

Pathways to Post-LDC

Competitiveness:

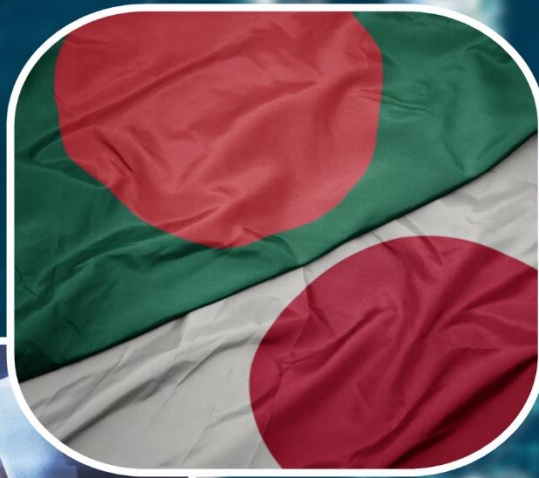
Priorities and Key Considerations for Japan-Bangladesh
Economic Partnership Agreement (EPA)

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Pathways to Post-LDC Competitiveness: Priorities and Key Considerations for Japan-Bangladesh Economic Partnership Agreement (EPA)



As Bangladesh moves closer to graduating from its Least Developed Country (LDC) status, a reorientation of its trade and investment structure becomes not just timely but urgent. The expiration of preferential trade terms, constraints on policy freedom, and diminishing development financing necessitate a strategic shift toward long-term, reciprocal trade partnerships. In this context, an Economic Partnership Agreement (EPA) with Japan, a G7 economy and a leader in Asia-wide economic integration, stands out as an essential tool for economic sustainability and growth.

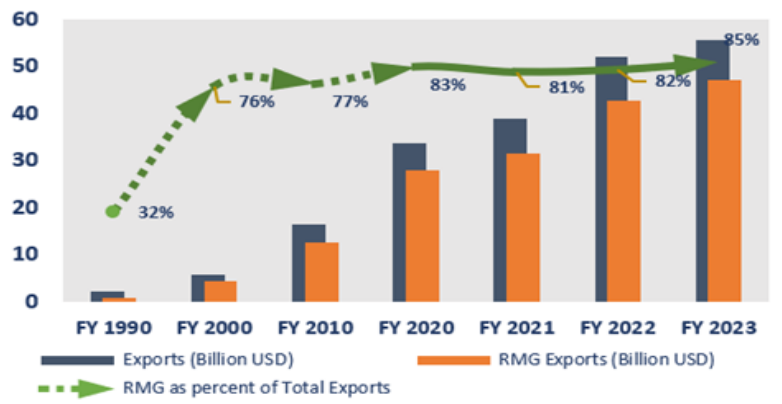
1. Japan-Bangladesh Partnership: A Foundation Built on Development and Diplomacy

The bilateral relationship between Japan and Bangladesh has flourished over five decades, starting with Japan's early recognition of Bangladesh's independence in 1972. Since then, Japan has provided over USD 27 billion in financial aid, with USD 24.72 billion in Official Development Assistance (ODA) making it Bangladesh's largest bilateral donor. Japan's contributions have been integral to Bangladesh's development, funding major projects like the Bay of Bengal Industrial Growth Belt, the Dhaka Metro Rail, and Hazrat Shahjalal International Airport's Terminal 3, all of which have enhanced regional connectivity and economic growth. In 2022, Bangladesh's garment exports to Japan rose by 40.74 percent, while imports from Japan surged by 75 percent between 2010 and 2021. Bangladesh's imports from Japan totaled \$2.28 billion, while exports reached \$1.44 billion, with over 80 percent of exports being textiles and apparel.

2. Catalyzing the Potential of Economic Partnership

Navigating the post-LDC transition will require Bangladesh to strategically integrate into global value chains. This includes diversifying its export basket and markets, attracting private investment in high-value sectors with strong backward linkages, and strengthening human capital to build globally competitive firms. As the country loses preferential trade privileges after graduation, maintaining export competitiveness becomes increasingly challenging. In this context, an EPA with Japan emerges as a timely and necessary tool to support this shift.

Figure 1: RMG Exports and Growth Rates: Evidence of High Sectoral Concentration

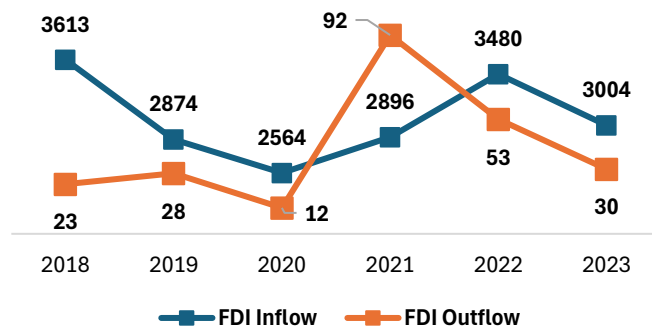


Source: Bangladesh Export Promotion Bureau, Bangladesh Bank, World Bank, BGMEA

Unlike traditional Free Trade Agreements, EPAs are comprehensive and development-sensitive, offering phased tariff reductions tailored to the economic realities of participating countries. For Bangladesh, an EPA with Japan would not only safeguard market access but also establish a framework for long-term cooperation across trade, investment, and regulatory standards.

Figure 2: Bangladesh FDI Flows (In Million USD)






Without the EPA, Bangladesh risks stagnation in a critical phase of its development and taking the trade and FDI potential to a new height. On the other hand, a well-negotiated agreement could unlock new avenues for growth, investment, and regional integration.



Source: Bangladesh Bank





3. Sectoral Opportunities Can Garner the Much-needed Economic Diversification

The signing of the EPA could unlock sector-specific opportunities that transcend traditional textile exports. Beyond garments, sectors such as food processing, halal meat, deep-sea fishing, ICT services, and light manufacturing stand to benefit from targeted Japanese investments. In food processing, Japanese technology and standards can help meet the nutritional needs of Bangladesh’s rising middle-income and urban population, while adding value to local raw materials for international markets. In the halal meat industry, joint ventures with local players like Pran and Kazi could address global certification and traceability demands, creating a model for expansion in Muslim-majority countries.

Potential Sectors for Japanese Foreign Direct Investment (FDI)	
	Food processing
	Halal meat
	Deep-sea fishing
	Light manufacturing
	ICT Services

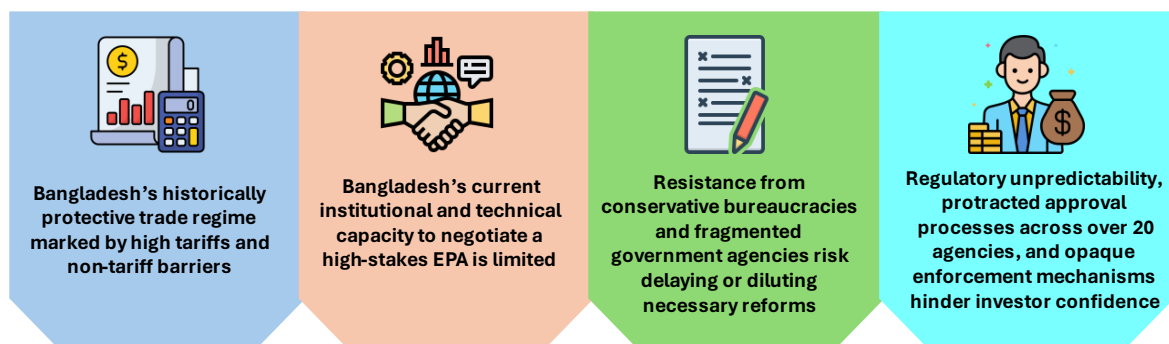
The vast untapped potential in deep-sea fishing, particularly in the Bay of Bengal, offers another avenue for collaboration, with Japanese expertise enabling the capture of high-value species like tuna through sustainable practices. The ICT sector also holds promise, with capacity-building and technology transfer initiatives improving productivity and fostering innovation, export growth, and job creation. Light manufacturing, too, can benefit through workforce upskilling, better workplace compliance, and the development of backward linkages that support export-driven industries.

Furthermore, phased tariff reductions under the EPA would enable Bangladesh to import high-quality capital machinery, automobiles, spare parts, and consumer electronics from Japan. These imports would lower costs for consumers and small firms, enhance access to advanced raw materials, and allow for the adoption of Japanese innovation and green technologies, most notably in affordable hybrid and electric vehicles that align with global sustainability goals. Collectively, these sectoral synergies highlight the transformative potential of an EPA in building a diversified, technology-driven, and export-oriented economy in Bangladesh.

Potential Sectors for Bangladesh in Bilateral Trade with Japan	
Export	Import
 RMG	 High-quality capital machinery
 Agrobusiness	 Automobiles
 Fruits	 Spare parts
 Digital economy (ICT outsourcing)	 Consumer electronics
 Skilled, semi-skilled manpower exports	

4. Protectionism, Institutional Capacity, and Investment Climate: Hurdles to EPA Implementation

Figure 3: Overarching Structural and Institutional Hurdles to EPA Implementation in Bangladesh



Multiple structural, institutional, and regulatory hurdles are to be considered to ensure the smooth negotiation and implementation of EPA. Addressing these hindrances is essential for ensuring that the agreement is mutually advantageous and sustainable. It is through a coherent vision, coordinated reforms, and a forward-looking negotiation strategy that these challenges can be addressed.

Central to these challenges is Bangladesh's historically protective trade regime marked by high tariffs and non-tariff barriers. While protectionism shields domestic industries, it also bears the risks of stifling export dynamism and deterring foreign investment. Reforming this structure involves a careful balance of liberalization and protection, and the EPA presents an opportunity to realign Bangladesh's tariff policy in a strategic and phased manner. Lessons from peer economies such as Vietnam and India, which have undertaken similar transitions under EPAs with Japan, and Bangladesh's own gains from RMG sector, can serve as valuable references.

The transition becomes more critical with Bangladesh's impending graduation from Least Developed Country (LDC) status. The country's current preferential market access to Japan will likely diminish post-2026, necessitating a new framework under the EPA. However, such access will come with expectations of reciprocity, especially in competitive sectors like automobiles and electronics. Phased and strategically negotiated concessions will be essential to avoid destabilizing the domestic economy while preserving Bangladesh's global competitiveness.

Institutional preparedness also remains a pressing concern. Bangladesh's current institutional and technical capacity to negotiate a high-stakes EPA is limited. Effective

negotiation will require specialized expertise in trade law, economic modeling, and regulatory harmonization. Investment in building a capable negotiation team—through international training programs, expert engagements, and improved intra-governmental coordination—is indispensable to avoid entering an asymmetrical agreement.

Moreover, aligning stakeholders behind the EPA's vision presents its own set of challenges. Resistance from conservative bureaucracies and fragmented government agencies risk delaying or diluting necessary reforms. Securing buy-in from domestic industries, civil society, and policy institutions is vital. A collective shift in mindset from protectionism to strategic openness will be essential to match Japan's long-term partnership approach rooted in mutual growth.

Compounding these hurdles is an underwhelming investment climate. Regulatory unpredictability, protracted approval processes across over 20 agencies, and opaque enforcement mechanisms hinder investor confidence. Simplifying regulatory procedures, enhancing inter-agency coordination, and ensuring consistency and transparency in policy implementation will be pivotal in attracting Japanese foreign direct investment under the EPA framework.

5. Pathway to Successful EPA Outcomes: Strategic Considerations

The following recommendations outline key strategies and reforms for Bangladesh to successfully navigate its EPA negotiations with Japan and fully capitalize on the opportunities it presents. These recommendations are divided into three primary areas: strategies for a successful EPA negotiation and outcome, reforms in the business environment to maximize the benefits of the EPA, and improvements in customs procedures to enhance trade efficiency.

Figure 4: Overarching Strategic Pillars for Realizing Successful EPA Outcomes with Japan



a. Strategies for Successful EPA Negotiation and Outcome

Bangladesh's approach to negotiating an EPA with Japan should be multifaceted, focusing on human resource development, sector-specific cooperation, and strategic use of ODA. Drawing from successful models like the Japan-Philippines and Japan-Thailand EPAs,

Bangladesh should seek collaboration in workforce skill enhancement and targeted sector development, particularly in financial markets and food safety. Additionally, ODA can be utilized to fund capacity-building programs, strengthening bilateral ties and ensuring sustainable growth. Negotiations should also include the phased elimination of tariffs to balance industry protection with economic growth, while securing favorable terms for sensitive sectors such as agriculture, fisheries, and automobiles to support their transition to a more liberalized trade environment.

b. Reforms in Investment Climate to Reap Full Benefits of EPA and Mitigate Future Challenges

Bangladesh must implement comprehensive reforms to improve its investment climate, focusing on regulatory reform, trade liberalization, and infrastructure development. Streamlining border documentation and compliance procedures will reduce export times and costs, boosting competitiveness. Simplifying contract enforcement, electricity acquisition, and trade documentation will further attract investors. Strengthening governance, transparency, and accountability is essential, as effective investment incentives require sound governance frameworks. Additionally, enhancing property rights, simplifying land acquisition, modernizing laws, and investing in skills development, digitalization, and access to finance will foster a more favorable environment for both domestic and foreign investment.

c. Reforms in Customs Procedures for Enhanced Trade

To enhance trade efficiency and attract foreign investment, Bangladesh must prioritize reforms in its customs procedures, starting with the introduction of the Bangladesh Single Window (BSW) under the Customs Act 1969 to streamline processes and reduce redundancies. The new Customs Bill 2023, which includes provisions for improved risk management, post-clearance audits, and enhanced transparency, is key to this transformation. It mandates the issuance of customs decisions within 120 days, establishes clearer procedures, and ensures a transparent fee structure. The bill also provides legal authority for automated risk management systems and aligns international trade agreements like the Trade Facilitation Agreement (TFA). Swift implementation of this bill will address existing challenges, strengthen Bangladesh's position in global trade, and create a more predictable, investor-friendly environment.

Conclusion

The EPA between Japan and Bangladesh is not just a trade agreement—it is a strategic instrument for transitioning Bangladesh into a competitive, diversified, and resilient economy. With LDC graduation on the horizon, the stakes are high, but so are the rewards. Bangladesh must act decisively to unlock the unrealized trade potential, capitalize on Japan’s technological and managerial strengths, and secure long-term growth pathways. By aligning domestic reforms with EPA objectives, engaging strategically with stakeholders, and building institutional capacities, Bangladesh can transform this partnership into a model of inclusive and sustainable economic development.