

# Japan competes with China over port investment in Bangladesh

**Sarath Kumara****22 July 2015**

Japanese investment in a new deep-water port at Matarbarhi Island on the southeast coast of Bangladesh highlights increasing geo-political rivalry fuelled by the United States and its allies as part of Washington's "pivot to Asia." The \$US3.66 billion project cuts across a long-standing Chinese offer to build deep-water port facilities at Sonadia, only 25 kilometres from Matarbarhi.

The Japanese investment, which also includes a 1,200-megawatt power plant, was confirmed last month by the Japan International Cooperation Agency (JICA). China has said that it was not interested in bidding for the Matarbarhi port and the Sonadia port project looks increasingly unlikely.

Bangladesh does not have any deep-water ports. The country's two main ports at Chittagong and Mongla are shallow-water facilities, forcing container ships to wait for the incoming and outgoing tides before they enter or leave the harbour. According to reports, these delays can cost an extra \$15,000 per day, making handling much more expensive than in neighbouring countries. With 15 percent of country's GDP dependant on apparel exports, the Bangladesh government is desperate to modernise its port facilities.

The Matarbarhi Coal Power Project, a joint venture with German and Australian companies, was approved last August. Bangladesh hopes that the power plant will ease the country's chronic power shortages and encourage further foreign investment in manufacturing. Japan also plans to build electricity transmission lines, highways and rail links as part of an industrial corridor on par with Thailand's Eastern Seaboard.

Indian Ocean ports are crucial for both Japan and China. Most of the world's oil trade passes through the region and its ports provide access to some of the world's most populous and growing markets. As JICA

president Akihiko Tanaka said last year during a visit to Bangladesh, Matarbarhi port can be "an important trade gateway to the rest of Asia and beyond ... The Bay of Bengal is centrally located within this tectonic change ... Bangladesh, in other words, is the linchpin."

Japan hopes that its new strategic investments will boost its economic and political weight in region, give it better access to sea links and undercut Chinese influence in Bangladesh. David Brewster, a visiting fellow at Australian National University in Canberra, told *Bloomberg News* last month: "The Japanese clearly see themselves in competition with China, and control over ports is seen as important. I expect the Japanese are very happy about this."

Prime Minister Shinzo Abe declared during a visit to Bangladesh last September—the first visit by a Japanese PM in 14 years—that new investment would "introduce the dynamism" of Japan's economy by "strengthening relations with them and engaging in top-level sales activities." He pledged \$6 billion to Bangladesh for various development schemes.

While the Bangladesh government insists that the Sonadia project has not been cancelled it has recently claimed that there were environmental concerns about port facilities at this location. The real reason, though, is opposition from the US and India to Chinese investment in Bangladesh ports. Speaking with the *Dhaka Tribune* in January, Bangladesh Planning Minister A.H.M. Mustafa Kamal said that "some countries, including India and the United States, are against the Chinese involvement" in the project.

Bangladesh's decision to proceed with Japanese investment in Matarbarhi is a setback for China, which had backed the Sonadia project since 2012. Bangladesh Prime Minister Sheikh Hasina had been happy to proceed with investment from Beijing, having

previously called China the “most dependable and consistent friend” of Bangladesh. The Bangladesh media speculated that the Sonadia deal would be finalised during Hasina’s Beijing visit in June last year but that did not happen.

The Chinese state-owned media reacted to Japan securing the Matarbarhi development by declaring that “although the Sonadia deep-water port project failed to get signed, both sides expressed willingness to have further negotiations.”

Bangladesh is attempting to maintain a political balancing act and has promised China opportunities in other sectors. Bangladesh Finance Minister A.M.A. Muhith said that Beijing was not concerned over the port because it had won “the construction work of Padma Bridge and are looking for investment opportunities in Bangladesh telecommunications sector.” China is already involved in upgrading Chittagong port and also secured the contract for a \$705 million two-lane tunnel under the Karnaphuli River.

China is Bangladesh’s largest trading partner. In 2012–2014, trade between the two countries was around \$8.29 billion and last year Chinese businessmen invested \$43 million. Bangladesh, which faces an 18 percent drop in foreign aid pledges in the first eleven months of the 2014–15 financial year, is desperate for Chinese investment.

With around 80 percent of China’s oil imports passing through the Bay of Bengal, Beijing is anxious to increase its economic and military presence in the region. The planned Sonadia port would have been part of the so-called “string of pearls” plan—a collection of Chinese-constructed deep-sea ports in Burma, Bangladesh, Pakistan and Sri Lanka aimed at protecting its crucial shipping routes across the Indian Ocean.

Disrupting this strategy is an integral part of Washington’s “pivot to Asia” and its associated military build-up against China.

US intrigues have already resulted in a shift by the Burmese junta away from Beijing, and the electoral defeat in January of Sri Lankan President Mahinda Rajapakse, who had forged close ties with China. Increasing economic involvement in Bangladesh by Japan, a major US ally in the “pivot,” aims to shift Dhaka away from China.



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