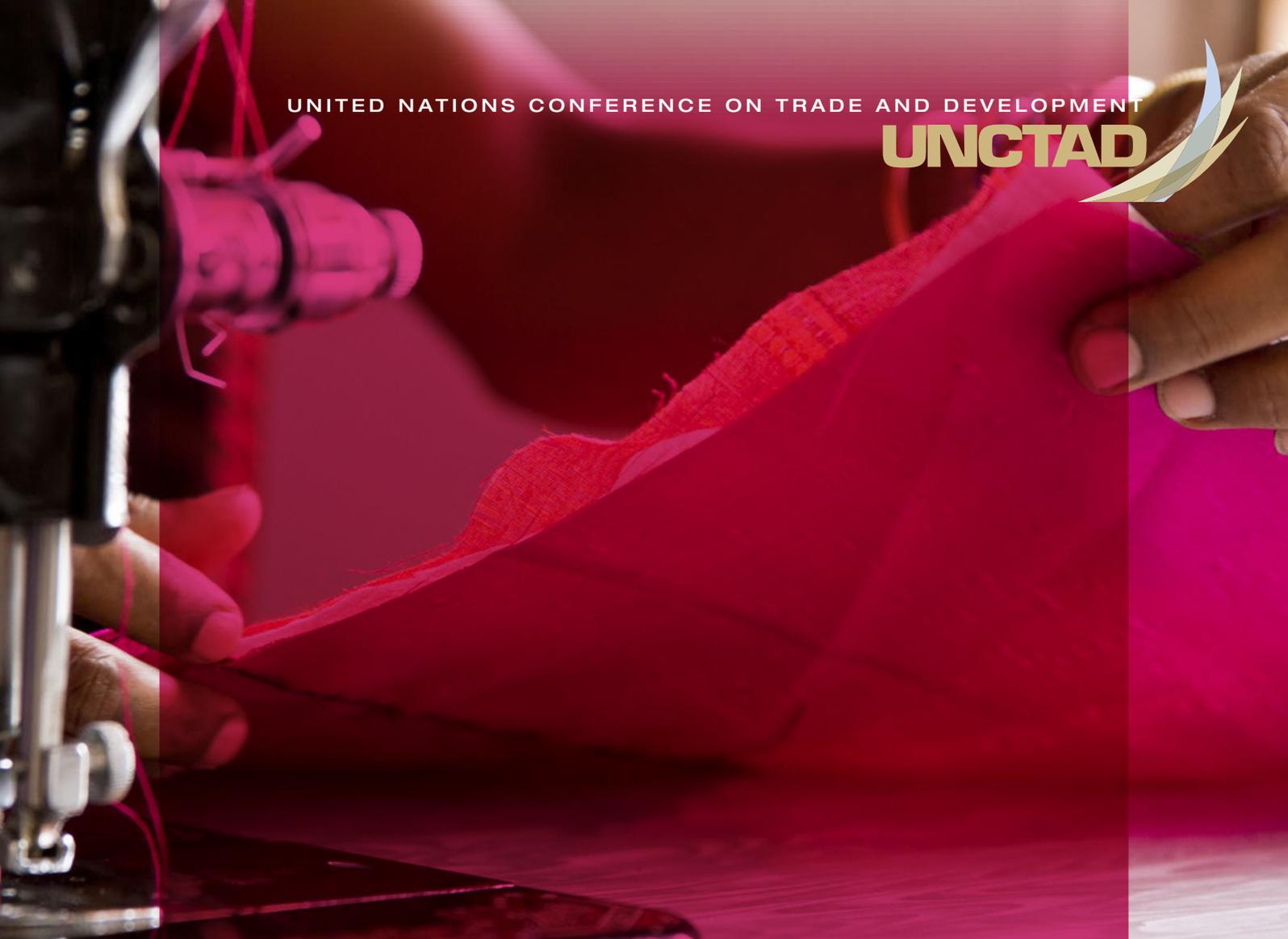


UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

UNCTAD



Vulnerability Profile

BANGLADESH



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BANGLADESH



UNITED NATIONS
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Geneva, 2022

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A hyphen (-) indicates that the data are either not available or not applicable.

Abbreviations

ASEAN	Association of Southeast Asian Nations
ADB	Asian Development Bank
APTA	Asia-Pacific Trade Agreement
BBS	Bangladesh Bureau of Statistics
BIDS	Bangladesh Institute of Development Studies
CCRIP	Coastal Climate-Resilient Infrastructure Project
CDP	Committee for Development Policy
DFQF	duty-free quota-free
DTIS	Diagnostic Trade Integration Study
EBA	Everything But Arms
ESG	environmental, social and governance
EVI	Economic Vulnerability Index
FDI	foreign direct investment
FSSAP	Female Secondary School Assistance Programme
FY	fiscal year
GCC	Gulf Cooperation Council
GDP	gross domestic product
GHI	global hunger index
GNI	gross national income
GVC	global value chain
HAI	Human Assets Index
ICT	information and communications technologies
IFRC	International Federation of Red Cross and Red Crescent Societies
ILO	International Labour Organization
IMF	International Monetary Fund
IPoA	Istanbul Programme of Action
ISM	international support measure
LDC	least developed country
LMIC	low- and middle-income country
MFN	most favoured nation
MMR	maternal mortality ratio
NAPA	National Adaption Programme of Action
NGO	non-governmental organization
ODA	official development assistance
ODC	other developing country
PCI	Productive Capacity Index

PPE	personal protective equipment
RCEP	Regional Comprehensive Economic Partnership
SAARC	South Asian Association for Regional Cooperation
SEDP	Secondary Education Development Programme
SESIP	Secondary Education Sector and Investment Programme
SESP	Secondary Education Stipend Project
SEZ	special economic zone
STI	science, technology and innovation
TRIPS	Trade-Related Aspects of Intellectual Property Rights
UNESCO	nited Nations Educational, Scientific and Cultural Organization
UNICEF	United Nations International Children's Fund
VA	value added
WTO	World Trade Organization
WHO	World Health Organization

Contents

Notes	iii
Abbreviations.....	iv
Executive summary	ix
1. Introduction	1
2. Situation analysis.....	1
2.1 Contextualizing the country’s structural transformation trajectory	1
2.2 International trade and regional integration	8
2.3 The impact of the pandemic on the economy of Bangladesh	13
3. Progress against the least developed country criteria.....	16
3.1 Per capita income criterion	16
3.2 Human assets criterion.....	19
3.3 Economic and environmental vulnerability criterion	27
4. Development challenges: Towards graduation and beyond	31
4.1 Mitigating the reliance on least developed country-specific international support measures	32
4.2 Harnessing the nexus between trade and structural transformation.....	34
4.3 Seeking sustainable development finance	40
4.4 Addressing heightened environmental vulnerability	46
5. Building back better: Graduating with momentum	46
Bibliography	52
Annex	
Key strategic considerations for graduation with momentum by Bangladesh....	57

Figures

Figure 1	Bangladesh real GDP and real GDP per capita	2
Figure 2	Real GDP growth in Bangladesh, LDCs and South Asia	3
Figure 3	Population and annual demographic growth rate.....	3
Figure 4	Productive capacity index for Bangladesh and related benchmarks.....	4
Figure 5	Components of the Productive Capacities Index for Bangladesh and related benchmarks	5
Figure 6	Contribution to growth by supply and demand components.....	6
Figure 7	Dynamics of sectoral employment share and labour productivity.....	8
Figure 8	Sectoral employment share and labour productivity	8
Figure 9	Exports and imports of goods and services	9
Figure 10	Merchandise exports and imports by main product group.....	10
Figure 11	Proportion of Bangladesh merchandise trade with regional partners	12
Figure 12	Composition of merchandise trade with regional partners	12
Figure 13	Year-on-year percentage change in remittances inflows.....	14
Figure 14	Structure of the criteria for identification and graduation of the least developed country after the comprehensive review.....	17
Figure 15	Bangladesh's distance from the graduation threshold under the per capita income criterion	17
Figure 16	Gross National Income per capita	18
Figure 17	Bangladesh Gini index.....	18
Figure 18	Trends in income distribution.....	18
Figure 19	Gini coefficient for consumption, wealth and income.....	19
Figure 20	Poverty headcount ratio	19
Figure 21	Distance from the graduation threshold under the human asset criterion.....	20
Figure 22	Prevalence of undernourishment in total population	21
Figure 23	Prevalence of stunting, height for age	21
Figure 24	Child mortality rate, under-5	22
Figure 25	Maternal Mortality Ratio.....	23
Figure 26	Gross enrolment ratio, secondary	24
Figure 27	Adult Literacy Rate	25
Figure 28	Number of NGOs Involved in various education programmes	26
Figure 29	Gender parity index for gross secondary school enrolment.....	26
Figure 30	Bangladesh distance from the graduation threshold under the economic and environmental vulnerability criterion	27
Figure 31	Export concentration index	29
Figure 32	Export instability index.....	30
Figure 33	Bangladesh's height above the sea level.....	30
Figure 34	Trends in agricultural and cereal production indices for Bangladesh	32
Figure 35	Trends in global value chain participation for Bangladesh and other selected developing countries	36
Figure 36	Global value chain participation by sector.....	37
Figure 37	Traditional and new revealed comparative advantages for Bangladesh	38
Figure 38	Bangladesh product space (2018)	39
Figure 39	Distance and product complexity for Bangladesh exports and feasible products	40

Figure 40	Bangladesh resource gap	42
Figure 41	External financial flows to Bangladesh	42
Figure 42	Remittances inflows to Bangladesh	44
Figure 43	Public Investment in Adaptation to Climate Change: Needs and Aid Flows (hundreds of million dollars, log scale)	47

Tables

Table 1	Factors influencing mortality declines	24
Table 2	Natural hazards occurring in Bangladesh and related impact, by year	30

Boxes

Box 1	UNCTAD Productive Capacities Index	4
Box 2	Bangladesh: Short-term impact of the pandemic on remittances inflows	14
Box 3	Bangladesh: The rise of the pharmaceutical industry and graduation	34

Executive summary

The present study documents how Bangladesh is approaching the 2021 triennial review after a period of sustained economic growth, underpinned by robust progress in terms of productive capacity development, as measured through the UNCTAD multidimensional Productive Capacities Index (PCI). Economic growth during the last couple of decades has been pulled by the expansion of manufacturing and services, both in terms of composition of output and of labour share, while on the demand side consumption and gross capital formation have been the main drivers of growth. The process of capital deepening has been accompanied by rapid sectoral labour reallocation, away from agriculture and into manufacturing and services, as well as a significant rise in agricultural productivity, resulting in so-called “growth enhancing structural change”. Bangladesh has also witnessed a significant boom in its international trade, with merchandise exports growing fourfold between 2005 and 2019, and imports growing at a slightly greater pace; accordingly, the country has consistently maintained a net trade deficit with respect to both goods and services. Although the outbreak of COVID-19 has triggered multiple shocks hitting both aggregate demand and aggregate supply, existing forecasts suggest that Bangladesh may weather the downturn much better than neighbouring countries, maintaining a positive GDP growth (of between 1.6 and 5 per cent, depending on the source). Several factors can explain this performance, including most importantly: the resilience of the agricultural sector; the adaptability of businesses (e.g. textiles and clothing firms repurposing their factories to produce personal protective equipment); the increase in remittances and some support by multilateral donors; and the coordinated stimulus package enacted by the Government, notwithstanding limited fiscal space. In spite of this, heightened uncertainty looms large on the future outlook, and the COVID-19 shock may exert long-lasting effects in terms of poverty and employment destruction.

Against this background, the vulnerability profile finds that Bangladesh is expected to meet all the established LDC graduation criteria for the second time at the 2021 triennial review by the Committee for Development Policy. Of particular interest is the progress recorded by the country in terms of not only GNI per capita – itself a reflection of the rapid growth – but also of the human assets index (HAI). Broad-based improvements in health- and education-related indicators testify to the long-term investments made in broadening access to related services. Meanwhile, in terms of the economic and environmental vulnerability index (EVI), Bangladesh will continue to meet the graduation threshold in spite of its traditionally high export concentration and its heightened proneness to climate change and natural hazards. Given the amplitude of low-lying coastland areas and related communities, environmental vulnerability remains, however, a critical source of concern for the years to come, with attendant investment needs in climate change adaptation and disaster preparedness.

The vulnerability profile highlights that, although Bangladesh is approaching LDC graduation on the back of sustained progress and with strong political will, there is no time for complacency. In particular, there are four lingering sources of vulnerability which will continue to shape the trajectory of Bangladesh towards graduation and beyond:

- (a) Heightened reliance on LDC-specific international support measures (most notably in terms of preferential market-access);
- (b) Lack of export diversification and over-reliance on low-technology textile and clothing products;
- (c) Dependence on external development finance, predominantly in the form of migrant remittances, to support capital accumulation;
- (d) Exposure to the far-reaching effects of climate change, notably in terms of sea level rise and heightened frequency/intensity of natural disasters.

Accordingly, the study outlines key policy priorities, in the context of LDC graduation and beyond:

- (a) Enhancing domestic resource mobilization;
- (b) Investing in climate-resilient and digital infrastructure;
- (c) Improving the business environment;
- (d) Mobilizing renewed investments in human capital and the science, technology and innovation (STI) ecosystem;
- (e) Anchoring LDC graduation in the national policy strategies and industrial policy framework.



1. Introduction

This report presents the vulnerability profile of Bangladesh, as mandated in General Assembly resolution 59/209 of 20 December 2004, which stated that “after a country has fulfilled the criteria for graduation for the first time, UNCTAD is mandated to prepare a vulnerability profile on the identified country to be considered by the Committee for Development Policy (CDP) at its following triennial review” (paragraph 3 (b)). The report is meant to be used as a background document for the CDP deliberations (to be held in 2021) on the preparedness of Bangladesh for graduation from the least developed country (LDC) category. As such, the vulnerability profile serves several purposes:

- (a) To inform CDP in its assessment of the economic and social progress observed in Bangladesh, first through the country's performance under the three eligibility criteria considered for LDC inclusion/graduation, namely per capita income, human assets index (HAI) and economic and environmental vulnerability index (EVI), and secondly through other evidence-based considerations as deemed necessary;
- (b) To provide the Government of Bangladesh with a broad range of findings that may enrich the debate on preparations for LDC graduation;
- (c) To offer some concrete insights on potential elements of a smooth transition strategy to post-LDC status, in line with the corresponding mandate in General Assembly resolutions 59/209 (20 December 2004) and 67/221 (21 December 2012).

The report is structured as follows. Section two contextualizes the trajectory of Bangladesh through an analysis of its growth and structural transformation pattern, as well as of its trade performance, globally and regionally; finally it outlines the key impacts of the COVID-19 pandemic on the economy, highlighting the main channels of transmission and the initiatives adopted to respond to the crisis. Section three assesses the performance of Bangladesh against the criteria for inclusion/graduation from the LDC category, as well as their underlying dimensions. Section four takes a more forward-looking stance and analyses some of the key development challenges the country faces towards graduation from the LDC category and beyond. Finally, the concluding section summarizes the findings of this report and provides some elements of potential policy priorities.

2. Situation analysis

This section situates the performance of Bangladesh towards graduation from the LDC category in the broader context of the country's structural transformation trajectory. The purpose of this contextualization is to go beyond a simplistic assessment of performance against LDC criteria and rather focus on the long-term process of structural transformation, which should ultimately underpin successful progress towards the graduation milestone, in the spirit of so-called “graduation with momentum” (UNCTAD, 2016a).¹

The section begins by using the UNCTAD Productive Capacities Index (PCI), along with other indicators, to assess the performance of Bangladesh, highlight its broad-based progress and benchmark it against other developing countries, in the region and across the world. It then provides a bird's-eye view of the country's regional integration as well as of geopolitical risks. Finally, it provides a situational analysis of the impact of COVID-19 and of the ensuing economic crisis.

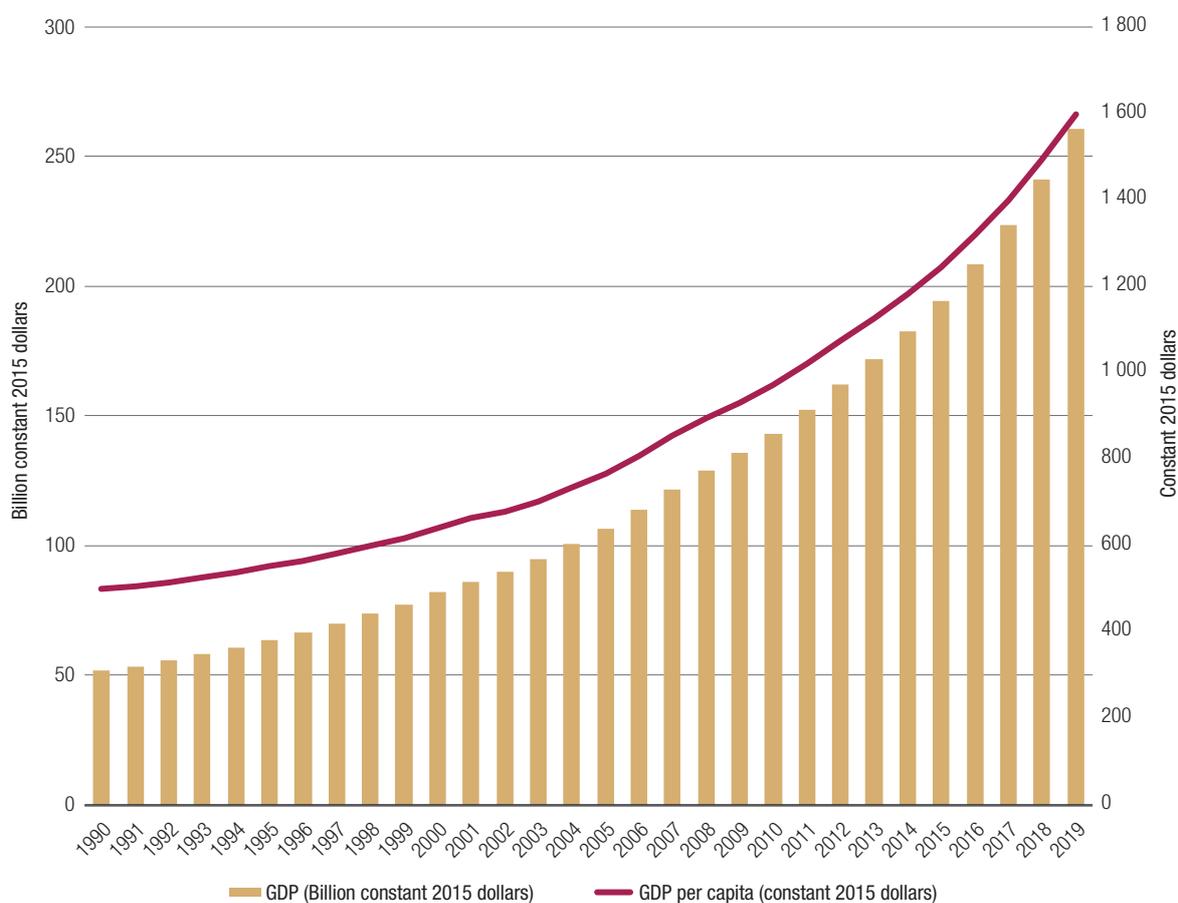
2.1 Contextualizing the country's structural transformation trajectory

Over the last two decades, Bangladesh has achieved significant economic progress, as can be epitomized by the fact that the country's GDP more than trebled in real terms from 2000 to 2019.² Over the same period, GDP per capita increased by a factor of 2.5, portending considerable improvements in the standard of living (figure 1). The main factor behind this economic boom has been the sustained and steady dynamism of the economy over the last three decades, with an average GDP growth rate of 4.8, 5.8 and 6.8 per cent in the 1990s, 2000s and 2010s, respectively. Growth opportunities unleashed by trade liberalization reforms in the 1990s (Raihan, 2008; Williamson, 1999), have more recently consolidated, and the pace of growth further accelerated, pulled by the successful expansion

¹ The notion of “graduation with momentum” refers to a situation whereby graduation from the LDC category follows naturally from a successful long-term process of structural transformation and is regarded as a milestone in the broader developmental context. This is opposed to a narrow perspective focused predominantly on meeting the graduation criteria and adopting measures aimed at achieving statistical eligibility for graduation, regardless of the underlying development trajectory (UNCTAD, 2016a).

² Unlike international statistics, the official statistics of Bangladesh usually refer to a fiscal year that starts in July and ends in June.

Figure 1
Bangladesh real GDP and real GDP per capita
 (1990–2019)



Source: UNCTAD secretariat calculations, based on data from UNCTADstat database.

of export-oriented industries, buoyant remittances inflows and rapid improvements in agricultural productivity.

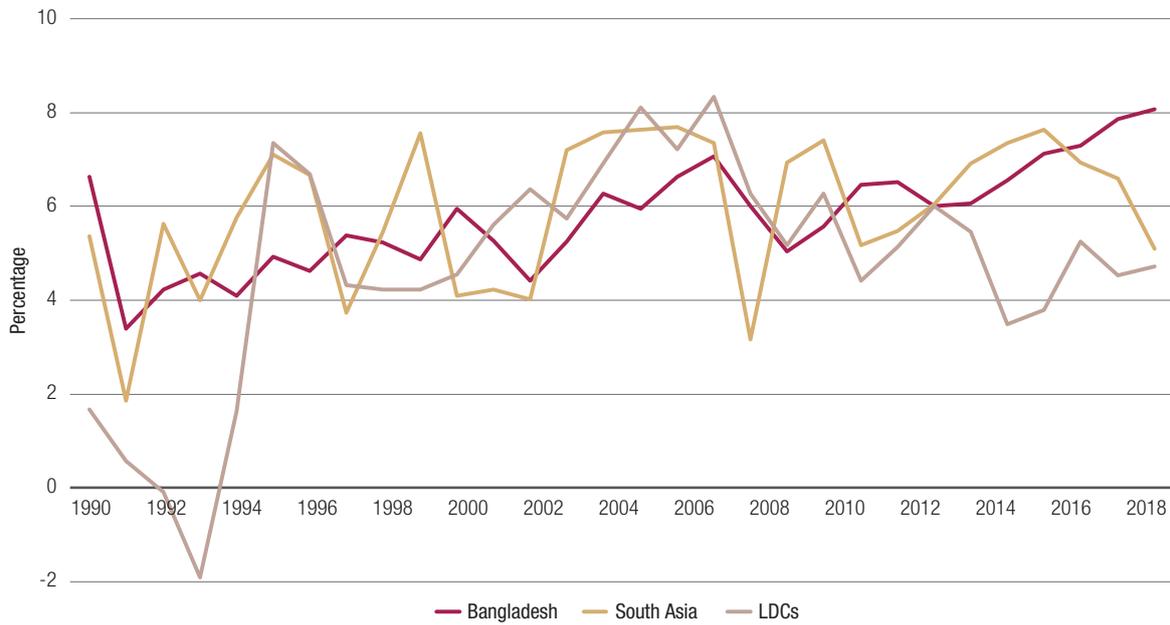
In recent years, Bangladesh has featured among the fastest growing economies in the world, with GDP expanding at a rate of more than 7 per cent between 2016 and 2019 (figure 2). The country has outperformed the average annual GDP growth rate of LDCs since 2010, and that of South Asia in the last two to three years prior to the pandemic. Moreover, unlike other LDCs, Bangladesh has not experienced any contraction in real GDP per capita since 1989, notwithstanding some slowdowns and occasional political events. In addition, a gradual decline in the rate of demographic expansion has gone hand in hand with economic buoyance, with the population growth rate falling steadily from 2.35 per cent in 1991 to 1.90 per cent in 2001, 1.15 per cent in 2011 and 1.03 per cent in 2019 (figure 3). This decline and the associated demographic transition have also

contributed to amplifying the effect of the economic boom in terms of average income per capita.

While the pace of economic growth is certainly an important indicator, the pattern of such dynamics is at least as important. In particular, several studies have noted that the sustainability of growth is largely determined by the extent to which countries achieve the development of their productive capacities, defined as “the productive resources, entrepreneurial capabilities and production linkages which together determine the capacity of a country to produce goods and services and enable it to grow and develop” (UNCTAD, 2006). Productive capacity development operates both within firms/sectors, as the profit–investment nexus fosters capital deepening and productivity gains, as well as across sectors, as the acquisition of productive capabilities, itself contingent on the existing pattern of production, paves the way for the emergence of new products and higher value-added activities.

Figure 2

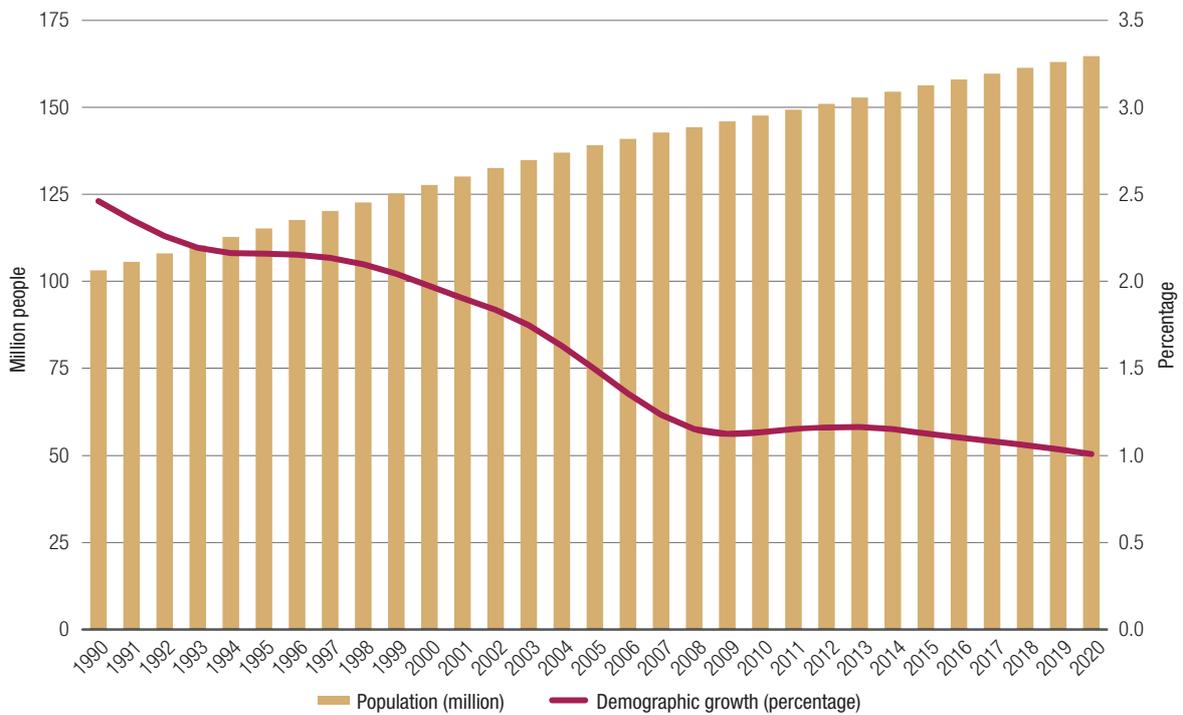
Real GDP growth in Bangladesh, LDCs and South Asia
(1980–2019)



Source: UNCTAD secretariat calculations, based on data from UNCTADstat database.

Figure 3

Population and annual demographic growth rate



Source: UNCTAD secretariat calculations, based on data from UNCTADstat database.

UNCTAD has recently developed a composite index to capture this articulated process of expansion of a country's productive capabilities (box 1). This metric is used here to assess the performance of Bangladesh compared with that of other LDCs, of economies in South Asia and of other (i.e. non-LDC) developing countries (ODC). As illustrated in figure 4, Bangladesh displays a steady improvement in its PCI,

with the exception of 2009 (when the fallout from the global recession, coupled with the Aila cyclone, adversely affected the country's performance), after which progress resumed at slightly faster pace as before the crisis. The trend in PCI also shows that Bangladesh has systematically outperformed the median LDC, not only with a higher score, but also with somewhat faster improvements, evidenced by

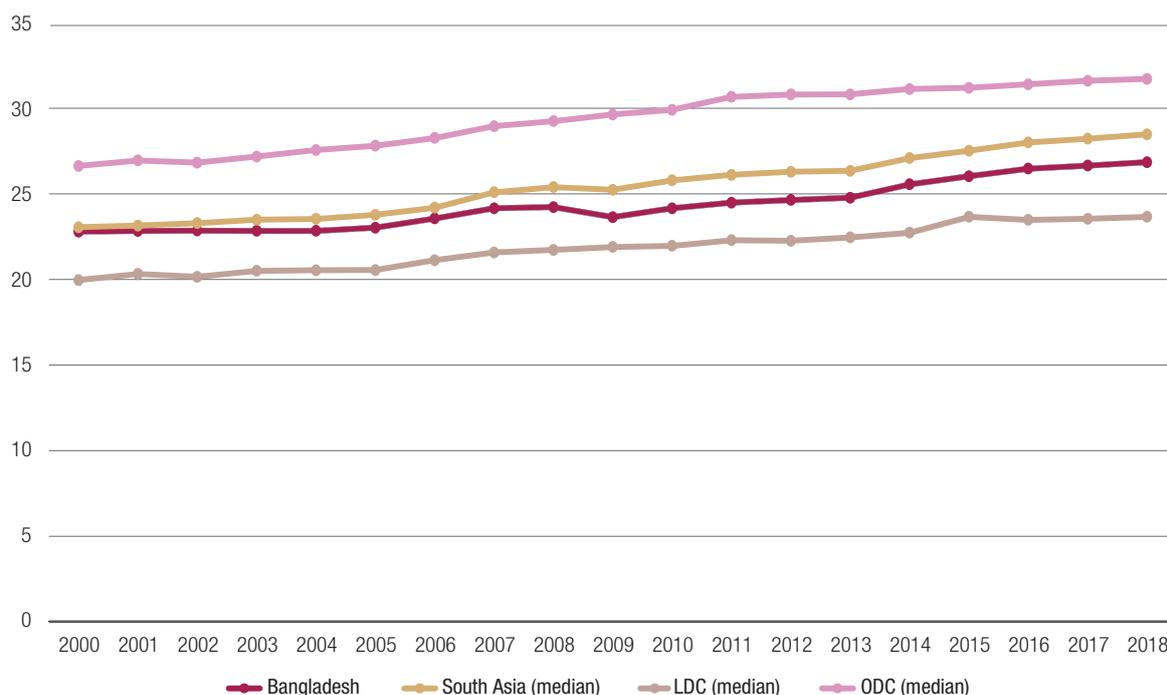
Box 1 UNCTAD Productive Capacities Index

The UNCTAD Productive Capacities Index (PCI) is the first comprehensive attempt to measure productive capacities in all economies, LDCs and non-LDCs, developed and developing. The index builds on the conceptualization of productive capacities defined as “the productive resources, entrepreneurial capabilities and production linkages which together determine the capacity of a country to produce goods and services and enable it to grow and develop”.

As such, PCI is a composite index of 46 indicators under eight components, namely, natural capital, human capital, energy, transport, ICT, institutions, structural change and the private sector. A detailed description of the methodology of the construction of the PCI is provided in UNCTAD (2020i); for the purpose of this report, it suffices to note that – after imputation and/or forecasting of missing data as required – principal component analysis is applied to reduce the dimensionality of the data. The resulting factor weights are then used in the weighting of the individual indicators to construct each PCI component, which is subsequently standardized using the maximum and minimum normalization. The overall PCI score is finally obtained as a geometric mean of the eight components, whereby the geometric mean is chosen to reduce the level of substitutability across components. The PCI scale, both for the aggregate index and its components, ranges from 0 to 100, with 100 being the best score.

Sources: UNCTAD, 2006; UNCTAD, 2020i.

Figure 4
Productive capacity index for Bangladesh and related benchmarks
 (1980–2019)



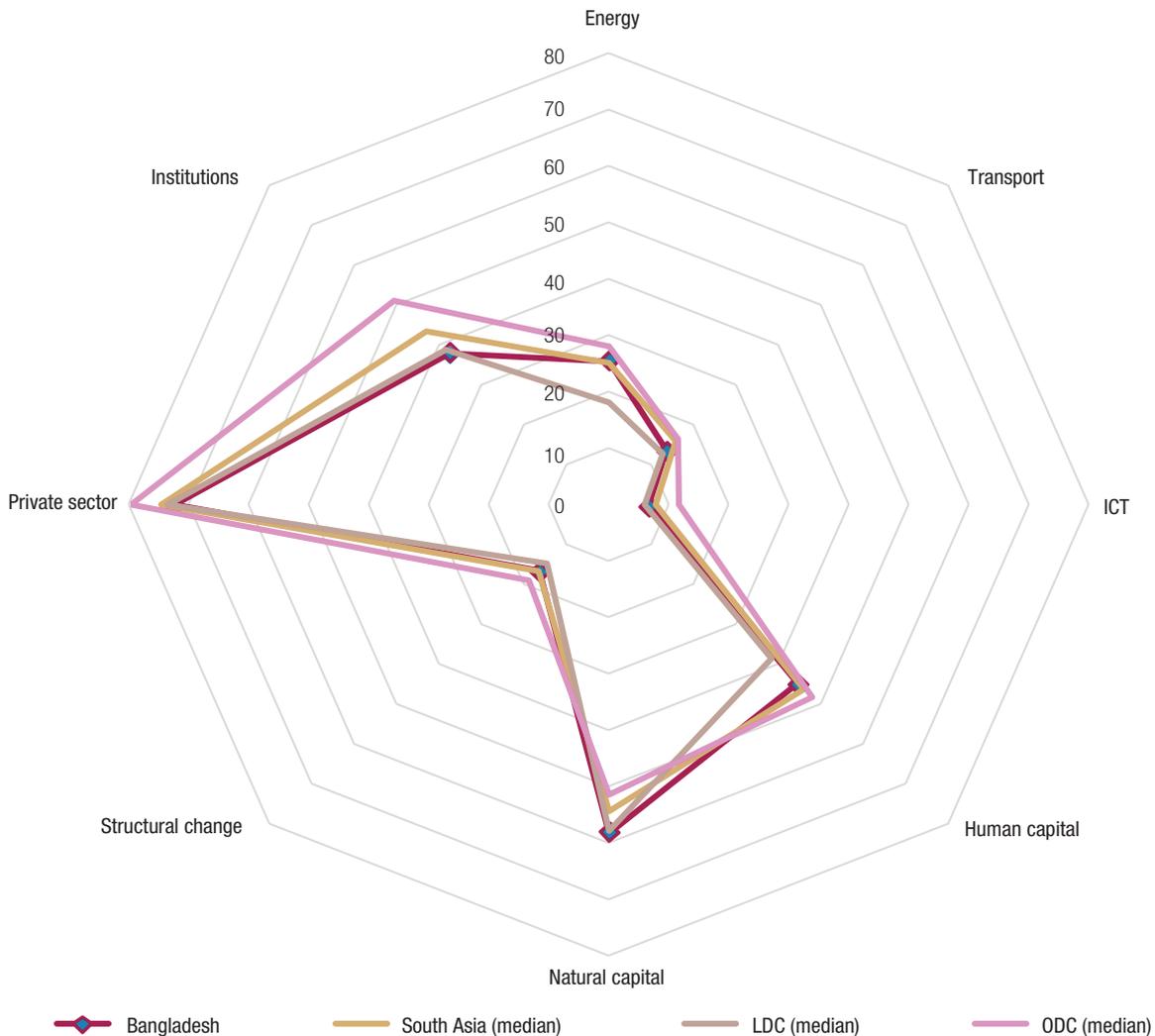
Source: UNCTAD secretariat calculations, based on data from UNCTADstat.

the widening gap between its own score and the PCI score of the median LDC. Despite the improvements documented above, Bangladesh’s overall progress has been slightly slower than the corresponding trajectory in the median value of PCI for ODCs, and South Asia. Bangladesh has partly reversed the situation starting, since 2010, to gradually close the gap with reference to the PCI of the median ODC and maintaining a broadly similar trajectory to that of its neighbours in South Asia.

To investigate more thoroughly the underpinnings of progress by Bangladesh in productive capacity development, it is instructive to examine the eight individual components of PCI (figure 5). Starting with the infrastructural components, the figure points to the persistence of supply-side bottlenecks, which by their nature weigh down the overall competitiveness

of the economy, exerting negative spillover across enterprises and sectors. This finding appears to be common to both LDCs and to other countries in South Asia but is exacerbated in Bangladesh by the heightened exposure to natural disasters. Infrastructural gaps are particularly apparent in relation to transportation and information and communications technologies (ICT) provision, which were identified as a binding constraint also in the context of the diagnostic trade integration study (DTIS) (Kathuria and Malouche, 2016a). Furthermore, although Bangladesh has made significantly more progress than other LDCs in extending access to electricity, energy poverty remains an issue in rural areas and more needs to be done to achieve a level of energy provision and reliability commensurate with the needs of a diversifying economy.

Figure 5
Components of the Productive Capacities Index for Bangladesh and related benchmarks



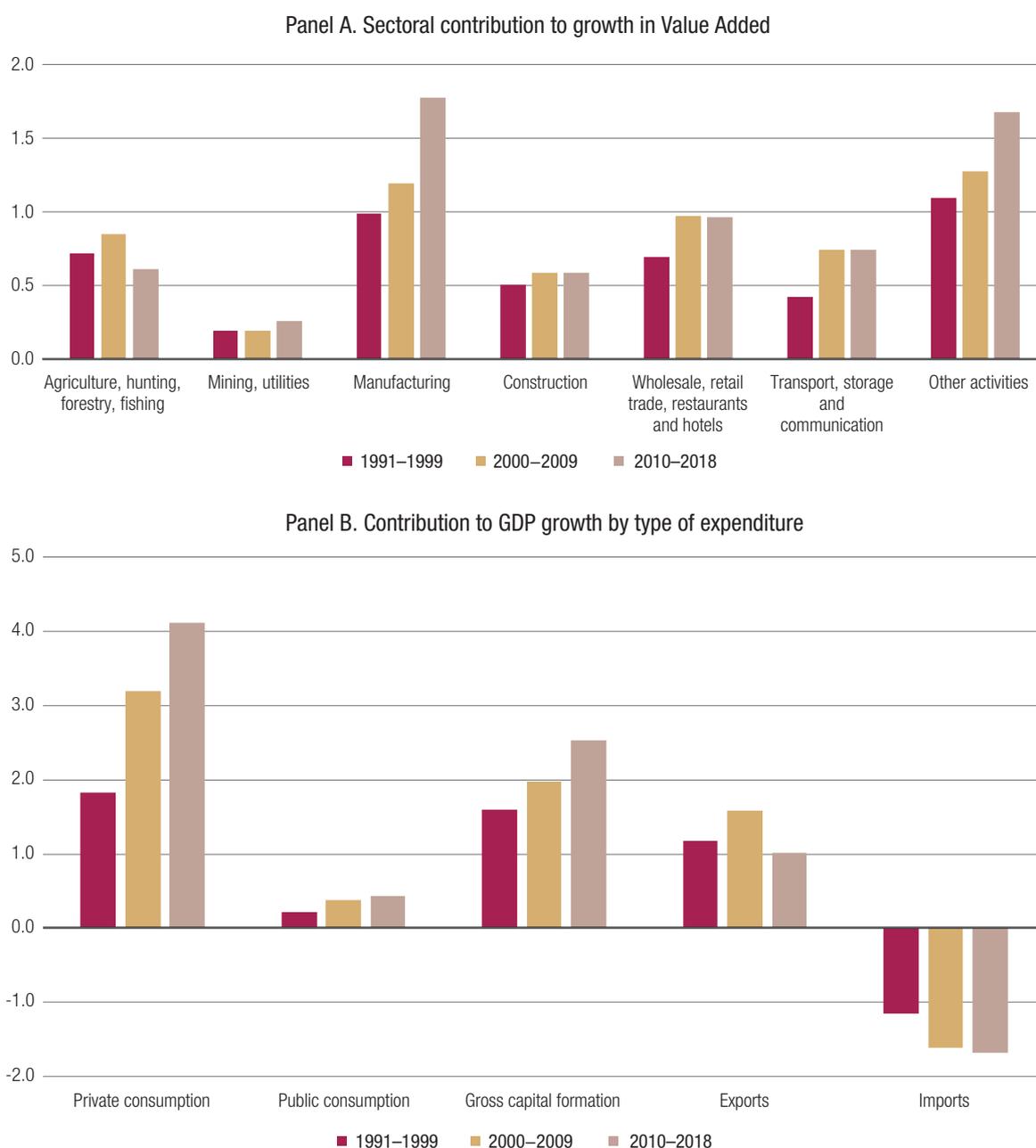
Source: UNCTAD secretariat calculations, based on data from UNCTADstat.

Broadly in line with other economies in South Asia, Bangladesh outperforms the LDC median score in relation to several PCI components related to structural transformation, notably human capital and structural change. This reflects the advancements achieved in terms of education (see later discussion on the human assets index), as well as the inroads made in fostering the emergence of viable manufacturing and services sectors. Conversely,

Bangladesh underperforms compared to the median country in South Asia in relation to the institutional and private sector components of the PCI, reporting in these dimensions overall scores that are broadly in line with those of the median LDC.

Examining the pattern of economic growth followed by Bangladesh in recent decades allows for a better understanding of the trajectory that underpinned the improvements in PCI as documented above (figure 6).

Figure 6
Contribution to growth by supply and demand components
 (Annual percentage change)



Source: UNCTAD secretariat calculations, based on data from UNSD National Accounts Main Aggregates Database.

It also points to the successes in the country in spurring the process of structural transformation. Throughout the period considered, the manufacturing and services sectors – in particular the residual category of services, also encompassing, among the residual group labelled “other activities”, high value-added services such as finance and ICT – have been the main drivers of economic dynamism (panel A). It was in the 2010–2018 period, however, that their role stood out the most, with contribution to growth exceeding 1.5 per cent per year. Importantly, the primary sector (and to a lesser extent construction) have also displayed a significant contribution to growth in value added, with positive effects on unskilled workers. The agricultural sector, in particular, has benefited from the so-called third agricultural revolution, hinging on improvements in agricultural productivity and output resulting from the introduction of high-yield varieties of grains and more intensive use of pesticides (see below). On the expenditure side (panel B), the figures suggest that private consumption was by far the main engine of expansion in Bangladesh after 2000, followed by gross capital formation.³ Both these expenditure categories displayed an increasing contribution to GDP growth over time, with the latter reaching as much as 2.5 percentage points in the 2010–2018 period, signalling faster capital accumulation. It is also worth noting that international trade, overall, has represented a widening demand leakage, as demonstrated by the fact that the negative contribution of imports outweighed the positive injection of aggregate demand via exports.

The above figures confirm the picture provided by PCI and indicate an accelerating process of capital accumulation, as well as the rise of industrialization (manufacturing representing 19 per cent of GDP in 2018) and above all a rise in the services share of value added. This pattern of structural change in the composition of output is mirrored by trends in sectoral labour reallocation, as the interplay of the latter with capital deepening (which increases productivity within sectors) ultimately determines the evolution of average labour productivity across the whole economy (McMillan and Rodrik, 2011; McMillan et al., 2014).

To capture the labour reallocation process, figure 7 displays on the horizontal axis changes in the sectoral employment share and on the vertical axis the (log of) sectoral labour productivity relative to economy-wide labour productivity. The figure

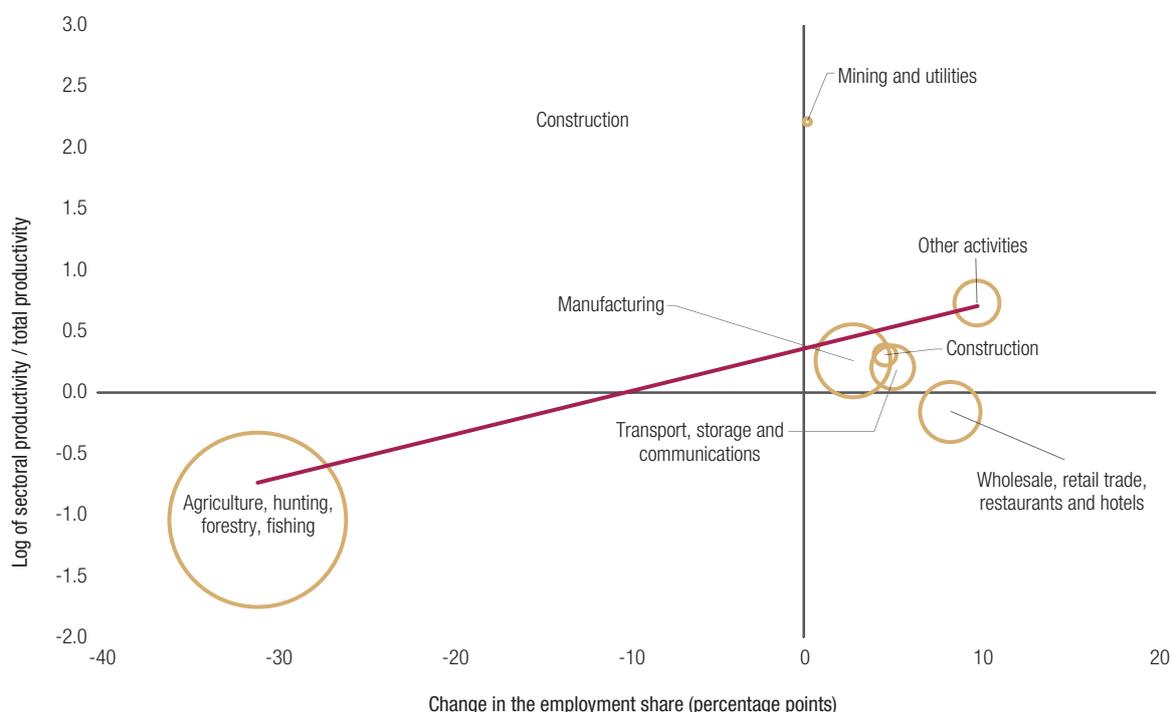
shows that labour reallocation outside agriculture implied a contraction in the latter’s employment share by some 30 percentage points (over nearly 30 years), to the advantage of all other sectors except for mining and utilities, which tend to be relatively capital intensive, and the employment share of which remained virtually unchanged. A key point in the pattern of labour reallocation in Bangladesh is the fact that, because of productivity differentials across sectors, labour ultimately flowed towards sectors with relatively higher productivity (notably manufacturing and other activities), leading to “growth enhancing structural change” (McMillan and Rodrik, 2011).

Further insights can be gauged from figure 8, which shows the sectoral employment shares and labour productivity levels at the end of the period considered (2018). In line with the intuition of the Lewis dual model, the figure suggests the persistence of significant productivity gaps across sectors, with agriculture – and, to a lesser extent, trade and hospitality – displaying lower than average levels of gross value added per worker. Considered in conjunction with figure 7, the figure also suggests that labour reallocation has to some extent contributed to closing productivity differentials across sectors. Interestingly, the figures also show that productivity levels in the trade and hospitality sector are greater than in agriculture, but still lower than the economy-wide average. This is consistent with the fact that a significant share of activities within the wholesale and retail trade and hospitality sector consist of (often informal) low-productivity jobs.

Against this background and considering long-term demographic factors such as the youth bulge in the population structure and the increasing labour force participation of women, it remains critical for Bangladesh to generate sufficient employment to absorb new entrants into the labour market and accommodate the rise in labour supply. According to International Labour Organization (ILO) estimates, the labour force is expected to rise from 71.2 million in 2020 (of which 49.4 million were men and 21.8 million, women) to 80.7 million in 2030. In this context, productive employment creation will remain a key imperative for sustainable development, all the more so in the light of the recent slowdown in employment creation in the manufacturing sector and of long-standing concerns about working conditions (Bhattacharya, 2018; CDP and DESA, 2019). Vulnerable categories will therefore continue to deserve adequate attention, considering that the unemployment rate for women (6.2 per cent in 2019)

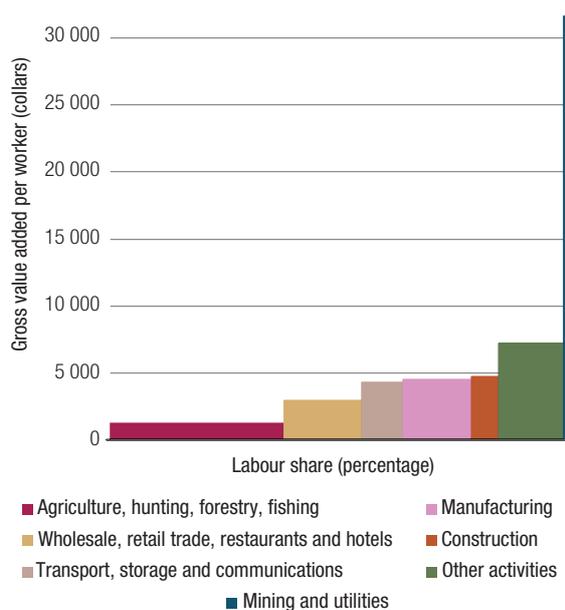
³ Available data do not allow gross fixed capital formation and changes in inventories to be distinguished for all years.

Figure 7
Dynamics of sectoral employment share and labour productivity
 (1991–2018)



Source: UNCTAD secretariat calculations, based on data from World Development Indicator database and United Nations Statistics Division.
 Note: The size of the bubble is proportional to each sector's employment share in 1991.

Figure 8
Sectoral employment share and labour productivity
 (2018)



Source: UNCTAD secretariat calculations, based on data from World Development Indicator database and United Nations Statistics Division.

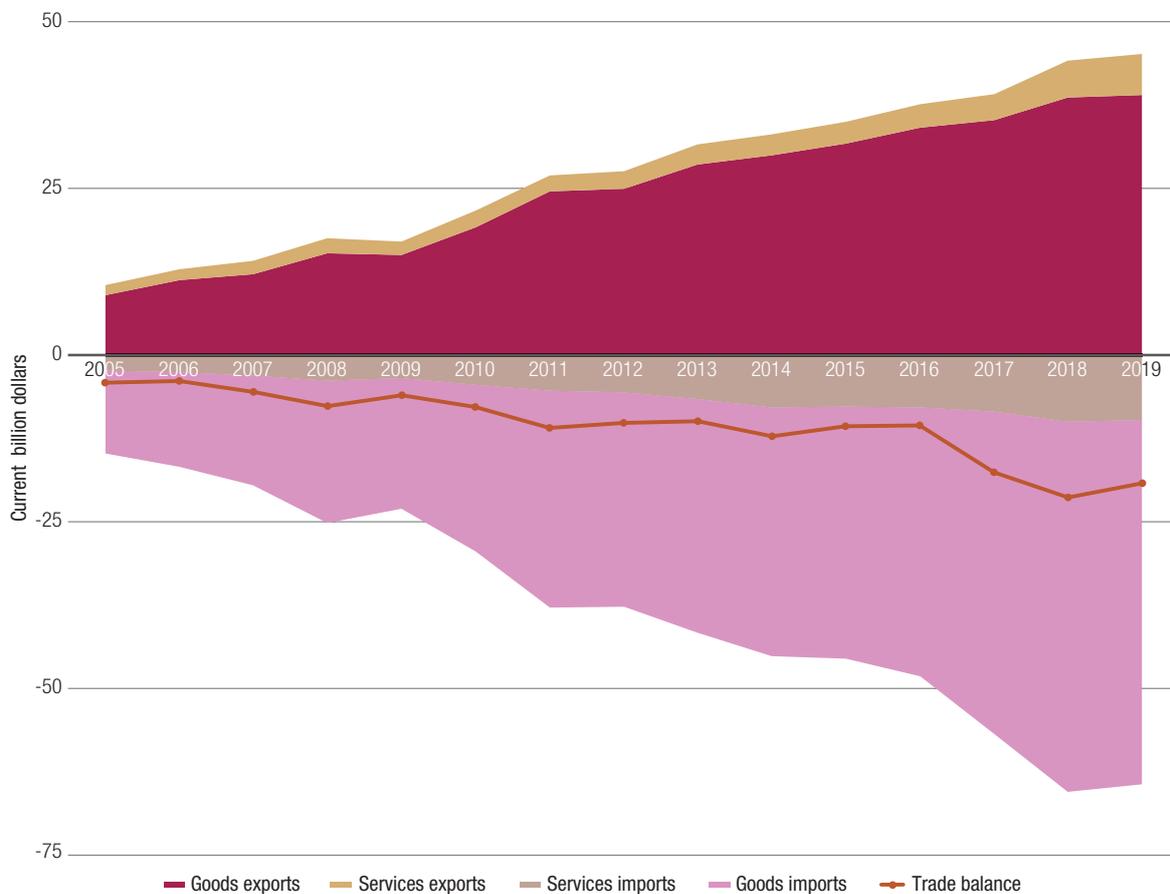
is nearly double that of the rate for men (3.3 per cent in 2019) and youth unemployment is nearly five times higher than that of adults (PRI, forthcoming).

2.2 International trade and regional integration

The above discussion has documented the successes of Bangladesh in igniting a process of economic growth and structural transformation, harnessing the combined effects of capital deepening and cross-sectoral labour reallocation. With an eye on the process of graduation from the LDC category and its ensuing consequences for the prevailing trading regime, it is useful to examine in more depth the role international trade played in Bangladesh's trajectory.

Recent decades have witnessed a significant increase in the participation of Bangladesh in international trade (figure 9). The trade-to-GDP ratio augmented from an average of nearly 25 per cent in the 1990s to over 40 per cent in the 2010–2019 period. Merchandise exports rose from \$6.3 billion in 2000 to \$39.3 billion in 2019, while services exports rose from \$1.5 billion in 2005 to \$6.1 billion

Figure 9
Exports and imports of goods and services
 (2005–2019)



Source: UNCTAD secretariat calculations, based on data from the UNCTADstat database.

Note: The data follow the classification of IMF Balance of Payments and International Investment Position Manual, Sixth Edition (BPM6).

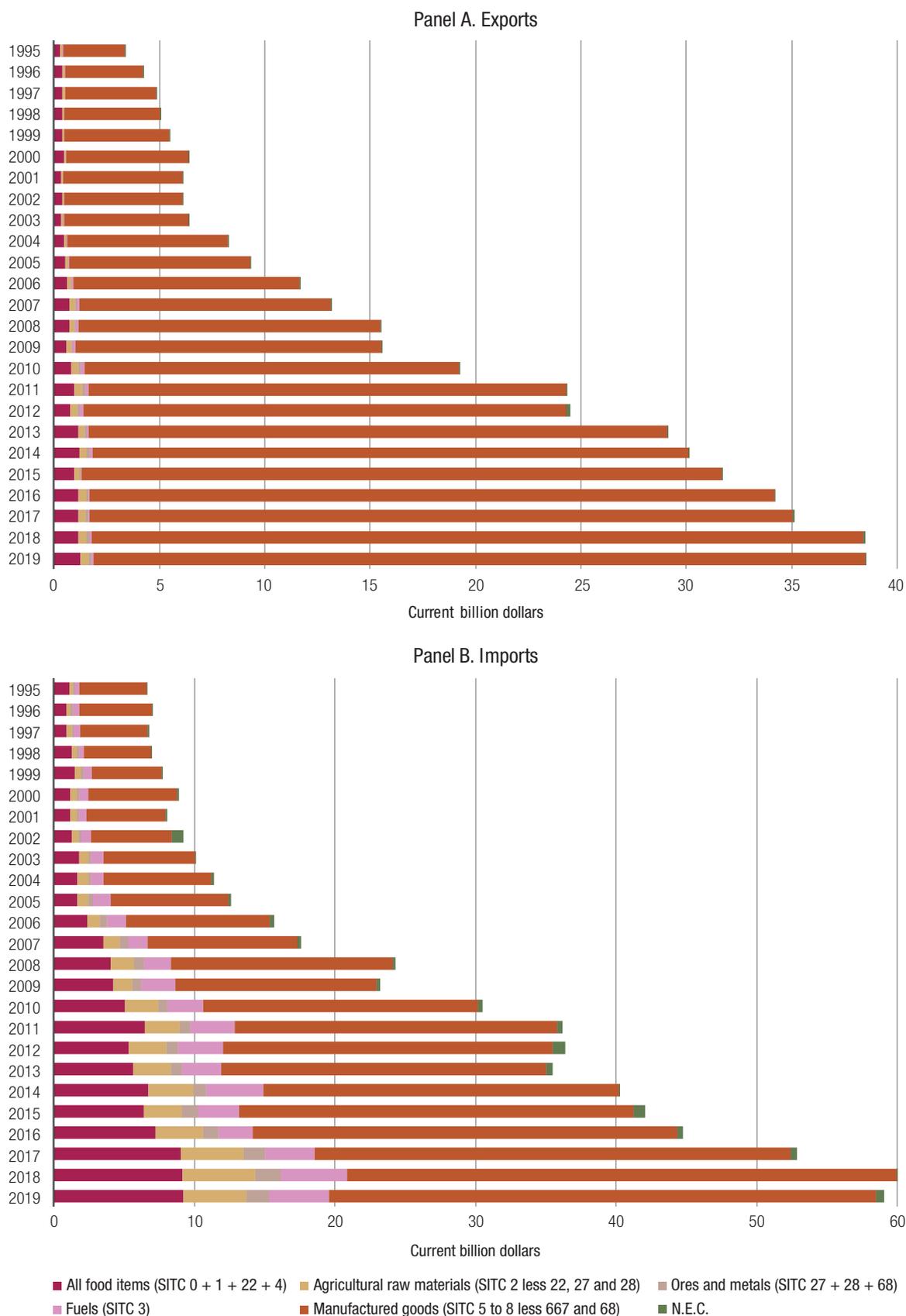
in 2019.⁴ Conversely, merchandise imports surged from \$8.8 billion in 2000 to \$59 billion in 2019, with services adding another \$9.7 billion to the import bill in 2019. The factors behind these trends include a broadly similar rise in export and import volumes combined with a gradual decline in the terms of trade. This has generated a widening trade deficit in relation to both goods and services.

In terms of composition, the overwhelming majority of exports are accounted for by manufactures, notably textiles and clothing (figure 10, panel A). In 2019, textile fibres, yarn, fabrics and clothing items accounted for 90 per cent of exports, with

the rest mainly accounted for by miscellaneous manufactured articles (representing roughly 5 per cent), food items (3 per cent) and agricultural raw materials (1 per cent). This uneven composition has remained virtually unchanged over the last 20 years, with apparel products driving the majority of the export boom. The composition of import products is more balanced (figure 10, panel B). In 2019, the imports of Bangladesh consisted of roughly two thirds of manufactures (with textile fibres, yarn, fabrics and clothing accounting for 25 per cent of the total, and machinery and transport equipment for another 20 per cent), plus some 16 per cent of food items, 8 per cent of agricultural raw materials, 7 per cent of fuels and 3 per cent of ores and metals. Again, the different proportions accounted for by each product group have remained relatively stable over time.

⁴ Because the conceptual framework used for the compilation of trade in services has changed with the publication by the International Monetary Fund (IMF) of the IMF Balance of Payments and International Investment Position Manual, Sixth Edition (BPM6), data for the earlier period are not directly comparable.

Figure 10
Merchandise exports and imports by main product group



Source: UNCTAD secretariat calculations, based on data from UNCTADstat database.

Considered in conjunction with the above discussion, the analysis of the trade specialization pattern in Bangladesh suggests that structural transformation has yet to translate into the meaningful diversification of exports beyond the notable exception of garments. By implication, many of the comparatively high value-added activities cater to the (relatively protected) domestic market, on which the public sector exerts a considerable influence through its involvement in services and utilities (Kathuria and Malouche, 2016a; Mercer-Blackman et al., 2017).

In terms of directions of trade, Bangladesh predominantly exports to developed markets (mainly the European Union, which accounts for over half of the total, but also Canada and the United States of America) and to a far lesser extent to China, India and countries in the Middle East. This pattern is partly driven by the fact that Bangladesh was effective in capitalizing on the existence of some LDC-specific preferential trade regimes such as the Everything but Arms (EBA) scheme of the European Union. Imports, however, are mainly sourced from Asia and in particular from China and India (which jointly supply nearly half of the merchandise imports of Bangladesh), with developed countries playing a more subdued role, typically in relation to the trading of capital goods.

Bangladesh is a party to the Asia-Pacific Trade Agreement (APTA)⁵ and the South Asian Association for Regional Cooperation (SAARC).⁶ Notwithstanding its membership in these two long-established trade blocs, regional integration by Bangladesh appears to be relatively shallow or at least somewhat uneven. The country continues to export only a low share of its merchandise to its regional partners, with only marginal increases in their weight (figure 11, panel A). In 2019, SAARC countries accounted for only 3.3 per cent of merchandise exports by

Bangladesh, while APTA countries absorbed roughly twice as much (6.1 per cent of the total). The significance of the broader market in Asia is slightly greater and has increased somewhat more visibly over time; nevertheless, it remains relatively circumscribed, with Asia only absorbing 16 per cent of merchandise exports from Bangladesh. It is worth noting that part of the exports to regional partners (notably to China and the Republic of Korea) are traded under duty-free, quota-free LDC-specific schemes, rather than under regional trade arrangements.

Conversely, the degree of regional trade integration appears to be higher on the import side and this applies to all of the regional blocs considered, without much variation over time. In recent years, Bangladesh has sourced some 17 per cent, 43 per cent and 75 per cent of its merchandise imports from SAFTA, APTA and Asia, respectively. In this context, only APTA partners were capable of boosting their market share, while the weight of the other groups has remained broadly constant since the turn of the century.

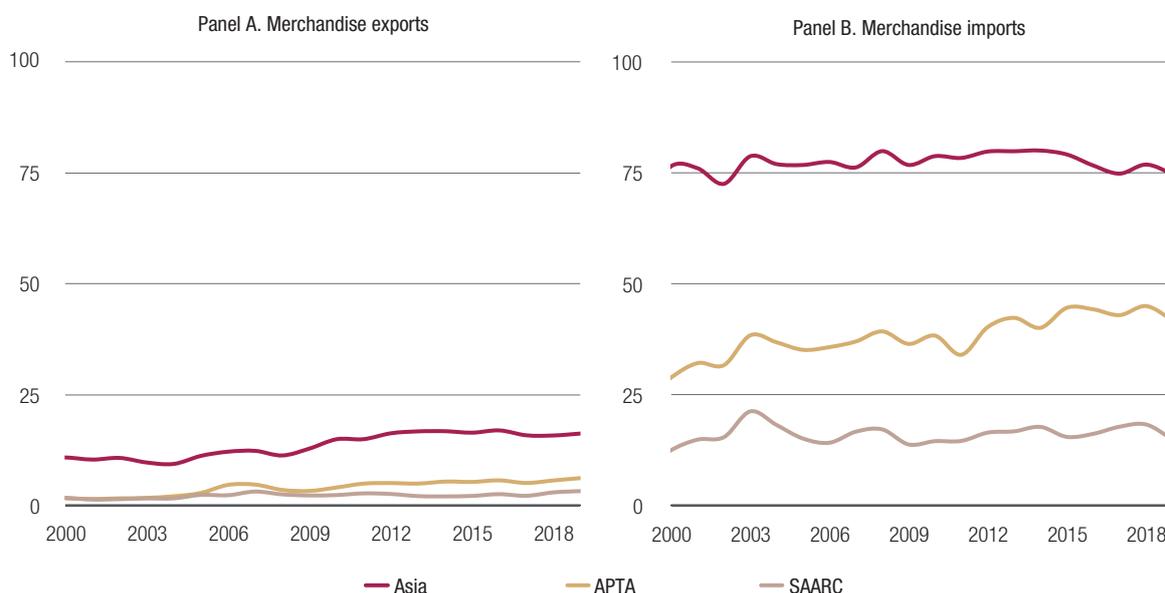
Interestingly, regional trade appears to be somewhat more diversified than trade by Bangladesh with the rest of the world, although the preponderance of textiles and clothing remains extremely pronounced (figure 12). In 2019, textile fibers, yarns, fabrics and clothing accounted for 70 per cent of exports from Bangladesh to Asia; 65 per cent, to APTA partners; and 58 per cent, to SAARC markets. The regional market appears to be an important destination for the export of food and agricultural raw materials, with Asia absorbing between 40 and 80 per cent of the corresponding exports. This suggests that closer regional integration may offer some opportunities to bolster these sectors. Conversely, Asia, and to a lesser extent the two regional trading blocs, represent a fundamental supplier of all kinds of imports, not only intermediates for the ready-made garments industry, but also fuels (in Asia), machinery and transport equipment (APTA) and food and agricultural raw material (SAARC). Overall, as discussed in more detail below, this pattern of trade is indicative of the fact that the regional arena plays a fundamental role in the supply of final goods, intermediates and, to a lesser extent, capital goods, thereby shaping backward value chain participation by Bangladesh. Conversely, export opportunities in regional markets remain largely untapped.

More broadly, heightened uncertainties, lingering trade issues and ongoing tensions between China

⁵ APTA is a preferential regional trade agreement signed in 1975 by Bangladesh, India, the Lao People's Democratic Republic, the Republic of Korea and Sri Lanka, as an initiative of the Economic and Social Commission for Asia and the Pacific (ESCAP). Formerly known as the Bangkok Agreement, it is the oldest preferential trade agreement between countries in Asia and the Pacific and aims to promote economic development through mutually beneficial trade liberalization measures. In addition to the original members, China acceded to APTA in 2001 and Mongolia in 2013 (and obtained full membership in 2020).

⁶ SAARC is the regional and economic organization of countries in South Asia, founded in Dhaka in 1985 and consisting of Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka. SAARC launched its trade agreement, the South Asian Free Trade Area (SAFTA), in 2006. Bangladesh, India and Sri Lanka are members of both APTA and SAARC.

Figure 11
Proportion of Bangladesh merchandise trade with regional partners
 (Percentage)



Source: UNCTAD secretariat calculations, based on data from UNCTADstat database.

Figure 12
Composition of merchandise trade with regional partners
 (2017-2019)



Source: UNCTAD secretariat calculations, based on data from UNCTADstat database.

and India could reverberate in the geopolitical dimensions of South Asia, leading to an evolving dynamic in the region. As noted by Rabiul Islam et al. (2018), with its strategic geopolitical location, size of population, markets and manufacturing progress, Bangladesh could take advantage of deeper regional integration and capitalize on its Look East policy. Participation in the belt and

road initiative promises to enhance connectivity along the Bangladesh, China, India and Myanmar economic corridor, thereby potentially unlocking opportunities for greater participation in regional value chains (Khatun, 2020). The Government has also contemplated the opportunities that regional cooperation among countries in South Asia could unlock, calling for reform, strengthened collaboration

and greater investment (Financial Express, 2020a). Capitalizing on these initiatives, however, will hinge on the cost-effective and sustainable implementation of related investment projects, as well as on forging a long-term strategy to leverage regional integration for structural transformation.

It also remains to be seen how the recent conclusion of the Regional Comprehensive Economic Partnership (RCEP), which does not include Bangladesh, will reshape regional value chains and whether it will entail some degree of trade diversion. At a time when LDC graduation might entail some losses of preferential market access for Bangladesh, some of its competitors will likely see their market access improved or at least maintained, in countries on the verge of LDC graduation, such as the Lao People's Democratic Republic and Myanmar. Considering the trade pattern of Bangladesh, however, direct first-round effects should be relatively circumscribed, as RCEP member countries barely represent some 10 per cent of the overall merchandise exports of Bangladesh. Nevertheless, more sizeable second-round impacts might occur in the long term, as the establishment of RCEP will gradually shape investment decisions and potentially standard-setting, for an area that supplies roughly half of the imports of Bangladesh. More broadly, this development signals how other graduating LDCs are leveraging regional integration as a way to mitigate the impact of losing LDC-specific preferential treatment. Policymakers in Bangladesh may consider fostering national debate on a similar long-term strategy, with the involvement of the private sector and business associations, as part of the country's smooth transition.

2.3 The impact of the pandemic on the economy of Bangladesh

According to WHO figures, as of 19 November 2020, Bangladesh had registered roughly 438,000 confirmed cases of COVID-19 and 6,000 deaths, broadly in line with the incidence of the disease in other countries in South Asia. Beyond the health emergency, the outbreak of the pandemic affected the economy of Bangladesh, abruptly interrupting a prolonged period of sustained growth. It also triggered a deep recession throughout most of the world's economies, including in India, the United States and the European Union.

Before the COVID-19 pandemic, economic growth in the fiscal year 2019/20 was projected to continue expanding at around 7.5 per cent, although slightly lower than the 8.2 per cent in 2018/19 (IMF, 2020c).

According to October 2020 projections from IMF, GDP in Bangladesh will increase by only 3.8 per cent in FY2019/20 due to the pandemic-related shock. The Asian Development Bank (ADB), on the other hand, projects a slightly higher growth of 5.2 per cent for Bangladesh, despite the contraction in the South Asia region (by 6.8 per cent) in 2020. The Bangladesh Bureau of Statistics (BBS) has also provided a provisional GDP growth estimate of 5.2 per cent for FY2019/20, a figure significantly higher than the projections by IMF (3.8 per cent) and the World Bank (1.6 per cent) in June 2020.

Regardless of the uncertainty surrounding the magnitude of the fallout from the pandemic, what is clear is that it will lead to a sizeable slowdown in the performance of the economy, with potential lingering effects over the medium term. As in the rest of the world, the pandemic has triggered multifaceted shocks, simultaneously affecting aggregate supply and aggregate demand, with potentially far-reaching ramifications both domestically and through the balance of payments. On the supply side, sudden stops in production activities, value chain disruptions, border closings and travel restrictions have taken a toll on the level of activity; meanwhile, reduced working hours, layoffs, confinements, depressed international trade and heightened uncertainties have dampened aggregate demand (Baldwin and Weder di Mauro, 2020a; UNCTAD, 2020a; UNCTAD, 2020b; UNCTAD, 2020c). In addition, the inevitable drop in economic activity is expected to lead to deteriorations in public revenues, as government expenditures are needed to cushion the socioeconomic costs of the downturn, and bankruptcies might spillover to the financial sector. If remittances inflows to Bangladesh appear to have been somewhat spared by this spiralling downturn (box 2), the shock is compounded by plummeting global demand, declining foreign direct investment (FDI) and most likely declining official development assistance (ODA) flows; all of which add further pressure to the balance of payments (Baldwin and Weder di Mauro, 2020a; Baldwin and Weder di Mauro, 2020b; UNCTAD, 2020a; UNCTAD, 2020b; UNCTAD, 2020d; UNCTAD, 2020e).

In this context, several studies have raised grave concerns about the challenges faced by enterprises and small businesses coping simultaneously with the effect of the global recession and the disruptions caused by lockdowns and related measures taken to respond to the health emergency (ITC, 2020; Reuters, 2020). Others have warned that, because of inadequate access to credit, in many developing countries, a protracted recession may threaten enterprise survival, causing permanent

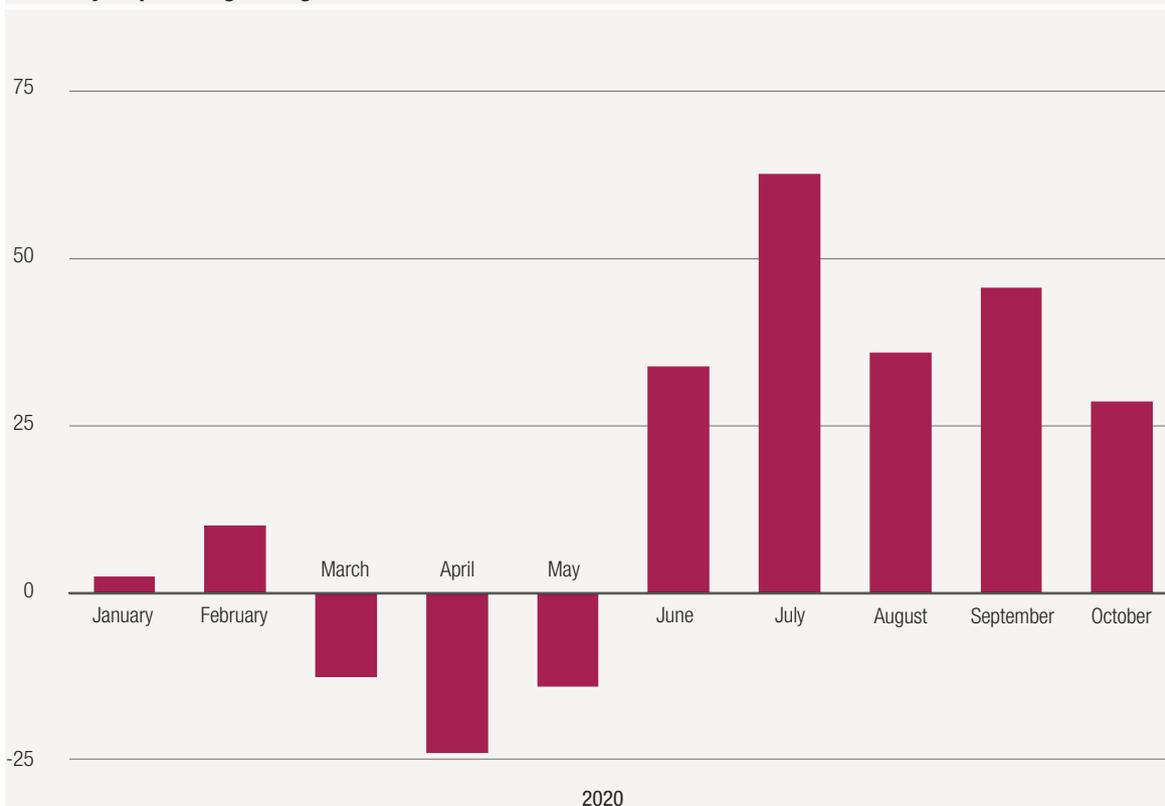
Box 2 Bangladesh: Short-term impact of the pandemic on remittances inflows

In the wake of the COVID-19 pandemic, experts have predicted generalized drops in worker remittances due, on the one hand, to the sharp decline in migrant incomes and, on the other hand, to the predictable fall in the stock of international migrants (). Social distancing, lockdowns, travel restrictions and other disruptions have led to significant losses worldwide in terms of working hours. Moreover, as migrants tend to have more precarious working conditions and be more exposed to infections, they are more likely to be laid off. All of this reduces their income. In addition, thousands of migrants who have lost their jobs have returned to their countries of origin or have been deported or left stranded.

Against this background, in its October 2020 update, the World Bank estimated that remittances inflows would decrease in 2020 in all regions of the world, with South Asia experiencing a 4 per cent decline compared with in 2019. The predictions of the Asian Development Bank are more pessimistic, with South Asia estimated to lose \$18.3 billion in 2020, equivalent to a fall in remittances of 15.8 per cent, in the baseline scenario.

Notwithstanding the generalized negative outlook, the World Bank predicts that remittances inflows to Bangladesh will display resilience, slowing down significantly but still expanding by 7 per cent compared with in 2019. Monthly data from the Central Bank of Bangladesh seem to confirm that, to date, remittances have held up much better than initially anticipated, although with a volatile trend (figure 13). The modest year-on-year increases in January and February 2020 gave way to sharp contractions in the next three months, followed by even greater expansions from June to October. Four factors appear to be plausible explanations for this trend:

- (a) The Haj effect, namely, the fact that migrants from Bangladesh unable to complete the pilgrimage to Mecca because of the pandemic remitted part of the money saved for this purpose;
- (b) The wish to help relatives affected by the floods that inundated more than one quarter of the country's landmass, affecting nearly 1 million homes and 4.7 million people;
- (c) The built-up remittances in the second quarter and a shift in flows from informal to formal channels, as travel restrictions reduced the money carried in person;

Figure 13**Year-on-year percentage change in remittances inflows**

Source: UNCTAD secretariat calculations, based on data from the Bangladesh Bank.

- (d) Government incentives to encourage more migrant workers to send money to Bangladesh;
- (e) The fact that migrants forced to leave their country of destination brought their savings with them.

If the situation in 2020 seemed reasonably encouraging, the medium-term future remains far more uncertain, since a V-shaped rebound in remittances flows is increasingly unlikely. Remittances outflows from the United Kingdom of Great Britain and Northern Ireland, the United States, the European Union and many countries in the Persian Gulf are not expected to bounce back soon, because the pandemic will likely persist through 2021. In addition, the stock of international migrants has significantly contracted, with over 1 million international migrants returning to Bangladesh, in particular from member countries of the GCC, and outward migration substantially lower than in previous years. As a consequence, the adverse effects of the pandemic may linger and affect the migration and remittances outlook for a protracted period of time.

Sources: ILO, 2020; IMF, 2020a; Takenaka et al., 2020; UNCTAD, 2020b; World Bank, 2020.

job destruction, with related losses in terms of tacit knowledge and productive capabilities, and possible long-term effects on potential output (Bosio et al., 2020). Considering the features of the entrepreneurship landscape in Bangladesh, characterized by the significant prevalence of relatively small establishments and informal self-employed individuals operating “me-too businesses” (UNCTAD, 2018a),⁷ these concerns cannot be taken lightly despite the relatively encouraging growth projections.

Against this background, the contraction of employment opportunities, in particular for youth, is likely to take a toll on the living standards of urban and peri-urban dwellers, large numbers of whom are informal workers or self-employed. According to a joint study conducted by ILO and the Asian Development Bank (ADB) in 2020, the youth unemployment rate in Bangladesh could rise twofold, to 24.8 per cent in 2020 from 11.9 per cent in 2019 (ILO and ADB, 2020). Similarly, several studies have underscored the dramatic impact the downturn could have on global poverty and food insecurity, in particular if the pandemic disrupts agricultural activities (Gerszon Mahler et al., 2020; Laborde et al., 2020; Sumner, Hoy et al., 2020; Sumner, Ortiz-Juarez et al., 2020; United Nations, 2020a and 2020b; Valensisi, 2020a; Vos et al., 2020).

While the situation is still unfolding and it is too early to have a full picture, the emerging evidence suggests that Bangladesh may weather the storm better than many other countries, including its neighbours in South Asia, recording a modest but still positive rate of GDP growth in 2020. Some of the factors contributing to this relatively benign outcome include the following:

- (a) Despite the inevitable disruptions, the agricultural sector has weathered the downturn reasonably well, due also to the timely support measures adopted by the Government and to some innovative business practices in peri-urban areas in which the impacts of lockdowns were more pronounced (Bangladesh Bank, 2020; Mostafa, 2020). This has ensured the viability of food supply chains while supporting the livelihoods of rural communities (which tend to be poorer and therefore the most vulnerable).
- (b) A number of producers in Bangladesh have displayed resourcefulness and adaptability in repurposing plants and/or adapting business practices to enhance their resilience to the crisis. Examples include the 33 textile and clothing companies that, according to the Bangladesh Garment Manufacturers and Exporters Association (BGMEA), exported personal protective equipment (PPE), including face masks, medical gowns and gloves worth \$11.5 million in the July–May period (Textile Today, 2020). Similarly, innovative businesses that were able to adapt to the evolving situation have seen significant expansions, including digital and e-commerce businesses (Humayan Kabir, 2020; Mostafa, 2020).
- (c) Amid the slump in other kinds of external financial flows, remittances – a key source of foreign exchange for Bangladesh – have displayed considerable resilience and are set to expand compared with in 2019, despite the crisis (box 2). In addition, multilateral donors and international financial institutions have provided some concessional financing to help

⁷ This expression refers to activities with limited entry barriers and low margins that people typically pursue by imitation.

cope with the crisis.⁸ Although such resources alone are insufficient to foster a sustained and inclusive recovery, in Bangladesh as in other developing countries (UNCTAD, 2020b; UNCTAD, 2020c), they have nevertheless provided some support to both the balance of payments and public coffers, enabling the Government to address the crisis.

- (d) The Government of Bangladesh and the Bangladesh Bank undertook a range of coordinated fiscal, monetary and macroprudential policy stimulus packages to ease credit availability, minimize the negative impacts of the pandemic and foster a rapid recovery (Bangladesh Bank, 2020). Examples of these measures include the creation of a fund to pay the wages of salaried workers in export-oriented firms during the lockdown, the establishment of several loan facilities for firms and of safety net programmes for vulnerable categories and, in relation to monetary policy, the reduction of reserve requirements and interest rates (Bangladesh Bank, 2020). Despite limited fiscal space, these multipronged countercyclical interventions contributed to reducing the impact of the crisis, notwithstanding some concerns about the extent to which related measures effectively managed to protect employment and reach the most vulnerable (Towfiqul, 2020).

3. Progress against the least developed country criteria

Having outlined the broader transformational context in which the graduation from the LDC category takes place, this section assesses more specifically the performance of Bangladesh under the three criteria for LDC graduation (and inclusion), namely, the per capita income criterion, the human assets index (HAI) and the economic and environmental vulnerability index (EVI). A detailed discussion of the mechanics of graduation and of the methodology to compute the criteria is beyond the scope of this report; interested readers can refer to UNCTAD (2016a), CDP and DESA (2018) and CDP (2020). By way of introduction, it suffices to note that following

8 The IMF, for example, has approved the disbursement of funds under the Rapid Credit Facility and Rapid Financing Instrument. Similarly, the World Bank has disbursed some emergency support under its COVID-19 Fast Track Facility.

the outcome of the comprehensive review of the LDC criteria by the Committee for Development Policy, the structures of HAI and EVI have been simplified compared with earlier versions of the criteria (CDP, 2020). The structure of the LDC criteria applicable in the 2021 triennial review is summarized in figure 14.

Beyond the determination of LDC status, from a domestic policymaking perspective, the indicators underlying the LDC criteria can also be useful in assessing a country's sustainable development progress. Broadly speaking, the criteria are related to the five Ps of the 2030 Agenda for Sustainable Development: people, planet, prosperity, peace and partnership. Many of the dimensions captured under the per capita income criterion and EVI relate to the notion of shared prosperity; HAI has a clear focus on people and on related social development outcomes; and EVI also captures key elements related to the planet. By helping to identify countries with structural vulnerabilities, these criteria jointly lay the foundation for meaningful international support, thereby contributing to the realization of a more effective multilateral partnership for sustainable development.

3.1 Per capita income criterion

Bangladesh has reported a consistently improving performance against the per capita income criterion, on the back of robust macroeconomic fundamentals and strong growth in exports and remittances (figure 15).⁹ The distance of Bangladesh from the graduation threshold was more than 50 per cent until 2009, but thanks to sustained economic dynamism, the country exceeded the graduation threshold for the first time in 2018 (with a performance of 104 per cent of the graduation threshold). The provisional projection in figure 15 (dashed purple line) shows that in 2021, Bangladesh will be at 142 per cent of the applicable graduation threshold.¹⁰ This suggests that Bangladesh is likely to fulfil the graduation criteria in terms of per capita income at the next triennial review in 2021.

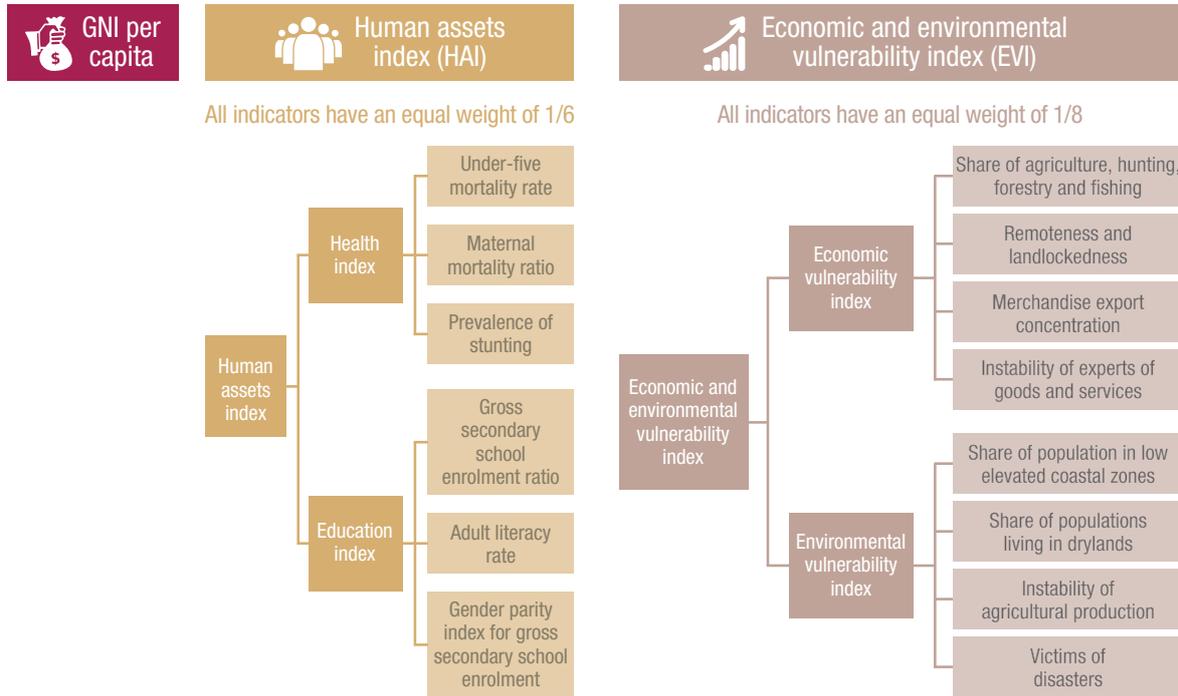
The dynamic of the underlying indicator, that is, GNI per capita (Atlas method), is even more indicative of advancements in Bangladesh, considering that the graduation threshold has been raised over time. Before 1990, the country had a GNI per capita

9 In determining the income per capita criterion (Atlas method, current dollars), the three-year average of GNI per capita is considered. However, before 2003, instead of GNI per capita, GDP per capita was used as the identifying indicator of per capita income.

10 Forecasted value is generated using the three-year average of GNI per capita between 2017 and 2019. It therefore does not take into account the impact of COVID-19.

Figure 14

Structure of the criteria for identification and graduation of the least developed country after the comprehensive review



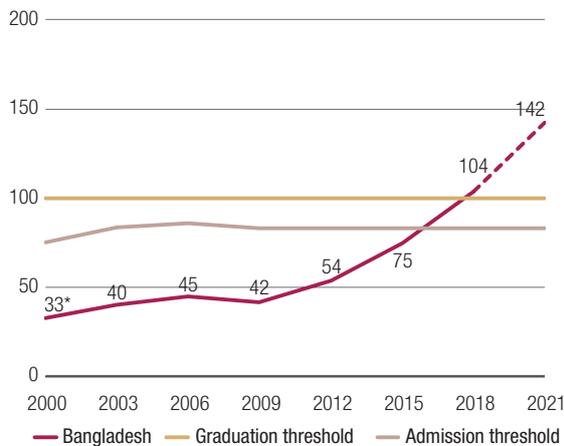
Source: CDP (2020: 2).

of less than \$320. Trade liberalization policies in 1990 opened up some opportunities for economic expansion and fostered overall development (Raihan, 2008; Williamson, 1999). Yet it was after

2002 in particular that GNI per capita recorded a sharp acceleration, when sustained growth enabled the country to rise from a GNI per capita of \$440 in 2004 to \$1,940 in 2019 (figure 16).¹¹

Figure 15

Bangladesh's distance from the graduation threshold under the per capita income criterion



Source: UNCTAD calculation based on CDP data (2020).

Note: The distance from graduation threshold is computed as the ratio between Bangladesh own score and the threshold applicable in the same triennial review; hence the graduation threshold is rescaled to 100 even though the underlying score has been updated over time.

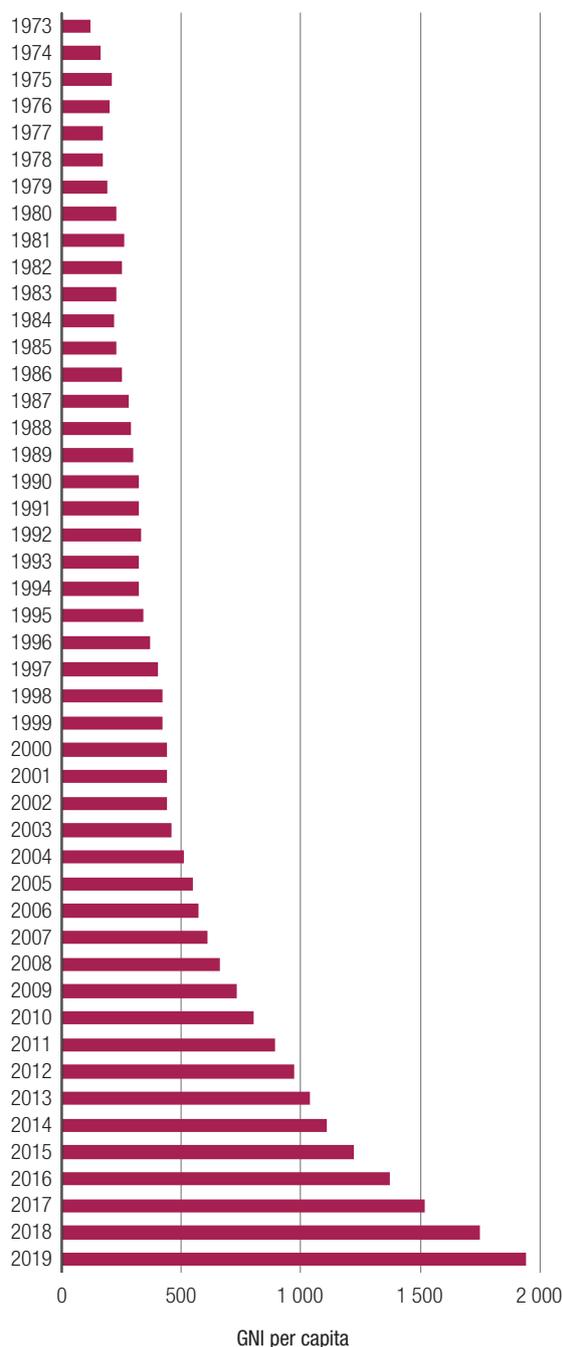
Beyond national averages, income distribution has become a source of concern in both developed and developing countries. In Bangladesh, long-term trends show a worsening of inequality, with the Gini index increasing from 25.9 in 1983 to 32.4 in 2016; yet the situation appears to have levelled off and the Gini index remains relatively low by international standards, even within the region of South Asia. The Gini coefficient has slightly fallen from its peak in the early 2000s (figure 17).¹² This demonstrates that the growth pattern in more recent years has become somewhat more inclusive, with rural development and employment creation in services and manufacturing generating some “trickle down”.

Nevertheless, the analysis of the whole national income distribution reveals an increasing concentration of income towards the wealthiest, with over 40 per cent

11 Bangladesh crossed the World Bank threshold for lower middle-income country status in July 2015.

12 It is worth noting that the overall inequality scenario might be worse than as depicted in the figures due to the well-known risk of underreporting among wealthier segments of the population.

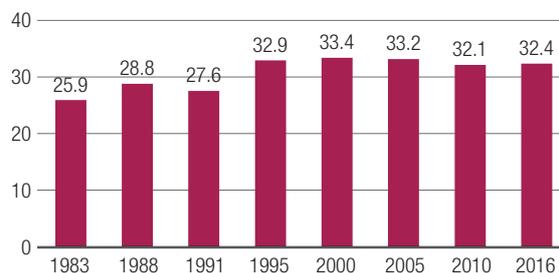
Figure 16
Gross National Income per capita
 (Atlas method, current dollars)



Source: UNCTAD secretariat calculations, based on data from World Development Indicator database.

of income accruing to the richest 20 per cent of the population, according to world development indicators data. Moreover, the gap between the rich and the poor has been increasing. In 2015–2016, the income share held by the richest 5 per cent was 121 times the income share held by the poorest 5 per cent (figure 18). More rapid income growth at the top of the distribution has

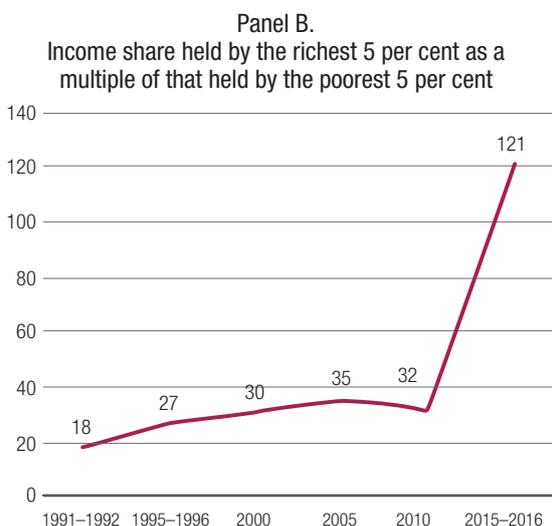
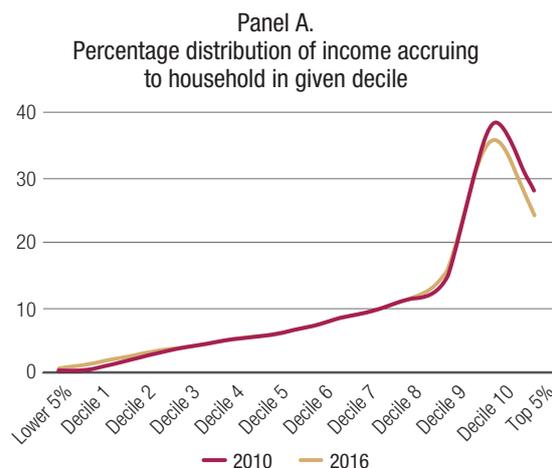
Figure 17
Bangladesh Gini index
 (1983–2016)



Source: UNCTAD secretariat calculations, based on data from World Development Indicator database.

recently contributed to an increasing income share for the top quintile; the share of the income of the richest 5 per cent increased from 18.85 per cent in 1991 to 27.89 per cent in 2016 (CPD, 2018).

Figure 18
Trends in income distribution

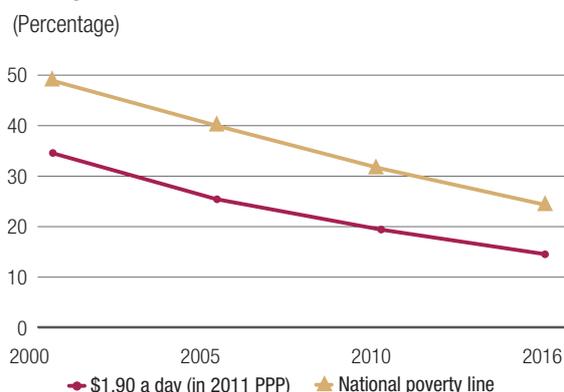


Source: UNCTAD secretariat calculations, based on data from BBS (2011, 2017) and CPD (2018).

The comparison of inequality in income, consumption and wealth sheds further light on the underlying dynamics. Across all three dimensions, greater inequality can be observed in urban areas compared with in rural areas (figure 19), consistent with the idea that structural change (meaning the shifting sectoral composition of outputs and employment) is an important driver of inequality, as postulated in the inverted-U hypothesis of Kuznets. In addition, as expected, wealth inequality is significantly greater than income inequality, with consumption being more equally distributed. Although consumption inequality remained broadly stable between 2010 and 2016, income and wealth inequality increased slightly, along with the increase in per capita national income.

Notwithstanding the above, the economic boom, in combination with lower levels of population growth, has supported significant progress in terms of poverty reduction. Bangladesh halved poverty rates between 2000 and 2016 (from 48.9 per cent to 24.3 per cent), lifting more than 25 million people out of poverty as measured against the national poverty line (figure 20). Poverty incidence, according to the international poverty line of \$1.90 purchasing power parity per day (i.e. extreme poverty), shows a parallel sustained decline. Increases in labour

Figure 20
Poverty headcount ratio

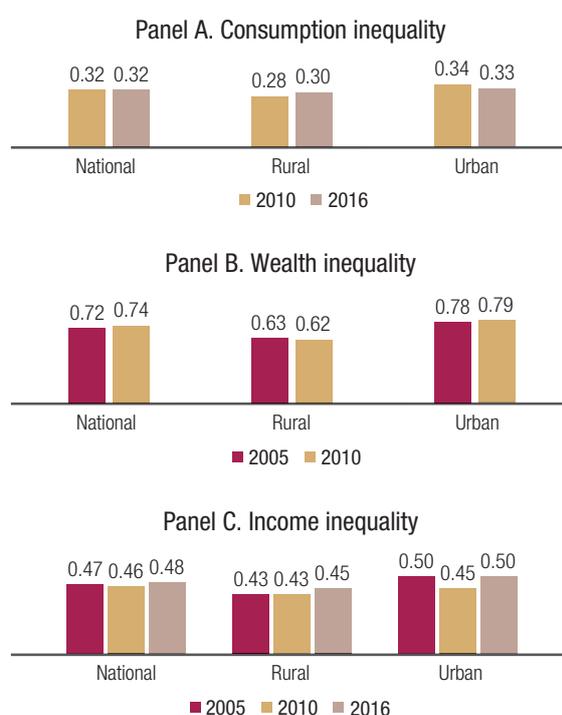


Source: UNCTAD Secretariat calculations based on World Bank (2019).

income, agricultural productivity, female labour force participation and remittances transfers contributed to poverty reduction. About 90 per cent of poverty reduction from 2010 to 2016 took place in rural areas, while the rate of poverty reduction was lower in urban areas (World Bank, 2019).

The COVID-19 crisis presents, however, a new set of challenges for poverty reduction in Bangladesh, not least because of the difficulty in ensuring that the most vulnerable segments of the population benefit from pandemic-related stimulus packages (Towfiqul, 2020). Notwithstanding the fact that GDP growth is expected to remain positive in 2020, concerns have been voiced about the risks of increased poverty due to the COVID-19 shock. For example, a study by the Bangladesh Institute of Development Studies (BIDS) estimated that the country might have 16.4 million new poor in 2020, while other unofficial estimates place the number of pandemic-induced new poor at between 16 million and 42 million people (*Financial Express*, 2020b; United Nations, 2020a).

Figure 19
Gini coefficient for consumption, wealth and income

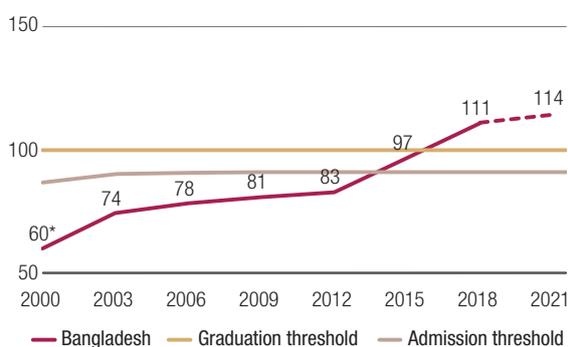


Source: UNCTAD secretariat calculations, based on data from Bhattacharya (2018).

3.2 Human assets criterion

Steady progress has also been observed in Bangladesh against the human assets criterion (figure 21). In 2003, the human assets index (HAI) was 26 per cent less than the graduation threshold. With notable improvement in all human capital indicators, Bangladesh, for the first time, exceeded the graduation threshold at the 2018 triennial review (with a score of 111 per cent of the graduation

Figure 21

Distance from the graduation threshold under the human asset criterion

Source: LDC Triennial Review Data, 2020.

Note: The distance from graduation threshold is computed as the ratio between Bangladesh own HAI and the threshold applicable in the same triennial review; hence, the graduation threshold is rescaled to 100 even though the underlying score and the very composition of HAI have varied over time.

* Value based on APQLI.¹³

threshold).¹⁴ Moreover, the country is provisionally estimated to stand at 114 per cent of the graduation threshold in 2021, as depicted in figure 21 (dashed purple line).

The key indicators underpinning the evolution of HAI are further discussed in this section and include the prevalence of stunting, child (under five) mortality rate, maternal mortality ratio, gross secondary school enrolment ratio, adult literacy rate and gender parity index for gross secondary school enrolment.

3.2.1 Prevalence of stunting

Bangladesh has made considerable progress in improving food security among the population, although several reasons for concern persist. Agricultural development, coupled with public and private investments aimed at strengthening transport and market infrastructure, have enhanced the country's food supply and its capacity to ensure the greater affordability of healthy diets. For example, the Coastal Climate-Resilient Infrastructure Project (CCRIP) improved the food security and

nutrition outcomes of targeted beneficiaries in rural coastal districts of Bangladesh by improving rural connectivity in a sustainable and climate-proof manner (IFAD, 2019).

According to the IFPRI global hunger index (GHI) in 2020, Bangladesh ranked at 75 among 107 countries, ahead of most of its neighbours in South Asia but behind Sri Lanka (ranked at 64) and Nepal (73), the only countries in the region at the moderate severity level.¹⁵ In Bangladesh, averaging over the 2016–2018 period, around one in every seven people, or 13.5 per cent of the population, experienced undernourishment or insufficient caloric intake (figure 22). The ratio was 15.4 per cent in 2001–2003, suggesting a steady but relatively sluggish improvement. However, the country reduced the number of severely food-insecure people from 20.7 million in 2014–2016 to 17.2 million in 2017–2019 (FAO et al., 2020).

Malnutrition in children and adolescents constitutes a significant challenge in building a healthy and economically productive population. Malnutrition refers to both undernutrition (i.e. deficiency in micronutrients and protein-energy malnutrition) and overnutrition. Undernutrition continues to be a serious persistent public health problem in the country. The prevalence of overweight and obesity among children under five and women has been increasing, particularly in urban areas (Ahmed et al., 2012). Bangladesh has made great strides in reducing chronic malnutrition, with the prevalence of stunting dropping from 70 per cent in the early 1990s to 30 per cent in 2019 (figure 23). Similar progress is also confirmed in the recent multiple-indicator cluster survey conducted by the Bangladesh Bureau of Statistics (BBS) and UNICEF, which found a sharp decline in chronic malnutrition as measured by stunting levels, which fell from 42 per cent in 2013 to 28 per cent in 2019 (UNICEF 2020a).

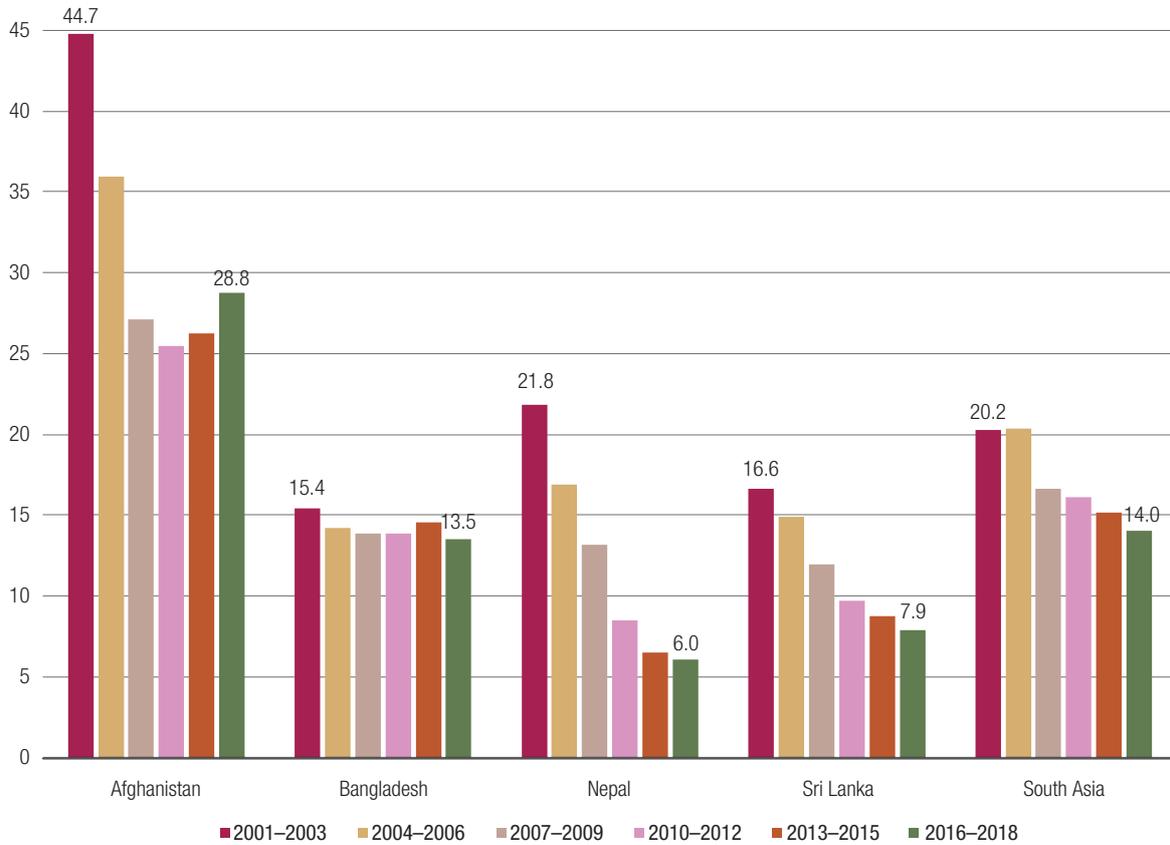
Despite the progress recorded, the above figures suggest that there is no room for complacency. The key factors that contribute to stunting in the country are poor infant and young child feeding practices, poor nutrition among women before and during pregnancy and poor sanitation practices. Stunting is concentrated among children from households facing multiple forms of deprivation, including poor dietary diversity, low levels of maternal education

13 In the 2000 triennial review, the augmented physical quality of life index (APQLI) was used instead of HAI. APQLI is calculated at 25 per cent each of the figures for caloric intake as a percentage of requirement, under-five mortality rate, literacy rate and combined primary and secondary school enrolment ratio).

14 Prior to the recent changes in its structure (figure 14), HAI was composed of five indicators: three on health and nutrition (with an equal weight of 1/6) and two on education (with an equal weight of 1/4).

15 The GHI score of countries is based on four components: undernourishment, child wasting, child stunting and child mortality. The scores for 2020 do not reflect the impact of the pandemic on hunger and undernutrition.

Figure 22
Prevalence of undernourishment in total population
 (Percentage)

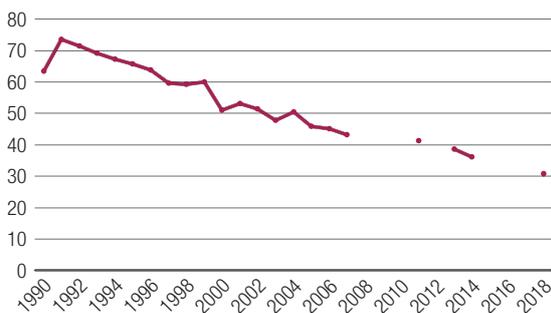


Source: UNCTAD secretariat calculations, based on data from World Development Indicator database.

and household poverty (Krishna et al., 2018). The COVID-19 pandemic poses additional risks to the nutritional status and survival of young children in low-income and middle-income countries (LMICs) and Bangladesh is no exception. The pandemic is likely to increase stunting, micronutrient deficiencies

and other forms of malnutrition in women and children as a result of poorer diets and the disruption of nutrition services. It is essential that the Government attend to the overlapping issues of malnutrition, food security and the pandemic (UNICEF 2020b).

Figure 23
Prevalence of stunting, height for age
 (Percentage of children under 5)

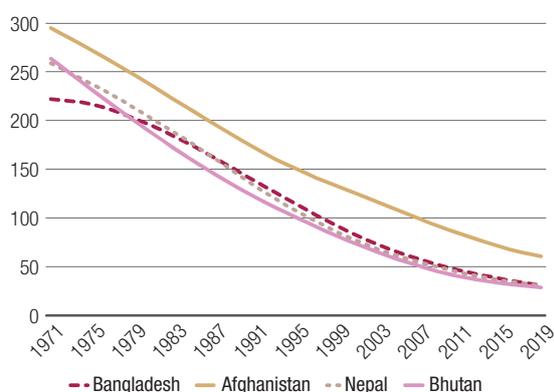


Source: UNCTAD secretariat calculations, based on data from UNICEF, WHO, World Bank: Joint child malnutrition database.

3.2.2 Child mortality rate and maternal mortality ratio

Bangladesh has also achieved significant success in terms of child mortality (figure 24). The under-five mortality rate in the country fell to 31 deaths per 1,000 live births in 2019, from 222 in 1971, 138 in 1991, 82 in 2001 and 46 in 2011, similar to other LDCs in the region, namely Afghanistan, Bhutan and Nepal. Over these decades, extensive changes have occurred in health policy related to maternal health and newborn care, with an emphasis on the integration of delivery of services and interventions targeted at underserved populations, which could partially explain the reduced child mortality rate (Ministry of Health and Family Welfare, Bangladesh, 2015). Declines in mortality can be also explained

Figure 24
Child mortality rate, under-5
 (Per 1 000 live births)



Source: UNCTAD secretariat calculations, based on data from World Development Indicator database.

through improvements in socioeconomic conditions and greater coverage of effective interventions to prevent or treat the most important causes of child mortality (e.g. through greater numbers of births in a health facility, higher skilled birth attendance, antenatal care visits, programmes to ensure a high coverage of vaccine for preventable diseases and implementation of integrated management of childhood illnesses, among others).¹⁶ Moreover, Bangladesh has seen reduced disparities in under-five mortality between urban and rural areas and across different regions of the country (Khan and Awan, 2017).

Among the factors explaining the reduction in infant mortality in Bangladesh, Sadek (2016) found that the following were significant drivers: parental education, infant sex, vitamin A supplementation received, household toilet facility, number of antenatal visits, type of person giving care to mother before birth, birth order, tetanus injection before and after pregnancy, birth type and type of person giving care to mother and infant after birth. Similarly, according to Hossain et al. (2018), successful programmes for immunization, control of diarrhoeal disease and vitamin A supplementation were the most significant contributors to the decline in child and infant deaths in the country. Save the Children (2019) showed that women's education and empowerment in Bangladesh were the most crucial factors contributing to the progress in the

16 Khan and Awan (2017) found that the combined effects of a mother's working status and parental education were significant factors associated with the risk of child mortality in Bangladesh.

reduction of child mortality in the country. The report lauded the effort of the Government of Bangladesh in setting up community clinics and digitalization of the primary health-care system, which are key to children's health outcomes.¹⁷

The maternal mortality ratio (MMR) in Bangladesh has decreased significantly over the years, although it remains higher than in developed countries (Ministry of Health and Family Welfare, Bangladesh, 2015). Between 1990 and 2017, the maternal mortality ratio in Bangladesh decreased from 574 (per 100,000 live births) to 173 (per 100,000 live births), a 70 per cent decrease in three decades. In 2017, Bangladesh had the lowest maternal mortality ratio among LDCs in South Asia, with Afghanistan recording a value of 638, Bhutan of 183 and Nepal of 186 (all values per 100,000 live births) (figure 25).¹⁸

The decline can be explained by a reduced total fertility rate¹⁹ (from five births per woman in 1990 to two births, in 2017) through effective family planning programmes and increased skilled delivery attendance (from 5 per cent in 1991 to 50 per cent in 2016). The reduction in maternal mortality is also attributed to improved access to and utilization of maternal care services (such as the maternal health voucher scheme and emergency obstetrical care services, etc.), emphasis on women's education and empowerment and per capita income. Bangladesh has been a pioneer in areas such as the education of girls, employment of women and provision of microcredit programmes; the female secondary school stipend project supporting the expansion of female secondary schooling is one example (Ministry of Health and Family Welfare, Bangladesh, 2015).

Several factors beyond the health sector have also supported improvements in maternal and child health. The Government's policy of making primary

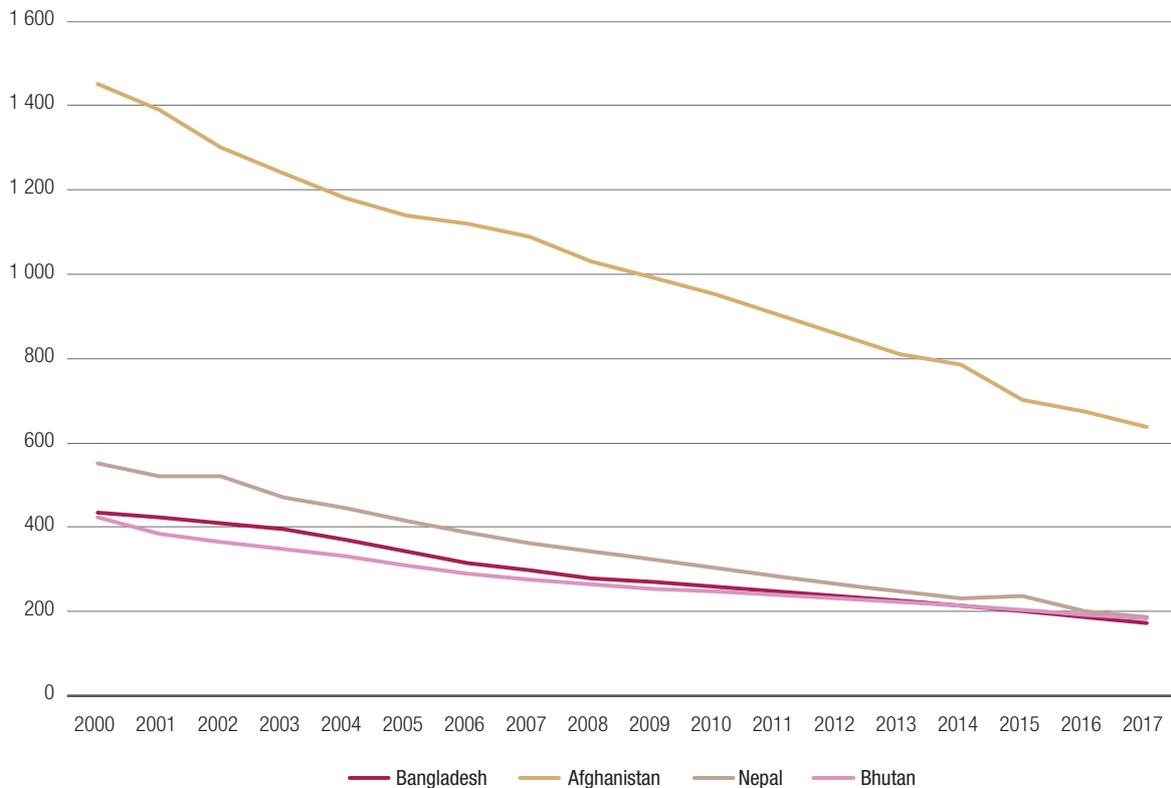
17 This initiative helped Bangladesh win the "digital health for digital development" award from the United Nations in 2011 as a recognition of contribution to the use of information and communications technology (ICT) for health and nutrition.

18 Maternal mortality ratio is the number of women who die from pregnancy-related causes while pregnant or within 42 days of pregnancy termination per 100,000 live births. The data are estimated with a regression model using information on the proportion of maternal deaths among non-AIDS deaths in women ages 15 to 49, fertility, birth attendants and GDP measured using purchasing power parity (PPP).

19 Fertility reductions have contributed substantially to the lowering of the maternal mortality ratio by lowering the number of high risk, high parity births.

Figure 25
Maternal Mortality Ratio

(Modelled estimate, per 100 000 live births)



Source: UNCTAD secretariat calculations, based on data from World Development Indicator database.

education free of cost and compulsory for all²⁰ contributed to the increase in both male and female primary school enrolment and the adult literacy rate (for both males and females). The adult female literacy rate in Bangladesh increased from 25.8 per cent in 1991 to 72 per cent in 2019, supporting improvements in maternal and child health. A summary of factors influencing both maternal and child mortality is displayed in table 1.

3.2.3 Gross secondary school enrolment ratio

The gross secondary school enrolment ratio in Bangladesh has increased significantly over the last decades, although in a volatile manner (figure 26). Secondary enrolment remains, however, relatively low (72.6 per cent in 2019), particularly when

compared with other LDCs in South Asia, such as Bhutan (90 per cent in 2018) and Nepal (80.2 per cent in 2019).²¹

The main issue for policymakers in Bangladesh has been to increase access to education while ensuring good quality education and boosting educational attainment. Two of the most notable recent developments in this respect are the near universalization of basic schooling and the closing of the gender gap in school enrolment.

Notwithstanding significant progress, school dropouts represent a major challenge in Bangladesh and other developing countries. The country reduced its primary school dropout rate from 40 per cent in 2010 to 19 per cent in 2018. Challenges are more

²⁰ Primary education is provided free of charge at public schools and open to all children from the age of six. To further increase participation and improve learning outcomes, in 2010, the Government introduced one year of compulsory preschool education and extended the length of compulsory education from grade five to grade eight.

²¹ Gross enrolment ratio is the ratio of total enrolment, regardless of age, to the population of the age group that officially corresponds to the level of education shown. Secondary education completes the provision of basic education that begins at the primary level and aims to lay the foundation for lifelong learning and human development by offering more subject- or skill-oriented instruction with more specialized teachers.

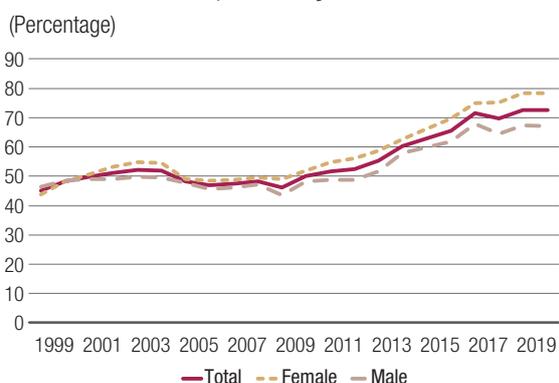
Table 1

Factors influencing mortality declines

	Factors influencing child mortality declines	Factors influencing maternal mortality declines
Improved coverage of effective interventions to prevent or treat the most important causes of maternal and childhood deaths	<ul style="list-style-type: none"> • Improved vaccination coverage: Full vaccination of children 12-23 months increased from 60 per cent in 2000 to 84 per cent in 2014 • Improved management of diarrhoea: Children with diarrhoea receiving ORT (ORS or RHF) increased from 74 per cent in 2000 to 84 per cent in 2014 • Improved care-seeking for and management of pneumonia in under-fives: Care-seeking for symptoms of ARI increased from 28 per cent in 2000 to 42 per cent in 2014 • Antibiotic use: In 2014, 34 per cent of children under five with symptoms of ARI received antibiotics • Vitamin A supplementation: Increased from 49 per cent in 1994 to 62 per cent in 2014 • Improved nutrition: Rate of underweight children decreased from 43 per cent in 2004 to 33 per cent in 2014 <p>Newborn care interventions:</p> <ul style="list-style-type: none"> • Improved breastfeeding practices: Exclusive + within one hour of delivery increased from 9 per cent in 1994 to 17 per cent in 2000 and 57 per cent in 2014 • Increase in coverage of ENC between 2007 and 2014: Dried within five minutes: 6 to 67 per cent; bathed 72 hours or more after birth: 17 to 34 per cent; nothing on the stump or chlorhexidine if indicated: 56 to 48 per cent • Neonatal tetanus: Mothers protected during last birth rose from 66 per cent in 1994 to 90 per cent in 2011 	<ul style="list-style-type: none"> • Family planning programme: Increased contraceptive prevalence and fertility decline (CPR: 40 per cent in 1990 to 62 per cent in 2014; TFR: 5 births per woman in 1990 to 2.3 in 2014) • Increased availability, utilisation and access to maternal health interventions: <ul style="list-style-type: none"> - CEmOC services: Treatment from health facility for maternal complications, 16 per cent in 2001 to 29 per cent in 2010 - Caesarean-sections: 2 per cent in 2000 to 23 per cent in 2014 - Abortion-related maternal deaths: Five per cent in 2001 to 1 per cent in 2010 - Use of MMR: Five per cent in 2000 to 9 per cent in 2011 - Facility delivery: Eight per cent in 2000 to 37 per cent in 2014 - Skilled birth attendance: Twelve per cent in 2000 to 42 per cent in 2014 - 4+ ANC: Eleven per cent in 2000 to 31 per cent in 2014 • PNC within two days of delivery: <ul style="list-style-type: none"> - Mothers: Sixteen per cent in 2004 to 34 per cent in 2014 - Newborns: Thirteen per cent in 2004 to 32 per cent in 2014
Economic, environmental and educational improvements		<ul style="list-style-type: none"> • Female education (literacy among girls 15–24 years old): Increased from 38 per cent in 1991 to 80 per cent in 2011 • Female participation in parliament: Increased from 12 per cent in 1991 to 20 per cent in 2010 • Poverty reduction: From 57 per cent in 1991/92 to 32 per cent in 2010 • Proportion of population below national poverty line: Decreased from 70 per cent in 1992 to 43 per cent in 2010 • Improved communications networks (roads and information and communications technology) • Access to clean water (from 76 per cent in 1990 to 83 per cent in 2011) and improved sanitation (from 38 per cent in 1990 to 55 per cent in 2011) • Growth of private sector • NGO interventions

Source: Adapted from (Ministry of Health and Family Welfare, Bangladesh, 2015).

Figure 26
Gross enrolment ratio, secondary



Source: UNCTAD secretariat calculations, based on data from UNESCO (2020).

pronounced in secondary school, where dropout rates declined from 61 per cent in 2008 to 37 per cent in 2018.²² While the dropout rate is higher for boys than for girls in primary education (21.4 per cent compared with 15.7 per cent), the situation is reversed in secondary education, where dropout is more prevalent among girls (28.4 per cent compared to 36 per cent). Poverty, child marriage, social insecurity, distance to an educational institution (particularly in rural areas) and cultural norms are the major reasons for secondary school dropout rates. To ease financial barriers to school enrolment, the Government capped tuition fee increases at private

22 Unless otherwise specified, all data in this paragraph are drawn from UNICEF, 2019.

schools in 2016 and provides stipends and tuition subsidies, mostly to girls in rural regions. Over the years, the Government has built thousands of schools, notably in remote rural areas, providing considerable investment in improving access to education; the number of schools rose from roughly 15,000 in 2000 to more than 20,000 in 2015 (BANBEIS, 2016).

Awareness is a crucial factor in increasing school enrolment in developing countries. Accordingly, awareness-raising initiatives by the Government and non-governmental organizations (NGOs) have helped to increase the number of students in secondary education, although more needs to be done. The education budget has been relatively low in Bangladesh and is one of the lowest in South Asia. Therefore, ensuring sufficient financing in the education sector remains a key priority, as is the strengthening of vocational training schemes. While the total amount of government funds allocated to the sector has increased over the past years, as GDP and revenues have grown, spending on education decreased as a percentage of total government spending, from 14 per cent in financial year 2000 to 11.7 per cent in financial year 2020. The allocation to the education sector for financial year 2021 remains almost unchanged in terms of size and percentage of GDP compared with the budget in financial year 2020, despite the negative implications of the pandemic on the sector. Sufficient budgetary allocations are essential for the effective implementation of policies and measures in the context of the pandemic.

3.2.4 Adult literacy rate

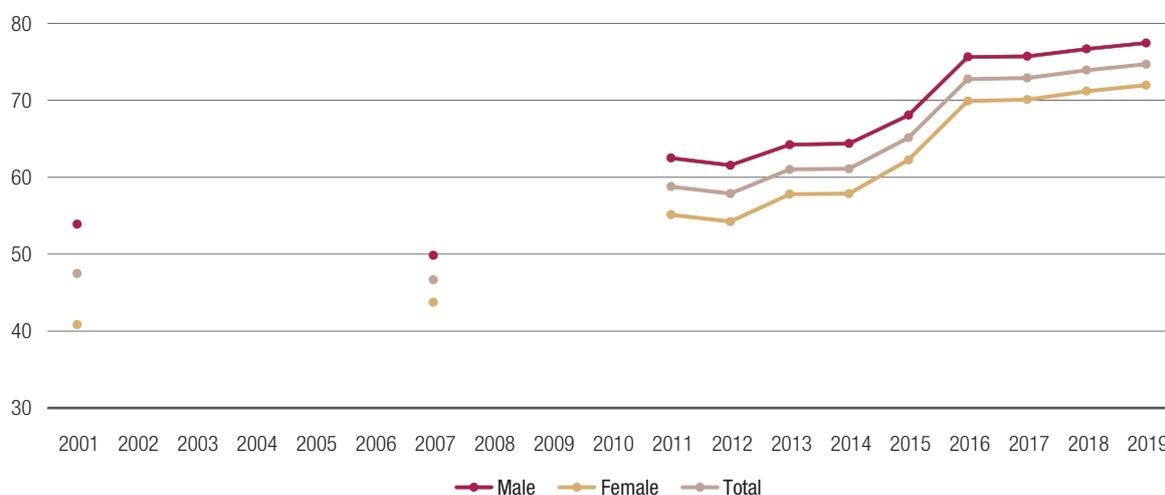
The literacy rate in Bangladesh has risen over the past decades, to 74.7 per cent in 2019, despite some levelling off in recent years (figure 27). The figure shows an increase of about 26 percentage points from 2007, when the literacy rate was at 48.6 per cent. Over the same period, the literacy rate for females rose from 43.74 to 72 per cent and for males, from 49.8 to 77.4 per cent. Compared with in the other three LDCs in the region, namely, Afghanistan, Bhutan and Nepal, the adult literacy rate was higher in Bangladesh, yet the country remains behind in achieving universal literacy.

Over the years, the Government of Bangladesh has shown commitment to education, as demonstrated through important progress in the sector (e.g. universal enrolment in primary education, achieving gender parity in primary and secondary school access). This focus on adequate education and human capital bodes well for supporting the modernization of the economy and tapping the demographic dividend. Along with the Government, a significant number of NGOs has played a key role in increasing the number of literate people in the country, with NGO activities revolving around multilevel educational streams (figure 28).

3.2.5 Gender parity index for gross secondary school enrolment

In the past, one of the challenges in the education system in Bangladesh was the persistently low enrolment and school attainment among girls

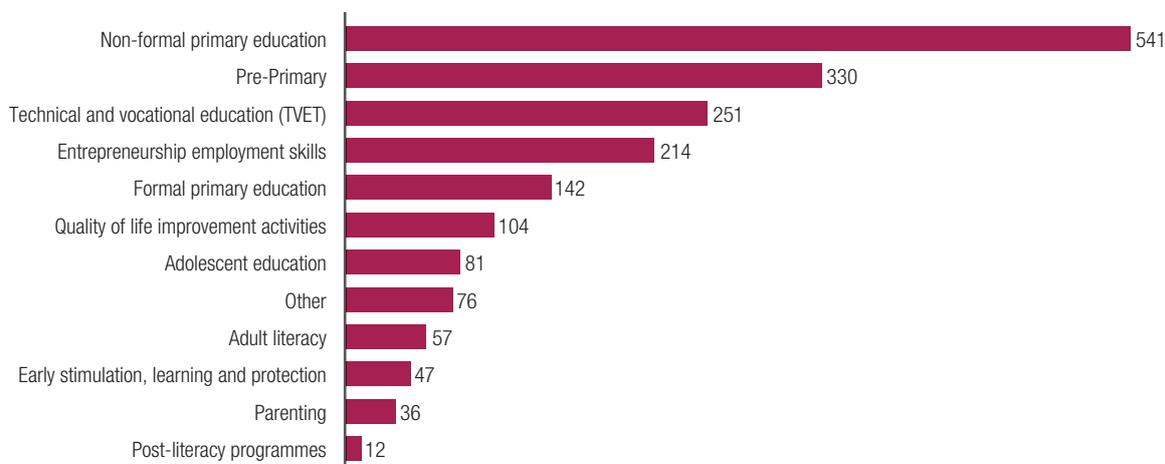
Figure 27
Adult Literacy Rate
(Percentage)



Source: UNCTAD secretariat calculations, based on data from UIS (2020).

Figure 28

Number of NGOs Involved in various education programmes



Source: UNCTAD Secretariat based on data from <https://camebd.org/page/Generic/0/30/20>.

and women, among the lowest in the world. The disparity was particularly pronounced at the post-primary level, as the direct costs of schooling increased. For example, according to BANBEIS data, in 1990, the net primary enrolment rate was 64 per cent for girls (10 percentage points lower than for boys) and the gender gap was even greater in secondary school, with only 33 per cent of total enrollees being girls. Through targeted policy measures, however, Bangladesh has been able to sharply reduce gender disparities in access to education.

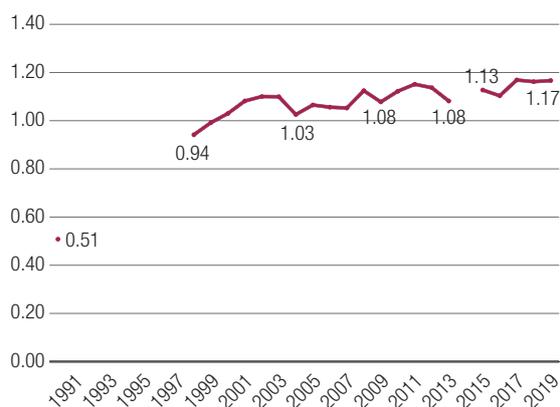
UNESCO data document a significant improvement in the participation of girls in primary education, with currently better educational attainment than boys, in terms of both lower repetition rates and higher completion rates. Female enrolment at the secondary level has also increased considerably, from 13.6 per cent in 1990 to 78.3 per cent in 2019 (compared with male enrolment at 67.1 per cent). This has translated into the sustained improvement of the gender parity index for gross secondary school enrolment, which has exceeded the value of 1 since the early 2000s (figure 29).²³

In addition to government initiatives, the rise in non-formal education pushed by NGOs and the increase in formal sector employment opportunities for women that require secondary education are some of the factors behind the

23 The gender parity index for gross enrolment in secondary education is the ratio of girls to boys enrolled at the secondary level in public and private schools.

Figure 29

Gender parity index for gross secondary school enrolment



Source: UNCTAD secretariat calculations, based on data from UNESCO UIS database (2020).

success in closing the gender gap in secondary school enrolment (Schurmann, 2009). In 1994, the Government launched the Female Secondary School Assistance Programme (FSSAP). The programme was established to address gender disparity in secondary education and to raise the status of women in the economy and society. Under the programme, female students received tuition waivers and monthly stipends (ranging from \$12 in grade 6 to \$36 in grade 10). Other notable programmes implemented by the Government are the Secondary Education Stipend Project (SESP) and the Secondary Education Sector and

Investment Programme (SESIP), financed by the Government and the Asian Development Bank, respectively (Habib and Alamgit, 2019).

Despite progress in gender parity in secondary enrolment, girls lag behind boys in terms of education outcomes. Data from the 2017 Bangladesh Bureau of Educational Information and Statistics show that completion rates among girls are low, with grade 10 rates bottoming at only 10 per cent and secondary level completion rates reaching only 59 per cent (Sosale et al., 2019). This may be explained by lower levels of investment in the quality of education (due to cultural norms, biases, etc.) for girls than for boys, leading to the relative underperformance of girls in education.

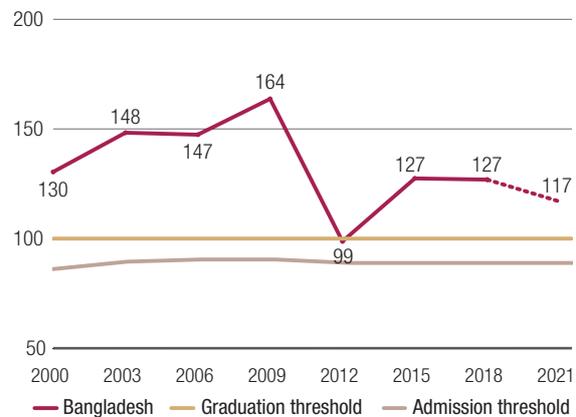
Achieving a more efficient, equitable, inclusive and quality secondary education system is at the core of the 2018–2022 Secondary Education Development Programme (SEDP). Combining greater and more equal access to education with a higher quality of related attainments across a multilevel educational system has proven challenging. Targeted interventions to improve the quality of educational attainment among marginalized groups may help to narrow the gender gap in the quality of education.

3.3 Economic and environmental vulnerability criterion

Following the adoption of the outcome of the comprehensive review of the LDC criteria by the Committee for Development Policy, the structure of EVI was also modified compared with earlier vintages of the index (CDP, 2020). With this revision, EVI has been simplified and now consists of two subindices, one on economic vulnerability and one on environmental vulnerability, each with four indicators with an equal weight of 1/8. The indicator on population size was removed from EVI. The economic vulnerability indicator “remoteness” was renamed “remoteness and landlockedness” to better reflect the fact that the indicator accounts for the specific challenges of LLDCs. The environmental vulnerability indicator “victims of natural disasters” was renamed “victims of disasters” to better align it with common United Nations terminology and to highlight that disasters are not natural per se, but rather stem from exposure to natural hazards, conditions of vulnerability that are present and insufficient capacity to cope with potential negative consequences. The indicator “share of population living in drylands” was added to EVI.

Figure 30 shows that Bangladesh has consistently met the graduation threshold under the economic

Figure 30
Bangladesh distance from the graduation threshold under the economic and environmental vulnerability criterion



Source: LDC Triennial Review Data, 2020.

Note: The distance from graduation threshold is computed as the ratio between Bangladesh own EVI and the threshold applicable in the same triennial review; hence, the graduation threshold is rescaled to 100 even though the underlying score and the very composition of EVI have varied over time.

and environmental vulnerability criterion, except for at the 2012 review, when it narrowly failed to meet the threshold.²⁴ The performance of Bangladesh under the graduation threshold relevant to the economic and environmental vulnerability criterion demonstrated sustained improvements (reflecting a reduction in economic and environmental vulnerabilities as measured by the index) between the 2012 and 2015 triennial reviews, with the EVI score reaching a plateau thereafter. The EVI score of Bangladesh in 2018 was 25.2, which was 127 per cent relative to the graduation threshold. The provisional value relevant to this criterion (dotted purple line) at the 2021 triennial review is estimated to meet the graduation threshold at 117 per cent.

The remainder of this section discusses the key dimensions composing EVI. For the sake of conceptual clarity and in line with the new EVI structure (CDP, 2020), the indicators pertaining to

²⁴ For the sake of consistency with earlier figures, downward movements in figure 30 (such as that occurring in the year 2012) illustrate a deterioration in the EVI score (i.e. increasing economic and environmental vulnerability), while upward movements indicate reductions in vulnerabilities (i.e. improvement in the EVI score). This inversion serves to harmonize the interpretation of this figure with that of figure 15 and figure 21, although improvements should in principle follow from a reduction, and not an increase, in economic and environmental vulnerability.

the economic sphere of vulnerability (namely the share of agriculture, forestry and fisheries in GDP; remoteness and landlockedness; merchandise export concentration; and instability of exports of goods and services) are distinguished from those pertaining to the environmental sphere (share of population in low elevation areas; share of population living in drylands; victims of disasters; and instability of agricultural production).

3.3.1 Indicators of economic vulnerability

As noted earlier in this report, the agriculture, forestry and fisheries sector has displayed sustained growth in labour productivity, with positive repercussions on rural livelihoods. The share of agriculture, forestry and fisheries in GDP nonetheless declined steadily, from 31 per cent in 1990 to 26 per cent in 2000, and then fell even more rapidly, to 18 per cent in 2010 and 14 per cent in 2018. This decline is consistent with the pattern of structural change discussed earlier and, in particular, with the rise of manufacturing and services and the ensuing reallocation of labour towards these sectors. This also suggests that agricultural productivity levels have increased, but less rapidly than the rest of the economy.

Moving to the second indicator of economic vulnerability, namely remoteness and landlockedness, Bangladesh is in a geographical sense not particularly remote.²⁵ According to the latest CDP data, the value of its remoteness index in 2020 was 33.8, compared with an LDC average of 60; this is slightly lower than comparable non-landlocked countries such as Myanmar (37.7) and Viet Nam (34.2). In this context, it is worth noting that in Bangladesh, the main constraints and obstacles to trade stem not from geography as such, but rather from supply-side bottlenecks in terms of transport infrastructure, as well as the inefficiencies of its logistics network (Herrera Dappe et al., 2019). This reading of the evidence is also confirmed by the PCI components (figure 5) and by trends in the UNCTAD liner shipping connectivity

index,²⁶ which reveal the persistently weak connectivity of Bangladesh in terms of maritime transport. Generally, if the country's performance in addressing transport and trade bottlenecks is not radically different from other LDCs and denotes some gradual improvements, transaction costs remain significantly higher than in other non-LDCs in the region, notably Viet Nam (a key competitor in the ready-made garments industry).

Earlier sections of the vulnerability profile have documented the expansion in the exports of Bangladesh, pulled by the boom of ready-made garments. The country is the world's second-largest exporter of ready-made garments and these products represent more than 80 per cent of its exports.²⁷ These trends mirror a gradual rise of the merchandise export concentration index, which rose from roughly 0.33 in the mid-1990s to 0.42 in 2009 and has subsequently hovered at around 0.41 (figure 31).²⁸ The fact that the export concentration index of Bangladesh is higher than that of other LDCs in South Asia (and of most of its competitors in Asia) underscores the fact that the heightened dependence on a narrow range of garment products is a source of concern in the long term (see below).

Notwithstanding other concerns in relation to the heightened dependence of Bangladesh on ready-made garments, the nature of related international markets has been such that export instability has traditionally

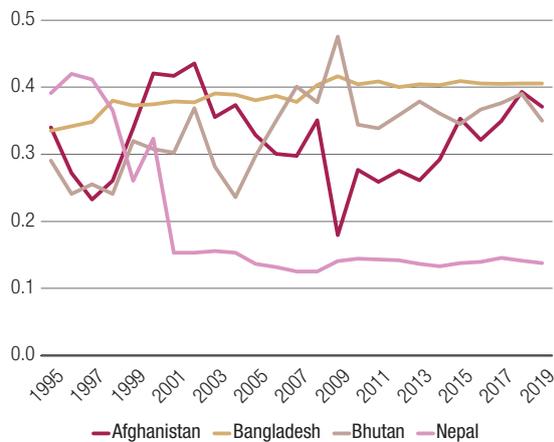
25 In the context of the determination of LDC status, remoteness is defined as the trade-weighted average of a country's distance from world markets. In order to compute the remoteness indicator for EVI, a logarithm transformation and maximin procedure are applied, with an adjustment for landlocked countries. In addition, indicators considered by CDP are three-year averages (CDP and DESA, 2018).

26 The UNCTAD liner shipping connectivity index encompasses the following six components: number of scheduled ship calls per week in the country; deployed annual capacity in 20-foot equivalent units (TEU), total deployed capacity offered by the country; number of regular liner shipping services to and from the country; number of liner shipping companies that provide services to and from the country; average size in TEU of ships deployed by the scheduled service with the largest average vessel size; and number of other countries connected to the country through direct liner shipping services. The index ranges between 0 and 100, with higher values denoting greater shipping connectivity.

27 According to the Export Promotion Bureau (EPB), ready-made garment has contributed more than 85 per cent of the total exports of Bangladesh in the last consecutive six fiscal years.

28 The merchandise export concentration index, also called the Herfindahl-Hirschmann index, is a measure of the degree of product concentration. The index is normalized between 0 and 1, with higher values denoting greater concentration, that is, a large share of the country's exports accounted for by a small number of commodities.

Figure 31
Export concentration index



Source: UNCTAD secretariat calculations, based on data from UNCTADstat database.

been limited (figure 32).²⁹ The composition of exports largely explains this behaviour, as international prices for textile and clothing products are not subject to the sharp variations that characterize primary commodity prices. This in turn contributes to reducing fluctuations in the country's terms of trade and the purchasing power of exports.

3.3.2 Indicators of environmental vulnerability

Bangladesh is widely regarded as one of the most environmentally vulnerable countries in the world, as a result of the interplay between its geophysical characteristics, high population density, limited resilience and specific environmental conditions. According to the National Adaptation Programme of Action (NAPA), the coastal area of the country is prone to salinity intrusion and tropical cyclones; the central plains, to flooding; the north-western region, to drought; the north-eastern region, to flash flooding; and the hilly region, to soil erosion and landslides (MOEF, 2009). Moreover, climate change exacerbates the country's environmental vulnerability in the following three main ways:

- (a) Through sea level rise, which threatens a considerable share of the population;
- (b) By leading to greater and more erratic rainfall;
- (c) By increasing the intensity and frequency of natural hazards, in particular in the northern and western regions (MOEF, 2009).

²⁹ The export instability indicator measures the variability of the value of exports around its trend, calculated over a 20-year period, with higher values denoting greater volatility around the trend (see CDP and DESA, 2018).

NAPA thus estimates that climate change could affect more than 70 million people, due to the country's geographic location, low elevation, high population density, poor infrastructure, high level of poverty and high level of dependency on natural resources (MOEF, 2009). Other studies have estimated that an increase of only 1 metre in sea level might submerge 18 per cent of the total area of the country (Ahmad, 2019) and some studies project that by 2050, one in every seven people in Bangladesh could be displaced due to climate change (Environmental Justice Foundation, 2019).

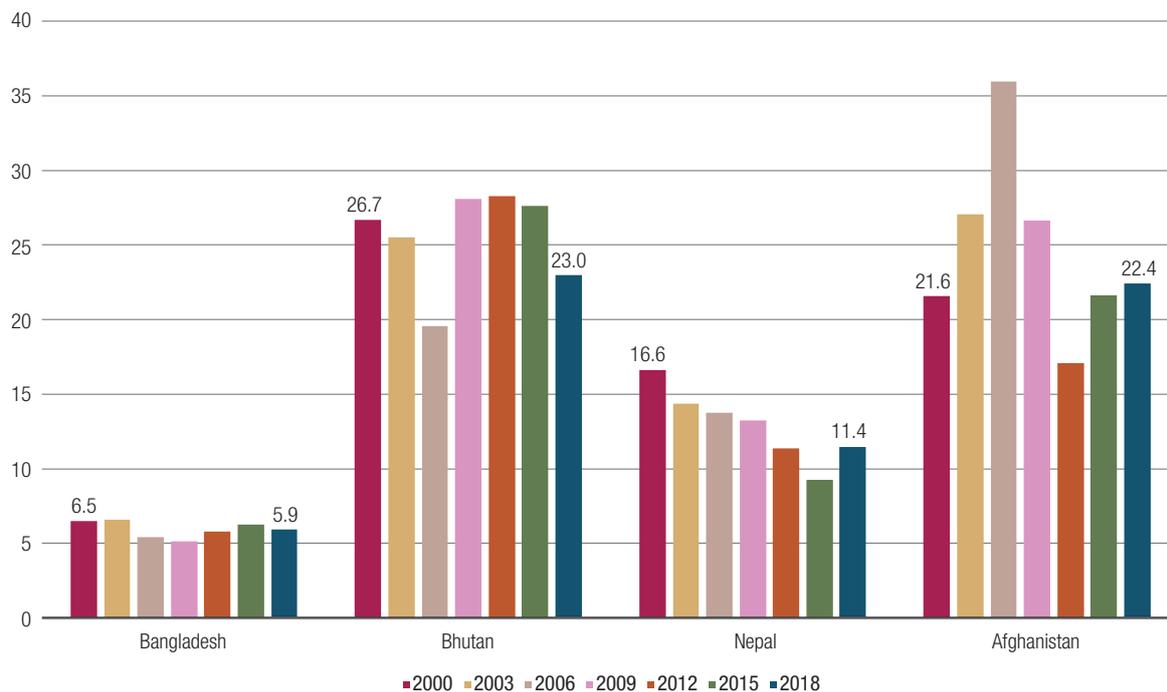
Key risk factors in this context are the relatively large share of territory lying at a low height above sea level (figure 33) and the high share of the population living in low elevated areas. In 2018, as much as 8.9 per cent of the population (corresponding to over 14 million people) was living in low elevated coastal areas, according to world development indicators data; a proportion that has been broadly stable over the last 20 years. This situation is mirrored in the corresponding EVI component, for which the score of Bangladesh (23.9 in 2018) was higher than that of neighbouring Myanmar (19.4) and greater than the LDC average (15.9).³⁰ Conversely, Bangladesh is located at the delta of the Ganges, Brahmaputra and Meghna rivers, and the share of the population living in drylands (another indicator considered in the computation of EVI) is zero.

According to data from the emergency events database, Bangladesh was affected by more than 200 disasters from 1970 to 2019.³¹ Storms have been the most frequent disasters in Bangladesh, accounting for 52 per cent of the total, followed by floods at 31 per cent, and the remaining disasters have been epidemics, earthquakes, droughts and landslides. Between 2000 and 2019, on average, almost seven natural disasters occurred every year in the country (table 2). The greatest number of natural disasters occurred in 2019. However, in terms of deaths, 2007 was the most devastating year, as 5,635 people lost their lives. The cyclone SIDR, affecting millions of people, caused the deaths of 3,447 people in that year. In 2000–2019, in total, more than 110 million people were affected by natural disasters.

³⁰ In computation of the EVI scores, the various components are normalized using the maximin procedure and may not use exactly the same data sources as those noted in the text.

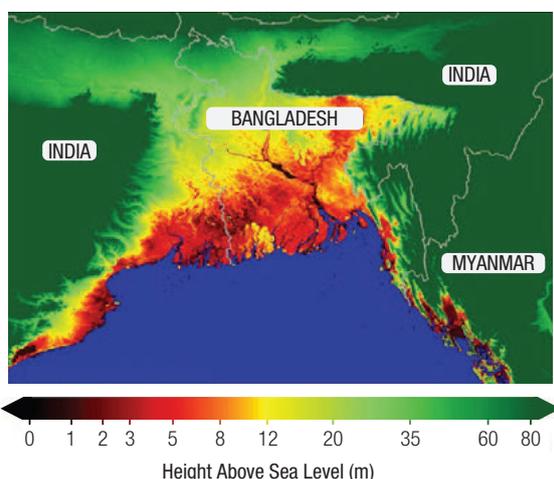
³¹ All data in this paragraph are drawn from the Emergency Events Database, Université Catholique de Louvain.

Figure 32
Export instability index



Source: UNCTAD secretariat calculations, based on data from LDC Triennial Review Data (2019).

Figure 33
Bangladesh's height above the sea level



Source: Global Security, 2019.

The heightened exposure of Bangladesh to disasters is corroborated by the trends in the victims of disasters indicator considered in the computation of EVI, with the corresponding score exceeding 85 (out of 100), compared with an LDC average of 73.³² Similarly,

32 In the computation of EVI scores, the various components are normalized using the maximin procedure and do not use the same data sources as in table 2.

Table 2
Natural hazards occurring in Bangladesh and related impact, by year
(2000-2019)

Year	Number of Events	Number of Deaths	Number of Affected People	Death Per Events	Affected People Per Event
2000	11	191	2 826 797	17,36	256 982
2001	7	253	730 750	36,14	104 393
2002	6	832	1 651 400	138,67	275 233
2003	8	529	553 145	66,13	69 143
2004	8	1 002	36 889 900	125,25	4 611 238
2005	12	332	1 186 606	27,67	98 884
2006	7	154	229 924	22	32 846
2007	5	5 635	22 930 206	1 127	4 586 041
2008	5	68	636 090	13,6	127 218
2009	6	348	4 504 550	58	750 758
2010	6	107	887 390	17,83	147 898
2011	5	102	1 672 680	20,4	334 536
2012	5	344	5 658 154	68,8	1 131 631
2013	3	50	1 532 207	16,67	510 736
2014	4	79	3 205 709	19,75	801 427
2015	8	159	4 073 354	19,88	509 169
2016	4	198	3 103 625	49,5	775 906
2017	5	323	11 466 224	64,6	2 293 245
2018	4	102	14 000	25,5	3 500
2019	13	402	7 869 435	30,92	605 341

Source: EM-DAT: The Emergency Events Database - Université Catholique de Louvain (UCL) - CRED, D. Guha-Sapir - www.emdat.be, Brussels, Belgium.

according to World Disasters Report 2018 prepared by the International Federation of Red Cross and Red Crescent Societies (IFRC), Bangladesh was the eighth worst-hit country by natural disasters between 2008 and 2017, with 37 million people affected. Moreover, natural disasters tend to affect poor people disproportionately, as they are more dependent on natural ecosystems (notably for water and sanitation), have more precarious housing conditions and are less able to protect or secure their assets due to deprivations (United Nations, 2020c).

Over time, the Government has adopted a more proactive approach to disaster preparedness, encompassing hazard mitigation, community preparedness and integrated response efforts, rather than a reactive approach primarily focused on relief and rehabilitation activities (Luxbacher and Uddin, 2013).

Despite improving disaster preparedness, the country remains in the high risk category, as assessed by INFORM, with a risk index value of 6 in 2019.³³ This figure is higher than that of all neighbouring countries, with the exception of Myanmar (index value of 6.6). In comparison, the two other LDCs in South Asia, Bhutan and Nepal, had risk index values of 3 and 5, respectively, and the index value of India was 5.5.

Similarly, the Government has invested significant resources in climate change adaptation. According to the Bangladesh Climate Change Trust, between 2010 and 2019, the Government approved 678 projects under the climate trust fund to address the adverse impact of climate change in the future, at a total cost of Tk 334,913.50 billion.³⁴ Establishment of cyclone centres-cum-schools, cyclone-tolerant homes and agricultural weather warning centres, as well as tree planting, the distribution of advanced stoves, the excavation of canals, etc. were some of the major initiatives under these projects. Despite this investment, needs in adaptation remain and, according to the global climate risk index in 2018, Bangladesh remains one of the most vulnerable countries in the world in terms of climate-related risks.

³³ The INFORM model adopts the three aspects of vulnerability reflected in the definition of UNISDR. The aspects of physical exposure and physical vulnerability are integrated into the hazard and exposure dimension and the aspect of fragility of the socioeconomic system becomes the vulnerability dimension of INFORM; the lack of resilience to cope and recover is treated under the lack of coping capacity dimension.

³⁴ <http://www.bcct.gov.bd/site/files/a695f6c9-e74e-4c16-9919-347f28d96152/nolink/>.

The last indicator considered in the computation of EVI is the instability of agricultural production.³⁵ Historically, Bangladesh has displayed a lower instability score than the LDC average; roughly 10 compared with 25 (out of 100). This is confirmed by long-term trends in the production indices of both agricultural and cereals (figure 34).³⁶ The figure shows the increase in agricultural production in both absolute and per capita terms, as well as the fact that production appears to have been less volatile since the mid-2000s, which is also apparent from the examination of the corresponding EVI indicator. It should be noted, however, that agriculture is widely considered to be the most vulnerable sector to climate change impacts and the latter could trigger increasing disruptions, as recognized in NAPA (MOEF, 2009).

4. Development challenges: Towards graduation and beyond

In order to complement the earlier analysis, as well as other documents informing deliberations on the country's graduation (notably the ex ante impact assessment), this section of the vulnerability profile provides a forward-looking discussion of potential lingering sources of vulnerabilities. These structural factors will inevitably impinge on the country's sustainable development trajectory towards the graduation milestone and beyond, in its post-LDC status. In the light of this, it is essential to anticipate their long-term impacts and prepare to address them as part of the efforts to achieve graduation with momentum (UNCTAD, 2016a).

Aside from the impact of COVID-19 and the challenges of fostering a sustainable recovery, four broad areas of vulnerability stand out in Bangladesh: reliance on LDC-specific international support measures (ISMs); the nexus between trade and structural transformation; sustainable development finance; and environmental vulnerability. A separate subsection below is devoted to each of these.

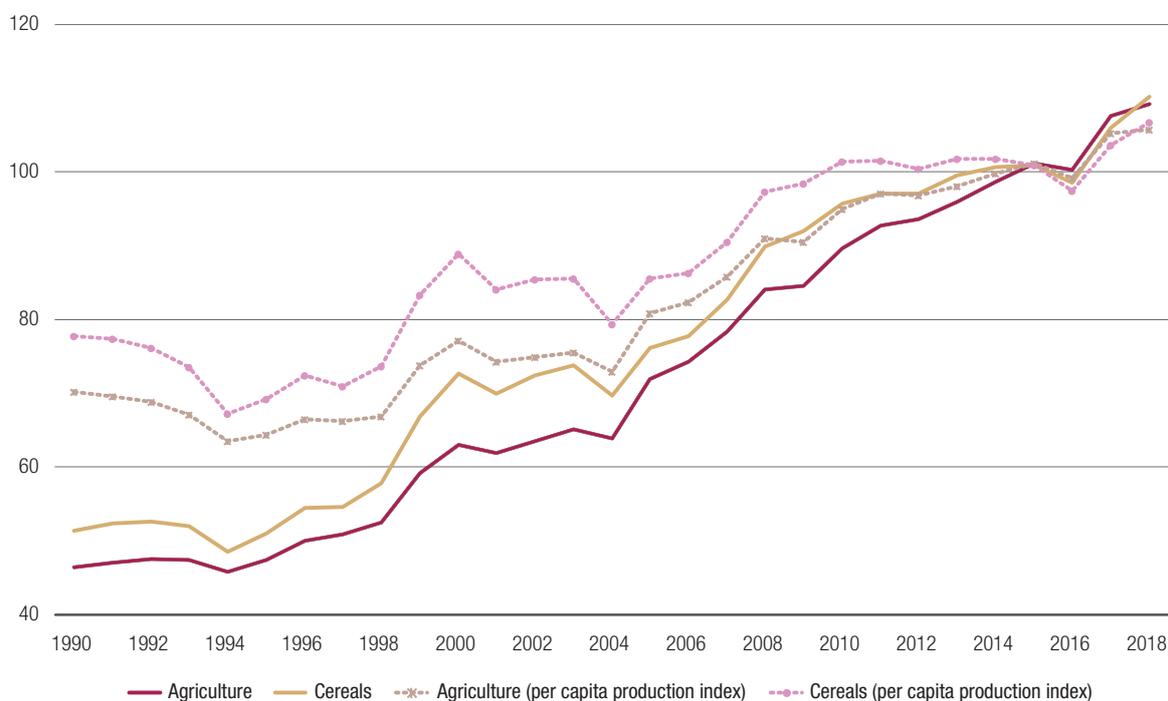
³⁵ The indicator considered in EVI is defined as the standard deviation of the differences between production and its trend over a period of 20 years (CDP and DESA, 2018). In the computation of EVI scores, the related dimension is normalized using the maximin procedure and is scaled to 100.

³⁶ Rice is the most important agricultural product, constituting 70 per cent of caloric intake, and has therefore been the main focus of food security activities (Majumder et al., 2016). According to the Bangladesh Rice Knowledge Bank, about 75 per cent of the total cropped area and over 80 per cent of the total irrigated area is planted with rice. Jute and wheat are the other main agricultural products.

Figure 34

Trends in agricultural and cereal production indices for Bangladesh

(2014-2016 = 100)



Source: UNCTAD secretariat calculations, based on data from FAOSTAT database.

4.1 Mitigating the reliance on least developed country-specific international support measures

Supporting LDCs in their quest for sustainable development is the *raison d'être* of ISMs, as countries in the LDC category are internationally regarded as structurally vulnerable and therefore deserving of dedicated forms of assistance (CDP and DESA, 2018; UNCTAD, 2016a). Symmetrically, the fact that a country strategically utilizes existing ISMs signals strong political will and sufficient institutional capacities to harness existing forms of support (UNCTAD, 2016b). As a country's graduation from the LDC category approaches, however, heavy reliance on ISMs can also hide some dangers, because the phasing out of LDC-specific forms of support will, *ceteris paribus*, entail relatively greater effects. Moreover, this reasoning ultimately holds regardless of the flexibility that CDP and the broader international community are committed to exercising in facilitating graduation from the LDC category and delivering a smooth transition. In other words, at some point, LDC-specific international support measures will need to be phased out.

These general considerations are particularly relevant in Bangladesh, because the country is among the LDCs utilizing existing ISMs more effectively and strategically. The trade domain provides a good example in this respect, because one of the main factors contributing to the boom in Bangladesh exports has been the country's ability to leverage LDC-specific preferential market access (i.e. duty-free, quota-free (DFQF)). With exports overwhelmingly concentrated in the textile and clothing sector, for which most favoured nation (MFN) rates are relatively high, the lucrative preference margins available through DFQF schemes resulted in generally high rates of preference utilization. Accordingly, in 2018, more than 80 per cent of Bangladesh-originating exports were entering preference-granting markets under an LDC scheme or other preferential treatment; a high share compared with other LDCs (WTO, 2019:chart 23). This is epitomized by apparel exports to the European Union – a destination market accounting for over half of the total exports of Bangladesh – under the Everything But Arms (EBA) scheme. In particular in the wake of the 2011 reform of related rules of origin, which allowed LDC apparel exports to qualify for EBA treatment under a single transformation criterion, Bangladesh witnessed

a remarkable expansion of its market share, with related revenues doubling in the space of seven years (2011–2018).³⁷

High rates of utilization of LDC-specific preferential trade regimes are, however, a mixed blessing, considering that LDC graduation will ultimately entail the loss of eligibility for DFQF treatment and the switch to other preferential schemes or MFN regimes, depending on the circumstances. Detailed analysis reveals that the corresponding switch could entail a significant increase in the rate of protection faced by exporters in Bangladesh (Rahman and Bari, 2018; UNCTAD, 2016a; WTO and EIF, 2020a). Moreover, in some cases, this would be compounded by the need to comply with stricter rules of origin provisions, once the country no longer retains LDC status and the transition period has expired (CDP and DESA, 2019; UNCTAD, 2016a).³⁸

A more detailed discussion of these complex issues is provided in the companion document to the vulnerability profile, namely the ex ante impact assessment, and in other related studies (CDP and DESA, 2019; UNCTAD, 2016a; WTO and EIF, 2020a; WTO and EIF, 2020b). Estimates of the impact of losing LDC-specific preferential market access are conspicuous and range between -7 and -14 per cent of baseline exports. The bulk of the reduction is expected to impinge on textile and clothing exports to developed markets, where changes in tariffs would be relatively more unfavourable (Rahman and Bari, 2018; UNCTAD, 2016a; WTO and EIF, 2020a). This reveals some future vulnerabilities for the economy of Bangladesh, as tariff differentials represent major drivers of international trade and investment flows, in particular in the textile and clothing industry (López Acevedo and Robertson, 2016).

The reasoning on the perils of a heightened reliance on LDC-specific ISM is straightforward in relation to preferential trade and also extends to other domains. For example, LDC graduation might ultimately entail a lower degree of concessionality in access to development finance and Bangladesh has already

witnessed a growing recourse to concessional loans as opposed to grants (UNCTAD, 2016a; UNCTAD, 2019a). Similarly, graduation will ultimately entail some reduction in the flexibilities afforded under special and differential treatment provisions, with a corresponding shrinking of available policy space (CDP and DESA, 2019; UNCTAD, 2016a). In so far as Bangladesh has proactively leveraged such flexibilities for its industrial policy framework, graduation from the LDC category may require some adjustment in the related measures, in order to comply with the discipline applicable to developing countries other than LDCs. For example, several recent studies have highlighted how the flexibilities provided to LDCs under article 66.1 of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) were instrumental to the emergence of the pharmaceutical industry in Bangladesh (box 3).

Against this background, an effective strategy to tackle the above vulnerability and deliver graduation with momentum hinges on a two-pronged approach vis-à-vis the phasing out of LDC-specific ISMs. On the one hand, the graduating country is advised to leverage as much as possible the benefits afforded by ISMs and possibly to negotiate with development partners adequate transition periods, potential derogations (if needed) or alternative arrangements.³⁹ On the other hand, it is imperative for the graduating country to thoroughly prepare for the post-graduation scenario, gradually building its productive capacities in order to be able to cope with the phasing out of ISMs. Such a two-pronged approach requires a thorough context-specific assessment of the impact of losing access to LDC-specific ISMs, as well as deliberate efforts to integrate LDC graduation into long-term national development strategies such as, in Bangladesh, the upcoming five-year plan and Perspective Plan 2021–2041 (Bhattacharya, 2020). From this perspective, the LDC graduation process can also be regarded as a potential anchor for industrial policy objectives, acting as a sort of sunset clause on specific forms of support that will no longer be available under post-LDC status. The trade-off or complementarity between the two prongs of this approach depends on the specific circumstances of the country and sector considered and the decision on an appropriate balance between defending ISMs and planning for their phasing out should be informed by adequate consultations with the private sector.

37 For a more detailed discussion of DFQF market access provisions and related rules of origin, see UNCTAD, 2018b.

38 With regard to the European Union, for example, assuming that no alternative arrangements are negotiated, upon graduation, Bangladesh would no longer be able to use the LDC-specific rules of origin applicable under EBA and its products would need to undergo a double transformation to qualify for preferential treatment (CDP and DESA, 2019; UNCTAD, 2018b). In practice, this could mean that certain garments produced with imported fabric would not qualify for GSP treatment and would face MFN tariffs.

39 For example, Cabo Verde obtained eligibility for the GSP+ scheme of the European Union in order to partly mitigate the adverse effect of losing DFQF market access upon graduation from the LDC category (UNCTAD, 2016a).

Box 3 Bangladesh: The rise of the pharmaceutical industry and graduation

The pharmaceutical industry in Bangladesh provides a good example of a sophisticated knowledge-intensive industry, which over time has surged to account for roughly 1 per cent of GDP. For the most part, pharmaceutical companies operating in Bangladesh produce low-cost generic medicines, mainly for the domestic market but increasingly also for exports (whose value has quintupled since 2005), thereby enabling access to cheap medicines in other countries.

Progress in the pharmaceutical industry has been underpinned by a proactive industrial policy, which encompasses a set of measures ranging from an early emphasis on import substitution and self-sufficiency to more articulate forms of support to export competitiveness, tax deductions and dedicated long-term loans. A key ingredient of this industrial policy framework has also been the deliberate effort to harness the flexibilities provided under article 66.1 of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), as well as under a specific exemption from provisions of the TRIPS agreement related to pharmaceutical products (valid until 2033).

Under these flexibilities, Bangladesh suspended the examination and granting of patents, allowing companies to produce not only generic drugs whose patents had expired but also those patented in other countries but not enforced in the country. More broadly, the weaker intellectual property regime afforded by this special and differential treatment has also allowed firms in Bangladesh to build their technological base by imitating or reverse-engineering foreign technologies, which can potentially also be applied in other sectors.

The example of the pharmaceutical industry is relevant not only in relation to the strides made by Bangladesh to structurally transform the economy and make strategic use of available policy space but is also pertinent with respect to the potential impacts of graduation from the LDC category. After graduation, Bangladesh might lose its right to avail of the waiver and have to make its patent laws consistent with TRIPS and other WTO obligations, including those of the WTO Agreement on Subsidies and Countervailing Measures. This scenario could have a disruptive effect on the ongoing process of technological learning and catching up and trigger a process of consolidation whereby established international players buy up smaller local firms. This underscores the importance of ongoing initiatives, including a submission by the LDC group to the WTO, seeking to strengthen special and differential treatment provisions related to technology transfer and to ensure that LDC-specific flexibilities continue to apply after graduation and are phased out progressively.

Sources: Gay and Gallagher, 2020; South Centre, 2020; UNCTAD, 2016a; WTO, 2020.

However, given the heavy reliance in Bangladesh on existing ISMs, this choice will play a critical role in determining the outcome of the graduation process.

4.2 Harnessing the nexus between trade and structural transformation

International trade has played an important role in supporting some process of structural change in Bangladesh, with positive impacts on employment generation outside agriculture, as well as on poverty reduction (ESCAP, 2020; Kathuria and Malouche, 2016a). The surge of labour-intensive manufacturing, in particular of ready-made garments, has been pivotal to this trajectory, with the industry reaching a contribution to GDP of over 10 per cent and three quarters of its output exported abroad (BGMEA Trade Information, 2019; López Acevedo and Robertson, 2016).

These developments have been accompanied by an export boom, as Bangladesh recorded rapid economic growth and more than doubled its export revenues between 2010 and 2019. At least until the

start of the pandemic, this had allowed the country to boost its share in global exports from 0.12 per cent in 2008–2010 to 0.20 per cent in 2017–2019; a respectable performance although short of the Istanbul Programme of Action (IPoA) target of doubling this quota.⁴⁰ Through deliberate policy incentives, and partly also thanks to international support measures (ISMs) such as preferential market access, Bangladesh has become one of the world's most competitive producers for garment products, mainly due to its cost competitiveness.

Furthermore, the country has successfully diversified its destination markets, exporting to 109 partners, the highest number among LDCs (OECD and WTO, 2019). This geographic diversification has contributed to reducing the instability of export revenues, along with the fact that Bangladesh specializes in manufacture exports, which are less prone than primary commodities to terms of trade shocks.

⁴⁰ The evolution of the market share of Bangladesh of world manufacturing exports was even more encouraging, as it grew from 0.16 per cent in 2008–2010 to 0.28 per cent in 2017–2019.

Nevertheless, the boom reflects a still-incipient process of structural transformation, with some improvements in terms of diversification, in particular in relation to the domestic economy, but a persistently skewed export specialization pattern. The boom in exports has been overwhelmingly underpinned by labour-intensive garments and hinged predominantly on cost competitiveness driven by low wages.⁴¹ Nor does the initial diversification of the textile and clothing industry beyond cotton products and into artificial fibres significantly alter this picture. Although the country has made some inroads in the production and export of other products such as leather, footwear, jute-based fibres and some agricultural products, these continue to play a subdued role in export composition. At an even more initial stage is the emergence of more complex activities, such as bicycles' manufacturing or shipbuilding, identified as potentially promising in DTIS, but for which the infrastructural and logistical bottlenecks and the intricacies of the business ecosystem represent more binding constraints (Kathuria and Malouche, 2016a).⁴² Equally limited is the weight of skill – and technology – intensive manufactures, despite the surge of a viable pharmaceutical sector. As such, this process has not translated into meaningful export diversification, with only a small improvement in the number of exported products and with the export concentration index hovering around 0.4 since the early 2000s.

The challenges of the prevailing specialization pattern are corroborated by the analysis of trade in value added and related indicators of participation in global value chains (GVCs).⁴³ Over the last 10–15 years, Bangladesh has witnessed some deepening of its participation in GVCs, but less so than other LDCs in Asia such as Cambodia and the Lao People's Democratic Republic, in addition to more integrated countries such as China and Viet Nam. An upward trend characterizes both backward GVC participation – capturing the contribution of foreign value added (i.e. imported intermediates and capital goods) to a country's gross exports (figure 35, panel A) – and, to a lesser extent, forward GVC participation, which

encapsulates the domestic value added embodied in intermediate exports that are further processed abroad and re-exported to third economies (figure 35, panel B). While this might be broadly in line with the trends in other countries in South Asia, Bangladesh stands out compared with its neighbours in two main respects: for its slightly higher level of backward participation – at least in more recent years – and above all for its low level of forward participation, reflecting a pattern of exports largely skewed towards final goods rather than intermediates.

The weight of the textile and clothing industry in driving the above trends is immediately apparent when the data are disaggregated at the sectoral level (figure 36).⁴⁴ In 2019, at roughly 85 per cent of gross exports, textiles and clothing accounted for 83 per cent of domestic value added in exports and 97 per cent of foreign value added. The disproportionate importance of ready-made garments in this context translates into a relatively high level of backward GVC participation – pulled by imports of machinery and to some extent also of intermediate products required by lead firms – and a limited level of forward GVC participation, as the overwhelming majority of products are final products.

More fundamentally, the sectoral disaggregation also underscores the marginal role still played by sectors other than textiles and clothing that would be typically

44 For ease of understanding, the 35 specific sectors depicted in figure 36 can be grouped as follows:

- Primary sector: Agriculture, hunting, forestry and fishing; mining and quarrying.
- Low-technology manufacturing: Food, beverages and tobacco; textiles and textile products; leather, leather products and footwear; wood and products of wood and cork; pulp, paper, paper products, printing and publishing; rubber and plastics; manufacturing, n.e.c.; recycling; electricity, gas and water supply; construction.
- Medium- and high-technology manufacturing: Coke, refined petroleum and nuclear fuel; chemicals and chemical products; other non-metallic minerals; basic metals and fabricated metals; machinery, n.e.c.; electrical and optical equipment; nd transport equipment.
- Business services: Sale, maintenance and repair of motor vehicles and motorcycles; retail trade, except of motor vehicles and motorcycles; repair of household goods; hotels and restaurants; inland transport; water transport; air transport; other supporting and auxiliary transport activities; activities of travel agencies; post and telecommunications; financial intermediation; real estate activities; renting of machinery and equipment; other business activities.
- Personal and public services: Public administration and defence; compulsory social security; education; health and social work; other community, social and personal services; private households with employed persons.

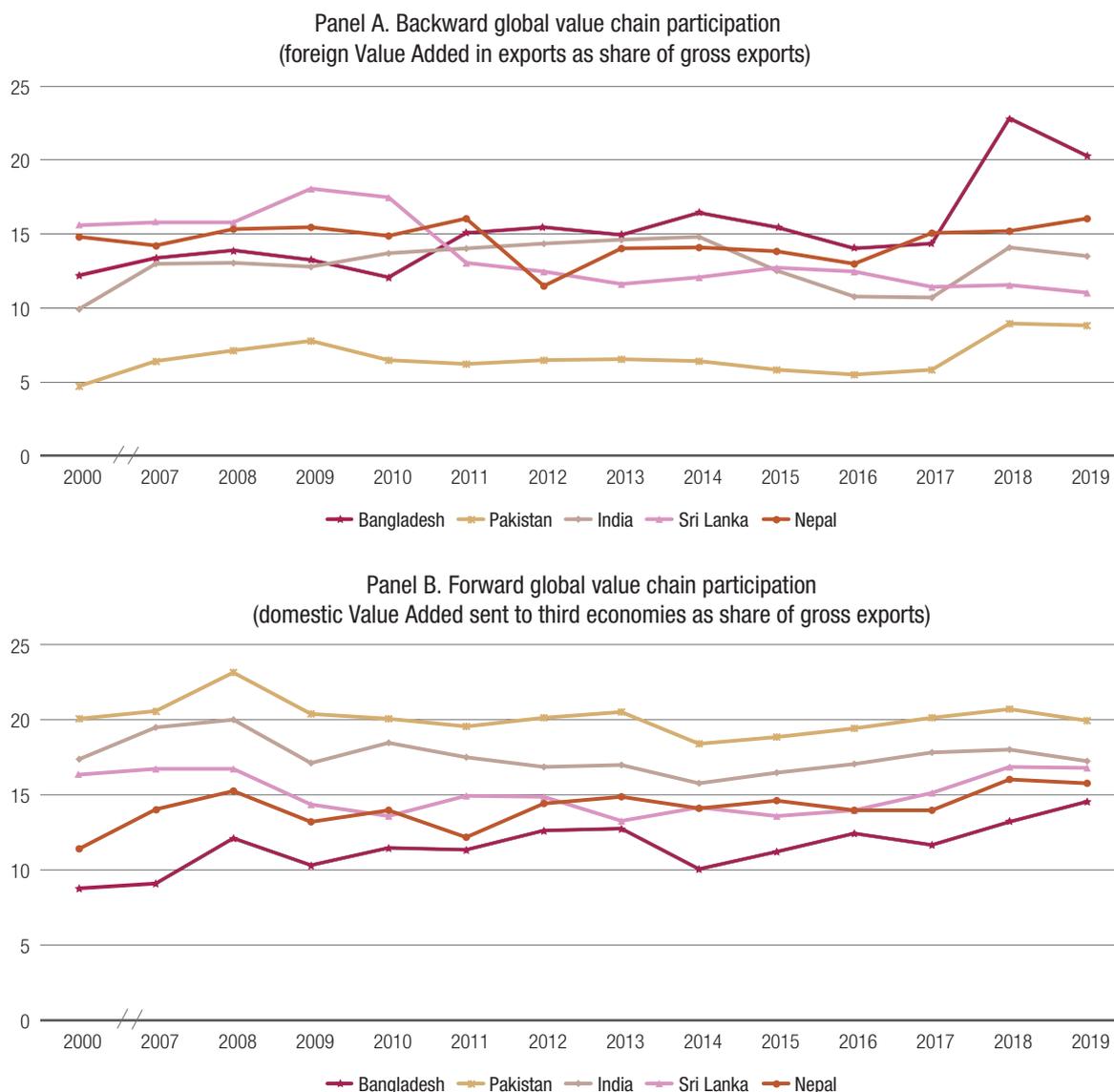
41 In 2016 wages in Bangladesh were half those in India and less than one third those in China or Indonesia (Kathuria and Malouche, 2016a).

42 According to UNCTAD data, jute-based products, ships, cycles and motorcycles jointly account for roughly 1 per cent of total merchandise exports, with this proportion remaining broadly unchanged for the last 10 years.

43 The emergence of GVCs and the related surge in the trade of intermediates implies that traditional trade flows no longer reflect the value added embodied in traded goods and services, due to double counting. For this reason, it is important to complement the traditional analysis of trade flows with an assessment of the magnitude in terms of value added (ADB, 2015; ADB, 2020; Johnson and Noguera, 2012; Wang et al., 2013).

Figure 35

Trends in global value chain participation for Bangladesh and other selected developing countries

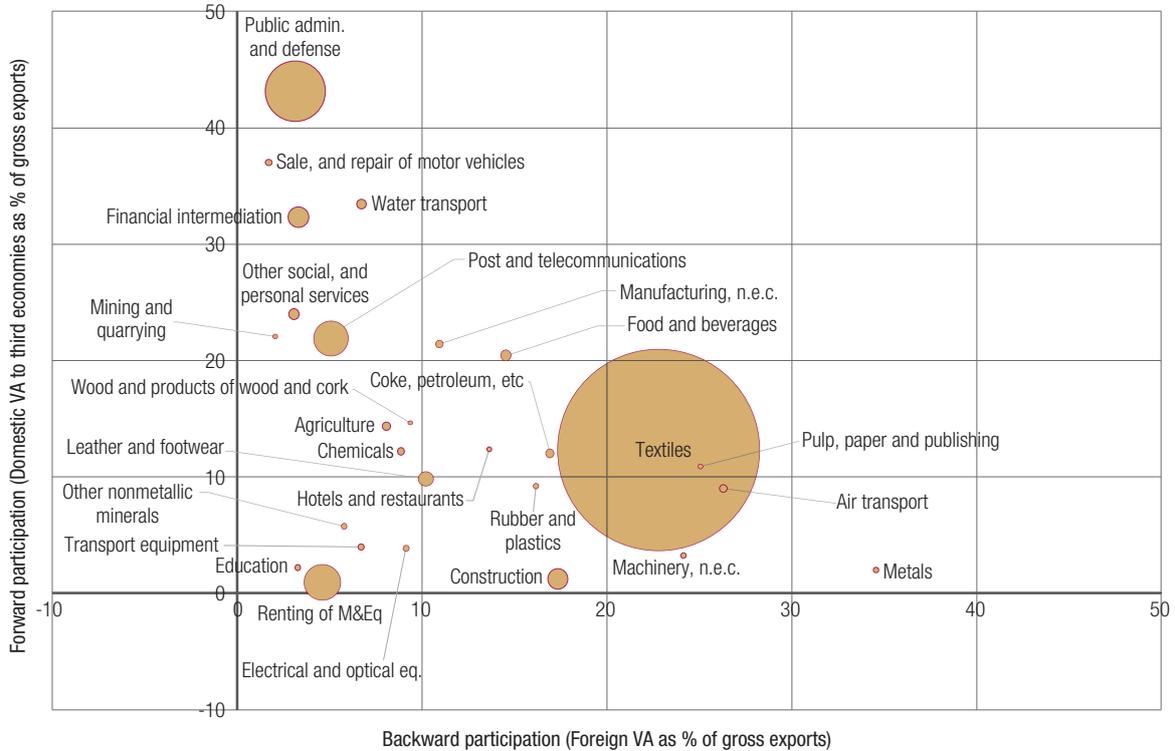


Source: UNCTAD secretariat calculations, based on data from Asian Development Bank ADB-MRIO database.

expected to underpin early phases of structural transformation, from agrifood industries and other low-technology manufacturing to business services. Equally, Bangladesh has been largely unable to enter into GVCs through the supply of intermediates, remaining mainly focused on a sector like ready-made-garment, with limited demand linkages to the rest of the economy. Moreover, while there are some encouraging examples of diversification into more sophisticated and technology-intensive products (for example, pharmaceuticals and shipbuilding), exports of medium and high skill-intensive products have expanded broadly at the same pace as total merchandise exports (when not slightly

more slowly), notwithstanding low base effects. Similarly, the country has benefited from incipient diversification into the services sector in recent years, with ICT and digital services at the forefront of this trend (OECD and WTO, 2019; Pianta, 2019; UNCTAD, 2016b). However, the contribution of digital services remains largely driven by small firms and freelancers offering their services through digital platforms, partly explaining why this promising sector has yet to acquire a meaningful weight in the country's overall export structure (UNCTAD, 2016c). Meanwhile, the relatively large footprint of the public administration and defence sector in the services export structure should be regarded as an outlier,

Figure 36
Global value chain participation by sector
 (2019)



Source: UNCTAD secretariat calculations, based on data from ADB-MRIO database.
 Note: The size of the bubble is proportional to each sector's gross exports.

in so far as it is largely explained by the contribution of Bangladesh to United Nations peacekeeping missions (UNCTAD, 2016b).

Notwithstanding the success of Bangladesh in strengthening its overall export capacities, the above evidence points to limited progress in relation to product diversification, one of the stated pillars of the diagnostic trade integration study under the rubric of “breaking into new products” (Kathuria and Malouche, 2016a; Kathuria and Malouche, 2016b). This reading of the evidence is confirmed when looking at the evolution of the revealed comparative advantages of Bangladesh, in both their traditional formulation and when adjusted for trade-embodied value added, that is, “new revealed comparative advantage” (ADB, 2020).⁴⁵ As shown in figure 37, the two product groups for which revealed comparative advantages are greater than 1 and have improved (i.e. moved north-east) since 2000 are low-technology manufacturing and

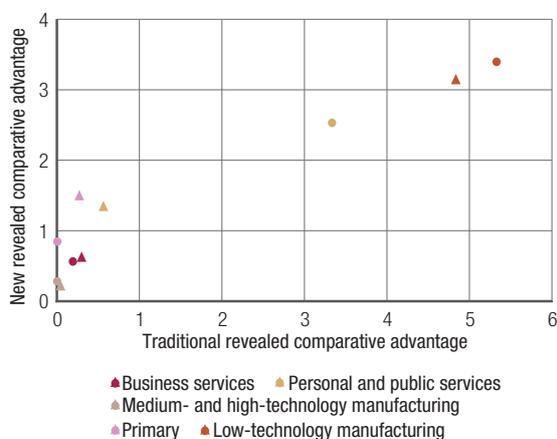
personal and public services. Meanwhile, the revealed comparative advantages of primary products and business services have unequivocally deteriorated, regardless of whether adjusted for embodied value added. Finally, the revealed comparative advantages of medium- and high-technology manufacturing have slightly worsened when measured in the traditional sense, but the opposite is true when adjusted for embodied value added.

This assessment of the limited progress toward export diversification is mirrored by similar findings related to the overall structure of the economy of Bangladesh. A recent study utilizing the input and output framework concluded that Bangladesh has lagged behind in developing dense input-output linkages and economic clusters that enable an economy to eventually move up global production chains and benefit from them (Mercer-Blackman et al., 2017). The analysis traced this situation to weak intersectoral demand linkages, slow improvements in infrastructure services and pervasive public sector intervention in productive activities. Meanwhile, DTIS notes the distortions introduced by a cumbersome

45 For a detailed discussion of the methodological and conceptual framework of new (i.e. value added adjusted) revealed comparative advantage, see Mercer-Blackman et al., 2017, and part III of ADB, 2020.

Figure 37
Traditional and new revealed comparative advantages
for Bangladesh

(2000 vs 2019)



Source: UNCTAD secretariat calculations, based on data from ADB (2020).

Note: Triangles correspond to the year 2000, circles to the year 2019.

institutional framework and a trade policy framework oriented towards relatively high levels of protection but often inconsistent with business needs and industrial policy objectives, resulting in an anti-export bias (Kathuria and Malouche, 2016a).

Against this background, in spite of some promising examples of diversification into more skill- and technology-intensive activities, in particular for serving the large domestic market (box 3), the above analysis raises serious concerns in relation to the sluggishness of progress in Bangladesh. While this challenge is well known and not necessarily related to the country's graduation from the LDC category, the latter makes it even more imperative to redress the situation. Three main issues are worth mentioning in this regard.

First, complacency in the pursuit of diversification is made even riskier in the longer term by the nature of the textile and clothing GVC, which currently represents the backbone of export capacities in Bangladesh. This GVC is characterized by pronounced segmentation and an typical buyer-driven governance structure, which limits the opportunities for upgrading and for moving up the value chain, as well as for boosting domestic value addition and value retention (Gereffi et al., 2005; Mercer-Blackman et al., 2017; UNCTAD, 2018a). If there is some untapped scope for product differentiation (including through the use of different fibres), this alone is unlikely to provide a decisive spur to an industry that has relied largely on cost competitiveness and preferential access to developed country markets. Moreover, the

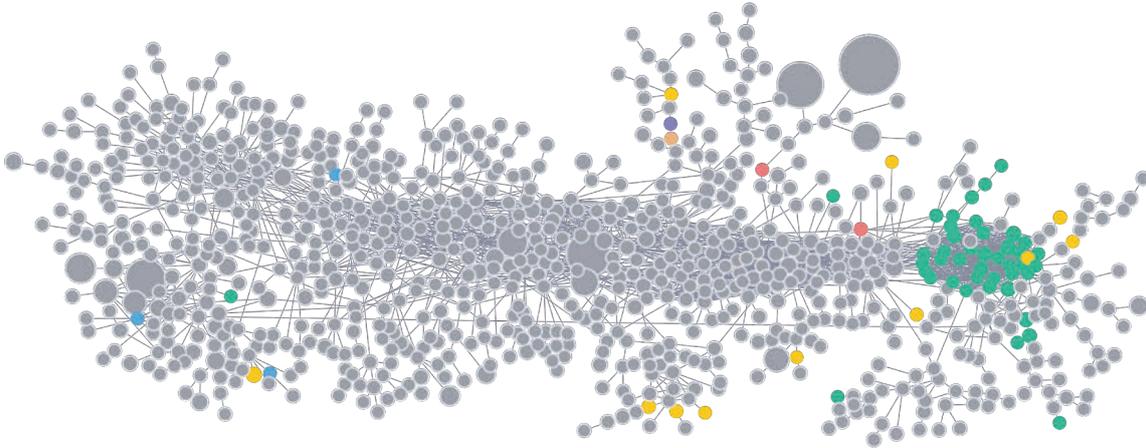
prospects of LDC graduation loom large in the sector and on the overall economy. As highlighted earlier, several studies show that the loss of LDC-specific preferential market access could entail significant increases in the rate of protection faced by exporters in Bangladesh (Rahman and Bari, 2018; UNCTAD, 2016a; WTO and EIF, 2020a). Large tariff differentials, coupled with persistent infrastructural and logistical bottlenecks, are bound to entail a serious shock to an industry for which these dimensions represent major drivers of international trade and investment flows (López Acevedo and Robertson, 2016). Against this background, although the textile and clothing industry is strongly embedded in the economy of Bangladesh – with over 4,600 factories (BGMEA Trade Information, 2019) – it is likely that the prospects of graduation may dampen efforts to attract FDI and induce some reorganization in the sector.

Second, another reason for concern in relation to the sustainability of the Bangladesh specialization pattern stems from the findings in the literature on economic complexity and product space (Hausmann and Chauvin, 2015; Hausmann and Hidalgo, 2011; Hidalgo et al., 2009).⁴⁶ The application of this conceptual framework with regard to Bangladesh points to two main considerations:

- Bangladesh exports tend to be characterized by relatively low levels of complexity, with dynamism driven mainly by the country's capacity to increase its global market share for relatively less sophisticated products;
- The limited relatedness (i.e. the relatively peripheral position) of exports from Bangladesh within the product space (figure 38), suggests that the set of productive capabilities and know-how typically acquired in their production does not appear to be easily transferrable to different activities.

⁴⁶ This approach essentially looks at the structure of output embodied in the network connecting countries with the products they export, characterizing the network using four structural features: the negative relationship between the diversification of a country and the average ubiquity of its exports (i.e. the number of countries able to produce them); the non-normal distributions for product ubiquity; country diversification; and product co-export (Hausmann and Hidalgo, 2011; Hidalgo et al., 2009). In this context, the product space is a visualization of the network, depicting the connectedness between products based on the similarities of the know-how required to produce them (i.e. the probability of the co-export of both products). Conversely, the complexity of an economy (product) represents a metric of sophistication based on how diversified and complex its export basket is (how many other countries can produce the product and their economic complexity).

Figure 38
Bangladesh product space (2018)



Source: Atlas of Economic Complexity (<https://atlas.cid.harvard.edu/>).

Notes: Each node corresponds to a product (at HS 4 level) and its size is proportional to world's trade; grey nodes correspond to products that are not exported by Bangladesh; other nodes are colour-coded according to the sector: green for textiles; yellow for agriculture, beige for stone; brown for minerals; red for metals; purple for chemicals; violet for vehicles; blue for machinery; and light blue for electronics.

As a consequence, if Bangladesh is to continue its growth performance, the imperative to diversify into gradually more complex products cannot be overestimated. Typically, this process is path-dependent and contingent on existing capabilities, as it takes place through discrete jumps from existing products or activities to gradually more sophisticated ones, “moving to the adjacent possible” (Hausmann and Chauvin, 2015).⁴⁷ In Bangladesh, however, such a path dependency hides an additional challenge: the product space is such that currently exported products lie relatively far away from new ones, in particular from new products with a relatively greater complexity (figure 39). This implies that relatively longer jumps are required to move into new exports, a finding that could partly explain the persistent challenges faced by the country in the process of diversification. However, the sustainability of the country's structural transformation, as well as the scope for a broad-based resilient recovery from the COVID-19 crisis, will ultimately hinge on this policy priority and its effective implementation.

Finally and more broadly, the advent of robotization, industrial digitalization and servicification also raises the question of the sustainability of progress by Bangladesh in bolstering its productive and export

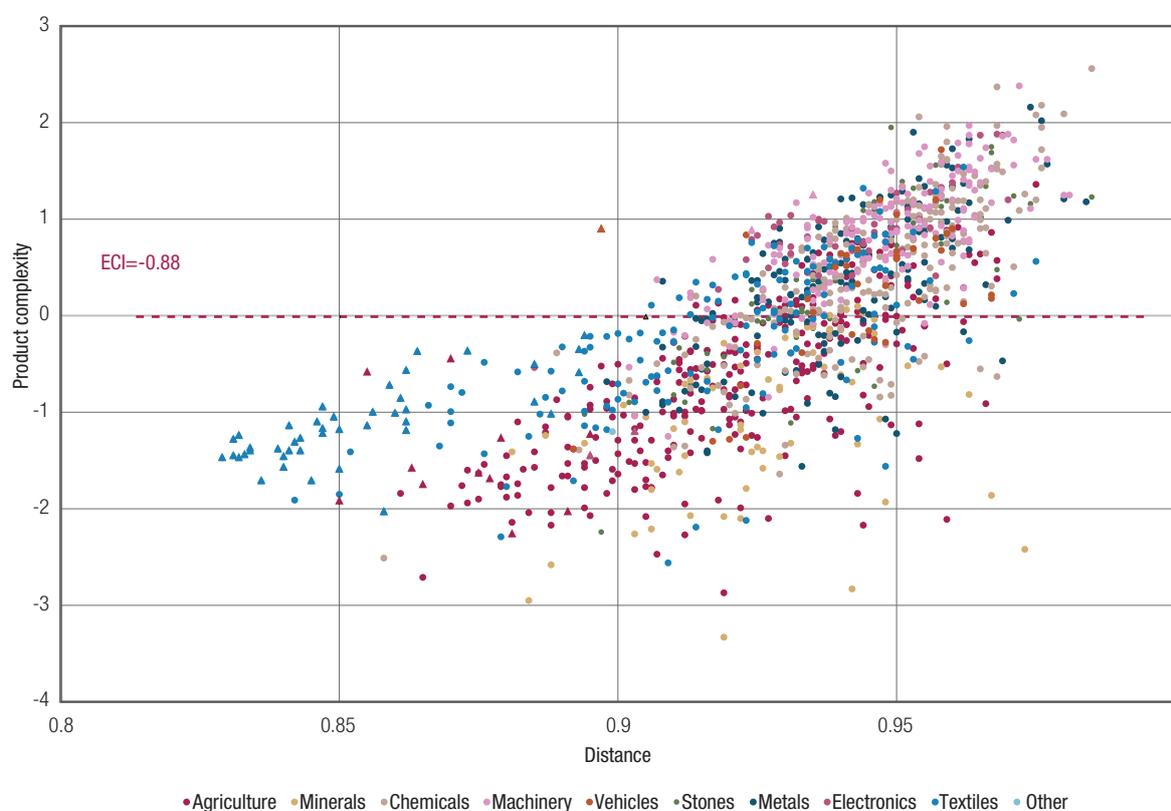
capacities.⁴⁸ These mega trends, which have in many ways accelerated in the wake of the pandemic, are expected to trigger far-reaching reconfigurations in existing GVCs, reducing heightened dependence on key suppliers, encouraging reshoring and regional embeddedness and potentially weakening the importance of labour cost competitiveness (Baldwin and Evenett, 2020; Rodrik, 2018; UNCTAD, 2020b; UNCTAD, 2020c; UNCTAD, 2020f). Although robotization has so far largely bypassed the sectors that form the backbone of the specialization pattern in Bangladesh, namely textiles, apparel and leather, in the longer term, it is plausible that even this industry will be affected (UNCTAD, 2017a). In addition, gaps in connectivity and logistics are weighing down the competitiveness of the country even in established industries, thus requiring system-wide reforms to upgrade the transport and logistics system (Herrera Dappe et al., 2019). This underscores the importance of utilizing this time window to better prepare for harnessing new technologies in the future, rather than falling behind vis-à-vis the technological frontier.

In Bangladesh, as in other developing countries, the above mega trends underscore the importance of fostering technological and skills upgrading, as well

⁴⁷ A recent example of this process was seen as textile and garment firms adjusted to the emergence of COVID-19 by turning to the production of personal protective equipment, which took place in Bangladesh as well as in other economies (*Textile Today*, 2020; UNCTAD, 2020b).

⁴⁸ Servicification refers to the increasing importance of services in existing production processes and value chains. It manifests in the increasing reliance on services, whether as inputs, as activities within firms or as outputs acquired and sold bundled with goods, and is reflected by the growing prominence of the services sector in the process of value addition and value capturing.

Figure 39
Distance and product complexity for Bangladesh exports and feasible products
 (2018)



Source: UNCTAD Secretariat calculations based on data from the Atlas of Economic Complexity.

Notes: Each point corresponds to a product (at HS 4 level), with triangles indicating products currently exported by Bangladesh, and circles corresponding to other feasible products; colour-codes follow the same pattern as in Figure 38.

as enhancing the innovation ecosystem, to ensure a meaningful engagement in technology transfer, domestication and adaptation.⁴⁹ In principle, the country is reasonably well-positioned, at least compared with other LDCs, to benefit from the “advantages of backwardness” à la Gershenkron. Bangladesh represents a follower in the use of advanced digital production technologies, reflecting, according to UNIDO taxonomy, above-average import market shares for these technologies; moreover, a fairly significant share of its formal enterprises display some meaningful innovation and digital capabilities (Pianta, 2019; UNIDO, 2019). In this respect, the Government has recognized the enabling role of ICT through its Digital Bangladesh initiative, comprised of four pillars: digital government (i.e. public service

delivery); ICT in business; connecting citizens; and human resource development (UNCTAD, 2019b). The challenge remains, at this stage in closing the gap vis-à-vis the technological frontier, while bringing along a plethora of mainly informal producers, which is ultimately contingent on the emergence of a more diversified and vibrant manufacturing basis, as well as the acquisition of complementary skills (UNCTAD, 2020b). This requires a strategic industrial policy framework, a successful science, technology and innovation (STI) ecosystem and a more effective articulation of trade policy and structural transformation objectives.

4.3 Seeking sustainable development finance

The growth performance of Bangladesh in the last 10–15 years has been characterized by a considerable investment push, with the investment-to-GDP ratio consistently exceeding 25 per cent of GDP since 2006 and reaching 31 per cent prior

⁴⁹ The innovation ecosystem can be defined as “the evolving set of actors, activities and artefacts, and the institutions and relations, including complementary and substitute relations, that are important for the innovative performance of an actor or a population of actors” (Granstrand and Holgersson, 2020:3).

to the pandemic.⁵⁰ There is little doubt that this trajectory is consistent with the economy's need to redress supply-side bottlenecks, in particular in terms of infrastructural provision, as highlighted by the analysis of PCI components. Long-standing investment needs, exacerbated by the necessity of financing countercyclical policies in response to the pandemic, raise the question of the prospects of Bangladesh in terms of domestic resource mobilization, as well as of the availability of external development finance.⁵¹

Concerning domestic resource mobilization, the Government has managed to combine stable macroeconomic fundamentals with a fairly robust public investment drive, notably in areas such as infrastructure provision and rural development. This has been achieved notwithstanding the fact that the tax-to-GDP ratio remains below 10 per cent and that more than half of tax revenues are derived from customs duties and indirect taxes on goods and services, which points to a rather circumscribed fiscal space and has critical implications in terms of inequality and scope for progressive redistribution. Much of the debate in the literature has, however, focused on the extent to which public investments have been able to crowd in private resources or, rather, have crowded them out. The predominant view, often substantiated with time-series econometric analysis, suggests that public and private investment tends to foster economic growth but that private investment is significantly more effective in doing so (Haque, 2013; Kathuria and Malouche, 2016a; Rahman et al., 2016; Saidjada and Jahan, 2018; Uddin, 2015). This has led to widespread calls to place greater emphasis on private investment, improve the business environment, reduce corruption and enhance the effectiveness of government spending (Haque, 2013; Kathuria and Malouche, 2016a; Rahman et al., 2016; Saidjada and Jahan, 2018; Uddin, 2015).

The above views echo firm-level data that suggest that institutional and political economy issues are perceived as more important obstacles than infrastructural deficiencies or inadequate access to

finance.⁵² This is the case in a context in which as much as 73 per cent of these formal enterprises reported having experienced electricity outages and credit to the private sector only reached 45 per cent of GDP in 2019. This is also broadly in line with the findings of the analysis of the PCI components (figure 5), according to which Bangladesh is significantly underperforming vis-à-vis other economies in South Asia in relation to the institutional and private sector dimensions.

The last section will touch upon the issue of institutional constraints; ultimately, however, this can be regarded as a domestic issue, unrelated to the process of graduating from the LDC category. First, it is perhaps more relevant to look at how recent developments in the international environment and graduation from the LDC category may affect the scope of Bangladesh to attract sustainable development finance. The extent to which Bangladesh relies on external finance to support its process of capital accumulation can be gauged from the evolution of the resource gap (defined as the difference between domestic savings and gross fixed capital formation). Figure 40 shows that foreign savings financed investment in the economy of Bangladesh by over \$10 billion per year in the 2013–2018 period and this is likely to have risen sharply thereafter. Relative to GDP, the resource gap has hovered at around 6 per cent for the last 15 years, suggesting that the reliance on external finance is a structural feature of the economy and may turn into a source of vulnerability in a global context affected by the pandemic.

If the existence of a wide resource gap is a common occurrence across LDCs, ultimately reflecting weakness in productive capacities, Bangladesh's peculiarity is, rather, the composition of external financial inflows that contribute to closing the financing gap. This feature, in turn, has some bearing on the scope for mobilizing these resources for investment and productive purposes, as well as on their expected volatility over time.

The composition of external financial flows to Bangladesh is depicted in figure 41. Remittances from workers have steadily accounted for the majority of these flows and their growing importance reached three quarters of the total in the last decade. In 2019, they stood at \$18.3 billion, compared with

50 Increasing the investment-to-GDP ratio to at least 25 per cent was one of the explicit targets of the Brussels Programme of Action for LDCs, later reaffirmed in IPoA.

51 These two elements, domestic resource mobilization and external finance, are essentially two sides of the same coin, given that national accounting identities imply that the excess of domestic savings over investment is equal to net imports, which in turn have to be financed through inflows of capital.

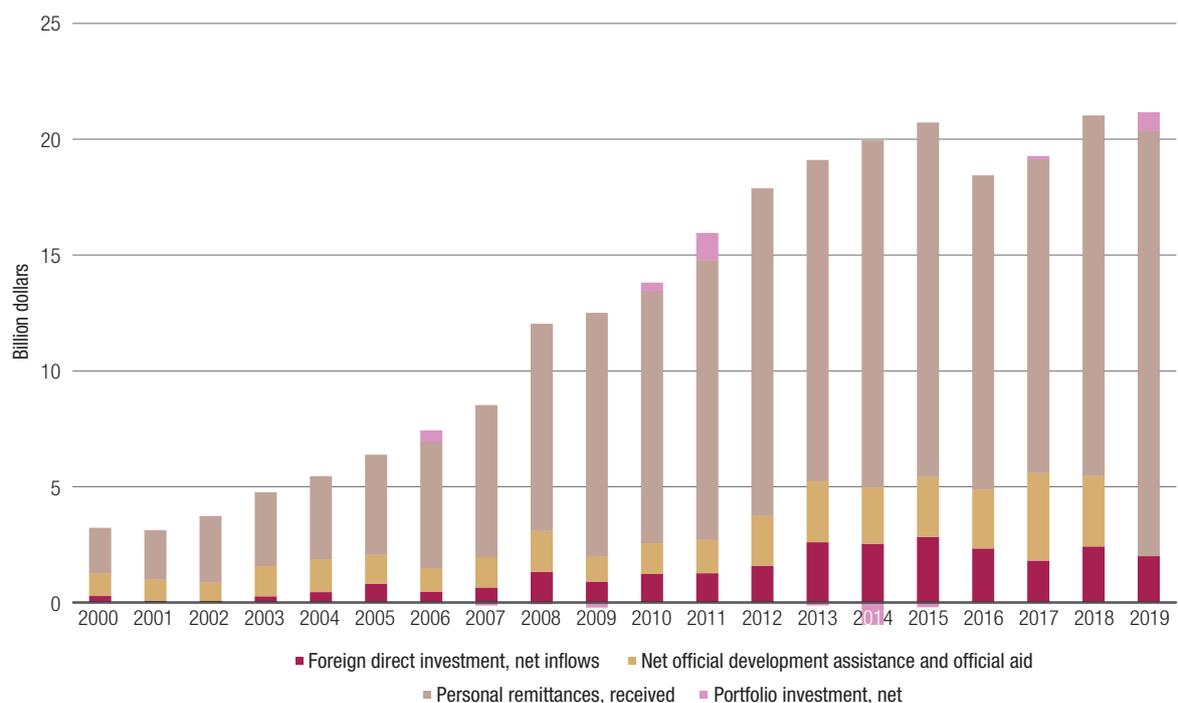
52 According to the latest World Bank enterprise survey, as much as 37 per cent of firms mentioned political instability as their greatest obstacle, followed by access to electricity (28 per cent), access to finance (14 per cent), corruption (7 per cent) and poorly educated workers (4 per cent). It should be noted, however, that the latest available survey is from 2013.

Figure 40
Bangladesh resource gap
 (2000-2018)



Source: UNCTAD secretariat calculations, based on data from United Nations Statistics Division.

Figure 41
External financial flows to Bangladesh
 (2000-2019)



Source: UNCTAD secretariat calculations, based on data from the World Development Indicators.

Note: No data is available for net official development assistance and official aid in 2019.

\$2 billion in FDI, with ODA reaching \$3 billion in the latest available year (2018). FDI flows have hovered at around \$2 billion–\$3 billion per year since 2012, a relatively low level considering the size of the potential market in Bangladesh, as well as its cost competitiveness. In relation to ODA, its weight relative to total external financial flows (or to the size of the economy) remains relatively circumscribed. This explains why Bangladesh displays a relatively low level of aid dependency although it is the third largest aid recipient among LDCs (UNCTAD, 2019a). Finally, portfolio investment flows play an overall negligible role and are intrinsically characterized by a fluctuating trend.

While all of the above categories of financial flows contribute, from a national accounting point of view, to financing the trade deficit and resource gap, they have distinct intrinsic features that shape their potential contribution to sustainable development. Starting with remittances, the diaspora of Bangladesh has traditionally been among the world's greatest and remittances have traditionally played a critical role in the economy and for the millions of households that rely on them to support their livelihoods. For the most part, labour migration from Bangladesh, whether destined for the Middle East or South-East Asia, has involved unskilled and semi-skilled male workers. The surge in female migration is a more recent phenomenon; the total number of female migrants increased from 27,706 in 2010 to 104,786 in 2019 (BMET, 2019).

Inflows of remittances have expanded at a double-digit rate since 2000 and, although their significance has declined since the peak in the 2009–2012 period, they still account for over 6 per cent of GDP.⁵³ Beyond their importance for the balance of payments equilibrium and household welfare, the key issue from a development perspective is the extent to which remittances translate into additional investments or, rather, trigger adverse effects, such as fuelling unproductive consumption spending, undue exchange rate appreciations, real estate bubbles, brain drain dynamics and the like (Chami et al., 2018; UNCTAD, 2012). In Bangladesh, a number of studies have been conducted over the years on the use of

remittances (Chowdhury and Siddiqui, 2003; de Bruyn and Umbareen Kuddus, 2005; Kumar et al., 2018; Masduzzaman et al., 2017). While differences in terms of methodology, region and period of analysis and categorization of expenditure purposes prevent a rigorous comparison, they appear to support a rather sobering view of the development footprint of remittances. Broadly speaking, about 5–20 per cent of the money transferred is channelled towards business investment; health and education absorb 5–12 per cent and savings, 3–8 per cent. Conversely, food and clothing account for between 20 to 50 per cent of remittances use; and land and real estate purchases, for 10–15 per cent each, with the rest accounted for by other expenditures (social ceremonies, financing migration of other relatives, etc).

While dispelling some misconceptions about the uses of remittances, these figures corroborate earlier observations on the ample scope for improving domestic resource mobilization for business purposes, in particular in rural areas. In this context, the Government has undertaken a number of initiatives geared towards boosting remittances and favouring their investment in the local economy. These range from sending delegations to explore alternative markets to adopting strategy documents and incentives to reduce bank charges and providing fiscal incentives to send remittances through official channels, etc. Other measures adopted to foster the productive use of migrant remittances include the Wage Earners' Development Bond, recommendations for promoting bonds for non-resident Bangladeshi, banking and financial incentives for non-resident Bangladeshi and migrant workers from Bangladesh and the setting up of the Probashi Kallyan Bank Expatriates' Welfare Bank (ILO, 2014). Despite these measures, many challenges remain, in terms of both mobilizing remittances for productive purposes and tapping diaspora potential to contribute to national development (ERD, 2018).

From a macroeconomic point of view, another key feature of remittances is that they tend to be more resilient to downturns than most other sources of foreign exchange and have a stabilizing effect on output (Chami et al., 2012; UNCTAD, 2012).⁵⁴ Unlike in many other countries, in Bangladesh, this resilience appears to be supported also in the context of the pandemic and the ensuing global recession, with remittances inflows expected to reach \$19.8 billion in 2020 (figure 42). The outlook in 2020 appeared

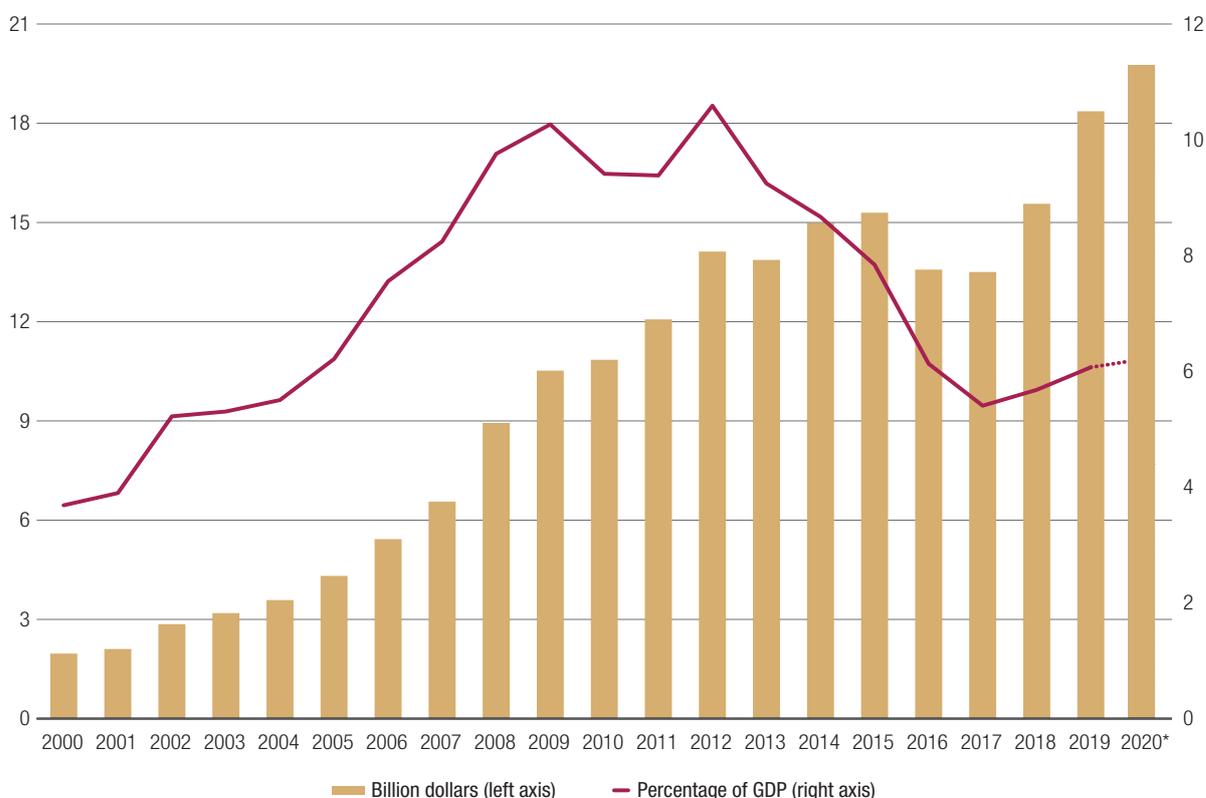
53 Although official data only capture remittances sent through legal channels, a significant amount of financial resources is channelled through informal channels (sometimes referred to as underground banking). According to the Bangladesh household remittances survey in 2009, 82 per cent of remittances were received through formal channels and the remaining 18 per cent were sent through informal channels. This suggests that related financial flows could actually be greater than as reported in international statistics (UNCTAD, 2012).

54 In Bangladesh, the coefficient of variation of remittances over the 2000–2020 period was 86 per cent, second only to ODA (46 per cent) but far less volatile than FDI (106 per cent).

Figure 42

Remittances inflows to Bangladesh

(2000-2020)



Source: UNCTAD secretariat calculations, based on data from the World Bank (Migration and Remittances Data October 2020).

Note: Data for 2020 are forecast.

to be reasonably encouraging, yet might have been due at least partly to idiosyncratic factors; the medium-term future remains far more uncertain (box 2). With the impact of the pandemic still weighing down economic prospects for 2021, global labour markets are unlikely to rebound quickly, in particular in key destinations for migrants from Bangladesh (the United Kingdom, the United States, the European Union and member countries of the Gulf Cooperation Council). These sombre prospects loom large on the remittances outlook.

Moreover, changes in the stock of international migrants triggered by the pandemic are expected to have wide-ranging and potentially more persistent effects on the domestic labour market, as well as on the outlook for remittances flows. In 2020, the stock of international migrants from Bangladesh contracted significantly, since over 1 million migrants returned to their home country (in particular from the GCC countries) and outward migration was substantially lower than in previous years (UNCTAD, 2020b; World Bank, 2020). In the light of this, the impact of the

pandemic may linger on the outlook for remittances for a protracted period of time, until the stock of migrants picks up to pre-crisis levels. Perhaps more importantly, returnees increase the number of (mainly unskilled) jobseekers, putting downward pressure on wages and adding further pressure to a labour market that already struggles to generate enough employment, particularly in rural areas.⁵⁵

The COVID-19 shock entails an even more worrisome outlook in relation to the second-largest source of external financial resources in Bangladesh, namely, ODA flows. Despite the paucity of systematic data after 2019 (for which only preliminary estimates are available), it appears that, after years of marginal expansions, if not levelling off, aid budgets will come under increasing pressure in the medium-term (OECD, 2020). This may potentially threaten a contraction in available resources

⁵⁵ Profiles of international migrants from Bangladesh suggest that the majority of them are unskilled or semi-skilled, with less than 10 years of education, and a significant proportion of them coming from rural areas (Kumar et al., 2018; Masuduzzaman et al., 2017).

for both Bangladesh and other LDCs, at a time when such resources will be urgently needed, exacerbating global inequalities (UNCTAD, 2020b). Given the pattern of aid allocation in Bangladesh, this scenario may entail some adverse impacts on infrastructure projects, which absorb the bulk of aid receipts (OECD and WTO, 2019; UNCTAD, 2019a).

However, several factors suggest that this risk, although present, should be carefully contextualized. First, although Bangladesh is one of the largest ODA recipients among LDCs, its rapid economic growth has gradually reduced the importance of aid relative to the size of the domestic economy and as a share of government revenues. Second, the degree of concessionality of aid disbursements to Bangladesh has significantly worsened in recent years, with a large increase in concessional loans and to a far lesser extent of other official flows, compared with grants (UNCTAD, 2019a). Past experience suggests that prospects of graduation from the LDC category typically entail worsening degrees of concessionality but are unlikely to entail sharp contractions in aid volumes. This points to the imperative of engaging donors to ensure that they deliver on their long-standing promises (notably the aid target in target 17.2 under the Sustainable Development Goals) and calling for the modalities of their support to be tailored to the context-specific situation of the graduating country.

With regard to FDI, its relatively circumscribed role in the economy of Bangladesh has been mentioned earlier. Over time, FDI inflows have risen in absolute terms (figure 41) but since the early 2000s, have represented not more than 4 per cent of gross fixed capital formation. Despite some improvements, Bangladesh only accounts for less than 0.2 per cent of global FDI and has not yet been able to fully capitalize on its sizeable domestic market (hence its appeal to market-seeking investors) and its cost competitiveness (which could entice efficiency-seeking FDI).⁵⁶ In terms of sectoral breakdown, investors have traditionally targeted services (notably banking and telecommunications) and garments and, more recently, tobacco and energy (Kathuria and Malouche, 2016a; UNCTAD, 2019c; UNCTAD, 2020f). In recent years, the Government has embraced a more proactive stance to attract FDI through the adoption and development of a significant number of special economic zones (SEZs), most of which take the form of export processing zones dedicated to textiles and clothing firms (UNCTAD, 2019c). These policy reforms were starting to pay off in terms of FDI mobilization,

as well as of ambitious targets for SEZ development, when the pandemic affected the world economy, triggering an unprecedented global shock.

According to UNCTAD estimates, the pandemic and the ensuing global recession are likely to take a heavy toll on global FDI flows (-49 per cent) and on Bangladesh more specifically, with announced greenfield investment projects falling by 78 per cent (UNCTAD, 2020g). Furthermore, due to the depth and persistence of the shock, there are signs that global FDI flows may well contract further in 2021, starting their slow recovery only in 2022 (UNCTAD, 2020f). Against this background, competition to attract FDI will inevitably become more intense, in both Bangladesh and other developing countries, even if recent data suggest some relative resilience in international investment flows in East Asia and South-East Asia.

Beyond the contraction of global investment flows, policy incentives will also need to factor the ongoing reconfiguration of international production networks in the post-pandemic scenario. In various forms, depending on the specific industries and geographical locations, the pandemic has shifted the focus from an exclusive attention to GVC efficiency to a more balanced consideration that also encompasses resilience, with the corollary of renewed emphasis on diversification, regionalization, redundancy-building and reshoring or near-shoring (UNCTAD, 2020f). Of particular relevance in Bangladesh will be deliberate efforts to enhance the backward and forward linkages between establishments operating in SEZs and the rest of the economy, as well as maintaining momentum to continue to diversify the sectoral focus of FDI. Equally important will be to integrate environmental, social and governance-related (ESG) criteria in the development of SEZs, to better align the ambitious and forward-looking industrial policy framework with the imperatives of inclusiveness and environmental sustainability (Oqubay and Lin, 2020; UNCTAD, 2020f; Valensisi, 2020b).

Overall, the above discussion points to the risk that, in the wake of the pandemic and of the related global recession, Bangladesh may experience some contraction in its external financial inflows. Although serious, concerns about a temporary slump should not be exaggerated, considering the country's macroeconomic fundamentals and the composition of external flows. More fundamentally, these prospects should be regarded as an additional reason to renew efforts to enhance domestic resource mobilization and unleash private investment through improvements in the related environment.

⁵⁶ The share of Bangladesh of global FDI stocks is even lower, at 0.05 per cent of the total.

4.4 Addressing heightened environmental vulnerability

The environmental vulnerabilities underscored in the analysis of EVI are unrelated to the LDC graduation process, yet will shape its outcome and the country's development trajectory in a profound and wide-ranging manner. Therefore, it is of paramount importance that they be accounted for in all related policymaking processes and in preparing for a smooth transition strategy.

If there are some uncertainties as to the fate of the Paris Agreement, it is equally worrying that estimates of the global emissions under the current nationally stated mitigation ambitions suggest that the latter may be insufficient to limit global warming to 1.5°C above pre-industrial levels (IPCC, 2018). Under these circumstances, rising temperatures can be expected to increase the frequency of extreme weather events and lead to a progressive rise in sea levels, which in turn could have a dramatic impact on communities living in low-lying coastlands (UNCTAD, 2010).

This scenario threatens to jeopardize the significant progress made by Bangladesh, which, as recognized by NAPA, "is one of the most climate vulnerable countries in the world" (MOEF, 2009:xv). Climate change and the attendant increase in the frequency and intensity of natural disasters will potentially have adverse effects in a number of dimensions, from agricultural yields to sustainable urbanization and from energy access to transport and logistics provision (MOEF, 2009). Moreover, this scenario risks exacerbating entrenched inequalities, resulting in what has been dubbed "climate apartheid", whereby the most vulnerable also tend to be the hardest hit by climate change and environmental degradation (IPCC, 2018; United Nations, 2020c).

Against this background, the fundamental importance of cutting carbon dioxide emissions and investing in climate change adaptation (in particular, climate-resilient infrastructure) cannot be overemphasized. Equally, there is an emerging recognition that climate change considerations should be duly reflected in the operations of central banks and more broadly of entire financial systems, given the nature and magnitude of associated risks (Campiglio et al., 2018; Espagne et al., 2020; Grippa et al., 2019). All of the above will require some readjustment of the macroeconomic framework. Moreover, the size of associated investment needs is daunting and climate change adaptation had remained significantly underfinanced even before the pandemic (UNCTAD, 2019a).

These considerations apply globally but are all the more important in Bangladesh. The particular vulnerability of

the country in this respect is seen in figure 43, which juxtaposes IMF estimates of public investment needs in climate change adaptation with aid flows in 2018 for this purpose. Considering its position in the figure, Bangladesh stands out due to both its significant investment needs and the funding gap, notwithstanding the fact that the country is among the world's largest recipients of aid for climate change adaptation.

Analysing the impact of multifaceted environmental vulnerabilities on the sustainable development prospects in Bangladesh and the potential coping strategies that could be put in place is a challenging task that goes beyond the purpose of this report. The following is a non-exhaustive set of policy priorities that may be considered:

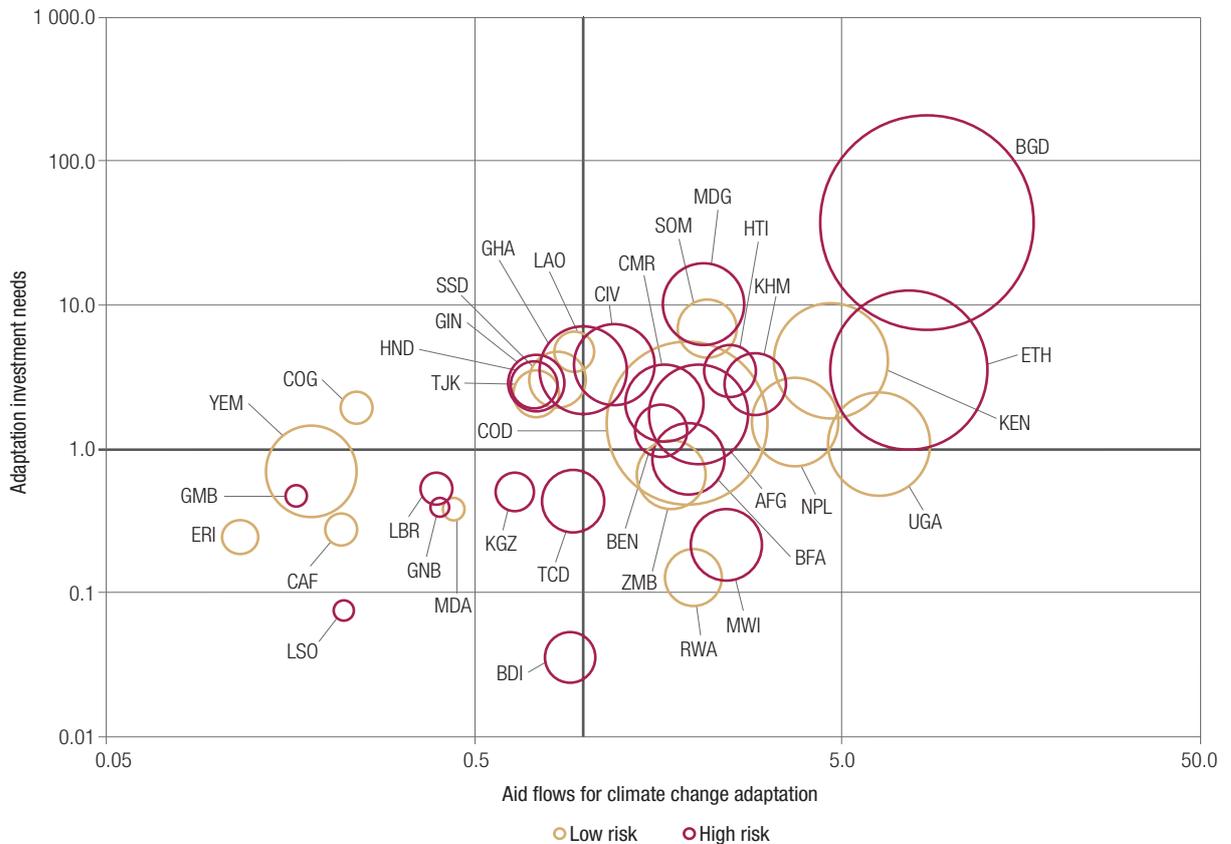
- Bolstering the mobilization of climate finance and of environmentally conscious investors to finance a climate-resilient recovery.
- Prioritizing investment in climate-resilient infrastructure and low-carbon technologies (including in relation to the energy mix and sustainable urbanization).
- Proactively fostering access to digital and green technology by making use of existing policy space in this respect.
- Exploring the feasibility of extending social protection and/or insurance schemes to protect the most vulnerable groups from the adverse effects of climate change on their livelihoods.
- Monitoring the potential implications of climate change risks for the financial sector and building related expertise within the central bank.
- Proactively fostering access to digital and green technology, by making use of existing flexibilities under the TRIPS agreement, and calling for greater policy space in this respect.
- Strengthening the science, technology and innovation (STI) framework while nurturing the emergence of a cluster of expertise related to climate change.
- Continuing to invest heavily in disaster preparedness.

5. Building back better: Graduating with momentum

The analysis in this profile has documented that Bangladesh is approaching the triennial review on the back of sustained and broad-based progress, as evidenced by its performance against the LDC

Figure 43

Public Investment in Adaptation to Climate Change: Needs and Aid Flows (hundreds of million dollars, log scale)



Source: (IMF, 2020b: 45).

Note: The size of the bubble is the population size. Aid flows for climate change adaptation (horizontal axis, in log scale) are correlated with the IMF estimates of adaptation needs (vertical axis, in log scale). The correlation between aid and needs in ratio to GDP is also high, at 0.57. The United Nations University Institute for Environment and Human Security World Risk Index for 2018 is used to measure natural disaster risk. The threshold suggested by the World Risk Report 2018 for high-risk and very-high-risk country, at 7.14 percent, is used to differentiate countries into high and low risk. Data labels use International Organization for Standardization (ISO) country codes.

criteria. The pandemic and the ensuing global recession have interrupted a period of rapid economic growth, underpinning significant advances in terms of poverty reduction and social development outcomes. However, the country has to date weathered the crisis relatively well (better than other countries in the region) and appears set to record positive GDP growth in 2020, notwithstanding a sharp slowdown in economic activity. This reasoning confirms that the trajectory of Bangladesh reflects meaningful advancements in terms of productive capacity development and inclusive growth. However, regardless of the political economy dimension of the LDC graduation process (UNCTAD, 2016a), there is no room for complacency.

Several considerations justify the continued emphasis on the structural transformation of the economy and on the need to foster the emergence of higher value added activities. In other words, paraphrasing the title of the UNCTAD *The Least Developed Countries*

Report 2016, they call for maintaining the momentum that has brought Bangladesh to the verge of graduation, after having met the related criteria for the first time in 2018. First, despite the significant progress made, several indicators, from the incidence of poverty to the literacy rate, underscore that sustainable and inclusive development is still an unfinished business. Second, despite all of the positives of the past buoyant decades, some deep-seated challenges continue to linger with regard to the economy's sustainable development prospects, notably the modest progress in terms of export diversification and the quest for adequate sustainable development finance. These challenges are made even more formidable by the fallout from the COVID-19 pandemic, which threatens to have long-lasting impacts on the world economy, making the international environment less conducive. Third, emerging mega trends, such as climate change, digitalization and servicification,

are bound to have wide-ranging implications on the future development trajectory of both developed and developing countries. Regardless of the graduation milestone, the earlier an LDC prepares for these emerging realities, the better, not least to strategically pursue leap-frogging opportunities and catch up to the technological frontier.

The above reasoning underscores the fundamental importance of: accelerating the gradual sophistication of the economy; combining export competitiveness with the nurturing of an increasingly dense network of domestic backward and forward linkages across sectors; and strengthening investment in climate-resilient infrastructures and human capital. Against this background, UNCTAD has published exhaustive compendiums of policy options to foster structural transformation in LDCs (UNCTAD, 2018c; UNCTAD, 2020b; UNCTAD, 2020h), as well as other related studies focusing on other developing countries (UNCTAD, 2016d; UNCTAD, 2017a; UNCTAD, 2018d). Of the policy options discussed in these publications, the following areas appear to be highly relevant to the current circumstances in Bangladesh and could therefore represent meaningful policy priorities:

- **Strengthening domestic resource mobilization**, in terms of both public revenues (with a view to raising the tax-to-GDP ratio) and private sector investments. Considering the downturn, options that could be prioritized under this pillar include improving the efficiency of the tax administration system (including by leveraging digital solutions for public sector operations), preventing profit tax evasion and illicit financial flows and improving the business environment, to unleash private investment and innovative forms of entrepreneurship embedded in the local economy.
- **Bolstering investments in climate-resilient and digital infrastructure**, notably in order to improve the transport and logistics sector, continue extending electricity provision and improve connectivity. In this respect, improvements in physical infrastructure need to be matched by corresponding improvements in soft infrastructure, such as through trade facilitation reforms and improvements of the regulatory framework for digital firms. Enhancements of soft infrastructure should be prioritized in the current phase of recovery as they are typically more cost-effective and have shorter gestation periods.
- **Sustaining investments in human capital**, not only by maintaining the drive towards enhancing access to high-quality formal education and vocational training programmes, but also by strengthening collaboration with the private sector in relation to apprenticeship, on-the-job training, adult education and retraining.
- **Supporting technological upgrading and improvements to the STI ecosystem**, by continuing to harness the available policy space (such as with regard to pharmaceuticals) and by catalysing collaboration across stakeholders to promote learning, knowledge-sharing and innovation. Maintaining and, wherever possible, increasing investment in basic research and related institutions is clearly a priority in this respect, particularly in strategic areas such as science, technology, engineering and mathematics.
- **Continuing to foster rural development**, through multipronged interventions aimed at accelerating the growth of agricultural productivity but above all at harnessing intersectoral linkages with the agrifood industry. The adequate provision of rural infrastructure (including electrification) could go a long way towards unleashing rural non-farming activities, particularly if coupled with support for the adoption of and experimentation with digital solutions to foster innovative business practices.
- **Adopting or fine-tuning a proactive industrial policy framework** aimed at promoting the acquisition and coordination of capabilities across stakeholders, in order to not only address established market failures but also support linkage development and self-discovery. A similar industrial policy framework should be oriented towards experimentation and systemic policy coherence, thereby solving the potential tensions between the protection of the domestic market in upstream (or non-tradable) segments of value chains and support for export competitiveness in downstream segments. The industrial policy framework should also be wary of potential rent-seeking and therefore careful to build in sunset clauses and closely monitor the outcomes of the support element provided.

The need to maintain and possibly accelerate structural transformation requires enhancing the strategic coherence and articulation of trade policies with sectoral (i.e. agricultural and industrial) policy objectives. Accordingly, it is essential that trade and investment relations allow for adequate policy space and contribute towards creating upgrading opportunities. Regional integration deserves specific mention in this respect, in so far as its strengthening could provide Bangladesh with a springboard to gradually diversify its exports, enhance the sophistication of its economy and deepen its involvement in regional value chains. In addition,

regional integration could also offer a valuable platform to strengthen South–South initiatives for scientific collaboration and technology and knowledge transfer.

In the context of LDC graduation, it is all the more important that the phasing out of LDC-specific international support measures does not disrupt the promising trajectory on which Bangladesh has embarked. To this end, it might be important to proactively engage trade partners in relation to smart smooth-transition strategies capable of ensuring consistency between trade and investment regimes and the country's development needs, notably in terms of available policy space.

More broadly, although LDC graduation is not expected to trigger dramatic changes in terms of the availability of development finance, pre-pandemic trends were already far from the internationally agreed targets, whether in relation to ODA (target 17.2 under the Sustainable Development Goals) or climate finance (\$100 billion per year, under the terms of the Paris Agreement), nor does the current downturn bode well for the future. Against this background, the quest of Bangladesh for adequate sustainable development finance and for appropriate access to climate-related technologies should not be overlooked by its development partners, not before graduation and not afterwards.





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Annex

Key strategic considerations for graduation with momentum by Bangladesh

Complementing the vulnerability profile, this annex outlines key strategic considerations for graduation with momentum by Bangladesh, for an “augmented LDC graduation strategy” (Bhattacharya, 2020). This is in line with the mandate enshrined in General Assembly resolutions 59/209 and 67/221, which “requests the entities of the United Nations system to provide targeted assistance, including capacity-building, to graduating countries... in support of the formulation and implementation of the national transition strategy” (A/RES/67/221, paragraph 13). The overarching objectives underpinning this plan would be to effectively use the time window until graduation (plus any relevant transition period) to ensure that:

- (a) Appropriate measures are taken, domestically and/or through adequate engagement with development partners, to mitigate the impact of the phasing out of LDC-specific ISMs;
- (b) Thorough preparations are made to gradually build the competitiveness of productive sectors for the post-graduation scenario and this milestone is mainstreamed into national development strategies articulated in the upcoming five-year plan and Perspective Plan 2021–2041;
- (c) Renewed support and resources are mobilized and action taken in order to address the lingering sources of vulnerability that could jeopardize the sustainable development progress of Bangladesh, towards graduation and beyond.

In relation to the first objective, a number of documents have already provided a mapping of the likely impacts of the phasing out of LDC-specific ISMs, notably in the domain of trade, which would arguably be the most affected area (CDP and DESA, 2019; UNCTAD, 2016a; WTO and EIF, 2020a). Useful insights on the consequences of graduation from the LDC category, as well as on broader elements of the industrial policy framework, could also be drawn from ad hoc consultations with business associations, trade unions and private sector actors (including lead firms in key GVCs). This could provide a basis for engaging development partners early-on concerning how to mitigate the impact of the phasing out of LDC-specific ISMs. For example, given its importance as a destination market for Bangladesh, it would be vital to use this information to engage the European Union in order to assess prospects for GSP and GSP+ preferential treatment (considering that GSP schemes will be revised in 2023) and explore the possibility of obtaining some flexibilities in relation to rules of origin. Similarly, it might be worth clarifying with trade partners that do not have a well-established transition period between graduation and the loss of preferential market access the terms and conditions of this switch of regime.

With reference to the second objective (namely, preparing for post-LDC status, consistently with national development strategies), the vulnerability profile and DTIS, among others, have underscored the importance of pursuing diversification and strengthening domestic backward and forward linkages to overcome the heightened dependency on a narrow range of exports. In this context, it is of paramount importance that Bangladesh make the most of the remaining time until graduation from the LDC category, strategically utilizing dedicated support, available technical assistance and policy space to strengthen its productive capacities and institutional framework. Equally, this time span provides opportunities to enhance the mobilization of aid for trade and socially and environmentally conscious investors to promote diversification, as well as more sustainable practices in key value chains. For example, more could be done to take full advantage of export opportunities in the agrifood industry or to explore opportunities for intersectoral linkages and diversification through the adoption of circular economy approaches. Similarly, considering the dependence of Bangladesh on the markets of developed countries, it will be crucial to thoroughly map export opportunities and related constraints at the regional level, since regional value chains could represent a viable post-graduation alternative (the product space framework could be useful to identify untapped scope for harnessing regional integration initiatives, as illustrated earlier).

Finally, building upon recent efforts to further improve the business environment and enhance the mobilization of private investment, domestically and in terms of FDI, is a key policy priority in relation to the third longer-term objective of a strategy for graduation with momentum. Similarly, ongoing efforts to mobilize remittances for

productive purposes and strengthen diaspora engagement will become even more central to the post-pandemic recovery. In this context, discussions on graduation may also offer a platform to examine with key partners concrete options for supporting stronger diaspora engagement, in particular in terms of the contribution of migrants as knowledge and entrepreneurship brokers, as well as facilitators of trade and investment flows. Beyond horizontal (i.e. erga omnes) efforts to improve the institutional framework and enhance investment promotion, bold entrepreneurship and industrial policies could foster a shift towards innovative and higher value added activities.

With climate change impacts set to become more pronounced, the remaining window of opportunity until graduation from the LDC category should also be used to bolster support for the implementation, monitoring and review of the National Adaptation Programme of Action (NAPA), prioritizing the use of dedicated ISMs that might no longer be available upon graduation (such as the LDC fund). Of particular relevance will be gaining a better understanding of the far-reaching ramifications of climate change effects on the country's economy, society at large and ecosystems and developing adequate expertise and institutional capacities to implement, monitor and review NAPA, as well as to link it more explicitly with the country's sustainable development strategy.

As “the focal point in the United Nations for the integrated treatment of trade and development and interrelated issues in the areas of finance, technology, investment and sustainable development” (Nairobi Maafikiano, paragraph 12), UNCTAD stands ready, in coordination with other relevant entities of the United Nations system, to support the Government of Bangladesh in its efforts to deliver on graduation with momentum and develop an effective smooth transition strategy.

