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Bangladesh's Post-LDC Transition Challenges: Where is the Real Pressure?

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Source: TBS

Bangladesh is scheduled to graduate from UN Least Developed Country (LDC) status on 24 November 2026. Which was supposed to be a milestone in the country's history, now faces uncertainty. The stakeholders, notably the business leaders have always been expressing skepticism around the graduation process and raised questions of how prepared the country truly is for graduation. Becoming a graduate country would be a big achievement for Bangladesh, as it shows its economic progress. However, it would also mean losing many special benefits the country currently enjoys. The new government has sent a formal letter to the Committee for

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Development Policy (CDP), asking to delay the graduation by three years. The government explained that the five-year preparation period was extended to 2026 as the country was badly affected by multiple external and domestic challenges happening at the same time[2] . The letter clearly points out serious trade and competitiveness risks for Bangladesh. The country's export sector mainly driven by the garment industry relies heavily on duty-free market access given to Least Developed Countries (LDCs). It raises concerns about whether Bangladesh will be able to secure the European Union's GSP+ benefits after graduation. There is also uncertainty about possible reciprocal tariffs from the United States, changes in existing bilateral trade agreements, and new free trade agreements that could give competitor countries an edge. If Bangladesh loses its LDC trade preferences, it could lose duty advantages of around 12.5% to 14% in key markets such as the European Union and Canada[3]. This would make Bangladeshi exports more expensive and less competitive compared to others. The pharmaceutical industry similarly fears the expiry of the WTO TRIPS waiver, which currently allows production of low-cost generics. The letter also mentioned the domestic political instability particularly the July 2024 student-led uprising and subsequent government change which has halted the reform work. The country is burdened with financial irregularities, unresolved Rohingya repatriation, and labor unrest, all of which have delayed or suspended key reforms. Overall, policymakers argue that a three-year deferral would provide essential policy space to stabilize the economy, pursue reforms, negotiate market access, and build capacity. With about 85% of exports being garments and nearly three-quarters benefiting from LDC preferences, losing duty-free access under schemes such as the EU's Everything but Arms could put around US$8 billion in apparel exports at risk annually[4] .

However, the decision to delay graduation requires deeper analysis. The real question is not simply whether Bangladesh needs more time. Why the country's long preparation period did not bring the structural changes that were expected demands more attention. Deferral itself cannot substitute for reform; rather, it only pushes the deadline further. Without real reforms, the core challenges will

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[2] TBS Report, "Bangladesh Seeks 3-Year Deferral of LDC Graduation," *The Business Standard*, February 20, 2026, last modified February 21, 2026, https://www.tbsnews.net/economy/bangladesh-seeks-3-year-deferral-ldc-graduation-1366776.

[3] Mohammad Abdur Razzaque, "Adapting to New Realities: Bangladesh Prepares to Graduate from Least Developed Country Status amid Geoeconomic Disruptions," *Friedrich-Ebert-Stiftung Asia* (June 12, 2025), https://asia.fes.de/news/adapting-to-new-realities.html.

[4] Syed Fattahul Alim, "Bangladesh's Case for LDC Deferral," *The Financial Express* (Dhaka), February 23, 2026, https://thefinancialexpress.com.bd/views/opinions/bangladeshs-case-for-ldc-deferral.

remain the same. Therefore, the central focus should not be on whether Bangladesh secures an additional three years, but on how effectively that extended window can be used to address structural bottlenecks. The priority must be ensuring that graduation, when it occurs, reflects sustained readiness rather than deferred vulnerability.

Identifying the Real Pressure Points

The reason behind seeking deferral arises from a series of global to several domestic shocks that have weakened its ability to prepare on time. Globally, the countries are leaning towards protectionist policies that make trade more volatile. In April 2025, the United States unexpectedly imposed high reciprocal tariffs starting at 37% on Bangladeshi garments, citing labor law violations. Even though the tariff rate was later reduced under a framework agreement, the sudden move created huge uncertainty for buyers[5]. By February 2026, Washington settled on a 19% tariff on most products. It has also offered duty-free access only for some goods under quota[6]. At the same time, key markets like the EU are tightening labor, environmental and carbon-related rules, while Bangladesh will no longer enjoy relaxed WTO rules on patents and subsidies after graduation[7].

These changes are happening just as major competitors secure long-term advantages. The EU–India FTA, expected before 2029, will give India preferential or duty-free access to the EU for sectors like textiles and pharmaceuticals[8]. Since India already competes directly with Bangladesh in the EU market, the FTA would widen its cost advantage[9]. Once Bangladesh loses its own LDC-linked duty-free access under the EU's EBA scheme and faces MFN tariffs averaging about 12%

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[5] Reuters, "Bangladesh Election Offers Hope to Garment Sector Battered by Tariffs and Unrest," *Reuters*, February 11, 2026, https://www.reuters.com/world/asia-pacific/bangladesh-election-offers-hope-garment-sector-battered-by-tariffs-unrest-2026-02-11/.

[6] United States Trade Representative, "Fact Sheet: The United States and Bangladesh Reach an Agreement on Reciprocal Trade," *USTR*, February 5, 2026, https://ustr.gov/about/policy-offices/press-office/fact-sheets/2026/february/fact-sheet-united-states-and-bangladesh-reach-agreement-reciprocal-trade.

[7] Mohammad Abdur Razzaque, "Adapting to New Realities: Bangladesh Prepares to Graduate from Least Developed Country Status amid Geoeconomic Disruptions," *Friedrich-Ebert-Stiftung Asia* (June 12, 2025), https://asia.fes.de/news/adapting-to-new-realities.html.

[8] European Commission, "Generalised Scheme of Preferences," *EU Trade – Development and Sustainability*, accessed March 2, 2026, European Union, https://policy.trade.ec.europa.eu/development-and-sustainability/generalised-scheme-preferences_en.

[9] Centre for Policy Dialogue, *EU–India FTA and Its Implications for Bangladesh's Export Competitiveness* (Dhaka: Centre for Policy Dialogue, 2023), https://cpd.org.bd.

for apparel, India's advantage would become even stronger. At the same time, weak global demand, supply chain problems, and shipping delays caused by conflicts are hitting exports hard. The International Monetary Fund warns that as a small, open economy, Bangladesh is at a "critical juncture" and needs strong reforms to stay on track[10]. At home, Bangladesh's economy is undergoing severe pressures. The economy took a longer time to bounce back fully after Covid, as a result, the recovery has been slow, with GDP growth dropping to about 3.7–4.0% in FY2025, while inflation has stayed high at 8–10%. The country experienced dangerously low foreign reserves, exports rate fell in late 2025. On top of that the rising non-performing loans have made it harder for banks to lend[11]. Political instability also disrupted growth. The weeks of unrest affected supply chains. Later in 2024, wage strikes in the garment industry helped raise workers' incomes, but they also pushed up production costs.

Finally, after graduation the country will not experience many LDC-specific supports which it enjoys now. It will lose Special and Differential Treatment at the WTO, concessional finance, and broad duty-free access which will be a severe blow to its trade. About 75% of its exports currently enjoy duty-free access due to LDC status and garments make up around 85% of total exports. It shows that the economy remains highly depends on preferential treatment.

To tackle this, Bangladesh needs to take proactive measures. Unfortunately, the country's approach reveals a fundamental flaw. Bangladesh has struggled to cope with the changing world trade dynamics and failed secure new trade agreements that serves the smooth graduation. Instead of following traditional approach domestically, Bangladesh should have been actively negotiating its post-LDC survival through competitive trade deals. The world is rewriting trade rules in real time while Bangladesh is showing up to the negotiating table empty-handed. Instead of simply hoping the European Union will grant GSP+ concessions, Bangladesh should leverage its strategic geopolitical position with access to the Bay of Bengal to negotiate a bespoke trade agreement. Such an agreement would provide far more stability than any preferential scheme.

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[10] International Monetary Fund, "IMF Executive Board Concludes 2025 Article IV Consultation with Bangladesh," *IMF*, January 30, 2026, https://www.imf.org/en/news/articles/2026/01/30/pr-26029-bangladesh-imf-executive-board-concludes-2025-article-iv-consultation.

[11] Centre for Policy Dialogue, *Bangladesh Macroeconomic Pulse: October 2025* (Dhaka: Centre for Policy Dialogue, 2025), https://cpd.org.bd/resources/2025/12/Bangladesh-Macroeconomic-Pulse-October-2025.pdf.

Source: The Daily Star

Competing without special trade benefits will take years of preparation. The key areas for example boosting productivity, improve industry standards, diversify its exports, have seen hardly any progress. The government's introduction of the Smooth Transition Strategy (STS) in 2025 came far later than it should have. On top of that the delay has been compounded by slow implementation. Ongoing crises and political transitions have further held back progress as a result the strategy is struggling to gain real momentum.

Governance and Institutional Gaps

Even with five years to prepare, the transition period has fallen short of expectations. Gaps in governance and institutions continue to be a major hurdle. Frequent changes in policy and weak coordination with political upheavals have repeatedly disrupted planning during interim government tenure. The lack of coordination among Ministries, poor oversight mechanism and ineffective bureaucracy have made the implementation of the Smooth Transition Strategy (STS) slow and patchy[12]. As a result, the STS remains more aspirational than actionable[13]. These challenges are made worse by regulatory inefficiency and corruption. Powerful interest groups and politicized institutions have blocked major reforms. For certain elites, the status quo of dependency is not a weakness to be overcome but a privilege to be preserved. For example, the banking sector, where non-performing loans have reached catastrophic levels, the problem is not merely weak regulation; it is that politically connected defaulters have systematically looted banks with impunity, and transparency. Reform would dismantle these rent-seeking networks, which is why they face such fierce resistance. Meanwhile, the government has often engaged announcing ambitious strategies like the Smooth Transition Strategy and creating new institutions without providing them of real authority or resources. The government's plans for tax overhaul, or push for a banking sector cleanup, and stricter regulations get vetoed by these interest groups.

Source: CGS

[12] Sohel Parvez, "'Substantial Gaps' Found in LDC Readiness," *The Daily Star* (Dhaka), February 20, 2026, https://www.thedailystar.net/business/economy/news/substantial-gaps-found-ldc-readiness-4110391.
[13] SANEM, *LDC Graduation: Challenges and Policy Options* (Policy Paper Series, SANEM, October 2025), https://sanemnet.org/wp-content/uploads/2025/10/Policy-Paper-Series_LDC-Graduation.pdf.

Capital markets have also deteriorated. The Dhaka Stock Exchange suffers from manipulation and poor oversight. Investor confidence has collapsed, and foreign investment in listed stocks turned negative in mid-2025[14]. These failures have stalled domestic financing: private investment remains stuck at 23–24% of GDP. Meanwhile, fiscal stress is growing, with tax revenue at only about 7% of GDP, loopholes in collection, and rising debt-servicing costs. Key agencies like the National Board of Revenue, Bangladesh Investment Development Authority, and trade authorities remain under-resourced and insufficiently digitized[15]. The combined result is that Bangladesh arrives at the doorstep of graduation with its underlying economic governance fundamentally unreformed.

Deferral or Not, Bangladesh Must Be Ready

Whether Bangladesh ultimately secures a deferral or proceeds with its scheduled graduation from LDC status is not the central question. Graduation is structurally inevitable. Even if the graduation is postponed, it would only give temporary relief and would probably come with strict conditions and closer monitoring. Therefore, the real issue is not timing, but preparedness. Bangladesh must be ready for a post-LDC reality regardless of whether graduation occurs in 2026 or is delayed.

Given this situation, Bangladesh's main focus should be on strengthening its economic foundations and addressing weaknesses that could become a problem once LDC-specific support like preferential market access and low-interest financing is removed. A central element of this preparation is economic diversification. But Bangladesh's diversification approach has traditionally focused too narrowly on moving from one manufactured good to another. In this highly competitive world this approach seems traditional. Bangladesh must recognize that its future may lie less in what it physically exports and more in how it integrates into the global economy through services and its unique geography. The country's demographic dividend positions it to become a significant hub for digital services, information technology exports, and business process outsourcing. A national digital export strategy, focused on removing barriers for freelancers and tech startups, could create high-value jobs without requiring the massive capital

[14] Syed Fattahul Alim, "Bangladesh's Case for LDC Deferral," *The Financial Express* (Dhaka), February 23, 2026, https://thefinancialexpress.com.bd/views/opinions/bangladeshs-case-for-ldc-deferral.

[15] Selim Raihan, *Navigating Uncertainty: Bangladesh's LDC Graduation, Deferral Debate, and the Future of Reform*, Policy Paper Series (Dhaka: South Asian Network on Economic Modeling [SANEM] & Australian High Commission, October 2025), https://sanemnet.org/wp-content/uploads/2025/10/Policy-Paper-Series_LDC-Graduation.pdf.

investment that new factories demand. More ambitiously, Bangladesh's geographic location is perhaps its most underutilized asset. Wedged between the massive markets of India, China, and Southeast Asia, the country could transform itself into a regional logistics and transshipment hub for the Bay of Bengal. This would require bold investment in the proposed deep-sea port at Matarbari, modernized inland container depots, and streamlined customs procedures that currently operate with outdated manual systems. If Bangladesh can move goods efficiently through its territory, it creates an entirely new export category such as logistics services. Therefore, trade policy must become more proactive and strategic.

Equally important are domestic reforms in infrastructure and governance. At the same time, Bangladesh’s business environment needs major reforms. Tackling the problems with simpler regulations, stronger institutions, and effective anti-corruption measures could attract more investment and boost economic growth. Developing human capital is another key area for preparation. Long-term growth after leaving LDC status will rely on productivity, which depends on having a skilled and adaptable workforce. Education systems must be aligned with market needs, technical and vocational training expanded, and innovation capacity strengthened. Ensuring reliable energy supply and investing in research and development will further support industrial upgrading and competitiveness.

In the end, the discussion about delaying graduation might shift the focus from the central point. Whether Bangladesh leaves LDC status on time or gets more time, the challenges of the post-LDC situation will remain same. The real challenge is how the country responses to the change. Graduation should be seen not as a finish line, but as a test of Bangladesh’s economic strength and readiness. If the country undertakes meaningful reforms, the transition can be managed successfully. If not, even a deferral will offer little more than a temporary reprieve.