Japan-Bangladesh ties: Riding the next wave of globalisation

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THE patterns of globalisation are changing. Global cross-border flows—of trade, capital, knowledge, resources, transportation and culture—are shifting towards Asia. By 2040, Asia could account for more than half of the world's GDP and around 40 percent of its consumption. As the economies of the region continue to integrate with each other and form powerful, synergistic networks, regionalisation will increasingly be the dominant theme of the next phase of globalisation. Capturing the shared opportunities within the rising Asian super-bloc can hold the key for the next growth-spurt, both for advanced economies and for those with high growth aspirations of their own.

Even though Bangladesh and Japan are on different rungs of the development ladder, our economies have complementary characteristics. While one offers a large, young and skilled labour force, the other can offer capital to leverage this asset. One brings to the table a fast-growing market, the other: a constant stream of innovation required to serve this market.

Bangladesh today is one of the fastest growing markets in the world. Standard Chartered's research shows that by 2030, Bangladesh could become the 23rd largest economy (measured by market exchange rates) in the world. The nation has achieved 6.5 percent economic growth over the last decade, recorded 8.13 percent growth in 2018-19, and is aiming for double-digit growth soon. The growth comes on the back of solid fundamentals, riding on productivity gains from stable government, infrastructure investment, improved energy supply and demographic dividend. The middle-income group, already over 30-million strong, is expanding at speed, creating market opportunities in orders of magnitude greater than in the past.

As maturing domestic value chains and uncertainties around global trade take Japanese supply chains to new ports-of-call, Bangladesh-Japan partnership holds a unique promise: deep ties and familiarity of decades, but new and untapped opportunities. In fact, "G7 to E7: The Standard Chartered Trade Performance Index" predicts that Japanese exports to Bangladesh has the potential to grow by 31 percent just to achieve its par value, even before considering Bangladesh's high growth trajectory, fast approaching another inflection point.

Bangladesh's Prime Minister Sheikh Hasina and Japan's Prime Minister Shinzo Abe attend a joint media conference at Abe's official residence in Tokyo on May 29, 2019. PHOTO: AFP

The reverse is also true: the import basket of Japan is worth USD 670 billion, of which Bangladesh covers only 0.2 percent. There is a wide range of products that Bangladesh can export to Japan, including, but by no means limited to, smartphones, integrated circuits, plastics, light engineering, cables, leather goods and more. Japan imports more than USD 100 billion of these products. Even if Bangladesh could go from 0.2 percent to 1 percent, that would mean an additional USD 6 billion in export earnings, which is a huge opportunity.

Bangladesh has tended to look wider for its export destinations—Bangladesh Export Promotion Bureau data shows that in 2018, Asia accounted for only around 14 percent of the nation's export. But considering 52 percent of Asia's trade is intra-regional, the vast potential closer to home will take on greater and greater significance.

For Bangladesh, this need to diversify is not limited to its export destinations. Europe and North America accounts for around 80 percent of the nation's exports, while more than 80 percent of its export basket consists of RMG and textiles. FDI will play a critical role in reshaping our export composition. A look at Vietnam, a neighbour whose GDP and development phase are comparable to Bangladesh, shows us why.

Bangladesh and Vietnam exports hovered around USD 2.0 billion in the 1990s. In 2018, Bangladesh posted exports earnings of USD 40.53 billion—Vietnam stood at USD 243 billion. According to the General Statistical Office of Vietnam, FDI accounted for 71.5 per cent of total exports in 2016. High-tech manufacturing is replacing traditional products, as investments by electronics giants Intel and Samsung reshape Vietnam's landscape. Many domestic operators are starting to take their lead with high-tech manufacturing forays of their own.

More than 5,000 companies in Japan are looking for alternative investment opportunities. The benefits they can offer Bangladesh are vital: greater integration within global value chains, growth in pool of skilled resources, and technology diffusion. On the other hand, Bangladesh has much to offer as well. Beyond a burgeoning consumer market, and cost advantages, there are also structural opportunities. Bangladesh's manufacturing share of GDP rose from 16 percent to 22 percent between 2007 and 2017.

Given that manufacturing sector employment tends to peak at around 30 percent, there remains major potential for further industrialisation that Japanese capital, technology and networks can capitalise on.

On the flip-side, as more Japanese companies enter Bangladesh, local firms and human resources will benefit from technology spill-overs. These firms will not only deepen Bangladesh's integration with the global value chain, but will also be integral in facilitating diffusion of new technologies, fostering the next wave of innovations for Bangladesh.

Another complementarity lies in the demographic makeup of the two nations. Japan's proportion of working-age population is falling. Bangladesh, with a median age of just over 26, is currently enjoying demographic dividend. Greater flow of people between these two nations, propped up by increased cultural exchange and capacity development from the Bangladesh perspective, will be another win-win for these two nations.

In the last year, a Japanese firm completed an acquisition that represents the single largest foreign private investment into Bangladesh and the single largest consumer sector acquisition in Bangladesh till date. On a governmental level, the development of a special economic zone at Araihazar, Narayanganj, for Japanese investors, a JICA-funded project, is currently under progress, as are efforts to simplify the regulatory and administrative frameworks that facilitate foreign investments. These are encouraging signals, pointing to the fact that both the private and public sectors are awake to our shared possibilities.

Japan has been a close partner to Bangladesh in its journey towards progress and prosperity. One of the first countries to recognise Bangladesh, Japan has since then become Bangladesh's largest bilateral development partner. It has helped Bangladesh tackle challenges in vital sectors such as education, health, water and sanitation, agriculture and rural development, power and energy and transport, among many others.

Japan and Bangladesh enjoy a special relationship which has stood the test of time. As the relationships between governments and private sectors of our nations deepen, bilateral ties are poised to reach new heights in the coming years.

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