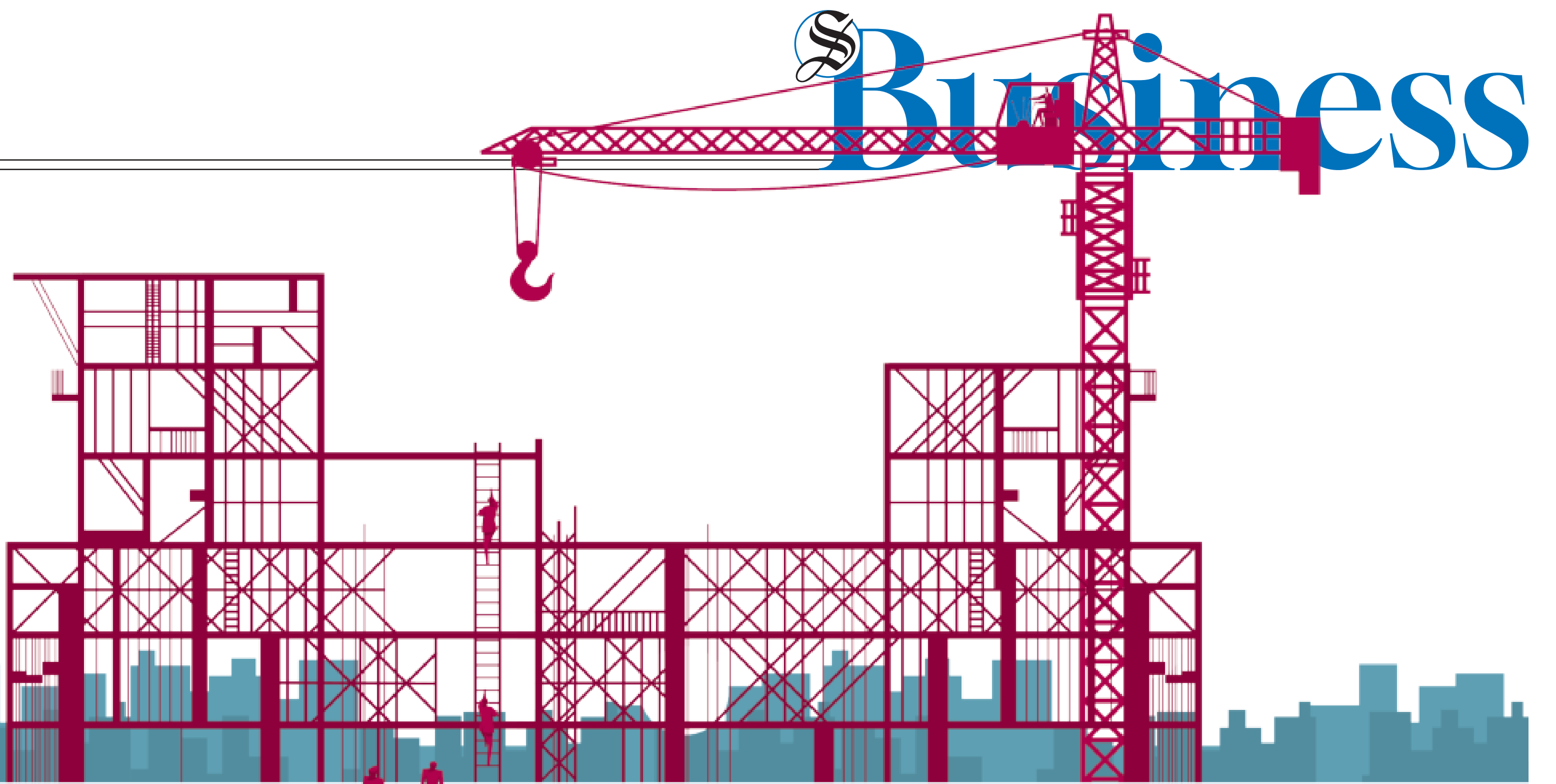


ROUNDTABLE 4

EMPOWERING THE PRIVATE SECTOR TO FACE THE CHALLENGES OF LDC GRADUATION

Government perspective: Inevitability and opportunity

From the government's point of view, Bangladesh's graduation is a matter of "when," not "if." Officials have emphasised that the process is embedded in international rules, not simply subject to the government's discretion. Once a country meets the three criteria set by the

UN Committee for Development Policy (CDP) across two consecutive triennial reviews, the UN General Assembly endorses graduation. Bangladesh has already cleared these hurdles and even benefitted from an extension once before, due to the disruptions of the Covid-19 pandemic. To demand another deferment now, they argue, would be both technically difficult and diplomatically awkward.

Anisuzzaman Chowdhury, special assistant to the chief adviser, illustrated the situation vividly by comparing it to an aircraft already in mid-flight. Bangladesh boarded in 2018, went through its safety checks in 2021, and was given an extra two years because of Covid-19. "We are now airborne," he said. "Postponement can only mean asking for a few extra years to reach cruising altitude, not a chance to return to the runway."

The government insists that whether graduation occurs in 2026 or later, the fundamental task remains unchanged. The country must shift away from a model of preference-driven growth that relies on tariff-free access and concessional financing, toward productivity-driven competitiveness rooted in efficiency, innovation, and sustainability. According to Chowdhury, this demands policy continuity, institutional reform, and above all, closer collaboration between the state and private sector.

A series of reforms are already in motion. The National Single Window has been rolled out, issuing more than half a million trade licences digitally within just two months, a move designed to cut red tape and reduce opportunities for corruption. The One Stop Service is also operational, easing investment approvals and reducing bureaucratic bottlenecks. In pharmaceuticals, risk-based permitting is replacing the cumbersome licensing process that used to delay imports of active ingredients for months. To address broader structural issues, the government has announced two national dialogues—one on tax and credit policy, another on energy security—before the end of this year. Chowdhury has personally engaged with entrepreneurs across sectors, from garments to shipbuilding and pharmaceuticals, to identify bottlenecks and propose remedies.

> **"There are sufficient arguments why we should not rush to graduation. We have to preserve our international trade preferences. These are going to erode the moment we graduate."**
> **Kamran T Rahman** President of MCCI

Officials acknowledge that some sectors will inevitably suffer once LDC-specific privileges are withdrawn. Yet they maintain that Bangladesh is in a stronger position than other graduating countries such as Nepal and Lao PDR, thanks to its larger and more diversified export base and relatively strong macroeconomic fundamentals. For them, graduation is not just a necessity but an opportunity to press ahead with long-overdue reforms.

Key challenges ahead

Private sector concerns: Fear of premature leap

If the government views graduation as a sign of confidence, the private sector sees it as a looming storm. Business leaders argue that the economy is not yet ready for such a leap, and that the loss of preferences will hit the very sectors that employ millions of Bangladeshis.

Energy insecurity remains one of their greatest fears. Industrial units face load-shedding lasting eight to nine hours daily, while new factories cannot secure gas connections. Domestic reserves are depleting at a rate of 12 percent per year, and projections suggest that Bangladesh could become almost entirely dependent on imported LNG by 2030. Such dependence would cost billions of dollars annually, straining reserves and raising the cost of production. Already, power shortages and fuel import bills are undermining the competitiveness of export industries.

Beyond energy, corruption and bureaucratic inefficiency continue to erode the business climate. Entrepreneurs report being forced to pay exorbitant bribes to renew trade licences, sometimes as high as 1.8 million taka. Municipal officials and local political operatives are often accused of turning routine licensing into rent-seeking opportunities. While reforms like the Single Window and One Stop Service have been introduced, business leaders insist that entrenched corruption still inflates costs and breeds uncertainty.

> **"Whether graduation comes in 2026 or later, the task is the same: to shift from preference-driven growth to productivity-driven competitiveness."**
> **Anisuzzaman Chowdhury**
> Special assistant to the CA

The fragility of the banking sector adds another layer of concern. Non-performing loans have ballooned to more than 30 percent of total loans, while estimates suggest that over $28 billion has been siphoned out of the country through illicit channels. Interest rates remain higher than in competitor economies, and exporters struggle to secure affordable financing. The banking system, riddled with weak governance and capital flight, appears ill-equipped to support exporters once concessional lending terms disappear.

Perhaps the most acute worry is trade competitiveness. Currently, 75 percent of Bangladesh's exports benefit from LDC-related tariff preferences. After graduation, garments entering the EU are expected to face tariffs of 12 percent, while Canada may impose rates of 16 to 18 percent. Japan's tariffs will also rise. For labour-intensive industries like garments and footwear, where margins are razor-thin, such tariffs could prove devastating. Large international buyers such as H&M and Inditex have already warned Bangladeshi suppliers that if tariff preferences disappear, orders will shrink. The result, business leaders fear, will be massive job losses in sectors that employ millions of workers, many of them women.

Adding to these anxieties is a widespread sense of exclusion. Private sector leaders argue that they were not meaningfully included in the planning for graduation, and that the government's claims of preparedness are exaggerated. Technical eligibility, they insist, does not equal readiness. As one business leader bluntly put it, "The bureaucrats' claims of preparation are fake. The private sector is not ready for LDC graduation."

Banking and finance: A fragile foundation

The challenges of graduation are compounded by vulnerabilities in the banking and financial system. The loss of concessional borrowing terms will reshape the financing landscape for both

government and business. Agencies like Jica and the World Bank, which have long extended loans at favourable rates, will offer less generous terms once Bangladesh graduates to middle-income status. This will raise the cost of borrowing for infrastructure projects, energy investments, and industrial expansion.

At the same time, the domestic banking system is already under strain. With non-performing loans consuming nearly a third of outstanding credit, governance problems, and widespread capital flight, banks are in no position to fill the gap. Exporters who already face borrowing costs higher than their Vietnamese or Indian competitors will find themselves at a further disadvantage. Bankers warn that unless reforms are introduced, the sector will become a drag rather than a driver of the post-graduation economy.

Foreign exchange reserves, meanwhile, have fallen sharply in recent years, putting further pressure on financial stability. Inflation has eroded consumer purchasing power, while the taka has depreciated by more than 40 percent in just a few years. These trends not only undermine confidence but also complicate the country's ability to manage its external obligations in a post-preference world.

Trade and diplomacy: The external battle

Nowhere will graduation be felt more acutely than in trade. Bangladesh's dependence on preferential access is unparalleled, with three-quarters of its exports relying on tariff exemptions. The European Union alone accounts for half of Bangladesh's export earnings,

making its trade regime decisive for the country's post-graduation trajectory.

While Bangladesh can apply for the EU's GSP+ scheme, the pathway is narrow and uncertain. GSP+ requires countries to ratify and effectively implement 27 international conventions covering labour rights, environmental standards, and governance. Although Bangladesh has ratified these conventions, implementation remains patchy, raising doubts about eligibility. Even more concerning, the EU's safeguard clause under Article 29 excludes garments

from GSP+ benefits once a supplier exceeds 6 percent of the EU's total imports. Bangladesh's market share is already above 20 percent, meaning that its most important export sector—the very lifeline of its economy—would gain no benefit from GSP+.

This leaves Bangladesh with limited options. One pathway is to negotiate for waivers or special treatment, convincing the EU to exempt Bangladesh from safeguard clauses. Another is to pursue bilateral and regional trade agreements, following Vietnam's example. Vietnam's free trade agreement with the EU has given its exporters duty-free access, a competitive edge that Bangladesh lacks. To remain viable, Bangladesh must urgently explore similar agreements with the EU, India, Japan, and other key partners.

Some experts also advocate for collective lobbying with fellow graduating LDCs such as Nepal and Lao PDR. Together, they could argue for transitional support or sector-specific waivers. Others suggest that Bangladesh should prepare to leverage its upcoming review with the UN CDP in

November, presenting not only its eligibility but also its macroeconomic vulnerabilities as grounds for additional time or flexibility.

Yet few underestimate the difficulties. Global politics has become increasingly competitive, with less room for concessions. African LDCs may not support Bangladesh's cause, viewing it as a rival rather than a peer. India, facing its own tariff battles, may have little incentive to champion Bangladesh. Without the blessing of the EU and the United States, any push for deferment at the UN General Assembly is unlikely to succeed.

Structural and institutional reforms: The only sustainable path

Beyond diplomacy, all stakeholders agree that Bangladesh's long-term survival depends on structural reforms at home.

> **"When industries don't have energy security, then proceeding with the LDC graduation will be suicidal with the imposition of export tariffs."**
> **AK Azad** Chairman, Ha-Meem Group

Energy is the most urgent priority. With domestic gas reserves dwindling, the country must diversify into renewables and ensure reliable electricity supply for industries. Delays in energy reform risk crippling competitiveness.

Logistics and ports also demand immediate attention. Clearance times at Chattogram remain far higher than in regional peers, raising costs and frustrating exporters. While reforms such as the Single Window have begun to simplify procedures, systemic inefficiencies persist. Unless ports and customs are modernised to global standards, Bangladesh's export competitiveness will remain constrained.

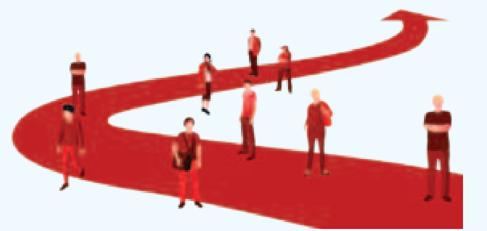
Equally important is investment in technology and skills. A Technology Upgradation Fund, coupled with stronger vocational training, could help industries modernise and workers adapt. Backward linkages in textiles, leather, and other sectors require major investment, yet entrepreneurs cannot shoulder these costs alone. Government support, donor financing, and innovative public-private partnerships will be critical.

Compliance with global sustainability standards is another looming challenge. The EU's Carbon Border Adjustment Mechanism will impose new costs based on carbon emissions, regardless of LDC status. Similarly, labour rights and environmental standards are becoming prerequisites for market access. Instead of viewing these as burdens, experts argue, Bangladesh should embrace them as opportunities to improve productivity, attract responsible investment, and differentiate its exports in a crowded market.

Finally, institutional reform is essential. Bangladesh's tax-to-GDP ratio remains among the lowest in the world, starving the state of fiscal space. The National Board of Revenue must be modernised, revenue mobilisation strengthened, and corruption reduced. Without stronger institutions, even the best policy intentions will falter in implementation.

Ways to overcome

The path forward demands a mix of urgent diplomacy, medium-term reforms, and long-term transformation. In the immediate term, Bangladesh must lobby intensively with the EU, the US, and India for transitional support, seek



sector-specific waivers—particularly for pharmaceuticals—and expand export financing through the Export Development Fund and re-financing windows. Energy security and tax reform dialogues must be fast-tracked within months, not years.

In the medium term, the government should secure entry into GSP+ while negotiating waivers to safeguard garment exports, pursue bilateral and regional trade agreements, and establish funds to support technology upgrades and backward linkages. Port modernisation and customs reform should be treated as national priorities, with measurable targets for improvement.

In the long term, Bangladesh must diversify its export base beyond garments, investing in pharmaceuticals, ICT, agro-processing, leather, and light engineering. Productivity-driven competitiveness must replace reliance on preferences. Institutional resilience, from banking governance to tax collection, must be strengthened. Sustainability and compliance with global standards should be integrated into the country's development strategy, not treated as afterthoughts.