

A Study on the Prospects and Challenges of Japanese Trade and Investment in Bangladesh

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Abstract

Foreign investment and trade have become essential for the sustainability of economic growth of the countries in the modern era. It is even more valid for developing countries like Bangladesh. As Japan is the biggest development partner of Bangladesh, the role of Japan is very significant in this regard. Historically, Japanese investment and trade have contributed to the socio-economic development of Bangladesh to a considerable extent. On the other hand, the “economic diplomacy” is a key element of Japanese foreign policy and the contemporary geopolitical reality has made Japan more interested in the countries of South Asia to secure its broader strategic interests. So, there is a huge opportunity for Bangladesh to attract more Japanese investment and trade which can take the economic growth of this country to the next level. The government of Bangladesh needs to be more active to have an effective collaboration with its Japanese counterpart. In addition, Bangladesh must remove the impediments in this regard. This qualitative study critically analyzes Japanese trade and investment attitudes towards Bangladesh. This research further contributes to the literature of the trade and investment situation of Bangladesh as well as specially how Japan can find opportunities and challenges in this climate. This study finds that although Bangladesh is very lucrative for trading and investment for Japan, much remains to be done. Therefore, Bangladesh should focus on developing those key areas to attract Japan even more.

Keywords Japanese Investment and Trade, Japan-Bangladesh Relations, Japanese Megaprojects, Geopolitics

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1. Introduction

Japan is considered one of the world's biggest financial backers. As one of the leading trading nations, Japan always tried to maintain a good financial relationship with other countries of the world. Worldwide trade is the backbone of Japan's economy in numerous regards. In 2021, Japan's total value of imports and exports were US\$ 700 billion and US\$ 731 billion respectively (The Observatory of Economic Complexity, n.d.-a). It made Japan the world's fifth largest trading country after China, the U.S., Germany and the Netherlands. Trade was once the main part of Japan's worldwide economic relations. However, during the 1980s, quickly developing foreign investments added another and progressively significant measurement, expanding the skylines of Japanese business and lifting Japan's status across the world. Japan holds a prevailing spot in the Asian region where its economy is by a wide margin one of the biggest. It has a significant part in the regional trade and venture streams and is profoundly associated with Asian economic matters as far as trade, investment, and monetary assistance. Japanese investments and assistance programs throughout the countries of Asia reinforces the financial incorporation of Japan in this part of the world. In this regard, Japanese foreign policy relies on "economic diplomacy". In post-World War II era, Japan became interested in economic diplomacy in order to achieve economic growth. The economic diplomacy of Japan can be simply perceived as maintaining warm relations with those countries which are potential markets for Japanese goods and services (Mamun, 2018).

Until the end of the 20th century, South Asia had been considered a distant neighbour from the Japanese perspective and this region was not actually at the focal point of Japan. However, Japan started to focus harder on this area from the beginning of the 21st century. It was simply because of the rise of China as a superpower both in terms of military and economy which eventually turned the geopolitical situation of the Indo-Pacific region into a volatile one to a considerable extent. In addition, most of the total population of the world dwells inside the Indo-Pacific region and it produces the greater part of global GDP, with almost half of the worldwide trade going through it. South Asia is located at the centre of the Indo-Pacific region and Japan should keep an observable presence across the countries of this locale to maintain its status as a significant force in the international arena. South Asia has become the discretionary need for Japan and Japan is persistently extending its monetary cooperation with this region, with a highly significant amount of Japanese Official Development Assistance (ODA) making its way to South Asia.

The "Official Development Assistance" (ODA) generally refers to government aid which aims at promoting and sustaining the socio-economic development process among under-developed and developing countries. Among the Indo-Pacific Countries, with specific notice to Bangladesh, it should be noted

that since the beginning of diplomatic relations, Japan has been giving ODA to Bangladesh on a regular basis to create a better future for the Bangladeshi people. Later on, Japan became the biggest development partner of Bangladesh. On the other hand, Bangladesh has consistently appreciated Japan, promising to help it in seeking genuine objectives in foreign relations. In any case, the monetary differences between the two sides ought not to be neglected, particularly in the case of bilateral trade and Foreign Direct Investment (FDI). Here, the term “bilateral trade” can be perceived as the exchange of goods and services among private sector businesses of two different countries; and the term “Foreign Direct Investment” (FDI) generally refers to an investment from a business or corporation of one country into a business or corporation of another country. Since economic diplomacy is a key element of Japanese foreign policy, Japan conducts such diplomacy in countries like Bangladesh through ODA, FDI, and trade. The Japanese government usually drafts the ODA agreements in such a way that it favours Japanese trade and investment in the recipient country. However, despite the size of Japan’s ODA to Bangladesh, this country failed to attract more Japanese investments compared to other countries of South and South-East Asia. Be that as it may, as of late, Japan chose to follow the “China Plus One” approach². Because of it, Japan is trying to relocate its production base to Asian countries other than China. In addition, both Japan and Bangladesh are currently considering signing a Free Trade Agreement (FTA). These variables would open up enormous scopes for Japan’s exchange and interests in Bangladesh. Therefore, this study attempts to discover the hindrances and the future prospects considering the trade and investment of Japan in Bangladesh.

2. Literature Review

2.1 Japanese Official Development Assistance (ODA)

Since the revival of Japan as an economic power in the post-World War II era, it has perfectly utilized one of the world’s greatest forms of soft power – the use of ODA. Although the initial objective behind Japanese ODA was to facilitate the economic growth, the reduction of poverty, the promotion of democratic values and the prosperity of free market economy in Japan, however, with changing trends around the world, Japanese ODA soon became an economic development and output-oriented aid for many (Tsunekawa, 2014). For years now, Japan has been one of the largest bilateral ODA donors for multiple countries (Feasel, 2014). In addition, the monetary amount of ODA received per Fiscal Year (FY) by the receiving countries has increased annually (Huda, 2016). Behind this

² China Plus One: In early 2000s, Japan decided to relocate its investments and companies from China to somewhere else (mostly to South-East Asian countries) because the production cost in China rose sharply. This approach of relocation is generally known as “China Plus One” (Mamun, 2018).

generosity of providing countries ODA lie the national interests of Japan which include not only the economic interests but also the non-economic ones of this country. The Japanese government smartly uses the ODA as a diplomatic tool (Alam, 2022). However, for the receiving countries, even if they need to reciprocate the favour, these ODAs are nothing but blessings for some. Despite the underlying goals and interests of Japan, an econometric longitudinal analysis using a panel dataset of 117 countries shows that Japanese ODAs differ significantly compared to the Western form of aid assistance, and in most cases, Japanese ODAs successfully promoted socio-economic growth in the receiving countries (Momita et al., 2019). Japanese ODA focuses on the development of economic infrastructure of the recipient countries so that they can gradually achieve self-sufficiency (Feasel, 2014). It basically creates a win-win situation for both Japan and the recipient country.

2.2 Japan's Economic Assistance towards the Prosperity of Bangladesh

Like elsewhere, Japan's ODA attempted to promote substantial growth in Bangladesh too. The relations between these two countries go back as early as 1972. Japan was one of the first few countries to recognize Bangladesh as an independent and sovereign state. Since then, Japan remains one of the closest allies of Bangladesh as well as the largest bilateral economic partner of this country. In the FY 2021-22, Japan pledged to give Bangladesh US\$ 2.36 billion as ODA (Embassy of Japan in Bangladesh, 2022). It was the total amount of the 42nd Japanese ODA loan package to Bangladesh. In the previous fiscal year, Japan confirmed that Bangladesh would get US\$ 3.2 billion for the 41st ODA loan package (Embassy of Japan in Bangladesh, 2020). Japan's investment and trade in Bangladesh have seen an increase as the years followed. However, compared to Japan, Bangladesh suffers from a large trade deficit with it (Atahar, 2014). Overshadowing this trade deficit are the advantages and benefits Bangladesh receives from Japan through its trade and investment. Bangladesh is slowly growing into a regional economic hub along with its process of transforming into a developing country. The purchasing power of Bangladeshi consumers is also gradually increasing. In addition, the geopolitical and geostrategic advantages of this country cannot be overlooked. Hence, Bangladesh is now one of the most lucrative countries to invest in (Manzoor & Chowdhury, 2017). As the China factor is on the rise and India is trying to be an independent power in the South Asian region, Bangladesh remains as the best option for Japan to trade and invest in.

2.3 The Trade Relations between Japan and Bangladesh

Bilateral trade began between Bangladesh and Japan immediately after the initiation of official diplomatic relations. Over the years, Bangladesh has been significant to Japan in terms of trade to a considerable extent (Alam, 2022). Japan considered Bangladesh a potential big market for its products. The huge

population of Bangladesh was the main reason behind this. But the volume of the bilateral trade between these two countries did not increase much in the previous decades due to various reasons. These reasons include the poor infrastructure, severe red-tapism, procrastination in ports and customs, intense corruption, poverty, political instability, lack of security etc. in Bangladesh. All these reasons and factors created a poor business environment in Bangladesh which ultimately hindered the growth of trade between this country and Japan (Raj, 2022). However, Japanese products have always been popular among the Bangladeshis due to the superior quality of those products. In order to promote and increase the Japan-Bangladesh bilateral trade along with Japanese investments in Bangladesh, the “Japan-Bangladesh Chamber of Commerce and Industry” (JBCCI) was founded in 2004 through the support of “Japan External Trade Organization” (JETRO) (Akon et al., 2019). JETRO is a Japanese government-affiliated organization which mainly promotes trade and investment. This organization started its activities in Bangladesh back in 1973 (Alam, 2022).

It is true that Japan is not the largest trading partner of Bangladesh and there is a considerable trade deficit between these two countries. But this trade deficit is much lower compared to the trade deficit of Bangladesh with its other major trading partners (Raj, 2022). In 2021, Bangladesh’s total value of exports to Japan was US\$ 1.44 billion and the total value of its imports from Japan stood US\$ 2.28 billion (The Observatory of Economic Complexity, n.d.-b). Bangladesh mainly exports knitwear, raw jute and jute goods, leather and leather products, agro-products, footwear, frozen food etc. to Japan (Akon et al., 2019). Bangladesh exported US\$ 233 million worth knit sweaters to Japan in 2021. It accounted for 16.2% of its total exports to the Japanese markets in that year (The Observatory of Economic Complexity, n.d.-b). Bangladesh has been able to export more products to Japan in recent years because of the easing of the “Rules of Origin” (RoO) for the products originated from the under-developed states (Star Business Report, 2015). The RoO is an Important factor in international trade. The duties and restrictions of some products depend upon the source of imports and the RoO are generally the criteria needed to determine the country of origin of a product.

On the other hand, Bangladesh mainly imports automobiles, iron and steel, ships, machinery, spare parts, mechanical appliances, electrical and digital appliances, medical and surgical instruments etc. from Japan (Akon et al., 2019). Among these products, Bangladesh imported Japanese cars valued US\$ 350 million just in 2021 which accounted for 15.4% of its total imports from Japan in that year (The Observatory of Economic Complexity, n.d.-b). The products and items made in Japan have always been popular in Bangladesh and the demand for these products has been constantly increasing. The governments of both countries are taking necessary steps to expand the scope and to increase the volume of bilateral trade. The trade relations of these two countries have overcome the negative impacts of the Covid-19 pandemic. Even, the trade volume

between these two countries has surpassed the pre-Covid level (The Observatory of Economic Complexity, n.d.-b). The governments of both countries are eager to retain this success in the years to come.

2.4 Japan's FDI in Bangladesh

Japanese FDI has also been increasing in Bangladesh like Japanese ODA and trade in recent years. Due to the new geopolitical reality of the contemporary world, Bangladesh has turned out to be an important country for Japan. As a result, Japan's economic cooperation with Bangladesh is on the rise which includes the recent increase of Japanese FDI in this country as well (Alam, 2022). Prior to the 21st century, Bangladesh did not have much importance to Japan because of its poor socio-economic conditions (Moni, 2006). As the per capita income and the purchasing capability of Bangladeshi people increased over the years, the overall socio-economic condition of Bangladesh improved to a considerable extent. It is also one of the major factors that contributed to the increase of Japanese FDI in this country (Mamun, 2018). In continuation of this, the number of Japanese companies is increasing here. Currently, around 320 Japanese companies are operating in Bangladesh which includes some of the big names like Toyota, Honda, Mitsubishi, Mitsui and Sumitomo (Bhuiyan, 2020; The Financial Express, 2021). Bangladesh is a land of cheap labour. In addition, the huge population of this country forms a big market supplying a customer base with a moderately well purchasing capability. Japanese companies are getting more and more interested in Bangladesh because of these features (Mamun, 2018).

The FDI inflows (net) from Japan to Bangladesh were US\$ 58.40 million and US\$ 72.33 million in CY (Calendar Year) 2018 and CY 2019 respectively (Bangladesh Bank, 2019). Until 2019, the accumulated investments (FDI stock) of Japan in Bangladesh was US\$ 418.72 million. It placed Japan at the 11th position in the list of top investing countries in Bangladesh (Bangladesh Bank, 2019). Although the net Japanese FDI inflow fell drastically due to Covid-19 pandemic in 2020, it started to increase again in post-Covid period. In FY 2021-22, the net FDI inflow from Japan to Bangladesh was US\$ 122.72 million (Bangladesh Bank, 2022). At the end of 2018, the international division of "Japan Tobacco" (JT) known as the "Japan Tobacco International" (JTI) struck a record-breaking acquisition deal with the "Akij Group of Industries" of Bangladesh. Under this deal, Japan Tobacco, which is one of the biggest tobacco product manufacturing companies of the world, bought the tobacco business of the Akij Group for US\$ 1.47 billion (Star Business Report, 2018). It is the highest ever investment by a single foreign entity in this country to this day.

At present, there are over 200 projects in Bangladesh having Japanese investments or joint ventures (Alam, 2022). These projects include the much-talked-about Japanese megaprojects as well. Japan is interested to invest more in some prominent sectors of this country like the infrastructural development sector,

the textile manufacturing sector, the power generation sector, the information technology (IT) and telecommunications sector, the blue economy development sector and so on. Bangladesh undoubtedly has an abundance of cheap labour. But the skill set of these labourers are not up to the mark. Japanese investors often face difficulties in Bangladesh because of this and they usually hesitate to invest on a large scale (Mamun, 2018). Nevertheless, the works of the Special Economic Zone (SEZ) for Japan in Bangladesh's Narayanganj are progressing at a fast pace. This SEZ will be fully operational by next year and will bring a huge amount of Japanese investments to this country (Raj, 2022).

The literature review is successfully able to showcase why Japanese ODA is so important, how they differ from the Western model of economic development aid, and how Japanese ODA promotes growth in the receiving countries. It further explains how Japanese investment and trade have been able to do the same in Bangladesh, and what factors lead Japan to invest more in this country along with identifying some key impediments in this regard. Unfortunately, gaps in the literature review remain. The literature review is unable to explain what specific opportunities such as economic and non-economic goals Japan might achieve in Bangladesh; what might be the difficulties that Japan would face while doing trade and investment in Bangladesh; and Bangladesh's part in all of this. On the other hand, although some prospects and challenges regarding Japanese investment, business and trade in this country were identified in the previous studies, they were not much analyzed from a critical point of view. Therefore, this research intends to fill in these gaps by answering the following research questions:

- a) What are the substantial opportunities and difficulties for Japan while conducting investment and trade in Bangladesh?
- b) What policies should the government of Bangladesh adopt to attract more Japanese investment and trade?

3. Methodology

3.1 Study Design

This research adopts the interpretivism philosophy. Because this study attempts to interpret the core elements of this research that are the prospects and challenges by incorporating the outlook, knowledge and expertise of those with a common interest. Since this research will potentially add value to the existing literature, the approach to theory development is inductive. In addition, this study applies the multi-method qualitative strategy incorporating archival research and case study. The time horizon is cross-sectional and data have been collected through interviews, web-surfing and documentation.

3.2 Participants and Sampling

A total of 10 participants have been interviewed during the month of May in 2023. The interviewees were chosen on the basis of having a considerable

knowledge and understanding of Japan-Bangladesh relations as well as the business and trade sector of Bangladesh. An unstructured questionnaire written in English has been used for interviews. This questionnaire has been included in the Appendix section of this study. Relevant documents have been scrutinized to get secondary data. This study pays close attention to ethical issues. So, pseudonyms have been assigned to the participants as well as the security of their data has been ensured.

3.3 Data Collection and Analysis

Both primary and secondary data have been the sources of this study. Primary data have been collected through in-depth interviews while secondary data have been collected by examining official documents and web-surfing. The interviews have been transcribed. Later on, all the collected data have been analyzed using the Six Steps of Data Analysis (Braun & Clarke, 2006). The primary themes originated from this process. Some direct quotations of the interviewees have been included in the analytical section to underscore a clear idea of this study.

4. Limitations of the Study and Scopes of Future Research

This research attempts to identify the substantial prospects and challenges in terms of Japan's investment and trade in Bangladesh and it has considered mostly the developments that occurred in the past few years in this regard. However, this study only incorporates the perspectives from Bangladesh's side. It has been done through analyzing the data provided by Bangladeshi academicians, policy-makers and businessmen. In addition, since this study is solely qualitative, there has been a lack of numerical data. But, most importantly, the biggest limitation of this study is the lack of involvement of Japanese minds. This study could not ensure the participation of Japanese academicians, policy-makers, investors and company heads. However, this study used some of the insights provided by Professor Kato Hiroshi of International University of Japan, and Mr. Yuho Hayakawa, Former Chief Representative, JICA Bangladesh Office at the 2nd JICA Chair Lecture in Bangladesh. This auspicious lecture was arranged by the Department of Japanese Studies, University of Dhaka on 29th March, 2022. But it was not possible to interview these eminent Japanese nationals for this study.

So, this study can create the foundation upon which further future research could be carried out. Scopes of future research can inter alia reiterate this study involving Japanese nationals as well as compare how other countries going these phases adapted to attract Japan.

5. Findings

Through the thematic analysis of 10 (ten) interviews; 5 (five) common themes have been identified:

- i. Bangladesh's Geostrategic Location
- ii. Japanese Megaprojects in Bangladesh
- iii. Bangladesh's Investment Climate
- iv. Policy Failure
- v. Free Trade Agreement

5.1 Bangladesh's Geostrategic Location

All 10 interviewees agreed on the fact that Bangladesh has a very lucrative geopolitical and geostrategic location for Japan. As China and India are on the rise in the region, Bangladesh will play a very important role because of its geopolitical and geostrategic location (Interviewee B, personal communication, May 20, 2023; Interviewee I, personal communication, May 26, 2023). Bangladesh offers Japan a Special Economic Zone (SEZ) where Japan can manufacture their products in this country. The Bay of Bengal Industrial Growth Belt (BIG-B) initiative can also be considered in this context. By producing here in Bangladesh, Japan can then sell their products across the rest of South Asia. It is particularly valid for the landlocked parts of the Indian Subcontinent. Hence, it makes Bangladesh a very important geostrategic location for Japan's economic benefits (Interviewee J, personal communication, May 20, 2023). Simultaneously, trading and investing in Bangladesh will help Japan gain many non-economic interests in the region as well (Interviewee H, personal communication, May 20, 2023). One of the non-economic interests is Japan's geopolitical goals in the region. As opined by one of the interviewees:

“Chinese dominance in the region is increasing day by day, and the threat of the String of Pearls theory is also becoming a reality. One of the ways Japan might prevent that or keep China in check is by working with Bangladesh.” (Interviewee I, personal communication, May 26, 2023)

This importance of Bangladesh in the eyes of Japan, makes Bangladesh unparalleled to many other South Asian countries.

5.2 Japanese Megaprojects in Bangladesh

From the remote areas of Matarbari to the megacity of Dhaka, several Japanese megaprojects are currently under construction. These projects are related to infrastructural development and regional connectivity. Japan provides a lot of funds for these projects in the forms of direct investment and economic assistance (including technical assistance). These megaprojects generate many types of economic and non-economic benefits for Japan (Interviewee C, personal communication, May 23, 2023; Interviewee I, personal communication, May 26,

2023). First of all, the companies and organizations involved in these projects are mostly Japanese. The logistics used in the projects are also Japanese. In addition, many Japanese nationals are working in these projects as technical human resources. So, a large part of the Japanese investment and monetary assistance actually gets fed back to Japan (Interviewee F, personal communication, May 26, 2023).

On the other hand, the successful realization of these megaprojects will increase such benefits many fold (Interviewee G, personal communication, May 22, 2023). Considering economic benefits, the Matarbari megaproject will greatly expand Japanese business and trade not only in Bangladesh but also across the whole region. In addition, it will create many lucrative investment prospects for Japan. Besides, one interviewee opined that the accomplishment of the metro rail project will reduce the unbearable traffic jam in Dhaka city to a considerable extent which will ultimately help Japanese companies working here operate their businesses smoothly. Considering strategic benefits, a positive image of Japan will be created among Bangladeshi people which will eventually increase Japanese influence in this country to a great extent. Japan expects Bangladesh to play an active role to realize its “Free and Open Indo-Pacific” (FOIP) vision. If Japanese influence in Bangladesh increases further, Japan might be able to fulfill this expectation in near future (Interviewee B, personal communication, May 20, 2023).

5.3 Bangladesh’s Investment Climate

Japan not only can find an emerging middle class and a consumer base whose purchasing power is continuously increasing in Bangladesh but also it can gain access through Bangladesh to the other countries of South Asia and South-East Asia (Interviewee D, personal communication, May 23, 2023; Interviewee E, personal communication, May 22, 2023; Interviewee H, personal communication, May 20, 2023). During the interview, one of the interviewees stated:

“As Bangladesh is getting more economically well off, this country can offer a much better investment climate to Japan which will be clearly beneficial to Japanese interests.” (Interviewee C, personal communication, May 23, 2023)

Bangladesh’s government is doing its best and offering various fiscal and non-fiscal incentives to attract Japanese attention. So far, it has been able to do so to a certain extent as more and more Japanese companies are setting up their local branches in this country and Japanese ODA is increasing (Interviewee F, personal communication, May 26, 2023). On the contrary, the investment climate in Bangladesh also has several limitations for which this country has been unable to completely capture the fraying Japanese investments from China; said most of the interviewees. The limitations include lack of transparency in administrative procedures, lack of knowledge and skills in government officials, lack of

digitalization, sudden changes in rules and regulations, complex and time-consuming customs procedures, and difficulties in local procurement of raw materials (Interviewee A-E, personal communication, 2023). Besides, Japanese companies often face difficulties in getting skilled local human resources and also face fierce competition from the businesses of other countries here (Interviewee C, personal communication, May 23, 2023).

Hence, the interviewees suggested that the government of Bangladesh needs to improve its transparency, efficiency, infrastructure, transportation system, human resources and infuse knowledge of Japanese language and culture to become the number one destination for Japanese investment and trade. In terms of skilled Bangladeshi human resource along with infusing knowledge about Japan, some interviewees stated that Bangladesh should really emphasize on the skill development issue of its employable population considering the expectations of the Japanese employers.

5.4 Policy Failure

There has been a policy failure from Bangladesh's side. It has been a while since Japan started to relocate its companies and production bases from China to ASEAN (Association of Southeast Asian Nations) countries. A large part of Japanese FDI and trade also shifted along with them. But due to the policy failure of the Bangladesh government, this country could not attract those Japanese ventures much (Interviewee B, personal communication, May 20, 2023). The government of Bangladesh actually failed to realize the significance of this relocation in the beginning. So, the government did not feel the necessity of realigning its economic and trade policy to bring those Japanese companies here. Japanese companies started to set up their production lines in China back in the 1980s. The abundance of cheap Chinese labour and the availability of essential raw materials mainly attracted Japan in this regard. However, in the 21st century, the availability of cheap Chinese labour began to decrease and the political tensions between Japan and China began to increase. So, Japanese companies started to shift their production lines to South-East Asian countries (Interviewee G, personal communication, May 22, 2023). Although Bangladesh could not fully grasp this opportunity, Bangladesh's neighbour India was able to do it. Indian government realigned their policies as per the needs and expectations of such Japanese firms (Interviewee B, personal communication, May 20, 2023). India managed to attract these Japanese ventures to a considerable extent.

Policy failure becomes more evident for Bangladesh considering the fact that the Bangladesh government adopted the 'Look East Policy' as a foreign policy initiative in early 2000s. Under this policy, Bangladesh intended to strengthen relations with the East Asian countries to attract more trade and investment (Rahman, 2003; Interviewee G, personal communication, May 22, 2023). In this context, Interviewee B (2023) opined,

“Since Bangladesh could not fully attract the Japanese businesses which were shifting from China, it is difficult to say whether the objectives of the Look East Policy have been fully achieved.”

Bangladesh's cooperation with the East Asian countries has been increasing in recent years. In particular, the Japan-Bangladesh bilateral relationship has reached new heights. In the past few years, the number of Japanese companies in Bangladesh has increased to a great extent. However, it is still a trivial number compared to the numbers of Japanese companies operating in China, ASEAN and even India (Interviewee C, personal communication, May 23, 2023). So, all the interviewees agreed that the government of Bangladesh should reconsider its policies in this regard.

5.5 Free Trade Agreement

A free trade agreement (FTA) might increase Japanese trade and investment in Bangladesh. The Japanese government has signed bilateral FTAs with 16 countries so far. The countries are Australia, Brunei, Chile, India, Indonesia, Malaysia, Mexico, Mongolia, Peru, Philippines, Singapore, Switzerland, Thailand, the U.K., the U.S., and Vietnam (Interviewee A, personal communication, May 25, 2023). Moreover, Japan concluded similar treaties with ASEAN and the European Union (EU). In addition, Japan is a signatory of the Regional Comprehensive Economic Partnership (RCEP) agreement. These agreements will promote Japanese trade and investment in the respective countries (and also in the respective regions from a broader perspective) to a great extent (Interviewee C, personal communication, May 23, 2023). Bangladesh currently does not have any such agreement with Japan. If the government of Bangladesh is really willing to attract more trade and investment from Japan, a free trade agreement can be a good option (Interviewee G, personal communication, May 22, 2023).

According to the United Nations, Bangladesh currently belongs to the official group of 'least developed countries' (LDC). The members of LDC get trade benefits while trading with developed nations. Bangladesh also gets such duty-free benefits while exporting its products to Japan. However, Bangladesh will graduate from the LDC group in 2026 and will not be able to enjoy these benefits after that. So, the necessity of a free trade agreement with Japan increases for Bangladesh in this context (Interviewee B, personal communication, May 20, 2023). The FTA will generate benefits not only for Japan but also for Bangladesh to a certain extent.

However, there are concerns regarding such agreements as well. When a free trade agreement is signed by a developed country and a developing or least developed country, most of the time, the developed country becomes the ultimate beneficiary (Interviewee A, personal communication, May 25, 2023). In these cases, the developing or least developed countries fail to secure their interests.

So, if Bangladesh manages to sign the FTA with Japan, it is quite uncertain to what extent Bangladesh will ultimately be able to secure its interests (Interviewee A, personal communication, May 25, 2023). But Bangladesh should pursue the FTA with Japan considering the current changing global order. Otherwise, it might be more challenging for Bangladesh in the post-LDC era (Interviewee A, personal communication, May 25, 2023; Interviewee B, personal communication, May 20, 2023). So, the government officials need to be careful while negotiating with the Japanese officials for the FTA.

6. Discussion

The relationship between Bangladesh and Japan is growing ever stronger day by day. As the investment climate of Bangladesh improves and as the geopolitical and geostrategic importance of Bangladesh increases, Japan will be more drawn towards Bangladesh. However, that does not mean Bangladesh should sit idly and wait. Bangladesh should start making more improvements in its policies, infrastructure, human resources and provide both economic and non-economic benefits to become the number one destination for Japan in the region. So, the prospects of Japanese trade and investment in this country are substantial. But considering the prospect of securing strategic interests, Japan should keep in mind that China is the largest trading partner of Bangladesh and there is a considerable Chinese influence in this country. So, even if Japan tries to collaborate with Bangladesh to keep China in check in the South Asian region, the possibility of Bangladesh doing anything which handicaps its relations with China is very low. Japan needs to be pragmatic in this regard. However, it will be a game-changer for Japan if Japanese megaprojects in Bangladesh are accomplished successfully. These megaprojects will be the key to have a win-win situation for both Bangladesh and Japan. These projects will increase Japanese trade and investment to a great extent which will accelerate the economic growth of Bangladesh. Simultaneously, they will help Japan secure its strategic interests.

The government of Bangladesh needs to address its policy failure issue properly. The government needs to adopt a strong policy initiative or reconsider its existing policies to get rid of the impediments to bring more Japanese investment and trade in this country. In this regard, Bangladesh must comprehend the significance of Japan's policies for South Asia as well as Japan's policies for the relocation of its companies and investments from China to elsewhere which Bangladesh initially failed to do. It clearly shows a lack of research from Bangladesh's side considering these matters. So, Bangladesh should adopt some comprehensive research initiatives which would subsequently help the country to have sufficient preparation for attracting more Japanese investments and accommodating more Japanese companies. Bangladesh will be able to overcome its policy failure issue through these research initiatives. Bangladesh's investment

climate for the coming years will also depend on it. On the other hand, the government officials must carry out negotiations with the Japanese officials very carefully for the FTA in order to preserve the interests of Bangladesh. The FTAs definitely help increase trade to a considerable extent but they mostly benefit developed nations. The under-developed and developing nations usually fail to preserve their interests in FTAs. As Japan is a developed nation and Bangladesh is a developing nation, any FTA between these two countries will mostly benefit Japan. So, the potential research initiatives from Bangladesh's side mentioned earlier should consider these issues as well. Finally, if Bangladesh really wants to preserve its interests in these regards, the Bangladeshi officials need to visionary, honest, well-prepared, and well-equipped.

Finally, it can be said that Bangladesh's geostrategic location, Japanese megaprojects in Bangladesh, and FTA are substantial opportunities for Japanese trade and investment in this country. On the other hand, Bangladesh's investment climate and the policy failure of Bangladesh government are major difficulties in this regard. But if the government of Bangladesh manages to adopt suitable policies some of which have been discussed in this section and the previous section, the investment climate of this country can also turn into a substantial opportunity for Japan.

7. Conclusion

This study tried to identify the substantial prospects and challenges of Japanese trade and investment in Bangladesh to a certain extent. The introductory section of this study briefly discussed the significance of trade and investment for Japanese economy as well as the significance of economic diplomacy for Japanese foreign policy. This section also discussed how Japan became interested in South Asia and Bangladesh as well as indicated how Japan tended to conduct its economic diplomacy in this region. The literature review section of the study dealt with reviewing the existing literature related to Japan's ODA, FDI, and trade in Bangladesh. The methodology section was based on a qualitative research design that enabled the researcher to conduct in-depth interviews with a view to collecting primary data. The thematic analysis of the collected data generated key findings for this study. The findings were presented under 5 distinct themes: Bangladesh's geostrategic location, Japanese megaprojects in Bangladesh, Bangladesh's investment climate, policy failure, and free trade agreement. The objectives of this study were to identify substantial opportunities and difficulties for Japan while conducting investment and trade in Bangladesh, and to identify some policies for the government of Bangladesh to attract more Japanese investment and trade. This study found that Bangladesh's geostrategic location, Japanese megaprojects in Bangladesh, and free trade agreement are substantial opportunities for Japan regarding its trade and investment in this country. On the

other hand, Bangladesh's investment climate and policy failure from Bangladesh's side are substantial difficulties for Japan's investment and trade. Based on the findings section and the discussion section, this study recommends the following policies:

- i. The government of Bangladesh should emphasize on the skill development of its employable population considering the expectations of Japanese employers and investors.
- ii. The government of Bangladesh should plan and implement some broad research projects which would comprehensively identify the prospects and challenges of Japanese trade and investment in this country.
- iii. The Bangladeshi government should improve the country's investment climate by removing all the bureaucratic hurdles for Japanese investors and businessmen.
- iv. The Bangladeshi government should adopt and implement some short-term, mid-term, and long-term policies based on their comprehensive studies for attracting more Japanese investment and trade.

Due to limited resources and funding, this study could not be carried out from a broader perspective. However, the researcher hopes that this study will effectively contribute to the literature of Japan's investment and trade in Bangladesh as well as Japan-Bangladesh bilateral relations.

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List of Interviewees

No.	Name (Pseudonym)	Designation	Date of Interview
1.	A	Associate Professor, University of Dhaka, Bangladesh	May 25, 2023
2.	B	Assistant Professor, University of Dhaka, Bangladesh	May 20, 2023
3.	C	Senior Official, Japan-Bangladesh Chamber of Commerce and Industries	May 23, 2023
4.	D	Bangladeshi Businessman	May 23, 2023
5.	E	Bangladeshi Entrepreneur	May 22, 2023
6.	F	Official, Government of Bangladesh	May 26, 2023
7.	G	Former Research Associate, Centre for Governance Studies, Bangladesh	May 22, 2023
8.	H	Graduate Student, University of Dhaka, Bangladesh	May 20, 2023
9.	I	Bangladeshi Research Student, Nagoya University, Japan	May 26, 2023
10.	J	Graduate Student, University of Dhaka, Bangladesh	May 20, 2023

Interview Questionnaire

- (1) To what extent, Japanese investment and trade is essential for the sustainable development of Bangladesh?
- (2) Japanese FDI in Bangladesh has consistently been increasing in recent years. In your opinion, what are the reasons behind this?
- (3) Japan has been relocating its production base from China to South-East Asian countries for the past few years. Despite the significant geostrategic location, Bangladesh could not fully utilize this opportunity and attract these Japanese companies. In your opinion, what can be the reasons behind this?
- (4) What challenges do the Japanese investors usually face in Bangladesh?
- (5) There is a popular concept that the infusion of knowledge about Japan (specially, Japanese language and Japanese culture) into Bangladeshi human resources will attract more Japanese investments in this country. To what extent, this concept is correct from your perspective?
- (6) The governments of these two countries are thinking of conducting a Free Trade Agreement (FTA) in the near future which may increase Japanese investments in Bangladesh to a large extent. As a developing country, will Bangladesh really be beneficial from this FTA?
- (7) If Bangladesh cannot secure its interests from the FTA with Japan, what else can Bangladesh do to secure its trade benefits in the post-LDC era?
- (8) Overall, what will be your recommendation to have a win-win situation for both countries in this regard?