

Prospects and Challenges of Japanese FDI in Bangladesh

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Abstract- Due to the increase in production costs in China and ASEAN countries, Bangladesh has become one of the potential destinations for Japanese FDI. This case study has investigated the prospects and challenges of Japanese FDI in Bangladesh. Analysing primary and secondary data, this qualitative research found that Bangladesh can be a popular destination for Japanese investment, mainly because of its low production costs, growing middle class, and geo-strategic location. However, Japanese companies face several challenges, including VAT, tax, customs and port clearance, remittance and foreign currency conversion rules, and unskilled human resources. Although Japanese investors face multiple challenges, the number of Japanese companies is increasing. This article suggests that Bangladesh can attract more Japanese FDI by providing special facilities and protection to existing Japanese companies, which can have a snowball effect in terms of attracting new investors from Japan. This research contributes to Japanese business, economics, and development studies literature.

Keywords Bangladesh, Japan, FDI, Prospects, Challenges

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1. Introduction

Gradually shifting its focus away from China as an investment destination due to the high labour cost and shortage of raw material supply, Japanese investors have been looking for new potential areas to operate their businesses since the 2010s. However, Japanese ties with China are regarded as 'warm economic' and 'cold political'; both countries tighten their relations due to economic dependency. However, Japan adopted the 'China+1' policy and shifted its investment in the Association of Southeast Asian Nations (ASEAN) region. In 2017, Japanese investment in the ASEAN region stood at \$22 billion, whereas it was \$9.6 billion in China (FTI Consulting, 2019). Having cheap labour with skills in ASEAN countries, Japanese FDI increased sharply and benefited from the vast consumer market. Afterwards, due to a defective infrastructural setting, rising challenges of climate change and digitisation of production, among others, influenced Japan to think of the 'China+1+1' initiative.

Moreover, Chinese clout over South Asia has given Japan food for thought to bond its ties with South Asian countries through its soft power tool, Foreign Direct Investment (FDI). Besides, Japan's 'Free and Open Indo-Pacific' (FOIP) initiative in 2016 also prioritises the South Asian countries, countering the Chinese Belt and Road Initiative (BRI). Japan plans to move its operations from China, one of the favourite destinations of Japanese companies in India or Bangladesh (David & Walia, 2020). New Japanese investments dropped worldwide earlier due to the COVID-19 pandemic but have risen recently.

Japan is one of the countries that recognised Bangladesh soon after its liberation war, and they now enjoy a warm relationship. Japan is one of Bangladesh's closest and most trusted bilateral development partners. Over the last five years, Japan has doubled its support and investment in infrastructural development in Bangladesh. Besides, Bangladesh needs more Japanese support to achieve its national development goal, 'Vision 2041'.

Consequently, the Government of Bangladesh (GoB) needs to increase the current state of Japanese FDI inflow, especially from the perspective of the COVID-19 economic recovery. It is revealed in one of the studies that a friend of Japan could gain a favourable amount of FDI than the United States of America (USA) can provide (Alesina & Dollar, 2000). Simultaneously, grabbing more Japanese FDI in Bangladesh is also possible due to the ongoing Japanese projects and development exercises in Bangladesh. Therefore, the study aims to investigate the current situation of Japanese FDI in Bangladesh and provide a clear understanding of the prospects and challenges for its readers. Moreover, identifying the factors in providing an FDI-favourable environment in Bangladesh is another essential motivation for this research.

2. Literature Review

2.1 What does FDI mean?

FDI is a well-known economic intervention that is considered a blessing for developing countries. Though scholars still have a contradictory perspective regarding FDI, some uphold its contribution, and others hold an opposite view. Hence, there may be a variety of opinions about FDI, but it has been found that FDI significantly leads to the continuous growth of an economy. Whenever a country or an agent of a country leads its resources to flow towards a host country where the donor country handles all kinds of caution, this type of activity is regarded as FDI (Robin, 2006; Investopedia, 2021). On the other hand, another group of scholars considers foreign aid a political tool. In contrast, FDI shifts from an economically advanced country to an economically growing one as a sign of common interest in economic cooperation (Alesina & Dollar, 2000). Nonetheless, scholars argue that FDI contributes to the economic progress of a developing country, but in contrast, it can destroy host countries' domestic enterprises and physical capital (Velde, 2006). In favour of FDI, Adhikarky (2011) reveals that developed countries provide innovative ideas, upgraded technology, and a skilled, experienced labour force that has extraordinary working capacity and marketing experience, along with FDI, which can fuel financial development, improve corporate culture, promote capital incentives, and encourage innovative ideas in developing countries. Mamun & Shamsunnahar (2023) found that in Bangladesh, foreign assistance has both positive and negative aspects, common in many developing countries. Whatever the FDI is from a theoretical perspective, it is more important to justify its significance by understanding the practical reasons and necessity of the host country and the interests of the home country. Besides, a developed country provides money or liquid capital to an underdeveloped or developing country and provides updated technology, wisdom, and knowledge by providing FDI (Business Standard, n.d.; Ali, 2016).

2.2 Japanese FDI in Bangladesh

Japan is one of the leading FDI providers in the world. There is a history of Japanese cooperation with developing countries, initially ODA and afterwards FDI, for instance, China, Vietnam, Malaysia, and India; Bangladesh can be similarly beneficial (Mamun & Shamsunnahar, 2023). On the other hand, the GoB has shown the highest interest and is keen to receive FDI. FDI made little contribution to Bangladesh in the 1980s, but the country showed its interest in FDI after enacting a law called the 'Foreign Investment Promotion and Protection Act' in 1980 (Robin, 2006). Bangladesh is the second-biggest foreign assistance receiver in the South Asian region (Schantaz et al., 2022). Regarding the Japan-Bangladesh friendship, the world witnessed the trajectory shifts of the Japan-Bangladesh partnership from

a bilateral cooperation to a comprehensive partnership in 2014 and a strategic partnership in 2023 (Mamun & Shamsunnahar, 2023). Over the years, the bond between Japan and Bangladesh deepened in cooperation, as evidenced in Figure 1.

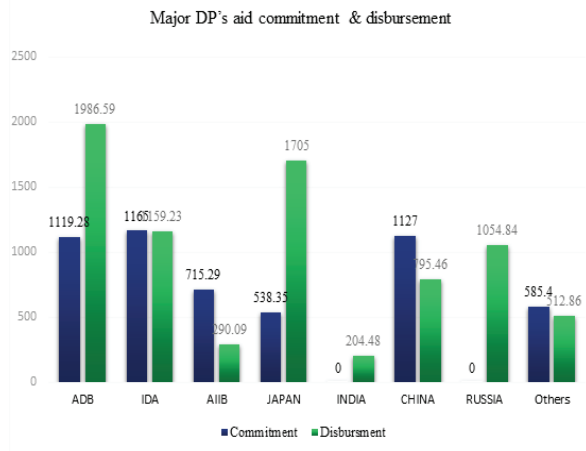


Figure 1: Commitment & Disbursement of Major Development Partner (DP) FY 2021-2022 (July 2021 to April 2022) (\$ million)

Source: ERD, 2022.

Figure 1 demonstrates the Japanese contribution to Bangladesh. Besides, the increasing number of Japanese companies in Bangladesh also represents the growth of Bangladesh's business environment and continuous Japanese interest in Bangladesh. According to Alam (2022), the number of Japanese companies in Bangladesh was 97 in 2010, and it climbed to 322 ten years later in 2020. On the other hand, the economic growth of Bangladesh in the last couple of years has convinced foreign investors to invest in Bangladesh. Similarly, its vast consumer market with cheap labour costs attracts Japanese investors in Bangladesh.

As a consequence, most of the ongoing big projects in Bangladesh are operating with the cooperation of Japan, such as the Matarbari coal-fired power plant, the Matarbari deep-sea port, the third terminal of Hazrat Shahjalal International Airport, and Dhaka mass rapid transit. Simultaneously, around 32 Japanese companies operate in eight EPZs in Bangladesh, which nearly invested \$540 million (Mamun & Shamsunnahar, 2023). The source further reveals that those operating industries created about 15,664 employment opportunities for Bangladeshis.

Table 1: FDI inflow in Bangladesh

Year	FDI inflow (\$ Billion)	Percentage of GDP
2020	1.53	0.41
2018	2.42	0.75
2016	2.33	0.88
2014	2.54	1.47
2012	1.58	1.19

Source: Macrotrends, n.d.

2.3 Visionary development aims of Bangladesh and the necessity of FDI

Four development goals of Bangladesh are reviewed for this study, for example, graduation from the least-developed country (LDC) status in 2026, achievement of sustainable development goals (SDGs) in 2030, upper-middle-income country (UMIC) in 2031, and high-income country (HIC) in 2041. Here, the nearest vision for Bangladesh is LDC graduation in 2026. LDC is considered a low-income country with unstable economic infrastructure and needs foreign assistance to support its domestic economy. Research reveals that it is quite a popular strategy for LDCs to accumulate resources through foreign investment to push domestic development (Ali, 2016). As a member of the LDC club, Bangladesh enjoys some elasticity in the international market. One of the crucial ones is remittance earnings from exported ready-made garment (RMG) items. In fiscal year (FY) 2019-2020, Bangladesh earned around 27.95 billion USD by exporting RMG products, which is about 83% of the total national export income, and it became the second-biggest foreign currency earner from the RMG sector after China (MoF, 2021). Conversely, in this regard, another source predicted that LDC graduation would decrease 11% of Bangladesh's yearly export earnings from Japan, Canada, India, China, and the European Union (EU) market, which is nearly \$7 billion [GED, 2020 (b)]. Besides, due to LDC graduation, Bangladesh will not be able to enjoy the duty-free quota-free (DFQF) opportunities in the RMG export market, which refers to a considerable amount of tariff oppression in this branch (Rahman et al., 2020).

In addition, a considerable portion of the budget financing for the GoB comes from the migrated labour force. Available sources also agree that most developing economies depend on foreign assistance and the earnings of migrant labour (Sawada et al., 2018, p. 100). However, Covid's 'delta' variant also hampered the remittance inflow in Bangladesh negatively during the pandemic, which is still to be recovered. Moreover, in 2020, the 3.0 billion USD RMG export plan was obliterated by foreign countries during the shutdown period (Asaf, 2022).

Additionally, the absence of a safe working environment, oppression of women workers, collisions between trade unions, low wages, gender discrimination, and poor rights protection are hindering the development of the Bangladeshi garments industry (Crehan, 2020). However, the attainable information further identified that there are three main allegations of remittance inflow in Bangladesh such as (1) a skilled labour shortage, (2) the absence of an overseas working environment, and (3) a long time for money transition (GED, 2012).

COVID-19, perhaps, not only affected physical infrastructure but also hampered soft instruments of economic growth in Bangladesh. Due to the sudden attack of the COVID-19 pandemic, around 31% of SDG progress data is currently missing, whereas 69% of information is available to the authorities (Schantaz et al., 2022). Though Bangladesh is working sincerely to achieve the SDG indicators by 2030, the gap in required information can lower Bangladesh's image in the international arena. Bangladesh achieved around 14 of 17 SDGs as part of the SDG development mission. Goals 14 (life below water), 16 (peace, justice, and strong institutions), and 17 (partnerships for the goals) are on track to be achieved, and now these goals are integrated with the 7-Year Plan (7FYP) of Bangladesh (Munir, 2019). Available data shows three significant challenges to achieving the SDGs in Bangladesh. Those challenges are (a) financial funding, (b) climate change challenges, and (c) natural uncertainty with health problems (Schantaz et al., 2022). Currently, climate change is a threat to Bangladesh that requires nearly \$54 million a year until 2050 to tackle this issue (Munir, n.d.).

On the contrary, COVID-19 has affected economic growth, made the poor class poorer, and increased Bangladesh's unemployment rate (Schantaz et al., 2022). The national economic growth of Bangladesh has been around 7.00% since FY 2015–2016, and it was highest at 8.15% in FY 2018–2019, which makes it quite attractive for foreign investors to enhance their investment in Bangladesh. Bangladesh's annual growth rate is 5.47% in FY 2020–2021 while facing the COVID-19 pandemic and trying to recover from its lowest percentage of 3.51 in FY 2019–2020 (MoF, 2021; Trading Economics, n.d.). On the other hand, lately, the national unemployment rate of Bangladesh was 5.23% in 2021, compared to 4.41% in 2018. Further, the pandemic resulted in many permanent and temporary unemployed people in Bangladesh. As a consequence, the poverty rate also increased. Though Bangladesh is capable of reducing its extreme poverty from 56.7% in the 2000s to 24.8% in the 2010s (Munir, 2019; WB, 2022), more than 20% of the population of Bangladesh still lives below the poverty line (ADB, 2022).

Bangladesh's development has encouraged the plan to graduate to a UMIC by 2031 and be a developed country beyond 2041 (MoF & MoP, 2022). Available information reveals that corruption is another big challenge for Bangladesh in becoming a UMIC apart from unemployment and poverty. However, to graduate as

the UMIC within time, Bangladesh must ensure an investment-friendly environment and policies with expert human resources and infrastructure improvement to draw foreign and unofficial input into Bangladesh for creating scope for new jobs and work (WB, 2022) to bring unemployed population into the national workforce. The existing literature claims that with an abyss of uncertainty amid poverty, Bangladesh will perhaps not be able to graduate as a UMIC, as the country needs to raise its resource accumulation (Ali, 2016). In this regard, secondary sources also found that many middle-income countries have been trapped at the middle-income level. In this situation, a country's per-capita income remains stable in the long term. It is called the middle-income trap (MIT). For instance, India for 13 years, Malaysia for 27 years, Argentina for 33 years, and, most importantly, Vietnam and the Philippines, two giant FDI-engaging countries in the Southeast Asian region, remain in the middle-income trap for 11 and 34 years, respectively (Mahmud, 2022). As a result of this, scholars suggest that the middle-income countries in the trap properly utilise their natural and human resources to overcome the situation.

Like other nations, Bangladesh is also preparing to be a high-income country (HIC) by 2041. According to the UN data, any country with more than \$12,615 gross national income (GNI) per capita is considered an HIC. Bangladesh has become one of the fastest-growing economies in South Asia (Mahmud, 2022). Consequently, Bangladesh and its development partners aim to achieve developed country status by 2041 while working on the SDGs, which are sectional planning of the 2041 Vision (GED, 2020; Schantaz et al., 2022). The available literature identifies that unemployment is the main challenge for Bangladesh in becoming a high-income country. Lately, the national unemployment rate of Bangladesh was 5.23% in 2021, compared to 4.41% in 2018 (Macrotrends, n.d.). This 0.82% growing unemployment rate is threatening Bangladesh's present economic growth. Moreover, climate change and curtailed LDC facilities are other burning issues for Bangladesh. These changes will drastically alter Bangladesh if it fails to tackle these challenges.

2.4 Problem statement

This paper tries to evaluate the existing literature, and it appears that little research has been done to examine the prospects and challenges of Japanese FDI in Bangladesh as a source for financing to achieve development visions. As available information suggests, the Japanese contribute significantly to Bangladesh through ODA, and Japanese companies are interested in investing in Bangladesh. However, they are still facing problems during their operation. As a consequence, available data claims that Bangladesh still has a 5% insufficiency in its GDP, so it has to look into foreign assistance to enhance domestic financing (Munir, n.d.). In addition, external funding from development partners has been divided from \$3.1 billion in

2010 to \$8 billion in 2019 in Bangladesh's yearly development program (Schantaz et al., 2022). Besides, several publications show that Bangladesh will face a financial shortage in the near future. So, it will be too challenging for Bangladesh to materialise its development vision on a limited budget. It is, therefore, necessary to take proper initiatives to secure the operations of existing Japanese investors. Thus, this study has outlined the following research questions to minimise the knowledge gap.

- I. What are the prospects of Japanese FDI in Bangladesh?
- II. What are the challenges of Japanese FDI in Bangladesh?
- III. How can Bangladesh secure more Japanese FDI for the country's economic development?

3. Theoretical Perspective

Given supporters of the dependency theory, international business organisations have corporate headquarters in their home countries, and the branches they open in underdeveloped or developing nations serve the needs of the organisations they represent and shareholders. Based on this perspective, development cannot occur unless everyone is free from inequality and oppression. Instead of being a state-guaranteed right, prosperity becomes a human right for all nationals, irrespective of their identity. It also offers policy explanations for such reorganisation. According to this argument, foreign investment gives industrialised nations a tool to control emerging nations (Tefaye, n.d.). As a result, Japanese aid in terms of liquid finance for Bangladesh views growth as necessitating not limited to the transfer of resources and assets to the receiving country but rather flourishing the well-being of the country's citizens (Tefaye, n.d.). Therefore, Bangladesh's assistance from Japan is not limited to any humanitarian motive. Besides, it also expresses the Japanese tendency to expand their operation and overtake Chinese dominance over this region by continuing their assistance in Bangladesh. Moreover, Bangladesh also offers sufficient cheap labour and a large consumer market. Therefore, the two-way interconnected relationship between Bangladesh and Japan, dependency theory, is more suitable for this paper to demonstrate the research questions and portray the entire findings of the study.



Figure 2: Visual cycle of FDI inflow

Figure 2 indicates a correlation between Japan and Bangladesh as donor-recipient countries based on dependency theory. As a donor country, Japan invests in Bangladesh, which offers hugely cheap labour and sells Japanese goods in its growing consumer market. In contrast, transferring or exchanging know-how and technology between Japan and Bangladesh improves the host country's business environment and management.

4. Methodology

This qualitative research investigates the prospects and challenges of Japanese FDI as a source for Bangladesh's socio-economic development. Besides, depending on the research questions, it intends to understand the whole context. The assuming sources can make solutions to the research questions into reality, which is similar to the 'Constructivism' philosophical perspective. This research philosophy views knowledge in reality and gathers it through the demands of the objectives (BRM, n.d.). This paper attempts to determine the contribution of Japanese FDI to Bangladesh. Besides, this kind of research highly prioritises human interaction. For instance, researchers and participants' direct interaction during an interview has been required to collect rigorous information. That is why eleven in-depth interviews were conducted following a semi-structured questionnaire with all kinds of interview protocols and ethics maintained. All interviewees' consent was obtained before conducting the interviews. The major interview questions in the questionnaire include the nature of FDI in Bangladesh, the implications of FDI, the prospects of FDI, and the challenges of FDI in Bangladesh. Moreover, documents have been examined to get secondary data. Here, documents are mainly acquired through web surfing. Various national and international documents, such as administrative reports, publications, previous research works, government policies, government and organisational survey reports, journal articles, and newspaper publications, have been reviewed for secondary data. On the other hand, the inductive approach has been adopted, where the researcher looks at any problems through a theoretical lens and contributes to existing theory. Findings and results are mainly organised thematically by overviewing the current consequences. Thematic analysis is primarily used in qualitative research to represent the findings. The analysis procedure of this particular method allows the preparation of themes based on data collected through primary and secondary sources. To generate codes, this data analysis technique prefers highlighting the contents of all accumulating information the most. In addition, to enhance Bangladesh's capability of attracting more Japanese FDI, this paper offers a set of policy recommendations. However, after an extensive review of every interview and organising all information from interviewees and documents, three core themes have been identified and presented through a thematic analysis.

Those themes are —

- A) Prospects of Japanese FDI in Bangladesh → RQ-1
- B) Challenges of Japanese FDI in Bangladesh → RQ-2
- C) Incentives to secure Japanese FDI in Bangladesh → RQ-3

5. Discussion

5.1 Prospects of Japanese FDI in Bangladesh

Various responses regarding the current FDI inflow scenario in Bangladesh have been found among interviewees in this study. Both optimistic and pessimistic insights have been identified. Nine out of eleven interviewees have agreed that the Japanese FDI inflow in Bangladesh is increasing daily. Japan's net FDI inflow (from Export Processing Zones, or EPZs, and outside EPZs) was US\$91.05 million, compared to only 35.06 million in 2020 (Interviewee 3, 2022). In 2011, Japan invested only \$4.53 million in Ishwardi EPZ (UNB, 2021), which is relatively tiny compared to the present amount. This numerical change represents Japanese interest in Bangladesh, too. One piece of data can be mentioned here: the ongoing Araihasar EPZ in Narayanganj is implemented by the Sumitomo Corporation of Japan, popularly known as the Japanese EPZ. More than 100 Japanese companies are expected to invest in this EPZ. Therefore, it can be assumed that the number of Japanese companies and investments will also increase in this country. Alongside Araihasar EPZ, Bangladesh is also working on Mirsarai and Matarbari EPZs. It is expected that these EPZs will bring a considerable number of Japanese companies to Bangladesh, which will contribute to Bangladesh's vision to increase the contribution of FDI to GDP from the current 1% to 3% as part of the 8th Five-Year Plan (Interviewee 9, 2022).

The number of Japanese companies is increasing day by day. Not only has the number of Japanese companies increased, but overall, Japanese investment has also risen. On the other hand, the Bank of Japan (BoJ) has revealed that Japanese FDI in the manufacturing sector of Bangladesh has increased from ¥400 million to ¥3 billion in 2019 (Interviewee 5, 2022). This rapid increase in investment amount shows the current situation of Japanese FDI inflow in Bangladesh. Having long-term political stability and remarkable economic growth attracts Japanese investors.

In contrast, the respondent claimed that the current share of Japanese FDI in total FDI inflows in Bangladesh is not significant compared to 2013 and 2014 (Interviewee 1, 2022). In 2014, both countries' honourable prime ministers (PMs), Bangladesh PM Sheikh Hasina and former Japanese PM Shinzo Abe, visited each other's countries, drastically changing the FDI inflow in Bangladesh from Japan. In

this regard, Interviewee 7 (2022) articulated, *'Though the Bangladeshi PM welcomes Japanese investors, government execution bodies are less cooperative with Japanese expectations. Besides, rules and regulations are implemented inconsistently'*. Bilateral relations between Bangladesh and Japan further deepened after the historic visit. Later, the sudden hit of COVID-19 slowed down global economic growth. As a result, the FDI inflow in Bangladesh is also experiencing a bit of a downturn. However, secondary data reveals that the recent visit of HPM Sheikh Hasina to Japan has broadened the comprehensive diplomatic relationship to a strategic defence and security level as business partnerships have also tightened (Karim, 2023).

Interviewee 3 (2022) confesses, *'Japan itself is a brand throughout the whole world'*. More specifically, Japanese technology, electronic products, and automobiles are well known for their quality and reasonable prices. Among the vast number of prominent Japanese companies, a few are investing in Bangladesh. For example, Honda, Yamaha, Mitsubishi, Suzuki, Sumitomo, Kawasaki, and Mitsui continue their operations in Bangladesh. If other companies invest in Bangladesh, it will be an excellent opportunity for the host country to work with native Japanese.

Moreover, the potential transfer of Japanese knowledge and technology can create better services by mixing with Bangladeshi culture, as Bangladeshi workers can take positive business knowledge from Japanese nationals (Interviewee 2, 2022; Interviewee 7, 2022; Interviewee 10, 2022). Therefore, by working with them, Bangladesh can adopt the Japanese business culture, way of thinking, advanced technology, and knowledge. Later, a receiving country can also become a donor country, as evidenced by one researcher, who found that FDI-receiving countries such as Saudi Arabia have become donor countries after getting FDI and properly utilising this tool (Hasanov, 2019).

Several Japan-funded projects are ongoing, such as Mass Rapid Transit (MRT), the third terminal of Hazrat Shahjalal International Airport, and Matarbari deep-sea port. These projects will reduce communication loopholes and improve Bangladesh's easy and fast transportation. As a result, domestic transportation costs will also decrease. Furthermore, heavy roadside traffic will be reduced, and time will be saved.

5.2 Challenges of Japanese FDI in Bangladesh

Although Bangladesh's business environment has gradually improved over the years, this is not comparable to those in developing countries such as Vietnam and Thailand (Interviewee 1, 2022; Interviewee 7, 2022; Interviewee 9, 2022). Japanese companies shifted from China to ASEAN countries, and later, in the East Asian region, competition among countries arose to grab those investors. Companies will

move to other countries if Bangladesh cannot prepare itself well. So, it is a big challenge for Bangladesh. Apart from market competition, Bangladesh faces several challenges in attracting Japanese investment. A survey report published in the LightCastle Analytics Wing in 2020 reveals that in the ease-of-doing-business index, Bangladesh ranked 168 out of 190 countries worldwide (Interviewee 1, 2022; Interviewee 9, 2022). There are several reasons why the business environment ranking is relatively low. The reasons include lengthy customs clearance, analogue or paper-based working procedures, current power shortage, limited port facilities, and delayed shipment in export and import (Interviewee 3, 2022; Interviewee 4, 2022; Interviewee 5, 2022; Interviewee 7, 2022). Additionally, the biggest problem for Japanese investors or businesses is procuring raw materials and parts locally; the availability of raw materials is a big hassle (Interviewee 3, 2022; Interviewee 5, 2022; Interviewee 8, 2022). The unavailability of raw materials and the high prices of those parts are reasons for high production costs.

All the interviewees in the study claim that bureaucratic hassle is one of the core issues that predominantly disturb Japanese investors in Bangladesh. At the same time, slow decision-making and execution processes, procedural complexity in investment-related official activities, inconsistent policies and rules, a lack of transparency in tax administration, the country's long-established red tape and corruption, and a lack of trustworthiness of Bangladeshi partners in doing business are also hampering smooth bureaucratic procedures (Interviewee 1, 2022). 2018 Transparency International ranked Bangladesh 149 among 180 countries in the Corruption Perception Index (CPI) (Munir, 2019). With the reduction of corruption in regulations, policy enactment, transparency, and accountability, Bangladesh gets negative observations from global investors (Asaf, 2022), which results in an investment-unfriendly environment in Bangladesh. In many cases, government officials do not approve without any extra money.

Despite Bangladesh being a lucrative investment area, the major challenge in all industries is insufficient quality labour. A survey conducted by the Japan External Trade Organisation (JETRO) in 2021 found that 67.4% of Japanese companies from all sectors face challenges in employee quality (Interviewee 3, 2022). In most cases, the Japanese invest in labour-incentive sectors in Bangladesh, such as construction, fertiliser, textiles, or clothing. If existing companies feel that Bangladeshi labour is not well-skilled or productive, they will move into new investment areas. In this regard, one major piece of information revealed by the JETRO survey in 2021 is that 60.9% of existing Japanese companies believe that a wage hike is a hurdle for them (Interviewee 3, 2022). It has been found that Bangladeshi labourers are less productive than Vietnamese labourers.

5.3 Initiatives to secure Japanese FDI in Bangladesh

Presenting a bureaucratic, hassle-free working system is the number-one demand of Japanese investors. Almost every interviewee mentions bureaucratic difficulties in Bangladesh. Because of palm greasing or the lure of filthy lucre, officials take extra time in most government offices. Besides, paper or document-based working systems are also time-killing, and the Japanese are not used to this type of culture. So, online procedures for business licencing, customs clearance, or government permission are of paramount importance.

Moreover, in the business environment, Bangladesh should provide tax holidays for investors, enhance cash incentives, and ensure tax delivery on the sharing of capital by the investor country or organisations (Interviewee 1, 2022; Interviewee 2, 2022; Interviewee 3, 2022; Interviewee 5, 2022, Interviewee 6, 2022). Furthermore, sending remittances back home is so venturesome for the Japanese. India, a neighbouring country of Bangladesh, has telegraphic money transfer facilities that help foreigners send remittances to their home country (Interviewee 3, 2022; Interviewee 5, 2022; Interviewee 10, 2022). Unfortunately, Bangladesh has no such initiatives yet. Whenever people face difficulties during the money trajectory procedure, it creates an unstable, inferior situation for those foreigners. That is why Bangladesh should take similar initiatives to those provided by India to its foreigners.

Similarly, FDI inflow can be increased by establishing new EPZs, enhancing the country's export markets (Hossain, n.d.). So, it is imperative to protect the business environment for Japanese investors, increase EPZ facilities and promote equal incentives to existing Japanese companies in EPZs (Interviewee 3, 2022; Interviewee 10, 2022). Araihaazar EPZ in Narayanganj has opened the door to Japanese investment. It can attract new investors if more EPZs can be built, prioritising Japanese investors and providing more facilities. Moreover, one-stop services (OSSs) can enhance the brand image of Bangladesh to protect the business environment here as well as to ensure an opportunity for other nationals, and they have to be effective (Interviewee 2, 2022; Interviewee 5, 2022; Interviewee 8, 2022). Further, Interviewee 8 (2022) pointed out that *'digitalisation of the Bangladesh Government's offices, such as the Bangladesh Investment and Development Authority (BIDA), can reduce the rate of corruption. It can also help to ensure accountability and enhance the working capacity of government officials, which can contribute to ending the time-consuming working procedure'*.

In addition, based on research findings, Interviewee 1 (2022) suggested, *"Bangladesh should promote an investor-wise (country-wise) separate incentive scheme to prioritise the demand fulfilment of individual countries' investors."* That is why Bangladesh should listen to the existing Japanese investors and resolve the

issues of investors, as they are the leading influencers to attract future investment and fulfil their expectations by providing a similar way of social life so that the Japanese can feel social comfort (Interviewee 1, 2022; Interviewee 3, 2022; Interviewee 5, 2022; Interviewee 9, 2022). Japan believes in planning and doing research as well. They will not take a single step without a plan or market research. If Bangladesh can satisfy existing Japanese companies properly, those companies will provide a positive reflection to their native companies and motivate them to invest in Bangladesh. In fact, Japan's brand image will attract other nationals.

5.4 Theoretical discussion and contribution of the study

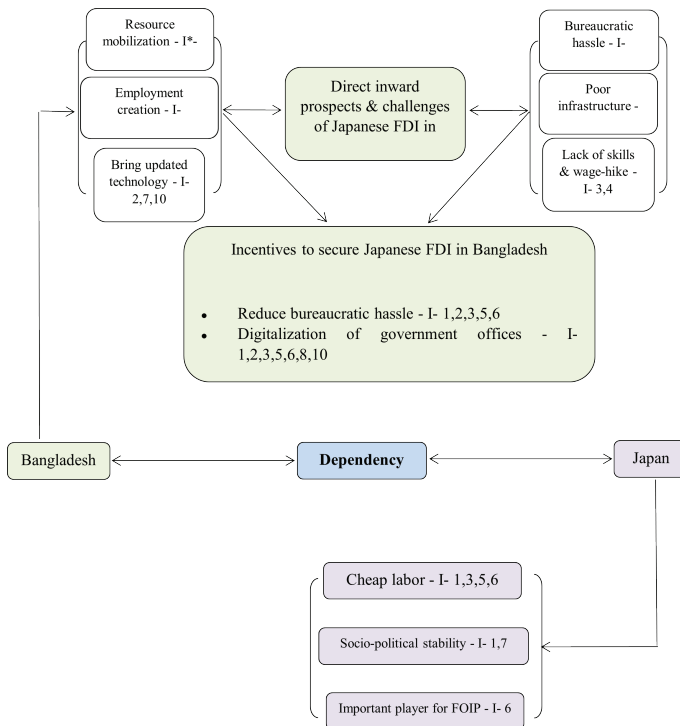
Japanese assistance is increasing in Bangladesh every passing year. Much empirical research suggests that FDI is a dependable emerging source for resource mobilisation in a developing country. In this perspective, nine out of eleven interviewees have directly claimed that Japanese FDI has the scope to be a source for Bangladesh's development financing (Interviewee 1, 2022; Interviewee 3, 2022; Interviewee 4, 2022; Interviewee 5, 2022; Interviewee 6, 2022; Interviewee 8, 2022; Interviewee 9, 2022; Interviewee 10, 2022; Interviewee 11, 2022). One interviewee cited it as a contradictory issue because Bangladesh welcomes Japanese and Chinese investments, which can create two dividing belts between Japan and China (Interviewee 7, 2022). However, Bangladesh's foreign policy has solved this issue: Bangladesh should maintain friendly relations with its partners, which prevents Bangladesh from joining any belts. Despite policy restrictions, Bangladesh should be more diplomatic in strengthening bilateral ties with Japan and China. They are the most prominent donors and bilateral development partners in Bangladesh.

Apart from resource mobilisation, Japanese FDI significantly impacts employment creation in Bangladesh. Besides, bringing modern technology, the exchange of knowledge and experience, etc., helps build a vibrant workforce, which will have a specialised impact on the overall development of Bangladesh. Moreover, Interviewee 7 (2022) pointed out, *"Japan's philosophy of doing business is quite different from the Chinese business philosophy. Japan always prioritises the host country's economic development, whereas China puts its own business profit first over the host country's improvement."*

On the other hand, Japan is also trying to ensure peace and stability through its FOIP initiative. In this regard, geographically, Bangladesh is situated in one of the crucial positions from which Japan can easily transport its vessels. Besides, the empirical data reveals that Japan is concerned about China's Belt and Road initiative along with its growing influence in the Indo-Pacific region. To strengthen naval communication in the Indo-Pacific region, Japan needs Bangladesh, not just because of its strategic geographical location. However, because of Bangladesh's

growing economy, available cheap workers, socio-political stability, emerging global role, etc. In addition, there is a broad labour market opportunity for Bangladeshi workers in Japan. Due to Japan's declining birth rate and continuously increasing elderly population, Japan is now facing a labour shortage.

So, Japan and Bangladesh have no one-sided issue regarding receiving or investing. Instead, it is a more impartial, fair-minded partnership where both countries directly or indirectly rely on each other. From the perspective of the prospects of Japanese FDI in Bangladesh, the dependency theory is effective, and Bangladesh has benefited. Conversely, the challenges of Japanese FDI and incentives to secure Japanese FDI in Bangladesh keep the instrumental improvement mindset of this paper to highlight the necessity of Japanese assistance toward Bangladesh. At the same time, the Japanese have been getting advantages by expanding their brand image. Contributing to the infrastructural improvement of Bangladesh ensures Japan's commitment to its receiving countries. Consequently, Japanese technicians and engineers working as the head of almost every project continuing in Bangladesh help Japan to know Bangladesh and its people more actively, which later helps them decide to receive Bangladeshi human resources in their territory as workers.



Note: I* = Interviewee

6. Limitations and Future Scope of the Study

FDI is not only an economic tool but also a multi-propagation soft power tool that has provided different aspects for a long time without any geographical limitation. Besides, its expanding area proves its necessity for more and more investigation. Therefore, further research can be conducted on the identified research gaps and questions. Most importantly, future findings will help increase Japanese investment in Bangladesh. In this context, the prospects and challenges of Japanese FDI in Bangladesh must be investigated in future research.

7. Conclusion and Recommendation

The study findings identified that around 70% of Japanese companies plan to expand their operations in Bangladesh. It will contribute not only to industrial sophistication but also to overall socio-economic development and positively to Bangladesh's GDP growth. Moreover, Japanese investment can create new job opportunities, capital financing, infrastructural development, and cultural, knowledge, and technology exchange. However, achieving the visions discussed in the literature review section will be tough without economic progress or activity. Post-COVID-19 challenges, such as reduced RMG export income and less foreign remittance inflow, complicate Bangladesh's economic situation. These challenges force Bangladesh to search for alternatives, and primary and secondary information suggests that grabbing Japanese investment can contribute to Bangladesh's economic vision. Bangladesh still suffers setbacks like insufficient infrastructure, poor port facilities, late government responses, bureaucratic hassle, and corruption. Therefore, to overcome those challenges, GoB should work on facilitating Japanese companies to bring more investment to Bangladesh and encourage their peer companies to invest in this country. More or less, enacting laws, implementing those laws, enhancing labourers' productivity, digitising government offices, and expanding infrastructure and port facilities can improve Bangladesh's business environment. Hence, Bangladesh needs to ensure an investment-friendly environment for Japanese investors. In this case, this study proposes the following recommendations to the government bodies to provide a business-friendly environment for Japanese investors:

- a. The government of Bangladesh must address the loopholes in the business environment. They should not be limited only to commitments and policies. The government should pay due attention to implementing initiatives effectively.
- b. Regular changes in business policies create a problematic situation for Japanese investors. They also provide space for dishonest people to engage in bribery activities. So, Bangladesh should stick to a stable business policy for foreign investors.

- c. Installation of an easy and fast remittance system, such as telegraphic transfer (TT). Through this initiative, Japanese people in Bangladesh can easily send their earnings to their home country.
- d. Improve port facilities and their capability to work fast. Almost every interviewee responded that Bangladesh's time-consuming port clearance is a hassle for Japanese businesses, which is more accessible in Vietnam or India.
- e. Bangladesh has 21 one-stop services (OSSs) in EPZs, but the efficiency of those OSSs should be increased. If this can be maintained strictly, EPZs' working capability will improve, and investors' time will be saved.
- f. Paper-based working procedures in government offices are time-consuming and must be digitised. Additionally, quick responses from government officials, including expertise in government offices, abolishing exchanging money under cover, and reducing bureaucratic hassle, can relieve Japanese companies of the bad dream of doing business in Bangladesh.
- g. GoB needs to turn its young demographic into skilled human resources. Recently, workers have been demanding extra wages for higher productivity. So, arrangements for training programs, proper education (formal and vocational), and technological knowledge are imperative to improving workers' skills and productivity. Therefore, both public and private institutions should work together to build good human resources.
- h. Listening to existing Japanese investors and addressing their problems promptly can make a positive impact. Further, ensuring a homogeneous Japanese culture in Bangladesh is crucial so Japanese nationals can feel comfortable with Bangladeshi social life.
- i. A common perception about FDI is that domestic enterprises can be destroyed due to competition between domestic and foreign products. So, GoB should look after domestic enterprises while also welcoming foreign investors.
- j. Branding a positive Bangladesh and its initiatives for foreigners and the availability of recent online information is central to presenting our image to the world. It can bring other nationals to Bangladesh.
- k. Most interviewees suggested that Bangladesh immediately sign the Economic Partnership Agreement (EPA) with Japan.

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Annex 1

List of Interviewees

Sl	Name	Profession	Sex	Date
01	Shamsunnahar Shompa	Research Associate, Center for Governance Studies	Female	31.07.2022
02	Okabayashi Kuniaki	Chairman, Kokorozashi Japan Limited	Male	31.07.2022
03	Israt Jahan	Assistant Manager, JETRO Dhaka	Female	04.08.2022
04	Md. Saif Mostafa	-	Male	09.08.2022
05	Asif A. Chowdhury	President, Japan-Bangladesh Chamber of Commerce and Industry	Male	10.08.2022
06	Md. Saifullah Akon	Assistant Professor, Department of Japanese Studies, University of Dhaka.	Male	08.09.2022
07	Md Waliur Rahman	Senior Manager, Business Development and Admin, NewVision Solutions Ltd.	Male	10.08.2022
08	Riazul Hasan	Senior Executive, Business Development, NewVision Solutions Ltd.	Male	10.08.2022
09	Shiblee Noman Naushad	Assistant Professor, Department of Japanese Studies, University of Dhaka.	Male	28.08.2022
10	Tareq Rafi Bhuiyan (Jun)	Secretary General, Japan-Bangladesh Chamber of Commerce and Industry	Male	03.09.2022
11	Mohammad Hasan Arif	Joint Secretary; General Manager (Administration & Finance), Bangladesh Economic Zones Authority (BEZA)	Male	04.09.2022

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