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## **SPS Insight**

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# **Bangladesh-Japan Relations**



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## Bangladesh-Japan Relations

After creation of Bangladesh on December 16, 1971, Japan and Bangladesh established diplomatic relations in 1972<sup>1</sup>. Since then, Japan has been generously donating through Overseas Development Assistance (ODA) to Bangladesh. With the starting of the 21<sup>st</sup> century, economic diplomacy has been playing an important role in the development of relationships between countries, including Japan, which has been eager to expand its influence from East Asia to South Asia. Solid bilateral economic relationships are regarded as a testimony of country's influence. While Bangladesh has been keen to exploit its economic potential and diversify its relationship with Japan, Japan, on the other hand, is viewing its increasing economic closeness with Bangladesh as an option to balance Beijing's increasing influence in the region.

### Development Aid

Japan is the biggest bilateral donor, accounting for almost 13.51 per cent of the total aid to Bangladesh, almost evenly split between loans and grants<sup>2</sup>. For a long time, the Japanese assistance to Bangladesh has covered various areas of importance ranging from education, health, rural development and infrastructure. Current volume of the trade relationship between the two countries is USD 2.5 billion and is expected to grow to USD 4 billion in 3-4 years<sup>3</sup>. Of late, Japan has been making concerted efforts to woo Bangladesh.

Beginning with the arrival of its initial three volunteers in 1973, the Japan International Cooperation Agency (JICA) has over the last 41 years, extended to Bangladesh, more than 1 trillion Japanese Yen (JPY) in loans and 500 billion JPY for grants, and 65 billion JPY for technical cooperation<sup>4</sup>. Since then over 1,200 volunteers have worked in the country, while more than 11,000 Bangladeshi people have participated in training programmes on technical cooperation conducted by JICA.

Year 2014 was very eventful in the context of this bilateral relationship as the Prime Ministers of Bangladesh and Japan paid visits to each other's country. It is a well known fact that Japan is the largest development partner of Bangladesh. Japan is keen to have a continued access to market of Bangladesh for its finished products. During the visit of Sheikh Hasina, both countries jointly launched Japan-Bangladesh Comprehensive Partnership and Japan assured Bangladesh to provide the financial assistance worth USD 6 Billion over next five years<sup>5</sup>.

Japan has also launched its tongue twisting 'Partnership for Quality Infrastructure' plan. Under this, Japan, in association with Asian Development Bank, will provide USD 110 Billion for quality infrastructure in Asia in upcoming five years. Japan is keen it invest in Bangladesh.

In September 2014, Shinzo Abe, Japanese Prime Minister travelled to Dhaka. Abe was the first Japanese Prime Minister to visit Bangladesh since Yoshiro Mori in 2000<sup>6</sup>. Abe's visit emphasized Japan's interest in retaining influence in South Asia. His visit was primarily focussed on fostering greater economic cooperation with Bangladesh. Abe was very clear about his agenda and brought 50 top Japanese corporate with him. Abe mentioned that Bangladesh is a country with growing influence in economic and political spheres. Bangladesh has also been working to woo Japanese investors and had made its intention clear during Abe's visit to Dhaka.

During this visit, Japanese investors asked the Bangladesh government for policy support and easing of investment rules. Japanese PM along with his Bangladesh counterpart again emphasised their commitment to undertake economic cooperation under the initiative of 'Bay of Bengal Industrial Growth Belt' (BIG-B).

### **BIG-B**

The BIG-B has emerged as important pillar of Japanese strategy in Bangladesh. BIG-B, a grand design to promote industrial agglomeration along the Dhaka-Chittagong-Cox's Bazar belt area, BIG-B has three main pillars. The first pillar is industry and trade. This pillar mainly consists of constructing a long-awaited deep sea port at Matarbari Island. This will offer Bangladesh an important trade gateway to the rest of Asia and beyond. The second pillar is energy. Matarbari Island can be developed into a massive supply base of primary energy (such as coal, LNG, and oil). The electricity produced from those sources can support a quantum leap in industry and trade. Transportation is the third pillar. To enable greater industry, trade and energy production, the Dhaka-Chittagong -Cox's Bazar transport artery needs to be strengthened and even extended to neighboring countries<sup>7</sup>. Thus, BIG-B primarily focuses on improvement of physical infrastructure, creating better environment for economic investment and improving solidarity and connectedness<sup>8</sup>. These developments brought relief for violence and crisis ridden Bangladesh.

Among the five projects included in JICA's 35th ODA Loan Package, Matarbari Ultra Super Critical Coal-fired Power Project is considered as one of the key projects to materializing the initiative. The Government of Bangladesh and JICA have jointly identified the Matarbari area, located 60km south of Chittagong city, as the tipping point for carrying out BIG-B. This island and the surrounding area have all the potential to become an integrated industrial and trading hub as well as a central energy base. The project has two components, a 1200MW world-class-efficient and environmentally-most-friendly power plant, and the first-ever deep sea port in Bangladesh. Eventual expansion of the Mabarbari plant may include power plants adjacent to the planned units, construction of coal centers to service other coal-fired power plants, and even construction of a LNG terminal. In addition, the Government of Bangladesh and JICA are undertaking discussions to conduct a comprehensive master plan of the area, including Chittagong and Cox's Bazar. This will further clarify the shape of BIG-B.

Japan has already approved USD 1.18 billion to build the Matarbari ultra super critical coal-fired power project. Total cost of this project is USD 4.4 Billion<sup>9</sup>. Two Japanese companies (Sumitomo Corp and Marubeni Corp) have been shortlisted to build the largest coal-fired power plant in Bangladesh to ease the electricity shortage. Matarbari plant will have an installed capacity of 1,200 megawatts, with two units producing 600 megawatts each<sup>10</sup>. Coal Power Generation Company Bangladesh Ltd will borrow USD 3.7 billion from the Japan International Cooperation Agency at an annual interest rate of 0.1 percent over 30 years, with an initial ten-year grace period. The rest of the money will be financed by the Bangladesh government. The construction of the two units of the plant is scheduled to start in January 2017, with operations set for 2023.

BIG-B is also an appropriate strategy for Bangladesh in the sense that the country is now poised to capitalize on three promising economic opportunities. The first opportunity is still-competitive

Bangladeshi labor in the global marketplace. The second opportunity is the current trend of regional integration. Regional Comprehensive Economic Partnership, or RCEP, which is currently being negotiated among ten ASEAN countries, Japan, China, South Korea, Australia, New Zealand and India, is one manifestation of this trend. Bangladesh could benefit more by joining in it. The third opportunity is the strategic location of Bangladesh, a country between the Indian Ocean and the Asian continent and a country between Southeast Asia and South Asia.

This visit also witnessed keen interest of both the countries to hold the first expert level meeting on peaceful and safe use of nuclear energy on regular basis. Bangladesh understands that stable energy supply is a key for the prosperous economic development and hence it gives great importance to nuclear energy ties with Japan.

Bangladesh is very prone to natural disasters; Japan is also victim of earthquakes. Hence, both Prime Ministers agreed to work on issues of disaster management. Japan is ready to share their research and expertise in mitigating and minimizing the impact of earthquakes. Tokyo is also ready to transfer relevant technology to Bangladesh to ensure disaster risk reduction. The two Prime Ministers emphasized the need for adopting the succeeding framework of the Hyogo Framework for Action 2005-2015.

According to a research published by Pew Research centre, Bangladesh is the most free-market, trade-oriented country in South Asia. China is very much interested in Bangladesh from the perspective trade<sup>11</sup>. China is Bangladesh's top source for importing goods and material. Dhaka is also looking to diversify its economic relationship and reduce its overdependence on Beijing. To woo Japan, Bangladesh also offered several incentives to Japanese businessmen for investing in Bangladesh including the promise of an exclusive industrial park and special allocations in existing export processing zones (EPZs)<sup>12</sup>.

Maritime domain is also an area of interest for both Bangladesh and Japan. In context of China's increasing assertiveness, both countries have reaffirmed their commitment for freedom of navigation and peacefully resolving conflicts in accordance with international law<sup>13</sup>. China is investing heavily in Chittagong port of Bangladesh. Recently, China has unveiled plans for the Maritime silk route and development of port infrastructure in Bangladesh is part of this plan<sup>14</sup>. Given the status of Japan's relations with China, Beijing plays an important role in the bilateral relationship between Japan and Bangladesh.

### **Sonadia Saga**

Recent news reports suggest that Bangladesh may shelve a USD 8 billion 18-meter-deep port - water port project it has been negotiating with China, as it looks to pursue a nearby facility financed by the Japanese instead. This could be a big setback for China's One Belt One Road initiative. Dhaka has cleared Japan's proposal to finance and build a seaport in Matarbari, located some 25 km from Sonadia, where Beijing had offered to construct the country's first deep water port<sup>15</sup>. Bangladesh has not built a new port since its independence in 1971. Dhaka now wants to have a deep-water port as the country as emerged as the second biggest exporter of garments. Export of garments constitutes 15% of Bangladesh's Gross Domestic Product. Matarbari Island is hardly 16km off the tourist resort city of Cox's Bazaar. This port may provide Japan with crucial access to both the Bay of Bengal and the Indian Ocean, through which more than 50 % of

the world's maritime trade flows. This development may alter Tokyo's power equations with Bangladesh viz-vi China.

China Harbour Engineering Co. is helping upgrade Chittagong port<sup>16</sup>. If Sonadia fails to materialize, news reports suggest China may help develop another port at Payra. When Hasina officially kicked off construction in 2013, the plan was for the port to handle vessels that draw as much as 10 meters.

Increasing influence of hard line Islamic groups in Bangladesh is a cause of worry for Japan given its growing investment in the country. Last year, Islamic State (IS) had claimed the responsibility for killing Kunio Hoshi, a Japanese national who was working on an agricultural project in Bangladesh<sup>17</sup>. Hoshi's death puts pressure on Abe government's plans to give Japan a more prominent role in the global security affairs. This incidence also pushes Japan to work closely with link minded countries on the issue of counterterrorism.

Dhaka also understands the value of its relationship with Tokyo and the same was demonstrated when Bangladesh withdrew its candidacy for non permanent seat for United Nations Security Council for 2016-17 and instead backed Japan's bid;<sup>18</sup> – a sign of its gratitude for Japan's continued assistance. Bangladesh is very keen to take advantage of its tag as the most free trade-oriented country in South Asia. Hence, Bangladesh needs to woo the western world, which has traditionally aligned with the Japanese.

### **Conclusion**

As tensions between China and Japan are increasing due to dispute over Senkaku / Diaoyu islands, these two countries are trying to increase their influence in the neighbouring region. Though South Asia is geographically somewhat isolated from Japan and China, the region is emerging as one of the world's largest potential markets. Japan and China instantly understood importance of this region and invested their money and energy in the region. Keeping this in mind, Japan is looking to increase its influence in South Asia. India is an important strategic partner of Japan in this region. But with his visit to Dhaka, Abe made it clear that his country's interest in the region goes beyond India. If Japan has to compete strategically with China in this region, it has to go beyond New Delhi and develop the stronger relations with other south Asian countries. China's friendship with Pakistan is "higher than Himalaya and deeper than Oceans<sup>19</sup>". In such a scenario, Bangladesh, geo-strategically located at the junction of East Asia and South Asia may emerge as the most important country apart from India for Japan.

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