

Bangladesh-Japan EPA: Opportunities, Challenges, and Future Outlook

Presented by

Dr Fahmida Khatun

Executive Director

Centre for Policy Dialogue (CPD)

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on

Maximising the Opportunity of the Bangladesh-Japan Economic Partnership (EPA)



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Research Team

- Dr Fahmida Khatun, Executive Director, CPD
- Ms Afrin Mahbub, Research Associate, CPD
- Ms Preetilata Khondaker Huq, Research Associate, CPD
- Ms Sadia Afrin, Research Associate, CPD

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An aerial photograph of a large container ship sailing on the ocean. The ship is viewed from above, showing its long deck covered with numerous colorful shipping containers in shades of red, blue, and white. The ship's wake is visible in the water behind it. The text "1. Introduction" is overlaid in a white, serif font across the middle of the ship's deck.

1. Introduction

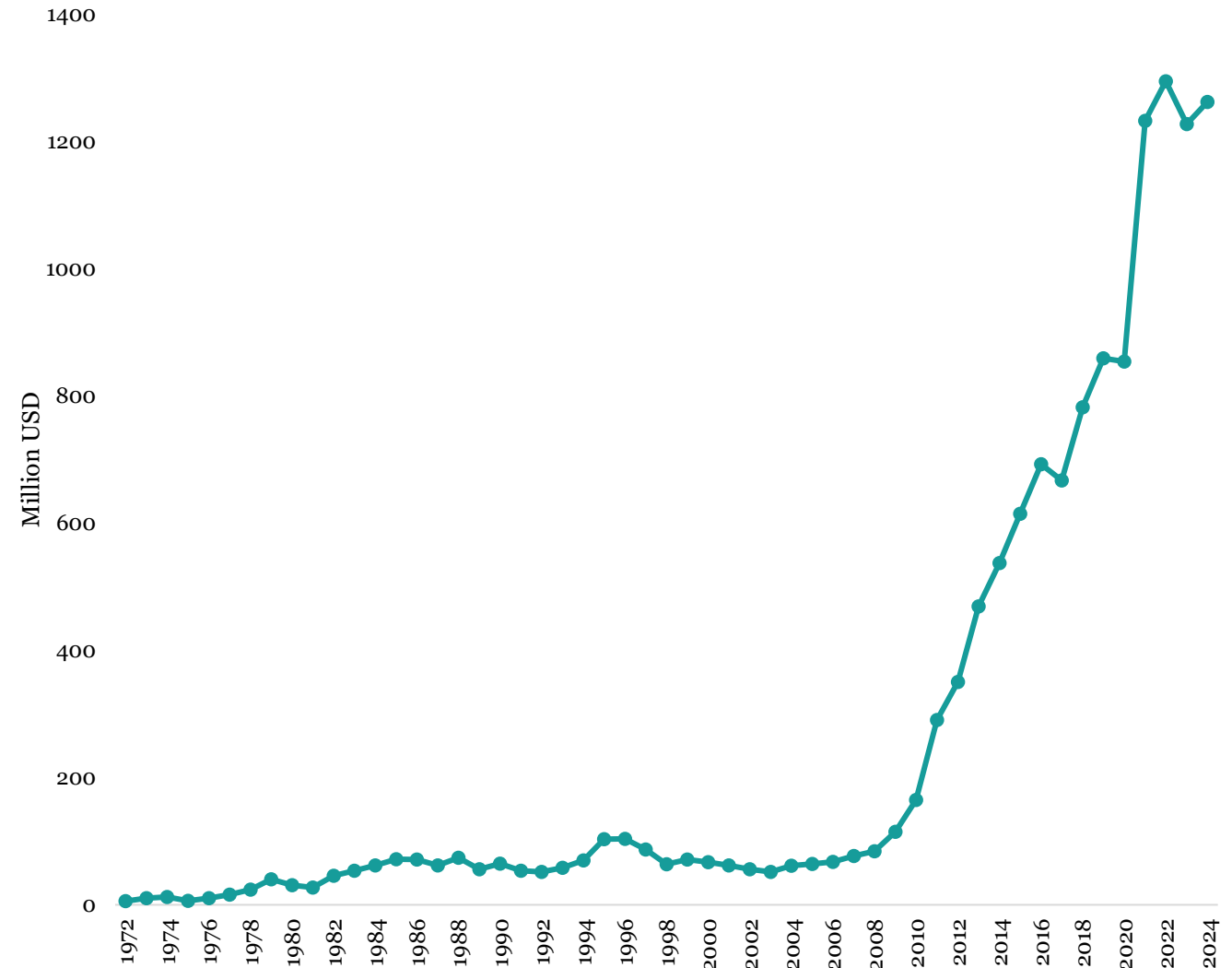
1.1 Background

- Bangladesh and Japan share a long-standing friendship, with Japan as the largest bilateral development partner since Bangladesh's independence.
- Japanese support spans infrastructure, industrialisation, health, education, and socio-economic resilience.
- Foreign aid from Japan rose from USD 316.2 million in 2001 to USD 1,911.2 million in 2024.
- Net FDI from Japan increased from USD 17.2 million in 2001 to USD 56 million in 2025.

1.2 Growth of Bangladesh's Exports to Japan

- Bangladesh's exports to Japan have grown steadily over the past five decades, reflecting deepening bilateral trade ties.
- In the 1970s–1980s, exports were modest and volatile, generally below **USD 75 million annually**.
- Exports remained relatively stable in the 1990s–early 2000s (**USD 50–100 million**), indicating limited structural transformation.
- A strong upward trend began after 2009, rising from **USD 114.6 million in 2009 to USD 469 million in 2013**.
- Post-2015, exports accelerated significantly, surpassing **USD 1 billion in 2021** and reaching **USD 1.29 billion in 2022**, with a slight moderation in 2023 before rebounding to **USD 1.26 billion in 2024**.
- Overall, Japan has become an increasingly important export destination, particularly in the last decade.

Figure: Bangladesh's Exports to Japan (million USD)

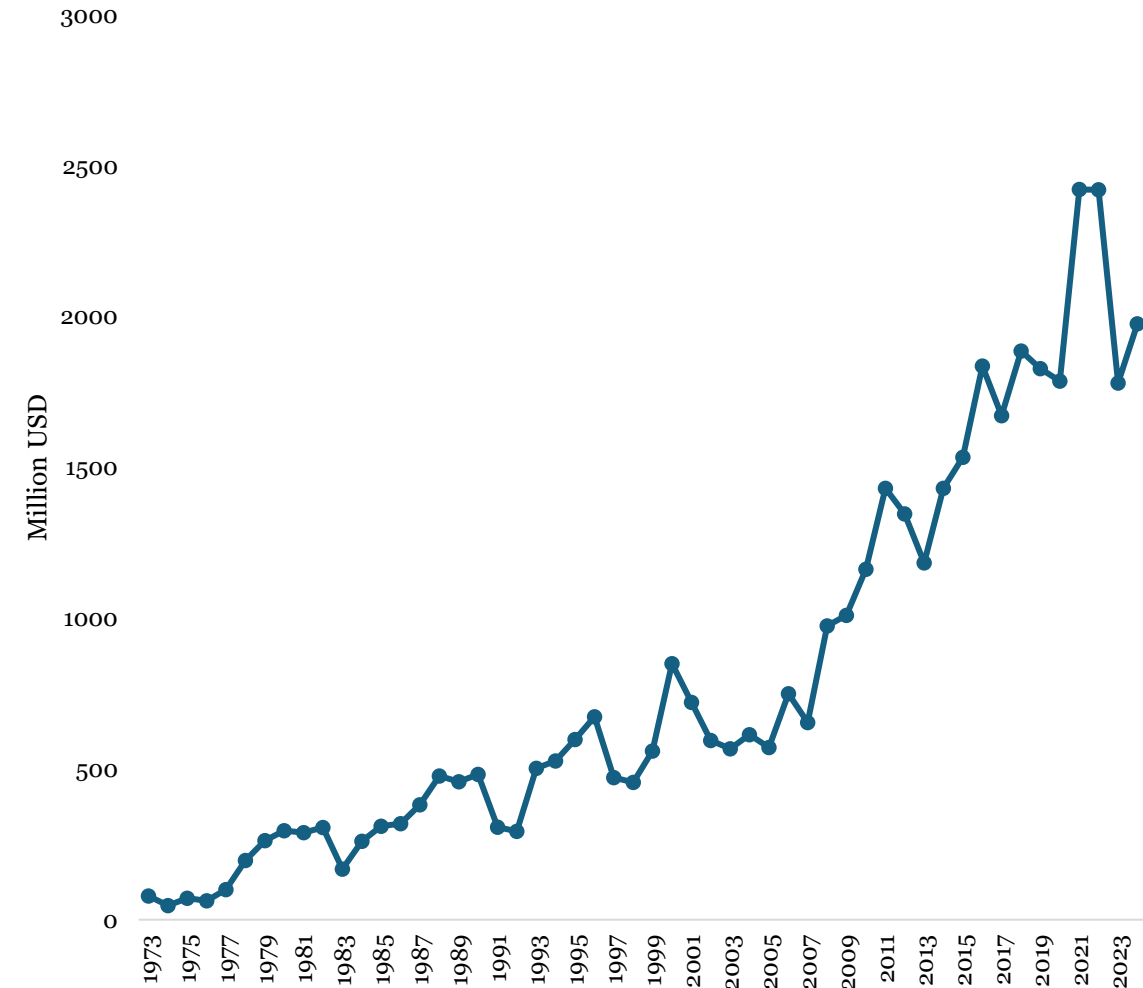


Source: IMF, 2026

1.3 Growth of Japanese Imports into Bangladesh

- Bangladesh's imports from Japan have followed a long-term upward trend with fluctuations across decades.
- Imports rose sharply from USD 78.5 million in 1973 to over USD 295 million by 1980, reaching USD 477.2 million in 1988 and USD 482.2 million in 1990.
- After a brief decline in the early 1990s, imports grew to USD 673.3 million in 1996 and USD 849.7 million in 2000.
- From 2008 onward, imports showed sustained growth, surpassing USD 1 billion in 2009 and reaching USD 1.43 billion in 2011.
- Mid-2010s onwards, imports continued to rise, peaking at USD 2.42 billion in 2021 and 2022, with a slight dip to USD 1.78 billion in 2023 before recovering to USD 1.98 billion in 2024.
- Overall, trade flows from Japan remain strong, highlighting Japan as a key import partner for Bangladesh.

Figure: Bangladesh's Imports to Japan (million USD)



1.4 Implications of LDC Graduation for Bangladesh

- Bangladesh will graduate from LDC status on 24 November 2026, facing reduced access to concessional support and DFQF market preferences.
- RMG exports to Japan are expected to face tariffs of 7.4–12.8%.
- Footwear exports may face tariffs of 22–175%.
- Transition from LIC to LMIC has already shifted ODA composition from grants to concessional loans.
- Given this evolving economic context, the Economic Partnership Agreement (EPA) between Bangladesh and Japan assumes critical importance.
- CPD, in a previous study titled “*Bangladesh-Japan Partnership: The Next Development Journey*”, also highlighted that an EPA between Japan and Bangladesh would expand market access, liberalise trade in manufacturing and agriculture, boost investment, protect intellectual property, and enhance trust and transparency.

An aerial photograph of a large container ship sailing on the ocean. The ship is viewed from above, showing its deck covered with numerous colorful shipping containers in shades of red, blue, and orange. The ship's wake is visible in the water. The text "2. Opportunities and Challenges of the EPA" is overlaid in white, bold font across the center of the image.

2. Opportunities and Challenges of the EPA

2.1 The Bangladesh–Japan Economic Partnership Agreement (EPA)

- Under the EPA, Bangladesh gains duty-free access to **7,379 products** (~97% of exports, including RMG).
- Japan gains duty-free access to **1,039 products**, mostly phased in over time.
- 97 Bangladeshi service sub-sectors are open to Japan, while 120 Japanese sub-sectors are open to Bangladesh
- Expected to attract FDI, promote technology transfer, and diversify exports
- The EPA aims to mitigate adverse trade impacts of LDC graduation, enhance competitiveness, and support structural transformation.
- Complements export and import trends, showing institutional frameworks supporting bilateral trade expansion.
- However, realising EPA benefits requires industrial upgrading, policy coordination, and investment facilitation, not just trade liberalisation.

2.2 Key Takeaways of the EPA

➤ **Trade Liberalisation and Non-Discrimination**

- Goods traded between Bangladesh and Japan are classified under the Harmonised System (HS), and once imported, they must be treated the same as domestic goods.
- If either country later reduces tariffs for all trading partners, the same lower rate must apply to goods from the partner country.

➤ **Restrictions and Subsidies**

- The agreement prohibits export subsidies on goods destined for the partner country and restricts the use of import or export bans or quantitative limits unless permitted under WTO rules.
- Import licensing procedures must remain transparent, predictable, and publicly notified in advance.

2.2 Key Takeaways of the EPA

➤ **Safeguard Measures**

- A country may impose temporary bilateral safeguards if a surge in imports causes or threatens serious injury to domestic industries.
- These measures—such as suspending tariff reductions or raising tariffs within limits—are generally limited to three years (extendable in exceptional cases), require investigation, and may involve compensation to the affected partner.

➤ **Rules of Origin**

- A product qualifies as originating if it is wholly obtained in the country, produced entirely from originating materials, or meets product-specific rules such as changes in tariff classification, value content requirements, or specific processing operations (e.g., chemical reactions).
- Wholly obtained goods include agricultural products, minerals, fishery products, and certain wastes or recovered materials produced within the country.

2.3 Schedule of Bangladesh

- A total of 7,436 goods have been considered in the agreement, of which **1,039 Japanese goods** will have duty-free access to Bangladesh upon the agreement coming into force.
- **4,842 products** will have a gradual reduction in the tariff rate (B5, B8, B10, B12, B15, B18), which is termed the base rate, and the rate will be brought to zero over the years.
- **81 products** will have the E-MFN rate as per the Bangladesh schedule.
- However, **1,474 products** are excluded from any reduction at tariff rate.
- That is, a total of 5,962 products will have lower or zero tariff rates after the agreement.
- After 19 years, a total of 5,881 Japanese products will have duty-free market access in Bangladesh.
- That is, an additional 4,842 Japanese products will be added to the duty-free market access list.

Staging Category	Number of Products
A (Immediate tariff elimination)	1,039
B (Gradual tariff elimination)	4,842
E-MFN (Lower of MFN or other preferential tariff)	81
X (Excluded from tariff commitments)	1,474
Total	7,436

2.3 Schedule of Bangladesh

- Japan will receive immediate duty-free access to **1,039 products** in Bangladesh.
- Among these, machinery and electrical equipment have received the highest provision in Bangladesh's market, followed by medical instruments.
- After six to eight years, **2,702 additional** Japanese products will gradually have duty-free access to Bangladesh.
- Bangladesh has agreed to open 97 sub-sectors to Japan.
- In the case of Japan's CKD (completely knocked down) passenger cars, tariffs will be reduced gradually over 12 years before eventually allowing duty-free entry into the Bangladeshi market.

Section Title	Duty-free access (category A)
Live animals & animal products	33
Vegetable products	71
Animal/vegetable fats & oils	3
Prepared food, beverages & tobacco	13
Mineral products	12
Products of the chemical or allied	108
Plastics, rubber & articles	7
Hides, leather & travel goods	2
Wood & wood products	1
Pulp, paper & paperboard	23
Textiles and textiles articles	23
Footwear, headgear & umbrellas	0
Stone, ceramics & glass	11
Precious stones & metals	2
Base metals and articles of base metal	42
Machinery & electrical equipment	542
Vehicles, aircraft, vessels and associated transport equipment	30
Optical, medical & precision instruments	111
Arms and ammunition; parts and accessories thereof	3
Miscellaneous manufactured articles	2
Works of art, collectors pieces and antiques	0
Total	1039

2.4 Schedule of Japan

- 9,354 Bangladeshi products are covered under the agreement.
- 7,379 products will receive immediate duty-free access to the Japanese market once the agreement enters into force.
- 509 products will undergo gradual tariff reductions (B3, B5, B7, B10, B15), where tariffs will decline from the base rate to zero over time.
- The agreement allows Single Stage Transformation for RMG, meaning that garments can qualify as originating goods if only the final stage of production (cutting and sewing) takes place in Bangladesh.
- This is highly beneficial because Bangladesh imports a large share of its fabrics and yarn, particularly for woven garments.
- Under stricter rules (e.g., double transformation), garments would require both fabric production and garment assembly within Bangladesh to qualify for preferential tariffs.
- With single-stage transformation, Bangladeshi manufacturers can import fabrics from other countries, produce garments domestically, and still receive duty-free access to Japan, thereby enhancing export competitiveness, supporting the RMG value chain, and expanding market access in the Japanese market.

Staging Category	Number of Products
A (Immediate tariff elimination)	7,379
B (Gradual tariff elimination)	509
R (Tariff treatment subject to review by both parties within 90 days of the agreement's entry into force)	206
TRQ (Tariff Rate Quota applied—lower tariff within a quota limit, higher tariff beyond that limit)	1
X (Excluded from tariff commitments)	1259
Total	9,354

2.4 Schedule of Japan

- Japan grants immediate duty-free access to 7,379 Bangladeshi products, signalling a high level of market openness under the EPA.
- The largest number of duty-free items falls under textiles and textile articles (**1,815**), reinforcing Japan’s importance as a growing market for Bangladesh’s apparel exports.
- Significant coverage in chemicals (1,176), machinery and electrical equipment (972), and base metals (828) indicates potential for expanding Bangladesh’s manufacturing exports beyond garments.
- Duty-free access to plastics, rubber, mineral products, and pulp and paper can help integrate Bangladesh into regional production and supply chains linked with Japanese industries.
- Access to precision instruments, vehicles, and transport equipment highlights long-term prospects for technological upgrading and industrial diversification.
- Tariff concessions span agriculture, intermediate goods, and manufactured products, creating wide opportunities for export expansion and deeper Bangladesh–Japan economic integration.

Section Title	Duty-free access (category A)
Live animals & animal products	195
Vegetable products	325
Animal/vegetable fats & oils	49
Prepared food, beverages & tobacco	117
Mineral products	213
Products of the chemical or allied	1176
Plastics and articles thereof; rubber and articles thereof	280
Hides, leather & travel goods	68
Wood & wood products	248
Pulp, paper & paperboard	166
Textiles and textiles articles	1815
Footwear, headgear & umbrellas	24
Articles of stone, plaster, cement, asbestos, mica or similar materials; ceramic products; glass and glassware	169
Precious stones & metals	77
Base metals and articles of base metal	828
Machinery & electrical equipment	972
Vehicles, aircraft, vessels and associated transport equipment	191
Optical, medical & precision instruments	250
Arms and ammunition; parts and accessories thereof	22
Miscellaneous manufactured articles	175
Works of art, collectors pieces and antiques	19
Total	7379

2.5 Benefits of the EPA

- EPA will facilitate easier market access for Bangladeshi products in Japan, with duty-free privileges lowering prices and improving competitiveness.
- Export costs and time are expected to decrease, making Bangladesh more attractive for Japanese supply chain diversification.
- Simplified rules of origin and tariffs will reduce procedural complexity, but effective customs, certification, and verification systems are needed to realise benefits.
- Japan has maintained an EPA with Vietnam since 2008, a key competitor of Bangladesh in the global textile market.
- Historically, Bangladesh has faced an uneven playing field, as Vietnam has enjoyed duty-free access for HS 61 and HS 62 products for several years, whereas Bangladeshi exports were subject to tariffs.
- The current agreement presents Bangladesh with a strategic opportunity to capitalise on this gap and significantly expand its exports of these product categories to the Japanese market.

2.5 Benefits of the EPA

- Temporary movement of skilled personnel is facilitated, but the agreement does not guarantee permanent migration or job market entry.
- The EPA also encourages foreign direct investments from Japan in Bangladesh.
- Currently, Japan is the ninth largest FDI investor in Bangladesh.
- After this agreement, Bangladesh will be able to attract more Japanese investment, thereby creating more employment opportunities in Bangladesh.
- Bangladesh will be able to enhance its technological capabilities through knowledge transfer and training provided by Japanese experts.
- After LDC graduation, the focus shifts to competency improvement, with Japan remaining a key market.
- However, boosting exports and attracting FDI require persistence and strategic engagement.

2.6 Potential Implementation Challenges of the EPA

- Intellectual property obligations will require strengthening laws and administration after, increasing implementation costs.
- Dispute resolution and rule-based pressures may rise; local enterprises could be vulnerable without improvements in production and quality.
- Success depends on producing high-quality products acceptable to Japanese consumers and establishing a business-friendly investment environment.
- Maintaining high standards of Sanitary and Phytosanitary (SPS) measures will be critical.
- Japanese importers are likely to demand strict adherence to quality, hygiene, and safety standards, which may necessitate substantial improvements in Bangladesh's regulatory and inspection capacities to ensure compliance.
- Weaknesses in customs administration, such as inefficiencies in clearance, inadequate risk management, and limited technological integration, could undermine the credibility of Bangladeshi exports and complicate trade facilitation.
- Enhancing transparency, efficiency, and enforcement mechanisms within the customs system will be crucial to sustain confidence among Japanese importers.

2.6 Potential Implementation Challenges of the EPA

- The principle of national treatment embedded in the EPA implies that Japanese goods and services operating in Bangladesh will be afforded the same treatment as domestic products.
- While this promotes fair competition and investment flows, it may intensify competitive pressures on local industries in Bangladesh, particularly in sectors where domestic producers currently enjoy protective advantages.
- In addition, affordable Japanese machinery, capital equipment, and consumer goods may intensify competition for domestic industries further and reduce protection for infant sectors.
- Policymakers must anticipate potential structural adjustments and design supportive measures to enable local firms to enhance productivity and competitiveness.
- Finally, the EPA grants duty-free access to 1,039 Japanese products, which is likely to result in a reduction of tariff revenue for the Bangladeshi government.
- To ensure that the overall economic gains from the agreement outweigh the fiscal costs, it will be essential to implement complementary measures, such as broadening the tax base, improving efficiency in revenue collection, and promoting sectors where Bangladesh can leverage comparative advantages.
- Strategic planning and careful sequencing of reforms will therefore be critical for maximising the net benefits of the agreement.

An aerial photograph of a large container ship sailing on the ocean. The ship is viewed from above, showing its deck and the numerous colorful shipping containers stacked on it. The water is a deep blue-green, and the ship's wake is visible. The title text is overlaid on the ship's deck.

3. Japan's Investments in Bangladesh

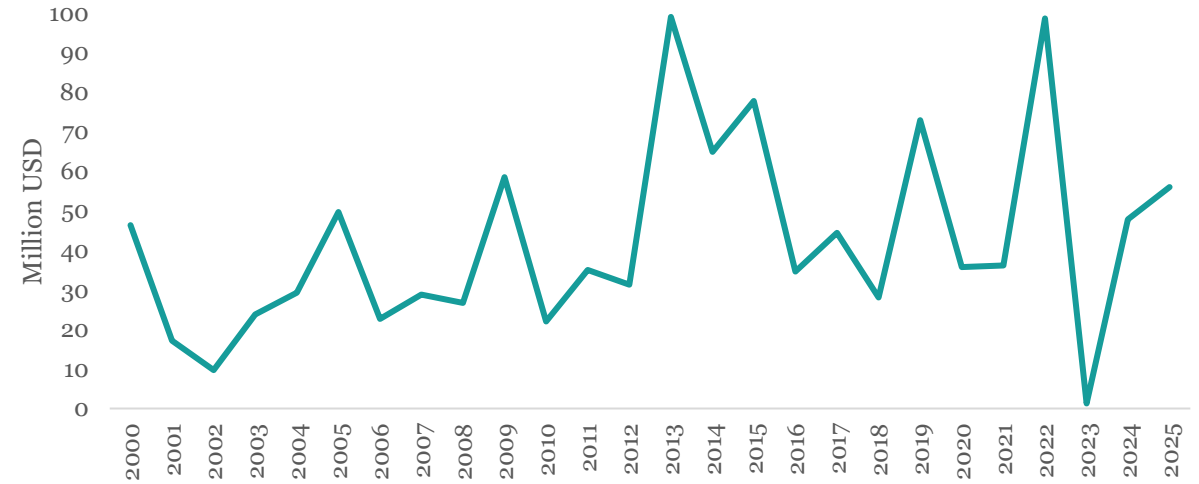
3.1 Japanese FDI Potential and Economic Benefits

- The Bangladesh-Japan EPA is expected to attract significant Japanese FDI, particularly in manufacturing, infrastructure, energy, and logistics.
- Japanese technology and investment inflows are likely to enhance the quality, productivity, and global competitiveness of Bangladeshi products.
- The agreement can promote inclusive growth by supporting SMEs and developing a skilled workforce, contributing to broader socio-economic development.
- Experience from 14 of Japan's other EPA partners shows that 12 countries received substantial FDI, with Australia, Singapore, India, Switzerland, and Viet Nam among the top 10 destinations of Japan's outward investment.
- This indicates strong potential for Bangladesh to increase Japanese investment and expand its integration into global value chains in the coming years.

3.2 Japanese FDI Potential and Economic Benefits

- In the late 1990s and early 2000s, Japanese FDI inflows to Bangladesh were modest.
- A significant upward trend began in FY2009, with inflows reaching USD 58.53 million, marking the start of stronger Japanese investment in the country.
- FDI continued to grow in subsequent years, peaking at USD 99.04 million in FY2013 and again reaching USD 98.67 million in FY2022, highlighting the increasing confidence of Japanese investors.
- Despite a temporary decline to USD 1.28 million in FY2023, inflows rebounded strongly to USD 47.84 million in FY2024 and USD 56.00 million in FY2025, indicating resilience and sustained investor interest.
- At the same time, Japan's FDI stock in Bangladesh has shown a clear long-term upward trajectory, reflecting a strengthening investment presence.
- The stock position increased sharply from USD 154.05 million in 2007 to USD 452.50 million in 2010 and USD 456.08 million in 2011.
- Japanese FDI stock reached new highs in recent years, rising to USD 494.01 million in 2024 and peaking at USD 499.29 million in 2025.
- Overall, these trends highlight sustained growth and growing confidence of Japanese investors in Bangladesh over time.

Figure: Net FDI Inflows from Japan to Bangladesh, FY2000-FY2025 (Million USD)



Source: (Bangladesh Bank, 2025)

Figure: Total FDI stock from Japan in Bangladesh at the end of June, from 2000-2025 (in Million USD)



Source: (Bangladesh Bank, 2025)

3.3 Japanese FDI Potential and Economic Benefits

Table: Net FDI Inflows from Japan by Major Sector in Million USD

FY	Textiles and Wearing	Food Products	Power	Gas & Petroleum	Leather and Leather Products	Fertiliser	Trading	Computer Software and IT	Construction
2020	2	3	2	11	1		2	1	1
2021	3	1	3	6	1	15	1	1	2
2022	2	1	3	5	1	76	2	3	17
2023	2	0	3	5	1	38	2	7	7
2024	2		2	-1	1	19	1	3	
2025	1	0	3		1	24	2	2	

- Between FY2020 and FY2025, Japanese FDI net inflows in Bangladesh were concentrated in key sectors, notably Fertiliser, Gas and Petroleum, and Power, with Fertiliser consistently attracting the largest share.
- Japan's investment portfolio in Bangladesh reflects a diversified yet strategically focused pattern, demonstrating sustained growth in industrial and capital-intensive sectors despite periodic year-to-year fluctuations.
- The Fertiliser sector has been a consistent focus for Japanese investors, with net inflows of USD 19 million in 2024 and USD 24 million in 2025, underscoring long-term investor confidence in this sector.
- Targeted policy measures could further enhance investment.
- Emerging sectors such as Leather and Vehicle Transport present additional opportunities for Japanese FDI to support industrial diversification and economic development.



4. Investment Opportunities in the Vehicle and Transport Sector

4.1 Vehicle and Transport Equipment Investment Potential

- Japan has recently demonstrated growing interest in Bangladesh's vehicle and transport equipment sector.
- According to the Bangladesh Bank, in FY2025, Japanese investors made a net investment of USD 0.25 million in this sector.
- Japan's automotive industry is highly developed, encompassing globally recognised brands such as Toyota, Honda, Nissan, Mazda, Mitsubishi, Suzuki, and Isuzu, which manufacture a wide range of vehicles, including motorcycles, cars, SUVs, electric vehicles, and commercial vehicles.
- Several Japanese motorcycle assemblers currently operate in Bangladesh, including ACI Motors Ltd. (Yamaha), Bangladesh Honda Private Ltd. (Honda), and Rancon Motorbikes Ltd. (Suzuki).
- According to the ITC Trade Map, in 2025, Bangladesh imported USD 385.6 million worth of vehicles (HS 87), making it the country's third-largest import category, with HS 8703 (motor cars and other passenger vehicles for fewer than ten persons, including station wagons and racing cars) alone accounting for USD 336.5 million.
- Direct investment by Japanese automotive companies offers greater cost efficiency and profitability, given the large domestic market for Japanese vehicles, particularly motorcycles.

4.3 Vehicle and Transport Equipment Investment Potential

- To attract Japanese investment and strengthen bilateral economic cooperation, Bangladesh has established the Japanese Special Economic Zone (SEZ) under the Bangladesh Economic Zones Authority (BEZA), located in Araihasar, Narayanganj.
- Investors in SEZ will enjoy a comprehensive range of incentives, including phased Corporate Income Tax exemptions for up to ten years, VAT exemptions on imported machinery, construction materials, and utilities, duty-free import/export through bonded warehouses, and personal income tax exemptions for expatriate employees.
- Additional fiscal benefits include exemptions on dividends, royalties, and technical license fees, as well as relief from local government taxes, land development taxes, registration fees, and stamp duties on loans or land leases.
- These incentives substantially reduce investment and operational costs, positioning Japanese automobile investment in Bangladesh as a mutually beneficial opportunity with strong potential for long-term growth.

4.4 Vehicle and Transport Equipment Investment- Challenges

- Under the newly signed EPA, products under tariff line HS 8703 did not receive duty-free access; only staged commitments under categories X, B5, B15, or E-MFN were applied.
- As a result, import costs for these vehicles remain relatively high for Bangladesh, and Japanese exporters may face constraints in pricing or demand due to these tariff and non-tariff barriers.
- Another major constraint for Japanese FDI in the vehicle sector and other industries in Bangladesh is the inadequate electricity infrastructure and unreliable energy supply, which pose significant challenges to investment.
- Power shortages are widely recognised as a critical impediment to development and foreign direct investment.
- Additional barriers include irregularities in paperwork processing, overlapping administrative procedures, and the lack of a transparent system for formalities.
- Addressing these infrastructural and institutional challenges is essential for attracting higher FDI inflows from Japanese companies and supporting sustained economic growth in Bangladesh.

An aerial photograph of a large container ship sailing on the ocean. The ship is filled with multi-colored shipping containers. The text "5. Investment Opportunities in Leather and Leather Products" is overlaid in white, bold font across the center of the ship.

5. Investment Opportunities in Leather and Leather Products

5.1 Leather Sector as a High-Potential Investment Opportunity

- The leather sector represents a promising area for industrial development and investment in Bangladesh.
- Bangladesh’s leather and leather products exports reached USD 1,306.6 million in 2022–23, with slight fluctuations in subsequent years, demonstrating a resilient and established sector.
- The leather industry contributes around 2.7–3% of total exports, highlighting its importance within the country’s export portfolio.
- Japanese investment in this capital- and technology-intensive sector could enhance productivity, quality, and global competitiveness.
- Developing the leather sector offers an opportunity to diversify Bangladesh’s export base and provides Japanese investors with a high-potential avenue for long-term growth.

Table: Contribution of the Leather Sector in the Export Basket of Bangladesh Over the Years

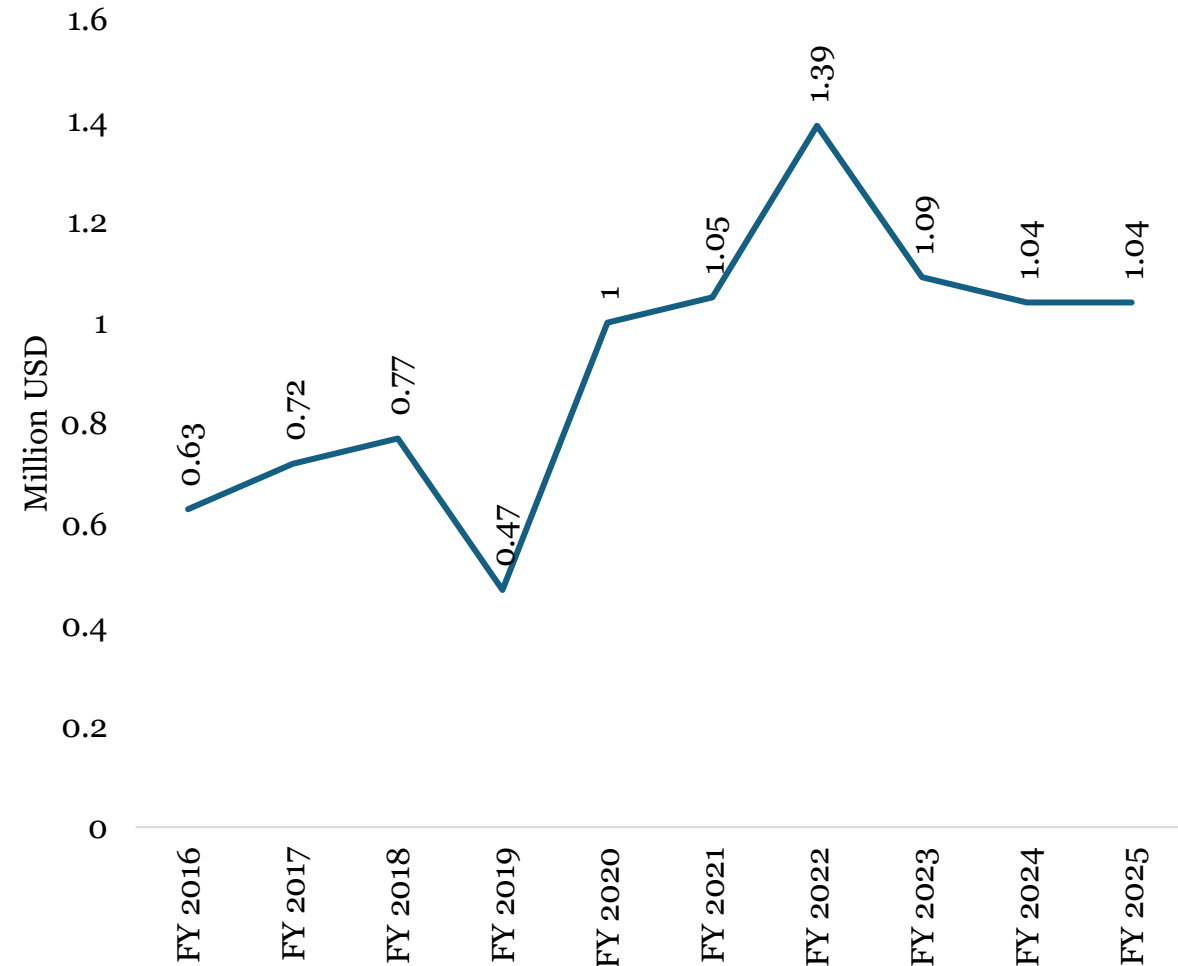
Leather and Leather Products	Amount (in million USD)	Share in Export (%)
2022-23	1306.6	3
2023-24	1094.7	2.8
2024-25	1197.5	2.7

Source: (Bangladesh Bank, 2025)

5.2 Japanese FDI Trends in the Leather Sector

- Apart from its significance in the export basket, Japan has also demonstrated growing interest in investing in the leather sector of Bangladesh and has maintained a relatively consistent flow of investment in recent years.
- The following figure illustrates the recent trend of Japanese FDI in this sector, highlighting the relative stability and continuity of annual investment inflows.
- Japanese FDI has historically been concentrated in various manufacturing sectors as part of its strategy to expand investment.
- The leather sector is one of the key manufacturing industries that has the potential to facilitate Japan's FDI outflows.

Figure: Net FDI Inflows by Japan in the Leather and Leather Products Sector of Bangladesh (in Million USD)



5.3 Opportunities for Japanese Investment in Leather

- High tariffs and non-tariff barriers, including health and safety standards, create incentives for localised production, presenting opportunities for Japanese firms to establish domestic operations and reduce import costs.
- The government offers comprehensive fiscal and regulatory incentives to investors, including-
 - corporate income tax reductions for 5–10 years,
 - 50% export income tax exemption,
 - VAT exemptions on exported goods,
 - duty-free import of capital machinery,
 - a 10% export subsidy on leather products,
 - bonded warehousing for raw materials,
 - and regulatory duty exemptions for footwear manufacturers.
- Taken together, Bangladesh's growing leather export base and strong fiscal incentives create a favourable environment for Japanese firms to invest in the sector, offering opportunities for cost-efficient production, market diversification, and mutually beneficial long-term industrial cooperation.

5.4 Leather Sector as a Priority for Foreign Direct Investment

- While leather exports account for a consistent share of Bangladesh's exports, the sector faces limited duty-free access and tariff concessions under the EPA, with most items assigned to staging categories or excluded entirely.
- The Leather sector has been identified by the Bangladesh Investment Development Authority as an immediate priority for attracting FDI, given its strong market readiness and export potential.
- However, investment procedures remain complex, as establishing a business in Bangladesh may require 20–22 licenses, involving high cost and lengthy administrative processes.
- Bangladesh's leather industry shows strong integration in global value chains, with notable foreign value added (FVA) through imported intermediate inputs and domestic value added (DVX) embedded in exported products.
- Overall, the leather sector offers significant opportunities for foreign investors, and Japanese firms in particular could leverage Bangladesh's export capacity and value-chain linkages to establish competitive production bases.

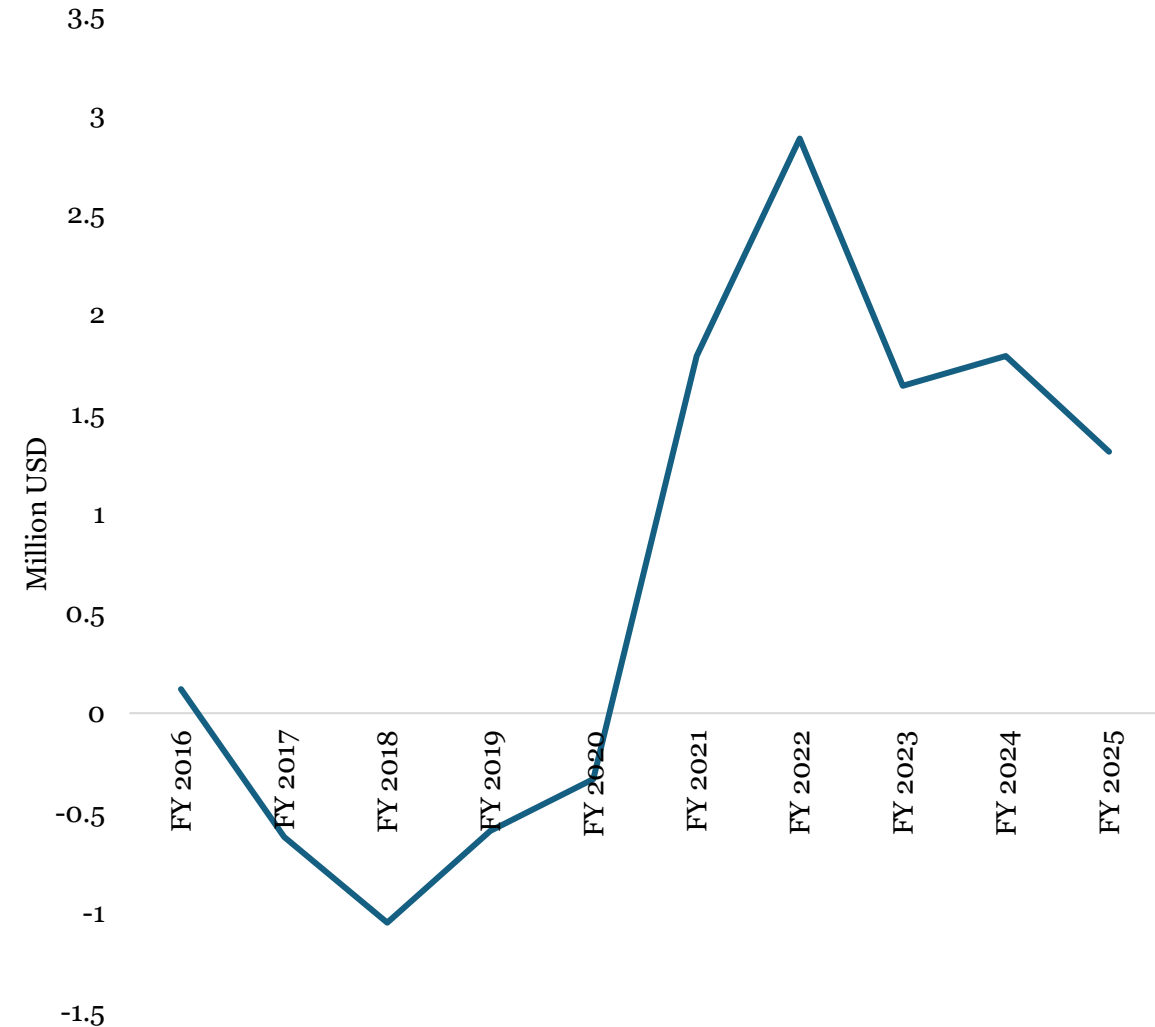


6. Investment Opportunities in the Chemicals and Pharmaceuticals Sector

6.1 Investment Flows in the Pharmaceutical Sector

- The chemicals and pharmaceuticals industry represents another promising sector in Bangladesh for attracting Japanese FDI.
- Japanese investment in this sector has remained strong, with net annual investment exceeding USD 1 million since FY2021, surpassing Japanese investment levels in the leather sector.
- This trend aligns with Japan's broader FDI strategy, which typically prioritises manufacturing-oriented industries in both developed and developing economies.
- The pharmaceutical market is relatively price-inelastic, enabling firms to maintain stable revenues and profitability even when prices increase.
- Consequently, investment in Bangladesh's chemicals and pharmaceuticals sector offers Japanese firms the potential for stable and long-term returns.

Figure: Net FDI Inflows by Japan in the Chemicals and Pharmaceuticals Sector of Bangladesh (Million USD)



6.2 Expanding Opportunities in the Pharmaceutical Sector

- The chemicals and pharmaceuticals sector received considerable attention under the EPA, with Japan granting duty-free access to 1,176 product categories from Bangladesh, facilitating greater export potential.
- Japanese investment in pharmaceuticals, particularly in Active Pharmaceutical Ingredients (APIs), could further strengthen production capacity and efficiency in Bangladesh.
- Bangladesh's pharmaceutical sector already attracts foreign investors from countries such as the United States, Australia, Germany, Ireland, Switzerland, and Belgium.
- The domestic industry is expanding its API production base, with 15 companies currently manufacturing APIs.
- Bangladesh has emerged as the third-largest exporter of generic pharmaceutical drugs globally, with the sector contributing around 1.83% to national GDP according to BIDA.
- To support industry growth, a dedicated API Industrial Park has been established in Munshiganj, where 27 companies are expected to establish operations.

Table: Schedule of Bangladesh and Japan regarding Chemicals and Pharmaceutical Products

Section: o6 (Products of the chemical or allied)	Schedule of Bangladesh	Schedule of Japan
A	108	1,176
B3	--	0
B5	358	1
B7	--	0
B8	466	--
B10	0	0
B12	0	--
B15	87	2
B18	2	--
E-MFN	0	--
X	79	11

6.3 Competitive Advantages and Investment Incentives in Pharmaceuticals

- Competitive production costs in Bangladesh make the pharmaceutical sector attractive, with production costs about 15% lower than in India and China.
- Lower labour costs further enhance competitiveness, with the minimum wage in Bangladesh's pharmaceutical sector at USD 68.99, compared to USD 151.33 in India and USD 365.28 in China, according to BIDA.
- The government offers strong fiscal incentives for API production, including 100% tax holidays for producers manufacturing five API molecules and 75% tax holidays for those producing three molecules.
- Additional policy support includes corporate tax holidays for API and laboratory reagent manufacturers, exemption from Advance Income Tax (AIT) on imported chemical inputs, and export incentives such as a 20% cash incentive for API exports and a 7% subsidy for pharmaceutical exports.
- These cost advantages and policy incentives create strong opportunities for Japanese firms to invest in Bangladesh's chemicals and pharmaceutical sector, particularly in API production and export-oriented manufacturing.

6.4 Structural and Institutional Challenges

- Bureaucratic complexity and regulatory delays remain a major challenge, with investors facing lengthy approval procedures, overlapping institutional responsibilities, and administrative inefficiencies.
- Infrastructure constraints in energy supply, transport logistics, and port efficiency increase production and transaction costs for foreign firms.
- Land acquisition and industrial land availability pose difficulties, as obtaining suitable sites for large-scale projects often involves legal and procedural complications.
- These structural and institutional barriers affect the overall investment climate, despite existing fiscal and policy incentives.

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7. Other Areas of Collaboration

7.1 Education and Academic Cooperation

- Japan provides scholarships and academic training opportunities for Bangladeshi students, researchers, and government officials.
- Two major scholarship programmes support this cooperation:
 - ❑ **JDS (Japanese Grant Aid for Human Resource Development Scholarship)**
 - Targets Bangladeshi civil servants and government officials.
 - Supports graduate studies in Japanese universities in fields such as public policy, economics, infrastructure development, and public administration.
 - ❑ **MEXT Scholarships (Japanese Government Scholarships)**
 - Provide opportunities for Bangladeshi students to pursue **undergraduate, master's, and doctoral degrees** in Japan.
 - Since its introduction in Bangladesh in **2001**, the JDS programme has supported **hundreds of Bangladeshi officials** studying in Japan.
- **Educational exchanges contribute to:**
 - strengthening policy capacity within government institutions
 - knowledge and technology transfer
 - research collaboration between universities and academic institutions

7.2 ICT Skills and Digital Cooperation

- Japan faces a shortage of ICT professionals, while Bangladesh produces a growing number of computer science and ICT graduates.
- To bridge this gap, JICA launched the Bangladesh–Japan ICT Engineers’ Training Programme (B-JET) in 2017 to prepare Bangladeshi graduates for Japanese tech companies.
 - The programme provides training in the Japanese language, workplace culture, and advanced technical skills.
 - During the initial phase, around 280 trainees participated, 265 completed training, and 186 secured employment in Japan.
 - The initiative has since evolved into a broader collaboration between Bangladeshi universities and Japanese technology firms.
 - Over 240 graduates have reportedly established professional careers in Japan’s ICT sector.
- Recent initiatives, such as the Bangladesh Top Software Engineer (B-TopSE) programme, focus on training highly specialised software engineers for global technology markets.
- These developments highlight a shift in bilateral engagement toward knowledge-intensive services and digital economy cooperation.

7.3 Healthcare, Caregiving and Future Prospects

- Japan's rapidly ageing population has created significant demand for healthcare and caregiving professionals, particularly in elderly care facilities.
- The Specified Skilled Worker (SSW) visa framework includes nursing care (kaigo) as a priority sector for foreign workers.
- This creates potential opportunities for Bangladeshi nurses, caregivers, and health professionals to access employment in Japan.
- However, Bangladesh's participation in this sector remains relatively limited due to several challenges:
 - Language barriers, particularly the requirement for Japanese language proficiency.
 - Limited specialised training programmes in caregiving and geriatric support.
 - Weak institutional recruitment channels connecting Bangladeshi workers with Japanese employers.
- To expand opportunities in this sector, several policy measures may be necessary:
 - Expanding Japanese language training programmes.
 - Strengthening vocational education and caregiving certification programmes.
 - Establishing structured labour mobility partnerships between Bangladesh and Japan.
 - Strengthening collaboration in ICT, education, and healthcare services could significantly deepen Bangladesh–Japan cooperation in the coming decades.

An aerial photograph of a large container ship sailing on the ocean. The ship is viewed from above, showing its deck and the stacks of colorful shipping containers. The water is a deep blue, and the sky is a lighter blue with some clouds. The text "8. Recommendations" is overlaid in white, bold, sans-serif font across the center of the ship.

8. Recommendations

8.1 Recommendation to Maximise Benefits of the EPA

- Gradually enhance IP laws and administrative capacity while providing technical assistance and training for enforcement agencies.
- Support local firms through productivity enhancement programs, quality certification schemes, and capacity-building initiatives.
- Facilitate the adoption of international quality standards, invest in skill development, and streamline business regulations.
- Upgrade SPS inspection infrastructure, provide technical training, and ensure compliance with Japanese and international standards.
- Develop certification programs and strengthen regulatory monitoring to ensure products meet required standards.
- Improve customs efficiency through digitisation, risk-based inspections, and streamlined clearance procedures.
- Support domestic industries with capacity-building programs, technological upgrades, and access to financing for competitiveness enhancement.
- Encourage local firms to adopt new technologies, improve efficiency, and diversify product offerings to remain competitive.
- Broaden the tax base, enhance VAT and income tax collection, and promote export sectors with a comparative advantage to offset revenue losses.
- Develop a coordinated policy roadmap prioritising trade facilitation, industrial upgrading, and fiscal measures to maximise net benefits from the EPA.

8.2 Recommendation to Facilitate Greater Investment

- The time and cost of doing business in Bangladesh should be reduced by decreasing paperwork and using the internet and mobile financial services to complete most of the formalities required for starting a business.
- To increase FDI inflows into Bangladesh from Japan, it is necessary to ensure:
 - clear incentives
 - conducive investment environment
 - completely transparent and streamlined procedures of exports and imports
- An adequate number of officials should be employed in customs for handling freight, and the customs authorisation should be digitised.
- ICT infrastructure should be reinforced to ensure uninterrupted broadband internet connectivity.
- The process of repatriation of dividend remittance should be simplified.
- The electricity and energy supply should be upgraded to ensure reliable power for industrial and commercial operations.
- Transport networks, ports, and logistics systems should be used to reduce production and transaction costs.
- Procedures for business registration, licensing, and permits should be simplified.
- A one-stop service for investors should be established to reduce bureaucratic delays and overlapping institutional responsibilities.

8.2 Recommendation to Facilitate Greater Investment

- Provide clear guidelines and support for foreign investors regarding compliance, rules of origin, and sector-specific regulations.
- Offer advisory and technical assistance for market entry, including sectoral opportunities and investment incentives.
- Develop dedicated industrial zones or special economic zones with ready-to-use plots for foreign investors.
- Simplify land acquisition procedures while ensuring transparency and legal security.
- Improve contract enforcement, dispute resolution, and legal frameworks to ensure investor confidence.
- Digitise administrative procedures to enhance transparency and efficiency.
- Support integration into global value chains through training, quality standards, and export facilitation programs.
- Ensure policies balance foreign investment promotion with the protection of domestic industries.
- Monitor and adjust incentives, tariffs, and regulations to sustain competitiveness and attract long-term investments.

Thank You



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