sign a bilateral trading agreement, in order to ensure that the trading relationship between the two countries is strengthened further.

### ❑ FDI:

- Time and cost of doing business in Bangladesh should be reduced by decreasing paperwork and using the internet and mobile financial services to complete most of the formalities required for starting a business.
- In order to increase FDI inflows into Bangladesh from Japan, it is necessary to ensure:
  - ✓ clear incentives
  - ✓ conducive investment environment
  - ✓ completely transparent and streamlined procedures of exports and imports.
- Adequate number of officials should be employed in customs for handling freight, and the custom authorization should be digitised.
- Information and communication technology (ICT) infrastructure should be reinforced to ensure uninterrupted broadband internet connectivity.

- The process of repatriation of dividend remittance should be simplified.

### ❑ JEZ:

- The proposed JEZ is situated on a riverbank island with no road access. Therefore, constructing a bridge that connects to the mainland will facilitate the smooth circulation of people and materials.
- Currently, the Dhaka-Chittagong highway does not have enough lanes to accommodate the expected increase in freight and passenger traffic on the route in the future. Thus, greater capacity will be needed.
- Due to the expected increase in traffic in Chittagong port, it is important to expand the capacity of rail dependent supply chains between the nodes of Dhaka and Chittagong to accommodate at least 12,000 wagons every day. This will allow the time taken for the delivery of goods and materials to decrease and costs for logistics to reduce as well.
- Freight forwarding facilities should be mechanised as it will reduce the shipment time for finished goods and raw materials.
- The development of jetty will also allow efficient movement of materials to the JEZ.

### ❑ 4IR:

- Bangladesh should reform the educational system by including the development of vocational skills which will further facilitate the adoption of specialised education needed for a smooth transfer of technology.
- Upgrading the country's present educational infrastructure, with a concentration on higher education on STEM (science, technology, engineering and maths) subjects, is critical.
- It is important to emphasise the exchange of knowledge from Japan through joint research between different universities from Bangladesh and Japan.
- Bangladesh may have the potential to adapt to or assimilate the technological and managerial systems from Japan on an intermediate level in

accordance with the currently available resources and competencies.

- In the context of 4IR, it is critical for Bangladesh to move away from low-cost labour and focus on research and development (R&D) to remain competitive in the changing global industry.
- Bangladesh needs to invest more on R&D and revise its guidelines for allocating resources in disciplines of science and technology.

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## ACRONYMS

|       |                                          |      |                                            |
|-------|------------------------------------------|------|--------------------------------------------|
| 3D    | Three-Dimensional                        | IT   | Information Technology                     |
| 4IR   | Fourth Industrial Revolution             | JEZ  | Japanese Economic Zone                     |
| AI    | Artificial Intelligence                  | LDC  | Least Developed Country                    |
| BIG-B | Bengal Industrial Growth-Belt            | LIC  | Low-Income Country                         |
| CPD   | Centre for Policy Dialogue               | LMIC | Lower Middle-Income Country                |
| CPS   | Cyber-Physical System                    | MFN  | Most Favoured Nation                       |
| DFQF  | Duty-Free Quota-Free                     | ODA  | Official Development Assistance            |
| EU    | European Union                           | PTA  | Preferential Trade Agreement               |
| FDI   | Foreign Direct Investment                | R&D  | Research and Development                   |
| FTA   | Free Trade Agreement                     | RMG  | Readymade Garment                          |
| GoB   | Government of Bangladesh                 | SEZ  | Special Economic Zone                      |
| GSP   | Generalised System of Preferences        | STEM | Science, Technology, Engineering and Maths |
| ICT   | Information and Communication Technology | USA  | United States of America                   |
| IoT   | Internet of Things                       | WTO  | World Trade Organization                   |

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