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



Prioritised smooth transition measures: Strategic pillars and required policy actions



Tackling inflation, effective exchange rate management and boosting foreign reserves



Sustainable debt management



Improving domestic resource mobilisation



Strengthening the financial sector and capital market





Mitigating consequences of geo-political issues



Monitoring and evaluation



Ensuring macroeconomic stability Exploring and securing trade preferences and transition measures

Promoting export diversification and competitiveness

Building productive capacity

Fostering partnerships and international cooperation



ssues



Engaging with trading partners for extended transition period



Enhancing trade negotiation capacity Engaging with the WTO

on various specific



Initiating FTA/CEPA negotiations with major trading countries



Improving product quality and standards



Improving trade logistics and trade facilitation



Enhancing labour standards and ESG compliance



Branding of Bangladesh



Developing WTO compatible support measures



Improving productivity by digitalisation and innovation



Building supply side capacity



Skilling and reskilling, and upskilling of the workforce



Attracting FDI and revitalising domestic investment



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

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

4.1 Strategic pillar 1: Ensuring macroeconomic stability

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

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

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

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

Strategic actions:

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



Tackling inflation, effective exchange rate management and boosting foreign reserves

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



Financing budget through sustainable debt management

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



Improving domestic resource mobilisation

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



Strengthening the financial sector and capital market

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

Source: Illustration prepared for this Strategy.

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

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

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

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

4.1.2 Financing budget through sustainable debt management

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

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

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

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

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

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

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

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

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

4.1.3 Improving domestic resource mobilisation

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

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

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

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

4.1.4 Strengthening the financial sector and capital market

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

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

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

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

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

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

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

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

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

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

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

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



Source: Illustration prepared for this Strategy.

Strategic actions:

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

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

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

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

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

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

4.2.2 Engaging with major trading partners for an extended transition period

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

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

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

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

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

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

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

4.2.3 Initiate FTA/CEPA negotiations with major trading countries

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

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

4.2.4 Enhancing trade policymaking and negotiation capacity

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

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

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

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

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

4.2.5 Engaging with the WTO on various specific issues

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

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

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

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

4.3 Strategic Pillar 3: Promoting export diversification and competitiveness

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

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

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

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

Strategic actions:

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

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



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

Source: Illustration prepared for this Strategy.

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

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

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

4.3.3 Improving product quality and standards

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

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

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

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

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

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

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

4.3.4 Improving trade logistics and trade facilitation measures

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

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

4.3.5 Enhancing labour standards and ESG compliance

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

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

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

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

4.3.6 Enabling environment for businesses and trade

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

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

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

4.3.7 Enforcing intellectual property (IP) protection

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

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

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

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

4.3.8 Developing WTO-compatible support measures

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

4.3.9 Branding of Bangladesh to improve export market prospects

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

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

4.4 Strategic Pillar 4: Building productive capacity

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

Strategic actions:

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

Improving productivity through technological upgradation and innovation

- Effectively implement the Bangladesh National Productivity Masterplan 2021-2031
- Organisation (NPO) - Adopt industrial and technological upgradation

- Strengthen the capacity of the National Productivity

- including digitalisation and automation
- Develop an R&D strategy for Bangladesh and raise the capacity of research institutes.

Skilling, re-skilling and upskilling the workforce

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

Advancing green transformation for future competitiveness and readiness

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

Building supply-side capacity by strengthening backward and forward linkages

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

Attracting FDI and revitalising domestic investment

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



Strengthening institutional capacity

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



4.4.1 Improving productivity through technological upgradation and innovation

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

4.4.5 Human capital development

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

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

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

4.4.6 Revitalising domestic investment

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

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

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

4.4.7 Attracting foreign direct investment (FDI)

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

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

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

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

4.4.8 Advancing green transformation for improved competitiveness and future-readiness

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

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

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

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

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

4.4.9 Strengthening institutional capacity

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

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

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

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

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

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

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

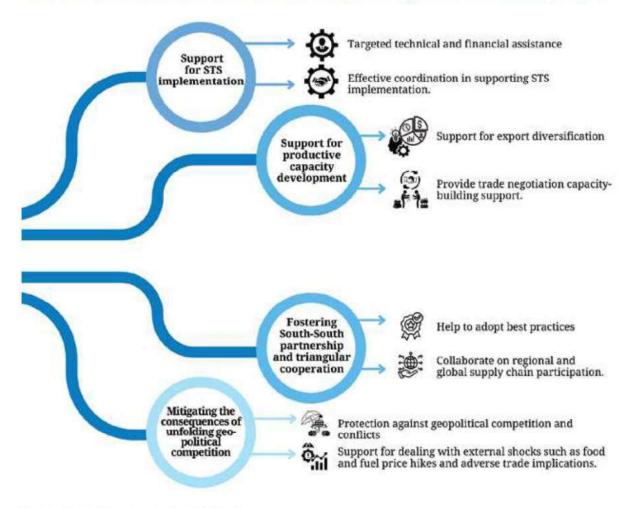
Going beyond the commitment to supporting the LDCs, global development partnerships are prominently featured in the sustainable development goals (SDGs). Goal 17 specifically focuses on enhancing the means of implementation and revitalising global partnerships for sustainable development. The 19 targets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

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

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

Strategic actions:

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



Source: Illustration prepared for this Strategy.

4.5.1 Seeking support for STS implementation

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

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

4.5.2 Support to implement international conventions

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

4.5.3 Technical and financial assistance for ESG compliance

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

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

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

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

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

4.5.5 Helping ease balance of payments pressures

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

4.5.6 Support for achieving SDGs and addressing climate change adversities

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

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

4.5.7 Fostering South-South partnership and triangular cooperation

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

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

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

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

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

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

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

4.5.9 Mitigating the consequences of unfolding geo-political competition

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

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