

Bangladesh

Graduation from the Group of Least Developed Countries

Smooth Transition Strategy

Ensuring macroeconomic stability Exploring and securing trade preferences and transition measures

Promoting export diversification and competitiveness

Building productive

Fostering partnerships and international cooperation

Economic Relations Division Ministry of Finance Government of Bangladesh

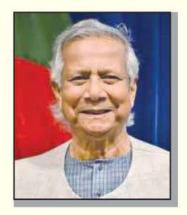
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Graduation from the Group of Least Developed Countries

Smooth Transition Strategy

February 2025

Economic Relations Division Ministry of Finance Government of Bangladesh







CHIEF ADVISOR GOVERNMENT OF THE PEOPLE'S REPUBLIC OF BANGLADESH

Message

I am pleased to learn that the Economic Relations Division is now releasing the approved Smooth Transition Strategy (STS) in printed form. As we approach graduation from the Least Developed Countries (LDC) category, the STS stands as a crucial national document that will help facilitate a smoother path forward.

LDC graduation brings new challenges, particularly the loss of LDC- specific international support measures (ISMs), including trade preferences. These changes demand a strategic and proactive response to ensure that our hard-earned progress is not only sustained but also accelerated.

The STS is a comprehensive roadmap to navigate this critical transition. It is designed to address both the immediate challenges and the long-term opportunities that come with graduation. The STS focuses on five strategic pillars: ensuring macroeconomic stability, securing trade preferences and favourable transition measures, promoting export diversification and competitiveness, building productive capacity, and fostering partnerships and international cooperation. These pillars are underpinned by actionable measures that aim to transform our economy from a reliance on low-wage, preference-driven exports to one driven by innovation, quality, productivity, and sustainability.

As we embark on this challenging journey toward graduation, I urge all stakeholders particularly my colleagues in ministries and relevant agencies, private sector leaders, development partners, and civil society to work together with unwavering commitment and a shared sense of responsibility.

The success of this transition depends on our collective ability to implement the STS effectively, adapt to new challenges, and seize emerging opportunities. Together, we can ensure that Bangladesh's graduation becomes a shining example of sustainable development and economic transformation.

Professor Muhammad Yunus







Dr. Salehuddin Ahmed Adviser Ministry of Finance Government of the People's Republic of Bangladesh

Message

I am very pleased to learn that the Support to Sustainable Graduation Project (SSGP) of the Economic Relations Division (ERD) is going to publish the "Bangladesh Graduation from the Group of Least Developed Countries: Smooth Transition Strategy", which will serve as a crucial roadmap for ensuring a smooth and sustainable transition from the LDC category.

It is a matter of great pride that Bangladesh is on track to graduate from the Least Developed Country (LDC) category. This remarkable achievement reflects the country's sustained economic growth, social progress, and development resilience. Bangladesh's graduation will enhance its image on the global stage and open new avenues for economic and trade opportunities, reinforcing its status as a dynamic and emerging economy.

While LDC graduation brings immense opportunities, it also presents certain challenges. As an LDC, Bangladesh has long benefited from various International Support Measures (ISMs), including duty-free and quota-free (DFQF) market access, waivers under the TRIPS Agreement of the WTO, and other preferential treatments in global trade and development cooperation. To ensure that the graduation does not disrupt our growth trajectory, the Government of Bangladesh has been taking proactive measures to enhance the overall competitiveness of trade and the economy.

In this context, the Smooth Transition Strategy (STS) has been formulated, following the guidelines of the United Nations, to address the potential challenges and maximize the benefits of LDC graduation. The formulation of the STS has been a comprehensive and inclusive process, involving stakeholders from the public sector, private sector, trade bodies, and development partners. The STS lays out a time-bound action plan with clearly identified responsibilities for various organizations and entities. The strategic directions and actions outlined in the STS are highly relevant and timely, making their diligent implementation essential to mitigating economic challenges, regardless of graduation status.

It is expected that the successful and timely implementation of the STS action plan will not only facilitate a smooth and sustainable transition from the LDC category but also play pivotal role in achieving other national and international development goals.

Dr. Salehuddin Ahmed







SK. Bashiruddin Adviser Ministry of Commerce Government of the People's Republic of Bangladesh

Message

It is commendable that the Economic relation Division is going to release the Smooth Transition Strategy (STS). I believe the release of the STS in printed form, which has been developed in consultation with all stakeholders- government officials, private sector, civil society, and development partners will benefit all by enabling them to learn about the steps to be taken to continue our development journey.

The remarkable socio-economic progress we have achieved over the past decades has enabled our country to upgrade from a low-income to a lower-middle-income country in 2015. In its 76th Session in 2021, the United Nations General Assembly finally recommended Bangladesh for graduation from Least Developed Country (LDC) status. These achievements stem from the arduous work of our people, entrepreneurs in all sectors of our economy, and the support provided by our development and trading partners. There is no doubt that the robust performance of our export sector, especially of the readymade garment industry, is one of the pillars of our success, made largely possible by the support we have been receiving from our trading partners.

We must be mindful of the fact that graduation from the LDC status is only a milestone in our development journey and to continue this journey, we must prepare ourselves to make transformative changes in our economy, for which the STS serves as a blueprint. It contains the actions we must make for structural economic reforms through enhancing productivity, creating quality jobs, investing in skills development, fostering innovation, improving product standards, adopting sustainable business practices, and achieving inclusive growth. These endeavours also require a shift from the thought process we have been practicing since our independence.

The Ministry of Commerce bears the greatest responsibility for guiding the country through its transition from LDC status. I call upon all stakeholders to collaborate with commitment and a refreshed sense of responsibility. Let us seize this opportunity to ensure a successful transition by transforming the challenges of graduation into new opportunities. This requires shifting from a reliance on low wages and cost-cutting strategies to building an economy that prioritizes quality, ethical standards, and sustainability.

SK. Bashiruddin





সচিব অর্থনৈতিক সম্পর্ক বিভাগ অর্থ মন্ত্রণালয় গণপ্রজাতন্ত্রী বাংলাদেশ সরকার

Secretary
Economic Relations Division
Ministry of Finance
Government of the People's
Republic of Bangladesh

Message

The Smooth Transition Strategy (STS) represents a critical roadmap for ensuring Bangladesh's successful and sustainable graduation from Least Developed Country (LDC) status. Over the past five decades, Bangladesh has demonstrated remarkable socio-economic progress, including sustained economic growth, significant poverty reduction, advancements in education and healthcare, and improvements in overall human development. As we are preparing for this historic milestone, the STS would provide a well-structured framework to address the challenges and opportunities associated with LDC graduation.

The STS, developed in consultation with a wide range of stakeholders and guided by the recommendations of the United Nations, outlines a comprehensive strategy for overcoming the potential challenges stemming from the phasing out of LDC-specific International Support Measures (ISMs). It emphasizes the importance of macroeconomic stability, trade preference retention, productive capacity building, and fostering partnerships for sustainable development. The proposed time-bound action plan includes priority actions to tackle inflation, secure trade preferences, enhance competitiveness, and align with global standards, among others.

LDC graduation is not just a transition - it is an opportunity to transform our economic structure, strengthen resilience, and establish Bangladesh as a competitive and robust economy. The successful implementation of the STS will not only ensure a smooth transition but also contribute significantly to achieving the Sustainable Development Goals (SDGs) and realizing our national development aspirations.

The Economic Relations Division (ERD) will serve as a facilitator in implementing the STS, while the active participation and accountability of all stakeholders will be pivotal to its success. I urge all Ministries, government agencies, private sector, development and trade partners, and civil society organizations to collaborate and work closely in this critical endeavor. With guidance from the highest levels of government, we can ensure that Bangladesh's graduation from LDC status becomes a transformative milestone in our journey toward sustainable and inclusive development.

Let us work together to turn the vision of a resilient, prosperous, and inclusive Bangladesh into reality.

Md. Shahriar Kader Siddiky

Preface

Bangladesh is set to graduate from the group of Least Developed Countries (LDCs) on 24 November 2026. UN General Assembly resolution 59/209 stipulates that graduation from LDC status should not disrupt a graduating country's development progress. More specifically, the notion of a smooth transition implies that the loss of LDC-specific international support measures (LDC-ISMs) should not adversely impact a graduating country's development trajectory. The General Assembly recommends that a national Smooth Transition Strategy (STS) be prepared by a graduating LDC in collaboration with development and trading partners, with targeted assistance from the UN system. Accordingly, Bangladesh has prepared a STS in consultation with all stakeholders.

The scope of this STS is to analyse the potential adverse implications arising from LDC graduation based on existing impact assessments and to suggest key measures to mitigate those possible negative implications. The mitigating measures include, among others, the effective use of existing national or sectoral strategies; emphasising fast-tracking of ongoing reforms that would better prepare the country to mitigate adverse graduation impacts and take advantage of emerging opportunities; making full use of existing ISMs, seeking extensions, deferments, and/or changes in the terms, conditions, and/or modalities of existing ISMs through bilateral negotiations with trading and development partners; and developing country capacities to utilise new and improved support measures that may be offered by the international community.

It is notable that the STS has been developed through a whole-of-society approach. A series of formal and informal consultations were held during its preparation process involving all the relevant stakeholders including the government agencies, CSOs, think tanks as well as trade and development partners. ERD, with support from its Support to Sustainable Graduation Project (SSGP), has also carried out and produced a series of in-depth sectoral studies, research works and technical papers to assess the impact of LDC graduation on RMG and other export-oriented sectors, investment, revenue, logistics, pharmaceuticals etc. SSGP has also organized various sector specific seminars, workshops, focus group discussions and local level consultation at national and local level. Feedback and recommendations coming from those research works and stakeholder consultations have provided valuable inputs in this strategy document.

The government is now committed to ensure effective and timebound implementation of this strategy. The STS action plan had outlined a range of specific actions as well as responsible ministries or agencies for rolling out those actions. As a next step, the government would develop a monitoring and evaluation framework for effective implementation of the STS. All the relevant ministries, agencies, private sector bodies and CSOs will be brought onboard in this process. ERD would act as the coordinator and facilitator of the whole process.

As Bangladesh stands at the threshold of a new era, the successful implementation of this strategy will require strong political commitment, policy coherence, and coordinated efforts across all sectors. We hope that this document will serve as a guiding framework for policymakers, development partners, and stakeholders to ensure a smooth and sustainable transition from LDC status.

I extend my deepest gratitude to all those from government agencies, CSOs, think tanks as well as trading and development partners who contributed to the formulation of this strategy. Let me also thank UN DESA for teaming up with us in the entire process of the formulation of the STS. With collective resolve and strategic vision, Bangladesh is well-positioned to turn this transition into an opportunity for deeper economic transformation and long-term prosperity.

A. H. M. Jahangir

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Additional Secretary & Wing Chief Development Effectiveness Wing Economic Relations Division

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Acknowledgement

To ensure a seamless transition and sustain its development progress, this STS has been prepared as a homegrown initiative grounded in extensive research, thorough analyses, and broad-based consultations. The development of this strategy reflects the collective efforts of a diverse range of stakeholders, including key government ministries and departments, as well as academia, the private sector, civil society organisations (CSOs), and development partners. The underlying participatory approach ensures the commitment to ownership and inclusivity in addressing the challenges and opportunities associated with LDC graduation. Through consultations and workshops, feedback was gathered from stakeholders at every level, ensuring that the strategy aligns with Bangladesh's long-term development priorities and the needs and aspirations of its people. This collective effort exemplifies a unified vision for navigating the post-graduation landscape and achieving sustainable development. The active engagement of trading and development partners and international organisations, coupled with invaluable support from the United Nations system, has further enriched the strategy's scope and relevance.

The formulation of this strategy is in accordance with United Nations General Assembly Resolution 59/209, which calls for graduating LDCs to develop a national Smooth Transition Strategy in partnership with development and trading partners, with focused support from the UN system.

In finalising the Strategy, valuable inputs were received from Dr Salehuddin Ahmed, Honourable Finance Adviser of the Interim Government of Bangladesh, who also graced the National Validation Workshop for the Strategy, held on 24 November 2024, as the Chief Guest.

Mr Lutfey Siddigi, Special Envoy on International Affairs to the Hon'ble Chief Adviser; Mr M Siraz Uddin Miah, Principal Secretary to the Hon'ble Chief Adviser; Ms Lamiya Morshed, Principal Coordinator of SDG Affairs; Ms Gwyn Lewis, UN Resident Coordinator in Bangladesh; Mr Taffere Tesfachew, Member of the UN Committee for Development Policy (UN CDP); Mr Ichiguchi Tomohide, Chief Representative of JICA Bangladesh; and Mr Syed Nasim Manzur, President of the Leathergoods and Footwear Manufacturers & Exporters Association of Bangladesh (LFMEAB), were among the distinguished attendees who shared their comments and perspectives during the Validation Workshop.

The preparation of this Strategy (STS) was led and coordinated by the Economic Relations Division (ERD) of the Ministry of Finance (MoF) under the leadership of Mr Shahriar Kader Siddiky, Secretary, ERD. Mr A H M Jahangir, Additional Secretary, ERD, served as the Project Director for this strategy's development. For the formulation and validation of the STS, technical and financial support was provided by the United Nations Department of Economic and Social Affairs (UN DESA).

Well before the initiation of the STS development, a dedicated programme titled the Support to Sustainable Graduation Project (SSGP) was established under the Economic Relations Division (ERD) in 2018 to support and coordinate activities related to the strategy's formulation. The SSGP commissioned several key studies focusing on Bangladesh's upcoming LDC graduation, including Preparedness for Graduation with Momentum: Strategies for Coping with Challenges and Tapping New Opportunities; Upscaling the RMG Sector; Market Access, Comparative Advantage, and Export Diversification; Transition Financing for Sustainable Graduation of Bangladesh; Enhancing Industrial Production in the Context of LDC Graduation; and a Comprehensive Report on the Logistics Sector of Bangladesh.

Throughout the preparation of these studies, numerous inception meetings, technical workshops, stakeholder consultations, and validation workshops were conducted with relevant stakeholders. Additionally, the ERD-SSGP project hosted over 25 consultation events, including local-level and national stakeholder consultations, technical workshops, and seminars. The STS has drawn significantly from the insights, feedback, and recommendations generated through these studies and consultation events, enriching its development and providing a robust foundation for its implementation.

Beyond the ERD-SSGP initiatives, numerous workshops, seminars, and consultations on LDC graduation have been organised by various government ministries, departments, think tanks, research institutions, and development partners. The reports, presentations, and outcome documents when generated from these events were carefully reviewed and utilised to provide valuable inputs for enriching the Smooth Transition Strategy (STS).

The drafting of the STS involved a series of consultations, beginning with the presentation of the STS work plan on 23rd March 2024, followed by the presentation of the STS outline on 3rd April 2024. The detailed outline of the STS was circulated among all relevant stakeholders, and based on their comprehensive feedback and comments, the outline was finalised. Furthermore, two rounds of multi-stakeholder consultations under the title 'Graduation from the Group of LDCs: Towards a Smooth Transition Strategy for Bangladesh' were held on 30th April and 2nd May 2024, where valuable inputs were received from, amongst others, Professor Mustafizur Rahman, Distinguished Fellow at the Centre for Policy Dialogue (CPD), Mr Gunjan Bahadur Dallakoti of the International Labour Organization (ILO) Bangladesh, as well as various representatives from the government agencies, the private sector, and development partners.

The UN Resident Coordinator Office (UN RCO) in Bangladesh also organised a dedicated discussion event titled 'STS Consultation with Development Partners', providing a platform to gather valuable insights and collective expertise from all development partners (DPs).

In addition to these consultations and engagements, the ERD facilitated three key events to ensure inclusive participation in the preparation of the STS. Firstly, a technical workshop on the initial draft of the STS was held on 9th June 2024 to disseminate the preliminary developments of the STS to government ministries/agencies, the private sector, development partners, think tanks, and civil society organisations (CSOs). Secondly, a High-level Dialogue (HLD) was convened with senior government officials from key ministries and departments to deliberate on the prioritisation of STS measures. Finally, a National Validation Workshop (NVW) was organised on 24th November 2024, providing an opportunity for final review and validation of the strategy.

During and following these events, extensive written comments and feedback were received from a wide range of stakeholders. Contributions were made by government ministries and institutions, including, amongs others, the Ministry of Commerce (MoC), Ministry of Finance (MoF), Ministry of Agriculture (MoA), Ministry of Industries (MoI), Ministry of Environment, Forest and Climate Change (MoEFCC), Economic Relations Division (ERD), Finance Division (FD), General Economics Division (GED), Bangladesh Bureau of Statistics (BBS), Export Promotion Bureau (EPB), Directorate of National Consumers' Rights Protection, Department of Agricultural Extension (DAE), Bangladesh Investment Development Authority (BIDA), Bangladesh Foreign Trade Institute (BFTI), Bangladesh Standards and Testing Institution (BSTI), Department of Patents, Designs and Trademarks (DPDT), Bangladesh Trade and Tariff Commission (BTTC), National Skills Development Authority (NSDA), and the Copyright Office.

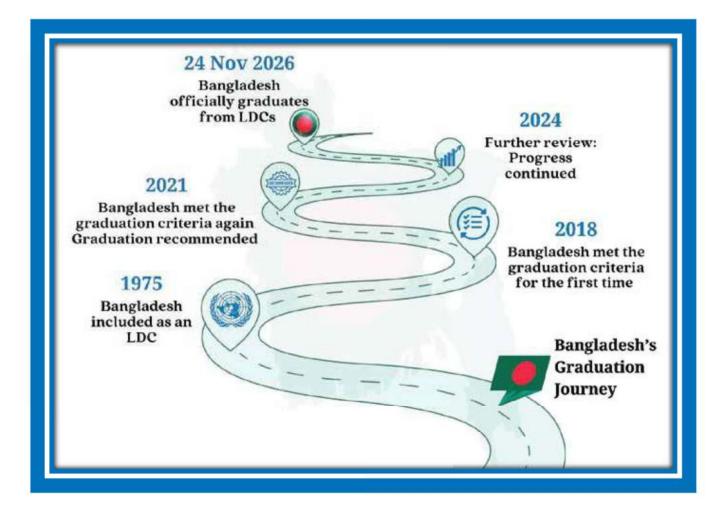
Individual consultations were also held with officials from key ministries, departments, and institutions, including the Ministryof Commerce (MoC), Ministry of Foreign Affairs (MoFA), ERD, Bangladesh Bank, National Board of Revenue (NBR), BIDA, EPB, Treasury and Debt Management (TDM) Wing, and Monitoring Cell of the Finance Division, among others, to gather their expert opinions and substantive inputs. Important contributions received from Dr. Md. Kawser Ahmed, Member, General Economics Division, Ministry of Planning, and Mr. Mohammad Selim Uddin, Secretary, Ministry of Commerce, are acknowledged.

Valuable feedback was further provided by private sector associations such as the Federation of Bangladesh Chambers of Commerce and Industry (FBCCI), Metropolitan Chamber of Commerce and Industry (MCCI), Business Initiative Leading Development (BUILD), Bangladesh Associaton of Pharmaceutical Industries (BAPI), Bangladesh Association of Software and Information Services (BASIS), and numerous other industry groups and associations. Development partners also played a crucial role, including, among others, UN DESA, UN RCO, UNDP, UNCTAD, UNFPA, UNCDF, UNICEF, UNIDO, UN Women, UN ESCAP, USAID, WHO, ADB, JICA, IMF, ILO, FAO, EU, IOM, the Foreign, Commonwealth & Development Office (FCDO), and the Embassies of Switzerland and Sweden.

The comments and suggestions received were meticulously reviewed and incorporated during the revision and finalisation of the STS. Additionally, the strategy drew on valuable insights and perspectives from the draft report 'White Paper on the State of the Bangladesh Economy: Dissection of a Development Narrative', prepared by the White Paper Committee constituted by the Hon'ble Chief Adviser to the Government of Bangladesh. The STS has also benefited from a wealth of knowledge derived from studies and analyses conducted by leading local civil society organisations (CSOs), think tanks, and research institutions including the Bangladesh Institute of Development Studies (BIDS), Bangladesh Foreign Trade Institute (BFTI), BRAC Institute of Governance and Development (BIGD), Bangladesh Trade and Tariff Commission (BTTC), Centre for Policy Dialogue (CPD), Policy Research Institute of Bangladesh (PRI), Policy Exchange of Bangladesh, South Asian Network on Economic Modelling (SANEM), and Research and Policy Integration for Development (RAPID).

Mr. Roland Mollerus, Chief, Secretariat of the Committee for Development Policy, UN DESA, and Ms. Mereseini Bower, Inter-regional Adviser for LDCs at UN DESA, provided steadfast support and collaboration throughout the development of the STS, significantly enriching its content and scope.

The drafting of the Bangladesh STS was led by Dr. Mohammad Abdur Razzaque of Research and Policy Integration for Development (RAPID) and Mr. Cuong Minh Nguyen, who were engaged by UN DESA as the National and International Consultants, respectively. The strategy also benefited from the expertise and support of Dr. Md. Rezaul Bashar Siddique, Additional Secretary of ERD; Mr. Nesar Ahmed, International Trade Expert of the SSGP Project at ERD; and Dr. Mostafa Abid Khan, Component Manager of the SSGP Project at ERD. Research assistance to the National Consultant was provided by Jillur Rahman, Md. Salay Mostofa, and Rakin Uz Zaman.



List of Abbreviations

4IR	Fourth Industrial Revolution	BSTI	Bangladesh Standards and Testing Institution
ABS	Asset-backed Securities	BTE	born to export
ACWL	Advisory Centre on WTO Law	BTTC	Bangladesh Trade and Tariff Commission
ADB	Asian Development Bank	CAO	Chief Adviser's Office
		CAREC	Central Asia Regional Economic Cooperation
ADP	Annual Development Plan	CBAM	Carbon Boarder Adjustment Mechanism
AEB	anti-export bias	CDP	Committee for Development Policy
Al	artificial intelligence	CEPA	Comprehensive Economic Partnership Agreement
AIIB	Asian Infrastructure Investment Bank	CGE	computable general equilibrium
AMS	Aggregate Measurement of Support	CHF	Swiss Franc
API	active pharmaceutical ingredients	СМО	Collective Management Organisation
APTA	South Asian Free Trade Area	CMSME	Cottage, Micro, Small and Medium Enterprise
ASAP ASEAN	Adaptation for Smallholder Agriculture Program Association of Southeast Asian Nations	COP	Conference of the Parties
BAB	Bangladesh Accreditation Board	CPI	Consumer Price Index
BACB	Bangladesh Association of Certification Bodies	CPTPP	Comprehensive and Progressive Agreement for
			Trans-Pacific Partnership
BASIS	Bangladesh Association of Software and Information Services	CRM	Customer Relationship Management
BB	Bangladesh Bank	CRS	Creditor Reporting System (of the OECD)
BBS	Bangladesh Bureau of Statistics	CS3D	Corporate Sustainability Due Diligence Directive
BBX	Bangladesh Business Climate Index		
BCSIR	Bangladesh Council of Scientific and Industrial Research	CSE	Chittagong Stock Exchange
BDS	Bangladesh Standards	CSOs	Civil Society Organisations
BDT	Bangladeshi Taka	СТН	change of tariff heading
BEPZA	Bangladesh Export Processing Zones Authority	DAC	Development Assistance Committee
BEZA	Bangladesh Economic Zones Authority	DAE	Department of Agricultural Extension
BFSA	Bangladesh Food Safety Authority	DCTS	Developing Country Trading Scheme
BFTI	Bangladesh Foreign Trade Institute	DFQF	duty-free and quota-free
BIDA	Bangladesh Hi-Tech Park Authority Bangladesh Investment Development Authority	DGDA	Directorate General of Drug Administration Department of Inspection for Factories and Establishments
BIDS	Bangladesh Institute of Development Studies	DoF	Department of Fisheries
BMET	Bureau of Manpower, Employment and Training	DoL	Department of Labour
BMZ	Federal Ministry of Economic Cooperation and Development	DoT	Department of Textiles
BOP	balance of payments	DPs	Development Partners
BPDB	Bangladesh Power Development Board	DPDT	Department of Patents, Designs and Trademarks
BRI	Belt and Road Initiative	DRM	domestic resource mobilisation
BSCIC	Bangladesh Small and Cottage Industries Corporation	DSA	Debt Sustainability Analysis
BSEC	Bangladesh Securities and Exchange Commission	DSE	Dhaka Stock Exchange
DSGI	Digital Skills Gap Index	IAEA	International Atomic Energy Agency
DSU	Dispute Settlement Understanding	IBRD	International Bank for Reconstruction and Development
DTE	Directorate of Technical Education	ICT	Information Communication Technology
DTIS	Diagnostic Trade Integration Studies	IDA	International Development Association

EBA	Everything But Arms	IFAD	International Fund for Agricultural Development
ECI	Economic Complexity Index	ILO	International Labor Organization
ECOI	Economic Complexity Mulex Economic Complexity Outlook Index	IMF	International Monetary Fund
EDCF	Economic Development Cooperation Fund	IPR	Intellectual Property Rights
EIF	Enhanced Integrated Framework	ISC	Industry Skills Councils
			2757 337 PM Dali 146, 314 537 337 424 475 535 347 347 347 3
EPA	Economic Partnership Agreements	ISMs	International Support Measures
EPB	Export Promotion Bureau	ISP	Investment Support Programme
EPR	Extended Producer Responsibility	ITES	International Trade Centre IT-enabled services
EPZ	Export Processing Zone	KOICA	Korean International Cooperation Agency
ERD	Economic Relations Division	KPI	key performance indicator
ESG	Environmental, Social, and Governance	LDC	least developed countries
EVI	Environmental Vulnerability Index	LDCF	Least Developed Countries Fund
FAO	Food and Agriculture Organization	LFS	Labour Force Survey
FBCCI	Federation of Bangladesh Chambers of	LGED	Local Government Engineering Department
PBCCI	Commerce and Industry	LGED	Local Government Engineering Department
FD	Finance Division, Ministry of Finance,	LIC	low-income countries
	Government of Bangladesh		
FDI	Foreign Direct Investment	LMIC	lower-middle-income countries
FID	Financial Institution Division, Ministry of Finance, Government of Bangladesh	LPI	Logistic Performance Index
FTA	free trade agreement	MC	Monitoring Cell, Ministry of Finance,
FYP	five-year plan	MCCI	Government of Bangladesh Metropolitan Chamber of Commerce & Industry
GATS	General Agreement on Trade in Services	MFA	Multi-Fibre Arrangement
GAVI	Global Alliance for Vaccine and Immunization	MEN	most-favoured-nation
GCF	Green Climate Fund	MMF	man-made fibre
GED	General Economics Division	MoC	
GEF		MoCA	Ministry of Contract Affairs
GHG	Global Environment Facility Greenhouse Gas	MoEFCC	Ministry of Cultural Affairs
510			Ministry of Environment, Forest and Climate Change
GI	Geographical Indicators	MoF	Ministry of Finance
		MoFA	Ministry of Foreign Affairs
GNI	gross national income	MoFL	Ministry of Fisheries and Livestock
GNP	gross national product	MoHA	Ministry of Home Affairs
GPT	General Preferential Tariff	MoHFW	Ministry of Health and Family Welfare
		Mol	Ministry of Industries
GSP	Generalized System of Preferences	MoL	Ministry of Land
HAI	Human Assets Index	MoLE	Ministry of Labour and Employment
HDI	Human Development Index	MoLGRDC	Ministry of Local Government, Rural Development and Co-operatives
MoLJPA	Ministry of Law, Justice and Parliamentary Affairs	SAFTA	South Asian Free Trade Area
MoPEMR	Ministry for Power, Energy and Mineral Resources	SCM	Subsidies and Countervailing Measures
NAP	National Adaptation Plans	SDG	Sustainable Development Goals
NBR	National Board of Revenue	SEZ	special economic zones
NCG	National Committee on LDC Graduation	SSGP	Support to Sustainable Graduation Project
NCLD	National Council for Logistics Development	STDF	Standards and Trade Development Facility
NDC	Nationally Determined Contributions	STS	Smooth Transition Strategy
NFIDC	net food-importing developing countries	TFA	Trade Facilitation Agreement
		TRIPS	Agreement on Trade-Related Aspects of
			Intellectual Property Rights

NGOs	Non-Governmental Organisations	TVET	Technical and Vocational Education and Training
NLP	National Logistics Policy	UNCDF	United Nations Capital Development Fund
NPL	non-performing loans	UNDAF	United Nations Development Assistance Framework
NPO	National Productivity Organisation	UNDP	United Nations Development Programme
NSDA	National Skills Development Authority	UNDRR	United Nations Office for Disaster Risk Reduction
NTM	non-tariff measures	UNODC	United Nations Office on Drugs and Crime
NTP	National Tariff Policy	WFP	World Food Programme
OECD	Organisation for Economic Co-operation and	WHO	World Health Organisation
OFID	Development OPEC Fund for International Development	WITS	World Integrated Trade Solutions
OPEC	Organization of Petroleum Exporting Countries	WTO	World Trade Organization
OSS	One Stop Service		
PCI	Product Complexity Index		
PPP	Public-Private Partnership		
PTA	Preferential Trade Agreement		
REER	Real Effective Exchange Rate		
RMG	readymade garments		
RTA	Regional Trade Agreement		

Bangladesh Graduation from the Group of Least **Developed Countries: Smooth Transition Strategy**

Executive Summary

I. Background and Context

Bangladesh is set to graduate from the Least Developed Countries (LDCs) group on 24 November 2026, attaining a remarkable milestone in its development journey. Emerging from a challenging socio-economic state at independence, it has achieved sustained economic growth complemented by significant reductions in poverty, advancements in health, education, and gender equality, and a notable increase in life expectancy. For the period 1990 to 2021, Bangladesh was recognised as one of the countries with the fastest Human Development Index (HDI) progress in the world.

The socio-economic development of Bangladesh has been aided by the performance of its export sector, as merchandise exports expanded from less than \$2 billion in 1990 to \$43.5 billion in 2022-23, thanks to the rapid growth of the export-oriented readymade garment (RMG) industry. A structural transformation of Bangladesh's economy is also evident, with the share of agriculture in GDP declining from nearly 60 per cent in the early 1970s to just 11 per cent in 2022-23 as against the rising relative significance of both industrial and services sectors. The expansion of apparel (RMG) exports has also been pivotal in generating employment, especially for women. Bangladesh is currently the world's second-largest apparel exporter, capturing more than 10 per cent of the global market.

In 2015, Bangladesh transitioned from low-income to lower-middle-income status, according to the World Bank classification of global economies. This was soon followed by meeting the criteria for LDC graduation in 2018 and again in 2021, fulfilling all three criteria for graduation: per capita GNI, the human assets index (HAI), and the economic and environmental vulnerability index (EVI). The United Nations General Assembly decided that Bangladesh's graduation will take effect on 24 November 2026, following a five-year preparatory period to ensure a smooth transition.

Graduation from the LDC category signifies Bangladesh's substantial socio-economic progress, recognised globally and achieved despite formidable challenges. However, it also comes with certain challenges, as graduated LDCs lose access to international support measures associated with their LDC status. The global community has provided various international support measures for LDCs, including trade preferences, special treatment under World Trade Organization (WTO) agreements, and concessional financing. Graduation from LDC status implies achieving greater self-reliance and resilience to economic shocks without special concessionary treatment.

Furthermore, in recent times, Bangladesh's macroeconomy has come under significant strain, marked by falling reserves and persistently high inflation, exacerbated by policy mismanagement and severely dysfunctional governance under an authoritarian regime. The political transition since

¹ This is based on export receipts data, published by Bangladesh Bank.

early August 2024 now seeks to stabilise the economy and initiate critical reforms aimed at, among other priorities, improving economic functioning and enhancing external competitiveness. These efforts coincide with the country's preparations for LDC graduation.

LDC graduation necessitates adjustments but also offers an opportunity to transition from a trade preference-dependent and low-wage-based export-competitiveness model. By shifting the focus towards innovation and quality rather than solely relying on price competitiveness, the postgraduation transformation of the country should prioritise quality, standards, compliance, and environmental sustainability. This approach will ensure sustainable growth, a modern economy, and a knowledge-based society aligned with international benchmarks. It also opens opportunities for economic reforms, export diversification, and enhanced trade negotiation capacities, as well as addressing infrastructural bottlenecks and administrative inefficiencies to reduce business costs and improve competitiveness, potentially offsetting the loss of trade preferences.

This Smooth Transition Strategy (STS) has been meticulously crafted to address the unique challenges faced by Bangladesh. The preparation of the STS and its implementation can be seen as an integral part of the process towards achieving the Sustainable Development Goals (SDGs). Valuable feedback from key stakeholders, including government ministries and departments, development partners, academia, the private sector, and civil society organisations, has played a crucial role in shaping the STS. The drafting process entailed extensive reviews of Bangladesh's plan documents and strategies, as well as relevant studies conducted by various government ministries, departments, development partners, and think tanks. Additionally, multiple rounds of consultations and workshops with all relevant stakeholders were conducted to ensure broad-based participation and alignment. The overall process of formulating the STS also took into consideration the Smooth Transition Strategy Guidance Note (2021) developed by the United Nations Department of Economic and Social Affairs.

II. Potential Implications arising from the Withdrawal of LDC-specific **International Support Measures**

Given Bangladesh's significant reliance on LDC-specific international support measures (ISMs) particularly duty-free market access, with 73 per cent of its exports benefiting from LDC-specific preferences, and the special and differential treatment under WTO provisions, including the provision for export subsidies-graduation from LDC status could adversely impact export competitiveness due to the loss of these benefits.

Impact assessment studies have shown adverse implications of graduation with significant export loss. Notable among these is a study by the World Trade Organization (WTO), estimating that Bangladesh's exports could decline by more than 14 per cent due to the loss of preferential market access. However, these studies have inherent limitations. For instance, despite the absence of tariff preferences in the US market, Bangladesh has successfully increased its market share. Over the past decades, Bangladesh's garment industry has developed substantial supply-side capacity, achieved economies of scale, and established a robust global supply chain network-factors that contribute to its competitive strengths and are not solely reliant on trade preferences. Moreover, the evolving nature of trade policies in partner countries means that not all preferences will be lost simultaneously, and some may be extended. For example, the EU and the UK offer an additional three-year transition period for graduating LDCs. The prospect of continued preferential market

access after LDC graduation in the EU, is not settled yet and could determine the overall impact of LDC graduation. Therefore, rather than focusing on specific estimates of export loss, it would be prudent to recognise that LDC graduation will generate substantial competitive pressures and to prioritise measures aimed at strengthening Bangladesh's resilience.

Bangladesh has benefited from special and differential treatment (S&DT) provisions under the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), including a general transition period and a pharmaceutical waiver, allowing it to exempt medicines from patent protection.. Compliance with TRIPS provisions will be required upon graduation. Since only a relatively small proportion of the drugs locally manufactured are on patent held elsewhere, the introduction of patent protection may not cause major disruptions. The recently enacted Bangladesh Patent Act 2023 has incorporated the existing flexibilities under the TRIPS agreement into the national legal framework, supporting domestic manufacturers. However, enhancing the supply-side capacity of the domestic industry, along with strengthening the capacity of the policy regime to manage an updated patent system, will remain critical challenges.

WTO provisions prohibit subsidies based on export performance and local content but exempt LDCs and countries with GNP per capita below \$1,000 at 1990 prices. Bangladesh currently offers various export subsidies that may need to be withdrawn after graduation unless it remains on Annex VII of the WTO Agreement on Subsidies and Countervailing Measures (ASCM). A proposal has been submitted to allow graduated LDCs with GNP per capita below \$1,000 to continue benefiting from export subsidies, with specific conditions for maintaining this status. However, the scope for providing support to agriculture will remain unaffected. The estimated aggregate measurement of support (AMS) provided by Bangladesh to its agricultural sector—just above 1 per cent of agricultural outputs-is much less than the de minimis level (10 per cent of agricultural output) for developing countries. LDCs and net food importing development countries (NFIDCs) can provide agricultural marketing-related subsidies until 2030 and enjoy extended repayment terms for export financing. After graduation, being classified as an NFIDC would grant Bangladesh greater policy flexibility in supporting agricultural export activities.

LDC graduation itself should not necessarily reduce concessional development finance. The largest aid recipients in the world are not necessarily LDCs, as aid allocation is typically influenced by a variety of factors, including historical and bilateral relationships, specific recipient country circumstances such as conflicts, natural disasters, and health crises, as well as the development priorities of donor countries. Bilateral cooperation programmes are generally tailored to meet the policies and priorities of both development partners and recipients. These programmes are influenced more by income levels, national needs, development plans, and strategic interests rather than LDC status alone. Consequently, while the LDCs designation may inform some aspects of development cooperation policies, it does not play a central role in shaping the nature and extent of bilateral aid.

Similarly, international financial institutions and multilateral organisations do not primarily base their resource allocation on LDC status. Instead, their funding decisions are driven by factors such as a country's income level and creditworthiness. Nevertheless, a gradual shift in financing terms is expected as Bangladesh's per capita income rises, reflecting its improved economic status. Many UN agencies also allocate resources based on the specific needs of countries rather than their LDC status. The focus is increasingly on capacity building and technical training, driven by Bangladesh's

developmental progress and the broader strategic policies of these agencies. Thus, the overall impact on financial development assistance post-graduation is expected to be minimal, with aid continuing to flow albeit under slightly modified terms.

Upon LDC graduation, some LDC-specific assistance may be discontinued, but these have not been major sources of development financing for Bangladesh. While new funding from the Least Developed Countries Fund (LDCF) will be lost, ongoing projects will continue to receive support. The United Nations Technology Bank will assist for five years post-graduation, and the Enhanced Integrated Framework (EIF) will offer support during that period, subject to the availability of funds. Also, the United Nations Capital Development Fund (UNCDF) and the Investment Support Programme for LDCs (ISP/LDCs) will extend assistance.

Apart from the loss of ISMs, Bangladesh's several vulnerabilities need to be recognised. Significant reliance on LDC-specific trade preferences, particularly in the apparel sector, makes its exporters susceptible to changes in export market access post-graduation, underscoring the need for diversification into non-cotton apparel and other sectors to mitigate market risks despite its major exporter status. Environmental vulnerabilities remain a critical issue; Bangladesh's high exposure to natural disasters and climate change impacts poses severe threats that demand urgent attention. Additionally, challenges in sustainable development finance, stemming from a low tax-GDP ratio and limited fiscal space, constrain public spending on essential services and infrastructure, thereby hindering sustainable development efforts. Recent unfavourable macroeconomic developments add to longstanding economic challenges and vulnerabilities for Bangladesh. These include a weakening balance of payments situation, reflected in a decline in foreign reserves, and persistent domestic inflationary pressures that further strain the economy.

Apart from the above, external shocks occur with greater frequency, complicating development efforts. Geo-political tensions such as the US-China trade war, COVID-19 pandemic, and the Russia-Ukraine conflict have previously disrupted global trade, leading to price hikes in food and fuel, affecting a developing region like Bangladesh. Furthermore, with the rise in protectionist policies among major economies and weakened multilateralism, global trade and economic prospects look increasingly uncertain. As Bangladesh transitions from LDC status, it must also navigate the challenges posed by the Fourth Industrial Revolution. While rapid technological advancements and automation are essential for enhancing efficiency and driving growth, they pose significant risks to employment generation. Despite substantial growth in apparel exports, employment in the sector has remained stagnant, as technological deepening and automation have reduced job opportunities and led to a decline in women's share of total employment. These factors collectively highlight the uncertainties and complexities Bangladesh faces on its graduation journey.

Despite the adverse employment effects of automation, avoiding technological adaptation is not an option for Bangladesh. Embracing technology is essential for developing new industries, enhancing productivity, and breaking into new export markets. Automation and advanced manufacturing can improve the quality and competitiveness of Bangladeshi products, thereby boosting export revenues. However, taking full advantage of these technological advancements will require a skilled workforce. Investing in education and training is crucial to equip workers with the skills needed to thrive in a rapidly evolving, technology-driven global economy. As Bangladesh graduates from LDC status, it must prioritise building this workforce to leverage technology for

sustainable development, economic resilience, and expanded employment opportunities across various sectors.

III. Smooth Transition Strategy Vision: Bangladesh Transitioning from LDC Status towards a Structurally Transformed Inclusive, Resilient and Competitive Economy

Bangladesh has undergone its initial phase of structural transformation, characterised by a rapid expansion of manufacturing exports, primarily led by the ready-made garment (RMG) sector, which has significantly elevated the contribution of industrial outputs to the economy. Despite this progress, the share of exports in GDP has declined over the past decade, reflecting the growth of a thriving import-competing sector. However, this success has not translated into diversification, as the export basket remains overwhelmingly dominated by garments.

Bangladesh's current economic model—dominated by a trade preference-dependent, exportoriented garment sector and a tariff protection-dependent import-competing sector, both relying on low wages and weak compliance—has reached its limits, necessitating a shift towards "highroad" economic development. This involves enhancing productivity, creating quality jobs, investing in skills development, fostering innovation, improving product standards, adopting sustainable business practices, and achieving inclusive growth. This approach is crucial for transitioning to higher-value sectors and establishing Bangladesh as a credible participant in the global supply chain. Although standard growth theory suggests low-income countries should grow faster and catch up to high-income countries, this is challenging, with many countries experiencing growth slowdowns. To sustain growth and ensure economic success beyond LDC graduation, Bangladesh must now prioritise a key transformation of its economy that should promote competitiveness driven by productivity, innovation, improved labour standards, and enhanced environmental compliance.

Bangladesh's production structure has evolved into a dichotomous state, with distinct policy regimes for exports and the domestic market. The global trade policy regime, particularly the Multi-Fiber Arrangement (MFA) quota system until 2005, shaped Bangladesh's export structure. Despite the dismantling of the quota system, high tariffs on apparel imports persist in key markets, giving Bangladesh a competitive edge through LDC-specific duty-free preferences. Domestic policy incentives have supported the export-oriented RMG industry with measures like bonded warehouses, duty drawbacks, and cash assistance.

On the other hand, Bangladesh's trade policy framework has provided high protection to importcompeting industries through customs duties and para-tariffs, resulting in an average nominal protection rate of 14.8 per cent, which increases to 28 per cent when para-tariffs like supplementary and regulatory duties are included. This high level of protection has created a significant anti-export bias, making the domestic market more attractive than exports and hindering export sector growth. Excessive tariff protection has raised consumer costs and created disparities in product quality and standards between export-oriented and import-competing sectors. Exporters face stringent international standards for products, labour, and environmental practices. Compliance with such standards is increasingly necessary due to evolving consumer expectations and regulatory requirements in the international markets. Ensuring compliance across sectors is thus crucial for broader economic transformation and global competitiveness.

Achieving further economic transformation and transitioning to a high-road approach to development will require substantial investment in education, skills development, and technology to build a highly skilled workforce. This, in turn, will support greater women's labour force participation, improve labour standards, strengthen environmental protection, and promote social equity. Such a strategy shifts the focus from low wages and cost-cutting to quality, ethical standards, and sustainability. With global firms increasingly prioritising Environmental, Social, and Governance (ESG) standards to mitigate risks and safeguard reputations, this structural transformation of Bangladesh's economy will enable local firms to integrate more effectively into the global supply chain.

A transformed economy should focus on strategic support rather than broad-based high tariffs, providing time-bound protection to specific industries and sectors and supporting research, adoption of green technologies, and workforce training. This strategy nurtures high-growth potential sectors and encourages industries to compete on quality and sustainability, aligning with global market demands.

As Bangladesh approaches graduation from LDC status, strategic policy reforms are essential for transitioning towards a structurally transformed and competitive economy. Key policy approaches include rationalising tariffs to reduce the anti-export bias and create a level playing field for all exporters, as outlined in the National Tariff Policy (NTP). Effective implementation of the NTP will also provide the necessary flexibility to negotiate market access opportunities through free trade agreements (FTAs) with major export markets like China, India, and Japan. Diversifying revenue sources by reducing reliance on import-based taxes, enhancing direct taxation, and strengthening the value added tax (VAT) system is crucial to increasing the fiscal space necessary for stimulating inclusive economic growth. Mobilising investments, both domestic and external, is essential, with a focus on enhancing domestic revenue mobilisation efforts, which are vital for inclusive growth and reducing dependence on external financing.

To facilitate a smooth transition, several core enablers must be strengthened. Enhancing productive capacities through investments in human capital, fostering innovation, digitalisation, and improving infrastructure is critical. Promoting both foreign and local investment is crucial, and this can be achieved by creating an investment-friendly ecosystem, enhancing institutional capacities, and ensuring the functionality of special economic zones (SEZs), amongst others. For driving innovation and integrating into global markets, foreign direct investment (FDI) can play a critical role. Prioritising quality enhancement and compliance with international standards to maintain export competitiveness involves rigorous quality control, as well as investing in advanced laboratories and skilled personnel.

Leveraging digital technologies to enhance productivity across all sectors is essential for Bangladesh's economic transformation. Investing in education and skill development is essential to create a highly skilled workforce capable of adapting advanced technologies and processes. The National Skills Development Policy 2020, along with its action plan, that aims to address the existing skills gap, must be implemented meticulously. Integrating sustainable business practices and improving compliance with environmental and labour standards are crucial for ensuring longterm competitiveness and enhancing the country's reputation in the global market. By focusing on these policy approaches and key enablers, Bangladesh can achieve sustainable and inclusive economic transformation, positioning itself as a competitive player in the global market after LDC graduation.

Following LDC graduation, Bangladesh faces the challenge of losing export competitiveness due to the cessation of LDC-specific trade preferences. However, transformative changes can help outweigh the preference-driven competitiveness, as evident from various studies and analyses available in the context of the global economy as well as Bangladesh. Research and evidence indicate that Bangladesh can enhance its export competitiveness in the post-LDC period by focusing on several key areas. These include improving trade logistics, streamlining customs and border procedures, and strengthening the overall business environment. Additionally, boosting product quality and standards, attracting more foreign direct investment (FDI), and pursuing tariff rationalisation are essential steps. Advancing regional integration, upgrading technology, fostering innovation, and investing in human capital and skills development will also play a critical role in promoting competitiveness.

Prioritised Smooth Transition Measures: Strategic Pillars and Required IV. **Actions**

Graduating from the LDC group presents an opportunity to tackle both emerging and longstanding challenges and shift from a reliance on preference-dependent exports, tariff-protected industries, low wages, and cost-cutting measures. Instead, Bangladesh can focus on achieving structural economic competitiveness driven by quality, innovation, productivity, and export diversification. The Smooth Transition Strategy aims to provide a comprehensive framework to address both immediate and long-term economic challenges, ensuring a smooth and sustainable transition from LDC status. It focuses on five interrelated strategic pillars: 1) ensuring macroeconomic stability, 2) securing trade preferences and favourable transition measures, 3) promoting export diversification and competitiveness, 4) building productive capacity, and 5) fostering partnerships and international cooperation.

Strategic pillar 1: Ensuring macroeconomic stability: The strategic objective of this pillar is to ensure sustained macroeconomic stability during the transition from LDC status and beyond.

Tackling inflation, developing effective exchange rate management, and boosting foreign reserves will be critical to maintaining macroeconomic stability and improving export competitiveness. Smooth transition measures will include implementing market-oriented interest rates, sustaining a

uniform and market-oriented exchange rate system, monitoring prices of essentials, securing concessional financing, fast-tracking the implementation of projects with favourable loan conditions, and ensuring the effective utilisation of development assistance and LDC-specific funds. For prudent fiscal and sustainable debt management, the focus should be on improving domestic resource mobilisation, ensuring sustainable and responsible domestic borrowing, and exploring alternative financing mechanisms. This also involves continuing to reform the structure of national savings certificates, developing the capital market, and reviewing non-essential spending, among others. Priority actions for strengthening the financial sector and capital market will include enhancing financial sector governance, reducing non-performing loans, ensuring the central bank's regulatory autonomy, improving bank governance, and developing the capital market through strategic reforms.

Strategic Pillar 2: Exploring and securing trade preferences and favourable transition measures beyond LDC graduation: The strategic objective of this pillar is to mitigate adverse impacts on export competitiveness due to LDC graduation.

A critical component of the smooth transition measures will involve engaging with the EU to secure the most favourable preferential market access, such as GSP+, once LDC-specific preferences expire. This should also include securing relaxed rules of origin requirements and obtaining technical assistance to support the implementation of international conventions. Additionally, efforts will be made to engage with other key trading partners for an extended transition period for LDC-specific preferential access for exports, negotiate trade and investment agreements with several partners such as China, India, and Japan and join trade blocs such as the Regional Comprehensive Economic Partnership (RCEP). Furthermore, initiatives will be undertaken to address WTO-related issues, including seeking a waiver extension under the TRIPS agreement, inclusion in the list of NFIDCs to retain certain extended policy space, and inclusion in Annex VII(b) under the ASCM to continue benefiting from the exemption under the WTO Agreement on Subsidies and Countervailing Measures. Trade policymaking and negotiation capacity-building should also be a priority, given the demand for proactive engagements and negotiations with various trade partners.

Strategic Pillar 3: Promoting export diversification and competitiveness: The strategic objective of this pillar is to enhance competitiveness through comprehensive reforms aimed at revitalising the economic environment, facilitating transformation, and fostering new sources of competitiveness.

To achieve this, key actions include reducing anti-export bias and promoting export diversification, improving product quality and standards, enhancing trade logistics and trade facilitation measures, and ensuring labour standards and ESG compliance. Additionally, creating an enabling environment for businesses and trade, enforcing intellectual property protection, and developing WTOcompatible support measures in domestic and export sectors are essential. Furthermore, strengthening the implementation of sector-specific action plans in the Diagnostic Trade Integration Study Update (DTISU) will enhance supply-side capacity and strengthen export competitiveness.

Strategic Pillar 4: Building productive capacity: The strategic objective of this pillar is to promote structural transformation by strengthening supply-side capabilities, improving human capital, and strengthening institutions.

The priority policy actions include, amongst others, improving productivity through technological upgrading and innovation, leveraging information and communication technology (ICT) to increase productivity, building supply-side capacity by strengthening backward and forward linkages, fostering private sector development through enhanced government support, strengthening the supply-side capacity of micro, small, and medium enterprises (MSMEs) and enabling them to enter the export market, skilling, re-skilling, and up-skilling the workforce to reduce skills gaps in priority sectors, enhancing human capital development, revitalising domestic investment, attracting foreign direct investment, advancing green transformation for improved competitiveness and futurereadiness, and strengthening institutional capacity.

Strategic Pillar 5: Fostering partnerships and international cooperation for promoting sustainable development and improving resilience against global uncertainty: The strategic objective of this pillar is to sustain and build upon the socio-economic progress achieved over the past decades through strengthened partnerships and international cooperation for promoting sustainable development and enhancing resilience for a successful and smooth transition post-graduation.

The smooth transition strategy of Bangladesh calls for enhanced collaboration and cooperation between the government, development partners, and stakeholders to implement the proposed actions. Bangladesh's graduation process will facilitate partnerships for targeted technical and financial assistance, revitalising coordination among development partners, and forming new trade and economic partnerships. Priority areas requiring financial and technical assistance include ensuring compliance with international conventions, fostering ESG compliance, facilitating productive capacity development, supporting SDGs and climate change resilience, fostering South-South partnerships, and reinforcing the multilateral global trading system for fair and developmentfriendly trade for facilitating effective participation of LDCs, graduating and graduated LDCs. Development and trade partners should ensure that graduating and graduated LDCs, including Bangladesh, are protected from the adverse impacts of geopolitical competition and conflicts, and refrain from implementing measures that could disadvantage these countries as a result of geopolitical rivalries.

V. STS Implementation Mechanisms

The STS delineates specific implementation strategies and institutional arrangements. It incorporates a time-bound action plan designed to ensure a smooth transition, prioritising and expediting the implementation of necessary reforms to achieve sustainable graduation. The principles of implementation mechanisms include the following:

 Under the leadership of the Chief Adviser's Office, with strong support from relevant ministries and departments, the implementation of STS action plans and necessary reforms will be prioritised and fast-tracked across all government plans, policies, and strategies.

- Collaborative partnerships among stakeholders are essential for the successful implementation of the STS. The implementation framework clearly defines the roles and responsibilities of key stakeholders, including the government, private sector, publicprivate partnerships, civil society, and development and trade partners. The strategic pillars in the STS and corresponding actions will be integrated into all the forthcoming national development plans, as well as sectoral policies.
- Financing STS implementation will depend on public resources channelled from the annual budget, private investment, and technical and financial assistance from development and trade partners.

An appropriate M&E framework will be prepared, based on the action matrix of the STS, to track the progress of the strategy, evaluate the effectiveness of the actions, and suggest appropriate measures to achieve the desired outcomes. The following measures will be implemented to facilitate implementation:

- A high-level LDC Graduation Steering Committee, chaired by the Chief Adviser/Head of the Government and including relevant ministers/advisers, will be established to offer strategic policy direction for the effective implementation of the STS. This committee will meet biannually to review progress and provide policy directives.
- The National Committee on LDC Graduation (NCG) will act as the central monitoring and evaluation committee for STS implementation, developing a robust M&E framework, conducting annual assessments, and coordinating with stakeholders to ensure efficient implementation.
- The Support to Sustainable Graduation Project (SSGP) of the Economic Relations Division (ERD) will regularly undertake tasks to support the NCG in implementing the STS, leveraging its established knowledge base and consultation experience.
- Relevant ministries, divisions, and agencies will prepare and undertake specific measures to implement the STS and report progress against each indicator as part of the M&E exercise.
- M&E reports will identify areas of limited or no progress and make specific recommendations for improved implementation, which will be shared in public consultations.

Roles of stakeholders in STS implementation

Role of government ministries and departments: The major roles and responsibilities of government ministries, departments, and agencies include, among others, conducting thorough assessments of specific actions, undertaking reforms in accordance with the action plan, following up on activities to ensure steady progress, ensuring timely implementation and impactful results, assessing the scope of coordination with other agencies, the private sector, civil society, and development partners, adjusting existing policy measures to meet immediate graduation needs, optimising budget management, facilitating coordination with the private sector, development partners, and civil society to mobilise technical expertise, conducting reviews and commissioning studies to obtain practical recommendations for progress on implementation, and integrating the

specific targets and milestones of the STS into the Annual Performance Agreement (APA) of each relevant ministry and department.

Role of the private sector: Bangladesh's graduation from the LDC group is largely attributed to its dynamic private sector, which has propelled economic development, created employment opportunities, generated export earnings, and sustained business operations despite various challenges. Recognising this, engagement with industry stakeholders has led to the development of policies and strategies centred on the private sector. The private sector's preparedness and resilience will be crucial in addressing issues related to LDC graduation, such as the loss of trade preferences. The private sector is, therefore, a key player in implementing the STS, with business organisations and associations actively involved in its preparation. Key roles of the private sector include:

- Improving firm-level competitiveness to absorb any competitiveness pressure
- Enhancing labour standards and compliance irrespective of government regulations
- Adhering to ESG standards to participate in global value chains.
- Supporting STS policy actions to improve long-term competitiveness, attract foreign investment, and link with global supply chains.
- Prioritising product standards in local sales to boost export success.
- Investing in research and development (R&D) to drive innovation and productivity.
- Assisting the government in trade negotiations to balance defensive and offensive interests, recognising necessary trade-offs. Collaborating with the government, think tanks and development partners to act as knowledge hubs for LDC graduation-related issues.

Role of public-private partnerships: PPP authorities should review their PPP framework and adapt it where necessary to make it effective in undertaking projects in the areas of transport and logistics, energy, water and sanitation, social infrastructure, and Information and Communication Technology (ICT). Given its track record in implementing past projects, the PPP initiative could expedite the expansion of ICT services, improve connectivity, and make digital services more accessible and affordable for citizens and businesses in a timely manner.

Role of civil society organisations: The active involvement of civil society is crucial for the inclusive and transparent implementation of the STS, ensuring sustainable development beyond the transition process. Their roles include:

- Monitoring and accountability: CSOs can act as watchdogs, ensuring transparency and holding stakeholders accountable, thereby aligning the transition process with sustainable development goals.
- Expertise and best practices: They offer specialised knowledge and can identify global best practices that are beneficial for Bangladesh's implementation programme.
- Government-public bridge: CSOs serve as intermediaries between the government and the public, identifying ground-level issues and providing constructive solutions.
- Private sector competitiveness: By building awareness of evolving international regulations and providing context, CSOs can enhance perceptions and secure technical assistance for firms.

- Global advocacy: CSOs advocate for Bangladesh on the international stage, pushing for reforms and championing fair pricing and shared responsibility for decent work and wages.
- Community empowerment: They empower local governments and communities through town hall meetings and expert commentary, ensuring no one is left behind.
- Resource mobilisation: By collaborating with development partners, CSOs can mobilise resources and expertise to support key local initiatives for the STS implementation.

Role of development and trading partners: Development and trade partners play a crucial role in supporting Bangladesh's transition from LDC status. The STS provides a unique opportunity for these partners to align their support with Bangladesh's needs across various strategic pillars, highlighted explicitly in Pillar 5. This involves:

- Extended transition period: Providing an extended transition period to help Bangladesh adjust smoothly post-graduation amidst global economic uncertainties.
- Enhanced technical assistance: Providing technical assistance for implementing international conventions on human rights, labour rights, environmental protection, climate change, and good governance, as well as improving product standards and quality.
- Capacity-building for trade policy and negotiations: Offering support to government officials and think tanks to enhance trade negotiation skills and establish FTAs and PTAs effectively.
- Financial support for SDGs: Expanding financial assistance to help Bangladesh achieve its Sustainable Development Goals, focusing on health, education, food security, gender empowerment, and other key areas.
- Support for productive capacity development: Investing in infrastructure development, state-of-the-art technologies, improved business environments, ICT adoption, and human capital enhancement through education and health investments.
- Skill development initiatives: Fostering skill development programmes to boost workforce capabilities and support research and development to enhance firm-level supply-side capabilities and product quality standards.
- Climate resilience and adaptation: Investing in climate resilience projects and providing technical assistance for adopting advanced technologies and clean energy solutions.

The detailed STS Action Plan, outlining specific actions under the five strategic pillars, is provided at the conclusion of this Strategy. A selection of the highest-priority actions identified for immediate implementation is listed here.

Highest-Priority Actions for Immediate Implementation

Recommended Smooth Transition Measures	Specific Action(s)	Responsible Agency (In Bold) and Supporting Agency(s)	Potential Role of Development Partners (DPs)	Timeframe	Means of Verification
Strategic pillar 1: Ensurin	Strategic pillar 1: Ensuring macroeconomic stability				
Tackling inflation to restore macroeconomic stability and improve external competitiveness	Continue with market-oriented interest rates and use fiscal policy options to complement the monetary policy objective of tackling inflation.	BB		Continuous	-Monetary policy indicators consistent with inflation targets -Interest rates vis-à-vis changes in the price level -Trends in public spending -Government borrowing from the banking system consistent with monetary policy objectives
Boosting foreign reserves and improve the country's Balance of Payments situation	2. Maintain a unified, market-oriented exchange rate system while closely monitoring and evaluating movements in the real exchange rate (RER) and bilateral RERs with key trading partners to analyse trends in external competitiveness and support informed policy decisions.	88		Continuous	-A uniform exchange rate system sustained -Analysis of the movements in the RER and bilateral RERs published regularly
	3. Secure concessional loans on favourable terms, attract foreign direct investment (FDI), and endeavour to boost formal remittance flows by reducing remittancesending costs, assessing the potential magnitude of informal remittances, and addressing their underlying causes through measures such as enhanced digitalisation and removal of any barriers.	BB, FD, ERD, BIDA, MoFA, MEWOE, BMET	DPs	July 2025-June 2026 and the continue with the measures as required.	-Amount of new concessional loans and FDI received -Remittance flow through the formal channel -Foreign exchange reserves to cover at least six months' imports -Analysis/study undertaken on remittance-sending behaviour and recommendations made available -Measures taken to implement the recommended policy actions; - improved remittance flows through formal channels.
Financing budget through sustainable debt and fiscal management	4. Take measures to mitigate any debt risks and challenges as identified in the Debt Sustainability Analysis (DSA) by MoF and IMF.	FD, MoF, ERD	DPs	July 2025- June 2029	-Effective implementation of DSA recommendations

Means of Verification	-A time-bound action plan undertaken by NBR -Identification of key reform indicators -Raise the contribution of direct taxes to the total tax revenue -At least 70 per cent of TIN holders submitted personal income tax returnsAt least 70 per cent of BIN holders submitted corporate tax returnsIncreased automation in place -Separate tax policy division established.	ion	-Number of engagements/meetings held -Favourable market access in the post-graduation regime secured -Removal of/waiver from safeguard measures on textile	-Number of engagement meetings held, and the specific GSP-providing countries consultedGSP-providing trading partners deciding to offer an extended transition period.	-A pool of trade negotiators established -Number of pool officials are trained -Specific training activities performed -Number of pool officials getting involved in negotiations.
Timeframe	Time-bound action plan by July 2025. Effective implementation: December 2025- July 2029.	eyond LDC graduation		December 2025	June 2026
Potential Role of Development Partners (DPs)	DPs	on measures b	En	DPs	DPs
Responsible Agency (In Bold) and Supporting Agency(s)	NBR, IRD, GED, FD	e preferences and favourable transition measures beyond LD	MoC, MoFA, BTTC, EPB, industry/exporters' associations	MoC, MoFA, ERD, industry/exporters' associations	MoC, BFTI, BTTC, relevant ministries, Industry/exporters' associations , think tanks
Specific Action(s)	5. Develop and implement a time-bound action plan for tax reform (including enhanced digitalisation and automation, streamlined auditing process, broadening the tax net, separating tax policy division from the tax administration, improving the significance of direct tax in total tax, reforming the wealth and capital gains taxes, introducing a carbon taxation system, etc.) aiming to create a fair and efficient tax system that boosts government revenues.	llar 2: Exploring and securing trade preferences a	6. Engage with the EU to secure the most generous post-LDC GSP scheme, GSP+, including a waiver from EU safeguard measures against textile and clothing so that Bangladesh's RMG exporters can continue with duty-free market access after LDC graduation under GSP+.	7. Engage with key trading partners providing GSP or duty-free market access for LDCs, following the WTO General Council's October 2023 decision, to secure an extended transition period, ensuring a smooth transition for Bangladesh	8. Establish a pool of trade negotiators comprising officials from government ministries, departments, specialised institutions, trade bodies, and think tanks, and enhance their skills through targeted capacity-building programmes focusing on both technical expertise and negotiation techniques.
Recommended Smooth Transition Measures	Improving domestic resource mobilisation (DRM) to broaden fiscal space	Strategic Pillar 2: Explo	Securing GSP+ and the removal of safeguard measures on textiles in the EU market	Engaging with major trading partners that currently provide duty-free market access for securing extended transition periods for LDC-specific preferences	Increase the number of skilled personnel in trade policymaking and negotiation, supported by targeted capacity development initiatives.

Means of Verification	-Numbers/rounds of negotiations covering different areas (such as goods, services, investment, etc.) -Likely liberalisation commitments to be undertaken by Bangladesh are analysed for informed negotiations -EPA with Japan concluded and signed		-A time-bound action plan for effective implementation of NTP 2023 -Effective and timely implementation reviewed and monitored by the National Tariff Policy Monitoring and Review Committee -Supplementary/regulatory duties are reduced/eliminated -Applied tariff rates are reduced -Bonded imports with bank guarantees allowed for all exporters	-BDS standards updated -Better understanding of the private sector of international standards -Enhanced capacity of BSTI in terms of human and financial resources, testing facilities, developing standards, certification capacity, etcNumber of BSTI labs accredited by internationally recognised bodies -Number of testing labs upgraded with modern equipment and
Timeframe	June 2026		July 2025-June 2027	June 2025 - July 2029
Potential Role of Development Partners (DPs)	Japan			DPs
Responsible Agency (In Bold) and Supporting Agency(s)	MoC, BTTC, EPB, MoFA, Industry/exporters' associations	etitiveness	NBR, MOC, BTTC, Duty Exemption and Drawback Office, industry/exporters' associations	Mol, BSTI, BAB, DAE, DLS, BFSA, BCSIR, industry/exporters' associations
Specific Action(s)	9. Make progress and conclude the EPA negotiations with Japan, to retain the preferential market access, enhance economic cooperation, and foster mutually beneficial relations between the two countries.	oving export diversification and competitiv	a-bound act	11. Align Bangladesh's standards with international market requirements, enhance the capacity of BSTI, BAB, and related institutions, and secure accreditation for testing laboratories from internationally recognised authorities.
Recommended Smooth Transition Measures	Undertaking bilateral economic partnership/free trade agreements with key trading partners to retain/broaden market access	Strategic Pillar 3: Impro	t tew ew	Strengthening product quality and standards by introducing and enforcing standards in the domestic market aligning with international requirements

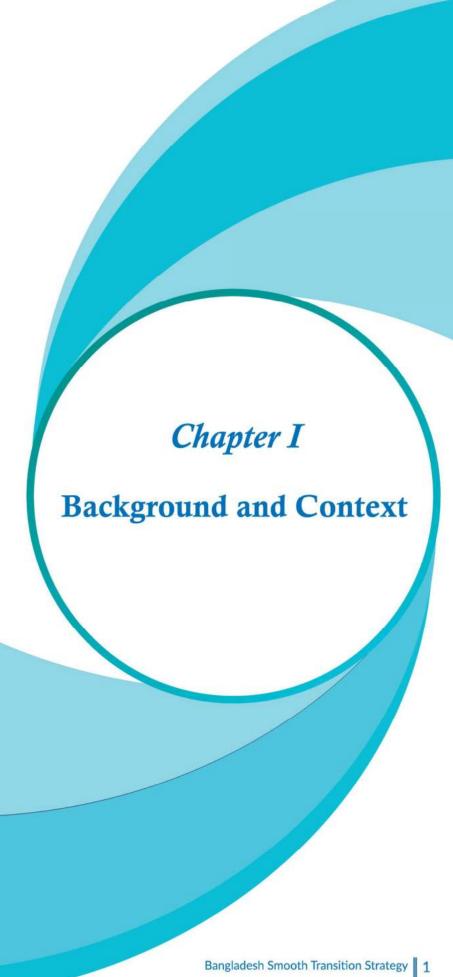
Means of Verification	-Numbers of commitments under TFA implemented -Number of initiatives implemented pursuant to National Logistics Policy 2024 -Improvement in various indices of logistics performance - Revision of the Bangladesh Flag Vessels (Protection) Act - Short- to medium-term efforts are undertaken to implement the NLP -Dedicated customs houses established	- Expansion and diversification of MMF products and markets	-Tannery Estate Dhaka fully operationalized -Number of factories with LWG certification
Timeframe	June 2025- December 2027	December 2025	July 2025 – June 2026
Potential Role of Development Partners (DPs)	DPs		DPs
Responsible Agency (In Bold) and Supporting Agency(s)	CAO, NBR, Bangladesh Customs, Ministry of Shipping, MoFA, relevant ministries	MoC, MoTJ, FD, NBR, DoT, Industry/exporters' associations	BSCIC, MoI, MoC, MoTJ, Industry/exporters' associations
Specific Action(s)	12. Ensure the effective implementation and monitoring of NLP as directed by Section 4.2 of the NLP 2024 and some actions that need to be implemented immediately: (i) Identified policy reforms in annexe 3.1 of NLP 2024 should be made time-bound; (ii) Immediate implementation National Single Window (NSW); (iii) Implement necessary steps to fulfil the commitment under the WTO Trade Facilitation Agreement; (iv) Enhance the capacity of land and seaports; (v) Expand the cold chain storage infrastructure; (vi) Launch container tracking system; (vii) Digitalise all clearance steps with visibility on waiting times and ASYCUDA performance; and (viii) Revise the Bangladesh Flag Vessels (Protection) Act, (ix) establish dedicated customs houses in the functional SEZs and EPZs.	13. Diversify exports within the RMG sector by increasing the production of apparel made from man-made fibres (MMF) and other natural fibres to align with global market trends.	14. Fully operationalise Tannery Estate Dhaka and develop policies, schemes, and supporting environment for attaining Leather Working Group (LWG) certification for the factories in the leather and leather goods sector.
Recommended Smooth Transition Measures	Improve trade logistics and trade facilitation measures by implementing the National Logistic Policy 2024	Strengthening the capacity of priority sectors for export diversification	

Means of Verification	-Personnel and technical capacity of the relevant authorities assessed -Number of training sessions conducted for judges, legal personnel, and IP office staff -Establishment of the IP court -Enhancement of the capacity of judiciaries services related to IP protection.	-WTO-compliant support measures identified -Support mechanisms devised and implemented -Existing WTO-compatible support measures enhanced.	-Outcomes of strategies and action plan are identified to track progress -Average annual productivity growth as targeted during 2021–31 achieved. -Number of new startups established and supported -Amount of funding and resources allocated to startup incubators and accelerators. -Success rate of startups in scaling up and achieving sustainability. -Number of women-led businesses registered and supported annually. -Impact assessments of initiatives aimed at supporting women's entrepreneurship. -Progress reports on the implementation of reforms and management strategies for state-owned enterprises.
Timeframe	July 2025-June 2028	July 2025-June 2026	July 2025- June 2030
Potential Role of Development Partners (DPs)	DPs	DPs	PPs
Responsible Agency (In Bold) and Supporting Agency(s)	MoLJPA, Mol, DPDT, Copyright Office, MoHA, MoCA, MoF, Industry associations	Moc, BB, BEPZA, Industry/exporters' associations	NPO, Mol, MoF, MoFECC, and other relevant ministries Mol, SME Foundation, BSCIC, BIDA, ICT Division, MoC, MoF, NBR, BB, Industry/exporters' associations
Specific Action(s)	15. Strengthen the capacity of the Department of Patent, Design, and Trademarks (DPDT) and the Copyright Office, establish a specialised IP court, and build the capacity of judiciaries, attorneys, lawyers, and legal enforcement agencies to ensure robust enforcement of intellectual property rights and effectively address infringement cases, particularly in the post-LDC graduation context.	16. Identify WTO-compliant export support measures, develop mechanisms for their effective implementation, and expand existing support measures that align with WTO regulations.	17. Effectively implement the strategies and actions in the Bangladesh National Productivity Masterplan FY2021-FY2030 and ensure the effective implementation of the National Industrial Policy 2022, with particular emphasis on specific development initiatives.
Recommended Smooth Transition Measures	Enforcement of intellectual property rights (IPR) and enhanced support for the relevant domestic industries	Developing and implementing WTO-compatible support measures to help exporters improve competitiveness	

FD, Mol, MoC, BB,
Industry/exporte associations
FD, Mol, BB, SMEF, NBR. Industry/exporters' associations
NSDA, DTE, BMET, BITAC, 16 ISCs, Industry/exporters' associations
FD, MoWCA, MoE, MoPME, NSDA, MoHFW, MoSW, DGHS, and other relevant ministries/agencies
BIDA, CAO, MOEFCC, Industry/exporters' Associations

Recommended Smooth Transition Measures	Specific Action(s)	Responsible Agency (In Bold) and Supporting Agency(s)	Potential Role of Development Partners (DPs)	Timeframe	Means of Verification
	23. Update the legal framework for corporate governance and international investment agreements with key trading partners, and establish commercial courts to streamline dispute resolution for foreign investors.	MLDA, BIDA, MoC, Cabinet Division, Law and Justise Division, Industry/exporters' associations	DPs	July 2025- December 2027	-Legal framework for corporate governance updated -Commercial courts for foreign investors established -Engagement in international investment treaties increased
	24. Consolidate all investment promotion agencies (BIDA, BEZA, BEPZA, and HTPA) under a single authority, enhance the investment regulatory environment with policy predictability, and focus on making 5–10 model SEZs and EPZs fully operational with necessary facilities, rather than pursuing 100.	CAO, BIDA, BEPZA, BEZA, Mol, MoC, BIDA, industry/exporters' associations	DPs	July 2025- June 2029	-One separate authorisation institution established -Regulatory impact assessment conducted, and policy predictability environment improved -The number of operationalised SEZs increased
Providing incentives, and undertaking investment promotional measures to attract more private investment (domestic and foreign)	25. Conduct investment promotion activities with the involvement of foreign missions, prioritising FDI in technologically advanced export-oriented sectors such as man-made fibre-based apparel, electronics, ICT, pharmaceuticals, chemicals, and renewable energy generation.	BIDA, MOFA, MoPEMR, Industry Associations, BPDB, Power division, MoEFCC MoC, Mol, industry/exporters' associations	DPs	July 2025- June 2029	 Number of campaigns and investment promotion activities Number of promotional activities in coordination with foreign mission FDI in technologically advanced sectors increased substantially Uninterrupted power supplies to industrial sectors ensured Share of renewable energy in total energy generation increased
Advancing green transformation for improved competitiveness and future-readiness, by increasing funds for green financing, reducing carbon emissions, and improving climate resilience	26. Undertake evidence-based research to identify areas and modalities of green financing; increase funds for green financing and develop a domestic carbon market policy.	BB, Mol, FID, Mol, MoC, MoFECC, Cabinet Division, MoFA	DPs	January 2025- December 2026	- Total funds for green financing increased -Assessment reports on green financing and investment published -Domestic carbon market policy approved and mechanism developed
Strengthen institutional capacity by undertaking capacity development initiatives, enhancing accountability and transparency of public institutions and agencies,	27. Leverage ICT in all public institutions and service delivery mechanisms and undertake capacity development programmes for government officials in all relevant ministries and agencies on LDC graduation-related issues and STS policy actions.	CAO, SSGP/ERD, ICT Division, a2i, Relevant ministries and agencies	DPs	July 2025-June 2028	- Number of capacity development initiatives undertaken -Expanded adoption of ICT in public service delivery

Means of Verification	nternational cooperation to enhance sustainable development and bolster resilience amidst global	-Completion of the mapping exercise -Number of countries provided additional transition periodImportant international agreements and conventions are effectively implementedProductive and supply side capacity improved -Financial and technical support for developing technological adaptation, infrastructure development, ICT advancement, human capital development, and skill enhancements increased	-Additional financial support for SDG implementation achievedProgress made against NDCs targets - Collaboration undertaken in NAP implementation -Funds for climate adaptation and mitigation increased - Adaptability of sustainable energy solutions expanded	-Rules-based WTO trading system strengthenedExtension of S&DT measures, and market access for graduated LDCs - TRIPS waiver extended for graduated LDCs - Increased participation of LDCs and graduated LDCs in WTO decision-making and world trade - Extended benefits in regional trade agreements extended.
Timeframe	velopment and bo	July 2025– Continuous	July 2025-June 2029	July 2025-June 2029
Potential Role of Development Partners (DPs)	sustainable de	DPs	DPs	DPs
Responsible Agency (In Bold) and Supporting Agency(s)	ooperation to enhance	ssgp/ErD, FD, MoFA and other relevant ministries	GED, ERD, MOFA, MoC FD, Mol, MoFECC, relevant ministries	MoFA, MoI, MoC, MoF and other relevant ministries
Specific Action(s)		28. Map development partners' interests in supporting STS implementation and mobilise financial and technical assistance to advance international conventions on human rights, labour rights, environmental protection, climate change, good governance, ESG compliance, and the development of productive capacities, particularly in technology adaptation, infrastructure, and human capital.	29. Address SDG achievement and climate financing needs, and secure financial and technical assistance in fulfilling the commitments under NDCs and in implementing the National Adaptation Plan of Bangladesh 2023-2050.	30. Strengthen rules-based, fair, and development-friendly multilateral trading systems and work with WTO members provide support for the graduated LDCs.
Recommended Smooth Transition Measures	Strategic Pillar 5: Fostering partnerships and i uncertainty	Mapping DPs interest in supporting the implementation of international conventions, negotiations for additional transition periods, and productive capacity development	Supporting SDG implementation for boosting LDC graduation- related preparedness and building resilience against climate change-related adversities	Support for strengthening the multilateral global trading system to promote a fair and development-friendly trade regime





Bangladesh graduates from the group of Least Developed Countries (LDCs)



- 9nd largest apparel exporter in the world
- th largest economy in the world (in terms of PPP)
- 22% manufacturing (higher than the world sverage)

Bangladesh's fulfilling to LDC graduation criteria (2012 vs 2024)











1.1 An overview of the remarkable socio-economic progress of Bangladesh leading to graduation from the group of least developed countries (LDCs)

Bangladesh is set to leave the group of least developed countries (LDCs) on 24 November 2026, marking a significant milestone in its pursuit of economic development. Sustained economic growth over the past three decades has transformed Bangladesh into a sizeable economy, with a per capita gross national income of approximately \$2,700 (Figure 1.1 & Table 1.1). ² This growth has also led to a significant reduction in poverty incidence. While in the early 1990s, over half of Bangladeshi households lived below the national poverty line, the corresponding proportion of the population had dropped to just 18.7 per cent by 2022 as per the estimates provided by the Bangladesh Bureau of Statistics (BBS) (Figure 1.2). Furthermore, compared to many other countries at a similar stage of development, Bangladesh is found to have made faster progress in various social and human development indicators, including health, demographics, and gender equality (Asadullah et al., 2014). For the period 1990-2021, Bangladesh was recognised as one of the countries with the fastest Human Development Index (HDI) progress in the world, with life expectancy at birth rising to 72 years from 56, expected years of schooling more than doubling from 5.8 to 12.4 years, and maternal mortality falling by 70 per cent, from 595 to 173 per 100,000 live births.³

Table 1.1: A snapshot of major socio-economic indicators of Bangladesh

Indicators	1990-91	1999-00	2015-16	2022-23
GDP (Current US\$ billions)	31.6	53.4	265.2	453.9
Annual GDP growth (%)	5.6	5.3	7.1	6.03
Per capita GDP (Current US\$)	294.9	413.1	1660.0	2657.5
GDP per capita, PPP (Current International US\$)	979.9	1574.3	4558.6	
Merchandise exports (current US\$ million)	1671.0	6,389.0	34,894.0	55,558.8
Merchandise imports (current US\$ million)	3618.0	8883.0	44,772.0	68,600.8
Merchandise exports (% of GDP)	5.3	12.0	13.2	12.2
Merchandise imports (% of GDP)	11.4	16.6	16.9	15.1
Services exports (BOP, Current US\$ million)	391.6	815.8	3540.6	

² Official estimates show the overall size of Bangladesh's GDP is about \$450 billion at the end of 2023-24. As of 2022, Bangladesh ranked as the 27th largest economy globally in terms of purchasing power parity (The World Factbook, 2024). The information on the size of the GDP amongst global economies is from the International Monetary Fund (IMF) as available at https://www.imf.org/external/datamapper/PPPSH@WEO/CHN/USA/JPN. It is worth noting that concerns have been raised about the GDP growth figures being overestimated in recent years (e.g., White Paper Committee, 2024), although official revised estimates are not yet available. Nevertheless, there appears to be a general consensus that, despite potential overestimation, the economy has likely grown at a modest pace. The GDP per capita as provisionally estimated by the Bangladesh Bureau of Statistics (BBS) at the end of 2022-23 was US\$2,657. This can be found at: https://bbs.portal.gov.bd/sites/default/files/files/bbs.portal.gov.bd/page/057b0f3b_a9e8_4fde_b3a6_6daec3853586/2023-05-16-10-44-dbee2f57222c72fc4695eeec11f317b0.pdf

³ Between 1990 and 2022, the overall HDI score of Bangladesh improved from 0.397 to 0.661. It is found that only China had greater corresponding improvements in the Asia-Pacific region over the same period. See Liller, S. (2023). "New directions for human development in Bangladesh", The Daily Star, December 15, 2023.

			2.	
Services exports (% of GDP)	1.2	1.5	1.3	
Total trade (% of GDP)	19.0	29.3	31.3	31.2
Remittance (% of GDP)	2.5	3.7	5.1	4.8
Foreign Reserve (including gold, million US\$)	659.6	1515.8	32,283.8	24,753.9
Exchange rate (BDT per USD, period average)	34.6	52.1	78.5	99.5
External debt stock (% of GNI)	38.1	28.3	15.0	21.3
FDI net inflows (% of GDP)	0.0	0.5	0.9	0.7
Net ODA received (% of GNI)	5.5	1.8	0.9	7.00
Inflation CPI (Annual %)	6.1	2.2	5.5	9.0
Population (million)	107.1	129.2	159.8	170.8
Poverty headcount ratio at \$2.15 a day (% of population)		33.3	13.5	
Poverty headcount at national poverty line (% of population)	56.6	48.9	24.3	
Average life expectancy at birth (total years)	56.0	65.8	71.1	72.4
Gross secondary school enrolment (%)	20.5	48.7	66.9	76.1
Access to electricity (% of population)		32.0	75.9	99.2
Mobile cellular subscription (per 100 people)	0.0	0.2	85.1	•••
Individuals using the Internet (% of population)	0.0	0.1	18.1	36.3

Source: Bangladesh Bureau of Statistics, BANBEIS, Economic Relations Division, Export Promotion Bureau, Ministry of Finance, and World Development Indicators.

10 8 GDP growth (%) 6 4 2 0 500 450 (\$ woilid) 900 300 250 250 150 100 50 0 1991-92 1992-93 1993-94 1994-95 96-5661 967-98

Figure 1.1: Bangladesh's GDP and its growth

Source: Data are from the Bangladesh Bureau of Statistics (BBS).

Note: GDP growth rates are measured in constant prices in taka. Because of a significant depreciation of BDT in 2022-23, when the GDP is measured in US dollars, it does not show any growth for that year. There are concerns regarding overestimation of GDP growth during the recent past political regime (e.g., White Paper Committee, 2024), though official revisions to these estimates are unavailable.

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56.6% 50.1% 48.9% 40.0% 31.5% 24.3% 18.7% 1991-92 1995-96 2000 2005 2010 2016 2022

Figure 1.2: Poverty headcount ratio (% of population)

Source: Household Income and Expenditure Survey (HIES) data, Bangladesh Bureau of Statistics (BBS).

Along with socio-economic development, the sectoral composition of outputs has also changed, in which the share of agriculture in GDP declined, from nearly 60 per cent in the early 1970s to just 11 per cent in 2022-23, while shares of the industrial and services sectors increased over time. The manufacturing value-added rose to about 22 per cent of GDP in 2022, higher than that of LDC and world averages (15 per cent and 16 per cent, respectively) (Figure 1.3).

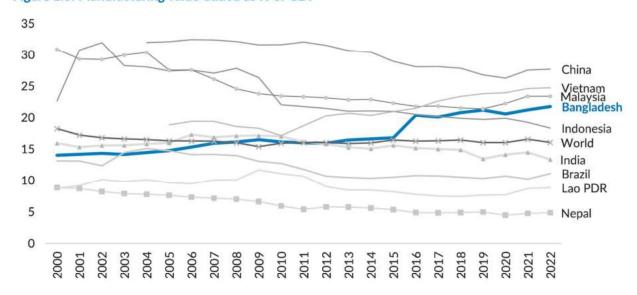


Figure 1.3: Manufacturing value-added as % of GDP

Source: Data are from the World Development Indicators (WDI), World Bank.

The impressive socio-economic progress and the development of the manufacturing sector have been hugely aided by the performance of its export sector as merchandise exports, almost singlehandedly driven by the readymade garment (RMG) or apparel industry, expanded from less than \$2 billion in 1990 to above \$43.5 billion in 2022-23 (Figure 1.4). This was a remarkable transformation in which manufacturing exports rose to dominate the export basket, reducing the dependence on primary products.

60.0 40% 50.0 30% 20% 40.0 US\$ billion 30.0 10% 20.0 0% 10.0 -10% 0.0 -20% 2009-10 2011-12 2013-14 2014-15 2015-16 2016-17 2018-19 2019-20 2006-07 2003-04 2004-05 2005-06 2007-08 2010-11 2012-13 2017-18 2008-09 ■ Total exports receipt growth ——Merchandise exports receipt ——Total exports receipt

Figure 1.4: Bangladesh's merchandise exports and total export receipts (US\$ billion) and growth (%)

Source: Export receipt data from Bangladesh Bank.

The expansion of RMG exports has generated massive employment opportunities, particularly for women. In the process, Bangladesh has emerged as the world's second-largest apparel exporter, capturing 10.5 per cent of the world export market (Figure 1.5). Currently, RMG and textile industries together represent over 70 per cent of formal manufacturing employment, contributing 55 per cent of the total value-added in domestic manufacturing.

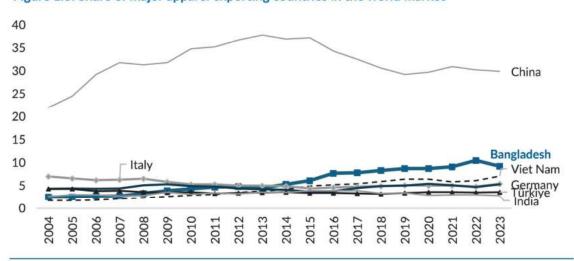


Figure 1.5: Share of major apparel exporting countries in the world market

Source: Data obtained from the International Trade Centre (ITC).

In 2015, Bangladesh made an important transition from a low-income to a lower-middle-income country as per the World Bank-defined classification of global economies. This was soon complemented by fulfilling the LDC graduation qualification for the first time in 2018–43 years after its inclusion in the group of LDC in 1975. Meeting all three criteria for graduation, namely per capita GNI, human assets index (HAI), and economic and environmental vulnerability index (EVI), was a significant accomplishment (Table 1.2).⁴ In 2021, Bangladesh once again met these criteria during the second consecutive triennial review by the United Nations Committee for Development Policy (UNCDP) and was recommended for graduation.⁵ The United Nations Economic and Social Council (ECOSOC) endorsed the committee's recommendation and considered a five-year transitional period necessary to effectively prepare for a smooth transition (ECOSOC resolution E/RES/2021/11).⁶ Finally, the United Nations General Assembly (UNGA) decided Bangladesh's graduation to be effective on 24 November 2026 (General Assembly resolution A/76/L.6/Rev.1). This achievement reflects Bangladesh's commendable socio-economic progress over several decades.

Table 1.2: Bangladesh's way to LDC graduation

Criteria	Thresholds	2012	2015	2018	2021	2024
Per capita GNI (US\$)	Inclusion	992	1,035	1,025	1,018	1,088
	Graduation	1,190	1,242	1,230	1,222	1,306
	Bangladesh	637	926	1,274	1,640	2,684
Human assets index (HAI)	Inclusion	60	60	60	60	60
	Graduation	66	66	66	66	66
	Bangladesh	54.7	63.8	72.8	75.3	77.5
Economic and	Inclusion	36	36	36	36	36
environmental vulnerability	Graduation	32	32	32	32	32
index (EVI)	Bangladesh	32.4	25.1	25.2	27.3	21.9

Source: ERD/SSGP project documents and UNDESA.

Note: GNI is calculated from national accounts data converted into USD using the World Bank Atlas method (to reduce the impact of short-term exchange rate fluctuations). GNI per capita is derived by dividing GNI in USD by the country's annual population. The HAI, a measure of the level of human capital, is composed of six indicators grouped into a health and education subindex, with each indicator carrying an equal weight of 1/6. The EVI is a measure of structural vulnerability to economic and environmental shocks. It is composed of eight indicators, grouped into an economic and environmental subindex, with each indicator carrying an equal weight of 1/8. A higher EVI represents a higher economic vulnerability; thus, only under this criterion will a graduating country require an EVI score lower than the threshold value.

⁴ To graduate from the LDC category, a country must meet development thresholds under at least two of the three predefined criteria (per capita income, human assets, and economic vulnerability) in two consecutive triennial reviews. Bangladesh achieved graduation qualification by satisfying all three thresholds. It is also noteworthy that there is a provision for the 'income-only' graduation rule, under which, if the three-year average per capita GNI of an LDC rises to at least three times the graduation threshold, the country would be eligible for graduation regardless of its situation under the other two criteria. Countries' inclusion in and graduation from the LDC group are assessed at triennial reviews conducted by the Committee for Development Policy (CDP) of the United Nations Economic and Social Council (ECOSOC). To be included in the category of LDCs, a country must satisfy all three criteria, and its population must not exceed 75 million. Therefore, once graduated, Bangladesh would never be able to return to the group. In any case, such a likelihood is not desirable.

⁵ Usually, the transition period is of three years. However, considering the challenges in the aftermath of the Covid-19 pandemic related period disruptions, longer transition https://documents.un.org/doc/undoc/gen/n21/070/41/pdf/n2107041.pdf?token=2DxzXLayY38RriPur9&fe=true 6 Usually, the transition period is of three years. However, the considering the challenges in the aftermath of the Covidpandemic related disruptions, slightly longer transition period considered. https://documents.un.org/doc/undoc/gen/n21/149/60/pdf/n2114960.pdf?token=tvTJP8ji8j4txFoSYy&fe=true

After the graduation decision in 2021, the UNCDP conducted its usual triennial review in 2024, which confirmed that Bangladesh continued to meet all the graduation criteria. In 2024, Bangladesh's GNI per capita stood at \$2,684, compared to the corresponding LDC average of \$1,307. Bangladesh's HAI score of 77.5 was significantly above the LDC average of 59.6 and largely comparable with the developing country average of 88.0. In EVI, Bangladesh, with a score of 21.9, outperformed both the group of LDCs (with an average score of 40.6) and developing countries (with an average score of 31.9).7

1.2 Building on success and transforming challenges into opportunities while navigating the post-LDC landscape

Graduation from the LDC category reflects Bangladesh's significant socio-economic progress, which has been recognised globally. However, this milestone also brings certain challenges. As LDCs graduate, they forfeit access to international support measures tied to their status, including trade preferences under World Trade Organization (WTO) rules, special and differential treatment (S&DT), concessional development financing, and travel-related support. While graduation symbolises enhanced self-reliance and economic resilience, it also entails the withdrawal of these critical support mechanisms, posing new adjustment challenges for the economy.

For Bangladesh, the most important change that LDC graduation is likely to bring will be associated with preferential market access for exporters. Within the set of LDC-related privileges, Bangladesh has primarily benefited from unilateral trade preferences granted by many developed and developing countries under their respective Generalised System of Preferences (GSP) schemes. Bangladesh's readymade garments (RMG) sector has prospered globally, particularly in the European Union (EU), taking advantage of the EU's Everything But Arms (EBA) facility, designed for LDCs. In close to 50 countries, Bangladesh has received LDC-related benefits.8

Another critical aspect of LDC graduation is the potential reduction in policy space to support export-oriented and domestic sectors. WTO members generally refrain from raising concerns or lodging official complaints against the policy support measures of LDCs, even when such measures might otherwise be considered inconsistent with international trade rules and regulations. However, graduation from LDC status is likely to subject these measures to closer scrutiny to ensure compliance. For instance, providing direct export subsidies will no longer be permissible under WTO provisions. Similarly, like other graduated countries, Bangladesh will be expected to implement stronger intellectual property protections, which could limit some of the policy flexibilities currently available. Notably, Bangladesh's pharmaceutical sector has flourished under

⁷ The information on comparative performance of Bangladesh vis-à-vis LDCs and the developing countries can be found at https://www.un.org/development/desa/dpad/least-developed-country-category-bangladesh.html.

⁸ These include EU27 countries and the United Kingdom, Australia, Armenia, Canada, Chile, China, Iceland, India, Japan, Kazakhstan, Kyrgyz Republic, New Zealand, Norway, Rep. of Korea, Russian Federation, Switzerland, Taiwan (Chinese Taipei), Thailand, and Turkey. The United States is only the major global economy where Bangladesh does not receive any LDC-related trade preferences.

the flexibilities granted to LDCs under the WTO's Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS).9

LDC graduation necessitates adjustments but also offers an opportunity to transition from a trade preference-dependent and low-wage driven export growth model. By shifting the focus towards competitiveness, innovation, and quality rather than solely relying on price competitiveness, the post-graduation transformation of the country should prioritise export diversification, moving into more sophisticated products, standards, compliance, and environmental sustainability. This approach will ensure sustainable growth, a modern economy, and a knowledge-based society aligned with international benchmarks. Bangladesh's LDC graduation thus presents a "not-to-bemissed" opportunity to accelerate much-needed economic reforms to boost export competitiveness and diversification. To achieve this, the country must address policy barriers and improve implementation measures. Numerous studies highlight massive export potential, and renewed policy commitments backed by effective action plans can unlock it.

Compliance with global rules and competition requires robust institutions, modern technology, and skilled labour. These efforts enhance productive capacity and prepare the economy for future challenges. By investing in these areas, Bangladesh can create a resilient, competitive, and internationally aligned economy, fostering sustainable growth.

As an LDC, Bangladesh has had access to the unilateral trade preferences of many countries, and consequently, it was not rational to undertake trade deals based on reciprocity. This, however, has also resulted in limited negotiation capacities and learning opportunities in dealing with trade negotiation objectives while managing effective trade policy mechanisms. There are now opportunities for developing negotiating capacities. Along with negotiation challenges, policy capability will have to be enhanced with respect to adjusting tariffs, dealing with any consequent loss of revenues, and offering measured and effective protection to domestic sectors while pursuing reciprocity-based trading arrangements. These are critical factors for longstanding trade policy issues that will inevitably impact the long-term competitive strength of the economy after LDC graduation.

LDC graduation should also be a catalyst for robustly confronting and overcoming the muchdiscussed high cost of doing business in the country, boosting external competitiveness. Inadequate infrastructure, inefficient transport and logistics, and complex customs procedures lead to longer lead times and higher costs. While progress has been made in expanding access to electricity and large-scale infrastructure projects, further improvements in investment climate indicators such as expanded energy needs, streamlined and efficient administrative procedures in dealing with licensing and customs clearances, accessing serviced land and declared benefits for investors, and exporters, tax payments, contract enforcement, and strengthening institutions for

⁹ As an LDC, Bangladesh has enjoyed the privilege of manufacturing and exporting patented drugs and supporting the domestic pharmaceutical sector with an intellectual property rights regime that may not be in conformity with that of the WTO. After graduation, the policy regime will have to be compatible with the WTO system. Detailed discussions on these issues are covered in Chapter 2 of this document.

trade and industry are essential. Any improvement in the business climate and progress in reducing the cost of doing business can greatly help recoup a part or even more than outweighing lost trade preferences.

It is essential to recognise that the Bangladesh economy currently faces serious macroeconomic challenges stemming from policy mismanagement and deeply entrenched governance failures under an authoritarian regime. These challenges include a sharp decline in foreign exchange reserves, persistently high inflation, the severely deteriorated state of the banking sectorexacerbated by rising non-performing loans, financial misappropriation, and fraud, and weak domestic resource mobilisation. The political transition since early August 2024 marks a pivotal moment, bringing renewed efforts to stabilise the economy and initiate critical reforms. These reforms aim to strengthen economic governance, restore macroeconomic stability, and enhance external competitiveness to position Bangladesh more effectively in the global economy. Importantly, these initiatives are unfolding at a critical juncture as the country prepares for graduation from LDC status, underscoring the urgency of addressing structural weaknesses to ensure a smooth and sustainable transition.

As Bangladesh moves towards LDC graduation, its trade and investment patterns are expected to undergo significant transformations, shaped by rising geopolitical tensions and a weakened multilateral trading system. This evolving global environment presents both opportunities and challenges for Bangladesh in attracting investments and expanding its role in international trade. The shifting dynamics of regional and global trade flows, particularly with the economic rise of powerhouses like China and India, offer strategic opportunities for Bangladesh to capitalise on emerging trends. However, navigating bilateral relations amidst intensifying geopolitical competition remains a pressing concern. To safeguard its economic interests, Bangladesh must employ effective diplomacy and implement strategic economic policies that address these complexities.

At the same time, Bangladesh faces the dual challenge of adapting to disruptive technological advancements-such as Industry 4.0 and artificial intelligence-and addressing the impacts of climate change and energy transition. Leveraging cutting-edge technologies can enhance productivity and economic growth, positioning Bangladesh more competitively in the global economy. However, mitigating the adverse effects of climate change will require significant investments in sustainable energy solutions and resilient infrastructure. The shift towards renewable energy is becoming increasingly critical for maintaining external competitiveness. In this new phase of development, embracing technological innovation alongside environmental sustainability will be essential for Bangladesh's continued progress.

LDC graduation poses an opportunity to effectively deal with many longstanding challenges to facilitate the next phase of structural transformation in the economy. These challenges include a low tax-GDP ratio leading to limited public investment in health, education, and social protection; weak banking sector governance; lack of export diversification; high tariff protection causing perverse export incentives; limited FDI inflow; inadequate skill development and employment

opportunities; etc. In summary, Bangladesh's graduation presents a chance to enhance resilience, and competitiveness, and explore new growth avenues. By addressing immediate challenges and enacting strategic policies, Bangladesh can emerge as a stronger, more dynamic global economy.

1.3 Smooth Transition Strategy (STS): Principles, Approaches, and Process

1.3.1 Principles

- Sustaining political commitment. The impending LDC graduation has spurred a broadbased awareness in Bangladesh. A country-led preparatory process has been in place to actively research, consult, and develop strategies to mitigate graduation impacts and maintain competitiveness. In the process, numerous studies and analyses and their dissemination have been undertaken, wide-ranging stakeholder consultations have taken place, based on which it is important to sustain the political commitment and a broad-based engagement of all stakeholders, an open, inclusive, participatory and transparent consultative process will be continued. Throughout the process, numerous studies and analyses have been conducted and disseminated, accompanied by wide-ranging stakeholder consultations. Building on these efforts, it is crucial to sustain political commitment and ensure broad-based engagement of all stakeholders. To achieve this, an open, inclusive, participatory, and transparent consultative process will be maintained. The recent political shifts present a unique opportunity for facilitating Bangladesh's transition beyond LDC status. This new political context is likely to attract increased support from international partners, particularly Bangladesh's major trading partners. Such support could play a pivotal role in fostering political commitment and domestic consensus for implementing the necessary reform measures to drive economic transformation. These policy reform initiatives have the potential to enhance Bangladesh's credibility on the global stage, attract greater foreign investment, and facilitate smoother negotiations for trade agreements.
- Aligning with long-term development goals: The smooth graduation from LDC status is a top national priority for Bangladesh. The preparation of the STS recognises that, unlike many other LDCs, Bangladesh has uniquely leveraged international support measures, and their discontinuation may present significant challenges. In response, the strategy thoroughly examines policies and interventions needed to mitigate potential adverse impacts and ensure a seamless transition.
- The STS is also closely aligned with Bangladesh's pursuit of the Sustainable Development Goals (SDGs), recognising that successful graduation requires building the capacities to overcome inherent challenges while advancing SDG objectives. These objectives include sustaining economic growth, eradicating poverty, improving health and education outcomes, promoting gender equality, fostering decent work, strengthening global partnerships, and addressing climate change. The path to LDC graduation, therefore, serves as a catalyst for achieving the SDGs, ensuring that developmental momentum is maintained and global development progress is furthered. A smooth transition, rooted in

comprehensive and inclusive development, aligns with the ethos of the SDGs. Conversely, failure to address the challenges associated with LDC graduation risks impeding further progress and undermining the achievement of SDG targets.

1.3.2 Approach and Process

Approach: The STS for Bangladesh's graduation from the LDC status adopts a voluntary, countryled approach. It considers various graduation challenges, capacities, and developmental levels specific to Bangladesh while considering the relevant policy space and priorities. It emphasises openness, inclusivity, participation, and transparency to engage all stakeholders effectively. The STS approach strikes a balance between addressing immediate graduation challenges and maintaining a long-term perspective. It informs policy measures and actions to ensure a smooth transition during Bangladesh's graduation process.

Process: The STS in Bangladesh significantly benefits from a comprehensive preparation process. Initially, this involved consecutive Triennial Reviews of the UN CDP, the preparation of the ex-ante assessment by UN DESA and the vulnerability profiles report by UNCTAD, and the conduct of numerous rigorous analytical studies undertaken by various government ministries, departments, think tanks and development partners. Numerous consultation exercises have been conducted by various government entities, most prominently by the ERD, Ministry of Finance, Ministry of Commerce, and business associations and civil society organisations on LDC graduation-related issues. Inputs from this country-led process were used to draft this STS.

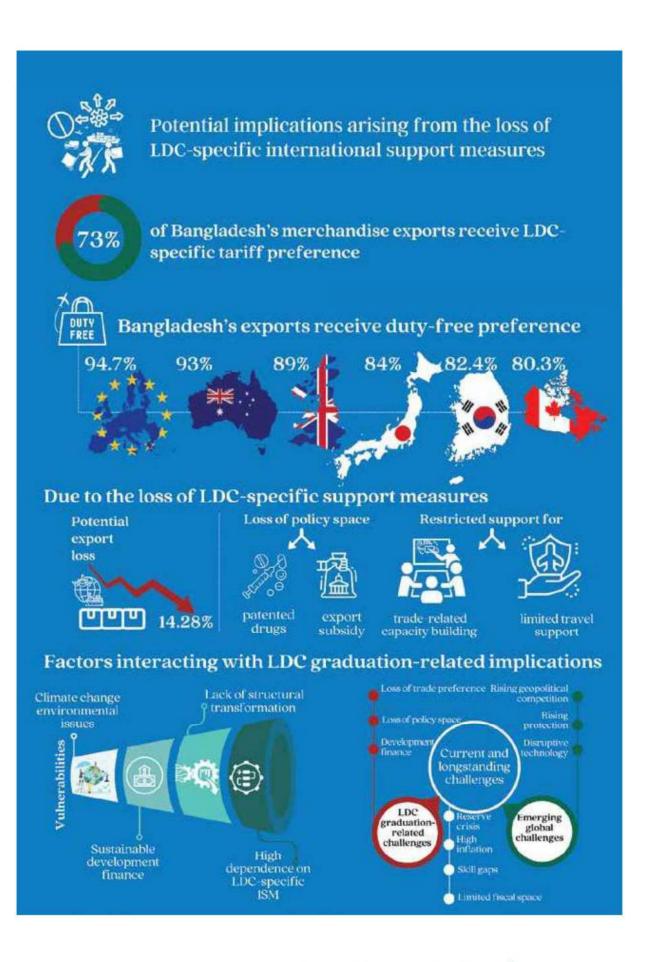
An extensive review of relevant plan documents, policies, strategies, studies, and analyses on Bangladesh was conducted, yielding approximately 900 recommended policy measures and actions. From this, 650 targeted actions were initially selected in the early stages of the STS process and further prioritised based on two key criteria: (i) recommendations or measures that address the immediate adverse effects of LDC graduation and (ii) those that promote long-term structural economic transformation in line with the STS vision outlined in Chapter 3, for the period 2025 to 2031.

To refine these measures, two rounds of consultative workshops were held to discuss the scope of the STS and identify priority recommendations and policy actions. A technical workshop on 9 June 2024 undertook a comprehensive review of the proposed actions, highlighting the importance of narrowing down measures to ensure a more focused and effective STS. This was followed by a high-level dialogue on 26 June 2024, where further deliberations took place regarding the scope and priorities of the proposed action measures.

Additional consultations were conducted with various ministries, government agencies, civil society organisations, think tanks, academia, private sector associations, and development and trading partners, including United Nations organisations, to further refine the recommendations. These extensive efforts culminated in a revised final draft of the STS, which was presented and discussed at a national validation workshop on 24 November 2024. Feedback and comments from this workshop were carefully reviewed and appropriately incorporated into the final document.

Chapter II

Potential Implications Arising from the Loss of LDC-specific International Support Measures



Bangladesh has substantially reaped the benefit from the LDC-specific International Support Measures (ISMs). These include trade and development partners' special attention and commitments to support LDCs with trade preferences, flexibility in undertaking commitments in multilateral and regional trade agreements, reduced contributions to international organisations, concessional development finance, and other technical assistance. The WTO has not only legitimised its members offering unilateral preferential market access to LDCs but also provided favourable conditions and flexibility for this group of countries in implementing and enforcing international trade rules and regulations. In many instances, LDCs have been accorded privileges associated with not undertaking any new commitments of trade liberalisation. However, the mere existence of LDC-ISMs does not automatically ensure that countries can derive benefits from them. The extent to which these measures translate into tangible outcomes depends on several factors, including a conducive policy environment, the structure of the economy, existing productive capacities, comparative advantages, and absorptive capacities for utilising financial and technical assistance significantly influence a country's ability to effectively utilise these support measures in a commercially meaningful way. Bangladesh is widely acknowledged as one of the primary beneficiaries of LDC-specific ISMs, particularly in the area of trade. Consequently, the cessation of these benefits following graduation from LDC status may have a disproportionate impact, necessitating a cautious and comprehensive approach to understanding the implications arising from the discontinuation of ISMs. The implications of discontinuing ISMs must be considered alongside other vulnerabilities and emerging challenges faced by graduating countries. UNCTAD conducts a vulnerability profile assessment of LDCs, which can be supplemented by other major emerging and longstanding issues affecting the economy, as reflected in national plan documents and other studies. Additionally, unfolding global economic trends pose significant challenges. The recent series of unfavourable global events have subjected previously accepted norms of international trade and globalisation to scrutiny, potentially affecting trade-led development prospects. Key concerns include global trade slowdown, faltering global economic recovery, rising economic protectionism, uncertainties surrounding the multilateral trading system, growing geo-political rivalry, and the impact of technological progress on employment.

2.1 Trade-related ISMs

Most of the ISMs for LDCs are trade-related, and these measures have been extremely helpful for Bangladesh, especially in expanding the export of readymade garments. LDC-specific trade measures, the benefits of which would either cease to exist or could be limited after LDC graduation, include (i) preferential market access primarily for goods, including special treatment under regional agreements; (ii) special and differential treatment under WTO agreements; and (iii) capacity building, training, and technical assistance related to trade.

2.1.1 Preferential market access for trade in goods

Most developed and several developing countries provide either full or nearly full duty-free and quota-free (DFQF) market access to LDCs (UNDESA, 2020c; WTO, 2021b), along with offering less stringent rules of origin requirements for accessing the available preferences. In most developed country markets, former LDCs, after graduation, have access to standard GSP schemes and, for products outside these schemes, export under the most favoured nation (MFN) tariff or any relevant regional or bilateral agreements. In developing country markets, former LDCs export under MFN tariffs or relevant regional or bilateral agreements. The effects of losing LDC-specific schemes vary depending on (i) the graduating country's export products, (ii) their export destinations, (iii) the market access schemes available before and after graduation in each destination, and (iv) the extent to which exporters utilise these preferential schemes. Graduation does not affect exports of products and services that are not covered by LDC-specific preferences, exports to markets that do not offer LDC-specific preferences, exports to markets where the country enjoys equivalent or superior market access through bilateral, or regional agreements or exports that do not use the available preferences for any reason, such as high compliance costs.

Woven garment (HS62)
38%

Footwear (HS 64)
2%
Jute (HS 53)
2%

Headgear (HS 65)
Fish (HS 03) 1%
1%

Others
8%

Figure 2.1: Bangladesh's merchandise export composition, 2022-23

Source: EPB (2024).

Considering Bangladesh's heavy reliance on apparel products for export earnings, any evaluation of the post-graduation implications will be significantly determined by the potential effects on this sector (Figure 2.1). Leather and leather goods, along with frozen fish and shrimp, are other sectors where there could be a modest impact. As 45 per cent of Bangladesh's exports are destined for the EU, which also provides generous LDC preferences, the overall post-graduation implications for Bangladesh will critically depend on how Bangladesh faces tariffs in this market (Figure 2.2). Apart from the EU, the UK, Canada, India, Japan, Australia, and China are major markets that also offer LDC-specific preferences. The US is the single largest export destination, but it does not offer any trade preferences for Bangladesh's exporters.

Korea, Republic of Netherlands 3.8% 1.1% China Australia 2.3% France Italy Canada 4.3% 3.1% Spain 6.6% Japan Poland 3.4% 45.5% 3.3% United Kingdom 9.6% India Germany 3.8% 12.7% Denmark Other EU 2.4% 4.7% Sweden **United States** 1.7%

Figure 2.2: Bangladesh's main export destinations for 2022-23 (in percentage)

Source: EPB (2024).

2.1.2 LDC graduation-related changes in major markets of Bangladesh

European Union: Bangladesh's exports to the EU are currently governed by the EU's most generous market access scheme, which is exclusively for LDCs—Everything But Arms (EBA). The other two schemes under the EU's GSP include a general arrangement (known as standard GSP) and a special incentive arrangement for sustainable development and good governance (GSP+). The EU provides an additional three-year transition period after graduation, which means Bangladesh will continue to access the same EBA facilities until almost the end of November 2029.

The current GSP system of the EU was supposed to expire in December 2023 and be replaced by a new regime for 2024-2034, a draft framework with specified rules, regulations, and condition accessibility being available, but its enactment was then deferred until the end of 2027 pending the ratification and adoption by the EU Parliament and Council.¹⁰ Under current EU regulations, also reflected in the draft framework of the upcoming regime, Bangladesh would be eligible for only standard GSP until it becomes an upper middle-income country as per the World Bank's classification of global economies.

¹⁰ Through a resolution in July 2023, the EU Parliament extended the currently existing EU GSP scheme until 31 December 2027. https://www.europarl.europa.eu/doceo/document/INTA-PR-751608_EN.pdf

Table 2.1: Tariff rates in major exporting products under different schemes

Country	Duty Type	HS 03: Fish	HS 42 & HS 43: Leather goods	HS 53: Jute and Jute Goods	HS 61: Knitwear garment	HS 62: Woven garment	HS 63: Home textile	HS 64 Footwear*	HS 6403 Leather Footwear
Canada	MFN	0.7	6.1	0	16.8	15.6	15.5	12	12.9
	GPT	0.5	4	0	16.5	15.1	14.2	9.9	12.9
	LDC	0	0	0	0	0	0	0	0
China	MFN	7.1	11.5	6.1	6.8	6.6	6	8.6	9.4
	APTA	6.1	10.1	5.3	4.7	5.1	5.9	4.7	9.2
	LDC	0	0	0	0	0	0	0	0
EU	MFN	11.3	3	3.6	11.7	11.4	10	10.6	7.8
	Standard GSP	6.9	0.4	2.8	9.3	9.1	8	6.4	4.3
	GSP+	0	0	0	0	0	0	0	0
	EBA	0	0	0	0	0	0	0	0
India	MFN	30	12	11.3	19.5	20	11.1	30.3	35
	SAFTA	4.9	6.5	4.7	15.8	19.4	6.3	23.9	11.78
	APTA	4.6	11.9	11.3	19.5	20	11.1	30.3	35
	SAFTA LDC	0.1	0	0	0	0	0	0	0
Japan	MFN	5.8	11.5	3.4	8.7	9.3	5.7	15.3	23.9
	GSP	5.7	11.3	1.4	8.2	8.8	3.2	15.3	23.9
	LDC	2	4.4	0	0	0	0.1	6.3	0
Republic	MFN	16.4	9.6	4.8	12.6	12.4	11.4	10.5	13
of Korea	APTA	16.3	8.6	3.7	12.2	10.5	11.2	8	12.3
	LDC	9.3	0	0	0	0.3	0	0	0
UK	MFN	10.9	2.2	1	11.6	11.4	9.8	9	7.7
	SP	6.6	0.3	0.8	9.3	9.1	7.8	6.4	4.2
	EP	0	0	0	0	0	0	0	0
	CP	0	0	0	0	0	0	0	0

Source: Calculation based on WITS tariff data (World Bank, n.d.).

Notes: Only ad valorem tariff rates were considered. Estimation is based on simple average. *Excluding HS 6403. APTA = Asia-Pacific Trade Agreement, CP = Comprehensive Preference, EBA = Everything but Arms, EP = Enhanced Preference, GPT = General Preferential Tariff, GSP = Generalized System of Preferences, LDC = Least Developed Countries, MFN = Most Favoured Nation, SAFTA = South Asian Free Trade Area, SP = Standard Preference

Under Standard GSP, a beneficiary country moving from EBA to standard GSP will experience a significant rise in tariffs (though lower than the MFN rates), having to comply with more stringent rules of origin even for a lower margin of preference. For example, against the MFN tariff rate on fish is 11.3 per cent, standard GSP offers 6.9 per cent; for garments, standard GSP tariff rates are over 9 per cent in comparison with more than 11 per cent under MFN provisions; for leather footwear, the MFN rate is 7.8 per cent, which is reduced to 4.3 per cent under Standard GSP (Table 2.1).¹¹

However, in order to qualify for GSP+, which is the next most attractive trade preference scheme after EBA, offering duty-free access to 66 per cent of all EU tariff lines (including sensitive products

¹¹ Standard GSP beneficiaries are, however, subject to safeguard measures kept for textiles and agricultural products. These provisions, if not amended, will not let Bangladesh enjoy duty-free market access in apparel items, as mentioned later in this section.

such as textiles and clothing items), Bangladesh must meet two criteria: vulnerability criteria and sustainable development criteria. The vulnerability criterion requires the eligible country to have a non-diversified economy, where the country's seven largest sections of GSP-covered imports account for more than 75 per cent of its total GSP-covered imports to the European Union over the past three consecutive years. This is based on the provisions included in the draft regulations of the upcoming EU GSP regime, which has now been deferred until the end of 2027. The proposed GSP scheme removes the import-share condition from the GSP+ vulnerability criterion. The removal of the import share criterion will help Bangladesh qualify for the GSP+ scheme if the other criterion is met. However, safeguard measures built into the EU GSP scheme, if unchanged, will not let Bangladesh continue with duty-free market access to clothing products. On the sustainable development criterion, a beneficiary country is required to ratify and effectively implement 32 international agreements and conventions related to human rights, labour rights, environmental protection, climate change, and good governance. ¹³

Table 2.2: Comparison between existing and post-LDC trade preferences in major export destinations

Market	Curre	nt schemes for LDCs	Post graduation changes	
	Scheme	Tariff concessions and Rules of origin requirements	Scheme	Tariff concession and rules of origin
Canada	LDCT	-DFQF - Minimum 20% VA in general -25% VA for apparel and textile	GPT	 -Major exporting products (such as garments and footwear) from Bangladesh will face tariff rate of 16 to 18% -Minimum 60% value addition (VA) requirements for any available tariff preferences
			GPT Plus	-With effect from 2025.
China	Duty-free treatment for LDC	-99% of products cover zero-duty tariff - General: 40% or CTH VA -Regional Cumulation: 50% VA	АРТА	-Tariff concession for 2,191, with the margin of preference (MoP) being just about 33% of MFN tariffsFor rest of the products, the full MFN tariff rate is applicableGeneral rules of origin (RoO): 45% VA -RoO under regional cumulation: 60% VA
European Union	Everything But Arms (EBA)	-DFQF -30% minimum VA -Single-stage transformation required for clothing	GSP Plus	-Zero tariff for 66% of EU tariff lines. Textiles and clothing items are generally allowed duty-free but subject to safeguard clauses that do not offer any tariff preference for Bangladesh -50% minimum VA -Double-stage transformation for clothing (if any tariff preference is to be used)
			Standard GSP	-Duty concession and reduction for 66% of tariff lines. Such preferences for textile and clothing items are subject to safeguard clauses, restricting such benefits for Bangladesh50% minimum VA

¹² This 66 per cent preferential duty-free tariff lines, exclude MFN with zero tariff line.

¹³ The new proposals update the Sustainable Development Criterion by expanding the list of international conventions to 32 (from the current list of 27). The new international conventions and agreements added to the GSP list include, the Paris Agreement on climate change 2015 (replacing the Kyoto Protocol); the Convention on the Rights of Persons with Disabilities (CRPD); the Optional Protocol to the Convention on the Rights of the Child on the Involvement of Children in Armed Conflict (OP-CRC-AC); ILO Convention No 81 on Labour Inspection; ILO Convention No 144 on Tripartite Consultation; and the UN Convention against Transnational Organized Crime.

				-Double-stage transformation for clothing
India	SAFTA LDC ¹⁴	-DFQF for all products except 25 sensitive products -RoO: 30% VA	SAFTA and APTA	-Low margin of preference -No tariff preference for 614 sensitive products -RoO: 40% VA -RoO under regional cumulation: CTH+ 50% VA
Japan	GSP for LDC	-DFQF for 98.2% of tariff line -Sufficient transformation resulting in a different product under HS tariff heading 4 digits.	Standard GSP	-Duty concession for limited range of products -Most exports under HS 61 and HS62 are not covered in the GSP -Sufficient transformation resulting in a different product under HS tariff heading 4 digits.
Republic of Korea	GSP for LDC	-DFQF for 95% of tariff line -RoO: General: 40% VA	APTA	-Tariff concession available for only 2560 products -General RoO: 45% VA -RoO under regional cumulation: 60% VA
United Kingdom	Comprehensive preference	DFQF for all products except arms and ammunition -RoO: -General 25% VA -For clothing: Single stage transformation	Enhanced preference	-92% of tariff lines get zero tariff preference -General RoO: 50% VA -For clothing: Double stage transformation
			Standard preference	-65% of tariff line gets zero tariff preference RoO: -General: 50% VA -For clothing: Double stage transformation

Source: Compiled from UNDESA (2020c), Razzaque et al. (2020), Foreign, Commonwealth & Development Office and Department for Business and Trade (2023), GED (2020b).

Note: CTH= Change in Tariff Heading, RC = Regional Cumulation, VA= Value Addition

Bangladesh fulfils the vulnerability criterion, as the seven largest sections of GSP-covered imports account for more than 75 per cent of its total GSP-covered imports to the EU. Bangladesh has also ratified the relevant conventions, and efforts are being made to implement them. Even if the graduating Bangladesh is included in GSP+ upon complying with international conventions, apparel exports—as per the provisions set out in the draft EU GSP Scheme for the coming decade—will likely be subject to EU safeguard measures, resulting in exclusion from any preferential treatment. According to EU provisions on "Safeguards in the Textile, Agriculture, and Fisheries Sectors" (Article 29 of the proposed EU GSP), clothing products from a GSP+ beneficiary will not receive preferential access if the share of the relevant products is above 6 per cent of total EU imports of the same products and exceeds the product graduation threshold during a calendar year. The safeguard mechanism on these products will not apply to EBA recipients nor other GSP recipient countries with a proportion of relevant products that do not exceed 6 per cent of total EU imports of the same products (Article 29, paragraph 2 of the proposed EU GSP 2024-34).

Bangladesh's current apparel exports (defined under GSP section S-11b) are well above the 6 per cent market share threshold in the EU. Under such circumstances, the share of those products as a percentage of EU GSP-covered imports of the same products cannot be more than 37 per cent for receiving any tariff preference. However, a study suggests that the relevant share of Bangladesh is almost half of all GSP-covered clothing imports into the EU (Razzaque & Rahman, 2022). As a result, if the proposed GSP rules are not changed, Bangladesh would be in a unique position to

¹⁴ India's GSP for LDCs, known as the Duty-Free Tariff Preference (DFTP) scheme, covers approximately 11,260 products. In comparison, the SAFTA LDC scheme encompasses around 11,513 products. Notably, all products included in the DFTP are also covered under the SAFTA LDC scheme.

Bangladesh Smooth Transition Strategy

qualify for GSP+, but its clothing items (S-11b) will be ineligible for any preference and end up paying MFN duty. In this case, Bangladesh's clothing exports to the EU, which comprise more than 90 per cent of exports to this market, will face tariffs of over 11 per cent against the current zero-duty facilities under EBA (Table 2.2). For other items, Bangladesh may be able to access GSP+ tariff preference.

Accessing any GSP preference after LDC graduation will be accompanied by more stringent rules of origin. For non-apparel items, a 50 per cent domestic value addition will be required, while for apparel—assuming the safeguard measures discussed above are amended—a double-stage transformation will be necessary. Bangladesh has developed sufficient backward linkage capacities (spinning) in knitwear products. However, woven garments continue to rely mostly on imported fabrics, which can be a constraining factor in fulfilling Rules of Origin (RoO) obligations. Moreover, if the safeguard provisions of the EU GSP regime remain unchanged, excluding Bangladesh's apparel exports from any tariff preferences after graduation, the need to comply with RoO provisions becomes redundant. It should also be noted that all GSP facilities, such as EBA, Standard GSP, and GSP+ can be temporarily withdrawn by the EU if it views serious and systematic violations by the beneficiaries of the principles laid down in human rights and labour rights conventions.

While tariff hikes are anticipated for Bangladesh after its LDC graduation, other countries, through free trade agreements (FTAs), could gain further competitiveness, especially in Bangladesh's largest export market, the EU (Figure 2.3). For instance, Viet Nam—already a top apparel exporter—now has an FTA with the EU, which entered into force in August 2020. Viet Nam will see tariffs on its clothing exports to the EU gradually decline from the current average of 9 per cent to eventually zero approximately at the same time when Bangladesh, following its official graduation, will complete its additional three-year transition period (in 2029) in the EU.¹⁵ If Bangladesh is eventually subject to EU safeguard measures, its apparel exports to the EU will see the average tariff rising from the current zero to around 11 per cent (Table 2.3). This striking change in market access conditions vis-à-vis Viet Nam could cause severe trade diversion for Bangladesh, making the latter much less competitive.¹⁶

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¹⁵ Among these, the RoO requirements under the European Union-Viet Nam FTA require the Vietnamese exporters to fulfil double transformation. This means exporters have to use domestically produced yarn in knitwear and locally-manufactured fabrics in woven garment making. Viet Nam's textile and garment exports to the EU face significant non-tariff measures (NTMs), including stringent rules of origin (RoO) requirements, import quotas, anti-dumping measures, safety regulations, social responsibility standards (SA 8000), chemical registration requirements (REACH), environmental regulations, quality standards (ISO), and labelling requirements. These NTMs pose considerable challenges, and as a result, Viet Nam's competitiveness in the EU market remains moderate despite the advantages provided by the FTA. Notably, the RoO requirements under the European Union-Viet Nam FTA mandate a double transformation process. This requires Vietnamese exporters to use domestically produced yarn for knitwear and locally manufactured fabrics for woven garments to be eligible for duty-free market access in the EU.

¹⁶ Even when graduating LDCs can retain duty-free access under GSP+, such FTA arrangements will cause preference erosion. Pakistan, which has access to GSP+ and is a major cotton producer; and Indonesia and India, which are major apparel supplying countries, are currently negotiating FTAs with the EU. Competition will also emerge from garment exporting African LDCs, such as Ethiopia, Lesotho, and Madagascar, which have access not only to the EU EBA scheme, but also to AGOA, which grants duty-free treatment for garments entering the USA.

14
12
10
8
8
8
4
2
0
2020 2021 2022 2023 2024 2025 2026 2027 2028 2029 2030 2031

Figure 2.3: EU tariffs on apparel: Viet Nam under its FTA with the EU vis-à-vis Bangladesh graduating out of LDCs

Source: Razzaque & Rahman (2022).

United Kingdom: The UK's GSP regime, Developing Countries Trade Schemes (DCTS), provides GSP benefits under three tiers: Comprehensive Preferences reserved for LDCs, enhanced preferences for non-LDC low-income (LIC) and lower-middle income (LMIC) economically vulnerable countries, and standard preferences for a few other countries. After LDC graduation, Bangladesh will be able to retain the same comprehensive preferences for an additional three years until November 2029, when it will qualify for enhanced preferences. A non-LDC LMIC with receipts from the seven largest predefined broad categories of goods constituting more than 75 per cent of its total exports to the UK will be considered economically vulnerable and eligible for receiving benefits of Enhanced Preferences. As apparel products alone account for more than 90 per cent of its UK-bound exports, Bangladesh is almost certain to qualify for this status (Razzaque, 2022). A beneficiary who becomes an upper-middle-income country for three consecutive years will not receive any benefits from the DCTS.

Under the UK-DCTS enhanced preferences, Bangladesh will get duty-free market access in more than 92 per cent of UK tariff lines, including apparel products, with no provision of safeguard measures, unlike the EU GSP regime. According to the current export structure, more than 95 per cent of Bangladesh's exports bound for the UK will continue to enjoy duty-free market access even after LDC graduation. However, a significant concern is the tightening of rules of origin conditions, which will require a double-stage transformation for apparel products and a domestic value-added content requirement of 50 per cent for non-apparel products, an increase from the 25 per cent required for LDCs.

Canada: Bangladesh currently enjoys preferential market access under the Least Developed Country Tariff (LDCT) under Canada's unilateral tariff preference programmes. As per the information available at the time of drafting this strategy, Canada plans to implement a standard transition policy for graduating LDCs. This policy is expected to provide an additional three-year

period during which these countries can continue to enjoy full tariff benefits. This initiative aligns with Canada's broader commitment to supporting a smooth and sustainable transition for LDCs as they graduate, helping to mitigate the immediate impact of losing preferential market access.¹⁷ After graduation, Bangladesh's existing preference will be replaced by the General Preferential Tariff (GPT). However, due to its limited coverage, major export goods from Bangladesh will not receive any tariff benefits. Consequently, clothing and textile exports will face an average tariff rate of 14 to 16.5 per cent, and footwear exports will face an average tariff rate of about 11 per cent. Additionally, Bangladesh will encounter strict rules of origin requiring a minimum value addition of 60 per cent for products eligible for preferential access.

As of 1 January 2025, Canada's new Generalised System of Preferences (GSP) has come into effect, replacing the previous programme. The updated GSP introduces the GPT+ scheme, designed to incentivise countries that uphold international standards on labour rights, human rights, workplace conditions, gender equality, and environmental sustainability. In addition, the scheme simplifies technical requirements, particularly concerning the rules of origin for Least Developed Country Tariff (LDCT) access, which is expected to enhance participation in Canada's trade programmes. However, the detailed procedures and specific benefits under the GPT+ scheme are yet to be fully announced.

A country will graduate from the GPT programme if it meets either of the two development-based criteria established by Canada: (i) two consecutive years of classification as an upper-middle- or high-income economy, as defined by the World Bank, or (ii) a minimum global export share of 1 per cent for two consecutive years, according to WTO data. Conversely, former beneficiaries may request reinstatement to the programme if they fall below upper-middle-income status and a 1 per cent global export share for two consecutive years.

Japan: Bangladesh currently enjoys duty-free treatment for over 95 per cent of tariff lines under Japan's GSP Scheme for LDCs. After graduation, Bangladesh's existing preferential access will be replaced by the Japanese GSP for developing countries. However, Bangladesh's main exporting items will largely be outside of the relevant GSP for non-LDC economies. Consequently, tariffs on garment exports from Bangladesh after LDC graduation would rise from currently zero to more than 8 per cent. Footwear exports will be subject to tariff hike of 19 per cent from the current level of just 3.6 per cent for LDC exporters.

Republic of Korea: Bangladesh currently enjoys DFQF treatment for over 95 per cent of tariff lines under the Republic of Korea's GSP for LDC. After graduation, these facilities will be replaced by the Asia-Pacific Trade Agreement (APTA) preference for developing countries, which has a narrow coverage for preference, causing tariff hikes in the range of 10-12 per cent for apparel and footwear. Duty concessions (significantly different from duty-free access) for over 2,500 products could then be possible under APTA provisions, for which the rule of origin requirement is of 45 per cent domestic value addition.

¹⁷ More information can be found here: https://www.canada.ca/en/department-finance/programs/international-tradefinance-policy/canadas-unilateral-tariff-preference-programs-for-imports-from-developing-countries.html

India: Bangladesh receives LDC benefits under the South Asian Free Trade Agreement (SAFTA) in the Indian market. This scheme offers zero-tariff access for more than 11,500 products. After LDC graduation, Bangladesh will get preferential access through SAFTA and APTA schemes for non-LDCs as granted by India (UNDESA, 2020c), in which case the duty-free coverage will be extremely limited. The list of sensitive goods on which no preferences are given under SAFTA will increase to 614 from the current 25 under the SAFTA LDC package. 18, 19

It is estimated that if no favourable agreement/arrangement with India can be reached, Bangladesh's woven garments will see the post-graduation average tariff rate rise to 19.4 per cent, while the corresponding increase for knitwear items will be around 16 per cent. Another important exporting product to India, jute, will face around a 5 per cent tariff on average. The value addition criteria for any preference will also change to 40 per cent from the existing 30 per cent under the SAFTA LDC scheme.

China: China provides duty-free and quota-free market access to Bangladesh for around 99 per cent of its tariff lines under its GSP schemes for LDC. However, China does not offer preferential schemes for developing countries under its GSP regime. As an APTA signatory, Bangladesh will be entitled to tariff concessions under APTA non-LDC preferential access in the Chinese market. However, the products eligible for tariff concessions under APTA non-LDC are quite limited, and the depth of tariff preference is shallow. Bangladesh's apparel exports will face an average tariff of 5 per cent and footwear of around 7 per cent. The value addition criteria will also increase to 45 per cent from the existing 35 per cent. Regional cumulation value addition will increase to 60 per cent from 50 per cent.

Australia: Bangladesh would qualify for the GSP for non-LDC developing countries offered by Australia. However, the top exporting products of Bangladesh, RMG, are not covered by that arrangement. The MFN tariffs on most garments exported by Bangladesh to Australia are 5 per cent. However, Australia has informed that it does not intend to change the tariff regime for graduating LDCs. As such, no adverse impact due to LDC graduation is anticipated.²⁰

United States: Bangladesh never received duty-free market access for textile and apparel exports in the United States and has remained suspended from the GSP scheme for other products since 2013, when the U.S. Trade Representative considered that Bangladesh had failed to meet basic standards for workers' rights and worker safety that were a condition of eligibility (USTR, 2013, 2014). Since no preference is currently available, graduation will not change the terms of access to the United States market, and as such, any impacts are expected to be minimal. Under MFN tariffs, Bangladesh is the third largest supplier of apparel to the United States, after China and Viet Nam.

¹⁸ Full list of 614 sensitive products for non-LDC can be found here:

https://fta.gov.bd/api/files/7210583//9vw3pt india Revised Sensitive List (phase-ii) For Non-Idcs hs 2012.pdf

¹⁹ Full list of 25 sensitive products for LDC can be found here:

https://fta.gov.bd/api/files/7210583//3igo6o_india_Revised_Sensitive_List_(phase-ii)_For_Ldcs_hs_2012.pdf ²⁰ See, The Dhaka Tribune (1 March 2022, online version) "Bangladesh secures duty-free export access to Australia after LDC graduation", which also available at https://www.dhakatribune.com/business/264718/bangladesh-securesduty-free-export-access-to

2.1.3 Impact of the loss of tariff preference on Bangladesh's exports

Unlike most LDCs, Bangladesh has been the largest beneficiary of LDC-specific trade-related ISMs. No other LDCs have utilised tariff preferences in such a commercially significant manner as Bangladesh has. Almost three-quarters of Bangladesh's merchandise exports receive LDC-specific tariff preference. In Australia and the EU, more than 90 per cent of Bangladesh's exports receive duty-free preference, while in Canada, the Republic of Korea, and the UK, the corresponding figures are more than 80 per cent (Figure 2.4). The garment sector, which has been the driver of this LDC preference-led export growth for Bangladesh, is likely to see profound changes in the importing country trade policy regime after LDC graduation, with tariffs rising significantly. As things currently stand, apart from Australia and the UK, an overwhelming majority of Bangladesh's apparel products will lose tariff preferences and be subject to significant tariff hikes, as stipulated in Table 2.3.

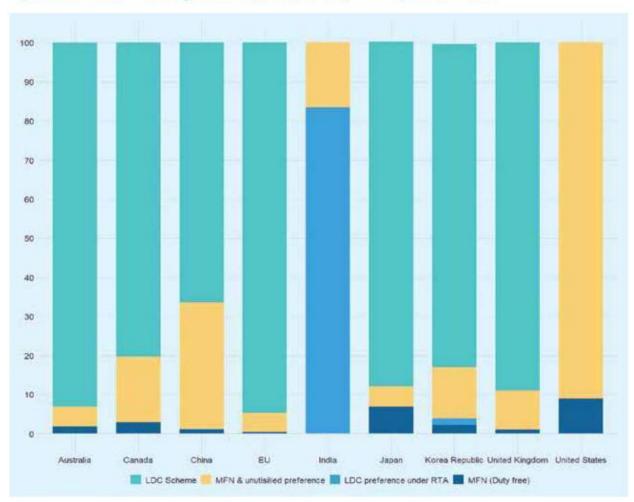


Figure 2.4: Breakdown of Bangladesh's exports by duty types in major destinations

Source: Estimation using IDB and WTO databases. Calculations are based on 2022 data.

Note: In 2022-23, Australia, Canada, China, the European Union, India, Japan, the Republic of Korea, the United States, and the United Kingdom together accounted for approximately 88 per cent of Bangladesh's export revenue. The United

States does not grant Bangladesh any tariff preferences. 'MFN duty-free' indicates the situation when tariffs in the importing countries are zero on an MFN basis, leaving no room for any preference.

Table 2.3: Changes in the respective countries' GSP for apparel products

Markets	Post graduation	Post-g	graduation tariff rate	Product coverage and rules of origin requirement
	preference	MFN	Post-LDC Tariff	
Canada	GPT	16.2%	11.2% for 28 products; MFN tariffs for the rest	GPT coverage is extremely limited. Minimum value addition criteria of 60% must be met to obtain tariff preference.
China	АРТА	6.7%	4.4% for 403 products; for the rest MFN tariffs will apply	APTA coverage is limited. Minimum value addition of 45%; for regional cumulation, a value addition of 60% is required.
European	GSP+ or Standard	11.5%	GSP+: 0.0%	Due to safeguard measures, Bangladesh's apparel
Union	GSP		Standard GSP: 9.2%	exports will unlikely get any preferences after graduation and will face MFN tariffs.
India	SAFTA	20%	6.0% for 144 apparel products; MFN tariffs will apply for the rest.	SAFTA product coverage is limited, covering only 144 RMG products. To get tariff preference, the minimum value addition requirement is 40%.
Japan	GSP for developing country	9.0%	2.2%	Japan's GSP covers only 38 products. For these products, the value addition requirement is sufficient transformation, resulting in different products under the HS4-digit tariff headings.
United Kingdom	Enhanced Preference	11.5%	0.0%	Enhanced preference covers all the RMG goods of the UK's tariff lines. To get tariff benefits, double- stage transformation criteria must be fulfilled.

Source: UNDP (2022) and Razzaque (2024)

Transitioning from an import duty-free to a duty-paid regime typically signifies some degree of loss of competitiveness, resulting in potential export losses. Also, adverse impacts on a country's exports facing tariff preferences are considered to be typical textbook cases. Consequently, various studies that have attempted to empirically assess the impact of post-graduation tariff hikes report export losses for Bangladesh (Table 2.4).

Table 2.4: A summary of major LDC graduation impact assessment studies

Study	Methodology	Key findings
UNCTAD (2016)	Simulation based on change in tariff preference and gravity model	-Bangladesh's exports could decline by 7.5% due to the loss of preferential market access when graduation scenarios are considered for Bangladesh alone. Under an alternative scenario of all LDCs graduating simultaneously, the reported export loss for Bangladesh is 5.5%.
Rahman & Bari (2018)	Gravity model	 -Bangladesh's exports would face 6.7% tariff due to graduation. -The export revenue is projected to decline by 8.7%. -Loss in trade preference will likely negatively impact the country's GDP growth rate, poverty alleviation, employment generation, and other socio-economic indicators
WTO (2020a)	Partial equilibrium	 -Exports are estimated to decline by around 14.28% due to effective tariff changes in major destination markets. -Exports will decline significantly in the EU, followed by Canada, Japan, Korea, and China in terms of value. -The reduction in export earnings is expected to be compensated by rising exports in other markets partially.

		-Exports are likely to increase mostly in the USA, followed by the Middle East, Australia and some other regionsClothing, textile, leather, footwear, and fish and fish products will experience the largest decline in exports in terms of value.
Razzaque & Rahman (2019)	Partial equilibrium	-Estimated export loss in the EU range between 5% to 19% if Bangladesh gets standard GSP. The export loss increases from 6% to 24%, given that MFN rates are faced in that marketChina is likely to gain the most from Bangladesh's export loss, followed by Germany, Turkey and India.
GED (2020b)	Quantitative impact assessment based on social accounting matrix, dynamic computable general equilibrium model, employment satellite matrix and poverty model	The impact of garment export shocks could: -reduce gross domestic output by 0.39 to 1.17 per cent -decline employment by 0.41 to 0.88 million -increase the poverty rate by 0.14 percentage points -depress labour returns by 5.5 per centimpact on household consumption
UNDESA (2020c)	Secondary literature review	 -Bangladesh's graduation from LDC status will result in the loss of preferential trade benefits, particularly impacting the garments industry in markets like the EU, Canada, and Japan. -The projected tariff rates for apparel exports to the EU, Canada, and Australia are 9.5, 17.0, and 5.0 per cent, respectively.
Raihan et al., (2022)	Computable General Equilibrium Model	Due to the preference erosion after graduation: -overall exports are expected to decline by 11.8 per centlargest decline in exports is for the textile and apparel sector, estimated at 14.7 per cent, followed by food, including fish (11.3%) and leather (3.1%)exports of jute and jute products, other exports, and services exports are expected to increasethe GDP is expected to decline by 1.53 per cent of real GDP.
Razzaque (2023)	Partial equilibrium and Computable General Equilibrium Model	-Agriculture exports will likely decline by 6 to 11 per cent due to tariff increment after graduation, as estimated using the partial equilibrium model. In contrast, CGE model suggests that the exports will decline by 3.8 per centBangladesh's agricultural exports are expected to decrease in the Indian and Chinese markets, mostly compared to other markets, primarily due to either limited coverage or high tariff rates imposed on products from developing countries.

Source: Compiled from the sources mentioned.

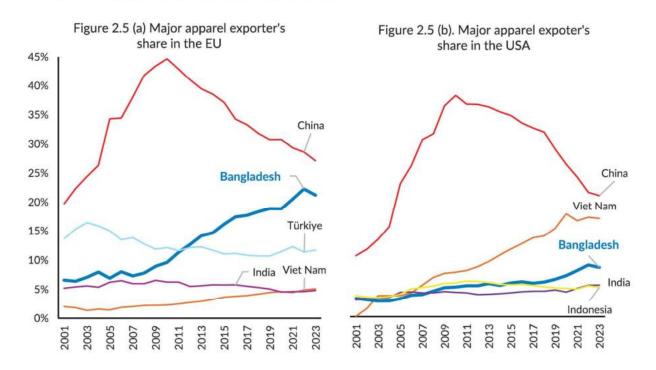
2.1.4 Qualifications of impact assessment studies

Although the impact assessment exercises using empirical methodologies have their values and provide helpful insights, they are also subject to important limitations that need to be taken into consideration.

First and foremost, economic models cannot capture complexities of the real world and often use assumptions that may be problematic for their operationalisation, affecting the results they derive. Before the phase-out of the Multi-Fibre Arrangement (MFA) quotas, many studies predicted massive export losses, which were unfounded. Furthermore, despite the lack of tariff preference in the US market, Bangladesh has been able to increase

- its market share, although at a slower pace than in the EU market, where, taking advantage of duty-free market access, Bangladesh emerged as the second-largest apparel exporter (Figure 2.5).
- Global trade policy regimes are evolving in nature, and post-graduation issues can also change significantly. For example, the UK has already provided an almost unchanged tariff regime for graduating LDCs. Amongst others, Canada is currently reviewing its GPT regime with the possibility of extending preferences to non-LDC developing countries. Furthermore, the WTO General Council adopted a decision urging the extension of support measures by the preference-granting countries for the graduating LDCs (WTO, 2023), and some members are likely to respond to it.
- Bangladesh's garment industry benefits from economies of scale due to its bulk production capacity, which significantly reduces the cost per unit. Large-scale operations can help manufacturers secure better prices for raw materials and spread fixed costs over more units, lowering overall production costs. Factory clusters further reduce expenses through shared resources, labour, and logistics. This efficiency allows Bangladeshi manufacturers to offer competitive prices globally, making them a preferred choice for large orders. An ITC study shows that Bangladesh's top exports, such as T-shirts, fetch lower prices due to bulk production, exemplified by \$8.7 billion in earnings from cotton T-shirts in 2022-23. The top five products contribute about 50 per cent of RMG export earnings, and the top 20 products account for 78 per cent of total RMG exports. While this level of product concentration may suggest vulnerability, it also highlights Bangladesh's extensive bulk production for these items, indicating a significant competitiveness that is challenging for other countries to replicate.
- If tariffs were imposed on a large supplier such as Bangladesh, the global apparel market could be impacted by rising prices, which can then also help Bangladesh cushion some of the tariff shocks.
- China's share in the global apparel market is falling (Figure 2.5). This is creating more room for suppliers from other countries. Furthermore, the Western countries' 'China Plus One' strategy aims to diversify supply sourcing, potentially benefiting Bangladesh.
- All studies have estimated potential export losses resulting from LDC graduation, assuming a complete capture of preference rent by Bangladesh's exporters. However, there is evidence of imperfect tariff preference pass-through (Razzaque & Islam, 2024), indicating that exporters only partially benefit from the preferences extended to them. In such cases, export losses could be overestimated.

Figure 2.5: Major apparel exporter's share in the EU and the USA



Source: Estimated from ITC data as in Razzague (2024).

Despite the limitations of these impact assessment studies, it is crucial to recognise that potential impacts can affect different groups in various ways. For example, Bangladesh's transition from LDC status could have significant gender implications. Given the substantial role of women's employment in the RMG sector, any competitiveness challenges or export declines in this sector could disproportionately affect women's job opportunities. In the 1980s and 1990s, the sector's workforce was predominantly female. However, with increased capital-intensive production and automation, their share has dropped to 39 per cent, according to the Labour Force Survey 2022.²¹ The loss of trade preferences could further pressure export competitiveness, leading to deepened automation and thereby reducing women's employment share in the garment industry further and potentially pushing them into informal employment with precarious conditions. Additionally, reduced concessional development financing could squeeze resources for sectors like health, education, and social protection, disproportionately impacting women and other population groups more dependent on public support in these areas.

In the same fashion, there are also concerns that SMEs might be more affected than their larger counterparts if there would be any adverse implications arising from LDC graduation. It is

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²¹ Between 2017 and 2022, women's jobs in the industry fell by 0.18 million. While the reasons are not well understood, it could be that women's jobs are predominantly in repetitive tasks for longer hours that are easily automated. Additionally, technological advancements might favour men due to women's generally weaker educational background and other cultural factors that prevent their upward mobility in job hierarchy that are often associated with operating machines and supervising factory work. The total women employment in the country declined to around 2 million in 2022 which was 2.86 million in 2016-17 (BBS, 2023a).

estimated that small and medium-sized enterprises (SMEs) account for 11 per cent of all export earnings (UNDP, 2024). The loss of trade benefits and reduced international support could particularly hinder their growth and development prospects by increasing the cost of finance and imposing additional regulatory and compliance burdens.²² Therefore, the distributional consequences of any potential impact should be given a closer look.

2.1.5 Preferential treatment for services and service suppliers (the service waiver)

Despite the preferential measures under the General Agreement on Trade in Services (GATS), Bangladesh and other LDCs have not benefited from the service waivers, primarily due to the nonoperationalisation of service waiver modalities. Liberalisation under the so-called Mode 4, Movement of Nature Persons, has not been achieved, and thus, no significant preferences could be secured to benefit from. Furthermore, supply-side constraints are one major problem for Bangladesh in benefiting from the expansion of service exports (UNDESA, 2020c). Consequently, post-graduation, Bangladesh is unlikely to face significant erosion of preferences or adjustment challenges in the service sector (GED, 2020b).

GATS, a WTO-led multilateral agreement from the Uruguay Round negotiations, governs international trade in services and comprises a framework Agreement with basic obligations for all members, national schedules of commitments for further liberalisation, and annexes addressing specific service sectors. Special provisions under GATS, like the 2011 LDC service waiver, were designed to enhance LDC participation in services trade. Despite initial resistance, by 2015 over 25 countries had committed to providing preferential treatment in certain sectors and supply modes, continuing these preferences until 2030. However, until now, market openings in these sectors have been extremely limited.

2.2 Special treatment on obligations and flexibilities under WTO rules

WTO agreements offer various S&DT provisions for LDCs, from which Bangladesh has benefited. Such benefits will no longer be available once Bangladesh graduates from the group of LDCs. The withdrawal of various LDC-specific provisions is likely to impact Bangladesh significantly after graduation.

2.2.1 Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement)

As an LDC, Bangladesh has benefited from two primary S&DT provisions under the TRIPS agreement: the general transition period and the pharmaceutical waiver. Additionally, Article 66.2 of the agreement aims to foster technology transfer to LDCs, enabling them to establish a sound

²² An estimate shows that Bangladesh's SMEs could potentially lose \$295.9 million in export revenue when all LDCspecific trade facilities are phased out by 2030 (Bari, 2023). Specifically, RMG SMEs might lose \$263.6 million, while non-RMG SMEs could lose \$32.3 million in export revenue by 2030.

and viable technological base.²³ Although there are a few instances where developed countries have extended their support for capacity building under this provision, overall, the technology transfer has been limited (GED, 2020b; UNDESA, 2020c). Consequently, the loss of this flexibility is unlikely to have significant implications, as it has been underutilised. Any potential consequences would be confined primarily to the first two S&DT elements.

The general transition period has allowed Bangladesh a longer time to implement the provisions of the TRIPS agreement, apart from core provisions.²⁴ Initially, LDCs were not required to comply with all provisions of the TRIPS Agreement until 1 January 2006. However, after several extensions, the general transition period is now extended till 1 July 2034 or until the member ceases to LDC, whichever comes first. Thus, Bangladesh needs to comply with the TRIPS provisions upon graduation. In view of this, Bangladesh recently enacted a new patent law, known as the Bangladesh Patent Act 2023, and updated the Bangladesh Industrial Design Act 2023 and Copyright Act 2023. The new patent act now grants the level of IP protection for 20 years, amended from the previous 16 years.

The enforcement of IP protection in Bangladesh has been an issue.²⁵ This affects not only foreign patent holders but also local publishers and producers, disincentivising intellectual property development. However, implementing the TRIPS agreement could also restrict access to books, research papers, and software for students and academics (UNDESA, 2020). Small companies, which often rely on unlicensed software, will face higher costs as the country moves towards TRIPS compliance (Syam & Syed, 2023).

As per the General Council decision on 30 November 2015, WTO LDC members are not required to protect pharmaceutical patents either until 2033 or until their graduation year, whichever comes first. LDCs are also exempted from the obligation to provide for the possibility of filing mailbox applications and to provide exclusive marketing rights until January 2033. This waiver, complemented by domestic policy initiatives, is thought to have brought significant benefits to Bangladesh, which stands as the only LDC satisfying nearly 98 per cent of its domestic pharmaceutical demand (UNCTAD, 2024). This waiver allows Bangladeshi firms to manufacture any medications regardless of their patent protection status. They can also export these drugs to other LDCs or non-WTO member countries, provided that the destination country lacks patent protection. Additionally, any WTO member state can import pharmaceutical products from Bangladesh through parallel importation at a reduced cost.²⁶ It is widely anticipated that approximately 10 to 20 per cent of local pharmaceutical products are patented drugs. This enables

²³ Article 66.2 of TRIPS Agreements says: "Developed country Members shall provide incentives to enterprises and institutions in their territories for the purpose of promoting and encouraging technology transfer to least-developed country Members in order to enable them to create a sound and viable technological base."

²⁴ The three core provisions of TRIPS are: national treatment (article 3), most favoured nation (articles 4) and right of priority (article 5).

²⁵ This is reflected in Intellectual Property Right (IPRs) Action Plan for Bangladesh in the Context of LDC Graduation, prepared by the IPR Sub-Committee under the National Committee on Graduation, Government of Bangladesh.

²⁶ Parallel importation occurs when goods are purchased in one country, where the price is lower, and then imported into another country to be sold at a profit, often at a price lower than that offered by the official distributor in the destination country.

domestic firms to offer them at significantly lower prices compared to their internationally patented counterparts, thanks to the TRIPS waiver (UNCTAD, 2024).

As Bangladesh does not produce many patented drugs, the introduction of patent protection is unlikely to cause major disruptions. Recent changes to the patent act have capitalised on accessing most benefits by not granting patent protection for drugs already manufactured locally under international patent protection.²⁷ Consequently, LDC graduation per se is unlikely to cause drug prices to rise; however, in the future, any newly patented drugs cannot be produced locally, even if there is domestic capacity to do so, without the permission of patent holders and paying the appropriate royalty fees, as permitted within the Bangladesh legal framework. Under such circumstances, healthcare costs could rise (GED, 2020b; South Centre, 2020). However, this may not be a major concern given that domestic capacities to produce on-patent drugs are limited.

The post-LDC landscape will also be subject to changes in preferential market access in certain countries. However, Bangladesh currently has very limited pharmaceutical exports, and in many of Bangladesh's exporting destinations, the tariffs on pharmaceutical products are negligible. As such, the potential loss of tariff preferences in destination markets affecting export competitiveness after LDC graduation is negligible. Nonetheless, due to WTO rules, export subsidies currently provided to exporters of medicines and active pharmaceutical ingredients (APIs) may need to be discontinued, which could impact medicine exports. It has been found that a complete cessation of export incentives might lead to a decline of 5.8 to 6.9 per cent in pharmaceutical exports, amounting to a loss of approximately \$10 to \$12 million in medicine exports (Razzaque et al., 2024b).

2.2.2 Flexibilities for providing support to Agriculture

As an LDC, Bangladesh has benefited from the flexibilities provided under the WTO's Agreement on Agriculture (AoA). This agreement stipulates that members refrain from imposing measures such as import quotas and bans, variable import levies, minimum import prices, discretionary import licensing, and voluntary export restraints, among others. Bangladesh does not use such nontariff measures, and consequently, its graduation from the LDC category will not limit its trade

²⁷ The impact of losing the pharmaceutical waiver is likely to be much less severe than previously anticipated. This is primarily due to the integration of existing flexibilities under the TRIPS agreement into the national legal framework. The Bangladesh Patent Act (BPA) 2023 excludes pharmaceutical products from patent protection, allowing Bangladesh to continue benefiting from the waiver as an LDC. Section 6(2) of the BPA 2023 states that, in line with the TRIPS Council's decision, pharmaceutical and agricultural chemical products (agrochemical products) will remain outside the scope of patent protection for as long as the exemption period is in force. Also, Bangladesh will not have to provide patent protection for the drugs invented before the LDC graduation timeline, as those drugs do not fulfil the novelty criteria (Section 27 of BPA 2023). The BPA 2023 also includes provisions against evergreening, preventing patents for minor improvements on existing inventions. Additionally, the Act allows for parallel importation of patented products at lower costs, encouraging domestic patent holders to maintain competitive pricing. Section 36 of the BPA details cases for issuing compulsory licenses, ensuring that if a pharmaceutical patent holder refuses to grant a license in the event of a national emergency or other critical situations, the patented products may be produced without the owner's consent. The BPA 2023 further provides exceptions for personal, non-commercial use, as well as for research, examination, and educational purposes. Earlier, Bangladesh had established a mailbox for storing patent applications with Exclusive Marketing Rights (EMR) for pharmaceutical products, which was a requirement for LDC, however, it has been closed as this requirement were waived.

policy flexibility in this area. While developed and developing countries had to adhere to tariff reduction commitments, LDCs were only required to bind their agricultural tariff lines (WTO, 2020b). Bangladesh has bound tariffs on 100 per cent of its agricultural products. Tariff negotiations in agriculture were taking place under the Doha Round of trade talks, which have since stalled, leaving no immediate expectations for tariff reductions. Moreover, Bangladesh's bound tariff rates are significantly higher than the applied rates.

Available evidence seems to suggest that flexibilities for providing support to agriculture will remain unaffected by LDC graduation. The AoA categorises such support and subsidies into three boxes - Amber, Blue, and Green.²⁸ Price support and/or subsidies directly linked to production quantities are classified under the Amber box.²⁹ These subsidies are considered the most tradedistorting and are subject to a 'de minimis' threshold, typically 5 per cent of the value of agricultural production for developed countries and 10 per cent for developing countries. According to the recent notification submitted by Bangladesh to the WTO Committee on Agriculture, the Aggregate Measurement of Support (AMS) provided to the agricultural sector is around 1.05 per cent, which is less than the de minimis level for developing countries. Consequently, Bangladesh will not be required to reduce its domestic support measures in agriculture (Table 2.5). A minor change following graduation will result in an increased frequency of notifications regarding domestic support measures. While LDCs are required to report to the WTO every two years on their use of domestic support, developing country members must submit such notifications annually.

Table 2.5: Domestic support provided by Bangladesh for the 2020-21

AMS type	Product	AMS support	Value of production	AMS as share of production
Product specific	Rice	259.35	13,735.15	1.89%
	Wheat	16.63	357.44	4.65%
Non-Product		433.51	53,517.56	0.81%
Total		709.49	67610.15	1.05%

Source: Committee on Agriculture (2024), WTO. Notification No: G/AG/N/BGD/11/Rev.1

The Agreement on Agriculture restricts export subsidies; apart from LDCs and Net Food Importing Developing Countries (NFIDCs), no members can provide export subsidies for agricultural products. Moreover, according to the Nairobi WTO Ministerial Decisions adopted at the 11th Ministerial Conference in December 2015, LDCs and NFIDCs are permitted to continue providing marketing-related subsidies until 2030.³⁰ Additionally, these countries can enjoy 36 to 54 months of repayment terms for imports benefiting from export financing support compared to 18 months for developing countries. Recent trade data show that agricultural goods exported from Bangladesh are less than those imported into the country, and the government has officially

²⁸ There are also exemptions for developing countries (sometimes called an "S&D box" or "development box").

²⁹ Blue box is defined as domestic support measures on which members are yet to reach an agreement. They are not subject to reduction commitments. Subsidies that have minimum distortions are in Green Box. It does not involve price support to producers and transfers from consumers. These subsidies mostly include government service programmes and direct payments to producers.

³⁰ Any developing country member of WTO can be considered as NFIDC if the country has been a net importer of basic foodstuff in three years of the most recent five years.

requested the WTO to include the country within the group of NFIDCs.31 Inclusion in the list of NFIDCs would enhance policy flexibility in supporting certain agricultural export-related activities.

2.2.3 Policy space to provide export subsidies

The Agreement on SCM addresses the use of subsidies and provides remedial processes to counteract the harm caused by subsidised imports. Subsidies based on export performance and local content requirements are completely prohibited, as the agreement states. However, recognising the significant role subsidies can play in stimulating economic activities, especially in less developed nations, the agreement exempts LDCs and developing countries with GNP per capita income lower than \$1,000 at 1990 prices from adhering to these rules unless they are globally competitive in specific products. Currently, Bangladesh offers various schemes that fall under the category of export subsidies, such as cash incentives, income tax rebates, and interest rate subsidies (Khan, 2022, Razzaque et al., forthcoming). In 2022-23, Bangladesh provided BDT 8,689 crore in cash incentives and BDT 25,766.57 crore in agricultural subsidies, according to data from Bangladesh Bank and the Monitoring Cell. Such support has to be withdrawn after graduation if Bangladesh is not included in Annex VII of the SCM, which lists countries with less than \$1,000 per capita income at 1990 prices, allowing them to use export subsidies. A proposal has been submitted on behalf of the LDC group to allow graduated LDCs with per capita GNP below \$1,000 at constant 1990 prices to continue benefiting from the exemption for export subsidies (WT/GC/W/752; G/C/W/752). However, no ministerial decision has been taken in this regard. Whether Bangladesh's GNI per capita would remain under the \$1000 threshold depends on some economic factors such as GNI, exchange rate, and population growth, as well as the methodology used to calculate it.32 As per the WTO calculations, Bangladesh's GNI per capita in 1990 prices was \$799 in 2022 (Figure 2.6). The BBS shows Bangladesh's GNI per capita BDT 2,41,047 in 2021-22, rising to BDT 3,06,144 in 2023-24, reflecting a 27 per cent increase. Meanwhile, the taka's exchange rate against the dollar depreciated by 27.42 per cent.³³ Therefore, at this stage, it is difficult to predict how long Bangladesh's GNI per capita will remain below the threshold level.

³¹ As per the provisions used by the WTO, a country can be recognised as a net food-importing country if its imports of agricultural and food products exceed their exports of similar products in three out of five consecutive years. All types of edible items are considered food products by the WTO. Bangladesh imported food products worth of about \$11 billion in 2021-22 as against its exports of only U\$ 796 million such food items.

³² The methodology of calculating the GNI per capita at 1990 prices can be found in WTO documents G/SCM/38 and G/SCM/110.

³³ According to the Bangladesh Economic Review 2024, the average exchange rate against the dollar was BDT 86.3006 during 2021-22 and BDT 109.3698 during the period of July to February in 2023-24.

Figure 2.6: Bangladesh's GNI per capita at constant 1990 dollars

Source: Compiled from WTO secretariat note (note number G/SCM/W/585 and G/SCM/W/594)

Export subsidies can be interpreted in terms of equivalence of tariff preferences and are likely to have the same impact on export competitiveness as generated through market access preference (Cadot et al., 2006). Therefore, discontinuing such support will add to the pressure on export competitiveness. When the loss of tariff preference in importing countries and discontinued export subsidies are taken together, the pressure on export competitiveness could be quite significant.

2.2.4 Flexibilities in dispute settlement in the WTO

The Dispute Settlement Understanding (DSU) within the WTO Agreement includes procedures for resolving disputes and contains S&DT provisions offering additional flexibilities for LDC members (WTO Secretariat & EIF, 2022). Article 24 of the DSU urges members to exercise restraint in bringing cases against LDCs and allows mediation by the Director-General or the Chair of the Dispute Settlement Body upon an LDC's request before forming a panel.³⁴ LDCs benefit from support from the Advisory Centre on WTO Law (ACWL), receiving free legal advice and training, with reduced fees for legal representation in disputes.

Upon graduation, Bangladesh will lose its Special and Differential Treatment (S&DT) benefits. However, the WTO's 13th Ministerial Decision on Smooth Transition Support Measures for Graduated LDCs (WT/MIN(24)/34 - WT/L/1189), adopted in February 2024, ensures that graduated countries retain the benefits of Article 24 of the Dispute Settlement Understanding (DSU) and receive specific technical assistance for three years post-graduation. As a result, Bangladesh will continue to benefit from these provisions until November 2029.

³⁴ Although LDCs seldom engage in WTO dispute processes, Bangladesh notably participated as a complainant in a dispute against India over anti-dumping measures on batteries in 2006, which was resolved through consultations.

2.2.5 Trade-related capacity building and training

Several initiatives are presently implemented to strengthen capacity building and provide training to LDCs, aiding them in meeting their WTO obligations and increasing their involvement in global trade. Certain initiatives will remain accessible for a specific period after LDC graduation before they are completely phased out.

Enhanced Integrated Framework for Trade-Related Assistance for LDC (EIF)

The EIF is the only multilateral partnership dedicated to helping LDCs use trade as a means of growth, sustainable development, and poverty alleviation. It consists of two funding facilities: Tier I focuses on institutional and policy-related assistance, including the development of Diagnostic Trade Integration Studies (DTIS) that help LDCs tackle trade-related challenges and integrate trade policy into their national institutional frameworks and development strategies. Tier II projects address supply-side constraints. Since joining the EIF in November 2009, Bangladesh has received support for various projects totalling around \$300 million. Post-graduation, Bangladesh will be eligible for EIF for another five years, assuming that EIF Phase 2, which is currently under negotiation, maintains this provision from the current EIF.

Standards and Trade Development Facility

The Standards and Trade Development Facility (STDF) is a global partnership that has supported developing countries in implementing sanitary and phytosanitary (SPS) standards, particularly those outlined in the WTO Agreement on Sanitary and Phytosanitary Measures. It aims to allocate at least 40 per cent of its total project financing to LDCs or other low-income countries (OLICs), with a reduced co-financing requirement for technical assistance. LDCs and OLICs are only required to contribute a minimum of 10 per cent, whereas lower middle-income countries must contribute 20 per cent and upper-middle-income countries 60 per cent. STDF currently manages one Bangladesh-specific project and two regional projects, Bangladesh being among the beneficiaries.35 Following graduation, financing for Bangladesh under this programme is likely to decline, although, given its significance, this should not be a major concern.

Support from the Advisory Centre on WTO Law (ACWL)

The Advisory Centre on WTO Law (ACWL) is a Geneva-based intergovernmental organisation established in 2001 to provide legal advice, training, and support in WTO dispute settlement proceedings to developing countries and LDCs. As an LDC, Bangladesh is entitled to the services of the ACWL without needing to be a member. LDCs are charged an hourly fee of \$40, capped at \$17,800 for support in WTO dispute panel proceedings, which is lower than the fees for developing countries and significantly below market rates. After graduation, Bangladesh will be eligible for membership in the ACWL, which is categorised based on its share in global trade. This membership requires a one-off payment of CHF 81,000, enabling Bangladesh to access ACWL legal

³⁵ The Bangladesh-specific project is titled "Prioritizing SPS Investments in Bangladesh using P-IMA Pesticide Residue." Additionally, there are two regional projects: "Managing Aflatoxin Contamination in Asia using One Health" and "Mitigation through the Promotion of Biopesticides."

assistance at a rate of CHF 162 per hour for preparing for WTO dispute panel proceedings, with a total cost cap of CHF 71,928.³⁶

2.3 Implications for concessional development financing

2.3.1 Trends in development financing in Bangladesh

Development assistance, including grants and concessional loans, received both bilaterally and multilaterally, has played a vital role in financing Bangladesh's development. Official development assistance (ODA) is utilised for implementing social and physical infrastructure projects, along with other supportive interventions such as education, health, skill development, and women empowerment. Bangladesh has undergone a significant transformation, with the relative importance of development assistance decreasing from about 8 per cent of GNI in the 1980s to just above 2 per cent in 2022-23, although in absolute terms, the inflow has been on a rising trend (Figure 2.7).³⁷ According to the data reported by the Economic Relations Division (ERD), the total aid inflow in Bangladesh rose from \$1.3 billion in 2000-01 to \$10 billion in 2022-23, with a cumulative inflow of around \$43 billion over the past five years. Around one-third of the Annual Development Programme (ADP) is financed by ODA, and this share has remained relatively stable as the ADP has expanded, reflecting large-scale infrastructure projects (UNDESA, 2020c).

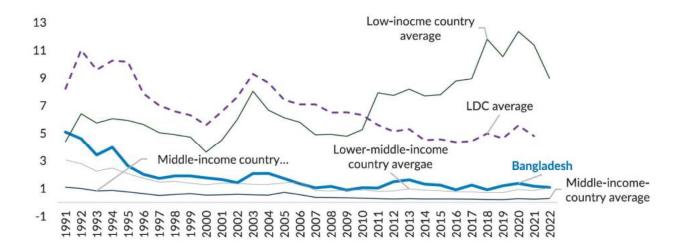


Figure 2.7: Net ODA received (% of GNI)

Source: OECD Creditor Reporting System (OECD-CRS).

36 For details: https://www.acwl.ch/fees/

³⁷ The estimates are Based on OECD data on ODI flows and World Bank GNI estimates. According to OECD, ODA consists of disbursements of loans made on concessional terms (net of repayments of principal) and grants by official agencies of the members of the Development Assistance Committee (DAC), by multilateral institutions, and by non-DAC countries to promote economic development and welfare in countries and territories in the DAC list of ODA recipients. It includes loans with a grant element of at least 25 per cent. OECD data does not report ODA flows from China, India and some other non-DAC countries. Therefore, the actual estimates can we higher than reported in OECD.

There is concern that foreign assistance might diminish following LDC graduation; however, most principal aid recipients are not LDCs. For instance, only four of the top ten recipients were LDCs in 2022, receiving less than a quarter of the total ODA. Patterns of aid allocation suggest that historical and bilateral relationships with development partners and recipient country-specific situations, such as civil wars and unrest, natural disasters, health epidemics, and refugee crises, significantly influence aid flows. Only a few UN bodies and partners have specific budgets allocated for LDCs. Overall, LDC graduation may not significantly disrupt the receipt of ODA and other forms of foreign aid.

2.3.2 Bilateral Cooperation

Bilateral cooperation programmes are designed based on several factors, including the policies and priorities of both development partners and recipients. While certain countries may have specific provisions in designing the cooperation programmes, membership in the LDC category is not often a determining factor in the design of bilateral cooperation programmes. Instead, these programmes are designed based on a blend of factors such as income levels, national needs and vulnerabilities, development plans, historical and cultural ties, donor policies, priorities, and strategies, among others. While the LDC category does inform the formulation of development cooperation policies on a global scale, it usually does not serve as the major determinant in developing the nature and extent of bilateral cooperation. In Bangladesh, bilateral development programmes align closely with national planning instruments and priorities. Additionally, ongoing dialogue between the government and development partners facilitates collaboration and coordination. Development partners frequently engage in joint projects to pursue mutual goals and objectives. Bangladesh's graduation from the LDC status is unlikely to impact development finance from bilateral donors as they often do not consider LDC status for ODA (UNDESA, 2020c).

Canada: Canada is one of Bangladesh's key development partners. In 2022, Canada's net ODA flows to Bangladesh amounted to \$91.12 million (OECD, n.d.). Canada's current focus of development assistance in Bangladesh includes gender equality and the empowerment of women and girls, healthcare (including sexual and reproductive health and rights), as well as skills training and assistance to the ready-made garment industry.³⁸ A gradual shift in Canadian development assistance to Bangladesh is expected to happen as the relationships are evolving from a traditional donor-recipient role to a collaborative partnership, shifting from financial assistance to technical and knowledge transfer (UNDESA, 2020c). This is due to Bangladesh's attainment of middleincome status and other pertinent factors rather than solely driven by its graduation from the LDC status.

China: A relatively new but prominent development partner for many developing countries, China's foreign assistance strategy is closely linked to its flagship initiative, the Belt and Road Initiative (BRI), identifying several areas of technical cooperation aligned with the UN's Agenda 2030 or the Sustainable Development Goals (SDGs). Chinese development cooperation with Bangladesh is governed by bilateral relationships, driven by mutual interests, and is not dependent on

³⁸ These development priorities are in line with Canada's Feminist International Assistance Policy.

Bangladesh's LDC status. Development aid flows from China have increased recently through BRI projects, and LDC graduation is not expected to impact Chinese development financing in Bangladesh.

Germany: Germany's development cooperation with Bangladesh prioritises renewable energy and energy efficiency, sustainable urban development, technical and vocational education and training, socially and environmentally responsible supply chains, trade and sustainable infrastructure, as well as the conservation of nature and natural resources.³⁹ The net inflow from Germany to Bangladesh stands at \$192.4 million in 2022, of which more than 90 per cent of Bangladesh's ODA from Germany is in the form of grants. The Federal Ministry for Economic Cooperation and Development (BMZ) describes Bangladesh as a 'Bilateral Partner' in its long-term cooperation strategy, BMZ 2030, aimed at achieving shared development objectives. 40 Bangladesh's graduation could result in Germany shifting from grants to concessional loans, although grant aid may still be provided for certain areas (UNDESA, 2020c). However, any adjustments to aid programs following graduation would not occur automatically and would depend on various additional factors (Tavares, 2021).

India: India has extended development assistance to Bangladesh across various sectors, including infrastructure, education, healthcare, human resource development, connectivity enhancement, and defence. Most of the recent Indian development aid to Bangladesh has been in the form of loans for diverse development projects. The close economic relationship between the two countries is underpinned by mutual benefits and shared interests. LDC graduation is not expected to affect the flow of development finance from India.

Japan: Japan is providing development assistance to Bangladesh in the areas of communication infrastructure, power, energy, telecommunication, health care, education, human resource development, urban and rural development, etc. 41 In 2022, the net ODA disbursement from Japan stands at \$2.3 billion. The LDC category is not a major determinant of Japanese bilateral cooperation with Bangladesh. In a previous UN impact assessment exercise, Japan stated that the LDC graduation would not affect its decision regarding grant funding or technical collaboration (UNDESA, 2020b, 2020a, 2020c). However, it is important to note that the potential impact of graduation can occur due to the changing terms and conditions for ODA loans. Bangladesh benefits from the second most favourable category of ODA loans stipulated for lower-middle-income LDCs.⁴² Post graduation, Bangladesh will qualify for another category of ODA loan from Japan as

https://tokyo.mofa.gov.bd/en/site/page/EconomicRelations#:~:text=Since%20independence%2C%20Japan%20has%2 Ocommitted, grants%2C%20loans%20and%20technical%20assistance.

³⁹ https://www.bmz.de/en/countries/bangladesh

⁴⁰ The BMZ 2030 introduces new recipient categories: (i) bilateral partners, (ii) global partners, and (iii) nexus and peace partners. There are two special forms of bilateral partnership - reform partnerships (for reform-minded partnerships to provide support through new instruments of reform financing), and transformation partnerships (to provide special support to the EU's neighbours in their political and economic transformation). Bangladesh is categorised as reform

⁴¹ To know more:

⁴² A specific group of borrowers, termed "low-income LDCs," receives the most favourable Official Development Assistance (ODA) loan terms, irrespective of the sector or field. These terms include a minimal interest rate of 0.01 per cent and a repayment period of 40 years, with a grace period of 10 years. Japan also offers a three-year transition period to low-income LDC loan recipients who transition to the next category: "non-LDC low-income countries and LDCs with

a non-LDC lower-middle-income country. Interest rates for non-LDC lower-middle-income countries are 25 to 60 basis points higher than those for LDCs (UNDESA, 2020a).

Republic of Korea: LDCs, including Bangladesh, receive the most favourable terms of concessional loans operated under the Economic Development Cooperation Fund (EDCF), with the lowest interest rates and longest repayment and grace periods.⁴³ After graduation, Bangladesh will still have access to concessional EDCF loans, but with higher interest rates and shorter repayment periods, depending on its income classification by the World Bank. Graduation will have little or no impact on ODA grants provided by the Korean International Cooperation Agency (KOICA) (Tavares, 2021).

United States: Development aid from the United States in Bangladesh focuses on various areas, including sustainable agriculture, enhanced food security, modernisation of small-scale farming, bolstering trade and business environments, adapting to climate change, preserving biodiversity, enhancing public health and education, disaster preparedness and response, and advocating for democratic institutions and practices including the labour sector and workers' rights to assemble.⁴⁴ In 2022, Bangladesh received approximately \$375.63 million in ODA from the USA. The United States' development cooperation in Bangladesh is independent of Bangladesh's LDC status, so graduation is not anticipated to bring significant changes in aid flows. Any potential changes in the type of assistance provided in the future would likely be influenced by Bangladesh's income level and changes in the United States' international development policies rather than the country's graduation from the LDC category.

Other countries: LDC status does not determine aid allocation from Australia, the United Kingdom and other Development Assistance Committee (DAC) countries. However, potential changes in the nature of assistance in the coming years would likely be determined by Bangladesh's per capita income level and shifts in the development partner countries' aid allocation policies and priorities.

2.3.3 Multilateral donors

Most international financial institutions and other multilateral organisations typically do not use LDC designation when distributing resources and aid. Funding decisions from these institutions are primarily influenced by income level, creditworthiness, and other factors rather than a country's LDC status. Hence, Bangladesh's LDC graduation will not significantly change the financial flows and loan terms from multilateral organisations. However, for Bangladesh, there is a gradual shift in financing terms from multilateral organisations, which will continue in the coming years due to a rise in per capita income and other relevant factors.

bangladesh/#:~:text=U.S.%20Assistance%20to%20Bangladesh,of%20U.S.%20assistance%20in%20Asia.

higher incomes." In this category, the interest rate for loans varies from 0.1 to 0.6 per cent, with repayment periods ranging from 15 to 40 years and grace periods of 5 to 10 years, depending on loan terms and sectors. The third category consists of non-LDC lower-middle-income countries, which are eligible for preferential loans with interest rates ranging from 0.35 to 1.2 per cent and shorter grace periods.

⁴³ The five categories of partner countries are (1) LDCs identified by the United Nations; (2) countries having a GNI per capita less than or equal to \$1,045; (3) countries having a GNI per capita \$1,046-\$1,985; (4) countries having a GNI per capita \$1,986-\$4,125; and (5) countries having a GNI per capita \$4,126-\$12,735.

⁴⁴ https://www.state.gov/u-s-relations-with-

- World Bank: Eligibility for International Development Association (IDA) financing of the World Bank depends upon per capita income, risk of debt distress, and creditworthiness for International Bank for Reconstruction and Development (IBRD) borrowing rather than LDC status. Bangladesh currently receives IDA support on blend credit terms.⁴⁵ Its graduation from LDC status is not anticipated to affect funding from the World Bank.
- International Monetary Fund (IMF): The IMF uses World Bank-defined low-income country criteria, which include the IDA per capita GNI threshold, market access conditions, and short-term vulnerabilities, to allocate concessional loans. Graduation will not affect the availability of IMF loans or grants.
- Asian Development Bank (ADB): Bangladesh receives ADB funds on OCR blend terms. The country's LDC graduation will not alter its country lending classification or lending terms with ADB.
- Asian Infrastructure Investment Bank (AIIB): The AIIB offers various funding arrangements, none of which are linked to LDC. However, some of the financing options are related to the eligibility criteria for International Development Association (IDA) loans provided by the World Bank. Bangladesh's LDC graduation is not anticipated to affect its ability to access financing from the AIIB.
- European Union Institutions: EU institutions do not consider LDC status when providing funds; instead, the financial cooperation depends on the EU's priorities and the recipient country's national development strategies. Therefore, graduation from the LDC category is unlikely to affect EU development assistance to Bangladesh.

United Nations Organisations

Graduation from the LDC category is anticipated to have minimal impact on UN assistance in Bangladesh, as many UN-system organisations allocate a substantial portion of their technical and financial resources according to the specific needs of individual countries. Ongoing shifts in assistance, from direct intervention towards capacity building and technical training, are primarily driven by the country's developmental progress and broader agency policies rather than LDC status. Table 2.6 below summarises the scope of accessing UN-based assistance after graduation.

Table 2.6: Access to UN organisations-based assistance after graduation

UN Organisations	UN Organisations				
 UNDP allocates a portion of its regular resources to LDCs. -Though regular resources make up a relatively small portion of UNDI Bangladesh, graduation may have an impact on the country's allocation of reg in subsequent UNDP budget cycles, although any change would take other account, such as country-specific requirements and UNDP's overall funding 					
Universal Postal Union (UPU)	-After graduation, Bangladesh would no longer be eligible to access UPU funds for procurement of equipment or technical assistance for postal agents.				

⁴⁵ Bangladesh along with several other countries are considered under blend credit terms. More information on this can be found at https://ida.worldbank.org/en/about/borrowing-countries.

	After graduation, certain forms of country-specific technical assistance may no longer be available, but Bangladesh would still be included in regional activities and capacity-building initiatives.
International Atomic Energy Agency (IAEA)	 -Graduation from LDC will not have any impact on accessing IAEA resource support, capacity-building, and training opportunities. -However, after graduation, Bangladesh will need to finance 5% of biannual project budgets under its Technical Cooperation Fund (TCF).
United Nations Volunteers (UNV)	-UNV's assistance is not contingent on a country's LDC status. Both LDCs and non-LDC developing countries can receive UNV support based on their specific needsUNV's government cost-sharing general management support fees (GMS) for LDCs are set at 3% and for others at 8 per cent. Thus, after graduation, Bangladesh may experience an increase in cost-share. However, the actual rate is determined through negotiations with the respective country and is influenced by various factors.
International Fund for Agricultural Development (IFAD)	-IFAD provides grants and concessional loans for agriculture and rural developmentResource allocation is based on a combination of factors, including per capita income, rural population, and the relative performance of countries in establishing conducive institutional and policy frameworks for sustainable rural development, but not on LDC status.

Source: UNDESA (2020c), Tavares (2021), UNDP (2022)

Other funds

Bangladesh benefits from several other multilateral funds, including GAVI, the Global Fund, the OPEC Fund for International Development, and the Global Development Facility. LDC status is not a requirement for accessing these funds, so Bangladesh's graduation is not expected to impact its access to them (Table 2.7).

Table 2.7: Access to other funds after graduation

Other funds	Changes due to LDC graduation
GAVI, the Vaccine Alliance	-Gavi, the Vaccine Alliance provides funds to increase immunisation in poor countriesEligibility conditions depend on GNI per capita and certain other conditions, assessed by an independent group of experts, but not on LDC status.
OPEC Fund for International Development (OFID)	 -The OFID provides funding to stimulate economic growth and social progress in low- and middle-income countries. -It gives higher priority to LDCs but supports all developing countries. Thus, graduation will not affect access to this fund.
Global Environment Facility (GEF)	-The GEF provides funds for practical programs and policy reform in five focal areas: biodiversity, climate change, land degradation, international waters, and chemicals and wasteFunding is allocated through the 'System for Transparent Allocation of Resources' (STAR) methodology based on the global benefit index (based on biodiversity, climate change, and land degradation), country performance index (based on GEF portfolio performance, and institutional assessment) to achieve global environmental benefits, and an economic index based on the gross domestic product (GDP-based index, or GDPI) -The minimum allocation levels for LDCs are greater than that for non-LDCs. The minimum allocation for non-LDCs is \$5 million in the GEF-8 replenishment period 2022-2026, and it is \$8 million for LDCs.

- -Allocation for Bangladesh for the GEF-8 replenishment period is \$10.58 million. 46
- -Bangladesh mainly receives funds for the following areas: biodiversity, climate change, and land degradation.

Source: UNDESA (2020c).

Implications for LDC-specific instruments

There are several funds that support LDCs exclusively. Access to these funds will be restricted upon graduation. However, some funds mentioned below offer transition for graduating LDCs:

- Least Developed Countries Fund (LDCF): Upon graduation, Bangladesh will no longer have access to new funding from the LDCF. However, projects approved by the LDCF council before graduation will continue to receive support with LDCF resources until their completion.
- Green Climate Fund (GCF): Graduated Bangladesh will maintain access to the Green Climate Fund (GCF), the Special Climate Change Fund (SCCF), and the Adaptation Fund. These funds support vulnerable developing countries in developing and implementing national adaptation plans (NAPs), mitigating greenhouse gas emissions, and implementing climate adaptation and resilience activities.
- United Nations Technology Bank for LDCs: After graduation, Bangladesh will be eligible to receive financial support and assistance from the LDC Technology Bank for a period of five
- United Nations Capital Development Fund (UNCDF): After graduation, the UNCDF continues to fund programs for LDCs who have graduated for three years. It offers financing for an additional two years with a cost-sharing arrangement of 50/50 between the graduated country's government or a third party.
- Investment Support Programme for LDCs (ISP/LDCs): Post-graduation, Bangladesh is eligible to receive assistance from the ISP/LDCs for a duration of five years.

2.4 Membership contributions and participation in international organisations and forums

After graduation, Bangladesh will no longer have access to support measures designed to help LDCs participate in the United Nations and other international forums. Such measures include limitations on mandatory budget contributions and support for travel to international conferences.

LDCs benefit from caps and limits on their mandatory contributions to the United Nations budget, peacekeeping operations, and agencies. Contributions are determined by the "scale of assessments," considering factors like GNI, debt burden, and per capita income. LDCs benefit from a maximum rate of 0.01 per cent, though most are assessed below this rate. This scale applies to

⁴⁶https://www.thegef.org/sites/default/files/documents/2022-07/EN_GEF_C.63_Inf.05_Initial%20GEF-8%20STAR%20Country%20Allocations 0.pdf

most UN agencies, while peacekeeping and criminal tribunals use an adjusted scale. Agencies like ITU, WIPO, and UPU use "classes of contribution," allowing countries to choose their contribution level, with LDCs eligible for the lowest levels. After LDC graduation, Bangladesh's contributions to these agencies will increase.

In some cases, contribution does not depend on LDC status. For instance, contributions to the WTO are determined based on members' share of international trade with no concessions specifically for LDCs. Also, in some programmes, such as UNICEF and UNDP, contribution is completely voluntary. According to UNDESA (2020c), Bangladesh's financial contribution to the UN system would increase by \$7 million annually after graduation. However, for a more accurate estimation, other indicators need to be considered. For example, if a country's performance on capacity to pay improves compared to other member states, its contribution to the UN budget will also increase.

The United Nations covers travel costs (excluding subsistence) for up to five representatives from each LDC for regular General Assembly sessions and one representative for special sessions. Additionally, one member from a permanent mission in New York is also covered. After LDC graduation, Bangladesh can enjoy these benefits for up to three years, subject to available funds and a formal request. Post-graduation, Bangladesh may still receive travel support for international conferences if there are designated mechanisms for other country categories. Travel support for meetings under organisations like IAEA, UNDP, UNICEF, UNODC, UNDRR, and WFP is expected to remain unchanged.

2.5 Other vulnerabilities and challenges

Along with understanding the impact of the loss of ISMs, it is also important to recognise other vulnerabilities and exposure to external shocks that a graduating country faces. These vulnerabilities can exacerbate the challenges of transitioning from LDC status, especially when support measures are withdrawn in the face of an emerging or unfolding crisis. Many developing countries, especially the graduating LDCs, are also vulnerable to external shocks like global trade disruptions, rising protectionism, the advent of disruptive technologies impacting employment generation, etc., which can further hinder a country's trade and economic development potential.

UNCTAD's 2022 Vulnerability Profile offers a comprehensive overview of Bangladesh's vulnerability. It evaluates vulnerability based on three main criteria used for LDC identification and graduation. Along with this, UNCTAD has highlighted four specific vulnerabilities: environmental vulnerability, dependence on LDC-specific ISMs for exports, limited trade and structural transformation, and the challenge of sustainable development finance due to limited domestic resource mobilisation capacity.

Environmental vulnerability remains high for Bangladesh, partly due to a significant portion of its territory and population being situated in low-lying areas prone to disasters. The country is susceptible to both natural disasters and climate change-related consequences and is ranked the seventh extreme disaster risk-prone country in the world as per the Global Climate Risk Index

2021.47 Between 2000 and 2019, an average of seven natural disasters per year affected 110 million people and claimed 11,210 lives. Over 70 million people could be impacted by climate change, according to the National Adaptation Programme of Action (NAPA). The government has responded by undertaking elaborate programmes, yet the country remains highly susceptible to climate change risks compared to other South Asian LDCs.

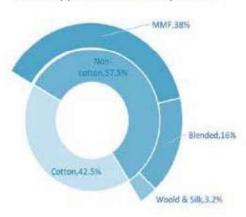
Dependence on LDC-specific (ISMs): As mentioned earlier, no other LDCs rely as much on trade preferences as Bangladesh. Because of a lack of supply-side capacity, most LDCs find it challenging to utilise preferences. However, Bangladesh's success in apparel exports with the help of LDCspecific preferential market access makes it now vulnerable as the terms of export market access could change significantly after graduation (Raihan et al., 2023).

Figure 2.8: Dual concentration of Bangladesh's exports

Bangladesh's apparel export composition

MMF, 21.80% Blended, 7:00% Wool & Silk, 0.30% Cotton, 70.8%

World apparel market composition



Source: ERD (2024e).

Limited trade and structural transformation: Bangladesh's overwhelming reliance on a single export sector, with more than four-fifths of export earnings from the apparel sector alone, is a major vulnerability.⁴⁸ It exposes the economy to risks such as market fluctuations, changes in global demand, and sector-specific shocks emanating from just one sector. The global apparel market is witnessing a remarkable shift in the demand for non-cotton, particularly man-made fibre (MMF) based apparel, which is rising. This trend contrasts with Bangladesh's current export focus, which

⁴⁷ The Global Climate Risk Index analyses to what extent countries have been affected by the impacts of weather-related events (storms, floods, heat waves etc.). The report can be found at https://www.germanwatch.org/en/cri

⁴⁸ Even within this sector, exports are highly concentrated in a few. At the HS 6-digit classification level, the leading 20 products combined represent over two-thirds of Bangladesh's entire merchandise exports, in contrast to countries such as China, India, and Viet Nam, where this proportion ranges from 25 per cent to 45 per cent. The collective export contribution of the top 100 products amounts to 92 per cent for Bangladesh, in comparison with 82 per cent in Cambodia, 80 per cent in Sri Lanka, 76 per cent in Indonesia, 61.2 per cent in India, 46.7 per cent in China, and 44.7 per cent in Viet Nam. It has been difficult for Bangladesh to introduce new products into its export basket and sustain it. Over the past two decades, the contribution of new products to Bangladesh's export growth is estimated to be less than 5 per cent as against of 18.7 per cent in India, 22.2 per cent in Cambodia, 25 per cent in Sri Lanka, 33 per cent in China, 22 per cent in Cambodia, 41 per cent in Viet Nam, and 62 per cent in Malaysia.

is heavily skewed towards cotton apparel. Despite non-cotton apparel constituting approximately 60 per cent of the global trade, over 70 per cent of Bangladesh's exports are in cotton apparel (Figure 2.8). Man-made fibres, such as polyester and nylon, offer greater versatility, durability, and performance characteristics like moisture-wicking and quick drying, making them ideal for activewear and outdoor clothing (ERD, 2024e). Advancements in technology have improved the quality and comfort of synthetic fabrics, increasing consumer acceptance. Environmental considerations also play a role, as many man-made fibres can be produced more sustainably than traditional cotton, which requires significant water and pesticide use. Furthermore, fashion trends increasingly favour the innovative textures and designs achievable with synthetic materials, driving their popularity in the global market. Therefore, Bangladesh faces a dual challenge of diversification: reducing the dependence on apparel within its overall merchandise exports and then reducing the reliance on cotton apparel by diversifying into non-cotton products.

Sustainable development finance: Domestic resource mobilisation efforts are quite low in Bangladesh as its tax-GDP ratio is amongst the lowest in the world (Figure 2.9). Because of limited fiscal space, Bangladesh's public spending is around 14 per cent as against around 25 per cent of lower-middle income developing countries. Given this, any potential reduction in external development financing could widen the resource gap—the difference between domestic savings and gross fixed capital formation-currently more than 6 per cent of GDP. While remittances covered a significant portion of this gap, contributions of ODA accounted for 15 per cent of the total government budget and 42 per cent of development spending in 2021-22 (Finance Division, 2023c). Insufficient public revenue limits the ability to increase budgetary allocations in essential services such as healthcare, education, social protection, and infrastructure. Creating employment, especially decent jobs, has also been a challenge as employment in the manufacturing sector has slowed down significantly, and the success of the garment industry cannot be replicated in other sectors.

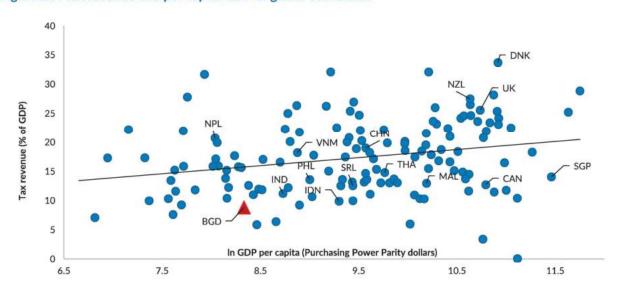


Figure 2.9: Tax revenue and per capita GDP of global economies

Source: Illustration using data from World Development Indicators, World Bank.

Along with the above vulnerabilities, the Bangladesh economy has recently witnessed difficulties in macroeconomic management. Triggered initially by the surge in demand for imports in the aftermath of the recovery from COVID-19 and global commodity price hikes, unfavourable balance of payments situations, reflected in declining foreign reserves, along with persistent domestic inflationary pressure have been confronting Bangladesh's long record of sound macroeconomic management.

External shocks also occur with greater frequency, posing significant challenges to development efforts within a developing country like Bangladesh. For instance, the great trade slowdown of 2015 and 2016 was soon followed by the US-China trade war, which caused global exports, including those from Bangladesh, to fall in much of 2019-20 before actually being hit by the COVID-19 pandemic. Immediately after the recovery from the pandemic, rising dollar prices, disrupted supply chain shocks, and the Russia-Ukraine conflict resulted in food and fuel price hikes adversely affecting many developing countries, including Bangladesh.

LDC graduation-related challenges Trade Loss of policy Development preference financing space erosion conomywide Limited fiscal Current and longstanding space: Skill development, reating jobs, improving labour standards and Low tax GDP issues Macroeconomic anagement Weak physical and social infrastructure Low health, Lack of export diversification education and ocial protection Growing Climate change and environmental vulnerabilities inequality Frequent shocks, weak Heightened geopolitical Rising protectionism and Disruptive technology support mechanism competition d multilateralism 2 4 **External shocks**

Figure 2.10: Interactions among LDC-specific, current and external challenges

Source: Illustration prepared for this Strategy.

Additionally, the intensifying geopolitical competition has heightened the risk of fragmenting the international trade landscape along geopolitical lines. This fragmentation contributes to energy and food price hikes and an uncertain global economic environment in which no effective support mechanism is available to help vulnerable countries mitigate the consequent impacts. There is evidence that geopolitical fragmentation leads to increased trade barriers, affecting certain sectors such as food and high-end manufacturing more than others and raising trade costs and international trade flows. This disproportionately affects developing economies in Asia, the Middle East, and sub-Saharan Africa, resulting in significant income losses for those least able to afford them (Hakobyan et al., 2023).

Concurrently, a surge in protectionist trade policies poses a further obstacle to inclusive global trade growth. Both developed and advanced developing countries are increasingly resorting to inward-looking policies, imposing import restrictions. By mid-October 2023, almost 12 per cent of G20 imports were affected by import restrictions implemented by G20 economies since 2009 (OECD, WTO and UNCTAD, 2023). The introduction of export restrictions has increased since 2020, first in the context of the pandemic and, more recently, in the aftermath of the war in Ukraine. In the face of rising protectionism, WTO-led trade multilateralism is under severe pressure, with the Doha Round of multilateral trade negotiations not reaching a successful conclusion and the Appellate Body, the WTO's highest dispute resolution forum, being dysfunctional due to members' failure to agree on appointing new judges.

Therefore, while a graduating LDC expects a credible, fair, inclusive, and rules-based international trading system to support its transition, in reality, the global trade and economic prospects look increasingly uncertain. In fact, it is the interaction of concerns about the loss of LDC ISMs, longstanding and emerging challenges within its economy, external shocks, and a challenging geopolitical environment that make the graduation journey fraught with uncertainty and difficulty (Figure 2.10).

As Bangladesh is set to graduate from LDC status, a global-scale fourth industrial revolution powered by innovative technology is also on the horizon. Although the adaptation of core 4IR technologies is still some time away, technological deepening and automation are already having an impact. While technological adaptation is critical for improving efficiency, reducing costs, and enhancing growth, rapid technological advancement can pose significant challenges for employment. One key policy objective in Bangladesh has been to create 2 million jobs a year, but even a robust manufacturing growth of close to 10 per cent over the past decade could not lead to any additional employment generation with its relative significance in total employment actually falling from 14.4 per cent to 11.3 per cent (Figure 2.11). Despite a fourfold increase in apparel export earnings between 2008 and 2023, from approximately \$10.7 billion to \$47 billion, the number of workers employed in the sector has remained stagnant at around 3.5 million.⁴⁹ Furthermore, rising automation and technology-deepening processes appear to be associated with

⁴⁹ This implies that, in 2009-10 for exporting \$1 million worth of RMG products, 288 workers were needed and in 2022-23 for such exports, the only 90 workers are needed.

the de-feminisation of the workforce in the industry, as the women's share in export-oriented apparel sector employment has now dropped to just 39 per cent.⁵⁰

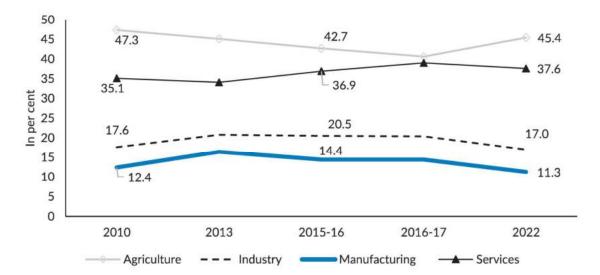


Figure 2.11: Sectoral share in total employment (%)

Source: Illustration using the BBS and LFS data.

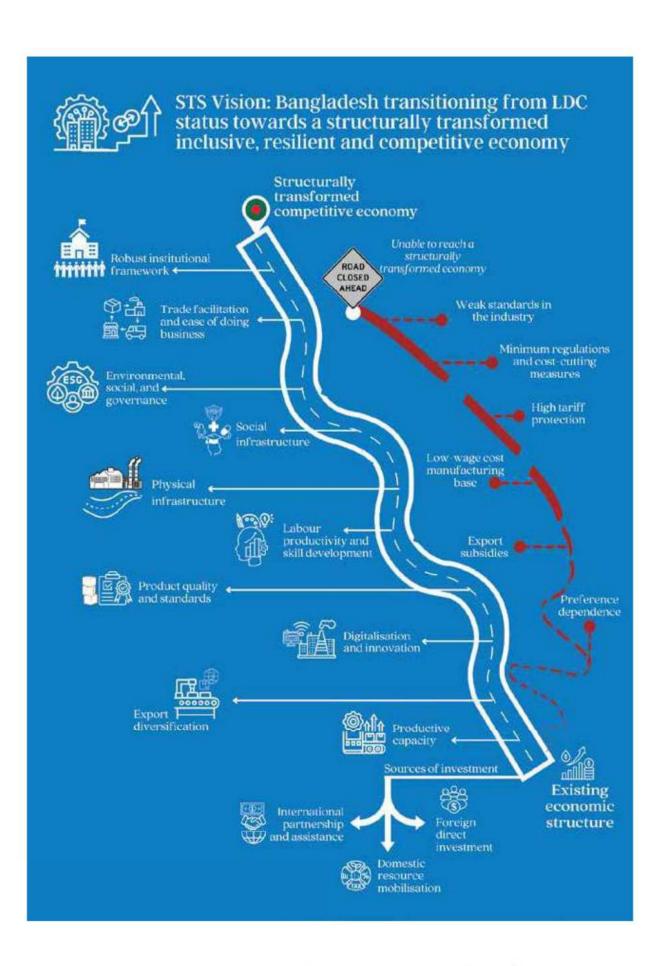
Nevertheless, avoiding technological adaptation is not an option. Embracing technology is crucial for improving productivity and fostering new industries to seize opportunities in the global export market. By investing in education, training, and skill upgradation, it is important to develop a skilled workforce ready to thrive in an increasingly automated and technologically advanced global economy. Along with LDC graduation, Bangladesh must harness technological opportunities to boost productivity and employment while expanding activities across multiple sectors.

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⁵⁰ Between 2017 and 2022, women's employment in the industrial sector declined by 0.18 million. While the precise reasons for this reduction remain unclear, it is likely that women's jobs, which are often concentrated in repetitive tasks requiring long hours, are more susceptible to automation. Furthermore, technological advancements in the sector may disproportionately favour men, partly due to women's generally weaker educational background and cultural barriers that hinder their upward mobility into roles involving machine operation and factory supervision. Overall, women's employment in the country fell to approximately 2 million in 2022, down from 2.86 million in 2016-17 (BBS, 2023a).

Chapter III

Smooth Transition Strategy Vision: Bangladesh Transitioning from LDC Status towards a Structurally Transformed Inclusive, Resilient and Competitive Economy



3.1 Embarking on a new phase of structural transformation

Bangladesh has undergone an initial phase of structural shift, with its manufacturing exports rising to dominate the export basket along with the growing relative significance of industrial outputs in the overall economy. While the RMG-led export expansion has contributed significantly to both these trends, the share of exports in GDP has fallen significantly over the past decade to exhibit a thriving import-competing sector.⁵¹ Double-digit growth in manufacturing has been more than just a garment story, with the domestic economy experiencing rapid growth in many sectors: from pharmaceuticals to furniture, ceramic to cement, footwear to fertiliser, handbags to handicrafts, plastic items to processed food, etc. Paradoxically, the growth of these sectors is not reflected in the ever-growing garment-concentrated export basket. This pattern of economic transformation has produced a dual production structure: an export-oriented garment sector, heavily reliant on trade preferences, drives export growth, while an import-competing sector, shielded by protective policies, primarily caters to domestic markets. The current economic model appears to have reached its limits, as the export sector remains relatively small in comparison to the rising demand for imported goods and services driven by the economy's significant expansion.

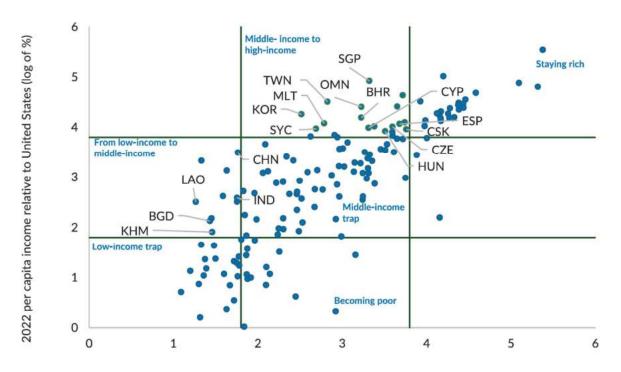
There is no denying that availability preferences alone did not ensure export success, as most other LDCs have not been able to capitalise on it. Therefore, developing the required supply side capacity, such as the large-scale garment manufacturing industry, has been a major achievement. However, it is important to recognise that Bangladesh's economic transformation has so far typically focussed on comparative advantage based on low wages, minimal regulations, and costcutting measures to achieve competitiveness. The next phase of structural transformation is required to consider what is known as high-road economic development, the salient features of which include, amongst others, enhancing productivity, creating decent or quality jobs, investing in skills development, fostering innovation and improving product standards, adopting sustainable business practices, and achieving inclusive growth. These features are now widely seen as important ingredients of comparative advantage rather than sheer wage-cost-based competitiveness. The high-road approach is particularly relevant for economies aiming to transition from dependence on low-value activities to more sophisticated, higher-value sectors. New sources of competitiveness based on product quality and innovation and improved compliance (comprising labour standards and environmental sustainability, amongst others) are crucial for establishing a country as a credible global supply chain participant.

As LDC graduation gives rise to concerns about losing access to various ISMs, it should be a trigger for high-road transformation and future readying the economy. It is worth pointing out that when Bangladesh becomes an upper-middle-income country, ISMs will disappear altogether. While residual unilateral trade preference may persist immediately post-LDC graduation, and efforts should be made to avail those, the focus must pivot towards deeper structural changes for developing and strengthening new sources of competitiveness. That is, the best way to deal with

⁵¹ The export-GDP ratio in Bangladesh has significantly declined over time, decreasing from 17.8 per cent in 2010-11 to 11.5 per cent in 2022-23 (Bangladesh Bank, 2024b; BBS, 2022).

LDC graduation is not to look for new support measures only but to push towards deep-seated structural transformation.

Figure 3.1: Country experience of moving out of low-income and middle-income traps



1970 per capita income relative to United States (log of %)

Source: Maddison Project Database 2023, accessed from

https://www.rug.nl/ggdc/historicaldevelopment/maddison/releases/maddison-project-database-2023.

Note: Per capita income is measured in terms of purchasing power parity. BGD - Bangladesh, BHR - Bahrain, CSK - Czechoslovakia, CYP - Cyprus, CZE - Czech Republic, ESP - Spain, HUN - Hungary, KHM - Cambodia, KOR - Republic of Korea, LAO - Lao People's DR, MLT - Malta, MMR - Myanmar, OMN - Oman, SGP - Singapore, SYC - Seychelles, TWN - Taiwan, Province of China. This chart is updated from the one provided by the World Bank (2013).

During a country's development journey, a potential challenge is avoiding the so-called Middle-Income Trap (GED, 2020c). Although standard growth theory predicts that low-income countries will grow at a faster rate and eventually converge with high-income countries, few have succeeded in achieving this, as reaching high-income status presents significant challenges and often involves a high risk of growth slowdowns along the way (Figure 3.1). One key finding that emerges from the cross-country growth experience is that traditional sources of economic growth—such as factor accumulation, low-wage labour, etc.—will have diminished, and thus, countries must find

drivers of productivity, innovation, and competitiveness while strengthening the economic fundamentals that foster and stabilise growth (Larson et al., 2016).52

3.2 The state of current production and incentive structures

Bangladesh's production structure has evolved into a dichotomous state, characterised by distinct policy regimes for production aimed at exports and for the domestic market (OECD, 2023). This dual structure is a primary factor behind the lack of export diversification and the limited contribution of new products to export growth. The export-oriented sector prioritises securing duty-free raw materials and other incentives (such as cash assistance or export subsidies) alongside LDC-specific trade preferences to access international markets, whereas the import-competing sector remains protected by high customs duties and other para-tariff measures.

3.2.1 Global trade policy regime influencing the current incentive structure of Bangladesh

The global trade policy regime has been and continues to be instrumental in shaping and reinforcing Bangladesh's current export structure (Razzaque et al., 2024c). Historically, until 2005, global trade in textiles and clothing was governed by the Multi-Fiber Arrangement (MFA) quota system, which dispersed production within the sector and restricted exports from potentially competitive countries. The quota system incentivised international firms from newly industrialised economies to relocate production to countries like Bangladesh despite their limited domestic market presence, resulting in the emergence of "born to export" (BTE) firms that rapidly expanded their export activities (Astarloa et al., 2012). The labour-intensive nature of apparel production, coupled with abundant and trainable labour with low wages, was fostered by the quota system.

However, even after the dismantling of quota restrictions, high tariffs on apparel imports in major importing countries have persisted, with rates significantly higher than average tariffs for industrial goods. In contrast to the 2-6.5 per cent average tariffs on industrial goods in major OECD countries, apparel imports face significantly higher tariffs: 16.2 per cent in Canada, 11.5 per cent in the EU and UK, 12.5 per cent in the Republic of Korea, 9 per cent in Japan, and 10.6 per cent in the United States (Table 3.1).53 India, the largest buyer of Bangladeshi apparel items among

⁵² To mitigate the risk of falling into the middle-income trap, the World Development Report 2024 introduced the "3i strategy," which outlines a phased approach to economic development: Investment, Infusion, and Innovation (World Bank, 2024). According to this framework, successful middle-income countries must undergo two critical transitions to establish sustainable economic systems aligned with the principles of dynamic structural transformation. The first transition involves shifting from a "1i strategy," which focuses solely on accelerating investment, to a "2i strategy," which combines investment with technology infusion. In this phase, countries emphasise importing advanced technologies and integrating them effectively into domestic industries to enhance productivity and competitiveness. Following this transformation, the next phase is the "3i strategy," where the primary focus is on fostering innovation—while continuing to emphasise investment and infusion—as the central driver of economic growth. It is, however, important to note that while LDC graduation represents a pivotal opportunity for Bangladesh to realign its economic structure and policy framework in accordance with the 3i strategy, the middle-income trap issue should be of less concern at this stage. This is because the range of middle-income per capita income is quite large up to a GNI per capita of \$14,005, as per 2024-25 classification of countries by the World Bank, as against of Bangladesh's current GNI per capita of less than \$2,700. 53 Of these markets, Bangladesh does not receive any tariff preference in the U.S. It is still however the MFA quota system that initiated Bangladesh's apparel exports to the U.S.A. Lack of tariff preference means Bangladesh in 2022 held a modest share of 7 per cent in the U.S. apparel import, as against of a share of 22 per cent in the EU.

developing countries, also maintains tariffs well above the MFN average for the same sector. Consequently, Bangladesh benefits from a considerable competitive edge in apparel exports through LDC-specific duty-free preferences compared to many other sectors. Therefore, heavy specialisation in garment export was a rational response because tariff preference in it was much higher compared to exports from other suppliers without similar preferences, as well as compared to other sectors where MFN tariffs were much lower, resulting in small tariff preference margins.

Table 3.1: Tariffs on textiles and clothing vis-à-vis overall MFN tariffs in major importing countries of Bangladesh's apparel products

	Avg. MFN tariff on industrial sectors (ad valorem)	Avg. MFN tariff on apparel products (ad valorem)	Avg. tariff on textile (ad valorem)
Australia	2.6	4.5	4.2
Canada	2.0	16.2	6.2
China	6.4	6.7	7.1
EU	4.1	11.5	8.3
India	14.7	19.7	12.2
Japan	2.4	9.0	5.7
Korea, Rep. of	6.5	12.5	10.3
United Kingdom	2.9	11.5	7.0
United States	3.1	10.6	6.8

Source: Information obtained from the World Integrated Trade System (WITS) database (World Bank, n.d.).

Along with the international policy regime—motivated by the need to nurture a promising export sector-the export-oriented garment industry since the early 1990s has been boosted by a broad policy incentive system, which included measures such as the introduction of back-to-back letters of credit, bonded warehouse facilities, duty drawback schemes, and cash assistance (Rahman, 2014). Initially, these incentives predominantly favoured the garment sector, but significant changes occurred in the late 2000s, with cash assistance reduced for RMG exporters while remaining higher for non-RMG sectors.54

3.2.2. National trade policy regime

The lack of export response from non-garment sectors can be partly attributed to the high protection afforded by Bangladesh's trade policy framework to import-competing industries through customs duties and other import taxes such as supplementary and regulatory duties, often referred to as para-tariffs (Razzaque et al., 2024c). 55 When the nominal protection rate is measured

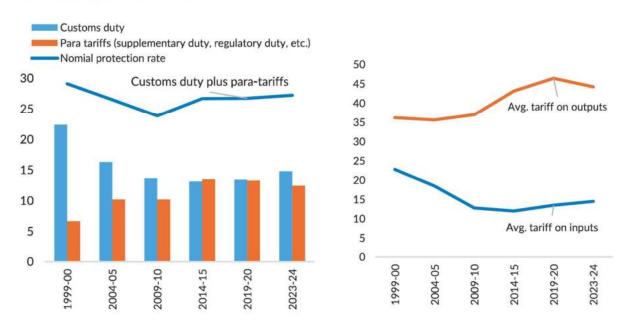
⁵⁴ Nevertheless, non-RMG exporters had to endure limited bonded warehouses facilities, and for them accessing other support measures, such as obtaining subsidised loans under the Export Development Fund (EDF), met with difficulties. Non-RMG sectors faced higher corporate tax rates until recently, when a uniform income tax rate for all exporters was introduced from 2022-23.

⁵⁵ While such taxes are supposed to be trade neutral, in reality, these are imposed mainly on imports. Originally intended to discourage the production and consumption of luxury items, supplementary duty primarily affects imports while leaving domestic production mostly untouched. Similarly, regulatory duty, initially introduced as a temporary solution for sudden import surges, has become a permanent fixture. Additionally, the implementation of VAT can also be protective

by import duties alone, the average MFN tariff for Bangladesh is estimated at 14.8 per cent, which is higher than that of individual East Asian countries, neighbouring countries such as Bhutan, Nepal, Pakistan, and Sri Lanka, but somewhat lower than that of India (18.1 per cent). However, when the para-tariffs are taken into consideration, the average nominal protection in Bangladesh is more than doubled to 28 per cent (Figure 3.2), making it much higher than any other country among global economies (World Bank, 2023). Along with this, due to tariff escalation, the difference between tariffs on inputs and outputs has widened over time, raising the effective rate of protection significantly, as shown in Figure 3.3 (ERD, 2024c; GED, 2020b).

Figure 3.2: Average customs duty, para tariffs, and nominal protection rate (%)

Figure 3.3: Average tariff on inputs and outputs (%)



Source: ERD (2024c)

The high level of protection has helped local industries, but it has come at the cost of hurting the export sector. Globally, firms typically commence exporting after establishing a strong domestic market presence, but this trend has been limited due to sustained protection. Tariffs raise prices and thus make the domestic market attractive to investors and producers relative to the global market, leading to a misallocation of resources that is detrimental to the growth and competitiveness of the export sector. As the level of tariff protection is so high, equivalent export support measures (e.g., subsidies) cannot be provided, resulting in what is known as anti-export bias (Table 3.2). In a developing country like Bangladesh, the role of trade and industrial policy in promoting domestic industries is crucial. However, prolonged high levels of protection over several decades appear to have hindered these industries from adequately preparing for the global market, as evidenced by their limited export response.

(Sattar, 2020) as imports are subjected to rigorous scrutiny whereas VAT enforcement for domestically produced goods often lacks effectiveness. This discrepancy further favours domestic production, creating an uneven playing field between imported and locally made goods.

When the effective exchange rate for imports (i.e., nominal exchange rate augmented by nominal rate of tariff protection) is compared with the effective exchange rate for exports (i.e., nominal exchange rate augmented by cash assistance and interest subsidy for exporters), the relative incentive for import-competing activities is found to be more than 30 per cent higher. It is crucial to acknowledge that a highly protective economy hinders its import-competing sectors from becoming competitive and innovative by disincentivising exports and shielding domestic industries from competition with more efficient international suppliers. In a developing country like Bangladesh, the role of trade and industrial policy in promoting domestic industries is crucial. However, prolonged high levels of protection over several decades appear to have hindered these industries from adequately preparing for the global market, as evidenced by their limited export response.

Table 3.2: Relative incentives for import-competing and export sectors

Fiscal Year	Average nominal protection (NPR) (%): Consumer goods	Nominal exchange rate (Tk/US\$)	Effective exchange rate for imports (EERm)	Effective exchange rate for exports (EERx)	Anti-Export Bias EERm/ EERx
2004-05	37.35	61.39	84.32	62.53	1.35
2005-06	38.80	67.08	93.11	68.06	1.37
2006-07	35.77	69.03	93.72	70.16	1.34
2007-08	34.19	68.60	92.05	70.02	1.31
2008-09	33.31	68.80	91.72	70.54	1.30
2009-10	41.20	69.18	97.68	71.39	1.37
2010-11	41.29	71.17	100.56	73.29	1.37
2011-12	48.36	79.10	117.35	81.47	1.44
2012-13	51.40	79.93	121.01	84.16	1.44
2013-14	50.67	77.72	117.10	82.76	1.41
2014-15	47.76	77.67	114.77	84.81	1.35
2015-16	45.95	78.26	114.22	84.55	1.35
2016-17	45.23	79.12	114.91	87.85	1.31
2017-18	45.98	82.10	119.85	90.22	1.33
2018-19	46.39	84.78	124.11	90.52	1.37
2019-20	46.43	84.78	124.14	91.69	1.35
2020-21	47	84.8	124.66	91.40	1.36
2021-22	43.62	86.3	123.94	92.48	1.34

Source: ERD (2024c).

The composition of the country's exports also reflects this trend. At the HS 6-digit level, Bangladesh's export basket contains about 1,400 non-readymade garments (non-RMG) export items, with about 84 per cent (1,165 products) being manufacturing items and the rest being agricultural goods.⁵⁶ Of these non-RMG products, only a quarter has export earnings of \$1 million each, while the others are quite small (Figure 3.4). Therefore, despite having some presence in the export basket, these products cannot expand their earnings from foreign markets. There are as many as 584 products (i.e., 42 per cent of all non-RMG products in the export basket) that are

⁵⁶ This analysis is based on the data for 2020-21.

found to be high to moderately competitive using the measure of revealed comparative advantage (RCA), as most widely used in assessing product competitiveness in international trade.⁵⁷ However, in all these products, the relative incentive for local sales is significantly higher (Table 3.3 & Table 3.4).

The average anti-export bias (AEB)—given that the ratio of average effective exchange for imports to the effective exchange rate for exports turns out to be higher than one—against the highly competitive export products of Bangladesh (e.g., jute goods, footwear, tableware, leather products like handbags) is estimated at 1.26. The corresponding policy-induced bias against the moderately and marginally competitive non-RMG goods are 1.195 and 1.153, respectively. In a bid to facilitate export diversification, various sectors have, from time to time, been identified as "highest priority" and "special development" sectors in export policies and "thrust sectors" in the Industrial Policy 2022 so that special policy attention towards their development can be provided. However, the relative incentives for the identified sectors remain unchanged as a strong anti-export bias seems to be associated with all non-RMG exports from the country.

Figure 3.4: Non-RMG export products

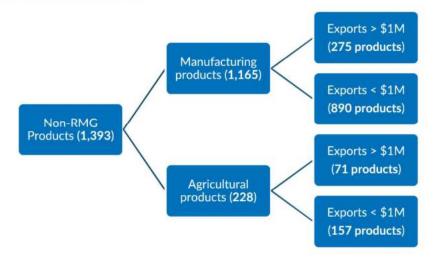


Table 3.3: Competitiveness of non-RMG products in Bangladesh's export basket

Competitiveness	Percentage of products in each category (%)				
	Agricultu	ral products	Manufacturing products		
	Exports > \$1m	Exports < \$1m	Exports > \$1m	Exports < \$1m	
Highly competitive	28.17% (20)	1.91% (3)	42.18% (116)	3.93% (35)	
Moderately competitive	28.17% (20)	18.47% (29)	26.91% (74)	32.25% (287)	
Marginally competitive	43.66% (31)	79.62% (125)	30.91% (85)	63.82% (568)	

⁵⁷ Revealed comparative advantage (RCA) in international trade is a measure that indicates the relative advantage or disadvantage of a country in a particular product or service based on its export performance. It is calculated by comparing the share of a specific product in a country's total exports to the share of that product in global trade. If the RCA index is greater than 1, the country has a comparative advantage in that product; if it is less than 1, the country has a comparative disadvantage.

Bangladesh Smooth Transition Strategy

Total	100.00% (71)	100.00% (157)	100.00% (275)	100.00% (890)
*Figures in the parenth	eses show the number of	products in each section		

Source: Estimates presented in ERD (2024c) based on EPB and UNCOMTRADE data.

Note: The degree of competitiveness, i.e., highly, moderately, and marginally competitive, is assessed by employing the so-called normalised RCA index. The NRCA index, to facilitate cross-country comparisons, measures the degree of deviation of a country's actual export from its comparative-advantage-neutral level in terms of its relative scale with respect to the world export market. To evaluate the competitiveness using NRCA, the information on 50 top competitor countries and Bangladesh exporting the same product to the same 10 destination countries was considered. After calculating the NRCA values, the degree of competitiveness was defined as follows: highly competitive - if the product is ranked in the top 10; moderately competitive - if a product is ranked within 10-20; marginally competitive - if a product is ranked below 20. The detailed list of products by various competitive categories can be found in ERD (2024c) and is available at https://ssgp.erd.gov.bd/resources/#tab-1691662644167-2-8.

Table 3.4: Distribution of non-RMG exports by average anti-export bias and competitiveness

Product Category	Competitiveness	Average anti- export bias (EERm/EERx)	Export value (million US\$)	Share of Total Non- RMG exports (%)
All non-RMG	Highly competitive	1.260	5032	69.13
products (excluding firearms, alcohol,	Moderately competitive	1.195	1083	14.88
automobiles & tobacco)	Marginally competitive	1.153	1060	14.56
	All	1.20	7175	98.58

Source: ERD (2024c). Estimation using EPB and UNCOMTRADE data.

Note: EERm represents the effective exchange rate for imports, while EERx implies the effective exchange rate for exports. The share of total non-RMG exports does not sum to 100 per cent because products such as firearms, alcohol, automobiles and tobacco (demerit goods where tariffs discourage consumption or are imposed for revenue) have been excluded during the calculation of anti-export bias. The total value of exports of non-RMG products, including those products, comes out to be \$7,278.65 million.

The textile and clothing industry in Bangladesh is also subject to high tariff protection, but the apparel export industry manages to evade the anti-export bias because of its unique circumstances (Razzaque et al., 2024c). Being exclusively export-oriented means its BTE firms have focused solely on export orders, which strategically steers their operations away from local market competition. Given that an export-oriented RMG unit is precluded from domestic sales in a highly protected market, it can exclusively capitalise on export incentives such as cash assistance, interest rate subsidies, and bonded warehouse facilities, thereby securing a competitive edge. This unique market positioning is further reinforced by substantial tariff preferences, which serve to enhance their competitiveness on a global scale.

The relative disincentive for exporters (or anti-export bias) in Bangladesh has been aggravated by inadequate domestic market standards (Razzaque et al., 2024c). The absence of robust domestic standards creates a substantial quality gap between local industries and international markets. As a result, domestic products often fail to meet the quality requirements of global markets, diminishing their competitiveness in exports. This situation particularly discourages non-RMG

producers, especially those with limited resources, from pursuing export opportunities. Consequently, there is an immediate limitation on export potential, which negatively impacts the long-term global reputation of Bangladeshi products, perpetuating a cycle of reduced export interest.

Local entrepreneurs may view the absence of rigorous domestic standards as a reason to avoid exporting due to the additional compliance costs involved. At the same time, without the enforcement of standards in the domestic economy while shielded by high tariff protection, local producers lack the incentive to enhance product quality and innovate their supply chain. For example, many global buyers have ceased sourcing leather products made from local hides due to their failure to comply with global environmental standards, yet products intended for the domestic market remain unaffected.58

As the domestic market is relatively large and growing rapidly, many firms prioritise local sales, neglecting the need to align with international quality benchmarks. The lack of effective enforcement of local standards results in numerous firms being poorly prepared for export activities, particularly to major developed country markets such as Canada, Japan, the EU, the UK, and the USA. Specific sectors like agriculture, processed foods, leather, and fish encounter significant challenges due to the rigorous regulations and standards required by these markets (Razzaque et al., 2024a). Additionally, the lack of domestic testing facilities and certifying capacity poses a challenge for improving standards and compliance in the country.

Another factor contributing to the dichotomous product structures and affecting export competitiveness is the perceived reliance on import tariffs for government revenue. Although the share of government revenue from imports has decreased since the early 2000s, it still constitutes about 30 per cent (Figure 3.5). Consequently, concerns over potential revenue losses undermine efforts to rationalise tariffs to address the inherent bias against exports. Additionally, the demand for protection by local entrepreneurs complicates policymakers' trade policy decisions. Two issues are important to consider in this regard. First, a significant portion of import tax revenue comes from the value-added tax, which will remain in place even with any tariff rationalisation programme, thus exaggerating the concerns over revenue loss. 59 Second, many stakeholders fail to fully appreciate that tariff protection for the domestic import-competing sector also negatively impacts export competitiveness.

⁵⁸ The Tannery Industrial Estate, Dhaka, has for long suffered from an ineffective central effluent treatment plant (CETP) and solid waste management. Consequently, pollution from crust leather product acts as a bottleneck for the industry as it restricts the tanneries from obtaining international quality certifications. These non-compliance issues have adversely impacted the export of leather goods from Bangladesh, as international buyers increasingly demand adherence to environmental and sustainability standards in production processes (Razzaque et al. 2020).

⁵⁹ However, recent estimates from the World Bank indicate that if customs duties and other taxes were reduced to match the levels observed in other middle-income countries such as China, India, or Viet Nam, there would be a significant decrease in government tariff revenue in the range 18 per cent to 41 per cent (World Bank, 2022).

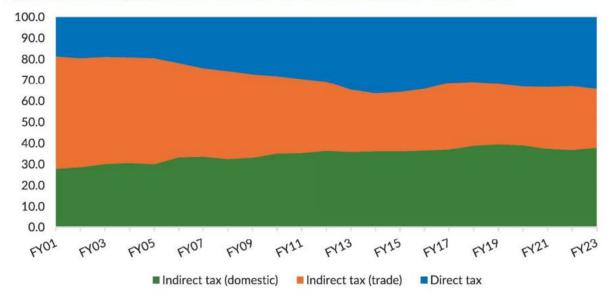


Figure 3.5: Share of government revenue from various sources (%), 2000-01 to 2022-23

Source: Data are from the National Board of Revenue.

3.3 Transforming economic competitiveness: Breaking away from preference dependence and high protection towards high-road economic development

3.3.1 Driving transformation in response to domestic and global challenges

The imminent LDC graduation of Bangladesh should be considered an opportunity for transforming economic competitiveness in a manner that will be sustainable, inclusive, and less dependent on trade preferences and high protective tariffs. In a structurally transformed competitive economy, a rationalised tariff system and modernised trade policy are essential tools for maintaining export competitiveness and a critical point during FTA negotiations with other countries. Competitive economies rely less on protection and trade preferences and more focus on structural transformation, diversification, and innovation in their production line to promote exports.⁶⁰ Reducing reliance on protection motivates domestic industries to enhance efficiency, embrace innovation, adopt best practices, and compete globally, ultimately resulting in higher productivity and ensuring quality and standards. This enhanced competitiveness makes more domestically produced items ready for export and attractive in global markets, helping to diversify exports and reduce vulnerability to policy changes in partner countries. Additionally, a competitive, open economy is more attractive to foreign investors, bringing in capital, technology, and expertise that further boost economic development. Furthermore, when industries rely less on protection, resources are allocated more efficiently based on market demands rather than artificial incentives, leading to more effective utilisation of labour, capital, and technology across the economy.

⁶⁰ Preferences in international trade, outside unilateral GSP schemes, are based on reciprocity and occur under free trade agreements (FTAs) or preferential trading arrangements (PTAs). These arrangements require countries to open up to trade partners to exchange preferences, thereby generating competition and efficiency within their own economies.

Excessive tariff protection raises consumers' costs by increasing the prices of both imported and domestically produced goods, as tariffs act as a tax on imports, which are usually passed on to consumers, resulting in higher retail prices that significantly exceed international market rates. There is some evidence to suggest that during the five-year period from 2012-13 to 2016-17, the total protection cost to Bangladeshi consumers amounted to \$70.6 billion, with domestic prices being, on average, 70 per cent above international prices (Sattar, 2018). For 2016-17 alone, this cost is estimated at \$14.2 billion, which is equivalent to 5.7 per cent of that year's GDP and 31 per cent of the manufacturing value added in the country. When inclusivity is a core development objective, the cost of protection could serve as a significant barrier by disproportionately burdening lower-income consumers, thereby exacerbating income inequality.

A dichotomous production structure, characterised by distinct export-oriented and importcompeting sectors with stark differences in product quality, standards, and working environments, is not in the best interest of the economy. While export sectors strive to improve through productivity and adhering to higher standards to meet international demands, the sustained disparity in the domestic economy obstructs broader economic transformation. This divergence hinders the preparation of the entire economy for global competitiveness, as maintaining lower standards in the domestic sector discourages overall improvement in quality and productivity.

To succeed in today's global market, exporters must comply with a complex landscape of standards, regulations, and consumer expectations. These standards aim to ensure product quality, safety, and sustainability, as well as fair labour practices and minimal environmental impact. By meeting these high bars, exporters gain a competitive edge and build trust and a strong reputation, opening doors to premium markets and minimising the risk of getting shut out by trade restrictions. For instance, in Bangladesh's largest export market, the EU, exporters must navigate several stringent requirements to remain competitive and compliant. Under the GSP+, the most generous preferential trade regime in the EU that a country can access after its LDC graduation, beneficiary countries are required to comply with core international conventions on human rights, labour rights, environmental protection, and good governance to benefit from reduced tariffs. Furthermore, the EU has introduced the Carbon Border Adjustment Mechanism (CBAM), which requires exporters to account for the carbon footprint of their products, aiming to prevent carbon leakage/emissions by imposing costs equivalent to the EU's carbon pricing. 61 Additionally, the EU's due diligence regulations mandate that companies ensure their supply chains are free from human rights violations and environmental harm, necessitating rigorous monitoring and transparency. Many other countries, including the United States, are also focussing on labour and compliance issues in bilateral discussions and in considering preferential market access. 62

⁶¹ The EU Carbon Border Adjustment Mechanism (CBAM) currently covers five sectors: cement, iron and steel, aluminium, fertilisers, and electricity generation. This mechanism is designed to prevent carbon leakage by imposing a carbon price on imports of these goods, aligning them with the EU's carbon pricing policies. There is potential for the CBAM to be expanded in the future to include additional sectors as the EU continues to refine its approach to achieving climate neutrality by 2050 (European Commission, 2024).

⁶² The US discontinued GSP preferences for Bangladesh in 2013 following the Rana Plaza building collapse that highlighted hazardous working conditions in the garment industry.

Higher standards and compliance requirements are increasingly necessary as companies respond to growing customer demand for ethically produced goods, driven by heightened awareness and expectations for corporate responsibility, with consumers becoming more sensitive to labour conditions and environmental sustainability. Simultaneously, these requirements are being reinforced by changes in global political circumstances. Recent analyses indicate that trade agreements are progressively aimed at incorporating human rights considerations, reflecting a broader trend of aligning trade policies with ethical and social objectives (Saha & Khorana, 2021). For example, many contemporary trade deals now include clauses that address labour rights and environmental standards, driven by growing public and political pressure to ensure that economic activities do not exacerbate human rights abuses or environmental degradation.⁶³

With the rise in geopolitical tensions globally, labour standards and human rights issues are becoming increasingly prominent in international trade. Trade policy is now more intertwined with geopolitical risks and is also utilised as a means to further broader foreign policy goals, such as safeguarding national security, addressing climate change, and promoting human rights (Chattam House, 2022). Geopolitical shifts have intensified scrutiny on the ethical dimensions of trade, with governments and international organisations advocating for stronger human rights monitoring mechanisms within trade agreements and trading arrangements (Zerk & Beacock, 2021). Such measures are seen as essential to mitigating the negative impacts of global trade on vulnerable populations and ensuring sustainable development. Despite challenges in implementation, the trend towards integrating human rights into trade policy is gaining momentum, highlighting the critical role of ethical considerations in shaping future trade landscapes.

While compliance with these multifaceted requirements enhances market access and competitiveness, it can impose significant compliance costs and operational challenges for exporters, particularly for micro, small, and medium-sized enterprises (MSMEs), potentially limiting their ability to compete at the global level if they lack the necessary resources and infrastructure. However, neglecting to improve compliance is not an option for an economy that aims to foster competitiveness through further structural transformation. Rather than focusing solely on pricebased competition, new sources of competitiveness increasingly demand improved standards in environmental, social, and governance (ESG) criteria to meet evolving consumer expectations and regulatory requirements.

3.3.2 Taking a high-road economic transformation approach

The concept of "high-road economic development" refers to a strategy that emphasises sustainable and inclusive growth through the enhancement of productivity, innovation, and quality standards rather than relying just on low-cost competition (Patluang, 2018). This approach advocates for driving innovation and productivity through investments in education, skills development, and

⁶³ Saha and Khorana (2021) find that since 2013, over 80 per cent of trade agreements have incorporated labour provisions, and more than 40 per cent of agreements since 2000 have included anti-corruption and anti-bribery clauses that surpass WTO requirements. This trend indicates that trade agreements globally are increasingly mandating partners to adhere to specific human rights conditions, encompassing labour standards, political participation, environmental concerns, and standards related to particular goods.

technology to build a highly skilled workforce, supporting women's greater labour force participation.⁶⁴ It also includes a strong focus on improving labour standards, environmental protection and sustainability, and social equity, ensuring that economic growth benefits a broad segment of the population. By prioritising these factors, countries can shift towards a structurally transformed economy that is more resilient and competitive economies, attract higher-quality investments, and ensure long-term sustainable development that is less vulnerable to the pitfalls of low-cost, low-value-added competition. This approach relieves the pressure of low wages and cost-cutting on standards and compliance, allowing for better labour rights and environmental protection and ultimately building brand value based on quality, ethical standards, and sustainability. It not only promotes a fairer distribution of economic benefits but also positions industries to compete globally.

Global firms are increasingly driven by compliance with ESG standards, influenced by regulatory requirements and consumer demand for ethically produced goods (Thomson Reuters Institution, 2024). This shift is partly due to heightened scrutiny from shareholders and stakeholders, who demand greater accountability and transparency throughout supply chains. For example, the EU's Corporate Sustainability Due Diligence Directive (CS3D) requires companies to manage the environmental and social impacts of their value chains, with severe penalties for non-compliance. Such regulations make ESG considerations a critical part of business strategy, compelling firms to ensure their suppliers adhere to high standards to mitigate risks and protect their reputations (Kengelbach et al., 2024).

To achieve such an economic transformation, it is imperative to reduce the disparities between export and non-export industries regarding product quality, labour standards, and environmental concerns. Ensuring high standards across all sectors will create a level playing field, fostering competitiveness based on excellence rather than cost-cutting measures. This harmonisation encourages domestic industries to innovate and improve, benefiting from the same rigorous practices that make export industries successful. Moreover, consistent standards bolster the overall reputation of a country's products, enhancing brand value and consumer trust globally. By integrating high standards universally, the economy can sustainably grow, attract higher-quality investments, increase adaptability of human resources to move across industries and sectors, and ensure long-term resilience and prosperity.

In a transformed economy that emphasises high standards and innovation, the protection policy should focus on strategic support rather than broad-based high tariffs (Figure 3.6). The role of rationalised tariffs in such circumstances is to provide time-bound protection to specific industries and sectors, preparing them to ultimately compete effectively in both the global and domestic markets. The policy instruments could also include targeted support for research and development,

⁶⁴ The concept of high and low road economic developments is also used in the context of employers. For instance, according to OECD (2017), employers can be broadly categorised based on their strategic approach: those that adopt "high road strategies" view employees and their skills as crucial to the business's competitive edge, while those following "low road strategies" treat labour as a commodity, focusing on minimising worker-related costs. See, https://www.oecdilibrary.org/sites/9789264281394-4-en/index.html?itemId=/content/component/9789264281394-4-en

incentives for green technologies, and investments in education and workforce training. Such a strategy nurtures sectors with high growth potential and encourages industries to compete on quality and sustainability rather than low costs, aligning with global market demands. It is worth noting that if market access preferences related to LDC status are lost, along with the ability to provide export subsidies, while tariff protection remains, the resulting policy will further intensify the anti-export bias.

The transformative approach will pave the way for many domestic market products to achieve their export potential rather than solely handpicking the perceived winners for policy support. Successive export policies in Bangladesh have made various efforts to identify potential export sectors based on their initial growth performance, but success has been limited. However, when transformational conditions are fulfilled, moving across the product space encompassing all possible interlinked outputs that a country can produce becomes more feasible, leading to export diversification. The product space, as in Figure 3.7, depicts a map of all merchandise export items, indicating how individual products are linked to one another. Towards the centre of the space, product linkages are dense, implying that if a country's products lie at or close to the centre, exporting related products is easier. The central part of the space includes products such as machinery, heavy industry items like automobiles, chemicals, and capital-intensive goods. In contrast, when products are at the peripheries of the product space, countries exporting these items find it very difficult to move into other sectors. Mineral resources such as petroleum and metals, along with other basic commodities, are mostly located at the margins of the product space.

represents weak/poor impart/linkage represents strong impact/linkage Trade logistics, and customs procedure Environmental, social, and governance Women participation, equality, and inclusivity Labor productivity and standards SMEs and CMSMEs involvement Skills and capacity development Energy officiency and transition Structurally Transformed Economy / Intellectual property rights Export-oriented sectors Ease of doing business Rationalised protection Export diversification Import substitusering Productive capacity Product quality Negotiated market Rationalhed tariff (Rouds, crargy, perin) (Product, labour, environment) Quality and compliance Science and technology (Health, education) social protections Physical Social infrastructures Smooth Transition Figuresial and capital market Macroeconomic factors Debt sustairtability Exchange rate Tariff policy Fiscal policy Interest rate ♣ Investment • International partnership and assistance Foreign direct investment Domestic resource mobilisation LDC-specific trade preferences Export subsidies Weak standard and low product quality Private sector Existing Structure Export-oriented sectors Government Capacity building Institutions Rule of law Anti-export bins High tariff protection Development partners

Figure 3.6: Using LDC graduation for economic transformation

Source: Illustration prepared for this Strategy.

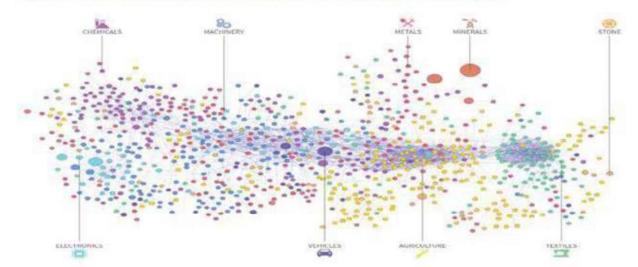


Figure 3.7: Global product spaces and locations of some selected product categories

Source: Hausmann, R. and Hidalgo, C.A., (Hidalgo & Hausmann, 2009). The Atlas of Economic Complexity: Mapping Paths to Prosperity. Cambridge: MIT Press. Available at: https://atlas.cid.harvard.edu/

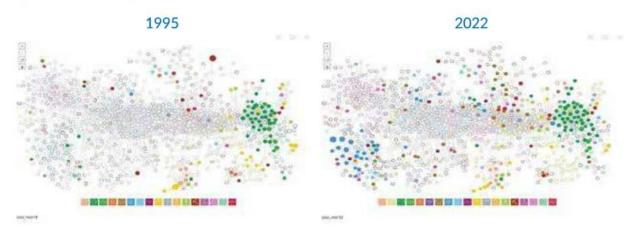
The product space of Bangladesh is mainly characterised by a strong presence in the garment clusters, as indicated by green dots, and it remained almost unchanged between 1995 and 2022 (Figure 3.8 & Figure 3.9). On the other hand, the same map for Viet Nam shows significant expansion beyond the garment cluster since 1995, with the most recently expanded activities in the clusters on broadcasting equipment, office machine parts, and semiconductor devices (Figure 3.9). From its product space mapping in 1995, it would be very difficult to predict that exports would be expanded to these new sectors. This is where the role of a transformative approach is needed in recognising the growth potential of many different sectors that may not be prominent now.

According to an assessment of Bangladesh's current product space composition, there are as many as 584 products at the HS 6-digit level in which Bangladesh exhibits moderate to high competitiveness. Additionally, there are 316 products that Bangladesh currently lacks competitiveness with, as demonstrated by the revealed comparative advantage (RCA) assessment, but comparator countries such as China, India, and Viet Nam are exporting these goods. Producing and exporting sophisticated products generate improved export earnings prospects and improved wages for workers compared to simpler products. However, it is essential to determine whether a country has the required factor endowments to produce such complex products. The product space analysis identifies more than 200 relatively sophisticated items within Bangladesh's reasonable endowment capacity (ERD, 2024c). These products, mainly in electronics, engineering, chemicals, machinery, and processed agricultural goods, offer diverse opportunities for export diversification. Therefore, while there is no shortage of potential, the current production incentive structure, limited productive capacity, lack of preparation regarding standards and compliance, and barriers to mobilising investment are all hindering the expansion of exports.

1995 2022

Figure 3.8: Product space of Bangladesh, 1995 and 2022

Figure 3.9: Product space of Viet Nam, 1995 and 2022



Source: Hausmann, R. and Hidalgo, C.A., (Hidalgo & Hausmann, 2009). The Atlas of Economic Complexity: Mapping Paths to Prosperity Cambridge: MIT Press. Available at: https://atlas.cid.harvard.edu/

There is strong evidence that the mix of goods a country produces and can export is an important determinant of its future growth potential, suggesting the significance of relatively complex and sophisticated higher-value-added products and diversifying exports to foster long-term economic development (Hausmann et al., 2007). This approach highlights the importance of local cost discovery and knowledge spillovers in shaping specialisation patterns, which are not solely determined by existing endowments but can also be influenced by the learning and adaptation processes within the economy.65

increasing a country's economic complexity and long-term growth prospects.

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⁶⁵ Local cost discovery is the process by which firms learn and adapt to the real costs of producing new and complex goods. This involves experimenting with production techniques, assessing input costs, and understanding necessary infrastructure and labour capabilities. The insights gained enable firms to produce goods more cost-effectively, leading to broader knowledge spillovers within the economy. These spillovers enhance overall industry efficiency and productive capacity, supporting economic growth by building capabilities for more advanced and higher-value-added products, thus

△ Non-LDCs • LDCs **Economic Complexity Outlook Index** IND 2 IDN 1 △ A PHL 0 $\Delta\!\Delta$ Δ -1 More Complex -2 -3 -2 -1 1 2 3 0 **Economic Complexity Index**

Figure 3.10: Economic complexity and diversification potential

Source: (Growth Lab, n.d.). The Atlas of Economic Complexity, Harvard University Center for International Development, https://atlas.cid.harvard.edu/

Countries with higher Product Complexity Index (PCI) values are shown to have greater prospects for diversified activities and economies (Figure 3.10), i.e., countries specialising in more complex and higher-value-added products tend to experience faster and more sustained economic growth. Bangladesh (BGD) has a relatively low ECI, indicating a focus on simpler manufacturing items, and a low ECOI, suggesting limited potential for diversification into more complex products. To transition from producing simpler manufacturing items to more complex and sophisticated products, Bangladesh must invest more in education and skills development to cultivate a highly skilled workforce essential for advanced technologies and processes, as the current public spending on education is just above 1 per cent of GDP and less than 1 per cent on health. Finhancing infrastructure, such as reliable energy supply, efficient transportation networks, and digital connectivity, is crucial to support sophisticated manufacturing. Fostering an innovation ecosystem through research and development incentives, technology transfer, and public-private partnerships can drive technological advancements. Additionally, improving standards and compliance frameworks to meet international quality and environmental standards will enable access to high-value markets. Creating a favourable business environment with streamlined

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⁶⁶ The Economic Complexity Index (ECI) measures the sophistication and diversity of a country's export products, while the Economic Complexity Outlook Index (ECOI) predicts the potential for future economic growth based on current capabilities. Each year, the Harvard University Centre for International Development's Growth Lab evaluates countries around the world for economic complexity. The Economic Complexity Index (ECI) examines how many products a country exports, as well as the complexity of those products, and then scores each country. Higher scores indicate a more complex export economy. A complement to the ECI, the Complexity Outlook Index (COI) is a measure of how many complex products are near a country's current set of capabilities. A high COI value indicates that the country's industries have the capability to manufacture a wide variety of complex products.

⁶⁷ The UNESCO's Education 2030 Framework for Action stipulates a target of at least 4 per cent of GDP as public spending in education. The 8th Five-Year Plan of Bangladesh proposed to increase it to 3 per cent by 2025. On the other hand, based on a wide range of evidence and comparisons across countries, the public spending on health should be 3-5 per cent of GDP for developing countries.

regulations and investment incentives is vital in attracting the necessary capital for industrial upgrading.

3.4 Transitioning towards a structurally transformed economy in the context of LDC graduation

To transition towards a structurally transformed and competitive economy, it is essential to address both policy approaches and core enablers. Policy approaches involve strategic reforms such as rationalising tariffs to enhance trade policy flexibility and address anti-export bias, effective macroeconomic management for boosting trade competitiveness, options for mobilising resources, etc. Core enablers, on the other hand, are foundational elements that support these policy measures to achieve the ultimate policy objectives, including significant investment in human capital to develop a skilled workforce, fostering innovation and digitalisation for productivity and efficiency gains, adhering to international standards in product quality and compliance to success in export markets, infrastructure development to improve competitiveness, integrating sustainable practices to maintain environmental and economic resilience, etc. Together, these policy approaches and core enablers can provide a comprehensive framework for achieving sustainable economic growth and global competitiveness.

While many of the essential ingredients for transformative changes are already in place, it is now crucial to consolidate the progress made so far. It is also essential to critically assess where policy reforms are needed and focus on the practical, effective implementation of changes in areas still lagging behind. This will involve ensuring that policy directions are aligned with these foundational elements, promoting cohesive strategies that leverage existing strengths. However, without addressing other existing gaps and pushing for meaningful progress, the potential for real transformation may stall, reflecting that the initial efforts are insufficient.

3.4.1 Policy approaches

Given the impending LDC graduation, Bangladesh's strategic option to move towards a structurally transformed economy and harness new sources of competitiveness will require comprehensive policy approaches. First and foremost, dealing with the incentive system that maintains the dualism of export and non-export sectors will be important. A rationalised tariff structure should help reduce the anti-export bias, and this is extremely important as after LDC graduation, continuing with export subsidies would not be possible, and maintaining the status quo for the importcompeting sector would only make the current perverse export incentive worse. A National Tariff Policy (NTP) has already been put in place, highlighting the importance of tariff rationalisation and providing broad outlines of possible measures that need to be undertaken. The NTP introduces measures such as allowing firms to import inputs for exports duty-free, up to 70 per cent of export value, ensuring a level playing field for all exporters. The policy also recognises the significant antiexport bias of current incentives and seeks to safeguard consumer interests by lessening the impact of higher tariff-induced prices. The policy's assertive approach to dealing with difficult reform measures is highlighted by its high-level implementation committee.

However, the implementation of the NTP should be an immediate priority to provide the trade policy flexibility that Bangladesh needs to negotiate market access opportunities through free trade agreements (FTAs). Major export markets such as China, India, and Japan have shown interest in economic partnership agreements (EPAs)/FTAs with Bangladesh. Without potential tariff reduction/rationalisation commitments, undertaking these negotiations is not possible. However, continuing to rely heavily on import-based revenue restricts this flexibility. Therefore, like most other countries, Bangladesh must diversify its sources of government revenue by, among other measures, enhancing direct taxation and strengthening the Value Added Tax (VAT) system.⁶⁸ When the proportion of direct tax is low, it is not easy to use fiscal policy effectively to achieve inclusive growth.

Policy improvements for mobilising investments-from both domestic and external sources-are critical as the expected structural changes in the economy will require additional resources. The importance of increasing fiscal space through enhanced domestic revenue mobilisation cannot be overstated. There is strong evidence to suggest that a 15 per cent tax-GDP ratio is a crucial threshold for stimulating inclusive economic growth in developing countries like Bangladesh (IMF, 2016). The very limited domestic revenue effort has kept overall public spending low, with increasing dependence on bank borrowing and external financing until recently, both incurring interest payments, which are already about 14 per cent of the government budget.

Along with improving domestic revenue mobilisation, there is also a need to mobilise additional financing from external sources, including overseas development assistance (ODA) and foreign direct investment (FDI), to support investment in social, physical, technology, and quality infrastructures (as shown in Figure 3.6 above). Policy options available are all interlinked: effective taxation will improve the government's capacity to expand public spending and service additional external financing. This, in turn, will depend on an effective structure for exports and remittances to manage a sustainable foreign reserve situation.

Under the existing structure of production configuration, less flexible policy approaches cannot provide effective boosts to competitiveness. For instance, limited flexibilities in exchange rate management led to a significant real exchange rate appreciation, with the overall real effective exchange rate (REER) appreciating by more than 60 per cent between 2012 and 2020 before falling to 46 per cent in 2023 in the aftermath of major depreciation of the Taka (GED, 2023). The bilateral REERs with China, India, and Viet Nam also appreciated between 25 to 30 per cent, indicating a potential loss of export competitiveness against the major competitors (Figure 3.11 & Figure 3.12). Under a transformed framework, the policy approaches will be compatible so that a more flexible exchange rate (mainly market-determined) can augment export competitiveness along with

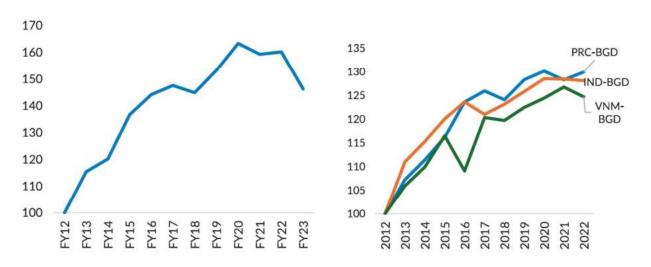
⁶⁸ The challenges facing Bangladesh's tax system have been discussed in many different studies including the 8th Five Year Plan and IMF (2023). Despite over 10 million registered taxpayers, only 38 per cent filed returns, covering just 6.25 per cent of the population. If all eligible individuals paid taxes, personal income tax revenue could rise to 3.1 per cent of GDP from around 1 per cent. Compliance is also low in corporate tax, with only 8.45 per cent of registered companies filing returns in 2022-23. Arbitrary tax exemptions are shown to have resulted in forgone tax revenue equivalent of 2.3 per cent of GDP. Furthermore, the share of direct tax is low in total tax revenue is quite low, at 2.6 per cent of GDP in 2022-23.

supporting non-export sector. In the face of recent unfavourable macroeconomic development, the central bank has already made the policy directions clear.

Policy approaches should also consider the role of any trade preferences that may be available post-graduation in facilitating the transformation. Bangladesh has long benefited from trade preferences, and a gradual decline in reliance on these preferences can help maintain export performance while the economy adjusts and diversifies. This can generate essential revenue and foreign exchange reserves to support broader economic transformation efforts. Additionally, utilising favourable market access conditionalities, especially under negotiated trade deals that provide sustained market access opportunities, can attract foreign investment.

Figure 3.11: Real Effective Exchange Rate (REER) of Bangladesh, 2012=100

Figure 3.12: Bangladesh's bilateral REER, 2012=100



Source: Analysis using data from Bangladesh Bank and International Financial Statistics (IFS), IMF.

Note: BGD = Bangladesh, PRC = People's Republic of China, IND = India, VNM = Viet Nam.

3.4.2 Core enablers of a structurally transformed economy to facilitate a smooth transition of Bangladesh

Productive capacity: Productive capacities, defined as the productive resources, entrepreneurial capabilities, and production linkages that determine a country's ability to produce goods and services, are essential for economic growth and development (UNCTAD, 2006). Improving these capacities is crucial for facilitating structural transformation, enhancing institutional capacity, product quality, enterprise development, supporting export competitiveness, and diversifying exports. Structural change is central to developing productive capacities and setting economies on a positive development trajectory (UNCTAD, 2017). The UNCTAD's Productive Capacities Index (PCI) underscores the importance of enhancing productive capacity for inclusive and sustainable

economic growth and achieving sustainable development goals (UNCTAD, 2023a).⁶⁹ While Bangladesh's PCI is above the LDC average, it still requires significant improvements compared to its peers such as India, Thailand, and Viet Nam (Figure 3.13)

It is worth noting that Bangladesh's economic growth has primarily been driven by the accumulation of labour and capital with minimal technological advancement (ERD, 2024d). However, optimising this growth model by increasing productivity is essential for long-term success. A strong productive capacity base is often associated with technological advancements and efficient production processes. This not only leads to a diversified product range but also ensures product quality and standards, which are critical factors in establishing and maintaining trust in the international market. Bangladesh's productivity growth averaged 3.8 per cent from 1995 to 2016, surpassing the 2.5 per cent average for the 20 Asia Productivity Organization member economies, but this was due to the fact that the country had started from a very low productivity level (Asian Productivity Organization, 2021).

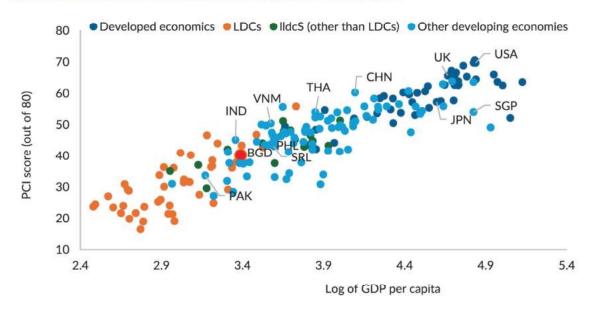


Figure 3.13: Productive capacities index of global economies, 2022

Source: UNCTADstat (2023).

Note: LDCs- Least Developed Countries, LLDCs - Landlocked Developing Countries.

To enhance productivity, a National Productivity Master Plan 2021–2030 was formulated, aiming for an average annual productivity growth of 5.6 per cent from 2021 to 2031 (Box 3.1). This plan emphasises investment in infrastructure, technological advancement, research, and innovation, as well as improving public investment in education, skill development, and healthcare. It also highlights the importance of green initiatives, integrating Fourth Industrial Revolution (4IR) technologies, and strengthening climate resilience. Enhancing the capabilities of MSMEs and CMSMEs is vital for increasing production capacity and fostering backward linkages within export-

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⁶⁹ A robust productive capacity base is linked to five policy areas: development governance, social policy, macroeconomic and financial policies, industrial and sectoral policies, and international support measures. These policies must be pursued in an integrated manner to expand productive capacity and drive structural change.

oriented sectors. Achieving these goals requires a holistic approach that considers various factors and perspectives to ensure successful implementation.

Box 3.1: Five Goals of Bangladesh National Productivity Master Plan 2021-2030

Firstly, the aim is to develop a broad base of productive, innovative, and agile enterprises, transitioning from low-productivity SMEs and large enterprises to high-value-added businesses. This will be achieved by elevating SMEs to escape the low-productivity cycle and scaling up innovative large enterprises.

Secondly, the goal is to establish leading-edge sectors producing high-value-added goods and services, moving beyond subsistence agriculture and labour-intensive manufacturing. This involves promoting productivity in all sectors, modernising and diversifying agriculture, expanding the industrial base, and transforming traditional services into modern, exportable services.

Thirdly, the objective is to create a complex economic structure with deep capabilities and sophisticated products, transitioning from a narrow economic base to high-value-added industries and competitive products (e.g., food and beverage, furniture, and iron and steel basic industry). This will be done by driving growth in new high-value-added industries and strengthening existing core industries.

Fourthly, the focus is on developing robust business enablers, enhancing skills, technology, and the business environment to boost productivity. This includes improving the skills development system, intensifying technology use, and removing business obstacles.

Lastly, the goal is to establish advanced macro enablers to sustain productivity growth, improving the institutional environment, infrastructure, macroeconomic stability, and the state of education and health through collaboration with relevant institutions.

Source: Bangladesh National Productivity Master Plan 2021-2030

Investment: Investment and its diversification across various sectors are key enablers for structural transformation. Promoting foreign and local investment is critical for Bangladesh, especially as it navigates the challenges of graduating from LDC status. The 8FYP aims for investment to reach more than 36 per cent of GDP by 2024-25, with 27.4 per cent of GDP equivalent investment coming from the private sector and the remaining (10 per cent of GDP) from public investment. However, private investment has stagnated at 22-23 per cent over the past decade, and public investment remains modest at 8 per cent (ERD, 2023). This highlights the urgent need to create an investment-friendly ecosystem to boost private investment.

FDI plays a major role in product innovation and enhancing a country's competitive advantage in global markets.⁷⁰ Despite the promises, FDI inflows into Bangladesh remain subdued (Figure 3.14 & Figure 3.15).⁷¹ The recent mid-term review of the 8FYP has also highlighted the lack of progress

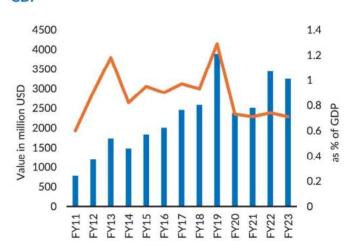
⁷⁰ Viet Nam's export success is driven by FDI, which holds a 60 per cent share of manufacturing exports.

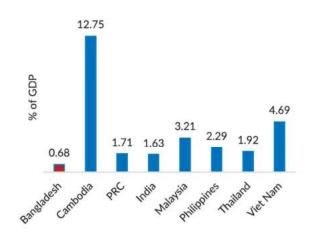
⁷¹ While Bangladesh's net FDI inflow was just \$3.4 billion in 2022, China received \$189 billion, Singapore \$141.2 billion, India \$49.4 billion, Indonesia \$22 billion, Viet Nam \$18 billion, Malaysia \$17 billion, the Philippines \$9.2 billion, and Turkey \$8 billion (UNCTAD, 2023c). Between 1972 and 2005, net FDI inflow in Bangladesh always remained less than 1 per cent of GDP. From 2005 to 2015, Bangladesh saw a gradual but slight rise in net FDI inflows, peaking at 1.74 per cent of GDP in 2013. However, since 2013, net FDI inflow as a share of GDP in Bangladesh has been on the decline. In 2021, FDI was only 0.41per cent of Bangladesh's GDP (ERD, 2023a).

in attracting FDI to the country, aiming to increase FDI to about 2 per cent of GDP in 2022-23 and remaining below 1 per cent (GED, 2023). Beyond increasing capital stock, FDI can drive positive spillovers such as technology transfer, expertise in sustainability, and responsible business conduct (RBC). FDI firms create linkages with local suppliers and improve access to export markets as they are well integrated into global supply chains (ADB & OECD, forthcoming). Amongst others, FDI can help stabilise foreign currency reserves and exchange rate movement.

Figure 3.14: Net FDI inflows into Bangladesh, as % of GDP

Figure 3.15: Average FDI inflows, 2013–2022





Source: Bangladesh Bank.

Source: UNCTAD (2023b)

Note: PRC = People's Republic of China

Despite a relatively open framework for FDI compared to South and Southeast Asian peers, Bangladesh faces challenges in attracting foreign investment. While entry barriers are low, limitations exist. Key service and primary industries are partially restricted to foreign investors, hindering potential economic growth (ADB & OECD, forthcoming).⁷² The investment-related legal framework also lacks modernisation. The Foreign Private Investment Promotion and Protection Act (1980) and the amended Companies Act (1994) need to be updated, given the evolving circumstances. The absence of a commercial court, an older Arbitration Act (based on the 1985 UNCITRAL Model Law), and time-consuming judicial proceedings further deter investors' confidence. Additionally, unpredictable regulatory changes, with nearly 40 per cent of firms experiencing unannounced policy shifts, create uncertainty and undermine investor trust (MCCI & Policy Exchange, 2024). The respective ministries and departments have made significant efforts to attract more FDI by enhancing institutional capacity, improving the ease of doing business, and fostering an investment-friendly environment. Various initiatives have been undertaken, including establishing the Bangladesh Investment Development Authority (BIDA) and introducing one-stop

⁷² The restricted sectors include logistics, maritime transport and air transport, where foreign shareholding is limited to 49 per cent. In telecom, a maximum shareholding of 70 per cent is allowed for telecom towers and nationwide ISPs, but divisional/district-specific ISP licenses reserved for local investors. Reciprocity requirements for bank licenses; branches of foreign insurance companies are allowed, but foreign shareholding in local insurers is limited to 60 per cent. In the legal service, only Bangladeshi citizens are permitted to practice law. For Fisheries, 51 per cent of local vessels are owned by Bangladeshi citizens and limited to foreign investors.

services (OSSs) for local and foreign investors, developing Special Economic Zones (SEZs), and enhancing the capacities of the Bangladesh Economic Zones Authority (BEZA), the Bangladesh Export Processing Zones Authority (BEPZA), and Hi-Tech parks. The effective functioning of these entities remains a significant concern. For instance, the development of 100 Special Economic Zones (SEZs) has proven overly ambitious; prioritising the completion and operationalisation of a few SEZs is crucial to kickstart investment activities. Moreover, the Bangladesh Investment Development Authority (BIDA) has struggled to meet its targets and has failed to attract sufficient Foreign Direct Investment (FDI) from potential investors. Factors such as poor coordination among implementing institutions, administrative inefficiencies, non-transparent practices, and weak dispute-resolution mechanisms have collectively deterred foreign investors. Addressing these challenges requires simplifying the regulatory framework, modernising incentive packages, and adhering to commitments made to investors in conjunction with a more open trade regime.

Product quality and standards: Product quality and adherence to international standards are fundamental for export success, establishing a positive market reputation, and fostering long-term competitiveness. Bangladesh must prioritise quality enhancement and compliance with international standards to maintain export competitiveness in the post-LDC period, especially for new products. Quality upgradation, differentiation, and sophistication are linked to better export prices and market expansion. Effective export performance depends on rigorous quality control, including the use of high-grade raw materials, adherence to standards, and sustainable production practices (Razzaque et al., 2020). Quality improvement, along with proper branding, drives increased export demand and premium pricing in both domestic and international markets.

Developing quality-driven infrastructure is crucial for a robust production supply chain. Inadequate quality control has long affected various industries, impacting productivity. A firm-level employers' perception of different sectors finds that inadequate quality control is considered a challenge in pharmaceuticals, plastics, leather, and agro-industry production, while this is hardly a perceived problem for the RMG sector (Figure 3.16). As the firms outside Dhaka are reported to face more difficulties due to limited testing facilities, enhancing BSTI's capacity and establishing more branches at the district level is essential. However, BSTI quality certification should achieve global accreditation, addressing various challenges. Additionally, the privatisation of certification, standardisation, and testing labs is necessary to ensure quicker and higher-quality services. Efforts are currently underway to enhance Bangladesh's national quality infrastructure (NQI) for industrial competitiveness, and key reform areas have already been identified (OECD, 2023). Meeting international quality and safety standards requires a collaborative effort from the government, exporters, and development partners, prioritising investments in advanced laboratories and skilled personnel to ensure efficient and reliable testing and certification processes.

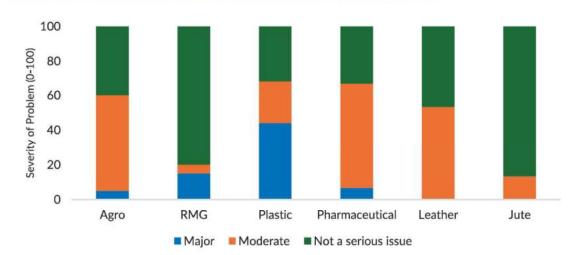


Figure 3.16: Firms' perception about quality control being a major problem

Source: BIDS Primary Survey Data, 2024; ERD, (2024d)

ICT-driven technological progress: Information and communication technology (ICT)-led technological progress has become a key driver of economic transformation, offering opportunities for diversification, productivity enhancement, and quality improvements (Figure 3.17). It facilitates sustainable industrial development by establishing quality standards through digital technologies, modernising sectors, enhancing disaster response, optimising institutional arrangements, and improving tax revenue mobilisation. ICT can also help promote governance, accountability, and traceability and support export diversification through digital services and content trading.

Emerging technologies like IoT and AI are reshaping the global landscape, reducing the advantage of low labour costs (OECD, 2023; Primi & Toselli, 2020). However, accelerating the adoption of new approaches and technologies is key to unlocking structural economic change, as productivity gains are the cornerstone of this transformation, and any delay can weaken the entire process. It has been estimated that increased technology adoption raises export likelihood by 3 percentage points and boosts wages by 8 per cent, indicating the potential of digitalisation to transform Bangladesh's economy (ADB & IsDB, 2023; OECD, 2023).

ICT-led technology and innovation Improve logistics services and ectoral specialisation Productive (e.g., electronics products and software) reduce trade cost Transparency, accountability and Increased labour Improve quality productivity and standards Ease of Export Increased doing diversification participation business in GVC **Economic** transformation/ Structural change

Figure 3.17: Structural transformation through digitalisation and innovation

Source: Illustration prepared for this Strategy.

Bangladesh's IT and IT-enabled services (ITES) exports have experienced double-digit growth until 2019-20 but then fell marginally, hovering about \$1.4 billion in 2021-22, with a target of \$5 billion by 2029-30, while the same target was originally envisaged to be reached by 2024-25 (Figure 3.18). However, ICT has also created new employment opportunities, with Bangladesh ranking second globally in the online workforce (Figure 3.19).⁷³ The latest technologies can further improve Bangladesh's participation in GVC through empowering small and medium enterprises (SMEs). This will further foster a new era of "micro-multinationals" where even Bangladeshi SMEs can engage in cross-border commerce via e-commerce platforms (OECD, 2018)⁷⁴. Moreover, E-commerce has been empowering new businesses and increasing women's participation, with over 300,000 online

⁷³ IT sector employs between 127,000 and 400,000, with 15-20 per cent being women. More than 1 million freelancers are working on online or offline in the country whose are earning \$1 billion annually. https://businesspostbd.com/front/2023-04-14/105-lakh-freelancers-bringing-1b-annually-2023-04-14

⁷⁴ Micro-multinationals are SMEs taking advantage of the latest technological innovation to extend their reach internationally, expanding globally early in their business lifecycle. They leverage digital technologies and global talent pools to establish a presence abroad swiftly and efficiently (Bharadwa, 2023).

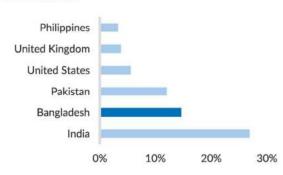
entrepreneurs, half of whom are women (UNESCAP, 2021).⁷⁵ Some of the digitalisation efforts have saved time and costs, enhancing transparency and accountability in public service delivery.⁷⁶ However, the reliance on manual-based digitalisation methods has limited their overall effectiveness. Additionally, the high implementation and operational costs (due to corruption) of these initiatives raise concerns about their long-term sustainability and cost-effectiveness, questioning whether the benefits justify the investment. Bangladesh's technological transformation grapples with numerous challenges, such as non-readiness in adopting frontier technologies, low public expenditure on education and technology, shortage of skilled workforce, and limited industrial R&D investment.

Figure 3.18: Trend in IT-ITes exports of Bangladesh



Source: BASIS (2023).

Figure 3.19: Top online labour supplier in the world (in %)



Source: Oxford Internet Institute (n.d.). Online labour index.

Bangladesh's ranking in the Digital Quality of Life (DQL) Index fell by six positions in 2023, dropping to 82nd out of 121 countries, compared to 76th in 2022, lagging behind global peers such as Malaysia (37th), India (52nd), and Viet Nam (56th) (Surfshark, 2023).⁷⁷ Despite a significant increase in internet usage—from 7 per cent to 44 per cent of the population between 2013 and 2023 (BBS, 2023b)—the cost of internet in Bangladesh remains disproportionately high, being seven times higher than the global average (Surfshark, 2022). Furthermore, in terms of mobile download speeds, Bangladesh ranked 101st out of 162 countries as of July 2024, with an average speed of 48 Mbps, which is only half the global average (Ookla, 2024). This disparity in cost and performance

According to the e-Cab data, around 350,000 people are directly involved with e-commerce businesses while 200,000 more are part-time or homemakers. Some 23 per cent of consumers of e-commerce business are from rural areas while the rest are city-based. https://thefinancialexpress.com.bd/economy/bangladesh/state-of-e-commerce-con-trick-undercuts-roaring-rise

⁷⁵ According to an official of (BTRC), nearly 50,000 Facebook pages sell or supply products retail and wholesale in Bangladesh.

The official estimated that the annual tax and value added tax (VAT) of these Facebook-based ventures could be as much as Tk10,000 crore. https://www.tbsnews.net/economy/bangladesh-e-commerce-sales-more-double-2026-research-497134

⁷⁶ It is estimated that some digital online services in 2022 resulted in savings of 16.83 billion days (71% of time), \$21.92 billion in costs (68% of cost), and 12.7 billion visits (85% of visits) for service recipients, while also ensuring transparency and accountability in public service delivery (a2i, 2023)

⁷⁷ The Digital Quality Life (DQL) index 2023 is published by Surfshark on digital wellbeing across 121 countries (92% of the global population). The index considers five pillars that impact a population's digital quality of life, including internet affordability, internet quality, electronic infrastructure, electronic security, and electronic government.

highlights inefficiencies in the country's digital infrastructure and raises concerns about equitable access to high-quality internet—critical for fostering digital inclusion and economic growth. To address these challenges, the government, private sector, and development partners must collaborate to develop a tech-savvy infrastructure through enhanced training, increased investment in education and technology, and incentives for industrial R&D.

Labour productivity and skill development: The transition towards a productivity-driven economy and successful transformation strategies hinge on knowledge-based skill development and an efficient workforce. The global tendency towards automation and the 4IR-related technological advancements necessitate rapid skill development, making human capital investment through improved education and skill development programmes. These investments will foster an innovation-driven, skilled society that should promote higher participation of women workers. Several East Asian economies, including Japan, South Korea, and Thailand, have successfully upgraded their skill base through publicly-supported education programmes in science and technology at top international universities (GED, 2020a).

A skilled workforce supports structural transformation by empowering local businesses, improving product quality, and aligning migrant workers' skills with international job markets, boosting remittances.⁷⁸ However, Bangladesh faces significant gaps in digital skills, ranking low among global economies, with all the major sectors suffering from a 'moderate' problem affecting productivity due to a shortage of skilled labour as the Survey of Manufacturing Industries (SMI) 2019 data reported only about 28 per cent of workers could be considered as skilled (Figure 3.20 & Figure 3.21).

Figure 3.20: Bangladesh in the Digital Skills Gap Index (DSGI), 2021

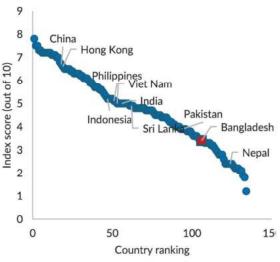
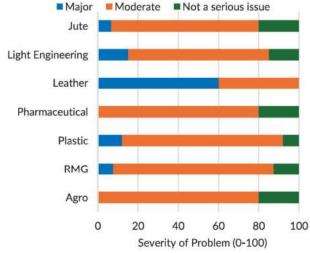


Figure 3.21: Firms' perception about lack of skilled workers hampering productivity



Source: Illustration using the Willey data.

Source: ERD (2024d); ERD (2024c).

⁷⁸ A 1.83 million skilled overseas Filipino workers generated \$36.9 billion in remittances in 2021 (ILOSTAT, 2023), while Bangladesh received \$22.1 billion from more than 10 million migrant workers (Bangladesh Bank and BBS).

The dynamics of skill requirements in the workforce are also evolving over time with a growing dearth of specialised skills, particularly in Science, Technology, Engineering and Mathematics (STEM), and digital fields. The National Skills Development Authority (NSDA) is implementing programmes to overcome the skills gap as part of the "National Skills Development Policy, 2020" along with its "National Action Plan 2022-2027 for Skills Development in Bangladesh.

Paradoxically, while the adoption of automation and technological deepening across various industries poses a significant risk of job loss-with the highest impact projected in RMG and furniture sectors, followed by agro-food and leather-this should not deter or discourage technological adaptation (a2i, 2022). Automation-led employment threats are not limited to developing countries like Bangladesh; this is a global phenomenon. (McKinsey Global Institute, 2017; Razzaque & Dristy, 2018).

As Bangladesh's economy expands, a skilled workforce is essential for enhancing productivity in current sectors and enabling diversification into new areas. Embracing technological advancements will drive growth, improve productivity, and create new opportunities, contributing to a more robust and diversified economy. Achieving higher growth rates of 8-10 per cent annually is now more feasible with technological progress. Effective policy interventions are critical in harnessing these benefits. For instance, micro, small, and medium enterprises (MSMEs), key drivers of domestic economic activity, require support to access technology, thereby improving productivity and competitiveness. However, shielding the domestic economy through high tariffs during capital deepening and technological upgrading can lead to inefficiencies, necessitating a balanced approach.

Technological progress may also increase income inequality by favouring capital income and raising the skill premium. Historically, unskilled workers and women have been disproportionately affected by technological changes (GED, 2019; Tejani & Milberg, 2010).⁷⁹ Therefore, policies must focus on vulnerable groups—such as people with low incomes, women, and unskilled workers—by improving access to quality and affordable education and healthcare and by implementing targeted social policies and progressive taxation. Furthermore, transforming social sectors to generate productive employment is crucial. Investment in health and education remains insufficient, and substantial improvements in quality are needed, as these sectors have significant potential to generate employment opportunities.

Labour standards, compliance, and workplace safety: Labour issues involving fair wages, a safe, harassment-free, and conducive working environment, and workers' rights have become indispensable factors for Bangladesh to meet international standards and safeguard its brand reputation. Continuing with any preferential trade benefits and market access will hinge on demonstrably adhering to best labour standards practices. For instance, 10 of the 32 international

29 per cent in 2022 - a trend is argued to be associated with increased automation (Razzaque and Dristy, 2018).

⁷⁹ Tejani and Milberg (2010) pointed to a global defeminisation process as a result of industrial upgrading. Their research shows that capital intensity in production, as evidenced by shifts in labour productivity, is negatively and significantly related to shifts in the female share of employment in manufacturing. In Bangladesh, according to the BBS labour force surveys, the female shares of employment in the garment sector fell from 57 per cent in 2013 to 46 per cent in 2016 to

conventions required as preconditions for obtaining EU GSP+ status are related to labour standards provisions of the ILO. Following the tragic events at Tazreen Fashions and Rana Plaza, the RMG sector, with the help of development partners and international buyers, has made remarkable progress in workplace safety by implementing stricter safety protocols. Significant progress, however, will have to be made in the non-RMG sector (Moazzem et al., 2022; Moazzem & Mostofa, 2021).

Although Bangladesh has already ratified all the conventions required to avail of GSP+ facilities, these must be effectively implemented. This will require strong enforcement practices and the related investment in administrative infrastructure and effective, accountable factory inspections. More importantly, as labour standards have become a defining feature of export competitiveness, a transformed economy must improve these standards not just to secure trade preferences but to ensure long-term sustainability and brand reputation in the global marketplace, thereby cementing its position as a competitive player on the world stage.

Environmental sustainability: As consumers become increasingly environmentally conscious, companies with robust sustainability practices can significantly enhance their brand image, reputation, and overall competitiveness. This trend underscores the importance of integrating ESG considerations to achieve medium- to long-term export success. Companies that effectively adopt ESG practices are more likely to secure consumer trust, attract responsible investors, and adapt to evolving market demands. The consequences of non-compliance are clearly illustrated by Bangladesh's leather sector, which, despite having a substantial domestic market, struggles to compete internationally due to repeated violations of environmental standards, driving away global buyers and sourcing opportunities. Environmental sustainability is not only fundamental for improving competitiveness but is also crucial for fostering sustainable development beyond the transitional phase. Climate hazards and environmental imbalances can have far-reaching impacts on the economy, particularly on food security, healthy livelihoods, and sustainable agriculture. The negative effects of climate change extend beyond the agricultural sector, putting pressure on water and energy systems, infrastructure, and human settlements, thereby hindering economic growth and broader development. Given these circumstances, prioritising environmental sustainability across all sectors is critical for resilience, ensuring both economic stability and social well-being.

Global greening initiatives have driven economies to commit to reducing greenhouse gas emissions and adopting low-carbon energy sources, aligning with the goals of the Paris Agreement. Major brands and retailers are also taking measures to tackle their environmental footprints (Table 3.5). These initiatives are transforming international trade and investment regimes with implications for export competitiveness. For instance, the EU Green Deal's Carbon Border Adjustment Mechanism (CBAM) aims to internalise CO₂ costs in both domestically produced and imported goods.⁸⁰

⁸⁰ The EU introduced CBAM on imports from October 1, 2023, with importers required to obtain CBAM certificates for selected commodities starting from January 1, 2026. While at the initial stage, Bangladesh is not expected to be significantly affected due to limited product coverage of CBAM. However, the coverage of such measures will likely expand in the future. Thus, the challenge of any loss of tariff preference due to LDC graduation could be compounded by the enforcement of CBAM measures. Furthermore, the EU has issued detailed guidelines on the Strategy for

Initially, the CBAM may not significantly impact Bangladesh; however, the sectoral coverage is expected to expand. Bangladesh's comparator countries, including China, India, and Viet Nam, have either established or are in the process of developing domestic carbon markets to internalise some of the costs, thereby being subject to lower or no CBAM tariffs in the EU. Therefore, along with preparation for LDC graduation, due attention must also be given to preparing for border carbon tax measures.

Furthermore, the recently introduced EU Corporate Sustainability Due Diligence Directive (CS3D), adopted by the European Parliament on April 24, 2024, mandates that companies, both within and outside the EU, engage in thorough due diligence to examine, prevent, and mitigate their negative environmental and human rights impacts, both internally and across their supply chains. This directive is anticipated to bring about substantial transformations in corporate practices, compelling companies to reassess and potentially overhaul their business strategies, sourcing practices, supply chain management protocols, and even product design approaches to adhere to these new regulatory standards.81

Table 3.5: Greening initiatives by some selected brands

Brand	GHG Emission	Freshwater Usage	Recycled inputs
Н&М	Reduce emissions by 56 per cent by 2030 from the 2019 baseline	Reduce 30 per cent by 2030 compared to the 2022 baseline	100 per cent materials to be sourced either recycled or sourced in a sustainable way by 2030
Nike	Reduce 70 per cent of emissions by 2025 from the 2015 baseline	Reduce 25 per cent freshwater usage per kg textile dyeing and finishing by 2025	Use 100 per cent recycled material for manufacturing by 2025
LEVI STRAUSS & CO	Reduce 90 per cent of emissions from the 2016 baseline by 2025	Reduce 50 per cent from the 2018 base year by 2025	50 per cent waste diversion from the 2018 base year by 2030
Adidas	30 per cent reduction from the 2017 baseline by 2030 and achieve climate neutrality by 2050 in the entire value chain.	Reduce 40 per cent from the 2017 baseline by 2025	Replace all virgin polyester with recycled polyester by 2024.

Source: Annual sustainability reports of respective brands.

Bangladesh is committed to tackling climate change vulnerabilities and encouraging environmental sustainability by lowering CO2 emissions and transitioning away from fossil fuels, as reflected in

Sustainable and Circular Textiles, advising exporting countries on circular design in the textile industry (European Commission, 2023).

⁸¹ The ambit of CS3D on human rights and the environment is vast, encompassing issues such as the prevention of child labour, slavery, labour exploitation, pollution, deforestation, and damage to ecosystems like excessive water consumption. The overarching aim is to ensure equitable treatment of workers, uphold freedom of association, guarantee a fair minimum wage, and implement measures to combat pollution and the depletion of natural resources.

various policies.82 Sustainability is critical for the future of Bangladesh's RMG sector, as environmental challenges such as groundwater pollution, airborne waste, soil degradation, and noise pollution require immediate attention. Globally, the garments and textile industries account for 10 per cent of CO2 emissions and nearly 20 per cent of wastewater generation, while in Bangladesh, the garment sector is responsible for an estimated 15.4 per cent of the country's CO2 emissions and consuming 250-300 litres of water for every kilogram of cloth produced—equivalent to the daily water use of two individuals (ETI Bangladesh, 2024; OECD, 2023; Sagris et al., 2015).83 Despite policies addressing climate change vulnerability, renewable energy transition is not an easy option given the geographical endowment of the country, including limited hydropower and geothermal potential, land scarcity for solar farms, inadequate electricity infrastructure, and, most importantly lack of capacity, technical knowledge and skilled workforce in the focal ministry and department (i.e., MoEFCC and DoE) for environmental management.84 Transitioning to clean energy will require significant long-term investment and policy commitments.

Moreover, to address climate change risks in Bangladesh, it is important to allocate adequate investible resources to climate-relevant expenditures. Currently, only 9 per cent of the total climate-relevant budget (of 25 ministries) is dedicated to climate-related spending (Finance Division, 2023a). While Bangladesh now benefits from various international climate finance sources, including the Global Environment Facility (GEF), Adaptation Fund, Least Developed Countries Fund (LDCF), Adaptation for Smallholder Agriculture Program (ASAP), Global Climate Change Alliance (GCCA), Climate Investment Funds, UN-REDD Readiness Program, and the recently established Green Climate Fund (GCF), transitioning out of LDCs may result in some cases limited access to funding. Therefore, developing a comprehensive medium- to long-term climate change financing strategy is needed to tap into diverse funding streams to mitigate climate changerelated risks and vulnerabilities and promote and adopt environmental sustainability in the business model to sustain export competitiveness.

Infrastructure, trade logistics, and ease of doing business: Infrastructure, trade logistics, and ease of doing business are vital for competitiveness and driving structural transformation. Adequate infrastructure ensures energy security and facilitates efficient transportation and communication, reducing operational costs. This should be complemented by efficient trade logistics, which lower transportation and warehousing costs, enabling new production models and material sourcing and thus improving brand satisfaction and loyalty. Advanced logistics technologies enhance supply chain visibility, planning, risk mitigation, and bottleneck identification. From a microeconomic

⁸² Bangladesh has adopted several policy documents to mitigate the climate and environmental vulnerability risks: Bangladesh Climate Change Strategy and Action Plan (BCCSAP): 2009, updated to include natural resources management, gender, and urban dimensions of climate change; National Adaptation Programme of Action: 2005, updated in 2009; Bangladesh Climate Change Trust Act: 2010; Nationally Determined Contributions (NDCs): 2015, updated in 2021; NDCs Implementation Road Map: 2018; National Adaptation Plan (2023-2050); National Environmental Policy: 2018.

⁸³ The global benchmark for fabric production is 100 litres of water per kilogram (Sagris et al., 2015).

⁸⁴ Bangladesh aimed for 10 per cent renewable energy by 2024-25 but has reached only 4.46 per cent until now. According to the NDCs, Bangladesh's commitment to reducing GHG emissions unconditionally by 6.73 per cent by 2030 and by an additional 15.12 per cent with international support. There are plans to produce 911.8 MW of renewable energy domestically and 4115.3 MW with international assistance.

perspective, trade logistics reduce transaction costs, while from a macroeconomic perspective, they lower trade costs, foster regional economic integration, and facilitate advantageous trade agreements. A functional logistical network, coupled with an enabling business environment that minimises administrative hurdles and fosters transparency, greatly improves competitiveness.

Despite some improvements in large-scale infrastructure projects, there is a need to make progress in areas such as port services, road and railway systems, and energy generation capacity (World Bank, 2023; MCCI & Policy Exchange, 2023; Zafar et al., 2020). Although Bangladesh has made efforts to address electricity shortages in recent years, its per capita electricity consumption is just about 40 per cent of that in India, 22 per cent in comparison with Viet Nam, and less than 10 per cent of China's (Figure 3.22). Inefficient logistics have also been shown to hamper export-oriented trade links and business-to-business contacts, particularly outside the established RMG value chains (OECD, 2023; Zafar et al., 2020). Additionally, border and documentary compliance requirements lead to major delays for exporting firms, with an estimated total of more than 300 hours required, among the highest in South Asia (World Bank, 2022b). While Bangladesh performs better than the average of LDCs in the Logistics Performance Index (LPI), its competitive peers in the global market perform much better (Figure 3.23). Bangladesh's export performance is thought to have been hindered by an underdeveloped logistics industry, which has serious implications for the country's external competitiveness (see Box 3.2). To improve the overall logistics system, the country recently developed the National Logistics Policy 2024, identifying critical areas for improvement and aiming to reduce transportation and logistics costs to boost export performance and competitiveness (further details are provided in Chapter 4).

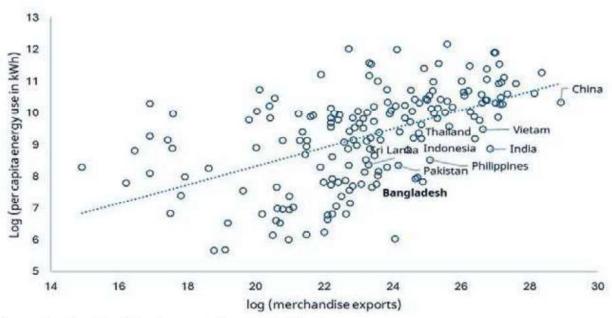


Figure 3.22: Energy use and exports by global economies

Source: Data from World Development Indicators, World Bank.

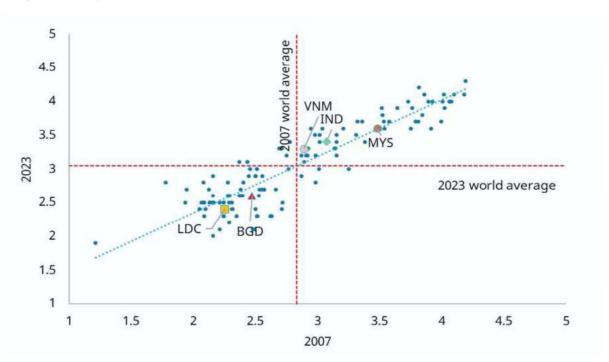


Figure 3.23: Logistics Performance Index (LPI) scores of Bangladesh and other countries (2007 vs 2023) compared to its peers

Source: Logistics Performance Index data, World Bank.

Note: BGD - Bangladesh, IND - India, LDC - Least Developed Countries, MYM - Myanmar, MYS - Malaysia, VNM - Viet Nam.

Box 3.2: Examples of logistics issues affecting competitiveness in Bangladesh

- Bangladesh's logistics costs are high across sectors, ranging from 4.5 per cent for leather footwear to 47.9 per cent for horticulture.
- Inventory carrying costs represent 17–56 per cent of logistics costs; in most industries, the figure exceeds 30 per cent, higher than in many developing countries.
- More than 80 per cent attribute delays in shipments to the poor condition of roads and congestion. Without road congestion, logistics costs would be at least 7–35 per cent lower.
- Trade in South Asia is paper-heavy, requiring physical submission of documents for regulatory requirements, which can account for as much as 3 per cent of the total cost of trade.
- Setting the minimum speed along national highways at 40 km/hour would reduce logistics costs as a share
 of sales by 0.5 percentage points, increasing Bangladesh's exports by 3.7 per cent.
- A 1 percentage point reduction in transport costs as a share of sales would increase demand for Bangladesh's exports by 7.4 per cent.
- The average cost of carrying a tonne a kilometre is \$0.095, which is higher than in many developing and developed countries, including the US, France, Australia, India, and Pakistan.
- Airport support services are a component of logistics, and airport-related charges are higher than in the country. For example, terminal handling charges (THC) are \$0.08A/kg in Bangladesh, compared to \$0.05 in India and Sri Lanka.
- Bangladesh is missing out on at least 20 per cent of its export potential due to poor logistics and clearance services in the country's ports and highways, according to various experts.

91 per cent of service providers focus on one service category, with low skills, poor asset quality, and limited IT tools. Poor driving skills contribute to road crashes, which account for 11 per cent of trucking

Source: Information compiled from the study of Moving Forward Connectivity and Logistics to Sustain Bangladesh's Success; World Bank (2020), and Comprehensive Report on Logistics Sector of Bangladesh; ERD (2024a).

Private sector as the driver of structural transformation: The role of the private sector in driving structural transformation and mitigating any adverse consequences of LDC graduation cannot be overstated. As the engine of economic activity, the sector is ideally positioned to drive innovation, efficiency, and job creation. Bangladesh's entrepreneurial spirit, complemented by policy support from the government, offers an ideal ground for private businesses to flourish. For Bangladesh to achieve a transformed economy, it is imperative that firms from different sectors work collaboratively to improve their standards in critical areas. These include prioritising workplace safety, ensuring decent jobs with fair wages, providing opportunities for professional development through skill development, and improving productivity and quality through compliance with standards.

Firm-level preparedness is crucial for facing LDC graduation-related challenges such as the loss of trade preferences and the lack of export diversification. Firms must proactively seek to diversify their product offerings and markets to reduce dependency on a few export commodities and destinations. This can be achieved through innovation, exploring new sectors, and investing in research and development. Additionally, firms should enhance their competitiveness by adopting advanced technologies, improving product quality, and adhering to international standards.

Role of Institutions: Although institutions, encompassing government bodies, regulatory frameworks, and legal systems, are part of productive capacity, it is important to highlight their distinct role as crucial enablers of economic transformation and inclusive and sustainable development. Advanced industrialised nation-states have benefited from strong institutional frameworks that triggered and sustained economic and political modernisation over long periods of time (GED, 2023). Effective institutions reduce transaction costs, enforce contracts, and provide stability for economic activities, which reduces uncertainty and risk, facilitating smoother business operations and efficient market functioning. By protecting property rights and enforcing the rule of law, institutions create an environment conducive to investment, encouraging both physical and human capital investments that drive growth.85

The critical role of institutions in advancing Bangladesh's development and implementing the STS has been highlighted in the White Paper 2024 commissioned by the Interim Government (White

term development.

⁸⁵ Amongst others, Nobel Laureate economists Daren Acemoglu and Jame Robison have made seminal contributions to demonstrate that the differences in prosperity across countries can largely be explained by the quality of their institutions (e.g., Acemoglu and Robinson, 2012). They argue that inclusive political and economic institutions, which provide incentives for innovation and allow broad participation in economic activities, lead to sustained economic growth. Conversely, extractive institutions, which concentrate power and wealth in the hands of a few, are detrimental to long-

Paper Committee, 2024). Institutional challenges, particularly in governance, project execution, and economic progress, remain deeply rooted. Public infrastructure projects are often flawed by weak feasibility studies, inadequate planning, and poor inter-agency coordination (White Paper Committee, 2024). Despite substantial investments in megaprojects, anomalies such as cost overruns, delays, and a lack of transparency persist, with over 86% of projects experiencing time or cost escalations, thereby undermining economic viability and exacerbating debt burdens. Furthermore, pervasive corruption and non-competitive procurement practices have compromised project quality and outcomes. While the Implementation Monitoring and Evaluation Department (IMED) has repeatedly flagged inefficiencies, limited accountability continues to hinder the achievement of intended objectives. Without reforms, including stricter oversight and accountability mechanisms, the cycle of inefficiencies and wasted resources will likely continue, undermining the country's progress and its potential to achieve broader developmental goals.

In dealing with these challenges, the importance of strong institutions becomes even more apparent. Strong institutions promote good governance by fostering transparency, accountability, and inclusive decision-making, ensuring economic benefits are widely shared, thus reducing inequality and fostering social stability (Raihan, 2023). They are also critical in developing and maintaining essential infrastructure, such as roads, schools, and hospitals, which are necessary for a productive workforce and long-term growth. Furthermore, institutions support innovation by protecting intellectual property rights and providing a framework for research and development, driving productivity and economic diversification. Effective institutions help mitigate conflicts and ensure political stability, creating a conducive environment for economic activities. They create a business-friendly environment by simplifying regulatory processes and reducing bureaucratic hurdles, improving the ease of doing business, and mobilising both domestic and international investments.

In contrast, corruption-ridden, weak, and ineffective institutions undermine development efforts, compromise economic stability, and erode public trust. Along with this, when political interference with the help of manipulated economic data further obscures the true state of the economy, damaging investor confidence. The consequences of institutional weakness are far-reaching, stifling innovation, worsening inequality, and weakening economic fundamentals. To overcome these challenges, Bangladesh must strengthen accountability mechanisms, promote good governance, and build sound and credible institutions by undertaking deep-rooted reform measures.

3.5 Sources of enhanced competitiveness

Following LDC graduation, Bangladesh faces the challenge of losing export competitiveness due to the cessation of LDC-specific trade preferences. However, the transformative changes discussed above can significantly outweigh preference-driven competitiveness, as evidenced by various studies and analyses available in the context of the global economy and Bangladesh.

- Improved trade logistics can significantly enhance export competitiveness. It is found that a 1 per cent decrease in transport costs by 1 per cent can enhance export earnings by 7.4 per cent (Table 3.6). The implementation of the WTO's Trade Facilitation Agreement could increase global trade by \$1 trillion, from which countries like Bangladesh could benefit. It has also been suggested that developing countries can raise their exports by about 10 per cent by reducing half of the existing gap in the trade facilitation indicators.
- There are many empirical studies that show that improvements in customs clearance procedures lead to enhanced export performance. Administrative hurdles causing delays in customs procedures raise the cost of import by about 7 and 10 per cent of world trade.
- There are strong theoretical arguments and empirical findings to suggest that avoiding real exchange rate overvaluation can boost the external competitiveness of a country. For many years, as shown earlier, Bangladesh had maintained an appreciated real exchange rate, and thus, corrective measures could help with export performance. Evidence shows a 10 per cent depreciation in RER can lead to a 6 to 8 per cent increase in exports (Table 3.6)
- Enhancing product quality can significantly boost exports, with the evidence of higherquality goods leading to a 62 per cent increase in export quantities without lowering prices and a 10 per cent improvement in quality, resulting in a 1.5 per cent rise in export performance for Malaysia's electrical products (Muhammad & Yaacob, 2009).
- Attracting foreign direct investment (FDI) can integrate Bangladesh into international markets and drive innovation, with a 10 per cent rise in FDI boosting exports by 1.6 per cent.

Amongst others, trade liberalisation/tariff rationalisation is known to be associated with allocative efficiency gains. In the context of Bangladesh, it has been suggested that a 25 per cent reduction in import tariffs across all sectors could potentially increase export earnings by approximately 8 per cent and imports by 4.4 per cent. Furthermore, unilateral trade and investment liberalisation in Bangladesh could significantly boost the country's GDP, investment, and exports by 14.8 per cent, 20 per cent, and 63.2 per cent, respectively.

It follows from the above that there is tremendous room for improvement for Bangladesh across all the areas mentioned, generating significant benefits for the country. Until now, they remain challenging in the absence of necessary policy reforms. However, by addressing these challenges head-on, it is possible to transform them into opportunities. Many of these reforms, such as streamlining customs procedures, tariff rationalisation, improving logistics, and enhancing product quality, should be seen as low-hanging fruits that can quickly yield substantial benefits.

Table 3.6: Selected means of enhancing export competitiveness in the post-LDC era

Areas of competitiveness	Impact on competitiveness (selected evidence)	
Trade logistics	-A 1% decrease in transport costs can lead to a 7.4% surge in export demand in Bangladesh (World Bank, 2020).	
Trade facilitation	-The implementation of the Trade Facilitation Agreement (TFA) can reduce the trade cost by up to 11%-14% (World Bank & UNESCAP, 2022) and has the potential to increase global merchandise exports by up to \$1 trillion per annum ((Ala, 2013)).	

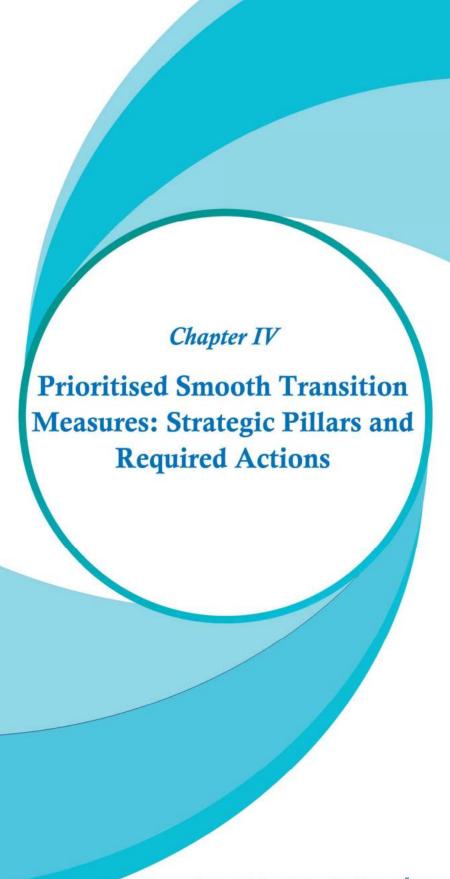
	-Developing countries can raise their exports by 9.9% by reducing half of the existing gap in the trade facilitation indicators (Hufbauer & Schott, 2013) -Export earnings of Bangladesh could increase 30% with higher port efficiency (OECD, 2005).
Avoiding overvaluation of the exchange rate	-An appreciated real exchange rate negatively impacts exports, with a 10% appreciation reducing exports by 22-23%, while a 10% depreciation increases exports by 6-8% (Stojanov et al., 2024), and GDP by 1.5% of GDP increase in real net exports (Leigh et al., 2017). ⁸⁶
Borders and customs cleaning procedures	-Longer import processing times reduce total exports in Thailand (Hayakawa et al., 2019). -A 10% reduction in inbound border processing times within the Central Asia Regional Economic Cooperation (CAREC) region could boost intra-regional trade by 1.41% (ADB, 2020). -Red tape in customs procedures increases the cost of import by about 7%-10% of world trade (Beverelli & Ticku, 2022; Messerlin & Zarrouk, 2000)
Ease of doing business	 -Innovation has a strong connection with the encouragement of entrepreneurship, which relies on the ease of doing business (Robinson & Acemoglu, 2012). -Ease of starting a business has a positive relationship with business creation (Canare et al., 2019). -Difficulties in dealing with construction permits, getting credit, paying taxes, and protecting minority investors have a negative impact on attracting FDI (Haliti & Merovci, 2019).
Product quality and standards	 -By exporting higher-quality goods, larger quantities (62%) can be exported without lowering the prices of the products (Guasch et al., 2007; Hummels & Klenow, 2005). -A 10% enhancement in product quality leads to a 1.5% upsurge in the export performance of electrical products from Malaysia (Muhammad & Yaacob, 2009).
Foreign direct investment (FDI)	-FDI helps developing economies to integrate into international markets, gain spurs productivity by increasing competition, enabling knowledge to spread across borders, and drive innovation (Gonzalez, 2017). -A 10% rise in foreign direct investment can lead to a 1.6% boost in Bangladesh's exports (Bangladesh Bank, n.d.). -The export value of the foreign direct investment (FDI) enterprises accounts for over 70 per cent of Viet Nam's total export value (Association of Foreign Invested Enterprises, 2022).
Trade liberalisation and tariff rationalisation	-Trade liberalisation can improve allocative efficiency by shifting resources to where they can be most productive based on comparative advantage (Krugman, 1979; Bhagwati, 1990) -Developing countries would gain more from global trade liberalisation as a percentage of their GDP than industrial countries (IMF & World Bank, 2001). -The benefits of trade liberalisation can exceed the costs by more than a factor of 10 (Tarr & Matusz, 1999) -A 25% reduction in import tariffs across all sectors could potentially boost export earnings by approximately 8% and imports by 4.4% (Razzaque et al., 2021). -Unilateral trade and investment liberalisation could boost Bangladesh's GDP, investment, and exports by 14.8%, 20%, and 63.2%, respectively (World Bank, 2022a).
Free trade agreements and regional trade agreements	-Comprehensive bilateral Free Trade Agreements (FTAs) with the EU and India could boost Bangladesh's GDP by 0.4 and 0.5%, respectively, and exports by 1.4% and 3.9% (World Bank, 2023)FTAs/RTAs help increase FDI flows in the member states (Thangavelu & Findlay, 2011)
Regional integration	-Bangladesh's gains from a deep regional integration (with South Asian countries) would be 10 times higher compared with shallow regional integration relying on tariff cuts only. The GDP gains would increase from 1.4% in the shallow regional integration scenario to 14.3% in a deep regional integration setting. The increase in exports would also rise from 6.8% to 41.5% (World Bank, 2023).

⁸⁶ It needs to be pointed out that depreciation in the real effective exchange rate does not imply depreciation of the nominal exchange rate alone. Depreciations will lead to rise in inflation which can also adversely affect external competitiveness. A host of factors such as terms of trade, trade openness, economic growth, government expenditure, capital controls, etc. can affect real exchange rate movements. Therefore, a careful assessment is needed to understand the changes in the real exchange rate.

	-Bangladesh has the untapped potential for regional trade (in South Asia) of about 93% (World Bank, 2022c).
Technology upgradation and innovation	 -Adopting advanced technologies in production can lead to a 2.5 percentage points annual increase in trade growth of developing countries (WTO, 2021a). -A 1% rise in digital intensity corresponds to a substantial 2.9% increase in export earnings and a 0.1% uptick in the quality of exported goods (Chiappini & Gaglio, 2023).
Human capital and skills development	 -Human capital, particularly in the form of education and training, is a key driver of export performance (Gerdne, 2005; MULLIQI, 2016). -A firm-level study in Chile demonstrated that increased investment in training and skill development for employees raised the firm's export entry rate by 9.5 percentage points (Blyde, 2016). -Skills development has a positive and significant impact on the per-capita value of high technology exports (Lall, 1999).

Source: Compiled from various sources.

⁸⁷ The study included a sample of 18 manufacturing and 14 service sectors in 40 countries over the period 2000–2014. digitalisation means that the production function of a sector in a country uses more digital inputs than in the past. Digitalisation entails either the inclusion of more technicians or computer scientists in the workforce or the use of (new) tools regardless of digital goods or services, such as computers or communication devices, in the portfolio of inputs.





Prioritised smooth transition measures: Strategic pillars and required policy actions



Tackling inflation, effective exchange rate management and boosting foreign reserves



Sustainable debt management



Improving domestic resource mobilisation



Strengthening the financial sector and capital market





Mitigating consequences of geo-political issues



Monitoring and evaluation



Support for achieving SDGs and addressing climate vulnerabilities

macroeconomic stability Ensuring

Exploring and securing trade preferences and transition measures

diversification and Promoting export competitiveness **Building productive** capacity Fostering partnerships and international cooperation



Engaging with the EU



Engaging with trading partners for extended transition period



Enhancing trade negotiation capacity



Engaging with the WTO on various specific ssues



Initiating FTA/CEPA negotiations with major trading countries



Improving product quality and standards



Improving trade logistics and trade facilitation



Enhancing labour standards and ESG compliance



Branding of Bangladesh



Developing WTO compatible support measures



Improving productivity by digitalisation and innovation



Building supply side capacity



Skilling and reskilling, and upskilling of the workforce



Attracting FDI and revitalising domestic investment



Strengthening institutional capacity Given the potential challenges posed by Bangladesh's graduation from LDC status, alongside the imperative to shift towards a structurally transformed economy to realise the nation's broader development aspirations, this strategy outlines a comprehensive set of policy actions. These actions are designed not only to mitigate the immediate challenges stemming from trade policy adjustments associated with LDC graduation but also to implement measures aimed at bolstering the economy's overall competitiveness. The policy measures incorporate both ongoing initiatives those already planned or embedded within existing policies and strategies-and newly crafted interventions intended to address gaps and respond to emerging needs. By synthesising and expanding upon current efforts, the strategy offers a cohesive, forward-looking framework that advances the nation's economic transformation agenda. To ensure a holistic and effective implementation, the policy actions are organised under five strategic pillars: ensuring macroeconomic stability, securing trade preferences and favourable transition measures, improving export diversification and competitiveness, building productive capacity, and fostering partnerships and international cooperation. Together, these pillars provide a strategic framework designed to facilitate a smooth and sustainable transition from LDC status, addressing both immediate and other medium to long-term measures.

It is crucial to recognise that these strategic pillars are interrelated and should not be pursued in isolation. A coordinated approach, emphasising the interdependencies among these pillars, will enhance the overall effectiveness of the policy measures. As many of the recommended actions align with existing policies and development plans already adopted by the Government of Bangladesh, priority should be given to the effective and timely implementation of these measures to ensure that they yield the desired outcomes. This Smooth Transition Strategy (STS) aligns with the various development plans of the country, including the 8th Five-Year Plan 2020-2025, as well as other sectoral plans and strategies. By leveraging these existing policies and strategies, the STS ensures a unified and mutually complementary policy approach to the developmental challenges faced by Bangladesh. Adhering to and implementing the STS while a new medium-term plan is developed can serve as a unified national strategy that will allow undertaking critical measures aligning with broader development goals to prepare for LDC graduation. This approach will strengthen the coordination and consistency of the national development agenda, ensuring a more comprehensive response to the challenges and opportunities posed by LDC graduation. Aligning various policy initiatives within a cohesive framework will enhance the overall effectiveness and coherence of efforts aimed at supporting long-term growth and structural transformation.

4.1 Strategic pillar 1: Ensuring macroeconomic stability

Macroeconomic stability is crucial for fostering a resilient and competitive economic environment. Bangladesh's long-term development over the past decades has, until recently, been marked by sound macroeconomic management, demonstrated by stable GDP growth, moderate inflation (typically below 6 per cent), a low budget deficit-to-GDP ratio (generally under 5 per cent), and a well-maintained balance of payments. However, these gains have been severely undermined by a

combination of external shocks, internal governance weaknesses and policy mismanagement. These include the supply chain disruptions from the COVID-19 pandemic, the Russia-Ukraine war, which triggered surges in food and fuel prices, and interest rate hikes in developed Western nations, which raised the cost of the dollar. As a result, rising import costs, coupled with weakening global demand for Bangladeshi exports, have widened the current account deficit, placing immense pressure on foreign reserves. The depletion of these reserves has necessitated import restrictions and caused a depreciation of the taka, further fuelling domestic inflation. Additionally, the absence of prudent macroeconomic management, particularly from early 2021 to July 2024—characterised by fixed interest rates, excessive government borrowing from the banking system, delayed policy responses to inflationary and balance of payments pressures, and undisciplined public spending has exacerbated the situation.

Addressing both current and long-standing macroeconomic challenges is crucial to restoring stability. As Bangladesh nears its LDC graduation, macroeconomic stability is essential for creating a predictable environment that mobilises vital domestic and foreign investments necessary for sustained growth. A stable macroeconomic framework allows for prioritising long-term development strategies and significant investments in infrastructure, education, and healthcare while also establishing robust social safety nets and buffers against external shocks. Controlled inflation encourages savings and investments in productive sectors, which are crucial for long-term economic expansion. Additionally, macroeconomic stability is key to maintaining export competitiveness, a critical factor for Bangladesh as it transitions from LDC status. A stable exchange rate ensures competitive export prices, supporting the growth of export sectors. By fostering an investment-friendly environment and ensuring economic predictability, macroeconomic stability enhances Bangladesh's export competitiveness on the global stage, facilitating a smooth and successful transition from LDC status.

Strategic objective of this pillar: Ensure sustained macroeconomic stability to facilitate a smooth transition from LDC status by managing inflation, bolstering foreign exchange reserves, developing a competitive exchange rate regime, enhancing domestic resource mobilisation, ensuring debt sustainability, promoting fiscal discipline, and fortifying the financial sector and capital markets.

Strategic actions:

Figure 4.1: A summary of actions under Pillar 1 (ensuring macroeconomic stability)



Tackling inflation, effective exchange rate management and boosting foreign reserves

- · Sustain a uniform and market-oriented exchange rate system
- · Continue with market-oriented interest rate policies
- · Secure concessional long-term financing from development partners.



Financing budget through sustainable debt management

- · Keep domestic borrowing from the banks within sustainable limits
- Continue reforming NSCs and strengthen capital markets
- Prioritise measures in Debt Sustainability Analysis (DSA) and Medium-Term Debt Management Strategy (MTDS) to mitigate debt risks.



Improving domestic resource mobilisation

- Prioritise the reform initiatives that are not being implemented as outlined in 8FYP and prepare a time bound action plan to implement them
- Implement full automation of the National Board of Revenue (NBR)
- · Review and reduce indiscriminate tax exemptions.



Strengthening the financial sector and capital market

- · Ensure Bangladesh Bank autonomy
- · Address the problem of non-performing loans (NPLs)
- Formulate and implement a new Bangladesh Capital Market Development Master Plan to address prevailing issues in the capital market.

Source: Illustration prepared for this Strategy.

4.1.1 Tackling inflation, instituting a more market-friendly and effective exchange rate management, and boosting foreign reserves

Managing inflation is a critical balancing act to maintain both macroeconomic stability and competitiveness. While high inflation affects consumers, disproportionately hurting low-income households and contributing to rising inequality, higher price levels relative to trading partners can erode export competitiveness. This, in turn, can be particularly detrimental given that after LDC graduation, exporters would lose some trade preferences. The situation of high inflation with balance of payments (BOP) difficulties amid falling reserves requires delicate and adroit policy management. There is evidence that countries opting for fixed exchange rate systems, allowing real appreciation due to higher domestic inflation than competitors, have struggled to achieve diversified and robust export growth (ERD, 2024c). A competitive and more market-oriented exchange rate regime, which measures have been taken recently, is crucial for controlling imports and boosting incentives for exports and remittances. But, this must be accompanied by a suitable interest rate policy to contain the inflationary pressure.

The exchange rate management of the past decade, while providing stability in the nominal exchange rate, resulted in a significant appreciation (by more than 55 per cent) in the real effective exchange rate (REER), adversely affecting export competitiveness and trade performance (Ahmed, 2024). During the same period, Bangladesh experienced real exchange rate appreciations of 25 per cent against the Indian rupee and 29 per cent against the Vietnamese dong. The following actions will be undertaken to tackle inflationary pressure and manage a competitive exchange rate with an improved foreign exchange reserve situation:

- The recently adopted market-oriented interest rate policies will be maintained, along with an appropriate mix of other monetary and fiscal policies (for instance, containing excessive government borrowing from the central bank and careful review of public spending) to effectively contain inflationary pressure.
- Sustaining a uniform and more market-oriented exchange rate system and emphasising its institutionalisation for long-term policy credibility.
- Establishing an effective market monitoring system to gather data on prices of essentials, allowing for prompt responses (e.g., adjusting tariffs on those items and/or easing imports) to tackle inflation.
- Monitoring and assessing the exchange rate movements of key trading partners to assess trends in export competitiveness.
- Seeking concessional long-term financing from development partners to ease the balance of payments situation and improve reserve conditions.
- Renegotiating loan conditionalities, as the situation warrants, to secure extended grace and payment periods with further concessional rates.
- Attracting FDI from potential sources by providing improved infrastructural facilities for investors, streamlined one-stop services in export processing/special economic zones, and other incentives.
- Reviewing the aid/loan pipeline to fast-track the implementation of projects for which loan conditionalities are favourable and fund disbursement could be immediate, thereby boosting foreign reserves.
- Assessing and reconciling export data reported by the National Board of Revenue (NBR) and the Export Promotion Bureau (EPB) with actual export receipts from Bangladesh Bank, then establishing strong monitoring and effective enforcement to ensure export receipts are brought within the stipulated timeframe.

4.1.2 Financing budget through sustainable debt management

Bangladesh's total debt-to-GDP ratio is reported at 40.5 per cent (by the end of 2023-24), which remains below the IMF threshold of 55 per cent, the internationally recognised debt sustainability benchmark (Bangladesh Bank, 2024a, 2024c; MoF, 2024).88 Due to the low level of domestic

⁸⁸ White Paper Committee (2024) contends that the debt-to-GDP ratio is an inadequate measure of Bangladesh's debt management, given the country's low reserves and extremely limited fiscal space. The Ministry of Finance reports only government borrowing from domestic and external sources, whereas Bangladesh Bank includes both public and private

resource mobilisation, interest payments on foreign and domestic debt have reached 30 per cent of tax revenue. Institutional inefficiencies, cost overruns, and weak revenue growth further exacerbate the debt challenges, crowding out private sector credit and undermining fiscal sustainability (White Paper Committee, 2024). Additionally, Subdued export performance, escalating contingent liabilities, and successive downgrades in sovereign credit ratings highlight the growing vulnerabilities in Bangladesh's debt management framework. External debt liabilities have risen sharply in recent years, increasing from under \$40 billion in 2014-15 to over \$100 billion in 2023-24, with the external debt-to-GDP ratio reaching 23 per cent. Annual debt service charges now account for approximately 8 per cent of exports of goods and services. However, the current weak reserve position, combined with the depreciation of the local currency, has significantly heightened the challenges associated with meeting debt-servicing obligations (ERD, 2024b).

To alleviate these stresses, several policy initiatives have already been undertaken, including halting dollar sales from reserves, adopting a more market-friendly exchange rate system, negotiating extended debt repayment periods, and exploring new sources of foreign assistance. Furthermore, the following specific actions will be undertaken:

- Improving domestic resource mobilisation to reduce the pressure on borrowings from both domestic and external sources.
- Maintaining domestic borrowing from the banking system within sustainable limits.
- Exploring alternative financing mechanisms and securing additional foreign funding through budget support loans, green development funds, climate finance initiatives, and other specialised sources offering concessional long-term financing
- Continuing reforms to national savings certificates to promote the development of domestic debt markets, facilitate the transition to Treasury bonds through capital markets, and minimise interest burdens.
- Issuing medium- and long-term Treasury bonds to support the development of the government securities market.89
- Attracting non-debt-creating flows (such as remittances, official transfers and FDI) to support growth recovery and fiscal sustainability.
- Ensuring effective planning, timely implementation, and efficient budgeting processes to minimise the costs associated with project delays.
- Reviewing recurrent expenditures and Annual Development Plan (ADP) projects to tackle potentially uneconomical and not-very-essential spending.

https://mof.portal.gov.bd/sites/default/files/files/mof.portal.gov.bd/page/157830c6 9eaa 4ce7 be70 72b67c0f06e5 /09th%20Debt%20Bulletin-9 2024-05-15.pdf

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sector borrowing. Government domestic debt constitutes the largest share of total debt, with reliance on domestic financing gradually increasing (MoF, 2023). As of 31 December 2023, domestic and external debt accounted for 58.7 per cent and 41.3 per cent of the total debt stock, respectively (see Quarterly Debt Bulletin, Issue No. 9, December 2023, Ministry of Finance).

⁸⁹ As per the target set in the new MTDS strategy, the share of T-bonds in GFN will rise from 21.9 per cent in 2024-25 to 48.3 per cent in 2026-27, while T-bills may decrease from 39.3 per cent to 22.2 per cent (MoF, 2024). The increased T-bond issuance is evenly distributed across 2, 5, 10, 15, and 20-year maturities.

 Leveraging the debt sustainability analysis (DSA) and Medium-Term Debt Management Strategy (Ministry of Finance, 2024) and prioritising strategies to mitigate any identified debt risks and challenges in order to ensure long-term financing stability.

4.1.3 Improving domestic resource mobilisation

Restoring macroeconomic stability is intrinsically linked to addressing the challenges of domestic resource mobilisation. With current tax revenues amounting to just around 8 per cent of GDP, the government's fiscal space has reached a critical minimum, making it difficult to meet the evergrowing demand for public investment in infrastructure, health, education, and social protection. Increased government borrowing due to limited tax efforts has made public investment more expensive than necessary. A study on global economies undertaken by IMF (2016) suggests that surpassing a 15 per cent tax-to-GDP ratio is crucial for stimulating economic growth and achieving development goals.

Domestic revenue mobilisation should be recognised as a critical factor in determining Bangladesh's capacity for development. However, the target to raise the tax-to-GDP ratio to 12.3 per cent by 2025 is now likely to be missed, necessitating a review of setting subsequent targets with concrete actions. Key reasons include fragmented automation, limited capacity, and ad hoc tax law changes that favour politically connected groups, undermining fairness (White Paper Committee, 2024). The IMF, as part of its latest loan package to address Bangladesh's balance of payments difficulties, stipulated a target to increase the tax-to-GDP ratio by 1.7 percentage points to 9.2 per cent by 2025-26. The following specific actions will be undertaken to improve the tax-GDP ratio and overall revenue efforts:

- Prioritising the reform initiatives that are not being implemented as outlined in 8FYP and IMF recommendations, and preparing a new time-bound action plan to implement them.
- Establishing a separate tax policy division from tax administration for an efficient and equitable tax system.
- Implementing full automation of the National Board of Revenue (NBR) to streamline the tax collection procedure and improve efficiency.
- Preventing tax evasion by improving reporting requirements, simplifying the tax filing process and broadening the individual tax net.
- Increasing compliance with corporate taxation.
- Reviewing and reducing indiscriminate tax exemptions.
- Reducing dependency on import revenue and increasing the share of direct tax.
- Implementing the original VAT Law 2012 and broadening the VAT collection areas through automation.
- Establishing a functional and effective ICT team/directorate in customs and VAT.
- · Streamlining the customs clearance processes digitally to facilitate more revenue from trade without increasing tariff lines and ensure ease of doing business.

- Introducing a carbon taxation mechanism and modern property tax system.
- Reforming wealth/capital gains taxes.
- Introducing a provision for structured performance evaluation of SOEs and a monitoring framework within relevant organisations to improve their overall performance and obtain more non-tax revenue.91

4.1.4 Strengthening the financial sector and capital market

A robust financial sector is acknowledged as a pivotal element for stimulating private sector growth in any contemporary economy. This relationship is particularly evident in cases where sustained economic development is accompanied by a well-developed financial system (Ahmed, 2024). The financial sector supports economic growth through several key functions. It channels savings from individuals and businesses into investments, thus boosting economic activity. Additionally, it facilitates payments and trade, ensuring the seamless exchange of goods and services across borders. Furthermore, it enhances resource allocation efficiency by linking investors with enterprises seeking capital. Collectively, these functions improve access to finance, enabling both individuals and businesses, including SMEs and CMSMEs, to actively engage in the economy.

In Bangladesh, the financial sector, particularly commercial banks, has played a crucial role in fostering economic development by providing investible funds to both the public and private sectors. To propel Bangladesh's continued progress beyond LDC graduation underscores the necessity of reinforcing the financial sector. However, public trust in the banking sector has eroded over time due to the sector's continuous deterioration due to mismanagement, misappropriation of funds in several banks, accumulation of large non-performing loans, and the rescheduling of loans despite poor repayment records, etc. Bangladesh's current NPL ratio to total gross loans is approximately 12.5 per cent (as of June 2024), which is significantly higher than those of regional peers such as China, Malaysia, India, Indonesia, Thailand, and Viet Nam, where NPL ratios range between 1 and 5 per cent as per the information provided in the World Bank World Development Indicators database. Most recently, policy measures have been put in place to bring good governance and ensure accountability and transparency within the banking sector. Various reforms in the sector are also currently underway.

Along with the financial sector, the long-term financing needs of the private sector can be best supported by the capital market by enabling companies to raise funds through equity and debt issuance. It provides liquidity, reduces reliance on traditional bank financing, and fosters innovation and expansion in sectors such as manufacturing, technology, and services. However, the absence of a well-functioning capital market has impeded the growth of the private sector in Bangladesh.

91 State-Owned Enterprises (SOEs) in Bangladesh face significant financial performance issues, with most incurring annual losses and reporting very low profitability indicators, such as a 0.58% average ROA from 2010-21, compared to 2-3.6 per cent in India, Malaysia, China, and Viet Nam. However, improving SOE asset utilization to achieve a 10-12 per cent ROA could generate BDT 587-705 billion, equivalent to 1.8-2 per cent of GDP, highlighting a substantial revenue opportunity (Ahmed, 2023).

⁹⁰ Countries such as Viet Nam, Malaysia, or Bhutan cash out around 0.7 to 1 per cent of GDP from environmental taxes (OECD, 2022).

Like the banking sector, the capital market in Bangladesh has also been fraught with various irregularities, characterized by shallow depth, low investor confidence, and widespread manipulation through IPO irregularities and circular trading, with regulatory bodies failing to act decisively, leading to reduced public trust and confidence (White Paper Committee, 2024). Therefore, strengthening the capital market along with addressing governance issues within the banking sector can facilitate a smooth transition by ensuring that both short-term and long-term financing needs are met. The following specific actions will be undertaken to strengthen both the financial sector and capital market:

- Establishing a transparent, inclusive, and independent commission to continuously assess the current state of the financial sectors, identify the root causes of the loss of public trust, ensure sustainability, and recommend credible measures to promote good governance and transparency within the financial system.
- Ensuring Bangladesh Bank's autonomy in effectively regulating all other banks and in the operation of the monetary policy.
- Conducting comprehensive reviews of commercial banks' financial well-being and enacting robust monitoring and surveillance protocols.
- Enhancing efficiency, transparency, accountability, and overall governance within public banks.
- Conducting thorough evaluations prior to approving any new commercial bank entities.
- Addressing the problem of non-performing loans (NPLs) and enhancing the quality of new lending practices.
- Strengthening regulatory frameworks to improve risk management practices to ensure better oversight of banks' loan portfolios.
- Tackling the challenges in deposit mobilisation.
- Implementing targeted measures to rectify weaknesses in banks rather than resorting to mergers with stronger entities.
- Formulating a new Bangladesh Capital Market Development Master Plan to address prevailing issues in the capital market.92
- Executing strategic reform initiatives outlined in the 8FYP and devising a time-bound action plan to address pending reforms.

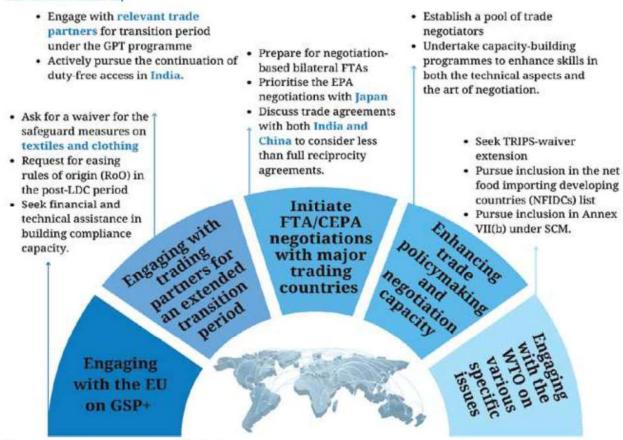
4.2 Strategic Pillar 2: Exploring and securing trade preferences and favourable transition measures beyond LDC graduation

Graduation from the LDC group, as discussed in Chapter 2 of this strategy, raises concerns about potentially significant export losses due to the cessation of access to various support measures associated with LDC status. Although Bangladesh's strategic priority is to transition from preference-dependent exports to developing new sources of competitiveness, the current heavy reliance on trade preferences—given that over 70 per cent of exports benefit from LDC-specific

⁹² The last Capital Market Development Master Plan (2012-22) was formulated in 2012.

ISMs—necessitates securing an extended transition period. This period would help mitigate any immediate adverse consequences and provide additional time for preparation in dealing with the full withdrawal of existing support measures. In other words, an extension would provide a buffer period to adjust to the new trade environment. In certain instances, additional time is also required to negotiate and establish alternative arrangements that ensure predictable trade regimes for exporters. Besides trade preferences, there are opportunities to seek either an extension of WTO's S&DT measures or to explore new avenues for trade facilitation. Transitioning from LDC status and competing with others would require building institutional and infrastructural capacity, including improving standards, complying with international regulations, and developing human capital. For all this, any additional time available is helpful.

Figure 4.2: A summary of actions under Pillar 2 (exploring and securing trade preferences and favourable transition measures)



Source: Illustration prepared for this Strategy.

Strategic actions:

Strategic objective of this pillar: To mitigate any immediate potential adverse impact on export competitiveness due to LDC graduation by extending current preferences, securing prolonged transition periods, and/or establishing alternative arrangements, including pursuing preferential/free trade agreements with key trading partners.

4.2.1 Engaging with the EU on GSP+ and removing safeguard measures on textiles

Being the largest export destination of Bangladesh, many of the potential challenges related to LDC graduation can be significantly mitigated by securing preferential market access in the EU after LDC graduation. After graduation in November 2026, followed by a three-year transition period, Bangladesh will lose the EBA benefits, which might be replaced by standard GSP, for which tariff preferences are limited. Alternatively, Bangladesh can apply for the GSP+ scheme, which offers duty-free access to 66 per cent of EU tariff lines, including textiles and clothing. There are two specific criteria that need to be fulfilled for GSP+. However, as explained in Chapter 2, even if Bangladesh qualifies for GSP+, its apparel exports may still face EU safeguard measures, as currently, Bangladesh has a much larger share in the EU's GSP-covered imports of apparel products. Because of this, Bangladesh's clothing exports to the EU may not receive any tariff preference, thereby facing an average tariff of 11.5 per cent.

 With the new EU GSP regime and its safeguard provisions deferred until the end of 2027, there is an opportunity for Bangladesh to request a waiver from these safeguard measures on textiles and clothing. There are several compelling reasons for Bangladesh to make such a request. Firstly, the lack of export diversification has been a significant vulnerability, and the impressive developmental progress reflected in LDC graduation should not penalise the country. It is also unfair that some non-LDCs can access GSP+ facilities for apparel products while a graduated LDC, Bangladesh, will be excluded. The substantial impact of the apparel industry on job creation, particularly for women, and on manufacturing activities has been a great success of the EU's trade policy regime. Bangladesh, as a graduating country, should continue to benefit from this to promote its economic development. Additionally, since Bangladesh is already a large supplier under the EBA, allowing it to continue with GSP+ without the safeguard measures is unlikely to cause any disruptions.

Another potential area of proactive engagement with the EU should involve reviewing the rules of origin (RoO) provisions under GSP+. The current requirements for double transformation in apparel exports and 50 per cent domestic value addition for non-apparel items are quite stringent. Under the current global system driven by value chain-led trade, where countries specialise in just one or a few components/tasks of the overall production of final items, fulfilling such high RoO requirements is extremely difficult, especially for capacity-constrained countries graduating from LDC status.

 It is also important to note that access to GSP+ is contingent upon the ratification and implementation of 32 international conventions encompassing labour, human rights, and environmental issues. Although Bangladesh has ratified all the relevant conventions, there are concerns regarding their implementation. Candid discussions with the EU and other development partners concerning the implementation challenges, including the need for technical and financial assistance, are essential.

4.2.2 Engaging with major trading partners for an extended transition period

Engaging with each trading partner that currently provides duty-free market access is necessary to secure an extended transition period. This will be a follow-up action on a WTO General Council decision adopted in October 2023 and endorsed by WTO members at their 13th Ministerial Conference, held in February 2024, to encourage preference-granting members to consider providing an extended transition period for graduating LDCs. 93 The Doha Programme of Action for LDCs, adopted at the Fifth UN Conference on LDCs in March 2023, also urges trading partners to consider extending trade preferences previously accorded to the graduated country and to reduce them gradually to prevent an abrupt cessation.94

In light of the above, the following actions should be undertaken to secure an extended transition period beyond LDC graduation:

- India has become one of the major markets for Bangladesh's apparel products—thanks to India's SAFTA-LDC scheme. With graduation on the horizon, Bangladesh must actively pursue the continuation of duty-free access. The case of Maldives serves as a notable example in this regard. Despite graduating in 2011, Maldives continues to benefit from LDC-specific market access as outlined in Article 12 of SAFTA.95 Currently, Bangladesh and India are exploring the feasibility of a Comprehensive Economic Partnership Agreement. However, concluding CEPA or FTA negotiations can be a time-consuming process spanning several years. Therefore, Bangladesh should request continued duty-free access under the existing SAFTA-LDC scheme while CEPA negotiations are ongoing. The governments of Bangladesh and Japan have now initiated negotiations for a Japan-Bangladesh Economic Partnership Agreement (EPA). Bangladesh should seek to continue with LDC-specific GSP preference in the Japanese market until the EPA negotiations conclude. Similarly, Bangladesh and China have initiated a free trade agreement, and a joint feasibility study is being conducted. Bangladesh should pursue maintaining the existing trade preference in the Chinese market pending the conclusion of the FTA.
- Bangladesh must also explore an extended transition period in the Republic of Korea, amongst others.

⁹³ The WTO General Council adopted a decision (WT/L/1172) on 23 October 2023, "[T]o encourage those Members that graduate or remove countries from unilateral tariff or duty-free and quota free (DFQF) preference programmes reserved for least developed countries (LDCs) based on their being graduated from the UN list of LDCs, to provide a smooth and sustainable transition period for withdrawal of such preferences after the entry into force of a decision of the UN General Assembly to graduate a country from the LDC category". The document can be found at: https://www.wto.org/english/news_e/news23_e/ldevc_23oct23_e.htm

⁹⁴ Paragraph 278 of the DPoA states, "We invite development and trading partners to consider extending to the graduated country trade preferences previously made available as a result of least developed country status or reducing them in a phased manner in order to avoid their abrupt reduction. The text of the Doha Programme of Action can be found at: https://www.un.org/ldc5/doha-programme-of-action.

⁹⁵ Article of 12 (Special Provision for Maldives) of SAFTA dictates: Notwithstanding the potential or actual graduation of Maldives from the status of a Least Developed Country, it shall be accorded in this Agreement and in any subsequent contractual undertakings thereof treatment no less favourable than that provided for the Least Developed Contracting States.

 While under the UK's Developing Country Trading Scheme (DCTS), Bangladesh is set to receive almost LDC-like duty-free market access after LDC graduation, the stringent RoO, akin to the EU GSP regime, could be a problem for accessing the benefits. Thus, there is an opportunity to engage with the UK for liberal RoO provision in the post-graduation period.

4.2.3 Initiate FTA/CEPA negotiations with major trading countries

Post-LDC graduation, one important way of retaining or expanding new market access opportunities is through free trade or economic partnership negotiations. Bangladesh is currently in talks on such possible trade deals with China, India, and Japan. Negotiated trade agreements are often backed by investment cooperation deals, which are critical for attracting FDI.

- Attaching the utmost priority to the potential EPA with Japan is critical. A bilateral trade agreement with a developed country can provide a strong signal to the rest of the world about Bangladesh's capacity and commitment to opening up to negotiated trade deals. Also, there is evidence that in an FTA between developing and developed countries, developing ones can gain significantly, given the differences in specialisation between the two types of economies.96
- Establishing trade agreements with both India and China should be able to provide medium to long-term opportunities for market access in the world's two largest economies. Both the two countries have large supply-side capacities, and trade agreements with them will require a lot of domestic preparedness, which should begin immediately. It is imperative for Bangladesh to advance these negotiations concurrently; otherwise, going ahead with just one could result in significant trade diversion and adverse welfare consequences. 97 While negotiating FTA with these countries, Bangladesh can leverage the principle of less-thanfull reciprocity in the exchange of trade preferences, which is often followed in FTAs involving developing countries.
- It is important to prepare for negotiation-based bilateral FTAs. This should involve undertaking trade policy reform to reduce dependence on import tariff-based revenue. Also, domestic industries will have to consider increased competition from outside.

4.2.4 Enhancing trade policymaking and negotiation capacity

As Bangladesh graduates from LDC status, building trade policymaking and negotiation capacity becomes crucial to navigating the complexities of global trade without preferential treatment. An increase in personnel with robust policymaking and negotiation capabilities will enable Bangladesh to secure favourable trade deals, overcome trade barriers, and expand market access to negotiate favourable trade agreements effectively. Post-graduation, Bangladesh will be subject to close scrutiny by various trade partners, necessitating robust engagement on trade policy issues and the

⁹⁶ For a discussion on this, see Razzaque, M. A. (2010). "Weaker Economies in SAFTA: Issues and Concerns." In Beyond SAFTA: Challenges and Opportunities, edited by Sadiq Ahmed, Saman Kelegama, and Ejaz Ghani, 377-400. World Bank, 2010.

⁹⁷ Trade diversion arises from a bilateral trade agreement when imports shift from a more efficient producer outside the agreement to a less efficient one within the agreement, due to the preferential treatment accorded to the latter.

resolution of trade disputes. Additionally, capacity building is essential for assessing the trade practices of other countries and seeking remedial measures to protect Bangladesh's economic interests. This preparation is vital for sustaining export growth, diversifying the economy, and mitigating the risks associated with the loss of LDC-specific trade benefits, thereby ensuring a smoother transition and continued economic development. Therefore, specific policy actions should include:

- Establishing a pool of trade negotiators drawing from various government ministries and departments, relevant specialised institutions, and think tanks will be helpful as it brings together a wide range of expertise and perspectives, ensuring comprehensive coverage of all relevant aspects to negotiate complex trade agreements, respond to scrutiny from trade partners, and resolve disputes effectively. Pooling resources from different ministries and agencies is particularly useful given the challenges of mobilising a large team and considering the job rotations of government officials, ensuring continuity and sustained expertise in trade negotiations.
- Organising capacity-building programmes for negotiators to enhance their skills in both the technical aspects of the subject matter and the art of negotiation.

4.2.5 Engaging with the WTO on various specific issues

While Bangladesh has been enjoying various S&DT provisions under WTO agreements, there are opportunities to seek the extension of some of such important provisions. For these, sustained engagement with the WTO will be maintained.98 Especially specific actions related to the below require attention:

- Seeking waiver extension under TRIPS agreement: There is an opportunity to seek extensions for waivers (general transition and pharmaceutical waivers) under the TRIPS Agreement through the WTO. This is in accordance with Article IX of the WTO Agreement, which permits waivers under exceptional circumstances. The LDC group submitted a proposal in December 2022, requesting provisions for graduating LDCs to benefit from both existing TRIPS waivers for their full terms, allowing the general waiver until 1 July 2034 and the pharmaceutical waiver until 1 January 2033, even if a country graduates before these deadlines. As no decision has yet been reached, Bangladesh should actively follow up on this proposal.
- Inclusion in net food-importing developing countries (NFIDCs) list: LDCs and NFDICs countries are eligible to provide certain subsidies until 2030. Based on the trade data, Bangladesh

⁹⁸ It is worth pointing out that the LDC Group (which includes Bangladesh) submitted several proposals to the WTO for extension of the ISMs beyond their graduation. The latest revision of the submissions (WT/GC/W/807/Rev.2) was submitted on 6 December 2022. The submission was a comprehensive one including all the ISMs/S&DTs for which Bangladesh is seeking extensions. Based on this submission, the WTO General Council adopted a decision (WT/L1172) on 23 October 2023 that encourages preference-giving countries to allow a transition period for duty-free market access for the graduating LDCs. Other issues, including TRIPS Waivers and export subsidies, are still under consideration of the WTO membership. Bangladesh along with the LDC Group has been pursuing for extension of all the ISMs mentioned in the submission.

- should be included in the NFIDCs list. A request has been made to the WTO regarding this. Bangladesh should now proactively pursue this.
- Inclusion in Annex VII(b) under The Agreement on Subsidies and Countervailing Measures (SCM): The SCM prohibits subsidies based on export performance and local content bias but exempts LDCs and developing countries with a GNP per capita under \$1000 at 1990 prices, provided they are listed in Annex VII of the SCM. A proposal has been submitted to allow graduated LDCs with GNP below \$1000 (at 1990 prices) to continue benefiting from this exemption. Bangladesh should actively follow up on this request to leverage any possible advantages from this S&DT to sustain industrial support post-LDC graduation.
- Seeking technology transfer: Bangladesh should seek technology transfer assistance by leveraging Article 66.2 of the WTO's TRIPS Agreement, which mandates developed countries to provide incentives for technology transfer to LDCs.

4.3 Strategic Pillar 3: Promoting export diversification and competitiveness

Strategic objective of this pillar: Promoting export diversification and external competitiveness through comprehensive reforms aimed at correcting the domestic incentive structure, revitalising the economic environment, facilitating transformation, and fostering new sources of competitiveness.

4.3.1 Implementing the recommendations of DTIS update to enhance the capacity of exporting sectors

The initial DTIS, conducted in 2016, was updated in 2023 to specifically consider strengthening 12 sectors in light of upcoming LDC graduation (BFTI, 2023; Kathuria & Malouche, 2016). The sectors of goods and services covered in the study are RMG, including Woven and Knitwear, Pharmaceuticals and API, Leather and Leather Goods, Non-Leather Footwear, Light Engineering, including Electronics and Electrical, Shipbuilding, Plastic Products, Agro-products and Processed Foods, Fisheries and Livestock, Tourism, Software and IT services, and Nursing and Midwifery services (BFTI, 2023). For each sector, the study outlines the strengths, weaknesses, opportunities, and threats (SWOT analysis). It identifies strategic measures to overcome sector-specific challenges and unlock export potential, aiming for sustained export-led growth. Additionally, the study proposes a detailed roadmap to enhance the capacity of these export-oriented sectors, emphasising key opportunities, challenges, and concrete actions necessary to address these issues effectively.

The recommendations put forth in the study are comprehensive and sector-specific, designed to tackle various issues that could impede growth. Their successful implementation can significantly enhance the capacity of Bangladesh's exporting sectors. Consequently, it is imperative to develop a time-bound action plan that addresses these sector-specific issues within the timeline. This integration will ensure a coordinated and strategic approach to achieving sustained export-led growth, thereby supporting Bangladesh's transition from LDC status and promoting broader economic development.

Strategic actions:

Figure 4.3: A summary of actions under Pillar 3 (promoting export diversification and competitiveness)

- Align domestic product quality control with international standards
- Enforce standards for the local markets for export preparedness
- · Increase the capacity of BSTI
- Develop a robust regulatory framework to enforce compliance with quality standards.
- Strengthen the legal framework
- · Enhance trade union rights
- · Invest in workers' welfare
- Encourage all firms and businesses to observe and disclose their ESG practices.
- Prepare and implement a comprehensive branding strategy for Bangladesh
- Engage embassies/missions abroad and diaspora communities to promote the goods produced in Bangladesh
- Foster innovation and design capabilities.



- Prepare a timely and effective action plan for the NTP implementation
- Ensure providing the dutyfree import of intermediate inputs and raw materials for all exporters.
- Prepare a time-bound action plan with Key Performance Indicators (KPIs) and effectively implement the National Logistics Policy 2024.
- Streamline the availability of all services from relevant institutions
- Review and simplify existing regulations to remove redundant or outdated rules
- Establish a low-cost fund for man-made fibres/fabric productions.

Source: Illustration prepared for this Strategy.

4.3.2 Implementing the National Tariff Policy for tackling anti-export bias and improving the relative incentive of the non-RMG sector to promote export diversification

• High protection through tariffs and other trade taxes has created an incentive structure that discriminates against exports. In the face of losing tariff preferences and the discontinuation of export subsidies, maintaining the current tariff structure will exacerbate the long-standing issue of policy-induced anti-export bias (GED, 2023). In recognition of the need to expand and diversify exports, the Bangladesh Trade and Tariff Commission (BTTC), under the purview of the Ministry of Commerce, spearheaded the development of the National Tariff Policy (NTP), which has been adopted by the government. This policy constitutes a significant step towards reforming the trade policy regime, readying it for the post-LDC period.

- Amongst its salient features, the NTP points out that the current indiscriminate use of such tariffs as supplementary and regulatory duties (in addition to customs duties) is to be regarded as non-compatible with the WTO regime. Bangladesh's imminent LDC graduation means necessary reforms should be undertaken to make the trade policy regime compliant with international standards. The NTP calls for striking a balance between providing protection to domestic industries while not creating a perennial disincentive system affecting external competitiveness by providing tariff-based industrial support in a timebound manner. This guideline aligns strongly with the notion of moving towards a structurally transformed economy.
- The NTP also emphasises that the export industry must be provided with the duty-free import of intermediate inputs and raw materials, for which the bonded warehouse and duty drawback facilities must be made available and more efficient. In keeping with the goal of export diversification, it suggests all firms that produce for exports and sales in the domestic market may now import inputs for exports duty-free by posting a 100 per cent bank guarantee against such imports, up to 70 per cent of export value.
- The preparation and adoption of the NTP has been a commendable task. It is now essential to make progress on its effective implementation, about which the NTP does not offer a timeline. Preparing a time-bound action plan for NTP implementation should be of utmost priority.

4.3.3 Improving product quality and standards

Meeting and maintaining high quality and standards are essential for building trade competitiveness. Exporting to advanced economies necessitates compliance with stringent testing and standard requirements. Current challenges include a lack of access to advanced technology and testing facilities, limited expertise in international standards compliance, insufficient infrastructure for consistent quality control, and high compliance costs. It is acknowledged that product standards and a lack of capacity to adhere to these standards restrict Bangladesh's potential to diversify its exports (Government of Bangladesh, 2023). While significant capacity development has occurred in the garment sector, non-RMG sectors struggle to comply with product standards, hindering their export response.

Over time, Bangladesh's testing facilities have improved; nevertheless, further investment is needed as many exporters lack or find it difficult to access such facilities or need to send products abroad for testing and certification procedures. Importing countries sometimes do not accept locally conducted tests. Align domestic product quality control with international standards by establishing partnerships with global quality assurance bodies for knowledge transfer and best practices. The following actions are needed to improve the quality and standards of products:

 Enforcing standards for the local market is also important for export preparedness, helping many firms unleash their export potential and establishing global credibility regarding product quality practices.

- Increasing the capacity of BSTI to conduct necessary tests required by importing countries and encourage private sector initiatives in standardisation, certification, and testing laboratories to provide timely and quality services.
- Upgrading the existing testing labs and ensuring their accreditation by globally recognised bodies to make BSTI certifications accepted internationally.
- Developing a robust regulatory framework to enforce compliance with quality standards across all sectors.
- · Implementing continuous training programmes for quality control personnel to keep them updated with global standards.

Enhancing compliance with the Sanitary and Phyto-sanitary (SPS) and Technical Barriers to Trade (TBT) agreements and standards will be vital for integrating into the global economy as well. These two WTO agreements help prevent countries from using health and safety regulations or technical standards as disguised barriers to trade. By promoting transparency, scientific justification, and harmonisation with international standards, these agreements ensure that measures are not more trade-restrictive than necessary. Strengthening SPS and TBT compliance capacity will enable Bangladesh to meet international market requirements, thereby increasing its export competitiveness and market access. Improved compliance can also lead to better-quality domestic production, contributing to overall economic development and resilience.

To strengthen compliance with international standards and robust accreditation systems and testing facilities that align with the SPS and TBT agreements, the following actions are needed:

- Strengthening the Bangladesh Accreditation Board (BAB) and ensuring it secures international recognition to foster global acceptance of Bangladesh's test results and certifications.
- Modernising and expanding the capabilities of testing and calibration laboratories under BAB and the Bangladesh Association of Certification Bodies (BACB) to meet international standards, including upgrading equipment and facilities.
- Implementing continuous technical training programmes for laboratory personnel, accreditation bodies, and regulatory officials to keep them updated with the latest international standards and testing methodologies.
- Fostering partnerships with international organisations and experts for technical assistance, capacity building, and knowledge transfer to BAB and BACB.
- Engaging stakeholders, including exporters, industry associations, and consumer groups, to raise awareness about the importance of accreditation and testing, ensuring their needs and concerns are addressed.
- Ensuring all testing and accreditation bodies adopt and maintain international quality management standards (such as ISO/IEC 17025 and ISO/IEC 17065) and establish a culture of continuous improvement through regular audits and feedback mechanisms.

4.3.4 Improving trade logistics and trade facilitation measures

By improving cost competitiveness through enhanced logistics and trade facilitation measures, Bangladesh can mitigate the impact of LDC graduation-induced tariff hikes. Comprehensive interventions, such as addressing port delays, reducing road congestion, improving logistics service quality, facilitating payments, and resolving other inefficiencies, could decrease logistics costs by 26 per cent and increase exports by 19 per cent (Dappe et al., 2019). Bangladesh recently adopted a comprehensive National Logistics Policy (NLP) to address these inefficiencies. The main objectives are to streamline logistics, integrate logistics players, modernise infrastructure, leverage digitalisation, implement regulatory reforms, develop a skilled workforce, and ensure an inclusive and climate-resilient logistics environment.

- The National Logistics Policy (NLP) 2024 aims to enhance Bangladesh's logistics performance by prioritising a coordinated cargo transport system across waterways, railways, roadways, and airways to reduce time and costs. It focuses on modernising infrastructure, improving connectivity, establishing logistics hubs, rationalising port charges, and promoting private sector investment through public-private partnerships. Effective implementation of the NLP 2024 is critical for comprehensive reforms in the logistics sector. A time-bound action plan with clearly defined Key Performance Indicators (KPIs) is essential to ensure implementation and monitoring of the suggested reforms. the policy's success.
- Short- to medium-term initiatives should focus on simplifying, digitalising, and improving logistics infrastructure. Immediate actions include discontinuing hard copy clearances alongside digital ASYCUDA submissions, digitalising shipment clearance (TFA 7.8), launching a container tracking system, reviewing illogical fees, streamlining cargo handling processes, and easing weight-based limits to improve efficiency and attract foreign direct investment (FDI).
- Establishing dedicated customs houses in operational SEZs and EPZs is crucial, along with developing a digital platform to eliminate face-to-face interactions. Key measures include digitising all clearance procedures with visibility on waiting times and ASYCUDA performance, revising the Bangladesh Flag Vessels (Protection) Act, improving business cost predictability by eliminating informal value assessments, conducting a joint Time Release Study by the NBR and Chattogram Port Authority (CPA), implementing a Maritime Single Window, and providing policy support and incentives for electric and green vehicles.

4.3.5 Enhancing labour standards and ESG compliance

Labour standards are now critical factors in international trade, with firms in global supply chains scrutinised for their labour practices. The RMG sector has faced intense scrutiny from major trade partners like the EU and the US on issues such as freedom to form and join trade unions, antiunion discrimination, and enforcement of labour laws. These concerns affect Bangladesh's eligibility for trade preferences under schemes like the EU's GSP+. In response, the Ministry of Labour and Employment (MoLE) prepared a National Action Plan (NAP) on the Labour Sector of Bangladesh (2021-2026) to amend labour rules and the Bangladesh Labour Act. The following actions will be undertaken to improve labour standards:

- Strengthening the legal framework by undertaking the relevant amendments and enforcing it to comply with standards.
- Enhancing inspection and compliance by increasing the number of labour inspectors and ensuring effective training and enforcement of labour laws
- Simplifying the process for establishing and registering trade unions and protecting their rights
- Improving workplace safety by continuing efforts to enhance building and fire safety in factories through comprehensive safety standards and regular inspections
- Engaging stakeholders by collaborating with international bodies like the ILO and working with trade partners for ongoing support and technical assistance.
- Investing in worker welfare by developing programmes for skills training, social security, and rehabilitation for workers, particularly those affected by industrial accidents.

ESG standards, alongside labour practices, are becoming increasingly important determinants of success in export markets. Investors now use ESG criteria to identify risks and opportunities, and major financial institutions are rapidly incorporating them into their products and portfolios. Consumers, too, are placing greater emphasis on sustainable practices. The adoption of the Corporate Sustainability Due Diligence Directive (CS3D) by the European Commission signals that compliance with these norms has legal implications. To improve ESG compliance, the following actions will be undertaken:

- Building awareness of the relevant issues not only for export-oriented units but also for non-exporting units to enhance their export potential.
- Implementing Extended Producer Responsibility (EPR) as per the Solid Waste Management Rules 2021.
- Encouraging all firms and businesses to disclose their ESG practices.
- Promoting circular economy to ensure resource efficiency and waste reduction through circular economic practices.
- Supporting collaboration between the government, businesses, and NGOs to implement and share best practices for ESG compliance.

4.3.6 Enabling environment for businesses and trade

A sound business environment is crucial for unlocking a country's full economic potential. It attracts domestic and foreign investment by providing clear regulations, efficient administrative procedures, and strong property rights protection, thereby mobilising investments. It empowers businesses to be more productive and competitive by minimising red tape and unnecessary hurdles while also encouraging entrepreneurship and innovation. Creating a business-friendly environment remains a work in progress in Bangladesh. Businesses often need to complete involved paperwork at significant costs (Moazzem & Jafrin, 2024). The Bangladesh Business Climate Index (BBX) highlights difficulties, among others, in accessing land, paying taxes, and mobilising finance (MCCI

& Policy Exchange, 2023). It also suggests that unlocking the country's potential and enhancing the business environment requires several key reforms: upgrading infrastructure and logistics, fortifying financial systems, improving legal and regulatory frameworks, and strengthening institutional governance. Moreover, SMEs face more significant barriers compared to wellorganised sectors. In light of the impending LDC graduation, the importance of creating an enabling business environment by reducing the cost of doing business has been duly emphasised (Government of Bangladesh, 2023). The proposed strategies for improving the business environment are well-placed and align with current needs. However, specific actions must be taken to further enhance the business environment:

- Developing a digital and holistic One-Stop Service (OSS) model that offers a comprehensive range of services from all relevant institutions necessary for starting and operating a business.
- Implementing simplified and affordable business registration processes to encourage informal businesses to formalise and reduce fragmentation.
- Streamlining the land administration process and facilitating land access for businesses.
- Reviewing and simplifying existing regulations to remove redundant or outdated rules that hinder business operations.
- Establishing low-cost access to capital funds, especially for the non-RMG sector, with robust impact monitoring, offering both debt and equity financing.

4.3.7 Enforcing intellectual property (IP) protection

Strong intellectual property (IP) enforcement is critical as it promotes innovation and attracts FD). Foreign investors are more likely to support companies and individuals who can demonstrate ownership of their IP, as strong IP enforcement creates a secure investment environment and fosters the flow of capital needed to bring innovative ideas to market.⁹⁹ Therefore, patent enforcement needs to be robust. Bangladesh has enacted new intellectual property laws, including the Patent Act 2023, Copyright Act 2023, and Industrial Design Act 2023, aligning them with WTO rules and regulations. These laws clearly outline remedial processes in case of infringement. Strengthening the IP regime, including enforcement mechanisms, is crucial for Bangladesh to face the post-LDC situation. This requires institutional capacity building and human resource development. To improve institutional capacity, the following actions need to be undertaken:

- Strengthening the Department of Patent, Design and Trademarks (DPDT) and Copyright Offices through adequate manpower allocation, enhancement of technical knowledge, and implementation of automated registration procedures.
- A specialised IP academy/training institute should be established to increase IP awareness and create an innovation society.
- Building the capacity of judiciaries and legal enforcement agencies for effective IP protection enforcement.

99 A global study estimates that On average, a 10% increase in the IPR score is linked to a \$1.5 billion rise in FDI (50% of the mean) and an \$8.9 billion rise in imports (40% of the mean) (Khan & Samad, 2010; Lesser, 2002).

- Ensuring active implementation of IP enforcement by law enforcement agencies, including the police and relevant IP offices.
- Increasing public awareness about IP protection.

4.3.8 Developing WTO-compatible support measures

With Bangladesh's impending graduation from LDC status, it is imperative to develop WTOcompatible export support mechanisms. Providing support for green transformation, R&D, improved standards, and compliance may be WTO-compatible and can significantly aid in developing a transformed and competitive economy. Various studies have identified some existing support measures that are compatible with WTO, such as duty-drawback schemes, bonded warehouses, and export development funds (Khan, 2022; Razzaque et al., forthcoming). There is a need to undertake a study to identify and recommend more WTO-consistent support measures that can be employed to support the export sector.

4.3.9 Branding of Bangladesh to improve export market prospects

A country's image can significantly enhance export market prospects by establishing a strong and recognisable identity that differentiates its products in the global market. A well-crafted brand fosters perceptions of quality, reliability, and value, attracting consumers who are often willing to pay a premium price. Conversely, a negative country image can harm export prospects and result in lower prices. Effective branding is thus crucial for exporters as it increases opportunities to integrate into the supply chains of established brands and attract foreign direct investment (FDI). The following actions can be undertaken to brand Bangladesh and showcase its strengths on the global stage:

- Preparing and implementing a comprehensive branding strategy for Bangladesh with the consultation of the private sector.
- Regularly participating in major global trade fairs and exhibitions to increase product visibility and credibility.
- Emphasising environmentally friendly and sustainable production practices to appeal to eco-conscious consumers.
- Engaging Bangladesh embassies/missions and diaspora communities abroad to promote the "Made in Bangladesh" label.
- Forming strategic partnerships with international brands and business organisations to cobrand products, share best practices, and enhance global reach.
- Fostering innovation and design capabilities to differentiate products and create a competitive edge.
- Developing geographical indications (GI) and promoting indigenous products to highlight Bangladesh's unique offerings and heritage and integrated effort of the Bangladeshi business community and exporters association to enhance global recognition of GI products at international trade fairs.

4.4 Strategic Pillar 4: Building productive capacity

Strategic objective of this pillar: To promote structural transformation and achieve the long-term vision of becoming a high-income country by strengthening supply-side capabilities, improving human capital, and strengthening institutions.

Strategic actions:

Figure 4.4: A summary of actions under Pillar 4 (productive capacity development)

Improving productivity through technological upgradation and innovation

- Effectively implement the Bangladesh National Productivity Masterplan 2021-2031
- Strengthen the capacity of the National Productivity Organisation (NPO)
- Adopt industrial and technological upgradation including digitalisation and automation
- Develop an R&D strategy for Bangladesh and raise the capacity of research institutes.

Skilling, re-skilling and upskilling the workforce

- Update course curricula to match job market demands, establish more vocational training centres
- Establish e-learning TVET institutions.
- Enhance NSDA capacities and implement the National Action Plan for skill development.

Advancing green transformation for future competitiveness and readiness

- Expand the scope for green financing
- Take measures to reduce carbon emissions and improve climate resilience
- Implement the actions to achieve the NDC commitments
- Build wider awareness about sustainable production practices
- Design appropriate incentive packages to encourage green transformations.





Building supply-side capacity by strengthening backward and forward linkages

- Extend easy access to finance for backward/forward linkage industries
- Establish a low-cost strategic investment fund for promoting export diversification within the apparel sector
- Implement the recommendations of the updated DTIS for expanding supply-side capacity of non-RMG sectors.



TO A

Attracting FDI and revitalising domestic investment

- Ensure a business-friendly environment and provide investment incentives
- Prioritise the exploration of FDI opportunities in export-oriented sectors
- Improve the overall business climate to encourage private investment
- Support SMEs through targeted programs and capacity-building initiatives.



Strengthening institutional capacity

- Undertake capacity development of public institutions and agencies
- Strengthen the legal framework for service delivery through transparency and accountability
- Improve institutional coordination and private sector dialogue mechanisms.



4.4.1 Improving productivity through technological upgradation and innovation

Although Bangladesh's productivity grew at an annual rate of 3.8 per cent from 1995 to 2016, the National Productivity Master Plan aims for a 5.6 per cent annual growth from 2021 to 2031, with specific targets of 5.4 per cent in agriculture and 6.2 per cent in industry and services. Enhancing productivity is crucial for economic growth, resource efficiency, innovation, and competitiveness. The Master Plan focuses on five key goals: expanding productive enterprises, developing high-value-added sectors, building a complex economic structure, establishing strong business enablers, and advancing macroeconomic enablers. These objectives will be achieved through 11 strategic

thrusts, with a focus on strengthening the capacity of National Productivity organisations. Industrial upgrading, led by the private sector, and increased investment in research and development (R&D) are crucial for technological advancement and competitiveness, especially in labour-intensive sectors like apparel. Given the currently low investment in R&D, developing and implementing a comprehensive R&D strategy is imperative for boosting productivity across all sectors. This transformation will create new export opportunities and promote competitiveness through technological capacity building. The following actions will be important:

- Effectively implementing the strategies and actions in the Bangladesh National Productivity Masterplan 2020-21 to 2029-30.
- Implementing the action plans in the National Industrial Policy 2022.
- Strengthening the capacity of the National Productivity Organisation (NPO), as it is the sole public entity working on productivity improvement.
- Adopting industrial and technological upgradation including digitalisation and automation
- Developing an R&D strategy for Bangladesh.
- Investing in R&D and raising the capacity of research institutes undertaking fundamental issues in product development, quality improvement, etc.

4.4.2 Leveraging information and communication technology (ICT) for increasing productivity

Adopting information and communication technology (ICT) is crucial for enhancing productivity. While Bangladesh has made progress in ICT adoption, the global pace of technological advancement necessitates greater efforts. Emerging information technologies must be adopted to meet digital age challenges and achieve inclusive growth. To drive digital transformation, Bangladesh will prioritise skill development, enhance consumer protection, and promote enterprise formalisation. Updating university curricula with industry collaboration and easing entry barriers for science and math students into IT programmes are critical steps.

The Fourth Industrial Revolution (4IR) is reshaping the global economy, and Bangladesh is actively working to embrace new technologies by improving internet speed, digital services, and egovernance. Policies are being formulated (which require amendment and upgradation) to prepare for 4IR Bangladesh—which will enhance ICT sector productivity, attract FDI, and strengthen digital infrastructure, including high-speed broadband, robust mobile networks, cloud computing, data centres, and cybersecurity. 100 Public-private partnerships will be essential for investing in cuttingedge technologies. Key actions for adopting ICT to increase productivity include:

- Implementing the National ICT Policy and other strategies.
- Prioritising skill development programmes in ICT, enhancing consumer protection mechanisms, and promoting the formalisation of enterprises in the ICT sector.

100 The policies include the National ICT Policy 2018, National Blockchain Strategy, National Strategy for Artificial Intelligence, National Internet of Things Strategy, National Strategy for Robotics, Strategy to Promote Microprocessor Design Capacity in Bangladesh, Digital Security Act 2018, National Digital Commerce Policy 2018, Innovation Guideline Strategy & Policy, 4IR-Based Future Skills Policy, etc.

- Updating university curricula in collaboration with industry to better match labour market demands.
- Deepening policy incentives to the ICT sector to boost productivity.
- Ensuring high-speed broadband, robust mobile networks, cloud computing access, data centres, and enhanced cybersecurity.
- Leveraging public-private partnerships for building ICT infrastructure.
- Attracting more FDI in the ICT sector.

4.4.3 Building supply-side capacity by strengthening backward and forward linkages

Strengthening backward and forward linkages is vital for building resilient supply chains, promoting sustainable development, and achieving inclusive growth across sectors such as agriculture, manufacturing, and services. Robust backward linkages involving locally sourced raw materials and experienced local entrepreneurs, enhance competitiveness and expand supply capacities. Boosting backward linkages is key to increasing domestic value addition. As Bangladesh transitions from LDC status, meeting the rules of origin for any available duty-free market access schemes, such as the UK's DCTS, will require higher value addition, including double transformation in apparel production. While strong linkages exist in the textile and apparel industries, particularly in knitwear, there is heavy reliance on imported woven garment fabrics and man-made fibre apparel materials.

Limited access to favourable financing hinders the development of modern backward linkages in the textile sector, including MMF-based apparel production, which requires significant capital investments. Government support is essential for developing these capacities in priority sectors. Ensuring easy access to finance to establish both backward and forward linkages will be prioritised, with government initiatives supporting private sector enterprises. The following strategic actions will be implemented to improve the backward and forward linkages:

- Providing special attention to priority sectors for developing backward/forward linkages.
- Extending easy access to finance for private firms to invest in backward/forward linkage industries.
- Establishing a low-cost strategic investment fund for developing man-made fibre and fabric production capacity to support developing backward linkage for the RMG industry and promote export diversification within apparel exports.
- Implementing the recommendations of the updated DTIS for expanding the supply-side capacity of non-RMG sectors.

4.4.4 Skilling, re-skilling, and upskilling of the workforce

Bangladesh currently stands at an important crossroads in economic, human, and social development. Among other issues, a strong focus on human resource development, including skills training, is an important part of the country's economic and social transformation. It is wellrecognised that knowledge and skills are important driving forces of economic growth and social development in any country. The rapidly growing Bangladesh economy, particularly the modern manufacturing and services sectors, is experiencing acute shortages of skilled workers. On the other hand, there is a high under-employment rate and joblessness among young people,

particularly educated youth. This phenomenon of joblessness constitutes a major cause of concern in the country. Therefore, preparing the potential workforce for the labour market (both domestic and overseas) through appropriate skills training is of utmost importance.

Around 65 per cent of the population out of about 162.5 million are within the 15-40 age cohort. This demographic dividend will persist until 2036. After this, the workforce of the said age cohort will decline gradually. This is high- time to engage the youth population in productive economic activity properly. It is inevitable that this huge workforce will be converted into human resources in compliance with the Fourth Industrial Revolution (4IR). Nearly 2.2 million people enter the job market every year. If these huge workforces are not well adapted to the fast-changing technology, business and commerce eco-system, the aspiring development milestones can never be achieved.

To accelerate the overall economic development of the country, it is required to innovate skills development of the workforce. The necessary steps should be undertaken to develop the curriculum to meet the demands of the local and international labour market, as well as monitor the quality of skills training and its coordination. To survive in the hefty competitive world and to continue the present development trend, there is no alternative but to convert these huge workforces into skilled human resources.

The 4IR is reshaping global skills demands, increasing the need for cognitive and technical skills. Prioritising cutting-edge skills training aligned with global trends is essential. Emphasising STEM education through scholarships, job counselling, and media advocacy will help to meet these needs. The private sector can also improve workforce skills through apprenticeship, on-the-job training, and other training programmes supported by government incentives.

Enhancing access to Skills Training is crucial for an inclusive skill development initiative. The National Skills Development Authority (NSDA) is working relentlessly to achieve Bangladesh's targets by developing its population as human resources through providing appropriate and market-oriented skills in collaboration with various organisations. The National Action Plan of NSDA for the skills sector aims to train around 8.6 million people, addressing the skills gap.

The following actions will be implemented to minimise the skills gap:

- Carrying out research and surveys to assess the skills demand, analyse gender-specific labour market trends and skills gap, and identify future skills demand in the national and international labour markets.
- Creating demand-driven, flexible and responsive skills provision in order to meet the demand for skilled manpower in the domestic and overseas markets.
- Developing/Updating course curricula to match the market demands accordingly.
- Strengthening Skills Training Providers (STPs) with (i) equipment support for technological changes, (ii) adapt in emergencies, like COVID-19, with a blended skills training system where applicable.
- Transforming STPs into Green Skills Training Providers.
- Enhancing industry linkage in order to develop the workforce in line with market demand.

- Strengthening Industry Skills Councils (ISCs) to support skills development activities of NSDA.
- Establish the International Training of Trainers (TOT) institutes in collaboration with renowned international skills training institutes, Centres of Excellence, ISCS, and other industries.
- Supporting existing eligible Skills Training Providers, skills research organisations, or centres to transform into Skills Centres of Excellence to strengthen the skills ecosystem for sustainable development.
- · Equipping the socially disadvantaged group of people and maintaining gender balance to work in the formal economy.
- Enhancing capacities of NSDA and related stakeholders.
- Implementing the national action plan for skill development.
- Conducting awareness activities through media and social marketing for the popularisation of the skill development eco-system.

4.4.5 Human capital development

Human capital development is crucial for transitioning from LDC status to a structurally transformed and competitive economy while implementing inclusive growth strategies. Despite progress in health, education, and social protection, further investment is needed to enhance equity in these services, enabling the poor and vulnerable to fully participate in the growth process. Strengthening the implementation of the National Social Security Strategy (NSSS), particularly schemes for working-age individuals covering vulnerabilities such as unemployment, injury, sickness, and maternity, is essential for realising human capital potential.

Human capital, encompassing knowledge, skills, talents, experience, wisdom, and intellectual attributes, drives growth and is a key indicator of a country's productive capacity. Therefore, in the lead-up to LDC graduation and beyond, the focus on building human capital will remain a priority. The strategic actions for human capital development will include:

- Increasing budgetary allocation for education, skill development, health care, and social protection.
- Improving access to quality and affordable health services for the poor and vulnerable.
- Extending the coverage of social protection for poor and vulnerable citizens and strengthening social protection support for the working-age population.

4.4.6 Revitalising domestic investment

Private investment has been a key driver of economic growth in Bangladesh, but its proportion to GDP has stagnated at around 22 per cent. LDC graduation will likely have mixed effects on private investment prospects: while the loss of preferential market access could have a dampening effect, improved competitiveness and a better business climate should boost it.

To boost domestic and foreign private investment, the strategy focuses on prudent macroeconomic management, maintaining stable yet competitive exchange rates, ensuring an adequate credit supply, providing serviced industrial plots through EPZs and SEZs, streamlining administrative procedures, and reducing logistics costs, among other measures. Additionally, simplifying the investment regulatory framework is crucial to lowering the cost of doing business and supporting SMEs. High-quality public investment, particularly in infrastructure and related services, complements private investment. Enhancing the capacity of implementing institutions and improving monitoring and evaluation are critical for the effective use of public resources. To revitalise domestic investment, the following actions will be undertaken:

- Improving the overall business climate to encourage private investment, as well as foreign direct investment.
- Strengthening the capacity of BIDA to fully function as a one-stop service provider for investors.
- Improving access to finance for all sectors with an emphasis on the SMEs.
- Improving investment regulatory framework and investment laws and advocating for better corporate governance.
- Providing robust investment support measures and making five to ten model SEZs and EPZs fully functional instead of 100 with all necessary facilities. Strengthening inter-agency coordination for investment promotion and facilitation along a streamlined and harmonised system supporting investors, with a better allocation of tasks and responsibilities across agencies.
- Supporting SMEs through targeted programmes and capacity-building initiatives.
- Ensure efficient use of public resources.

4.4.7 Attracting foreign direct investment (FDI)

The role of FDI in developing domestic capacity, expanding exports, and diversifying product variety cannot be overemphasised. FDI directly contributes to an economy by generating employment, enhancing skills, and boosting productivity. Additionally, the spillover effects from knowledge and technology transfers, as well as advancements in management practices, can be instrumental for productivity growth. FDI firms are integrated into global supply chains and can help local enterprises with their global outreach. The most critical reform required to boost FDI is a thorough overhaul of the investment climate. The following specific actions will be undertaken to attract FDI in facilitating smooth transition from LDC status:

- · Attracting FDI by ensuring a business-friendly environment and providing investment incentives.
- All the investment promotion agencies (BIDA, BEZA, BEPZA, and HTPA) should be brought under one institution. In addition to improving the OSS efficiency, securing top-level government commitment and resources to accelerate and fully implement the Bangladesh Investment Climate Improvement Program (BICIP).
- Develop a new Foreign Private Investment Promotion and Protection Act to establish investment-friendly profit repatriation rules, safeguard investors' interests, reduce red tape, and enhance the transparency of investment measures where necessary. Prioritising the exploration and encouragement of FDI opportunities in export-oriented sectors,

particularly in the context of LDC graduation, is essential to revitalise the export sector and address the current macroeconomic challenges, including the need to bolster foreign reserves through increased FDI inflows and exports.

- Actively engaging and following closely international investment treaty reform initiatives, including the OECD's 'Future of investment treaties' project, dedicated to substantive treaty clauses, and at UNCITRAL Working Group III on ISDS reform.
- Dedicating more resources to policy advocacy and ensuring the proactive role of foreign missions in attracting FDI by informing potential investors about investment-friendly policies and incentive structures.
- Seeking investment in complex sectors and more technologically advanced activities such as man-made fibre, engineering, ICT, pharmaceuticals, and chemicals, which can facilitate the structural transformation of the economy.
- Establishing dedicated courts for foreign investors to streamline dispute resolution processes, ensuring that their concerns are addressed promptly and fairly.
- Improving policy predictability by implementing clear, consistent, and stable policies to gain the trust of foreign investors, reduce uncertainty, and create a more favourable business environment.
- Ensuring an uninterrupted power supply and other infrastructural support for FDI firms.

4.4.8 Advancing green transformation for improved competitiveness and future-readiness

Green production and sustainable practices are critical in the global trade landscape, influencing consumer preferences and market dynamics. Embracing eco-friendly processes supports global sustainability and provides exporters with a competitive advantage. Consumers increasingly value green products, associating them with quality and responsibility, which can attract higher prices and open profitable market segments. This shift also allows countries to diversify their export baskets, reducing reliance on traditional products and enhancing productive capacity.

Global trade is evolving with carbon reduction measures, such as the EU's border carbon adjustment mechanism (CBAM) starting in 2026, which may expand to include more products. This poses challenges for Bangladesh, as competitors like China, India, and Viet Nam develop domestic carbon markets. Bangladesh must prepare for these measures by implementing carbon reduction policies and establishing a domestic carbon market, as suggested in the 8th Five-Year Plan.

Bangladesh's trading partners are adopting circular economy principles to conserve resources and reduce waste. Aligning with these principles, it is important to redesign products with eco-design, maximize resource efficiency, and implement extended producer responsibility (EPR) programmes. Collaboration among suppliers, customers, and stakeholders is crucial for promoting sustainable practices. In one important development, Bangladesh's garment factories are now leading the way in green transformation, with numerous factories earning LEED certification for their commitment to sustainable and environmentally friendly practices. However, more needs to be done. In the past, the central bank facilitated green financing, disbursing over BDT 83 billion in 2021-22. Additional funds are needed, including improved access for SMEs.

To enhance green transformation, improve competitiveness, and support future readiness of the economy, the following actions will be implemented:

- Expanding the areas and increasing funds for green financing.
- Taking necessary steps to introduce a domestic carbon market.
- Taking policy measures to reduce carbon emissions and improve climate resilience.
- Implementing the actions to achieve the carbon reduction targets committed in the nationally determined contributions (NDCs).
- Strengthening the measures to achieve energy transitions towards renewable energy sources.
- Undertaking research to explore areas for improvement in the current production practices to implement a circular economy model.
- Building wider awareness about sustainable production practices.
- Adopting specific action plans to stop single-use plastic and collect and recycle plastic waste.
- Enhancing capacity, technical knowledge and human resources in the focal ministry and department (i.e., MoEFCC and DoE) for environmental management. Designing appropriate incentive packages to encourage green transformations.
- Developing a medium- to long-term climate financing strategy to secure alternative funding sources that will no longer be available after LDC graduation.

4.4.9 Strengthening institutional capacity

While institutions are integral to a country's productive capacity, their critical role in economic functioning and outcomes necessitates special emphasis. Effective institutions drive investments in physical and human capital, foster innovation and technological progress, and facilitate the organisation of production systems. Robust institutional structures and effective governance mechanisms are essential for prudent macroeconomic management, ensuring adherence to quality and safety standards, boosting international confidence in products and services, and attracting foreign direct investment. Bangladesh's major development plans already recognise the importance of institutions. For a smooth transition from LDC graduation, targeted interventions will be implemented to enhance institutional capacity and coordination by undertaking capacity development of public institutions and agencies.

- Strengthening local government institutions.
- Ensuring accountability and transparency.
- Strengthening the legal framework for service delivery.
- Strengthening grievance redressal for all public services.
- Improving institutional coordination and private sector dialogue mechanisms to inform and advance with necessary reforms in a consistent manner.

4.5 Strategic Pillar 5: Building partnerships and international cooperation for promoting sustainable development and improving resilience against global uncertainty

Development partners (DPs) have been pivotal in Bangladesh's socio-economic progress by providing technical and financial assistance, offering insights on policy issues, and mobilising international support. The Generalised System of Preferences (GSP) schemes of many trading partners have significantly contributed to trade-led economic development. Their contributions have significantly aided in infrastructure development, healthcare improvements, educational advancements, and poverty reduction. By supporting various development projects and reforms, they have helped build a robust economic foundation, promote sustainable growth, and enhance the overall quality of life for Bangladeshis. Their support will be crucial as Bangladesh transitions from LDC status to a structurally transformed and competitive economy.

Strengthening cooperation and forging partnerships are vital components of ISMs. Effective global partnerships are essential for LDCs and graduating LDCs to overcome their long-standing development challenges. The Doha Programme of Action (DPoA) for the LDCs for 2022-2031 acknowledges the crucial role of development partners in advancing socio-economic progress in these countries. The DPoA emphasises the importance of international cooperation and commits to providing support for LDCs and graduating LDCs in key areas such as:

- Supporting DRM issues and fighting against illicit financial flows.
- Mobilising international public and external finance to support sustainable development through North-South, South-South, and triangular cooperation.
- Enhancing FDI flows.
- Offering debt sustainability and extended periods for debt repayment initiatives through an improved and transparent debt architecture.

Extending ISMs to graduating and graduated LDCs to make graduation sustainable and irreversible.

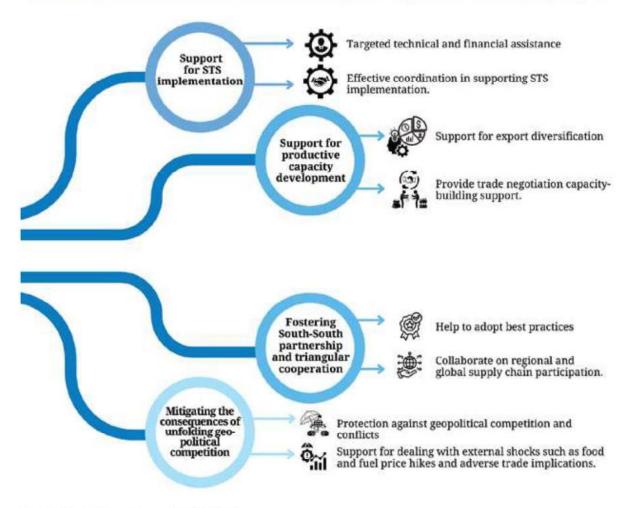
Going beyond the commitment to supporting the LDCs, global development partnerships are prominently featured in the sustainable development goals (SDGs). Goal 17 specifically focuses on enhancing the means of implementation and revitalising global partnerships for sustainable development. The 19 targets under this goal encompass various initiatives, including fulfilling development assistance commitments, mobilising financial resources for developing countries, aiding in achieving debt sustainability, strengthening science, technology, and innovation capacities, promoting a multilateral trading system under the WTO, and eliminating trade barriers, among others.

Without continued and enhanced financial and technical assistance, the development achievements of graduating LDCs, including Bangladesh, could be significantly undermined. Revitalising global partnerships is crucial to achieving SDGs, supporting the development of productive capacities, addressing climate change, strengthening governance and institutions, and promoting multilateralism. To meet the SDG financing requirements, an additional \$930 billion would be needed for the country between now and 2030 (ERD, 2024f). This significant funding demand aligns with the broader context of the country's journey toward graduation from the LDCs.

Strategic objective of this pillar: To sustain and build upon the socio-economic progress achieved over the past decades through strengthened partnerships and international cooperation for promoting sustainable development and enhancing resilience for a successful and smooth transition from LDC status.

Strategic actions:

Figure 4.5: A summary of actions under Pillar 5 (building partnerships and international cooperation)



Source: Illustration prepared for this Strategy.

4.5.1 Seeking support for STS implementation

With support from UNDESA, Bangladesh has prepared this Smooth Transition Strategy (STS), highlighting significant challenges and opportunities. It provides strategic guidelines and comprehensive actions for transformational changes and promotes the competitiveness of Bangladesh's economy. It calls for collaboration between the government, DPs, and other relevant stakeholders to implement the proposed actions. Due to the complexity and scale of post-graduation challenges, robust support from development partners and the international community is essential. Bangladesh's graduation process will facilitate partnerships for targeted

technical and financial assistance, revitalised coordination among development partners, and the formation of new trade and economic partnerships, ensuring a smooth and sustainable transition.

4.5.2 Support to implement international conventions

Beyond LDC status, Bangladesh will need to ratify and effectively implement international agreements and conventions related to human rights, labour rights, environmental protection, and climate change, and good governance to maintain access to certain preferential market arrangements, such as those available in the European Union. Although Bangladesh has ratified and implemented some conventions, comprehensive efforts are required for full compliance. Technical assistance is crucial for ensuring the effective implementation of all international conventions, and development partners can provide vital support in these areas.

4.5.3 Technical and financial assistance for ESG compliance

Environmental, social, and quality standards are becoming crucial in modern global trade and business operations. As Western consumers prioritise sustainable consumption and foreign investors increasingly seek environmentally and socially responsible projects, adherence to ESG has become critical for future export success. Bangladeshi firms face challenges in complying with the standards required due to among others, limited awareness, inadequate infrastructure and financial support, and a lack of a robust regulatory framework. DPs can play an important role in addressing these constraints.

4.5.4 Supporting productive capacity development targeting the immediate smooth transition need through enhanced and concessional development financing

While the need for productive capacity development is quite extensive, Bangladesh faces significant challenges in its supply-side capacities related to export response. Given that any potential impact of graduation is likely to be transmitted through the trade channel, improving export performance will be key to a smooth transition and maintaining momentum postgraduation. Issues such as limited participation in the global supply chain, a shortage of high-valueadded products, difficulties in complying with product standards, and a lack of export diversification hinder its overall export performance. Addressing these challenges requires substantial financial and technical support for developing productive capacities, particularly in technological adaptation, infrastructure development, ICT advancement, human capital development, and skill enhancement. Furthermore, for strengthening the domestic IP regime and ensuring robust enforcement mechanisms, there is a need for assistance from development partners, including the World Intellectual Property Organization (WIPO). This support is essential for institutional capacity building and human resource development, which are crucial for the effective implementation of the new IP laws and enforcement mechanisms. 101

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¹⁰¹ Enhanced collaboration will help in strengthening the Department of Patent, Design and Trademarks (DPDT) and Bangladesh Copyright Office, building the capacity of judiciaries and legal enforcement agencies, and increasing public

In the lead-up to LDC graduation and beyond, Bangladesh will need to engage in bilateral and multilateral trade negotiations to secure extended trade preferences. This requires significant capacity-building initiatives in trade negotiations and policymaking. Therefore, this is a key area where support from development partners will be crucial.

4.5.5 Helping ease balance of payments pressures

Bangladesh has maintained a good debt service record all along. However, in the wake of recent unfavourable macroeconomic developments due to external shocks in the aftermath of Covid-19 pandemic and the Russia-Ukraine conflict, the BOPs situations came under pressure, resulting in the diminution of foreign reserves with some concern about debt sustainability. The external debt to GDP ratio and debt service to export earnings remain well within the international benchmarks for sustainable management. However, continued and enhanced support from international development partners can help implement the STS while at the same time easing the pressure of balance of payments and helping restore macroeconomic stability. Development partners can consider reviewing the loan terms, offering longer grace and payment periods, reducing the interest rates, increasing the grant elements in development assistance, and allocating more technical assistance.

4.5.6 Support for achieving SDGs and addressing climate change adversities

The STS should be viewed as a process to achieve the Sustainable Development Goals (SDGs), for which Bangladesh will need intensified international support. The DPoA emphasises the importance of accomplishing the SDGs by 2030, addressing ongoing challenges, building resilience against future shocks, and accelerating progress. Integrating LDC graduation into broader development strategies is crucial for progress and building economic resilience. Making progress on attaining SDGs requires substantial financial resources, necessitating support from development partners to fulfil their commitments.

A critical area of support is for addressing climate change adversities where Bangladesh is focused on adaptation and mitigation measures with economic growth, which have implications for smooth transition. Bangladesh's Nationally Determined Contributions (NDCs), updated in 2021, amongst others, set goals for energy transition, which can also support export competitiveness in light of carbon emission-tackling measures adopted by global brands and retailers. Therefore, enhanced support in this area can be extremely helpful in the LDC graduation process.

4.5.7 Fostering South-South partnership and triangular cooperation

Support is needed for South-South and Triangular cooperation to aid Bangladesh's transition. Such cooperation leverages shared experiences and innovative practices among developing countries, providing contextually relevant solutions and fostering mutual learning. Triangular cooperation, involving a third party like a developed country or international organisation, offers additional

awareness about IP protection. Such assistance will also facilitate the active implementation of IP enforcement by law enforcement agencies, thereby creating a secure environment for innovation and attracting foreign direct investment.

resources and expertise. This collaborative approach amplifies the impact of development initiatives and ensures effective, adaptable solutions tailored to similar socio-economic contexts.

Engaging in South-South and Triangular cooperation helps Bangladesh build robust partnerships and diversify its technical and financial assistance sources. The successful development strategies of other fellow southern countries can help Bangladeshi policymakers and other stakeholders obtain important insights about adapting technological progress, capacity building, infrastructure development, etc. This cooperation also helps better integration into regional and global value chains, boosting competitiveness and resilience. DPs can facilitate these processes by providing funding, expertise, and dialogue platforms. Some of the key areas of such cooperation include, amongst others:

- Trade negotiation experiences and strategies from Southern countries in trade negotiations can provide valuable insights for securing better trade deals.
- Technological adaptation experiences of other developing nations can help implement effective and contextually relevant technological advancements.
- Learning about successful FDI attraction strategies can enhance Bangladesh's ability to draw foreign investments.
- Adopting best practices for logistics improvement and ease of doing business from successful Southern countries can help streamline Bangladesh's business environment and improve its logistical efficiency.
- Learning from the energy transition processes can guide Bangladesh in adopting sustainable energy solutions.
- Learning from and collaborating on the development and implementation of product standards can help meet international quality requirements, facilitating better market
- Joint initiatives in capacity building and skill development can strengthen human resources and institutional capabilities.
- Sharing best practices and collaborative projects in infrastructure development can help Bangladesh build resilient and efficient infrastructure systems.

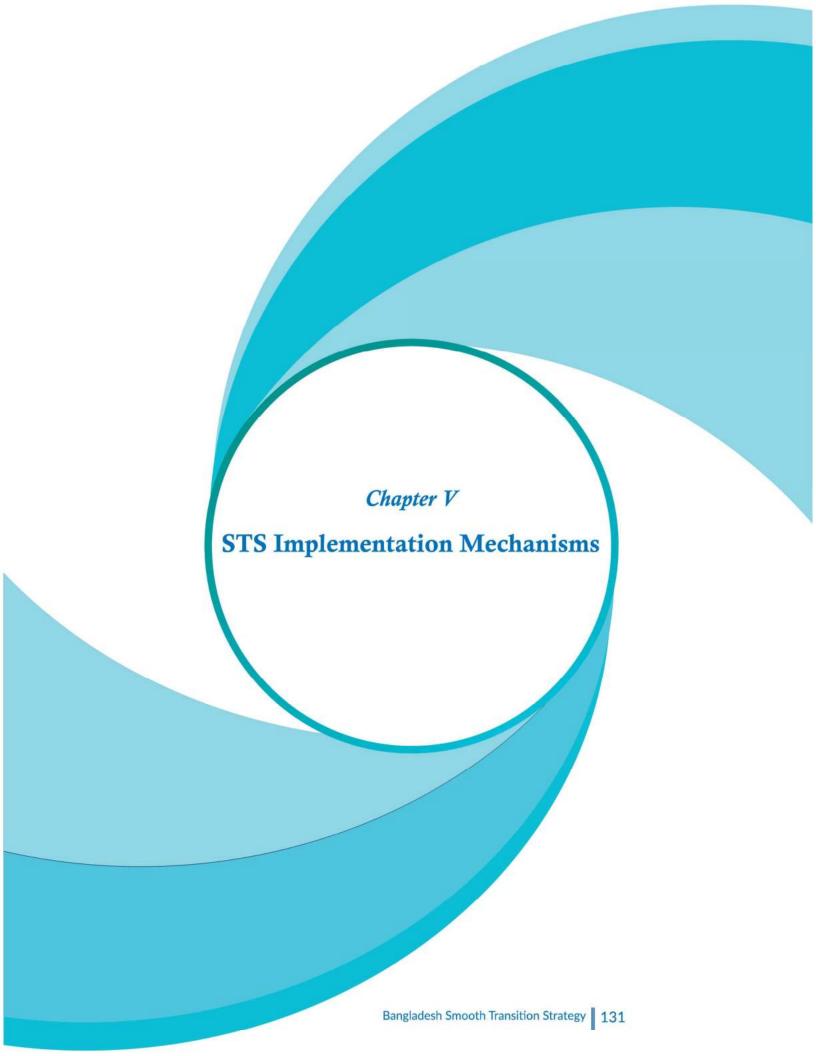
4.5.8 Support for strengthening the multilateral global trading system to promote a fair and development-friendly trade regime

Strengthening partnerships to reinforce the multilateral trading system is extremely important for promoting a fair, rules-based and development-friendly global trade regime. Enhanced partnerships can ensure trade policies and agreements are inclusive and supportive of sustainable development goals. The adjustment support needed for graduating LDCs, and other vulnerable countries must be recognised by the global community to ensure enhanced market access and protect them against any arbitrary actions by other powerful trading nations. DPs should facilitate effective and active participation of LDCs and graduating and graduated LDCs. They should commit to measures that facilitate the recovery of international trade and resist the temptation of undertaking protectionist measures. Offering new preferences, making rules of origin less stringent, and extending S&DT measures should be part of this support.

4.5.9 Mitigating the consequences of unfolding geo-political competition

The heightened geopolitical competition among global and regional powers, which use economic and trade policies to promote their national interests and geopolitical influence, is undermining the rules-based multilateral trading system led by the WTO. This also threatens the interests of smaller, developing, and weaker economies. Trade and tariff wars among major global economies not only affect global trade but also disproportionately hurt countries like Bangladesh. In the face of evolving geopolitical tensions, international cooperation is essential to safeguard LDCs and graduating countries. These nations should not be made victims of their bilateral or regional trade and investment linkages, as these are critical for their economic development. A graduating LDC like Bangladesh needs a predictable global trade environment with thriving trade and investment flows between countries. The following actions should be considered:

- Developing mechanisms to support LDCs, graduating, and other vulnerable countries to mitigate adverse consequences from external shocks such as food and fuel price hikes and adverse trade implications.
- Restraining from taking any measures against LDCs and graduated countries because of geopolitical rivalry.
- Utilising diplomatic channels to address and mitigate geopolitical tensions.
- Working closely with development partners and international organisations to secure technical assistance and policy support for navigating the challenges posed by geopolitical competition





STS implementation mechanisms: Role of different stakeholders



Role of government ministries and departments

- Adhere strictly to the STS timeline and execution plan
- Improve coordination and collaboration with others
- Announce any policy changes in advance to give time to prepare and adapt
- Conduct reviews to obtain practical recommendations
- Integrate STS-specific targets and milestones into the Annual Performance Agreement.

Role of the private sector



- Embrace improved labour standards and compliance
- Proactively support various policy actions included in the STS Improve product quality and standards
- Increase the R&D spending
- Help to identify defensive and offensive interests of the country during trade negotiation.

Role of public-private partnerships



 Work on the improvement of transport and logistics, social and physical infrastructural projects,

Role of civil society organisations



- Act as a watchdag to ensure transparency and accountability in the implementation of STS
- Offer expertise and specialised knowledge in various aspects of STS implementation
- Bridge between the government and the public to identify the ground-level problems and their solutions.

Role of development and trading partners



- Provide support for STS implementation
- Extend the transition period and preferences
- Provide assistance to comply with international conventions and standards
- Help with trade policy and negotiation capacity-building
- Provide additional assistance for SDGs
- Provide support for productive capacity development.

Effective implementation arrangements are pivotal to the success of the Smooth Transition Strategy (STS). For Bangladesh, a country navigating the complex challenges of LDC graduation, ensuring the seamless execution of this strategy is not just desirable but essential for sustaining its development momentum. In developing economies, capacity constraints, fragmented institutional frameworks, and governance challenges often impede policy implementation. These issues are further compounded by the need to coordinate across multiple stakeholders, including government agencies, private sector actors, development partners, and civil society. Robust implementation mechanisms must address these challenges by ensuring clarity in roles, responsibilities, and accountability at all levels. Equally important is the integration of data-driven monitoring and evaluation systems to track progress, identify bottlenecks, and adapt strategies as needed. Given the dynamic global landscape, these mechanisms should also be flexible enough to respond to emerging challenges, such as economic shocks, geopolitical shifts, and climate-related disruptions.

A well-designed implementation framework should not only focus on operational efficiency but also foster inclusivity, ensuring that all stakeholders are actively engaged in the process. By aligning the strategy's goals with the broader development priorities of the country, such mechanisms can act as a catalyst for structural transformation, enabling Bangladesh to secure a smooth and sustainable transition from LDC status.

5.1 STS implementation framework

The STS provides a strategic approach to address the potential consequences of LDC graduation. While mitigating the loss of international support measures that impact competitiveness, the strategy takes a transformative approach, moving from a model based on low wages, weak compliance, and preference-driven competitiveness to one focused on quality, innovation, and higher standards. It outlines specific implementation strategies and institutional arrangements, clearly defining the roles of various stakeholders, including the government, private sector, publicprivate partnerships, civil society, and development and trade partners. Additionally, the STS includes a time-bound action plan to ensure a smooth transition, prioritising and accelerating the necessary reforms for sustainable graduation.

Strong leadership and political commitment for STS implementation: Strong political commitment is essential for the successful implementation of the STS, as it ensures the alignment of national policies, resource mobilisation, and ongoing support for the economic transformation required to achieve sustainable development. This commitment is reflected in the STS vision, robust political ownership, the establishment of a high-level National Committee for Graduation, and a countryled preparatory process. With the highest level of political support and under the leadership of the head of the government's office, the implementation of the action plans and required reforms will be fast-tracked and considered a high priority in all government plans, policies, and strategies.

Upholding solidarity and partnership: The successful and effective implementation of the STS demands collaborative partnerships amongst all stakeholders. Anchored in the Global Partnership for Sustainable Development and global commitments for graduating and graduated LDCs outlined in the Doha Programme of Action (DPoA), these partnerships will be instrumental in realising Bangladesh's development aspirations. The formulation of the STS involved an extensive and inclusive consultation process, incorporating feedback and suggestions from diverse stakeholders. The action matrix of the STS reflects the outcomes of this consultation process. As implementation advances, a dedicated collaboration and support mechanism will be established to ensure sustained, effective multi-stakeholder cooperation. Bangladesh remains unwavering in its commitment to fostering meaningful partnerships with the international community, including UN organisations, international development and financial institutions, and key development and trade partners. These stakeholders are equally committed to supporting Bangladesh's socio-economic progress, ensuring that the country maintains its momentum and continues on its path of advancement in the years to come.

Integrating STS into national development policies and plans: The STS is meticulously crafted in alignment with various national policies, plans, and sectoral strategies while at the same being consistent with the SDG framework and the DPoA. The strategic pillars and corresponding actions will be integrated into the forthcoming medium-term plans as well as sectoral policies. To ensure effective implementation, relevant ministries/agencies will take proactive roles to make progress on the relevant actions as outline in the STS action matrix.

Financing STS implementation: Given Bangladesh's constrained fiscal space resulting from limited government revenue mobilisation, the implementation of the STS cannot rely solely on public resources. In this context, the critical role of partnerships cannot be overemphasised. Relevant government ministries, departments, and agencies will integrate their measures and actions into the Medium-Term Expenditure Frameworks and annual budgets, aligning them with the STS. In addition to government support, the private sector will invest in and implement measures related to firm-level and supply-side capacity enhancement, technological adaptation, improving standards and compliance, job training initiatives, and more. At the implementation level, technical and financial assistance, in the form of concessional loans and grants, will be sought from development partners.

A result-oriented M&E system and institutional arrangements for STS implementation: A monitoring and evaluation (M&E) system will be an integral part of STS implementation. An appropriate M&E framework will be prepared, based on the action matrix of the STS, to track the progress of the strategy, evaluate the effectiveness of the actions, and suggest appropriate measures to achieve the desired outcomes. The M&E should not be seen as disjointed activities; rather, it will be a process that involves regular consultation exercises. The following measures will be implemented:

 A high-level LDC Graduation Steering Committee, chaired by the Chief Adviser/Head of the Government, will be established, comprising relevant advisers/ministers. This committee will offer strategic policy direction for the effective implementation of the STS.

- It will convene biannually to review progress and provide policy directives based on the progress made.
- The National Committee on LDC Graduation (NCG) will serve as the central monitoring and evaluation (M&E) body for STS implementation. Responsible for tracking progress against the STS and its action matrix, the committee will develop a comprehensive M&E framework, conduct annual assessments, and coordinate with relevant stakeholders to ensure effective and efficient implementation.
- To assist the NCG in implementing the STS, the Support to Sustainable Graduation Project (SSGP) under the Economic Relations Division (ERD) will take on the necessary tasks on a regular basis. With its established knowledge base and extensive experience in stakeholder consultations, extending the mandate of the SSGP to include M&E responsibilities would ensure seamless continuity from policy development through to implementation.
- To facilitate this, the current capacity of the SSGP project should be enhanced to ensure that it is well-equipped to support the NCG in implementing the STS effectively.
- Relevant ministries/divisions/agencies will prepare and undertake specific measures to help implement the STS, and inform the progress made against each indicator as part of the M&E exercise.
- The M&E reports, identifying the areas of limited or no progress, will make specific recommendations for improved implementation. The reports will be shared in public consultations.

5.2 Roles of stakeholders in STS implementation

5.2.1 Role of government ministries and departments

The governmental ministries and departments will have major roles and responsibilities in STS implementation as outlined below:

- At the outset, government ministries and departments will conduct a thorough assessment of the specific action measures relevant to their respective spheres of work and undertake the necessary measures and follow-up activities to ensure steady progress can be made on these actions.
- Adhere strictly to the STS timeline and execution plan to ensure timely implementation and impactful results, emphasising the importance of maintaining objectivity and a constructive approach throughout the process.
- Assess the scope of coordination and collaboration, whether inter-ministry, with the private sector, or with DPs and proactively pursue these partnerships to facilitate progress on the implementation.
- Undertake/adjust existing work programme/policy measures to prioritise implementation of specific actions mentioned in the STS and continue to take follow-up actions to make progress towards effective implementation of STS. In the process, announce any policy changes in advance to give the relevant stakeholders time to prepare and adapt.

- Optimise budget management through support from development partners and other trading partners to ensure uninterrupted implementation of the STS. Also, facilitate coordination with the private sector, DPs, and civil society to mobilise technical expertise essential for the effective implementation of this strategy.
- Identify any areas where implementation may be slow and consider remedial measures for accelerating progress.
- If needed, conduct reviews/commission studies to obtain practical recommendations on making progress on implementation.
- Integrate the specific targets and milestones of the Smooth Transition Strategy (STS) into the Annual Performance Agreement (APA) of each relevant ministry and department. This integration will ensure that the implementation of the STS is prioritised and monitored regularly, fostering accountability and providing a clear framework for evaluating progress. By aligning the STS targets with the performance objectives of government entities, it will be possible to systematically track achievements and address any challenges promptly, thereby enhancing the overall effectiveness of the strategy.

5.2.2 Role of the private sector

Bangladesh's graduation from the LDC category is significantly attributed to its dynamic private sector, which has been pivotal in driving economic development, creating employment, generating export earnings, and operating businesses despite numerous challenges. Recognising the private sector's critical role, the Government of Bangladesh has proactively engaged with industry stakeholders and formulated a range of private sector-centric policies and strategies. As some of the issues related to LDC graduation, such as the loss of trade preferences, will directly affect the private sector, their preparedness and resilience will be crucial in determining the course of Bangladesh's transition. In the implementation of the STS, the private sector is, therefore, a key player. Various business organisations and associations have been actively involved in the preparation of the STS, and their collective efforts are essential to ensuring a successful transition. Some of the important specific roles of the private sector are as follows:

- It is important for the private sector to recognise that after LDC graduation, Bangladesh will be under increasing scrutiny for improved labour standards and other compliance issues. Improvements in these areas will have to be made irrespective of government regulatory provisions and capacity.
- Many global firms are self-imposing higher Environmental, Social, and Governance (ESG) standards across their global value chains because of various factors, including the evergrowing demand of their consumers and shareholders. Therefore, adherence to labour standards, human rights, and workplace safety regulations is critical for participating in global value chains and expanding exports.
- The private sector should proactively support various policy actions included in the STS. Many of the reform proposals and policy measures as part of the STS and other policy instruments might be seen as unfavourable in the short term, but their medium to longterm impacts are important for improving the overall competitiveness of the economy.

- Amongst others, these reforms can help attract foreign investment and establish links with global supply chains.
- Private sector associations can make it a priority to improve and comply with product standards even in local sales. A strong domestic market presence with quality and innovative products can also lead to export success.
- Investment in research and development (R&D) is critical for innovation and improving productivity. This is one area where firms should pay more attention. For improved productivity and competitiveness, allocating resources towards cutting-edge technology and enhancing employee skills is essential. Firm-level preparations are central to the national LDC graduation strategy.
- As the respective governmental ministries and departments have initiated trade negotiations with other countries, private sector associations should help identify the defensive and offensive interests of the country while recognising that trade negotiations mean there can be trade-offs and significant opening up of the domestic market may be needed to ensure market access in other countries.
- Private sector associations should work closely and collaboratively with the government, think tanks and development partners to develop themselves and act as knowledge hubs for their members, supporting them on LDC graduation-related issues.

5.2.3 Role of public-private partnerships

Bangladesh has developed a public-private partnership (PPP) regulatory framework that supports investments in development projects. The introduction of a PPP policy in 2010 and the PPP Act in 2015 promoted public infrastructure development, encouraged private sector involvement, and established an institutional arrangement to drive PPP initiatives. In the implementation of STS, there are various areas where the PPP authority could play an important role by undertaking development projects.

As per the framework of PPP, projects under the transport and logistics, energy, water and sanitation, social infrastructure, and other infrastructure sectors, such as ICT and industry-related subsectors, are eligible for PPP. 102 Several infrastructure projects are being implemented under the PPP framework. 103

According to the National Logistics Policy, various infrastructure development projects will be initiated to enhance connectivity, many of which can be executed through PPP. The establishment of economic zones under PPP is already underway, and more similar projects can be pursued through this model. Similarly, the PPP authority should take the lead in building ICT infrastructure like broadband networks and data centres. Given its track record in implementing mega projects, this initiative could expedite the expansion of ICT services, improve connectivity, and make digital

¹⁰² For more information regarding sectors under PPP can be found here: https://www.pppo.gov.bd/what_we_do.php ¹⁰³ Public Private partnership Authority. Annual Report 2022-23.

services more accessible and affordable for citizens and businesses in a timely manner. All this can also help prepare for LDC graduation and implement STS.

5.2.4 Role of civil society organisations (CSOs)

The active involvement of civil society is essential for implementing the STS in an inclusive and transparent manner that responds to the needs of all stakeholders. This engagement can significantly contribute to further sustainable development beyond the transition process.

- Civil societies can act as watchdogs, helping monitor the implementation of STS and hold the process accountable. By fostering transparency, CSOs should ensure that all stakeholders adhere to their promises and responsibilities during the transition. This oversight will not only help to maintain integrity and accountability but also guarantee that the transition process aligns with the broader goals of sustainable development.
- CSOs can offer expertise and specialised knowledge in various aspects of STS implementation. They can also help identify the best practices in global economies that can help Bangladesh with its own implementation programme.
- CSOs should act as bridges between the government and the general public to identify the ground-level problems that can impede the implementation of this strategy. Their constructive assessments and solutions-centric approaches can be extremely helpful in moving forward with the implementation agenda.
- CSOs can greatly contribute to private sector competitiveness. International rules and regulations, including those associated with LDC graduation, are constantly evolving and building awareness about them is very important. CSOs can also help with providing country contexts and practicalities that can improve the perceptions of DPs and buyers, resulting specific technical assistance at the firm level.
- CSOs should play a crucial role in empowering the local governments and communities through organising town hall meetings and expert commentary, confirming that Leave No One Behind (LNOB) and enabling their active participation in the implementation of this strategy. They can undertake prompt studies and analyses identifying any potential impact on any vulnerable groups requiring policy attention.
- By strengthening collaboration with DPs, CSOs can mobilise the necessary resources and expertise to support any key local initiatives that facilitate the implementation of the STS.

5.2.5 Role of development and trading partners

Development and trade partners are critical in supporting Bangladesh's transition from LDC status. The STS presents a unique opportunity for them to align their support with Bangladesh's identified needs across various strategic pillars. Pillar 5 of the STS specifically calls for targeted assistance from development partners in key areas, which will reinforce Bangladesh's preparation for mitigating any challenges while at the same time catalysing transformative changes.

- Extended transition period: Advocate for and support an extended transition period to help Bangladesh adjust smoothly to post-graduation challenges, considering the current global economic disruptions.
- Enhanced technical assistance: Provide technical assistance to help Bangladesh implement international conventions on human rights, labour rights, environmental protection, climate change, and good governance. Similar assistance and capacity-building support are also needed to improve product standards and quality.
- Capacity-building trade policy and negotiations: Offer capacity-building support to government officials and think tanks to enhance their trade negotiation skills and effectively establish FTAs and PTAs.
- Financial support for SDGs: Provide multiplied financial assistance to help Bangladesh achieve its SDGs, focusing on areas like quality health and education, food security, gender empowerment, and other key SDG targets.
- Support for productive capacity development: Invest in building productive capacities by supporting infrastructure development, state-of-the-art technologies, improved business environments, ICT adoption, and enhanced human capital through education and health investments.
- Skill development initiatives: Foster skill development programmes to boost the workforce's capabilities and support research and development efforts to enhance firmlevel supply-side capabilities and product quality standards.
- Climate resilience and adaptation: Invest in and support climate resilience projects and provide technical assistance for adopting advanced technologies, as well as clean and renewable energy solutions.
- Mitigate external shocks: Assist Bangladesh in developing mechanisms to mitigate the adverse effects of external shocks such as food and fuel price hikes and ensure the country benefits from international cooperation amid rising geopolitical competition.
- · Support export diversification: Aid in diversifying Bangladesh's export portfolio and increase its share in global markets through technical assistance as well as support for productive capacity building, skill development, and facilitation of FDI and resist protectionist measures that could harm the country's economic progress post-graduation.

Action plan for STS implementation

Action plan for STS implementation

Recommended Smooth Transition Measures	Specific Action(s)	Responsible Agency (In Bold) and Supporting Agency(s)	Potential Role of Development Partners (DPs)	Recommended Target Completion Date	Means of Verification
Strategic pillar 1: E	Strategic pillar 1: Ensuring macroeconomic stability				
Tackling inflation to restore macroeconomic	1.1 Continue with market-oriented interest rate policies.	88		Continuous	 -Expansion of monetary aggregates consistent with real GDP growth and inflation targets in five-year plans.
stability and improve external competitiveness	1.2 Use fiscal policy options to complement the monetary policy objective of tackling inflation.	FD		July 2025- Continuous	-Trends in public spending consistent with the monetary policy stance
2	1.3 Devise an evidence-based mechanism to assess seasonal demand and supply of essential commodities to ensure their seamless and uninterrupted supply.	Moc, BTTC, MoA, MoI, BBS, Ministry of Food	DPs	July 2025- Continuous	 Forecast of monthly/seasonal demand and supply of essential commodities.
	1.4 Establish an effective market monitoring system to gather data on domestic production, imports, and prices of essentials in the country in comparison with global and regional prices.	BBS, BTTC, TCB, MoC, MoFood, MoA, Directorate of National Consumers' Rights Protection	DPs	July 2025- Continuous	-Market monitoring system established, and data gathered and made available
	1.5 Enhance the technical capabilities of the MoC, BTTC, BBS, and TCB in timely data collection and analysis of prices of essential goods to stabilise and generate informed policy inputs to address inflation.	MoC, BBS, MoP, BTTC, TCB, MoA, Ministry of Food	DPs	July 2025- Continuous	-Collection and analysis of data and analysis made available.
	 Adjust tariffs and other trade policy measures associated with essential goods and ease importing procedures to stabilise prices and tackle inflation. 	NBR, MoC, BTTC		Continuous	-Reduced tariffs on essential commodities to facilitate imports with the objective of tackling inflation.
Boosting foreign reserves and improve the	1.7 Sustain a unified and market- oriented exchange rate system.	BB		July 2025-June 2027	 -A uniform exchange rate established and sustained with market adjustments allowed
country's Balance of Payments situation	1.8 Monitor and assess the movements in the real exchange rate (RER) and bilateral RERs with respect to key	BB		Continuous	 Analysis of RER movements published regularly.

Means of Verification		-Foreign exchange reserves to cover at least six months' imports.	-Ensured better collaboration among BB, NBR, and EPBImproved data accuracy of exportsPeriodic review of data on conciliation mechanismsPublished disaggregated exports and imports data in a usable format.	-Study undertaken with analysis and recommendations made available; measures taken to implement the recommended policy actions; improved remittance flows through formal channels.	-The tax net expanded; increased tax-GDP ratio; improved share of direct tax in total tax revenue; reduced foreign financing of budget deficit as a percentage of total public spending and GDP.	-Effective implementation of the PFM measures -Effective evaluation of public spending projects	-Increased share of low-interest- bearing debt in total domestic debt; more equity generated from the capital market.
Recommended Target Completion Date		July 2025- June 2029	July 2025- June 2027	Continuous- Informal channel remittance assessment by December 2025	July 2025- June 2029	July 2025- June 2029	July 2025-Continuous
Potential Role of Development Partners (DPs)		DPs					
Responsible Agency (In Bold) and Supporting Agency(s)		FD, ERD, BIDA, MoFA, BB	BB, NBR, EPB, BBS, BTTC	вв, мемое, вмет	NBR, IRD	FD, IMED, ERD, C&AG	FD, IRD, BSEC, BB
Specific Action(s)	trading partners to assess the trends in external competitiveness for informed policy decisions.	1.9 Secure concessional loans on favourable terms and attract FDI.	1.10 Strengthen collaboration among the NBR, Bangladesh Bank, and the EPB to reconcile data on export shipment and actual export receipts, improve data quality, and take measures for timely receipt of export earnings.	1.11 Attract more remittances through formal channels and reduce remittance-sending costs by conducting studies in migrant destination countries to assess informal remittance flows and address the identified reasons through effective policy measures, improved digitalisation, and removal of other barriers.	1.12 Enhance domestic resource mobilisation efforts.	1.13 Implement the Public Financial Management (PFM) to ensure efficient and quality use of public funds, fiscal discipline, and alignment of budget decisions with economic stability.	1.14 Continue reforming national saving certificates to encourage the development of domestic debt, facilitate the transition to T-bonds through capital markets while also avoiding interest burdens, and attract more non-debt-creating flows.
Recommended Smooth Transition Measures					Financing budget through sustainable debt and fiscal management		

Recommended Smooth Transition	Specific Action(s)	Responsible Agency (In Bold) and Supporting Agency(s)	Potential Role of	Recommended Target Completion Date	Means of Verification
Measures			Development Partners (DPs)		
	1.15 Take measures to mitigate any debt risks and challenges as identified in the Debt Sustainability Analysis (DSA) by MoF and IMF.	FD, ERD	DPs	July 2025- June 2029	-Effective implementation of the recommendations of DSA.
Improving domestic resource mobilisation (DRM)					
to broaden fiscal space	1.16 Develop and implement a time-bound action plan for tax reform (including enhanced digitalisation and automation, streamlined auditing process, broadening the tax net, improving the significance of direct tax in total tax, reforming the wealth and capital gains taxes, introducing a carbon taxation system, etc.) aiming to create a fair and efficient tax system that boosts government revenues.	NBR, IRD, FD	DPs	July 2025- June 2030	-A time-bound action plan undertaken by NBRRaise the contribution of direct taxes to the total tax revenue to over 50 per cent by 2035At least 70 per cent of TIN holders submitted personal income tax returnsAt least 70 per cent of BIN holders submitted corporate tax returns.
	1.17 Consider IMF recommendations and the 8th five-year plan reform plans to boost revenue efforts.	NBR, FD	DPs	July 2025-June 2030	-Assessment undertaken and areas of priority actions identifiedIncrease the tax-GDP ratio by 1.7 percentage points by 2026-27Continue with raising the tax-GDP ratio as per the FYP documents.
	1.18 Establish a separate tax policy division from the tax administration.	IRD, NBR, FD		July 2025- June 2026	-Separate tax policy division established.
	1.19 Review and reduce tax exemptions to improve revenue mobilisation.	NBR, FD, MoC, Mol, FBCCI	DPs	July 2025- Continuous	- Review report of tax exemptions Tax expenditure reduced by 50 per cent by 2029-30.
	1.20 Improve the governance of state- owned enterprises to make them profitable and ensure transparency and accountability of the entities responsible for collecting different fees/non-tax revenue.	IRD, FD, MoI, MoTJ, LGD and relevant organisations		July 2025- Continuous	-The number of SoEs that are profitable increased -The number of SoEs increasing their contributions to government revenue increased -Non-tax revenue grows annually by 20 per cent
Strengthening the financial sector and capital market to expand the	1.21 Establish an independent commission to assess the current health of the financial sectors and	BB, FID, BAB, NBFI, Commercial Banks	DPs	July 2025- Continuous	-Establishment of an independent commission -Environment of financial sector improved.

Recommended Smooth Transition Measures	Specific Action(s)	Responsible Agency (In Bold) and Supporting Agency(s)	Potential Role of Development Partners	Recommended Target Completion Date	Means of Verification
opportunities for borrowing and investment	to identify measures to ameliorate the situation.				
	1.22 Ensure Bangladesh Bank's full autonomy.	FID, FD		Immediate and Continuous	-BB independently decides about monetary policy options including interest rates being market- determined.
	1.23 Conduct yearly comprehensive reviews of commercial banks' financial well-being.	BB, FID		July 2025- Continuous	-Review report on commercial banks' financial wellbeing
	1.24 Reduce stock of NPL by enhancing credit risk management, preventing related lending practices, and drawing insights from other countries' successful NPL resolution policies.	BB, FID, FIU, BAB, NBFI, Commercial Banks		July 2025-June 2029	- NPLs reduced in alignment with the Bangladesh Bank roadmap
	1.25 Formulate and implement a new Bangladesh Capital Market Development Master Plan to address prevailing issues in the capital market, including efficiency, and governance measures to address capital market weaknesses and facilitate institutional investors in the market; and consider pending strategic reform initiatives as outlined in the White Paper 2024 and 8th Five-Year Plan and to review and implement those under a time-bound action plan.	BB	DPs	July 2025 and then make progress on implementation.	-An updated Bangladesh Capital Market Development Master Plan formulated -Achieve a significant increase in the market capitalisation of the capital market over the next five yearsA time-bound action plan for the pending and further reforms developed and implemented accordingly.
	1.26 Explore opportunities to invigorate the securities market and facilitate the issuance of other tradable instruments, such as green bonds, asset-backed securities (ABS), and mortgage-backed securities (MBS).	BSEC, DSE, CSE, BB, FID	DPs	July 2025-June 20297	-Introduction and successful issuance of new financial instruments, including green bonds, asset-backed securities (ABS), and mortgage-backed securities (MBS)
Strategic Pillar 2:	Strategic Pillar 2: Exploring and securing trade prefe	de preferences and favourable transition measures beyond LDC graduation	sition measur	es beyond LDC gradua	ation
Securing GSP+ and the removal of	2.1 Engage with the EU to secure the most generous GSP scheme, GSP+,	MoC, MoFA, EPB, and BTTC	EU and DPs	December 2027	-Number of engagements/meetings held
measures on	waiver from EU safeguard measures against textile and		7		the post-graduation regime

Recommended	Specific Action(s)	Responsible Agency (In Bold)	Potential	Recommended Target	Means of Verification
Smooth Transition Measures		and Supporting Agency(s)	Role of Development Partners (DPs)	Completion Date	
textiles in the EU market	clothing so that Bangladesh's RMG exporters can continue with duty-free market access after LDC graduation under GSP+.				-Removal of safeguard measures on textile
	2.2 Assess the need for and seek any technical and/or financial assistance for effective implementation of the 32 international conventions, encompassing labour, human rights, and environmental issues, specified by the EU as a precondition for obtaining GSP+ as well as implementing the roadmap on the Labour Sector in Bangladesh (2021–2026) submitted to the International Labour Organization (ILO).	MOEFCC	DPs	November 2026	Industry consultations undertaken to identify the need. -Areas of technical assistance and financial assistance identified. -An action plan for effective implementation of all required international conventions and standards prepared. -Technical and financial assistance received for the implementation of international conventions.
	2.3 Engage with the EU and the UK on relaxing the rules of origin requirement of double-stage transformation for apparel and reduce the value addition requirement for other products under GSP+ of the EU and the Enhanced Preference scheme of the UK.	MoC, BTTC, EPB, MoFA	EU, UK	December 2026	-A position paper on the need for relaxation of RoO prepared -Number of engagements/meetings held with the EU and UK -Relaxed RoO allowed for Bangladesh and graduating LDCs.
Engaging with major trading partners that currently provide duty-free market access for securing extended transition	2.4 To follow up on WTO General Council's October 2023 decision, engage with all key trading partners that currently provide GSP/duty-free market access for LDCs but have not yet specified granting an additional transition period.	МоС , МоҒА	DPs	June 2025.	-Number of engagement meetings held, and the specific GSP-providing countries consultedGSP-providing trading partners deciding to offer an extended transition period.
periods for LDC- specific preferences	2.5 Undertake an assessment of the Canadian General Preferential Tariff (GPT) plus scheme, when details become available.104 Based on the assessment, determine if any	MoC, BTTC, MoFA	Canada	December 2026	-An assessment of the Canadian GPT-plus system undertaken -Scope for further preferences/liberal arrangements, if any, identified.

¹⁰⁴ The Canadian Parliament already passed a bill named General Preferential Tariff (GPT), which will come into force on 1 January 2025. Under GPT scheme most of the developing countries will be eligible for tariff concessions with flexible terms and conditions.

Recommended Smooth Transition Measures	Specific Action(s)	Responsible Agency (In Bold) and Supporting Agency(s)	Potential Role of Development Partners (DPs)	Recommended Target Completion Date	Means of Verification
	further engagements with Canada will be needed for further preference after LDC graduation.				-Secure an extended transition period for LDC-specific preferential market access in the Canadian market -Number of engagements/meetings held -GPT+ preference secured for post-LDC period.
	2.6 Pursue maintaining the existing trade preference in the Chinese market until the conclusion and signing of an FTA arrangement.	МоС, ЕРВ, ВТТС, МоFA	China	November 2026	-A position paper prepared for continued preferential market access in China -Engagements undertaken, and number of engagements/meetings held -Secured extension of LDC benefits in China
	2.7 Negotiate with India for continued duty-free access utilising the precedence of the Maldives's continuing benefitting from such access under SAFTA even after its LDC graduation in 2011.	MoC, MoFA, BTTC	SAFTA members	November 2026	-A position paper prepared for continued preferential market access in India -Engagements undertaken, and number of engagements/meetings held -LDC preference continued after graduation
	2.8 Engaging with Japan for an extended transition period until the completion of the ongoing Economic Partnership Agreement (EPA) negotiations are concluded.	MoC, BTTC, MoFA	Japan	November 2026	-A position paper prepared for continued preferential market access in Japan -Engagements undertaken, and number of engagements/meetings held -Secured extension of LDC benefits in Japan
	2.9 Securing an extended transition period for LDC-specific preferential access in the Republic of Korea.	MoC, MoFA	Republic of Korea	November 2026	-A position paper prepared for continued preferential market access in the Republic of Korea -Engagements undertaken, and number of engagements/meetings held -Secured extension of LDC benefits
Undertaking bilateral economic partnership/free trade agreements	2.10 Make progress and conclude the EPA negotiations with Japan, to retain the preferential market access, enhance economic	МоС, ВТТС, ЕРВ, МоҒА	Japan	June 2026	-Numbers/rounds of negotiations covering different areas (such as goods, services, investment, etc.)

Recommended Smooth Transition Measures	Specific Action(s)	Responsible Agency (In Bold) and Supporting Agency(s)	Potential Role of Development Partners (DPs)	Recommended Target Completion Date	Means of Verification
with key trading partners to retain/broaden market access by	cooperation, and foster mutually beneficial relations between the two countries.				-Likely liberalisation commitments to be undertaken by Bangladesh are analysed for informed negotiations -Conclude and sign EPA with Japan
addressing both tariffs and nontariff measures.	2.11 Make progress and conclude negotiations with China and India for FTA and CEPA based on the basis of less-than-full reciprocity principles for gradual opening of Bangladesh's domestic market and ensuring reasonable protection for the local enterprises.	MoC, BTTC, MoFA	China and India	June 2026	- Numbers/rounds of negotiations covering different areas (such as goods, services, investment, etc.) -Likely liberalisation commitments to be undertaken by Bangladesh are analysed for informed negotiations -Conclude and sign CEPA with China and FTA with India
	2.12 Negotiating trade agreements with other trade partners of strategic importance, e.g., Regional Comprehensive Partnership Agreement (RCEP).	MoC, BTTC, MoFA	Trading partners	Continuous	-Initiate negotiations with important trading partners -Numbers/rounds of negotiations covering different areas (such as goods, services, investment, etc.) -Likely liberalisation commitments to undertaken by Bangladesh are analysed for informed negotiations
	2.13 Engage with trading partners to reduce/eliminate non-tariff measures for exporting products and services from Bangladesh.	MoC, BTTC, MoFA	Trading partners	Continuous	-Reduction or elimination of non- tariff measures (NTMs)
Increase the number of personnel with trade policymaking and negotiation capacity	2.14 Establish a pool of trade negotiators by drawing on suitable officials and representatives from various government ministries, departments, relevant specialised institutions, trade bodies, and think tanks.	MoC, BFTI, BTTC, relevant ministries, trade bodies	DPs	June 2026	-A pool of trade negotiators established -Number of pool officials getting involved in negotiations.
	2.15 Organise capacity-building programmes to enhance negotiators' skills in both the technical aspects of the subject matter and the art of negotiation.	MoC, BFTI, BTTC, relevant ministries, trade bodies	DPs	Continuous	-Number of capacity-building programmes undertaken for the negotiators' pool -The MoC and others have dedicated programmatic interventions for developing trade policy and negotiation capacity.
Engaging with the WTO to secure various policy spaces	2.16 Pursue the extension of TRIPS transition period (66.1) and waivers till the originally declared period of extension for LDCs.	МоС, МоҒА		December 2026	-Engagements in different WTO forums based on the submissions made by the LDCs

Recommended Smooth Transition Measures	Specific Action(s)	Responsible Agency (In Bold) and Supporting Agency(s)	Potential Role of Development Partners (DPs)	Recommended Target Completion Date	Means of Verification
	2.17 Continue to engage with the WTO for Bangladesh's inclusion in Annex VII (b) list under the Agreement on Subsidies and Countervailing Measures to retain the policy flexibility of providing export subsidies for some additional years.	MoC, MoFA		December 2026	-Number of engagements for the specific issues -Formal requests sent to the WTO -Policy space/flexibilities secured under WTO agreements (extension of TRIPS waiver, inclusion in Annex VII(b), inclusion in NFIDCs, Fisheries
	2.18 Pursue with the WTO for inclusion in the Net Food-Importing Developing Countries' (NFIDCs)list	МоС, МоҒА		December 2026	Subsidy, WTO reforms, and E- Commerce) -Assessment/study undertaken with
	2.19 Assess relevant WTO S&DT provisions in place for developing countries and make the best use of those for Bangladesh.105	MoC, MoFA		December 2026	recommendations for policy optionsNumber of technology transfer agreements facilitated or supported by WTO assistance involving
	2.20 Seeking assistance from developed and developing countries through WTO to ensure technology transfer.	МоС, МоFA	DPs	December 2026	developed and developing countries.
Undertaking contingency measures to mitigate any potential adverse impact of LDC graduation on	2.21 Make a contingency plan to provide support, including financial assistance/compensation to the employees, especially women workers, who could lose jobs due to LDC graduation-related consequences.	FD, MoC, Mol, MolE	DPs	January 2027 to continuous	-Actual Assessments of impact on sectors and employment undertaken -Financial assistance/compensation provided to any employees who lost jobs
employment Strategic Pillar 3:	2.22 mor	NSDA, MoC, Mol	DPs	January 2027 to continuous	-Training initiatives available for affected workers -Number of people (who lost jobs) received training
		MoC EPB, and relevant ministries	DPs	December 2026	-Review the DTIS Update sectoral action plans to identify measures for implementationSuccessful and timely implementation of the sectorspecific measures

105 There are more than 130 provisions under various Agreements in the WTO that provides flexibilities to developing countries in the form of (a) increased trade opportunities, (b) enhanced safeguards, (c) flexibilities in commitment, actions and policy instruments, (d) additional transitional time for ensuring compliance with obligations and (e) technical assistance.

Means of Verification		-A time-bound action plan for effective implementation of NTP 2023 -Effective and time implementation reviewed and monitored by the National Tariff Policy Monitoring and Review Committee	- Supplementary/regulatory duties are reduced/eliminated -Applied tariff rates are reduced -Bonded imports with bank guarantee allowed for all exporters	-Expanding the partial bonded warehouse facility for all sectors	-Percentage of duty drawback claims processed and refunded within the stipulated time frame.	-Complete elimination of minimum import price	-Detailed analysis of quality and standards requirements undertaken	-Updating BDS standards -Better understanding of the private sector with international standards	-Expansion of compulsory product list for certification marks	-Published quality and standards for all sectors
Recommended Target Completion Date		July 2025 for preparing the action plan and then implementing it.	Continuous	December 2025	December 2025	November 2026	June 2026 – Continues	June 2026 – Continues	June 2026 – Continues	June 2026 – Continues
Potential Role of Development Partners (DPs)							DPs		Î	
Responsible Agency (In Bold) and Supporting Agency(s)		NBR, MOC, BTTC, Duty Exemption and Drawback Office	NBR, MOC, BTTC, Duty Exemption and Drawback Office	NBR, MOC, BTTC, Duty Exemption and Drawback Office	NBR, MOC, BTTC, Duty Exemption and Drawback Office	NBR, MOC, BTTC, Duty Exemption and Drawback Office	Mol, BSTI, BAB, MoA, DIFE, DAE	BSTI, DAE, DLS, BFSA, BCSIR	BSTI, DAE, DLS, BFSA, BCSIR	Moi, BSTI, MoA, DIFE, DAE, DLS
Specific Action(s)		3.2 Prepare a time-bound action plan for National Tariff Policy 2023 and ensure its effective and timely implementation.	3.3 Rationalise tariffs (including supplementary and regulatory duties) progressively as stated in NTP.	3.4 Introduce bonded import of duty- free intermediate inputs of up to 70 per cent of export value.	3.5 Make the duty-drawback scheme for exports transparent and simplified to promptly refund all duties and taxes paid on raw materials, as emphasized in NTP.	3.6 Gradual phrasing out the minimum import price to comply with WTO rules.	3.7 Review international quality standards (e.g., ISO, IEC) and best practices to prepare and update national standards and conduct a detailed analysis of different sectors to identify specific quality requirements and existing gaps.	3.8 Update Bangladesh standards aligning with international markets.	3.9 Expand the compulsory products list for certification marks and strengthen the monitoring mechanism	3.10 Prepare and officially publish the quality standards for all sectors, making them accessible to all relevant parties.
Recommended Smooth Transition Measures	challenges in priority sectors	Addressing anti- export bias in the current trade policy regime with a view to striking a balance between	domestic industries and promoting export sector competitiveness				Strengthening product quality and standards by introducing and enforcing standards in the domestic market aligning	with international requirements		

Recommended Smooth Transition Measures	Specific Action(s)	Responsible Agency (In Bold) and Supporting Agency(s)	Potential Role of Development Partners (DPs)	Recommended Target Completion Date	Means of Verification
	3.11 Develop a comprehensive inspection framework that outlines procedures for regular and random inspections, audits, and sampling.	Mol, BSTI, MoA, DIFE, DAE, DLS		June 2026 – Continues	-Develop and enforce a compliance framework for all sectors
	3.12 Implement regular audits and inspections to ensure compliance and address any discrepancies.	Mol, BSTI, MoA, DIFE, DAE, DLS		June 2026 – Continues	-Frequency of audits and inspection
	3.13 Raise awareness of the private sector, including CMSMEs, about standards and their compliance.	Mol, BSTI, MoA, DIFE, DAE, DLS	DPs	June 2026 – Continues	-Number of awareness campaigns undertaken
	3.14 Enhance the capacity of BSTI, BAB, and other related institutions and obtain accreditation from internationally recognized authorities for testing labs.	Mol, BSTI, BAB	DPs	June 2026 – Continues	-Enhanced capacity of BSTI in terms of human and financial resources, testing facilities, developing standards, certification capacity, etcNumber of BSTI labs accredited by internationally recognised bodies -Number of testing labs upgraded with modern equipment and facilities
	3.15 Encourage private sector initiatives in standardisation, certification, and testing laboratories to provide timely and quality services.	MOI, MoC, BSTI, MoA, MoFL, BAB, all testing labs of public and private sector	DPs	June 2026 – Continues	 -Approve and monitor private certification and testing laboratories
Negotiating for mutual recognition agreements (MRAs) with major export destinations	3.16 Identify countries with whom undertaking MRAs will have the most significant impact on expanding exports and take the necessary initiatives.	Mol , MoC, MoFA, BAB, BTTC, BSTI, MoA, MoFL	Trading partners	December 2026	- Countries identified for MRAs -Initiatives taken for undertaking MRAs.
	3.17 Engage with counterpart relevant authorities in export destination countries for standards harmonization policies and practices, develop mutually agreeable terms, and establish MRAs	Mol, MoC, MoFA, BSTI	Trading partners	December 2026	- Number of countries with MRAs
Improve trade logistics and trade facilitation measures by implementing the National Logistic Policy 2024	3.18 Ensure the effective implementation and monitoring of NLP as directed by Section 4.2 of the NLP 2024 and some actions that need to be implemented immediately: (i) Identified policy reforms in annexe 3.1 of NLP 2024	CAO, NBR, Bangladesh Customs, Ministry of Shipping, MoFA, relevant ministries	DPs	December 2027	-Number of commitments under TFA are implemented -Number of initiatives implemented pursuant to National Logistics Policy 2024 -Improvement in the various indices of logistics performance

Target Means of Verification	- Revision of the Bangladesh Flag Vessels (Protection) Act - All other short- to medium-term efforts are undertaken -Dedicated customs houses established	-Reporting mechanism established for mandatory ESG reporting	-Efficient management of solid waste	- Increase in the number of workforces	- Percentage of factories inspected out of the total number of factories in operation -Improvement in the percentage of factories complying with safety standards -Decrease in the number of reported in
Recommended Target Completion Date		December 2026	December 2026	December 2026	Continuous
Potential Role of Development Partners (DPs)		DPs		DPs	DPs
Responsible Agency (In Bold) and Supporting Agency(s)		MoI, MoLE, MoEFCC, MoC	MoEFCC, DoE	Moi, MoLE, MoEFCC, MoC	MoI, MoLE, MoEFCC, MoC
Specific Action(s)	should be made time-bound; (ii) Immediate implementation National Single Window (NSW); (iii) Implement necessary steps to fulfil the commitment under the WTO Trade Facilitation Agreement; (iv)-Enhance the capacity of land and seaports; (v) Expand the cold chain storage infrastructure; (vi) Launch container tracking system; (vii) Digitalise all clearance steps with visibility on waiting times and ASYCUDA performance; and (viii) Revise the Bangladesh Flag Vessels (Protection) Act, (ix) establish dedicated customs houses in the functional SEZs and EPZs.	3.19 Undertake the necessary legal amendments to strengthen labour standards and ESG compliance and engage stakeholders in the ongoing development and enforcement of labour standards and ESG compliance	3.20 Implement Extended Producer Responsibility (EPR) as per the Solid Waste Management Rules 2021.	3.21 Expand the workforce to ensure adequate inspection coverage across all regions and sectors.	3.22 Ensure robust enforcement of labour laws through regular, effective inspection and other compliance measures.
Recommended Smooth Transition Measures		Amending/enacting relevant laws to strengthen the legal framework for labour standards and ESG compliance			

Recommended Smooth Transition Measures	Specific Action(s)	Responsible Agency (In Bold) and Supporting Agency(s)	Potential Role of Development Partners (DPs)	Recommended Target Completion Date	Means of Verification
Strengthening the capacity of priority sectors for export diversification	3.23 Take focused efforts for export diversification within the RMG sector to increase the share of man-made fibre (MMF) and other natural fibre-based apparel production to catch up with the global market.	MoC, MoTJ, FD, NBR, DOT, Industry Associations		December 2025	- Expansion and diversification of MMF products and markets
	3.24 Follow a uniform fibre import policy: Allow zero duty on imports of all types of textile fibres.	NBR, MoC		December 2025	- Allow duty-free imports of all types of textile fibre
	3.25 Fully operationalise Tannery Estate Dhaka.	BSCIC, Mol, MoC, MoTJ	DPs	July 2025 – June 2026	-Tannery Estate Dhaka fully operationalised
	3.26 Develop policies, schemes, and supporting environment for attaining LWG certification for the factories in the leather and leather goods sector.	Mol	DPs	December 2025	-Number of factories with LWG certification
	3.27 Develop social, environmental, chemical, safety, occupational, and health, compliance guidelines and certification schemes for ensuring ESQ and ESG standards, especially for leather and light engineering sectors.	Mol, Industry organisations	DPs	December 2025	-Leather, leather goods and footwear exports increased
	3.28 Identify and designate the most suitable areas for shrimp aquaculture, ensure the provision of essential logistics for zoning, and establish the necessary processing and preservation facilities within shrimp zones.	MoFL, MoA, MoWR, MoEFC, BEZA, MoC, BB, MoI, LGED		Continuous	- Increased production & quality of shrimp
	3.29 Provide support for the increased farming of highly productive Vannamei shrimp along with traditional Golda and Bagda varieties.	BFSA, MoFL		Continuous	
	3.30 Strengthen the Bangladesh Food Safety Authority (BFSA) to monitor the overall food safety in the agro and food processing sector.	BFSA, MoFL		Continuous	

Recommended Smooth Transition Measures	Specific Action(s)	Responsible Agency (In Bold) and Supporting Agency(s)	Potential Role of Development Partners (DPs)	Recommended Target Completion Date	Means of Verification
	3.31 Make API Parks fully functional with all required infrastructural facilities, utilities, and services.	Mol, MoC, FD, MoPEMR, DGDA	DPs	December 2025	- Increased volume of API production
	3.32 Continue excluding patent-free regime for pharmaceutical products for an additional three years, leveraging the WTO MC13 decision.	МоС			-Continued production and exports of patented drugs
	3.33 Modernise the drug-testing labs in Dhaka and Chittagong to meet EU and US standards, including facilities for testing biologics and biological ingredients, and ensure their accreditation by EU or US accreditation bodies.	Mol, MoC, FD, MoPEMR, DGDA	DPs	Continuous	-Establishment of drug testing labs, accredited by the EU and USA
	3.34 Enhance sanitary and phytosanitary (SPS) compliance capacity.	MoA, MoFL, DAE, DoF, DoL	DPs	December 2024	-Developed sanitary and phytosanitary (SPS) compliance system
Enabling the environment for businesses and trade	3.35 Develop a digital and holistic One- Stop Service (OSS) model and identify and engage all relevant institutions, including government agencies, regulatory bodies, and financial institutions, to streamline the business registration process.	Moc, BIDA, Mol, MoLJPA, MoF, MoLGRDC, relevant agencies, ICT Division	DPs	June 2026	- Operationalisation OSS - Reduction in the amount of paperwork required for business operation
	3.36 Review and simplify existing regulations to remove redundant or outdated rules that hinder business operations.	ICT Division, MoC, Mol		December 2026	- Reduction in registration time
Enforcement of intellectual property rights (IPR)	3.37 Enhance the capacity of the Department of Patent, Design and Trademarks (DPDT) and Copyright Offices to fully leverage the digital ecosystem for IP management and improve the effectiveness of the collective management organisation (CMO) in the digital rights management (DRM) system.	MoLJPA, Mol, DPDT, Copyright Office, MoHA, MoCA	DPs	Continuous	- Number of training sessions conducted for judges, legal personnel, and IP office staff -Number of human resources
	3.38 Decentralise DPDT and Copyright offices to divisional levels to enhance the effectiveness of IP enforcement and increase public awareness across all regions.	MoLIPA, Mol, DPDT, Copyright Office, MoHA, MoCA		December 2026	-Number of DPDT and Copyright Offices established at the divisional level.

Recommended Smooth Transition Measures	Specific Action(s)	Responsible Agency (In Bold) and Supporting Agency(s)	Potential Role of Development Partners (DPs)	Recommended Target Completion Date	Means of Verification
	3.39 Establish a specialised IP court and enhance the capacity of judiciaries, attorneys, lawyers, and legal enforcement agencies for effective IP protection enforcement.	MoLJPA, MOHA, Copyright Office, Customs, DPDT, MoF		June 2026	-Establishment of the IP court -Enhancement of the capacity of judiciaries services related to IP protection.
	3.40 Set up an IP academy to raise public and private sector awareness about IP protection.	MoLJPA, MOHA, Copyright Office, Customs, DPDT, MoCA, MoF		December 2026	-Number of awareness programmes
	3.41 Document genetic resources and traditional knowledge through a national database and enhance market value by registering products with geographical indications (GIs) and implementing benefit-sharing mechanisms.	Mol, MoFA, NBR, Copyright Office, DPDT	DPs	Continuous	-Number of projects taken and completion -Number of publications
	3.42 Ensure enforcement of IP laws at the border to reduce the trade of fake and counterfeit products.	MoC, Mol, NBR, Copyright Office	DPs	Continuous	-Number of IP infringement cases processed by law enforcement agencies
Developing WTO- compatible support measures to help exporters improve competitiveness	3.43 Identify WTO-consistent support measures related to exports and formulate the required mechanisms for the implementation.	MoC, BB, BEPZA, Business Association	DPs	Continuous	-Study report on WTO-compliant support measures
4.6	4 Expand and ensure the effectiveness of the existing support measures that comp WTO regulations (e.g., duty drawback and special bonde warehouse facilities, back-tc. LC, EPZs and SEZs, etc).	MoC, BB, BEPZA, Business Association		Continuous	-Enhancement of the existing support access process (duty drawback time, operationalisation of new EPZ).
Improving productivity through technological upgradation and upgradation and	4.1 Effectively implement the strategies and actions in the Bangladesh National Productivity Masterplan FY2021-FY2030.	NPO, Mol, FD, MoFECC, and other relevant ministries	DPs	July 2025-Continuous	-Outcomes of strategies and action plan are identified to track progress -Average annual productivity growth as targeted during 2021–31 achieved.
innovation	4.2 Ensure the effective implementation of the National Industrial Policy 2022, with particular emphasis on specific development initiatives, including the enhancement of the informal	Mol. SME Foundation, BSCIC, BIDA, ICT Division, MoC, FD, NBR, BB, State-owned corporation and Industry Associations	DPs	December 2026	-Number of informal businesses registered and formalized annually -Number of new startups established in the industrial sector annually.

Recommended Smooth Transition Measures	Specific Action(s)	Responsible Agency (In Bold) and Supporting Agency(s)	Potential Role of Development Partners (DPs)	Recommended Target Completion Date	Means of Verification
	industrial sector (Chapter 5), the promotion of startups in industrialization (Chapter 6), the advancement of women entrepreneurship (Chapter 7), the reform and management of stateowned industries (Chapter 9), and efforts to improve productivity to globally competitive levels (Chapter 10).				-Amount of funding and resources allocated to startup incubators and accelerators. -Success rate of startups in scaling up and achieving sustainability. -Number of women-led businesses registered and supported annually. -Impact assessments of initiatives aimed at supporting women's entrepreneurship. -Progress reports on the implementation of reforms and management strategies for stateowned enterprises. -Annual reports on the performance and financial status of state-owned industries. -Comparative analyses of productivity levels against global standards and competitors.
	4.3 Strengthen the capacity of the National Productivity Organisation (NPO), by undertaking skill development initiatives and improving R&D capacity, as it is the sole public entity working on productivity improvement.	NPO, Mol, FD, MoFECC, and other relevant ministries	DPs	July 2025-June 2029	-Number of capacity development programmes undertaken -Number of research outputs -Comparative analysis of productivity gains from previous year and global landscape.
	4.4 Provide support and incentives for technological adaptation and upgradation, especially related to ICT and green transformation.	FD, NBR, BB, Mol, ICT Division	DPs	July 2025-June 2029	-Number of policy support measures increased -Increased adoption of industrial and technological upgradation.
Enhancing productivity through expanded and deepened use of the information	4.5 Effectively implement the National ICT Policy, and other policies and strategies related to the ICT sector, including infrastructure and skill development.	ICT Division, a2i, Industry Associations	DPs	July 2025-June 2030	- Policies are implemented, and technological infrastructures and skills are enhanced.
and communication technology (ICT)	4.6 Assess global 4IR technologies to identify the most relevant ones for Bangladesh and develop and implement recommendations for their effective adaptation.	ICT Division	DPs	July 2025 and continuous	- Assessment and actions undertaken

Means of Verification	- Investment fund established -Amount of funds allocated -Number of firms received support	-Number of supports received by the CMSMEs -Number of firms collaborated with SMEs	-Number of SMEs entered into the export markets	-Participation of women entrepreneurs in the exporting sector increased	Targets in the National Action Plan 2022-2027 for skills development achieved -Mid-term review of the action plan undertaken -An assessment of the implementation of NSQF and CBT&A undertaken		Course curricula updated regularly to match the industry demand Industry Skills Councils (ISCs) strengthened to support skill development activities
Recommended Target Completion Date	July 2025-June 2029	Continuous	July 2025-June 2029	July 2025-June 2029	Continuous until 2027 and consider next strategy/plan	July 2025-June 2029	July 2025-June 2029
Potential Role of Development Partners (DPs)	DPs			DPs	DPs	DPs	DPs
Responsible Agency (In Bold) and Supporting Agency(s)	FD, Mol, MoC, BB	FD, Mol, BB, SMEF, NBR	FID, BB, MoC, Mol	FD, Mol, BB, SMEF, NBR, Industry Associations	NSDA, 16 ISCs, relevant agencies	NSDA, DTE, BMET, BITAC, 16 ISCs, Industry Associations	NSDA, 16 ISCs, FD
Specific Action(s)	4.7 Establish a low-cost strategic investment fund for developing man-made fibre and fabric production capacity and for promoting similar backward linkage activities in other priority sectors.	4.8 Provide targeted support to cottage, micro, small, and mediumsized enterprises (CSMEs) especially related to the export sector.	4.9 Make Export Credit Guarantee Scheme effective and attract SMEs to make use of it.	4.10 Promote women entrepreneurs, especially in export-oriented sectors, through targeted loan schemes and other policy support measures.	4.11 Implement the National Action Plan 2022-2027 for Skills Development in Bangladesh, and implement the National Skills, Qualification Framework (NSQF) and Competency Based Training and Assessment (CBT&A) system nationwide.	4.12 Assess skills demand, analyse gender-specific labour market trends, and identify skills gaps to create a demand-driven, flexible, and responsive skills development framework for domestic and overseas markets.	4.13 Strengthen Industry Skills Councils (ISCs) to support skills development activities and update course curricula to match industry demand by collaborating with educational institutions and the private sector.
Recommended Smooth Transition Measures	Building supply- side capacity by strengthening backward and forward linkages	Supporting SMEs for private sector development			Skilling, re-skilling and up-skilling of the workforce (both domestic and overseas workers) by implementing national action plans, updating	course curricula, and ensuring access to high- quality training resources	

Recommended Smooth Transition Measures	Specific Action(s)	Responsible Agency (In Bold) and Supporting Agency(s)	Potential Role of Development Partners (DPs)	Recommended Target Completion Date	Means of Verification
	4.14 Strengthen skills training providers (STPs) and establish international training of trainers (TOT) institutes in collaboration with renowned international skills training institutes, Centres of Excellence, ISCS, and industries, and implement international certificate courses.	NSDA, 16 ISCs, FD	DPs	December 2025 and - Continuous	- Capacity of STPs increased -International training of trainers (TOT) institutes established -At least 8 international certificate courses offered by 2026 -Access to skills courses with international certification increased for potential migrant workers (at least 10 per cent of women)
	4.15 Create and implement industry-demanded advanced technical skills courses, including green technical skills, and redesign and implement competency-based, job-ready entry and mid-level skills for priority sectors with industry partnerships.	NSDA, DTE, BMET, BITAC, 16 ISCs, Industry Associations	DPs	July 2025-June 2029	-Competency-based, job-ready entry and mid-level skills courses redesigned and implemented for priority sectors - Number of people enrolled in sector-specific training, with 30 per cent women
	4.16 Equip the socially disadvantaged groups and promote women's participation in the labour market through specially targeted training programmes.	NSDA, MOLE, MOSW, 16 ISCs, FD	DPs	June 2025- Continuous	-Women and people from socially disadvantaged groups with employable work and life skills increased through specially targeted programmes (e.g., people with disabilities, orphans, transgender people, people from small ethnic communities)
	4.17 Enhance capacities of NSDA and related stakeholders and undertake awareness-building activities through media and social marketing about the skill development opportunities and eco-system.	FD, MoCA, NSDA	DPs	June 2025- Continuous	-Number of capacity development programmes undertaken for NSDA and related stakeholders -Number of awareness-building activities undertaken
	4.18 Sign mutual recognition agreements with major trading partners.	NSDA, MoFA	DPs	June 2025- Continuous	-Number of internationally recognised local skill development certificates
	4.19 Undertake performance audits of all implementing partners, issue performance audit reports, and take remedial actions if required.	NSDA, relevant organisations	DPs	Continuous	-Performance audits of implementing partners completed, performance audit report issued, and remedial actions are taken -Publication of skill auditing report
Supporting human capital	4.20 Increase budgetary allocation for children, education, skill	FD, MoWCA, MoE, MoPME, NSDA, Health Services Division, MoSW, and	DPs	Continuous	-Allocation as per cent of the budget and as per cent of GDP increased

Recommended	Specific Action(s)	Responsible Agency (In Bold)	Potential Polo of	Recommended Target	Means of Verification
Measures		מות התקטה אוני הפתחה	Development Partners (DPs)		
development through providing	development, health care, and social protection.	other relevant ministries/agencies			
quality education, affordable healthcare, and improving access to social protection	4.21 Improve the quality of health services.	ision, DGHS	DPs	Continuous	-Quality assessment of health services in public hospitals undertaken to assess improvements
Revitalising domestic investment and attracting foreign direct investment by improving the overall business climate and making the most of the SEZs and EPZs	4.22 Fully implement the Bangladesh Investment Climate Improvement Program (BICIP) and develop a new Foreign Private Investment Promotion and Protection Act to establish investment-friendly profit repatriation rules, safeguard investors' interests, reduce red tape, and enhance the transparency of investment measures where necessary.	BIDA, CAO, Mol, MoEFCC, Industry Associations	DPs	July 2025- December 2027	-BICIP rolled out fully and all the actions implemented -Formulation of Foreign Private Investment Promotion and Protection Act - All the necessary indicators are included in CRM and IRMS -Red tape barriers reduced -Transparency of investment measures improved
	4.23 Consider joining the Joint Initiative of the World Trade Organization on Investment Facilitation for Development.	MoC, BIDA, CAO, Industry Associations	DPs	Continuous	-Review of benefits from joining the WTO's Investment Facilitation for Development initiative -Decisions taken/joined in the initiative
	4.24 Establish commercial courts for foreign investors to streamline dispute resolution processes, ensuring that their concerns are addressed promptly and fairly.	MLDPA, BIDA, Law and Justise Division	DPs	July 2025- December 2026	-Commercial courts for foreign investors established
	4.25 Undertake public-private dialogues and investor surveys to collect feedback on investment climate challenges and build trust with businesses.	BIDA, BEZA, BEPZA, BHTPA, Industry Associations		June 2025- Continuous	-Number of dialogues undertaken -Investor survey implemented
	4.26 Bring all the investment promotion agencies (BIDA, BEZA, BEPZA, and HTPA) under one institution and expand the OSS coverage and streamline the services into such main categories as land, buildings, fire safety, environmental compliance, and taxation.	CAO, BIDA, BEZA, BEPZA, BHTPA	DPs	July 2025-June 2027	-One separate authorisation institution established -Expanded OSS coverage and streamline the services -Participation of the investors increased

Recommended Smooth Transition Measures		Responsible Agency (In Bold) and Supporting Agency(s)	Potential Role of Development Partners (DPs)	Recommended Target Completion Date	Means of Verification
	4.27 Strengthening the capacity of BIDA to fully function as an OSS provider for the investors and encouraging the participating agencies to channel their services through BIDA OSS services.	BIDA, BEZA, BEPZA, BHTPA		January 2025- Continuous	-Improved capacity of BIDA -Additional services channelled through OSS
	4.28 Review and update the legal framework for corporate governance of public and private enterprises.	BIDA, Cabinet Division, MoLJPA, Industry Associations	DPs	July 2025- Continuous	-Legal framework for corporate governance updated
	4.29 Improve investment regulatory environment by ensuring policy predictability through announcing anticipated changes in facilities and provisions in advance, developing proactive regulatory plans, systematically publishing drafts for stakeholder review, and conducting regulatory impact assessments.	NBR, BIDA, MoI, MoC		July 2025- Continuous	-Regulatory impact assessment conducted, and policy predictability environment improved
	4.30 Undertake a review of existing international investment agreements and engage with important trading partners for investment treaties to make the investment regime more attractive.	ВІDА, МоС	DPs	July 2025- Continuous	-Engagement in international investment treaties increased
	4.31 Provide robust investment support measures and make five to ten model SEZs and EPZs fully functional instead of 100 with all necessary facilities.	BEZA, BIDA, Industry Associations	DPs	July 2025- Continuous	-The number of operationalised SEZs increased
Providing incentives, and undertaking investment promotional measures to attract more private investment	4.32 Undertake and publish tax expenditure reports with a greater degree of detail (e.g., by listing each incentive measure), including estimations of tax revenues forgone and assessment of the impact of incentives on generating investment, promoting exports, and generating employment.	NBR, MoC, BIDA, BEZA, BEPZA		July 2025- Continuous	-Tax expenditure report published -Assessment incentive schemes undertaken and published

	Specific Action(s) 4.33 Commence investment	Responsible Agency (In Bold) and Supporting Agency(s) BIDA, MoFA, MoC, Mol	Potential Role of Development Partners (DPs)	Recommended Target Completion Date July 2025- June 2029	Means of Verification - Number of campaigns and
promoti foreign i 4.34 Prioritis technole orientec made fit product	promotional activities and involve foreign missions in seeking FDI 4.34 Prioritise attracting FDI in technologically advanced exportoriented sectors such as manmade fibre/fabric-based apparel products, electrical and electronic	BIDA, MOFA, Industry Associations, MoC, Mol	DPs	July 2025- June 2029	investment promotion activities - Number of promotional activities in coordination with foreign mission - FDI in complex sectors increased substantially
Pharma Pharma 4.35 Ensure and que increase	equipment and components, i.e.t, Pharmaceuticals, chemicals, etc. 4.35 Ensure adequate, uninterrupted, and quality power supply and increase investment in renewable energy generation	Power Division, BPDB, MoEFCC, BIDA	DPs	Continuous	- Supply uninterrupted power to industrial sectors - Share of renewable energy in total energy generation increased
4.36 Reinforce coordinatis systems as informatio memoranc or an inter outcome; through C coordinate efficiently	4.36 Reinforce informal and formal coordination mechanisms and systems across agencies, including information-sharing agreements, memorandums of understanding, or an inter-institutional meeting outcome; connect all agencies through CRM systems to track and coordinate services more efficiently	BIDA, BEZA, BEPZA, BHTPA and all other relevant ministries/departments		July 2025- December 202 <i>6</i>	- Agreements, MoU signed - Coordination strengthened - All agencies are connected through CRM for better coordination
4.37 Under for imp produce transfe	4.37 Undertake studies to explore areas for improvement in the current production practices for green transformation.	Mol, FD, MoC	DPs	July 2025- December 2026	- Study reports published
4.38 Conduto to ider green for gre	4.38 Conduct evidence-based research to identify areas and modalities of green financing and increase funds for green financing.	BB, FID, Mol,	DPs	January 2025- December 2026	- Total funds for green financing increased
4.39 Make introd marke carboi	4.39 Make an assessment for introducing a domestic carbon market and establish a domestic carbon market.	Mol , MoC, MoFECC, Cabinet Division, MoFA	DPs	July 2025- Continuous	-Study report published -Assessment report published -Domestic carbon market policy approved

Recommended Smooth Transition Measures	Specific Action(s)	Responsible Agency (In Bold) and Supporting Agency(s)	Potential Role of Development Partners (DPs)	Recommended Target Completion Date	Means of Verification
	4.40 Facilitate awareness campaigns on sustainable production practices, different countries' introducing border carbon measures, and other ESG-related regulations, including the EU's Corporate Sustainability Due Diligence Directive.	MoC, MoI, MoFECC, Industry Associations	DPs	July 2025- Continuous	-Carbon market established -Number of awareness campaigns
	4.41 Implement the actions mentioned in updated NDCs and conform to the goals set in the five-year plans regarding green industrialisation.	MoFECC, Mol, Power Division Industry Associations	DPs	July 2025- December 2029	-NDCs target achieved in reducing carbon emission -Immediate priority actions of NDCs outlined in the national plan documentsAchieving the SDGs and complying with environmental regulations set in the EU, North America etc.
	4.42 Formulate a medium to long-term climate financing strategy.	FD, MoEFCC, MoF	DPs	July 2025- June 2026	-Medium to long-term climate financing strategy developed
Strengthening Research and development capacities	4.43 Increase funds for R&D with measurable targets under some selected strategically important sectors, and develop R&D strategy of Bangladesh to create an innovation ecosystem.	FD, Mol, BCSIR, MoST	DPs	December 2025 and continuous	-Funds for R&D increased every year -Capacity development initiatives for research institutes undertaken -Number of publications in internationally reputed journals -Number of patents -A national strategy document on R&D
	4.44 Provide capacity development support for research institutes contributing to product development and quality improvement, establishing links of domestic suppliers with international supply chains, etc.	MoST, FD, Mol, MoFA, BCSIR,	DPs	December 2025- Continuous	-New international supply chain participation established through export orders
Strengthen institutional capacity by undertaking capacity development	4.45 Undertake capacity development programmes for government officials in all relevant ministries and agencies on LDC graduation-related issues and STS policy actions.	CAO, SSGP/ERD, Relevant ministries and agencies	DPs	July 2025-June 2029	- Number of capacity development initiatives undertaken
initiatives, enhancing accountability and transparency of	4.46 Improve the statistical and research capabilities of EPB, NBR, and BBS to monitor and analyse trade flows and capture any	FD, MoC, EPB, BBS	DPs	July 2025-June 2029	-Number of staff trained -Pre- and post-evaluation of the capacity development training workshops

Recommended Smooth Transition Measures	Specific Action(s)	Responsible Agency (In Bold) and Supporting Agency(s)	Potential Role of Development Partners (DPs)	Recommended Target Completion Date	Means of Verification
public institutions and agencies,	implications related to LDC graduation.				
	4.47 Make public institutions accountable for the effective use of public resources, timely project implementation, utilisation of ADP budget, and improved governance.	Cabinet Division, MoPA, MoLJPA	DPs	July 2025- Continuous	-APA targets and their review are strengthened -Project implementation review processes are strengthened further and undertaken rigorously
	4.48 Leverage ICT in all public institutions and service delivery mechanisms to improve efficiency and transparency	ICT Division, a2i, All government ministries/institutions/agencies	DPs	July 2025-June 2029	-Expanded adoption of ICT in public service delivery
	4.49 Facilitate biannual dialogues among the relevant ministries, and with the involvement of the private sector and other stakeholders, related to STS implementation.	National Committee for LDC graduation, ERD, SSGP, relevant ministries/institutions/agencies	DPs	July 2025-Continuous	- Number of dialogues undertaken among the ministries/agencies improved - Number of dialogues undertaken involving the private sector and other stakeholders
Strategic Pillar 5: uncertainty	Strategic Pillar 5: Fostering partnerships and interna uncertainty	itional cooperation to enhan	າce sustainabl	le development and b	international cooperation to enhance sustainable development and bolster resilience amidst global
Mapping of international support for the implementation of the STS	5.1 Undertake a mapping of DPs' interest in supporting STS implementation in different areas to ensure that the support provided is impactful and aligns with the STS and the country's development soals	SSGP/ERD, and other relevant ministries	DPs	July 2025	-Completion of the mapping exercise
Supporting the implementation of international conventions, negotiations for additional transition periods, and productive	5.2 Mobilise financial and technical assistance to implement international agreements and conventions related to human rights, labour rights, environmental protection and climate change, good governance, and ESG compliance.	FD, ERD, MoFA	DPs	July 2025-Continuous	-Number of countries provided additional transition periodImportant international agreements and conventions are effectively implemented.
capacity development	5.3 Secure financial and technical support for developing productive capacities, particularly in technological adaptation, and	MoC, relevant ministries/agencies	DPs	July 2025-Continuous	-Productive and supply side capacity improved

Responsible Agency (In Bold) Potential Recommended Target Means of Verification and Supporting Agency(s) Role of Completion Date Development Partners (DPs)		MoC, relevant DPs July 2025–June 2029 -Trade negotiation capacity improved ministries/agencies -Financial and technical support for developing technological adaptation, infrastructure development, ICT advancement, human capital development, and skill enhancements increased	Moc, relevant DPs July 2025-November -Number of awareness campaigns. ministries/agencies -ESG compliance improved	GED, ERD, MOFA, FD, Mol, MoFECC, relevant ministries MoFECC, relevant ministries -Financial support argeting SDGs increased	GED, ERD, MOFA, FD, Mol, MoFECC, relevant ministries MoFECC, relevant ministries - Collaboration undertaken in NAP implementation	GED, ERD, MOFA, FD, Mol, DPs July 2025–June 2029 -Funds for climate adaptation and MoFECC, and relevant ministries	MoFA, ERD, Mol, MoC, MoF, DPs July 2025–June 2029 -Strengthened South-South and other relevant ministries -Number of dialogues facilitated -Number of collaborative infrastructural development projects	MoFA, ERD, Mol, MoC, FD DPs July 2025-Continuous -Logistics performance improved and other relevant ministries -Ease of doing business improved
Specific Action(s)	infrastructure and human capital development.	5.4 Strengthen capacity-building rinitiatives in trade negotiations and trade policymaking.	5.5 Undertake awareness-building initiatives for post-graduation policy changes.	5.6 Identify areas to support specific SDGs targets and provide financial assistance in achieving SDGs.	assistance in fulfilling the commitments under NDCs and in implementing the National Adaptation Plan of Bangladesh 2023-2050.	5.8 Address climate financing needs, with a particular emphasis on Just Energy Transition Partnerships, Green Climate Fund, Climate Investment Funds, and bilateral climate change funds	rledge llaboration r building.	5.10 Support the implementation of best practices in such areas as logistics enhancement and improving the ease of doing business.
Recommended Smooth Transition Measures				Supporting SDG implementation for boosting LDC graduation-related preparedness and	building resilience against climate change-related adversities		Fostering South- South partnership and triangular cooperation	

Recommended Smooth Transition Measures	Specific Action(s)	Responsible Agency (In Bold) and Supporting Agency(s)	Potential Role of Development Partners (DPs)	Recommended Target Completion Date	Means of Verification
	5.11 Support the adoption of sustainable energy solutions, drawing on successful experiences from other developing countries.	MoFA, ERD, MoI, MoC, FD, and other relevant ministries	DPs	July 2025–June 2029	- Adaptability of sustainable energy solutions expanded
	5.12 Expand collaboration to strengthen regional and global value chain participation.	MoFA, ERD, MoI, MoC, FD, and other relevant ministries	DPs	July 2025-Continuous	-Regional and global value chain participation of Bangladesh strengthened and competitiveness improved
Support for strengthening the multilateral global trading system to promote a fair and development-friendly trade	5.13 Promote effective participation of LDCs, and graduating and graduated LDCs in global trade.	MoFA, Mol, MoC, FD, and other relevant ministries	DPs	July 2025-Continuous	-LDCs' and graduating LDCs' share in global trade, both merchandise goods and commercial services increasedDevelopment issues are prioritised in global trade talks.
regime	5.14 Strengthen rules-based, fair, and development-friendly multilateral trading systems.	MoFA, MoC and FD	DPs	July 2025–June 2029	-Rules-based WTO trading system strengthened. Extension of S&DT measures, and secure market access
	5.15 Work with WTO members to extend trade preferences and TRIPs waiver for graduated LDCs.	MoFA, MoC and FD	DPs	July 2025-June 2029	- TRIPS waiver extended for graduated LDCs - Increased participation of LDCs and graduated LDCs in WTO decision-making - Extended benefits in regional trade agreements extended for Bangladesh
Mitigating the consequences of unfolding geopolitical competition	5.16 Safeguard interest of graduating and graduated LDCs from geopolitical competition.	MoFA	DPs	July 2025-June 2029	- Safeguards provided to protect the interest of graduated LDCs - No trade and investment restrictions applied

STS Implementation Actions

Implementation mechanism actions	Responsible Agency (In Bold) and Supporting Agency(s)	Potential role of Development Partners (DPs)	Timeframe for review and development	Means of Verification
Establish a high-level LDC Graduation Steering Committee to provide strategic policy directions for the effective implementation of the STS.	Chief Adviser's Office, relevant ministries, and departments		July 2025	- High-level LDC graduation committee chaired by the Honourable Chief Adviser established
Establish a central monitoring and evaluation committee led by the National Committee on Graduation (NGC) to oversee progress of STS implementation and its action matrix.	Chief Adviser's Office, Steering Committee, relevant departments and agencies		July 2025	- A central monitoring and evaluation committee (NCG) established
Set up an institutional mechanism (e.g., SSGP under ERD) to assist the NCG with providing support in the STS related M&E tasks and activities.	Steering Committee, Central Monitoring and Evaluation Committee (/NCG), relevant departments and agencies		July 2025	- An STS national coordination committee established
Undertake yearly progress reports on the STS implementation.	ERD, SSGP	DPs	July 2026-Continuous	- Yearly STS implementation progress report published
Organise biannual STS implementation progress meetings with the relevant stakeholders to identify any challenges and ways to foster the STS implementation process.	ERD, SSGP	DPs	July 2026-Continuous	- Number of biannual meetings during the STS implementation process and meeting outcome report published
Coordinate with all the implementing agencies, including ministries and departments, the private sector, civil society organisations (CSOs) and development partners (DPs) to facilitate progress on the STS implementation.	ERD, SSGP, relevant departments and agencies, Private sectors, CSOs	DPs	July 2026-Continuous	- Number of coordination meetings with the relevant stakeholders

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