Executive summary

Bangladesh, strategically located in South Asia, is a key Indo-Pacific player with considerable development potential. Since gaining independence in 1971, the country has achieved remarkable progress. With an average annual GDP growth of 6% since the 2000s, Bangladesh ranks among the fastest growing economies in the world and has demonstrated significant resilience to the global COVID-19 pandemic.

The country deeply transformed from a predominantly agrarian subsistence society into an economy where manufacturing accounts for 22% of GDP, up from 9% in the 1970s. Over this period, the ready-made garment (RMG) sector has grown to be the backbone of the Bangladeshi economy. Today, the sector accounts for 57% of the domestic value added in manufacturing and for 72% of jobs (80% of which are female workers). Twenty RMG products account for 84% of all Bangladeshi exports, making the country the world's second-biggest RMG exporter, after China. RMG in Bangladesh is highly import dependent – the country imports raw material from Asia to sell mass products to leading brands operating in Europe and North America. The European Union is currently Bangladesh's main trade partner, today accounting for 50% of exports, followed by the United States (15%).

Bangladesh has advanced in digitalising the country. To date, 4G coverage extends to 94% of the territory and internet usage rose from 3% to 25% of the population in the last decade. However, Bangladesh continues to lag behind other economies in the region, including Viet Nam where 70% of the population uses internet. Mobile download speed in Bangladesh – at 11 Mbps in 2022 – stands at only one-third of the global average and is eight times slower than in the fastest country in the region, Singapore.

Bangladesh has an untapped innovation potential. Only 1.2% of firms invest in R&D — less than half the rate invested by firms in India and only 2.6% of Bangladeshi companies employ technologies licensed from foreign counterparts. Foreign direct investment (FDI) could also play a bigger role in fostering diversification, learning and innovation. Although attracting FDI is among the government's top priorities, FDI to Bangladesh remains limited and concentrated in traditional sectors. FDI accounts for 0.7% of GDP in the country compared to 6% in Viet Nam. In the period between 2018-2022, the value of remittances received by Bangladesh was seven times higher than the volume of FDI.

Beyond the RMG sector, Bangladesh has a growing domestic-oriented, import-dependent industry, including high-tech sectors. This comprises electronics – of which 83% of the total output is marketed locally – and a pharmaceuticals industry focused on generic drugs manufacturing, which covers 98% of the country's needs in terms of essential drugs.

At this stage of its development, Bangladesh faces considerable challenges: the complex global economic landscape comprises a number of internal risk factors, including increasing exposure to natural disasters, limited domestic resource mobilisation capacity, substantial external financing dependence and overreliance on a single export sector. With graduation from LDC status set for 2026 – triggering a change in EU market access taking full effect in principle by the end of 2029 after a three-year transition period – and considering the challenging global economic outlook, Bangladesh is at a pivotal juncture to implement reforms to continue progressing. Updating its institutional arrangements, advancing in transparency and accountability, and progressing in updating labour and digital regulations are essential steps in determining access to post LDC support, including access to the EU's GSP+ preferential trading scheme after 2029.

The upcoming LDC graduation is acting as an important incentive to modernise the country's policy making and a driver to update the country's international partnerships. Bangladesh is one of the least regionally integrated countries in Asia, with 75% of its merchandise imports coming from other Asian countries and only 16% of its exports going to the regional market. Developing a strategic network of trade and international partnerships, including by exploring the potential of regional integration is paramount for Bangladesh in preparation for LDC graduation.

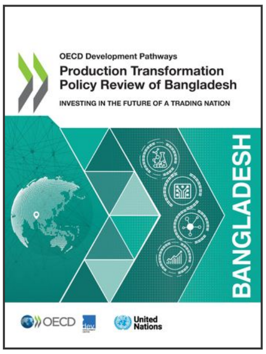
To continue its success story Bangladesh needs to update its economic model, which has been grounded on price competitiveness, and overcome the duality of its industrial model with an export oriented RMG sector and highly protected industries operating for the domestic market. To do this, it needs to diversify its export base, develop a strategic network of international partnerships and foster a more innovation- and quality-based industrial development model.

Bangladesh also needs to future-ready the state to ensure transparency and accountability to respond to the evolving and increasingly complex demands of its society and the world economy. It needs to shift the current mindset of doing business and update its policy approach. The policy toolbox favours incumbent firms, protects the *status quo* and does not incentivise investing in innovation. It also limits foreign investors' appetite for investing in the country, despite its significant market potential and strategic geographic location.

Bangladesh needs to shift from focusing on market access and tariff management to more contemporary policy tools. It needs to craft a modern policy mix that encourages learning, risk-taking, and innovation while at the same time providing new business opportunities for new firms and sectors. It should develop a more co-ordinated approach between industrial, trade and FDI polices, simplify the institutional framework for attracting FDI, and modernise the incentives packages. Bangladesh should urgently work on further reducing red tape, enhance digital and physical infrastructure and simplify the complexities of conducting business within its borders. Despite progress made, including the online platform launched in 2021 to serve as a one-stop-shop for investors, Bangladesh remains a difficult country for foreign investors to operate in. Mostly because of the complex institutional arrangement, the continuing dominant role that personal networks play when dealing with government-business relations and the highly complex bureaucracy.

The government aspires to reach high-income status by 2041. To achieve this, Bangladesh has several assets: an ambitious vision supported by a committed and strong government leadership, its geostrategic location, a global economic potential powered by a growing and young workforce and business know-how that is embedded in local, homegrown firms. Bangladesh also has a track record of accomplishments and a proven capacity to implement reforms and address pitfalls.

The country can build on what has been achieved and should accelerate reforms necessary to continue succeeding. A private sector ready to innovate and international partners engaging on equal footing with local stakeholders are key factors in this process. Bangladesh's prosperous future depends as much on its own domestic efforts as it does on the readiness of international partners to share responsibilities to cushion the country's fragilities and to jointly craft a mutually beneficial way of managing openness and doing business. Success is doable, but requires completing the journey towards building a modern, value-based nation state and on shared responsibilities between the government, the private sector and international partners.



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