



Japan-Bangladesh Relations in the Context of Free and Open Indo Pacific

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Abstract

Japan, under the aegis of the hybrid 'Free and Open Indo-pacific' regional order, plans to enhance 'connectivity' between Asia and Africa to promote security and macroeconomic stability across these regions. The signing of \$2.5 billion ODA in June 2019 indicated that Japan desired Bangladesh in this connectivity plan. Despite the size of Japanese assistance to Bangladesh, the latter suffers from a hefty trade deficit with the country. Poor investment rating due to weak administration, poor infrastructure, lack of transparency hinders the

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partnership. Against this backdrop, this paper examines the geopolitical and geoeconomic significance of the Japan-Bangladesh relations, and the extent to which development projects in Bangladesh, financed by Japan, are consistent with environmental sustainability standards.

With the advent of globalization, longstanding security philosophies are changing rapidly. The rise of artificial intelligence, e-commerce, cyber-security, hybrid warfare, climate change, or even new diseases such as the Novel Coronavirus (COVID-19) has reinforced concerns over non-traditional security. Dealing with such delicate security matters require new and thinking. Japan is one of the first nations to understand that need. Tokyo's multi-regional engagement through the 'Free and Open Indo Pacific (FOIP)' proposal can be noted as such an attempt.¹

The end of the Cold War redefined the importance of economic assistance, foreign investment, development assistance, resource mobilization, technology transfer, risk-sharing, trade and commerce, environment and social sustainability. The 9/11 terrorist incident accelerated the process, and the 2008-09 financial crisis forced the international community to tailor a new response in the form of a hybrid regional economic order.³⁴ The three leading economies- the United States, China, and Japan, therefore, are aggressively forging such hybrid alliances.⁵ While the latter is sponsoring the FOIP, China and the US are promoting their very 'Belt and Road Initiative (BRI)' and 'Blue Dot Network (BDN)' respectively.⁶

Among the Asian nations, Japan first enjoyed unprecedented economic momentum and emerged as a leading economic power by the end of the 20th century. Taiwan, South Korea, Singapore, and several South and Southeast Asian countries followed Japan with similar growth. Meanwhile, China, through Xiaoping reforms, leaps forwarded to the club of the

top economies. The rise of China and other Asian nations bring both challenges and opportunities for Japan and its key allies in the Indo-Pacific. Japan's great geopolitical position helps her contribute to the development of this region significantly. Over the last few decades, Tokyo played a vital role in establishing the much needed economic stability in many countries of the region. Today, Japan is one of the top sources of developing assistance; and recipient countries are required to demonstrate their commitment to human rights, democratization, and reduced military spending.⁷

There was a time when South Asia and South Asian Association for Regional Cooperation (SAARC)—India, Pakistan, Bangladesh, Sri Lanka, Nepal, Bhutan, Afghanistan, and the Maldives— used to receive minor preference in Japanese foreign offices. China, South Korea, and the Association of Southeast Asian Nations (ASEAN) occupied the bulk of Tokyo's Asian external policies. Only a handful of companies used to show their business interests in South Asia (Particularly in India) and the Japanese intellectual circle long neglected the economic potentials of the SAARC.⁸ Nevertheless, South Asia's late 20th-century economic reforms and the 9/11 incident compelled Tokyo to rethink its policies in South Asia. As Moni put it forward, "With the adoption of economic liberalization policies by most South Asian countries, Japan-South Asia cooperation appeared a 'promising horizon'."⁹

It needs to be noted that Bangladesh was one real exception to Japan's past negligence towards South Asia. Japan supported Bangladesh during the 1971 independence struggle and remained a constant friend till today.¹⁰ In 1972, the two countries established their diplomatic ties. Since then, Japan topped Bangladesh's Official Development Assistance (ODA) list. So far, Bangladesh received \$11.3 billion in ODA loans from Japan.¹¹ The most recent assistance includes Matarbari coal power plant and deep-sea port, mass rapid transit (MRT), and Jamuna railway bridge projects.¹² Under the aegis of the FOIP, Japan plans to enhance

'connectivity' between Asia and Africa to promote security and macro-economic across the regions. The signing of US\$ 2.5 billion ODA in June 2019 indicated that Japan desired Bangladesh in this connectivity plan.¹³ Japanese assistance to Bangladesh is massive, but latter's share in Tokyo's global trade is negligible. Despite having the potentials of competitive advantages over Japan in several areas, every year, Bangladesh suffers a trade deficit with the country. Although Japan recognizes the geo-strategic importance of Bangladesh and its assistance is well-intentioned, lack of confidence in Bangladesh's poor governance and weak infrastructure are the main barriers to transforming that importance into a strong mutually beneficial partnership.

Against this backdrop, this paper asks two questions:

- To what extent can the Japanese investments stimulate the industry, innovation, and infrastructure in Bangladesh?
- How have the development projects in Bangladesh, financed by Japan, strived to maintain the standards of ecological sustainability?

In addressing these questions, this paper progresses in six sections. The first section seeks to untie the intellectual currents informing the conceptual thinking on Japanese globalization, new regionalism, and their linkages with the origin and necessity of the FOIP. This section attempts to draw a sketch of how the US factors and the China factors influence Japanese foreign policy by dipping into the historical facts behind Japan's modern external affairs edifice. The second section analyses Japan's engagement in South Asia. This section investigates the paradoxes, notions, and implications for Tokyo's FOIP plans. The next three sections address the first research question of the study. The third section discusses the geo-economic stakes for both countries within the FOIP plans. The fourth section explores the nature of Japanese ODA in Bangladesh. The fifth section maps the present and prospective sectors for bilateral partnership

including export and import, foreign direct investment, and business climate improvement in Bangladesh. The sixth section addresses the second research question by focusing on Japan's flagship Coal Power Plant Project in Matarbari.

Understanding the origin of FOIP: A Critical Analysis of Japan's Globalization and New Regionalism

It is necessary to understand the US-Japan historic relationship to comprehend the Japan's Indo-pacific engagement and interest in South-Asia. Before the second industrial revolution, Japan was a feudal nation. Under *Tokugawa Shogunate's* (an old-fashioned military government from 1600 to 1868) *Sakoku* policy, which entails no Japanese or foreigner could leave or enter the country.¹⁴ If they do, the penalty was death.¹⁵ It was the American Commodore Matthew Perry's forceful intrusion in the Tokyo Bay in 1853, which opened Japan to the modern world and led to the eventual *Shogunate* capitulation, and the 1868 'Meiji Restoration.'¹⁶ The restoration culminated into significant political, social, and economic change during Emperor Meiji's rule (1868–1912) and engendered the *Kokusaika* (internationalization through modernization and Westernization) of Japan.¹⁷ Within four decades, Japan became a military power and waged the so-called Pacific War (Japan's entry to the Second World War) against the US and allied forces. The decisive defeat in the pacific war forced Japan to adopt a less militaristic and more pecuniary *Kokusaika*.¹⁹

Yet, one of the key impediments to Japan's *Kokusaika* is the Japanese foreign policy decision-making edifice itself. The 'passive and reactive' as well as the 'minimalist and risk avoidance' nature of the post-war Japanese diplomacy actively decelerated the *Kokusaika*.²⁰ According to Hisadi Owada, a former ambassador to the United Nations, and a former administrative vice foreign minister in Japan, two treaties defined the post-war Japanese diplomacy. These include the *US-Japan Security Treaty* and the *San Francisco*

Peace Treaty.²¹ Notably, the *San Francisco Treaty's* conclusions in 1951 were a critical moment for post-war Japanese policy.²² During the treaty signing, Prime Minister Shigeru Yoshida's decision to seek peace with the 48 allied powers, excluding the Soviet bloc, spearheaded a new Japanese external affairs strategy. The move integrated Japan in the Western camp against the Soviets. The *US-Japan Security Treaty*, signed at the same time, made Japan permanently dependent on the United States for its national security, commonly cited as the *Amae*, meaning Mother-child like dependency.²³

Under the US security umbrella, Japan concentrated on economic reconstruction and foreign trade, eventually leading to an envious 'economic miracle.' In the meantime, Japan continued to follow the latter's leadership in military and political decision making. It may be noted that Japan established diplomatic relations with China in 1972, after the US President Nixon's historic 1971 China visit. According to Minoru Tamba, Deputy Vice Foreign Minister,

it was a natural choice for Japan to make 'partial peace' with the Allied Powers, excluding the Soviet bloc, instead of 'total peace' with all the allied powers. The choice was inevitable because US forces were occupying Japan and Japan wanted to regain independence as soon as possible.²⁴

Tokyo faces much criticism for her 'dependent diplomacy on the US' and for not making important decisions independently.²⁵ Others believe that Japan completely lacks principles in its foreign policy other than economic diplomacy.²⁶ Shinsaky Hogen, a retired administrative Vice Foreign Minister, ranted out against such criticisms, 'it is wrong to think that Japan's post-war diplomacy lacks initiative. The US-Japan security treaty is a prime example of Japan's "autonomous diplomacy." Japan made that decision.'²⁷

Japanese foreign policy can be said at best passive and reactive made by the framework of the *San Francisco Peace Treaty* and the *US-Japan Security Treaty* under the Pax-Americana.²⁸ Japan's minimalist policy is said to be due to the USA's effort to help Japan open up politically by demilitarizing and instituting democracy. In this case, *Gaiatasu*, meaning foreign pressure, from the US used to be the only effective method of forcing Japan to modify its foreign policy.²⁹

Kotonakareschugi (problem avoidance Principle), a decision-making method, has been paramount to discourage government officials from formulating and implementing new policies for *Kokusaika*.³⁰ *Kotonakareschugi* is heavily embedded within the officials of all sectors due to their consensus building and conflict avoidance attitude, which in turn discourages officials from taking new initiative or making new policies.

At the moment, Japanese objectives in the Indo-Pacific are somewhat incomprehensible. Tokyo is seeking slightly mismatched aims, and again, another example of obscure *Kokusaika and Kotonakareschugi*.³¹ On one hand, Japan is trying to deter the Chinese 'Belt and Road Initiative' by expanding economic engagement. On the other hand, it seeks to strengthen strategic alliance through the Quad – the United States, Australia, and India, or the US-led 'Blue Dot Network'.³² Japan, according to Pajon,

wants to ensure the participation of a maximum number of countries in its Free and Open Indo-Pacific initiative.... Hedging against China and keeping the United States engaged in Asia are the key tenets of Japanese strategy.³³

In 2010 China overtook Japan as the world's second largest economy.³⁴ Since then, Tokyo's top foreign policy priority became coping with the Chinese rise. Japan sees Chinese maritime expansions and militarization of East China and South China seas as direct threats to its freedom of navigation and violation of global norms and values.³⁵ Finally, China's

attempt to rediscover the silk route through its Belt and Road Initiative, among other schemes, and to impose its own version of a multipolar world system have antagonised not only Japan but also its traditional allies including the United States, European Union, and Australia.³⁶ Japan, therefore, adopted a strategy of hedging against China by introducing counter balancing initiatives. While bolstering the defence capabilities will provide the 'internal counterbalancing,' and, partnering with the US and its allies will secure Japan 'external counterbalancing.'³⁷ Promoting coordination between partners such as India, Australia, and a handful of South East Asian and South Asian countries provide Japan a secure land and maritime connectivity. It will also strengthen Tokyo's position against China's strategic plans.

The traditional *Amae* drives the second strategic objective of the FOIP arrangement. Japan wants to keep the US engaged in Asia for its own security. Tokyo believes that the maintenance of a US-led world order based on free trade, multilateralism, and the rule of law is essential for its strategic autonomy, and it will compel China to change its attitude.³⁸ Concerned by the unpredictable Presidency of Donald Trump and lack of credibility over his military commitment to Asia and Japan, Tokyo is seeking a network of allies and partners in the Indo-Pacific.³⁹ The objective is to create a strong lobby to put pressure on Trump to respect the longstanding US commitments to Japan and Asian allies and prevent any imprudent US strategic retreat from the region.⁴⁰ Nevertheless, Tokyo is preparing for all kinds of contingency plans if, in any case, the US withdraws. After all, in the long run, a stable strategic partnership with like-minded Asian partners other than the US may help Japan break free from the much-criticized US-Japan *Amae* dependency.⁴¹

The wide and multifaceted transactional issues of Indo-Pacific demands multilateral cooperation.⁴² In the growing rivalry between Washington and Beijing, several countries such as Bangladesh, Cambodia, Indonesia, Kenya, Tanzania,

and Thailand are looking for a third way out.⁴³ Some of them believe that Tokyo's Indo-Pacific strategy or similar arrangements may provide the way out.⁴⁴

Japan's Indo-Pacific strategy engages Asia and Africa. It also connects the Pacific Ocean and the Indian Ocean. Though Tokyo considers ASEAN as the hinge point for her strategy, Japan recognizes the value of South Asia in this arrangement. It may be noted that the two key components of this project—"Bay of Bengal Industrial Growth (BIG-B)" and "Delhi Mumbai Industrial Corridor"—are in Bangladesh and India, respectively.⁴⁵ In a nutshell, the FOIP's consists of three pillars:

- Foster rule of law, free trade, and freedom of navigation;
- Pursuit of economic opulence for improving connectivity
- Commitment for amity and solidity through maritime law enforcement capacity building, humanitarian assistance and disaster response cooperation,

In light of these three pillars, the next section discusses the issues and dynamics of Japan's globalization and new-regionalism policies in South Asia before exploring the stakes for both Japan and Bangladesh under the FOIP arrangement.

South Asia- Japan Regional Partnership

Japan and South Asia share close historical, cultural, and religious links. Buddhism, one of the dominant religions of Japan, arrived from India during the Prince Shotoku era.⁴⁶ Nobel Laureate Rabindranath Tagore's Japan visit in 1916 and Indian nationalist's support of Japanese Pan-Asianism in the 1920s provide glimpses of Japan-South Asia partnership.⁴⁷ Despite these historical ties, until recently South Asia has never an attractive destination for Japanese trade and investment. Throughout the Cold War, relationships were only limited to official visits of statesmen, government employees, a few businesspeople and limited

non-official correspondences.⁴⁸ It was only after the end of the Cold War, relationship started to experience an upbeat. Kesavan and Varma, Dharmadasani, and Jain blamed South Asia's, mainly India's, ideological difference with Japan and insular economic policies for the Cold War era low profile relationship status.⁴⁹ During the 1990s, Japan started boosting up economic exchanges with South Asian countries. However, it is until recently due to the widening Chinese global footprint, Japan renewed its interest in South Asia, particularly in India, Bangladesh, Nepal and Sri Lanka.⁵⁰ Japan is now quickly approaching through multilateral frameworks to expand its regional and global footprint to counter China. Its emboldened focus on South Asia-Japan relations based on the FOIP framework; under the aegis of the US led Blue Dot Network is a case in point. Several factors drive Japan's interests in South Asia.

First, South Asia controls a strategically important sea-lane comprising the Arabian Sea, the Bay of Bengal, and of course, the Indian Ocean, which Japan considers vital for its trade and energy security. Japan is one of the largest trading partners of the Indian oceanic hinterlands and littoral countries. It imports raw materials and oil from the Middle East, South Asia, and South East Asia and exports a large quantity of finished goods there. Japan's decision to join IOR-ARC (Indian-Ocean Rim Association) as an observer state demonstrates its sincerity towards this region.⁵¹

Second, in recent years Japan has engaged itself proactively in global and regional peacekeeping and peace-building programmes. Japan played a critical role based on a "comprehensive security" framework to resolve the South China Sea conflict. For example, Japan sponsored several multilateral conferences to put a brake on the Cambodian political turmoil. This is a clear indication of new Japanese foreign policy directions. However, Japan has lately been severely criticized for its indifference to the Rohingya plight and decision to support Myanmar government's political grandiloquence.⁵² Japan preferred its economic partnership

with Myanmar over humanity and turned a blind eye to the ethnic cleansings against the Rohingya. Intense economic competition between China, India and Japan in this South and South-East Asia junction nation is evident.

Third, as mentioned earlier, the 'China factor' dragged Japan in South Asia. Japan is uncomfortable with the Chinese 'Belt and Road Initiative.' South Asia's strategic position, particularly the neighborhood (both immediate and extended) with China, is now under the microscope of every other world power, including Japan. Among all the South Asian countries, India is the most sceptical about China's engagement in South Asia. Haunted by the 1962 Sino-Indian border war defeat, India is suspicious about the Chinese BRI engagements in South Asia, particularly those of Pakistan's Gwadar and Sri Lanka's Hambantota. Under the emerging geopolitical reality, this brings immense strategic opportunity for both Japan and the US. India is now an integral part of the US-led BDN and Japan-led FOIP. Bangladesh has also shown scepticism to a few Chinese aid proposals. Bangladesh Government's cold shoulder to the Chinese proposal of the deep seaport in Sonadia or the US\$ 3.14 billion loan for the ongoing Padma bridge rail link are examples of that scepticism.⁵³ Bangladesh instead decided to go for the Japanese funded Matarbari deep seaport.

Fourth, Japan is against nuclear proliferation. After all, Japan is the lone nation in the world to suffer the acute effects of the atomic bombing, losing more than two-hundred thousand people in Hiroshima and Nagasaki. The 1998 India-Pakistan nuclear tests drew Japan's attention, and since then, played a mediator role between the two South Asian rivals.⁵⁴

Fifth, South Asia's diplomatic support can be crucial for Japan in international forums. For instance, Japan has a desire to gain a seat among the United Nations' Permanent Members, support of South Asian countries is vital for that quest.⁵⁵

There is no doubt about the prospects of South Asia. Major countries such as India, Pakistan and Bangladesh have

developed close cooperation with the EU, ASEAN, and MERCOSUR. Moreover, South Asia's image of poverty stricken region has largely changed. India's economy has been predicted to become the third-largest by 2032, while Bangladesh has been placed in the 'Next-11' due to impressive growth streaks.⁵⁶ These countries can be enormously benefitted from their bilateral and regional relations with Japan. Today, the Japanese economy ranks third with US\$ 5 Trillion.⁵⁷ The country is tech-savvy and has vast investment resources. In South Asia, the private sector has emerged as the engine of growth than its government counterpart. In this regard, Japanese investment and advanced technology can be brought to this region in a greater share than China or any other country.⁵⁸ Japanese private firms can be a powerful catalyst to the South Asian economies, because of their tech know-how, investment and advanced pieces of machinery to their nascent private sector.

Meanwhile, Tokyo's newfound interest in following the free trade agreements through bilateral, trilateral, or regional cooperation represents a significant departure from its *Sakoku* mentality of the past half-century.⁵⁹ Previously, Japan was a strong advocate of the non-discriminatory and multilateral trade regime, hence critical of the European Common Market.⁶⁰ Sudo argues that due to the Cold War dynamics, Tokyo only engaged with ASEAN nations demonstrating its respect for regional cooperation.⁶¹ In the early 2000s, Japan expanded the relationship under the ASEAN+3 framework. Besides, Tokyo integrated herself with Asia-Pacific Economic Cooperation (APEC), ARF (ASEAN Regional Forum), Asia Europe Meeting (ASEM), Asia Cooperation Dialogue (ACD), and Japan-China-ROK trilateral cooperation. Japan has also shown interest in building partnership with the SAARC.⁶² According to Shimizu, the policymakers in South Asia and Japan agree that the development of SAARC can significantly boost prosperity for Japan and South Asia.⁶³ Such potential has remained untapped largely due to the India-Pakistan rivalry and lack of

coordination among the South Asian countries. Despite the many challenges in South Asia, Japan considers pursuing regional peace and prosperity through connecting the South Asia and South East Asia is crucial for the FOIP success.⁶⁴ Bangladesh, which lies between these two regions, displays considerable strategic importance for Japan, geopolitically and geoeconomically.⁶⁵

Japan and Bangladesh: Stakes for Both Countries under the FOIP

Bangladesh and Japan may be placed in the different steps of the development ladder, but the two economies share complementary characteristics. While the former, a fast-growing economy, offers a large and young labour force, the latter can offer capital and innovation to leverage this asset.

Bangladesh has maintained an average of 6.5 percent growth over the last decade.⁶⁶ In 2018-19, it recorded 8.13 percent growth.⁶⁷ The Standard Chartered Bank predicts that with such an impressive growth streak, Bangladesh could become the world's 23rd largest economy by 2030.⁶⁸ Demographic dividend, infrastructure investment, improved energy supply and, last but not least, a stable government facilitated the growth. A rapidly growing middle-income group, now over 30-million, is creating a market at a mesmerizing speed never seen before.⁶⁹

Rising competition from China, uncertainties around global trade and maturing inland value chains enforced Tokyo to seek new ports-of-call. In this case, the Japan-Bangladesh partnership offers rewarding promises. However, their relationship is nothing new. Dating back to the independence of Bangladesh, their relationship is a truly tested one, yet, its potential remained largely untapped. According to 'G7 to E7: The Standard Chartered Trade Performance Index,' with a proper regional trade and investment arrangements, Japanese export to Bangladesh can grow at least 30% annually.⁷⁰

Japan possesses a US\$ 670 billion import basket.⁷¹ Bangladesh's share in this basket is only 0.2 percent.⁷² Bangladesh can export a wide variety of products such as leather and textile goods, plastic, light engineering to Japan. Every year, Japan imports more than US\$ 100 billion worth of such products. If Bangladesh can use the opportunity and increase its' share to at least 1 per cent which amounts to US\$ 6 billion, that will boost up the trade.⁷³ Joining the FOIP highway can provide Bangladesh with such opportunities. As Dhaka is looking to widen its export destination, the hybrid regional order can be a blessing in that pursuit, particularly in Asia.

According to the Bangladesh Export Promotion data, in 2018 Asia's share (14%) in Bangladesh's export is smaller than Europe and North America.⁷⁴ At least 52 per cent of Asia's trade is inter-regional, accessing the FOIP will provide Bangladesh greater market access into that trade than now. Also, Japan's foreign direct investment as part of that large connectivity project can bring much needed diversity. Textiles and RMG make up more than 80 per cent of Bangladesh's export basket.⁷⁵ If Bangladesh wants to project itself as a future Asian economic force, such composition needs to be changed. For example, Vietnam, a neighbour whose macroeconomic indicators and GDP are comparable to Bangladesh, shows why diversity is important. During the 1990s, Bangladesh and Vietnam exported almost a similar amount in dollar values.⁷⁶ In 2018, Vietnam's export earning was nearly six times of Bangladesh.⁷⁷ Vietnam's General Statistical Office opines that FDI is responsible for the bulk of such export gains. High-tech investment by giants such as Samsung and Intel greatly diversified Vietnam's export and inspired homegrown tech start-ups.

Japanese Official Development Assistance (ODA) in Bangladesh

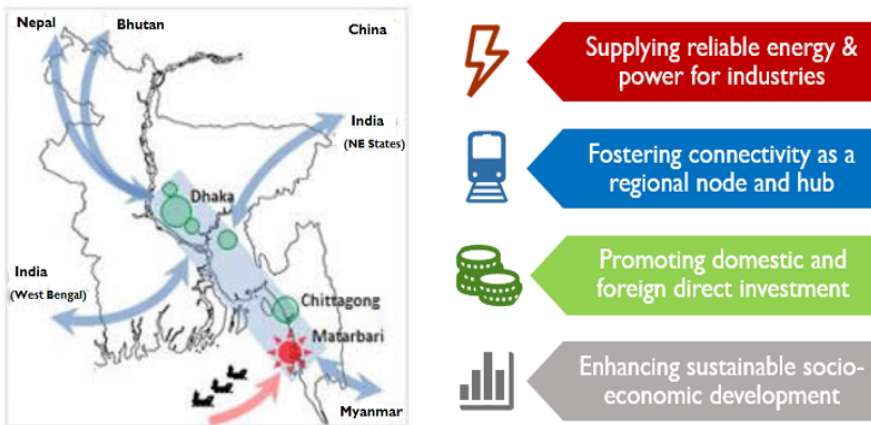
Japan's first ODA, amounting to US\$15 million, was mostly used as a food and commodity assistance from Japan to

reduce the food deficit in Bangladesh.⁷⁸ At the same time, it helped to adjust the balance-of-payment problem through necessary financing for imports. Over the years, Japanese aid increased, and by the 1980s, it became the largest annual donor of Bangladesh.⁷⁹ Today, Japan's total ODA support to Bangladesh stands US\$ 11.3 billion.⁸⁰

In 2014, two countries entered a new height of the bilateral relationship with a clear economic vision.⁸¹ In Tokyo in May 2014, Abe and Hasina (the Prime Ministers of Japan and Bangladesh respectively) agreed to form the 'Japan-Bangladesh Comprehensive Partnership,' and Abe announced US\$ 6 billion support, mostly in the form of ODA.⁸² As a follow-up, in September 2014, Abe and Hasina met again in Dhaka and declared the initiative of "the Bay of Bengal Industrial Growth Belt," or BIG-B. A part of Tokyo's Indo Pacific strategy, the BIG-B seeks to boost industrial assemblage along the Dhaka-Chittagong-Cox's Bazar belt and beyond, by creating a ring of economic infrastructure, thereby, fostering connectivity, and improving the investment climate. The overall aim is to yield mutual benefits and prosperity to both Japan and Bangladesh using Japan's cutting-edge technologies and socio-economic development experiences. Bangladesh is strategically located between South and South-East Asia. Also, the impressive growth streak of the country has boosted the confidence of Tokyo. Japan believes that through the BIG-B, Bangladesh will turn into a sparkling trading gateway between the two regions and will deeply integrate herself in the Indo-Pacific inter-regional and global value chains.

Figure 1: BIG-B Initiative (The Bay of Bengal Industrial Growth Belt)

Accelerate industrial agglomeration in Dhaka-Matarbari belt and beyond to shape a value chain hub for South and South East Asia



Source: JICA, reconstructed by the author.

According to the *Global Competitiveness Report 2019*, Bangladesh ranks 105 out of 141 countries in terms of doing business.⁸³ Tokyo closely follows such reports. In her 'Country Assistance Policy—Bangladesh (CAP-B),' Japan points out three major barriers to the economic and industrial activities in Bangladesh: short of energy and power supply, poor traffic and transit networks, weak infrastructure for connectivity.⁸⁴ In addition, Tokyo stresses to address the challenges in health, education, private sector, and urban development. The 'CAP-B' outlines the overall ten programmes to address the said issues. Appendix 1 highlights the most featured projects under each programme.

In 2019 Japan was willing to provide further assistance to Bangladesh. In May 2019, Prime Minister Sheikh Hasina visited Tokyo on the occasion of signing of the 49th ODA deal worth alongside with her Japanese counterpart Shinzo Abe.⁸⁵ This ODA deal came as an extension of the 2014 CAP-B. Development projects to be financed under the latest ODA include Dhaka Mass Rapid Transit Development Project (Line 1), Matarbari Port Development Project (1), Energy Efficiency and Conservation Promotion Financing Project (Phase 2),

Foreign Direct Investment Promotion Project (II), and Matarbari Ultra Super Critical Coal-Fired Power Project (V).⁸⁶

Despite a decade long rapid economic growth, Bangladesh receives poor credit and investment ratings.⁸⁷ According to Standard and Poor, limited fiscal flexibility, high debt-servicing costs, poor infrastructural facilities, administrative and institutional weaknesses are the reasons behind such poor rating.⁸⁸ The silver lining of such poor rating is that all those weaknesses place Bangladesh into Japan's ODA criteria, as Tokyo plans to expand its assistance programme to developing countries to gain socio-economic prosperity and growth to maintain a stable global economy. The goal of an ODA loan to Bangladesh is to prepare the country to be self-sufficient, equitable and just.

It should be noted that as a top development partner, Japan never interfered with the internal affairs of Bangladesh. As a result, Japan always gained Bangladesh's confidence, including goodwill from Bangladeshi media and civil society regularly. It gives hope to the Bangladeshi government that Japan's ODA will not be linked to either its political or commercial situations. The loan will be more focused on sectoral diversity and the economic empowerment of Bangladesh.

Japan's ODA to Bangladesh consists of technical assistance and grant aids. The assistances address a range of priority areas in the country to assist its goal in poverty reduction, agricultural productivity, rural advancement, human and social development (basic education, healthcare, polio and arsenic, etc.), disaster readiness.⁸⁹ The ODA also assists in infrastructure improvement (sectors like communication and transportation, mining, electricity, and manufacturing, etc.), which will not only improve the export promotion and investment climate but also will expedite the macroeconomic development of Bangladesh.

Bilateral Trade Relations

Over the years, Japan has become a significant trading partner of Bangladesh. However, the partnership has not been satisfactory so far. Table 1 indicates the scenario through its export and import from the year 2017 situation.

Table 1: Import and Export of Bangladesh in 2017

Import			Export		
Partner Country	Product Groups	Import (US\$ Millions)	Partner Country	Product Groups	Export (US\$ Millions)
China	All	15,083.01 (34%)	Germany	All	6,107.96 (16%)
India	All	7,047.82 (16%)	US	All	5,811.53 (15%)
Singapore	All	2,547.34 (5.80%)	UK	All	3,563.45 (9.10%)
Japan	All	1,684.29 (3.80%)	Spain	All	2,788.31 (7.11%)
Indonesia	All	1,596.50 (3.60%)	France	All	2,771.37 (7.10%)
Hong Kong, China	All	1,504.79 (3.40%)	Italy	All	1,559.99 (4.0%)
Malaysia	All	1,498.38 (3.40%)	Netherlands	All	1,415.21 (3.60%)
South Korea	All	1,276.13 (2.90%)	Japan	All	1,149.18 (2.90%)
Italy	All	758.87 (1.70%)	Canada	All	1,188.49 (3.0%)
Pakistan	All	635.53 (1.40%)	Russia	All	884.89 (2.30%)

Source: Prepared by author, based on *The Observatory of Economic Complexity*.

As of 2017, Japan is Bangladesh's fifth largest import and ninth-largest export partner.⁹⁰ Though in dollar terms, the trade gap is widening between Japan and Bangladesh, the ratio of exports to imports has been growing, signifying Bangladesh is gaining in the export growth against its import growth.

The Japan-led Bay of Bengal Industrial Growth Belt (BIG-B) aims to prompt industrial agglomeration in the Dhaka-Chittagong-Cox's Bazar belt zone and beyond. The key objective of the project is to improve connectivity, including the construction of a thermal electricity power hub and a deep seaport in the Matarbari.

Japan exports various types of goods to Bangladesh, including automobiles, industrial machinery, mechanical appliances, paper, garments, chemicals, petroleum products, textile materials, car tires, knitwear, cement related and other small merchandise, etc.⁹¹ The Global Trade Information Services, Inc. (GTI) reports that electronic goods and machinery are the fourth-largest product Bangladesh imports from Japan, followed by steel and iron, machinery, and automobiles. Japanese automobiles and electronics are trendy, and with a rapidly growing middle class in Bangladesh, these items' demand is quickly growing. Though Bangladesh imports cars and other automobiles from the US, Germany and India, most of Bangladesh's cars are Japanese made. Toyota, Nissan, Honda, Mitsubishi, etc. are dominating the market, and Bangladeshi's working in Japan associated with the reconditioned car business.

Bangladesh's Prospective Sectors

Bangladesh has comparative advantages in several sectors, thanks to its' large and extremely cheap labour force. Ready-made garments (RMG), agricultural and chemical goods, shoes, leather goods, pharmaceuticals, ceramics, textile, information technology (IT) and computer software, jute crafts, frozen foods including shrimp are the key export items of Bangladesh, with tremendous potential for expansion. In

particular, the RMG and leather goods have significant prospects of marketing in Japan, which so far remained mostly unexploited in comparison to the US and EU markets. During the early 2000s, Bangladesh attempted to tap the Japanese RMG market but failed due to China's huge presence there.⁹² China occupies roughly 80 per cent of Japan's total RMG import.⁹³ Apart from the China factor, other snags from Bangladesh's end included the perceived poor quality of products, lack of competitive price, and delivery delays. In recent years, however, things started to shift towards Bangladesh's favours. The rising labour cost in China has opened new opportunities in the Japanese market. In 2019, Bangladesh enjoyed a 31 per cent increase from the previous year in RMG exports to Japan to \$1.03bn.⁹⁴ Japan is now the 8th largest RMG export destination after the USA, Germany, UK, Spain, France, Italy, Canada and Poland. Other factors also helped this uptick. In 2014, the Bangladesh government announced a 4 per cent export incentive for searching a new market, encouraging exporters to remove the barriers hitherto largely unexplored Japanese market.⁹⁵ Another pull factor for the lift is the recent easing of the rules of origin (RoO) by Japan (and China).⁹⁶ The RoOs are standards for determining the origin of a product. These standards vary from country to country and levy duties and restrictions in cases based on available information.

A media report claims that at least 5,000 Japanese companies are looking for alternative investment opportunities.⁹⁷ The same report stressed that attracting them can offer smooth incorporation in the global value chains, technology transfer and sharing, growth in the pool of skilled laborers for Bangladesh. Besides, welcoming these Japanese companies in Bangladesh may trigger technology spill over, immensely beneficial for local firms. The Vietnam case demonstrates how such FDI investment can promote innovation in an economy and diversity in the export basket.

There are several competitive advantages of Bangladesh to attract FDI inflows from around the world and Japan in

particular. Bangladesh, located between China and India, provides an excellent geostrategic and geo-economics advantage to Japan. It has easy access to the international seas and airways. All these factors make Bangladesh an ideal place for manufacturers to enter the market with their products, particularly in the Asia-Pacific region. Bangladesh has the potential to act as a bridge between the SAARC and ASEAN nations with gifted endowments of natural resources. Moreover, the country is bringing a favourable legal framework and proper infrastructure to promote private sectors and private investments. Japan has a remarkable amount of cumulative savings but faces an aging population. Therefore, Japanese MNCs are willing to invest in countries outside Japan where labour is abundant and to get an acceptable return on their investment.⁹⁸ On the other hand, Bangladesh has been showing great growth prospects over the last few years in comparison to developed countries, which make it a lucrative region to invest for private MNCs over the world.

Foreign Direct Investment (FDI)

Japanese foreign direct investment (FDI) in Bangladesh began in 1977 and accelerated in the early 1990s when Bangladesh introduced liberal policies in the economy.⁹⁹ As of 2019 Japan ranks eighth in the FDI inflows in Bangladesh after the UK, Singapore, China, South Korea, the US, etc.¹⁰⁰ According to the *UNCTAD's World Investment Report 2019*, Bangladesh received \$3.61 billion FDI in 2018.¹⁰¹ Among the largest of the 2018 FDI inflow was the Japan Tobacco Inc's \$1.47 billion acquisition of Akij Group's tobacco business.¹⁰²

During 2005, a total of 61 Japanese companies were operating in Bangladesh, and approximately 21 worked in the export processing zones (EPZs) and 40 outside the EPZ.¹⁰³ As of December 2019, the total number rose to 300.¹⁰⁴ According to the Japan External Trade Organization (JETRO), Bangladesh is to become the top choice Japanese firm's

business expansion in the next 1-2 years, thanks to cheap labour and high profitability.¹⁰⁵

By November 2019, Japanese private has invested roughly \$326 million, excluding the Japan Tobacco and Honda investment.¹⁰⁶ It may be noted that the automobile giant Honda inaugurated its lone manufacturing plant in Munshiganj in the same year, with the support of Bangladesh Steel and Engineering Corporation for Tk 230 crore (approximately \$271 million).¹⁰⁷

Bangladesh is an attractive choice for Japanese multinational companies (MNCs). However, the question remains: why has it not happened yet? It is not like those MNCs care about the gap in income or population of the host countries. Even so, they have been neglecting the South Asian countries, including Bangladesh, for years. During the early 2000s, Japan's export-oriented investments were dependent on the geographical distance between host and home countries.¹⁰⁸ Moreover, countries with similar cultural and philological background get preference from Japanese MNCs. MNCs are also privy to the quality of infrastructure of the host countries for their ventures. Japanese companies, however, due to increased global competition, giving less priority to geographical and cultural juxtaposition. They are more interested in diversity, especially in South Asia, including Bangladesh.

For the past couple of years, Bangladesh is trying to incentivise Japanese MNCs through several means, such as duty-free machinery import, tax holiday up to first ten years, concessionary tax up to five years after ten years, double tax avoidance, remittance of royalty and fee for technical assistance, etc.¹⁰⁹

Challenges the Two Countries Face

Environmental Concerns

The Matarbari Coal Power Plant is a major energy security project. Everything is well chalked out, including an impressive environmental impact assessment (EIA) plan, conducted by Tokyo Electric Power Services Co. Ltd (TEPSCO).¹¹⁰ A hefty amount equivalent to US\$ 3.8 million has also been allocated for the control of the misgivings of the Plant (CAP-B, 2014).¹¹¹ It may be noted that Japanese pollution control technologies, such as those made by the 'Japan Society of Industrial Machinery Manufacturers', are widely revered by many countries.¹¹² Yet, Bangladesh's poor reputation for implementation and management precedes any well-charted project scheming. For instance, the Barapukuria Coal Mining project has been blamed for land subsidence and compromised soil fertility.¹¹³

The 1200-Megawatt Japan-funded Super Coal Thermal project is built by the sea in Cox's Bazar's Moheskhali upazilla. The project is crucial to meet the demand for Bangladesh's growing hunger for electricity. Experts claim that the plant can have a devastating impact on the nearby environment, and the Government approved environmental management plan may not be enough to curb the impact.¹¹⁴ According to Dr. Abdullah Harun Chowdhury, Professor of Environmental Science Discipline at Khulna University,

Coal will be transported through the sea and unloaded through a deep-sea port. This means a huge number of large commercial coal-laden vessels will navigate on the sea-route.¹¹⁵

Combined with the usual pollutions of the plant—solid waste production, noise and air pollution—for Matarbari, it critically exposes the marine resources of the area to thermal pollution. According to Department of Environment's (DoE) 2013 Environment Impact Assessment (EIA) report, the Plant

will discharge water averaging 40°C, six degrees higher than the sea water temperature.¹¹⁶ Though, EIA claims it will not disturb the water quality and aqua resources, marine experts note otherwise. They claim the heated water will disturb the oxygen level and nutrient mixing in the nearby water. Sea fishes will be adversely affected by such developments as they are used to spawn in the underwater network of mangrove roots and patches and in the shallow waters of the bay. The EIA acknowledged that the beach area in front of the plant is habitat of at least four endangered species of turtles, including one of IUCN's red listed threatened species-- Hawksbill Turtle.¹¹⁷ Any further degradation of the habitat will easily push them towards total extinction, or genetic alteration. Alifa Bintha Haque, lecturer at the Department of Zoology at Dhaka University says,

when the temperature of the sand where the turtles spawn, rises even by a degree, it can potentially change the sex of the turtles. A degree higher temperature and all turtles are born females.¹¹⁸

Such scenarios can be avoided by the strict practice of the mitigation plan, such as reducing noise levels, lessening the impact of light, particularly at night, installing low-wattage light, yellow, or red lights.

Sonadia Island's proximity to Matarbari area is another problem. The island is only 15 kilometres away from the plant. Prospective anthropogenic activities owing to the Coal Power Plant will no doubt endanger the biodiversity of the island. Sayam U Chowdhury, a Conservation Biologist claims,

If the environment management plans of Matarbari Coal Power Plant fail..., the critically endangered Spoon-billed Sandpiper along with 27 other species of shorebirds will be affected. Moreover, Sonadia is a key nesting area for turtles; water contamination will pose a huge threat to all creatures that are dependent on tidal water.¹¹⁹

Of course, the mitigation plans to protect the Matarbari biodiversity and ecologically sensitive areas is promising, but the concern is the long-term impacts, such as any accidents or failure owing to Bangladesh's weak regulatory reputation and corruption.

Governance Challenges

Japanese ODA support often received criticisms for their less responsiveness to the misgivings of large-scale infrastructure projects. The Karnaphuli Fertilizer Company (KAFCO) project, infamously known as the KAFCO deal, is an example. Considered as one of the most corrupt deals of Bangladesh, the project dragged the Japanese aid under scrutiny. One of the largest investors of the project, the Japanese company Marubeni, allegedly cleared the project through the extensive bribing of government ministers and officials.¹²⁰ The deal created many uncertainties among investors at that time.¹²¹ However, a renegotiation of terms including financial restructuring and installation of stringent audit bailed out the project later.¹²² More than two decades have passed since then, and the Japanese recovered its aid reputation quite impressively. The recent completion “Kanchpur, Meghna and Gumti 2nd Bridge Construction and Existing Bridges Rehabilitation Project” ahead of the deadline and with less cost than initially estimated is a testimony of that recovery.¹²³

Another challenge for any trade and business in Bangladesh is the very stringent and painful letter of credit (LC) system in our banking sector.¹²⁴ Any foreign private company (including Japanese) will be deterred to do business for such painful LC process.

Conclusions

The rise of non-traditional security threats is a wake-up call for human civilizations. Nations now seek for a new strategy to shield themselves from these threats. Indeed, economic and development assistance, foreign investment and risk

sharing, innovation and technology transfer, trade and commerce are the key to address the non-traditional security threats. However, the security cannot be achieved through a single and confined economic alliance. Only hybrid regional alliances can stand up against such threats. The next global growth and leadership are going to come from Asia and Africa. Therefore, the role of hybrid economic integration in the Indian and Pacific oceanic zones is vital. Economic superpowers such as China, the USA, and Japan do not want to lose that opportunity. Japan, among the three, has less political and more economic ambitions, which makes Japan popular among the developing countries.

Japan has long neglected South Asia. However, recent South Asian economic reforms, the September 11 incident, and the 'China factor' forced Japan to rethink its strategy towards South Asia. Japan's FOIP proposal strongly focuses on Tokyo's new engagement policy with this part of the world. Bangladesh is one of the biggest beneficiaries of this hybrid regional economic order. BIG-B testifies how significant Bangladesh's role will be in the FOIP. A real exception to Japan's past negligence to South Asia, Bangladesh is the largest ODA recipient from Tokyo since its independence. Although Japan's recent indifference towards the Rohingya ethnic cleansing may have upset many in Bangladesh, the financial blessings Tokyo brings to the country are way rosier. Japan's contribution in helping Bangladesh gain economic self-sufficiency knows no bound.

Nevertheless, the full potentials of the Japan-Bangladesh economic partnership remain mostly untapped. Bangladesh's remarkable economic growth over the past few years encouraged Japan more to view Bangladesh as a prospective ports-of-call. It poses an excellent opportunity for Bangladesh as there is excellent potential to expand its export to Japan. There are several competitive advantages for Japan to expand its business in Bangladesh. Bangladesh's geopolitical location gives it a great advantage. The new incentives to attract new foreign investment are helping the situation even more. By

understanding the need for proper infrastructure to attract new investment in Bangladesh, Japan is investing heavily. Bangladesh possesses a large pool of semi-skilled and skilled labour. For Japan, a country facing an acute shortage of labour force, Bangladesh presents an excellent opportunity for Japan to utilize the abundance of Bangladeshi labour relatively cheaply. Japan has identified several hindrances towards a healthy economic partnership between the two countries. The shortage of power and energy, poor traffic control and transit network, weak administrative and infrastructure in Bangladesh are some of the critical challenges against creating a thriving business environment in Bangladesh. Therefore, Japan is providing multi-billion-dollar ODA support to remove these hindrances. However, Japanese investments are not immune to challenges. Environmental misgivings and Bangladesh's poor transparency and implementation record may challenge Japanese investment in the country. Bangladesh's hefty trade deficit is another problem. Japanese innovation and foreign direct investment will help Bangladesh to diversify the latter's export items to reduce the gap.

From a business perspective, there is a tremendous cultural gap in conducting business between the two countries. With Japanese help, Bangladesh can train its labour force to reduce the cultural gap. One of the keyways to do that is face-to-face communication. Bureaucracy and institutional rigidity should be minimised if complete elimination is not possible in the short term. In the banking sector, opening an LC for import is a hassle. Authorities should make the process easier to attract more foreign investment. Finally, companies over the world are more concerned about a healthy investment environment while they are conducting their business. Japanese recent ODA's under the aegis of FOIP may help lift the rating.

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Appendix 1: Key Projects funded by Japan in Bangladesh

	Programme	Key Projects
1.	Programme for Stable Power Supply	New Haripur Power Plant Development Project (I) and (II) Bheramara Combined Cycle Power Plant Development Project (Services for survey/design (E/S) and Loan) Rural Electrification Upgradation Project Grid Substations & Associated Transmission Lines Matarbari Ultra Super Critical Coal-Fired Power Project Collaboration Programme with the Private Sector for Disseminating Japanese Technology for Pre-Paid Gas Meter
2.	Transport and traffic networks	Eastern Bangladesh Bridge Improvement Project The Kanchpur, Meghna, and Gumti second Bridges Construction and Existing Bridges Rehabilitation Project (I) Western Bangladesh Bridge Improvement Project
3.	Private Sector Development Programme	Telecommunication Network Development Project Financial Sector Project for the Development of Small and Medium-sized Enterprises
4.	Urban Development Programme	Dhaka Mass Rapid Transit Development Project (I) Chittagong City Outer Ring Road Project Karnaphuli Water Supply Project (Phase 1&2) Khulna Water Supply Project
5.	Maternal and Child Health/Health System Strengthening Programme	Maternal, Neonatal and Child Health Improvement Project (Phase 1) (Health, Population and Nutrition Sector Development Programme) Quality Improvement Initiative for Newborn Health Care (QII-NHC)

	Programme	Key Projects
		Project for Enhancing Nursing Practical Trainings and Nurses' Service Delivery at Public Hospitals
6.	Basic Education Improvement Programme	Poverty Reduction Support Grant Aid Strengthening Primary Teacher Training on Science and Mathematics (Phase 2) Project for Capacity Building on Human Development Television (HDTV) Programmes
7.	Rural Development Programme	Northern Bangladesh Integrated Development Project South Western Bangladesh Rural Development Project Small and Marginal Sized Farmers Agricultural Productivity Improvement and Diversification Financing Project
8.	Disaster Management/Climate Change Programme	Haor Flood Management and Livelihood Improvement Project New Hariপুর Power Plant Development Project (I) and (II) Bheramara Combined Cycle Power Plant Development Project Bangladesh Urban Earthquake Resilience Project
9.	Administrative Capacity Improvement Programme	Inclusive City Governance Project Northern Bangladesh Integrated Development Project Strengthening Pourashava Governance Project Project for Improving Public Services through Total Quality Management
10.	Cooperation with participation from Japanese citizens	Japan Overseas Cooperation Volunteers (JOCV)

Source: Based on Rolling Plan for the People's Republic of Bangladesh-2014, Country Assistance Policy.