Preparing for LDC graduation: Urgent reform imperatives to safeguard export competitiveness

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- This policy brief identifies a set of urgent, high-impact reforms essential for safeguarding Bangladesh's trade competitiveness post-LDC graduation.
- Immediate priorities facing Bangladesh in preparing for LDC graduation include: Ensuring highest-level commitment to the implementation of the Smooth Transition Strategy (STS), engaging with the EU to secure favourable post-LDC trade terms, initiating trade policy reform for export diversification and facilitating FTA negotiations, building trade negotiation capacity and strategically pursuing FTAs in the run-up to LDC graduation and beyond, maintaining duty-free access in China and India for future export growth, attracting FDI for export diversification and backward linkages, ensuring macroeconomic stability, adopting sustainability measures, strengthening product standards, enhancing compliance and improving trade facilitation and port management to enhance competitiveness.

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Background

Bangladesh's impending graduation from the least developed countries (LDCs) status, scheduled to take place on 24 November 2026, signifies a globally recognised milestone reflecting its substantial socio-economic progress achieved despite formidable challenges. The transition will likely pose new challenges, as graduated LDCs stand to lose access to international support measures (ISMs) associated with their LDC status, including preferential trade arrangements, special and differential treatment (S&DT) under World Trade Organization agreements, and concessional financing. Among these, the loss of trade preference and S&DT is particularly significant given that unilateral duty-free market access granted by many developed and some developing countries played a critical role in facilitating Bangladesh's export growth, albeit single-handedly driven by the apparel industry. The withdrawal of LDC privileges will likely impact Bangladesh's competitiveness, especially as exporters face rising tariffs in key exporting destinations. Beyond the direct implications of LDC graduation, the country also confronts broader macroeconomic challenges that could exacerbate the transition's difficulties. In recent years, Bangladesh's economy has come under growing strain, characterised by declining foreign exchange reserves and persistently high inflation inflicted by policy mismanagement and poor governance under an authoritarian regime of over a decade. The political transition since early August 2024 has initiated efforts to stabilise the economy and pursue critical reforms aimed at, among others, improving economic functioning and enhancing external competitiveness. These efforts must now be continued with renewed urgency, as the loss of LDC-specific advantages will require the economy to adjust swiftly to a more competitive global environment.

Against the challenges, LDC graduation necessitates adjustments but also offers an opportunity to transition from a trade preference-dependent and low-wage-based export-competitiveness model to look for exploiting other sources for competitiveness by taking recourse to various targeted reform measures. Various preparatory measures are underway in recognition of the need for a structured transition, including the implementation of the Smooth Transition Strategy (STS) that sets out key policy actions to address any potential adverse consequences arising from LDC graduation.[1] The strategy outlines a vision for structural transformation, incorporating a range of reforms to enhance institutional efficiency, improve external competitiveness, and promote export diversification, among others. The STS provides a broad and comprehensive

[1] A Smooth Transition Strategy (STS) is a policy framework designed to assist countries graduating from the Least Developed Country (LDC) category to manage the transition effectively. Originating from United Nations General Assembly Resolution 59/209, the STS aims to ensure that development progress is sustained post-graduation by addressing potential challenges associated with losing LDC-specific support measures.

roadmap, outlining recommendations across five strategic areas—macroeconomic management, trade preferences, export competitiveness and diversification, productive capacity development, and international partnerships. Addressing a wide range of issues and actions serves as a medium- to long-term roadmap for Bangladesh's transition. This policy brief takes a more targeted approach, addressing immediate challenges in the export sector by identifying a select set of urgent, high-impact reforms essential for safeguarding Bangladesh's trade competitiveness post-LDC graduation. Focusing on some selected and concrete measures complements the STS's broader strategic vision, ensuring that critical reforms are prioritised for effective implementation.

A summary of challenges emanating from LDC graduation

Loss of trade preference leading to tariff hikes after LDC graduation

Bangladesh's LDC graduation-related challenges will arise from three main sources: loss of trade preference, shrinking policy space, and possible reduction in concessional financing. While duty-free quota-free market access is available to all LDCs, Bangladesh is unique among this group in terms of the extensive use of LDC-specific preferences, making it the largest beneficiary of ISMs. Almost three-quarters of its merchandise exports, mostly apparel products, benefit from LDC-specific tariff preference (Table 1). Taking advantage of such preferences, Bangladesh emerged as the second-largest apparel exporter in the world. After graduation, LDC-specific tariff preference will either be removed or replaced by a less favourable scheme, depending on the importing countries' GSP mechanisms.

TABLE 1: Breakdown of Asia-Pacific LDC exports by duty types

Country	LDC scheme preference	Other preference	Subject to MFN tariffs due to:			Remarks
			Preference cannot be utilised	No preference granted in importing countries	MFN is zero tariff (i.e., no scope for preference)	
Bangladesh	**73%**	0%	7%	19%	1%	19% of Bangladesh's exports face MFN tariff, which is mainly attributable to unavailability of any tariff preferences in the U.S. market. Additionally, 7% of exports are subject to MFN rates due to non-compliance with RoO criteria.

Bhutan	**10%**	85%	3%	0%	2%	Most of Bhutan's exports are destined for India, where they receive preferential treatment under a bilateral FTA with India. This FTA is not related to LDC status.
Kiribati	**2%**	0%	6%	4%	88%	Kiribati's primary export is fish, of which approximately 86% is destined for Thailand, where the MFN tariff on such product is zero.
Lao PDR	**6%**	0%	16%	32%	46%	Approximately 50% of Lao PDR exports are minerals facing MFN zero tariff in destination countries.
Myanmar	**25%**	1%	26%	0%	49%	Myanmar primarily exports minerals and apparel products, with minerals generally have MFN zero tariff.
Nepal	**16%**	58%	4%	0%	22%	Almost 60% of Nepal's exports are directed to India, where they receive preferential treatment under a bilateral FTA (unrelated to LDC status) with India.
Solomon Islands	**12%**	0%	10%	73%	5%	Its main exports, wood and articles of wood, usually have MFN zero tariff in importing destinations.
Timor-Leste	**0%**	0%	1%	2%	97%	Its main exports, minerals products, face MFN duty-free in importing countries.

Source: Authors' compilation from UNDP (2022) and the WTO Integrated Database (WTO-IDB).

The textile and garment sector enjoys a much higher level of tariff protection than the average MFN tariffs in major importing countries. The sector is likely to see profound changes in the destination country trade policy regime after LDC graduation, with tariffs rising significantly.

- As things currently stand, apart from Australia and the UK, most of Bangladesh's apparel products will lose tariff preferences and be subject to significant tariff hikes, as summarised in Table 2.
- In Canada, Bangladesh will receive a three-year transition period (with the same LDC benefits) following LDC graduation, after which it will move to GPT (General Preferential Tariff) or GPT+ arrangements. While GPT preferences are limited with most apparel products and will be subject to an average MFN tariff rate of more than 16%, GPT+ arrangements, including admission criteria and coverage, are yet to be finalised.
- After Bangladesh graduates from LDC status and completes a three-year transition period in the EU, its access to the EU market for apparel exports will change significantly. While Bangladesh may qualify for the

EU's Generalised Scheme of Preferences Plus (GSP+), which generally offers zero tariffs for 66% of tariff lines, including textiles and clothing, Bangladesh's apparel exports will likely face safeguard measures—given its large market share in the EU—being subject to MFN tariffs.[2]

- Similarly, as Table 2 shows, in two other major apparel markets, India and Japan, LDC graduation would lead to a significant tariff rise for Bangladesh.

TABLE 2: Changes in the respective countries' GSP for apparel products

Markets	Share of BGD exports under LDC scheme	Transition period	Post graduation preference	Post-graduation tariff rate	
				MFN	Post-LDC Tariff
Australia	88%	No	Continue with existing LDC benefits	**4.4%**	Australia has announced that Bangladesh will continue to get existing duty-free access in the post-LDC period
Canada	80.3%	Yes, three years after LDC graduation	GPT	**16.2%**	11.2% for 28 products; MFN tariffs for the rest.
			GPT+		GPT+ provisions are yet to be finalised.
China	66.6%	No	APTA	**6.7%**	4.4% for 403 products; for the rest, MFN tariffs will apply
European Union	94.7%	Yes, three years after LDC graduation	GSP+	**11.5%**	GSP+: generally zero tariff on apparel. But given the current EU GSP provisions, Bangladesh will be subject to EU safeguard measures (given Bangladesh's high market share) resulting in MFN tariffs being imposed.
			Standard GSP		Standard GSP: Generally 9.2% tariff (as against 11.5% MFN tariffs) on apparel. However, no benefit for Bangladesh will be applicable due to EU safeguard measures.
India	83.5%	No	SAFTA	**20%**	Preferences for an extremely limited number of products. MFN tariffs will apply for the rest.
Japan	88.0%	No	GSP for developing country	**9.0%**	Out of 393 apparel products in its tariff lines, Japan's GSP for developing countries includes only 38 items (of this only 17 get duty-free access while for others tariffs are just 1-2 percentage points lower than the MFN rates.
United Kingdom	89%	Yes, three years after LDC graduation	Enhanced Preference under Developing Countries Trading Scheme (DCTS)	**11.5%**	Under the enhanced preference tier, apparel exports will continue to get zero tariff access.

[2] To qualify for GSP+, Bangladesh needs to meet two criteria: a vulnerability criterion and a sustainable development criterion. The vulnerability criterion requires a non-diversified economy where the seven largest sections of GSP-covered imports account for more than 75% of its total GSP-covered imports to the EU. Bangladesh currently fulfils this criterion. The sustainable development criterion requires the ratification and effective implementation of 32 international agreements and conventions related to human rights, labour rights, environmental protection, climate change, and good governance. Bangladesh has ratified the relevant conventions, but their effective implementation is considered challenging. However, under the EU safeguard mechanism, if a country's share of apparel imports into the EU exceeds 6% of total EU imports in a calendar year, it loses preferential access for those products. Bangladesh's current share is well above this threshold, meaning its apparel exports would not qualify for duty-free treatment under GSP+ and could face MFN tariffs exceeding 11%. Other non-apparel products may still benefit from GSP+ preferences.

Source: Compiled from various sources. The share of exports under LDC schemes is estimated using IDB and WTO databases. The calculations are based on 2022 data.

Post-graduation tariff hikes can affect export competitiveness, as studied in various impact assessment studies. One such World Trade Organization (WTO) exercise shows that Bangladesh's exports could decline by over 14% due to the loss of preferential market access (World Trade Organization & Enhanced Integrated Framework, 2020). However, despite providing helpful insights, such assessments cannot fully capture the complexities of the real world and the limitations inherent in the model and data they use. For instance, it is often argued that Bangladesh has expanded its market share in the United States despite the absence of tariff preferences in that market, demonstrating that trade privileges are not the sole determinant of export performance. Over the past decades, Bangladesh's garment industry has built substantial supply-side capacity, leveraged economies of scale, and established a robust global supply chain—factors that underpin its competitiveness beyond preferences. If tariffs are imposed on a major supplier, the resulting increase in global apparel prices could cushion the impact on Bangladesh by partially offsetting the competitiveness loss. Furthermore, China's share in the global apparel market is rapidly declining (Razzaque et al. 2024) as it moves towards high value-added and technology-intensive sectors, leaving further room for other suppliers like Bangladesh.

Additionally, the evolving trade policies of partner countries indicate that not all preferences will be withdrawn immediately, with some likely to be extended. For instance, Australia and the UK will maintain duty-free access for Bangladesh, while Canada and the European Union will grant a three-year transition period for graduating LDCs. Although uncertain, the prospect of continued preferential access beyond this period cannot be ruled out completely, given the potential scope for bilateral engagements. Given these complexities, it is more prudent to focus not on precise export loss estimates but on the broader competitive pressures that LDC graduation will generate, ensuring that policy measures are in place to strengthen Bangladesh's resilience in the post-LDC landscape. It is important to recognise that in some cases, post-LDC preferences can be subject to more stringent rule of origin (RoO) requirements, and in the case of apparel, that can involve moving from single-stage to double-stage transformations for apparel products destined for the EU and UK.[3]

Loss of policy space

Beyond the loss of trade preferences, LDC graduation will reduce Bangladesh's policy space under WTO's Special and Differential Treatment (S&DT)

[3] This means using domestically produced yarn for knitwear and locally manufactured fabrics for woven garments. However, if the EU's safeguard provisions remain unchanged, excluding Bangladesh's apparel exports from any tariff preferences after graduation, the need to comply with RoO provisions becomes irrelevant for apparel in that market.

provisions, which currently support exporters and certain domestic industries. For instance, under the TRIPS Agreement, Bangladesh has been exempt from implementing intellectual property rights (IPR) reforms, allowing it to produce generic versions of patented drugs without legal restrictions. This flexibility has been instrumental in developing a strong domestic pharmaceutical industry. Similarly, export subsidies are generally prohibited under the Agreement on Agriculture (AoA) and the Agreement on Subsidies and Countervailing Measures (ASCM). Still, Bangladesh has been able to provide them due to its LDC status. Additionally, under the Dispute Settlement Understanding (DSU), WTO members have exercised due restraint in raising disputes against Bangladesh.

Upon LDC graduation, these flexibilities will be withdrawn, potentially weakening protections for the pharmaceutical sector. The loss of export subsidies will further erode export competitiveness, and when combined with rising tariffs, the impact could be significant. Additionally, LDC graduation will increase Bangladesh's exposure to WTO scrutiny, subjecting its trade and industrial policies to greater oversight and potential challenges.[4]

Impact on concessional development financing

Official Development Assistance (ODA) remains crucial for Bangladesh's development, supporting infrastructure, education, health, and social empowerment initiatives. While LDC graduation raises concerns about reduced ODA, historical trends suggest that aid flows are primarily influenced by donor ties, crisis response (for example, conflicts and natural disasters), income level, creditworthiness, and strategic bilateral priorities, rather than LDC status alone (ERD, 2025). Consequently, ODA availability may not be significantly impacted by graduation per se. However, some LDC-specific financing options will no longer be accessible post-graduation or after a designated grace period, including new Least Developed Countries Fund (LDCF) funding. That said, such LDC-targeted mechanisms have not been major sources of development financing for Bangladesh.

Interest rates on concessional loans have been rising, but this trend is primarily linked to Bangladesh's transition to lower-middle-income status in 2015. As the country's income classification improves, it naturally shifts toward financing with less favourable terms, independent of LDC status.

[4] However, it is worth pointing out that Bangladesh's recent patent law revisions ensure continued access to patented drugs invented before LDC graduation, though access to newly developed drugs may be affected. Additionally, as per the 13th WTO Ministerial Conference decision, WTO members have agreed to maintain due restraint in initiating disputes against graduating LDCs for three years post-graduation.

Export concentration exacerbating LDC graduation challenges

Notwithstanding the caveats of impact assessment studies mentioned above, with over 80% of export earnings tied to apparel and 70% of those exports concentrated in cotton garments, the loss of trade preferences and withdrawal of export subsidies could cause severe competitiveness pressure for Bangladesh.[5] Unlike more diversified economies, Bangladesh lacks alternative export sectors to cushion the impact of higher post-graduation tariffs in key markets. Additionally, shifting global demand towards man-made fibre (MMF) apparel puts Bangladesh at a competitive disadvantage. The narrow export base heightens vulnerability to external shocks, as Bangladesh remains dependent on a single sector facing growing sustainability regulations and evolving trade dynamics. Without urgent diversification, LDC graduation will expose Bangladesh to deeper economic risks, slowing its ability to transition towards a more competitive and resilient export structure.

Emerging challenges to export competitiveness

Beyond tariffs, export competitiveness is being increasingly shaped by global standards and sustainability requirements. Compliance with stricter labour, human rights, and workplace safety standards is now essential, and Bangladesh must make significant improvements in these areas. Though initially sector-specific, the EU's Carbon Border Adjustment Mechanism (CBAM) is expected to expand, potentially imposing additional costs on exports based on carbon footprint. Similarly, the EU's Corporate Sustainability Due Diligence Directive (CS3D) requires businesses to monitor and mitigate environmental and human rights impacts across supply chains, necessitating the adoption of international practices and adjustments in sourcing and production. Furthermore, major global brands are demanding greener supply chains, pushing suppliers to reduce emissions, minimise waste, and adopt sustainable practices. Compliance with these evolving standards is no longer optional but a prerequisite for market access. Therefore, Bangladesh's post-LDC competitiveness will hinge on cost efficiency and aligning with global regulatory and sustainability expectations.

Immediate priorities facing Bangladesh in preparing for LDC graduation

As Bangladesh moves toward LDC graduation, its challenges are structural, requiring medium- to long-term interventions, as extensively discussed in the

[5] Non-cotton apparel (including mostly man-made fibres) captures more than 60% of global apparel exports. Bangladesh's dual concentration – first on a single brad sector (apparel) within the export basket and then a specific type of product (cotton apparel) within that sector – creates substantial vulnerabilities.

Smooth Transition Strategy prepared by the Government of Bangladesh. However, while these long-term strategies are essential, certain issues demand immediate attention to ensure a smooth transition and maintain economic competitiveness. Addressing these urgent priorities should serve as a starting point for advancing broader structural reforms. This paper, therefore, outlines a few of Bangladesh's most pressing priorities in preparing for LDC graduation.

Ensuring highest-level commitment to the implementation of the Smooth Transition Strategy (STS)

Ensuring a smooth and successful transition from LDC status requires the highest political and institutional commitment to implementing the Smooth Transition Strategy (STS). As a comprehensive roadmap, the STS provides specific, time-bound measures aligned with national priorities, addressing structural challenges, leveraging competitive advantages, and mitigating risks associated with graduation. However, its effectiveness may be undermined without a dedicated systematic implementation, monitoring, and review mechanism.

There is a need to establish a dedicated high-level coordination mechanism responsible for overseeing execution, monitoring progress, and ensuring accountability across relevant ministries and agencies to ensure effective implementation. This should be complemented by regular stakeholder engagement, including consultation with the private sector, development partners, and trade bodies, so that efforts are well-coordinated and aligned effectively in addressing emerging challenges. Furthermore, institutionalising a structured review process with independent monitoring and real-time progress tracking should help maintain momentum and ensure that the STS remains an active and adaptable framework rather than a static policy document.

Engaging with the EU to secure favourable post-LDC trade terms

If Bangladesh can secure favourable post-LDC trade terms in the EU, which accounts for nearly half of its total exports, the most immediate and significant challenges stemming from graduation would be largely mitigated. Factoring in the UK's DCTS tariff preferences and Australia's granting continued duty-free market access, the share of exports benefiting from the almost similar LDC type preferences would rise to more than 60%, substantially easing the transition. With the EU's extension of its current GSP scheme until 2027, Bangladesh has a strategic window of opportunity to immediately consult with the EU and urge for critical adjustments to safeguard its export competitiveness in the post-LDC era. Key areas for engagement with the EU should have two objectives:

- Seeking removal or relaxation of Article 29 (safeguard measures on textiles and clothing) – This would allow Bangladesh to retain duty-free access for apparel exports under GSP+, securing its competitiveness in the EU market.[6]

- Relaxation of rules of origin (RoO) requirements – As per current EU GSP rules, GSP+ and Standard GSP require 50% value addition for non-apparel exports and double-stage transformation for apparel to qualify for any tariff preferences. However, these RoO provisions are excessively restrictive, especially given the prevalence of value chain-led trade where countries often specialise in specific components, making it difficult for capacity-constrained graduating LDCs to meet such demands. Moreover, since Bangladesh is already a significant supplier under the EBA, allowing continued preferential access under GSP+ with a more flexible RoO is unlikely to cause market disruptions.

Productive engagement with the EU will require demonstrating tangible improvements in labour standards and compliance with international regulations, as these issues remain central to the EU's trade policies. Practical measures in strengthening workplace safety, workers' rights, and sustainability measures will be critical in building credibility. This should be a top priority to facilitate negotiations for retaining preferential access under GSP+ and lay the groundwork for deeper trade relations, including moving towards a potential Free Trade Agreement (FTA) with the EU. While negotiating an FTA is a complex and time-intensive process, requiring years of preparation and significant domestic reforms, it offers a long-term pathway to securing stable market access and attracting investment. A pragmatic approach would be to seek an interim extension of current preferences while working toward an FTA, ensuring continuity in trade and investment flows during the transition period.

Initiating trade policy reform for export diversification and facilitating FTA negotiations

While Bangladesh has undertaken various initiatives to diversify its exports, the outcome of such policies remains largely ineffective. Despite the emphasis on export-led growth in policy documents (for example, in the past five-year plans), trade policies continue to favour import substitution in a manner that severely affects incentives for investment in the export sector. Bangladesh's trade policies, characterised by high customs duties and additional tariffs, such as supplementary and regulatory duties, often known as para-tariffs, have favoured import-competing industries at the expense of export growth. The nominal protection rate is estimated at 28%, making Bangladesh one of the most protectionist economies in the world (World Bank, 2022). This high level of

[6] According to EU provisions on "Safeguards in the Textile, Agriculture, and Fisheries Sectors" (Article 29 of the proposed EU GSP), clothing products from a non-LDC beneficiary will not receive preferential access if the share of the relevant products is above 6% of total EU imports of the same products and exceeds the product graduation threshold during a calendar year. Bangladesh's current apparel exports are well above the 6% market share (Razzaque & Rahman, 2022).

protection distorts resource allocation, making the domestic market more attractive than exports, leading to anti-export bias.[7] Export subsidies and other available support measures cannot outweigh the magnitude of tariff protection sustaining the anti-export bias (PRI, 2024). Moreover, this protectionist environment stifles competition and innovation, preventing even import-competing industries from improving efficiency and global competitiveness. Bangladesh's export diversification and competitiveness will remain constrained without trade policy reforms.

While the textile and clothing industry also faces anti-export bias, the export-oriented apparel sector has successfully navigated this challenge due to its exclusive reliance on export orders and inability to sell in the highly protected domestic market either because of a lack of demand for the types of products exported or due to regulatory restrictions for firms considered as 100% export-oriented. Furthermore, garment firms have been the principal beneficiaries of export support measures, and since the tariff protection on textile and clothing in importing countries is significantly higher than their average MFN tariffs (Razzaque et al. 2024), LDC-specific tariff preferences provided additional incentives for apparel exporters.

Tariff rationalisation must be prioritised without delay to mitigate anti-export bias. The National Tariff Policy 2023 (NTP), which has been given due consideration in the STS, outlines key reforms, including duty-free import of intermediate inputs for all exporters. Effective implementation of the NTP would provide greater trade policy flexibility and strengthen Bangladesh's position in negotiating market access through FTAs with key trading partners. Additionally, aligning the tariff structure with WTO standards by eliminating para-tariffs—currently deemed non-compliant—would enhance policy credibility and global trade integration.

Tariff rationalisation must be accompanied by strengthened domestic resource mobilisation to reduce reliance on import duties for revenue. With Bangladesh's tax-to-GDP ratio at just 8%, trade liberalisation raises concerns about government earnings. Expanding the tax base and improving efficiency through reforms would mitigate these risks, enabling sustainable debt management and reducing dependence on external financing while also providing greater trade policy flexibility to facilitate export diversification and FTA negotiations.

[7] Anti-export bias in Bangladesh is estimated at around 25% when measured using effective exchange rates (EERm/EERx), with an average ratio of 1.20 for all non-RMG products and 1.26 for highly competitive ones. The Effective Exchange Rate for Exports (EERx) represents the total amount of domestic currency received per unit of foreign currency earned, factoring in the nominal exchange rate and any export incentives or subsidies. In contrast, the Effective Exchange Rate for Imports (EERm) reflects the total domestic currency required per unit of foreign currency spent on imports, incorporating tariffs, duties, and other import-related charges. A higher EERm relative to EERx signals an anti-export bias, making import-competing activities more attractive than exporting, discouraging firms from expanding into global markets.

Building trade negotiation capacity and strategically pursuing FTAs in the run-up to LDC graduation and beyond

Leveraging FTAs for continued market access

LDC graduation does not imply the end of preferential market access, as there remains significant scope for negotiating Free Trade Agreements (FTAs) and Economic Partnership Agreements (EPAs) to sustain and expand Bangladesh's trade opportunities. While Bangladesh will gradually lose unilateral preferences under LDC-specific schemes, reciprocal trading arrangements through FTAs can provide a long-term mechanism to maintain competitive access to key markets.

With an increasing number of developing and emerging economies actively engaging in FTAs, Bangladesh must adopt a proactive approach to trade negotiations. Many developing countries are negotiating FTAs with established trade partners, causing preference erosion and competitive disadvantage for Bangladesh. For instance, Viet Nam—a major apparel exporter—has successfully secured FTAs with the EU and Canada, which have already entered into force, creating significant competitive pressure on Bangladesh. While Canada has eliminated tariffs on Viet Nam's apparel exports, the EU is implementing a phased tariff reduction, gradually lowering duties from an average of 9% to zero.[8] This transition will be fully realised around the same time Bangladesh completes its additional three-year post-graduation period in the EU (2029). The EU is currently negotiating FTAs with other major apparel exporters, such as India and Indonesia. These trends underscore the urgency for Bangladesh to pursue strategic trade negotiations to prevent any competitive disadvantage as it graduates from the group of LDCs.

Materialising the Japan-Bangladesh EPA

Bangladesh is negotiating an Economic Partnership Agreement (EPA) with Japan, marking a highly significant step in securing post-LDC preferential access through a bilateral FAT with a developed country. Beyond market access, the EPA aims to strengthen economic ties, attract Japanese investment, and signal Bangladesh's readiness for trade agreements with globally leading economies. Successfully concluding this agreement could serve as a catalytic moment for future bilateral and regional trade deals.

Strategic focus in FTA negotiations

It is important to be strategic in pursuing FTAs, targeting partners with the highest export potential and those that can facilitate FDI. Given the limited trade negotiation capacity, prioritisation is essential to avoid overextending resources

[8] According to one study, the EU-Vietnam FTA could cause Bangladesh's exports to decline by 1.8 to 3%(Razzaque et al., 2024). The EU-India Free Trade Agreement, which is expected to be finalised soon, will further intensify competition for Bangladesh's key export sectors (PTI, 2025). India and the UK are negotiating an FTA, which can soon materialise.

in multiple negotiations simultaneously. Targeting partners with whom an FTA would enhance export opportunities and investment flows will ensure that Bangladesh maximises its gains while effectively managing capacity constraints.

Enhancing trade negotiation capacity

The STS highlights the urgent need to strengthen Bangladesh's trade negotiation capacity, which is currently inadequate for handling complex FTA discussions. There is a need for establishing a Chief Trade Negotiator's Office to institutionalise negotiation expertise and mechanisms, tasked with:

- Developing a comprehensive trade negotiation strategy aligned with national trade and industrial policies
- Ensuring coordination between trade policy and FTA negotiations to maintain consistency in Bangladesh’s trade commitments
- Leading FTA negotiations and handling technical complexities to secure the most favourable terms
- Building a skilled team of trade negotiators through structured training programs and engagement with international trade experts

Maintaining duty-free access in China and India would be critical for future export

Ensuring the continuation of duty-free access in China and India—the world's two largest and fast-growing economies—will be paramount for Bangladesh's post-LDC export competitiveness. Precedents exist where graduated LDCs have continued to benefit from unilateral preferences, as seen in the case of the Maldives, which has retained LDC-specific benefits in India under a special provision of the South Asian Free Trade Agreement (SAFTA), and Samoa, which has continued receiving preferential treatment from China. Against this backdrop, it would be prudent for Bangladesh to formally request the extension of similar tariff preferences, ensuring that its exports remain competitive in these vital markets.

FTA negotiations with China and India can also be pursued strategically. Instead of entering into fully reciprocal agreements that would necessitate the elimination of duties on "substantially all trade" under GATT Article XXIV of the WTO, Bangladesh should advocate for a less-than-full-reciprocity approach; a provision often extended to developing countries, which would allow sufficient policy space to protect critical domestic industries while maintaining existing market access advantages.[9] Thus, the most effective strategy would integrate

[9] Article XXIV of GATT 1994 provides the legal basis for FTAs and customs unions, requiring that they cover "substantially all trade" to be WTO-compliant. However, the interpretation of this provision varies in practice. While FTAs involving developed countries often use a 90% trade coverage threshold, agreements among developing countries lack a universally defined benchmark, allowing for greater flexibility in sectoral coverage and transition periods. This flexibility enables developing

diplomatic efforts to secure extended unilateral preferences alongside carefully negotiated FTAs with built-in flexibilities.

Urgent need to attract FDI for export diversification and backward linkages

Despite Bangladesh's impressive garment export performance, FDI inflows remain critically low, below, on average, 1% of GDP during 2012-23, significantly trailing behind countries like Cambodia (12.75%), Viet Nam (4.69%), and Malaysia (3.21%). In contrast, Viet Nam's export success has been largely driven by FDI, which accounts for 60% of its manufacturing exports (ERD, 2025). For Bangladesh, FDI will be particularly crucial for expanding non-garment exports, as these sectors suffer from a lack of technological know-how, weaker product standards and compliance, and limited integration into global value chains (GVCs). Additionally, for export diversification within the garment sector, FDI will play a vital role in developing backward linkages for man-made fibre (MMF)-based apparel production. Without a strong domestic MMF industry, Bangladesh risks losing competitiveness to countries already integrated into global synthetic textile supply chains. Given the substantial investment required for MMF production, relying solely on domestic capital will be insufficient, making FDI essential for breaking into this high-value segment.

The ongoing restructuring of global supply chains—driven by geopolitical rivalries and the diversification of investment away from China—presents a unique opportunity for Bangladesh to position itself as an alternative investment destination. However, to attract FDI into export sectors, Bangladesh must address key constraints, including:

- Improving the ease of doing business by streamlining regulations, reducing administrative inefficiencies, and ensuring policy predictability
- Strengthening investment facilitation through more effective Special Economic Zones (SEZs) and investment promotion initiatives
- Enhancing legal and regulatory frameworks to provide transparent, investor-friendly policies, including modernised dispute resolution mechanisms
- Upgrading infrastructure and logistics to reduce the high cost of trade and improve connectivity

Ensuring macroeconomic stability as one of the most critical determinants for Post-LDC competitiveness

Maintaining macroeconomic stability will be critical in preparing for LDC graduation and beyond, as it directly impacts export competitiveness,

countries, including Bangladesh, to pursue FTAs that can preserve policy space for critical industries while securing preferential market access.

investment inflows, and long-term economic resilience. A stable macroeconomic environment, characterised by controlled inflation, fiscal discipline, and a competitive exchange rate, fosters predictability, essential for attracting domestic and foreign investment. In the absence of LDC-specific trade preferences, export price competitiveness must be maintained, prioritising inflation control to prevent cost-driven erosion in global markets. Similarly, a stable and competitive exchange rate regime is crucial, ensuring that exports remain attractive, remittance inflows remain steady, and external imbalances are minimised.[10] Furthermore, macroeconomic stability is decisive in attracting Foreign Direct Investment (FDI). Sound economic management, supported by adequate foreign exchange reserves and prudent fiscal policies, not only safeguards trade performance but also bolsters investor confidence, making Bangladesh a more compelling destination for efficiency-seeking FDI. Given the current inflationary pressures and foreign exchange challenges, prioritising macroeconomic stability must be at the forefront of Bangladesh's LDC transition strategy to sustain export-driven growth and long-term economic resilience.

Adopting sustainability measures, strengthening product standards, and enhancing compliance to build new sources of competitiveness

In the post-LDC era, Bangladesh's ability to sustain and expand its export base will depend on cost advantages and compliance with evolving global standards on sustainability, labour rights, and product quality. Rising consumer and regulatory pressures, particularly in key markets like the EU and the US, have made adherence to stringent environmental and social standards a prerequisite for market access. As buyers and investors increasingly prioritise ethical sourcing and responsible production, failing to meet these requirements risks trade restrictions, reputational damage, and potential loss of business.

Among these, labour standards represent a critical area where Bangladesh must demonstrate tangible progress. Major trade partners have already incorporated labour rights and workplace safety provisions into their trade policies, and securing favourable trade terms—whether under GSP+ in the EU or FTAs with key markets—will require robust compliance with international labour conventions. Strengthening workplace safety, ensuring fair wages, and improving working conditions are not just moral imperatives but strategic necessities for retaining export competitiveness.

[10] Persistent overvaluation of the taka—driven by relatively higher inflation and limited exchange rate adjustments—led to a 60% appreciation of the real effective exchange rate (REER) between 2011 and 2022 (ERD, 2024). While the central bank allowed a 25% nominal depreciation in 2022 to address balance of payments pressures, the REER remained overvalued by over 40% from the FY2011 baseline. The bilateral RER against China, India, and Vietnam is still 70-80% appreciated compared to the 2012 level.

Enhancing product standards and sustainability practices is crucial for diversifying exports into higher-value sectors and aligning with emerging trade regulations, such as the EU's Corporate Sustainability Due Diligence Directive (CSDDD) and Carbon Border Adjustment Mechanism (CBAM). Proactive investment in green manufacturing, environmental compliance, and certification infrastructure will preserve existing market access and unlock new trade and investment opportunities. Adopting sustainability and compliance measures as a core strategy will enable Bangladesh to move beyond low-cost competition and establish itself as a reliable and responsible global trading partner.

Improving trade facilitation and port management to enhance competitiveness

Efficient trade facilitation, including streamlined port operations and customs procedures, is essential for improving Bangladesh's export competitiveness post-LDC era. Cumbersome customs processes, inefficiencies in port management, and excessive documentation requirements significantly increase trade costs, causing delays that undermine exporters' competitiveness. Addressing these bottlenecks will ensure faster clearance times, reduce trade-related costs, and enhance the overall ease of doing business.

Among the most immediate and impactful reforms is modernising customs procedures through digitalisation, risk-based inspections, and greater transparency in trade regulations. Simplifying documentation, reducing discretionary interventions, and minimising non-tariff barriers can serve as quick, low-hanging fruits that yield immediate benefits for businesses, particularly export-oriented firms facing intense global competition. Establishing a predictable and efficient trade environment will lower transaction costs, increase investor confidence, and help attract greater FDI in export sectors.

Additionally, improving port infrastructure, expanding capacity, and adopting globally recognised logistics best practices will be critical for facilitating smoother trade flows. Optimising port efficiency by reducing congestion and implementing automation in cargo handling can significantly enhance export competitiveness and supply chain reliability. Bangladesh must prioritise trade facilitation reforms to sustain its export growth trajectory, improve logistics efficiency, and integrate more effectively into global value chains.

Conclusion

There is no denying that LDC graduation is a testament to Bangladesh's remarkable socio-economic progress achieved over the past several decades, which has culminated in this critical transition. The graduation ends a host of concessions from international support measures, especially trade preferences. No other country has been able to utilise these preferences in a more commercially meaningful way than Bangladesh. For the same reason, the potential consequences of LDC-graduation facing the country are unique.

However, LDC graduation also offers an opportunity to prepare for the changes that can eventually improve the economy's overall competitiveness. Many longstanding critical reforms can now be prioritised, bolstering competitive strength without international support measures. As rightly pointed out in Bangladesh's Smooth Transition Strategy, there is now a need for structurally transforming the economy to break away from preference-dependent and low-wage-driven export competitiveness to look for new sources of competitiveness driven by enhanced product quality, improved labour standards, and strengthened environmental compliance, amongst others. While these factors may be considered demanding, they tend to be associated with strong and sustained economic and export performance.

Along with the above, trade policy reform measures such as tackling anti-export bias and streamlined trade facilitation measures can greatly incentivise export sector-specific investment, boosting export reform. Critical reforms for attracting FDI, essential to boost export response from the non-garment sector, should also be motivated and effectively implemented given the impending LDC graduation timeline. Given that Bangladesh has faced infrastructural bottlenecks and high costs of doing business for a long time, any improvements in these areas can also help offset some of the lost tariff advantages due to LDC graduation. Moving ahead and over the medium to long term, opportunities for free trade agreements to secure tariff-free market access must be sought effectively, for which enhanced trade negotiation capacity will be a prerequisite.

While the reforms required to ensure a smooth LDC graduation may appear challenging, they are indispensable for building the foundations of long-term competitiveness, economic resilience, and sustained export growth. Rather than viewing graduation as a disruption, it should be embraced as a strategic inflection point that compels Bangladesh to undertake the reforms necessary to thrive in an increasingly rules-based and competitive global trading system.

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