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Resilient Supply Chain Initiative: Attracting Japanese Investment to Bangladesh

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Summary

Japanese multinationals are looking for alternative investment opportunities, either in a 'China exit' or a 'China-plus' strategy, and the Japanese government is supporting them in finding suitable markets for their investments. Bangladesh has several geopolitical and economic advantages. Rapid socio-economic development and a growing middle-class have made Bangladesh an ideal place for investment. Streamlining domestic regulatory policies, infrastructure development and deeper regional integration through free trade agreements could bring investments into Bangladesh.

The trade war between the United States (US) and China was the tipping point for the drifting of the global supply chains, which became prominent with the COVID-19 outbreak in Wuhan. The pandemic has forced the shutdown of many plants in China, including Apple, Hyundai and Airbus. Toshiba and Komatsu have been under pressure from China's rising production costs since the US imposed retaliatory tariffs. Export restrictions are also distorting the supply chain for medical equipment and supplies. The Global Trade Alert (2020) reported 800 discriminatory non-tariff measures (NTMs) in the first seven months of 2020, 12 per cent higher than the whole of 2019.

In response to the COVID-19 pandemic, the ASEAN-Japan Comprehensive Economic Partnership announced economic resilience guidelines in April 2020. The Nippon Export and Investment Insurance (NEXI) set a loan insurance programme of up to 1.5 trillion Japanese yen (S$19.3 billion) to support Japanese subsidiaries operating overseas business and to ensure supply chain resilience. However, the biggest challenge in shifting supply chains is the high fixed costs. For example, Foxconn's single plant may require an investment of US$1 billion (S$1.36 billion).

The China dependency on the global supply chain is one of the critical issues that emerged during this pandemic. On 1 September 2020, Australia, India and Japan issued a joint statement on the Resilient Supply Chain Initiative and reaffirmed their determination to take the lead in delivering a free, fair, inclusive trade and investment environment in the Indo-Pacific. India is keen to link its pharmaceutical supply chain to Japan and Australia, while Japan wants its car industry to boost its presence in India. Australia intends to reduce the risk of high dependency on Chinese products. So, how can Bangladesh utilise the opportunities of changing global dynamics and integrate into the regional production network?

Bangladesh has been a frontrunner in economic growth South Asia, with a steady average growth rate of about 6.5 per cent over the last decade. In 2019, the country had a real gross domestic product growth rate of 8.2 per cent, compared to the South Asian average of 5.5

per cent. Moreover, its labour cost is four times lower than that in China. Besides, the Bangladesh Investment Development Authority (BIDA) has been offering various investment stimulus initiatives in the form of special economic zones (SEZ) and tax incentives to attract foreign investments. A one-stop investment service, visa exemption and tax holidays are few of these attractions.

In spite of these efforts, why is Bangladesh not able to integrate into the global supply chain and become an attractive investment destination? The answer is simple. Bangladesh is ranked 168 out of 190 countries in ease of doing business, and 176 out of 190 countries on the 'getting electricity' criterion. The number of days to get an electricity connection in Bangladesh is about 125, while China provides it within 32 days. Customs clearance at Chittagong port takes about five days, wherein Vietnam clears within two days. Compared to competitors like Vietnam, there is a gap in many areas – from basic infrastructure to trade facilitation. Bangladesh needs to become proactive in the regional integration process, which may boost the confidence of investors. It should consider entering into free trade agreements with its key trading partners to deal with NTMs, which are the most critical barriers to exports.

Japan is Bangladesh's top export destination. Bangladesh has been enjoying the Generalised System of Preferences scheme since the 1970s, exporting to the Japanese market. It is one of the influential official development assistance partners of Bangladesh – its contribution to Dhaka was about US$7 billion (S$9.5 billion) until 2019. Currently, three Japanese firms – Marubeni Corporation, Kawasaki Heavy Industries and Mitsubishi Corporation – are involved in the construction of the metro rail in Dhaka, one of the country's mega-projects. The Japan International Cooperation Agency has provided US$2.13 billion (S$2.88 billion), which is 75 per cent of the total project cost.

There has also been a rise in investments from other private companies. According to BIDA, there are currently about 300 Japanese companies operating in Bangladesh and these have been growing every year. Japan Tobacco International invested about US$1.47 billion (S$2 billion) in 2019 to buy Akij Tobacco, the biggest tobacco company in Bangladesh. Japanese SEZ at Araihazar in Narayaganj is expected to commence operations by 2021, which will further boost Japanese investment in Bangladesh. The NEXI has recently provided a loan insurance of US$177 million (S$240.7 million) for Reliance Bangladesh LNG and Power Ltd for a power plant project at Meghnaghat near Dhaka.

Bangladesh has a Comprehensive Economic Partnership Agreement (CEPA) with Japan but the operational modalities are yet to be finalised. The latter has approved a loan of approximately US$1.2 billion (S$1.6 billion) to construct the Matarbari deep seaport, Araihazar SEZ and the Dhaka metro rail, as stated in the CEPA in May 2019. However, the main export barriers to the Japanese market are the different types of non-tariff measures. An operational and effective economic partnership agreement with Japan may help ease these regulatory barriers and boost Japanese investment in Bangladesh.

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