

Regional integration as a strategic avenue for  
**Bangladesh**  
LDC graduation with momentum



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**United Nations**

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# INTRODUCTION

On November 24, 2021, the General Assembly of the United Nations recommended Bangladesh for graduation out of the Least Developed Countries (LDCs) group in 2026, endorsing the earlier recommendations by the Committee for Development Policy (CDP) of the United Nations and Economic and Social Council (ECOSOC). While this is a recognition of Bangladesh's impressive track record in terms of socio-economic development, as captured in the three LDC criteria, graduation will undoubtedly entail new and significant challenges for the country. Moreover, Bangladesh is an outlier among the seven graduating LDCs (Angola, Bhutan, Lao People's Democratic Republic, Myanmar, Sao Tome and Principe, and Solomon Islands) in view of its large population, economic size and trade flows; hence, its graduation will be watched carefully by the global community.

Bangladesh is one of the few LDCs that was able to draw tangible benefits from the international support measures (ISMs) that target LDCs, most importantly, those related to trade. These encompassed, most notably, preferential market access offered by several developed and developing countries under various Generalised System of Preference (GSP) schemes, and special and differential treatment (SDT) extended under the various World Trade Organization (WTO) Agreements.<sup>1</sup> Although the available ISMs did not fully address the needs of the LDCs, and not all of them were fully implemented<sup>2</sup>, they nonetheless allowed Bangladesh to pursue its policies with a certain degree of flexibility, and with a significant edge over most of its competitors in export markets. For instance, about 70 per cent of Bangladesh's exports enter the destination markets on preferential access terms and its pharmaceutical sector – developed partly thanks to derogations from trade related intellectual property rights (TRIPS) obligations – caters to the 97 per cent of domestic market. Consequently, the country has a lot to lose from the phasing out of ISMs upon its graduation.

In view of the likely implications of LDC graduation, Bangladesh will need to make a crucial transition from ISM-driven competitive edge to skills-and productivity-driven competitiveness. A sustainable transition from LDC to (non-LDC) developing country status will thus call for appropriate strategies and adequate preparedness to LDC graduation and beyond. The challenges facing Bangladesh's aspiration for graduation with momentum has been further accentuated by newly emerging challenges stemming from the COVID-19 pandemic and the fallout from the war in Ukraine.

In light of the above, the study focuses on three areas: Section 1 presents a brief discussion on the state of the economy and the external sector performance that sets the backdrop for Bangladesh's preparations for LDC graduation; Section 2 examines some of the possible implications of LDC graduation for Bangladesh's trade and external sector performance; Section 3 and 4 respectively make the case for strengthened regional integration, and sketch out key elements of an aggressive related policy agenda to that effect. Finally, Section 5 summarizes and concludes.

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<sup>1</sup> There are 183 SDT provisions under the 16 WTO Agreements for the developing country members, of which 25 are specifically for the LDCs (Low, 2021).

<sup>2</sup> Some SDTs were formulated in a vague or non-binding way, others could not be fully realized on the ground because complementary steps were not taken or related assistance was insufficient; finally, key decisions pertaining to SDTs have been long pending or promised assistance was insufficient (Rahman and Bhattacharya, 2020a and 2020b; UNCTAD 2016).



# 1

## STATE OF BANGLADESH'S ECONOMY AGAINST THE BACKDROP OF COVID-19

Among the 7 LDCs presently slated for graduation, Bangladesh is the only one that met all 3 graduation criteria, at both the 2018 and 2021 triennial reviews of the CDP. The dynamics of Bangladesh's external sector performance, as is evidenced by Table 1, shows that over the years Bangladesh has been able to make a crucial transition from a predominantly aid-dependent economy to a trading economy. However, 'even though Bangladesh is approaching LDC graduation on the back of sustained progress and with strong political will, there is no time for complacency.' (UNCTAD, 2020: ix)

**Table1. Evolution of the global exposure of Bangladesh's economy**

Indicators	FY1973	FY1981	FY1991	FY2001	FY2011	FY2019	FY2020	FY2021
GDP (in billion USD)	8.1	20.3	31.0	54.0	128.6	300.0	323.1	355.0
GDP growth (in percentage over preceding year)	3.3	7.2	3.5	5.1	6.5	8.2	3.5	6.9
Per capita GNI per annum (in nominal USD)	120.0	260.0	320.0	427.9	927.9	1909.0	2024.0	2227.0
Export earnings (in billion USD)	0.4	0.7	1.7	6.5	22.9	39.6	33.7	38.8
Remittance earnings (in billion USD)	0.0	0.4	0.8	1.9	11.7	16.4	18.2	24.8
Import (in billion USD)	0.8	1.9	3.5	9.3	33.7	55.0	54.8	65.6
Trade to GDP ratio	14.8	12.9	16.8	29.3	44.0	31.5	27.4	29.4
Export earnings (as percentage of import payments)	50.0	37.4	49.5	69.3	68.1	72.0	61.5	59.1
Export and Remittance earnings (as percentage of import payments)	50.0	57.3	70.6	90.3	102.7	101.2	94.7	96.9
External debt servicing (as percentage of export and remittance earnings)	13.7 *	7.8	23.6	10.7	5.3	2.9	3.3	3.0

Source: UNCTAD Secretariat calculations based on data from Ministry of Finance (MoF, 2020), Bangladesh Economic Review (BER); Export Promotion Bureau (EPB, n.d.), Bangladesh Bank (BB, n.d.); and Bangladesh Bureau of Statistics (2020).

Note: a. Data for FY 1976.

It is not only four sources of structural vulnerabilities – namely, heightened reliance on LDC-specific ISMs, lack of export diversification, dependence on external savings, and exposure to climate change impacts – that will continue to shape Bangladesh's trajectory toward graduation and beyond. In Bangladesh and most LDCs alike, the COVID-19 pandemic has left negative footprints on many areas of socio-economic performance (UNCTAD, 2021). The "great lockdown" immediately triggered significant job losses and sharp deteriorations of poverty indicators (CPD-Oxfam, 2020; PPRC-BRAC, 2021). Although the situation has markedly improved since the early days of the pandemic, the negative impacts of Covid still remain visible. Despite some bounce-back in the labour market, the recovery has been K-shaped, with the manufacturing and export-oriented sectors recovering at a relatively faster pace compared to the services sector (e.g., tourism, travel, retail, small and medium-sized enterprise (SME) and informal services). Though lower than initially projected, the GDP growth rate for FY2020-21 was 6.9 per cent, with both exports and imports picking up quite remarkably over the first eight months of FY2021-22, significantly exceeding pre-pandemic levels. Remittances also remain higher than pre-pandemic, even though they declined slightly compared to the record-levels of Y2020-21.<sup>3</sup> Moreover, the lingering impacts of

<sup>3</sup> With the resumption of trade, travel and tourism, a part of remittance earnings could have gone back to informal channels; moreover, with depreciating value of Bangladeshi taka (Tk) in the informal (curb) market, an incentive has been created for switching to informal transactions. Remittance flow in the first 7 months of FY2021-22 was 19.9 per cent lower than corresponding period of FY2020-21, although it was higher than the corresponding period of FY2019-20.

the pandemic are now compounded with the “cost of living crisis” resulting from tensions in the food, fuels and financial markets stemming from the war in Ukraine.<sup>4</sup> At the macro-level, this is manifested in devaluing exchange rate, subdued investment growth and timid private credit uptake<sup>5</sup>, while at the micro-level, recent surveys confirm the presence of a significant number of ‘new poor’. Against this background, the government adopted various support measures: 28 stimulus packages worth about USD 14.45 billion (equivalent to about 4.4 per cent of the GDP) were put in place following the pandemic.<sup>6</sup> However, while providing some relief, these measures were not able to address the structural difficulties afflicting a large part of the economy.

Bangladesh Vision 2041 aspires to achieve an economically developed, socially inclusive and environmentally sustainable Bangladesh by 2041, with the country transitioning to upper-middle-income status by 2031, and high-income status by 2041. This ambition calls for the deployment of considerable resources for sustainable development, and cannot but rely on an inclusive recovery from the ongoing “poly-crisis”, and on the achievement of LDC graduation with momentum. In this context, the following section identifies key implications of the phasing out of ISMs for the Bangladeshi economy, while Section 3 makes the case for regional integration as a key avenue to mitigate the impact of LDC graduation of Bangladesh and accelerating structural transformation.

**Table 2. Recent export sector performance**

	Export (in billion USD)				
	FY2019	FY2020	FY2021	July-Feb	
				FY2021	FY2022
<b>Major Export items</b>					
Knitwear	16.9	13.9	17	11.3	15.1
Woven Garments	17.2	14	14.5	9.7	12.4
Home textile	0.9	0.8	1.1	0.7	1
Jute and Jute goods	0.8	0.9	1.2	0.9	0.8
Leather, leather products and footwear	1.3	1.1	1.3	0.8	1.1
Frozen and Live Fish	0.5	0.5	0.5	0.3	0.4
Pharmaceutical products	0.1	0.1	0.2	0.1	0.1
<b>Total (Major items)</b>	<b>37.7</b>	<b>31.3</b>	<b>35.7</b>	<b>23.9</b>	<b>30.9</b>
Rest of the items	2.8	2.4	3.1	2	2.9
<b>Total export</b>	<b>40.5</b>	<b>33.7</b>	<b>38.8</b>	<b>25.9</b>	<b>33.8</b>
<b>Total export (growth)</b>	----	-16.93%	15.10%	----	30.86%

Source: UNCTAD Secretariat calculations based on EPB, n.d.

<sup>4</sup> The effects of the Russia-Ukraine conflict accentuated these challenges, as Bangladesh is highly dependent on importing fuel, gas, fertilizers and wheat.

<sup>5</sup> Private credit growth was significantly below the private target benchmark set up by the Bangladesh Bank at 14.8 per cent for FY2022.

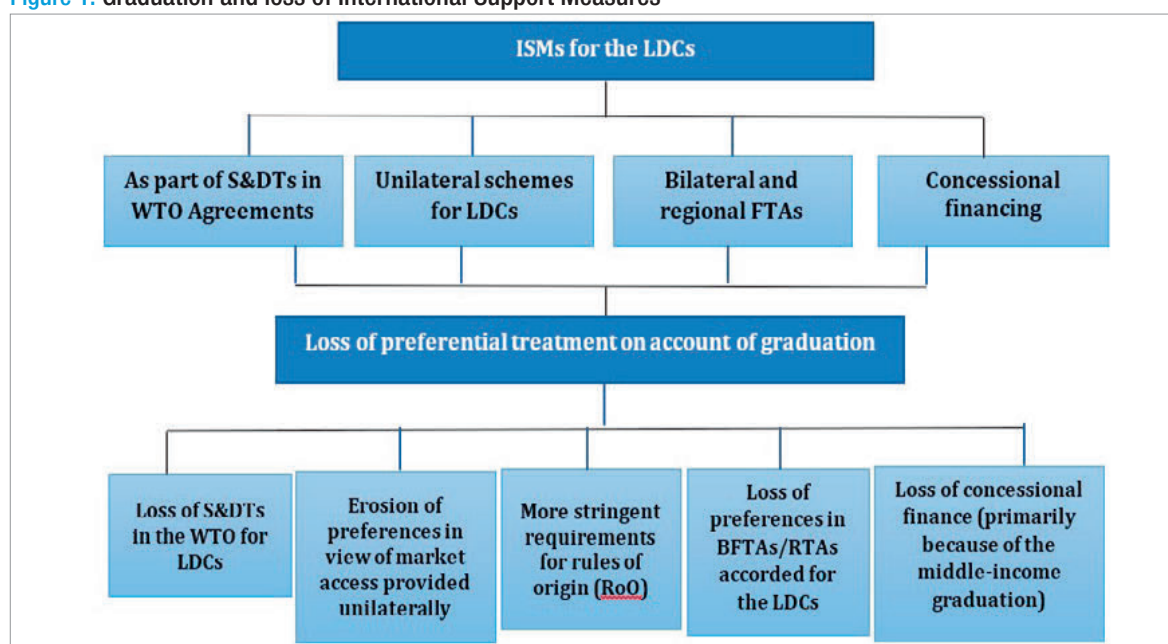
<sup>6</sup> These included cash transfers, subsidized loans to large industries and SMEs, expanded social safety net programs, and food grains distribution, among others. Such preferential market access, provided either unilaterally or under different regional trading arrangements (RTAs), are allowed in the WTO under the Enabling Clause of 1979 and should be notified accordingly.

# 2

## LIKELY IMPACTS OF LDC GRADUATION AND LOSS OF INTERNATIONAL SUPPORT MEASURES

A number of ISMs with variable scope and effectiveness are granted to LDCs in view of their structural vulnerabilities (Figure 1). First and foremost, this relates to preferential market access provided by almost all developed and many developing countries under their respective GSP schemes, often in the form duty-free, quota-free (DFQF) access with relaxed rules of origin.<sup>7</sup> In addition, other relevant ISMs granted under the WTO discipline encompass flexibilities in terms of commitment (e.g., as part of the Trade Facilitation Agreement), enforcement of compliance requirements (e.g., in case of providing subsidies, notification about policy changes etc.), longer transition period for implementation of obligations (e.g., in case of TRIPS that allows production of medicines without recourse to patents and licenses, effective till end-2032), technical assistance (e.g., support from Technology Fund) and aid for trade (trade-related aid as part of the Enhanced Integrated Framework-EIF), among others.

**Figure 1. Graduation and loss of International Support Measures**



Source: UNCTAD Secretariat.

Although the effectiveness of the above ISMs is uneven and partly conditional on institutional capabilities, their phasing out upon graduation needs to be carefully considered to mitigate related adverse impacts. In general, it is reckoned that the loss of ISMs will affect both the domestic and the global space and will be felt primarily in four areas (Figure 2): (a) domestic policymaking and policy flexibility; (b) obligations as part of various WTO Agreements, compliance and enforcement; (c) terms of market access; and (d) degree of reciprocity in dealing with partners. Loss of ISMs will result in significant loss of competitive edge and shrinking of domestic policy space and will have important repercussions in dealings with regional and global partners.

Starting with preferential market access, the extent to which LDC graduation will impact a given economy will depend on: (a) most-favoured nation (MFN) tariffs in partner countries; (b) extent of actual use of preferential access; (c) alternative trading arrangements granting preferential access even beyond LDC graduation; (d) pattern of specialization and importance of the export sector. Bangladesh's vulnerability in this respect can hardly be over-emphasized: more than 70 per cent of its merchandise exports currently enjoy preferential market access, its exports composition is highly concentrated on ready-made garments (RMG) – a sensitive industry for which MFN tariffs tend to be high –and this industry accounts for some 8 per cent of GDP (UNCTAD 2020). Indeed, estimates on the impact of losing LDC-specific preferential market access range between 7 and 14 per cent of baseline exports, making this a key source of vulnerability in the context of LDC graduation (Rahman and Bari, 2019 and WTO, 2020).

<sup>7</sup> Such preferential market access, provided either unilaterally or under different regional trading arrangements (RTAs), are allowed in the WTO under the Enabling Clause of 1979 and should be notified accordingly.

**Figure 2. Impact of LDC graduation on policy space**

Source: Rahman and Bari (2018).

While similar results call for targeted measures to mitigate the adverse effects of LDC graduation, they also point to broader and more structural sources of vulnerability, notably Bangladesh unpreparedness to enter more complex export activities and its lopsided participation in regional and global value chains (UNCTAD, 2020). Hence, identifying the areas where the impacts of graduation will be felt most acutely and charting a strategic way forward to ensure sustainable graduation have emerged as critically important tasks confronting Bangladesh's policymakers.

One of the longstanding weaknesses of Bangladesh's external sector has been its inability to take advantage of regional market opportunities. Despite benefitting from DFQF market access for almost all products exported to several regional destinations – for example, India, China, South Korea, Japan – Bangladesh exports to the region has remained low. In 2020, India and China imported, respectively, a total of USD 400 billion and USD 2,000 billion worth of goods; yet, Bangladesh's exports to these two key partners only totalled USD 1.02 billion and USD 800 million. Lack of supply-side capacities, low competitiveness, longer lead time, quality issues, disproportionate trade and transport costs are all factors contributing to this outcome.

This scenario could deteriorate even further upon LDC graduation, when the current preferential market access will no longer be available, especially if Bangladesh's competitors will pursue an aggressive trade liberalization strategy, intensifying competition even further. Viet Nam is a case in point, especially in relation to apparels.<sup>8</sup> There could be a scenario where, in a few years, Viet Nam may enjoy preferential access in the Canadian market (thanks to CPTPP membership), the European Union market (thanks to the EU-Viet Nam FTA) and the markets of China, Japan, Korea and Australia (thanks to RCEP membership), while Bangladesh may have to face double-digit MFN tariffs (for example, MFN tariffs on apparels is 12 per cent in the European Union and 15-18 per cent in Canada).

Similar prospects underscore the need for Bangladesh to consider negotiating alternative trade arrangements with key partners (including, for instance, applying to the European Union's GSP+ scheme) to preserve some degree of preferential access even after leaving the LDC category. They also highlight the long-standing need for product and market diversification, objectives that may be supported by a revamped and more effective regional integration agenda.

<sup>8</sup> In recent years, Viet Nam concluded the EU-Viet Nam FTA (effective from August 2020), joined the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) (effective from December 2018) and the RCEP (effective from January 2022).

# 3

## THE RATIONALE FOR STRENGTHENED REGIONAL INTEGRATION

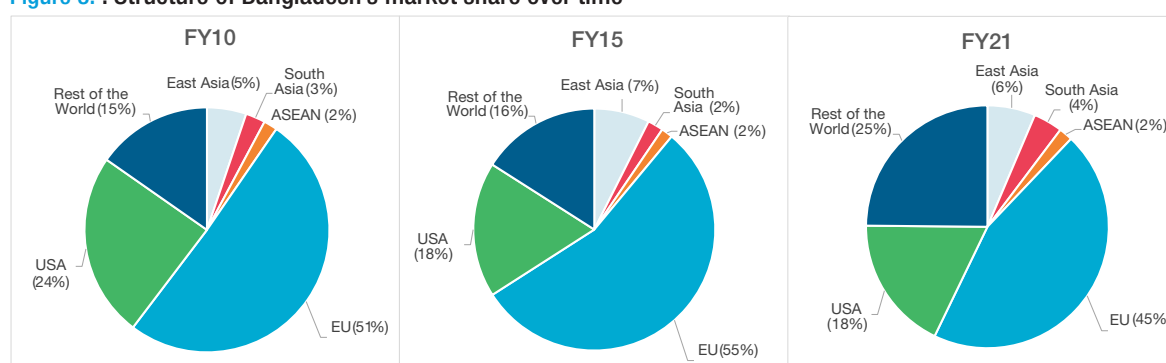
Bangladesh's export performance has traditionally pivoted on the European Union and North American markets, largely thanks to favourable market access afforded by its LDC status. Its integration within the Asian region, conversely, remains somewhat lopsided – while it sources 75 per cent of its imports from Asia, the continent barely accounts for 16 per cent of its exports. Redressing this situation should thus be a key priority, not only to mitigate any adverse effect of the phasing out of ISMs in the context of LDC graduation, but more fundamentally to harness related opportunities for diversification, through stronger productive and trade integration within a large dynamic region.

With a view to better articulating the rationale for more effective regional integration, this section examines Bangladesh's trade relations with South Asia, ASEAN and East Asia. The underlying reasoning is structured in three sub-sections. The first one describes the state of regional trade, using standard methods of trade analysis, like market decomposition, value chain analysis or technological embeddedness. The second sub-section discusses the application of analytical tools pertaining to trade potential and product space analysis, in order to identify potential export opportunities in the regional markets. The third sub-section analyses the critical role of foreign direct investment (FDI) could play in this sphere.

### 3.1 State of regional trade

Unlike Bangladesh's imports, its exports remain primarily focused on developed countries' markets (especially in Europe and North America), despite some increase in the weight of other export destinations (Figure 3). This is particularly true for the Asian region, whose large and dynamic markets have remained mostly untapped by Bangladeshi exporters, despite a vibrant landscape for the emergence of regional value chains. Remarkably, the ASEAN, South and East Asian markets represented only about 11 per cent of Bangladesh's total exports, while supplying about 70 per cent of its imports (Table 3), with 45 per cent of imports originating from China and India. This demonstrates that while regional partners have been able to harness Bangladesh's market, the reverse was not the case. For instance, India's global imports averaged USD 451.5 billion annually over the 2018-2020 period, but only USD 1.0 billion per year originated from Bangladesh. Similarly, China's annual imports over the same period averaged USD 2086.5 billion, of which only USD 0.94 billion annually was sourced from Bangladesh. In contrast, other countries in the region – whether LDCs, like Cambodia and Myanmar, or non-LDCs like Pakistan, Thailand, or Viet Nam – were capable of penetrating the Chinese market more successfully.

Figure 3. : Structure of Bangladesh's market share over time



Source: UNCTAD Secretariat calculations based on data from EPB, (n.d.).

Table 3. Bangladesh's trade with selected Asian sub-regions (2018-2020)

Region	Share in Bangladesh's Global Export		Share in Bangladesh's Global Import	
	Amount (in billion USD)	Percentage	Amount (in billion USD)	Percentage
ASEAN	0.78	1.72	8.5	15.4
South Asia*	1.18	2.61	9.14	16.56
East Asia**	2.9	6.39	20.9	37.86
Total	4.86	10.72	38.54	69.82

Source: UNCTAD Secretariat calculations based on data from UN Comtrade (n.d.)

Note: a) Bangladesh's global exports averaged USD 45.35 billion annually, while its global imports were USD 55.20 billion annually (average figure for 2018-2020).

\*Data not available for Bhutan, 2018-2020; Afghanistan, 2018 and 2020; or Sri Lanka, 2018.

\*\* East Asia region includes China, Japan, South Korea and Hong Kong.



The low regional penetration of Bangladesh's exports stems from a combination of:

- lack of product diversification and supply-side factors;
- relatively high tariffs faced by Bangladesh's exports where no preferential market access is available;
- high transport costs and non-tariff barriers; and
- limited mobilization of FDI flows and shallow involvement in related regional value chains.

With more than 75 per cent of merchandise exports accounted for by textiles and clothing, Bangladesh tends to lack the productive capacities to competitively cater for a varied regional demand. Moreover, the apparel value chain has typically been buyer-driven, and traditionally dominated by lead firms from the global north.<sup>9</sup> In this context, low labor costs and preferential market access with generous RoO (particularly in the European Union and Canada)<sup>10</sup> were key drivers of Bangladesh's competitiveness. The lack of Bangladesh's own distribution networks has also hampered export-oriented trade links, and business to business contacts with its eastern neighbours. Unlike Bangladesh, however, other regional countries, such as India, China and Viet Nam – which are also major exporters of apparels managed to substantially increase their engagement in the regional apparels markets. Moreover, in the specific case of Viet Nam, as member of the ASEAN, its exports benefitted from preferential market access in the countries of that grouping.

The above structural constraints have been compounded by the relatively high trade frictions faced by Bangladesh in the regional market. Taking India as an example, the country provides, under the SAFTA Agreement, DFQF market access to South Asian LDCs for all products except 25 (mostly arms, narcotics and liquors). Nonetheless, Bangladesh has benefitted only limitedly from this preferential access, partly because of its limited supply-side capacities beyond apparels.<sup>11</sup> Although Bangladesh does export several items imported by India from third parties (Rahman and Akhter, 2016), bottlenecks in trading through land borders, widespread non-tariff barriers, cumbersome transit and trade facilitation have been identified as major obstacles in this respect, (Rahman, et. al., 2015; Kathuria and Arenas, 2018).<sup>12</sup> Land customs stations suffer from lack of SPS-TBT testing facilities, which, in absence of mutual recognition of certification agreement, leads to cumbersome delays and waste. Moreover, although the Bangladesh, Bhutan, India, Nepal Motor Vehicle Agreement (BBIN-MVA) was signed in 2015, as of September 2022, it is yet to be fully implemented, with adverse impacts on road transport and cross-border movement of passengers and goods (Rahman, et al., 2015).<sup>13</sup>

Bangladesh's concentration and diversification indices are found to be considerably higher than those of other regional players, such as China, India, Indonesia or Viet Nam, pointing to the country's skewed pattern of specialization (Figure 4).<sup>14</sup> Even within the RMG segment, which accounts for over 80 per cent of total merchandise export, Bangladesh's export basket is highly concentrated by regional standards. At HS six-digit level, only five items (of which only one of man-made fibre) account for more than half of Bangladesh's RMG exports.<sup>15</sup> Moreover, Bangladeshi producers are mainly involved in the lower rungs of the RMG value chain, namely the Cut-Make and Trim segment, where value addition is relatively limited, and competition largely driven by low labour costs (UNCTAD, forthcoming). Furthermore, if the share of non-cotton apparels represents approximately 50 per cent of the total for China and Viet Nam, in Bangladesh it barely reaches 22.5 per cent (Table 4).

<sup>9</sup> The quota-hopping buyers came to Bangladesh when the multi-fibre arrangement was put in place by major buying countries of the global north in 1974. A strong connection with the northern markets was established through the brands and buyers in the 1980s when the apparels sector started to take off.

<sup>10</sup> One stage transformation in the European Union for apparels and 25 per cent domestic value addition requirement in Canada.

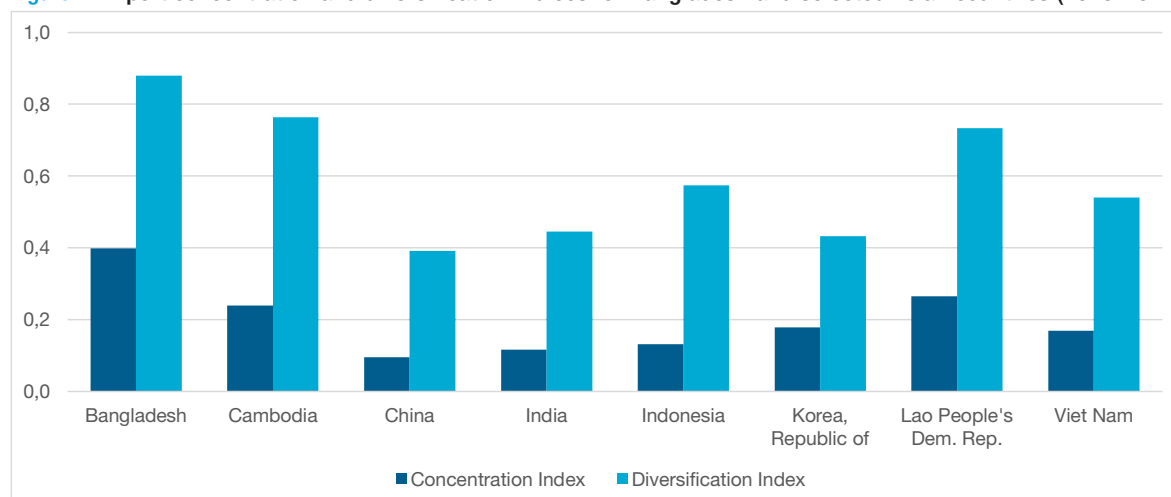
<sup>11</sup> Bangladesh's exports to India increased from USD 0.50 billion in FY2010-11, when the scheme was introduced, to about USD 1.30 billion in FY2020-21.

<sup>12</sup> About 90 per cent of bilateral trade between Bangladesh and India takes place through (more than 20) land customs stations, the main one being the Benapole-Petrapole, which accounts for about 70 per cent of the bilateral trade. According to some estimates, trade costs involved in exporting from Bangladesh to Nepal (via India) is 1.56 times higher compared to exporting to Brazil (Kathuria and Arenas, 2018).

<sup>13</sup> The BBIN-MVA initially included Bhutan, although the country is yet to ratify the Agreement.

<sup>14</sup> The export concentration index, also named the Herfindahl-Hirschmann Index, is a measure of the degree of product concentration, while the export diversification index captures the extent to which the structure of exports of a given economy differs from the world pattern. Both indices vary between 0 and 1, with values closer to 1 indicating higher concentration and greater divergence from the world pattern, respectively.

<sup>15</sup> These items are: HS 610910 (T-shirt); HS 620342 (men's/boys' trousers/breeches); HS 620462 (women's/girls' trousers); HS 611020 (jersey/pullovers, cotton); HS 611030 (jersey/pullovers, man-made fibers). It is to be noted that developing countries also enjoy some preferences in terms of market access.

**Figure 4. Export concentration and diversification indices for Bangladesh and selected Asian countries (2019-2021)**

Source: UNCTAD Secretariat calculations based on data from UNCTADStat.

**Table 4. Composition of ready-made garment exports in 2020, by type of fibres**

Country	Total ready-made garment Export (in billion USD)	Of Cotton		Of Synthetic		Of Others	
		Billion USD	Percentage of total ready-made garment	Billion USD	Percentage of total ready-made garment	Billion USD	Percentage of total ready-made garment
Bangladesh	36.1	25.6	70.7%	8.2	22.6%	2.4	6.7%
India	12.2	6.6	53.7%	3.2	26.2%	2.5	20.1%
Vietnam	27.0	8.3	30.7%	14.5	53.6%	4.2	15.7%
Indonesia	7.0	2.7	38.8%	2.7	39.2%	1.5	22.1%
China	124.6	42.4	34.1%	59.5	47.8%	22.6	18.2%

Source: UNCTAD Secretariat calculations based on data from the ITC Trade Map..

The limited diversification of Bangladeshi exports mirrors in the results of value chain analysis. At present, Bangladesh trade is integrated into the global value chain on only a limited scale (Table 5). Be it in terms of backward or forward linkages (respectively, 11.8 per cent and 1.6 per cent of GDP), the country falls far behind its regional competitors, notably Viet Nam. Moreover, forward linkages play a negligible role for Bangladesh, indicating that value chain participation through processing of imported intermediate inputs is very low (excepting in case of jute).

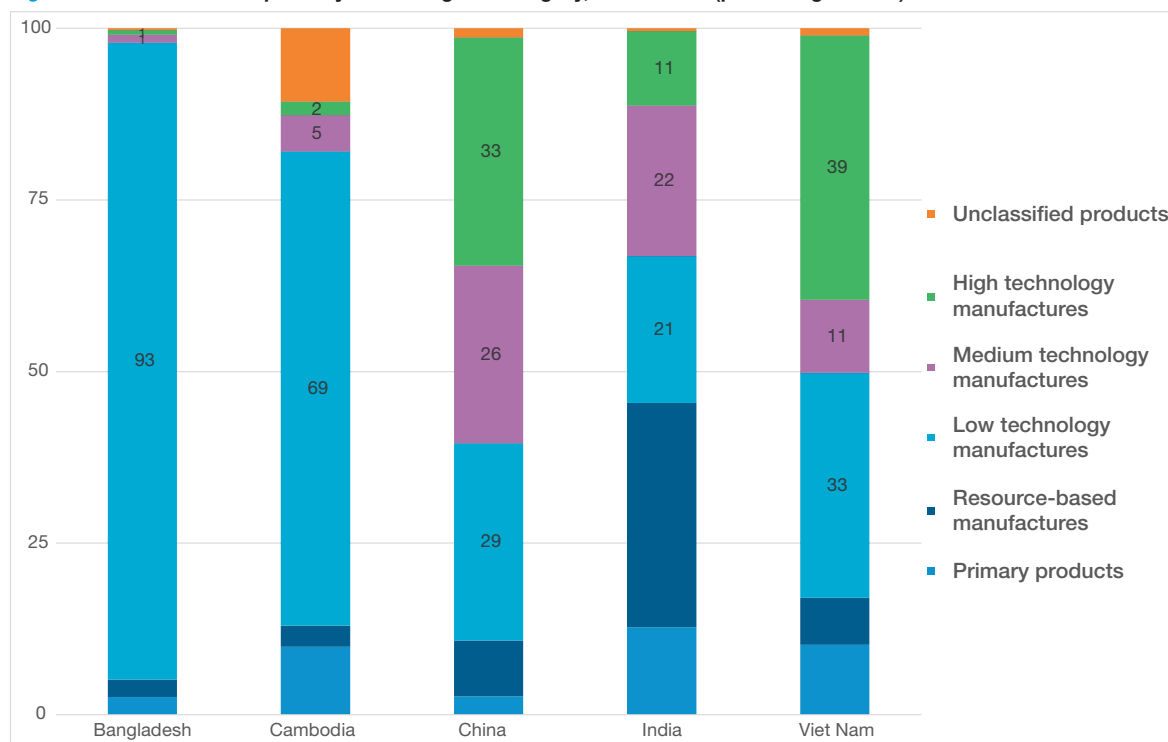
**Table 5. Backward and forward global value chain linkages for select counties (2020)**

Country	Total Economy			
	Backward Linkage (percentage of gross exports)	Forward Linkage (percentage of gross exports)	Share of GVC in Gross GDP (percentage of gross exports)	Ratio of Forward Linkages to Backward Linkages
Bangladesh	11.8	1.6	13.5	0.1
Vietnam	41.5	24.9	66.4	0.6
India	14.6	10.4	24.9	0.7
China	11.4	8.1	19.5	0.7
South Korea	21.0	22.7	43.7	1.1
Country	Textiles			
Bangladesh	23.5	2.3	25.8	0.1
Vietnam	47.1	15.9	62.9	0.3
India	12.9	11.1	24.0	0.9
China	9.0	16.6	25.6	1.8
South Korea	29.9	28.7	58.6	1.0

Source: UNCTAD Secretariat calculations based on data from ADB-MRIO\_GVC Participation.

The composition of exports by technological category reveals that, unlike in many other LDCs, exports from Bangladesh are concentrated in low-technology manufactures, rather than primary products or even resource-based manufactures. However, low-technology manufactures dominate almost the entire export structure (representing 93 per cent of the total), unlike other Asian comparators (Figure 5). Moreover, there has not been any tangible evolution in the overall composition of exports over the last 10 years. In contrast, in Viet Nam, medium and high technology intensive manufactured exports together account for more than half of the total, whereas the share of low technology items came down from 40.7 per cent to 30.7 per cent over the corresponding years. For China, the share of medium and high technology items is about the same as Viet Nam, while in case of India the corresponding share is estimated to be about 36.4 per cent.

**Figure 5. Merchandise exports by technological category, 2019-2021 (percentage share)**



Source: UNCTAD Secretariat calculations based on data from UNCTADstat.

### 3.2 Preferential market access and export potential

LDC graduation and regional integration are inevitably intertwined in the case of Bangladesh, as some of its regional partners have granted preferential market access under LDC-specific GSP schemes (China, South Korea, Japan) or under regional trading arrangements (in India, under the DFQF scheme of India for the four SAARC LDCs; and in Pakistan for items outside the negative list under the SAFTA).<sup>16</sup> To better illustrate the potential impact of LDC graduation in this respect, and the scope for mitigating associated market access losses through alternative bilateral or regional trade arrangements, a scenario analysis was carried out with TINA (Trade Intelligence and Negotiation Adviser), a trade negotiation platform developed by UN ESCAP that allows running trade-related simulations. In light of this, simulations were carried out by considering two possible situations:

A. For partners with which Bangladesh enjoys preferential market access based on its LDC status for the export product (e.g., in the cases of India or Japan, where Bangladesh now enjoys DFQF market access), the scenario illustrates what could happen if such preferences were no longer available upon graduation from the LDC group, and MFN treatment is applied instead.

<sup>16</sup> It is to be noted that developing countries also enjoy some preferences in terms of market access under the various GSP schemes, but these are not as generous as those for the LDCs, typically having a narrower coverage, smaller tariff cuts and more stringent rules of origin.

B. For other regional partners not presently extending any preferential market access (e.g., Indonesia), the simulation investigates instead what could happen if Bangladesh obtained DFQF market access through a bilateral or regional trade agreement (RTA), or as part of a Comprehensive Economic Partnership Agreement (CEPA) with ASEAN.

For each partner, estimates were first carried out for Bangladesh's top five export items; subsequently, the share of these five items in the total export were used to extrapolate the total gains or losses (as the case may be) to the specific country/region. Table 6 presents estimates for regional trade potential on the basis of the aforementioned scenarios. Evidently, the gains or losses on both counts are significant, highlighting the importance of considering LDC graduation and Bangladesh's regional integration strategies in a holistic way. If LDC-specific preferences are withdrawn, earnings from exports will suffer; conversely, if Bangladesh is able to negotiate RTAs and retain (or improve) its market access, it stands to gain significantly through increased export and trade partner diversification.

**Table 6. Illustrative impact on Bangladesh exports in selected regional markets under alternative trade arrangements (million USD)**

Region	Export potential of major 5 items	Total export potential, extrapolated by considering the proportion of 5 items in the total export
<b>South Asia (if MFN)</b>		
India	-182.4	-641.2
Pakistan	-2.8	-3.5
<b>Total</b>	<b>-185.2</b>	<b>-644.7</b>
<b>East Asia (if MFN)</b>		
China	-233.6	-615.6
Japan	-226.8	-529.4
South Korea	-184.9	-396.8
<b>Total</b>	<b>-645.2</b>	<b>-1 541.8</b>
<b>ASEAN (if Duty-free)</b>		
Indonesia	176.4	374.5
Singapore *	95.3	232.0
Viet Nam	37.8	82.1
Thailand	20,0	41.8
Malaysia *	95.7	231.3
<b>Total</b>	<b>425.2</b>	<b>961.7</b>

Source: UNCTAD Secretariat calculations based on TINA, UNESCAP, n.d.

Note: \* Actual export (2019) has been considered as potential export since MFN tariffs facing Bangladesh is zero in both the countries.

To corroborate these findings, the International Trade Centre's (ITC) Regional Export Potential Map was utilized to estimate Bangladesh's export potential towards ASEAN, South Asia and East Asia. Table 7 summarises the findings of this region-wide analysis. ITC's export potential calculations rely on an inbuilt formula-based methodology (using variables capturing the evolution of demand, supply and ease of market entry) to estimate market potentials of one country in the market of any trade partner based on existing trade patterns for individual items. In all three regions, there are significant potential opportunities for traditional export items of Bangladesh. Between 40 and 60 per cent of export potential is untapped.

**Table 7. Total export potential for Bangladesh in the regional market (billion USD)**

Region	Actual Export (in billion USD)	Potential Export (in billion USD)	Untapped potential (in billion USD)	Untapped potential (percentage share)
Southeast Asia (ASEAN)	0.69	1.3	0.8	61.54
South Asia	0.85	1.1	0.45	40.91
East Asia	2.8	5.8	3.4	58.62

Source: Estimated by the author based on ITC's Regional Export Potential Map, n.d.

Table 8 shows significant potential for Bangladesh through intra-RMG diversification in the regional markets, particularly in East Asia and ASEAN, for both the cotton and non-cotton-based segment. Leather, footwear, home textiles, textile fabrics and fish were also found to have export potential in these markets, along with other items, such as light engineering items, bicycles, live and processed crustaceans, tanned hides, instruments, wood products, porcelain tableware among others. Realising this export potential calls for greater competitiveness, higher capital and labour productivity, backward and forward linkages, and development of value chains and production networks with regional partners.

**Table 8. Selected items of high export potential in the three regions (million USD)**

Major Potential Items	ASEAN			South Asia			East Asia		
	Imports from Bangladesh	Total imports	Bangladesh Export Potential	Imports from Bangladesh	Total imports	Bangladesh Export Potential	Imports from Bangladesh	Total imports	Bangladesh Export Potential
Apparel	392	5 994	949	302	1 684	584	1 891	51 047	4 800
Skins, Leather and Products thereof	9	6 017	53	25	812	20	170	22 117	116
Textiles Fabrics n.e.s	1	12 699	14	47	3 428	38	12	6 882	4
Home Textiles	10	3 161	15	103	1 113	4	84	11 536	51
Footwear	7	3 832	35	16	802	14	81	16 659	207
Flax, hamp and Natural Fabrics	19	191	36	164	551	123	130	984	156
Fish and Shellfish	10	7 212	49	33	331	10	74	30 959	273

Source: UNCTAD Secretariat calculations based on data from ITC's Trade Map and Regional Export Potential Map.

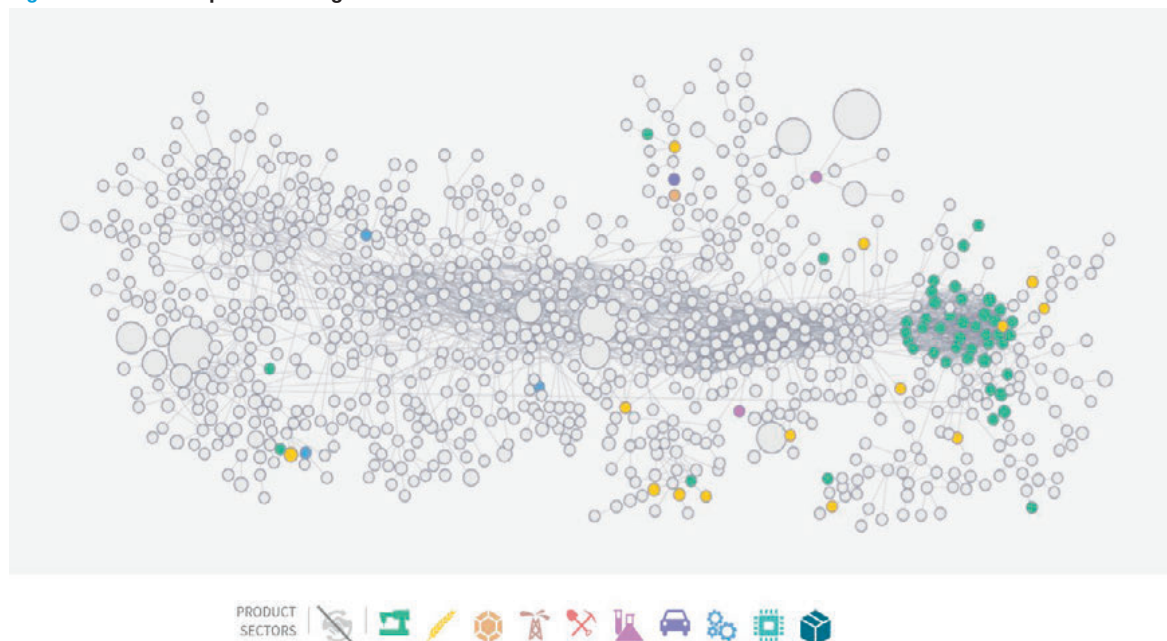
Note: Imports from Bangladesh and total imports have been collected from ITC's Trade Map for 2020, while the value of export potential has been imputed from the ITC's Regional Export Potential Map.

Insights from economic complexity and product space analysis can shed further light to complement the above discussion, particularly in relation to export diversification and extensive margins (i.e., exports of new goods), as opposed to intensive margin (larger export of already exported goods). Unlike previous approaches, the product space framework essentially examines the structure of output embodied in the network connecting countries with the products they export, and characterizes – e.g., a network using four structural features – the negative relationship between the diversification of a country and the average ubiquity of its exports (i.e., the number of countries able to produce them); the non-normal distributions for product ubiquity; country diversification; and product co-export (Hausmann and Hidalgo, 2011; Hidalgo et al., 2009). In this context, the product space represents a visualization of the network, depicting the connectedness between products based on the similarities of the know-how required to produce them (i.e., the probability of the co-export for both products). Conversely, the complexity of an economy (product) represents a metric of sophistication based on how diversified and complex its export basket is (how many other countries can produce the product and their economic complexity).

The application of this conceptual framework to the Bangladesh case can be inferred from the evolution of the product space (Figure 6). While the existing pattern of exports has changed relatively little over the last 10-15 years (according to the Atlas of Economic Complexity, only 10 new export products were introduced in 2005-2020), it also tends to be concentrated on low- and moderate-complexity products, mainly linked to the textile cluster for which world demand conditions are not particularly buoyant. Equally important, the structure of the product space is such that Bangladesh's current exports lie relatively far away from other potential products, implying that 'longer jumps' in terms of productive capabilities will be required to move into new exports, particularly those of a higher complexity. For example, amongst the potential export items that are relatively close to Bangladesh's current export basket, one finds agricultural and textile products, such as cotton yarn (HS4 5205), nutmeg (HS4 0908), natural rubber (HS4 4001), pepper (HS4 0904), lac (HS4 1301), other footwear (HS4 6405), molasses (HS4 1703), bananas and plantains (HS4 0803), cashew nuts and coconuts (HS4 0801), onions, shallots, and garlic (HS4 0703). Similar products can indeed contribute to greater export diversification but, given their low sophistication and low income elasticity of demand, they are unlikely to underpin transformational changes. Greater opportunities, in that respect, could be obtained from entering slightly more dynamic and sophisticated products, such as woven fabrics of synthetic filament yarn

(HS4 5407), notebooks (HS4 4820), insulated electrical wire (HS4 8544), mattresses and bedding (HS4 9404) or artificial flowers (HS4 6702). Even larger gains in terms of sophistication of the economy could be achieved by moving into more complex – and yet not excessively distant – products, like tube or pipe fittings of iron or steel (HS4 7307), amine-function compounds, (HS4 2921), grindstones (6804 HS4), parts of musical instruments (9209 HS4), aluminium tube or pipe fittings (7609 HS4).

**Figure 6. Products space of Bangladesh in 2020**



Source: Atlas of Economic Complexity available at <https://atlas.cid.harvard.edu/>.

Note: Each node corresponds to a product (at the Harmonized System 4-digit level) and its size is proportional to world trade. Grey denotes products that are not exported by Bangladesh or for which the revealed comparative advantage is lower than one, while other nodes are colour coded according to sector: green - textiles; yellow - agriculture; beige - stone; brown - minerals; red - metals; purple - chemicals; violet - vehicles; blue - machinery; and light blue - electronics.

Recent studies using different methodologies have identified a number of other products as having significant export potential in the regional markets, including plastics, furniture, pharmaceuticals, jute products, software and tourism (Razzaque, 2020). Beyond specific examples, the main message from this evidence is that Bangladesh would benefit from a two-pronged approach to export diversification, combining the pursuit of:

1. “Low-hanging fruits” – that is, diversification towards items that already fall into the vicinity of the existing specialization pattern, and hence require relatively similar know-how and technological embeddedness.
2. A few strategic leaps towards more complex and technology-intensive products, especially if they could unlock further diversification opportunities in the future.

Interestingly, greater integration into the regional market could support both strategies, by providing a dynamic basin of demand for both products that are already exported by Bangladesh and new, more sophisticated goods. As Table 9 indicates, for example, SAARC, ASEAN and East Asia import about USD 56.0 billion worth of RMG annually, with East Asia accounting for the lion’s share of this figure. More effectively harnessing the regional market could thus be conducive to strengthen Bangladesh’s productive capabilities beyond cotton and into man-made (synthetic) fibres, moving up the value chain into a more lucrative market segments.<sup>17</sup> Equally, a more effective integration into the regional market could help Bangladesh realize its potential to make a breakthrough into new clusters of products, such as technological textiles (textile products and articles for technical uses, transmission belts of textile materials, textile fabrics impregnated with plastics, etc.), appliances, electronics and chemicals.

<sup>17</sup> Bangladesh’s presence in the East Asia region (about USD 2.5 billion exported in 2020) is essentially accounted for by the Japanese apparels market. China and Viet Nam account for 72.1 per cent of Japan’s total imports of apparels, which stands at about USD 24.0 billion; hence, maintaining favorable market access conditions even upon LDC graduation will be key to preserve competitiveness.

**Table 9. Region-wide imports of ready-made garment products, 2020 (billion USD)**

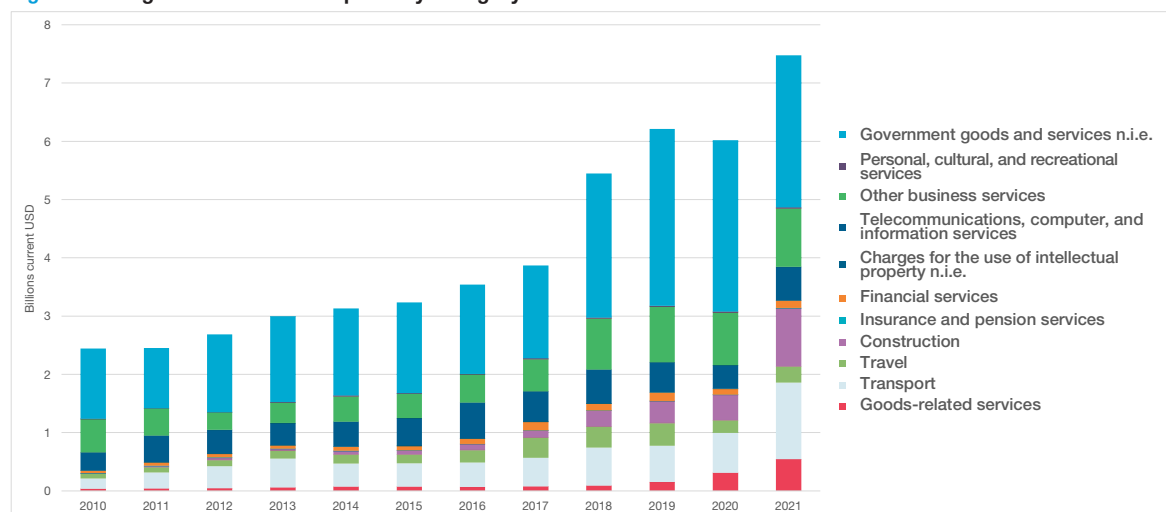
	HS Code	Region		
		SAARC*	ASEAN	East Asia**
Total imports	61 (Knit)	0.6	2.8	22.9
	62 (Woven)	0.9	3.2	25.7
	Overall	1.5	6	48.5

Source: UNCTAD Secretariat calculations based on data from ITC's Trade Map.

Note: \* Bangladesh was excluded to indicate the market size facing Bangladesh.

\*\*East Asia region includes China, Japan, South Korea and Hong Kong.

A broadly similar reasoning applies to trade in services trade, which is not captured in the product space approach and for which bilateral trade data are sorely lacking. As shown in Figure 7, Bangladesh services exports have witnessed a sharp boom over the past few years, although services imports have expanded at an even faster pace. The burgeoning in services export has been underpinned by a marked expansion of ICT and business services but also of more traditional (and typically lower productivity) service categories, such as transport and construction services. Moreover, some 40 per cent of Bangladesh services exports continues to be accounted for by government goods and services, notably the country's contribution to United Nations peacekeeping missions (UNCTAD, 2020).<sup>18</sup> In this context, it is plausible to expect that a deeper integration into the regional market could bode well for the expansion of Bangladesh's high-productivity services, especially those that are complementary to the deepening of regional value chains. Indeed, business process outsourcing is considered to be a niche market with high potential<sup>19</sup> and if Bangladesh is able to emerge as a key regional transport hub, export earnings from transport and logistics could be significant.

**Figure 7. Bangladesh services exports by category**

Source: UNCTAD Secretariat calculations based on data from UNCTADstat.

Considering the above context and the phasing out of LDC-specific ISMs, the imperative for Bangladesh to diversify into gradually more complex products and services cannot be overestimated, as noted by UNCTAD (2020). A particular challenge in this respect is that the diversification process is typically path-dependent and contingent on existing capabilities, hence, Bangladesh's reliance on relatively unsophisticated products calls for significant upgradation in terms of productive capabilities, know-how and technology embeddedness.

<sup>18</sup> Government goods and services include goods and services supplied by and to exclaves, such as embassies, and goods and services acquired from the host economy by diplomats, consular staff and dependents.

<sup>19</sup> Bangladesh is considered to be emerging as a major source of business process outsourcing (BPO). However, reliable data on actual export of this service is not available. Slow internet speed and slow penetration of 4G and 5G internet facilities are considered to be major bottlenecks.

Similar issues have been highlighted and prioritised in many important policy documents, as previously noted. Indeed, the Eighth Five Year Plan of Bangladesh speaks of the need for a diversified export basket, by shifting to non-RMG items. The plan mentions diversification into non-apparels items such as footwear and leather products, light engineering products (bicycle and electronics), pharmaceuticals, ceramics, jute-goods, ocean going ships, and other labour-intensive products (GED, 2020). However, this list doesn't go beyond the current product space, into new space requiring new strategic vision.

### 3.3 The critical roles of FDI and special economic zones

Export diversification in Bangladesh could occur along two, not mutually exclusive, paths: (i) towards products that lie in the proximity of existing capabilities, be it within the RMG or into other labour-intensive items; and (ii) into more complex skills-intensive products, like electronics, appliances or chemicals. If the former route can largely hinge upon the progressive strengthening of domestic manufacturing capabilities, the second one will likely require some degree of FDI-driven technological upgrading, up-skilling, and access to marketing networks (Mahmood, 2022). The critical role of these factors is illustrated by the experiences of Malaysia and Viet Nam, whose vibrant trade regime proved capable of attracting and leveraging efficiency-seeking FDI (as distinct from market-seeking FDI).<sup>20</sup> The need to mobilize FDI to boost and diversify exports is also underscored by other studies (Ahsan, 2021 and UNCTAD, 2020), especially in relation to their potentially catalytic role in facilitating cross-border productive linkages.

In a densely populated country, where unincumbered land is scarce and infrastructural provision limited, the 2015 plan to establish 100 special economic zones (SEZs) by 2030 has been regarded as a potential game changer for FDI mobilization. The plan is expected to create 10 million jobs and USD 40 billion worth of exports, but implementation has so far been slow.<sup>21</sup> While a few private SEZs have started to operate (fully or partially, with some already exporting), none of the government SEZs are yet (although some of these are at various stages of completion). However, it is hoped that over the next 2-3 years a number of these will be ready for operation. According to the Bangladesh Export Zones Authority (BEZA), thus far, it has received investment proposals worth about USD 24.5 billion from prospective investors, both domestic and FDI.<sup>22</sup> The sectors from which potential investors are showing interest include production of steel, automobile, man-made fibre, up-end and designer apparels, home appliance, electronics, toys, ceramic, sanitary items and assembling industries. A large portion of the proposals are coming from Japan, the European Union, China, India and South Korea. To note, as yet, these are only proposals. The extent to which they will be realised will critically hinge on the speed with which the SEZs can be implemented on the ground and the zones are ready to provide the promised services.

Although in principle SEZs address key investment bottlenecks in Bangladesh (i.e., access to unencumbered land and dedicated infrastructural provision), it should be borne in mind that their success is not guaranteed (UNCTAD, 2019; Oqubay and Lin, 2020). Much of their development impact will depend on the emergence of productive linkages and knowledge flows with the broader economy. This calls for a strong consistency between SEZs' value proposition and the country's transformation strategy, whereby the costs of SEZ for public coffers (including in terms of foregone public revenues) need to be carefully weighed against ensuing benefits, ranging from employment creation and exports to broader productivity spillovers.

Equally important, SEZs' success will hinge upon their effective implementation and strong performance, which in turn require the capacity to provide key services to investors and ensure the availability of needed human resources.<sup>23</sup> Public-private partnerships to set up the training facilities, drawing on the infrastructure of

<sup>20</sup> Viet Nam's average FDI flow (net) is 4-5 times higher than that of Bangladesh, while its export earnings are 7-8 times higher: about USD 336 billion in 2021 compared to some USD 40 billion for Bangladesh. The major part of Viet Nam's exports is characterized by a high import content and is global value chain-driven, with the government putting in place an array of fiscal-financial-institutional policies and incentives to attract related FDI.

<sup>21</sup> Of the 100 SEZs planned, land has been acquired for about 80, of which 15-20 are in various stages of completion, including a few already operating. The BEZA has approved 97 economic zones (68 government and 29 private SEZs). A number of SEZs are exclusively country-specific (e.g., China, India, Japan).

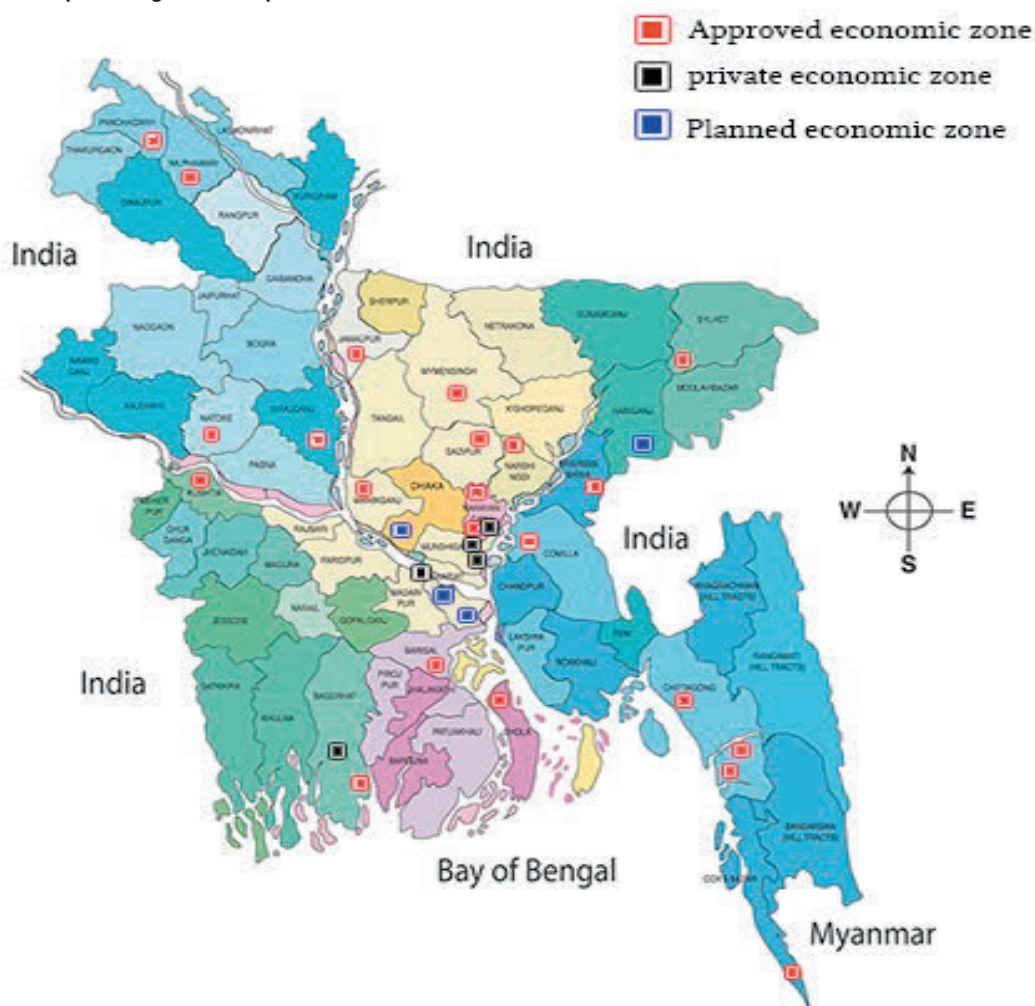
<sup>22</sup> The BEZA has approved 97 economic zones (68 government and 29 private SEZs). A number of SEZs are exclusively country-specific (e.g., China, India, Japan).

<sup>23</sup> Although the One Stop Service (OSS) Act was passed in 2018, concerned authorities are at present able to provide only a part of the promised services.



public institutions and private sector-led, demand-driven training programmes, could be a valuable model in this respect. While the large and growing domestic market remains a key focus for many potential investors, more effective integration of Bangladesh within the regional and global markets could strengthen FDI mobilization. Seamless multi-modal connectivity and opportunities of preferential market access in countries of the region could play a critical role in this respect. From this perspective, speedy completion of the ongoing work on setting up the SEZs, establishing transport linkages and negotiating preferential market access through RTAs (FTAs and CEPAs) ought to be given highest priority by the policymakers. This is especially important since the planned SEZs are dispersed all over the country, entailing the need to significantly strengthen transport networks (Figure 8).

**Figure 8. Map of Bangladesh's special economic zones**



Source: b2bmap, n.d.

Bangladesh is involved in a host of initiatives to deepen multimodal connectivity with India and the sub-region, thereby reaching better economies of scale and enhancing the provision of cross-border public goods (Raihan, 2022). In a welcome move, Bangladesh and India have recently taken up a number of initiatives to deepen bilateral multi-modal connectivity. Many of these are being established under the three lines of credit (LoCs) extended by India to Bangladesh. A Coastal Shipping Agreement has been signed and work has commenced on establishing rail links with India (and, through India, with Nepal). In 2020, Bangladesh expressed its interest in joining the trilateral highway.<sup>24</sup> Indeed, Bangladesh is now associated with six international and regional transport initiatives.<sup>25</sup> Upgradation of all national highways to four-six lane roads

<sup>24</sup> India-Myanmar-Thailand trilateral highway (a 1,408 km road linking the three countries).

<sup>25</sup> These are the followings: Asian Highway; SASEC (South Asia Subregional Economic Cooperation) Highway Corridor; SASEC Road Corridor; BCIM (Bangladesh-China-India-Myanmar) Corridor; BIMSTEC (Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation) Road Corridor and BBIN-MVA.

has been planned. The recently inaugurated Padma Multipurpose Bridge (with the rail link expected to be completed in another couple of years) addresses a key missing link that will help connect the southern part of Bangladesh with rest of the country, as well as India and Nepal. Several other transport projects are being implemented with support from the Asian Development Bank, Japan, the World Bank and other bilateral and multilateral agencies. Indeed, Bangladesh could potentially emerge as an important transport hub connecting eastern India (and Bangladesh) to the western regions of India, ASEAN and East Asia.

These examples show the breadth of ongoing initiatives for closer multi-modal connectivity of Bangladesh with the regional countries. At this stage, it is important that Bangladesh now takes parallel action in building its trade and investment capacities, for the envisaged triangulation of transport-investment-trade towards strengthened regional integration. Improving transport and trade facilitation could play a key role for the emergence of production networks and value chains. Bangladesh ranked 39th out of 50 emerging countries in terms of logistics index, lagging far behind regional players like China and India (Agility, 2022).<sup>26</sup> Hence, much needs to be done in this respect. Improving Bangladesh's transport and trade logistics will likely support diversification, especially into higher value-added (and often time-sensitive) segments of the RMG market, but also agro-processing and fisheries industries, whose perishable products suffer from delays and trade frictions.

More broadly, coordination across different actors in the design and implementation of trade and industrial policies will become progressively more important in a vibrant and increasingly integrated market. The private sector, trade bodies and business associations will need to play a more proactive role in identifying potential export products and niche markets in the region, and foreign investors' insights could be valuable in this respect. One of the advantages of Bangladesh is that since the domestic market is so large, the economies of scale originating from supplying to this market could then be leveraged to access the regional market by taking advantage of the gained competitive strength.

Entry into higher-end product markets, even with support from FDI, will be impossible in absence of concerted investments in skills upgrading, particularly in relation to digital and logistic capabilities. Bangladesh set up a National Skills Development Authority in 2019, but large gaps remain between available human resources and the demands of the market. While no reliable estimate of foreigners working in Bangladesh is available, anecdotal information suggest that more than 100'000 foreign professionals are working in Bangladesh (either full time or on a fly-in, fly-out basis). A renewed effort will be required if the foreseen investors in the SEZs are to have access to the pool of skilled workers and professionals they will need at the enterprise level.

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<sup>26</sup> Bangladesh overall score was 4.4. out of 10, compared to 8.5 for China and 7.2 for India

# 4

## AN AGGRESSIVE RTA POLICY

One of the key strategies in realising market opportunities and trade potentials concerning the three regions in Bangladesh's neighbourhood will be to forge trading partnerships through regional trading arrangements. The ASEAN-FTA<sup>27</sup>) and the recently signed Regional Comprehensive Economic Partnership (RCEP) Agreement<sup>28</sup> are all pointers to the importance of deepening trade relations and facilitating market access through RTAs. Common effective preferential tariff, common rules of origin to facilitate working of supply chains, cross-border trade facilitation through a single window, interoperability of systems, paperless trade and dispute settlement mechanisms are the hallmarks of such RTAs. Effective RTAs are characterised by mutual recognition of agreements, standardisation and certification of customs procedures, and various initiatives to coordinate measures in trade and investment related areas, at and behind the border. Moreover, a CEPA with regional partners could also open up more opportunities for overseas employment for low-skilled workers from Bangladesh, notably to countries like Malaysia and Singapore, which are already among the top sources of remittances.

Aggressive as it may be, a viable regional integration agenda will inevitably require gradual implementation. For example, when the ASEAN-FTA was signed, it envisaged a two track trade liberalisation plan (TLP): a normal track of trade liberalisation for general members, and a slower-paced track for Cambodia, Myanmar, Lao PDR and Viet Nam, which were relatively weaker economies by ASEAN standards.<sup>29</sup> Even in case of the RCEP, the ambition is to eliminate tariff on 90 per cent of product lines in 20 years, and gradually establish common rules for e-commerce and intellectual property rights. Establishing an effective dispute resolution mechanism, often perceived as an important component of RTAs, also requires considerable time.

As Bangladesh prepares for graduation, it must pay due attention to negotiations with relevant key regional partners. This could encompass – on a bilateral basis – India, Japan, and China, as well as regional blocks like ASEAN and RCEP. Viet Nam, which has been pursuing RTAs most aggressively over the past years, could serve as an example in this respect. This calls, however, for serious preparations in identifying offers, requests lists and red lines, based on defensive and offensive interests. Rules of origin, common effective preferential tariffs, trade liberalisation plans and sensitive lists will also need to be crafted by looking at the broad picture and not through 'revenue loss lens' as often happens. The trade-offs must be weighed carefully, and domestic industries will need to be prepared accordingly. Targeting the regional markets and attracting market- and efficiency-seeking investors ought to be the strategic vision.

This agenda also warrants some strengthening of Bangladesh's trade negotiating capacities. One option could be to establish a Negotiation Cell to this effect, similar to the WTO Cell in Bangladesh's Ministry of Commerce. This entity will need to be endowed with human and financial resources and will have to have evidence-gathering, analytical and consulting capacities to formulate Bangladesh's negotiating stance in view of the complex trade discussions. As noted, in the preceding section, these negotiations will have to be conducted on the basis of reciprocity unlike what has mostly been the case has mostly been the case till now. As the saying goes, in trade negotiations you don't get what you deserve, but what you negotiate.

<sup>27</sup> ASEAN was established in 1967. The FTA (signed in 1992) started with 6 members, and then 10, and has subsequently established the ASEAN plus 3 partnership with China, Japan and Korea.

<sup>28</sup> RCEP, with 15 members, was signed in November 2020. India, an early participant in the negotiations, opted out at the last moment, although the door for India's entry remains open.

<sup>29</sup> SAFTA also included a two-track tariff liberalisation plan: a normal track for the four developing countries and a slower track for the four LDCs. However, SAFTA with intra-regional trade (as share of total global trade of member countries) hovering around 5.0 per cent, was not very successful in attaining its goals. This was mainly because of long negative (sensitive items) list that remained outside the trade liberalisation plan and the various non-tariff measures and barriers.

# 5

## CONCLUDING REMARKS

In its post-independence journey, Bangladesh has been able to make a crucial transition from a predominantly aid-dependent agrarian economy to one largely based on trade, with the significant contribution of migrants' remittances. The external sector has played a critical role in this process, underpinning Bangladesh industrialization and supporting the socioeconomic development on which LDC graduation will ultimately be rooted upon. Bangladesh's ability to take advantage of LDC-specific market access preferences and SDT provisions in the WTO has contributed considerably to this success. Nowadays, however, the long shadows of the pandemic, the precarious global economic outlook, the emerging geopolitical tensions, and - as the LDC graduation unfolds - the phasing-out of LDC-specific ISMs, put growing pressure on the prevailing policy regime. This calls for renewed long-term strategies for graduation with momentum, paving the way for the transition from a competitiveness largely underpinned by low labour costs and preferential market access to one driven by skills and productivity dynamism.

Against this background, the evidence analysed here demonstrates the potential gains Bangladesh could derive from widening and deepening economic relations with its neighbouring countries. Until now, the potential of regional integration remains largely untapped. Bangladesh sources some 75 per cent of its imports from neighbouring countries, including in relation to textiles and clothing. Yet, less than 20 per cent of its exports are directed to Asian markets, and the pattern of its GVC participation betrays a limited involvement in more sophisticated and technology-intensive activities. The analyses carried out for this report shows that supply-side constraints, loose productive linkages and limited technological upgrading dampened Bangladesh's capacity to pursue product and market diversification. This is compounded by tariff and non-tariff barriers, weak logistics-trade facilitation, unfavourable bargaining power in the buyer-driven apparels value chains, and lack of marketing networks in the region; all of which have severely constrained market opportunities in the region.

Against this backdrop, the earlier analysis has identified a two-pronged industrial policy strategy to spur export diversification, including in the regional market. This strategy essentially relies on a combination of (i) "low-hanging fruits" - that is, upgrading opportunities that are relatively close to the current specialization pattern - and (ii) selected strategic clusters of new export products with high potential to support the sophistication of the economy and the accumulation of innovative productive capabilities.

The opportunity gains of market entry in these new export segments could be transformative in terms of economic complexity; it will, however, require significant complementary investments in technological upgrading and acquisition of productive capabilities. Incentives for innovative entrepreneurs and more effective public-private partnerships could favour this process domestically; however, as shown by the experience of countries like Malaysia and Viet Nam, a similar process of structural transformation likely requires FDI-driven productive linkages spurring the acquisition of technological capabilities.

In this respect, Bangladesh's current strategy to mobilize FDI largely pivots around the plan to set up 100 spatially dispersed SEZs by 2030, a few of them already in operation and others expected to be rolled out in the next few years. In a densely populated country, where unincumbered land is scarce and infrastructural provision can be limited, this plan is regarded as a game changer because of its potential to attract efficiency-seeking and market-seeking FDI. Yet, the record of SEZ performance in developing countries remains mixed, with spillovers and opportunities for upgrading often remaining elusive or not commensurate to related costs in terms of public investments and foregone revenues. Close attention will need to be paid, therefore, to the consistency between SEZs' value proposition and the country's transformation strategy, as well as to the effective implementation of related investments and the performance of involved enterprises.

The effective operationalization of the One Stop Service Act of 2018, to enable investors to have access to the promised services in the SEZs, will be important in this regard. Equally, ongoing initiatives to establish transport connectivity in the region are expected to play a catalytic role in enabling the strengthening of regional value chains. Improvements in hard infrastructures will also have to be complemented by conducive logistics and trade facilitation measures, at the border and behind the border. For this to happen, the establishment of a single window, paperless trade, and green channels, particularly in LCSs, will be required to enhance connectivity. Bangladesh stands to gain also from fast-tracking the operationalization of the BBIN-MVA.

Infrastructural provision and membership of trade agreements represent important determinants of FDI location decisions; hence, strategic coherence between trade and industrial policies will play a fundamental role in shaping long-term structural transformation outcomes. In this context, this study argues that Bangladesh should vigorously pursue trade negotiations with key trade partners in the region, notably the ASEAN grouping, India, China and Japan; at some point, it could also consider joining the RCEP. Further, the study cautions that since such negotiations will need to be conducted on the basis of reciprocity, Bangladesh should take adequate preparations to identify its offensive and defensive interests and carefully design its offer and request lists for preferential treatment. In consideration of the importance of these issues, the study finally argues for establishment of a Negotiation Cell, similar to the WTO Cell in the Ministry of Commerce.

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